

VW to use €2.8bn securities to tap ECB for liquidity

Daniel Schafer and Ralph Atkins

Volkswagen yesterday became the first European carmaker during the financial crisis to say it would tap the European Central Bank for liquidity, in an unusual move that highlights how refinancing stress has hit the car industry.

Europe's biggest carmaker said it planned next month to use €2.8bn (\$3.6bn) in securities backed by German car loans as collateral for ECB liquidity. Car executives said VW's rivals were thinking about similar moves as the ECB offered "generous conditions".

The carmaker's move could raise fresh questions about the breadth of assets the ECB accepts as collateral in its liquidity operations.

In September, the ECB announced measures to crackdown on abuses of its liquidity operations, including increasing the cost of using asset-backed securities to obtain ECB funds. But as the financial market crisis intensified, it has subsequently added to the list of eligible assets.

The finance arms of carmakers globally have been hit by a combination of soaring refinancing costs, higher provisions for losses from both car loans and lower-than-expected values of leased cars, and a drastic demand slump.

German carmakers are sounding out ways to tap the government-backed banking rescue scheme, in an effort to put a brake on their soaring refinancing costs.

Industry executives yesterday said VDA, the German carmakers' association, was in talks with officials at the bail-out scheme over conditions of possible credit guarantees for finance operations of carmakers. Groups organised in the VDA, such as Volkswagen, Daimler, BMW and Opel, the subsidiary of General Motors, are weighing costs and benefits of possible state aid.

They would have to pay a fee for government guarantees but could in turn benefit from more affordable refinancing rates when they issue bonds.

"It's an issue of possibly optimising our refinancing costs," Volkswagen said. The carmaker covers 30-40 per cent of its refinancing need with the issuance of bonds. Initially, carmakers had been reluctant to use the government bailout plan, as they feared this could damage the reputation of their finance arms.

Last week, BMW became the first European carmaker to publicly admit it was considering tapping the rescue scheme.

Fonte: Financial Times, London, November 11 2008, Companies & Markets, p. 18.