

Bloomberg

Taxpayers Unlikely to Recover GM, Chrysler Investment (Update2)

By John Hughes - Sep 09, 2009

Sept. 9 (Bloomberg) -- U.S. taxpayers are unlikely to recover their \$81 billion investment in General Motors Co. and Chrysler Group LLC and were "left in the dark" on specifics of a decision to aid automakers, a congressional panel said.

The Treasury Department should consider placing its GM and Chrysler ownership stakes into an independent trust to prevent "political pressure and government interference," the Congressional Oversight Panel said in a report today.

"Even if no direct conflict exists, a trust could prevent the use or appearance of political influence in the government's ownership," the panel concluded.

The report didn't estimate how much of taxpayers' aid to the auto industry will be recovered. The panel said GM stock would need "highly optimistic" returns in order for the full investment to be repaid.

The panel, which oversees the U.S. government's \$700 billion Troubled Asset Relief Program, raised questions about the Obama administration's transparency in aiding automakers and challenged the Treasury Department to make more disclosures about company decisions and the government's future role.

"Congress and ultimately the American taxpayer have been left in the dark concerning details of Treasury's review process and its methodology and metrics at a time when Treasury committed additional TARP funds to these companies," the panel said.

Balancing Responsibilities

"The Treasury auto team failed to disclose to the public both the factors and criteria it used in its viability assessments, the scope of outside involvement in its evaluations, and its basis and reasoning for selecting particular benchmarks," according to the report. "Simply, its disclosures did not go far enough."

Treasury Secretary [Timothy Geithner](#) said in an e-mailed statement that the government's restructuring role gave it access to company information that normally wouldn't be available.

Officials had to “balance our desire and responsibility to be responsive to oversight requests, while also protecting the interests of the taxpayers, who have an enormous stake in the ability of these companies to compete,” Geithner said in the statement.

[Elizabeth Warren](#), a Harvard Law School professor who heads the oversight panel, said today there remains “a good chance” that the portion of taxpayer dollars invested in the automakers’ restructuring plan will be recovered.

“It really depends on what happens to the auto industry going forward,” Warren said in a Bloomberg Television interview. “If things go well, then the taxpayer could see its money back. But if it doesn’t, then our losses could be substantial.”

Potential Conflicts

[Greg Martin](#), a GM spokesman, said in an e-mail that the company expects to repay the government.

“We are a company with less debt, a stronger balance sheet, a winning product portfolio and the right size to match today’s market realities,” Martin said. “GM will be transparent in its business and regularly report its results.”

A Chrysler spokeswoman, [Linda Becker](#), said in an e-mail that the company wouldn’t immediately comment.

The Treasury should use its shareholder role “to ensure that these companies fully disclose their financial status and that the compensation of their executives is aligned to clear measures of long-term success,” the report said.

The decisions by the [George W. Bush](#) administration and the Obama administration to use TARP funds for automakers raise “a number of questions,” including the government’s role as negotiator, potential conflicts that arise as part owner of a private company and which strategy the Treasury Department will ultimately use to exit from its role, according to the panel.

Several Objectives

“Although taxpayers may recover some portion of their investment in Chrysler and GM, it is unlikely they will recover the entire amount,” the panel said.

President [Barack Obama](#), his automotive task force and the Treasury Department have stated several different objectives for the intervention, including the prevention of liquidations and averting mass layoffs, the report said.

“There is little clarity with respect to what has ultimately driven the decision making,” the report said.

The Treasury Department spent \$49.9 billion in TARP funds for GM and \$14.3 billion for Chrysler. Including \$16.9 billion in aid to GM's financial arm and suppliers, taxpayers' total net investment as of Sept. 9 is about \$81 billion, the panel said.

The government's equity interest in Chrysler would need to reach a value of about \$5.7 billion in order for taxpayers to recoup their investment, assuming other loans are repaid.

'Likely' Scenarios

For GM, repayment of TARP would require government shares of the new GM to be worth \$40.7 billion, assuming other debt is repaid. That means the market cap of the entire company would need to be \$67.7 billion, the report said.

In April 2008, when old GM shares were at their highest, the company's total value was \$57.2 billion, the panel said. The figure is not adjusted for inflation.

"New GM will have to achieve a capitalization that is higher than was ever achieved by Old GM if taxpayers are to break even," according to the report.

The Treasury Department's "more likely" scenarios show lower recoveries for early aid to GM and Chrysler and a "reasonably high" chance of return of funding "advanced as part of the restructurings," Geithner said in the statement.

To contact the reporters on this story: [John Hughes](mailto:John.Hughes@bloomberg.net) in Washington at jhughes5@bloomberg.net

To contact the editor responsible for this story: Larry Liebert at lliebert@bloomberg.net;