

Obama Administration New Path to Viability for GM & Chrysler

In accordance with the March 31, 2009 deadline in the U.S. Treasury's loan agreements with General Motors and Chrysler, the Obama Administration is announcing its determination of the viability of the companies, pursuant to their February 17, 2009 submissions, and is laying out a new finite path forward for both companies to restructure and succeed. These findings and new framework for success are consistent with the President's commitment to support an American auto industry that can help revive modern manufacturing and support our nation's effort to move toward energy independence, but only in the context of a fundamental restructuring that will allow these companies to prosper without taxpayer support.

Key Findings

- **Viability of Existing Plans:** The plans submitted by GM and Chrysler on February 17, 2009 did not establish a credible path to viability. In their current form, they are not sufficient to justify a substantial new investment of taxpayer resources. Each will have a set period of time and an adequate amount of working capital to establish a new strategy for long-term economic viability.
- **General Motors:** While GM's current plan is not viable, the Administration is confident that with a more fundamental restructuring, GM will emerge from this process as a stronger more competitive business. This process will include leadership changes at GM and an increased effort by the U.S. Treasury and outside advisors to assist with the company's restructuring effort. Rick Wagoner is stepping aside as Chairman and CEO. In this context, the Administration will provide GM with working capital for 60 days to develop a more aggressive restructuring plan and a credible strategy to implement such a plan. The Administration will stand behind GM's restructuring effort.
- **Chrysler:** After extensive consultation with financial and industry experts, the Administration has reluctantly concluded that Chrysler is not viable as a stand-alone company. However, Chrysler has reached an understanding with Fiat that could be the basis of a path to viability. Fiat is prepared to transfer valuable technology to Chrysler and, after extensive consultation with the Administration, has committed to building new fuel efficient cars and engines in U.S. factories. At the same time, however, there are substantial hurdles to overcome before this deal can become a reality. Therefore, the Administration will provide Chrysler with working capital for 30 days to conclude a definitive agreement with Fiat and secure the support of necessary stakeholders. If successful, the government will consider investing up to the additional \$6 billion requested by Chrysler to help this partnership succeed. If an agreement is not reached, the government will not invest any additional taxpayer funds in Chrysler.
- **A Fresh Start to Implement Aggressive Restructurings:** While Chrysler and GM are different companies with different paths forward, both have unsustainable liabilities and both need a fresh start. Their best chance at success may well require utilizing the bankruptcy code in a quick and surgical way. Unlike a liquidation, where a company is broken up and sold off, or a conventional bankruptcy, where a company can get mired in litigation for several years, a structured bankruptcy process – if needed here – would be a tool to make it easier for General Motors and Chrysler to clear away old liabilities so they can get on a path to success while they keep making cars and providing jobs in our economy.

Key Findings, Cont.

- **A Commitment to Consumer Warrantees:** The Administration will stand behind new cars purchased from GM or Chrysler during this period through an innovative warrantee commitment program.
- **Appointment of a Director of Auto Recovery:** The Administration also announced that Edward Montgomery, a top labor economist and former Deputy Secretary of Labor, will serve as Director of Recovery for Auto Workers and Communities. Dr. Montgomery will work to leverage all resources of government to support the workers, communities and regions that rely on the American auto industry.

Detailed Findings on GM and Chrysler Plans

GENERAL MOTORS

Viability Determination: Based on extensive analysis and the advice of a range of financial and industry advisors, the Administration has determined that GM has not presented a viable plan that would succeed, even in an improved economic environment. While GM has made progress in its turnaround to date, GM's current plan will not result in a healthy company that is meaningfully cash flow positive in a normalized business environment and thus able to support its operations and obligations without continued government support. (A summary of the Administration's findings is provided separately).

The Administration does believe that there is a path to a viable GM and is confident that the company can emerge from this crisis as a strong, competitive business. However, this will require a more aggressive strategy to transform the company's operations than the current management has designed and deeper stakeholder concessions than those specified in the initial loan agreement.

New Framework for a Fresh Start Restructuring: Today, GM is announcing that Rick Wagoner is stepping aside as Chairman and CEO. Kent Kresa will serve as interim Chairman and current President Fritz Henderson will serve as CEO. GM is embarking on a process with the goal of replacing a majority of the board over the coming months. When complete, these changes will bring fresh thinking and new vision to the Company while maintaining a degree of continuity in the current challenging environment.

