Cash For Clunkers To End Monday

Stephen Manning, AP Business Writer

WASHINGTON (AP) — It's revived business at car dealerships, taken gas-guzzlers off the road and given a badly needed boost to struggling auto factories. By many measures, the government's Cash for Clunkers program has been a success.

Yet as it winds down, there is another lasting image: the hasty planning and troubled execution that nearly derailed the program early on and, lately, has led some frustrated dealers to drop out amid long waits for the government money.

The responsibility for the $3 billion stimulus program's flaws is widely spread.

— Congress — relying on auto industry forecasts that the program wouldn't have a major effect on moribund sales — deeply underestimated how many people would be lured to dealerships by rebates of up to $4,500. Initially, lawmakers committed just $1 billion, an amount that was burned through in just a few weeks.

— Transportation Department officials, presented with just 30 days to get the program up and running, didn't set aside enough staff or resources and were overwhelmed by the heavy response from consumers. Systems set up to handle and reimburse dealer claims were swamped.

— Government rules to prevent fraud created paperwork requirements that many dealers didn't fully understand.

— Hungry for sales, dealers made Cash for Clunkers deals weeks in advance even though they were advised against it. This created a big backlog the moment the program officially began. And many are still filing bad paperwork that is holding up their claims, despite repeated government attempts to clear up the confusion.

Dealers are thrilled with the revived sales, but say the lesson learned is clear — more time and planning was needed to make Cash for Clunkers a true success.

"I love the sales, but the bureaucratic end of it is very problematic, very frustrating and very unnerving," said Scott Addison, an executive with the suburban Washington-based Fitzgerald Auto Mall dealership chain.

Cash for Clunkers will end Monday evening, the Transportation Department said Thursday, saying dealers must have all their claims filed by then in order to be repaid.

President Barack Obama declared the program a success Thursday, and government officials stress that dealers who get their claims in will be repaid.

Approved in June, the program seemed straightforward. Dealers would offer rebates

to customers seeking to trade in older vehicles for new, more fuel efficient car and trucks. The dealers would front the money and then be reimbursed by the government.

It has been a huge hit with car buyers. About 450,000 new vehicles have been sold so far under the program, worth nearly $2 billion. That is far more than original expectations of analysts, who believed that Cash for Clunkers would provide only a small bump in sales.

Automakers are scrambling to fill depleted inventories of the Fords, Toyotas and Chevrolets that are the most popular sellers. General Motors has added shifts at some plants to handle the extra demand.

But Cash for Clunkers, has also been a bureaucratic headache.

Congress only set aside about a month for the program to get up and running and picked the National Highway Transpiration Safety Administration, which specializes in road safety and vehicle recalls, to run it. The agency, known as NHTSA, had never run a program like this before. It devoted 30 employees and 200 contractors to handle the program — and they were swamped almost from the moment dealers' applications began rolling in.

"We were not anticipating the number of transactions would be anywhere near what it is at this point," said Daniel Smith, the NHTSA associate administrator overseeing the program in a recent information session with dealers.

The agency has tried to fix problems as they arise. It has tripled the staff working on the program to 1,100, beefed up the computer system and eased some rules that dealers found especially time consuming. Dealers say the agency has been responsive to problems.

Part of the reason for the backlog in paperwork is that dealers ignored government warnings and started cutting Cash for Clunkers deals weeks before the program officially began. There were thousands of sales waiting to be processed when the program began July 27.

Moreover, many shoppers were buying vehicles that were much more fuel efficient than their trade-ins making them eligible for the higher $4,500 credit. That meant the original $1 billion couldn't go as far.

The government's computer system was also overwhelmed. Some dealers brought staff in after midnight to try to scan and send documents, only to have the online system crash. Transportation officials eventually improved the computer system to smooth the claims process.

But many of the problems lie with the dealers. For example, many cash for clunkers deals weren't approved because dealers didn't write "Junk Automobile, Cars.gov" in black magic marker on the title of the older cars that buyers were trading in.

Government officials say the tough rules are needed to prevent fraud.

"Part of the problem is...some of the information was not provided to us. The application or the form that needed to be filled out by the car dealer was inadequate and we had to send it back to them. That caused a great deal of delays," said Transportation Secretary Ray LaHood.

Regardless, dealers often have to wait up to 10 days just to find out that a claim has been rejected, meaning they have to start over. And just 167,000 of the 458,000 applications had been reviewed as of Thursday, creating a huge backlog.

The government had estimated each dealer would make only about 12 sales under the program. But a NADA survey showed that dealers were making about 14 sales each, with some making more than 100. The survey, sent to lawmakers and the White House late on July 30, showed that the program was running out of cash fast.

In Washington, that news created broad confusion, prompting Congress to add another $2 billion. But problems persisted, as dealers reported they were fronting rebates worth millions of dollars without getting repaid. That created a cash crunch for many.

LaHood said this week that all dealers will be repaid, and companies like GM are stepping in to help dealers with cash flow. But some in states like New York are starting to pull out of Cash for Clunkers, saying they can't afford the long waits.

"The program is choking on its own success," said Connecticut Attorney General Richard Blumenthal, who sent a letter Thursday to LaHood asking it to reform Cash for Clunkers. "It expanded exponentially without sufficient basic preparation."

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