

**EXAMINING THE STATE OF THE DOMESTIC  
AUTOMOBILE INDUSTRY—PART II**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**BANKING, HOUSING, AND URBAN AFFAIRS**  
**UNITED STATES SENATE**  
ONE HUNDRED TENTH CONGRESS

SECOND SESSION

ON

FURTHER EXAMINING THE STATE OF THE U.S. DOMESTIC AUTOMOTIVE  
INDUSTRY AND ITS OVERALL IMPACT ON THE NATION'S ECONOMY,  
THE AUTOMOTIVE WORKERS, AND THE COMPANIES INVOLVED IN  
THE SUPPLY CHAIN AND THEIR EMPLOYEES

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DECEMBER 4, 2008

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## EXAMINING THE STATE OF THE DOMESTIC AUTOMOBILE INDUSTRY—PART II

THURSDAY, DECEMBER 4, 2008

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The Committee met at 10:11 a.m., in room SD-106, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

### OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. The Committee will come to order. Good morning. I would ask the Committee to come to order, and our friends that cannot find a seat in the hearing room—as you all noticed, we moved the hearing this morning. The last hearing obviously drew a sizable audience of interested people, and so we moved the hearing to this room this morning. I want to thank my colleagues. I know many had planned, obviously, to be probably elsewhere this week, but I am very grateful to all of you for being here for this second hearing on the subject matter. And I am going to take a minute or so this morning and just explain some housekeeping provisions and then some opening comments on the subject matter.

We are here, obviously, “Examining the State of the Domestic Automobile Industry: Part II,” if you will, of these hearings. This could quite possibly be, I would point out to my colleagues—and I say that with some hesitation—the last hearing of this Committee in the 110th Congress. And I want to just take a moment, if we could, all of us here, to recognize the service and valuable contributions of some of our colleagues who will be leaving.

Senator Hagel, Chuck Hagel of Nebraska. He is a dear, dear friend and a great—we served on two committees together over the years, the Foreign Relations Committee and this Committee, and you have been a valued friend and a wonderful member of the U.S. Senate. We thank you immensely, Chuck, for your service.

Elizabeth Dole, our good friend from North Carolina, we thank you for your service on this Committee as well and your and Bob’s wonderful contribution. You are very much part of the Senate family and have been for a long time. So we thank you immensely.

And, of course, Wayne Allard, my good friend from Colorado, we thank him. Where is he? He is not here yet, but he is coming, and we thank him very, very much as well for his service, and their staff members on this Committee. Tewana Wilkerson, Joe Cwiklinski, and Robbie have done a great job, and I thank them for their service.

Let me make, as I said, a couple of housekeeping points, if I can. First, given this is the second hearing on the auto industry and given the large number of witnesses we have before us this morning, I would like to propose that Senator Shelby and I make our opening statements and then move immediately to our witnesses as a way of moving along here rapidly, given the number of people who will be testifying before us.

And, second, the automobile companies represented here this morning have provided this Committee and the Senate with extensive information about their status and their plans. In the case of one company, in the case of Chrysler, some of that information is proprietary in nature. It is a private company, not a public company. We have left it up to that company to provide that information to each interested Senator in a manner that both parties deem consistent with protecting the privacy of proprietary data. Should any questions be raised today that might trigger a request for proprietary information, I would ask that these questions be answered by the auto companies to the member's satisfaction in a manner that preserves the confidentiality of the information sought.

Today the Committee meets, as I pointed out, for the second time in as many weeks to consider the state of the domestic automobile industry. As we consider the challenges facing this industry, I want to be clear that Congress has already given the Bush administration the authority to stabilize this industry. I would like to take note that I invited the Treasury Department and the Federal Reserve Board to testify here this morning, and they have declined to do so. Yesterday I sent a letter to Chairman Bernanke requesting his comments on the industry's plans and whether there is anything that prevents the Federal Reserve from lending any of these domestic—providing any lending to any of these domestic auto manufacturing companies.

When we last met, I said that the fate of the industry is an important subject matter, obviously, for our Committee's consideration. That statement even is truer today than it was a few days ago. In fact, the very purpose of this hearing is fundamentally to answer three very straightforward questions.

First, are the automobile companies in dire straits? Are they in danger of failure?

Second, if they were to fail, what would be the consequences for our overall economy?

And, third, if the economic consequences would be severe, does the American Government have a responsibility to do anything to help?

In just 2 weeks' time, the clouds on the economic horizon have grown even darker and greater in number. Just this week, we learned what many of us have believed for a long time. Our economy is mired in a deep and sustained recession—a recession that began some 12 months ago, a recession that has contributed to the greatest loss of manufacturing jobs, including in the automobile industry, in over a quarter of a century, and a recession that was in many respects precipitated by massively irresponsible actions by those in the financial sector, including lenders who are now the recipients of hundreds of billions of dollars in Federal taxpayer bailout assistance.

Amidst this backdrop of intensified economic turbulence and uncertainty, the leaders of the domestic automobile industry are here once again to explain why they are seeking assistance from the Committee and from the Congress of the United States. None of us relishes this task that we are asked to consider, yet who among us believes we should risk the consequences of the collapse of one or more domestic automobile manufacturers?

Make no mistake about it. Those consequences would be severe and sweeping. Tens if not hundreds of thousands of jobs would be lost in the auto industry itself. More would be lost among suppliers, dealers, and all of the other businesses, from restaurants to garages and others across our Nation in ways large and small that depend on a domestic auto industry for their livelihoods.

Moreover, at a time when taxpayers are already bearing an extraordinary burden in funding economic recovery efforts, that burden would only increase in the event of a failure of one or more of these companies. Pension obligations alone could run into the tens and maybe hundreds of billions of dollars.

A partial or complete failure of the domestic automobile industry would have ramifications far beyond manufacturing and pensions. It would affect virtually every sector of our economy. That includes the financial sector, which is a particular focus of this Committee. A collapse within the auto sector would unquestionably worsen the credit crisis. By some estimates, the domestic auto companies already comprise more than 10 percent of the high-yield bond market and one of the largest sectors in the leveraged finance for banks.

The Big Three have hundreds of billions in outstanding debt liabilities, including tens of billions in short- and long-term debt obligations. In addition to their outstanding debt, these companies hold billions in credit default swaps. A failure in the auto industry could trigger obligations by manufacturers and counterparties that could have financial firms reeling. Ultimately, the ability of those firms to inject credit and liquidity into the overall economy could be impaired, stifling job creation and further income growth. None of us—none of us—wants to see that outcome.

So let us be clear this morning. In my view, we need to act not for the purpose of protecting a handful of companies. If that were the extent of the issue, I would let them fail. I acknowledge those who advocate such a course on the assumption that pressure from the outside will produce the desired results. My concern with such an approach is that it plays Russian roulette with the entire economy of the United States. Inaction is no solution. Inaction would only add more uncertainty and instability to our economy. These are the ingredients that currently we have an overabundance, ingredients that are contributing to the crisis of confidence that has gripped the markets and precipitated the worst economic crisis since the Great Depression.

It seems to me that the request being made by the automobile industry, while large by any measure, is modest in comparison to what this Committee has lately witnessed in the financial sector. If the Federal Reserve and the Treasury Department under President Bush can find \$30 billion for Bear Stearns, if they can concoct a \$150 billion rescue for AIG, if they can commit \$200 billion to Fannie Mae and Freddie Mac, and if they can back Citigroup to the

tune of more than \$300 billion, then there ought to be a way to come up with a far smaller dollar figure to protect this economy from the unintended consequences that would be unleashed by a collapse of the automobile industry.

With regard to the automobile industry, certainly we should not throw good money after bad, nor should we subsidize ineffective performance and inefficient production. We must demand that the auto companies demonstrate their commitment to reform. We must insist that if they are going to be backed by the American taxpayer, they owe it to those same taxpayers to make vehicles in a far more environmentally and economically sound manner.

The latest plans submitted by these companies over the last several days, which I have read completely, all three of them, are not perfect by any means. But, on average, I think they represent a commitment to that kind of necessary reform that Detroit must adopt if our economy and our country is to have an automobile industry in the 21st century.

Some of the companies are to be commended for going back to the drawing board, making tough decisions, and stepping forward today. You have come a long way in 2 weeks, I would say. Some may ask whether these proposed changes go far enough. In addition, I think these plans still leave many questions unanswered. In particular, will taxpayer assistance truly ensure long-term viability for these companies? Or will they be back here within weeks seeking more taxpayer assistance?

But let us be clear. There is no doubt that the automobile companies have done far more—far more, I would suggest—than the financial companies to show that they deserve taxpayer support. The Treasury Department has given the Nation's largest lenders hundreds of billions of dollars, as pointed out, as this graph here behind me demonstrates. Even now, weeks after the fact, Americans are still waiting for most of them to show that they deserve the dollars they have received, still waiting for them to appropriately increase lending to consumers and businesses, still waiting—for them to more aggressively act to mitigate foreclosures in our country, and still waiting for these lenders to rein in bonuses and other forms of excessive compensation while the American taxpayer is sacrificing on a daily basis.

The Nation's largest financial institutions are among the largest culprits in causing the credit crisis, and yet Secretary Paulson and the Treasury, despite being given complete authority to condition aid to financial institutions, have in no meaningful way insisted that these banks and insurance companies adopt tough reforms to ensure that the kind of shabby lending practices they engaged in will not happen again. On the contrary, the Treasury Department's largesse with taxpayer funds has been remarkably free of conditions placed on the recipients of those funds. Indeed, in the spirit of the season, Secretary Paulson has given the Nation's largest financial institutions the biggest holiday present in the history of American capitalism.

In my view, if we are going to insist on reforms by the auto industry as a condition of receiving Federal funding, we ought to do the same for the financial companies. For that reason, I will do all I can to insist that any auto company bill also place tough condi-



tions on any loans to financial firms, including provisions that require tax dollars to be used for responsible practices, like lending that requires lenders to get much more aggressive about attacking the foreclosure crisis that is still at the root cause of the larger financial crisis and that prohibits executives from paying themselves obscene sums while they are essentially receiving a welfare check for the American taxpayer.

At a time when average Americans are sacrificing mightily for the sake of our Nation's economic recovery, we must, I believe, insist that companies benefiting from those sacrifices act as if they deserved them. At the same time, I believe we need to take action to help our domestic auto industry in order to protect our Nation's economy and America's workers.

Finally, I want to respond to recent stories indicating that the administration is considering asking for access to the final \$350 billion we provided in the Emergency Economic Stabilization Act. We passed a bill that gave this administration broad authority to use funding to address the economic crisis we find ourselves in. Regrettably, they have misused the authority in two ways, in my view:

First, they are not doing what we clearly expected them to do. Most importantly, they are not using the money to help homeowners in distress. The FDIC has put forth a program that would help 2 million homeowners keep their homes, and the Treasury Department is refusing to fund that idea.

Second, they have spent the money—they have spent the money, they have done so in an ad hoc and arbitrary manner, in my view. They seem to be careening from pillar to post. Both the Treasury and the Federal Reserve have spent trillions of taxpayer dollars without adequate controls and without adequate transparency.

I do not believe this administration should seek the use of this additional funding unless they can present to the Congress and the American public a comprehensive, coherent plan for addressing those concerns.

Let me thank all of our witnesses again this morning for appearing here. We look forward to hearing from each of you, and with that, I want to turn to my colleague from Alabama, the former Chairman of the Committee, Senator Shelby.

#### **STATEMENT OF SENATOR RICHARD C. SHELBY**

Senator SHELBY. Thank you. Thank you, Chairman Dodd.

Only 2 months ago, Congress passed a bill that gave the Secretary of the Treasury unprecedented authority to spend \$700 billion to address the credit crisis. At the time, I expressed grave concerns with this approach and questioned then whether it would be an appropriate use of taxpayer dollars. The erratic implementation of the TARP, its questionable efficacy, and now the GAO report highlighting a number of deficiencies in the program's administration and oversight have only confirmed my original concerns.

My primary focus in these deliberations was and continues to be the interest of the American taxpayer. We that in mind, I opposed the creation of the TARP. Applying the same standard, I intend to oppose bailing out the Big Three auto manufacturers. Industry analysts contend that the firms continue to trail their major competi-

tors in almost every category necessary to compete and to make a profit.

When we last met, the CEOs of the car companies were unable to convince this Committee that they had done enough to reverse this trend. They were asked to go back to the drawing board and devise a plan to transform their respective business models and return them to profitability.

Now that they have each submitted a plan that proposes to do so, I am once again interested to hear how they plan to deal with current management, labor, cost and quality control, and product development shortfalls. How do they plan to address changes in the marketplace such as long-term reductions in annual sales? On what do they base their forecasts, and what happens if they are wrong? Why do they believe their proposed actions will reverse the continued loss of market share to other car companies?

How are their plans structured to adapt to an international market that demands greater efficiency and flexibility? Do the additional changes that they propose go far enough to ensure that taxpayers' dollars are being used to transform an industry and not just prop up a failed business model for a few months?

Finally, how is the money going to be used, and how do we account for it? And I guess, last, how are you going to pay it back to the taxpayers?

At our last hearing, I asked whether this was the end or was it just the beginning. We now have an answer, I believe. In just 2 short weeks, the price tag has jumped from \$24 billion to \$34 billion—\$25 billion to \$34 billion in 2 weeks. I am interested to hear what changed and why we should believe that things will get better as our economy continues to contract.

A recent report by Standard & Poor's states that all the automakers "face a similar array of threats in the near term," and that any government assistance would be viewed "as buying more time for the automakers rather than solving the fundamental business risks, especially deteriorating demand globally."

Each of the automakers have based their plans on what I believe are optimistic sales forecasts. Today's witnesses need to assure this Committee, and I believe the American people, that their plans can account for the unexpected, which seems to be the norm rather than the exception in today's economy. It has been argued that a great deal is at stake in this debate. I could not agree more. The strength of the American economic system is that it allows us to take risks to create, to innovate, to grow, to succeed, and sometimes to fail. Every time Government endeavors to alter any of these dynamics, it undermines and distorts the forces at work in all of them. I believe that this can impose a cost that is too high to pay as well.

I also believe that adversity can present opportunities. The question is whether one is prepared to seize them. I look forward to hearing if what the automakers are proposing demonstrates that they are truly prepared to do so. I have my doubts.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator Shelby. And as I mentioned earlier, we are going to go right to our witness, and I want to welcome Mr. Gene Dodaro, the Acting Comptroller of the

U.S. Government Accountability Office. Mr. Dodaro has worked for over 30 years in a number of key positions at the GAO, including Chief Operating Officer of that entity, and has certainly strong experience in this area. We welcome you to the Committee, and we look forward to your testimony.

Let me also say to you and for the record that any documentation or supporting materials that you wish to have submitted to the record, consider them accepted, both from this witness and the other witnesses as well, to compile our necessary record. That will be also true of my colleagues as well as witnesses.

Mr. Dodaro, the floor is yours.

**STATEMENT OF GENE L. DODARO, ACTING COMPTROLLER  
GENERAL OF THE UNITED STATES, GOVERNMENT  
ACCOUNTABILITY OFFICE**

Mr. DODARO. Thank you very much, Mr. Chairman. Good morning to you, Ranking Member Shelby, and all the Members of the Committee. I am very pleased to be here today to assist your deliberations on the automakers' request for Federal assistance. GAO has been involved in a number of Federal rescue efforts and bailouts dating back to the 1970s during the Chrysler-Lockheed Martin assistance, and over the years we have developed three fundamental principles that we think can help guide decisions on the Congress in this matter.

First is clearly identifying what the problem is we're trying to solve. In this case, we have got short-term liquidity problems with the confluence of fundamental restructuring of the industry, and it is all occurring against a backdrop of an uncertain economic climate.

The second fundamental principles is making a clear determination that it is in the national interest to provide Federal assistance and, if that policy determination is made, that there are clear, concise Federal objectives for the assistance and a clear exit strategy to return the companies to their normal status.

Last, the third fundamental principle is protecting the Government's interest, and here there are several principles. First is concessions, concessions by all parties—in this case, management, labor, suppliers, dealers, and creditors of the affected industry seeking assistance; that there also be clear collateral and that the Federal Government be put in a first lien holder position and senior creditor status for whatever assistance is provided; that there be compensation for risk on the part of the Federal Government and, if the entities benefit, that the taxpayers share in that benefit through warrants or other means going forward; and that there be controls over management, and in this case that there be limits on compensation, but there be clear and consistent Federal control over the disbursement of the money, the monitoring of what the money goes for, and also, you know, the ultimate effect of whether or not the money is achieving the objectives of the program.

Now, there are two points I would really like to highlight this morning before I take questions. One is if the Congress determines that Federal intervention is needed here and Federal assistance is provided, there needs to be a rigorous board put in place to oversee this process and to have clear decisionmaking authority about

when and how the money is to be disbursed to the companies. The board has to have access to all the information it needs from the entities in order to provide that type of oversight on behalf of the Congress. The board needs to monitor the situations, particularly important in this case because you have a lot of changes under-going with the economy and the changing circumstances of the entities. The board has to have the ability to protect the taxpayers' interest, has to have the right leadership, the right expertise, and the right resources to succeed.

My clear message here today is the fact that this board has to be established in order to succeed in this particular endeavor if the decision is made to move forward. And it is also very important to deal with the timing issues here. Many of the needs of the companies put forth in their plans are going to occur while we are having a change in and a transition to a new administration. And so whatever administrative apparatus is put in place, there has to be some continuity during the period of time when there is a change in leadership. And I have some ideas on how that could be addressed. I would be happy to talk about it further in the questions.

Last, I would say the other fundamental point that we would be making here is, because of the urgency of some of the requests, that if there is a decision to move forward and to provide assistance to the automakers, that Congress may want to consider a short-term and a longer-term type of an approach and that the money be phased in and doled out in increments over time rather than large, up-front commitments. And this is where the board would play a particular role in making sure that there is enough justification and due diligence done on the part of the Government with the companies' records to make sure that the loans or whatever other assistance is provided is warranted.

So, with that, Mr. Chairman, that concludes my opening statement. I would be happy to address questions, and I also want to underscore GAO's commitment to the Congress to work with the Congress and providing all the help that we can in making this difficult and very important decision.

Chairman DODD. Thank you very much for your testimony this morning. I have a couple of quick questions for you, and then I will turn to my colleagues as well. We thank you for your involvement.

There are a number of ways in which we can address this issue, and obviously the one which has received a lot of attention is whether or not Congress will act. Obviously, there are various proposals, both in the House and some various ideas that have been surfaced here, and, obviously, given the time constraints and others, if Congress is going to act, it is going to require some significant effort over the coming days. The Majority Leader has suggested that we try to do something next week, if we can, to come together.

But there are alternatives to that, and the two other alternatives are: one, under the Emergency Economic Stabilization Act, which this Congress supported back around October 1st, granted broad authority to the Treasury to respond to situations involving the economic difficulties in our Nation. And while a lot of focus was paid to financial institutions, the underlying point was to get economic recovery.

Would you please share with us your analysis as to whether or not, one, the Treasury has the authority under that legislation to respond to this by utilizing the so-called TARP funds in this case and has the authority to condition those resources in a manner that they might see fit, given the authority under that legislation.

And, second, under 13(3) of existing law dealing with the Federal Reserve, as you saw them respond to the AIG situation, do they not have the authority under that provision of law that would allow them to respond to this situation? In effect, which I have written to the Chairman of the Federal Reserve, Mr. Bernanke, asking that question, but I would like to hear it from the GAO this morning. Does that authority exist in your mind in both cases?

Mr. DODARO. First, as it relates to the authorities under the Economic Stabilization Act for the Secretary of Treasury, we believe that that legislation is worded broadly enough that it would permit the Secretary of Treasury to provide the assistance using TARP funds. And the Secretary has broad discretion to set whatever conditions on the assistance that he would determine necessary.

I would comment, though, that in my opinion, if TARP money is used, there needs to be still additional changes in the board oversight structure. Senator Shelby mentioned our recent report on the TARP program where we pointed out the fact that there are many critical management issues that are not yet addressed as part of that oversight over that program.

Chairman DODD. I want to get to that in a minute here about the oversight.

Mr. DODARO. And I will answer on the Federal Reserve question, we also believe that the Federal Reserve has the authority under the statutes that you cite to do this, provided that there is a super majority vote of the Board of Governors, the fact that there is certification that credit not available through any other means to these companies, and that there is a clear ability on the companies to repay the assistance. So there are some determinations that would need to be made by the Federal Reserve in order to exercise that statutory authority. But both of those vehicles are potentially available.

Chairman DODD. Now, just on the second question related—I thank you for your answer to that question. That has been the view of this Senator for a long time over the last number of weeks that this matter has been discussed. There has been a debate, obviously, as to whether or not that exists, but I appreciate the clarity from the GAO on that question. The authority clearly exists, and the right to condition that assistance as well, which gets to the point of a trustee or a board, an oversight board. And I agree with you totally on that, I think having this disbursement of resources occur not on a lump-sum basis but, rather, conditioned on the performance of how things are moving forward with the various ideas that we are hearing from the industry itself.

Tell me, though, in terms of the GAO's assessment in reference to the oversight board, how do you—one, did they require greater public scrutiny? I believe we did, obviously, there. And what has been the GAO's assessment of that scrutiny?

Mr. DODARO. In terms of oversight boards generally, Mr. Chairman, you know, we would point to a couple models that have been

used before. All the Members here will recall the Airline Stabilization Board that was put in place to provide loans to the airline industry follow September 11, 2001. That Board was made up of the Chairman of the Federal Reserve, the Secretary of Treasury, and the Department of Transportation was an ex officio member; GAO was a non-voting member of that Board as well. That Board hired expertise. It brought in resources and, in our view, worked fairly well. A similar type of oversight board was put in place for the Chrysler loan guarantee program during that period of time.

So our view in this case, you would want to have a board that would have not only financial expertise—and our experience has shown over time when an oversight board is set up, you want to have the Federal Reserve and the Board of Governors and Treasury as members of the board in any case. But you also want to have industry expertise. In this case, it could be the Commerce Department. Energy is already developing the loan program under separate legislative authority given by the Congress, and they have hired some expertise, we understand, and would be available to help in this regard as well.

So our view would be you would have to have a board composition, and I would be happy to give you specifics on that with conditions. But those would be our views on the best way to address this particular situation.

Chairman DODD. Well, we would ask you to do that right away, if you would, as well. Just last on that point, is it the GAO's opinion that there has been adequate oversight of the Treasury's investments?

Mr. DODARO. We think there are critical management shortcomings, and we made a series of recommendations that we believe Treasury needs to implement quickly in order to address those issues to make sure that there is proper transparency and accountability over the use of the money that has been provided already, that the conditions that have been put on for executive compensation and payment of dividends, *et cetera*, are adhered to. We also made a series of recommendations about the capacity of the Treasury Department to staff up to adequately monitor and oversee and implement the program going forward, and those are listed in our report. I would be happy to submit our report for the record to document that, Mr. Chairman.

The other point I would make, you know, a lot of our recommendations go to ensuring an effective transition given the upcoming change in administration. One of the suggestions that we might have in this case is if Congress would create a board, if they make the determination that Federal assistance is needed, that the one entity that is not going to have a change in leadership is the Board of Governors of the Federal Reserve. And it could be set up where they are members of the board and serve in an interim status as chair until a new Secretary, if it would be the Secretary of Commerce or one other person is the chair of the board, until the new leadership team is confirmed during the next session.

This is really important because, as you point out, you have read the plans, as have I, and a lot of the assistance is being requested during the next several months when this is going to occur. And so you are going to need some continuity during this period of time

with the proper expertise and resources if the Government's interests are going to be adequately protected.

Chairman DODD. You raised a second set of issues, and that is, the transparency of the Federal Reserve and the assets they are holding. And this Chairman intends to take a good look at how the Fed has handled its investments. They have a lot more than Treasury has handled, and, frankly, I have a lot of concerns about the opaqueness, to put it mildly, of the Federal Reserve's handling of those assets. That is for another hearing at another time, but let me turn to Senator Shelby.

Senator SHELBY. Thank you. Thank you, Chairman Dodd.

I appreciate that you were brought into this, the GAO was brought into this without much lead time, and it is my understanding that the GAO may not have very deep auto industry expertise. In fact, it is my understanding that the GAO does not presently employ auto industry analysts on its staff. But even if you do not have auto-specific expertise, can you extrapolate from your experiences conducting other analytical projects and provide your assessment regarding the effort required to adequately assess the financial condition of the automakers? In other words, is 1 day enough time to prepare?

Mr. DODARO. Well, we have been making the most of that 1 day, Senator, but you could use more time, obviously, and you could need more detailed information from the companies. First of all—

Senator SHELBY. To make a good decision.

Mr. DODARO. Yes, yes. And that is why we think a board apparatus is a really important issue. I mean, in this case, you know, one of the companies is not a public company, and Chrysler, you know, is owned by a private equity firm. So you do not have the normal disclosures that you do for the other two companies. And so, you know, we have tried to get as much information as quickly as we could in this case, but this is the type of things that we believe the board could do. The board could assure the Congress that credit is not available elsewhere, that the cash-flow needs of the particular companies are justified from a timing standpoint, *et cetera*.

Senator SHELBY. But we are not at that point yet, are we?

Mr. DODARO. Well, as the Chairman mentioned in his remarks, there are questions about the plan.

Senator SHELBY. Absolutely.

Mr. DODARO. There is a need for additional information. It provides a high-level view, and as it looks into the future, there are some assumptions that are being made both from an industry standpoint, an overall economic standpoint, but also in concessions that would need to be negotiated with other parties, for example, in a couple of cases, you know, swapping equity for some of the debt that is held by the companies. And while that is a laudable objective, exactly how that is going to work out and play out as well as other negotiations in the upcoming period of time, let alone changes in general economic conditions, would remain to be seen. And that is the type of thing that a board would monitor closely to protect the Government's interest.

Senator SHELBY. The bottom line is that the more information one has, a board has, you have, we have, the better informed decision we can make. Is that correct?

Mr. DODARO. That is absolutely correct.

Senator SHELBY. And you are not telling us this morning that you have all the information you would like to make a decision today, are you?

Mr. DODARO. Well, we are auditors, Senator. We always like more information.

Senator SHELBY. Absolutely.

Mr. DODARO. And I believe it is always in the Government's interest to have everything it needs.

Senator SHELBY. Yes, sir. You noted that the assistance program—that these assistance programs from the Government pose significant financial risk to the taxpayer. The magnitude of that risk and the companies' need for the money can only be assessed if we have detailed information about what the financial state of each company is and what their plans are for fixing their problems.

Could you tell the American people today that the auto companies have provided the General Accounting Office in the short time with sufficient information to make those assessments of such magnitude today?

Mr. DODARO. Well, there is definitely information in their plans, if you take it as a self-reported basis, that shows that they have some financial difficulties.

Senator SHELBY. Sure.

Mr. DODARO. That seemed to be clearly pointed out by them in that data. We have not had time to do any independent—

Senator SHELBY. To assess all that.

Mr. DODARO. To assess it. But if you take the information on a self-reported basis, obviously there are issues that need to be addressed. That is why we were suggesting a short-term approach and a longer-term approach to deal with the critical issues. I mean, the Congress is in a difficult position right now because of the urgency that is being expressed over the need for this particular assistance, and we think if there is a determination made to provide that assistance, there could be some short-term issues. But you need to get the board in place as soon as possible.

Senator SHELBY. What would some of the possible benefits of Chapter 11 reorganization be for these companies?

Mr. DODARO. Senator, that is another area where, you know, we do not have a lot of experience at the GAO in that area. But there are obviously clearly defined legal procedures there that are in place.

Senator SHELBY. Under Chapter 11.

Mr. DODARO. Yes, yes.

Senator SHELBY. Chapter 11 basically is for restructuring companies, is it not?

Mr. DODARO. That is correct.

Senator SHELBY. If they are worth of restructuring.

Mr. DODARO. Right. That is correct. And, you know, there are a lot of pros and cons of those issues. There are a lot of risks associated with that as well, given the general economic environment,



the size of these companies, the interrelationships with the suppliers that they have.

Senator SHELBY. OK. I want to touch on something and see if I understand what Senator Dodd was asking you and your answer in dealing with the Fed. Were you saying a few minutes ago that you believe that the Federal Reserve Board, led by Chairman Bernanke, the Board of Governors, has the power now, if they so wanted, thought it was necessary, to put money in these auto companies just like they did with AIG and others? Do you believe they have the power, the legal authority to do that if they deemed it necessary?

Mr. DODARO. Yes. Yes, we believe they do, but they would have to make the determination that—

Senator SHELBY. So they could do that without Congress doing anything, could they not?

Mr. DODARO. Historically, that authority has been used for financial institutions, but, you know, our view is it is pretty broad authority, and it could fit this circumstance. But they would have to make the determinations that the credit is available. It requires a super majority vote of the Board of Governors to make it have a high threshold, and it has to involve a determination by the Federal Reserve that the companies would have the ability to repay. But those things are present, and we believe it is broad enough authority that it potentially—

Senator SHELBY. They could do it if they wanted to do it.

Mr. DODARO. Yes.

Chairman DODD. Let me just say, I do not have the language of 13(3) right in front of me, but believe me when I tell you that it is not specific to financial institutions. It can be any entity.

Mr. DODARO. Right. I just was pointing out historically—

Chairman DODD. But I want to make sure that we are not confusing that question. It can be any entity at all under 13(3).

Senator SHELBY. Senator Dodd, one last question. You have been generous with my time.

If the Fed were to do something like that, looking at their history, they have historically been a good task master for the money, how it was spent, how companies were run—in other words, the board you referred to. And that would be positive as opposed to us loaning money to auto companies that I personally doubt that will ever be paid back.

Mr. DODARO. The Federal Reserve does have the expertise necessary to be able to do some of the things that were associated with the board, or any board or any entity could contract for additional expertise that they may not have resident in their entity.

Senator SHELBY. Thank you.

Chairman DODD. Senator Johnson.

Senator JOHNSON. Mr. Dodaro, let us cut to the chase. What would be the effect on the Nation's economy if Congress or the Fed did not authorize emergency loans for the Big Three domestic automakers?

Mr. DODARO. Well, Senator, we have not studied that issue in depth, as mentioned, but obviously, there would be repercussions. And how significant those repercussions would be would depend upon, you know, what next steps would occur if there was no Fed-

eral assistance put in place. But there is no question that given the size of these companies, the number of people that they employ, that if there are disruptions in their operations, it is going to have an effect. And right now we are in a weakened state from our economy's standpoint, and because of that we are sort of in unprecedented circumstances right now. And I think that is a heightened risk if the companies do not provide—or are able to get some type of assistance.

Senator JOHNSON. What do legislators need to consider exactly when writing legislation to ensure better integrity, accountability, and transparency if funds are extended to the automakers?

Mr. DODARO. The number one recommendation, again, is a board that has strong authority, that has access to all the information that it needs, that has the expertise and it is resourced properly to be able to review the information from the companies and provide the type of oversight necessary. Other safeguards should be the fact that there is collateral established for the loan, that the Government is in a first lien holder position, has senior status over the loan. If there is collateral, we should get collateral during this period of time. And there ought to be concessions made by all parties in order to provide that assistance.

But the number one safeguard, Senator, in my opinion, is this strong, decisionmaking board with the proper authority and resources.

Senator JOHNSON. I yield back.

Chairman DODD. Thank you very much, Senator.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Let us go back to the question of Fed authority. The restructuring might very well consist of having current creditors take equity. As I understand it, a very large portion of the current creditors are, in fact, some of the institutions that are on Chairman Dodd's chart, that is, the larger banks, the larger financial institutions. Given their status, I am sure they would not be happy with the idea of having their balance sheets significantly changed by shifting from credit to equity.

On the other hand, would it be possible for the Fed or the Secretary of the Treasury, or both, under TARP to say if you take equity in replacement for your debt, we then will give you an infusion of cash from TARP? Then the balance sheet of the auto company changes quite dramatically. The cash-flow challenge changes because they are no longer paying interest on their credit obligations, but they have an equity situation.

Discuss that. React to that possibility.

Mr. DODARO. That is a very intriguing set of proposals, Senator, and, you know, we have not examined the interrelationships that you are talking about in terms of how they exist. But I would say, though, that one of the tasks of the board, or whatever entity is put in charge of this particular situation, is to bring all parties to the table to have a negotiated type of an arrangement. And certainly, you know, at this point we should not rule out any possibilities of how those types of negotiated settlements could take place to provide the type of circumstances that you are talking about.

So, you know, I do not know enough to give you a particular answer, but the concept of bringing people together that are stakeholders in this process and trying to work out an arrangement is one duty that the board should have.

Senator BENNETT. Well, in your view, does the Treasury have the authority now to do that kind of thing if, indeed, a restructuring of that sort made sense?

Mr. DODARO. Let me just turn to my General Counsel for a minute.

Mr. KEPPLINGER. Senator, certainly the Secretary of Treasury under the TARP program has a fair number of tools to purchase assets. The other thing, too, is that they have the authority, I would think, with the fact that they have this pot of money available to them to engage the parties in negotiations, and particularly to the extent that they are mutually advantageous to work out those types of arrangements.

Is there something specific in TARP that addresses this type of situation? Presently, not that I can recall off the top of my head.

Senator BENNETT. So if there is nothing currently in it, the presumption is that, yes, they do have the authority?

Mr. KEPPLINGER. Well, they certainly have a wide range of authority in terms of purchasing assets from the financial institutions and providing loan insurance and loan guarantees. How they could work the deal would depend upon the particulars.

Senator BENNETT. Well, yes. I will not pursue it. My time is running out. But it occurs to me that it might go down a little better if the financial assistance were given to the financial institutions rather than to the auto companies, but the auto companies could receive significant relief. And by putting the equity on the balance sheets of the financial institutions, you create a new set of incentives on the part of those equity holders who now become very significant shareholders to protect their own investment by creating a marketplace pressure for changes in the way the auto companies operate. Seats on the board would come with that equity. In effect, you take a portion of the oversight responsibility away from the Government and put it in the hands of financial institutions, at the same time easing the cash requirements on the part of the auto companies.

So I throw that out as one thing for us to consider as we go along.

Mr. DODARO. Well, Senator, I would be happy to think about that idea and provide, you know, some additional information to the Committee on that proposal.

Senator BENNETT. Thank you very much, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Senator REED.

Senator REED. Thank you, Mr. Chairman, and thank you, Mr. Dodaro.

Are we talking about one board or three boards, giving three separate entities, one of which is privately held?

Mr. DODARO. I would suggest one board, Senator, to ensure consistency. You know, from reading the plans, you obviously have three very different situations that are being presented here, but

there needs to be consistency and equity in treatment. One board, Senator.

Senator REED. And with respect to the formulation that you are talking about and one that seems to have been used both with the airlines and with Chrysler back in the 1970s is that the funding, the actual funding was contingent upon the board determining that these conditions had all been met. Is that correct?

Mr. DODARO. That is correct.

Senator REED. So, procedurally, the board, would it be established, the actual disbursement of funds to the companies would be made by the board, they would not have an account they could draw down at their discretion?

Mr. DODARO. That is correct.

Senator REED. One of the points you made—and it is reflective in several of the questions about assuring a first priority for taxpayers in terms of their investment, implicit in—at least implicit in what I have heard the companies have said—is that this is very difficult for them to do because of the ability to coordinate among debt holders, suppliers, *et cetera*. Do you have any comments on that?

Mr. DODARO. I think that, you know, each company is in a different situation as it relates to that particular question, Senator. This is an area that would have to be negotiated, but I think the clear preference, if you will, is for the Government to be placed in that status and that there be a negotiated arrangement with the various creditors or other stakeholders in order to make sure that that happens, or that there is some other type of collateral or warrants that are given for future purchase of stock. There are a lot of different arrangements that could be made and negotiated, but that would be another task for this board entity.

Senator REED. Have you looked at the interlocking relationships between the production companies and the finance companies?

Mr. DODARO. No, we have not.

Senator REED. But that has to be something, I presume, that should be considered.

Mr. DODARO. Definitely.

Senator REED. And, in fact, I am under the impression that GMAC, at least, is seeking to become a bank holding company or a financial holding company?

Mr. DODARO. Yes, that is our understanding. That was in one of the disclosures.

Senator REED. So the Federal Reserve will be the regulator of GMAC, effectively.

Mr. DODARO. If they would approve—

Senator REED. If they would be accepted.

Mr. DODARO. If they approved that status.

Senator REED. I guess a final point I want to make or a question or clarification with respect to what you said is that the procedure you seem to be suggesting, the one that we have followed in every other situation, is that the critical act that we do is establish the board and the parameters, one of which would be first lien position, one of which would be a definite voice in the management of the company—in fact, even perhaps naming directors—and then con-

cessions from everyone, not just the UAW but suppliers, dealers, *et cetera*.

Mr. DODARO. That is exactly right, Senator. Congress would establish the membership of the board, the authorities of the board, and Congress can establish whatever conditions it believes necessary to protect the taxpayers' interest to guide the board's decisions from a policy standpoint, including executive compensation, payment of dividends, *et cetera*.

Senator REED. And the other issue here is one of time because what we have heard the companies say is that they are in a very precarious cash-flow position, and that this board, one, to be established; two, to make a careful review probably with independent assistance is not something that can be done in a matter of days.

Mr. DODARO. Well, that is one of the reasons we would suggest, if Congress decides assistance is warranted and provided that there be a short-term mechanism to get the money, most of the plans—or the two plans that require immediate assistance, the General Motors plan and the Chrysler plan, call for help during the—immediately, but also the January, February, March timeframe, first quarter. You know, we believe that there is sufficient expertise now available in the Federal Government to get a board together to at least look at, while there may be an initial outlay—and that initial outlay ought to be conditioned on certifications by the automakers that no other credit is available to them and other conditions, but then they could immediately focus on the cash-flow positions of those entities and then take a look at the longer-term issues associated with restructuring. That would buy enough time to do that.

Senator REED. Thank you. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator Reed.

Senator CRAPO.

Senator CRAPO. Thank you very much, Mr. Chairman.

Mr. Dodaro, at the outset of your testimony, you indicated that we had a short-term liquidity problem. Could you define short-term for me? I mean, what are you talking about there?

Mr. DODARO. Yes. Basically, that is reflecting what the automakers put in their plans, Senator, which is the cash-flow problems that they are having, meeting the needs of their companies immediately in this particular month, but especially in the first quarter for next year.

Senator CRAPO. And these cash-flow projections are based on various scenarios, correct?

Mr. DODARO. That is correct.

Senator CRAPO. And I know one of the big questions that we are dealing with here in Congress is whether bankruptcy is not a tenable option, and maybe the word "bankruptcy" shouldn't be used. Maybe we should be talking about a Chapter 11 reorganization under the Bankruptcy Code. But aren't the assumptions that the automakers are making dependent on the public returning to full confidence in the companies?

Mr. DODARO. Basically, most of the plans call for resuming more of a normal sales status around the 2011–2012 type timeframe, which is when they would propose that they would start paying back the Federal loans. But there are also a number of assumptions in there associated with negotiations with their creditors and

other stakeholders in the process. In fact, the General Motors plan talks about an oversight board along the lines of which I have talked about, and they basically would be the substitute, if you will, for the reorganization structure under the Chapter 11. The board would take on that task of working with all the stakeholders.

Senator CRAPO. And that gets to the real question I am asking, because as I said, one of the big issues here is whether a Chapter 11 reorganization is not tenable in the auto industry in terms of the confidence that buyers will need to purchase automobiles and so forth. And the question I have is, do you believe that the essentially same type of reorganization, if that is what we are talking about here, only done through an oversight board rather than through a Chapter 11 proceeding, is going to create a difference in terms of consumer confidence?

Mr. DODARO. That is hard to predict, Senator, but my point would be here, though, if the government takes on that task, it needs to have the appropriate people and the resources and with eyes wide open to go into that process to take it to a successful conclusion. But the idea, particularly in the current economic climate, trying to deal with predicting consumer confidence or overall standpoint, I am just not comfortable that I am in a position to do that.

Senator CRAPO. With regard to the oversight board, what authorities do you contemplate that it would have? And what I am getting at here is I look back, and I am not an expert on what happened in 1979 in terms of the Chrysler bailout that occurred then, but my understanding is that at that time, Congress was very specific and the terms and conditions that Congress laid out were statutory, and I assume that you are contemplating, as you suggest an oversight board here, that we have again very specific Congressional standards set—

Mr. DODARO. Yes.

Senator CRAPO. —and that this oversight board would have some authorities to implement those standards, correct?

Mr. DODARO. That is exactly right, Senator.

Senator CRAPO. Do you recall what kind of standards Congress put in in 1979?

Mr. DODARO. If you would indulge me, Gary Kepplinger, our current General Counsel, was the legal counsel for the Comptroller General and we were on the Chrysler board, and if I could ask him to take this—

Senator CRAPO. That would be very helpful. And the question I am getting at here is what kind of specifics did Congress at that time require?

Mr. KEPPLINGER. As you asked before and as you pointed out, the conditions in the Chrysler loan guaranty statute were very specific. Congress, I think, developed these conditions through over about a three or 4-month period, and I suspect, without really knowing, that there was general acceptance by the major players before the legislation was passed.

Now, there was a series of findings that the Chrysler loan guaranty board had to make as a condition for issuing a commitment—viability, ability to repay, assurances that the concessions were in place, a financing and operating plan that was satisfactory to the board, because actually, as Gene has pointed out before, it is one

of the best protections for the government is to assure that the government has confidence in the financing and operating plans going forward.

Then in addition to that, at the time of the loan guaranty, there were other assurances and requirements that had to be in place—guaranty fees, warrants, other protections, financial upside advantage for the government should it happen, positions in the event of bankruptcy, a senior position, *et cetera, et cetera, et cetera*. I can supply, if you would like, a fairly detailed and perhaps more orderly recitation of what they were.

Senator CRAPO. That would be very helpful. I note I am way over my time. I apologize to the Chairman for that. I would just like to ask one quick follow-up. In terms of these kinds of conditions that Congress imposed, and I would like those specifics, would the oversight board that we are contemplating that you are talking about today, would it have authorities to engage in management decisions on behalf of the companies?

Mr. DODARO. In Chrysler, the government was not involved directly in managing the entities. The government's involvement was more indirect through the control over a billion-and-a-half in loan guarantees. And if you will also recall, there were contributions, I think in the range of another billion-and-a-half in terms of concessions from the stakeholders and additional funding. So—

Chairman DODD. In fact, that was a condition. Wasn't that a condition?

Mr. DODARO. The billion-and-a-half from all were conditions. But my point is is that the board wasn't engaged in the managing of the companies. The board was engaged in financing, and to a, you could say to a good extent, restructuring the companies.

Senator CRAPO. And we wouldn't be suggesting anything any different than that sort of arrangement now.

Thank you very much.

Chairman DODD. That is a great question, and it again goes back to the point that, well, 535 Members of the Congress in the next matter of days trying to craft something here is difficult and other options exist for managing this situation where getting these kinds of decisions could be made almost by fiat as opposed to trying to convince two bodies of Congress along with others to draft something here that could work. So I appreciate the observation.

Senator Schumer.

Senator SCHUMER. Well, thank you, Mr. Chairman. I want to thank you. This is excellent testimony and I think it is along the right lines we should pursue.

I have a couple of points I want to make and then I am going to ask you to comment on them. First and obviously, at least to me, we can't let the industry fail. Millions of workers lose their job. We have to have a domestic manufacturing base. And to let the auto industry fail during a recession would make a sick economy sicker, so we have got to do something.

Second, bankruptcy is not a viable option because it will seal the death of the auto companies. No one is going to buy a car from a bankrupt company. No one is going to make a loan to someone buying a car from a bankrupt company. And everyone talks about this prepack. A prepack brings the big players together, but it doesn't

bring all the players together and so once you go to bankruptcy, they can delay it for months, even years, and the company fails. So we have to do something, not bankruptcy.

And I think I speak for many of us here. We care less where the money comes from—that has been the big debate, should it come from the TARP, should it come from the 136—but much more how it is spent. And speaking for myself and I think a good number of people, I don't trust the car companies' leadership. I worry that if they are left on their own, they will be back a short time later asking for more and we won't be better off. To hand money over with vague, unenforceable promises without an enforcement plan for viability isn't good enough.

So that leads us to where you are sort of, which is Chrysler. That is the one model. It is interesting to note, Mr. Chairman, that Chrysler wanted direct money or a tax refund and the Congress said, no, we are setting up a board. But it wasn't just an oversight board. And I think when you call it an oversight board, you run into trouble, because this is a board, I think, that has to do a lot more.

If you have a board, and I wouldn't even have a board right now, given the time problem. I would have an individual. I would let the President designate the Treasury Secretary, who I believe was chairing the other board, or someone else, to bring all the big parties together and work out concessions quickly so that then the money can flow. If you give the money and then say, let the auto companies negotiate, you know who is going to lose? It will be the workers. UAW made concessions yesterday, significant ones, but where are the bond holders? Where are the dealers? Where are the other lenders?

The only way you can do that is the government has the carrot, in my view, in the view not of a board. It will be too cumbersome, and as Senator Reed alluded to, we don't have the time. You let this President or the next one—it may have to be this one—pick somebody. He calls all the major players into the room, probably the Treasury Secretary, and says, you all have to make concessions. And then the carrots, which are not just some lending but warranties so that people will buy the cars and some back-up for lending, because no one is buying the cars without lending, that is the kind of plan.

I think that can be done within the next three to 4 weeks. Look what they did on these financial things. That is not a great example in many instances, but I think they can.

So the worry I have with yours is not the basic concept but the timing, the strength of the board to impose conditions, but also to do the negotiating, and perhaps it shouldn't be a board but one individual or maybe the Treasury Secretary and two others, and do it quickly. Now, why isn't that a better plan? It is along the models you say, but that takes the Chrysler model and adapts it to the problems we have now.

Mr. DODARO. First of all, Senator, I want to clarify. I have been trying to make sure I exorcise the word "oversight" out of this board proposal—

Senator SCHUMER. Good.



Mr. DODARO. —because I don't want it to be viewed as an after-the-fact oversight board proposal. That is not what we intend. It should be a decisionmaking apparatus and monitoring, as well.

Senator SCHUMER. But monitoring is not—when you say decisionmaking, do you mean it would help negotiate? It would call the bond holders in?

Mr. DODARO. Yes.

Senator SCHUMER. It would call the dealers in and say, you have to make concessions—

Mr. DODARO. Yes.

Senator SCHUMER. —before we are going to give some money.

Mr. DODARO. Yes. Yes. Yes.

Senator SCHUMER. Good.

Mr. DODARO. And also, we have two concepts. One is the board concept. The other is short-term/long-term. Now, short-term can be done in a wide variety of ways for the immediate next few months, but the restructuring plans that have been put forth by the automakers take you out two, 3 years—

Senator SCHUMER. Right.

Mr. DODARO. and there, you need a stronger structure, and there, I would highly recommend the board approach as a means of continuity over time. But short-term, there are—

Senator SCHUMER. What about having one person designated by the President, or if it need be the next President—by the President to put together this package rather quickly?

Mr. DODARO. There are various approaches that could be used in the short-term.

Chairman DODD. Does the word “trust,” a trustee, maybe that is the concept. That word “trustee” has exactly the kind of things, Chuck, I think you are talking about.

Senator SCHUMER. Yes.

Mr. DODARO. I mean, in the current climate in which we are dealing with a lot of these issues that are fast-moving issues, all options ought to be on the table, including that one.

Senator SCHUMER. Thank you.

Chairman DODD. Do you have another question? I am sorry. I didn't mean to interrupt you.

Senator SCHUMER. No, my time has expired.

Chairman DODD. OK. I am sorry.

Senator Dole.

Senator DOLE. Thank you very much for your testimony this morning, which I appreciate very much. Could you talk more about the ramifications if the Big Three auto companies, if they go through a prepackaged bankruptcy? Just more details on that, please.

Mr. DODARO. Senator, I wish I could. I mean, we were sort of called into this at the last minute to look at the plans that they have, so we really haven't studied or are in a position to really answer that question with any degree of certainty. I think the other difficult issue there will be trying to determine exactly what the scope of the so-called prepackaged bankruptcy would be. So I really can't offer much more insight there. I am sorry.

Senator DOLE. The report that was released 2 days ago by GAO, I would like to talk about that for just a few more moments be-

cause this report acknowledged that the Treasury Department has provided more than \$150 billion to 52 institutions at this point and that Treasury has yet to impose the necessary safeguards, like a system fully developed and implemented. It is a heightened risk that the interests of the government and taxpayers may not be adequately protected.

Wouldn't the board, whatever we call it, which is supposed to be a part of the legislation that we are talking about now or the plan that we are talking about, run the same risk? What is the guarantee that this would occur any more readily than what has happened under the TARP legislation?

Mr. DODARO. That is a good question, Senator, and what I would say the difference would be is a clear delineation in statute from the Congress as to what its expectations are of whatever executive branch or administrative entity is put in place.

In this particular case, the oversight board that is mentioned under TARP is really an after-the-fact body for reporting and monitoring. It is not along the lines of what you were talking about. So the difference would be Congress specifying what needs to be done by this entity to safeguard the government's interest, and along the lines of the Chrysler loan guaranty program or the airline stabilization board. We have models that have worked and we are suggesting a replication of that approach, and that level of specificity would make all the world of difference, in my opinion, for this particular set of circumstances compared to the TARP program.

Senator DOLE. Thank you. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Senator MENENDEZ.

Senator MENENDEZ. Thank you, Mr. Chairman. Mr. Dodaro, thank you for your testimony.

Some of my questions have been pursued by some of my colleagues, but there is one specifically. You know, I look at the TARP, your report on the TARP program, and I wonder, the two things that we were looking for in addition to obviously rescuing the financial institutions and trying to help Main Street was transparency and accountability, and they seemed to have been victims in this process of not being fulfilled in the TARP program. So I wonder, isn't that a lesson for those of us who are arguing for some greater conditionalities in that process? As we look at the auto-makers and the possibilities of helping them out, isn't conditionality a very key element of what we should be looking for moving forward?

Mr. DODARO. Absolutely. Absolutely, Senator. I think that makes all the difference. If you look at the title of our report, our title says "Additional Actions Needed to Better Ensure Integrity, Accountability, and Transparency," and the conditionality is the underpinnings of that.

Senator MENENDEZ. Now, I have heard, of course, in your original testimony and some of your answers that, of course, being first in line. I think I have read some accounts, and we will hear their testimony when they come forward, but that the Federal Government needs to be paid back first and all other outstanding debt would be paid after the taxpayers get their money back. Some of

the Big Three have expressed skepticism at achieving this. That was accomplished in the 1979 rescue, was it not?

Mr. DODARO. Yes, it was, Senator.

Senator MENENDEZ. If it was done then, have circumstances changed in such a way that it cannot be done now?

Mr. DODARO. Not to my knowledge.

Senator MENENDEZ. Let me ask you, among the conditions that we should be looking at, first in line and the oversight board at the appropriate time, should the Congress not be considering what, in fact, that oversight board should be demanding of the Big Three? For example, all of these companies have presented some restructuring plans, but ensuring that that restructuring takes place, ensuring that there are benchmarks and that there are timeframes for those benchmarks, should that not be a critical part of what we are seeking?

Mr. DODARO. Yes, definitely.

Senator MENENDEZ. Would we be looking at, for example, of course, having a review? You mentioned having the board be part of the actual final restructuring plan of these companies, that that is something that Chrysler's rescue plan did, is that correct?

Mr. DODARO. Let me ask Gary to respond.

Senator MENENDEZ. Sure.

Mr. KEPPLINGER. Largely through the conditions, Senator, that were imposed upon the commitment and the extension of the loan guarantees, you were accomplishing that restructuring and those concessions had to be reflected in the financing plan. There was a dollar-for-dollar draw down in terms of the amount of loan guarantees that the board could provide to Chrysler had to be matched dollar for dollar with concessions from the stakeholder community. So you certainly can build that in.

Mr. DODARO. And the conditions that were set during the Chrysler period in 1979, that was for a \$1.5 billion loan guaranty program at that point in time, and so my advice would be those would be the starting point for the conditions. Here, we are talking about multiple entities with a lot more money at stake, so Congress would be, at its discretion, add additional conditions if it so deemed appropriate.

Senator MENENDEZ. Now, at least maybe one, I don't know, maybe more, but one of these companies has suggested the possibility of having a merger with a foreign manufacturer. In that case, would it not be of interest to the United States to ensure that there are some conditions precedent at least on its financial interests in that respect to make sure that, in fact, what we are doing—that may create greater viability for the company at the end of the day, but what we want to ensure is that we are helping a domestic auto industry, not a foreign auto industry.

Mr. DODARO. Well, I think that, Senator, that goes back to my other suggestion about the Congress establishing clear goals and objectives to protect the national interest. So whatever the Congress would want to make sure that it provides clarity in the legislation. That issue certainly could be one of the ones that is considered for that purpose.

Gary?

Mr. KEPLINGER. That was a specific condition that was included in the extension of the loan guarantees. To read from the statute, the board had to determine that there was no substantial likelihood that Chrysler Corporation will be absorbed by or merged with any foreign entity, and that is, of course, a judgment that you all will have to make.

Senator MENENDEZ. And one final question. Have you looked at this point in your—I know you got brought in rather late, but have you looked at the presumptions of the Big Three in terms of what their projections are as it relates to viability? Have you had that opportunity?

Mr. DODARO. No, we have not.

Senator MENENDEZ. OK. We will look forward to the next panel in that respect.

Thank you, Mr. Chairman.

Chairman DODD. Senator Corker.

Senator CORKER. Mr. Chairman, if I could, I could burn up 5 to 7 minutes now with this witness and I have some questions that would be pertinent. What I would like to ask your indulgence to do is to let me lop that over into this next session for our main course. I know three of those witnesses have driven a long ways to be here and I would rather use my time, if you will, with them. But if that is not acceptable, I will go ahead and use the time.

Chairman DODD. No, no, fine. We will do that. I know already I have talked with Senator Corker and he has asked for a little extended time to pursue a line of questioning and I certainly want to accommodate my colleague with that request. I will just underscore the point that at least three of our witnesses, maybe more, have driven a long way to be here and we thank you for that.

Senator SHELBY. Mr. Chairman, I wonder if they are going to drive back.

[Laughter.]

Chairman DODD. I think that will depend on what we do here in the next few days.

[Laughter.]

Chairman DODD. Let me see who is next here. I apologize. Senator Casey?

Senator CASEY. Mr. Chairman, thank you very much, and Mr. Dodaro, we appreciate your testimony today.

I have to put something on the record because I have a bias here. You have got roots in Pennsylvania and I know you attended Lycoming, is that correct?

Mr. DODARO. That is correct.

Senator CASEY. One of our great colleges. So now that that is on the table, that will obviously be the predicate for my questions.

[Laughter.]

Senator CASEY. No, I am grateful for the work. I wanted to ask you about basically two—probe two areas. One is I was happy in the report that you provided, the testimony today, that you highlighted goals for us on a number of fronts, not just how to analyze the problem and the legislation and the solution, in particular on the board, the aspects of putting together a strong oversight board. But especially I appreciated the taxpayer provisions, where you

outline on pages four and five about concessions that everybody has got to help here.

And I won't go through the detail of what you set forth: The controls over management; where you talk about approving aid recipients' financial and operating plans and any new major contracts; Number three, that the government should require adequate collateral; and four, the government should receive compensation through fees and equity participation from these entities. I think it is important that we have principles that guide all aspects of this, but especially those that pertain to taxpayer protections.

I guess the main area I wanted to question you about, though, is your process. I was the Auditor General in Pennsylvania. We issued audits and investigations, and I know they take some time to do it the right way, but I know that you are able to move, I think, a lot faster than some auditing entities even of comparable size. I guess I was going to ask you if it is possible to do a review that would help us even in the near term when you have begun to take a look carefully at each of the proposals that the automakers are presenting to us today and have presented the last couple of days.

I was thinking about a report that could outline the adequacy of the plans, maybe a review of how realistic assumptions are that are built into the underpinning of these reports, what additional information is needed for this government, this Congress, to make determinations about legislation even for next week, and how to modify the plans to meet the criteria that you have established in this report.

I guess the question is, A, could such a report be done, and B, is it possible even to construct something that would be substantial and thorough enough literally in the next 6 days or so, or 5 days, before we vote?

Mr. DODARO. Senator, I first of all appreciate your recognition that we are nimble and a fast-moving agency. In this case, I don't know what we could do within that period of time that would add a great deal of credibility. First of all, we don't have the authority here in any of these companies to go in and dig through their records that would be needed during that period of time. We are also under our mandate to provide reports on the TARP program every 60 days, so we have every able-bodied person following that money, as well. I would like to say that we could, but I just don't see how it would be credible and meet all of our standards.

Senator CASEY. Is there a way that you could peel off or we could peel off an aspect of this for you to study in that time period? In other words, if you couldn't provide an assessment, an overall assessment of all three plans, are there specific areas that we could ask you to probe?

Mr. DODARO. I certainly would be willing to entertain that to provide whatever help we could to the Congress. The other thing we could do is to quickly provide a set of questions that you could ask the automakers based on our reading of the plans to provide some additional information for—that they could then provide that information. We certainly could provide that insight, which I think would be helpful and largely go toward accomplishing the purpose of what you are talking about.

Senator CASEY. And I think especially with regard to the oversight board, because one of the things that I have called for, and others have, as well, is that one of the ways that we achieve some measure of accountability, because the atmosphere in America today is, frankly, pretty negative about any kind of assistance for a variety of reasons which we don't need to go into. But maybe what we can do is peel off, and I know my time is up, but we will peel off some possible areas of inquiry and get those to you and see if it is possible to provide some feedback even within this limited window.

