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The Rescue of the US Auto Industry, Module B: Restructuring General Motors Through Bankruptcy

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Abstract

As the Global Financial Crisis worsened in 2008, credit markets tightened and a broader economic downturn developed, hitting the auto industry particularly hard. The crisis intensified a decade-long decline of the largest US auto manufacturers. Because of its size and importance to the economy, the US government decided to provide assistance to General Motors (GM) to sustain it while it developed plans for its long-term viability. Congress declined to authorize funding for the auto manufacturers, but in December 2008, Treasury provided a bridge loan to GM under the Troubled Assets Relief Program (TARP) to sustain the company until the Obama administration was in place in January 2009. Six months later, the administration provided debtor-in-possession (DIP) financing as GM went through an expedited bankruptcy process as the culminating event in GM's restructuring. The government's intervention in and $50 billion assistance to GM began in December 2008 and wasn't completely wound down until December 2013, resulting in a $10.5 billion loss. This case discusses the bankruptcy, Treasury's DIP financing, and Treasury's unwinding of its equity stake in GM acquired as part of the restructuring.

Keywords: Auto team, Automotive Industry Financing Program (AIFP), bankruptcy, General Motors (GM), restructuring, TARP

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[1] This case is one of eight Yale Program on Financial Stability (YPFS) modules considering the various elements of the government's rescue of the US auto Industry published in 2022:

- "The Rescue of the US Auto Industry, Module A: Automotive Bridge Loans" by Alexander Nye.
- "The Rescue of the US Auto Industry, Module B: Restructuring General Motors Through Bankruptcy" by Kaleb B. Nygaard.
- "The Rescue of the US Auto Industry, Module C: Restructuring Chrysler Through Bankruptcy" by Alexander Nye.
- "The Rescue of the US Auto Industry, Module D: Emergency Assistance to Ally Financial (formerly GMAC)" by Riki Matsumoto and Kaleb B. Nygaard.
- "The Rescue of the US Auto Industry, Module E: Emergency Assistance for Chrysler Financial" by Alexander Nye.
- "The Rescue of the US Auto Industry, Module F: Auto Supplier Support Program" by Riki Matsumoto.
- "The Rescue of the US Auto Industry, Module G: The Auto Warranty Commitment Program" by Benjamin Henken.
- "The Rescue of the US Auto Industry, Module Z: Overview" by Rosalind Z. Wiggins, Greg Feldberg, Alexander Nye, and Andrew Metrick.

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Bankruptcy of General Motors

At a Glance

As the Global Financial Crisis worsened in 2008, credit markets tightened and a broader economic downturn developed, hitting the auto industry particularly hard (Bureau of Labor Statistics, n.d.). The crisis intensified the decade-long decline of the largest US auto manufacturers (Klier and Rubenstein 2012). Because of their size and collective importance to the economy, the US government decided to provide assistance to General Motors (GM) and Chrysler Holdings (Chrysler) to sustain them while they developed plans to restructure. The government's intervention in and $50 billion assistance to GM began in December 2008 and wasn't completed until December 2013 (GM and Treasury 2008; Treasury 2013). This case study provides details on the GM's Section 363 bankruptcy, Treasury's DIP financing (Treasury 2009f), and Treasury's unwinding of their stake in GM (Office of Public Affairs 2013).

Summary of Key Terms	
Purpose: To prevent the collapse of the American auto industry and retool GM to be viable for the 21st century (Obama 2009b)	
Bankruptcy filed date	June 1, 2009
DIP financing	June 3, 2009
Section 363 sale date (effective end of bankruptcy)	July 10, 2009
Legal authority	Funding: TARP via EESA Bankruptcy, Section 363 of Chapter 11
Total DIP investment	$30.1 billion
Peak Treasury ownership	60.8%
Date of final Treasury sale of GM shares	December 9, 2013
Total loss on TARP investment	$11.3 billion

Summary Evaluation

Despite the large size and complex nature of the Section 363 bankruptcy transaction, it was successfully completed by the July 10, 2009, deadline that the government set (Bosco and Plante 2013). GM was able to produce a profit the year following the restructuring (GM Co. 2011; Hirsch 2011). Among the principal drivers of the return to profits was the reduction in fixed costs, including hourly labor costs, total number of employees, number of manufacturing plants, health insurance costs, and the overall breakeven number of vehicle sales (Klier and Rubenstein 2012). The Congressional Oversight Panel (COP) concluded that the overall auto rescue had been a success (COP 2009; COP 2011a). However, the government realized a $10.5 billion loss on its approximately $50 billion investments in GM (Office of Public Affairs 2013).

Context: United States 2008–2009	
GDP (SAAR, Nominal GDP in LCU converted to USD)	$14,559.5 billion in 2008 $14,628.0 billion in 2009
GDP per capita (SAAR, Nominal GDP in LCU converted to USD)	$48,383 in 2008 $47,100 in 2009
Sovereign credit rating (5-year senior debt)	As of Q4, 2008: Fitch: AAA Moody's: Aaa S&P: AAA As of Q4, 2009: Fitch: AAA Moody's: Aaa S&P: AAA
Size of banking system	$9,938.3 billion in total assets in 2008 $9,789.1 billion in total assets in 2009
Size of banking system as a percentage of GDP	68.3% in 2008 66.9% in 2009
Size of banking system as a percentage of financial system	30.5% in 2008 30.2% in 2009
5-bank concentration of banking system	45% in 2008 44% in 2009
Foreign involvement in banking system	18% in 2008 16% in 2009
Government ownership of banking system	0% in 2008 0% in 2009
Existence of deposit insurance	100% insurance on deposits up to $250,000 in 2008 100% insurance on deposits up to $250,000 in 2009
Sources: Bloomberg; World Bank Global Financial Development Database; Federal Deposit Insurance Corporation; World Bank, Bank Regulation and Supervision Survey.	

