



Department of Energy

Washington, DC 20585

May 18, 2012

The Honorable Charles E. Grassley
Ranking Member
Committee on the Judiciary
United States Senate
Washington, DC 20510

Dear Senator Grassley:

Thank you for your April 20, 2012, letter to Secretary Chu regarding the Advanced Technology Vehicles Manufacturing (ATVM) program and the program's loan to Fisker Automotive Corporation.

The ATVM Program and Fisker Automotive

Created with strong bipartisan support and signed into law by President Bush in 2007, the ATVM program is helping to accelerate the development and deployment of fuel-efficient advanced technology vehicles and components. To achieve these goals, the ATVM program provides financing to automobile manufacturers and component suppliers.

On April 22, 2010, the Department of Energy (DOE) awarded a \$529 million loan to Fisker Automotive for the development and production of two lines of plug-in hybrid electric vehicles: the Karma and the Atlantic. To date, \$192 million of the loan has been disbursed to Fisker, to fund eligible Karma expenses and to partially fund the purchase of a former General Motors (GM) plant in Delaware.

With respect to the Karma, loan proceeds must be used to support engineering in the United States to develop tools, equipment and manufacturing processes for the Karma. That engineering work is performed in Fisker's U.S. facilities, including its headquarters in Irvine California, where it has 700 employees. The Karma's unique technology was developed by American engineers and designers to reduce dependence on foreign oil and help Americans save money through higher fuel economy.

The remainder of the loan is to be used for production of the Atlantic. When the loan was signed, Fisker planned to re-equip a shuttered GM plant in Delaware for this production, expecting to employ more than 2,500 workers. DOE is working with the company as it revises its business plan. DOE will not provide funding under the loan for the Atlantic until the revised plan meets program criteria and all other applicable requirements.

Due Diligence and Portfolio Management

Like the due diligence performed on all ATVM loan applications, the Department's due diligence for the Fisker loan was extensive — with rigorous financial, technical, legal and market analysis conducted



over many months by DOE's internal professional staff, including qualified engineers and financial experts, and outside experts. The Loan Program's underwriting and due diligence standards are as rigorous as, or more rigorous than, those in the private sector. As part of that diligence, DOE assessed the projected fuel economy improvements of the Fisker vehicles over vehicles of the same class. In that assessment, DOE relied on the EPA vehicle classifications, which are based on the interior dimensions of the car.

Following issuance of a loan, DOE monitors the borrower's performance against its business plan and projections prepared by the borrower and approved by DOE. In his report on the Loan Program, former Assistant Secretary of the Treasury for Financial Stability Herbert Allison noted that the Department is not a "passive bystander" when monitoring a loan; rather, DOE has the ability to reduce or mitigate risk in the portfolio over time and has "robust tools" for protecting itself from elective risk and to ensure adequate protection of taxpayer investments. The GAO's recommendation to use DOE-created performance metrics would greatly expand the scope of the program.

Selection Criteria and Applicant Requirements

In establishing the ATVM program, Congress directed DOE to award loans that support the development and manufacture of advanced technology vehicles and components for advanced technology vehicles that meet statutorily-mandated efficiency and environmental standards. To date, five companies, including Fisker, have met those criteria and been awarded loans.¹

The automobile industry is global; like Fisker, nearly all major automobile companies have overseas operations. Two of the largest loans made by the ATVM program are to Ford Motor Company, which has operations in Europe, South America and Asia; and Nissan, which has operations throughout the world. The proceeds of these and other ATVM loans are required to finance operations in the United States. In addition, while the Fisker Karma is assembled in Finland, more than 45 percent of the Fisker components are manufactured by approximately 40 suppliers located in the United States. If companies with overseas operations were disqualified from participating in the program, the Department would have few opportunities to support the global competitiveness of U.S. industry as it develops energy efficient vehicles.

Credit Subsidy Costs

When funding the program, Congress appropriated nearly \$7.5 billion to cover estimated credit subsidy costs for ATVM loans, thereby acknowledging the inherent risks of funding new and innovative technologies in an industry that was facing significant market and economic challenges. By appropriating this credit subsidy, Congress also ensured that risks in the ATVM loan portfolio would be properly accounted for in the budget. Nonetheless, DOE underwrites and structures its loans to protect the interests of taxpayers and maximize prospects for full repayment of the loan — not to achieve a target default rate. Indeed, based on the most recent re-estimates approved by OMB, the estimated credit subsidy cost of the ATVM portfolio as a whole is well below 30 percent.

¹ General eligibility requirements, application requirements, and the application process are governed by the Energy Independence and Security Act of 2007, Pub.L. No. 110-140, and the ATVM programs Interim Final Rule. 10 C.F.R. 611 (2008).

Job Creation

With respect to the projections of job creation, the applicant estimates these numbers during the application process. Such estimates do not include indirect jobs or the economic activity created throughout the supply chain. DOE does project the impact on CO2 emissions, based on EPA data for annual emissions per car on the road and the applicant's technical projections. In each case, as Fisker is still in the process of revising its business plan, we are unable to provide updated numbers.

Two years ago, the American automobile industry was on the brink of collapse during a historic economic crisis. Now, in part because of help from the ATVM program, the America's automotive industry is reinventing itself — expanding production, growing profits, creating jobs, and making more fuel efficient automobiles. While American manufacturing continues to face substantial challenges, its future prospects are stronger than they have been in over a decade. The Department looks forward to continue supporting this success.

If we can be of further assistance, please do not hesitate to contact me or Mr. Brad Crowell, in the Office of Congressional and Intergovernmental Affairs, at (202) 586-5450.

Sincerely,

A handwritten signature in blue ink that reads "David G. Frantz, Acting for". The signature is written in a cursive style and is positioned to the right of the typed name and title.

David G. Frantz
Acting Executive Director
Loan Programs Office

Cc: The Honorable John Thune
United States Senator