Mr. DODARO. Yes. And it would require, whatever aspect that we focus in on would require the voluntary cooperation of the entities to quickly provide us the information because we don't have statutory right of access to that information. We would want to make sure that we have all the facts for whatever we would look at.

Senator CASEY. Well, they seem to be in a cooperative mood. Thank you.

Chairman DODD. That is a very good suggestion, Senator Casey, and I appreciate the response from the GAO. I might ask in the very next panel that our witnesses from the industry might respond to Senator Casey's suggestion and the GAO's concern as to whether or not that might work. I think that could be a valuable contribution as we are trying in a very brief amount of time to do something here that could be helpful, so I thank you very much.

Senator TESTER.

Senator TESTER. Yes, thank you, Chairman Dodd, Ranking Member Shelby.

Just a quick point. I know you had mentioned in your opening remarks, Chairman Dodd, that you had invited Chairman Bernanke and Secretary Paulson here. It is unfortunate they did not show up. I can tell you that the frustration with the \$700 billion bailout, because of lack of transparency and lack of accountability, actually is part of the bleed-over here that we are dealing with with the auto industry, and then the fact that the special Inspector General at the Treasury that we had a hearing here 2 weeks ago was being held by a member of this body is somewhat disturbing. In fact, it is more than just somewhat.

Mr. Dodaro, I want to thank you for being here today. I have got a few quick questions. We can run through them very quickly.

In your testimony, you stated that potential borrowers have a reasonable assurance of repayment of the loan. They need to have that. What should that repayment schedule be?

Mr. DODARO. That is a very good question, Senator, and I think that would be one area we would look to the board to establish based on looking at the financial condition and operating plan of the boards. I don't think that the schedule should be set by the borrower, which in this case you have your opening bid here as to when they would repay it. I think the schedule ought to be set by the lender, and that is one of the things the board should do.

Senator TESTER. That being said, you saw the repayment schedule that the auto manufacturers have put forth. At first blush, do you consider those repayment schedules realistic considering the economy we are in?

Mr. DODARO. A lot depends on the assumptions that they have in the plans, and—

Senator TESTER. How about from your perspective?

Mr. DODARO. Well, from my perspective, I would insist on collateral associated with the loans and make sure that the interest rate is set commensurate with the risk. And in this case, a lot of that depends on the performance of the economy and the companies over a period of time. So I would set it at a pretty high level.

Senator TESTER. OK. Could you give me an indication of what the impact to the PBGC, that is the pension program, would be if the Big Three went into bankruptcy?

Mr. DODARO. Right now, it looks like the pension issue is in hand—

Senator TESTER. OK.

Mr. DODARO. —and that there are not any immediate issues. However, depending upon the concessions and the changes and other things that could happen, as well as the return on the investments that they have made in the pension plans, this could be an issue down the road. So it is something we will keep an eye on, but right now, it seems not to be an issue.

Senator TESTER. So a bankruptcy would not impact those pension programs?

Mr. DODARO. I can get you a detailed answer for the record there.

Senator TESTER. I would love that.

Mr. DODARO. We will do that.

Senator TESTER. Unfortunately, I mean, we could potentially be voting on this next week.

Mr. DODARO. We will have an answer tomorrow.

Senator TESTER. Oh, super. That would be great.

On the next panel, a gentleman from Moody's will be here. I look forward to his testimony and asking him a few questions. But one of the points that he makes is that \$34 billion in loans is not sufficient. Ultimately, it would be around \$75 to \$125 billion—those are his words, and he will reiterate them, I am sure, later—to keep these companies out of bankruptcy. You have reviewed the plans. Could you comment on that and tell me what GAO's perspective would be as far as the total dollar amount? Is the \$34 billion adequate or would you be more inclined to go with Mr. Zandi's perspective?

Mr. DODARO. Senator, we have not looked enough in depth at that issue to really offer an informed opinion on that right now.

Senator TESTER. OK. You also mentioned in your testimony that creditors should not be asked to make concessions that will cost more than what they would expect to lose in a bankruptcy. Could you give me an example of what you are talking about?

Mr. DODARO. Well, this would be taking an equity share for credit or paying a portion back of the company, you know, taking so many cents on the dollar that are owed. What we are saying there is that the government shouldn't expect that the creditors are going to quickly agree to something that they think would be a worse deal than what they would get through bankruptcy. That is all we are saying. It is just the basic principle and expectation that the

government should have when it would carry out its oversight activities.

Senator TESTER. I don't mean to put you on the spot again, but I have got 35 seconds so I am going to do it. One of my big concerns is that if we do this bailout today, even after the plans, there is a potential we could be back here in a year, maybe less. Could you give me any assurances that if we allocate \$34 billion today that it will take care of the problem, assuming that the economic situation that we are in right now is where it is going to be for the next year or maybe even a little longer, and let us hope it doesn't go a year, but I think we need to take the worst-case scenario as we approach this kind of money.

Mr. DODARO. We have not done the in-depth work that would put me in a position to provide you that assurance, so I can't provide it.

Senator TESTER. OK. Well, I appreciate your honesty and I appreciate your being with the Committee today. Thank you.

Mr. DODARO. Thank you very much, Senator.

Chairman DODD. Thank you very much, Senator.

Just to inform my colleagues, Senator Carper, Senator Bayh, and Senator Brown are the remaining colleagues with questions, and so I would ask my colleagues to go in that order.

Senator CARPER. Thank you, Mr. Chairman.

Mr. Dodaro, we have heard any number of times in the past from your predecessor, David Walker, our Comptroller General, who has testified and is quite a good witness, as you know. This is the first time I have heard you testify. You are ably helped here by your counsel, but I think you have done just a superb job with relatively short notice and I want to thank you really from all of us.

Mr. DODARO. Thank you, Senator.

Senator CARPER. I am going to go back to a point raised earlier by Senator Bennett. I think he raised a good idea. In fact, a number of my colleagues have. But I am just going to run through our options of what we could do here, and one is to do nothing—not a good option, one that I don't endorse. Option two, go to Chapter 11, in my view, not a good option. Some kind of Chapter 11 that is pre-packaged, maybe.

The idea of using the TARP and calling on the Secretary of the Treasury and others to make those funds available, not a bad idea, but we are not getting a lot of movement in that direction from the administration. Asking the Federal Reserve to use their vast resources, their printing machine, even, to come here and provide the liquidity, the working capital that is needed, I am uneasy about that option, but that is certainly an option.

The other option was one that I think that Senator Bennett was talking to and I just want to explore it again and ask you to react to it again. We have provided, as you know—when we initially did the TARP, passed the TARP legislation, my expectation was that Treasury would use the money and go out and buy mortgage-backed securities from financial institutions. They have, for the most part, not done that. They did use their authority to go in and inject capital into financial institutions and some of those financial institutions have used that money to pay dividends. Some of them



used that money to acquire other financial institutions. Some of them used it to pay compensation, I presume.

What about the idea of saying to those banks that have actually received the capital injection through the TARP, large banks, and nine of them that got \$125 billion or so, and then the other thousands who received some similar kinds of payments, but in the aggregate up to \$125 billion, and simply say to them, you received this capital injection. You have received this money. Rather than using it for some of the other purposes for which you are using it, we would like for you to use it to lend money to the Detroit Three—Ford, Chrysler, GM—and the Federal Government would guarantee the loan, would guarantee the loans that are made.

To the extent that the loans were made and the banks—their cost of capital investment, I think is about 5 percent. Preferred stock, they have to pay 5 percent of the shares of preferred stock, and after 5 years it goes up to 9 percent, but their cost of capital right now is about 5 percent. If they were even to charge like an extra 100 basis points beyond that, with what is pretty much a low-risk/no-risk situation, they could actually make some money on the deal. Let me just ask you, in sort of thinking outside the box, does that work?

Mr. DODARO. Well, right now, there have been agreements signed between the banks and the Secretary of Treasury, particularly the large banks where the money has already been dispersed as well as some of the other banks, that it would have to go back and renegotiate those agreements and terms. There also is money that has not yet been allocated out of the portion that has been set aside for the capital purchase program where agreements have not been reached yet. There is certainly more flexibility there up front. Unfortunately, those will be some of the smaller institutions that may not collectively have the type of resources that the automakers are seeking at this particular point in time. But I think it is an idea that should be explored. There would just have to be these renegotiations for the larger banks if that would be the case.

Part of our recommendation in our report was to have Treasury find out what they have used the money for so far, and right now, there is not any reporting mechanism back there. So from a practical standpoint, and I don't know to what extent that even exists at this particular point in time, whether the money is still available for that purpose. But there is more money in the future.

Senator CARPER. All right. Thank you. In the briefing materials that were provided to us by the Committee, one of the items that was noted is when they were going through the different options that were available to us, one of the things that they talked about was a government-sponsored reorganization, which I think may be another way of saying a strong oversight board involved at the front end, almost doing a prepack Chapter 11. Is there some other entity than a government-sponsored reorganization that is different from what we have been talking about here? I would yield to your counsel, as well, if you want to jump in.

Mr. DODARO. Yes.

Senator CARPER. Is there any difference between a government-sponsored reorganization and what we have been talking about with an activist oversight board?

Mr. DODARO. Not that I see, and looking at the GM plan in particular, to me, that just suggested that we are heading essentially in the way of Chrysler. And remember that had the Chrysler loan guaranty board not been successful in working with Chrysler to bring it out of its financial difficulties at the time, bankruptcy was still an option.

Senator CARPER. All right. Thank you very much.

Chairman DODD. Thank you, Senator, very much.

Senator Bayh.

Senator BAYH. Thank you, gentlemen. One of the things that has become apparent to me and probably all of my colleagues this morning—and by the way, thank you for the substantial amount of work you have done in a very short period of time in a very intricate area—is how complex this all is. Is it fair to say, Mr. Dodaro, that even doing the best we can, and you have answered a lot of questions about what are the alternatives, how would this work, what would the results be, isn't it true that there is just an irreducible amount of uncertainty at the end of the day that we are going to have to come to grips with? You mentioned in the context of bankruptcy. I think the phrase you used, that there are significant uncertainties in all of this. There is no dead certain guarantee about how it is going to function at the end of the day. That is not possible, isn't that correct?

Mr. DODARO. Given the uncertain economic situations that we are in as a backdrop to all this, I think you are exactly right. The real question for the Congress is how you best manage the uncertainty—

Senator BAYH. Well, therein lies my—

Mr. DODARO. —to minimize the risk.

Senator BAYH. Forgive my treading on your remarks, but I have only got 5 minutes here. I think you mentioned a key thing, and I will give you where I am coming from on this. You mentioned the economic backdrop, and I think in your testimony you used the phrase “significant ripple effect” if the companies are allowed to go down, and you mentioned it would be a drag on an already weakened economy. So a lot of this for me comes back to what is our appetite for risk taking at this moment in time? Is this a time for adding additional risk to the economy, or is this a time for a more cautious approach? And given the great deal of uncertainty already present in the economy, it suggests to me that this is a time for a more cautious approach, trying to minimize the amount of fragileness, uncertainty, instability in an economy that already has plenty of all of those things.

So my question to you is, and you alluded to this in both your oral remarks and in your written testimony, isn't it true that if we were to allow these companies to go under, to go into bankruptcy, that there would be a lot of unanticipated consequences, some of them perhaps profound, and almost all of them certainly negative? Isn't that true?

Mr. DODARO. It is hard to determine what the outcome would be at this point. I think it could be potentially significant. I agree with that. And I think the real policy question, I also point out in my written statement, for the Congress to make in this case is what

are the circumstances that it is willing to enter into from a Federal standpoint. And so that is really part of the policy.

Senator BAYH. Well, you used the phrase, “significant ripple effect,” and I assume by that you meant not only the direct job loss to the manufacturers, but the losses among their suppliers, among their dealers, and, in fact, the multiplier effect in the broader community. And one of the points that I would like to make, and there are a lot of people even in a State like my own where we have a lot of automotive industry, why should we do this? And I think the point is that it goes way beyond just the automotive manufacturers themselves. It is the broader community that is going to suffer and the broader economy that might suffer because of this, and I assume that that is what you meant by the phrase “significant ripple effect.”

Mr. DODARO. Yes.

Senator BAYH. Possibly thousands, tens of thousands, I mean, who knows, but a significant economic impact on a whole lot of middle-class folks who aren’t seated anywhere at this table here today.

Mr. DODARO. There would definitely be repercussions.

Senator BAYH. And according to you, significant. You used the phrase “significant ripple effect.” In an effort to try and address the residual uncertainties, you used the phrase, one of the potential downsides to all this is the precedent that could be set. Well, there are some other precedents on the other side and there has been a lot of discussion of the Chrysler situation, which I think most people would conclude had a happy outcome. The taxpayers were repaid ahead of schedule, actually made money. The jobs were saved. The economy was saved the adverse consequences. So isn’t that a, if done correctly, isn’t that a positive precedent that exists?

Mr. DODARO. That is exactly right, and that is why we are suggesting that the board model that was used under the Chrysler approach is the right model because we believe that was instrumental in the success that you mentioned.

Senator BAYH. And we have some more recent perhaps not so positive precedents. The example of Lehman Brothers springs to mind, where some folks decided that there was not enough systemic risk involved to save Lehman Brothers. They decided to save Bear Stearns, but they said, well, Lehman, we can let go. It is not going to be so bad. And I think most people looking back on that would say, well, wait a minute. It turned out to be a lot worse than had been anticipated, and looking back, the cost of saving Lehman was probably a lot less than the consequences that we have paid to date. Isn’t that another precedent that is out there in recent memory that might argue for action? Again, erring on the side of caution and stability as opposed to greater risk taking and instability.

Mr. DODARO. Well, it is certainly an example others have pointed to, as you suggest. We have not looked at it carefully, but it is an example people point to.

Senator BAYH. And I see the example here on the board of AIG, and my colleague, John Tester, asked—and he raised this issue and I am sorry he left, but he said, can you guarantee me that people aren’t going to be back? Well, AIG was back within a matter of

weeks and I don't think we would have extended capital to any of these entities if the prerequisite had been, look, a lock-certain guarantee we will never hear from you again, because there is no such thing, isn't that also correct?

Mr. DODARO. There is always a possibility that circumstances are going to change.

Senator BAYH. My last point, and again, I admire your work and a lot of this comes back to, again, there is just an irreducible level of the unknown. And so the question is, where does the balance lie, in the area of greater risk taking or greater stability? But Senator Schumer asked, and I have extended my time, so my last question will be, in this Chrysler precedent, which we all have agreed was a positive precedent that if we could replicate would be the way to go, and we have got to bring all the different stakeholders to the table and they have got to all participate, and I think labor very courageously said that they were willing to go back to the table to talk about this.

It seems to me that the toughest player out there are going to be the creditors. How do you get them to come to the table? How do you get them to take the steps that are going to be necessary?

So my question to you, both of you, is in the Chrysler precedent, if some of them are just balking, is there any—outside of bankruptcy—any ability to have what is termed a cram-down, basically to say if some of the creditors are balking, holding up the whole thing, what do you do about that? Is there any mechanism for dealing with that outside of bankruptcy, to basically require them to participate so that you don't have everybody getting flushed down the tubes because there are just a few intransigent folks?

Mr. KEPPLINGER. Fortunately, I can recall only one episode where that happened, and it was a relatively small bank in Rockford, Illinois, that was part of a credit facility. And the cram-down, as you say, Senator Bayh, was simply the money was found to buy them out. Now, that is not a particularly useful incentive—

Senator BAYH. At 100 percent? At a dollar-for-dollar basis?

Mr. KEPPLINGER. They were relatively small, and the problem was taken care of with what often speaks very effectively, was money. And that was agreeable to the other participants in this facility because they had made the business judgment that it was better for them to make concessions and retain their debt than it was to go into a bankruptcy.

So I can't remember who on the panel referred to carrot, but there needs to be that carrot. There need to be those business judgments. And as Gene suggested before, the board has to have enough specific requirements and conditions that they have leverage to negotiate with, but that they also have enough flexibility to deal with the vagaries, and as Gene also pointed out, the differences between the current financial situations of the players.

Senator BAYH. My time has expired, but I think the carrot, absolutely. I was also interested, is there a stick here possibly that could be balanced against the carrot to lead to a decent outcome? I mean, it is sort of—

Mr. KEPPLINGER. It is bankruptcy.

Senator BAYH. —the financial equivalent of eminent domain.

Mr. KEPPLINGER. In one sense, it is bankruptcy.

Senator BAYH. Mm-hmm.

Mr. DODARO. One of the other points I would like to elaborate on your question about the uncertainty, one of the features that the board would have is the fact that if there are changing circumstances, they will know about it early enough to consider other options. So the idea that there would be more of an early warning system built in so that Congress wouldn't be put in a position of having to make quick decisions without all the information.

Chairman DODD. Senator Bayh, thank you. Very good. Very good exchange, too. Very helpful.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. Thank you, Mr. Dodaro. Thank you, Mr. Chairman, for calling this hearing. I apologize for my late arrival. I was on the early morning flight and the flight was canceled for mechanical reasons. I guess if I had thought ahead, I would have hitched a ride with one of the witnesses driving from Cleveland, so I appreciate that.

[Laughter.]

Senator BROWN. As the Chairman said in his opening statement, we are asking extraordinary things of our witnesses today, something that we didn't ask of bankers when they came in front of this Committee, or more precisely did not come in front of this Committee. We didn't ask that the CEOs of the banks drive to town in a Wells Fargo armored truck. We didn't ask the CEOs of the banks, each of which was asking for, or each of which was given \$25 billion, we didn't ask for them to appear before us. We didn't ask them to come up with a plan on how they were going to spend the money. Neither Congress nor the Bush administration did that. We are asking lots of these witnesses, as we should, to protect taxpayers' investment. I think it is important to keep that in mind and I appreciate the Chairman in his statement pointing out that we are asking extraordinary help with asking extraordinarily little accountability from the banks.

All of us know the damage of these companies' failures, these companies going into bankruptcy, the damage it would be to all parts of the country, especially my part of the country, but everywhere. I think if we look at this as we have in some sense with talking about Chrysler and what happened 30 years ago, if we fail to act, some future Professor Bernanke is going to—people are going to marvel at the opportunity we missed. We are adding another three million people to the unemployment lines on top of the 1.5 million people who have lost their jobs just in this calendar year alone. And I think our responsibility is great and I am confident that this Committee and the Senate and the House and the White House will step up and do the right thing and take the responsibility that we should as we move forward in the next few days.

I want to go back to a couple of points. Most of the questions have certainly been asked by now that I think are relevant. A couple of points that were brought up by Senator Tester, when he asked you about the effects of if the government doesn't provide this assistance, if we fail to move forward on these proposals, you mentioned that PBGC would be able to withstand it, that there wouldn't be great change. I want to explore that.

I talked yesterday with the Governor of Ohio, who is facing huge budget problems as the Governors of almost all States, especially States like mine. He talked about the borrowing from the unemployment fund. And this is a recession that we have been in now a year, I guess, officially, but because the recovery was so mild and weak almost a decade ago, the State unemployment funds and the other safety nets, if you will, that States provide never were built up because of the mild growth or the relatively weak growth we had coming out of the last recession. So we are in a position today in all kinds of States in this country, from everywhere in the country, we are in a position where we simply do not have much ability to withstand these more difficult times.

So talk through, if you would, what this means? With PBGC, there is not just—maybe Ford, Chrysler, and GM are fully funded with their pension plans. A whole lot of the suppliers aren't, I have got to be sure. What is this going to mean to PBGC? What is this going to mean if we do nothing or go Chapter 11? What is it going to mean for food stamps and unemployment funds and Medicaid to the Federal and State governments? What is this more precisely going to mean then?

Mr. DODARO. Well, there is no question, to the extent to which unemployment rises, it puts additional strain on all the social safety net programs that you mentioned, Senator, not the least of which is the health care costs and the Medicaid programs that the States are running, which is already growing at a rapid figure aside from these other figures.

Now, the specifics on the PBGC is that, you know, basically, the PBGC Corporation has basically said that things are OK right now for the Big Three. But, you know, if there are some issues that emerge down the road, this could become much more problematic. And as I mentioned to Senator Tester, I would like to go back. This is a highly technical area, and I want to make sure I give this Committee the right answer, and by tomorrow I will provide a more detailed answer on the pension area in terms of what the current status is. But I would note that these companies are so large that, if something would happen down the road, they would almost double the number of people who would be receiving guarantees under PBGC, if that would ever get to that point down the road. So there is a significant issue potentially in the future, but I will get you a definitive answer tomorrow.

Senator BROWN. A steel maker not far from where I live in norther Ohio just announced the layoff of several hundred. It is very directly related to the auto industry. I spoke this week earlier with an auto dealer in southwest Ohio who has 800 employees. He is not about to go out of business, but he going to get squeezed. I do not know anything about his pension plan, but I do know that PBGC has been just buffeted time after time after time after time with job loss in the last 5 years, and it is only going to get worse.

Let me just in my last—I know I am about out of time. I want to make a comment about the Chrysler situation just for a moment. I know there are many similarities to 30 years ago with Chrysler. There is the oil spike. There is the difficult credit market. There is a recession. Your suggestion that the differences are—of the sim-

ilarities and differences I want to just expand on and respond just for a second.

For example, some of the differences from 1979, the UAW had not made the concessions anywhere near in 1979 what they have made today. So even though it is only a billion and a half then compared to now, the UAW concessions have been much greater. The 2007 contract, there was nothing comparable to that in 1979. There was not the job loss leading up to 1979 for Chrysler that there has been, the cutting of costs, the downsizing, whatever, that there has been for all of the Big Three leading up to this situation. So we just need to be cautious about making that comparison. There are good reasons to make it, and there are some not so good reasons, and we need to be cautious because of the different situation that way.

I think the good reasons are that the Government figured out how to do it, the taxpayers got their money back, and as several people up here have said, it did work, and we need to remember that.

Mr. DODARO. I agree with you, Senator, and I think the circumstances, certainly economically, with the status of the auto industry at that time were very different. And we do not want to imply or infer that we are comparing those situations.

But the one thing that is the same is there is the same need to protect the taxpayers' interest, and that is what we are saying can be replicated.

Senator BROWN. Of course. Thank you.

Thank you, Mr. Chairman.

Chairman DODD. Senator Brown, thank you very much.

You have been a tremendous witness this morning. Frankly, we could have probably used less of your time, but, obviously, you have offered some very valuable testimony and historical perspective about the 1979 decision and some good ideas on how to move forward. So we are very grateful to the GAO. All of us up here who over the years have dealt with the GAO have a high regard for the work being done.

As you point out, and I should have made reference to it in introducing you, as part of the emergency economic stabilization bill, of course, we insisted legislatively that the GAO be deeply involved, not after the fact but during the development of this program. And so your observations about the lack of the kind of oversight that should have been conducted is obviously important to all of us here. So we thank you immensely.

Let me just say I appreciate Senator Carper's point talking about Senator Bennett's point. I thought there was some viability with that option as well, but you point out it may be impossible or very difficult to go back and rewrite some of these agreements that have been struck. But it is certainly worth exploring in my view as an alternative idea of what we need to do. We may have some additional questions for you, and particularly Senator Casey raised, I thought, some very good questions, and your agreement to get back to us. And, obviously, the industry itself will have to be helpful in that regard. As you point out, you do not have the authority to get some information, but it certainly would be helpful to this Committee to respond to Senator Casey, and I am asking in advance

in their testimony that the members of the automobile industry comply where they can for that kind of information.

So we will leave the record open for some additional questions we may have, but we thank you immensely for your testimony. And we thank your staff. The GAO staff is very helpful.

Mr. DODARO. Yes, they have been terrific. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much.

Let me invite now our second—and I am going to combine the panels. I know there was some hesitancy, but just given the pressures of my colleagues as well as other obligations they have and the witnesses themselves, the testimony tomorrow before the House, I am combining the second and third panels into one panel. We have already exhausted a couple of hours with the first panel, and I want to move along. So let me introduce our second panel, and I appreciate in several instances their being back here.

Our first witness on this panel is Mr. G. Richard Wagoner, Jr., President and CEO of General Motors Corporation, also serves on GM's Board of Directors, previously served as President and Chief Operations Officer and Chief Financial Officer at GM. And, Mr. Wagoner, we welcome you back to the Committee.

We will then hear from Ron Gettelfinger, United Auto Workers President. Prior to becoming the President of the UAW, Mr. Gettelfinger served as the UAW Vice President, and, again, we are pleased, Ron, that you are here this afternoon. We thank you for coming.

The next witness is Alan Mulally, President and CEO of the Ford Motor Company and a member of the company's Board of Directors. Prior to joining Ford in 2006, Mr. Mulally worked for the Boeing Company with whom he became Executive Vice President of the Boeing Company and President and Chief Executive Officer of Boeing Commercial Airlines.

We are then going to hear from Mr. Robert Nardelli, Chairman and CEO of Chrysler LLC and a member of the Board of Managers. Prior to working for Chrysler, Mr. Nardelli served as Chairman, President, and CEO of the Home Depot.

I understand that our CEOs all drove down here and had comfortable rides, and I gather your automobiles are parked outside, even some of the models yet to be introduced. The Volt I think is here. Is that true, Mr. Wagoner?

Mr. WAGONER. Yes, sir, that is true.

Chairman DODD. Well, for those who want to see what some of these newer models may look like—and I hesitate to say this because I do not want to show any bias or preference, but I drive an Escape. I would tell you Mr. Mulally is giving me a “thumbs up” to me here along the way—although I am looking at the Tahoe with two children, so I want you to know I need a little more room here, the hybrid.

Anyway, I also want to welcome Mr. James Fleming here. Jim is a good friend of mine, let me say up front. We are from Connecticut together, and Jim is the President of the Connecticut Automotive Retailers Association. He served in the State of Connecticut for many years as a member of the Connecticut House and Senate, including Senate Republican Majority Leader of our State



Legislature. Mr. Fleming has also served in the executive branch of the Connecticut State Government as the commissioner of several departments and has long experience in our State, and I thank you very much, Jim, for coming down and representing the dealer issues before this Committee.

Next we will hear from Keith Wandell, who is President and Chief Operating Officer of Johnson Controls, Inc., where he held various positions ranging from plant manager to Vice President of the Power Solutions Division.

And our final witness is Dr. Mark Zandi, Chief Economist and Co-Founder of Moody's Economy.com, where he directs the company's research consulting services. Dr. Zandi's research focuses on macroeconomic, financial, and regional economics, and he has recently been studying the determinants of mortgage foreclosure and personal bankruptcy, and we see you quoted quite frequently, Dr. Zandi, so we thank you again. In fact, you have been before the Committee so we welcome you back to it.

I will begin, I guess, in the order we have introduced you, and I apologize for the number of you at one table here, but I thought just for the sake of efficiencies, we would move forward, and there are a lot of similarities, obviously. When we start talking about these issues, obviously everyone represented at this table is directly affected by it, so there is no outlier here that has no relevancy to the testimony that we are going to hear from you.

So, with that, Mr. Wagoner, we thank you.

**STATEMENT OF G. RICHARD WAGONER, JR., CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER, GENERAL MOTORS**

Mr. WAGONER. Thank you very much, Mr. Chairman and to Members of the Committee. I wanted to start by extending my sincere appreciation for the opportunity for us to come back. It is obviously a very important matter for all of our constituents. I know it is a time when you are frequently working with your own constituents, and for you to give up the time to come back I think is something that we want to extend our thanks.

I also wanted to thank the Speaker and the Senate Majority Leader for their very specific direction on what was being requested in the plan. It helped us to think more broadly, and we appreciate that direction.

As we put our plan together—it happens to be, somewhat ironically, GM's centennial year this year—we thought about our past and what that should mean for our future, and we obviously have a lot of things that we are proud of. There have been a lot of great accomplishments on the company's behalf. And there are also mistakes during our history.

What we were trying to do as we put this plan together, which we submitted earlier this week, was to learn from both of those—learn from our contributions, our successes, and learn from our mistakes—to make sure we did not repeat the mistakes and that we built on the contributions. And so as we thought about things like developing a comprehensive plan, we said we have done best in our history when we focused on technology leadership and technological excellence, when we have kept our focus on being cost competitive every day, when we have kept close alignment between

the goals of the company and the goals of the country. And so the plan that we are submitting to you is one that I think does those and many other things, and it is a plan that I and my General Motors team believe very strongly in.

The plan shows why GM needs temporary Government funding, how that funding will be used, how we intend to repay taxpayers, and why funding is beneficial to the U.S. Government.

In some ways, the plan accelerates the restructuring that has been underway for the past several years, but in many ways, it radically expands it, and I think it is fair to say it creates a blueprint for a new General Motors.

The key elements: First of all, it is based on what we think is a realistic although quite a bit more conservative view of the market than we have traditionally used. And it is also comprehensive. It considers the need to address operating issues as well as to address our financial structure.

Key highlights include a renewed and expanded commitment to new technologies, especially advanced propulsion, and green jobs; increased production of fuel-efficient vehicles; a reduction in the number of brands, models, and retail outlets so we can focus our resources; further manufacturing and structural cost reductions; working with our UAW counterparts to ensure full labor competitiveness with foreign manufacturers here in the U.S.; significant restructuring of our balance sheet; and sacrifices by all parties involved, including continued suspension of our common stock dividend and changes in executive and board compensation, including reducing our board's compensation and mine to \$1 a year; and cessation of our corporate aircraft operations.

These and other tough but necessary actions will position our company for long-term success, and this success is achievable if we can weather the global financial crisis and the lowest level of U.S. auto sales on a per capita basis in over 50 years.

Toward that end, our plan respectfully requests \$12 billion in short-term loans and a \$6 billion line of credit. We are seeking an immediate loan of \$4 billion and potentially a second draw of up to \$4 billion in January, reflecting the current very weak state of automotive production and demand.

The intent is to begin repayment as soon as 2011 and fully repay by 2012 under our baseline insurance forecast scenario. Warrants would allow taxpayers to benefit if GM's share price increases.

We also proposes of a Federal Oversight Board that would facilitate the restructuring negotiations and protect taxpayers.

GM has been an important part of American culture for a hundred years, and most of that time as the world's leading automaker. We are here today because we made mistakes, which we are learning from, because some forces beyond our control have pushed us to the brink, and, most importantly, because saving General Motors—and all this company represents—is a job worth doing.

Thank you very much, and I look forward to your questions.

Chairman DODD. Thank you very much, Mr. Wagoner.

Mr. Gettelfinger, welcome.

**STATEMENT OF RON GETTELFINGER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA**

Mr. GETTELFINGER. Mr. Chairman, Members of the Committee, on behalf of the men and women of the UAW, I appreciate this opportunity to present our views on the state of the domestic auto industry.

The UAW believes that it is imperative that the Federal Government act this month to provide an emergency bridge loan to General Motors, Ford, and Chrysler. Without such assistance, General Motors and Chrysler could run out of funds in the very near future and be forced to liquidate. The collapse of these companies would inevitably drag down numerous auto parts suppliers, which in turn could lead to the collapse of Ford.

The UAW supports conditioning any emergency bridge loan both on strict accountability measures and on the companies' pursuing restructuring plans that will ensure the viability of their operations in the coming years. For such restructuring plans to succeed, we recognize that all stakeholders—equity and bondholders, suppliers, dealers, workers, and management—must come to the table and share in the sacrifices that will be needed.

The UAW and the workers we represent are prepared to do our part. We are continuing to negotiate over ways to make the operations of General Motors, Ford, and Chrysler more efficient and competitive.

Workers and retirees have already stepped forward and made enormous sacrifices. Thanks to the changes in the 2005 and the 2007 contracts, the labor cost gap with the foreign transplant operations will be largely or completely eliminated.

The UAW recognizes that the current crisis may require workers to make further sacrifices. For example, we recognize that the contributions owed by the companies to the retiree health care VEBA fund may need to be spread out and that there may need to be adjustments in other areas. But the UAW vigorously opposes any attempt to make workers and retirees the scapegoats and to make them shoulder the entire burden of any restructuring. Wages and benefits only make up 10 percent of the cost of the domestic auto companies.

The UAW also submits that it is not feasible for Congress to hammer out the details of a complete restructuring plan during the coming week. There is simply not enough time to work through the many difficult and complex issues associated with all of the key stakeholders, as well as changes in the business operations of the companies.

What Congress can and should do is to put in place a process that will require all of the stakeholders to participate in a restructuring of the companies outside of bankruptcy. This process should ensure that there is fairness in the sacrifices, and that the companies will be able to continue as viable business operations. This process can begin immediately under the supervision of the next administration. By doing so, Congress can make sure that the emergency assistance is indeed a bridge to a brighter future.

Contrary to the assertions by some commentators, in the present environment a so-called pre-packaged Chapter 11 bankruptcy is

simply not a viable option for restructuring the Detroit-based auto companies. Research has indicated that the public will not buy vehicles from a company in bankruptcy. In addition, attached to our testimony is a detailed analysis prepared with the assistance of experienced bankruptcy practitioners explaining that a pre-packaged bankruptcy is not a feasible option for the domestic auto companies because of the size and complexity of the issues that would be involved in any restructuring, including relationships with thousands of dealers and suppliers and major changes in business operations.

The UAW believes that the recent actions by the Federal Government to provide an enormous bailout to Citigroup reinforces the case for providing an emergency bridge loan to the Detroit-based auto companies.

If the Federal Government can provide this type of blank check to Wall Street, it should also be able to provide an emergency bridge loan to General Motors, Ford, and Chrysler, especially since these companies would be subject to strict accountability and viability requirements.

In conclusion, the UAW strongly urges Congress to act this month to approve an emergency bridge loan to General Motors, Ford, and Chrysler to enable them to continue operations and to avoid the disastrous consequences that their liquidation would involve for millions of workers and retirees and for our entire Nation.

Thank you very much.

Chairman DODD. Thank you very much, President Gettelfinger. Mr. Mulally, welcome back to the Committee.

**STATEMENT OF ALAN R. MULALLY, PRESIDENT AND CHIEF  
EXECUTIVE OFFICER, FORD MOTOR COMPANY**

Mr. MULALLY. Thank you. Mr. Chairman, Senator Shelby, and Members of the Committee, since the last hearing I have thought a great deal about the concerns that you expressed. I want you to know I heard your message loud and clear.

On Tuesday, you received Ford's detailed and comprehensive business plan, and I appreciate the opportunity to return here today to share Ford's vision and progress on becoming a profitable, growing company.

You were clear that the business model needs to change. I could not agree more, and that is exactly why I came to Ford 2 years ago to join Bill Ford in implementing his vision to transform our company and build a greener future using advanced technology.

Let me share with you what we have done to change from how it used to be doing business to how we do business now.

It used to be that we had too many brands. Now we have a laser focus on our most important brand—the Ford “Blue Oval.” In the last 2 years, we have sold Aston Martin, Jaguar, and Land Rover, and we reduced our investment in Mazda. And this week we announced we are considering a sale of Volvo.

It used to be that our approach to our customers was, “If you build it, they will come.” We produced more vehicles than our customers wanted and then slashed prices, hurting the residual values of those vehicles and hurting our customers. Now we are aggressively matching production to meet the true customer demand.

It used to be that we focused heavily on trucks and SUVs. Now we are shifting to a balanced product portfolio with even more focus on small cars and the advanced technologies that will drive higher fuel economy in all of our vehicles.

It used to be that our labor costs made us uncompetitive. Now we have a ground-breaking agreement with the UAW to reduce our labor costs, and we appreciate the UAW's continuing willingness to help close the competitive gap.

It used to be that we had too many suppliers and dealers. Now we are putting in place the right structure to maximize the efficiency and the profitability of all of our partners.

It used to be that we operated regionally—European cars for Europe, Asian cars for Asia, American cars for the U.S. market. Now we are leveraging our global assets, innovation, technology, and scale to deliver world-class products for every market.

It used to be that our goal was simply to compete. Now we are absolutely committed to exceeding our customers' expectations for quality, fuel efficiency, safety, and affordability.

This is the Ford story. We are more balanced. We are more efficient. We are more global. And we are really focused. In short, we are on the right plan to becoming a profitable, growing company.

We have moved our business model in a completely new direction in line with the most successful companies and competitors around the world. And as a result of our progress, we made a profit in the first quarter of this year, 2008. Unfortunately, we all are facing a severe economic downturn that has slowed our momentum. Despite this downturn, Ford does not anticipate a near-term liquidity crisis. In fact, we expect our automobile business to be profitable in 2011. But we do support a Government bridge loan because it is critically important to the United States automobile industry.

Specifically, Ford requests access to \$9 billion in bridge financing, something we hope we will not need to use. Instead, we continue to drive change in our company. This line of credit will serve as a critical safeguard if events require it. And if we did need to access this loan, we would use the money to continue our aggressive transformation and restructuring. Ford is an American company and an American icon. We are woven into the fabric of every community that relies on our cars and trucks and the jobs our company supports. The entire Ford team, from our employees to shareholders, suppliers to dealers, is absolutely committed to implementing our new business model and becoming a lean, profitable company that builds the best cars and trucks on the road for our customers.

There is a lot more work to do, but we are passionate about the future of Ford. In fact, we invite you to visit us in Dearborn to kick the tires, look under the hood, and talk to our employees. We hope you will join us and see for yourself the progress we are making to develop the vehicles of the future.

Thank you very much.

Chairman DODD. Thank you very much, Mr. Mulally.  
Mr. Nardelli.

**STATEMENT OF ROBERT NARDELLI, CHAIRMAN AND CHIEF  
EXECUTIVE OFFICER, CHRYSLER LLC**

Mr. NARDELLI. Mr. Chairman, members of the panel, I appreciate the opportunity to present to you again today, and I am here representing the 1 million people who depend upon Chrysler for their livelihoods.

Before I answer your questions regarding our loan request, let me be very clear and state why we are here: Chrysler is requesting a \$7 billion loan to bridge the current financial crisis. And in exchange, Chrysler is committed to: continue our restructuring, including negotiating cost-saving concessions from all constituents; invest in fuel-efficient cars and trucks that people want to buy and begin repayment of the Government loan in 2012. I also want to reinforce the need for Chrysler Financial to receive immediate assistance from TARP, as their continued vitality is a critical assumption in our plan.

Chrysler requires this loan to get back to the transformation that began 1 year ago, gaining our independence. As a newly independent company in 2007, Chrysler was on track for financial profitability. We eliminated more than 1.2 million units, or 30 percent of our capacity. We reduced our fixed costs by \$2.4 billion. We separated more than 32,000 employees, including, unfortunately, just 5,000 last Wednesday before Thanksgiving. And at the same time, we have invested more than half a billion dollars in product improvements in our first 60 days. We improved our J.D. Power quality scores, and we reduced our warranty claims by 29 percent. As a result, through the first half of 2008, Chrysler met or exceeded its operating plan and ended the first half of the year with \$9.4 billion in unrestricted cash.

We are here because of the financial crisis that started in 2007 and accelerated at the end of the second quarter of 2008. As consumer confidence fell and credit markets remained frozen, the lowest U.S. auto sales in more than 20 years has put tremendous pressure on our cash position. The U.S. industry sales fell from 17 million a year in 2007, to a monthly annualized rate of 10.5 million last month. That is 6.5 million units of decline.

So what is the impact on Chrysler from that result. With a 10-percent market share, it would translate to Chrysler to a loss of 650,000 vehicles, or roughly \$16 billion in lost revenue opportunity this year alone. With such a huge hit to our sales and revenue base, Chrysler requires the loan to continue the restructuring and fund our product renaissance.

Chrysler has a sound plan for financial viability that includes the seeking of shared sacrifice from all constituents. We have identified approximately \$4 billion of potential cost savings and improvements that have been included in our plan, and we are committed to negotiate with all constituents to achieve those savings. Our plan also includes producing high-quality, fuel-efficient cars and trucks that people want to buy, while supporting our country's energy security and environmental sustainability goals.

For the 2009 model year, 73 percent of our products will offer improved fuel efficiency compared with our 2008 models. We plan on launching additional small, fuel-efficient vehicles. ENVI is our

breakthrough family of all-electric vehicles and range-extended electric vehicles, similar to the one I drove here today.

Chrysler's long-range product plan is robust, it is realistic, and it is green. The plan features 24 major launches from 2009 through 2012. It includes a hybrid Ram truck, our first electric-drive vehicle in 2010, with three additional models by 2013.

A key feature of Chrysler's future is our capability as an electric vehicle company. Through our GEM, which is our neighborhood electric vehicle division, Chrysler is the largest producer of electric-drive vehicles in the U.S. today. Combined with the new products from our ENVI group, we expect to have 500,000 Chrysler electric-drive vehicles on the road by 2013.

Chrysler will continue to aggressively pursue new business models that include alliances, partnerships, and consolidations. This model is currently successful in helping Chrysler increase the effective utilization of our manufacturing capacity. For example, in North America today, Chrysler manufactures all of Volkswagen's minivans, and beginning in 2012, we will produce all of Nissan's full-size trucks.

With Government collaboration, our industry can accelerate how America drives cutting-edge technology. An Automotive Energy Security Alliance would: coordinate public and private spending which is already devoted to advanced technologies; produce basic technology available to all manufacturing; drive private investments to meet our national energy and environmental goals. Such an alliance would help ensure that as a country, we do not trade our current dependence on foreign oil for dependence on foreign technology.

In closing, I recognize that this is a significant amount of public money. However, we believe this is the least costly alternative considering the depth of the economic crisis and the options that we face.

Thank you very much.

Chairman DODD. Thank you very much, Mr. Nardelli.

James, welcome. Welcome to the Committee. Is that microphone on?

**STATEMENT OF JAMES T. FLEMING, PRESIDENT,  
CONNECTICUT AUTOMOTIVE RETAILERS ASSOCIATION**

Mr. FLEMING. Thank you, Mr. Chairman, Senator Shelby, Members of the Committee. As President of the Connecticut Automotive Retailers Association, I represent 300 dealers in Connecticut and their 14,000 employees, all of whom have good jobs with great wages and benefits. Our dealers are small businesspeople and entrepreneurs, and some of them are sitting behind me here today to let you know how important this legislation is to them and to our dealers.

We appreciate the fact that the dealers' perspective is being asked for because we have something to say, and I want to talk a little bit about the ripple effect that we have heard a little bit about this morning here. To our people to these small businesspeople, it is a tsunami. It is not a ripple. And I want to just relate what a dealer told me before I came down here to Washington to testify.

He indicated to me that last month he had 30 people that came into his dealership. Those 30 people would normally have qualified to get financing to purchase a car, but because of how squeamish the banks are just with talk of bankruptcy, he could not get these people financed. That is how serious it is.

Now, what does that mean to the State of Connecticut? I got an e-mail just before I came up here to talk about the impact that is having on the State's budget. Every one of the Senators here, if you go back and talk to your State budget officers that are trying to deal with deficit situations, will find out what a big part automobile sales represent in that budget. In Connecticut, it represents a loss of \$65 million in our budget just in new-car sales tax. That is what has been going on in our State budget.

Members, this is not a bailout bill for Detroit or for Wall Street. This is about investing in the future of our small towns and businesses. The economies and the budgets of State governments, as I said, ultimately are going to be affected by what you do here. If you go back to your constituents, as I have done as a State Senator in my past life, and they ask you what did you vote for, what you are voting for here, what you are supporting here is keeping people employed in those small businesses in your district. That is what this is about.

If you say no, or if you do nothing, which is essentially no, and allow bankruptcy to occur, the impact on the dealers and the people that they employ in your home States will be dramatic. People will not buy cars from a bankrupt entity. They are afraid to buy cars as it is right now. This is the second largest purchase that they will ever make in their life. This is not the same as a structured bankruptcy for an airline. This is a big expenditure on the part of people back in your districts.

If you say yes to this financing package, it gives us some time to try to adjust to what is going on in the economy.

We have lost 25 dealerships in Connecticut in the last year. We have lost 700 jobs in Connecticut in the last year. Those people are not going to be able to contribute to the economy.

Another issue I would like to raise, and I hope, gentlemen and Senator Dole, that you will ask me in detail about this. When a dealer goes out of business, there is no golden parachute for that dealer. I know a dealer who last month lost his Chevy dealership. He had mortgaged his home. He had lost all of his personal wealth that he put into that business to try to keep it alive. He does not want a piece of this money. He wants the manufacturers to survive so he can continue to compete at that local level, and to compete with these gentlemen that are here, because dealers are different than the manufacturers in Detroit. If you want to hold them accountable, do it. Hold them accountable. It is the public's money. But if you do not pass this bill, the effect on your constituents and on people that I represent will be dramatic. So I urge you to take that action and do it fast, because just as we have been sitting here today, I know dealers who have had to lay people off.

So with that said, Mr. Chairman, I know I have a few seconds left here. I would just ask you to consider the human side of what is going on, and when you have an opportunity, go back to your district. Go into those dealerships and see what these guys are doing.



It is tough work. They are writing the paychecks out. They do not have massive staffs. They have about maybe 30 people in a dealership. In Connecticut, somebody is making about \$55,000 a year on average in a dealership. That is good pay. That will go away if we wait too long and you act negatively on what is before you.

Thank you, Mr. Chairman.

Chairman DODD. Well, thank you, Mr. Fleming. And I would point out, and my colleagues have done this as well, but about a week or so ago, I had a long meeting and a good meeting with the dealers in my own State, and good conversations with them about the implications of this as well. So it is a worthwhile visit to make to hear their perspective on this, and I know my colleagues probably have done the same. But I want to thank Mr. Fleming for organizing that in my State and giving me a chance to hear from my dealers as well.

Mr. Wandell.

**STATEMENT OF KEITH WANDELL, PRESIDENT, JOHNSON  
CONTROLS, INC.**

Mr. WANDELL. Chairman Dodd, Senator Shelby, and Members of the Committee, thank you for the opportunity to provide testimony on the state of the domestic automotive industry. My name is Keith Wandell, and I am President and Chief Operating Officer of Johnson Controls, Incorporated. We are a global multi-industry company with sales of \$38 billion in 2008, and approximately 37 percent of our sales involve the supply of systems and services to improve the energy efficiency of nonresidential and residential buildings worldwide. We are also the largest supplier of automotive batteries to the automotive aftermarket, as well as the original equipment manufacturers in the world.

In addition, our company is the seventh largest automotive supplier in the world. We are the third largest supplier in North America behind Magna International, which is a Canadian company, and Delphi, a U.S. company which we all know has been in bankruptcy since 2005. Our global sales of seats and other interior products to the automotive industry totaled—and I apologize, there was a typo in our document. It is \$18 billion; \$6.7 billion of that were to the North American market specifically. We supply every automaker with a presence in the U.S., with just under half of our sales to the Detroit Three and the balance to the transplants. Johnson Controls has 43,000 employees in the U.S.; 22,000 of those are in the States represented by the Members of this Committee.

While Johnson Controls is a key supplier to the global automotive industry, we are somewhat atypical of most automotive suppliers because we are much larger than most, we are more diversified by our products, our geography, and our markets. Being a supplier of interior systems, we are probably less capital intensive than many other automotive suppliers. We are profitable, and we have a strong balance sheet. We do, however, share the same issues and concerns about the domestic automotive industry as those suppliers which are solely dedicated to the automotive industry.

A Detroit Three failure would have dire economic ramifications for the vast interconnected supply chain of companies that provide

parts and components which enable the U.S. automakers to assemble vehicles. Our main concern is that once cascading supply chain interruptions begin, many suppliers will fail due to the interdependence of that supply chain. And many of the companies which would be impacted are small, women- and minority-owned businesses.

During 2008, Johnson Controls purchased \$1.7 billion of goods and services from minority- and female-owned businesses. The Detroit Three had a combined purchase of approximately \$12 billion from these same businesses. Should any one of the U.S. automakers suddenly fail, the vast majority of these women- and minority-owned businesses will fail and will fail quickly.

Let me share an example with you. Recently, earlier this year, a minority supplier to Johnson Controls, the supplier that really supplied a vast part of the auto industry, Plastech Engineered Products, failed and went into bankruptcy. Plastech had \$800 million of revenue. They shipped 6,200 different part numbers to 52 vehicle assembly plants in North America, supplying 121 vehicle lines and 12 customers: General Motors, Ford, Chrysler, Volkswagen, Mercedes, Honda, Toyota, Nissan, Hyundai-Kia, AM General, Mazda, and Mitsubishi. Had Johnson Controls and the first-tier lending group not acquired Plastech's assets out of bankruptcy, had we not assembled an operating team to manage the process, and had we not provided the bridge financing necessary to avoid liquidation, all 52 of those assembly plants would have been affected to one degree or another for varying durations. That is one small microcosm of how interconnected the supply chain is.

A year ago approximately 20 percent of our—Johnson Controls—automotive suppliers, part suppliers that provide parts to us that allow us to provide complete seat assemblies and cockpits, *et cetera*, to the Detroit Three—were financially distressed according to third-party independent third sources. Since the rapid deterioration of industry volumes, that number has grown to beyond 35 percent, so over 35 percent of our suppliers are financially distressed and on the verge of bankruptcy. And this number continues to grow. This supply base has over 100,000 employees.

Should one of the Detroit Three fail, a significant number of supplier failures would occur and would become unmanageable. And I know that Mr. Nardelli and Mr. Wagoner and Mr. Mulally in their organizations today, there is an inordinate amount of time being spent by their supply chain people in trying to manage the number of bankruptcies and financially distressed suppliers that there are in this industry, just like we are.

And I can assure you that even though Toyota, Nissan, Honda, Mercedes, and every other foreign car maker who assembles plants in America are not here today, they too are deeply concerned about the viability of the U.S. supply base.

I think that all of us here agree that major changes are needed in the North American automotive industry. There are major changes that are needed in the supply chain as well. But we hope everyone here understands how important it is that these changes occur in an orderly fashion, which is unlikely if we allow even one of these companies to fail. There will be an implosion of the supply base that will affect all the car companies.

It is extremely important that we have a sound, healthy, and sustainable U.S.-owned automotive industry that is competitive globally. And I do not believe that Americans—in spite of the CNN poll that came out this morning that said 60 percent of the Americans are not in favor of some sort of financial aid, I do not believe that Americans want to yield an industry that impacts millions of jobs and invests billions of dollars in technology and will help secure our energy independence through new, innovative, and environmentally friendly transportation. The supply base provides 70 percent of the value-added components that go into a vehicle and spend over 40 percent of the total R&D dollars in the automotive industry.

The plans that have been submitted address many of the issues that have been burdensome to the health of the industry, and I think given the opportunity, the Detroit Three in their own way and each one are on their own way to resolving a lot of these issues. And I think given, you know, an opportunity to address these challenges, I think we will be on our way to bringing to the market consumer-desired, fuel-efficient, environmentally friendly vehicles that the consumers are desiring.

I was also asked to comment on the potential impact of a Detroit Three failure on our company. Earlier I said that we are diversified, profitable, and we have a strong balance sheet. Unlike many suppliers, we would weather the storm largely due to our strong non-automotive businesses. A Detroit Three failure would have a short- to mid-term impact probably on our cash-flow or access to capital maybe and possibly our cost of borrowing. One of the bigger impacts would be the curtailment of our investments in new technologies in all of our businesses, including the hybrid vehicle technology that we are working with all the Big Three on.

So, in conclusion, we believe that the industry has a long and proud heritage; it has played a significant role in the development of this country's strong economic position in the world. And speaking for our company, and I am sure all of the auto suppliers, we would respectfully urge the Members of this Committee, and the Congress as a whole, to provide the financial support that the automakers need at this critical time.

Thank you very much for your attention.

Chairman DODD. Thank you very much.

Dr. Zandi, thank you.

**STATEMENT OF MARK ZANDI, CHIEF ECONOMIST AND  
CO-FOUNDER, MOODY'S ECONOMY.COM**

Mr. ZANDI. Thank you, Mr. Chairman, Senator Shelby, and the rest of the Committee, for the opportunity to speak here today. My remarks represent my personal views, not those of the Moody's Corporation, which is my employer. I will make four points in my remarks.

Point one, the Federal Government should provide financial help to the domestic automakers. Without help, the automakers will quickly be in bankruptcy, resulting in liquidations and hundreds of thousands of layoffs at a time when the broader economy is suffering its worst recession since the Great Depression. If the automakers file for bankruptcy anytime in the next few weeks, or even

months, then this would be very damaging to the sliding economy. The Big Three employ fewer than 250,000 people in the United States, but given their broad links into the rest of the economy, as we have seen, closer to 2.5 million jobs would be immediately at risk. Hundreds of thousands would lose their jobs when the economy is already set to lose several million. The hit to already record-low consumer, business, and investor confidence would be devastating.

Point two, under the most likely outlook for the economy and auto industry, the \$34 billion in loans requested by the Big Three will not be sufficient for them to avoid bankruptcy at some point in the next 2 years. They would ultimately need, in my view, somewhere between \$75 billion to \$125 billion to avoid this fate. This cost estimate is based in part on the expectation that light vehicle sales will average close to 11 million units in 2009 and 13.5 million units in 2010. For context, vehicle sales averaged almost 17 million units annually between 1999 and 2006. This extraordinarily weak vehicle sales outlook is due to three factors: first, the current sharp decline in employment—we will lose 2 million jobs this year, at least that many in 2009—the severe credit crunch that is undermining the availability of vehicle loans and leases, and the significant amount of what I call pent-up vehicle demand created earlier in the decade as the automakers used increasingly aggressive financial incentives to artificially support demand. Seventeen million units is not supportable by underlying demand. The cost of keeping the Big Three out of bankruptcy also significantly depends on their ability to arrest the decline in their market share. Their share has been steadily falling, reflecting many factors, but most critically, higher gasoline prices. The very recent decline in gas prices notwithstanding, vehicle buyers will not quickly return to buying the Big Three's less fuel-efficient vehicles. Whether their market share remains close to its current 50 percent or declines nearer to 40 percent in the next 2 years will determine whether the cost of avoiding bankruptcy will be \$75 billion or \$125 billion.

Point three, the Big Three's restructuring plans, if fully executed, could result in a viable long-term domestic auto industry. However, given the very difficult changes this will require of the Big Three and their stakeholders, there is a considerable risk the plans will not be executed effectively. Each automaker has outlined laudable steps to return to long-term viability. They envisage deep cost-cutting producing more fuel-efficient cars, rationalizing their brands and retail outlets, and refocusing their marketing efforts. And they have already made significant strides in restructuring their operations and reducing costs. The industry's labor costs have actually declined during this decade. Moreover, given the considerable UAW wage and benefit concessions in 2007, further substantial cost savings would soon occur. But despite this clear progress, it would be extraordinarily challenging for the Big Three to convince all of their stakeholders, including management and the UAW, their creditors, suppliers, and dealers, to quickly make the very substantial concessions necessary to make their plans work.

Point four, I recommend that Congress provide the \$34 billion in aid that the Big Three requested in exchange for warrants and restrictions on executive comp and dividend payments. This is nec-

essary given the potential for the automakers' imminent disorderly bankruptcy at an extraordinary fragile time for the economy. The aid should be disbursed in two tranches. The first payout should be sufficient to allow the automakers to comfortably avoid bankruptcy when the economy is most vulnerable over the next 3 to 6 months. The second payout should only occur if the automakers are hitting benchmarks in the restructuring plans, which could be determined by the oversight board. Policymakers should be convinced that they are not throwing good money after bad.

Congress should at the same time make it clear that if the restructuring plans are unsuccessful, no more Government loans will be forthcoming. Instead, Congress will ensure there is an orderly bankruptcy process by providing financing in bankruptcy and guaranteeing warranties on new vehicles sold.

There is a reasonable concern that if the Big Three file for a pre-arranged bankruptcy—even a Government-supported bankruptcy—people would stop buying their cars. But getting a loan from the Government, even one as large as \$34 billion, will not convince anyone that they will be around for very long either. There is also a worry that bankruptcy would further damage the fragile financial system, but debt holders have had a long time to adjust to this possibility.

A concerted, comprehensive, and consistent Government response to the economic crises is vitally needed. The economy needs a sizable economic recovery package and a substantive foreclosure mitigation plan, but the Government's resources are not unlimited and must be used wisely. The Federal budget deficit will easily top \$1 trillion this fiscal year and again in fiscal year 2010.

The automakers have come forth with a reasonable plan to restructure their businesses, but \$34 billion in a plan may very well not be enough for them to become viable companies again. Policymakers must prepare for this eventuality.

Thank you.

Chairman DODD. Well, thank you very much, Dr. Zandi. Let me thank all of you for your testimony, and we have got a large participation of members here, and I am going to try and move right along with my questions and get as quick answers as we can from you on these matters, and I will ask my colleagues to do as well. There is an awful lot to talk about here.

Let me begin. You all were sitting, I noticed all of you sitting here when the General Accounting Office was testifying and describing, in effect, the 1979 Chrysler situation, which I am sure Mr. Nardelli and the other CEOs and Ron Gettelfinger are very familiar with. The others may be as well. Just quickly, if you would—and I will the CEOs, if you would—were we to craft something like that, whether it is a trustee or an oversight board that was described by the General Accounting Office, would you be willing to accept such a structure? We will begin with Mr. Wagoner.

Mr. WAGONER. Yes, sir.

Mr. MULALLY. Yes.

Chairman DODD. Mr. Nardelli.

Mr. NARDELLI. Yes, sir, and we included that in our statement.

Chairman DODD. Anything you would add to what has been said by him that you would suggest in terms of the time constraints we

are dealing with? If we were to take virtually the same model in 1979 on an oversight board—which I think worked fairly well. I think it sort of covered what our colleagues raised earlier. It was decisionmaking rather than just oversight. Would you add anything to that at all?

Mr. WAGONER. I would just reinforce the point about moving fast on this would enable all of us to understand the direction. There are nuances in this area, so for us, faster would be better.