I. Overview

Background

As the Global Financial Crisis worsened in 2008, credit markets tightened and a broader economic downturn developed, hitting the auto industry particularly hard (Bureau of Labor Statistics n.d.). The crisis intensified the decade-long decline of the largest US auto manufacturers (Klier and Rubenstein 2012). Because of their size and importance to the economy, the US government decided to provide assistance to General Motors (GM) and Chrysler Holdings (Chrysler) to sustain them while they developed plans to restructure.

The government's intervention in and assistance to GM began in December 2008 and wasn't completely wound down until December of 2013 (GM and Treasury 2008; Treasury 2013). The overall restructuring can be divided into four phases: (1) a congressionally requested restructuring plan (Pelosi and Reid 2008); (2) a $13.4 billion bridge loan and second restructuring plan (GM and Treasury 2008); (3) the bankruptcy and Treasury's debtor-in-possession (DIP) financing of GM (Treasury 2009f); and (4) Treasury's unwinding of their stake in GM (Office of Public Affairs 2013). This case will provide details on third and fourth phases. How the first and second phases relate to GM will be briefly summarized here. For a more detailed look at the broader purpose and impact of phases (1) and (2), see Nye 2021a.

A Congressionally Requested Restructuring Plan

At the request of congressional leaders, the three large auto manufacturing companies (GM, Ford Motor Company, and Chrysler) submitted restructuring plans in December 2008 (GM 2008; Nardelli 2008; Ford 2008). Compared to the other two, GM's request provided more details about when and why it needed the money. In exchange for the requested funds, GM would commit to eliminate health care benefits for certain employees; reduce pension plans; combine and/or close certain auto makes and models, and reduce the number of plants and dealerships (GM 2008).

At this stage in the crisis, the auto companies were emphatic in their insistence that bankruptcy not be an option. In GM's plan, they expressed it this way, "It cannot be emphasized strongly enough how much a bankruptcy will depress sales of an auto manufacturer's products due to consumer fears of long-term warranty, resale value and service-related issues. The company, as noted above, is already experiencing the effects of such speculation today" (GM 2008).

In the following weeks, Congress and the White House were unable to agree on legislation that would provide the requested funds. On December 19, 2008, President George W. Bush, emphasizing that these were not ordinary circumstances, announced that his administration would make funds available to the auto companies under the authority of the Troubled Assets Relief Program (TARP) (Bush 2008; Treasury n.d.).

A $13.4 billion Bridge Loan and Second Restructuring Plan

The TARP bridge loans were provided to GM on December 31, 2008 (GM and Treasury 2008). The funds were divided into three installments: $4 billion immediately (Treasury 2009a); $5.4 billion on January 21, 2009 (Treasury 2009b); and $4 billion on February 17, 2009 (Vlasic and Bunkley 2009). There was set in the terms of the bridge loan agreement a requirement that GM submit a new restructuring plan, in other words, a "plan to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Borrower and its Subsidiaries" (GM and Treasury 2008).

GM was given until February 17, 2009, approximately six weeks, to submit this second restructuring plan. In addition to many of the similar requirements that the congressional letter had requested of the first restructuring plan, this second plan stipulated that the plan had to be signed by "the leadership of each Union providing for the Labor modifications." Likewise, signatures were required from the representatives of the Voluntary Employee Beneficiary Association (VEBA), which was the health insurance trust of the Big Three auto companies (GM and Treasury 2008; Klier and Rubenstein 2013, 149). GM was also required to reduce its outstanding unsecured public debt (GM and Treasury 2008).

GM delivered its restructuring plan to the administration on February 17, 2009 (GM 2009a). The plan itself showed a number of changes from the first plan submitted to Congress. GM committed to reducing nameplates by 25% (instead of 17%) and the number of manufacturing plants by 30% (instead of 19%) (Bosco and Plante 2013; GM 2008; GM 2009a). They also indicated that they had reached a tentative agreement with labor representatives, but the details could not yet be made public (GM 2009a).

On March 30, 2009, Treasury rejected the restructuring plan, indicating it had done so for the following reasons: GM assumed their market share would only decrease slightly; GM assumed they would be able to improve price realization (the difference between the price paid and the sticker price); there were not enough cuts in brands, nameplates, and dealers; and GM did not do enough to decrease legacy liabilities like insurance pensions. However, despite the noted deficiencies, Treasury concluded, "because of GM's scale, franchise and progress to date, we believe that there could be a viable business within GM if the Company and its stakeholders engage in a substantially more aggressive restructuring plan" (GM 2009b).

As part of the March 30, 2009, announcement, Treasury committed to provide, "working capital for 60 days to [provide GM the opportunity to] develop a more aggressive restructuring plan" (Treasury 2009d). As part of the commitment, Treasury asked GM CEO Rick Wagoner to resign (Wagoner 2009). The Treasury also indicated that deeper stakeholder concessions would be required in a more aggressive restructuring plan. Another significant note in Treasury's announcement was that it presented bankruptcy as an option, "[GM's] best chance at success may well require utilizing the bankruptcy code in a quick and surgical way." GM had long argued that bankruptcy should not be an option (Treasury 2009d).

