United States House of Representatives Committee on Financial Services

Committee Hearing

Stabilizing the Financial Condition of the American Automobile Industry

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Chairman & CEO

Chrysler LLC

(Written Submission)

Mr. Chairman*,* members of the Committee, I appreciate this opportunity to address the current economic and financial crisis, the impact it is having on the automotive industry, and the need for immediate action.

During the 15 months I've been part of Chrysler, and since we've emerged as the first privately held American auto company in 50 years, I've been proud to work with a team of dedicated men and women determined to restore this 83-year old, iconic American brand to its rightful place in the automotive industry.

We are asking for assistance for one reason: to address the devastating automotive industry recession caused by our nations' financial meltdown, and the current lack of consumer credit, which has resulted in the critical lack of liquidity within our industry.

With credit markets frozen, our customers – average working Americans – do not have access to competitive financing to purchase or lease vehicles…our dealers do not have access to market competitive funding to place wholesale orders for new vehicles…resulting in the constriction of cash inflows to auto manufacturers. At the same time, Chrysler has billions of dollars in cash payment obligations every month to pay wages, to pay suppliers, to fund health care and pensions, all in the range of $4 to $5 billion per month.

This crisis has already driven U.S. sales to a 25-year low. In 2008 alone, our volume domestically has dropped from 17 million units to 11 million – a 38 percent decline. That volume drop is more than the total U.S. sales of Ford and Chrysler combined.

Therefore without immediate bridge financing support, Chrysler's liquidity could fall below the level necessary to sustain operations in the ordinary course. This would put at risk health care coverage for retirees, which is part of Chrysler's nearly $20 billion total health care obligation, $2 billion in annual pension payments to our retirees and surviving spouses, approximately $7 billion in current payables, $35 billion in future annual supplier business, and 56,600 direct Chrysler employees earning $6 billion in wages.

Independent research firms have quantified the fallout of a domestic auto maker bankruptcy to the overall economy, and the impact is devastating: 2.3 – 3 million in lost jobs, $275-$400 billion in lost wages, and $100-$150 billion in lost government revenue.

But this is not a good option for Chrysler, and more importantly, for the auto industry or the broader economy – for the following reasons:

1. We believe that retail sales would be impacted materially as a result of declining consumer confidence, and we will be forced to heavily discount existing inventory to move our product.

2. Given our common supplier base - at Chrysler, 96 of our top 100 suppliers are common to Ford and GM - the bankruptcy of any one domestic automaker would place enormous pressure on the supply chain and, consequently, that company's competitors.

3. Our factories would likely be idled for a significant period of time while we renegotiate contracts with each of our thousands of individual suppliers.

4. Restructuring and reorganization costs and expenses will be materially higher in connection with a Chapter 11 process: supplier and dealer support and marketing costs will increase, general economic dislocation will follow and significant fees and expenses will be paid to an army of bankruptcy professionals.

5. The overall amount and cost of financing the restructuring will be significantly higher in a Chapter 11 process than the working capital bridge we are requesting here today.

6. And finally, we cannot be confident that we will able to successfully <u>emerge</u> from bankruptcy.

That's why as an industry we are requesting a $25 billion working capital bridge to survive this liquidity crisis. However, both our private equity owner and I believe that while the immediate bridge financing is critical, the long-term solution to the industry's problems and challenges requires industry consolidation and cost rationalization to eliminate excess industry capacity and redundant costs.

I would expect Congress to insist that the American taxpayer be protected. We are willing to provide full financial transparency, and welcome the government as a stakeholder – including as an equity holder. We are fully prepared to comply with the current conditions and policies already put in place as mandated by the government, under the recently enacted Emergency Economic Stabilization Act.

Our private equity owner, Cerberus Capital Management, L.P., has made it clear that it will forgo any benefit from the upside that would, in part, be created from any government assistance that Chrysler LLC may obtain. The principal of Cerberus Capital has stated that he will enter into legally binding agreements requiring the contribution to the government of the General Partner's future profits interest related to Chrysler LLC which he might receive if any are ever earned.

