Auto Industry: Program Purpose & Overview

U. S. Department of the Treasury

https://elischolar.library.yale.edu/ypfs-documents/9146
U.S. DEPARTMENT OF THE TREASURY

Auto Industry

Program Purpose & Overview
Several efforts were initiated under TARP to address the condition of the American auto industry during the financial crisis. The Automotive Industry Financing Program (AIFP) was launched in December 2008 to prevent the uncontrolled liquidation of Chrysler and General Motors (GM) and the collapse of the U.S. auto industry. The potential for such a disruption at that time posed a significant risk to financial market stability and threatened the overall economy. It could have also had disastrous consequences for other auto manufacturers and the many suppliers and other businesses that depend on the automotive industry. This could have led to a loss of as many as one million American jobs. Recognizing that both GM and Chrysler were on the verge of collapse, the Bush Administration extended temporary loans to both companies and their financing entities in December 2008.

When President Obama took office, he decided that he would not commit any additional taxpayer resources to these companies unless they developed plans to achieve long-term viability. The Obama Administration rejected the initial viability plans submitted by GM and Chrysler and required both companies to develop more ambitious plans, under which all stakeholders, would make substantial sacrifices. Both companies brought in new management, and their operations were restructured through proceedings in bankruptcy court in record time. These actions paved the way for a turnaround of the companies and the entire domestic automotive industry.

General Motors
Treasurers guaranteed a total of approximately $51 billion to GM through TARP under a loan agreement that required GM to submit a viable restructuring plan. The first plan submitted by GM failed to establish a credible path to viability, and the company was given additional time to put forward a revised proposal. GM's revised plan was determined to be viable, and on June 1, 2009, GM began an orderly restructuring process by filing for bankruptcy. It emerged from bankruptcy just 40 days later, and began, what is today, a remarkable turnaround.

GM completed an initial public offering in November 2010 which yielded $13.5 billion in net proceeds for Treasury. In December 2012 Treasury announced its intent to fully exit its remaining investment in GM within the following 12-15 months subject to market conditions. GM agreed to purchase 200 million shares of GM common stock from Treasury at $27.50 per share and closed on that transaction later the same month repaying taxpayers $2.1 billion.

In December 2013 Treasury sold its final stake in General Motors exiting its investment in the company and recouping a total of $39 billion from the original GM investment. The government's actions enabled the industry to rebound. Since 2009, more than 370,000 new auto jobs have been created, and GM, Chrysler, and Ford are profitable, competitive and growing.

Chrysler

In total, Treasury committed $12.5 billion to Chrysler under TARP. Under the loan agreement, Chrysler was required to implement a viable restructuring plan. In March 2009, the Administration determined that the business plan submitted by Chrysler failed to meet that standard and concluded that Chrysler was not viable as a stand-alone company.

The Administration subsequently determined that Chrysler could achieve viability by partnering with the international car company Fiat. As part of the planned restructuring, in April 2009, Chrysler filed for bankruptcy protection. In May 2009, Treasury provided $1.9 billion to Chrysler (Old Chrysler) under a debtor-in-possession financing agreement for assistance during its bankruptcy proceeding. Chrysler emerged from bankruptcy in June 2009 as a newly formed entity, Chrysler Group LLC (New Chrysler). Since then, Chrysler has lowered its structural costs, adopted new technologies, rejuvenated its product line, and rebuilt its brands. As of April 2011, the company had achieved five consecutive quarters of operating profit and on March 31, 2011, Chrysler realized its first quarter of positive net income since exiting bankruptcy. More than $11.2 billion of the $12.5 billion committed to Chrysler has been returned to taxpayers through principal repayments, interest, and cancelled commitments.

Ally Financial (formally GMAC)

As part of the government's assistance to the automotive industry, Treasury also invested a total of $17.2 billion of TARP funds in Ally Financial (formerly GMAC). Founded as GM's finance subsidiary in 1919, Ally has been a primary source of financing for GM's dealers and consumers for over 90 years. Treasury determined that without government assistance, Ally would have been forced to suspend financing lines to creditworthy dealerships, leaving them unable to purchase automobile inventory for their lots. Without orders for cars, GM would have been forced to slow or shut down its factories indefinitely to match the drop in demand. Given its significant overhead, a slow-down or stoppage in production of this magnitude would have toppled GM.

Beginning in 2011, Ally executed a substantial restructuring plan. The company sold its international operations for more than $9 billion and addressed legacy mortgage liabilities. In November 2013 Ally returned $5.9 billion — or more than 70% of the total investment — to taxpayers.

Between January and October 2014, Treasury sold more than 122 million shares of Ally common stock through a series of transactions that included a private offering, an IPO, and two pre-defined written trading plans, for proceeds of approximately $6 billion. And, on December 19, 2014, Treasury announced that it had sold all of its remaining 54.9 million shares of Ally Financial Inc. (Ally) common stock at $23.25 per share, recovering an additional $1.3 billion for taxpayers. In total, taxpayers recovered $19.6 billion on the investment, roughly $2.4 billion more than the original $17.2 billion investment in Ally. Following this transaction, Treasury has fully wound down its equity investments through the Automotive Industry Financing Program.

Chrysler Financial

In January 2009, Treasury announced that it would lend up to $1.5 billion to a special purpose vehicle (SPV) created by Chrysler Financial to enable the company to finance the purchase of Chrysler vehicles by consumers. In July 2009, Chrysler Financial fully repaid the loan, including the additional notes that were issued to satisfy the EESA warrant requirement, together with interest.

Auto Supplier Support Program (ASSP)

Treasurers also provided loans through the Auto Supplier Support Program (ASSP), to ensure that auto suppliers received compensation for their services and products, regardless of the condition of the auto companies that purchase their products. Treasury has recovered all amounts invested under this program.

Auto Warranty Commitment Program (AWCP)

In the Auto Warranty Commitment Program (AWCP), Treasury provided loans to protect warranties on new vehicles purchased from GM and Chrysler during their restructuring periods. Treasury has recovered all amounts invested under the warranty program.

Read more about the program status.