Within a week after the March 30 announcement, Treasury sent a team composed of Steven Rattner, counselor to the Treasury Secretary (Geithner 2009); Harry Wilson, a corporate restructuring expert brought in by the Treasury; a handful of consultants from Boston Consulting Group; and bankers from Rothschild to GM's Detroit headquarters to work with the company to improve the restructuring plan. Rattner (2011) noted that, "This time, nothing short of perfection was acceptable. There was no time to waste on another mediocre plan." The restructuring was handled by the administration and did not require congressional input. The negotiations of the following weeks covered mismatches in the supply chain, dealerships, which brands to keep, and subsidiaries and suppliers.

On top of the $13.4 billion had already provided, Treasury lent additional funds on two occasions. On April 22, 2009, they provided $2 billion and on May 20, 2009, they provided $4 billion. These funds were effectively extensions of the earlier bridge loans and therefore brought the total amount lent to $19.4 billion (Treasury 2009e).

Program Description

The GM Bankruptcy

On Sunday, May 31, 2009, the Treasury announced that GM would file for bankruptcy the following day (Treasury 2009f). In a speech from the White House on Monday morning, President Barack Obama indicated that GM would follow a similar path through bankruptcy as Chrysler was just about to complete (Obama 2009b).[3] The paperwork was filed in the Southern District of New York with an expedited timeline of approximately six weeks, due to be completed by July 10, 2009 (GM 2009c; Bosco and Plante 2013).

The pathway GM used to restructure under Chapter 11 of the Bankruptcy Code was Section 363 (Treasury 2009f). This portion of the Bankruptcy Code lets companies sell their assets while undergoing bankruptcy procedures. This would allow GM to "sell substantially all of its assets to a purchaser, give consideration to certain of its creditors in provisions of the sale, and then confirm a liquidation plan under Chapter 11" for what remained (Bosco and Plante 2013). The purchaser[4] would become, as Rattner described it, "Shiny New GM" (Rattner 2011) and the smaller company that remained would be renamed Motors Liquidation Company, or "Old GM" (Bosco and Plante 2013).

Although there was great concern that consumers would abandon a company in bankruptcy, given the frozen credit markets and the size of GM, bankruptcy seemed to be the only avenue for a restructuring that was finite and speedy, and could only be accomplished with government provided DIP financing. Chapter 11 allows for several options in seeking to accelerate a bankruptcy procedure. A "prepackaged bankruptcy" requires all creditor groups agree in advance and then a plan is presented to the bankruptcy judge for approval. However, in the case of GM, "the number of creditors and

[3] See Nye (2021b) for details on the Chrysler bankruptcy.
[4] The US government created a subsidiary called Vehicle Acquisitions Holdings LLC that was the technical purchaser of the 363 sale (Gerber 2009). The name was then changed to General Motors.

shareholders was too large to realistically drive agreement" (Deese, Shafran, and Jester 2020). In light of this, the other option presented by the Bankruptcy Code, a 363 sale was chosen. It provided a quick process that could go forward even if all creditors did not agree. "The [prepackaged bankruptcy presupposes the drafting of a complete plan and disclosure statement, creditor voting, and a confirmation hearing. Section 363 sales are thus usually much faster alternatives" (Lubben 2009). And time was of the essence. It was costing taxpayers as much as $2 billion per month to keep the companies afloat (Deese, Shafran, and Jester 2020).

DIP Financing

Within the same May 31, 2009, Fact Sheet in which the Treasury announced the GM bankruptcy, it also said that the Treasury would provide an "approximately $30.1 billion of financing to support GM" through the process, in addition to the $19.4 billion already lent (Treasury 2009f). The financing of $23 billion was provided on June 3, 2009, two days following the bankruptcy filing (COP 2011a; Treasury 2009g). This money was structured as Debtor in Possession (DIP) financing, which served as a senior loan to allow the company to continue operating during the bankruptcy (COP 2009; COP 2011a).[5]

On July 5, 2009, the Court approved the Section 363 transaction (Gerber 2009) and the sale was executed on July 10, 2009 (GM Company 2009). The remaining $7.1 billion of the $30.1 billion was provided on that day (Treasury 2009g).

New GM emerged from bankruptcy on July 10, 2009, 40 days after filing, making it an unusually fast process (Deese, Shafran, and Jester 2020) but consistent with the main reason for utilizing a Section 363 sale (Lubben 2009). The ownership of New GM was structured as outlined in Figure 1 with the Treasury's outstanding $9 billion loans being restructured in the form of a combination of loans, common and preferred stock, and debt (Office of Public Affairs 2013).

[5] For specific details of the loan, including: interest rate, maturity, payments, restrictions, and events of default, see Miller et al. 2009 and GM 2009d.

Figure 1: Ownership of New GM

Owner	Equity Stake	Preferred Stock	Warrants
Treasury	60.8%	$2.1 billion	n/a
UAW VEBA	17.5%	$6.5 billion	One warrant for 2.5% common stock once valuation hit $75 billion
Canada	11.7%	$400 million	n/a
Old GM (unsecured bondholders)	10.0%	n/a	Two warrants for 7.5% common stock each at discounted price once valuation hit $15 billion

Sources: Gerber 2009; Bosco and Plante 2013.

In President Obama's June 1, 2009, speech outlining the GM bankruptcy plan, he described the situation that the US government would be in as majority shareholder of the largest auto manufacturer as an "unwelcome position" (Obama 2009b). In the administration's restructuring plan they described how they would vote their shares as follows, "the government will only vote on core governance issues, including the selection of a company's board of directors and major corporate events or transactions" (Treasury 2009f). Similarly, Rattner described it as, "short and nonintrusive as possible . . . first . . . setting business goals and guidelines and picking executives and directors . . . [then] step[ping] back and let[ting] the board and management run the company" (Rattner 2011).