Immediately on the separating from Daimler in August 2007, and being new to the automotive industry, I recognized the need to question and sometimes challenge the status quo, and seek significant opportunities to improve performance throughout the business. We began an aggressive restructuring and transformation of our business as an independent American auto company.

During the first 60 days, we approved more than 400 line item design changes, representing an investment of half a billion dollars in improvements to our products' reliability, durability, fit and finish, and consumer appeal. We offered our customers a lifetime powertrain warranty to build their confidence. Due to a focused product quality improvement effort during the past year, we've seen our warranty claim rates drop by 29 percent and the improvement trend continues.

We made tough decisions to reduce operating costs and adjusted production schedules immediately. We prioritized every product investment with a strong emphasis on improving energy security and environmental sustainability by introducing advanced powertrain technologies, while at the same time we discontinued four vehicle models. We also identified over $1 billion in non-earning assets to sell and we're more than 75 percent toward achieving that goal.

Since 2007, Chrysler has reduced 1.2 million units of capacity, which represents over 30 percent of our previous installed capacity, and which resulted in the elimination 12 production shifts. Over the past 10 months alone, we've reduced our fixed costs by $2.2 billion, and unfortunately, by the end of the year, we will have furloughed over 32,000 employees. That is the most gut-wrenching part of this job, to see the effect on the lives of good men and women who lose their jobs through no fault of their own, but because of the actions the Company is forced to take in these difficult times.

We have increased our manufacturing productivity to equal Toyota as America's most productive automaker in terms of hours of assembly per vehicle, and our recently negotiated labor agreement was an important step in making our cost structure more competitive with transplants by 2010.

To further enhance our product portfolio, support growth and improve our cost structure, we continue to aggressively pursue strategic alliances and partnerships with other companies. I believe more restructuring and consolidation is required for the industry to be viable in the long-run. We would welcome the opportunity to have an open discussion with the new Administration and Congress on a collaborative approach to restructuring that would ensure any Government resources invested in the industry are used efficiently and help achieve important national public policy objectives.

It is <u>equally important</u> that the lack of liquidity to provide loans and leases to customers and financing to dealers is addressed immediately. It is <u>imperative</u> that our affiliated financial companies receive access to competitive liquidity and financing capacity. They <u>must</u> in order to provide credit to our customers - average working Americans - and support wholesale orders from our dealers.

Historically, over <u>90 percent</u> of all new vehicles were purchased or leased with financing assistance, and the lack of readily available financing has simply frozen sales. A perfect example of this consumer credit crisis is that 20 percent of our revenue disappeared overnight when our finance company was unable to offer leases. These sales literally vanished.

At Chrysler, 75 percent of our dealers rely on Chrysler Financial to finance their business, and 50 percent of all customers finance their vehicle purchases through the Chrysler Financial. Normally, these loans and leases are securitized and sold in the secondary market to generate fresh liquidity and financing capacity.

Today, there is virtually no secondary market, and therefore, no way to raise capital. Money is not available for dealers to finance their wholesale orders, invest in their facilities, and hire and train employees. Competitive loans for the average working American – our customers – are virtually nonexistent. This has directly and dramatically depressed vehicle sales, putting at risk not only auto manufacturers but also the widespread network of suppliers, vendors. In Chrysler's case, 3,200 entrepreneurs…small businesses owners called dealers, and the approximately 140,000 people they employ in every state across the country. The National Automobile Dealers Association estimates more than 700 of them will go out of business by year end. If we don't secure a bridge loan, all 13,600 dealers are at risk.

There are 4.5 million people depending on this industry, and without assistance, nearly three million of them could lose their jobs in the next 12 months, according to a research memorandum published November 4, 2008, by the Center for Automotive Research. Failing to act now will hurt many American families and undermine our country's economic recovery, far outweighing the costs related to supporting an industry that touches every district in every state of the nation.

The crippling of the industry would have severe and debilitating ramifications for the industrial base of the United States, would undermine our nation's ability to respond to military challenges and would threaten our national security. Chrysler has long contributed to our national defense. Our Jeep® was an indispensable part of our nation's efforts in World War II and Korea.

