Finance & Insurance

U.S. suggests Ally breakup, wants GM to buy captive finance unit, report says

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March 26, 2012 - 11:57 am ET

NEW YORK (Bloomberg) -- The U.S. Treasury, which put $17.2 billion into a bailout of Ally Financial Inc., has indicated it would prefer a breakup and sale of the lender -- including selling the company's captive finance auto business back to General Motors, its original owner.

People familiar with the matter told Bloomberg the Treasury wants to make such moves because it no longer believes an initial public offering of Ally stock would succeed.

General Motors previously owned Ally when it was known as GMAC. GM spokesman Jim Cain declined to comment on the report.

Treasury officials are telling Ally executives, directors and financial advisers that an IPO is unlikely soon because of the company's high cost of capital relative to other banks, the potential bankruptcy of a mortgage unit, and its recent performance in Federal Reserve stress tests, said the people, who asked not to be identified because the talks are private.

The Treasury instead is pushing for Ally to split into at least two pieces, the people said. One part would be Ally's auto-finance unit, one of the largest in the U.S., and the other would be its online banking business, which had almost $28 billion in retail deposits at year-end. Ally shareholder Elliott Management Corp. also recommends a sale, according to a letter sent to the board by Elliott and obtained by Bloomberg News.

Ally CEO Michael Carpenter and its board have resisted the Treasury's call for a split, the people said, adding that the department is reluctant to press Carpenter too hard for a sale out of concern about appearing as a heavy-handed owner. The Treasury owns 74 percent of Ally.

"We're supportive of management and continue to work closely with them," the Treasury said in an e-mailed statement. Matt Anderson, a department spokesman, declined to comment on Treasury's view of the IPO or the success of any potential sale.

'Fulfill our mission'

"Every action the company has taken and contemplated has been with the objective to fulfill our mission to support the auto recovery and fully repay the taxpayer's investment," Gina Proia, an Ally spokeswoman, said in an e-mailed statement. "This is what will guide our decisions going forward."

While no official Ally sales process has begun, the Treasury's views have been shared with Ally senior executives, directors and a number of the financial and legal advisers brought on to help pursue an IPO, the people said.

Ally was found to have some of the lowest capital ratios among 19 lenders in Fed banking stress tests released March 13.

Ally is likely to put Residential Capital mortgage unit into bankruptcy in the next few weeks and sell some assets in a court-supervised sale, people familiar with the matter said last month. The firm also may lose its preferred auto-lender agreement with automaker Chrysler Group, which is seeking out banks like Wells Fargo & Co. and Santander Holdings USA Inc. to potentially replace Ally, people with knowledge of the matter said last month.

GM as buyer

The Treasury has suggested Ally consider selling its captive-finance business to GM, said two of these people, with the rest sold to a traditional bank. GM and other companies aren't interested in buying any of Ally until it resolves ResCap's status, said another person familiar with the matter.

The U.S. determined that Ally was crucial to the survival of the auto industry during the financial crisis in 2008 and 2009 and provided multiple bailouts in return for a 74 percent stake.

Last year, when Ally was close to a public offering, it considered a joint bid from GM and Toronto-Dominion Bank, Canada's second-largest lender, until those discussions fizzled, a person familiar with the matter said last month.

Ally has financed about 6.7 million GM or Chrysler vehicles for dealers since 2009 and another 2.4 million for consumers, Proia said. Ally has so far paid $5.4 billion to the Treasury.

Ally executives depart

Many of the bankers Ally brought on to prepare for an IPO have been told an offering is unlikely, said two people familiar with the matter. Some of Ally's top people working on the IPO have said they'll leave.

Corey Pinkston, head of corporate debt and equity for Ally since January 2009, has announced his intentions to depart, Proia said in a separate telephone interview. Laura Hall, who works with Pinkston, will also be leaving.

Both executives still work at the company and have no specific departure date, Proia said. Jeff Brown, the senior executive vice president in charge of finance and corporate planning, will add Pinkston's duties to his current role.