As President Obama explained in his speech outlining GM's bankruptcy plan, difficult, but necessary sacrifices were required from all stakeholders for the company to survive and succeed (Obama 2009b). Beyond the Treasury itself, there were two main stakeholders: the United Auto Workers (UAW) and the unsecured bondholders.

GM owed a $20 billion funding obligation to the UAW health insurance VEBA (Bosco and Plante 2013). As part of the deal, this obligation was exchanged for equity in New GM (Gerber 2009). As part of the restructuring plan, the union also agreed to significantly reduce labor costs through a combination of benefit reductions and layoffs. In 2010, GM reported that they had reduced annual labor costs from $16 billion in 2005 to $5 billion in 2010 (COP 2011a). By 2011 GM's average hourly labor costs had been decreased from approximately $70 per hour to $56 per hour. This figure was more in line with US factories of foreign manufacturers like Toyota ($55 per hour) and Honda ($50 per hour) (Klier and Rubenstein 2013).

GM's unsecured bondholders held $27.2 billion in outstanding debt at the outset of the bankruptcy proceedings. After a series of negotiations, 54% of the bondholders, representing more than two-thirds of the outstanding value, voted to exchange the debt for a 10% equity stake in the New GM and two warrants for an additional 15% equity (Bosco and Plante 2013; Gerber 2009).

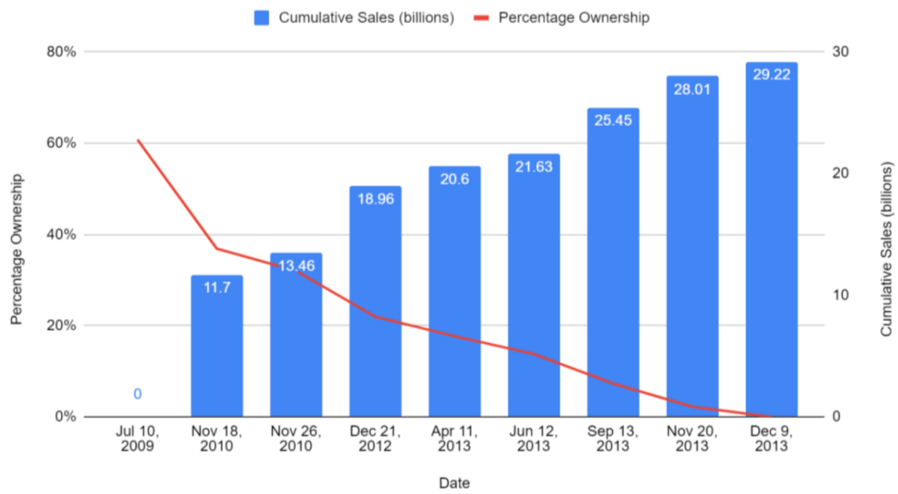
Total workforce at GM was reduced by over 20% from 2008 to 2009. GM committed to reducing the number of manufacturing plants from 47 to 33 and the number of dealerships from 6,000 to 4,100 by 2012 (Bosco and Plante 2013). The new car sales breakeven point for New GM would be 10 million sold, a decrease from 16 million sold pre bankruptcy (Treasury 2009f). The most profitable brands (Buick, GMC, Chevrolet, and Cadillac) were kept and the rest were not. In 2009, GM wound down Saturn and Pontiac; in 2010 it sold Saab and after a failed effort to sell Hummer, wound it down (Bosco and Plante 2013).

Outcomes

The US Treasury's Unwinding of Its Stake in GM

GM made their final loan repayment to the Treasury on April 20, 2010; this left Treasury owning common and preferred shares in GM (Office of Public Affairs 2013; Treasury 2010a). Sixteen months after the close of the 363 sale, Treasury sold shares as part of GM's initial public offering on November 18, 2010 (Treasury 2010b). "The IPO reduced Treasury's stake from approximately 61 percent to 33 percent, or 500 million shares of GM common stock" (Office of Public Affairs 2013). The next month GM repurchased the Treasury's preferred shares for $2.1 billion, which left Treasury with just common shares (Treasury 2010c; Office of Public Affairs 2013). Those common shares were sold between December 2012 and December 2013 (Treasury 2013). The wind down of Treasury's equity stake in GM can be seen in Figure 2. In total, Treasury received approximately $29.2 billion for the GM common shares and $2.1 billion for GM preferred shares for a total of approximately $31.3 billion for all its interests in New GM. When combined with the $7.4 billion repaid on the $19.4 billion lent in the bridge loans (Canis and Webel 2013), Treasury recovered $39 billion against its total investment in GM for a loss of $10.5 billion (Office of Public Affairs 2013).

Figure 2: Cumulative Sales (in $ billions) of GM Common Equity by Treasury



Sources: COP 2009; Treasury 2013, 34.

The New GM made a profit in 2010 for the first time (GM Co. 2011). This annual profit was the first in six years for the company (Hirsch 2011). The company returned to profitability on a more sustainable level and in the fall of 2011 its credit rating was upgraded (Klier and Rubenstein 2012). GM's economic future was strong enough to enlist sufficient market interest to justify the IPO "much sooner than virtually anyone expected" (Goolsbee and Kruger 2015).

II. Key Design Decisions

1. GM's restructuring and DIP financing were part of a package of assistance that the company received from the government.

Prior to the bankruptcy, GM had received $19.4 billion in bridge loans from the US Treasury (Treasury 2009e). On December 31, 2008, Treasury lent GM $4 billion and promised (Vlasic and Bunkley 2009) an additional $9.4 billion over two additional installments in January and February 2009 (Treasury 2009a; 2009b; Vlasic and Bunkley 2009). That initial $13.4 billion did not prove sufficient to keep GM afloat during the viability planning that was occurring during the winter and spring of 2009. The loan was expanded by $2 billion on April 22, 2009, and again by an additional $4 billion on May 20, 2009, for a total of $19.4 billion (Treasury 2009e). The purpose of the bridge loans was to sustain the company so that it could develop a plan for long-term viability. After submitting a number of plans to the government (as a condition to further funding) the administration determined that a restructuring via bankruptcy was the only available option.

