

THE COMMITTEE ON THE BUDGET

FEDERAL LOANS
FOR AMERICAN AUTO MANUFACTURERS
H.R. 7321

10 December 2008

The automotive industry legislation (H.R. 7321) being considered by the House this week provides bridge loans to the “big three” U.S. auto makers – General Motors, Ford, and Chrysler – to help them avoid bankruptcy. The measure limits compensation and other perquisites for executives of companies receiving loans, and imposes government oversight of the companies’ restructuring activities. The bill also contains provisions unrelated to the auto industry rescue plan. Below is an analysis of the latest provisions and costs of the bill language.

- **What the Bill Does.** The measure provides \$14 billion in Federal bridge loans to the “big three” U.S. automotive manufacturers (a final estimate is still being developed by the Congressional Budget Office [CBO]). Loans are for 7 years or more, at 5-percent interest for the first 5 years and 9 percent thereafter. The bill also directs the President to name a designee to oversee implementation of the loan program and restructuring plans for the auto industry, and regularly report to Congress.
- **Cost of the Legislation.** The Congressional Budget Office [CBO] has not completed a formal cost estimate for the bill. Under the Federal Credit Reform Act, Congress must appropriate a subsidy amount to cover, in today’s dollars, the net long-term cost of providing such loans. The legislation draws from \$7.5 billion that Congress already has appropriated for the Department of Energy’s Advanced Vehicle Manufacturing Program, and specifies the following:
 - The bill appropriates “such sums . . . as are necessary” to support the subsidy cost of the bridge loan. A sum of \$7 billion is redirected from the Advanced Vehicle Manufacturing Program to cover the subsidy cost of the bridge loan. It is not clear whether this amount will be sufficient to accommodate these loan costs.
 - A remaining total of \$500 million is reserved for the Advanced Vehicle Manufacturing Program.
 - The legislation also authorizes such appropriations as are necessary to replenish the Advanced Vehicle Manufacturing Loan Program.
 - The bill includes a Federal guarantee on qualified transit leasing arrangements, and a cost-of-living adjustment for Federal judges, both of which will increase total spending.
- **Government Oversight.** The President’s designee is to facilitate adoption of a restructuring plan, by no later than 31 March 2009, for each auto manufacturer seeking a Federal loan.

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- The designee may cancel a loan, or accelerate repayment, if an eligible auto company fails to adopt a restructuring plan by the required deadline, or fails to comply with other terms set forth in the act.
 - The designee is authorized to review and approve any material financial transaction or sum exceeding \$100 million entered into by an automotive company receiving Federal assistance.
 - The bill directs a Special Inspector General and the Government Accountability Office to conduct oversight of the program and report to Congress every 60 days.
- **Stock Warrants and Restrictions.** The bill requires automotive companies to issue stock warrants to the Federal Government equal to 20 percent of the aggregate amount lent by the Federal Government to companies. The warrant price is the 15-day moving average of a company's stock price as of 2 December 2008. Other restrictions on auto companies receiving loans include:
- The bill limits executive compensation and bonuses and prohibits "golden parachutes."
 - It prohibits companies from owning or leasing private aircraft.
 - It prohibits payment of dividends while Federal loans are outstanding.
 - It subordinates other debts owed by the auto companies to debt owed to Federal Government.
 - It exempts debt owed to the Federal Government from Chapter 11 protection.
- **Provisions Unrelated to Automotive Industry.** Other provisions of the bill are:
- The Federal Government is required to serve as a guarantor for lease agreements entered into by qualified transportation agencies.
 - A 2009 cost of living adjustment is authorized for Federal judges.
 - An amendment made in order under the rule may be added, requiring Federal Deposit Insurance Corporation-insured institutions that have received assistance under the Troubled Assets Relief Program [TARP] of the Emergency Economic Stabilization Act of 2008 to report on new lending disbursements.
- **Changes from Original Proposals.** The legislation reflects numerous changes from proposals originally sought by the Majority. These changes include the following:
- The \$14-billion loan level is less than earlier proposals, which ranged from \$25 billion to \$34 billion.
 - The bill excludes a proposal to use TARP funding, and instead draws on funds already appropriated for the Department of Energy's Advanced Vehicle Manufacturing Program.
 - It excludes earlier proposals to make Federal bridge loans contingent on compliance with new fuel efficiency standards.
 - It also excludes language prohibiting automotive companies from challenging State greenhouse gas laws.