Elliott Management, which owns 2.3 percent of Ally, is also pressing Carpenter, the board and their advisers to explore a sale. Its letter, and an accompanying plan, also urged Carpenter not to put ResCap into bankruptcy, saying the process will mean "radical value destruction," drag out for 12 to 18 months, and trigger billions of dollars in so-called put-back claims, where holders of mortgage-backed securities issued by ResCap try to force the company to buy back soured loans backing the bonds.

Elliott's alternative

The litigation would push up Ally's cost of funding and hurt its competitive position, the letter said.

The plan urges Carpenter to sell Ally Bank to another lender and says it could fetch $13.1 billion to $16.3 billion. The origination and loan portfolio, which provides loan and insurance to more than 18,000 car dealers, could then be sold for $10 billion to $12.5 billion, according to the document.

A transaction "in which ResCap is restructured out of court and Ally is sold to a strategic financial institution is the best option," the letter said. "This will create significant value for all constituents at a dramatically lower all-in cost with considerably less uncertainty and execution risk."

The plan suggests Ally should instead exchange ResCap debt for Ally debt and pay off the smaller number of put-back claims through monthly cash flow. A number of the put-back claims would go away in 2013 or 2014 due to a statute of limitations on such claims, according to the plan.

Carpenter, the Ally board and his advisers haven't responded to the proposal from Elliott, according to a person familiar with the matter.

"The fact remains that addressing the risks in the mortgage business is the key to successfully pursing any and all future strategies," Proia said in the e-mailed statement. She declined to comment on whether the company has seen the plan.

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Score: 3

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7:29 PM on 3/26/2012

Obama needs for someone / anyone to buy ALLY so he doesn't end up with another Solindra loosing more taxpayer money.

Maybe someone will pay $8.5 Billion to get the Government out of debt?

Then Obama can claim victory in his re-elction campaign.

Although, I know that would be a 50% loss of taxpayer money. Not a bad return considering all of Obama's bad investments in green energy companies!

THOMAS_WEAVER

Score: 3

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6:50 PM on 3/26/2012

Well as a 15 year CHRYSLER and General Motors dealer and A PLATINUM DEALER WITH GMAC 1993 to 2008, the NEW Ally bank did a LARGE group of GM & chrysler dealers wrong. I personally know of 48 GM DEALERS in no Cal that were ruined by GMAC IN 2008 AND 2009. I receiver a call from Rep, Tom McCLINTOCK wondering how we were having law suits filed against us by GMAC when they were basicially OWNED BY THE US Goverment. and yes i as a replubican ...

550guy

Score: 5

Report Abuse

5:54 PM on 3/26/2012

I don't know enough about the details beyond the AN article to have an opinion, but does it strike anyone else as absurd the the government owns 74% but they're wary of being a heavy handed investor. Since when has the government been worried about being heavy handed and isn't 74% enough to say you effectively own the company, somethings fishy here.

common+sense

Score: -1

Report Abuse

4:46 PM on 3/26/2012

This has been a done deal for months......

RPO+F55

Score: 5

Report Abuse

4:34 PM on 3/26/2012

Former+Dealer wrote "There are plenty of lenders to fill any void left by their exiting."

You are dreaming if you believe that there are plenty of lenders willing to step in and floor plan new car dealers in today's age. Come on....

Read more: http://www.autonews.com/article/20120326/RETAIL02/120329927#ixzz1qG0gE7sq

Former+Dealer Score: 3 Report Abuse
4:25 PM on 3/26/2012

Ally had no concience when it came to it's dealing with dealers. Now that they can make money on floor plan and retail they're acting like a long lost brother.

The government bailed them out because of the systemic risk at the time. That risk is long passed. There are plenty of lenders to fill any void left by their exiting.

The US Government should use whatever means it needs to in order to get repaid and bring this to it's best conclusion for us, the taxpayers.

Madlock Score: -1 Report Abuse
4:05 PM on 3/26/2012

ANYTHING the Obama administration recommends for GM's benefit certainly SOUNDS authentic. It's ESPECIALLY easy to picture Ally as another stop on the Prezidential election year "victory lap" tour - like an old Journey T-Shirt.

But I think AN may have fallen for a newswire spoof. If the story were REAL, the government would have LEAD-OFF by stating how much Ally equity must FIRST be given to UAW's VEBA Trust.

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