Given the highly interconnected nature of the auto industry, in seeking to sustain GM, the government also provided assistance to several related parties: GM's financing company, GMAC; auto suppliers; and warranty assistance to consumers (see other YPFS autos case studies). Assistance was also provided to Chrysler and similar related entities, all under the Automotive Industry Financing Program (AIFP) funded by TARP (Office of Public Affairs 2013).

2. Due to GM's large size and importance to the Midwest's economy and wider auto manufacturing sector, the government viewed its intervention as necessary.

At the end of 2008, GM was the largest auto manufacturer in the world (Marr 2009). It played a significant role in the Midwest's economy and in the broader auto manufacturing sector. In the speech outlining the GM bankruptcy, President Obama (2009b) said, "in the midst of a deep recession and financial crisis, the collapse of [GM] would have been devastating." He promised that if GM would remake and retool itself, and if "their stakeholders were willing to sacrifice for their company's survival and success . . . the United States government would stand behind them."

3. The Bush and Obama administrations decided to classify auto manufacturers as "financial institutions" that could access TARP funds and took the companies through the Section 363 Chapter 11 bankruptcy.

Classifying GM as a Financial Institution

It was clear that letting GM fail and have to liquidate would have been too complicated, taken too long, and been too risky for the fragile state of the economy (See Key Design Decision 5 for more details). Initially, the Bush administration thought it needed new authority (beyond TARP) for an auto bailout and directed the auto companies to request assistance from Congress. However, when an agreement couldn't be reached with Congress (Canis and Webel 2013), the administration decided that auto manufacturers would be classified as financial institutions and could therefore have access to the TARP funds from the Emergency Economic Stabilization Act of 2008 (EESA) (COP 2009). This was explained in two determinations sent to Congress, one each from the Bush and Obama administrations. The first determination made the broad claim that, "companies engaged in the manufacturing of automotive vehicles and the provision of credit and financing in connection with the manufacturing of such vehicles are 'financial institutions' for purposes of [TARP]." The second determination added to the first by tying the determination to the Automotive Industry Financing Program (AIFP) (Chrysler Group 2009). In court cases regarding the issue, the government explained that "Treasury, in determining what is a financial institution, looks at the interrelatedness [of the company and its financing arm]" (COP 2009). Since GMAC was undeniably a finance company, the parent company GM could also be considered a finance company and therefore have access to the TARP funds. The legal determinations carried through from the bridge loans to the DIP financing (COP 2011a).

GM Allowed to Follow Chrysler's Example into Section 363 of Chapter 11 Bankruptcy

Chrysler had recently completed a 363 bankruptcy process (see Nye 2021b). GM was viewed as, "an outsize version" of Chrysler and would follow the same bankruptcy path (Rattner 2011). President Obama (2009b) said, "Chrysler's extraordinary success reaffirms my confidence that GM will emerge from its bankruptcy process quickly, and as a stronger and more competitive company."

The relationship between the purchaser and the auto manufacturer does not end at point of sale. In all situations there are warranties on the vehicles, and in as many as 90% of sales, financing of one kind or another is provided, often by a financing company affiliated with the manufacturer itself. The view was that a drawn out, traditional Chapter 11 bankruptcy would do irreparable damage to GM, or as Rattner described it, "[GM] would never survive the long, slow grind of a conventional bankruptcy" (Rattner 2011). In fact, the bankruptcy case of Old GM (renamed Motors Liquidation Company after the 363 sale) is ongoing as of the writing of this case in 2021 (United States Bankruptcy Court for the Southern District of New York n.d.).

The 363 sale "allows a bankrupt company to act quickly to transfer intact, valuable business units to a new owner. (The conventional bankruptcy process restructures the corporation as a whole.)." The 363 sale process had been used to salvage Lehman Brothers' money management and Asia businesses in September 2008 (Rattner 2011).

GM filed for bankruptcy on June 1, 2009, with an expectation that the process would be completed 40 days later, by July 10, 2009 (Bosco and Plante 2013). The 363 sale was approved by the judge on July 5, 2009, and executed on July 10, 2009 (Gerber 2009; GM Co. 2009). The Chrysler bankruptcy's 363 sale and had been completed in 31 days (Nye 2021b).

4. The Obama administration Auto Task Force decided to pursue bankruptcy after GM failed to provide adequate viability plans.

The bankruptcy was the result of the third in a series of progressively more strict viability plans that GM had been asked to develop (first by Congress, then as stipulated in the bridge loan agreement, and finally with help from the Obama administration itself) (GM and Treasury 2008; Pelosi and Reid 2008; GM 2009b). After months of discussions and negotiations between GM, its major stakeholders, and the administration, it was determined that bankruptcy was the only solution that would set GM on the path to long-term viability. It became clear that liquidation would have been too complicated, taken too long, and too risky for the fragile state of the economy (See Key Design Decision No. 5 for more details).

5. GM's bankruptcy required joint sacrifices from all stakeholders.

Board and Management

In the final weekend of March 2009, GM CEO Rick Wagoner resigned at the request of the Obama administration (Wagoner 2009). The government was also able to select a new board of directors. This selection of new company leadership was emphasized by the Auto Task Force as critical to effecting the necessary change in culture at GM (Bloom 2009). GM was also subject to the executive compensation requirements associated with other TARP recipients under EESA (GAO 2009).