In this context, the Administration is willing to provide GM with adequate working capital for a finite period of 60 days to develop and implement a more aggressive plan. During this period, the Administration team, consisting of Treasury officials as well as private sector auto industry and restructuring experts retained by the Administration, will work closely with the company. These industry and restructuring experts will help focus this process on:

- *Sustainable profitability:* A viable GM should be able to generate meaningful positive free cash flow in a normalized business environment, generate net free cash flow over the course of a business cycle and invest capital in research and development and capital expenditures sufficient to maintain or enhance its competitive position while also earning an adequate return on its capital.
- *A healthy balance sheet:* The restructuring must substantially reduce GM's outstanding debt and existing liabilities to a level where they are consistent with both its normalized cash flow and the cyclical nature of its business. Given the deterioration in the auto market since late last year, this will require substantially greater balance sheet concessions than those called for in the existing loan agreements.
- *More aggressive operational restructuring:* The restructuring plan must rapidly achieve full competitiveness with foreign transplants and more aggressively implement significant manufacturing, headcount, brand, nameplate and retail network restructurings.
- *Technology leadership:* The new GM will have a significant focus on developing high fuel-efficiency cars that have broad consumer appeal because they are cost-effective, have good performance and are reliable, durable and safe.

In order to execute a new, more aggressive restructuring plan within 60 days, we will work with GM to use all available tools to implement this plan. The best path to achieve this may well be an expedited, court-supervised process to extinguish unsustainable liabilities, should an out-of-court restructuring not be possible. The Administration is prepared to stand by GM throughout this process to ensure that GM emerges with a fresh start and a promising future. Consumers thinking about buying a GM car and workers and communities that depend on this iconic American company should have confidence that GM can and will come out of this crisis as a stronger, leaner and more competitive car company.

CHRYSLER

Viability Determination: After extensive consultation, the Administration has determined that Chrysler has not demonstrated that it can achieve long-term viability as a stand-alone company. In particular, Chrysler's plan contains a number of assumptions that are unrealistic or overly optimistic. (A summary of the Administration's findings is provided separately).

Independent financial analysts and industry experts are nearly unanimous in their views that, to be competitive in the decades to come, auto companies will need to transform their processes and products to improve efficiency, reduce costs and offer a higher-quality, more fuel-efficient fleet. These transformations will require substantial investment that Chrysler – according to its own plan – is not capable of making. Therefore, the Administration does not believe that on its own, Chrysler can achieve the scale or depth of product mix necessary to compete in the 21st century global auto market.

Chrysler/Fiat Partnership: Chrysler has also proposed a partnership with Fiat, which has the potential to address some of these problems and provide Chrysler with a path to viability. A Chrysler/Fiat alliance could lead to Chrysler manufacturing fuel-efficient vehicles using Fiat's technology while benefiting from the managerial expertise of the Fiat senior leadership that successfully led a turnaround in Fiat over the past five years. In addition, the product mix and geographic reach of both companies is very complementary.

The original partnership was unacceptable for several reasons, including the fact that Fiat could have gained majority ownership of Chrysler before American taxpayers had their investment in the company paid back. After consulting with the President's Auto Task Force, Chrysler and Fiat have agreed to important changes to their original agreement that would provide greater protections for U.S. taxpayers and would help ensure that new, fuel efficient Chrysler cars and engines are built in the U.S.

Finite Period to Pursue a Deal: However, while the Administration sees promise in this deal, substantially more needs to be accomplished to make this plan viable. In this context, the Administration is willing to provide Chrysler with 30 days of working capital to execute an acceptable partnership. The Administration believes Chrysler is being given a reasonable opportunity to finalize the agreement but is unwilling, in the absence of a long-term solution, to continue to invest taxpayer dollars in this company.

If a definitive agreement is reached, the Administration is willing to consider lending up to the additional \$6 billion requested by Chrysler to help the plan succeed. If the Chrysler/Fiat partnership has not been successfully concluded within 30 days, and in the absence of another viable partnership, the government will not invest any additional money in the company.

Requirements for Additional Government Support: Fiat, Chrysler and all of Chrysler's stakeholders must clearly understand that for this deal to succeed, significant hurdles must be cleared:

- First, Chrysler must restructure its balance sheet so that it has a sustainable debt burden. This at a minimum will require extinguishing the vast majority of Chrysler's outstanding secured debt and all of its unsecured debt and equity, other than trade creditors providing normal trade terms.
- Second, Chrysler, Fiat and the UAW need to reach an agreement that entails greater concessions than those outlined in the existing loan agreements.
- Third, Chrysler and Fiat need to demonstrate with a greater degree of detail an operating plan that is truly viable, that can generate meaningful positive cash flow in a normal business environment and that can demonstrate credibly that taxpayer loans will be repaid on a timely basis.
- Fourth, the final plan agreed by Chrysler, Fiat and their stakeholders must not, under appropriately conservative operating assumptions, require more than \$6 billion of post-restructuring loans from the U.S. Treasury.
- Fifth, Chrysler must have a viable, adequately capitalized mechanism to finance the purchase of Chrysler cars by its dealers and customers.
- Finally, Chrysler needs a credible plan to execute this restructuring. Given the magnitude of the concessions needed, the most effective way for Chrysler to emerge from this restructuring with a fresh start may be by using an expedited bankruptcy process as a tool to extinguish liabilities.