Chairman DODD. Now, I read all of the reports you submitted on Tuesday. Did all of you read each other's reports?

Mr. NARDELLI. Yes, sir.

Chairman DODD. You are familiar with each other's? Ford is familiar with Chrysler and GM and so forth? You have had a chance to look those over as well?

Mr. WAGONER. Yes, sir.

Chairman DODD. Well, let me ask you again, Mr. Zandi. I appreciate your points for all of the reasons you have laid out, but you also have, of course, a pretty—a concern, I am sure, of all of my colleagues. They also read about your prediction that this number was going to increase, that we are talking \$75 billion to \$125 billion. What else could be done in your view to mitigate that problem?

One of my concerns—and someone raised this, and it may have been Mr. Fleming at our meeting in Connecticut with the dealers where we spent 3 hours last week—is that ultimate none of this works until consumers buy cars. We do a lot of these actions at the top and so forth, but the final test will be whether or not people show up in showrooms and buy cars.

Is there anything we could be doing from the bottom-up approach on this thing? We are doing a lot of top-down. We have certainly seen it with the financial institutions, the injection of capital and the like. But many of us up here are concerned that we have done very little bottom-up to shore up consumer confidence; mitigation of foreclosure, you mentioned that as well. But, obviously, support for consumers out there who would, frankly, like, as Mr. Fleming pointed out, the 30 people who showed up who, under normal circumstances, would have qualified with FICO scores to purchase a car but were turned away because of the 780 or whatever the number is now that you must reach in order to qualify for a loan.

Are there things that we could be doing up here, aside from what we are talking about, to mitigate that number?

Mr. ZANDI. Well, one obvious thing is I do think the captive finance companies are a problem. They are a drain on the finances, particularly of GM. And, moreover, because of their financial problems, it is making it difficult for borrowers to get loans and leases. Leasing has completely dried up.

So I think one clear thing that could be done is to facilitate their move to bank holding companies so that they could become eligible for the TARP money and hopefully re-establish some viability in the credit markets.

Chairman DODD. And that would help, in your view?

Mr. ZANDI. I think that would be very significant help. I think one of the reasons why people cannot buy cars at this moment in

time is because they cannot get financing, particularly leasing. I mean, there is no leasing.

Chairman DODD. I heard that over and over again from my dealers back in—and the CEOs agree with this as well?

Mr. NARDELLI. Yes, sir. I mean, one of the major points I made in my opening comments was the fact that Chrysler Financial really does need access to liquidity and capacity.

Chairman DODD. You asked for the TARP money, and I was going to raise this in a question with you. That sentence jumped out at me in your testimony.

Mr. NARDELLI. Sir, we have had a request in—

Chairman DODD. But you know they have said no.

Mr. NARDELLI. Yes, sir.

Chairman DODD. So what happens? Even if we do what we are doing up here, are you telling me Chrysler fails anyway?

Mr. NARDELLI. Sir, if we do not—to your question exactly—that is why I made the point in this oral testimony in the last time we were here, that it is a tandem request, that our captive financials—and if I read correctly, both in General Motors and Ford—it is an integral part of the overall auto industry success. We literally lost 20 percent of our volume overnight due to capacity constraints in the lease business. You know, our private equity group worked very hard to get a new conduit, but there were many new constraints put on that \$24 billion of conduit.

For example, if we did go into bankruptcy, they would be restricted from providing any wholesale support to our dealers, which immediately, as was said, would put unbelievable hardship—in other words, the dealers would have to go out and try to get wholesale financing.

Chairman DODD. I know. But I was making the point to you earlier. Obviously, there are a lot of things we may try and do up here. So this is in addition to the \$34 billion.

Mr. NARDELLI. Those requests are being handled outside this request.

Chairman DODD. But it is in addition to the \$34 billion.

Mr. NARDELLI. Yes, and those requests have been made to TARP. They have been made to—our ILC request

Chairman DODD. You have gotten the same answer we have gotten?

Mr. NARDELLI. Well, sir, the request for the ILC has been in for 3 years.

Chairman DODD. Well, to the TARP.

Mr. NARDELLI. And to the TARP, we have gotten no response.

Chairman DODD. They have not said yes or no to you?

Mr. NARDELLI. Yes, sir. No, sir, they have not confirmed either way.

Chairman DODD. Let me just jump to a couple of quick questions, if I can, and then there is so much to raise with you. Let me say this, Mr. Nardelli, because, you know, as I understand it, Cerberus paid \$7 billion to buy Chrysler. You will excuse me if the numbers do not sort of jump out at me that it is exactly the number you are looking for. And the question I raised to myself, are we merely just providing money because of a “business decision” that was made, where today that \$7 billion, I presume the value was a lot less

than that. I mean, I am more intrigued in a sense if there is a For Sale sign out here with Chrysler, looking for a merger or an acquisition, that that occur, and then talking about restructuring, then pumping \$7 billion in to pick up the cost of the acquisition, if you understand my question.

Mr. NARDELLI. I understand exactly, and let me just say for the record that Cerberus—I could not ask for a better partner/owner. They are absolutely committed and have been committed to returning Chrysler to viability and profitability.

Chairman DODD. But you did not ask them anything beyond that. You said a one-time infusion, \$7 billion, nothing more. Now, GM and Ford, Ford talks about a line of credit for 10 years, I think. GM talks about tranches of 4 or 6 and 6 down the road, depending upon the economy. Chrysler said, “Just give me the 7, that is all.”

Mr. NARDELLI. That is it. If I can go back to your first question, in addition to the original capitalization, we also drew down about \$2 billion middle of this year, so there was another cash infusion from our privately held owners. But because they are a private equity does not mean that there are not the same investors that many of these banks have. We have some of the largest pension funds are contributors to this, and they are going to through the same economic evaluation that the banks are going through, the other lenders, in making these decisions. So that is point number one.

Point number two, if you look at my submission that we made, we are, in fact, taking a much more conservative approach in our plan than was—so our exit rate for this year will be about 13.5 million units. In 2009, we assume the industry to be at about 11.1 million. So we have intentionally taken a very conservative approach, and that volume does not grow over the period to about 13.5 until 2012.

So we have tried to take a conservative approach, Mr. Chairman, to avoid having to come back and ask you again for support.

Chairman DODD. All right. Let me jump quickly to Ford. GM and Chrysler both place the taxpayers in a primary position. You are asking for a line of credit of around—what is it, \$10 to \$13 billion over 10 years?

Mr. MULALLY. Nine.

Chairman DODD. And yet there is no indication in your plan here that the taxpayer would come in first as a result of extending that line of credit. Why?

Mr. MULALLY. No, I understand, and also to understand the importance of protecting the taxpayer. And what we put in our submission to you was that in our current covenants with the banks today, we would be in violation of those covenants, which they could put us in default. So what we said in our transmission is that we would like to work with you on that because there has just to be a way to work with the banks and you to address that issue. We understand the importance.

Chairman DODD. Let me jump quickly to one other point I want to make, if I can, and that is the issue of the closing of some of the SUV plants that we were talking about. The Big Three obviously acknowledged some strategic errors in their business models,



failing to realize the demand for smaller fuel-efficient cars and the like. I appreciate your acknowledgment of that.

This Committee will have this coming year in the 111th Congress the responsibility of a Highway Trust Fund issue, the highway bill, and this Committee's jurisdiction is over mass transit issues. Many of us here, including those who come from rural States, are deeply interested in what can happen in terms of mass transit.

It just struck me when I looked—and, again, I do not claim deep, deep knowledge about this, but looking at the wheel base and so forth of an SUV, what could also be constructed in minibuses and the like, we have got tremendous demands from some of our local communities, and we have American-made requirements here. It seems to me we might be thinking about accessing a market that is emerging for minibuses, mass transit systems, railway cars and the like. I know in my own State we have had to go out of country to buy some of these things. We no longer produce them. Many have talked about what your industries did in the early 1940s in transitioning to the production of tanks and airplanes to meet the national security needs of our country.

Are any of you giving any thought at all to this emerging demand of mass transit vehicles, minibuses, commuters? Today we have got a 30-percent increase in demand for minibuses to deal with this car-sharing approach to get people into urban areas outside. What is being done at all about thinking about that aspect of your industry?

Mr. NARDELLI. Sir, if you look at, again, my oral testimony and one of the charts we presented, if you look at the bottom half of the page, we do have a light-duty commercial van that is being investigated and contemplated as part of our aggressive product renaissance in 2009–10 and beyond. It is on the lower half of the page.

So we are looking at that, and we are trying to be responsive. I am proud to say that I drove a hybrid here from Detroit, and the technology performed extremely well.

Chairman DODD. I presume it was a Chrysler.

Mr. NARDELLI. Yes, sir.

[Laughter.]

Chairman DODD. Just wanted to check for the record.

Mr. NARDELLI. Yes, sir.

Chairman DODD. Well, you all made buses. You used to make your supply chain. You used to also do the rail cars. Right? You all made buses at one point, didn't you?

Mr. WAGONER. Yes, we made buses. We were in the rail business as well.

Chairman DODD. Any thoughts about getting back into that kind of work?

Mr. WAGONER. We continue to build a fairly large van, of which the applications are largely commercial. I am making note of your comment about increasing demand likely out of the trust fund, because we have plenty of capacity and that van is a very competitive one and can be adapted to those kinds of uses. And we also have some ventures that we work in Europe where the product there is a similar kind of van that gets better fuel economy. We have looked from time to time at whether there will be a market for that in the

U.S. for tooling up to build it in the U.S. So as that develops, we would be very interested.

Chairman DODD. Mr. Wagoner, let me, by the way, in reading the plans—and I am not giving an editorial comment here, but I was impressed with the detail of the GM plan and how you laid things out. But let me read something that was reported today and ask you to respond to it.

It said, “If GM does reduce its dealerships to 4,700 by 2012, as promised yesterday, it will still have almost 4 times as many as Toyota. It suggested going from eight brands to five by unloading Hummer, Saab, and Saturn, but it still plans to accept 40 of today’s 48 models. Disappointingly, but not surprisingly, the GM plan contains no hint at a change in management. In contrast to Ford and Chrysler, which are headed by newcomers, GM’s top cadre has presided over hears of decline. GM’s board might find that acceptable, but if taxpayers are going to invest in GM, they are entitled to ask whether this is the right team to revitalize the company.”

I would like to give you a chance to respond to that.

Mr. WAGONER. On the last point, I am doing this job because I am committed to the future of General Motors, to the people of General Motors. I do not have a golden parachute. I do not have any protections. I serve at the pleasure of the board. And I think the most important thing for us to do is to put forth a plan that we think puts us on the right footing for the future, and I think the leadership team we have today is the right one. But as I said, I serve at the pleasure of the board and will always—

Chairman DODD. How about these other points here, what did I say, 40 or 48 models, dealerships—I mean, Mr. Fleming told me that in Connecticut we have lost—I forget how many you told me last week. We are losing dealerships anyway, and I wonder if these numbers reflect just the attrition that is occurring as a result of the economic crisis.

Mr. WAGONER. Well, this year we have lost about 300 dealers. It was an extraordinarily difficult year due to the radical reduction within the year of the production. So, obviously, the plan we have now basically would do about 1,800—1,750, 1,800 over the next 4 years. So that is a significantly faster pace.

I would point out one difference. Because of our history, we have a huge number of dealers in rural communities, in small towns. Those dealers do a great job. We have much higher market share in those communities. They do not, frankly, require a lot of support from the company, and so we let those dealers decide individually do they want to stay in business or not. Some are over time, due to the economics of the business, ramping down, but many choose to stay in. So we actually think that part is a competitive advantage. And a lot of the consolidation that we talk about in our plan is in the metro areas where the over-dealering is an economic disadvantage for the dealers that remain. So we will move more aggressive in those parts of the country.

Chairman DODD. I appreciate that. I have a lot more questions, but let me turn to Senator Shelby.

Senator SHELBY. Thank you, Chairman Dodd.

A lot of people believe sincerely that the restructuring plans that each of your companies has provided are not a serious set of plans,

that they contain few concrete details on how your companies will return to profitability, that they contain surely a lot of scattered facts, but lack a systematic presentation on how your companies would use the money to return to profitability and pay back the taxpayers.

If you made this presentation to get a bank loan, I suspect that any sensible banker would summarily dismiss your request. And for the Committee here with our responsibility, and to improve our understanding of how each of your companies plan to return to profitability—in other words, how are you going to compete and return to profitability—would each of you agree to provide this Committee with full *pro forma* financial statements prepared in a manner that shows how your restructuring plans will impact your businesses over the next—not 3 months—3 years? Would you all be willing to do that, Mr. Nardelli?

Mr. NARDELLI. Yes, sir. In the 100-page document, as Chairman Dodd suggested that we submit it, there is a complete tab that gives a complete *pro forma* P&L, income in cash, by quarter for 2009 and by year for 2010, 2011, and 2012.

So in response to your question, the answer is yes. In response to the question that we got from the General Accounting Office as far as whether we would be willing to make data available, the answer is yes. And we have embedded in that *pro forma*—in those financials, the targeted \$4 billion, when that would have to take effect. We are looking at, for example, in—

Senator SHELBY. What you would do with it.

Mr. NARDELLI. Yes, sir. We have spelled out exactly what our obligations are relative to supplier payments, payroll, *et cetera*. And we have also put in 2012 in the cash *pro forma* the first \$1 billion repayment back to the taxpayers.

Senator SHELBY. Ford, will they do the same thing.

Mr. MULALLY. Of course.

Senator SHELBY. GM?

Mr. WAGONER. Senator Shelby, we have that data. We would be glad to share it. Some of it is confidential, so we would share it directly with your staffs or yourself. Be glad to do it.

Senator SHELBY. We have been talking from time to time about the 1979 Chrysler bailout. You were not there then.

Mr. NARDELLI. No, sir.

Senator SHELBY. But the last time Congress bailed out an automaker—as I said, it was in 1979—that legislation conditioned Government assistance to Chrysler providing a restructuring plan that met very specific requirements, including minimum concessions from its creditors, suppliers, workers, and dealers. A lot of us do not believe your plan comes up close to providing the same level of detail.

How does your restructuring plan that you provided to the Committee compare with the financial reports you provide to prospective investors? Is it the same or is it different? And if it is different, why is it different?

Mr. NARDELLI. No, sir, it is not different in our case. When—

Senator SHELBY. OK. You are speaking about Chrysler.

Mr. NARDELLI. Yes, sir. It is not different in Chrysler's case. We had to present, again, exactly the same *pro formas* when we be-

came organized back in August of 2007 to all of our institutional lenders, certainly the largest ones. And, in fact, every month our CFO has a full disclosure, a full report to all our investors. Even though we are private, they are just as demanding as shareholders and have the same expectations.

Senator SHELBY. Do you basically -and I will address this to all three. Do you usually provide prospective investors with detailed *pro forma* financial reports showing how any financing would be used in the business and how the money would be paid back? Mr. Wagoner.

Mr. WAGONER. Yes, we would, if we were doing, for example, a public financing and equity raise, we would lay out that sort of thing. We would be glad to do it here as well.

Senator SHELBY. Wouldn't this be as public as you could get, the taxpayers?

Mr. WAGONER. We would be glad to provide anything you would like, sir.

Senator SHELBY. What about Ford?

Mr. MULALLY. The way you have described it is exactly the way we have approached our business plan in the past, and everything that we have presented to you is what we have also presented to the banks when we went for additional credit to finance the transformation of Ford.

Senator SHELBY. Dr. Zandi, you stated in your testimony, your written testimony, that the Big Three automakers would need between \$75 and \$150 billion to avoid bankruptcy. At \$150 billion, the bailout would be more than 1 percent of the GDP of this country. Would you discuss why your estimate is so much higher than the \$34 billion estimated by the Big Three? I think you are on the right track, though.

Mr. ZANDI. The estimate is \$75 billion to \$125 billion, but \$25 billion among friends—

Senator SHELBY. OK.

Mr. ZANDI. It is a function of many variables. There are three key variables. The first is expectations for total vehicle sales. I expect in 2009 11 million vehicle sales. I think Chrysler is very close to that. The other two are higher than that in their baseline expectations.

The second variable is market share, what share of the total market they should expect to capture, and that is—

Chairman DODD. Doctor, before you continue along on that, the numbers we are looking at, Ford's and Chrysler's actually are the same as GM's in those predictions, about 11, right?

Mr. NARDELLI. For 2009 we have 11.1 as our projected—

Chairman DODD. Right. And the other one is 11—is that the same, or is it 12?

Mr. ZANDI. I thought it was higher.

Mr. MULALLY. GM is at 12, I think.

Mr. WAGONER. Our base case is 12. Our downside case is at 10.5.

Chairman DODD. GM is at 12, Chrysler is at 11.1, and Ford is at 11.

Mr. ZANDI. OK. Fair enough. And then the third variable is price, you know, how much can you get for a car. And that will affect your market share. So just three of the variables, and by my cal-

ulation, using my expectations for the economy and what it means for sales, market share, for pricing, I am skeptical, doubtful that it is going to end at \$34 billion.

Mr. NARDELLI. Mr. Chairman, if I might.

Senator SHELBY. Yes, go ahead.

Mr. NARDELLI. Our share projection in our recovery plan to you is that our share is flat through the planning period. And quite honestly, while not as robust as my colleagues, our share has been about 10 percent of the industry for the last decade. We have had pretty much relatively flat share, again, for the past decade, and we are not assuming any share of growth in our plan or any positive pricing.

Senator SHELBY. Mr. Fleming, you testified—and one of your phrases was kind of troubling to me, and I believe I have got it right. You said, “A bailout here would give us”—the automobile industry here—“some time to try to adjust.” That would probably be true, some time to try to adjust. In other words, give you breathing room. But I think we have to have more than that here to try to balance the taxpayers’ interest here with everything.

Mr. Gettelfinger also said—and I thought you were tentative in this: “Of course, if any plan works, there have got to be management concessions”—I am not a management expert, but I can tell you, if you are not making money, there is a problem. Is it in management? Is it in labor? You know, is it a combination of both? Is it lack of innovation in your products? I do not know this, but I know there is a deep structural problem here. But you said we may need—may need—to do so-and-so. I think that is ambiguous and kind of tentative. And I believe any plan to work, any plan, you are going to have to have restructuring of management, and you are going to have to get rid of a lot of people to save a lot of jobs. You are going to have to do the same thing at the UAW, and the question is—I hope that, you know, you realize you are in this together, and if you are not, if you are not going to give the concessions and the management is not going to give the concessions and suppliers are not going to give concessions, we are wasting our time and taxpayers’ money big time. That is my thought of it.

I want to ask you—this is just an aside, because there has been a lot of big talk about it. You flew up here before. I understand that. And you drove up here. Did you drive or did you have a driver? Did you drive a little and ride a little? And, second, I guess, are you going to drive back? And if so, if some of us wanted to ride to Detroit, could we ride with you?

Chairman DODD. Where did you stay? Where did you eat?

[Laughter.]

Senator SHELBY. The Chairman wants to make light of this, but I can tell you this: Are you planning to drive back? According to press releases, you drove up here.

Mr. NARDELLI. Yes, sir, and I did have a colleague, and we rotated. We left Tuesday night and drove until midnight and then got up at 5:30 the next morning, and then drove the rest of the way in. And we did rotate, and I do plan to drive back.

Senator SHELBY. What about you?

Mr. MULALLY. We carpoled. I drove and I am driving back.

Senator SHELBY. You did not carpool with him, did you?

Mr. MULALLY. No. Carpoled with our Ford people.

Senator SHELBY. OK. What about you?

Mr. WAGONER. I drove with a colleague. We split it up about 50/50. We drove down yesterday, and I am going to drive back myself Friday or Saturday.

Senator SHELBY. Mr. Zandi, one last question. In part of your testimony, you said that “there is no better way to ensure that the Big Three are around than if they are significantly restructured in Chapter 11 bankruptcy.” Would you please explain here—we know it would be painful; we understand all this—why restructuring under Chapter 11 in your view is preferable to restructuring outside of bankruptcy, if it is?

Mr. ZANDI. Let me clarify. I think that the best option—

Senator SHELBY. I was just quoting your testimony.

Mr. ZANDI. I will clarify my testimony.

Senator SHELBY. Yes, sir. Go ahead.

Mr. ZANDI. I think the best option is to have a restructuring outside of bankruptcy. I think if you can get all those stakeholders together and they can all agree, that is preferable to bankruptcy, everyone’s coming together—

Senator SHELBY. Do you believe that is going to happen?

Mr. ZANDI. I am very doubtful that it will happen. So what I am suggesting is that you give them the opportunity, because if you do not, I think failure at this point, bankruptcy at this point in time would be cataclysmic for the economy. I really believe that. So I think you need to help them now. Give them an opportunity—and, also, they have done some good things. They have restructured. Their labor costs have fallen. They have made concessions. I think they deserve the opportunity to execute.

But I would make it very clear that if they do not, the next step is indeed a bankruptcy, so that you can prepare, as Congress you can be ready, because you will have to do something in bankruptcy, too. You will have to do two key things. First, you are going to have to provide financing in bankruptcy because if they go into bankruptcy without your help—

Senator SHELBY. There are provisions for financing—

Mr. ZANDI. They won’t get it. They won’t get it in this environment. They will go into liquidation. And, second, you will probably have to guarantee any warranties on the cars that they sell. Otherwise, they are right, no one will buy their cars.

Senator SHELBY. So you are putting the taxpayers on the hook a long time, aren’t you, basically?

Mr. ZANDI. No matter what?

Senator SHELBY. No matter what.

Mr. ZANDI. No matter what.

Senator SHELBY. And how long do you believe it would be before—if they got the \$34 billion, how long would it be before they are back here, in your judgment?

Mr. ZANDI. I think it will be—

Senator SHELBY. Six months?

Mr. ZANDI. No. It will be fall, late—

Senator SHELBY. But they will certainly be back, won’t they?

Mr. ZANDI. I think that is a high probability, yes.

Senator SHELBY. And \$34 billion is probably just the beginning. Is that correct?

Mr. ZANDI. I think that is a high probability.

Senator SHELBY. Thank you, Senator Dodd.

Chairman DODD. All right. Senator Menendez, you are actually next.

Senator MENENDEZ. Thank you, Mr. Chairman.

You know, Dr. Zandi, when our witnesses from the Big Three were here last time, I went through with them a series of questions about the \$25 billion and was not satisfied with how we came to the \$25 billion, and I appreciated putting the pencil to the paper and now seeing that it is somewhere around \$34 billion.

Then I listened to your testimony, and, you know, you have a series of statements in your written testimony that says, among other things, that this is anywhere between \$75 and \$125 billion in actuality. And you say that based upon views that vehicles sales will eventually return to their underlying annual pace of 16 million units, but only when the job market stabilizes, credit flows more freely, the pent-up demand is worked off, and it could well be two decades or more before sales return to the 17-million-unit sales pace that prevailed during the first half of the decade.

Then you went on to say that the cost of keeping the Big Three out of bankruptcy also significantly depends on the ability to slow the decline in their share of total vehicle sales, a share that has been steadily falling since the mid-1990s, from nearly three-quarters of the market to less than half. And then, finally, you talked about even more intense pressure from foreign car makers in the context of this marketplace and the stepped-up effort.

That is the essence of your testimony as it relates to coming to that \$75 to \$125 billion. Is that fair?

Mr. ZANDI. Yes, that is fair.

Senator MENENDEZ. Well, let me turn then to the CEOs of the three companies. Do you dispute Dr. Zandi's figures? Because we have got to get a sense, put our arms around the magnitude of this, in order to try to be helpful. I understand the present magnitude in terms of the immediacy. But the question is: Are his figures off? And if his figures are off, why are they off?

Mr. WAGONER. I can tell you what we did, Senator. We developed—as was requested in the letter we received—different scenarios of volumes, and our 18 billion need was based on a scenario which has industry levels of 10.5 million units next year, then it goes 11.5, 12, and 12.8 million units. We consider that to be a pretty conservative scenario. So that raises the question what could—and we also have market share going down gradually as recognition of reducing some of our brands, but not a lot.

So where could our needs be higher? I think there are probably three areas that I would focus on. If the industry was significantly smaller, that would affect us, but it does not sound like that is a difference.

We talked about the finance company, the importance of those being—in our case, GMAC being granted bank holding company status. If that does not happen and we do not get any finance flow, then that could negatively impact us. We have assumed as part of

this plan—and that filing, by the way, is in the Federal Reserve now—that that will eventually be granted, hopefully in due course.

The third thing is something that concerns me that we have seen in the last 45 days, which is we have made the assumption that people are willing to look at our cars, as they have, as a fair opportunity versus competitors. It is clear that the overhang of discussion around bankruptcy is affecting certain firms, and if that persists and persists a longer time, it could negatively affect our volume.

Senator MENENDEZ. So you do not dismiss the fact that the figure can be significantly higher than \$34 billion.

Mr. WAGONER. I have not done any calculations, but I would be glad to do it with alternative scenarios.

Senator MENENDEZ. Mr. Mulally.

Mr. MULALLY. Yes, I am happy to comment on it. We started by looking at history through all the economic cycles, especially around 1980, and looking at the peak to trough on the contraction of the economy and then the recovery coming out. And the scenarios that you asked us for really we believe bracketed what we think that economic scenario would look like. And it is pretty much in agreement with what the Federal Reserve just announced a few days ago about the contraction next year being in the 1 to 1.5 percent.

So we have the economy contracting all the way through 2009 and not starting to recover until 2010. And I really, our economists, everybody we are talking to really believes that with the actions that we are taking today on the fiscal and the monetary policy and the stimulus that you are thinking about, that that is a very, very conservative recovery.

The other scenario you asked for, which was a kind of worst case, would be an economy contraction that we have never seen before since the Depression.

So I think that middle scenario that you asked for is a very conservative, realistic scenario, and that is what we based on request for a potential need of the \$9 billion. So we think that is a good number.

Senator MENENDEZ. Well, let me just say there is—I understand that answer. There is a gulf between \$34 billion, which grew from \$25 billion, which is what we were told was necessary for viability, to \$75 to \$125 billion. And my concern is getting our arms around this in a way that we know the totality of the situation and can meet with—I mean, none of you could operate—well, if you operate a company like this, you are not going to succeed. If we operated as fiduciaries to the taxpayers like, we cannot succeed. It is what has happened at the TARP program where we are throwing money out there without having a sense of the strategy of understanding what is necessary in this case to assure viability.

Let me ask two final questions. Are you all committed truly—and you will have to be committed because, as far as I am concerned, there are going to have to be conditions placed—to the type of fundamental transformational change that is necessary for you to survive? Are you truly committed—you know, Mr. Wagoner, Saturn was your previous commitment to that, and then you largely walked away. You know, so that is a past example. You know, are



you truly committed to that? And, last, can you tell us, of those groups that are out there that already see taxpayer bailout funds, how many of them are holding a good part of your commercial debt?

The final comment I will make, I just want to say, President Gettelfinger, you know, leadership is really tested in difficult times, and I appreciate what you have been willing to do to come forward. And it is never easy for a union leader to come forth and make very serious concessions and even talk about getting to the table more. But it cannot be done simply by the union. There have to be all the elements here to achieve the goal—the suppliers, the creditors, and others. Otherwise, the union cannot solve this problem on their own, and I know some would like to break the back of the union here as part of their goal. But this is not going to be achieved just simply through that.

Could you just answer those questions?

Mr. NARDELLI. Senator, if I could start, please. Again, in our base plan that we submitted, where we are asking for \$7 billion, which is the same amount we asked for last time, we are opening 2009 at 11.1 million SAAR, and that grows to 13.7 in 2012. Our downside scenario—and we end that period at \$12.5 billion in cash, which includes \$1 billion starting the repayment to the taxpayers for this bridge loan.

In our most conservative approach, we start at 10.1 next year, and it grows to 12.7. And we do have a deterioration in cash of about \$2 billion given the volume reduction.

As I indicated, our assumptions on share is flat. We have had a relatively flat share over the last decade. We have built negative price into our plan.

The one thing that has not been mentioned here that I would like to make sure we are clear on and transparent is we have baked in here some of the 136 funds that we have requested, assuming that they will be approved concurrent with our expenditure, submission of the invoices, and then to repay. But we have not started to show that infusion of funds for advanced technology until 2010.

So, again, while it has been submitted, 12/31 this year is my understanding is the first toll gate for submissions that could be approved for redistribution. We have elected to take a very conservative approach in that plan.

And, Senator Shelby, I would say in your comments to Ron Gettelfinger, there is certainly nothing, I think the term “wishy-washy” about 32,000 people have already lost their jobs, and 5,000 walked out Wednesday before Thanksgiving, which represented a 25-percent reduction in our salary workforce. So we take this very seriously. We understand our fiduciary responsibility. I can tell you I understand the weight of this meeting and tomorrow.

Mr. WAGONER. Senator, I can assure you that our plan is far-reaching, extensive. It is a different way of thinking, and the GM team is behind and committed to achieving it.

You asked about do those institutions, would they be affected by a bankruptcy, and the answer is, yes, some are creditors to us. But it is my understanding that there are a significant amount of credit

default swaps written against our securities, which would also be triggered in the event of a bankruptcy.

Mr. MULALLY. Yes, I would just like to add that we know it can be done because we have been doing it, and clearly, focusing on a brand and a brand promise for the customers, having small, medium, and larger vehicles, being best in class and quality and fuel efficiency and safety, and consolidating the production to really meet the true demand and getting those costs out. As a result of all those actions, we got back to profitability in the first quarter of this year before this tremendous downturn.

So we know it can be done, and what we are talking about now is getting through this terrible recession. But I absolutely believe that we are going to continue to take these actions and create a viable, growing Ford for us all.

Chairman DODD. Thank you very much, Senator.

Senator CRAPO.

Senator CRAPO. Thank you very much, Mr. Chairman.

I want to focus my questions on primarily the CEOs of our Big Three, and I want to return to the question of a Chapter 11 reorganization. One of the reasons that this issue just keeps coming back up is there are many experts, as I am sure you are aware, who are saying that we need to have the authorities and the ability to basically require the kinds of changes in relationships and the kinds of restructuring changes that are necessary that a Chapter 11 proceeding would—a reorganization proceeding would provide.

I have read all your testimony and your materials, and I understand the arguments that have been made there and here today about the fact that a bankruptcy proceeding would have very serious negative problems with it.

The question I have is: Do we have the ability to achieve those needed, forced if necessary, changes in relationships with people as broad-reaching as employees, suppliers, dealers, retirees, creditors, the various legacy cost issues, do we have the ability in what you have presented to us today, if Congress were to agree with it, to be sure that we could achieve those types of major restructurings?

Mr. NARDELLI. Senator, let me just offer a thought. Again, bankruptcy was something I was hoping never to become an expert in, in my 38 years, and certainly not today. But your point is correct, that as I try to understand it, we cannot just make unilateral rejections, for example, with the union, certainly with the banks that have secured lending. I think certainly this Committee would understand that more than anybody. If that was breached, who would go out and lend money unsecured and not have recovery?

I would say that one of the things that was discussed with the Government Accounting Office, I would suggest that we put a date—March 31st as a benchmark data that says give us the funding, allow us to survive, and then by March 31st, have the toll gate to see where we are against those negotiations. At least I am speaking for Chrysler.

Senator CRAPO. Mr. Wagoner.

Mr. WAGONER. Our proposal comprehends the idea of this Federal oversight board. I realized there was some concern with the naming of that, but obviously highly empowered board. We would submit the plan with a timeframe. The board would play an active

role as the funding would be doled out only gradually, and then if by a date certain—and March 31st I think would be a good one to work with—we cannot get the parties together, then additional funding would not be advanced, and we could provide collateral against the loans—

Senator CRAPO. Would your idea with regard to this board include the board having the authority to impose restructuring conditions on various parties?

Mr. WAGONER. I am not sure that is legally possible, but that would obviously facilitate it.

Senator CRAPO. Well, we could make it legally possible with—

Mr. WAGONER. I think that would help a lot. That would really help.

Senator CRAPO. All right. Mr. Mulally.

Mr. MULALLY. Yes, we believe we have sufficient liquidity at the current time, but we absolutely support the oversight board concept.

Senator CRAPO. And when you talk about the oversight board, are you also talking about a board with the authority to literally impose restructuring conditions as a Chapter 11 court could?

Mr. MULALLY. I do not know all of—I would probably need to think about that a little bit. It sounds right, but I just do not know all of the implications of that.

Senator CRAPO. Mr. Nardelli, could you respond to that question about the oversight board?

Mr. NARDELLI. Sir, as you said, Congress has the authority to do a lot of things, so if that is what Congress determines, then obviously all of the constituents would be held under that. I am not burdened of being a lawyer, and so I do not know the technical answer to it. But certainly if that is a prerequisite and if that is the understanding, Chrysler would certainly obviously try to comply.

Senator CRAPO. In that context, an argument that each of you have made—and many others—is that people will not buy cars if any one or all of the Big Three are in a bankruptcy proceeding. They will not buy a car from a company in bankruptcy. But if we were, in essence, to create an oversight board that was basically a Federal restructuring trustee, would that impact the confidence level in your ability to meet your assumptions about people being willing to come back and purchase cars?

Mr. WAGONER. I think it is a fair question. My sense, Senator, is that right now the concern is very high, and so I think in the case that we put forth, we will be in need of funding soon. And so I think if people saw that funding coming, even with these conditions in front of it, and we would have to present a plan that we could convince people that we could execute it. But I think it would help vis-a-vis where we are today. Obviously, it would be best once it is all cleared.

Senator CRAPO. My time is running out. Let me ask just one more question. Frankly, I am just seeking a restatement, but my understanding is that I did not hear any objection from any of the three of you to the establishment of an oversight board, or whatever we call it, a Federal oversight entity that has the literal authority to impose restructuring conditions and to enforce those as a matter of law as these dollars are utilized. Am I correct?

Mr. MULALLY. Correct.

Senator CRAPO. Thank you.

Chairman DODD. Thank you very much, Senator Crapo.

Senator Reed.

Senator REED. I just want to follow up quickly Senator Crapo's question. Everyone seems conceptually to accept an oversight board. The question in my mind would be: Is there a possibility of emergency funding getting you to, whatever it takes, 30 days, the point at which you can go before the board with the concessions in hand so that the funding of the majority of these funds you are requesting would be made not on your assertions, which I think are very sincere, but on actual concessions, actual restructurings in place? Is that feasible, Mr. Wagoner? Then your colleagues.

Mr. WAGONER. I think we would do our best. Thirty days for these kinds of things might be a little tight. That is why we had said—we initially talked February 28 or March 31st, depending on the complexity of them. But I can assure you we would move as fast as we can. And, you know, I think it is to the advantage of the industry to have a short timeframe because it will force everyone, let's sit down, let's see where we can go, and get a yes or no on it.

Senator REED. But in that context, the initial draw of funds would be much less than you are requesting. Is that correct?

Mr. WAGONER. Well, our initial draw of funds is based on what we estimate we would need up to. That is \$4 billion. So under that case, we believe we need that amount to meet our obligations through the end of January.

Senator REED. So that gets you through to what date?

Mr. WAGONER. That gets us through the end of January.

Senator REED. End of January.

Mr. WAGONER. Yes, sir.

Senator REED. Mr. Mulally.

Mr. MULALLY. Yes, sir, we believe we have a viable plan today, and our intention is to not draw on the loan.

Senator REED. So you could go with all the restructuring at some point in the future to this board and then be qualified at any time to draw the money. Is that—

Mr. MULALLY. Our basic position is that we want to support the industry for the reasons we have talked about, and with the actions we have taken, we are hoping not to access this money. But, clearly, we are part of the bigger plan.

Senator REED. Mr. Nardelli, your response.

Mr. NARDELLI. Yes, sir. Senator, what we would need is \$4 billion in our plan, of the \$7 billion we have requested, to get us through March 31st to allow time to go through these mutually agreed upon concessionary discussions with all the constituents, certainly myself, employees, dealers, suppliers. I think Ron, as was stated, has already come forward, and certainly the institutional lenders.

Senator REED. Thank you, and thank you to the UAW that has already made significant concessions. I think that shows more than just—a profound commitment to make this deal work, so thank you.

Mr. Zandi, you have set a price on the overall efforts to assist the companies of about \$75 to \$125 billion. You have also suggested that if they are forced into bankruptcy, it would be—whatever word you described.

Mr. ZANDI. I used “cataclysmic.”

Senator REED. Catastrophic. Have you put a price tag on that in terms of unemployment compensation, pension benefits.

Mr. ZANDI. Measurably more than that.

Senator REED. Measurably more than that.

Mr. ZANDI. Yes.

Senator REED. So we are not talking it is a close call.

Mr. ZANDI. Not a close call.

Senator REED. Not a close call. Several hundreds of billions of dollars.

Mr. ZANDI. Yes. It is not even in the same universe.

Senator REED. Thank you very much. There is another aspect that I think that is important which has been alluded to: the interconnection between the financing companies and the manufacturing companies. There is a possibility that we could create a board that governs the manufacturers, but then the Federal Reserve would govern the finance companies or the new financial holding companies, which would introduce an additional level of complexity.

There is also the possibility that requirements that would be imposed on the financing companies by Federal regulators could be directly in opposition to the best interests of the manufacturers.

Is there an argument that whatever we do should be done on a unified basis rather than having the Federal Reserve operate on one end and an oversight board or oversight management person on the other?

Mr. ZANDI. That is a reasonable concern. I hadn’t thought of that, but that might be something to worry about, that the Federal Reserve could be, as a regulator of the bank holding company, working at cross purposes with the board that you have established to resolve the issues with respect to the auto companies.

Senator REED. And I think there is another issue which goes right to your arrangement, which your private equity holds 100 percent of Chrysler Financial, 51 percent of GMAC, and 51 percent or your company. And just the ability to move money around might be very frustrating to an oversight board that is trying to return, because of investment in the manufacturer, the best possible return for taxpayers. Do you foresee that as a problem? And, in fact, how would you sort of preemptively avoid that problem?

Mr. NARDELLI. Well, first of all, sir, let me just reconfirm, they are inextricably linked, the finance company, our success is embedded in theirs and vice versa. If I ship product and I do not get paid from the finance company as a result of shipping to a dealer, I have a tremendous cash strain, maybe \$300 to \$400 million a day. Point one.

Point two, the way it is structured today, these are both wholly owned, so there are independent boards, and there is governance. So there is not an arbitrary manner by which funds are transferred back and forth. Each have their own separate boards. Each have a set of governance. Certainly if it becomes approved by an ILC ac-

cess to 13(3), get TARP funding, you just will not be able to move money back and forth.

Senator REED. Just a final point. You price the cars.

Mr. NARDELLI. Yes sir.

Senator REED. They price the credit.

Mr. NARDELLI. Yes, sir.

Senator REED. And I think there is the opportunity, at least in those two different pricing modes, for one company to make a significant profit and the other company to break even. That is at least possible.

Mr. NARDELLI. I think the pricing of the credit is really driven by the markets today, just like our pricing is driven—we can set a price. The consumer dictates the price. And the same is true in the credit market, sir. When you go back to the industry, when it was 17-plus million, you quickly see where the credit was and the ability to make credit accessible to a much lower FICO score that allow consumers to really step into these vehicles along with the lease program. Twenty percent of our volume I think across the board was lease programs.

Senator REED. Thank you.

Chairman DODD. Great questions. Thank you, Senator Reed.

Senator Dole.

Senator DOLE. Mr. Chairman, recently our colleague George Voinovich sent a letter to Democratic leadership, and I want to quote from that letter. He said, “While I applaud your insistence that the potential borrowers prove their case, however, I am concerned about the method that you have constructed in doing so. Specifically, I question your decision that congressional leadership and committees of jurisdiction are best positioned to make determinations about a multinational corporation’s future financial prospects. Who exactly will be making these decisions? Do you intend to rely on the expertise of executive branch officials or outside experts? Or do you feel that Congress is qualified to draw such conclusions?”

That being said, I would like to ask each of the chief executive officers, have any outside non-political business groups, groups with business acumen, been able to render an opinion as to the viability and quality of your respective restructuring plans? I would also be interested in how you view—if you have any specific comments on the Levin-Stabenow-Bond-Voinovich proposal.

Mr. WAGONER. Before we submitted our plan, we asked one financial analyst to sign a confidentiality agreement and review it. But I am sure now that it is out, we will be getting more comments from analysts. So we will be getting input on the plan from those sorts of people. In fact, we are probably getting it even as we speak.

As far as your second question about the source of the funding in the prior bill that was under contemplation, our view and comment all along has been we really do leave it to the Congress to decide what is the best way to provide the funding. And in that sense, you know, we are really open to whatever ideas the Congress and the administration determine are best.

Mr. MULALLY. Senator, absolutely. When we went to the banks about a year and a half ago to put together our transformation

plan that we have been talking about, they absolutely thought that plan was going to create a viable, profitably growing Ford for us. And then as we made that progress this last year, we got back to profitability in the first quarter, they were very pleased with the progress and very supportive of our plan going forward.

So I think that is really the final test right there, and they loaned us the money.

Mr. NARDELLI. Senator, I would just add, exactly, we did get outside independent verification primarily on the cash-flow analysis and the cash-flow charts. We also presented it to our board and asked for review and approval before we submitted it on Tuesday.

Senator DOLE. Thank you.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much. Senator Schumer.

Senator SCHUMER. Thank you, Mr. Chairman, and thank you to the witnesses.

Just to sort of sum up, I think, where we are at, we realize just letting you fail would be cataclysmic, as Dr. Zandi says, far worse than the costs that you have outlined.

Second, bankruptcy, I think it is pretty clear, is not a viable option because no one is going to buy a car from a bankrupt company, and it takes so long and it is so complicated that it does not work. And I would—this is my own 2 cents. I think one of these pre-packed bankruptcies has similar problems because you cannot bring the others in. So we have to do something. That is on the side of making sure you are viable, which I think I want to do and I think most of us want to do.

On the other hand, our real problem is this: I think that there is a general view that we want to see the conditions before we give you the money, and you folks sort of want the money and say let the conditions work out. Mr. Nardelli said let us see how things are on March 1st. And in all due respect, folks, I do not think there is the faith that those next 3 months will work out given the past history.

And so what I think some of us are searching for us here is a way that we can make sure you continue, make sure you are viable on into the future. My third point is make sure that the burden is spread evenly. I think the workers, Mr. Gettelfinger, have taken more of the hit, and I have not heard much about the bond holders, the lenders who are getting paid 12 percent, and people like that. And the only way this is going to work is if everybody gives. If everybody gives.

And so the question I have is: Why isn't the best solution for us to pass something on Monday—and, again, I do not care where the money comes from, frankly. OK? That is a dispute that others have. I would take it out of the TARP, if need be, temporarily out of the 136 funds. That to me is not the issue. The issue is how are these real conditions that are created and imposed by someone who is overlooking you outside. So I do not like the words "oversight board," like Mr. Dodaro.

Second, who is going to do this negotiating? You may not have leverage, frankly, over the dealers or over the bond holders or over the others, except to threaten to go out of business? Which is not very good leverage. You are saying, well, I will cut my nose to spite

my face. Why isn't the best solution the one I was sort of positing before, that we pass legislation that gives, you know, a specific amount of money, not a small sum, to a designee of the President in a certain sense. He has control. It could be the Treasury Secretary. That person quickly calls in all the players and says we have some carrots for you. We not only have money, but we have the ability. We give him the ability maybe to impose for a period of time a guarantee of the warranties and maybe even some help with the funding, because the funding is part and parcel. But, in return, every one of you around the table, you executives, the workers—which have already given quite a bit based on yesterday's statement—the bond holders, the dealers, everyone gives.

That seems to me to be the best model given that we do not have much time, that there is not much taste for giving the money and then seeing if the conditions are met down the road, and that the alternatives of either letting you go under a bankruptcy are the worst. And you have said you agree with the Chrysler model when Senator Dodd posited the question to each of the three of you. Would you agree with this kind of model? What do you think of the—what are the pros and cons? Would you agree to the kind of thing that I am mentioning here? Go ahead, Mr. Wagoner.

Mr. WAGONER. Senator, yes, it would be very helpful for us, whether it is a board or an individual, to have someone to work with on this to submit our proposals, and then for that person to say, OK, don't agree with that, you have got to change this. And if that person was to have strong powers to execute it, that would be fine with us.

Senator SCHUMER. Good. Yes. You see a board, when you have 3 or 4 months like Chrysler, a board may work. You don't have much time.

Mr. WAGONER. Yes, sir.

Senator SCHUMER. And we may not even have time until the next administration.

Mr. WAGONER. That is correct. Yes, sir.

Senator SCHUMER. What do you think, Mr.—well, let me ask Mr. Gettelfinger. What do you think of that idea?

Mr. GETTELFINGER. Well, I think it would work. I mean, it is difficult, but I think there is something we are missing here, quite frankly -unfair trade agreements, supporting our competition to come in, not doing anything about health care in this country. And I will just use as an example South Korea. Here we are talking about a country that can ship whatever that number of automobiles is, 669,000, and every manufacturer in this country can ship back less than 5,000. How do we compete with that?

Senator SCHUMER. Right.

Mr. GETTELFINGER. How do we compete when we subsidize the competition, or how do we deal with currency intervention, or what do we do about not having an industrial policy? Those are the things that I think we are missing in this picture. We keep saying, are we going to be competitive? Can we compete? Who are we competing against becomes the question, and how low do you go. We use the term "race to the bottom," and it appears to me that we are missing that as part of this discussion.

Senator SCHUMER. Right.



Mr. GETTELFINGER. Thank you.

Senator SCHUMER. Although those are longer-term than the kinds of things—we are having sort of an urgency here.

Mr. GETTELFINGER. I agree, but indirectly, Senator, they are tied. They are interlinked.

Senator SCHUMER. What do you think of the idea, Mr. Mulally?

Mr. MULALLY. We would be open to your suggestion.

Senator SCHUMER. Mr. Nardelli?

Mr. NARDELLI. Yes, Senator. Basically, it is the same, and you are just asking to compress the schedule.

Senator SCHUMER. Yes, exactly. Yes. And one person as opposed to a board.

Mr. NARDELLI. Fine, sir.

Senator SCHUMER. Mr. Fleming?

Mr. FLEMING. The dealers absolutely would want to participate in that with the manufacturers and the regulators. But if I can, Senator, the one concern that we have is that there can be some unintended consequences, as well, for dealers depending on what those details are, and so as long as we are at the table as a partner—

Senator SCHUMER. You would be at the table, but you would have to give something.

Mr. FLEMING. We are giving a lot now, Senator—

Senator SCHUMER. OK.

Mr. FLEMING. —let me tell you.

Senator SCHUMER. Yes, everyone is—look, if we do nothing, everyone is giving a lot, too.

Mr. Wandell?

Mr. WANDELL. Yes, I think absolutely, and I think, just speaking for our company and I am sure for most of the supply base, I think most of the suppliers are more than willing to line up and, I think, have for a long time, and I think what the suppliers are looking for is a healthy industry where they can be more competitive.

Senator SCHUMER. Right. Dr. Zandi?

Mr. ZANDI. I think it is a reasonably good idea, given you have a short period of time to make some very tough decisions. One person makes sense if you are confident in that person.

Senator SCHUMER. Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator Schumer.

Just before I turn to Senator Corker, I think that idea has been raised and I like the idea of a trustee. I think a trustee—I think we use the word “trustee” and I think it takes on a different connotation than a broad idea, but I think it has a lot of merit, as well, particularly in the short term here. We are talking—the time-frame we have, as you point out, with the Chrysler, I think they went back, and I wasn’t in the Senate in those days, but it was months in working that out. We don’t have months, to put it quite candidly. We don’t have weeks. In fact, Mr. Gettelfinger, when you raised the issue, said in the near term. Before I turn to Senator Corker, how near term do you think bankruptcy is?

Mr. GETTELFINGER. I do not believe at this point in time, on the data that I have seen, that General Motors will make it out of the end of the year.

Chairman DODD. So this month? You think they would be bankrupt in the month of December?

Mr. GETTELFINGER. Unless something changes dramatically, and I would hope that it does. But again, we are—in looking at the companies, Chrysler is in trouble. I had mentioned that at the last hearing. I believe I was asked to rate the companies—

Chairman DODD. Yes, you did.

Mr. GETTELFINGER. —where they stood. And that is the way I rated them. However, there is still additional data coming in. We do need the market to turn in our favor a bit. But honestly, we are down to the wire.

Chairman DODD. Yes.

Mr. GETTELFINGER. We would not, Senator, have called the meeting we called yesterday and took the action that we took as a union if we didn't believe that was real. We brought in an outside analyst to help us make that determination. So I think that time is of the essence, and in our testimony we said that we needed to do something this month and that was the reason.

Chairman DODD. And so your conclusion is by the end of this year, by the end of this month, we could lose General Motors as a corporation?

Mr. GETTELFINGER. I believe that we could lose General Motors by the end of this month.

Chairman DODD. Thank you.

Senator Corker.

Senator CORKER. Mr. Chairman, thank you, and gentlemen, thank you all for being here. Just to follow on that thought, Mr. Chairman, there is nothing like a crisis or a worry about being alive that does more to heighten the senses and create focus, and I hope that whatever happens here, that does not go away without proper things occurring. And I think that Senator Schumer is alluding to that. I think Senator Crapo was alluding to that.

We talked a great deal about Chapter 11 reorganization. I don't want to waste my time hearing the talking points against that. I have certainly met with analysts that represent stockholders and bondholders and others. I have certainly talked to each of you and your representatives, the UAW. So I am not going to go down that line of questioning today, even though I still believe that there are many things that will be very, very difficult to work out without Chapter 11 reorganizations.

You know, I could follow one narrative which, you know, I know this is somewhat loose, but in essence, what many of you have said, there are so many problems to work out that you would be in Chapter 11 forever. Now, I know that there are disruptions with the supply chain and I know they are thinly capitalized, so I am going to take a little different tack, and again, I thank you all for being here.

But I want to start by just sort of laying out how things are. I spent 2 days meeting with analysts in your industry and I notice the new word that they are using is not the "Big Three," but the "Detroit Three." And much of it has to do with the market cap of these organizations. I think GM's market cap today is about \$3.4 billion. I think—excuse me. Ford's is \$3.4 billion. GM's is \$1.8 billion. And I will throw a little change on the table and say Chrysler

is worth a half-a-billion and that is probably exaggerating. So we are talking about \$6 billion.

And just to compare this to companies around the world, Toyota is worth \$138 billion. I mean, even little BMW, which is just kind of a niche company, has a market cap, a value, if you will, of about \$14 billion. So I just want to put that in context of these large loan asks, if you will, that are underway.

And then from that, I know that each of you have added up your particular ask to about \$38 billion, and then there are some of you that are asking for TARP money, I understand, as part of your finance company operations. I just want to set those aside. I know that Chrysler have said they have asked for \$8.5 billion through Section 136, which passed last year, which put \$25 billion on the table for efficiencies, for investing in new technologies, and I would like for Ford and GM each to tell us how much you have asked for under that vehicle, too.

Mr. WAGONER. Yes. We filed a little while ago \$3.7 billion, and later, at the end of this week, our second batch of projects will go in and if all approved, those would be, as I recall, about \$4.5 billion.

Senator CORKER. So about \$8 billion?

Mr. WAGONER. About eight, although they obviously have to be approved, Senator.

Senator CORKER. OK. I understand that. And Ford?

Mr. MULALLY. We think that it will be around \$5 billion cumulative.

Senator CORKER. OK, so that is \$21.5 billion, so about \$60 billion in requests, Mr. Chairman, are already in. I do want to highlight that certainly this is vastly different than \$25 billion.

I did talk to Secretary Bodman yesterday, who oversees this program in Energy, and he said he had sent a letter to everyone rejecting their proposals. Just for a moment, how important is this 136 funding that has been rejected? Would you rate it high or low? Is this very important to the capital structures? I don't want a long narrative, just—you haven't seen the letter yet? OK. I can give you a copy after the meeting. But all applicants were turned down. But how important is that to the overall capital structure of these companies?

Mr. WAGONER. Well, it is included in our cash-flows. As you know, it is not advance money, though. It is spread out as the money as spent, and so as I recall, the amount that we would receive next year in our cash-flows is about \$2 billion.

Senator CORKER. OK. Important, not important?

Mr. MULALLY. I think it is important, and we have in ours through 2011 that \$5 billion. But I think it also is important because of what it is focused on, and that is the basic enabling technology to really make a step forward in fuel efficiency.

Senator CORKER. OK.

Mr. NARDELLI. Senator, of the \$8.6 billion you referenced, we have put six into this plan. That is why I wanted to be very clear with Senator Menendez that in addition to the 34, there is 25 of this money. We put in about 70 percent of our request. We were told the guidelines would be somewhere around 80. I haven't received the letter, but I have heard of the letter and one of it was

that there was not an audit report, but they subsequently found that.

Senator CORKER. So these are important parts of your capital structure which is now, we are talking roughly in formal applications—I consider this today a formal application—of about \$60 billion.

The interesting thing to me all along has been that all three of you have come in together. I have read the plans and re-read the plans and I would sort of qualify them this way. Ford's plan is kind of life is wonderful. You have already done a lot of the things that need to be done, and fortunately, whether you were lucky or smart back in 2006, you borrowed money at lower rates and were able to fund yourself. I think it was probably because you all were forward thinking and congratulate you for that.

Chrysler doesn't really want to be a stand-alone business. I mean, that is well documented. The fact is that, basically, what your plan is about is you want to hang around long enough so that you can date somebody and hopefully get married soon, before you run out of money.

So I have to tell you, I have a little trouble when I look at that plan. I know that you haven't invested in product development. I know you don't have the technologies to really compete as a stand-alone. I know that your dealership levels all across the State might be really valuable to a foreign company coming in, but I have to tell you that it troubles me a little bit knowing that basically all we are really doing is providing a little capital for you all to hang around long enough to get married.

And I consider you to be a very honest broker, Mr. Nardelli. I really appreciate the conversations we have had, and so I want to ask you this question. I talked with a board member last night at Cerberus, and I know that they own 80 percent of your company and I know there has been a lot of narrative, and I don't know whether this is true or not, that in essence, what they really wanted out of the purchase from Daimler-Benz was the finance companies and the auto stuff was sort of a bonus, OK. And I talked to the board member last night and said, look, you guys are in asking us for public money today. Cerberus owns 80 percent of this company and has cash, lots of cash, that they are unwilling to put into this company. You mentioned about what a great partner they were. I don't know.

I have to tell you, I have some trouble. These other guys have a different problem because they cannot access cash. They don't have a father sitting up here with cash that can inject into their companies. They have to go out on the public markets. You are in a different situation. You are a portfolio company in a private investment firm that has lots of money and they are unwilling to invest that money in your company.

And I want to add one other thing to it. We wouldn't be here if it weren't for GM, and we are going to talk about them in just 1 second. We all know this. It is almost like you lucked up. I mean, you guys were getting ready to be bankrupt and all of a sudden GM is in trouble and they have sort of the clout, if you will, and Ford joins in, to come up here and ask for public monies and this is like a flyer for you guys. All of a sudden, this is life again, OK.

We might get \$7 billion even though our portfolio parent won't inject any more cash in us.

And I have a little trouble with that, and I wonder if you might just make me feel better about that.

Mr. NARDELLI. Well, I am going to make myself feel better. The fact is, we got a divorce last August and so—

Senator CORKER. Well, they still own 80 percent of your company, though, right?

Mr. NARDELLI. No, sir. Daimler owns 20.

Senator CORKER. They still—no. Cerberus owns 80 percent, is that correct?

Mr. NARDELLI. That is correct.

Senator CORKER. OK.

Mr. NARDELLI. But I wanted to say, last August, we got a divorce from Daimler, and so some of your criticism is spot on, the fact that the company was somewhat hollowed out, the fact that it was functionalized. The fact is that all functions reported back to Stuttgart. The fact is that there were European designs trying to be sold in the U.S. market. We canceled some of those products upon my arrival. We immediately terminated four nameplates. We immediately started on our restructuring plan and we have taken out 1.2 million. I can assure you, Senator, that I don't wake up every morning thinking about how to sell the company. We are busting our guts, and the people that are left there are busting their guts to make this thing work.

Senator CORKER. But there is no future for the company as a stand-alone, is that correct?

Mr. NARDELLI. I don't agree with that, sir, or I wouldn't have been here, and I appreciate your comment as being a stand-up guy. For 38 years, I have made my reputation on delivering on my—

Senator CORKER. Speak to the investment company that owns you that has cash and has a portfolio of companies that I assume are earning money that they could borrow against if they didn't. What is it that keeps them from making you whole?

Mr. NARDELLI. If you think about—again, the misconception of a private equity company is that there are a few guys with a lot of money who invest in various companies.

Senator CORKER. No, I know this is a lot of guys with a lot of money, so—

Mr. NARDELLI. No, sir. This is the same investors that he has as shareholders and that Rick has as shareholders. These are pension funds. These are—

Senator CORKER. So they are not willing to give you the lifeline. What the board member said to me—and I want to move on because I am going to run out of time—what the board member said to me is that there is no way they would make additional investments in the automobile industry at this time. And so here we are as a public entity being asked to do that, and I just want to say—and I will come back to you in a minute, if I can. I am going to run out of time here—

Chairman DODD. Bob, would you just, because I want to pick up on this point that you just raised, which I think is a valuable one—Mr. Nardelli, I am reading your report here—

Mr. NARDELLI. Yes.