United Auto Workers Union

The union health insurance plan VEBA exchanged $20 billion in debt for 17.5% equity in New GM (Bosco and Plante 2013; Gerber 2009). They also accepted a decrease in labor costs that would bring GM's average hourly wage down from the mid-$70s to the mid-$50s, more in line with the domestic plants of foreign auto manufacturers (Klier and Rubenstein 2013). GM also committed to reducing the number of plants, from 47 to 33 (Bosco and Plante 2013).

Bondholders

The bondholders were required to exchange their $27.2 billion in outstanding debt for a 10% equity stake in the New GM (Bosco and Plante 2013). They were also given "two warrants, each to purchase 7.5% of the post-closing outstanding shares of New GM, with an exercise price based on a $15 billion equity valuation and a $30 billion equity valuation, respectively" (Gerber 2009).

Dealerships

In the first viability plan GM submitted to Congress in December 2008, GM had committed to reduce dealerships from 6,450 to 4,700 by 2012 (GM 2008). By the end of the bankruptcy, they committed to reducing the number down to 4,100 (Bosco and Plante 2013).

6. Treasury provided $30.1 billion in DIP financing to support GM's operating expenses during the bankruptcy.

In the Treasury's announcement on May 31, 2009, that GM would file for bankruptcy the following day, they said, "The U.S. Treasury is prepared to provide approximately $30.1 billion of financing to support GM through an expedited Chapter 11 proceeding and transition the new GM through its restructuring plan" (Treasury 2009f). Government funding was deemed critical to the company's successful restructuring because commercial funding was thought to be unavailable given the tightened credit markets (Rattner 2011).

The $30.1 billion was spread over two drawdowns. The first funding was made on June 3, 2009, for $23 billion and the remaining $7.1 billion was released on the day of the 363 sale, July 10, 2009 (Treasury 2009g). For specific details of the loan including interest rate, maturity, payments, restrictions, and events of default, see Miller et al. 2009 and GM 2009d.

7. The Auto Task Force decided that Treasury's investment in new GM would have to be equity because GM would not be able to survive if it was saddled with too much debt.

After making internal calculations about how much money the New GM would require, the Auto Task Force realized "that too much new debt would leave the company groaning under a potentially unmanageable load of fixed liabilities—much like the old GM" (Rattner 2011). They realized that the new funds would have to come in the form of equity. Some on the Auto Task Force were concerned about the government owning such a large company; however, given the alternatives, the Auto Task Force pushed forward with their recommendation that the funds come in the form of equity (Rattner 2011). When the 363 sale was finalized, the Treasury's DIP loans were converted into $2.1 billion in preferred shares in New GM and 60.8% of the outstanding common stock of New GM (Gerber 2009).

8. The Treasury, as majority shareholder in New GM, selected new company management and replaced the board of directors, then stepped back and let the leadership make daily decisions.

In President Obama's June 1, 2009, speech outlining the GM bankruptcy plan, he described the situation that the US government would be in as majority shareholder of the largest auto manufacturer as an "unwelcome position" (Obama 2009b). In the administration's restructuring plan, they described how they would vote their shares as follows, "the government will only vote on core governance issues, including the selection of a company's board of directors and major corporate events or transactions" (Treasury 2009f). Similarly, Rattner described it as being as "short and nonintrusive as possible . . . first . . . setting business goals and guidelines and picking executives and directors . . . [then] step back and let the board and management run the company" (Rattner 2011).

Beyond selecting leadership, the administration included in the credit agreements "vitality commitments" that prevented the auto manufacturers from moving jobs outside the US (GAO 2009; Goolsbee and Kruger 2015).

9. Treasury's plan was to exit its positions in GM as soon as practicable. The loans were repaid in 2010, and the final equity was sold in 2013.

The US government's plan was to exit the "unwelcome position" as majority shareholder in GM "as soon as practicable" (Obama 2009b; Rattner 2011). GM made its final loan repayment to the Treasury on April 20, 2010; this left only Treasury's shares in GM (Office of Public Affairs 2013; Treasury 2010a). Treasury sold shares as part of GM's initial public offering on November 18, 2010 (Treasury 2013). The next month GM repurchased the Treasury's $2.1 billion in preferred shares, which left Treasury with just common shares remaining (Treasury 2010c). Those common shares were sold between December 2012 and December 2013 (Treasury 2013). See Figure 2 for more details on the wind down of Treasury's stake in GM.

10. President Obama established the Presidential Task Force on the Auto Industry to lead the administration's response to the failing companies.

The Auto Task Force was established on February 20, 2009, and consisted of administration leadership, including: Secretary of the Treasury, Director of the Office of Management and Budget, National Economic Council Director, Chair of the President's Council of Economic Advisers, Environmental Protection Agency Administrator, and the Director of the White House Office of Energy and Climate Change. The Auto Task Force also included the following cabinet secretaries: Transportation, Commerce, Labor, and Energy (Treasury 2009c). Analysis for the Auto Task Force was often conducted by Official Designees that were appointed by the administration (Treasury 2009c). They were responsible for the auto industry research, analysis, negotiations, and policy recommendations. The Task Force also relied on outside consultants (for example, BCG) and bankers (for example, Rothschild) (Rattner 2011). The Auto Task Force's work was mostly complete with the finalization of the Chrysler and GM bankruptcies in July 2009 (Geithner 2009).

11. The White House and its Auto Task Force team led the communication efforts.

A significant portion of the headline communication regarding the US government's auto rescue was done by the White House. President Obama gave a number of major speeches during the spring and summer of 2009 outlining in detail what the administration was doing (Obama 2009a; 2009b). A special task force, the Auto Task Force, was organized within the administration, and members of that team made appearances on television on a number of occasions to explain decisions that had been made (Treasury 2009c; Goolsbee 2009).

