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Obama Points to New Villain in Chrysler Bankruptcy: Hedge Funds

The president singles out a group of hedge funds and investment firms for rejecting a deal

By [Amanda Ruggeri](#)

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When President Barack Obama framed Chrysler's decision to file for bankruptcy as the most rational, painless route for the automaker yesterday, he also made it clear that it was the only option left. He went on to blame those who held out for "an unjustified taxpayer-funded bailout": the group of hedge funds and investment firms that refused a deal offered by the Treasury Department.

Now, managers of those firms are angry. "Aren't you entitled to reject a deal?" Bulldog Investors' manager Phil Goldstein asked the *Wall Street Journal*. But with the public angry at Wall Street and with many frustrated that the taxpayer-propped Chrysler will have to go to bankruptcy court, it may take more than protestations for hedge-fund managers to clear their names.

The negotiations that could have kept Chrysler out of court were derailed by talks with creditors that altogether hold \$6.9 billion in the automaker's debt. Although four large banks that hold 70 percent of that debt—Goldman Sachs, Citigroup, JPMorgan, and Morgan Stanley—agreed to accept Treasury's offer of 33 cents on the dollar for the loans, a group of about 20 hedge funds, holding about \$1 billion of the debt, rejected the deal.

In his remarks yesterday, the president drew a sharp contrast between the "shared sacrifice" made by other players, from the American taxpayer to the Canadian government, to keep Chrysler afloat, and the firms that "failed to accept reasonable offers to settle on their debt." Because of that refusal, the government would support Chrysler's use of the bankruptcy code "to clear away remaining obligations," he said. In a parting slap, Obama added, "They were hoping that everybody else would make sacrifices, and they would have to make none . . . I don't stand with them."

Now, what the creditors will get back on their investments will be left up to the bankruptcy court. And that might not be good news for hedge-fund managers.

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