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ISOLATING & REDUCING LENDER RISK IN THE AUTOMOTIVE SUPPLY CHAIN



For everyone involved, 2009 was a difficult year for the automotive industry as both General Motors and Chrysler filed for Chapter 11 and then (with significant Congressional support) emerged in record setting fashion. Collateral damage has been enormous with the closure of numerous plants, suppliers, dealerships, job loss and widespread economic suffocation. Supply chain survivors should have reason for cautious optimism as JD Power estimates that North American vehicle sales should approach 15.0 million by 2014. However, the bloodletting in the supply chain is not over as significant overcapacity still exists amongst the OEMs and suppliers. The Detroit Three as well as Delphi and Visteon have announced their intent this year to significantly reduce the supply chain. Furthermore, we believe the North American market is oversaturated with OEM's and believe the top seven manufacturers (which comprise 84% of the market share) will ultimately consolidate into a top three or four OEM's. This will also mean fewer platforms, fewer suppliers and ultimately more risk for the bank's automotive portfolios.

O'Keefe & Associates is uniquely positioned to assist lenders in effectively quantifying and managing their automotive credit risk by applying our deep industry experience, real-time market intelligence, seasoned business judgment and intense hands-on analysis to determining which suppliers in your portfolio are and are not, seriously at risk. Our award-winning firm can assist you in your portfolio management efforts by improving the long-term viability of the survivors and protecting the bank from loan losses through proactive identification and mitigation of seriously at-risk suppliers. We stand ready to support your career success by putting you ahead of the curve on your automotive credit exposure.

In 2010, lenders will continue to deal with auto suppliers requiring loan accommodations as well as renewing existing credit lines and term loans. Some borrowers may even request increases in their current working capital facilities or request equipment financing. In these situations, we believe it is critical to perform a deeper analysis into the borrower's 2010 business plan. We understand your bank has traditional data points utilized to prepare internal risk ratings. While those methods are helpful, we believe our automotive expertise at O'Keefe & Associates can assist you in making prudent business decisions.

As a first step to help you identify higher risk suppliers, we have included select questions below from a survey prepared for the membership in the OESA (Original Equipment Suppliers Association). The entire questionnaire was completed during the months of August through October 2009 by companies with the following profile:

Company Size:

<i>Less than \$50 million</i>	<i>32%</i>
<i>\$51 million to \$100 million</i>	<i>13%</i>
<i>\$101 million to \$500 million</i>	<i>25%</i>
<i>\$501 million to \$1 billion</i>	<i>10%</i>
<i>Over \$1 billion</i>	<i>20%</i>

We encourage you to email the above questions to your automotive borrowers and compare their answers to the responses received from the OESA survey in the attached spreadsheet. As you will see, we have also prepared and included our thoughts and commentary for each question. Based upon the responses received, we believe these survey questions will provide valuable insight and can be used as a first step in assessing the hidden credit risks of the borrower. Alternatively, we would be happy to review the responses for you and prepare a summarized “Bill of Health” opinion for you. Either way, the responses may be very revealing and identify a borrower requiring immediate attention.

In those instances where you feel exposed to certain risks, we encourage lenders to formulate a proactive approach to managing their automotive exposure by engaging O’Keefe to perform a risk assessment on these automotive companies to measure business plan execution risk and supplier re-source risk.

This is a proactive approach aimed at isolating strategically weak companies and encouraging advanced asset maximization strategies while effectively reducing automotive portfolio risk.

Cordially,



Michael G. Boudreau



Megan Hardcastle

SURVEY QUESTIONS

1. How much of a price reduction on existing business have you agreed to, or expect to agree to?
2. Whatever concessions your customers have requested, did you:
 - a. Give them 100% of their request
 - b. Compromise (if so, explain request and compromise)
 - c. Give them nothing
3. Has there been a noticeable change with your customer relationship (good or bad) given your response to question 2?
4. Have you been successful in obtaining price increases? If yes, how much (percentage terms) and how did you persuade your customer to grant it?
5. Did you anticipate any significant increase in your primary raw material costs over the next twelve months?
6. Have you been successful in recouping material price increases? If so, what was the method for recoupment?
7. On new programs that you've won in the past twelve months, have you been for an LTA? If yes, did it include price reductions over the term of the agreement?
8. Have customers been introducing new contract provisions in the area of material cost indexing or volume dependent pricing?
9. Have you been asked to assume a greater potential liability or a larger share of costs in logistic, warranties, product liability, or other costs?
10. How have you received funding for new products, e.g. engineering, tooling, and capital equipment?
11. What is your company's break-even point, as measured in North American light vehicle production?
12. What percent of takeover quotes has your company won?
13. Why do you think your company is winning or not winning takeover work?
14. Compared to three years ago, do you feel the power of your company relative to your customer has increased, decreased, or stayed the same?