SUPPORT FOR CONSUMERS AND THE AUTO INDUSTRY

The Administration is committed to standing behind a tough but necessary industry restructuring that will result in stronger, more viable American car companies. During this process, the Administration wants to ensure that consumers have confidence in the cars they buy and suppliers that depend on viable auto companies have some support to weather this storm. Our actions are not intended to slow the necessary

consolidation and rationalization of key elements of the auto industry, but will help stabilize the industry during this period of transition.

Protection of consumer warranties: Consumers who are considering new car purchases should have the confidence that even in this difficult period, their warranties will be honored. That is why the Administration is launching an innovative new program that will provide government-funded protection for warranties issued by participating domestic auto manufacturers. The program will be available for all new warranties on new vehicles purchased from participating auto manufacturers during the period in which those manufacturers are restructuring. Both General Motors and Chrysler have already indicated their intention to participate. Details on this program are provided [HERE](#).

Supplier support program: Trade creditor support will be essential to the success of the effort to restructure GM and Chrysler. The vast majority of the trade at GM and, as part of the Fiat deal, at Chrysler, will carry through the process and be fully paid. In addition, the Administration recently announced a new \$5 billion Supplier Support Program. This program is already providing suppliers with the confidence they need to continue shipping their parts and the support they need to help access loans to pay their employees and continue their operations. The Administration will work closely with the car companies to implement this program in the weeks ahead and monitor closely the state of the automotive supply base.

Unlocking the Flow of Credit for Consumers and Dealers: A healthy automotive industry requires consumers who want to buy cars and are creditworthy to have access to credit. Unfortunately, in the current financing environment, even consumers with excellent credit histories have difficulty gaining access to credit. The Administration remains committed to improving access to credit in general and with respect to automotive purchases specifically. The launch of the Term Asset-Backed Securities Loan Facility (TALF) has expanded the funding available for retail auto loans, thereby directly helping consumers. And the Administration remains committed to facilitating the access to funding for the automotive finance companies that provide credit to these consumers. These efforts will be continued and expanded upon to ensure that consumers have the financing they need to purchase vehicles going forward.

AUTO TASK FORCE INITIATIVE TO SUPPORT AND REVITALIZE AUTO INDUSTRY WORKERS AND COMMUNITIES

The President is fully committed to standing behind the American auto industry, which is the backbone of our manufacturing base. To this purpose, the President's Task Force on Autos is launching a new initiative to support and help revitalize American auto communities. The Administration's goal is to both help revitalize the American auto industry and to help manufacturing communities in Michigan and the broader region create new businesses, new jobs and bring in new industries for a stronger economic future. And when despite all of our best efforts, individuals and communities are hard hit -- we will take all possible steps to ensure we are working as swiftly and in as coordinated a fashion as possible to provide relief and paths to re-employment.

This government-wide effort will require substantial leadership and coordination. Today, the President appointed Ed Montgomery, former Deputy Secretary of the Labor Department and current Dean at the University of Maryland, to become Director of Recovery for Auto Communities and Workers. Dr. Montgomery has more than 25 years experience working on issues related to worker training and local economic development and has worked first hand with State and local government agencies and non-profits in Michigan and Ohio on strategies to revitalizing areas hit by job loss.

In his new role, Dr. Montgomery will bring all parties – workers, firms, unions, other private sector employers, community-based organizations, state and local governments, and foundations – to the table to maximize communication and cooperation and to develop innovative strategies for relief and recovery. He will ensure that communities and workers can take full advantage of all available resources and to ensure that the funds are distributed quickly, efficiently and equitably

He will work with the Administration, relevant Governors and Congressional leaders to launch new executive and legislative initiatives to support these distressed communities and help them retool and revitalize their economies. He will identify and pursue all possible opportunities, including for example, initiatives to:

- Maximize the effectiveness of Recovery Act funds for new and more diverse economic development for new jobs, business and industry through various means including local infrastructure, housing, education and new industry.
- Deploy rapid response unit to communities facing plant closings to both meet immediate needs and to develop strategies for new job growth.
- Extend Trade-Adjustment-Assistance (TAA) to the auto industry, including retraining, healthcare extensions, income support and wage insurance.
- Attract major defense, research, green industry and other project to the region. Channel Workforce Investment Act (WIA) and other emergency grant funds to the region.
- Work with stakeholders to develop new legislative efforts to direct emergency support to affected communities and regions, and bring new jobs and economic opportunities to these areas.