Following significant decisions, the administration published fact sheets and timelines of the plans and steps taken (Treasury 2009d; Treasury 2009f; Office of Public Affairs 2013). Rattner (2011) describes an internal process he developed when making decisions, "I knew that part of my job was to be sensitive to the politics, particularly where taxpayer dollars were concerned. I developed what I thought of as 'the *Washington Post* test': How would the public react to [the headline of the decision being made]?"

12. Although it became a private company after the bankruptcy, New GM filed quarterly reports with the US Securities and Exchange Commission (SEC).

Although a private company following the bankruptcy, Treasury required New GM to file voluntarily quarterly reports with the SEC after the bankruptcy. The reports contained all of the information that a typical SEC filing would (COP 2009).

The US Congress held multiple hearings and issued a number of reports regarding the government's actions in the auto industry (COP 2009; COP 2011a; COP 2011b; Canis et al. 2009; Canis and Webel 2013). The Government Accountability Office (GAO) issued a number of its own reports specific to the government's investments in the auto industry (GAO 2009; 2011). Because GM received funds from TARP, the Office of the Special

Inspector General for TARP (SIGTARP) also included reviews of actions related to GM in its quarterly reports to Congress (SIGTARP 2009).

13. The federal government of Canada and the provincial government of Ontario contributed funds to New GM.

Canada and Ontario's total investment of $9.5 billion in new GM gave them an 11.7% stake in New GM, $1.7 billion in preferred shares/notes and the right to select one director (COP 2009). Describing the reliance on and tie to the United States auto industry of Canada's (and even more specifically, Ontario's) auto manufacturing industry, a government report said of the industry, "approximately 85 percent of cars produced in Canada are exported, and these exports are sent almost exclusively to the United States. Exported vehicles and parts represent about 15 percent of Canada's manufactured product exports" (Auditor General of Canada 2014).

Canada's investments were similar to the US investments. In April 2009, Export Development Canada (EDC) entered into a loan agreement to lend $2.4 billion in working capital to GM's Canadian subsidiary, which included additional notes similar to the US loan agreement. In July, EDC lent an additional $3.9 billion to GM that was immediately converted into equity. The EDC also contributed $3.2 billion to the DIP facility. (Auditor General of Canada 2014; GM Co. 2010).

14. Despite the large size of GM's European subsidiary Opel, the administration decided not to provide funds for its rescue.

GM's large European subsidiary Opel, which had $35 billion in annual sales with 55,000 employees, found itself in similar trouble as the parent company in the US. The company required funds to continue operating, and the US government wasn't willing to pay for this. Despite initial indications that no one would provide the funds, Germany did come through with a €1.5 billion ($2.1 billion) bridge loan.[6] The bridge loan was initially intended to provide funds only while Opel found a private-sector partner. However, when a deal was presented a few months later, GM's new board of directors wasn't comfortable with the deal and instead decided to restructure Opel (Rattner 2011).

III. Evaluation

Despite the large size and complex nature of the GM Section 363 transaction bankruptcy, it was successfully completed by the July 10, 2009, deadline that the government outlined (Bosco and Plante 2013). A number of bondholders and legal scholars made arguments against the process itself during and after the 363 transactions of both GM and Chrysler (see Roe [2009] and Lubben [2009] on the arguments against; Bosco [2013] for information about the bondholders' complaints; also, see Gerber [2009] for the court's

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[6] Conversion comes from https://www.bloomberg.com/news/articles/2009-06-02/germanys-opel-bridge-loan-to-get-eu-review-under-subsidy-rules.

ruling and reasoning). The arguments included: the pace of the bankruptcy was overly expedited, the bidding procedures were too narrow to include a genuine bid from anyone besides the government, and the unions were unduly favored over the creditors.

When asked how the government would measure success, Ron Bloom, Senior Advisor on Auto Issues at the US Treasury Department, gave the following answer, "I think success will be measured in the way that one as a taxpayer would expect it to be measured, and that is to say the taxpayers put a lot of money up and they want their money back. So the greater percentage of the money that we invested that we get back, the greater success. That is clearly the primary measure" (Bloom 2009).

The IPO, in which the government sold their first significant stake in the company, was completed above the initial target price and the government was able to sell even more shares than they had initially anticipated—the overall IPO was considered a success (Klier and Rubenstein 2012). One of the overarching goals of the government's intervention was to restructure GM in such a way that it would be able to return to profitability. GM was able to produce a profit the year following the restructuring (GM Co. 2011; Hirsch 2011) and for most of the following decade (MacroTrends, n.d.).

Among the principal drivers of the return to profit was the reduction in fixed costs, including hourly labor costs, total number of employees, number of manufacturing plants, health insurance costs, expensive liabilities, and the overall breakeven number of vehicle sales. In 2012 both former President Bush and President Obama cited the success of the auto rescue in public speeches (Klier and Rubenstein 2012).

Regarding the overall effort, the Congressional Oversight Panel, a congressional committee tasked with overseeing the TARP investment, said, "The industry's improved efficiency has allowed automakers to become more flexible and better able to meet changing consumer demands, while still remaining profitable" (COP 2011a). They also noted that, "Treasury was a tough negotiator as it invested taxpayer funds in the automotive industry. The bulk of the funds were available only after the companies had filed for bankruptcy, wiping out their old shareholders, cutting their labor costs, reducing their debt obligations and replacing some top management" (COP 2009).