Immediate financial assistance will serve the country and the economy directly in two key ways. First, the lifeblood of the U.S. economy will continue to flow. The industry will be able to continue to pay at its current levels $22 billion in annual wages to our employees, $13 billion in annual pensions to our retirees and surviving spouses, and meet our current commitment of $102 billion in healthcare costs to employees. We will continue to pay $156 billion annually to our suppliers and work to keep them strong by providing significant additional financial relief for distressed suppliers fighting to stay in business.

Second, America's auto companies are investing in innovation. Capital investment in new technologies, improved operations, and future product will be able to continue, including a combined $12 billion in annual spending for research and development. As an industry, we are moving full speed ahead to make the transition to advanced propulsion vehicles that will help support national energy security and environmental sustainability goals.

Chrysler plans to emerge from the current downturn as a lean, agile company. We are, and will continue to be the quintessential American car company. Currently, 73 percent of our sales are in the U.S., 61 percent of our vehicles are produced in the United States, 74 percent of employees work in the U.S., 78 percent of our materials are purchased in the U.S. and 62 percent of our dealers are based in the U.S.

Today, Chrysler has a very strong pipeline, with a product renaissance for 2010. In September we revealed our ENVI electric vehicle program, and announced that we will begin producing one of these electric-drive models for North American consumers in 2010. This underscores our commitment to deliver environmentally friendly, fuel-efficient vehicles to customers, and to meet this social responsibility faster and more broadly than any other manufacturer.

Today we are asking you to help us bridge a chasm created by an unprecedented financial meltdown. We are also asking you to consider investing in a company that will deliver real results for the American taxpayer.

I recognize that this is not an insignificant amount of money. However, we believe this request is the least costly alternative considering the options we face… with less impact on human capital, and would provide stimulus, as opposed to further depress the economy.

Thank you very much.

Nardelli, Robert L.
Chairman and Chief Executive Officer, Chrysler LLC
Board of Managers, Chrysler LLC

Robert L. Nardelli joined Chrysler LLC as Chairman and Chief Executive Officer and as a member of the Board of Managers in August 2007.

Prior to joining Chrysler, Nardelli served as Chairman, President and CEO of The Home Depot beginning in 2000. Nardelli began his career at GE in 1971, and advanced through a series of leadership positions in the company's Appliances, Lighting and Transportation Systems business units. In 1988, he left GE to join Case Corporation in Racine, Wis., where he led Case Construction Equipment's global business. He returned to GE in 1992 and was ultimately named President and CEO of GE Power Systems and Senior Vice President of General Electric.

His work and academic background includes:

- Chairman and Chief Executive Officer and member of the Board of Managers, Chrysler LLC, August 2007
- Board of Managers, Cerberus Operating and Advisory Company LLC, 2007
- Chairman, President and Chief Executive Officer, The Home Depot, 2000
- President and CEO, GE Power Systems, Senior Vice President, General Electric, 1995
- President and CEO, GE Transportation Systems, 1992
- Executive Vice President and Chief Executive Officer, Canadian Appliance Manufacturing, (subsidiary of GE), 1991
- Executive Vice President and General Manager, Case Construction Equipment, 1988
- Manufacturing Engineer, various management positions at General Electric Appliances, GE Lighting, and GE Transportation Systems, 1971
- Master of Business Administration, University of Louisville, 1975
- Bachelor of Science, Western Illinois University, 1971

He chairs the Atlanta Board of Visitors of the Savannah College of Art and Design, and has also served on President Bush's Council on Service and Civic Participation. He has received the Distinguished Pennsylvanian Award from Gannon University (1995) and the Distinguished Alumni Award from the College of Business and Technology at Western Illinois University (1997 and 1999). He is an alumni fellow and 2001 Alumnus of the Year of the University of Louisville, and serves on the Board of Advisors, University of Louisville Graduate School of Business, as well as on the College of Business & Technology Advisory Board for Western Illinois University, and is a member of The Business Council.

Nardelli was born on May 17, 1948, in Old Forge, Penn.