Chairman DODD. —and on point three, major business assumptions, let me read it to you. “Chrysler remains focused upon developing partnerships, strategic alliances, or consolidation as a fundamental element of its restructuring to expand its product portfolio, generate incremental revenue, and create additional operational synergies related to manufacturing, purchasing, and distribution.” That hardly sounds like a go-alone deal. I apologize, but I just—

Mr. NARDELLI. May I respond to that, sir? It is—

Senator CORKER. Look, there is not a human being alive in the automobile world that thinks that Chrysler is doing anything other than finding somebody to marry and that this cash is here long enough for you to do that, and I want to move on. I certainly will never be convinced of anything different and I don't think there is an analyst on Wall Street, not that we should be paying particular attention to them—

[Laughter.]

Senator CORKER. —that believes that. But let me just move on, if I can.

Mr. NARDELLI. May I just for the record disagree, sir?

Senator CORKER. All right. I understand you disagree, but I would go back to your plan and your plan says that you want to consolidate. So let me move on, then, to—

Mr. NARDELLI. Sir, may I respond to that just 1 second? Those comments are, as in my opening comment, that alliance, for example, where we produce all of Volkswagen's minivans for North America; two, that alliance with Nissan, they have entrusted us with their entire product line of trucks for 2011. Those are alliances and partnerships. It is sharing manufacturing facilities to avoid heavy capital expenditures on transmissions, on axles. So that is really trying to improve our viability—

Senator CORKER. Right.

Mr. NARDELLI. —sustainability, not selling ourselves.

Senator CORKER. OK. I know that you and GM spent an inordinate amount of time trying to figure out a consolidation. That is a fact. I know that both of you were intricately involved in that. That is a fact. I know that a plan was presented that actually showed that there would be less public money necessary if the two of you consolidated. And I know that Chrysler has been very excited about that possibility but GM rejected that at the board.

And again, these are the kinds of things that we need to force to happen. There is nobody that I know of that thinks that three companies with the market share that you have, the downward trend that exists, the unsustainable debt that it out there, there is nobody, no thinking person thinks that all three companies can survive, OK.

So I go back and I just want to ask—I want to get into GM more deeply. I gave up a little time earlier, but I would like to ask Mr. Wagoner, I know that this plan exists and I know that you were very involved in putting it together. I know that the board turned it down. And I know that you have tremendous issues to deal with and maybe turned it down because you have got too many fish to fry right now. But what was the reason that you turned that down?

Mr. WAGONER. We did consider an acquisition. I would say two things happened during the process. One, the market dropped dra-

matically so our own funding needs increased more than we thought, and so as we discussed that with the board, they said, boy, we had better make sure we have enough funding to take care of our own business. And as you know, any kind of merger-acquisition activity is pretty human resources intensive.

Second of all, at the beginning of these conversations, there was a lot of discussion about public funding, be it public market funding being available. And as the credit market conditions deteriorated, that opportunity changed. And so as a result of that, the whole issue of focusing on the very important issue of liquidity for GM was, I think, appropriately at the top of the issue for our board.

Senator CORKER. Let me ask you this. The plan at the time, and I realize things have changed, it did say that there would be lesser outside money necessary, a pretty large amount, if the two of you all merged, did it or did it not?

Mr. WAGONER. Well, I—what I can tell you, Senator, is at the time that we made the decision not to proceed, we did not have the capital, cash—we were concerned we didn't have the cash to make it until the deal could be closed and the financial institutions could not assure us that they could provide that funding.

Senator CORKER. OK. Let me get into your plan just briefly, and again, thank you for your patience. I looked at your plan and I would agree with others that I think your plan was fairly thoughtful. I told your COO that yesterday. And I think it is a nice first step, OK. And you can tell that the senses have been heightened a little bit over the last couple weeks and it is obvious that you guys have put a lot of thought into survival.

There are a couple of things. Your debt loads are unsustainable at any level of sales, OK. I know we had 17 million sales recently. We are on about a ten million sale run now. Next year, you are projecting about 11 million. But at the debt levels you have and the liabilities you have, it doesn't matter if you were at 20 million. You can't survive, OK. So that has to change. The makeup of your capital structure has to change.

So I noticed yesterday in your plan that you had about \$28 billion in unsecured debt. We checked yesterday and your unsecured debt is selling for 19 to 21 cents, the bonds. And so basically you had given about a 50-cent haircut to bond holders that we understand will be glad to be taken out at 30 cents on the dollar. So again, a not very aggressive step as it relates to what could happen, if you will, by March 31.

The problem is the UAW is there and bond holders are not willing to take a haircut unless he takes what I would call a real haircut. Now, there has been a lot of lauding about the changes the UAW has made. To be candid, in this proposal, not so much, OK, and so let me sort of move into that.

You have got VEBA liabilities of about \$21 billion, Voluntary Employment Benefit Association payments. If you go into bankruptcy, those are toast. They are gone. And I think the UAW knows that.

Most of the people that are looking at your structure say that VEBA, at least half of it has got to be equitized. In other words, instead of taking money, they have got to take equity, OK, and

those are the kind of things that it seems to me that we would want to put in the legislation if we did anything other than Chapter 11 debt financing.

And so I guess I would ask, it starts with Mr. Gettelfinger, because the bond holders are not going to take a haircut of 30 cents on the dollar unless he is willing to change his capital structure, and I would just like for him in front of all of us right now to give us a little sense of how heightened his senses are as it relates to this company surviving.

Mr. GETTELFINGER. Well, first of all, let me just back up to the changes that were made—

Senator CORKER. I have read all those and it was in your testimony.

Mr. GETTELFINGER. No, please—

Senator CORKER. I know we went through this last time. I understand about jobs bank, and I want to get into that. I understand about the—I am very understanding of the changes. I met with UAW representatives yesterday. We went through them again. So I understand about jobs. If there is something else other than jobs bank and if your numbers work out by 2012, I will say it is going to be tough to reach that because you are not hiring new employees. It is going to be tough to reach those levels. But if you would, just respond to VEBA.

Mr. GETTELFINGER. VEBA.

Senator CORKER. Yes, \$21 billion—

Mr. GETTELFINGER. Oh-five changes roll through. It is a negative plan amendment, Senator, instead of a curtailment. And so the company does not get the full benefit of that until 20—

Senator CORKER. Twenty-ten.

Mr. GETTELFINGER. —2009—

Senator CORKER. The company will not be here in 2010, OK, unless we do something, and I am asking you if by March 31, to get back on Senator Schumer's line of thinking, I am asking you if by March 31, you would agree to equitize, turn half of that obligation into equity so that this company has a balance sheet that will allow them to survive. I am asking that question.

Mr. GETTELFINGER. And what I would respond to that, Senator, is that we have brought in two professional groups to help us. We took action yesterday to delay or to defer the payments that are due on January the first of 2010.

Senator CORKER. But I am not going to get the payments if they go bankrupt, so again, I would like to ask—it is a serious question. Are you willing to take to your membership that type of proposal, which is the only way these guys—you have got to look at the fact they have X-debt today. They need to do away with at least two-thirds of their bond indebtedness. They have got to do away with at least half of their VEBA obligations in order to survive. And I am just asking if you are willing to do that, because otherwise, there is really no reason for us to be contemplating all these things.

Mr. GETTELFINGER. I understand that, Senator, but I also understand that I am here as a representative of people. Right here is a letter from a person that gets \$322 a month in pension, \$322 a month. We gave her a bonus. Do you know what she did with it,



Senator? She gave 10 percent to charity, she kept \$100 out for Christmas, and she put the other \$300 in an emergency operating fund. That is the people we are talking about.

And I cannot answer your question directly without expert advice, and I have suggested, sir, that we have brought in the Lazard Group to assist us. While it may not mean anything here, we took action yesterday to talk about a deferral of our 2010 VEBA payments because we recognize the liability that is out there on the company's books. We also recognize the value of spreading that out, that payment. But that is a tremendous risk that we are willing to take. It may not mean a lot to many people, but to others, when we are talking about people that worked on their lines, that gave their entire life for that, and their pension is at risk, that is very critical—

Senator CORKER. Well, all of their benefits are at risk, OK—

Mr. GETTELFINGER. I understand that, Senator.

Senator CORKER. Let me ask you another question.

Chairman DODD. Bob, can I—

Senator CORKER. Yes.

Chairman DODD. I am going to come right back to you—

Senator CORKER. OK.

Chairman DODD. —but I have got three other members, and I wanted to give you some more time because you deferred earlier, and I will come back to you on that, but let me turn to Senators Casey, Tester, and then back and forth here.

Senator CASEY. Thank you, Mr. Chairman.

Chairman DODD. Thank you, Bob.

Senator CASEY. First of all, I wanted to thank the witnesses who are here for your testimony and for the work that went into this testimony. For me, this debate is pretty simple, as complex as the financing, as complex as the challenges are. It is about jobs, and I come from Pennsylvania, which is not normally considered an auto State, but when you look at the numbers in our State on supplier jobs, direct and indirect, it is more than 80,000, more than 83,000 jobs in that sector. When you look at dealerships—and Mr. Fleming, we appreciate the testimony you provided—look at dealers in Pennsylvania, 50,000 jobs.

I was looking at unemployment data from September 2007 to September 2008 in Pennsylvania. September to September, up 91,000 unemployment. Our State, and I know the country, as well, but I can speak for my State, cannot sustain any more hits. I am not saying that if we don't act, we are going to lose every single one of those jobs, but we can't afford to lose another 5,000 or 10,000 or 15,000 or 25,000 jobs.

Our State, candidly, is a been there, done that State. We went through this in the steel industry way back in the 1970s, where hundreds of thousands of people in a couple of counties in Pennsylvania lost their job in three or 4 years, hundreds of thousands of people in one fell swoop. We can't allow that to happen again.

I was just talking to some dealers this morning. We lost 56 dealers in Pennsylvania last year. This year, it is above 60 already. Just yesterday, there were three. This is happening in real time. This isn't some theory. Jobs are being lost right now. So in our

State, we cannot afford to do anything, in my judgment, but to act and to do something here.

I have to say also, with regard to the labor concessions, Mr. Gettelfinger, I wanted to review some of those because I am stunned by the kind of—when you hear the talking heads on television, when you read what some people say in this town and across the country about the mythology that is out there about how we got to this situation, and, frankly, the scapegoating of the men and women of organized labor, in particular auto workers.

Point number one, in 2005, cuts in wages for active workers and health care benefits for retirees, point number one. I am reading from your testimony. Cuts for new workers, bringing the wage level down to \$14 an hour. How many industries are doing that? Reducing the companies' liabilities for retiree health care by 50 percent. And I realize these have been in the record before, but it is very important. And wages and benefits, you said yourself that they are about 10 percent of the budget. You would think, listening to some of the people talk out there, some of the so-called experts, that wages and benefits were 70 percent of the costs. So there is a lot of mythology, a lot of myth generally that has been put on the record.

Since 2003, downsizing by the companies has reduced their workforce by 150,000 people. That doesn't get said very often. The labor cost gap with foreign transplant operations will be largely or completely eliminated, OK. So I think it is important to put this information on the record for this hearing.

And then we have heard this garbage about \$73 an hour. It is a total lie, and some people have perpetrated that deliberately in a calculated way to mislead the American people about what we are doing here. It is a lie and they know it is a lie.

So with that as my predicate, and I know I am almost out of time, at least according to the original time agreements, I have a question for the three CEOs with regard to accountability. One thing that I think is very important here is that we not just talk about but demonstrate to taxpayers that we get it on the question of accountability and that you get it. And I know you have a lot built into your plans.

I think it is very important that we take a look at this on a monthly basis. If I had my way with regard to this legislation, I would insist upon monthly reporting, monthly benchmarking or compliance with benchmarks, monthly compliance or the meeting of milestones. I think it is very important that we have provisions that talk about it from month to month.

So I would ask all three of you, starting with Mr. Wagoner, two questions, really. One is with regard to monthly reporting and the distribution of public dollars based upon that monthly reporting, would you agree to that, and also would you be willing to make government assistance the most senior debt secured by the assets that we have talked about here today. Would you agree to both of those?

Mr. WAGONER. Yes on the first one, and on the second, we do have some secured debt, but we have a lot of collateral that is not secured, and so for that piece, we could cover any near-term funding. So yes to the second one, as well.

Senator CASEY. And Mr. Nardelli?

Mr. NARDELLI. Yes, sir. Certainly on the monthly, we have committed to that in our testimony. The majority of our equity is secured and therefore I certainly am not in a position to commit that that would automatically become unsecuritized or subordinate to the government. As what was talked about earlier about having or appointing someone, I think it was said that this Committee certainly has the power to make that happen. So I would ask certainly this panel and Congress, if that is their wishes and that is the criteria, then that is something certainly this panel has the authority to do.

Senator CASEY. Mr. Mulally?

Mr. MULALLY. If we needed to access the taxpayer money, then monthly is very understandable and we would comply. On your second question, our current covenants right now with the debt we have, we would be breaking those covenants and we could be put in default. But having said that, there just has to be a way and I would be committed to figuring out that way to get us all together to figure out a way to protect the taxpayer. I understand completely.

Senator CASEY. On the question of credit, each of you have credit financing entities that we all know about, but my question on that is one of the ways that I think would give taxpayers some assurance here that the dollars would get to where they are supposed to get to and rectify some of the problems is that we focus on getting direct help on financing. Would it be helpful to you to have direct infusions of capital into your credit entities so that you have, and I would assume that this would be helpful, that you would have, unlike the banks, who have been sitting on a lot of our taxpayer money—without a lot of questions asked, by the way—you would be infusing an entity with dollars where you would have lending that would happen almost immediately because of the inability for most people to walk in and buy a car without access to credit. I would just ask each of the three of you to tell me briefly.

Mr. NARDELLI. Sir, it is not helpful, vital. Just this past Saturday, we have 240 dealers that have thrown their keys in because they have not been able to get access to financing. We have another 250 that have been put on credit hold. That has impacted us another 63,000 units on an annualized basis.

Senator CASEY. Mr. Mulally?

Mr. MULALLY. Yes. I think a couple of other things to get at your real question that are helping and could help even more is with respect to the Federal Reserve, they have put in place now a near-term asset-backed commercial paper facility which we are already accessing which helps free up the credit, which is terrific. They are also working with Treasury on a medium-term asset-backed commercial paper facility.

Another thing that would really help on the credit being made available for the customers is if we can get our application for an industrial loan approved by the FDIC, which again would help on freeing up the credit for our customers.

Senator CASEY. Thank you.

Mr. FLEMING. Senator, could I just—

Senator CASEY. Sure.

Mr. FLEMING. From the dealers' perspective, credit is a very, very important issue and it is different across the country. Areas where there were more difficulties with the subprime loans, the local and regional banks don't even have access to credit to help the dealers out. One of the concepts that we have discussed on a local level in Connecticut is trying to free that capital up that right now Treasury is buying in some of these local and regional banks.

The hold-up is that these small commercial banks and community banks and regional banks don't have the expertise for financing automotive paper and credit. Some of these organizations that are represented here, the captive credits have that expertise. If you can free the—if the credit is freed up at that local level and you can provide some central ability for the expertise, the backroom operation, if you will, that could free a tremendous amount of credit up at the local level, and that is money that is already out there that is sitting in those banks right now.

Senator CASEY. Thank you, and we want to hear more about that.

Mr. Wagoner, and then I am done.

Mr. WAGONER. Certainly, additional capital in the finance companies would be helpful. Our approach has been to file for a bank holding company, and as part of that we will need to raise some capital there, as well, assuming we get it approved.

Senator CASEY. Thank you.

Chairman DODD. Thank you very much, Senator Casey.

Senator TESTER.

Senator TESTER. Thank you, Mr. Chairman, and I also want to echo, thank you for being here again. Those of you that haven't testified before, thanks for being here.

Just a couple of things, actually for my benefit. Senator Bayh brought up an issue about nothing is for certain. Trust me, as a farmer, I know nothing is for certain. The best-laid plans can go upside down in a hurry. But I do want to know what the landscape is and I do want you guys to be as honest as possible. If the chances you are going to be back here in a year are high, be honest and tell me. I think your industry is important. I think the manufacturing industry is important.

So just go down the line and just tell me. If things stay the way they are now, are you going to be back here in a year? Just go right down the line, the Big Three, the Detroit Three or whatever you call it.

Mr. NARDELLI. Sir, if we are fortunate enough to get the funding, as I said, we have built in some 136 money. We have identified \$4 billion of cost out starting March 31. We have made the point about the importance of the finance company. I believe, I believe, sir, that we will get through 2009 because we have laid in a very conservative plan.

Senator TESTER. And if the economy stays static, will you get through 2010?

Mr. NARDELLI. Yes, sir. We—

Senator TESTER. That is good enough. Next?

Mr. MULALLY. Yes. As we discussed, we believe we have sufficient liquidity today, but clearly, your point is very important. If

the economy and the industry degrade significantly, we would be asking for that bridge loan, too, to keep going.

Senator TESTER. Got you. Yes?

Mr. WAGONER. Our downside plan and our submission was based on 10.5 million units next year, which is about where the industry has been running the next couple of months, so that is why we added the additional \$6 billion credit facility. If the 10.5 continued for a couple more years, then we would need to either cut more costs or get more funding because our baseline plan assumes it goes up by about a million units a year.

Senator TESTER. Thank you. I would just say this. You guys have been put under far more scrutiny, far more scrutiny than the people up here on the board for far less money. And I am not happy about the transparency or the accountability, as I said before, of what the administration has done in regard to throwing hundreds of billions of dollars out the door. And the fact when I listen to you guys testify that you can't even get credit, and that is what this was for, is nothing short of ridiculous and I would love to have those birds in here again because they need to be talked to, or at least get some questions answered.

One of the things that they have done with—

[Interruption from gallery.]

Senator TESTER. I hope this doesn't count against my time.

[Interruption from gallery.]

Senator TESTER. I would like to tell you that one of the problems I have got with the use of the TARP funds is for bank consolidation, and I would hope that—well, for example, Capital One is just acquiring Chevy Chase Bank. They are a recipient of TARP funds. We have a similar situation that could be here, and Senator Corker has talked about it, and that is the potential consolidation. You talked about it in your plan, Mr. Nardelli. I just need assurance that no dollars given to you would be used for a merger, either domestic or foreign.

Mr. NARDELLI. Sir, I can assure you that if that is incorporated into the guidelines, then it will not be. I would come back and—for example, one of the things in my proposal was if you take the \$25 billion out of 136 and the three of us were to create an independent technology center, I would submit to you that it would be more efficient and more effective, as evidenced in the hybrid technology that we jointly developed, that Rick and I did in, as a matter of fact, a vehicle that I drove down here.

Senator TESTER. I understand. It is just that I don't want to make the same mistake again. We should have asked tougher questions with the previous—

Mr. NARDELLI. Yes, sir—

Senator TESTER. and I don't want to—and we will get onto this with some other folks, too, as we go forward.

You know, Mr. Wandell, you have not been asked any questions, and I feel an obligation that at least you get involved in this. How is your business doing at this point in time with the economic turn-down?

Mr. WANDELL. Well, as I mentioned, luckily, we are diversified into several businesses and we are global, so in general, we are doing well. But—

Senator TESTER. OK. That is basically what I needed to know, because you are going to be asked to be part of the equation to reduce some of your costs, too, to be able to make these folks whole. You see that as an absolute, no problem, possibility?

Mr. WANDELL. Yes. That is the way we come to work every day. Every year, we are asked for price-downs from our customers and that is part of the equation.

Senator TESTER. The 136 dollars to be used to increase your CAF? standards, as I read it, and I just want you to confirm this, as I read your business plan, those were critical to make this \$34 billion work across the board. I don't want to put words in your mouth, but yes?

Mr. NARDELLI. Yes.

Mr. MULALLY. Yes, they are included.

Mr. WAGONER. Yes.

Senator TESTER. OK. The issue of dealerships, and I don't want to get into this very deep because we can spend all day on this, but we are talking about potentially closing some dealerships. At least that is what I read. Have you identified what the metrics are going to be to close dealerships?

Mr. NARDELLI. The program we started last August when we became privately held was to go out to every region and identify the dealers that are in that region and work in harmony with them to facilitate a consolidation that would make the remaining dealers more profitable and we would put all three brands under one roof.

Senator TESTER. OK. Is that fairly typical of the way the other two would answer the question?

Mr. MULALLY. Yes, and I would just add a little bit more clarity. We have a tremendous set of dealers throughout the United States—

Senator TESTER. I know you do.

Mr. MULALLY. —and we are very, very strong in, of course, all the small and medium-sized communities. The area that we are working together with the dealers, and they are very encouraged by this, too, are in the big metropolitan areas, because the most important thing we do is to get their throughput and their profitability up and we are on plan for that.

Senator TESTER. What about the rural areas?

Mr. MULALLY. They are in very good shape. They are doing a great job.

Senator TESTER. You have got dealerships in towns of less than 3,500 people. Are you going to keep them?

Mr. MULALLY. You bet. They are the fabric of the community.

Senator TESTER. The same with GM?

Mr. WAGONER. Yes. What we do, the individual dealers make the calls there. That number has been slimming down gradually over time just because of the economics of the car business, but it is their call.

Senator TESTER. I come out of the State legislature, and I will tell you a big complaint we had from the Auto Dealers Association is that the manufacturers were trying to consolidate, consolidate, consolidate the dealerships. I heard it over and over and over again. We had to deal with that at the State level, State laws. You are saying that attitude doesn't exist anymore?

Mr. WAGONER. If we have a situation, let us say, where you have three dealers in a community and none of them can be profitable, we try to work with them. But, I mean, they have to make the calls.

Senator TESTER. OK. A last question, and I have got a bunch more but time is of the essence so just bear with me just for a second. The 136 money, \$8 billion, \$8 billion, and \$5 billion, where is that 136 money going to be spent? I know it is going to be spent to increase CAF? standards. Is it going to be spent in the U.S.?

Mr. NARDELLI. One of the requirements is that it is based here in the U.S. and we are spending it primarily on our electric vehicles.

Senator TESTER. OK.

Mr. MULALLY. Yes, and all enabling technology, power train, weight, aerodynamics.

Senator TESTER. And GM?

Mr. WAGONER. Yes, and I would just add, and obviously a big piece of our initial money is to fund batteries—

Senator TESTER. One of the things I talked about earlier, and I will stay with you, Mr. Wagoner, real quick, in the earlier question was, is this money, if we put up \$25 or \$34 billion now, if it is going to be spent in the U.S. I heard a rumor that you were going to expand a facility, or at least announced the expansion of a facility in Mexico, a manufacturing facility. Can you tell me if there is any credence to that?

Mr. WAGONER. We have—all the announcements we have about Mexico, I am not aware of anything additional. I mean, we have got three assembly plants there. We don't plan any more.

Senator TESTER. How about expansions of the existing ones that are there?

Mr. WAGONER. No, sir, I am not aware of anything.

Senator TESTER. OK. I will just tell you—

Mr. WAGONER. I will get back to you—

Senator TESTER. —whether it is millions of dollars that you have in Mexico or whether it is this, if we allocate this money and 2 weeks from now you guys announce an expansion of a manufacturing plant in Michigan, I am going to be unhappy.

Chairman DODD. Not Michigan—

Senator TESTER. Mexico. What did I say?

[Laughter.]

Senator TESTER. I said Michigan, didn't I?

[Laughter.]

Senator TESTER. Exactly, in Southern Montana. In Mexico, right. By the way, thank you for the correction.

[Laughter.]

Mr. WAGONER. Let me check, and if there is anything that comes up, I will get back to you, but I don't think there is—

Senator TESTER. I mean, the part of my justification to keep you folks solvent and in business and employ folks at good wages with good benefits is, number one, we need a manufacturing base in this country. We can't afford to lose it.

But number two, I don't want to give American taxpayer dollars to somebody who is going to invest it in some other country than this country. That has been a problem.

Mr. WAGONER. Senator, let me just be clear. No funding that comes out of this would go to fund a facility overseas.

Senator TESTER. We had the conversation before on that, and I will tell you that it is really tough for people to differentiate if you guys get a \$34 billion loan, bailout, whatever you want to call it, that within a few months if there is an expansion announced and it is not in Michigan, or some other place in the United States—Ohio, Montana—it is going to be very, very tough to justify.

Thank you for being here. I appreciate your time. You have done far more as far as justifying your case than any of these folks up here. Thank you.

Chairman DODD. Thank you. Let me just raise the question, and I will go ahead to my colleagues, as well, but I can just tell you, to the CEOs, at least talking to my dealers in Connecticut, and Mr. Fleming is here, one of the problems is on this rebate issue, where they are providing rebates to customers who can come in and qualify for a loan but the dealers are not getting compensated from the manufacturer very quickly from the rebates, so their margins are very small, putting tremendous economic pressure on these dealers. I don't know if that is just unique to my State. I suspect it is not.

And I will wait for a turn to come around, but I raise that issue because it is one that really the dealers are not happy with the manufacturers about some of these issues. I wouldn't want the time to go by and assume somehow this is all kumbaya between the manufacturers and the dealers. It is not.

Senator CARPER.

Senator CARPER. Thank you, Mr. Chairman.

Every now and then in our business, we face the voters and one of the questions that is sometimes on their mind is what have you done for me lately? And I think you all are going through a little bit of that here today in terms of what have you done for us lately in terms of productivity? What have you done for us lately in terms of bringing down the labor costs? What have you done for us lately in terms of improving quality? What have you done for us lately in terms of improving the fuel efficiency of the vehicles that you build?

Actually, I think any fair-minded person would say on every one of those fronts, you have done a lot. You have done a lot. That doesn't mean it is time to stop, but I think I am a fair-minded person. I think most of us are. But I want to commend you for what you have done and commend you for what I believe you are willing to do next to merit the support that we are talking about providing.

Mark Zandi over here at this end of the table is a smart guy, and whenever we were trying to put together a stimulus package, he was good enough to provide something that I call the "bang for the buck chart" and what are the things that we could do when we are looking into a recession, moving into a recession, to try to turn that around. Does it make sense, do we get more bang for the buck for Food Stamps? Do we get more bang for the buck for extending unemployment benefits? Do we get more bang for the buck by providing these stimulus checks, these tax rebate checks that go out? And he is always very, very helpful.

If you had to—this is an unusual thing to ask, but thinking about that "bang for the buck chart," would the money that we are



talking about providing here, whether it is \$34 billion or \$25 billion, sort of where would that be on the “bang for the buck chart,” Dr. Zandi?

Mr. ZANDI. It would have a high bang for the buck. I mean, just to give you kind of a range, the infrastructure spending has the highest, \$1.80. Certain kind of tax cuts, \$1.10, close to a dollar. This is more like direct government spending, so it would be \$1.50 to \$1.80, somewhere in that range, I would think. On the fly, that would be sort of the bang for the buck, I would think.

Senator CARPER. All right. Well, that is what I am looking for. You make four points, and I have gone back and re-read these several times. You make four points in your testimony, and I want us to revisit them again and I want to especially dwell on the fourth point, if we could. Would you just sum them up really quick, starting with the first one, I think your first point about—just take it and just summarize very briefly in your own words.

Mr. ZANDI. Sure. Point one is that the Federal Government should provide aid. Without it, they would go into liquidation, there would be mass layoffs, and at this point in our economy’s economic situation, that would be extremely damaging. So I don’t think you have a choice.

Point two is that the cost of ensuring that the auto makers don’t go into bankruptcy at some point in the next couple of years is going to end up being measurably higher than \$34 billion. I give you a range of \$75 to \$125 billion, but I think the odds are high that it is going to be measurably more than—

Senator CARPER. I saw that number and I wondered, does the higher number, your higher number, \$75 or \$125 billion, does that include the so-called Section 136 money which we have already offered—

Mr. ZANDI. Yes.

Senator CARPER. —for retooling the plants so the folks can make more energy-efficient vehicles?

Mr. ZANDI. Sure.

Senator CARPER. OK.

Mr. ZANDI. I mean, Chrysler is basically saying, I don’t need to come to you today for as much money because I am going to use that money. So yes, that would be part of it, yes.

Senator CARPER. Was it Chrysler that said that or Ford that said that?

Mr. ZANDI. I think all three of—

Mr. NARDELLI. All three of us.

Mr. WAGONER. All three of us said it.

Senator CARPER. Fair enough.

Mr. ZANDI. All right. So yes, I think that is—

Senator CARPER. All right.

Mr. ZANDI. And when I say \$75 to \$125 billion, I am talking the total commitment taxpayers are going to have to make to these organizations to ensure that they do not go into bankruptcy over the next 2 years. That is TARP money, that is Section 136 money—

Senator CARPER. Go on to point number three, if you will.

Mr. ZANDI. Yes. Point number three is that if they can stick to the script that they have laid out, they will become viable companies on the other end of this with that help. But sticking to the

script outside of bankruptcy is going to be very, very difficult to do because you have so many stakeholders, creditors, UAW, suppliers, dealers. All have different interests. It is going to be very difficult for them to stick to the script, and therefore in theory, it looks great. In practice, I think it is going to be tough. And I would plan it on the likelihood that they are not going to stick to the script.

And that gets to point four, what I would do. I would give them \$34 billion. I would—

Senator CARPER. All at once?

Mr. ZANDI. No. I would say, you need, according to the plan, I think roughly GM needs \$10 billion to make it through to March 31. Chrysler needs \$7 billion. Ford doesn't need anything. I would give them \$17 billion and that should ensure that we don't go into bankruptcy liquidation through March 31.

I would establish a mechanism, a board or I think Senator Schumer's idea is probably a better one in the context of the time limitations, someone that says, are you meeting—we are going to have very clear benchmarks. Are you meeting the benchmarks? We get to March 31. We say, this is a good investment, we are going to give you the next tranche, or it is not a good investment and we are going to be throwing good money after bad.

And use the time between now and then to get ready, to prepare for a bankruptcy. Really think through, what does it mean for the financial system? What does it mean for the PBGC? What do I need to do as a government to provide dip financing? What do I need to do to guarantee the warranties? You know, all those things. You have got 3 months and you should have it figured out, what is next.

But I think I would also make it very clear to everyone that this is it, because when you say this is it and you stick to this is it, then that makes a much greater chance that I am wrong on point three, and that is the most important thing.

Senator CARPER. Yes. I think your point about sticking to the script is an important, real important point.

In your testimony, and when you talked about point number four, you talked about the Federal Government providing the support in two tranches you talked about the first one maybe being \$17 billion—in exchange for warrants and restrictions on a variety of things, including executive compensation, dividend payments, and that sort of thing.

In the situation with Chrysler—GM and Ford, I can see where the warrants work out. We did Chrysler warrants 29 years ago, I think it was 29 years ago.

Mr. NARDELLI. We have done \$300 million additional—

Senator CARPER. But that was when Chrysler was publicly held, and my question of you, Dr. Zandi, is how do we do warrants with Chrysler in this situation or something akin to warrants so that we have a reasonable return for the taxpayers in light of our willingness to take on this risk?

Mr. ZANDI. You know, I think it is a great question for Mr. Nardelli. How would they compensate the government for this?

Senator CARPER. Mr. Nardelli?

Mr. NARDELLI. Well, I know that Cerberus has already committed to forego all of their carry-forward interest. They are more

than willing to make sure that all of the upside benefit goes back to the taxpayers. And so I think when you bring everybody to the table, Cerberus is more than willing to provide the security and the commitment that the taxpayers do recover from their investment in this company, sir.

Senator CARPER. All right. Let me just say, Mr. Chairman, this is a smart group of people, as you know, and I think the folks on the auto side and the labor side, they don't get enough credit for what they have already done. They have actually, I think, positioned these companies and this industry, domestic industry here, within a couple of years, and Ford is a little bit ahead of the game and we commend them for that, but they have actually positioned themselves to make a go of it. And part of the key is providing, as Dr. Zandi suggests, enough money to keep the wolf from the door here for the next couple of months while the necessary further concessions are made by not just labor, not just management, not just the shareholders, not just the bondholders, but the whole kit and caboodle.

And the idea—I am going to come back to it, but a point I think we touched on earlier, where would this, if it is \$17 billion here in this first tranche, where would it come from, and I would like for us to explore whether it might come from some of these financial institutions that have gotten, I think close to \$250 billion of capital injection in return for making loans to these companies that might be guaranteed by the Federal Government.

I want to thank you all, but I especially want to thank you, Dr. Zandi, for again bringing, I think, a lot of wisdom to this hearing. I think you have given us a lot to think, not just think about, but I think a lot to act on.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much. Thank you very much, Senator.

I just point out, and again I understand other obligations, but I had asked the Treasury to be here, the Federal Reserve to be here to talk about it. There are options for dealing with this. To ask 535 Members of Congress in the space of 72 hours to try and craft something here is challenging, to put it mildly. There are other means by which this could be dealt with. That chart says it all. But looking about—trying to get some help out of an authorized fund to assist at a moment like this, not to mention the 13(3) provisions within the Federal Reserve Bank that could help give us time to come back and do some things that may be necessary would be the way I would like to suggest to go, or the idea that you have suggested has some merit, as well, but it is—

Senator CARPER. Well, this oversight board that we have been talking about, not just an oversight like to kind of be a spectator, but—

Chairman DODD. We don't need legislation to create that. That could be done automatically by the very powers that exist today that could help out of this. I will get back to that in a minute.

But also, I just want to make a quick point, your money, Dr. Zandi, doesn't have to come from public money. That money, that gap could be made up, in fact, by private capital coming into these institutions, as well, is that correct?

Mr. ZANDI. Sure.

Chairman DODD. OK.

Mr. ZANDI. If private capital came in—

Chairman DODD. If we start doing things properly here and things start to move in the right direction, you might see those resources.

Senator Bennett?

Senator BENNETT. Thank you very much, Mr. Chairman, and thanks to all of you. This will come to an end. You can look forward to that with some confidence.

A few reactions and then some questions. I don't think you need any more loans because loans carry interest with them and interest is part of your problem right now. Even if the loan has a government guarantee, it is something that has to be repaid and what you need is more capital that is patient capital that can wait out the scenario that Mr. Wandell has talked about, or I guess it was—whichever. Yes, you are the economist.

Mr. ZANDI. I am the economist.

Senator BENNETT. You are the economist on the end. OK. I have got it straight.

Let us talk about capacity. The industry has too much, and based on what we heard in our last hearing, Mr. Chairman, that is not going to change. As the industry becomes more efficient and produces longer-lasting cars, people are not going to trade as often and the overcapacity problem is going to continue to be there.

I will confess that I am adding to your problem. Mr. Mulally, my Ford Escape is 4 years old and has got at least another 4 years left in it. Mr. Wagoner, I have got a 1996 Oldsmobile that is still running just fine, and as long as you are producing spare parts, it has only got 82,000 miles on it, and I am not going to trade it in. And therefore, I am adding to your problem because it used to be that people changed their cars every three or 4 years. You are making them well enough and lasting long enough that this is a problem. When I congratulated the dealer that sold me the Oldsmobile, he said, "I can't make any money if you keep driving that car."

What we are really talking about here is creating for the first time in America an industrial policy for a particular segment of the industry. This is America's version of MITI, if you will, where we look at the question of capacity in the industry as a whole. We look at the question of competitiveness around the world. We look at the question of how much public money is going to go into the industry. All of these are questions that the Japanese have addressed, and we have never had an industrial policy for a variety of good reasons, and whether we should or shouldn't is a discussion for another time and another place.

But as we address all of these issues, it falls under that general rubric of should we have an industrial policy for the auto industry, and if we should, what should it be and what should be the Federal role. And to come up with the answer to those very complicated questions, as you say, Mr. Chairman, in 72 hours is something the Congress, frankly, is not equipped to do.

So I think there needs to be some very heavy discussions very quickly on that issue, not just how are we going to bail out this industry in this circumstance, but what is going to be the long-term

goal and role of the American government in the 21st century in a globalized economy competing with other countries that do have an industrial policy and should we rethink our decision not to have one, and if we do have one, who in the world is it going to be? What is going to be the American equivalent of MITI? And how do we address all these issues? It is a very, very tough question that this industry and this circumstance has thrown back in our face after we thought we were through with it when we discussed the Japanese back in the 1970s.

Now, back to the question of overcapacity, everything I have seen with this says to me that a merger between General Motors and Chrysler is a good idea. It is not a shotgun wedding. It is not something you do dramatically and drastically because of the difficulty of the circumstance. It is a marriage that makes sense. All the work has been done so that it could be done and papers could be signed very quickly, and out of it, the synergies you get are there and the economies you get.

Now, I know, Mr. Gettelfinger, you don't like it because it would mean losses of assembly line jobs. It is the middle management and top management that would get hit the first, because instead of two corporate structures, you would have only one. And the acres and acres of MBAs that are there in the middle management for both companies would be shrunk significantly.

I understand, Mr. Wagoner, you said, well, we had other priorities. We were pressed by this. We couldn't think about it. I think you need to talk about it again. Can you react to that, not from the standpoint of this crisis, but from the standpoint of the business synergies that would occur if there were not a crisis and the two of you were looking at it strictly in terms of what it would do for you long-term.

Mr. WAGONER. The analysis, as we have reported in other places, showed significant cost savings, some of those—significant cost savings, and some of those were—a large portion initially were exactly the point you raised, Senator Bennett, the sort of squishing together of two headquarters. There was some significant job loss, but beyond that, it looked like there was material savings, platform savings as we combined product platforms together. And then over time, some possibilities of actually incremental sales. For example, Chrysler hasn't historically had a big overseas distribution network. General Motors does, so that would open up prospects.

But as you correctly said, as it became clear that such an opportunity would not generate incremental funding from the market—initially, we had been told it would, but as the market conditions deteriorated, it wouldn't—then we had to move our focus to the near-term cash issues that we are facing.

Senator BENNETT. Mr. Nardelli?

Mr. NARDELLI. Senator, let me just add to that. When we were looking at that, the range of opportunities were somewhere between \$8 to \$10 billion annually. In the case that you have cited where we are running a factory with one shift and Rick is running one with one shift, I am not sure there is a significant labor reduction, in talking with Ron, the opportunity to move those direct workers from one factory across town to another.

I think the thing Rick talked about is one of the biggest costs we face is developing a new platform, somewhere around \$1 billion to \$1.3 billion, for example, if we were able to as an industry or two of the three in the industry here share common platforms with different top hats. I have mentioned before in my oral comments with the charts, if you just look at annualized savings on all of the NAFTA buy, you are talking about \$3 to \$4 billion in aggregation for suppliers. You are looking at increasing plant utilization from 70 to 90 percent. There are opportunities significantly in advanced technology, as Rick and I cooperated on the hybrid.

So the point here, I think, is not whether there is significant synergies and opportunities. I think the issue has become one of survival in the immediacy. How do we keep our doors open between now and the end of the year, and in looking month by month? And I think if the challenge is how might we look at getting more synergies between two of us or the three of us so that the U.S. auto industry really does become not only a competitor among States, but a competitor among nations, I think that is a fair question and a fair challenge to put to us.

Senator BENNETT. The reason you don't do it is because—is not for business reasons. Let me tell you what I am hearing and you can correct me if I am wrong. The reason you don't do it is not because it is not a good business decision. Long-term, it is a very good business decision. Eight to ten billion dollars a year in savings is not trivial in the circumstance we are talking about here.

The reason you don't do it is because it will not attract short-term financing. We are not talking about short-term financing. We are talking about government financing. Government capital is the most patient capital there is. What if we made as a condition of giving you patient capital, among all the other requirements that you have been talking about of stick to the script, what if we made as a condition of giving you patient capital the requirement that you do this, because saving \$8 to \$10 billion a year on behalf of the creditor sounds to me like a good idea.

Now, if I am a creditor who has to get interest payments next month on my loan, it does not. But if I am a creditor who has to answer to the taxpayers of what is going to happen over several years, it does.

So if we write in the proviso that you don't get a dime unless General Motors and Chrysler combine, how would you react to that? Mr. Gettelfinger, I would like to hear your response, too.

Mr. GETTELFINGER. Well, I think having an outside expert look at that, also. I think there may be a disagreement on the real advantages to it. I appreciate what the companies are saying. But, you know, when the transaction came about with Daimler, a couple of things happened. Number one was the financial arm was split off from the company, and indirectly, the equity stake that we had in that as workers drifted apart. There was additional liability that was shifted to the company, debt, if you will. And the synergies that we have talked about here, I think that that is debatable, just how effective they would be.

But you are right on the mark, though, when you said the concern about what would happen, because it would be unbelievable, the number of people that would lose their jobs, and you are right

as far as it would be the management people first, because they do, they have dual headquarters.

But beyond that, you are talking about now taking a Chrysler product manufactured by General Motors. I would say that, to me, when General Motors, Chrysler, and I believe it was BMW come together and developed the two-mode hybrid, there was an alliance that helped those companies go. And I truly believe that that is the kind of alliance that Chrysler needs as opposed to a merger with General Motors.

Senator BENNETT. Mr. Wagoner?

Mr. WAGONER. It would have been my presumption that given the near-term funding requirements that we have put forth, that this whole role of what we call the Federal oversight board, or industry trustee or whatever, if there was a desire to integrate, as you say, industrial policy as part of it, we would obviously be very willing to look at any of this stuff on their merits. Given where we are today, though, you know, our focus is the near-term liquidity.

Senator BENNETT. Yes, but you are talking to a potential lender of patient capital in large amounts. Forget what you have just said about the short-term and where you are today.

Mr. WAGONER. OK.

Senator BENNETT. If I say to you, this is a condition, would you resist it? Mr. Gettelfinger would because he thinks the past history says it won't work.

Mr. WAGONER. I would be very willing to look at it seriously. I would prefer to do it in a way that Mr. Gettelfinger felt comfortable proceeding, because a lot of them affect his workforce, and so I think we would want to work with him together on it, but we would certainly be willing to look at it and consider it very seriously.

Senator BENNETT. Mr. Nardelli?

Mr. NARDELLI. Senator Bennett, the first job that would go would be mine, but if, in fact, that is the criteria that means we get money to save Chrysler and the people that have worked there for 80-some years, I would do it.

Senator BENNETT. OK. Doctor, do you want to comment on that in terms of sticking to the script?

Mr. ZANDI. I don't have a strong opinion on this. The only thing I will say is, you know, I think this might be a good question for the trustee or for the board, and it is probably wise—I am always a little concerned about trying to engage in very specific industrial policy. I think that is a difficult thing for government to do well, so I would be very cautious in that respect. But I don't have a strong view on it one way or the other.

Senator BENNETT. Well, I agree, it is difficult for the government to do well, but we are doing it whether we like it or not.

Mr. ZANDI. Well, there are different flavors of that.

Senator BENNETT. Yes.

Mr. ZANDI. Right.

Senator BENNETT. But that is the situation we are in with respect to this.

Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator. First, I appreciate the candor of our witnesses. It is a rather profound question that Senator

Bennett has raised and your responses have—I have been sitting on the Committee for a long time. That was rather unique responses to the question. Mr. Nardelli, I must admire your answer. I am not sure it is the right policy or not, but I appreciate your answer to the question.

And it is why I always get a little nervous about Congress, with 535 of us up here. We do a lot of things well. Some things, we don't do terribly well, and micromanaging a lot is what I get nervous about. That is why we sometimes gives broader authority on the assumption people will exercise that authority with some discretion and prudence, but I appreciate Senator Bennett raising it. A very provocative set of questions. Thank you.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

There was discussion earlier that suggested that the Department of Energy had rejected the auto companies' 135 applications. My staff checked with DOE and that is not the case. As is very common in grant or loan applications, as you all know, DOE, I believe, has asked for more information. I just wanted to set the record straight there.

I wanted to follow up on Senator Tester's question. Auto suppliers, of course, as auto companies, have a lot to worry about these days. One of these concerns is that the tax dollars will go into this program and their concern is that they not be used to offshore American supplier jobs. I know some products, as I think Mr. Wagoner said, like batteries for electric vehicles are not produced sufficient to your needs domestically, but I would like just yes or no on each of the three CEOs for you to commit or pledge to maintain or to increase your U.S. value-added content if you receive taxpayer support, both from your companies directly that you will increase or keep the same the value-added content, and on your suppliers that you use, if you would commit that if you get tax dollars.

Mr. Wagoner, if you would start first, just yes or no.

Mr. WAGONER. Senator, I have to look at the data. Certainly, our intention—we are finding the U.S. suppliers are, frankly, more competitive today in a lot of areas than they have been in years. So I feel like that that will be the direction, but I would like to look at data and respond to you, if I could.

Senator BROWN. Mr. Mulally?

Mr. MULALLY. The vast majority of all our research and development is led out of the United States. We have no plans to change that.

Senator BROWN. Not just research and development. I am talking more than research and development. I am talking about everything you do. The concern I hear from so many people, because they have watched what has happened with the banks, they have watched money go for all kinds of purposes, including buying other banks. Put that aside. But they want to make sure this money is meant for American jobs in the United States, whether it is suppliers, whether it is directly with Ford.

Mr. MULALLY. No, I understand and we operate, as you know, all around the world in the markets and our plan is to profitably grow our operations in the United States.

Senator BROWN. OK. Mr. Nardelli?



Mr. NARDELLI. Senator, in my testimony, again, 73 percent of our sales are in the United States. Sixty-one percent of our production is in the United States. Seventy-four percent of our employees are United States. And 78 percent of our material is purchased here. So we are, I like to say, the most quintessential American company you have got here.

Senator BROWN. But 100 percent of these dollars will come from U.S. taxpayers.

Mr. NARDELLI. I understand that, sir, and again, I couldn't agree with you more that we have to make sure as we work toward gaining independence on oil, we can't become dependent on foreign technology. So your point about battery technology and the future of this industry needs to be right here.

Senator BROWN. OK. People will be watching.

Mr. NARDELLI. Yes, sir.

Senator BROWN. Mr. Gettelfinger, I get the sense that some people think it is OK if domestic auto makers go bankrupt because all those jobs will be replaced by foreign transplant companies. Do you think the jobs lost in one of the Big Three and all the jobs to it will be replaced by a like number by Honda and Toyota and other transplants?

Mr. GETTELFINGER. I think there is an organization called the Level Field Institute and they measure cars, the value of cars to workers, and I am going off the top of my head, but I believe for every—if you use 2,500 vehicles as a benchmark, the domestic auto companies would employ 78 workers for every 2,500 vehicles they sold, and if you combined the foreign nameplates, it would be 33. And the reason is because of the imports that they bring in now.

So no, if we lose the auto companies, the jobs are gone. There will be some of them replaced. There would be an expansion of production, I am sure, in some places. But it is gone. And it is also significant to point out that while we sell about 50 percent of the automobiles, they buy 80 percent of the parts.

Senator BROWN. OK. Thank you.

Mr. WAGONER, I don't think a lot of us fully appreciate what goes into changing a product in your business. As we have seen gas prices go to \$4 and then come back down in the space of a few months, we get frustrated when your industry's response lags.

If I could be parochial for a minute, what does it take to ramp up production, for example, for building the Chevy Cruze at Lordstown or a similar product change?

Mr. WAGONER. It depends on how the plant has been tooled, but a good rule of thumb would be half-a-billion dollars or so just to get the car up and running.

Senator BROWN. In what kind of time period, typically?

Mr. WAGONER. Usually, it takes from the go, I mean, if we have to develop the product, as well, that is a three-year cycle. If you can use a product that has been developed for other reasons and bring it in, then you can do it faster than that. But it is a long-cycle business.

Senator BROWN. If Congress approves this money next week, what happens in Lordstown with building your most fuel-efficient vehicle?

Mr. WAGONER. We are going to proceed ahead.

Senator BROWN. On what time table?

Mr. WAGONER. Time table, the Cruze is scheduled to start in 2010.

Senator BROWN. OK. Mr. Mulally, my last question. You, I assume, I know more about the airline industry likely than anybody in this room. We have heard that Detroit should reorganize, should do Chapter 11 and reorganize just like the airlines have done. Give us your thoughts on whether bankruptcy would work from your perspective and give us a quick tutorial, if you will, on the financing of bankruptcy. I mean, I know your company, Boeing, was close to those that went through bankruptcy. Tell us what you can tell us based on that experience.

Mr. MULALLY. Yes. I am very glad you pointed out that clarification, because I was with Boeing Commercial Airplanes, not the airlines, which I love the airlines and our relationship with them.

I think that I absolutely agree with the testimony of my colleagues and also our other professional witnesses in that in the United States, the customers have great choices, great choices in automobiles. Part of that decision process is believing in the company that you are buying your car from, and you want to know that they are going to be there, they are going to be there for you, the residual values are going to be in place. This is a very, very important relationship and I think that any threat of a company going into bankruptcy really, really hurts sales.

I agree with, I think, everything that has been said, that the sales would fall off so fast that you couldn't restructure enough to get back out. So I think, you know, continue to improve your business year over year is just absolutely the right thing to do.

Senator BROWN. Thank you. Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator Brown, very much.

I am going to turn to Senator Corker in a minute, but let me ask something, if I can, of you, Mr. Fleming, in dealing with the dealers, auto dealers. And again, this may be more anecdotal than not, but the issue of franchise laws in our various States. Even if, in fact, we have here the industry making decisions about reducing the number of consolidating dealerships around, to what extent is that impeded by the inability of them to do so because of State laws on franchises? You might tell me the genesis of these laws, and as I understand, it is not a total prohibition. It just makes it rather difficult to do it, to put it mildly. And obviously, would you support an effort here that would allow us in a way to trump, in effect, State statutes in these areas if this is a major area of reducing cost, by consolidation of dealerships?

Mr. FLEMING. Senator, there is a very great danger, I think, in preempting franchise laws at a State level. The first issue, I think, that would arise is that the lending institutions in the States depend on the franchise laws with respect to the risk that they are going to assume. So one of the unintended consequences of Federal preemption of State franchise laws, or another concern, of course, would be going into bankruptcy, would be that the lending institutions would further tighten credit.

I also think, Senator, that there is a misunderstanding about whether or not franchise laws could prevent the Big Three, in this case, from doing the things that they are recommending to you

today. I don't think that State franchise laws do that. I brought a copy, Senator, of a boilerplate franchise agreement, General Motors agreement. When I was Commissioner of Consumer Protection, one of my jobs was to make sure that contracts that renters sign, for example, the average consumer wasn't lopsided. This agreement is absolutely lopsided toward the manufacturer. They can basically do anything they want. Many of the franchise holders in Connecticut that are—

Chairman DODD. What do you mean by that, James? What do you mean, they can do anything? Can they shut down a franchise, even though franchise laws exist?

Mr. FLEMING. There is no veto in—I can't think of any State law where there is an absolute veto over termination. And given the economic situation that exists right now, many dealers are going to voluntarily move to do that because of economic decisions. In that instance, there would be little or no liability on the part of the manufacturer. I think the liability would occur in that we could end up in bankruptcy, of course. I think we could end up losing dealerships that we did not want to lose.

So if some entity was to be put together where the dealers had input into it, some board, as members have talked about today, I think that certainly the dealers would be willing to work with that board to discuss those types of issues within—we are not exempt from antitrust, so that is why we don't have those types of discussions with the manufacturers now. But that type of discussion could, I think, occur. But I think you will find that dealers add such a tremendous value at that level that you may not want to go in that direction.

Chairman DODD. Tell me quickly, I mentioned to you earlier about the issue of the rebates. Obviously, we see all the advertisements that there are so many thousands of dollars that you get if you go in and you purchase so-and-so car, and based on, at least as I recall the conversations we had over those two or 3 hours a week or so ago in Connecticut, the concerns about whether or not dealers were actually being compensated for the rebates they provide and the pressures that it puts on them economically.

Mr. FLEMING. Dealers carry about 110—nationwide, about \$110 billion worth of inventory costs. When the car, for example, leaves Detroit, the dealer owns it from that point. That is about \$110 billion in inventory costs.

Another thing happens with respect to the issue that you raise. When the manufacturers offer our dealers some kind of an incentive, they are actually floating with the dealers' money during the time period that that car is sold and when the manufacturer decides to reimburse the dealer for that cost, because remember the dealer is carrying the car that entire time. So there are tremendous benefits to the franchise system that is in place. But I don't think you will find that State franchise laws would do anything to prohibit what the manufacturers are trying to discuss with the Committee today.

Chairman DODD. Tell me about the floor plans, the costs. And I want you to explain that, as they had to explain it to me the other day. I am learning more about this than I understood before, about what a floor plan is and how it works.

Mr. FLEMING. We have tried to, as our dealers are talking to members of the Connecticut delegation and around the country, make sure that we don't use jargon which is going to be misunderstood. But what a floor plan is is the ability of a dealer to finance his inventory. And again, that is how you are paying for the \$100 billion worth of inventory that the manufacturers sell to the dealer before it ends up in a consumer's hands.

So the issue that most dealers are facing right now is that the credit situation is such that they cannot get good access to financing for floor planning. The captives, the GMACs, have made it more difficult and they have economic reasons why they have done that. The regional banks, in Connecticut, there are two. If they were step out of that business, the dealer would have no ability to finance that inventory. That hurts Detroit because they can't move their product, and in the case of a dealer in East Hartford that I was talking to, they have actually had to cut back on the inventory that they have on their lot because they cannot get that proper financing.

Chairman DODD. And this goes back to the point that until consumers start buying automobiles, the long-term success of these plans don't work.

Mr. FLEMING. That is correct.

Chairman DODD. That is why this is such a circular—that is why I think it is so important to understand this piece of the business, that if you can't finance the floor plan, the manufacturer cannot provide the automobiles to the dealer. The consumer can't afford to buy the car because the restrictions on the FICA scores are so high. You have the choking, not unlike what we are talking about in the financial system, and you end up clogging up the system and it doesn't work. And so it is important, we are all talking about this from a Detroit perspective, a lot of that today, I think we are paying enough time, and why I wanted you here and the suppliers, in a sense, because you need to understand how this works on these dealerships all over the country and what problems they face in terms of having that product move and the consumers having the access to it.

Can I ask the CEOs quickly to respond to what Mr. Fleming has just talked about here in terms of the rebate issues and these other questions and just any comments you may have on that?

Mr. NARDELLI. I will make a couple of quick comments. One of the things I inherited was an inventory in the field of about 600,000 units. We have consciously tried to reduce that. We wanted to get it down significantly. We have not been able to do it, but it is down 200,000 units. That saves our dealers about a million dollars a day in floor planning costs, point one.

Point two, we have not consciously made a decision to delay payments of incentives. We have a current schedule, and at this time, we are continuing to pay as per rearranged on the incentive payment—

Chairman DODD. How quickly does that happen, Mr. Nardelli? Just give me a—

Mr. NARDELLI. Generally, we pay about once a week. So we pay down our incentives to our dealers once a week. So as they report the sale of the car, we will pay it.

On the last one, on the wholesale costs, back to the credit situation, on your chart, sir, our floor planning costs have gone up a couple hundred basis points and some of the governance that has been put on our new conduit is that the dealers now have to pay their floor planning—in other words, they can have nothing on floor plan beyond a certain period of time. So these new restrictions have been imposed on these dealers as a result of the financial crisis. So in addition to your point that you have made about consumer availability to be able to buy a car or a dealer to order it, just what they have on the floor plan is going up and their ability to get access to order is not available. So we have this perfect storm, if you will—

Chairman DODD. I presume some of these banks that we provided this financial injections of cash are exactly the very institutions on whom you rely for the credit you are talking about.

Mr. NARDELLI. Those financial institutions provided the conduit to the Chrysler Financial Company, yes, sir.

Chairman DODD. Do the other two have comments? Mr. Wag-  
oner?

Mr. WAGONER. Yes. We pay dealer cash incentive with about a 2-week delay, is the normal process we have been using for them.

I would like to add a comment, though, that you were onto. Just if you look at one of the reasons why our cash needs are going up so much, or funding needs going up so much in the near term, it is exactly this issue that dealers, because they can't get as much credit, are having to reduce their wholesale inventories.

And just, for example, in the month of January, our current estimate, which I think is optimistic, is that we will produce about 30 percent less vehicles than we did in January a year ago and it is possible that we could actually produce even more than 50 percent less. And part of that is to try to help dealers get their inventories down so they can have the possibility of surviving, given the tight credit for them.

But it obviously drives huge cash needs at our level and I think it really makes your point that this whole system is very reliant on a reasonable flow of credit from consumer to dealer to manufacturer and also to supplier, as well. And so this tightness of credit certainly has hurt the financial industry and the housing industry, but the auto industry has traditionally been a huge relier on credit and we are seeing it play right through.

Chairman DODD. Before going to Ford, I raised this question 2 weeks ago with you because obviously it would address some of the Treasury's concerns about they only presume to be interested where there was a systemic financial risk involved, and while we have talked about credit default swaps and what can happen here, which is a little complicated, people understand, but certainly that is there, this also relates very directly in my view to the systemic financial issue.

That is why when I asked the question candidly, I didn't get a very good answer. I was trying to set it up a little bit so you could explain why this was, in fact, fell into the very category that Treasury is using for its rejection of utilizing the TARP authority, in a sense, and why I specifically gave them that authority, along with

my colleagues, obviously, 2 months ago to be able to respond to situations like this.

Well, Ford, do you want to respond?

Mr. MULALLY. You bet. Senator Dodd, just on your last comment about the systemic risk, Goldman Sachs did a study and made an assessment of your very question and they came up with a trillion dollars—

Chairman DODD. Right.

Mr. MULALLY. —following your systemic risk—

Chairman DODD. I think that was J.P.Morgan. Was it J.P.Morgan or was it—

Mr. MULALLY. I thought it was Goldman Sachs. But anyway, it is to your point. It validates it.

Mr. Fleming, I think, really summarized the situation well with credit. In Ford's case, we are very unique in that our finance company, we finance nearly 77 percent of that floor plan that you have been talking about on the wholesale sales and it is a real competitive advantage for us. We haven't changed our policy on the payments that you described, but—

Chairman DODD. How often does Ford—

Mr. MULALLY. But back to the—

Chairman DODD. How often do you pay your—

Mr. MULALLY. Let me just check. I will have to get back to you on that, but I think that the really important point is that freeing up the credit is the most important thing we do, because that is where it starts, because they are on the front line with the consumer.

