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TARP Panel Finds Fault With GMAC Bailouts

By SEWELL CHAN Published: March 11, 2010

WASHINGTON — A Congressional panel, in a report to be released Thursday, questioned the need for the Treasury Department's \$17.2 billion bailout of GMAC as the company dealt with the collapsing mortgage market in 2008 and 2009.

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The panel, the Congressional Oversight Panel for the Troubled Asset Relief Program, raised questions about the Bush administration's initial decision to rescue GMAC in December 2008.

The government "might have been able" to arrange a strategic bankruptcy for GMAC, as it did for General Motors and Chrysler, preserving its automotive lending arm while dealing with the mortgage lending operations that brought it down, the panel found.

In one passage, the report concluded that GMAC became "one of the five largest wards" of the government even though it was "a company that apparently posed no systemic risk to the financial system, that did not seem to be too big to fail, too interconnected to fail, or indeed, of any systemic significance."

But the five-member panel said it took "no position on whether Treasury should have rescued GMAC." (One member, Damon A. Silvers of the A.F.L.-C.I.O., recused himself from investigations concerning the auto industry.)

Asked Wednesday evening to explain the apparent inconsistency, the panel's chairwoman, Elizabeth Warren, a Harvard law professor, said only that "this was a four-person panel" and that the report's language represented a consensus. She declined to state her personal view on the bailout.

The report said that the Treasury Department had yet to require the company to put forward a plan for returning to profitability and fully repaying taxpayers.

In a statement Wednesday evening, the Treasury restated its previous arguments for the necessity of the rescue, saying it was "the least costly and least disruptive of all the options available."

The government owns a 56.3 percent stake in GMAC, which started in 1919 as the in-

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house financing arm of G.M. and was spun off in 2006. It is now projected that \$6.3 billion from the bailouts, which were provided in December 2008 and in May and December 2009, may never be repaid.

Along with the Treasury money, GMAC also used emergency loan programs run by the [Federal Reserve](#) and the [Federal Deposit Insurance Corporation](#).

The panel found that the Treasury treated GMAC with greater lenience than it did G.M. and Chrysler: it did not wipe out GMAC's equity holders, require GMAC to plot a return to viability, or prod the company to use taxpayer money to increase consumer lending.

And the panel found that while the rescue of GMAC helped support the American auto industry, it also reinforced GMAC's dominance over the revolving lines of credit used by auto dealers.

The report details, among other developments, the company's collapse at the hands of a subsidiary called ResCap, which became one of the largest originators and servicers of mortgages.

Witnesses who addressed the panel said GMAC's major mistake was taking advantage of and leveraging its high credit rating to move away from automotive financing and diversify into other areas such as mortgage lending, the report said.

Indeed, in a conference call in January, Michael A. Carpenter, GMAC's chief executive, called the mortgage unit "a millstone around the company's neck."

The Treasury has said that the initial bailout was needed to prop up the auto industry, and that the subsequent ones were deemed necessary after GMAC took part in the "stress tests" ordered by the Fed, even though it "might appear that good money was being thrown after bad."

The panel found that "half-hearted attempts at saving an institution from insolvency that lack coordination among regulators" might be more costly than a full bailout or bankruptcy.

The report also found that the commitment to GMAC arguably outlasted its the economic justification and that Treasury's reasons for not allowing GMAC to fail were not totally persuasive."

This article has been revised to reflect the following correction:

Correction: March 16, 2010

An article on Thursday about a Congressional panel that questioned the need for the Treasury Department's bailouts of GMAC in 2008 and 2009 gave an incomplete figure for the overall amount of the government's financial package. It totaled \$17.2 billion. (The word "billion" was omitted.)

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