Despite all of the measures of success regarding GM's return to long-term viability, the government realized an approximately $11 billion loss on the $50 billion invested in the company (ProPublica n.d.). Steve Rattner, one of the Auto Task Force leaders, remarked, "The compensation of old GM's bondholders should have been wiped out, and active workers' wages as well as the generous pensions plans should have been cut" (Klier and Rubenstein 2012).

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V. Key Program Documents

Summary of Program

(Klier and Rubenstein 2012) Detroit back from the brink? Auto industry crisis and restructuring, 2008-11
Article from the Federal Reserve Bank of Chicago on the path of the automotive industry before 2008, the interventions during the financial crisis, and the changes the industry experienced afterward.
https://ypfs.som.yale.edu/library/detroit-back-brink-auto-industry-crisis-and-restructuring-2008-11.

(Obama 2009) Remarks by the President on General Motors Restructuring
Short speech on GM's bankruptcy filing that presents the US plan for turning around GM.
https://ypfs.som.yale.edu/library/remarks-president-general-motors-restructuring.

(Office of Public Affairs 2013) GM Timeline
Short timeline produced by the US Treasury Department Office of Public Affairs that chronicles the major government interventions for GM.
https://ypfs.som.yale.edu/library/us-treasury-department-office-public-affairs-gm-timeline.

Legal/Regulatory Guidance

(Gerber 2009) General Motors Corporation bankruptcy ruling
July 5, 2009 bankruptcy document that approves the major features of GM's bankruptcy plan. This includes the Section 363 asset sale, the assumption and assignment of old GM's executory contracts, and a settlement agreement with the UAW's retiree body.
https://ypfs.som.yale.edu/library/decision-debtors-general-motors-motion-approval-1-sale-assets-vehicle-acquisition-holdings.

General Motors Corporation bankruptcy document repository_
Web page from Motors Liquidation Company (the post-bankruptcy rump portion of GM) listing all of the major legal documents from the bankruptcy proceedings.
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/key.pdf.

(GM 2009c) General Motors Corporation bankruptcy filing
General Motors' June 1, 2009, Chapter 11 bankruptcy petition. It lists major creditors of the company at the time of filing.
https://ypfs.som.yale.edu/library/general-motors-corporation-bankruptcy-petition-and-filings.

(United States Bankruptcy Court for the Southern District of New York n.d.) All documents in the General Motors bankruptcy case
Excel sheet with links to every single document filed in the GM bankruptcy case.
https://ypfs.som.yale.edu/library/motors-liquidation-company-dockets-all-documents-general-motors-bankruptcy-case.

Press Releases/Announcements

(Treasury 2009f) Fact Sheet: Obama Administration Auto Restructuring Initiative General Motors Restructuring
Treasury fact sheet that summarizes the framework for turning around GM. It details the stakeholders in the restructuring as well as their sacrifices.
https://ypfs.som.yale.edu/library/fact-sheet-obama-administration-auto-restructuring-initiative-general-motors-restructuring.

(Treasury n.d.) About TARP
Treasury webpage that provides a brief explanation of TARP and its programs.
https://ypfs.som.yale.edu/library/about-tarp.

Reports/Assessments

(Bloom 2009) Oversight of TARP Assistance to the Automobile Industry
Statements by various stakeholders in the automotive restructuring.
https://ypfs.som.yale.edu/library/oversight-tarp-assistance-automobile-industry-field-hearing-congressional-oversight-panel.

(Canis et al. 2009) U.S. Motor Vehicle Industry: Federal Financial Assistance and Restructuring
Congressional Research Service analysis of the lead-up to and execution of the auto industry bailout as well as the various solutions for restructuring.
https://ypfs.som.yale.edu/library/us-motor-vehicle-industry-federal-financial-assistance-and-restructuring.

(Canis and Webel 2013) The Role of TARP Assistance in the Restructuring of General Motors
Congressional Research Service retrospective on the GM intervention. It provides significant detail on the government's exit from GM.
https://ypfs.som.yale.edu/library/role-tarp-assistance-restructuring-general-motors.

(COP 2009) September Oversight Report: The Use of TARP Funds in the Support and Reorganization of the Domestic Automotive Industry
Congressional Oversight Panel analyzing and providing recommendations related to the creation, implementation, and issues raised by the use of TARP funds in the automotive bailout.
https://ypfs.som.yale.edu/library/september-oversight-report-use-tarp-funds-support-and-reorganization-domestic-automotive.

(COP 2011a) January Oversight Report: An Update on TARP Support for the Domestic Automotive Industry
Congressional Oversight Panel updating analysis and recommendations related to the creation, implementation, and issues raised by the automotive bailout.
https://ypfs.som.yale.edu/library/congressional-oversight-panel-january-oversight-report-update-tarp-support-domestic.

(COP 2011b) March Oversight Report: The Final Report of the Congressional Oversight Panel
Congressional Oversight Panel overview of its analysis during the body's lifetime.
https://ypfs.som.yale.edu/library/congressional-oversight-panel-march-oversight-report-final-report-congressional-oversight.

Domestic Automobile Industry, CEO Panel, US Senate Banking, Housing, and Urban Affairs Committee, November 18, 2008
C-SPAN video of a congressional hearing where the executives of GM, Chrysler, and Ford were lambasted as they pled for government funding.
https://ypfs.som.yale.edu/library/domestic-automobile-industry-ceo-panel.

Organisation for Economic Co-operation Status Report: Inventory of Investment Measures Taken between 15 November 2008 and 15 June 2009
Organisation for Economic Co-operation and Development report assessing the effects of government interventions implemented globally in response to the Global Financial Crisis.
https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/OECD_Status_Report_Inventory_Investment_Measures_15Nov08_15Jun08.pdf.