Chairman DODD. Thank you very much.

Senator Corker.

Senator CORKER. Mr. Chairman, thank you.

This hearing is ending, I realize, and this will be the last time that we talk about this before either action is taken or action is not taken. We have had a lot of involvement with all of you, and I have to tell you candidly, each of you are very likeable as human beings and I think have been very forthcoming in many, many ways. But this is not about personalities. This is about trying to solve a problem.

And so Chairman Dodd has got to decide, it seems, as to whether he is going to try to pursue some legislation that has sort of broad-based bipartisan support or whether he is going to—he sees that that is not possible and he punts, or he with Senator Reed and others decide to punt and sort of throw it back to the administration to either do something through Treasury or maybe let Chairman Bernanke at the Fed do something through 13(3). So we are kind of at that point, it seems.

The issue, it seems, is that there are lots of—there are a number of Republicans that would be willing to consider if you were all to go bankrupt through Chapter 11 reorganization, they would be willing to consider government money, debtor in possession financing, that has first priority, but this would be in new companies that had shed all the many problems that each of you have because of the histories of your companies.

So what we have discussed today a little bit, and numbers of people have done it, is how do we get a scenario like that set up where

the sense of survival is still there and that parties come to the table and are willing to negotiate in good faith? I think Dr. Zandi hit it on the head. I mean, it is really tough to keep people following a game plan, I learned, after the money has left your hands, OK. There is really no stick left for us to keep the discipline in place.

And so there has been a discussion about maybe some amounts of money being put forth and something having to occur by March 31. And so I am going to try it one more time. I know I didn't get very far this last time, but there are things that—you know, GM is the reason that we are here, in essence. There is no way we would be having these meetings if it weren't for General Motors. I think that is pretty much a fact. Ford, Alan, your parents didn't raise a fool. I mean, if you can come up here and get \$9 billion worth of unsecured financing at 2.5 percent, certainly you are going to come, and I applaud you for being here. But we are really here because of GM. Chrysler would have never been able to be here on their own, I don't think.

And I applaud Senator Bennett's exchange with Mr. Nardelli and certainly Rick Wagoner regarding the consolidation. I would like to see that happen. I am a little bit remiss because I don't sit in your seats and I think to force that when we don't know the circumstances is a little bit problematic. But candidly, I have told Mr. Nardelli and I have told the board of Cerberus that I hope that is an outcome because our country cannot really deal with three separate U.S. auto makers. And I know that there are some synergies there.

Let me clarify one thing. I got a frantic e-mail from Secretary Bodman, OK, and so I just—I know Sherrod Brown did a good job clarifying—

Chairman DODD. People are watching. That is good.

[Laughter.]

Senator CORKER. He, in essence, sent your applications back asking for more information, OK. So I take that as a rejection. Maybe I was a little bit too harsh. But the fact is that under 136, to receive funds, which you have all said are important to you, you have to be going entities. The Secretary has to certify, and this is pretty important, that each of you are going entities.

Well, so I will go back to GM, which is why we are here, and again, I think you put forth a thoughtful plan, is you meet with people who follow you and invest in you. There are three things that basically cause you not to be a viable entity. As a matter of fact, we just got a quote while we were talking. In a 5-year credit default swap right now in your companies, basically, it is predicting that GM will default on its loans, 96 percent chance, OK, and Ford will default, 91 percent chance, and the large suppliers at 80 percent. So, I mean, you are really close to the end in most people's minds.

There are three things that have kept GM, according to, I think, you and others, from being competitive. One is you have an unsustainable debt level. That has just occurred over time, and I realize we have had a pretty big peak to trough drop in cars sold, that it is unsustainable. And the fact is that all of you have got to be companies, in order to be successful, that whenever we get

through doing whatever it is we might do, people are going to want to invest in you, right? I mean, that is the measure of a going concern. Will somebody else invest dollars in you?

So reorganization is an interesting thing, because we know that going through that process, as painful as it is, you guys would come out without all the legacy stuff. To the dealers—I have had a lot of them calling in—probably a lot less dealers, and I am certainly not advocating that. That is just probably a fact of what would occur after bankruptcy. And the fact is, your cost structure would be far different.

So I am going to try one more time, and I am going to ask Mr. Wagoner, if we put language in, and I know that we are somewhat paying attention here more so than we did I know the others, and probably because we didn't with the others, we are paying more attention with you—if we put something in—here is what is going to happen. If we put government dollars into General Motors, immediately, immediately, the day that money is deposited, your bond holders all of a sudden, instead of being willing to take 19 to 21 cents on the dollar, it is going to go way up because all of a sudden, we are in the game. And as Senator Bennett mentioned, we are patient and we print money here. I mean, there is no end to it, unfortunately. So that is a problem. That is a real problem.

The bond holders, on the other hand, as I mentioned, are not going to take the kind of haircut they would unless Mr. Gettelfinger at UAW takes a bigger haircut, and Mr. Gettelfinger, you and I—I have to tell you, you have been an honest broker in this, too, in the way that you have talked with us and you have done a lot of things in the past, but the past is the past. We have got companies here that are about to go bankrupt and all of the contracts that you have negotiated, if they go bankrupt, are out the window, toast. It is over. All these VEBA arrangements, they are gone.

So let me just ask of this as a reasonable thing to sort of put in place a bankruptcy-type situation where we would say that your bond holders would have to take 30 cents on the dollar, which is a 50 percent premium over where they are trading today, by March 31; that the UAW, and there are two representatives here that represent the folks in Tennessee and I have found them great to work with. The problem is that the rest of the citizens in our State and in Montana and in Connecticut and Utah, they have a tough time thinking about us loaning money to companies that are paying way, way above industry standard to workers while they are not getting paid that money. So in essence, they are subsidizing that through their taxpayer dollars.

So my question would be, would it be reasonable to ask that the UAW by that time have agreed to pay scales that are equivalent to the transplants, and would it be reasonable that the UAW not just do away with the jobs bank, which is a situation where you continue to pay people whether they are working or not, but they also do away with the sub piece?

Now, it is interesting sitting where I sit, because when labor comes in, they say, by the way, will you ask the companies this and make sure that they do that. And when the companies come in, they send me e-mails back saying, by the way, will you make sure



that labor does away with these sub payments because they are worse by far than the job banks. They make us very, very uncompetitive.

So again, if money goes out the door, we lose that leverage. It is over. The concern that Dr. Zandi has becomes real. It is never going to happen. There is no way the bond holders will do the things they need to do if they know the spigot is unlimited, and there is no way you can survive without a vastly changed capital structure.

So if the Senate and the House were to say, we will forward the money to get you through March 31, period, and potentially more will come with a trustee, if your bond holders have gotten rid of their debt at 30 cents on the dollar, because if you bankrupt, it is toast, and if the UAW will get their wages rationalized to where we are paying exactly the same, not a penny more, to what the transplants are making, would that be something that you think would cause your companies to be where they need to be for the long haul? And by the way, I would add to that the VEBA payment of \$21 billion is no small deal. That is a big deal. You can't pay that right now. That is not possible.

So I would add to that that at least half of that would have to be equitized into the company to get the capital structure where almost every analyst in the world is looking at your company says you have to be to be that kind of going entity that would actually allow people to invest in you in the future, which is what you have got to have to be a successful company. Is that something that would be reasonable?

Mr. WAGONER. Thanks, Senator Corker. I appreciate you taking so much time to look into our plan and meet with our people. It is helpful to have the conversations.

The plan we submitted, which you know because we went through, I think tries to address exactly what you want, not as specific in the amounts, either vis-a-vis the VEBA or the bond holders, but frankly, your idea of advancing money and saying, if you don't have these buttoned up, and you are putting more terms on it than we were specific on by a certain date, it is over, conceptually is one that I think would be constructive. And I think, frankly, having our idea of then as we were calling it the Federal oversight board as a forcing mechanism to force all of the pieces to come together as a contingency for getting this significant amount of additional money is a valid one.

I guess I am, frankly, a little reluctant to give a specific sort of set of parameters between Mr. Gettelfinger and I because there are a lot of levers that we can pull to get their costs down, and he indicated yesterday in his comments he is willing to work with us. I guess if we were given a target of the kind of savings from each bucket, I would prefer the opportunity to work with him on that and figure out what is the best way to do that.

Senator CORKER. And I realize that you have—let me put it a different way. If we put those stipulations in place and said that by March 31, either you met those stipulations, which are a lot like a bankruptcy proceeding, OK, a lot like it except you are not bankrupt, and we said that if you don't do that by March 31, you either have to pay us back 100 percent of the \$10 billion that would have

been forwarded or immediately file Chapter 11, would you take our money?

Mr. WAGONER. Yes, I would. I am taking your point to be that—and I really think it is consistent with what we filed here, that—

Senator CORKER. Well, you made a step in that direction, and I will say that we got on the phone after your proposal came out and sort of got back with all the analysts and they, too, said it was thoughtful and it was a step in the right direction, but that you couldn't be a going entity if that is all you did, OK.

And so what I would like to do is to—I know that—here is the rub that is probably going to exist. Look, I was a card-carrying union person in my earlier life and I was a trustee on a pension fund to make sure that people got good benefits and I prided myself in paying our employees above industry standard wages always. The problem is that you have this built-in problem that is not going to be solved unless it is forced to be solved, and there is no way that Mr. Gettelfinger, there is no way that he is going to sit down and do the things that he has to do to make you competitive unless he knows the end game is bankruptcy. He is not going to do it. It is not possible. He can't get his membership—it is not just that he is not the best there is at Dale Carnegie attributes, OK. He can't make it happen with his membership without that happening.

So I would just say to the Chairman, I realize that we will have a partisan divide on some of these issues, but it sounds to me like everybody's senses, if you will, are pretty alive right now and are willing to do some things that might make sense for the company. Usually when the government says, "We are here to help you," most people run away, and that is for a good reason. I actually see that a big stick by the government in this case could actually cause your company for the first time in modern history to have the tools and the leverage to actually do the things that will make you strong for the future, because the fact of the matter is you have to build a company that can do well during the troughs, right—

Mr. WAGONER. Sure.

Senator CORKER. —and that is not where you are, and then do really well during the peaks because they come every seven or 8 years.

Now, let us move over to—

Mr. WAGONER. Can I just make one comment, Senator?

Senator CORKER. OK.

Mr. WAGONER. I agree with you, and I think what has played out here is we have sort of redefined the trough, because if you had asked me, and I suspect my colleagues, what is the probability of the U.S. industry running to 12 million, we would have said, boy, that sounds like a 1-percenter. So we are going through a painful process of redefining the trough. I think the opportunity is exactly as you indicate, OK, tough times, you have really got to get leaned down. And when, hopefully 1 day, the economy and the industry comes back, we can be a very profitable enterprise and fund the advanced technologies.

Your point about—and I am not here to defend Mr. Gettelfinger and I am not even sure he wants me to, but I think you have to look at what has been done between the companies and the union

over the last 3 years, and I don't necessarily draw the conclusion that we can't continue to work together to get that wage gap maybe with the same vehemence that you do. I do think I need to recognize the fact that Mr. Gettelfinger has done more to address competitiveness issues in the last 3 years than I suspect have been done, I don't know, in the last 30 or 40. I just want to make sure that is fairly recognized.

Chairman DODD. I sense that. I really do. The problem is that with the industry, you are in a trending-down industry. Each of you are losing market share within that downward trending industry and you have got unsustainable balance sheets, and so this is a draconian kind of thing that has to occur. So let us move on.

Ford, of course, I think would like to benefit from any of the negotiations that take place. I think they don't want to be left out. If, in fact, your contract changes, I think they probably want their contract to change.

But let me move to Chrysler then. I know that while this is happening, you are going to be going to spas and getting facials and hopefully finding someone to marry you, OK, but in the interim—

Mr. NARDELLI. I have been married for 38 years. I am doing just fine.

Senator CORKER. I am talking about the company. So what is it that—what is the right thing to do as it relates to your company when the best thing for our country and the best thing for the automobile industry and the best thing for the wonderful employees that work at your company is for you all to go away as a stand-alone entity? So what, as we negotiate this deal, is the best thing for us to do?

Mr. NARDELLI. Well, if we use your suggestion, then the best thing, I think, for you to do and for the auto industry is to provide us the \$4 billion that we said we needed to get us through March 31.

Senator CORKER. And you would agree to all of the things that just were said? I don't know what we would do about—your debt issue is very different, obviously—

Mr. NARDELLI. It is all secured—

Senator CORKER. Yes—

Mr. NARDELLI. —and so it is much different than an unsecured. But this is the Committee that sets the rules, so if you have got the power to consolidate an industry, you have got the power to work on, I guess, secured debt.

Senator CORKER. OK. So your debt is all unsecured—

Mr. NARDELLI. Secured.

Senator CORKER. Secured. So the problem, the one last component that is very problematic is we don't have a way—GM has about \$20 billion in unsecured debt, but candidly, the security we would have is kind of problematic. I mean, it is franchise. It is the kind of stuff that goes away when the company goes away, so there is not a lot to secure, is there? Is there much real estate to go with that?

Mr. WAGONER. No, primarily trademarks and overseas subsidiaries, which frankly could have some value under certain circumstances.

Senator CORKER. Yes.

Mr. NARDELLI. So the point, Senator, is ours is secured and I think this Committee, who has oversight over lending and banking, would have a hell of a time if they just unilaterally reject that on any future financial company's putting money into a company and getting secured positions. But again, you guys have the power to make that go away, I guess.

Senator CORKER. Mr. Chairman, I thank you. I just want to say that, to me, making them equivalent to the transplants means all the things. It means sub. It means 50 percent on VEBA equitized. It means all those things. But certainly to me that is an interesting thing that apparently all three of these folks, and I don't know what Mr. Gettelfinger and Mr. Wagoner will talk about afterwards, but I think there is a potential here at least for some serious discussion. I thank you for the hearing and I thank all of you for participating.

Chairman DODD. Well, I thank you, Senator, and again, I am reading from an article here, and I presume you may have seen it, as well, just talking about that equivalency. The base wages between the Big Three and foreign companies are roughly comparable, with a veteran UAW member earning \$28 an hour in the Big Three compared to about \$25 an hour at Toyota's plant in Georgetown, Kentucky. Toyota pays less at other American factories. So there is some disparity, but there is a lot of comparability, too, I am told. Now, again, I am relying on some documentation here. I appreciate the point.

Let me say to our guests here at our hearing that Senator Bob Corker, while a new member of the Senate and sitting in the seat I sat in not that many years ago at the very end of the table, works as hard as any Member of this Committee does to understand issues that come before us. And as the Chairman of this Committee, I am very grateful to him. He was invaluable back several months ago in working through issues that were tremendously complex and difficult. You are a workhorse and I am pleased to have you a part of this Committee, and your suggestions and ideas and always trying to figure out a way for us to get things done.

This Committee doesn't function well on a partisan basis. In the 22 months I have been Chairman of it, we have never acted that way. On virtually every issue we come out of this Committee with, we try to seek consensus and work forward, and Bob Bennett falls into that category, as well, and most members here. My Democratic colleagues have been tremendously helpful. So I am very grateful to him and the rest of our colleagues.

We have kept you here for 6 hours today. That is a long time, and I know you have got a full day tomorrow in the other body, in the House, to deal with these issues. Obviously, we have got some challenges in front of us over these coming days to figure out how to move forward.

And while not predicting again a consensus here, I think you get a sense that all of us appreciate up here that inaction is unacceptable. I think that is a—obviously, I can't speak for everyone, but my sense is that that is how many of us feel. That is not an acceptable alternative. We also are not about to write a check and just

hand it over. That is not going to happen, either, I promise you that.

The question is, can we in the hours given us here do a lot of the things we have talked about today? Can we get some help, frankly, from the administration level, where, frankly, I am very disappointed that we didn't get participation today, that there has been a flat-out rejection of even stepping up with us to talk about this, that this falls all in our lap up here as Democrats and Republicans in the waning hours of a Congress with hours to go to try and answer this question, given the implications.

I think most people concede it is probably the case, that if this were to collapse, to use your language, Dr. Zandi, it is a catastrophe, and I worry about that. Maybe history would prove us wrong, but that is a hell of a bet to make with one out of every ten jobs in this country and the implications if you are wrong here.

And so we need to try and sit down over these next 24, 48 hours or so and see what we can do to pull something together here to make some sense to allow us to get to a point where we can do a lot of the things we have talked about here today. And I take Bob Corcoran's point well. I realize you are right. When you start writing checks and then try to do something after the fact, it gets very hard. And to coin a phrase, nothing concentrates the mind like a death sentence and we are looking at a death sentence here if we don't respond intelligently and prudently.

So I am very grateful to all of you. You have come back again, and obviously you needed to be here, given the reaction that people have. And I will make the point I made at the outset. Those of us here who helped write this emergency economic stabilization bill, in retrospect, I thought we gave the kind of accountability standards and so forth that would see prudent practices and I am disappointed, to put it mildly, we haven't seen a lot of that, but intend to make sure that those people are back before us here explaining why it is we are making some of these decisions without greater accountability. And I think those who said it earlier said it well.

You are probably in a sense here paying a price because of how some of these other matters have been handled, and therefore we are sitting here demanding greater accountability and greater protections for taxpayers in the midst of all of this.

So I plan as Chairman of the Committee, and I have talked to many members already, they are going to be here over the next day or two or three to meet with the leadership of the House and the Senate to see what possibly can be done here to address this. But as the Chairman of the Committee, I want to express my gratitude to all of you for coming out today and sharing your thoughts with us. And as has been said, these proposals, these plans were a giant step forward from where we were a couple of weeks ago, and obviously more needs to be done, but my intention as Chairman of this Committee is not to walk away from this. We are not going to leave town without trying. I am not a miracle worker, no one is here. But I am not going to pack a bag and leave and go back to Connecticut. I am going to stay here and try and get this done.

So I thank all of you for being here and we look forward to your continuing cooperation and to work with us.

The Committee will stand adjourned.

[Whereupon, at 3:45 p.m., the hearing was adjourned.]  
[Prepared statements and response to written questions supplied  
for the record follow:]

**PREPARED STATEMENT OF SENATOR DANIEL K. AKAKA**

Mr. Chairman, thank you for conducting this hearing today. I am greatly concerned about the potential consequences of the collapse of the domestic automobile industry. With more than 730,000 workers employed in the automotive vehicle and parts industries, the financial condition of Chrysler, Ford, and General Motors is significant to our economy. These automakers are tied to suppliers, dealers, bondholders, and many others whose welfare is directly linked to their solvency.

An auto industry collapse would be devastating, particularly during the current recession. However, we must make sure that the assistance is coupled with business practice changes that ensure the near and long term vitality of these companies. I look forward to continuing to work with you and the other Members of this Committee to bring about enactment of legislation that will help stabilize the financial condition of our domestic automakers. Thank you, Mr. Chairman.

**PREPARED STATEMENT OF GENE L. DODARO**  
ACTING COMPTROLLER GENERAL OF THE UNITED STATES,  
GOVERNMENT ACCOUNTABILITY OFFICE

DECEMBER 4, 2008

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United States Government Accountability Office

GAO

Testimony  
Before the Committee on Banking,  
Housing, and Urban Affairs,  
United States Senate

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For Release on Delivery  
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**AUTO INDUSTRY**

**A Framework For  
Considering Federal  
Financial Assistance**

Statement of Gene L. Dodaro  
Acting Comptroller General of the United States







Highlights of GAO-09-242T, a testimony before the Committee on Banking, Housing, and Urban Affairs, United States Senate

**Why GAO Prepared This Statement**

The current economic downturn has brought significant financial stress to the auto manufacturing industry. Recent deteriorating financial, real estate, and labor markets have reduced consumer confidence and available credit, and automobile purchases have declined. While auto manufacturers broadly have experienced declining sales in 2008 as the economy has worsened, sales of the "Big 3" (General Motors, Chrysler, and Ford) have also declined relative to those of some other auto manufacturers in recent years because higher gasoline prices have particularly hurt sales of sport utility vehicles.

In addition to causing potential job losses at auto manufacturers, failure of the domestic auto industry would likely adversely affect other sectors. Officials from the Big 3 have requested, and Congress is considering, immediate federal financial assistance.

This testimony discusses principles that can serve as a framework for considering the desirability, nature, scope, and conditions of federal financial assistance. Should Congress decide to provide financial assistance, we also discuss how these principles could be applied in these circumstances. The testimony is based on GAO's extensive body of work on previous federal rescue efforts that dates back to the 1970s.

To view the full product, including the scope and methodology, click on GAO-09-242T. For more information, contact Katherine Siggerud at (202) 512-2834, J. Christopher Mihm at (202) 512-3236, or Gary L. Kecklinor at (202)-512-5400.

December 4, 2008

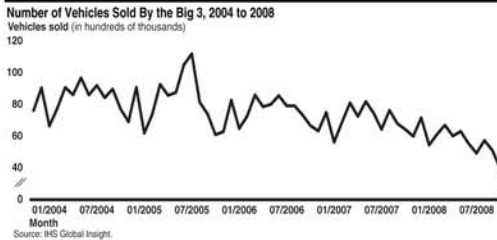
**AUTO INDUSTRY**

**A Framework for Considering Federal Financial Assistance**

**What GAO Found**

From our previous work on federal financial assistance to large firms and municipalities, we have identified three fundamental principles that can serve as a framework for considering future assistance. These principles are (1) identifying and defining the problem, (2) determining the national interests and setting clear goals and objectives that address the problem, and (3) protecting the government's interests. First, problems confronting the industry must be clearly defined—separating out those that require an immediate response from those structural challenges that will take more time to resolve. Second, Congress should determine whether the national interest will be best served through a legislative solution, or whether market forces and established legal procedures, such as bankruptcy, should be allowed to take their course. Should Congress decide that federal financial assistance is warranted, it is important that Congress establish clear objectives and goals for this assistance. Third, given the significant financial risk the federal government may assume, the structure Congress sets up to administer any assistance should provide for appropriate mechanisms, such as concessions by all parties, controls over management, compensation for risk, and a strong independent board, to protect taxpayers from excessive or unnecessary risks.

These principles could help the Congress in deciding whether to offer financial assistance to the domestic auto manufacturers. If Congress determines that a legislative solution is in the national interest, a two-pronged approach could be appropriate in these circumstances. Specifically, Congress could 1) authorize immediate, but temporary, financial assistance to the auto manufacturing industry and 2) concurrently establish a board to approve, disburse, and oversee the use of these initial funds and provide any additional federal funds and continued oversight. This board could also oversee any structural reforms of the companies. Among other responsibilities, Congress could give the board authority to establish and implement eligibility criteria for potential borrowers and to implement procedures and controls in order to protect the government's interests.



Chairman Dodd, Ranking Member Shelby, and Members of the Committee:

We appreciate the opportunity to testify on possible federal assistance to the domestic auto industry. The current economic downturn has added to the significant financial stress facing that industry. Deteriorating financial, real estate, and labor markets have reduced consumer confidence and available credit, and automobile purchases have declined. After reaching a recent high of about 1.8 million in July 2005, the number of vehicles sold in the United States dropped to about 800,000 in October 2008, approximately a 54 percent decline. While most auto manufacturers have experienced declining sales in 2008, recent economic conditions have particularly hurt sales of the "Big 3" domestic auto manufacturers (General Motors, Ford, and Chrysler), in part because these companies have historically derived most of their sales from vehicles such as sport utility vehicles, which are less fuel efficient, but more profitable than small cars. Higher gasoline prices over the past several years, which rose to over \$4 per gallon in the summer of 2008 before falling steeply this fall, have contributed to a sharp decline in consumer demand for these vehicles. The tightening of the credit markets has also affected the Big 3 and their suppliers, which together employ about 730,000 people. In addition to potential job losses at auto manufacturers, the collapse or partial collapse of the domestic auto industry would adversely affect auto dealers, suppliers, and other sectors.

Officials from the Big 3 have requested immediate federal financial assistance, reporting that their companies are experiencing significant financial stress.<sup>1</sup> Less than two days ago, the Big 3 submitted business plans to Congress that describe their requests for federal assistance and restructuring plans. Congress has asked us to review these plans. In deciding whether to provide financial assistance, Congress must consider and balance

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<sup>1</sup>For example, as of September 30, 2008 General Motors reported total liabilities of over \$169.4 billion with total assets of about \$110.4 billion, resulting in negative equity of nearly \$59 billion. General Motors, has requested total financial assistance of \$18 billion. As of September 30, 2008 Ford reported total liabilities of debt of about \$242.6 billion with total assets of about \$242.1 billion, resulting in negative equity of approximately \$5 billion. Officials from Ford have requested a "stand-by" line of credit up to \$9 billion, to be used if conditions worsen. Because Chrysler is privately owned, data on its financial condition is not currently available to the public. Nevertheless, officials from Chrysler have stated that without immediate assistance, its liquidity could fall below the level necessary to sustain operations. Chrysler has requested \$7 billion of financial assistance.

the perceived need for expedience with the need to put a structure in place to ensure that the interests of taxpayers are safeguarded and the specific problems that have put the industry in its current financial crisis are addressed.

In my statement today, I will discuss principles that could serve as a framework for considering the desirability, nature, scope, and conditions of possible federal financial assistance and, should Congress decide to provide financial assistance, how these principles could be applied in these circumstances. My remarks are based on our extensive body of work on previous federal financial assistance efforts that dates back to the 1970s, including those efforts directed to individual large corporations, such as the Chrysler Corporation and Lockheed Aircraft Corporation, as well as municipalities and commercial aviation.<sup>2</sup>

#### Summary

- From our previous work on federal financial assistance to large firms and municipalities, we have identified three fundamental principles that can serve as a framework for considering future assistance. First, the problems confronting the industry need to be clearly defined—distinguishing between those that require an immediate financial response from those that are likely to require more time to resolve. Second, Congress must determine whether the national interest will be served best through a legislative solution, or whether market forces and established legal procedures, such as bankruptcy reorganization, should be allowed to take their course. Should Congress decide that federal financial assistance is warranted, it is important that Congress establish clear objectives and goals for this assistance. Third, given the significant financial risk the federal government may assume on behalf of taxpayers, the structure Congress sets up to administer any assistance should provide for appropriate mechanisms, such as concessions by all parties,

<sup>2</sup>GAO, *Troubled Financial Institutions: Solutions to the Thrift Industry Problem* (GAO/GGD-89-47, Feb. 21, 1989), *Resolving the Savings and Loan Crisis* (GAO/T-GGD-89-3, Jan. 26, 1989), *Guidelines for Rescuing Large Failing Firms and Municipalities* (GAO/GGD-84-34, Mar. 29, 1984), and *Commercial Aviation: A Framework for Considering Federal Financial Assistance* (GAO-01-1163T, Sept. 20, 2001).

controls over management, compensation for risk, and a strong independent board, to protect taxpayers from excessive or unnecessary risks.

- Congress could apply these principles when deciding whether to offer any financial assistance to the domestic auto manufacturers. If Congress determines that a legislative solution is in the national interest, a two-pronged approach in applying the principles could be appropriate in these circumstances. Specifically, Congress could 1) authorize immediate, but temporary, financial assistance to the auto manufacturing industry and 2) concurrently establish a board to approve, disburse, and oversee the use of these initial funds and provide any additional federal funds and continued oversight. This board could also oversee any structural reforms of the companies. Among other responsibilities, Congress could give the board authority to establish and implement eligibility criteria for potential borrowers and to implement procedures and controls in order to protect the government's interests.

#### **Principles for Large-Scale Federal Financial Assistance Efforts Could Guide Congressional Consideration of Auto Manufacturers' Requests**

We have identified three fundamental principles that can serve as a framework for considering large-scale federal assistance efforts. These principles are (1) identifying and defining the problem, (2) determining the national interests and setting clear goals and objectives that address the problem, and (3) protecting the government's interests.

- **Identify and define the problem:** The government should clearly identify and define the specific problems confronting the industry—separating out those that require an immediate response from those structural challenges that will take more time to resolve. According to the auto manufacturers, the most immediate threat to the industry comes from inadequate cash reserves and negative projected cash flows combined with a tightening or denial of credit by commercial lending institutions. General Motors and Ford have not been profitable since at least 2006, and sales have

decreased substantially for the Big 3 in 2008.<sup>3</sup> In this regard, deteriorating financial and real estate markets, weakening labor markets, and high fuel prices have contributed to reductions in consumers' demand for new vehicles, particularly less fuel-efficient vehicles. In addition, tightening consumer credit has made it difficult for some consumers to obtain auto loans. The industry, however, also faces structural challenges that will need to be dealt with, including higher labor and pension costs than competitors, dealership relationships and structure, and fleet characteristics—especially in the area of fuel efficiency.

- **Determine national interests and set clear goals and objectives that address the problem:** After defining the problem, Congress must determine whether a legislative solution best serves the national interest. If Congress determines that the benefits of federal intervention exceed those of bankruptcy reorganization for one or more of the domestic manufacturers, Congress could draft legislation to guide the availability and use of federal assistance. It is important that the legislation include a clear and concise statement of the objectives and goals of the assistance program. A statement of the objectives and goals of the program would help Congress and program administrators determine which financial tools are needed and most appropriate for the industry and for company-specific circumstances; provide criteria for program decisions; and serve as a basis for monitoring progress. Finally, although Congress may decide that there is a compelling national interest in providing financial assistance to help ensure the long-term viability of the Big 3, companies receiving assistance should not remain under federal protection indefinitely. Identifying the conditions that will signal an end to that protection would serve as congressional guidance on when the industry should emerge from the assistance program.
- **Protecting the government's interest:** Because these assistance programs pose significant financial risk to the federal government, appropriate mechanisms should be included to protect taxpayers from excessive or unnecessary risks. Mechanisms,

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<sup>3</sup>Chrysler is a private company and does not report its profits or losses publicly.

structures, and protections should be implemented to ensure prudent use of taxpayer resources and manage the government's risk consistent with a good faith attempt to achieve the congressional goals and objectives of any federal financial assistance program.<sup>4</sup> This can be achieved through the following four actions—all of which have been used in the past.<sup>5</sup>

1. Concessions from others: Congress should require concessions from others with a stake in the outcome—including management, labor, suppliers, dealers, and creditors. The concessions are not meant to extract penalties for past actions, but to ensure cooperation and flexibility in securing a successful future outcome.
2. Controls over management: The government must have the authority to approve an aid recipient's financial and operating plans and new major contracts. The authority is meant to ensure a restructuring plan with realistic objectives and to hold management accountable for achieving results.
3. Collateral: To the extent feasible, the government should require that the recipient provide adequate collateral, and that the government be in a first lien position.
4. Compensation for risk: The government should receive compensation through fees and/or equity participation in return for providing federal aid. The government's participation in any upside gains is particularly important if the program succeeds in restoring the recipient's financial operational health.<sup>6</sup>

#### **Using the Principles As A Framework for Considering Financial Assistance for the Auto Manufacturing Industry**

Congress could apply these principles if it decides to offer financial assistance to the domestic auto manufacturers. If Congress determines that the systemic, economic

<sup>4</sup>GAO-01-1163T.

<sup>5</sup>GAO/GGD-84-34.

<sup>6</sup>In a previous financial assistance package for Chrysler, the government obtained equity participation in the form of warrants that allow the government to purchase shares of a recipient's stock at a specified price. A decision on whether equity participation should be included as well as its form and amount should be made on a case-by-case basis.

consequences of risking the immediate failure of any or all of these companies are too great, a two-pronged approach in applying the principles could be appropriate. Specifically, Congress could 1) authorize immediate, but temporary, financial assistance to the auto manufacturing industry and 2) concurrently establish a board to approve, disburse, and oversee the use of these initial funds and provide any additional federal funds and continued oversight. This board could also oversee any structural reforms of the companies. Among other responsibilities, Congress could give the board authority to establish and implement eligibility criteria for potential borrowers and to implement procedures and controls in order to protect the government's interests.

The federal government has a range of tools it could use to provide such bridge assistance, including loans and loan guarantees.<sup>7</sup> Historically, the federal government has used loans and loan guarantees in its financial assistance to specific companies. In providing such credit assistance, the government has assumed that the federal role is to help the industry overcome a cyclical or event-specific crisis by gaining access to cash in the short term that it otherwise cannot obtain through the markets. Credit assistance assumes that the aided companies will eventually return to financial health and have the capacity to pay back the loans. The government has offered such assistance in return for companies providing various forms of collateral and/or equity to protect taxpayer interests, as well as for various concessions by interested parties to share the risk and promote shared responsibility. For example, any federal assistance to an auto manufacturer might seek to ensure that all parties, including labor and management, share responsibility for bringing the company back to profitability, and that no party makes excessive concessions relative to the other parties. Finally, accountability should be built in so that Congress and the public can have confidence that the assistance was

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<sup>7</sup>Loan guarantees help borrowers obtain access to credit with more favorable terms than they may otherwise obtain in private lending markets because the federal government guarantees to pay lenders if the borrowers default, which makes extending credit more attractive to lenders. Loan guarantees have the advantage of encouraging private-sector participation and potential expertise, with higher levels of federal guarantees likely generating the most participation. The Office of Management and Budget's Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables* prescribes policies and procedures for justifying, designing, and managing federal credit programs. This guidance states that lenders should have a substantial stake in full repayment, generally 20 percent. Limiting the federal guarantee to 80 percent ensures that lenders share in the risks associated with the loan. However, given the current problems in the credit sector, lenders may be unable to provide large loans and unwilling to accept such risks.

prudent and consistent with the identified objectives. For example, as a condition for receiving federal assistance, the auto manufacturers should be required to provide program administrators and appropriate oversight bodies with access to their financial records and submit detailed operating and financial plans indicating how the funds and other sources of financing will be used to successfully return the companies to profitability. Such information would allow program administrators to oversee the use of funds and to hold the companies accountable for results.

Congress should concurrently establish a board to approve, disburse, and oversee the use of these initial funds and provide any additional federal funds and continued oversight. This board could also oversee any structural reforms of the companies. The federal government has established boards to implement past financial assistance efforts, including when providing assistance to Lockheed in 1971 and Chrysler in 1980. More recently, in the aftermath of the 2001 terrorist attacks on the United States, Congress created the Air Transportation Stabilization Board (ATSB) to provide loan guarantees to the airline industry. The voting members of ATSB included a member of the Board of Governors of the Federal Reserve System and representatives from the Departments of the Treasury and Transportation. While the exact membership of a board to provide financial assistance to the Big 3 auto manufacturers could differ, past federal financial assistance efforts suggest that it would be prudent to include representatives from agencies knowledgeable about the auto manufacturing industry as well as from those agencies skilled in financial and economic analysis and assistance. In creating such a board, it will be crucial for Congress to ensure that the board, similar to boards created to implement past federal financial assistance efforts, has access to all financial or operational records for any recipients of federal assistance so that informed judgments and reviews can occur.<sup>8</sup> It would also be important to ensure that the board has the authority and resources to hire or contract for necessary legal, financial, and

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<sup>8</sup>In addition, prior federal assistance programs for failing firms and municipalities gave GAO the authority to audit the accounts of the recipients and the right of access to the records needed to do so. This authority enabled GAO to support congressional oversight of the assistance program.



other expertise.<sup>9</sup> For example, ATSB hired an executive director, financial analyst, and legal counsel to help the board carry out its duties.

Beyond access to records and expertise, however, to succeed in achieving the goal of a restructured industry, the board is likely to need the authority to implement procedures and controls to protect the government's interests. This would include bringing the parties with a stake in a successful outcome to the table. Our review of past large-scale financial assistance efforts leads us to conclude that all of these parties must make concessions—not as penalties for past actions but rather to ensure cooperation in securing a successful future. The board would also need authority to approve the borrower's operating and financial plans and major new contracts to ensure the plans are realistic and to assess management's efforts in achieving results. In addition, the federal government should be the first creditor to be repaid in the event of a bankruptcy or when the company returns to profitability. In 1980, when providing assistance to Chrysler, Congress mandated that Chrysler meet additional policy-oriented requirements such as achieving certain energy efficiency goals and placed limits on executive compensation. More recently, as a condition of receiving federal assistance in the wake of the September 11 terrorist attacks, the Air Transportation Safety and System Stabilization Act required that airlines limit executive compensation.<sup>10</sup>

In addition, the board, consistent with congressional direction, could require that manufacturers, with the cooperation of labor unions, take steps to help control costs. Such steps could include reducing excess capacity by closing or downsizing manufacturing facilities, reducing work-rule restrictions that limit flexibility in terms of which workers can do what types of jobs, and ending contracts with dealerships that require the manufacturer to pay a large buyout to a dealer if a product line is eliminated. Some of these steps should be specifically addressed in the legislation. It will be important to keep in mind, however, that the affected parties will cooperate only if the assistance program offers a better alternative than bankruptcy. The government should

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<sup>9</sup>Staff could also be detailed from federal agencies represented on the board to support the board's review and oversight function.

<sup>10</sup>P.L. No. 107-42.

not expect creditors, for example, to make concessions that will cost them more than they would expect to lose in a bankruptcy proceeding.<sup>11</sup> Finally, Congress should provide the board with enough flexibility to balance requirements in each recipient's business plan to achieve and maintain profitability.

The board could be the logical entity to establish and implement clearly defined eligibility criteria for potential borrowers, consistent with statutory direction provided by Congress, and establish other safeguards to help protect the government's interests and limit the government's exposure to loss. The safeguards could vary, depending on the nature of the financial assistance tools used. Examples of safeguards over loans and loan guarantees that have been used in the past include the following:

- Potential borrowers have been required to demonstrate that they meet specific eligibility criteria, consistent with congressional direction as to the problems to be addressed and the objectives and goals of the assistance.
- Potential borrowers have been required to demonstrate that their prospective earning power, together with the character and value of any security pledged, provided reasonable assurance of repayment of the loan in accordance with its terms.
- Potential borrowers have been required to clearly indicate the planned use of the loans so that the board could make appropriate decisions about the borrower's financial plan and terms and conditions, as well as collateral.
- The government has charged fees to help offset the risks it assumed in providing such assistance.
- For loan guarantees, the level of guarantee has been limited to a given percentage of the total amount of the loan outstanding.

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<sup>11</sup>GAO/GGD-84-34.

To further enhance accountability and promote transparency, the board should monitor the status of federal assistance on a regular basis and require regular reporting from companies receiving assistance. This reporting should, at a minimum, include information on cash flow, financial position, and results of independent audits. In addition, the board should be required to provide periodic reports to Congress. This reporting should include status reports on the amount and types of assistance provided to the auto manufacturing industry, periodic assessments of the effectiveness of the assistance, and status of any repayments of loans that the federal government has provided to the industry.

In addition to providing oversight and accountability of the federal funds, the board could be charged with overseeing efforts of the assisted companies to implement required changes and reform. The board would likely need to consider industry-specific issues in implementing financial assistance and industry reform. Employee compensation would be one of those issues, and a very complex one. Benefits for auto industry workers represent a significant long-term financial commitment of the companies seeking assistance, much of it to retirees and their families. Although success in a company's future will depend in part on sacrifice from all stakeholders, most of the changes in this area will necessarily take effect over the long term. The complexities of these arrangements and their interface with active workers and with existing government programs will make implementing federal assistance particularly challenging. For example, the board would need to consider the impact that a possible bankruptcy filing by an auto manufacturer would have on the Pension Benefit Guaranty Corporation, the federal agency that insures private employers' defined benefit pensions, and whose cumulative balance is already negative.

#### **Concluding Observations**

In conclusion, Congress is faced with a complex and consequential decision regarding the auto manufacturers' request for financial assistance. The collapse or partial collapse of the domestic auto manufacturing industry would have a significant ripple effect

throughout other sectors of the economy and serve as a drag on an already weakened economy. However, providing federal financial assistance to the auto manufacturing industry raises concerns about protecting the government's interests and the precedent such assistance could set for other industries seeking relief from the current economic downturn.

My remarks today have focused on principles Congress may wish to consider as it contemplates possible financial assistance for the auto manufacturing industry. These principles are drawn directly from GAO's support of congressional efforts over several decades to assist segments of industries, firms, the savings and loan industry, and municipalities. Although the principles do not provide operational rules outlining exactly what should be done, they do provide a framework for considering federal financial assistance. By defining the problem, determining whether a legislative solution to that problem best serves the national interest, and—assuming that such a solution is appropriate—establishing an appropriate governance structure, Congress might better assure itself and the American people that the federal assistance will achieve its intended purpose.

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Thank you Mr. Chairman, Ranking Member Shelby, and members of the committee for having me here today. We at GAO, of course, stand ready to assist you and your colleagues as you tackle these important challenges.

#### **Contacts**

For further information on this testimony, please contact Katherine A. Siggerud on (202) 512-2834 (auto industry issues), J. Christopher Mihm on (202) 512-3236 (GAO's principles), and Gary L. Kepplinger on (202) 512-5400 (legal issues).

(541049)

**PREPARED STATEMENT OF G. RICHARD WAGONER, JR.**CHAIRMAN AND CHIEF EXECUTIVE OFFICER,  
GENERAL MOTORS

DECEMBER 4, 2008

Thank you, Mr. Chairman, I appreciate the opportunity to return to this Committee to speak about the urgent need for federal assistance for General Motors and the domestic auto industry. It's fair to say that last month's hearings were difficult for us, but we learned a lot. For sure, we took very seriously the concerns raised by the Members of this Committee, and that has accelerated a healthy internal review, and a lot of good discussion with our partners and stakeholders.

It's no secret that GM, like our fellow domestic automakers, has struggled in the face of increased competition from foreign manufacturers with lower wage, healthcare, and benefit costs. We made decisions that were right for the times, collective bargaining agreements, investments in full-size trucks and SUVs that consumers wanted, and others. But we made mistakes, as well, such as failing to build sufficient flexibility into our operations, and not moving fast enough to invest in smaller, more fuel-efficient vehicles for the U.S. market.

We have addressed these and many other issues in the plan for long-term viability that we submitted to this Committee 2 days ago. Our plan demonstrates why GM needs temporary government funding, how it will be used, how we intend to repay the taxpayers, and why such funding is necessary for the company, and beneficial to the U.S. economy.

Our plan dramatically accelerates and expands the restructuring that we've been driving in North America for the past several years. It's a blueprint for creating a new General Motors, one that is lean, profitable, self-sustaining, and fully committed to product excellence and technology leadership, especially in alternative propulsion.

Key elements of our plan include:

- Increased production of hybrid, flex-fuel, and other fuel-efficient vehicles, and an increased commitment to new, energy-efficient technologies like those in the Chevy Volt.
- Significant changes to our market and retail operations, including a reduction in brands, models, and retail outlets.
- Further manufacturing and structural cost reductions.
- Full labor cost competitiveness with foreign manufacturers in the U.S. by no later than 2012.
- Significant capital restructuring involving our debt and post-retirement healthcare obligations.
- Continued suspension of GM's common stock dividend for the life of any federal loans associated with the plan.
- Changes in executive compensation. For example, I will reduce my salary to \$1, Board members have elected to reduce their annual retainer to \$1, and the next four most senior officers will reduce their total cash compensation by about 50 percent in 2009.
- And as of this week, the cessation of all corporate aircraft operations.

These and other actions detailed in our plan affect everyone associated with GM, but we believe they're necessary to position the company for long-term success. And we believe this success is fully achievable, if we are able to weather the ongoing global financial crisis and the lowest per-capita U.S. vehicle sales in 50 years.

Toward that end, our plan respectfully requests that the Federal Government make available \$12 billion in short-term loans, along with a \$6 billion line of credit in the event the current severe market downturn persists. Specifically, we're seeking an immediate loan of \$4 billion, and a second draw of up to \$4 billion in January. Our intent is to begin to repay the loans as soon as 2011, and under baseline industry assumptions, fully repay them by 2012. And should GM share prices increase as a result of the plan, warrants issued as part of the loans would allow taxpayers to benefit.

Our plan also proposes the creation of a Federal Oversight Board to help facilitate restructuring negotiations with a range of stakeholders. This Board would oversee the loans and restructuring plan, and protect taxpayer investments, in part by assuring that loans are made contingent on GM achieving its benchmarks.

Let me close by noting that GM has been an important part of American culture for 100 years, and for most of that time, we've stood as the world's leading auto-

maker. We're here today because we made mistakes. And we're here because forces beyond our control have pushed us to the brink. Most importantly, we're here because saving General Motors, and all this company represents, is a job worth doing. Thank you. I look forward to your questions.

#### EXECUTIVE SUMMARY

### General Motors Restructuring Plan For Long-Term Viability

#### Overview

This Restructuring Plan is a blueprint for creating a new GM, one that is lean, profitable, self-sustaining and fully competitive. The Plan calls for:

- A dramatic shift in the company's U.S. portfolio, with 22 of 24 new vehicle launches in 2009–2012 being more fuel-efficient cars and crossovers
- Full compliance with the 2007 Energy Independence and Security Act, and extensive investment in a wide array of advanced propulsion technologies
- Reduction in brands, nameplates, and retail outlets, to focus available resources and growth strategies on the company's profitable operations
- Full labor cost competitiveness with foreign manufacturers in the U.S. by no later than 2012
- Further manufacturing and structural cost reductions through increased productivity and employment reductions
- Balance sheet restructuring and supplementing liquidity via temporary Federal assistance

#### Temporary Federal Bridge Loans

GM is seeking a term bridge loan facility from the Federal Government of \$12 billion to cover operating requirements under a baseline forecast of 12 million U.S. industry vehicle sales for 2009. In addition, GM is seeking a revolving credit facility of \$6 billion that could be drawn should severe industry conditions continue, resulting in sales of 10.5 million total vehicles in 2009.

This bridge loan is expected to be fully repaid by 2012 under the baseline industry assumptions. Also, warrants issued as part of the loans would allow taxpayers to benefit from growth in the company's share price that might result from successful completion of the plan. GM anticipates an initial draw of \$4 billion in December 2008 with the next draw of \$8 billion by March 2009. Any draws would be conditioned on achieving specific restructuring benchmarks.

#### Product Portfolio and Fuel Efficiency

While remaining a full-line manufacturer, GM will substantially change its product mix over the next 4 years, and launch predominately high mileage, energy-efficient cars and crossovers. In addition, the Chevy Volt, which can travel up to 40 miles on electricity alone, is scheduled for production in 2010, with other versions to follow.

By 2012, more than half of GM vehicles will be flex-fuel capable, and the company will offer 15 hybrid models. GM will continue development of hydrogen fuel cell technology, which, when commercially deployed, will reduce automotive emissions to just water vapor. GM expects to become a significant creator of green jobs in the United States, as well helping suppliers and dealers transform the U.S. economy.

#### Market and Retail Operations

In the U.S., GM will focus its product development and marketing efforts on four core brands - Chevrolet, Cadillac, Buick and GMC. Pontiac will be a specialty brand with reduced product offerings within the Buick-Pontiac-GMC channel. Hummer has recently been put under strategic review, which includes the possible sale of the brand, and GM will immediately undertake a strategic review of the Saab brand, and explore alternatives for the Saturn brand.

#### Manufacturing and Structural Costs

GM will accelerate its current efforts to reduce manufacturing and structural costs, building on significant progress made over the past several years. With planned assembly plant consolidations, further productivity improvements in the plan, and additional changes to be negotiated, GM's wages and benefits for both current workers and new hires will be fully competitive with Toyota by 2012.

**Balance Sheet Restructuring**

GM plans to engage current lenders, bond holders and its unions to significantly reduce the debt currently carried on its balance sheet. GM's plan would preserve the status of existing trade creditors and honor all outstanding warranty obligations to both dealers and consumers, in the U.S. and globally.

**Compensation and Dividends**

The plan calls for shared sacrifice, including further reduction in the number of executives and total compensation paid to senior leadership. For example, the chairman and CEO will reduce his salary to \$1 per year. The common stock dividend will remain suspended during the life of the loans.

**Federal Oversight Board**

Given the importance and urgency of this restructuring for GM, other domestic manufacturers and the U.S. economy as a whole, the company supports the formation of a Federal oversight board. The board would help facilitate restructuring negotiations with a range of stakeholders.

**Sustainability**

Once GM has completed the restructuring actions laid out in the plan, the company will be able to operate profitably at industry volumes between 12.5 and 13 million vehicles. This is substantially below the 17 million industry levels averaged over the last nine years, so it is considered to be a reasonably conservative assumption for gauging liquidity needs.

The complete Plan is attached to this testimony. I look forward to working with your Committee on legislation that addresses the liquidity challenges facing GM and the auto industry.



General Motors  
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December 2, 2008

The Honorable Christopher Dodd  
Chairman  
Banking Committee  
534 Dirksen Senate Office Building  
United States Senate

Dear Chairman Dodd:

General Motors Corporation is pleased to submit to you our restructuring plan to create a viable auto industry, with quality jobs and economic opportunity for the 21<sup>st</sup> century. We ask that this Plan be included in the record of the Committee's hearing on December 4, as the written testimony of G. Richard Wagoner, Jr., GM's Chairman and Chief Executive Officer.

We look forward to working with you on legislation providing temporary federal government loan assistance to close our liquidity gap in the near term and stabilize operations and consumer confidence. We will discuss the Plan with staffs of the Members of the Banking Committee on December 3, and are available to meet with you at any time about the Plan, the critical need for short-term funds and the importance of the domestic automotive industry to the nation's economy.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken W. Cole".

Ken W. Cole  
Vice President  
Global Public Policy and Government Relations

cc: The Honorable Richard Shelby



**General Motors Corporation**



**Restructuring Plan for Long-Term Viability**

**Submitted to Senate Banking Committee &  
House of Representatives Financial Services  
Committee**

**December 2, 2008**

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General Motors Corporation  
Restructuring Plan for Long-Term Viability

### 1. Introduction

In response to the urgent request of General Motors Corporation for U.S. Government assistance to sustain operations, Speaker of the House of Representatives Nancy Pelosi and Senate Majority Leader Harry Reid in a letter dated November 21, 2008, have asked that General Motors (GM) submit to the U.S. Congress a “credible restructuring plan that results in a viable industry, with quality jobs, and economic opportunity for the 21<sup>st</sup> century”. The requested restructuring plan (hereafter the “Plan”) is respectfully set out below.

The Plan details why GM needs temporary Government funding, how that funding will be used, how we intend to repay the taxpayers, and why such funding is beneficial to the U.S. economy. While we have attempted to be fully responsive to the issues raised in the November 21 letter, we are prepared to elaborate on any item, where such elaboration would assist the Congress in its consideration of this urgent matter.

At its core, this Plan is a blueprint for creating a new General Motors, one that is lean, profitable, self-sustaining and *fully* competitive. General Motors well understands the challenges to energy security and the climate from worldwide long-term growth in petroleum consumption. GM believes that as a business necessity we must look to advanced vehicle technologies to reduce petroleum dependency and greenhouse gas emissions, and has structured this Plan accordingly.

The company commits to use the proposed Government funding to exclusively sustain and restructure its operations in the United States and aggressively retool its product mix. Key elements of this Plan include:

- a dramatic shift in the company’s U.S. portfolio, with 22 of 24 new vehicle launches in 2009-2012 being more fuel-efficient cars and crossovers;
- full compliance with the 2007 Energy Independence and Security Act, and extensive investment in a wide array of advanced propulsion technologies;
- reduction in brands, nameplates and retail outlets, to focus available resources and growth strategies on the company’s profitable operations;
- full labor cost competitiveness with foreign manufacturers in the U.S. by no later than 2012;
- further manufacturing and structural cost reductions through increased productivity and employment reductions; and
- balance sheet restructuring and supplementing liquidity via temporary Federal assistance.

The net effect of the operational and financial restructuring elements contained in the Plan will be a company that is profitable (at an EBIT basis) in a U.S. industry with annual sales between 12.5-13 million units. Given the very significant operating leverage in the automobile business, this means a restructured GM would realize healthy profits in a more typical 16 million unit year and be able to self-fund its operations long-term.

While GM acknowledges that it has made mistakes in the past, the company has been pursuing a major transformation of its business model for the past several years, and accelerating its plans to produce more fuel-efficient vehicles. This transformation has consumed a substantial amount of resources and accounts for a major portion of GM's current financial leverage. At this juncture, the company would not require Government assistance were it not for the dramatic collapse of the U.S. economy, which has devastated the company's current revenues and liquidity.

With the assistance requested to pursue the Plan outlined herein, and with the significant sacrifices from GM stakeholders that are proposed, the company can succeed, and will repay the American taxpayers in full. Specifically, we propose:

- up to a \$4 billion immediate loan from the Federal Government, to ensure minimum liquidity levels through December 31, 2008;
- a second draw in January, 2009, of up to \$4 billion to ensure adequate liquidity balances through January 31, 2009; and a third draw of up to \$2 billion in the February-March time frame based on recent market developments, for a total draw of \$10 billion by the end of the first quarter;
- a total *term loan* facility of up to \$12 billion, including the three draws, to ensure minimum liquidity levels through December 31, 2009, under a Baseline U.S. industry annual sales volume of 12 million units;
- a \$6 billion committed *line of credit* from the Federal Government to ensure adequate liquidity under more severe U.S. industry conditions (a 10.5 million unit "Downside" industry sales scenario for 2009) or a more challenging near-term dealer order situation;
- a total of \$18 billion in term loan and revolving credit facilities, which is larger than the amount discussed during the Congressional hearings of November 18-19, 2008, that includes provision for the "Downside" industry sales scenario, the subject of considerable inquiry during the hearings;
- the creation of a Federal Oversight Board to monitor and authorize draws, including timing, amounts and performance metrics consistent with the Plan outlined below. The Oversight Board will support and facilitate an expedited, Administration-led, successful restructuring, ensuring that taxpayer investments are fully protected; and
- providing the taxpayer benefits as the company's condition improves, and shareholder value increases through the provision of warrants.

The Oversight Board will provide Congress transparency around the temporary loan facilities, to ensure that such loans are being spent for the intended purposes as outlined in this Plan, and to confirm that the restructuring benchmarks required for draws are met. If more extensive restructuring is required, GM will work with the Oversight Board to determine the additional necessary actions.

The term "liquidity", as used by GM, is the amount of cash readily accessible to meet the company's immediate or very near-term obligations. This includes cash on hand,

available revolver capacity, and very short-term investments, like money market funds, certificates of deposit, and short-term highly-rated commercial paper.

General Motors is requesting the loan facilities outlined above (term loan and committed credit facility) because recent significant declines in dealer orders are now adversely affecting first-quarter production schedules and revenue forecasts. This drop in dealer orders reflects both continued, abnormally low auto industry sales, due to the general economic decline, and mounting consumer fears about a GM bankruptcy. According to very recent market research (conducted by CNW Marketing Research), more than 30% of consumers who considered a GM vehicle and purchased a competitive product instead cited the possibility of GM bankruptcy as the top reason for *not* buying a GM product. This is more than double the percentage of the next highest reason.

To highlight this point, both the Baseline and Downside Scenarios outlined in this submission assume that consumers will consider GM products and services on their merits, and without regard to concerns relating to the company's viability. If this assumption is not true, and concerns regarding the company's viability continue to weigh on purchase decisions (as they clearly did in November 2008), the company expects that first-quarter 2009 cash outflows would be materially *worse* than even the Downside Scenario. As such, clarity and prompt action adds real value to the company and to consumers.

The requested Federal assistance will materially help resolve this uncertainty, stabilize the company, and enable GM to execute its restructuring Plan. Such assistance also helps the company achieve a viable and sustainable capital structure by early 2009. Importantly, as part of this restructuring, GM will preserve the status of existing trade creditors, and honor terms and provisions of all outstanding warranty obligations to both consumers and dealers, in the U.S. and globally.

Some have suggested that bankruptcy is a reasonable option. The plain fact is bankruptcy of an auto company is markedly different and much riskier than that of a steel company or an airline, with the potential for: lengthy delays, given the number of stakeholders; significant administrative costs; the very real risk of the lack of funding while in bankruptcy; and the stigma attached to our products in the eyes of consumers. On this latter point, 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.

## **2. Background**

General Motors Corporation, a U.S.-based company, has been in business for 100 years, has produced nearly 450 million vehicles globally, and operates in virtually every country in the world. While GM has recently enjoyed rapidly growing sales and revenues outside the United States, the U.S. remains the company's largest single market.

GM is woven into the very fabric of America. It has been the backbone of U.S. manufacturing, is a significant investor in research and development, and has a long history of philanthropic support of communities across the country. The auto industry today remains a driving engine of the U.S. economy, employing 1 in 10 American workers, and is one of the largest purchasers of U.S. steel, aluminum, iron, copper, plastics, rubber, and electronic and computer chips. Indeed, GM's "Keep America Rolling" sales campaign, following the September 11 attacks, is credited by many as having prevented an extended recession in 2001.

It is no secret that GM, like all domestic automobile manufacturers, has increasingly struggled over the last several years due to increased competition from foreign manufacturers with lower wage, healthcare and benefit costs (in part, due to having far fewer retirees to support in the U.S., and national healthcare structures in their home countries). GM has spent \$103 billion over the last 15 years alone on these legacy costs, constraining investment in more advanced manufacturing and product technologies and significantly weakening the company's balance sheet.

GM has made mistakes in the past — in now-untenable provisions from prior collective bargaining agreements, and insufficient investment in smaller, more fuel-efficient vehicles for the U.S. Even so, GM still supplies one in five vehicles sold in the U.S. today. In fact, 66 million GM cars and trucks are on this country's roads today, 44 million more than Toyota.

