



Highlights of [GAO-09-553](#), a report to congressional committees

### Why GAO Did This Study

The turmoil in financial markets and the economic downturn has brought significant financial stress to the auto manufacturing industry. The economic reach of the auto industry in the United States is broad, affecting autoworkers, auto suppliers, stock and bondholders, dealers, and certain states. To help stabilize the U.S. auto industry and avoid disruptions that could pose systemic risk to the nation's economy, in December 2008 the Department of the Treasury established the Automotive Industry Financing Program (AIFP) under the Troubled Asset Relief Program (TARP). From December 2008 through March 2009, Treasury has allocated about \$36 billion to this program, including loans to Chrysler Holding LLC (Chrysler) and General Motors (GM).

GAO has previously identified three principles to guide federal assistance to large firms: define the problem, determine the national interests and set goals and objectives, and protect the government's interests. As part of GAO's statutorily mandated responsibilities to provide timely oversight of TARP activities, this report discusses the (1) nature and purpose of assistance to the auto industry, (2) how the assistance addresses the three principles, and (3) important factors for Chrysler and GM to address in achieving long-term viability and the challenges that they face to become viable.

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View [GAO-09-553](#) or key components. For more information, contact Katherine A. Siggerud or Susan Fleming at (202) 512-2834.

## AUTO INDUSTRY

### Summary of Government Efforts and Automakers' Restructuring to Date

#### What GAO Found

From December 2008 through March 2009, the Treasury Department established a series of programs to help bring relief to the U.S. auto industry and prevent the economic disruptions that a sudden collapse of Chrysler and GM could create. In December 2008, Treasury provided bridge loans of \$4 billion to Chrysler and \$13.4 billion to GM and required both automakers to submit restructuring plans in February 2009. In March, Treasury determined that the automakers' restructuring plans were not sufficient to achieve long-term viability and required that they take more aggressive action as a condition of receiving additional federal assistance. At the same time, Treasury also established programs to ensure payments to suppliers of parts and components needed to manufacture cars and to guarantee warranties of cars Chrysler and GM sell during the restructuring period. In addition to these programs, the President announced a new White House initiative to help communities and workers affected by the downturn in the industry. In the coming weeks, Treasury will determine whether the additional steps Chrysler and GM have taken or plan to take are sufficient to warrant further assistance. If the companies are successful in implementing the additional steps toward restructuring, then Treasury may provide additional assistance.

#### Components and Funding Levels under Treasury's AIFP

Component	Funding level (in billions)
Loans to automakers	\$22.9
Assistance related to auto finance companies	7.4
Supplier Support Program	5.0
Warranty Commitment Program	1.1
<b>Total</b>	<b>\$36.4</b>

Source: GAO analysis of Treasury information.

In providing assistance to the auto industry, Treasury identified goals and objectives and took steps to protect the government's interest. Provisions to protect the government's interest include requiring automakers to submit periodic financial reports and to gain concessions from stakeholders such as the UAW, creditors, and bondholders. To date, however, Chrysler and GM have not reached agreements with these stakeholders. In addition, Treasury included provisions to secure collateral from the automakers. However, because many of Chrysler's and GM's assets were already encumbered by other creditors, the amount of assets on which Treasury could secure senior liens was limited. An additional area of risk is the financial health of the automakers' pension plans. In the event that Chrysler or GM cannot continue to maintain its pension plans—such as in the case of liquidation—the Pension Benefit Guaranty Corporation, a government corporation, may be required to take responsibility for paying the benefits for the plans, which are not fully funded.

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To address these objectives, GAO reviewed Chrysler's and GM's restructuring plans and financial statements, as well as Treasury documents related to AIFP. GAO also reviewed the terms and conditions of the federal loans to identify risks to the government and compared these loan provisions to GAO's principles for providing federal financial assistance to large firms. In addition, GAO interviewed representatives of Chrysler, GM, Ford Motor Company (Ford) and the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), and officials from the Departments of the Treasury, Transportation, and Energy. GAO also conducted semistructured interviews with a panel of individuals identified by the National Academy of Sciences for their expertise in the fields of auto industry trends and data, labor relations, vehicle manufacturing, and corporate restructuring.

GAO provided a draft of this report to the Departments of the Treasury, Transportation, and Energy for their review and comment. These agencies provided technical clarifications, which GAO incorporated as appropriate. GAO also made a draft of this report available to Chrysler and GM officials for their review and comment. Chrysler and GM officials provided technical corrections and clarifications, which GAO incorporated as appropriate.

GAO is not making recommendations in this report.

GAO's panel of individuals with auto industry expertise identified a number of factors for achieving viability, including reducing the number of brands, reassessing the scope and size of dealership networks, reducing production capacity and costs, and obtaining labor concessions. However, Chrysler's and GM's restructuring plans submitted in February do not fully address these factors, according to GAO's panelists. In its assessment of the plans, Treasury identified concerns similar to those identified by the panelists, and concluded that Chrysler and GM need to establish a new strategy for long-term viability in order to justify a substantial additional investment of federal funds. Achieving viability is made more difficult because of many additional challenges facing the automakers, some of which are outside their control—such as the weak economy and the limited availability of credit. The condition of the U.S. economy will likely continue to affect the financial health of Chrysler and GM, as historically automobile sales almost always decrease during periods of economic recession. Given these challenges, Treasury, Chrysler, and GM are considering a range of options available for the automakers to achieve viability, including restructuring under the bankruptcy code.