

# We Finance!

### How "Buy Now, Pay Later" became the siren call of the auto industry.

# A

UTO SALES IN THE U.S. were anemic through much of 2008, but the first really cataclysmic month was October, when a credit crisis froze consumer lending. "You can't have an auto industry if you can't borrow money," said Michael DiGiovanni, General Motors' chief sales analyst. "The whole industry is based on credit availability."

The particularly bad news for DiGiovanni was that GM's finance arm, GMAC (51 percent of which is actually owned by Chrysler parent Cerberus),

was one of the lenders that was most crippled. GMAC had already largely exited lease underwriting and begun restricting loans to only the most credit-worthy customers (with FICO scores of 700 or better)—shutting out more than half of all applicants.

GMAC's woes have dragged down GM sales recently, but for decades it was a powerful engine of the automaker's success. When GMAC was founded in 1919, its original mission was not to finance retail new-car sales. It was to lend money to dealers so they could purchase cars from GM's factories during slow-selling winter months (those being the days before closed cars were commonplace), which allowed them to build up inventory for the warm-weather selling season. This kept GM's factories humming on a more efficient, year-round cycle.

Soon, though, GMAC expanded its purview to include financing new-car purchases for consumers. But in those early days (the Roaring Twenties), customers first had to be convinced that borrowing for a new car—or buying it "on time," to use the vernacular of the day—was a good idea.

Odd as it sounds today, back then thrift was seen as a virtue, and debt was something to be avoided. Carmakers, joined by other consumer-goods manufacturers (furniture, sewing machines, pianos), sold the notion of installment plans as wise, convenient, and modern. Once consumer perception began to change, it opened the floodgates to increased sales. Determining how much car one could buy was no longer a question of how much cash you had on hand, but how much you could afford per month.

Before then, the average American family would have to save for

five years to purchase a new car, which is why Ford's ultra-low-priced Model T was such a huge success. Henry Ford, though, disapproved of installment purchasing (although his dealers were happy to arrange financing for customers), and instead Ford in 1923 launched the Ford Weekly Purchasing Plan. But this was essentially just a savings account, in which customers could deposit as little as \$5 a week in an attempt to save up for the purchase of a new Ford. The Plan flopped, and Ford wouldn't launch its own captive finance arm until 1959. Chrysler followed in the 1960s. Meanwhile, by 1925 GMAC was writing almost half of all auto loans, and it helped General Motors power past Ford in sales and gain its dominant position in the automotive marketplace.

Today, just over half of all new vehicles are financed and a further 20 percent are leased; only 27 percent are bought outright with cash. It's no wonder that a disruption in the credit market can so devastate auto sales. In America, saving for a big-ticket purchase is an idea as old-fashioned as cranking up a Victrola to hear some music. Credit isn't just the lifeblood of the auto business, it's the lifeblood of the entire economy.

— JOE LORIO

□ A bounty of plentiful credit, as envisioned in this 1925 ad for GMAC, was a major engine behind the expansion of new-car sales. When the credit spigot was shut off last fall, the effects were devastating.

**3 out of 4**  
new vehicles  
are either  
financed or  
leased.

(FIGURES FROM 2007.  
SOURCE: POWER  
INFORMATION NETWORK.)

**Cars on Credit**

NUMBER OF CARS & TRUCKS BOUGHT ON CREDIT THROUGH GENERAL MOTORS ACCEPTANCE CORPORATION 1919 to 1925

RETAIL ~ 652,831  
WHOLESALE ~ 494,977  
TOTAL 1,147,808

AMOUNT OF CREDIT GRANTED 1919 to 1925 \$810,000,000

**GENERAL MOTORS**

BUICK • CADILLAC • CHEVROLET • OAKLAND • OLDSMOBILE • GMC TRUCKS