As described in Appendix A, GM has made substantial progress in narrowing the gap with foreign competition in quality, productivity and fuel efficiency. The Plan commits to further improvements in these and other areas critical to our long-term success. It is also noteworthy that in other markets, such as China, Latin America and Russia, and where GM does not have the burden of legacy costs, the company has recently grown rapidly and outperformed the competition.

Finally, GM has never failed to meet a Congressional mandate in the important areas of fuel efficiency and vehicle emissions, and sets the industry standard for "green" manufacturing methods. Furthermore, the company's role in creating "green" technology and high-paying jobs of the future will increase substantially as a result of implementing the Plan.

### **3. The Problem**

General Motors is now coping with the worst economic downturn, and worst credit market conditions, since the Great Depression. Significant failures have occurred in America's financial services sector — including two of America's five largest investment banks, the nation's largest insurance company, both Freddie Mac and Fannie Mae, and two of the ten largest banks — with financial institutions receiving total Government bailouts valued today at well over \$2 trillion. Consumers have had to contend with illiquid credit markets, rising unemployment, declining incomes and home values, and volatile fuel prices.

As a direct result, over the past few months, U.S. auto sales – across all manufacturers, foreign and domestic – have declined by more than 30% and are at their lowest per capita levels in half a century. This rapid decline is without parallel.

GM's financing arm, GMAC, cannot effectively access the secondary markets today. With each passing day, it is less able to finance the sale of GM vehicles, either for dealers or for the public. One year ago, GMAC was able to provide either installment or lease financing for nearly half of GM retail sales. That number has fallen to 6% today. In addition, GMAC is no longer able to buy contracts for customers with a credit score under 700, which excludes roughly half the buying population. All of this has been especially toxic to GM sales in the past two months, with sales running about 40% behind year-ago levels.

Last year, the company's restructuring plan, including a new collective bargaining agreement, coupled with the then-current economic and market outlook, indicated adequate liquidity to sustain operations (please refer to Appendix B). However, the collapse of the industry and GM sales, caused by the current economic crisis, now makes it increasingly unlikely GM will be able to service its debt in a timely fashion, requiring development of the new Plan presented herein.

The company's balance sheet, reflecting in substantial part the \$103 billion in cash/assets used to fund U.S. post-retirement healthcare and pension funds in the last 15 years, includes a (\$60) billion negative net worth position at September 30, 2008. Liquidity, at \$16 billion, was above the \$11-\$14 billion minimum range required for GM's global operations, but continued cash burn and closed capital/credit markets threaten the company's ability to fund the Plan.

Therefore, GM must reluctantly, but necessarily, turn to the U.S. Government for assistance. Absent such assistance, the company will default in the near term, very likely precipitating a total collapse of the domestic industry and its extensive supply chain, with a ripple effect that will have severe, long-term consequences to the U.S. economy. To avoid such a disastrous outcome, we propose both loans from the Federal Government and the empowerment of a new Federally-created Oversight Board to help facilitate all the necessary changes for a successful restructuring of the company.

#### **4. Consequences of Failure**

Everyone at General Motors, including its Management and Board of Directors, is well aware of the consequences of failure to implement the Plan. These consequences go beyond those of the failures of smaller corporations. The cost of failure in this instance would be enormous for everyone, given the broad impact of GM and the domestic auto industry on the present and future U.S. economy. Regionally, a failure at GM would devastate Michigan and other Midwest states that are already reeling with high unemployment and low economic activity.

A failure by GM will likely trigger catastrophic damage to the U.S. economy, precipitating failures among component and logistic suppliers, other domestic car



manufacturers, raw material suppliers, technology and service providers, retailers and their suppliers, and GM creditors and financial institutions. According to a study by the Center for Automotive Research, an estimated 3 million Americans could find themselves jobless within a year of GM's collapse, and the longer-term consequences of losing such a leading manufacturer and investor in research and development would have long-lasting adverse effects on America's global competitiveness.

Finally, the importance of a U.S.-owned and -operated auto industry must not be underestimated, nor should its role in maintaining a fully competitive U.S. industrial base, free of domination by foreign manufacturers. The advanced propulsion investments GM is making in support of greatly improved fuel efficiency, emissions reductions, and energy independence will create whole new "green" industries that will drive the U.S. economy in the 21<sup>st</sup> century.

#### 5. Temporary Federal Loan

General Motors seeks an immediate temporary Federal loan in the amount of up to \$4 billion in the month of December 2008. Based on a forecast of continued low industry unit sales for the next several months, as indicated in Table 1 below, the company's liquidity position is expected to fall below minimum levels needed to sustain operations (these projections, and more detailed supporting schedules, are contained in Appendix C).

**Table 1 - Temporary Federal Loan - Baseline Scenario**

	BASELINE SCENARIO			
	Dec '08	Jan '09	Feb '09	Mar '09
<b>U.S. Industry (Annual Sales Rate)</b>	12.5 M	11.2 M	11.3 M	11.5 M
<b>GM Operating Cash Flow*</b>	\$1.1 B	(\$4.2 B)	(\$2.0 B)	\$1.2 B
<b>GM Liquidity Level</b>	\$10.1 B	\$5.8 B	\$3.6 B	\$4.1 B
<b>Federal Loan (Total Draw)</b>	\$4.0 B	\$8.0 B	\$10.0 B	\$10.0 B
<b>GM Liquidity with Federal Loan</b>	\$14.1 B	\$13.8 B	\$13.6 B	\$14.1 B

\*After Restructuring Actions

GM would look to draw up to an additional \$4 billion in January to fund operating losses caused by very low levels of North American production, bringing the total draw to \$8 billion. If industry conditions do not improve materially, GM would access another \$2 billion of the term loan to fund operating requirements for the balance of the first quarter, bringing the total draw to as much as \$10 billion by the end of the first quarter 2009.

As noted above, GM is requesting total temporary Federal loan facilities in the amount of up to \$18 billion, \$12 billion to be made available in the form of a term loan and an additional \$6 billion by way of a revolving line of credit. This amount protects against liquidity needs should the Downside industry volume scenario materialize. As indicated in Table 2, assuming the further deterioration in sales rates as described by the Downside Scenario, GM would need an additional \$5 billion in the first quarter (over the Baseline

Scenario), bringing the total potential draw to \$15 billion. This would include use of \$3 billion from the revolving line of credit. At this moment, based upon near-term industry and sales order conditions, it is probable that this Downside Scenario would unfold for the first quarter of 2009.

**Table 2 - Temporary Federal Loan - Downside Scenario**

	DOWNSIDE SCENARIO			
	Dec '08	Jan '09	Feb '09	Mar '09
<b>U.S. Industry (Annual Sales Rate)</b>	10.5 M	9.9 M	9.9 M	10.0 M
<b>GM Operating Cash Flow*</b>	\$0.0 B	(\$6.1 B)	(\$2.6 B)	\$0.7 B
<b>GM Liquidity Level</b>	\$9.0 B	\$1.0 B	(\$1.9 B)	(\$2.0 B)
<b>Federal Loan (Total Draw)</b>	\$4.0 B	\$11.0 B	\$15.0 B	\$15.0 B
<b>GM Liquidity with Federal Loan</b>	\$13.0 B	\$12.0 B	\$13.1 B	\$13.0 B

\*After Restructuring Actions

Under either scenario, any draw from the temporary loan facilities will be conditioned on attainment of specific actions, and subject to agreement with and review by the Oversight Board.

Table 3 summarizes General Motors' 2009-2012 liquidity outlook – and Government support – under Baseline, Downside and Upside industry volume scenarios.

**Table 3 - U.S. Industry and GM Liquidity Outlook**

	2009	2010	2011	2012
<b>U.S. Industry Outlook:</b>				
- Downside	10.5 M	11.5 M	12.0 M	12.8 M
- Baseline	12.0 M	13.5 M	14.5 M	15.0 M
- Upside	12.0 M	14.0 M	15.5 M	16.2 M
<b>GM Liquidity with Federal Loan</b>				
- Downside	\$15.2 B	\$14.1 B	\$12.9 B	\$14.3 B
- Baseline	\$16.2 B	\$16.9 B	\$16.0 B	\$14.7 B
- Upside	\$16.2 B	\$16.1 B	\$16.7 B	\$19.0 B
<b>Memo: Total Federal Loan</b>				
- Downside	\$16.0 B	\$18.0 B	\$18.0 B	\$16.5 B
- Baseline	\$12.0 B	\$12.0 B	\$8.0 B	\$0.0 B
- Upside	\$12.0 B	\$10.0 B	\$6.0 B	\$0.0 B

GM's Baseline industry sales projection is 12 million units in 2009 – a dramatic decline from 16.5 million units in 2007, and even from the 13.7 million units expected in 2008. GM projects the industry will recover moderately to 14.5 million units by 2011 and 15 million units by 2012. This is significantly below the 17 million unit industry levels

averaged over the last nine years and considered to be a reasonably conservative approach to gauging liquidity needs.

Against the Baseline Scenario, GM would make partial use of the temporary Federal loan facilities in 2009 and 2010, with repayments beginning in 2011 and with a full pay down by the end of 2012. As various restructuring, legacy-related and other cost reduction actions take hold, General Motors will be able to operate profitably (at the EBIT level) at industry volume levels between 12.5-13 million units. The company's current Baseline projections show that GM will be profitable on an automotive Adjusted Earnings Before Taxes basis in 2011, after the restructuring actions.

Assuming the lower, depressed industry volumes under the Downside scenario, GM would make full use of the \$18 billion temporary Federal loan facilities through most of 2012. While not shown, Downside industry volumes in 2013 are projected at 13.5 million units. Under this Downside Scenario, the company would expect to begin partial repayment of the temporary Federal loan facilities in 2012.

**5.1 Capital Structure Considerations**—In addition to liquidity measures, GM's Plan includes, and is conditioned upon, significant sacrifice and deleveraging of GM's balance sheet. Table 4 presents a snapshot of GM's obligations and capital position pre- and post-conversion, on a pro-forma basis.

**Table 4 - GM's Capital Obligations Pre- and Post- Conversion**

	<b>12/31/08 Projected (Bill USD)</b>	<b>12/31/08 Pro-Forma (Bill USD)</b>
<b>Total Debt, Incl. VEBA-Related @ 9% Discount Rate</b>	62.0	~30.0
<b>Book Equity</b>	(65.1)	~(32.0)
<b>U.S. Government Funding (Not Included in Debt)</b>	4.0	4.0
<b>Trade Payables</b>	27.8	27.8
<b>Warranty Obligations (Global)</b>	9.0	9.0

This pro-forma restructuring will significantly improve GM's creditworthiness, as shown in the detailed financial projections in Appendix C. Combined with operating improvements, this restructuring will enable the company to access funding from the public capital markets or private sources and hence potentially accelerate repayment of the Federal loan. GM will immediately engage current lenders, bond holders, and its unions to satisfactorily negotiate the changes necessary to achieve this capital structure; Oversight Board involvement may be necessary to be successful. As indicated, GM's Plan is to preserve the status of existing trade creditors to avoid collateral damage rippling through the supply chain. Similarly, GM's plan would honor terms and provisions of all outstanding warranty obligations to both consumers and dealers, in the U.S. and globally.

Figure 1 below summarizes GM's projected liquidity position under the Baseline scenario, including projections: 1) prior to restructuring and Government support; 2) after operations and balance sheet restructuring *but before* any temporary loan support; 3) after restructuring *and including* temporary loan support.

Figure 1 - Global Liquidity 2008 – 2012 – Baseline Scenario

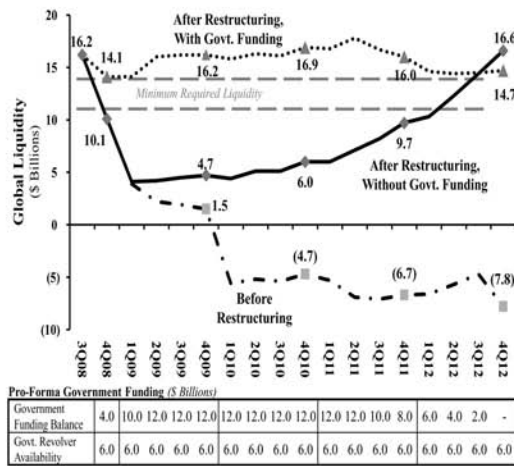
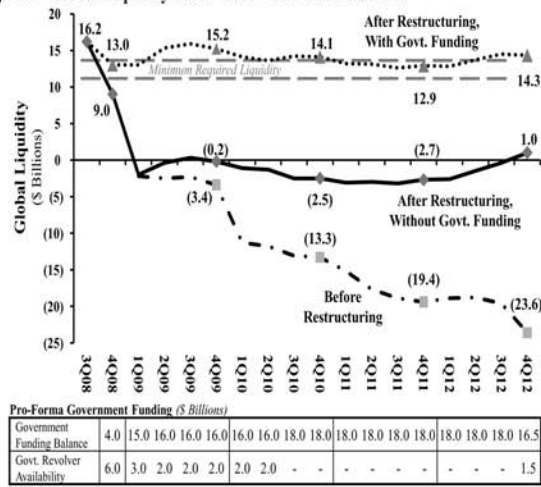


Figure 2 below presents comparable projections under the Downside Scenario for industry volumes.

Figure 2 - Global Liquidity 2008 – 2012 – Downside Scenario



The company will share detailed financial information supporting the liquidity projections above with the Oversight Board, or with other experts such as Congress may designate. Such information is competitively sensitive and would need to be treated on a confidential basis, and we ask for your assistance in this matter. The company's senior leadership will also be available at any time to provide individual or team briefings related to the Plan.

**5.2 Stakeholder Considerations**—Operating and capital restructuring will require negotiated solutions with various stakeholders, which GM will engage immediately. These sacrifices, enumerated later in this submission, start with management. The Plan calls for further reducing executive ranks and total compensation paid to senior leadership. In addition, the Plan calls for achieving full competitiveness with low-cost competitors in the United States, requiring negotiations with the company's unions around job security provisions, paid time off, and other operating measures. The Plan also targets a balance sheet restructuring related to both debt and obligations pursuant to post-retirement healthcare (i.e., the VEBA obligation).

Given the importance and urgency of this restructuring effort to the company, other domestic manufacturers and the U.S. economy, GM supports the formation of the Oversight Board to ensure that taxpayer investments are protected and, as necessary, support and facilitate an expedited, Administration-led, successful restructuring.

**5.3 Loan and Funding Protocol**—General Motors proposes the following protocols and timing with regard to the disbursements related to the U.S. Government's funding:

1. Following enactment of legislation, funds in the amount of \$4 billion would be made immediately available to the company, through the term loan facility;
2. An additional draw of up to \$4 billion is anticipated in January 2009 from the term loan facility, and an additional \$2 billion in February or March. This reflects recent, significant reductions to the company's first-quarter 2009 production schedules, based on a dramatic reduction in sales and dealer orders. If U.S. industry conditions remain weak, along the lines of the Downside Scenario, GM may need to access the remaining \$2 billion in the term loan facility and up to an additional \$3 billion, from the Federal revolving credit facility, by the end of the first quarter 2009;
3. GM has already engaged with its labor partners to negotiate changes to be fully competitive with foreign manufacturers operating in the U.S. no later than 2012. In addition, GM will engage relevant stakeholders in the capital structure to complete a conversion and rescheduling of its indebtedness as contemplated in the Plan, including the VEBA obligations. These negotiations will be completed no later than March 31, 2009, and may require Oversight Board support to be successful.
4. In light of the risks in the current environment, GM requests that total temporary Federal loan facilities (term loan and revolving credit combined) be established in the amount of \$18 billion, which would provide adequate liquidity should the Downside industry volume scenario materialize.

The protocols noted above include Government financing in the form of loans. As structured, it is GM's intention to repay or otherwise refinance these obligations at the earliest feasible and prudent date.

The company also respectfully requests that the Government consider structuring a portion of the total \$12 billion of the senior term loan facility noted in #1-2 above instead as preferred stock, a more permanent source of capital (analogous to the TARP). Structured in this way, the Government earns returns (while maintaining TARP – like taxpayer protections), creates a more effective platform for GM's future capital raising activities, and allows the company to devote resources to future product and technology investments.

**5.4 Taxpayer Protections**—GM agrees that any Government-sponsored funding must protect the taxpayer and provide for strong assurances regarding returns. The Oversight Board should be empowered to oversee any draws from the temporary Federal loan facility and, as noted above, assist with reviewing, approving and facilitating the specifics of the company's restructuring plan. Mechanisms should be put in place to protect taxpayers' investment, including senior status and any temporary loans being immediately callable if Plan benchmarks are not met. Additionally, through warrants provided in consideration of the temporary loan facility, taxpayers will be provided with a means to participate in growth in the company's share price based on successful execution of the Plan. The issuance of these warrants will be limited to avoid triggering a

change of control, which would result in a loss in the company's net carry-forward tax loss credits.

**5.5 Shareholder and Management Sacrifices**—GM accepts that all stakeholders need to share in the sacrifices required for a successful restructuring. Dividends on GM Common stock, which were suspended in August 2008 as part of ongoing restructuring-related initiatives, will remain suspended during the period that the company makes use of the temporary Federal facility. Shareholders will also sacrifice by way of the diluted effects of both capital restructuring and the issuance of warrants to taxpayers.

It is longstanding GM policy for senior executives to have most (80% or more) of their compensation at risk based on the company's performance to align with shareholder interests. For the past five years, executives have not received the majority of the value from this at-risk compensation as: all stock options are underwater; long-term plans based on relative total shareholder return have not paid out; and other equity-based compensation has significantly declined in value. GM's Chairman and CEO and Vice Chairmen made voluntary reductions in their salaries by as much as 50% in 2006 and 2007, and are willing to make further sacrifices for 2009. Such sacrifices are as follows:

- The Chairman and CEO will reduce his salary to \$1 for 2009. He will not receive an annual bonus for 2008 and 2009.
- Consistent with this action, members of the GM Board of Directors will reduce their annual retainer to \$1 for 2009.
- The next four most senior officers (Executive Vice Presidents and above) will reduce their total cash compensation by approximately 50% in 2009, which includes no bonus paid for 2008 and 2009 and a 30% salary reduction for the President and COO, and 20% salary reductions for the remaining three.

The company believes the above actions on senior officer and performance-linked compensation recognize its obligations to both protect taxpayer interests and retain employees vital to a successful restructuring, and deliver maximum value to our shareholders.

GM agrees to maintain the strictest oversight on Executive compensation including annual bonuses and golden parachutes. The top 5 most senior officers do not have any employment or severance agreements. Post-2009 compensation will be determined in conjunction with the Oversight Board, and would be dependent upon the achievement of the benchmarks in the Plan.

**5.6 Corporate Aircraft**—GM is immediately ceasing all corporate aircraft operations, unfortunately impacting approximately 50 hourly and salaried employees. GM is currently exploring options for transferring the aircraft to another charter service operator and/or pursuing disposal of the aircraft. These actions are in addition to recently announced decisions to reduce the total number of corporate aircraft.

**5.7 GMAC Considerations**—General Motors currently has two primary relationships with GMAC. As shareholder, GM indirectly owns 49% of GMAC's common stock

equity and over \$1 billion in face value of preferred equity of GMAC (the remaining 51% of GMAC common being owned by an investment consortium led by Cerberus Capital Management). GM and GMAC also have extensive commercial agreements relating primarily to vehicle and dealer financing.

Given the current financial market turmoil and depressed economy, GMAC has been facing significant income and liquidity challenges that adversely affect both the value of GM's investments in GMAC and the extent to which GMAC is able to provide financing for GM vehicles and GM dealers. As a result of these pressures, GMAC has reduced its financing of vehicle sales and leases, including completely exiting the retail vehicle financing business in certain international markets. These developments in turn have made it harder for consumers to find financing and have resulted in increased costs to GM and lost sales.

GMAC is currently pursuing approval to become a bank holding company (BHC) by converting its industrial loan company subsidiary into a full service, FDIC-insured bank. If GMAC is approved as a BHC, GMAC Bank would have an increased retail deposit focus, which is expected to provide a more stable and lower cost funding source to GMAC. As a BHC, GMAC would also have the ability, at the discretion of the Treasury, to participate in recent Government-sponsored liquidity and capital programs. GM expects that a lower cost of funding at GMAC would enable it to support an expanded retail and lease business at lower cost to consumers and would positively impact pricing to GM for GM-sponsored marketing incentives (e.g., 0% financing offers). GM also believes that GMAC, as a BHC, would be in a far stronger position to provide financing for GM dealers. All these improvements could be expected to result in increases in GM vehicle sales.

In order to become a BHC, GMAC would have to satisfy certain key regulatory requirements. First, GMAC would have to obtain additional capital in order to meet regulatory capital requirements. Second, GM and the Cerberus investment consortium would be required to restructure their ownership interests in GMAC. Finally, GM and GMAC would have to revise various aspects of their commercial agreements.

GM believes that a healthy GMAC is vital to GM's success and is committed to supporting GMAC's BHC application. GM's Plan requires a healthy, stable and lower cost source of credit to support vehicle sales and GM will take all reasonable and necessary actions to effect GMAC's conversion to a BHC and to ensure that GMAC earns an adequate risk-adjusted return while running the bank in a safe and sound manner. GMAC is working with the Federal Reserve to gain final approval for GMAC to become a BHC by the end of the year.

**5.8 Pension and Healthcare Considerations**—GM remains committed to fulfilling its obligations to its employees and retirees related to pension and healthcare, although the specifics of these obligations change over time due to competitive realities. In this regard, since 2001, GM has taken numerous actions to address the cash flow and balance sheet impacts of rapidly escalating healthcare and pension costs and liabilities. Most notably, GM agreed with the UAW to shift the liability of paying for health care for hourly



retirees from GM to an independent trust (VEBA), scheduled to occur on January 1, 2010. Additionally, GM and the IUE-CWA have recently agreed to a similar arrangement to become effective January 1, 2012, for their retirees. For the salaried population, those hired on or after January 1, 1993, receive no healthcare benefit in retirement, and for those who retain coverage GM has capped retiree health care spending at 2006 levels. In addition, effective January 1, 2009, GM will no longer provide supplemental healthcare coverage to salaried retirees at age 65.

As for pension costs, GM no longer provides a defined benefit pension plan for salaried employees hired on or after January 1, 2001, and no longer provides a traditional pension plan for new UAW hourly employees. In addition, GM suspended matching contributions for salaried active defined contribution participants effective November 1, 2008. GM's financial health, of course, is vital to the income security of GM plan beneficiaries, as their current and future pension benefits are at risk if the plan is terminated and/or taken over by the Pension Benefit Guaranty Corporation. At September 30, 2008, the company's pension plans were slightly overfunded. As GM previously shifted Plan assets away from equities in the past two years, the recent downturn in the stock markets has not impacted GM's pension assets to the same degree as has been generally true for other plans. GM expects to meet or exceed pension funding targets as established by the Pension Protection Act. Appendix C provides more detail on the historical funded status of the U.S. pension plans as well as an estimate of funded status as of October 31, 2008.

Federal loan assistance will allow GM to fulfill obligations to employees and retirees related to pensions and healthcare.

#### **6. Principal Restructuring Plan Elements**

General Motors is committed to being America's automobile manufacturer of choice, being the fuel economy leader, being cost competitive, and being profitable and self-sustaining. The company has made significant progress in the last several years across many of these important fronts, either leading—or being among the leaders—in many of these areas (as indicated in Appendix A).

Events of the past few months have had a devastating impact on GM's capital and liquidity plans, prompting the request for temporary Federal assistance. Many elements of the Plan, previously set in motion, remain the right actions to take for long-term competitiveness and viability.

Nonetheless, the Plan now includes accelerated emphasis in four key areas:

- reduction in brands, nameplates and retail outlets, to focus available resources and growth strategies on the company's profitable operations;
- changes in wages and benefits to achieve full competitiveness with foreign manufacturers in the U.S. by no later than 2012;
- changes in the company's VEBA-related obligations;
- balance sheet restructuring and supplementing liquidity via temporary Federal assistance.

Other key elements of the Plan, under way for some time now, include:

- full compliance with the 2007 Energy Independence and Security Act, and extensive investment in a wide array of advanced propulsion technologies;
- further manufacturing and structural cost reductions through increased productivity and employment reductions;
- continued shift of the portfolio to smaller, more fuel efficient vehicles;

Taken together, the operating and capital restructuring elements will significantly improve the company's profitability and cash flow for the long term, and enable full repayment of any temporary Federal assistance by 2012 (based on Baseline industry volumes). Further detail on these restructuring elements is provided in the following sections.

**6.1 Marketing and Retail Operations**—Today, General Motors competes in the United States with 8 brands. Chevrolet, Cadillac, Buick, and GMC represent the company's core brands, accounting for 83% of current sales. The company will focus substantially all of its product development and marketing resources in support of these brands. This will result in improvements in awareness, sales, and customer satisfaction for these 4 core brands.

Significant efforts have been expended to combine the Buick, Pontiac and GMC (BPG) brands into a single dealer distribution network, with approximately 80% of these brands' combined sales sold through BPG-branded stores. This channel will be fully competitive in terms of total entries offered, with Pontiac serving as a specialty/niche brand with reduced product offerings solely intended to complement Buick and GMC models and reinforce the channel as a whole.

Hummer has recently been put under strategic review, which includes the possible sale of the brand. GM will also immediately undertake and expedite a strategic review of the Saab brand globally. Finally, Saturn, which has performed below expectations, has a unique franchise agreement and operating structure. As part of the Plan, the company will accelerate discussions with Saturn retailers and explore alternatives for the Saturn brand.

As indicated in Table 5, the Plan focuses the company's resources in the U.S. around a smaller, more profitable set of nameplates (40 by 2012) with further consolidations in GM's dealer network planned to get to a more profitable and stronger dealer network.

**Table 5 - Restructuring of U.S. Marketing and Dealer Operations**

	Actual			Plan
	2000	2004	2008	2012
<b>Total Nameplates</b>	51	63	48	40
<b>GM Dealer Count (Locations)</b>	8,138	7,497	6,450	4,700
<b>J.D. Power Sales Satisfaction (% of GM Brands Above Industry Avg.)</b>	100%	100%	100%	100%

As indicated, the number of GM retailers is expected to decline to 4,700 by 2012. This will occur primarily in metropolitan and suburban areas where GM has too many dealers to serve the market. In the Plan, it is projected these dealers will be reduced by 35%, increasing annual throughput for the remaining outlets to a more competitive level with other high-volume manufacturers. GM's distribution strength in rural areas, which is a significant competitive advantage, will be largely preserved. GM intends to have the right number of brands, sold by the right number of dealers, in the right locations to obtain maximum profitability for GM and the retailer network.

**6.2 Manufacturing Cost Reduction**—General Motors, together with our union partners, has achieved significant productivity improvements, today having the most productive assembly plants in 11 of 20 product segments as measured by the Harbour Report. As shown in Table 6 below, the company now has a manufacturing system capable of industry-leading workplace safety, segment-leading quality, and a cost position moving to parity with non-unionized foreign competition operating in the U.S.

**Table 6 - Manufacturing Improvements**

	Actual			Plan
	2000	2004	2008	2012
<b>U.S. Assembly Productivity (Harbour Report - Hours per Vehicle)</b>	27.66	23.76	22.83	Improved
<b>Workplace Safety - OSHA Lost Work Day Rate (Cases per 200,000 hrs)</b>	0.54	0.27	0.12	Improved
<b>U.S. Landfill-Free Manufacturing Sites</b>	0	0	13	30
<b>U.S. Employment (Hourly and Salaried)</b>	191,465	167,465	96,537	65,000-75,000
<b>U.S. Powertrain, Stamping and Assembly Plants</b>	59	64	47	38
<b>U.S. Flexible Plants (Assembly Only)</b>	22%	26%	60%	77%

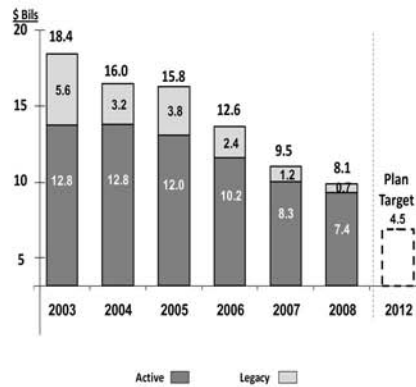
General Motors has become the global automotive benchmark for workplace safety, sustaining lost workdays at a level one-third that of Japanese, Korean or German manufacturing operations located in the United States. These results have been achieved

while also becoming the industry benchmark for sustainable, environmentally-friendly manufacturing methods, with 13 General Motors U.S. sites being 100% 'landfill-free' by year-end 2008, and plans to achieve this status at 50% of our manufacturing operations by year-end 2010. General Motors is also focused on using renewable energy in its manufacturing operations, with five sites today using landfill gas, compared to Toyota which has none.

Since 2005, GM has been implementing a manufacturing and product strategy that allows GM to be more nimble and responsive to changes in consumer preferences and in the marketplace. In 2008, 60% of U.S. assembly plants are able to build multiple types of vehicles on common, flexible systems.

General Motors' U.S. hourly manufacturing costs have declined markedly from \$18.4 billion in 2003 to an estimated \$8.1 billion in 2008, as indicated in Figure 3. This reduction reflects productivity improvements, significant reductions in post-employment healthcare expense due to benefit plan changes, and volume declines.

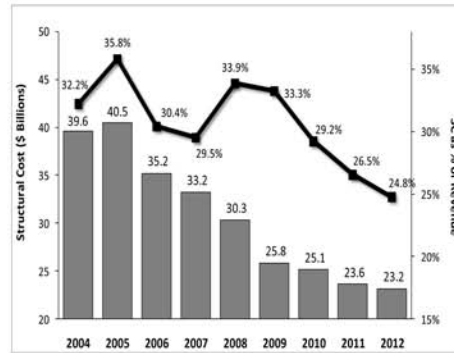
**Figure 3 - U.S. Hourly Manufacturing Cost 2003-2012**



Reflecting labor negotiations completed over a year ago, General Motors' total cost per hour for new hires can now be as low as \$25, growing to \$35 over time, significantly below the average fully-loaded labor cost for Toyota, which public sources indicate is between \$45 and \$50 per hour. With the recently negotiated wage rates, turnover expected in our workforce, planned assembly plant consolidations, further productivity improvements in the Plan, and additional changes to be negotiated, GM's wages and benefits for both current workers and new hires will be fully competitive with Toyota by 2012.

**6.3 Structural Cost Reduction**—Significant structural cost reductions have been achieved in GM’s North America operations, of which the U.S. is approximately 80%, as indicated in Figure 4.

Figure 4 - GM North America Structural Cost 2004-2012



Reductions in legacy costs, especially relating to retiree healthcare and pension expense for both hourly and salaried employees, and the manufacturing rationalizations previously discussed, account for the bulk of the cost reductions achieved through 2008.

The Plan will further reduce the company’s structural costs by approximately \$5 billion annually, or 16%, in the 2009/2010 timeframe. This reflects the full benefit of negotiated ‘legacy cost’-related changes being realized in 2010, when exposure to all hourly healthcare retiree-related expense is largely removed from General Motors’ balance sheet. This is a significant and important change to the company’s long-term viability. In the past 15 years alone, General Motors spent over \$103 billion on retiree healthcare and pension expense, crowding out investment otherwise made in quality, safety, fuel efficiency and innovation. Further, such funding has decimated GM’s balance sheet, resulting in negative stockholder equity of about (\$60) billion as of September 30, 2008.

**6.4 Fuel Efficiency Improvements**—General Motors today offers 20 models with 30 miles per gallon or more on the highway—more than any other manufacturer. General Motors is also the *world leader* in flex fuel technologies, with over 3 million flex fuel-equipped vehicles on U.S. roads today. Flex fuels represent the fastest way for the United States to reduce its dependence on imported oil.

While remaining a full-line manufacturer, GM will substantially change its product mix over the next four years, and launch predominately high-mileage, energy-efficient cars and crossovers. The Plan includes introducing this market’s smallest 4-passenger vehicle, achieving higher fuel economy than the 2-passenger Smart Fortwo, the most fuel-efficient non-hybrid vehicle in the U.S. market today. In 2009, the Plan includes seven

new vehicle launches in the United States, all of which will be either car or crossover models.

The Plan includes further increases in flex-fuel and hybrid-equipped vehicles. In 2012, over 50% of GM's new vehicle sales will be flex-fuel capable. Regarding hybrids, GM offers six models today – more than any other manufacturer – and will introduce the VUE Two-Mode hybrid, along with the Silverado and Sierra hybrids in 2009. By 2012, GM will offer 15 hybrid models.

In the Plan, further shifts to smaller displacement gas engines will occur—8-cylinder engines are replaced by 6-cylinder engines, 6-cylinder engines are replaced by 4-cylinder engines. More extensive use of turbo-charging is enabling the shift to smaller displacement engines, providing better fuel economy with normal operations but offering power in reserve for emergency situations. 4-cylinder engine usage, for example, will increase by 42% by 2012, and fuel-saving 6-speed automatic transmission volume will increase by 400%, to over 90% of GM's U.S. automatic transmission sales volume.

Table 7 contains Plan fleet-average fuel economy for GM cars and trucks in 2012. The indicated levels fully comply with the 2007 Energy Independence and Security Act, as is the company's commitment in all years.

**Table 7 - Fuel Efficiency Improvements**

	Actual			Plan
	2000	2004	2008	2012
<b>Car Fleet Average (MPG)</b>	27.7	29.0	31.6	37.3
<b>Truck Fleet Average (MPG)</b>	21.0	21.8	24.6	27.5
<b>Models &gt;30 mpg (Highway)</b>	8	8	20	24
<b>Flex-Fuel (% of U.S. Sales)</b>	2%	6%	17%	55%
<b>Hybrid Models</b>	0	2	6	15
<b>Car/Crossover Nameplates (% of Total)</b>	61%	52%	65%	73%

During the 2009-2012 Plan window, General Motors will invest approximately \$2.9 billion in alternative fuel and advanced propulsion technologies. These technologies, some of which are featured in Table 8, offer fuel economy improvements ranging from 12% to 120%, compared to conventional gas engines. General Motors is partnering with other manufacturers on select technologies, to spread the very significant development expenses involved, and is open to other cooperative ventures. Early generations of these technologies involve significant development costs, with volumes expected to be low. Programs developed with Federal agencies to incentivize the purchase of these sophisticated, high-mileage vehicles will help build volume, grow the supplier base, and enable faster learning cycles and lower costs.

**Table 8 - GM Advanced Propulsion Development**

Technology	Fuel Economy Improvement Impact	2009-2012 Investment*
Hybrid (BAS+)	12-15%	\$467 M
Strong Hybrid (Large vehicle)	30-35%	\$515 M
Strong Hybrid (Small vehicle)	35-55%	\$315 M
Extended-Range Electric Vehicles (e.g. Volt)	100-120%	\$758 M

\*Capital and engineering; additional investment in 2013 and beyond

Implementation of this Plan will strengthen General Motors' ability to move these advanced vehicle technologies to higher volumes in the 2012-2020 timeframe. As a result, GM fully expects to meet the fuel economy standards as mandated by the Energy Independence and Security Act of 2007.

GM will launch the ground-breaking Chevrolet Volt in 2010. As indicated in Table 8, GM is investing over \$750 million in the Volt and its propulsion system, prototypes of which are currently on test at GM's Milford Proving Grounds. An extended-range electric vehicle, the Volt will deliver up to 40 miles on a single electric charge, well within the daily commute of approximately 80% of Americans. Volt represents a fundamental reinvention of the American automobile industry, creating new growth and environmentally-friendly/sustainable industries, and represents a giant step toward energy independence. No other car company has made such a commitment to the American people. It involves the development of advanced batteries, power electronics, systems integration and manufacturing methods. The company's product plan includes additional vehicles utilizing Volt's extended-range electric vehicle system and potentially, the assembly of battery packs in the United States.

General Motors will also continue to invest in hydrogen fuel cell technology, which – when commercially deployed – will reduce automobile emissions to non-polluting water vapor. Already, General Motors has deployed 90 Equinox compact SUVs in U.S. customer hands, in what constitutes the world's largest demonstration fleet of hydrogen fuel cell vehicles.

On November 17, 2008, General Motors submitted to the Department of Energy its first Section 136 loan application, related to eight specific, high fuel-efficiency projects, in the total amount of \$3.6 billion. Applications were made for the Chevrolet Volt, Chevrolet Cruze and Saturn Two-Mode Hybrid, which launch in the next 24 months. Applications were also made on behalf of several fuel-saving technologies, including hybrid and electric vehicle components, flex-fuel engines and automatic transmissions.

A second application, related to additional high-mileage vehicle and powertrain programs in development, is targeted for submission the week of December 1, and is estimated at \$4.7 billion. In both cases, GM has made significant fuel efficiency-related investments

that, as a result of having been made prior to the enactment of Section 136 funding, do not qualify for such funding.

General Motors estimates that the projects comprising the first Section 136 loan application will directly create and/or sustain in excess of 10,000 jobs within the United States, rightfully thought of as “green” jobs. Subsequent applications will involve additional “green” job creation.

By combining the jobs resulting from advanced technology research and development activities, with the “green” jobs noted above and similar jobs which GM’s activities support across its supply chain, the company believes it will be one of the significant creators of “green” jobs in the United States. GM will serve as anchor and catalyst in the automobile industry, helping suppliers, dealers and the 3 million related employees transform the U.S. economy, especially related to more fuel-efficient, lower-emitting vehicles.

General Motors will continue to support efforts to adopt consistent, long-term national policies to address energy security and climate change that help accelerate the adoption, by the consumer, of advanced vehicle technologies.

**6.5 Product Portfolio Changes**—Based on industry awards and sales results, many of the company’s products are resonating with both the media and consumers. Three of the last four Car/Truck of the Year awards in the United States were awarded to GM products—the Saturn Aura, Chevrolet Silverado, and Chevrolet Malibu. Very recently, GM’s Opel brand won European Car of the Year for its new Insignia sedan, derivatives of which will be manufactured in the United States in the near future.

The company’s increasing success with new model introductions is, importantly, being rewarded in very tangible ways. Specifically, contribution margins are improving significantly on our new models. As examples, the new Cadillac CTS and Chevrolet Malibu are generating contribution margin improvements of more than 30% and 50% respectively, with significant improvements in residual values as well.

Importantly, 22 of 24 new vehicle introductions in 2009-2012 will be cars and crossovers. Twenty of these models will come from GM engineering centers having a long history of designing vehicles for \$6-\$8 per gallon gasoline. GM’s move to global product development represents a major restructuring move, putting it on equal footing when compared to Toyota and well ahead of other global manufacturers. The company is already realizing savings in the form of lower engineering and capital expense per model. By 2012, approximately 68% of General Motors’ car sales volume in the United States will be models derived from new, global architectures.

General Motors is focused on delivering high-quality and exciting cars, crossovers and trucks to American consumers. We paid a steep price because of quality problems and relatively low customer satisfaction during the 1970s and 1980s. While J.D. Power’s Initial Quality Survey (IQS), among other third party measures, shows that we have substantially overcome the quality gap compared to many imported makes, perception



continues to lag this reality. In fact, the most recent IQS results show GM and Ford tied for top quality honors with 11 segment-leading vehicles each.

Among various initiatives to address the company's perceived quality gap, GM today offers the industry's most comprehensive warranty and related coverage. Importantly, as part of the company's financial restructuring efforts, terms and conditions of all outstanding warranties are unaffected.

Table 9 highlights further improvements in quality contained in the Plan:

**Table 9 – Vehicle Quality Improvements**

	Actual			Plan
	2000	2004	2008	2012
<b>J.D. Power Initial Quality Survey</b> (problems per hundred vehicles) <i>indexed due to 2006 survey redesign:</i> <i>industry avg. = 100</i>	106	101	101	84
<b>Warranty – Problems per Vehicle</b>	1.6	1.1	0.8	0.5
<b>J.D. Power Service Satisfaction</b> (% of GM Brands Above Industry Avg.)	85%	100%	100%	100%
<b>Total Nameplates</b>	51	63	48	40
- Car/Crossover Nameplates	31	33	31	29
- Truck Nameplates	20	30	17	11

In the Plan, further improvements in Initial Quality scores and fewer warranty problems per vehicle (relative to competition) are expected. These improvements result from a change in the company's vehicle development process. In 2005, GM abandoned a 97-year history of each of its four regions developing vehicles for their respective markets; GM's product development activities were globalized. This has led to significant economies of scale in the design, engineering, tooling and manufacturing of globally common vehicles. An additional benefit is organizational focus on fewer, more common vehicles, resulting in higher quality.

**6.6 Significant Capital and Cost Reductions**—General Motors' various restructuring initiatives over the past few years have been designed to improve its competitive position and ultimately the company's profitability, liquidity and capital structure.

As noted in Appendix B, the company's accumulated restructuring actions, when viewed against the then-current economic and industry outlook for 2009-2013, indicated adequate liquidity to implement the Plan. Industry sales outlooks have plummeted, rendering the company's liquidity and capital plans unworkable. Significant 'self-help' actions have been taken, including measures to further improve liquidity by approximately \$20 billion, the specifics for which are summarized in Table 10:

**Table 10 – 2<sup>nd</sup> Half 2008 Liquidity Actions**

	<b>Additional Cash Savings Through YE 2009</b>	
<b>July 15th Announced Liquidity Actions</b>		
GMNA Structural Cost	~ \$2.5B	On-Track
Salaried Employment Savings	~ \$1.5B	Largely Complete
Capital Expenditure Reductions	~ \$1.5B	On-Track
Working Capital Improvements	~ \$2.0B	On-Track
UAW VEBA Deferrals	~ \$1.7b	Complete
Dividend Suspension	~ \$0.8B	Complete
<b>Subtotal Operating &amp; Other Actions</b>	<b>\$10B</b>	
Asset Sales	~ \$2-4B	In Process
Capital Market Activities	~ \$2-3B	Behind Schedule
<b>Total Announced July 15</b>	<b>\$15B</b>	
<b>Nov 7<sup>th</sup> Announced Liquidity Actions</b>		
Capital Expenditure Reductions	~ \$2.5B	On-Track
GMNA Structural Cost Reductions	~ \$1.5B	On-Track
Working Capital Improvements	~ \$0.5B	On-Track
Further Salaried Actions	~ \$0.5B	On-Track
<b>Total Announced Nov 7</b>	<b>\$5B</b>	
<b>Total Liquidity Impact Through YE 2009</b>	<b>\$20B</b>	

GM is taking a number of actions to restructure both its operations and its balance sheet, including the sale of various non-core assets with estimated proceeds of at least \$2.0 billion. In total, these actions will lower the company's breakeven point for long-term viability, enabling profitable operations at industry sales rates below 13 million units (at the EBIT level).

Every stakeholder in the company's success has been engaged in all restructuring actions taken to date. However, as discussed earlier, the company's liquidity outlook requires temporary Federal assistance, given a deep and entrenched recession not foreseen one year ago.

#### **7. Demand Stimulation**

In addition to providing support to GMAC in its ability to fund consumer and dealer lending needs, and providing support to GM with the temporary Federal loan facility, the Government can assist General Motors, and the industry generally, through actions related to boosting consumer confidence and spending, employment, and easier access to credit. In addition, policies or incentives would be particularly helpful that promote the purchase of new fuel-efficient vehicles, the purchase of new hybrids and other advanced propulsion vehicles (e.g., Volt), and tax credits for scrapping older, higher carbon-emitting vehicles.

#### **8. Industry Collaboration**

General Motors' Plan creates a viable, successful and contributing company going forward. It is neither predicated nor based on major industry consolidation or major alliance/venture activities, although the company would be open to any Federal Government initiatives or proposals in this regard. The company also sees significant potential to engage in broader industry collaboration on a number of important fronts. For example, we see benefits accruing to the economy and the environment with U.S. automakers and suppliers teaming with the U.S. Government to create shared production joint ventures for first- and second-generation technology commercialization. The U.S. Government could also play a key role in providing the needed "venture capital" and become a major customer for these early generation vehicles, paving the way for the commercially high sales volumes necessary for new technology to deliver cost-effective, societal benefits. The U.S. taxpayers would also benefit from the "spin-off" value of the United States-based technology production ventures that would result. Strategic partnerships among Government, industry and academia to develop appropriate green mobility products in response to shifting energy resources, consumer demand for greener transportation, promising advanced technology and new community design will be key to meeting the Nation's energy and environmental objectives.

**9. Summary**

General Motors is committed to the success of the Plan summarized in this Congressional submission. The company's responsibility to its customers, shareholders, employees, retirees, dealers and suppliers is recognized, and to the Congress as well – should it decide to provide the requested temporary loan assistance.

With Federal support, GM will invest significantly in reinventing the automobile, with special emphasis on fuel efficiency, energy independence, and reductions in greenhouse gas emissions. These investments will contribute to the growth of America's technological innovation, the development of advanced manufacturing capabilities, and the generation of high quality jobs in line with the "new 'green' economy".

The company's Plan provides for a viable, long-term enterprise, and the American taxpayer will be repaid in full and share in the profits that are enabled by the requested temporary Federal loan assistance.

GM is proud of its century of contributions to the growth of our nation. We look forward to making an equally meaningful contribution over the next century.

Respectfully submitted,

General Motors Corporation

## Appendix A

### Summary of GM Restructuring Actions and Results

#### A.1 Product Portfolio

- Recognition of improved GM offerings
  - 3 of last 4 “North American Car/Truck of the Year” awards – Saturn Aura, Chevrolet Malibu and Chevrolet Silverado
  - Since 2005, 180 U.S. product awards
- Industry telematics leader with over 5 million OnStar customers
- 11 of last 13 new products introduced have been cars and crossovers
- Reduced total U.S. vehicle nameplates from 63 (2004) to 48 (2008); U.S. truck nameplates reduced from 30 (2004) to 17 (2008)
- Focused product development, technology and marketing resources on 4 core U.S. brands

#### A.2 Fuel Efficiency

- Among U.S. industry leaders in fuel economy
  - 20 models with greater than 30 mpg (highway), more than other manufacturers
  - 7 of 20 Ward’s Automotive segment leader positions, more than other manufacturers
  - 6 Hybrid models
    - Two-Mode hybrid system improves fuel economy 50% in city driving; received 2008 Green Car of the Year award
    - GM will be the only manufacturer with a hybrid pickup truck; most affordable hybrid offerings in the market
- Over 3 million GM Flex-Fuel Vehicles on U.S. roads
- Largest fuel cell demonstration fleet (90 Chevrolet Equinox Fuel Cells on U.S. roads)
- Approved the Chevrolet Volt for 2010 introduction

**A.3 Marketing/Retail Operations**

- Migrating U.S. distribution network to 4 channels - reduced dealers from 7,500 (2004) to 6,500 (2008)

**A.4 Manufacturing/Productivity**

- U.S. Productivity leader
  - Top assembly plant productivity in 11 of 20 product segments
  - 5 of the top 10 most productive engine plants
  - #1 most productive transmission plant
- Set the U.S. industry benchmark for workplace safety
  - One third the level of “lost workdays” as U.S.-based Japanese, German and Korean manufacturers
  - 50% improvement over the past 5 years
- Industry benchmark in environmental quality
  - 13 U.S. sites that are 100% land-fill free
  - 5 U.S. sites using landfill gas
  - 2.6% of GM’s U.S. energy consumption from renewable resources (photovoltaics and landfill gas)
- More J.D. Power quality segment leaders than Toyota
- 48% reduction in warranty repairs since 2006
- Reduced U.S. Powertrain, Stamping and Assembly plants from 64 (2004) to 47 (2008)
- Breakthrough collective bargaining agreement
  - Total U.S. hourly manufacturing costs reduced nearly 50% (from \$16 billion in 2004 to \$8.1 billion in 2008)
  - Hourly new-hire wages reduced from \$19.35 to \$14.65

**A.5 Structural Costs**

- Reduced annualized North American structural cost by \$10B since 2005
- Employment reduced 42% from 167,000 (2004) to 97,000 (2008)
- Global functional organizations streamlined
  - Lowered engineering and capital expense per vehicle through global product development
  - Increased scale economies
- Salaried workforce expense reduced by 20% on a run-rate basis in 2008

**A.6 Capital and Cost Reductions**

- Implementing “self-help” actions to improve liquidity by \$20B before the end of 2009
  - Significant asset sales completed or underway
    - GMAC (51%)
    - Allison Transmission
    - Suzuki
    - Isuzu
    - Fuji Heavy Industries
    - Electromotive Division
    - AC Delco (in process)
    - HUMMER (in process)
    - Strasbourg Powertrain Facility (in process)
- Dividends on GM stock suspended in August 2008

**A.7 GM Executive Compensation**

- Total Compensation in the Bottom Quartile Compared to the Benchmark Companies
  - No bonuses 2005, 2008
  - Below target bonuses 2004, 2006, 2007
  - No long term incentive pay out 2004 through 2008
  - All stock options 1999-2008 underwater
  - Value of restricted stock units fell with GM’s stock price
- In addition, CEO/Chairman, COO/President and Vice Chairman
  - Salaries reduced as much as 50% from 2006 to 2007
  - CEO has or will forfeit 330,000 options in 2008 and 2009
- Other
  - Supplemental Executive Retirement Plan (SERP) frozen and adopted lower accrual rate consistent with the tax-qualified plan on December 31, 2006
  - 401k matching contribution eliminated in 2008
  - Post-65 healthcare benefits eliminated for all salaried employees, including executives

As a result of these pay practices, as indicated in the table below, the actual compensation received compared to the Proxy reported compensation shows that the CEO and COO have actually earned far less than what is publicly reported.

	2007		
	Actual Compensation Received	Proxy Total Compensation	Actual Compensation as a % of Proxy
G.R. Wagoner, Jr.	\$1.8 M	\$14.4 M	13%
F.A. Henderson	\$1.9 M	\$7.6 M	25%

## Appendix B

### Economic Collapse

One year ago, following the conclusion of negotiations with the UAW, GM projected 2008 year-end liquidity was deemed adequate, in terms of maintaining operations and fully executing the Plan.

As the following table indicates, economic and industry conditions have collapsed, greatly reducing GM's liquidity.

**Exhibit B-1: U.S. Economic Indicators**

	Year Ago	Now
<b>2009 U.S. GDP Forecast</b>	2.5%	-1.0%
<b>2009 U.S. Industry Volume (Total Vehicles)</b>	16.0 M	12.0 M
<b>2009 GM U.S. Volume</b>	3.3 M	2.7 M
<b>U.S. Consumer Confidence</b>	76.1	57.9
<b>GM Common Share Price</b>	~\$30	~\$5
<b>GM Global Cash Position (9-30)</b>	\$30.0 B	\$16.2 B

The combination of the sharp run-up in oil and gas prices, rapid declines in the housing/mortgage/credit sectors, and the lowest levels of consumer confidence in nearly 30 years have conspired to dramatically reduce both the economic and automobile industry outlooks. Whereas one year ago, the consensus forecast for industry volume in 2009 was 16 million units; that number now stands at 12 million. Last month, industry sales were at their lowest per capita level in half a century.

The impact on GM's sales, cash position and liquidity has been devastating. Given that the credit markets remain effectively 'closed', the company has taken additional actions to bolster liquidity, as detailed in the main body of this submission.



## Appendix C

### Supporting Financial Information

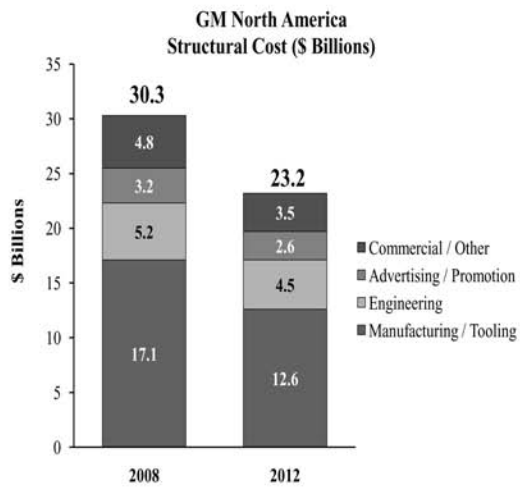
(additional Proprietary and Confidential information available upon request)

#### Exhibit C-1: GDP and Industry Sales

<b>GDP Projections</b> <i>(Baseline Scenario)</i>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
U.S.	1.2%	-1.0%	1.6%	2.4%	2.4%
Western Europe	1.0%	-0.4%	0.8%	1.7%	2.1%
China	9.8%	8.0%	8.1%	8.3%	8.5%
Russia	6.8%	3.5%	4.5%	5.5%	5.5%
Brazil	4.8%	3.0%	3.7%	3.7%	3.7%
India	7.5%	6.8%	7.2%	7.5%	7.5%
<b>Global</b>	<b>2.4%</b>	<b>1.0%</b>	<b>2.5%</b>	<b>3.1%</b>	<b>3.3%</b>

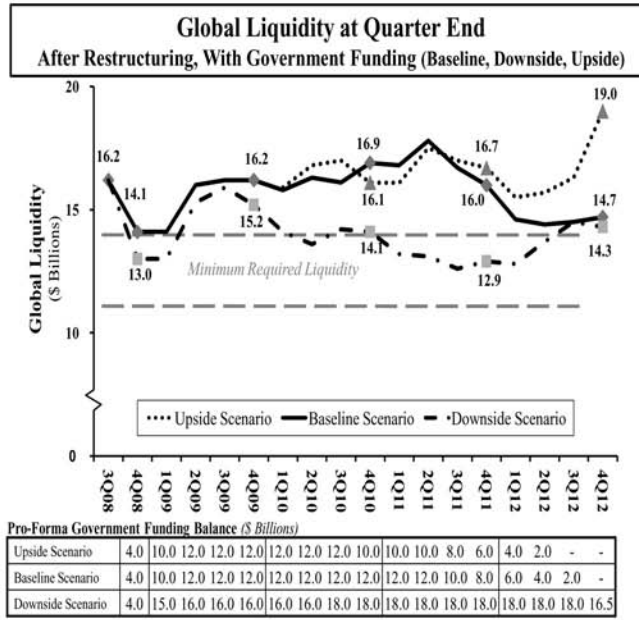
<b>Total Auto Industry</b> <b>Volume Forecast</b> <i>(units, millions)</i>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>United States</b>					
Upside Scenario	13.7	12.0	14.0	15.5	16.2
Baseline Scenario	13.7	12.0	13.5	14.5	15.0
Downside Scenario	13.7	10.5	11.5	12.0	12.8
<b>Europe</b>					
Baseline & Upside	22.2	20.0	20.1	21.1	22.7
Downside Scenario	22.2	18.0	18.1	19.1	20.7
<b>Asia-Pacific</b>	<b>21.6</b>	<b>22.0</b>	<b>24.0</b>	<b>25.6</b>	<b>27.6</b>
<b>Latin America, Africa, Middle East</b>					
	7.6	7.0	7.2	7.5	8.0
<b>Global Total</b>					
Upside Scenario	68.5	63.8	67.7	72.0	77.1
Baseline Scenario	68.5	63.8	67.2	71.0	75.9
Downside Scenario	66.5	60.3	63.2	66.5	71.7

**Exhibit C-2: Pro-Forma North America Structural Cost**



*\*Assumes Baseline Scenario volumes*

Exhibit C-3: Pro-Forma Global Liquidity Balance



**Exhibit C-4: Balance Sheet Summary  
Baseline Scenario**

	2008	2012 Pro Forma
Total Debt Including VEBA Related @ 9% Discount Rate	(66.0)	(33.6)
EBITDA	(1.1)	15.3
Interest Expense	(2.3)	(2.7)
Book Equity	(65.1)	(30.6)
Net Obligations / EBITDA	Not Meaningful	1.2x

**Exhibit C-5: Balance Sheet Summary  
Downside Scenario**

	2008	2012 Pro Forma
Total Debt Including VEBA Related @ 9% Discount Rate	(66.0)	(50.1)
EBITDA	(1.1)	12.1
Interest Expense	(2.3)	(3.4)
Book Equity	(65.1)	(43.0)
Net Obligations / EBITDA	Not Meaningful	3.0x

### Exhibit C-6: U.S. Pension Funds Status

\$ Billions

	2005	2006	2007	2008*	
	YE	YE	YE	Q3	10/31/08 Estimate
<b>Hourly Plans*</b>					
Projected Benefit Obligation	57.2	56.9	58.1		
Plan Assets	64.2	68.5	69.8		
Surplus / (Deficit)	7.0	11.6	11.8	(0.5)	(3.0)
Funded Status (%)	112%	120%	120%		
<b>Salaried Plans*</b>					
Projected Benefit Obligation	30.2	27.4	26.0		
Plan Assets	30.7	32.9	34.2		
Surplus / (Deficit)	0.5	5.6	8.2	3.4	1.2
Funded Status (%)	102%	120%	132%		
<b>Total U.S. Qualified Plans</b>					
Projected Benefit Obligation	87.4	84.2	84.1		
Plan Assets	95.0	101.4	104.1		
Surplus / (Deficit)	7.5	17.1	20.0	2.9	(1.8)
Funded Status (%)	109%	120%	124%		

\* 2008 information as of Q3 is based on a September 30, 2008 actuarial valuation for the hourly plans and a July 1, 2008 actuarial valuation for the salaried plans. The Q3 valuations were utilized as a basis to estimate pension expense included in financial projections in this submission and the amounts included for pension expense have not been updated for any changes in assumptions, including asset returns and discount rates, since the Q3 valuations. In addition, pension expense in these financial projections has not been updated to include the estimated effect of any of the restructuring or other activities GM may take as part of its restructuring activities. Such changes may result in material changes to the estimates included in these financial projections. The October 31, 2008 estimate is based on internal models and calculations of the funded status of GM's hourly and salaried pension plans as of that date and are not based on actuarial valuations which would include updated assumptions of asset returns and discount rates, among other assumptions.

**PREPARED STATEMENT OF RON GETTELFINGER**

PRESIDENT,  
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE, AND AGRICULTURAL  
IMPLEMENT WORKERS OF AMERICA

DECEMBER 4, 2008

Mr. Chairman, my name is Ron Gettelfinger. I am President of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). The UAW represents one million active and retired members, many of whom work for or receive retirement benefits from the Detroit-based auto companies and auto parts suppliers across the United States. We welcome the opportunity to appear before this Committee to present our views on the state of the domestic automobile industry: Part II.

The UAW believes the situation at GM, Ford, and Chrysler is extremely dire. As is evident from the materials which have been submitted by the companies in response to the letter from Speaker Pelosi and Majority Leader Reid, it is imperative that the federal government act this month to provide an emergency bridge loan to the domestic auto companies. Without such assistance, GM could run out of funds by the end of the year, and Chrysler soon thereafter. These companies would then be forced to liquidate, ceasing all business operations. The collapse of these companies would inevitably drag down numerous auto parts suppliers, which in turn could lead to the collapse of Ford.

The UAW appreciates the desire by Congress, as expressed in the letter from Speaker Pelosi and Majority Leader Reid, to ensure that any assistance from the Federal Government is conditioned on strict accountability by the companies and a demonstration that they can be viable businesses in the future. We fully support both of these key principles.

Specifically, the UAW supports conditioning any emergency bridge loan on strict accountability measures, including:

- tough limits on executive compensation, prohibiting golden parachutes and other abuses, and making it clear that top executives must share in any sacrifices;
- a prohibition on dividend payments by the companies;
- giving the federal government an equity stake in the companies so that taxpayers are protected; and
- establishing an Advisory Board to oversee the operations of the companies to ensure that all funds from the emergency bridge loan are spent in the United States, that the companies are pursuing viable restructuring plans, and that the companies are meeting requirements to produce advanced, more fuel efficient vehicles.

We are prepared to work with Members of this Committee to incorporate other accountability requirements that may be appropriate.

In addition, the UAW supports conditioning any emergency bridge loan on the companies pursuing restructuring plans that will ensure the viability of their operations in the coming years. For such restructuring plans to succeed, we recognize that all stakeholders—equity and bondholders, suppliers, dealers, workers and retirees, and management—must come to the table and share in the sacrifices that will be needed.

The UAW and the workers and retirees we represent are prepared to do our part to ensure that the companies can continue as viable operations. As indicated in our previous testimony, workers and retirees have already stepped forward and made enormous sacrifices.

- In 2005 the UAW reopened its contract mid-term and accepted cuts in wages for active workers and health care benefits for retirees.
- In the 2007 contract the UAW agreed to slash wages for new workers by 50 percent to about \$14 per hour, and to exclude new workers from the traditional health care and pension plans. The UAW also allowed the companies to outsource cleaning work at even lower rates.
- Under the 2007 contract, beginning January 1, 2010, the liabilities for health care for existing retirees will be transferred from the companies to an independent VEBA fund. Taken together, the changes in the 2005 and 2007 contract reduced the companies' liabilities for retiree health care benefits by 50 percent.
- As a result of the 2005 and 2007 contracts, workers have not received any base wage increase since 2005 at GM and Ford, and since 2006 at Chrysler. All of

these workers will not receive any increase through the end of the contract in 2011. Workers have also accepted reductions in cost of living adjustments.

- New local operating agreements at many facilities provided dramatic flexibilities and reductions in classifications, and have saved the companies billions of dollars.
- Reforms in the 2007 contract have largely eliminated the jobs banks.
- Since 2003 downsizing by the companies has reduced their workforce by 150,000, resulting in enormous savings for GM, Ford, and Chrysler.

Thanks to the changes in the 2005 and 2007 contracts, and changes that have subsequently been agreed to by the UAW, the labor cost gap with the foreign transplant operations will be largely or completely eliminated when the contracts 3 are fully implemented. Industry observers applauded the sacrifices made by workers and retirees, calling the 2007 contract a “transformational” agreement.

The UAW is continuing to negotiate with the domestic auto companies on an ongoing basis over ways to make their operations more efficient and competitive. We recognize that the current crisis may require all stakeholders, including the workers and retirees, to make further sacrifices to ensure the future viability of the companies. We are willing to do our part. In particular, we recognize that the contributions owed by the companies to the retiree health care VEBA fund may need to be spread out. The UAW has retained outside experts to work with us on how this can be accomplished, while still protecting the retirees. We also recognize that adjustments may need to be made in other areas.

But the UAW vigorously opposes any attempt to make workers and retirees the scapegoats and to make them shoulder the entire burden of any restructuring. Wages and benefits only make up 10 percent of the costs of the domestic auto companies. So the current difficulties facing the Detroit-based auto companies cannot be blamed on workers and retirees.

Contrary to an often-repeated myth, UAW members at GM, Ford, and Chrysler are not paid \$73 an hour. The truth is, wages for UAW members range from about \$14 per hour for newly hired workers to \$28 per hour for assemblers. The \$73 an hour figure is outdated and inaccurate. It includes not only the costs of health care, pensions and other compensation for current workers, but also includes the costs of pensions and health care for all of the retired workers, spread out over the active workforce. Obviously, active workers do not receive any of this compensation, so it is simply not accurate to describe it as part of their “earnings.” Furthermore, as previously indicated, the overall labor costs at the Detroit-based auto companies were dramatically lowered by the changes in the 2005 and 2007 contracts, which largely or completely eliminated the gap with the foreign transplant operations.

The UAW submits that it is not feasible for Congress to hammer out the details of a complete restructuring plan during the coming week. There is simply not enough time to work through the many difficult and complex issues associated with all of the key stakeholders, including equity and bondholders, suppliers, dealers, management, workers and retirees, as well as changes in the business operations of the companies.

What Congress can and should do is to put in place a process that will require all of the stakeholders to participate in a restructuring of the companies outside of bankruptcy. This process should ensure that there is fairness in the sacrifices, and that the companies will be able to continue as viable business operations. This process can begin immediately under the supervision of the next administration. By doing this, Congress can make sure that the emergency assistance is indeed a bridge to a brighter future.

Contrary to the assertions by some commentators, in the current environment a Chapter 11 reorganization—even a so-called “pre-packaged” bankruptcy—is simply not a viable option for restructuring the Detroit-based auto companies. As previously indicated, research has indicated that the public will not buy vehicles from a company in bankruptcy. It also is doubtful that the companies could obtain debtor-in-possession financing to operate during a bankruptcy. In addition, attached to this testimony is a more detailed analysis prepared with the assistance of experienced bankruptcy practitioners explaining why a “pre-packaged” bankruptcy is not a feasible option for the domestic auto companies because of the size and complexity of the issues that would necessarily be involved in any restructuring, including relationships with thousands of dealers and suppliers and major changes in business operations. Thus, the UAW wishes to underscore that any bankruptcy filings by the domestic auto companies at this time would inevitably lead to Chapter 7 liquidations and the cessation of all business operations.

The collapse of the domestic auto companies would have disastrous consequences for millions of workers and retirees and for the entire country.

- Hundreds of thousands of workers would directly lose their jobs at GM, Ford, and Chrysler, and a total of three million workers would see their jobs eliminated at suppliers, dealerships and the thousands of other businesses that depend on the auto industry.
- One million retirees could lose part of their pension benefits, and would also face the complete elimination of their health insurance coverage, an especially harsh blow to the 40 percent who are younger than 65 and not yet eligible for Medicare.
- The Pension Benefit Guarantee Corporation could be saddled with enormous pension liabilities, jeopardizing its ability to protect the pensions of millions of other workers and retirees. To prevent this from happening, the federal government could be forced to pay for a costly bailout of the PBGC. The federal government would also be liable for a 65 percent health care tax credit for pre-65 retirees from the auto companies, at a cost of as much as \$2 billion per year.
- Revenues to the Federal, State, and local governments would drop sharply, forcing cuts in vital social services at a time when they are urgently needed.
- The ripple effects from the collapse of the Detroit-based auto companies would deal a serious blow to the entire economy, making the current recession much deeper and longer.
- There also would be a serious negative impact on many financial institutions that hold large amounts of debt from the Detroit-based auto companies and their auto finance associates. This could pose a systemic danger to our already weakened financial sector.

For all of these reasons, the UAW submits it is imperative that Congress and the Bush administration act next week to provide an emergency bridge loan to the Detroit-based auto companies. The consequences of inaction are simply too devastating; the economic and human toll are too costly.

The UAW believes that the recent actions by the federal government to provide an enormous bailout to Citigroup reinforce the case for providing an emergency bridge loan to the Detroit-based auto companies. The total assistance provided to Citigroup will dwarf that being sought by the domestic auto companies. Citigroup received this assistance without being required to submit any "plan" for changing its operations or demonstrating its future viability. It was not required to change its management. And it is still able to continue paying bonuses and other forms of lucrative executive compensation.

If the Federal Government can provide this type of blank check to Wall Street, the UAW submits that Main Street is no less deserving of assistance. Since the domestic auto companies have come forward with detailed plans relating to accountability and their future viability, there is simply no justification for withholding the emergency bridge loan that is necessary for them to continue operations.

The UAW also notes that other governments around the world are actively considering programs to provide emergency assistance to their auto industries. In particular, the European Union is considering a \$51 billion loan program for automakers. And there are ongoing discussions with Germany, Great Britain, Sweden, Belgium, Poland, South Korea, China, and other nations about steps their governments can take to assist their auto industries. Clearly, other governments recognize the economic importance of maintaining their auto industries. The UAW submits that the economic importance of GM, Ford, and Chrysler to the U.S. economy is no less important and no less deserving of assistance.

It is not enough, however, for the federal government to provide an emergency bridge loan to the Detroit-based auto companies, and to oversee and facilitate the restructuring of the companies. The 111th Congress and the Obama administration have a responsibility to pursue policies in a number of areas that will be critically important to the future viability of the domestic auto companies, as well as the well being of our entire nation.

First, the UAW is very pleased that Congressional leaders and the Obama transition staff are already making plans to move forward quickly with a major economic stimulus package that will create jobs and give a boost to the entire economy. We believe this is urgently needed to prevent the economy from slipping into a deeper and more serious recession. This is particularly important for the auto sector. In order for the Detroit-based auto companies to succeed, it is vital that auto sales rebound from the record low levels we have seen in recent months. The single most important thing that can be done to increase auto sales is to reinvigorate the overall economy.

Second, the UAW believes it is critically important that Congress and the Obama administration move forward quickly with plans to reform our broken health care



system, and to put in place programs that will guarantee health insurance coverage for all Americans, contain costs, ensure quality of care, and establish more equitable financing mechanisms. In particular, we believe any health care reform initiative should include proposals to address the challenges associated with providing health care to the pre-Medicare population aged 55–65.

There can be no doubt that one of the major financial challenges facing the Detroit-based auto companies in future years is the cost of providing health care to almost a million retirees. Although the 2005 and 2007 contracts greatly reduced the companies' retiree health care liabilities, they are still enormous and a major problem that hinders the ability of the companies to obtain financing from private lenders.

All of the other major auto producing nations have national health care systems that spread the costs of providing health care across their societies. As a result, the automakers in these countries are not burdened by retiree health care legacy costs. Accordingly, the UAW is hopeful that the enactment of national health care reform in the United States would help to establish a level playing field among all employers, and alleviate the retiree health care legacy costs facing the Detroit-based auto companies.

Third, during the coming year Congress and the Obama administration are likely to consider major new initiatives dealing with energy security and climate change. The UAW strongly supports prompt action in both of these vital areas. Specifically, besides requiring automakers to comply with the tougher new fuel economy standards that were enacted in 2007, we believe Congress and the Obama administration should take steps to ensure that fuel economy improvements continue in the years following 2020, and that the companies move expeditiously to introduce advanced technology vehicles. In particular, we support an aggressive program to increase domestic production of plug-in hybrids and their key components, and to expand the infrastructure that will be needed to support these vehicles. To help achieve these objectives, Congress and the Obama administration should make sure that the Section 136 Advanced Technology Vehicles Manufacturing Incentive Program (ATVMIP) continues to be fully funded, and that additional resources are provided to ensure that production of advanced, more fuel efficient vehicles and their key components is ramped up quickly. In addition, the UAW strongly supports the enactment of an economy-wide cap-and-trade program to aggressively reduce emissions of greenhouse gases that are causing climate change.

Although these initiatives pose challenges for the auto industry, the UAW also believes they can provide great opportunities. Properly structured, these initiatives can not only ensure that our nation reduces its consumption of oil and emissions of greenhouse gas emissions. They also can ensure that the more fuel efficient vehicles of the future and their key components are built in the United States by the domestic auto companies and American workers. In effect, these initiatives can be an important part of the restructuring that is necessary to ensure the future viability of the domestic auto companies.

Fourth, Congress and the Obama administration must make sure that our nation's trade policies promote fair trade, not so-called "free trade" that fails to provide a level playing field and instead places our domestic automakers at a significant competitive disadvantage. In particular, prompt action needs to be taken to eliminate unfair currency manipulation by China and Japan. In addition, Congress and the Obama administration should insist that the U.S.-Korea free trade agreement must be renegotiated to require that Korea dismantle the non-tariff barriers that have kept its market closed to U.S.-built automotive products, before it is granted any further access to the U.S. market.

By pursuing all of these policies, Congress and the Obama administration can benefit our entire country. The UAW also believes that these policies can provide a basis under which a restructured domestic auto industry can remain viable and strong in the coming years.

In conclusion, the UAW appreciates the opportunity to testify before this Committee on the state of the domestic automobile industry: Part II. We strongly urge this Committee and the entire Congress to act promptly to approve an emergency bridge loan to the Detroit-based auto companies to enable them to continue operations and to avoid the disastrous consequences that their liquidation would involve for millions of workers and retirees and for our entire Nation.

### **Pre-Packaged Bankruptcy Is Not the Path To Revitalize the Domestic Auto Companies**

Some commentators have suggested a pre-packaged bankruptcy as an alternative to (or as part of) government-backed relief for the domestic auto companies. But the promoters have not explained how pre-packaged bankruptcy procedures can be suc-

cessfully brought to bear in a case with the complexity and scope of one or all of the Detroit-based auto companies. Indeed, bankruptcy experts are skeptical that pre-packaged bankruptcy can work. As one noted business writer who has consulted with bankruptcy experts has concluded, “it makes no sense.”<sup>1</sup>

In a pre-packaged bankruptcy, a company negotiates a financial restructuring with its major creditors outside of bankruptcy, lines up all or most of its major creditors in support of the proposed debt restructuring, and then uses the bankruptcy process to achieve a quick, consensual approval of its repayment plan. Any minority, dissenting creditors are out-voted by the pre-arranged majority support for the plan. Bankruptcy law permits pre-packaged deals as an efficient form of business restructuring.

Pre-packs can work with financial restructurings, *i.e.*, those that do not involve substantial operational issues. Where a company must restructure its balance sheet, but the business is otherwise sound, large creditors holding secured and unsecured debt are more likely to agree on the business fundamentals, and therefore more likely to reach a negotiated agreement on restructuring terms—for example, swapping debt for equity or extending debt maturities. But the domestic automobile manufacturers are in the midst of a much broader restructuring which is, to a large degree, operational. They are shifting their product mix; they are developing new-technology vehicles; and they are revamping their production locations. None of these issues can realistically be addressed in a pre-packaged bankruptcy, which is aimed at obtaining the consent of creditors to renegotiated terms on their financial debt instruments. Pre-packs were not intended for operational restructuring scenarios.

In fact, no one has explained how the basic elements of a pre-packaged bankruptcy can be achieved in the case of the domestic auto companies. Who are the debt holders, and can enough of them agree on negotiated terms? *The New York Times* reports that the domestic automakers owe more than \$100 billion to banks and bondholders. The originating banks have probably syndicated, or sold off, pieces of the debt to others. Some \$56 billion in new debt securities was reportedly issued to investors such as pension funds, insurance companies and hedge funds.<sup>2</sup> For a pre-packaged bankruptcy to work—or even get organized—the lion’s share of the outstanding debt holders need to be identified, agree to come to the table, and then agree on restructuring terms. This process would be a lengthy and expensive one, undertaken in an uncertain and weak economic environment.

The same types of problems would exist for other claimants. The various creditors engaged in the process would likely want to see a business plan before negotiating restructured terms. Thus, the pre-packaged bankruptcy would be the proverbial tail wagging the dog. Assumptions made by some proponents of a pre-pack about whether stakeholders will participate in a pre-packaged effort and what the likely outcomes would be are unsupported supposition. Also unanswered are questions about how a bankruptcy filing would deal with GMAC and the other auto finance entities or the companies’ overseas operations.

A pre-packaged bankruptcy could disintegrate into a regular, contested bankruptcy proceeding. First, the likelihood of obtaining the requisite consents is already challenged by the size, potential scope, and lack of transparency of the debt holders. Second, pre-packs must follow solicitation rules which are governed by securities laws, not bankruptcy law. The company would have to put together a solicitation that successfully navigates these rules. And, once in bankruptcy court, the efficient nature of the approval process would depend on sufficient compliance with the solicitation rules, and a sufficient supporting majority, to overcome challenges by dissenting creditors or others. If the approval process became prolonged, then the advantages of speed and efficiency would be lost.

Pre-packaged bankruptcy would not eliminate the risks associated with a bankruptcy filing. It would not eliminate the threat of systemic risk resulting from the effects of a bankruptcy by one or all of the domestic automakers on the financial markets.<sup>3</sup> Moreover, a pre-packaged bankruptcy is still a bankruptcy as far as customers are concerned. The promoters have not explained how pre-packaged bankruptcy would allay the concerns of the majority of consumers who have said they would not buy an automobile from a company in bankruptcy. Given this consumer reaction, a bankruptcy filing by any one of the domestic automakers in the current environment is a dangerous “bet the economy” proposition.

<sup>1</sup> Joe Nocera, “Road Ahead Is Long for G.M.,” *The New York Times*, November 22, 2008.

<sup>2</sup> Zachary Kouwe and Louse Story, “Big Three’s Troubles May Touch Financial Sector,” *The New York Times*, November 24, 2008.

<sup>3</sup> Zachary Kouwe and Louse Story, “Big Three’s Troubles May Touch Financial Sector,” *The New York Times*, November 24, 2008.

None of the elements of an auto industry restructuring require a bankruptcy proceeding. Restructuring milestones, repayment terms, taxpayer protections and other conditions of a loan can be established through legislation. Moreover, legislation can establish a process under which the actual restructuring of the domestic auto companies is supervised by the next administration. This can ensure that all stakeholders come to the table and share in the sacrifices that will be required, and that the domestic auto companies will be viable businesses after the restructuring is completed. In contrast, putting the fate of an auto industry restructuring in the hands of a bankruptcy court, even if a pre-packaged plan were realistically possible, would put narrow creditor interests ahead of all other stakeholders and ahead of important national concerns, including health care and pension policy, energy and transportation policy, and the negative effects of the economic downturn. These are interests that must be addressed and balanced by our elected government.

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**PREPARED STATEMENT OF ALAN R. MULALLY**

PRESIDENT AND CHIEF EXECUTIVE OFFICER,  
FORD MOTOR COMPANY

DECEMBER 4, 2008

Mr. Chairman, Senator Shelby, and Members of the Committee. Thank you for the opportunity to share Ford's plan. We appreciate the valid concerns raised by Congress about the future viability of the industry. We hope that our submission and today's testimony will help instill confidence in Ford's commitment to change, including our accountability and shared sacrifice during this difficult economic period.

On Tuesday, Ford Motor Company submitted to your Committee our comprehensive business plan, which details the company's path to profitability through an acceleration of our aggressive restructuring actions and the introduction of more high-quality, safe and fuel-efficient vehicles-including a broader range of hybrid-electric vehicles and the introduction of advanced plug-in hybrids and full electric vehicles.

In addition to our plan, we are also here today to request support for the industry. In the near-term, Ford does not require access to a government bridge loan. However, we request a credit line of \$9 billion as a critical backstop or safeguard against worsening conditions as we drive transformational change in our company.

One Plan: Beginning earlier this decade, we recognized the challenges the domestic auto industry faced and began implementing a disciplined global business plan to completely transform Ford, to improve our efficiency, cut costs and champion innovation. Our plan builds on the success we have seen in the past 2 years by accelerating the development of our new products that customers want and value. Our plan is anchored by four key priorities:

- Aggressively restructure to operate profitably at the current demand and changing model mix;
- Accelerate development of new products our customers want and value;
- Finance our plan and improve our balance sheet; and
- Work together effectively as one team, leveraging our global assets.

One Goal: Our team and plan is dedicated and focused on delivering profitable growth for all. While market, economic and business conditions recently have deteriorated worldwide at a rate never before seen, we have made substantial progress since we launched our plan in late 2006:

- We obtained financing by going to the markets in December 2006 to raise \$23.5 billion in liquidity, consisting of \$18.5 billion of senior secured debt and credit facilities, substantially secured by all of our domestic assets, and \$5 billion of unsecured convertible debt.
- We have implemented our strategy to simplify our brand structure. As a result, we sold Aston Martin, Jaguar, Land Rover and the majority of our ownership of Mazda, and we're considering our options for Volvo. We have divested other non-core assets. These sales have also helped our overall liquidity and generated \$3.7 billion in additional capital to re-invest in the business.
- To achieve maximum efficiency, we will have reduced our North American operating costs by more than \$5 billion between year end 2005 and 2008.
- We have taken painful downsizing actions to match capacity and market share in North America, including closing 17 plants and downsizing by 12,000 salaried employees and 44,000 hourly employees.

Ford is committed to building a sustainable future for the benefit of all Americans, and we believe Ford is on the right path to achieve this vision. I know the Members of the Committee have had an opportunity to review our plans over the last 2 days, so I will highlight new details about Ford's future plans and forecasts:

- Ford's plan calls for an investment of approximately \$14 billion in the U.S. on advanced technologies and products to improve fuel efficiency during the next 7 years.
- Based on current business planning assumptions—including U.S. industry sales for 2009, 2010, and 2011 of 12.5 million units, 14.5 million units and 15.5 million units, respectively—Ford expects both our overall and our North American automotive business pre-tax results to be break even or profitable in 2011.
- As part of a continuing focus on building the Ford brand, we are exploring strategic options for Volvo Car Corporation, including the possible sale of the Sweden-based premium automaker. The strategic review is in line with a broad range of actions we are taking to focus on the Ford brand and ensure we have the resources to fund our plan. Since 2007, Ford has sold Aston Martin, Jaguar, Land Rover, and the majority of its stake in Mazda.
- Half of the Ford, Lincoln, and Mercury light-duty nameplates by 2010 will qualify as "Advanced Technology Vehicles" under the U.S. Energy Independence and Security Act—increasing to 75 percent in 2011 and more than 90 percent in 2014. We have included these projects in our application to the Department of Energy for loans under that Act and we hope to receive \$5 billion in direct loans by 2011 to support Ford's investment in advanced technologies and products.
- From our largest light duty trucks to our smallest cars, Ford will improve the fuel economy of our fleet an average of 14 percent for 2009 models, 26 percent for 2012 models and 36 percent for 2015 models—compared with the fuel economy of its 2005 fleet. Overall, we expect to achieve cumulative gasoline fuel savings from advanced technology vehicles of 16 billion gallons from 2005 to 2015.
- Next month at the North American International Auto Show in Detroit, we will discuss in detail Ford's accelerated vehicle electrification plan, which includes bringing a family of hybrids, plug-in hybrids and battery electric vehicles to market by 2012. The work will include partnering with battery and powertrain systems suppliers to deliver a full battery electric vehicle (BEV) in a van-type vehicle for commercial fleet use in 2010 and a BEV sedan in 2011. We will develop these vehicles in a manner that enables it to reduce costs and ultimately make BEVs more affordable for consumers.
- The 2007 UAW-Ford labor agreement resulted in significant progress being made in reducing the company's total labor cost. Given the present economic crisis and its impact upon the automotive industry, however, we are presently engaged in discussions with the UAW with the objective to further reduce our cost structure and eliminate the remaining labor cost gap that exists between Ford and the transplants.
- As previously announced, Ford plans two additional plant closures this quarter and four additional plant closures between 2009 and 2011. We have announced our intent to close or sell what will be four remaining ACH plants. And we will continue to aggressively match manufacturing capacity to real demand.
- Ford will continue to work to reduce its dealer and supplier base to increase efficiency and promote mutual profitability. By year end, we estimate we will have 3,790 U.S. dealers, a reduction of 606 dealers overall—or 14 percent from year-end 2005—including a reduction of 16 percent in large markets. In addition, Ford has been able to reduce the number of production suppliers eligible for major sourcing from 3,400 in 2004 to approximately 1,600 today, a reduction of 53 percent. We eventually plan to further reduce the number of suppliers eligible for major sourcing to 750.
- After reducing our workforce by 50 percent in just three years, we are also canceling all bonuses and merit increases for North America salaried employees—including top management—in 2009. And should Ford need to access funds from a potential government bridge loan, I will work for a salary of \$1 a year—as a sign of my confidence in the company's transformation plan and future.
- We are moving ahead with plans we announced this summer to leverage the company's global product strengths and bring more small, fuel-efficient vehicles to the U.S. The plan includes delivering best-in-class or among the best fuel economy with every new vehicle introduced. We are also introducing industry-leading, fuel-saving EcoBoost engines and doubling the number and volume of hybrid vehicles.

- This product acceleration will result in a balanced product portfolio with a complete family of small, medium and large cars, utilities and trucks. And we are increasing our investment in cars and crossovers from approximately 60 percent in 2007 to 80 percent of our total product investment in 2010.

Our plan is working, but there is clearly more to do—something that is increasingly difficult in this tough economic climate. That is why we are seeking access to a \$9 billion bridge loan, even though we hope to complete our transformation without accessing any of these funds.

Despite the serious global economic downturn, Ford does not anticipate a liquidity crisis in 2009—barring a bankruptcy by one of our domestic competitors or a more severe economic downturn that would further cripple automotive sales and create additional cash challenges.

In particular, the collapse of one or both of our domestic competitors would threaten Ford because we have 80 percent overlap in supplier networks and nearly 25 percent of Ford's top dealers also own GM and Chrysler franchises.

The impact of a bankruptcy also reaches beyond Ford and the U.S. auto industry. It would cause further stress to our domestic banking industry and private retirement systems. Goldman Sachs estimates the impact at up to \$1 trillion.

We also believe effective restructuring involves a broader dialogue with all our stakeholders. President-elect Obama has indicated an interest in such a discussion. There are a number of complicated questions that will need to be considered, for example:

- How do we create a dealer body that meets market demand and is profitable for all?
- How do we develop a healthy and viable supplier base?
- How do we work with the UAW to ensure that our cost structure is competitive with the foreign transplants?
- How do we address the significant debt obligation of the domestic industry?

We are prepared to work together with this Committee and all of the parties to address these critical issues as part of our plan.

Ford has a comprehensive transformation plan that will ensure our future viability—as evidenced by our profitability in the first quarter of 2008. While we clearly still have much more to do, I am more convinced than ever that we have the right plan that will create a viable Ford going forward and position us for profitable growth.

Thank you.

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**PREPARED STATEMENT OF ROBERT NARDELLI**

CHAIRMAN AND CHIEF EXECUTIVE OFFICER,  
CHRYSLER LLC

DECEMBER 4, 2008

I appreciate the opportunity to represent the one million people who depend on Chrysler for their livelihoods. Before I answer your questions regarding our loan request, let me state clearly why we're here: Chrysler requests a \$7 billion loan to bridge the current financial crisis.

In exchange, Chrysler is committed to: continue our restructuring, including negotiating cost-saving concessions from all constituents; investing in fuel-efficient cars and trucks that people want to buy and beginning repayment of our government loan in 2012. I also want to reinforce the need for Chrysler Financial to receive immediate assistance from TARP—as its continued vitality is a critical assumption to our plan.

Chrysler requires this loan to get back to our transformation that began just over 1 year ago. As a newly independent company in 2007, Chrysler was on track for financial profitability. Since August of 2007, we have eliminated more than 1.2 million units, or 30 percent of our capacity. We reduced our fixed costs by \$2.4 billion and separated more than 32,000 workers, including 5,000 on the Wednesday before Thanksgiving. And at the same time, we invested more than half a billion dollars in product improvements in our first 60 days, improved our J.D. Power quality scores and reduced our warranty claims by 29 percent. As a result, through the first half of 2008, Chrysler met or exceeded its operating plan and ended the first half of the year with \$9.4 billion in unrestricted cash.

We are here because of the financial crisis that started in 2007 and accelerated at the end of the second quarter of 2008. As consumer confidence fell and credit

markets remained frozen, the lowest U.S. auto sales in more than 20 years put tremendous pressure on our cash position. U.S. industry sales fell from 17 million a year in 2007, to a monthly annualized rate of 10.5 million last month—a 6.5 million unit decline.

What does that mean for Chrysler? At 10 percent market share, it translates to a loss of 650,000 vehicles, or roughly \$16 billion in lost revenue opportunity. With such a huge hit to our sales and revenue base, Chrysler requires the loan to continue the restructuring and fund our product renaissance.

Chrysler has a sound plan for financial viability that includes shared sacrifice from all constituents. We have identified approximately \$4 billion of potential cost savings and improvements that have been included in our plan. We are committed to negotiate with all constituents to achieve our savings targets. Our plan also includes producing high-quality, fuel-efficient cars and trucks that people want to buy, while supporting our country's energy security and environmental sustainability goals.

For the 2009 model year, 73 percent of our products will offer improved fuel economy compared with 2008 models. We plan on launching additional small, fuel-efficient vehicles. ENVI is our breakthrough family of all-electric and range-extended electric vehicles—similar to the one parked outside.

Chrysler's long-range product plan is robust, realistic, and green. The plan features 24 major launches from 2009 through 2012. It includes a hybrid Ram truck and our first electric-drive vehicle in 2010 with three additional models by 2013.

A key feature of Chrysler's future is our capability as an electric vehicle company. Through our GEM neighborhood electric vehicle division, Chrysler is the largest producer of electric-drive vehicles in the U.S. today. Combined with the new products from our ENVI group, we expect that 500,000 Chrysler electric-drive vehicles will be on the road by 2013.

Chrysler will continue to aggressively pursue new business models that include alliances, partnerships and consolidations. This model is currently successful in helping Chrysler increase the efficient utilization of our manufacturing capacity. For example, in North America today, Chrysler manufactures all Volkswagen minivans, and beginning in 2011, we will produce all Nissan full-size trucks.

With government collaboration, our industry can accelerate how America drives cutting-edge technology. An Automotive Energy Security Alliance would: coordinate public and private spending already devoted to advanced vehicle technologies; produce basic technology available to all manufacturers; work with national labs and major research universities and draw private investment to meet our national energy and environmental goals. Such an alliance would help ensure that as a country, we do not trade our current dependence on foreign oil for a future dependence on foreign technologies.

I recognize that this is a significant amount of public money. However, we believe this is the least costly alternative considering the depth of the economic crisis and the options we face.

Thank you.



Bob Nardelli  
Chairman & CEO

December 2, 2008

The Honorable Christopher Dodd  
Chairman  
Senate Committee on Banking, Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Richard Shelby  
Ranking Member  
Senate Committee on Banking, Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, DC 20510

Dear Chairman Dodd and Ranking Member Shelby:

Chrysler LLC is pleased to respond to the letter dated November 21, 2008 letter from Speaker Pelosi and Leader Reid, and present a detailed plan for Chrysler's return to viability and repayment of the proposed federal emergency financing. As you will see from the annexed submission, our request is supported by accurate and reliable financial and product analyses.

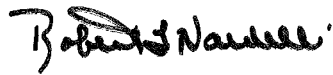
Given the shortness of time for your review, we have also included a summary which sets forth Chrysler's response to each of the questions posed in the November 21 letter and references the corresponding sections of the supporting submissions that describe Chrysler's plan in greater detail. I will be prepared to address these and other questions that you may have when we meet later this week. In addition, members of the Chrysler management team and I will remain available to provide such assistance as you, your staff or others require in order to enable you and your colleagues in the Senate and the House to consider, finalize and approve the terms and conditions upon which the urgently needed \$7 billion in bridge funding required by Chrysler can be provided.

The depth and scope of the analyses set forth in our plan and its supporting materials necessarily contain projections and other information that is non-public, competitively sensitive and proprietary. Hence, while we fully understand and agree that you, as well as any of the "pertinent agencies within the executive branch, the Government Accountability Office, the Board of Governors of the Federal Reserve, as well as outside experts" retained by or serving your respective Committees or any of the foregoing federal agencies, offices or Governors, are entitled and do require this information, we respectfully request that those portions of our submission that have been marked as "Proprietary and Confidential" be treated as such and, to the extent permitted by law, immunized from production under the Freedom of Information Act.

Chairman Dodd and  
Ranking Member Shelby  
December 2, 2008  
Page Two

Again, on behalf of our 55,000 employees and 3,320 dealers, thousands of suppliers, retirees and the millions of owners of Chrysler, Dodge and Jeep vehicles in communities across the country, I thank you for your ongoing consideration of Chrysler's request.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert Nardelli". The signature is written in a cursive style with a large, stylized initial "R".

cc: w/ encl.

Majority Leader Reid

Republican Leader McConnell





**United States Senate Committee on Banking, Housing  
and Urban Affairs**

**December 2 , 2008**

**Chrysler's Plan for Short-Term  
and Long-Term Viability**

**Robert Nardelli**

**Chairman & CEO**

**Chrysler LLC**



**Chrysler Background**

Historically, Chrysler has been the one of most agile and innovative of the three Detroit automakers. This pioneering spirit has resulted in bold and successful business decisions including the acquisition of the Dodge and the Jeep brands, the invention of the legendary HEMI engine, and the creation of the Minivan. Today, Chrysler employs 55,000 workers worldwide, and sells approximately 2 million new vehicles each year, through a network of global dealers, including over 3,300 located in the United States. In 1979, Chrysler sought and received loan guarantees from the Federal Government to survive the economic recession and oil crisis of the late 1970s. These loans were paid back seven years early, and generated more than \$300 million in equity returns to the American taxpayers. Even more significantly, the loan guarantees that helped return Chrysler to health resulted in the Company's ability to continue to pay employees and suppliers, fund retiree health and pension benefits and pay local, state and Federal taxes for the past 30 years.

In 1998, Chrysler was acquired by Daimler and became a wholly-owned subsidiary of the large global automaker. As part of the integration, the Chrysler organization became functionally aligned with Daimler's German headquarters, and key functions were centralized in Germany. Chrysler's operating strategy and long-term product plans were optimized based on Daimler's overall global goals rather than Chrysler's stand-alone objectives.

In August 2007, Daimler sold a controlling interest in Chrysler to affiliates of Cerberus Capital Management L.P., creating the first privately held American auto company in 50 years. The dedicated men and women of Chrysler view the challenge of returning Chrysler to profitability as an opportunity of a lifetime, and are determined to restore this 83-year old, iconic American brand to one of stature in the automotive industry.

Mr. Nardelli was engaged by Chrysler immediately following the separation from Daimler in August 2007. New to the automotive industry, he recognized the need to question and challenge the status quo and sought significant opportunities to improve performance throughout the business. Under his leadership Chrysler launched an aggressive restructuring effort to address declining market conditions and to transform the business into an independent American auto company aligned with consumers' emerging needs.

Chrysler made tough decisions to reduce operating costs and adjusted production schedules immediately. Management prioritized every product investment with a strong emphasis on improving energy security and environmental sustainability by introducing advanced powertrain technologies. At the same time four unprofitable vehicle models were discontinued and over \$1 billion in unprofitable assets were identified for sale, with more than 70 percent of those assets disposed of to date.

Since 2007, Chrysler has eliminated 1.2 million units of capacity, which represented over 30 percent of its previously installed capacity, and resulted in the elimination of 12 production shifts. Over the past 10 months alone Chrysler reduced its fixed costs by \$2.4 billion. Unfortunately, by the end of 2008, Chrysler will have separated over 32,000 employees, including 5,000 white collar employees who left the company just this past Wednesday before Thanksgiving. Cost cutting has been substantial, swift and wide-ranging. Nothing has been viewed as "sacred."

According to the Harbour Report, Chrysler has increased its manufacturing productivity by 32% over the past 7 years to equal Toyota, the most productive automaker in North America in terms of hours of assembly per vehicle. This combined with the favorable hourly labor rates in the recently negotiated transformational labor agreement with the UAW is an important step toward making Chrysler's cost structure competitive with transplant manufacturing by 2010.

To further enhance its product portfolio, support growth and improve its cost structure, Chrysler continues to aggressively pursue strategic alliances and partnerships. Examples include our manufacturing agreement with Nissan whereby Chrysler will provide 100 percent of Nissan's full size truck manufacturing in North America beginning 2011. At the same time Chrysler will purchase a compact, fuel efficient car from Nissan for global markets beginning in 2010. Chrysler also became the sole supplier to VW for all its Minivan production in North America. Chrysler has also entered into alliances with suppliers to develop innovative powertrain technology to support improved fuel economy.

Further partnership, restructuring and consolidation represent a significant upside for the U.S. auto manufacturers in a global economy. Chrysler welcomes the opportunity to have an open discussion with the new Administration and Congress on a collaborative approach to restructuring that will ensure any Government resources invested in the industry are used efficiently and will advance important national public policy objectives.

### **1. Our Request**

Chrysler is requesting a \$7 billion secured working capital bridge loan by December 31, 2008. The existing senior secured lenders have advised Cerberus that they will work with the Company and the Government to provide mutually satisfactory collateral and priority.

The Company makes this extraordinary request to meet a short-term deficiency in our liquidity and working capital created by a perfect storm comprised of

- (a) the collapse in demand for light duty vehicles (2007 SAAR 16.2 million compared to 10.8 million run rate for the month of November 2008),
- (b) the unprecedented financial crisis where even world-class companies like General Electric and Berkshire Hathaway must pay huge premiums for what was previously considered "AAA" credit, and many businesses have no access to credit at all (despite the best efforts of the Congress and Treasury to inject capital and create liquidity) and
- (c) the general global economic downturn.

These events have jeopardized our ability to complete the dramatic restructuring plan that we began in 2007, before the commencement of the current economic crisis. Provision of the bridge loan will allow the Company to retain the confidence of its lenders, suppliers, dealers and employees and complete the on-going restructuring which we are confident will place the company on a path to long-term viability.

This submission to Congress contains the facts, assumptions and projected financial results that support Chrysler's belief that it will be financially viable throughout the plan cycle. Management believes this report and analysis demonstrates that Chrysler can and will emerge from this restructuring process as a significant and healthy player in the U.S. automotive market for years to come, and will be well positioned to begin repayment of the Federal loans in 2012. Chrysler believes that participating in the restoration of the Company's long-term viability without a bankruptcy filing significantly improves the outcome for all constituents.

## 2. Short-Term Cash Requirements

For the first six months of 2008 Chrysler LLC operations generated adequate working capital to fund its ongoing operations. The Company ended the first half of the year with approximately \$9.4 billion of cash. However, the significant downturn in the U.S. automotive sector in the second half of this year began to deplete the Company's otherwise ample cash reserves.

Chrysler currently estimates that at year end it will have approximately \$2.5 billion available cash on hand. In order to maintain appropriate working capital liquidity, and to bridge to the completion of the out-of-court restructuring and business plans described below, we are requesting the \$7 billion secured bridge loan. During the period from January 1, 2009 through March 31, 2009, Chrysler anticipates making payments to the following parties:

Summary of Qtr. 1, 2009  
Major Expenditures (\$Billions)

Parts suppliers	\$ 8.0
Other vendors	1.2
Wages	0.9
Healthcare/legacy	0.5
Capital expenditures	0.5
<u>Other expenditures</u>	<u>0.5</u>
Total expenditures	\$11.6

Traditionally, the first three months of the year are the months with the lowest sales volumes, and hence, the lowest cash flows. Chrysler anticipates sales to be even lower than normal due to the economic downturn, the credit crisis and the inability of dealers and customers to secure wholesale and retail financing, which places greater pressure on operating cash flows.

As a result of the above, without an immediate working capital bridge, Chrysler's liquidity could fall below the level necessary to sustain the company through the first quarter of 2009.

### 3. Major Business Assumptions

Congress has asked whether Chrysler, if in receipt of the requested Federal loan, can achieve viability on a stand alone basis as a profitable company. As noted above, the Company has already made substantial strides towards that goal and as indicated in this submission, will pursue significant additional restructuring actions and seek meaningful concessions from each of its major constituents. Chrysler believes these actions, taken together, clearly demonstrate long-term viability. Management fully understands that it has to continue to drive revenues through responsible product development that support the country's energy security and environmental sustainability goals.

Chrysler remains focused upon developing partnerships, strategic alliances or a consolidation as a fundamental element of its restructuring to expand its product portfolio, generate incremental revenue, and create additional operational synergies related to manufacturing, purchasing and distribution. Management recognizes that in spite of the capacity reductions in the U.S. industry, there still exist opportunities for significant synergies through factory rationalization, sharing platforms and components (i.e., powertrain), and sharing new technical innovations (i.e., dual-mode hybrid drive systems) in a cost effective manner. Chrysler has conducted internal studies to identify the financial impact of an alliance or consolidation. Our estimates for annual synergies once fully implemented range between \$3.5 and \$9.0 billion.

Chrysler anticipates that the Federal loan will function as additional adequate assurance to our suppliers, customers and employees that the Company will make it through this extraordinary time in our nation's economy, assuming, among other things, that Chrysler Financial has financing capacity at the wholesale and retail level sufficient to support Chrysler's production volumes. At Chrysler, 75 percent of our dealers rely on Chrysler Financial to finance their business, and 50 percent of all customers finance their vehicle purchases through Chrysler Financial. With credit markets frozen, our customers – average working Americans – do not have access to competitive financing to purchase or lease vehicles...our dealers do not have access to market competitive funding to place wholesale orders for new vehicles...resulting in the constriction of cash inflows to the Chrysler. Chrysler Financial is in need of immediately liquidity support.

Chrysler's salaried workforce will fully comply with the restrictions established under section 111 of EESA. The Company has already undertaken and will continue to undertake significant cost reduction actions, such as: suspending the Company's match portion of the 401(k) plan; terminating the lease car program; and asking more productivity of each employee as a result of the approximately 12,000 in headcount reductions over the past 2 years. Additionally, Chrysler has substantially increased all salaried employees' contribution to health care costs,

suspended tuition reimbursement program benefits, and eliminated retiree life insurance benefits.

Mr. Nardelli receives an annual salary of \$1 from Chrysler. In addition, Mr. Nardelli receives no health care, insurance or similar benefits from the Company. On average, Chrysler's executive salaries are in the 2nd quartile when compared to similarly situated companies, which in general, is below competitive market levels.

Furthermore, the Company did not pay salaried merit increases or performance bonuses in 2008, and has not planned salaried merit increases or performance bonuses for 2009. Management has no options or restricted stock units. Top management will continue to share in the sacrifices of the salaried workforce and bear 100% of their healthcare premium costs.

#### **Product Development and Other Revenue Drivers**

**DOE - 136 funding** : Chrysler applied on day one for \$8.5 billion in 136 funding, \$6 billion (or 70 percent) of which is factored into the planning period from 2009 – 2012. These funds will be absolutely critical for Chrysler to achieve its product plan to support energy security and environmental sustainability.

**Providing Cars and Trucks People Want to Buy**: Chrysler has made substantial progress in its product line to improve fuel efficiency, quality, technology and consumer appeal. During its first 60 days as an independent company, management approved more than 400 design changes representing an investment of half a billion dollars in improvements to product reliability, durability, fit and finish, and consumer appeal. Chrysler also offered its customers a lifetime powertrain warranty to build both confidence in its products and demonstrable quality. Due to a focused product quality improvement effort during the past year, Chrysler has seen its warranty claim rates drop by 29%. This improvement trend continues.

Chrysler's viability plan includes 24 major product launches through 2012, including a wide portfolio of hybrid electric-drive vehicles within several categories: Neighborhood Electric Vehicles (NEV), City Electric Vehicles (CEV), Range-extended Electric Vehicles (ReEV), and full-function battery electric vehicles (BEV).

Chrysler is the largest producer of all-electric vehicles in the U.S.. Through its GEM (Global Electric Motorcars) division, Chrysler has produced over 40,000 NEVs during the past 10 years with significant market growth forecasted over the next several years.

The development of Chrysler's full function electric-drive vehicles is led by ENVI, the Company's in-house organization that was formed to focus on electric-drive production vehicles and related advance technologies. ENVI's initial focus is on establishing a market presence and technology leadership in electric-drive to further:

- Reduce well-to-wheel energy consumption.
- Reduce petroleum dependency.
- Reduce tailpipe emissions and greenhouse gases.
- Increase energy efficiency.
- Exceed consumer's expectations in the areas of fuel economy, cost-of-ownership, performance, comfort, utility, and safety.

Chrysler recently developed several advanced production-intent electric vehicles and publicly demonstrated our commitment to apply electric-drive technology to front-wheel-drive, rear-wheel-drive and body-on-frame four-wheel-drive platforms.

Chrysler's product plan includes the introduction of the first full function electric-drive model in 2010, and expansion to additional models by 2013. Chrysler will have close to 100 vehicles dedicated to testing and development within the Company, or assigned to Government and business evaluation fleets by the end of 2009. Chrysler's market penetration of electric-drive vehicles will further increase with over 500,000 produced by 2013.

Our commitment to enhancing the nation's energy security and environmental sustainability also includes improving the performance of existing technology and support for flex fuel vehicles. For the 2009 model year, nineteen Dodge, Jeep and Chrysler models, or 73% of our product line, will offer improved fuel economy compared to previous models. The company has more than 1.7 million Flex Fuel Vehicles (FFV) on the road capable of running on 85 percent ethanol, and is on target to meet our commitment of 50% of our fleet being flex fuel capable by 2012.

Chrysler's ongoing commitment to safety is evident in industry ratings. For 2009 model year over 88% of Chrysler vehicles achieved NHTSA's highest possible rating—5 stars for frontal crash tests. Eighty-six percent of Chrysler vehicles achieved the Government's highest rating for side impact protection.

#### 4. 2009 – 2012 Financial Forecast

In order to complete a successful restructuring of Chrysler, the participation of many constituencies is essential.

Based upon the financial analysis included herein, which assumes:

- (i) a reasonable level of support and concessions from the Company's constituencies
  - (ii) \$6 billion in funds from our DOE 136 loan request; and
  - (iii) the \$7 billion bridge loan;
- the long-term viability of Chrysler will be ensured.

The detailed "bottom up" yearly forecasts for 2009-2012 were completed and critically challenged by all levels of senior management and the Company's independent outside advisors.

There are a number of key market and financial assumptions which directly impact the Company's level of profitability. Summarized below are the major assumptions made for the years 2009 – 2012:

<u>Operating Assumption</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
SAAR (millions of units, light duty only)	11.1	12.1	13.7	13.7
Chrysler share (%)	10.4	10.7	10.7	10.7
Chrysler unit sales(m) - U.S.	1.19	1.33	1.49	1.49
Chrysler unit sales(m) - WW	1.72	1.86	2.15	2.15

Based upon the above operating assumptions, Chrysler projects that the financial results will be as set forth below:

	(\$ in Billions)			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Operating profit	0.4	2.6	2.0	1.8
Net cash change	(2.0)	2.3	1.6	1.1
Ending cash balance	7.5*	9.8	11.4	12.5**

\*includes \$7 billion Government bridge loan

\*\*assumes \$1 billion repayment of Government loan

Chrysler believes that its operating assumptions are appropriate and realistic for 2009 and 2010, given the current state of the economy and domestic vehicle market. With respect to 2011 and 2012, the Company assumes a trend upward in unit sales volumes as the economy gradually improves. However, even if growth assumptions are reached, management believes the annual unit sales volumes will remain approximately 20% below recent historical levels of 17 million vehicles annually.



The Company also prepared a sensitivity analysis assuming a 1 million unit higher and 1 million unit lower volume level for 2009 through 2012. The results are as follows:

**Sensitivity Higher Case (1 million unit annual increase)**

	(\$ in Billions)			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
SAAR (millions of units, light duty only)	12.1	13.1	14.7	14.7
Operating income	0.8	3.0	2.4	2.2
Net cash change	(1.2)	3.1	2.4	1.1
Ending cash balance	8.3	11.4	13.8	14.9

**Sensitivity Lower Case (1 million unit annual decrease)**

	(\$ in Billions)			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
SAAR (millions of units, light duty only)	10.1	11.1	12.7	12.7
Operating income (\$B)	0.0	2.2	1.6	1.4
Net cash change	(2.8)	1.5	0.8	1.1
Ending cash balance	6.7	8.2	9.0	10.1

## 5. Governmental requirements

### New Funding/Equity Grant

The funding contemplated pursuant to the Government program will be on terms consistent with those provided by the Government under existing or contemplated loan programs and contain equity enhancement opportunities to ensure that taxpayers will benefit from appreciation of shareholder value. Chrysler has a high degree of flexibility and the support of Cerberus Capital Management, L.P., to offer the Government warrants, common or preferred equity or other equity based rights.

### Executive Compensation Matters

Chrysler understands the importance of limitations on compensation for senior executives during the term of the loans and will fully comply with all conditions relating to executive compensation established under the Emergency Economic Stabilization Act of 2008 ("EESA") and such other conditions as the Government may require.

### Transparency/Accountability

The terms of the financing will include provisions to ensure transparency and accountability. The Company will provide regular financial information and will fully cooperate with the Government's oversight personnel.

**Fuel Efficiency**

Chrysler has made substantial progress in its product line to improve fuel efficiency, quality, technology and consumer appeal. Chrysler accepts all currently applicable CAFE standards as a condition to the funding.

**Early Acceleration**

Chrysler agrees that the loans will be immediately callable if the Company's restructuring plan submitted to the Government on March 31, 2009 is not acceptable, or other mutually agreed upon benchmarks are not met.

**6. Why the out-of-court scenario is a better option than a bankruptcy filing.**

1. A "prepackaged bankruptcy" is not plausible for Chrysler because:
  - a. In a typical prepackaged bankruptcy, the company solicits and obtains the necessary affirmative vote in favor of a plan of reorganization of only one impaired class of creditors in advance of its bankruptcy filing and in accordance with applicable nonbankruptcy law. Once filed, the bankruptcy case can proceed expeditiously to confirmation because all other classes of creditors are either left unimpaired or have agreed to the treatment proposed in the plan.
  - b. Any plan of reorganization proposed by Chrysler would necessarily impair a multitude of separate classes of holders of claims and interests, making the pre-petition solicitation and acceptance or rejection of the plan (and satisfying the Bankruptcy Code's myriad conditions to plan confirmation) impracticable and highly unlikely to succeed.
2. A regular chapter 11 bankruptcy would likely not lead to a timely and successful reorganization of Chrysler because:
  - a. Chapter 11 cases involving companies with the scale, scope and complexity similar to Chrysler (and even companies far smaller and simpler than Chrysler) usually take several years to resolve.
  - b. Because the Bankruptcy Code embodies a strong Congressional preference for consensually negotiated plans of reorganization, it invariably takes a debtor-in-possession an extended period of time (often years) to negotiate the terms of a plan that are acceptable to the holders of most (if not all) classes of impaired claims and interests.
  - c. Chrysler would not be permitted to reject or modify unilaterally its collective bargaining agreements in a chapter 11 case. The Bankruptcy Code contains express, specific and often time-consuming requirements that must be adhered to before a Bankruptcy Judge is even authorized to rule on a debtor's application

to reject a collective bargaining agreement. Even then, there can be no assurance that a Bankruptcy Judge will approve the debtor's application. Accordingly, negotiations between a debtor-employer and a Union can (and often do) take years to resolve consensually.

- d. During these protracted negotiations, the employer-debtor is required to honor and pay its wage, benefit, jobs banks and other obligations under its existing collective bargaining agreements. The Bankruptcy Code simply does not provide the haven (as many believe) for employers-debtors to re-cut burdensome collective bargaining agreements in a cost efficient or timely manner. We reference the pending Delphi Automotive bankruptcy case to highlight the protracted time and significant expense that renegotiating a collective bargaining agreement imposes even during a chapter 11 process.
3. Almost every chapter 11 debtor requires debtor-in-possession (DIP) financing to maintain ordinary course business operations while it reorganizes. Chrysler would be no exception.
    - a. Chrysler believes that the amount of DIP financing that it would need to remain viable even during a relatively short bankruptcy (just one year) would approximate \$12 to \$15 billion. And, even that estimate presumes that financing remains available for the company's dealers and customers, which cannot be counted on given current market conditions.
    - b. If financing for its dealers is unavailable from traditional sources during its Chapter 11 process (as Chrysler must assume would be the case), then Chrysler would need at least \$5 billion of additional DIP financing just to support its dealers, pushing the expected total size of the year-one DIP financing need approximately \$17 to \$20 billion.
    - c. The enormous size of the DIP financing facility that Chrysler would require is due to many factors, including: (i) the likelihood that many consumers will shun purchasing vehicles made by a manufacturer that is in chapter 11, thereby starving the company of revenue while it attempts to reorganize; (ii) the extraordinary imperiled financial state of the automotive suppliers will likely leave the Bankruptcy Court with no choice but to approve billions of dollars of payments to many of its suppliers on account of "pre-petition" claims just to keep the suppliers themselves afloat and the assembly lines moving at Chrysler; (iii) in addition, Chrysler expects that many suppliers will eliminate any trade credit during its chapter 11, thereby instantly consuming billions of additional dollars of working capital; and (iv) the incurrence by Chrysler of significant professional fees on account of the bankruptcy proceedings.
    - d. Given the current adverse credit markets, we would not expect DIP financing of such size would be provided by Chrysler's existing lenders or by any other

private source. Accordingly, the DIP financing would have to be provided by the U.S. Government.

- e. Absent the availability of such DIP financing, Chrysler would be left with no choice but to commence liquidation, the consequences of which could be dire for the overall U.S. economy including:
    - i. All 29 of our manufacturing facilities and 22 parts depots would be permanently shut down immediately.
    - ii. 53,000 out of the Company's 55,000 hourly and salaried employees would be terminated immediately representing over \$7.2 billion in annual wages and healthcare benefits.
    - iii. No payments would be made to over \$7 billion in outstanding auto parts and service supplier invoices forcing thousands of our suppliers to go out of business.
    - iv. Over 3,300 dealers would go out of business and over 140,000 employees at dealerships would lose their jobs.
    - v. Over 31 million Chrysler, Jeep and Dodge owners would lose significant value in their vehicles. Additionally, these customers would not be covered by ongoing warranties and would find replacement parts and service difficult to obtain over time.
4. Sales of new vehicles may plunge during a chapter 11 bankruptcy because:
- a. Potential consumers may shun Chrysler vehicles due to perceived uncertainty regarding its financial ability to honor its vehicle warranties and due to concerns that the local dealer will itself go out of business leaving the customer without convenient access to authorized service for its vehicle.
  - b. Residual (resale) values of vehicles manufactured by Chrysler (both pre-petition and post-petition) would likely drop precipitously. This will further erode consumers' willingness to purchase a new vehicle from Chrysler. Also, lenders will likely reduce the amount of any financing that they might otherwise provide to potential Chrysler customers resulting in significantly higher down payments required to purchase new Chrysler vehicles. Many would-be Chrysler customers simply could not shoulder the financial burden of such significant down payment.
  - c. New vehicle sales will further deteriorate if Chrysler's affiliated auto finance company is unable to provide retail financing to consumers during a chapter 11. Chrysler Financial provides consumer financing for 50% of Chrysler's U.S. retail sales.

5. In summary, Management believes that the requested \$7 billion working capital bridge loan from the government is the most cost-effective, expeditious and certain means of ensuring the long-term viability of Chrysler. This request is considerably less than the \$17 to \$20 billion (or more) of DIP financing that Management believes would be required to sustain Chrysler for just one year in a chapter 11 (and certainly billions more of financing would be required if the Chapter 11 goes beyond one year). Moreover, without access to adequate DIP financing, Management believes that Chrysler would be forced to liquidate, which would have severe consequences to the overall U.S. economy.

## **7. Conclusion**

### **Chrysler's Plan for Short-Term and Long-Term Viability**

As demonstrated by the initiatives, financial projections and assumptions set forth above, Chrysler has already embarked upon, and is accelerating, a plan to overhaul its cost structure, streamline its operations, redirect its product mix to meet CAFE standards and "greener" product demands, rationalize its dealer network and partner with its supplier base and workforce to return the company to health.

Industry volumes in this plan are conservative compared to historical results. Under our viability plan, after making a \$1 billion payment toward the Government loan, the Company will have approximately \$12.5 in billion in cash by 2012, providing a sound basis to continue repayment of Federal loans.

To further enhance its product portfolio, support growth and improve its cost structure, Chrysler continues to aggressively pursue strategic alliances and partnerships. Further partnership, restructuring and consolidation is required for the industry to be viable in the long-run. Chrysler welcomes the opportunity to have an open discussion with the new Administration and Congress on a collaborative approach to restructuring that will ensure any Government resources invested in the industry are used efficiently and help achieve important national public policy objectives.

Accomplishing these initiatives will take time and require the cooperation of all of Chrysler's constituencies. The changes proposed are sweeping, and Chrysler recognizes they will be painful for all of the players in the industry. In light of that, Chrysler believes that attempting to impose change by a bankruptcy filing will be less likely to garner long-term success than engaging each of the constituencies in negotiations to achieve consensus, while always bearing in mind the necessity of meeting the financial targets that will restore Chrysler to profitability. Accordingly, careful planning, information sharing and discussions with key parties are required components of Chrysler's ability to succeed in each of its initiatives.

Today we are asking you to help us bridge a chasm created by an unprecedented financial meltdown, and in doing so, preserve a critical sector of the U.S. economy. According to a research memorandum published November 4, 2008, by the Center for Automotive Research, 4.5 million people depend on the U.S. automotive industry. This memorandum estimates the impact of a domestic auto maker failure to the overall economy, and the result is devastating: 2.3 – 3 million in lost jobs, \$275-\$400 billion in lost wages, and \$100-\$150 billion in lost Government revenue.

Without immediate bridge financing support, Chrysler's liquidity could fall below the level appropriate to ensure operations in the ordinary course. Failing to act now will hurt many American families and undermine our country's economic recovery, far outweighing the costs related to supporting an industry that touches every district in every state of the nation.

The Company is also asking you to consider investing in a company and in people that will deliver real results for the American taxpayer. Chrysler plans to emerge from the current downturn as a lean, agile company, and well positioned to begin to repay the Government loans beginning in 2012.

Management fully recognizes that this is a significant amount of money. However, the Company believes this request is the least costly alternative considering the options we face. It provides the least detrimental effect on human capital and the stimulus necessary to prevent further economic decline, if not outright economic depression.



		SECTION	PAGE
1	<p>Provide a forthright, documented assessment of the auto companies' current operating cash position, short-term liquidity needs to continue operations as a going-concern, and how they will meet the financing needs associated with the plan to ensure the companies' long-term viability as they retool for the future.</p> <p><u>RESPONSE:</u></p> <ul style="list-style-type: none"> <li>• Estimated cash balance of \$2.5 Billion as of 12/31/08.</li> <li>• Cash infusion of \$7.0 Billion distributed by 12/31/08.</li> <li>• Forecasted cash flow demonstrates sufficient levels of funding for all ordinary course payments from 2009 -2012.</li> </ul>	Testimony section 2 section 3	Page 4 Page 8
2	<p>Provide varying estimates of the terms of the loan requested with varying assumptions including that of automobile sales at current rates, at slightly improved rates, and at worse rates.</p> <p><u>RESPONSE:</u></p> <ul style="list-style-type: none"> <li>• Estimated terms of loan request accepted as proposed.</li> <li>• Our base case is premised upon SAAR levels of 11.1 million, 12.1 million, 13.7 million, and 13.7 million in 2009, 2010, 2011 and 2012 respectively.</li> <li>• We have forecasted volume levels 1 million higher and 1million lower than our base case levels.</li> <li>• All scenarios show a financially viable company.</li> </ul>	Testimony Section 4 Section 5	Page 8 Page 9
3	<p>Provide for specific measures designed to ensure transparency and accountability, including regular reporting to, and information-sharing with, any federal government oversight mechanisms established to safeguard taxpayer investments.</p> <p><u>RESPONSE:</u></p> <ul style="list-style-type: none"> <li>• Agree as proposed.</li> <li>• We will offer financial reporting as well as access to the company as requested.</li> <li>• We will provide the quarterly financial statement currently provided to our lenders.</li> <li>• We will offer board participation.</li> </ul>	Testimony Section 5	Page 9
4	<p>Protect taxpayers by granting the most senior status for any government loans provided, ensuring that taxpayers get paid back first.</p> <p><u>RESPONSE:</u></p> <ul style="list-style-type: none"> <li>• Will require significant negotiations to obtain seniority and first priority status for the government loans over current secured lenders.</li> </ul>	Testimony Section 1	Page 3
5	<p>Assure that taxpayers benefit as corporate conditions improve and shareholder value increases through the provision.</p> <p><u>RESPONSE:</u></p> <ul style="list-style-type: none"> <li>• Agree.</li> <li>• Chrysler accepts the government's request for equity participation in a form and terms satisfactory to the Government and the Company.</li> <li>• Management believes the company will be well positioned to begin repayment of the federal loan with interest in 2012.</li> </ul>	Testimony Section 5  Section 4 Section 5 Section 7	Page 8,9  Page 8 Page 9 Page 4

		SECTION	PAGE
6	Bar the payment of dividends and excessive executive compensation, including bonuses and golden parachutes by companies receiving taxpayer assistance. <u>RESPONSE:</u> <ul style="list-style-type: none"> <li>• Mr Nardelli will receive an annual salary of \$1 during the plan period</li> <li>• Mr. Nardelli has no employment contract, no change of control agreement, no "golden parachute", and receives no health care or life insurance benefits from the Company.</li> <li>• We will fully comply with the restrictions established under Section 111 of EESA.</li> </ul>	Testimony Section 3	Page 6
		Section 5	Page 9
7	Include proposals to address the payment of health care and pension obligations. <u>RESPONSE:</u> <ul style="list-style-type: none"> <li>• We will comply with all ERISA regulations.</li> <li>• We will address funding of the UAW retiree healthcare through negotiations with the UAW.</li> </ul>	Testimony Section 4	Page 8
8	Demonstrate the auto companies' ability to achieve the fuel efficiency requirements set forth in the Energy Independence and Security Act of 2007, and become a long term global leader in the production of energy - efficient advanced technology vehicle. <u>RESPONSE:</u> <ul style="list-style-type: none"> <li>• Assuming receipt of 136 funding, we have plans to achieve the established CAFE fuel efficiency standards.</li> <li>• Chrysler has made substantial progress in its product line to improve fuel efficiency, quality, technology and consumer appeal.</li> <li>• For the 2009 model year 73 percent of our product line will offer improved fuel economy compared to previous models.</li> </ul>	Testimony Section 3	Page 6, 7
		Section 5	Page 10
9	Require that government loans be immediately callable if long-term plan benchmarks are not met. <u>RESPONSE:</u> <ul style="list-style-type: none"> <li>• Agree.</li> <li>• Obtain concessions assumed in the viability plan</li> <li>• Other benchmarks to be mutually agreed upon.</li> </ul>	Testimony Section 4 Section 5	Page 10 Page 8



**PREPARED STATEMENT OF JAMES T. FLEMING**

PRESIDENT,  
CONNECTICUT AUTOMOTIVE RETAILERS ASSOCIATION

DECEMBER 4, 2008

Chairman Dodd, Ranking Member Shelby, and Members of the Committee: My name is Jim Fleming. I am President of the Connecticut Automotive Retailers Association. We are comprised of approximately 300 members who collectively employ more than 14,000 people in jobs that pay good wages with benefits. Our dealer members are small businesspeople and entrepreneurs, many of whose families have been in the business for generations. Several of them are sitting behind me today. My testimony also reflects the views of the National Automobile Dealers Association and their 19,700 members.

We very much appreciate the fact that you are seeking the retail dealer's perspective today on the important issue of assisting the domestic automobile industry. What you end up doing or not doing will have just as much impact on us as it will on the manufacturers. If they go under, so do we. It is that simple.

You know how difficult times are—so do the small businesspeople that run the dealerships in this country. People are not coming into our showrooms and buying cars. Consumer confidence has evaporated. Sales are way, way down and dealerships are going under. In 2007, we had 325 new car dealerships in Connecticut. Now we have 300: a loss of 25 dealers in one year. Nationwide, nearly 700 mostly family owned new car retail businesses have closed in the last 11 months—that equates to some 20,000 newly unemployed women and men. Last year in Connecticut, our employees totaled about 15,000 in good jobs with benefits and retirement plans: now it is 14,300, down 700. That reduction equals \$23 million in lost payroll.

Let me put a human face on this issue. Senator Dodd already knows this because he met with the small business people in Connecticut who run the dealerships. If you have not done the same, please do so before you vote on this issue. We are not Wall Street or Detroit: we are Main Street in East Hartford or New Britain, Connecticut. Let me give you just one example of what has been happening as our dealers head into this holiday season. A Connecticut dealer who sells domestic and foreign brands and has been in the Hartford area for three generations has told me the following:

- In the last month, thirty customers walked through his doors and all were interested in purchasing a new car. Normally, most of those customers would have qualified for credit, but banks are so squeamish—they couldn't get financed. Thirty sales were lost.
- The dealer had no alternative but to cut back. He has had to lay-off 30 employees, fully 10 percent of his workforce. That's \$1 million in payroll lost to those workers and their families. It's also a loss in revenue to the government of \$200,000 through payroll, Social Security and Medicare taxes that now won't be paid.
- This dealer has also essentially wiped out his advertising budget, slashing \$1 million in that line item for the next year. What will the Ad firm do? I think cut back as well. The local newspapers, radio and television stations will feel those cuts, and they, too, will cut back or lay-off employees as a result. Auto advertising accounts for almost 35 percent of the revenue to the local networks in our State. In many cases it is now down to single digits.
- This dealer has also reduced his inventory, compounding the problems that Detroit is having. He is buying fewer cars from the manufacturers. That also means less in sales tax revenue to the state in the future. I might add that we traditionally sell \$9 billion in vehicles in Connecticut, with the State receiving hundreds of millions of dollars in sales tax revenue; car sales alone account for 17 percent of the State sales tax. With fewer vehicle sales, there is a ripple effect: fewer mechanics, fewer orders for parts or tires, and fewer shipments of these parts by FedEx or UPS.

Members of the Committee, this is not a bailout bill for Detroit or Wall Street. This is about investing in the future of our small towns and businesses, in the economies and budgets of our State governments, and ultimately, in the overall welfare of our country.

So, I guess the question is: will you help the industry? There are two possible answers to this, a "no" or a "yes." Saying "maybe" really means "no"—taking no action or allowing bankruptcy will have very real implications for the people who you represent back home. Members of the Committee: I served in public office for 28 years

in Connecticut as a state senator and member of the Governor's cabinet. I know what it is like to cast tough votes and make difficult decisions. The right thing to do here is to provide the bridge loans to the manufacturers. If you say "no," then here is the bottom-line: If GM, Ford, or Chrysler go bankrupt, our members who retail those cars will also go under. There is just no doubt in my mind about that. Most consumers will not buy a car made by a bankrupt company. The brand will be tainted and consumers will lack confidence that there is anyone standing behind the product or warranty. The retail dealership system for any bankrupt brand will collapse. Consumer choice will be drastically limited as to the choice of new automobiles and the distance needed to travel for service and warranty work will increase dramatically. Banks will not have confidence to deal with franchised dealers if the risk is too great or the rules are abruptly changed.

If you say "yes" to some type of financing package for the manufacturers, it will give us time to ride out this economic tsunami. You are right to demand to know how the funds will be used and to assure accountability with public funds. James Madison said that "if men were angels we would not need government". Well men are not angels, so put their feet to the fire, and hold these gentlemen and their boards accountable; impose timelines, make sure the people's funds are properly handled, and push them to produce more efficient vehicles. The people I represent, the 300 dealers and their 14,000 employees, will sell them to the public. But do the right thing here and support this legislation. A resurgence of the automobile industry is necessary for a recovery of the overall U.S. economy. So hold the industry accountable. But be sure that you leave a well-capitalized, financially sound dealer network in place, as it is essential to the success of every automobile manufacturer, especially a manufacturer facing economic challenges.

Franchised dealerships are independent, mostly family-owned businesses, not the "company owned" stores that many other retail industries employ. As such, it is the dealer—and not the manufacturer—that invests in the land, buildings, equipment, computers, tools, personnel, training, advertising and promotions, and good will necessary to sell and service vehicles. Through these multimillion dollar dealer investments—\$11.3 million per dealership on average—manufacturers are able to externalize virtually all of the costs associated with establishing and maintaining their national retail distribution network.

A key element in preserving a strong dealer network is maintaining the current state franchise laws; stability in the automotive industry cannot be found by altering them. The pre-emption or suspension of State franchise laws would further threaten the economic stability of Main Street and further erode the national infrastructure essential to the recovery of troubled manufacturers. If the manufacturers are empowered to ignore these statutes, they will act precipitously to the detriment of the dealers and the local communities they support. The consequences of wholesale dealer terminations would include closed businesses, terminated employees, increased foreclosures, and idle real estate, thereby deepening the current recession and threatening even the dealerships that the manufacturers would designate for survival.

Moreover, even in the absence of the this type of actual manufacturer abuse, any elimination or suspension of the State franchise laws would operate to increase the cost of the capital that is needed for the efficient distribution of vehicles. Dealer investments are premised on the existence of franchise law protections. If the franchise laws were not present to protect those investments, the investments would carry more risk. And that risk, in turn, would command a risk premium. Indeed, publicly traded auto retailers routinely disclose the possible repeal of State franchise laws as a risk factor in their public filings. If those laws were in fact to be removed, that risk would mature into a reality and the capital investment markets would respond accordingly. Existing capital would seek safer havens, and the cost of attracting new capital would rise. While this would be very visible in the public capital markets, the same phenomenon would play out in the private capital arena as private dealers made decisions where to place their resources. And these increased costs would have to be paid somewhere in the overall industry value chain. Thus, far from saving manufacturers anything, the removal of the State franchise laws would actually raise their costs of operation.

Think carefully about the value that the dealer franchise network provides. Keep it healthy and intact. The American dealerships absorb massive costs to market, sell, finance, distribute and service the vehicles produced by the manufacturers. The buildings, service bays, the very signs on Main Street for GM, Chrysler, Jeep, and Ford are paid for by the dealers. The American public makes two big purchases—homes and cars. They want to eyeball the person who sells them a car, not some computer screen or massive corporate entity. When they have a problem they want to go to the local business and have it resolved.

So what am I asking? Pass this legislation and do so soon. Help bring back consumer confidence in the automobile sector. You can play a major role in doing that by saying “yes” to an assistance package for the industry that will provide bridge loans for the domestic automobile manufacturers and includes elements to stimulate business on Main Street right now:

- Allow a temporary deduction of interest on consumer new auto loans and of the sales taxes on new vehicle purchases. Senators Mikulski and Bond have a bill, S. 3684, that would do this and I urge its swift passage.
- Enact a temporary expansion of the definition of a “small business” to provide dealers access to working capital through Small Business Administration loan guarantees.
- Provide for a temporary, refundable consumer tax credit for car and truck buyers.
- Fund state fleet modernization programs, often called “cash for clunkers” where consumers are given a direct incentive to upgrade older vehicles to more environmentally-friendly ones.
- Enact temporary increases in the expensing and depreciation of business vehicle purchases.
- Finally, ensure that the recently announced TALF initiative extends to floor planning loans or inventory financing for retail dealers.

Mr. Chairman, we appreciate the fact that you have included the retail automotive dealers in this discussion. I’ve just outlined specific steps that you could take that will help us ride out the current economic storm. The U.S. domestic auto industry hangs in the balance—and so do dealers and their local communities. Thank you.

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**PREPARED STATEMENT OF KEITH WANDELL**

PRESIDENT,  
JOHNSON CONTROLS, INC.

DECEMBER 4, 2008

Chairman Dodd, Senator Shelby, and Members of the Committee, thank you for the opportunity to provide testimony on the state of the domestic automotive industry. My name is Keith Wandell and I am President and Chief Operating Officer of Johnson Controls, Inc., a global multi-industry company with sales of \$38 billion in 2008. Approximately 37 percent of our sales involve the supply of systems and services to improve the energy efficiency of nonresidential and residential buildings worldwide. We are also the largest supplier of batteries to the automotive aftermarket and original equipment manufacturers.

In addition, Johnson Controls is the 7th largest automotive supplier in the world. We are the third largest supplier in North America behind Magna, a Canadian company, and Delphi, a U.S. company which has been in bankruptcy since 2005. Our global sales of seats and other interior products to the auto industry totaled \$19 billion, \$6.7 billion of which are to the North American market. We supply every automaker with a presence in the U.S.: Chrysler, Ford, GM, Honda, Hyundai-Kia, Mazda, Mercedes, Mitsubishi, Nissan, and Toyota. Johnson Controls has 43,000 employees in the U.S. with operations in all 50 States. Some 22,000 are employed in the States represented by the members of this Committee.

While Johnson Controls is a key supplier to the global automotive industry we are an atypical automotive supplier. We are much larger and more diversified by product, geography, and markets. Being a supplier of interior systems, we are less capital intensive than many automotive suppliers. We are profitable, and we have a strong balance sheet. We do, however, share the same issues and concerns about the domestic automotive industry as those suppliers which are solely dedicated to the automotive market.

A Detroit 3, failure would have dire economic ramifications for the vast interconnected supply chain of companies providing the parts and components which enable the U.S. automakers to assemble vehicles. Our main concern is that once cascading supply chain interruptions would begin, many suppliers will fail due to the interdependence of the supply chain, causing some companies to fail that could otherwise have continued operations. Many of the companies which would be impacted are small, women and minority-owned businesses.

At Johnson Controls we are proud to have many joint-ventures/partnerships and supply arrangements with women and minority-owned businesses. This year for the

second time we were named "Corporation of the Year" by the National Minority Supplier Development Council, in part, in recognition of the \$1.7 billion of goods and services we purchased from minority and female-owned business. I can assure you that each of the Detroit 3 is equally committed to the development of women and minority-owned businesses with a combined purchase of approximately \$12 billion from such businesses in the last year. Should any one of the U.S. automakers suddenly fail, the vast majority of these businesses will fail and fail quickly.

Let me share an example with you. Recently, a minority supplier to Johnson Controls, Plastech Engineered Products, failed and went into bankruptcy. This supplier had \$800 million of revenue, shipped 6,200 part numbers from 11,350 tool sets providing parts to 52 vehicle assembly plants, 121 vehicle lines and 12 customers: General Motors, Ford, Chrysler, Volkswagen, Mercedes, Honda, Toyota, Nissan, Hyundai-Kia, AM General, Mazda, and Mitsubishi. Had Johnson Controls and the first-tier lending group not acquired Plastech's assets out of bankruptcy, assembled an operating team to manage the process, and provided bridge financing, the supplier would have been liquidated, and forced the shutdown of these 52 assembly plants to one degree or another for varying durations.

A year ago approximately 20 percent of Johnson Controls automotive suppliers were financially distressed according to independent third parties. Since the rapid deterioration of industry volumes that number has grown to beyond 35 percent and continues to grow. Johnson Controls suppliers employ 100,000 people in the U.S. so you can understand how serious this situation has become.

Should one of the Detroit 3 fail a significant number of supplier failures would occur and become unmanageable. These suppliers, in general, support all three automakers and many, like Plastech and Johnson Controls, also supply the Asian and European transplants in the U.S. I can assure you that even though Toyota, Nissan, Honda, and other foreign automakers are not here today, they too are deeply concerned about the viability of the U.S. supply base. The automotive suppliers are financially distressed due to reduced cash flows resulting from the recent volume reductions, they are experiencing higher borrowing costs and many cannot access the credit markets at all.

None of us would disagree that major changes are needed in the North American automotive industry. This is obvious as shown in the plans submitted by the Detroit 3 for these hearings. It is in the best interest of all constituents that these changes occur in an orderly fashion which is unlikely if we allow even one of these companies to fail.

It is extremely important that we have a sound, healthy and sustainable U.S.-owned automotive industry that is competitive globally. I do not believe that Americans want to yield an industry that impacts millions of jobs, invests billions of dollars in technology, and will help secure our energy independence through new, innovative, and environmentally friendly transportation. It is just as important that our domestic supply base is strong as it delivers 70 percent of the value-added components of a vehicle and 40 percent of the research and development dollars spent.

The plans that have been submitted address many of the issues that have been burdensome to the health of this industry: excess capacity, proliferation of brands, a sub-optimized dealer network and an uncompetitive cost structure. Given the opportunity to continue to address these challenges the Detroit 3 would be able to invest at an even greater rate to bring to market the consumer-desired fuel efficient, environmentally friendly vehicles.

Our company is also a leader in helping to develop fuel efficient vehicles. In our automotive seating and interiors business we are constantly striving to reduce weight in our components to help increase fuel efficiency and to introduce recyclable and renewable materials into our products. We are also developing the next generation of battery systems for hybrid and plug-in electric vehicles, and we are working with the Detroit 3 to bring these environmentally favorable vehicles to market.

I was also asked to comment on the potential impact of a Detroit 3 failure on Johnson Controls. Earlier I said that we are diversified, profitable, and have a strong balance sheet. Unlike many automotive suppliers, we would weather this storm largely due to our strong non-automotive businesses. A Detroit 3 failure would have a short/mid-term impact on our cash flow, access to capital and cost of borrowing. One of the bigger impacts would be the curtailment of our investments in new technologies in all of our businesses, including hybrid vehicle battery technology.

The U.S. industry has a long and proud heritage; it has played a significant role in the development of this country's strong economic position in the world. Speaking for our company, and, I am sure for all auto parts suppliers, we respectfully urge the Members of this Committee, and the Congress as a whole, to provide the financial support the automakers need at this critical time. Each is on their own path

to improve their performance and the fuel efficiency of the vehicles they produce. But their progress has been hampered by the current economic crisis which has tightened access to consumer credit and further eroded vehicle sales.

To avoid drastic economic ramifications to the automotive industry supply chain, including hundreds of small and medium-sized businesses throughout the country, we hope the Congress will take positive action to assist this vital U.S. industry.

Thank you for your attention.

**PREPARED STATEMENT OF MARK ZANDI**

CHIEF ECONOMIST AND CO-FOUNDER,  
MOODY'S ECONOMY.COM

DECEMBER 4, 2008

Mr. Chairman and members of the Committee, my name is Mark Zandi; I am the Chief Economist and Co-founder of Moody's Economy.com.

Moody's Economy.com is part of Moody's Analytics, an independent subsidiary of the Moody's Corporation. My remarks represent my personal views and do not represent those held or endorsed by Moody's. Moody's Economy.com provides economic and financial data and research to over 500 clients in 50 countries, including the largest commercial and investment banks, insurance companies, financial services firms, mutual funds, manufacturers, utilities, industrial and technology clients, and government at all levels.

My testimony today focuses on four main points:

- 1) The federal government should provide financial help to the domestic automakers. Without any help, the automakers will quickly end up in bankruptcy, resulting in liquidations and hundreds of thousands of layoffs at a time when the broader economy is suffering its worst recession since the Great Depression.
- 2) Under the most likely outlook for the economy and auto industry, the restructuring plans in which the Big Three have requested \$34 billion in loans will not be sufficient for them to avoid bankruptcy at some point in the next two years. They would ultimately need \$75 billion to \$125 billion to avoid this fate.
- 3) The restructuring plans, if fully executed, could result in a viable long-term domestic auto industry. However, given the very difficult changes this will require of the Big Three and their various stakeholders, there is a considerable risk that they will not be executed effectively. This opinion applies most strongly to GM and Chrysler; Ford appears much better positioned to make the changes necessary.
- 4) I recommend that Congress provide the \$34 billion in aid that the Big Three have requested in two tranches in exchange for warrants and restrictions on executive compensation and dividend payments. The first payout should be sufficient to forestall the automakers' imminent disorderly bankruptcy at an extraordinarily fragile time for the economy. The second payout should be made only if the restructuring plans are proceeding successfully. Congress should also at the same time make it clear that if the restructuring plans are unsuccessful, then no more government loans will be forthcoming. Instead, Congress will work to ensure that there is an orderly bankruptcy process by providing financing in bankruptcy and guaranteeing warranties on new vehicles sold.

**Point 1:** *The domestic auto industry needs financial help, and the federal government should provide it.*

Without any government help, the Big Three will quickly end up in bankruptcy and be effectively liquidated, resulting in hundreds of thousands of layoffs at just the wrong time for the sliding economy. They would file for Chapter 11, a restructuring, but it would likely turn into a Chapter 7, a liquidation. Their factories and other operations would be shut down and their assets sold to pay creditors. Given the collapse in the financial system and resulting credit crunch, debtor in possession, or DIP, financing would be all but impossible to get. Bankrupt firms need DIP financing to operate their businesses – to pay suppliers, finance inventories and meet payroll – while they restructure. It is a risky business for the DIP creditors even in good times, but they are a senior creditor when the bankruptcy court distributes the

bankrupt firms' assets, and they also charge high rates and fees for the risk. However, in the current credit crunch nothing will persuade creditors to take the risk.

GM appears to be in worse financial shape than Chrysler, which is in much worse shape than Ford. GM is burning through cash quickly, and at the current rate could run out of the cash necessary to operate in the next several weeks. Chrysler can avoid bankruptcy longer, but given the poor prospects for vehicle sales and their almost certain loss of market share to the transplants and foreign imports, not much longer. Ford has more financial latitude, but it too would be at significant risk of bankruptcy if GM or Chrysler failed given the disruption to their supply base, dealers and creditors.

That would be very damaging to the sliding economy. The Big Three employ fewer than 250,000 people in the U.S., but given their broad links into the rest of the economy, closer to 2.5 million jobs would be immediately at risk. The auto industry has among the largest economic multipliers of any industry. For every one lost job in auto assembly, another nine jobs are lost in other supplying industries (see Table). Industries that would face considerable negative repercussions include auto suppliers, auto dealers, steel and metal suppliers, plastic and rubber companies, healthcare providers, and trucking and freight operators. Hundreds of thousands of people would be laid off at a time when the economy is already set to lose several million jobs. The hit to already record low consumer and business confidence would be devastating.

<b>Employment Multipliers</b>	
<i>Change in employment due to a 1,000 job change in the auto assembly industry</i>	
Total	9,100
Auto parts manufacturing	1,490
Auto maintenance & repair	940
Wholesale trade	840
Trucking	330
Warehousing	120
Machine shops	100
Foundaries	70
Plastics	70
Nuts & bolts	70
Machinery repair	60
Motor vehicle bodies	50
Glass	50
Steel mills	50
Tires	40
Other Industries	4,820
<i>Sources: Implan, Moody's Economy.com</i>	

The economic fallout on the already very hard-hit industrial Midwest would be disastrous. The Michigan and Ohio economies have been in recession more or less since the beginning of this decade, and the collapse of the Big Three would completely undermine their economies well into the next decade. Other state economies that would be significantly hurt include Indiana, Illinois and Wisconsin. Exacerbating the economic fallout in the industrial Midwest is that unemployed workers would find it difficult to move to perhaps Kentucky, Tennessee or Alabama to work for the stronger transplants. Their home values have fallen so sharply that many are now underwater – they owe more on their homes than they are worth. To move would require that they put more into their home or to default on their existing mortgages.

**Point 2:** *It would cost the federal government \$75 billion to \$125 billion to keep the Big Three out of a near-term bankruptcy, much more than the \$34 billion requested by the Big Three in their restructuring plans.*

My \$75 billion to \$125 billion cost estimate is based in part on the expectation that light vehicle sales will average close to 11 million units in 2009, 13.5 million units in 2010, and less than 15 million units in 2011. For historical context, vehicle sales averaged almost 17 million units annually from 1999 to 2006.

The extraordinarily weak vehicle sales outlook is due to three negative forces: the current sharp decline in employment and surging unemployment, the very severe credit crunch that is undermining the availability of vehicle loans and leases, and the significant amount of pent-up vehicle demand created earlier in the decade as the automakers used increasingly aggressive financial incentives to support vehicle demand.

The nation's job market is rapidly weakening. Some 1.2 million net jobs have been lost so far this year, and the unemployment rate has risen by over 2 percentage points to 6.5%. The recent level of unemployment insurance benefit claims suggests that job losses are running at over 300,000 per month. The downturn is broad-based across industries and regions. Sizable job losses are occurring through construction, manufacturing, retailing, transportation and distribution, financial services, and professional and business services. Thirty-three states are now considered to be in recession (see Chart).<sup>1</sup> The current national recession is already extraordinarily long and broad-based and will very likely be the most debilitating economic downturn since the Great Depression.

### Recession Nearly Everywhere



A principal contributing factor to the severity of the current recession is the near collapse of the global financial system and the resulting credit crunch. Credit markets remain badly shaken. Bond issuance has come to a standstill, with no residential and commercial-backed securities issuance in recent months and very little issuance of below-investment-grade corporate bonds and emerging market debt. Asset-backed issuance of credit cards, student loans and vehicle loans has been severely disrupted. The Treasury Department and the Federal Reserve recently announced plans to establish a lending facility to revive the asset-backed market, but this will take time to effectively implement, and there is no guarantee it will succeed quickly after that. Vehicle lenders are also extraordinarily nervous about the surge in vehicle loan credit problems; delinquency rates are already at record highs (see Chart). All of this suggests that potential car buyers will have trouble getting loans or leases well into next year.



**Vehicle Loan Delinquency Rates At Record Highs**  
**Delinquency Rates, 30-120 days, %**



Also weighing on vehicle sales is the large amount of pent-up vehicle demand. Given broad demographic, wealth and income trends, underlying new vehicle sales are at best 16 million units annually (see Chart).<sup>13</sup> The automakers were able to maintain sales of closer to 17 million units during the first half of this decade only by providing increasingly large discounts and easier financing terms. At the peak of the discounting in 2007, the average incentive was worth over \$6,000, equal to 25% of the average vehicle price at the time. This is about double the \$3,000 in incentives that automakers were giving buyers in 1999.<sup>14</sup> Total pent-up vehicle demand is estimated to be over 10 million units; at the current sales pace, the entire auto industry would have to shut down production for nearly a year to work it all off.

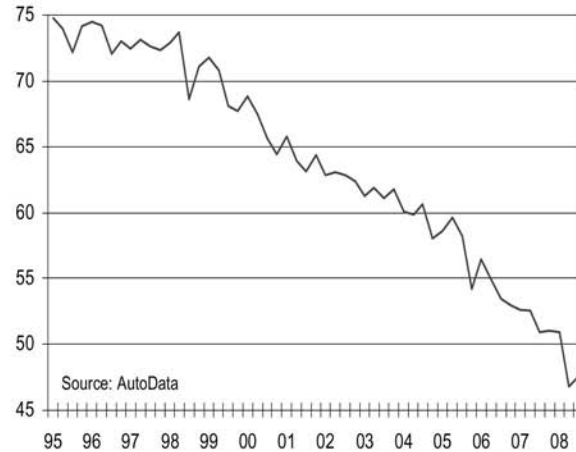
**Mounting Vehicle Spent Up Demand**  
*Millions of units, annualized rate*



Vehicle sales will eventually return to their underlying annual pace of 16 million units, but only when the job market stabilizes, credit flows more freely, and the pent-up demand is worked off. It could well be two decades or more before sales return to the 17 million unit sales pace that prevailed during the first half of this decade.

The cost of keeping the Big Three out of bankruptcy also significantly depends on their ability to slow the decline in their share of total vehicle sales. Their share has been steadily falling since the mid-1990s from nearly three-quarters of the market to less than half in recent months (see Chart). This reflects many factors, but most critically the higher gasoline prices of recent years. Gasoline prices, which had been as low as \$1 for a gallon of regular unleaded at the start of this decade soared to over \$4 a gallon at its peak this past summer. Prices have since receded to below \$2 a gallon, but the damage to the Big Three's market share has been done. Even despite lower gasoline prices, vehicle buyers likely still expect higher prices in the future and will not quickly return to buying the Big Three's less fuel-efficient vehicles.

**Steadily Declining Market Share**  
**Big 3 share of total vehicle sales**



The Big Three's market share will come under even more intense pressure given their current financial problems. Potential buyers will fear that their new car would not be serviced properly and any warranties could become void. Foreign automakers will also step up their efforts to gain market share through more aggressive marketing and discounting. Although some of these pressures may be mitigated by government help, they are unlikely to be completely dispelled.

Given the long-running decline in the Big Three's market share, the prospects for higher gasoline prices in the future, and even more intense competition from foreign automakers, it will be very difficult for the Big Three to hold onto their share of the market. If they are able to maintain close to 50% market share, the cost of avoiding near-term bankruptcy will be only \$75 billion. If their share falls to 40% over the next two years, however, then the cost will be closer to \$125 billion.

**Point 3:** *The restructuring plans put forth by the Big Three are sound in theory, but effectively executing them so that the automakers become viable companies will be a significant challenge.*

Each automaker has outlined dramatic changes to return to long-term profitability. The measures they envisage include deep cost-cutting by closing facilities and reducing more hourly and salaried workers. They also plan to focus on producing more fuel-efficient cars and crossovers, rationalizing their brands and retail outlets, and refocusing their marketing efforts. All these actions are critical to turning the automakers around.

It is important to recognize that the automakers have made significant strides in restructuring their operations and reducing their costs in recent years. The industry's unit labor costs – labor compensation per unit of output – have actually declined during this decade through 2006.<sup>31</sup> In 2006, unit labor costs fell by nearly 8%. The only other manufacturing industry to experience a larger decline in labor costs was the wireless telecommunications industry (see Table). Given the considerable United Auto Workers wage and benefit concessions in 2007, further substantial cost savings would occur over the next several years. The automakers and the UAW have thus shown both the willingness and the ability to make the significant and difficult changes necessary to become more productive and competitive.

<b>Unit Labor Cost Growth</b>								
Average Annual Percent Change								
Industries ranked based on 2001-06 growth								
	2000	2001	2002	2003	2004	2005	2006	2001-06
Wireless telecommunications	-10.9	-8.7	-18.0	3.7	2.9	-8.2	-19.8	-7.1
Computer & electronic products	-13.0	4.4	-5.9	-6.5	-12.1	-6.3	-5.0	-6.2
Advertising	-0.1	3.5	-9.2	-4.6	-4.8	6.1	-0.6	-2.6
<b>Motor vehicles</b>	<b>15.5</b>	<b>-0.9</b>	<b>-4.0</b>	<b>-6.3</b>	<b>7.3</b>	<b>-2.4</b>	<b>-7.6</b>	<b>-2.6</b>
<b>Motor vehicle parts</b>	<b>2.7</b>	<b>0.6</b>	<b>-7.0</b>	<b>0.9</b>	<b>0.2</b>	<b>-8.1</b>	<b>-1.3</b>	<b>-2.4</b>
Primary metals	3.3	5.3	-4.4	-0.9	-7.1	-1.2	1.7	-2.3
Textile Mill manufacturing	2.0	0.3	-5.9	0.5	-1.8	-7.7	4.4	-2.1
Machinery	-2.6	6.7	-1.6	-1.9	-3.9	-2.5	0.0	-1.9
Transportation equip.	11.4	-1.0	-4.3	-1.3	3.8	-4.5	-2.5	-1.7
Chemicals	0.4	4.5	-3.8	0.6	-5.2	0.2	-0.5	-1.7
Textile Prod. Mfg.	-1.7	3.0	-5.0	-1.0	-3.1	-3.1	5.3	-1.4
Retail trade	1.8	-0.4	-2.4	-1.7	-2.3	0.4	-1.2	-1.4
Publishing, excluding internet	4.6	-0.5	-4.0	0.8	-6.1	0.6	4.0	-1.0
Broadcasting	1.7	1.7	0.7	2.5	-4.1	1.5	-4.4	-0.8
Furniture & related products	2.7	2.9	-2.7	-0.6	-1.2	-1.4	1.8	-0.8
Paper	1.4	5.2	-2.9	1.5	-1.4	0.8	-0.6	-0.5
Employment placement	10.9	-3.5	-10.5	-2.3	-6.0	11.1	6.8	-0.5
Apparel manufacturing	-1.4	3.6	4.1	-3.1	5.6	-7.5	-0.9	-0.5
Printing & related activities	1.7	2.0	-1.9	1.8	-1.7	-1.6	1.4	-0.4
Plastic & rubber products	1.9	2.7	-2.0	0.4	-1.6	1.1	1.7	-0.1
Fabricated metal products	-0.3	3.2	-1.2	-0.6	1.7	-1.0	1.1	0.0
Electrical equipment, appliances	-1.8	5.3	1.3	-2.3	0.7	-1.2	1.5	0.0
Wholesale trade	2.2	4.3	-2.4	0.4	-0.9	2.2	2.6	0.4
Nonmetallic minerals	3.2	3.2	-1.1	-0.3	0.4	0.2	3.1	0.4
Miscellaneous manufacturing	-0.8	2.6	5.1	-1.8	0.6	-3.3	2.3	0.5
Cable TV	7.4	3.8	-4.5	-2.6	-4.6	8.2	7.5	0.6
Leather, allied prods.	-4.7	9.0	10.9	-0.8	-2.7	-3.1	1.0	1.0
Food Mfg.	1.7	1.9	1.0	0.6	3.2	-0.3	0.7	1.0
Wood prods.	2.3	2.4	0.3	-1.7	5.6	-1.0	2.1	1.1
Engineering services	1.2	4.9	2.3	2.0	-1.9	-0.8	4.8	1.3
Medical & diagnostic labs	-2.9	0.7	-0.8	0.0	6.6	0.5	0.5	1.4
Food services & drinking places	1.7	2.7	2.4	0.5	2.1	1.8	3.4	2.1
Architectural services	3.5	-0.1	4.1	-6.1	1.5	4.2	7.1	2.1
Accommodations	-1.7	9.0	-0.9	1.7	0.5	6.7	2.5	2.2
Wired telecommunication	9.6	6.0	-7.2	5.7	9.3	0.6	2.8	2.2
Auto repair & maintenance	1.3	3.7	8.4	1.2	-3.3	3.8	2.6	2.6
Amusement & theme parts	3.1	2.4	7.3	0.6	0.0	1.2	3.5	2.6
Banking	2.4	4.5	5.5	6.3	-1.3	8.2	2.3	4.5
Petroleum & coal prods.	-1.3	7.1	6.3	6.8	6.6	8.0	3.0	6.9
Mining	6.0	6.6	-1.3	2.3	12.7	19.1	18.0	12.0

Sources: Bureau of Labor Statistics, Moody's Economy.com

Despite this clear progress, it will be very difficult for the Big Three to make the even more substantial changes now needed to quickly become viable companies. This is evident in that most of what the Big Three outlined in their restructuring plans had already been announced. There is nothing particularly new in the plans they put forth in part because their current plans are so ambitious and in part because it is difficult to envisage other changes that could be implemented anytime soon.

The most significant new information in the restructuring proposals is GM's plan to cut its debt load roughly in half. This would require significant concessions by GM's debt holders, and it is not at all clear they would be willing to make the necessary compromises, at least on the terms GM is hoping for. Conspicuously missing from the plans is exactly what more the UAW will be required to do. For the Big

Three to become viable will require substantially smaller headcounts and other compensation concessions. The UAW can reasonably argue that it has already done a lot to help the Big Three, but it is not enough.

The broader point is that all of the stakeholders in the Big Three, including management, shareholders, debt holders, the UAW, suppliers and dealers, will be required to make very substantial financial compromises very quickly to make this all work out as outlined in the Big Three's restructuring plans. Though possible, this seems unlikely.

**Point 4:** *The federal government should provide the \$34 billion in financial aid requested by the Big Three in two tranches. The first payout should be sufficient to forestall an imminent disorderly bankruptcy. The second payout should be provided only if the restructuring plans are proceeding successfully. Congress should also make it clear that no further aid will be forthcoming and prepare to facilitate the orderly bankruptcy of one or more of the automakers.*

Given the prospect of an imminent disorderly bankruptcy of GM and possibly Chrysler without quick government aid, and the very negative fallout this would have on the fragile economy, the government should provide the \$34 billion in financing requested by the Big Three. In exchange the Big Three would provide warrants to the government and agree to limitations on executive compensation and dividend payments. Policymakers should provide the money in at least two tranches to ensure the automakers are effectively executing their restructuring plans.

As previously argued, this aid may very well not be sufficient to return the Big Three to financial viability. Policymakers should thus also make it clear to the automakers that no more financial help will be forthcoming. Their next step would be to enter into a prearranged bankruptcy. To facilitate a more orderly bankruptcy process, the government could promise to provide or guarantee debtor in possession financing for any automaker in bankruptcy. The government guarantee would ensure an orderly restructuring and not liquidation. All stakeholders, including management, creditors, suppliers and the unionized workforce, would be forced by the bankruptcy process to make the tough choices they have so far been unable to make. It's not that they haven't made strides in lowering labor and material costs and improving productivity, but what is required for the automakers to become viable longer run is too draconian for them to do outside the bankruptcy process.

Even in an orderly bankruptcy, there still would be substantial layoffs. The companies would come out of bankruptcy much smaller, reflecting the much smaller new-car market and their loss of market share. But if this rationalization is done in an orderly way, the job losses should be thousands of jobs per month and not hundreds of thousands. While painful, this is manageable.

There is a reasonable concern that if the Big Three file for bankruptcy – even a government-supported bankruptcy – people would stop buying their cars. Who wants to buy a car from a company that won't be around to fulfill any warranties or even service it? This is a reasonable concern, but there is no better way to ensure that the Big Three will be around than if they are significantly restructured in bankruptcy. Getting a loan from the government, even as large as \$34 billion, won't convince anyone that they will be around for very long without big changes in their operations. To allay some of these concerns, the government could also guarantee warranties on any new cars sold by the Big Three while they are making their way through bankruptcy.

The damage to the financial system of a prearranged bankruptcy should not be significant. The automakers have approximately \$100 billion in debt outstanding, and the automakers' captive finance companies have close to \$300 billion. Most of the debt is secured, and very little is held within the banking system.<sup>7</sup> Their credit market debt has been rated below investment grade for some time and thus is not held by pension funds and insurance companies but by investors that specialize in owning distressed debt. The credit default swap market has also already priced in the high likelihood of defaults.

Bankruptcy for the Big Three would also send an important signal to any other industry or businesses contemplating asking taxpayers for financial help to get through these very difficult times. Most industries don't hold the same importance to the economy as the domestic auto industry, but that won't stop others from asking for help. They may not ask if they know that along with government help comes bankruptcy.

### Conclusions

A concerted, comprehensive and consistent government response to the current financial and economic crises is vitally needed. The economy needs a very large and prolonged dose of fiscal stimulus and a large foreclosure mitigation plan, but the government's resources for quelling the crisis are not unlimited and must be used wisely. The federal budget deficit, which topped \$450 billion in the just-ended 2008 fiscal year, will easily exceed \$1 trillion in the current fiscal year and again in fiscal 2010. Borrowing by the Treasury will be even greater, topping \$2 trillion this year. The automakers' pleas for government assistance must be answered, but the answer should ensure that they undertake some fundamentally and ultimately very painful changes. The \$34 billion requested by the automakers will very likely not be sufficient to make those changes. Policymakers must be prepared for this very real possibility.

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<sup>1</sup> State recessions are determined using a methodology similar to that used by the business cycle dating committee of the National Bureau of Economic Research for national recessions.

<sup>2</sup> In other words, underlying vehicle sales measure sales that are expected abstracting from the ups and downs in the job market, gasoline prices, and the availability and cost of credit.

<sup>3</sup> This is based on data from CNW/Marketing Research.

<sup>4</sup> 2006 is the most recent historical data available from the Bureau of Labor Statistics for a wide range of industries. See <http://www.bls.gov/news.release/prin.toc.htm>

<sup>5</sup> There is no more than \$20 billion in outstanding bank loans to the auto makers and the captive finance companies.

**PREPARED STATEMENT OF ALLAN I. MENDELOWITZ**

MEMBER OF THE BOARD OF DIRECTORS,  
FEDERAL HOUSING FINANCE BOARD

DECEMBER 4, 2008

**Summary**

The downturn in the fortunes of the Big Three automakers has led policy makers to revisit the 1979 Chrysler Loan Guarantee Act. The Act is widely viewed as a successful government intervention in a private company to achieve a public policy objective. In practice, the Act caused Chrysler to be reorganized outside of bankruptcy with the Federal Government providing the equivalent of “debtor in possession” (commonly referred to as DIP) financing.

The public debate about the Federal Government’s potential role in a rescue package for the Big Three has focused around two principle alternatives: (a) government loans to bridge the companies through necessary reorganizations and the economic downturn, and (b) reorganizing the companies under Chapter 11 of the bankruptcy laws. The purported choice between government loans and bankruptcy is, in fact, not a choice at all. A restructuring in bankruptcy would require tens of billions of dollars in short-term DIP financing to support operations. In today’s financial markets, DIP financing is difficult to get—and at the levels of financing the Big Three will need—is probably impossible. Therefore, for bankruptcy to be a viable restructuring option, the Federal Government would need to play the role of DIP financier.

Although often cited as a public policy success, the mechanics of the Chrysler Loan Guarantee Act are generally misunderstood. Rather than a single implementation of the loan guarantee program, there were, in fact, two distinctive Chrysler transactions: The first, which I refer to as Chrysler 1, gave Chrysler \$800 million in loan guarantees in return for a modest restructuring of Chrysler’s balance sheet and operations and granting the government a priority secured interest in all company assets. The second transaction, which I refer to as Chrysler 2, provided an additional \$400 million of loan guarantees. In return for this second tranche of support, the Federal Government required the substantial restructuring of the company to which the success of the loan guarantee program is linked. The required restructuring was made possible only because of the leverage over all interested parties that the government gained by taking a priority security interest in all Chrysler assets as part of Chrysler 1.

In addition to the financing structure, there were other key principals that made the Chrysler Loan Guarantee Act a success. However, one of the most important lessons learned from the Chrysler rescue is that if the decision is to grant funding outside of a bankruptcy reorganization, the Federal Government must take a priority security interest in the assets of the company prior to extending any loans or loan guarantees. Only then will the Federal Government have sufficient leverage to force a substantial restructuring to achieve the public policy objectives.

**Statement**

Mr. Chairman and Members of the Committee:

Thank you for inviting me to submit this statement for the record to supplement your hearing on this important matter. My name is Allan I. Mendelowitz, and while I currently serve on the Board of Directors of the Federal Housing Finance Board, I bring a special insight into the topic of today’s hearing. I spent 1980 as the representative of the Comptroller General of the United States (one of the three voting members of the Chrysler Corporation Loan Guarantee Board) and as one of the principle government negotiators putting together the terms of the Chrysler loan guarantee. In fact, one of my accomplishments during that time is that I was directly and personally responsible for including as a condition of the loan guarantee, the warrants which earned the taxpayers more than \$300 million. In addition, I spend the better part of two decades directing a substantial body of work on the automobile industry for the U.S. Congress.

The downturn in the fortunes of the “Big Three” domestic automakers has led policy makers to revisit the “Chrysler Corporation Loan Guarantee Act of 1979” (Public Law 96-185 signed into law by President Carter on January 7, 1980) which is largely viewed as a successful government intervention in a private company to achieve a public policy objective. There are some similarities between the 1979–80 Chrysler Corporation financial crisis and that of the Big Three today. Like 1979–80, there has been recent volatility in oil prices and the economy is in difficult circumstances. In addition, arguments made in 1979 in support of the Loan Guarantee Act are very similar to arguments made today, for example: (a) Chrysler could not be successfully reorganized under the bankruptcy laws because consumers would not buy cars from

a bankrupt company, (b) bankruptcy would impose excessively high economic costs, including lost jobs *etc.*, in a time of national economic difficulty, and (c) it would be cheaper for the Federal Government to bail out Chrysler than to bear the cost of its failure—unemployment insurance, lost tax revenue, *etc.*

Despite the similarities, there are significant differences today relative to 1979–80. At that time, the government was dealing with one sick company in an otherwise healthy domestic industry. In addition, there was a credible business case for helping Chrysler. The company required financing for a 6 to 18 month time horizon, during which time the launch of the K-car would give the company a realistic shot at returning to profitability. Today, all of the Big Three are in financial trouble and face the very real prospect of bankruptcy. However, none of the Big Three can propose a short-term turn-around plan. For example, the Chevrolet Volt which may be an important vehicle 10 years from now will be launched in two years at such low initial volumes and at such a high price, that it will not contribute to the financial turnaround of General Motors when it goes on sale. Success today will depend almost entirely on executing major restructurings of the companies.

The public debate over the federal government's potential role in a rescue package for the Big Three has focused on two principle alternatives: (a) government loans to bridge the companies through necessary reorganizations and the economic downturn, and (b) reorganizing the companies under Chapter 11 of the bankruptcy laws. These options are presented as alternatives, but both in reality put the federal government in a similar position. The choice between government loans and bankruptcy is, in fact, not a choice at all. A restructuring in bankruptcy would require tens of billions of dollars in funding to support operations, commonly known as "debtor in possession" or DIP financing. In today's financial markets, any DIP financing is difficult to get—and at the levels of financing needed by the Big Three—is probably impossible. Therefore, for bankruptcy to be a viable restructuring option, the Federal Government must be ready to provide DIP financing.

As a result, if there is a public policy decision that the domestic car industry should survive—the Federal Government's role will likely be the same no matter which action is taken. Whether providing loans to restructure the Big Three outside of bankruptcy, similar to the Chrysler Loan Guarantee Act, or DIP financing for reorganization under bankruptcy, the Federal Government will be acting as lender of last resort.

The 1979 Chrysler Loan Guarantee Act is viewed as a successful government intervention in a private company to achieve a public policy objective: (a) Chrysler avoided bankruptcy, (b) with the introduction of more fuel-efficient cars and the minivan concept, Chrysler recovered, and (c) the Federal Government was well protected and well compensated for the loan guarantee. However, the mechanics of the loan guarantee program are generally misunderstood. Rather than a single Chrysler loan guarantee transaction, there were in fact, two distinctive Chrysler transactions: Chrysler 1 and Chrysler 2.

Chrysler 1 was put together in the spring of 1980 when Chrysler was granted the first \$800 million in loan guarantees. This was a partial "first step." However, there was one absolutely key provision. In return for the initial guarantees, the Federal Government took a priority security interest in every asset of the company including property, plant, equipment, inventory, work in progress, and even patents and trademarks. In fact, existing lenders with offset rights to compensating balances were required to cede those offset rights to the federal government. In the event of liquidation, the Federal Government held sufficient collateral to be made whole—and other creditors were likely to receive nothing. However, the company itself underwent a modest restructuring at most. For example, lenders did not forgive principle and continued to receive substantial interest payments.

Chrysler 2 came about in the fall of 1980. At that point, Chrysler had burned through the first \$800 million of federally guaranteed funding and came back for an additional \$400 million in new guarantees. However, the original basis for granting the first \$800 million was no longer credible to support this request. There had to be a new basis for extending additional guaranteed loans. As a result, in Chrysler 2, the government effected a reorganization of the company and its balance sheet in a way to justify extending additional funds. It was only in Chrysler 2 that the lenders gave significant debt forgiveness, *i.e.*, \$1.2 billion in loans were forgiven in exchange for payment of about 15 cents on the dollar. Workers gave significant wage concessions, as well as changes in work rules and benefits. When Chrysler 2 was finished, the company looked more like it would have looked had it gone through a bankruptcy reorganization.

The structuring of the loan guarantee tranches was a critical operational aspect of why the program succeeded. However, the ability to restructure the company in



the Chrysler 2 transaction was a direct result of the key underlying principles that made the Chrysler Loan Guarantee Act a success. The key principles include:

*The Loan Guarantee Act had a clear public policy objective.* In a market with a severe shortage of 4-cylinder fuel-efficient cars, the program set out to preserve the annual production capacity for three-quarters of a million of such vehicles. In addition, the program avoided the bankruptcy of Chrysler that would have resulted in the loss of hundreds of thousands of manufacturing and ancillary service jobs (at Chrysler, its suppliers, its dealers, etc.) in a time of domestic economic weakness. Chrysler used the federally guaranteed funds to maintain development and launch production of a modern 4-cylinder fuel efficient car (the “K-cars”) that was in high demand.

*Powerful independent board required to approve disbursement of funds.* The Chrysler Corporation Loan Guarantee Board had three voting members: the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve, and the Comptroller General of the United States. The makeup of the board insured that all decisions had a clear, credible, and transparent justification included in the transcripts of board meetings and in board reporting the U.S. Congress. There were no *ad hoc* or opaque decisions made by the Chrysler Corporation Loan Guarantee Board.

*The Federal Government had a reasonable assurance of repayment.* The guarantees could only be provided if the Chrysler Corporation Loan Guarantee Board determined that there was a reasonable assurance of repayment. This determination was based on credible operating and financing plans, and the Federal Government taking a priority security interest in every asset of the company (valued at more than \$2.5 billion).

*Well-defined time frame and scope.* Chrysler was offered up to \$1.5 billion of federal government loan guarantees for a maximum of 10 years subject to stringent conditions. In addition, no permanent government agency or permanent corporate entitlement was created.

*Government resources were used sparingly with no free riders.* Built into the statute was the requirement that there be \$2 dollars of contributions from interested parties for every \$1 dollar of federally guaranteed loans. In addition, everyone who stood to gain from Chrysler’s turnaround was required to contribute to the program: (a) existing lenders to Chrysler provided debt forgiveness, (b) Chrysler employees agreed to wage and benefit reductions, (c) states and localities where the company had plants contributed with additional loans, (d) Chrysler was forced to sell off all assets not central to the core automotive business including Chrysler Defense (that was a shareholder contribution) and, (e) executive salaries and perks were cut (Lee Iacocca worked for \$1 a year and much to his chagrin, his Gulfstream executive jet had to be sold).

*Bad incentives and precedents were avoided.* The stringent terms of the Chrysler loan guarantee were so onerous that no business—based on this precedent—would consider this program a desirable alternative to anything else. The program was truly a last resort.

*The Federal Government received the upside of success.* In return for the loan guarantees, the Federal Government received expense reimbursement, guarantee fees, and warrants. When the Chrysler Corporation eventually recovered and paid-off the guaranteed loans in 1984 (6 years early) the government sold the granted warrants for a profit of over \$300 million.

If the public policy decision is made—no matter what its form—to attempt to rescue the U.S. auto industry, the government is going to be involved as a lender either: (a) outside of bankruptcy like the Chrysler Loan Guarantee Act, or (b) as debtor in possession lender as part of a bankruptcy reorganization. Furthermore, no government assistance can succeed without substantial restructuring of the companies. If the government grants the requested billions in loans without a bankruptcy filing, the single most important condition precedent must be that the Federal Government takes a priority lien on all assets of the companies prior to the distribution of funds. This will give the government the necessary leverage to insure the proper restructuring of the companies. Given the claims by at least two of the companies that they need assistance before the end of the year, this condition is all the more important to assure that the money is used to support the public policy aim of restructuring the companies so that they return to profitability and become again competitive players in the automobile market.

**RESPONSE TO WRITTEN QUESTIONS OF SENATORS BROWN  
AND TESTER FROM GENE L. DODARO**

**Q.1.** Information for the record in response to questions regarding the state of the automakers' pensions and their potential impact on the Pension Benefit Guaranty Corporation (PBGC).

**A.1.** I have previously noted that the PBGC Director stated, in a November 28, 2008, *Wall Street Journal* interview, that the funding of the automakers' pensions is "OK"; that is, the plans are likely not to require any contributions in 2009, and in some cases 2010, to meet the Employee Retirement Income Security Act of 1974 (ERISA) minimum funding standards. Additionally, the Director has noted that, in the event of an immediate reorganization, the plans may continue rather than being terminated.<sup>1</sup> In a November 24, 2008, *New York Times* interview, the Director stated that "we would maintain that it [GM] can afford to keep its plan intact," and that "based on past history, we think that argument has a reasonable chance of success."

For the future, however, the automaker pension plans pose considerable financial uncertainty to the PBGC. Current, detailed information that reflects the true financial health of the automakers' pension plans has not been made public. However, PBGC is very concerned about the future health of the automaker pension plans in light of the current problems facing U.S. financial markets and the current economic downturn. For example, automaker plans, like many others in the U.S., could experience significant losses in asset value that would impact plan financial health. The agency has also expressed concern that automaker "attrition" programs, which seek to restructure or reduce their workforces by offering severance and early retirement packages to current employees, could also undermine the state of the automakers' plans by creating large obligations on the pension plans that have not been funded. For example, in a recent letter to General Motors, PBGC noted that the obligations on recently-negotiated attrition programs alone have a present value of \$5 billion.

If the automakers' plans were to result in a distress termination,<sup>2</sup> PBGC's accumulated deficit could increase dramatically from its current level of about \$11 billion. The plans sponsored by the automakers represent a significant portion of the assets, liabilities, and participants in the defined benefit system. Although it is impossible to know what the exact claims to PBGC would be until it were to take over a plan, based on estimates of their current funded status, termination of the auto companies' plans could double the PBGC deficit from its September 30, 2008, level. Further, from an administrative standpoint, PBGC would be presented with an unprecedented number of assets to manage as well as benefit liabilities to administer. As I noted during questioning, we estimate

<sup>1</sup>For example, a number of auto parts suppliers in Chapter 11 with collectively bargained pension plans have emerged from reorganization without terminating their pension plans.

<sup>2</sup>Employers end a plan through a process called "plan termination." If a plan has insufficient assets to meet the plan's accrued benefit promises through the purchase of annuities and if the sponsoring employer believes it is financially distressed it may apply for what is known as a distress termination. To do so, however, the employer must prove to a bankruptcy court or to PBGC that the employer cannot remain in business unless the plan is terminated. If the application is granted, PBGC will take over the plan as trustee and pay plan benefits, up to the legal limits, using plan assets and PBGC guarantee funds.

that the automakers' plans include roughly 1.3 million participants, which would double the total number of PBGC's current or future beneficiaries.

PBGC's prior experience with the termination of plans of financially troubled sponsors is not encouraging. In some of its larger terminations the financial condition of the plans was significantly worse than had been reported in their ERISA filings in the years shortly before plan termination. GAO has reported on the weakness in the funding rules in the past,<sup>3</sup> and indeed the Pension Protection Act of 2006 (PPA) was intended to address these weaknesses and strengthen plan funding. However, it is not clear that the PPA contains the provisions that will in the end protect the PBGC from assuming rapidly deteriorating pension plans in the auto industry. The possible impact this could have on the PBGC should be a consideration in assessing federal financial assistance to the automakers.

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<sup>3</sup>GAO, *Private Pensions: Recent Experiences of Large Defined Benefit Plans Illustrate Weaknesses in Funding Rules*. GAO-05-294. Washington, DC: May 31, 2005.