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TARP Assistance for Chrysler: Restructuring and Repayment Issues

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TARP Assistance for Chrysler: Restructuring and Repayment Issues

Abstract

[Excerpt] During the recession, both of these U.S. automakers and two auto financing companies, Chrysler Financial and GMAC, received federal financial assistance from the Bush and Obama Administrations. Alone among the world's major automakers, Old Chrysler and Old GM filed for bankruptcy and, with oversight from the Obama Administration as well as the bankruptcy court, restructured their operations in an attempt to become more competitive companies. Both bankruptcies took place in the summer of 2009. Reasoning that Chrysler was not financially strong enough to be an independent company, the Obama Administration reached an agreement with Fiat to take over the management of New Chrysler in a bankruptcy reorganization; Fiat also received a 20% equity ownership stake in the new company.

The U.S. government's assistance to Chrysler ultimately resulted in New Chrysler owing the government several billions of dollars in loans and the government having an initial 9.9% ownership stake in New Chrysler. In May 2011, the loans directly owed by New Chrysler were repaid; in July 2011, Fiat purchased the U.S. government's remaining interests in the company, thereby ending direct government involvement with New Chrysler. The TARP assistance for Chrysler, however, was not fully recouped due to losses in the bankruptcy process and because the ultimate value of the government's ownership stake in Chrysler was less than the amount of outstanding TARP assistance.

This report describes the progress that New Chrysler has made since it was created from the sale of the Old Chrysler assets in July 2009 and the path of the divestment of the federal government's stake in Chrysler.

Keywords

Troubled Asset Relief Program, TARP, Chrysler, bankruptcy, repayment

Comments

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TARP Assistance for Chrysler: Restructuring and Repayment Issues

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Summary

The recent recession and accompanying credit crisis posed severe challenges for all automakers, but especially for General Motors and Chrysler. Executives of both companies testified before congressional committees in the fall of 2008 requesting federal bridge loans. Legislation that would have provided such financial assistance passed the House of Representatives but did not pass the Senate. In lieu of that assistance, the Bush Administration turned to the Troubled Asset Relief Program (TARP), a \$700 billion program that was enacted in October 2008 to shore up the financial system and prevent spillover to the broader economy.

The Bush Administration used TARP to provide both automakers and two auto financing companies with nearly \$25 billion in loans, and told the automakers to submit viability plans if they were to seek additional aid. Chrysler submitted such a plan in February 2009, outlining how it planned to restructure its operations, including a strategic alliance with Fiat. Some questions were raised as to whether Chrysler could survive as a free-standing company, even with government assistance, because of its relatively small size. The Obama Administration rejected Chrysler's initial viability plan as insufficient and gave the company 30 days to develop a new plan in an effort to avert bankruptcy. Working with the Administration's Auto Task Force, Chrysler developed a restructuring plan that included a revised labor agreement, cost reductions from dealers and suppliers, reductions in creditor claims, and limitations on executive compensation.

Despite agreement with most stakeholders, all creditors did not agree to the restructuring, prompting Chrysler to file for bankruptcy in April 2009. With much of the restructuring plan in place, however, the bankruptcy court was able to quickly approve the proposals, including a creditor agreement. Many of the assets of Old Chrysler were sold to a new legal entity, Chrysler Group LLC, whose largest equity owner was the United Auto Workers' retiree medical trust fund, owning 67.7%. Fiat took a management role in the new company and a 20% equity stake, which was deemed central to the survival of New Chrysler.

Under new Fiat management, New Chrysler revamped its fleet of automobiles and light trucks, and has been profitable in 2011 and 2012. Its commercial and financial success accelerated its plans for repaying federal assistance. In May 2011, New Chrysler repaid a \$5.9 billion debt to the U.S. government that was not fully due until 2017. On July 21, 2011, Fiat purchased the U.S. government's common equity interests and options in New Chrysler for \$560 million. In addition, the ownership of New Chrysler significantly changed as Fiat met a series of performance benchmarks that allowed it to raise its equity stake to 58.5% at the end of 2011.

Of the \$10.9 billion that was loaned to Chrysler through TARP, not all of it has been, or will be, recouped by the U.S. Treasury. Following the transaction that closed on July 21, 2011, the U.S. government has no remaining financial interest in New Chrysler. While \$9.6 billion of the assistance given to the company has been recouped, an approximate \$1.3 billion shortfall remains. New Chrysler has no legal responsibility to make up this shortfall.

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Introduction

In 2008 and 2009, collapsing world credit markets and a slowing global economy combined to create the weakest market in decades for production and sale of motor vehicles in the United States and other industrial countries. The declines in production³ and sales were serious business challenges for all automakers, and rippled through the large and interconnected motor vehicle industry supply chain, touching suppliers, auto dealers, and the communities where auto-making is a major industry.

Old Chrysler and Old GM were in especially precarious positions.⁴ As the supply of credit tightened, they lost the ability to finance their operations through private capital markets and sought federal financial assistance in 2008.

During the recession, both of these U.S. automakers and two auto financing companies, Chrysler Financial and GMAC, received federal financial assistance from the Bush and Obama Administrations. Alone among the world's major automakers, Old Chrysler and Old GM filed for bankruptcy and, with oversight from the Obama Administration as well as the bankruptcy court, restructured their operations in an attempt to become more competitive companies. Both bankruptcies took place in the summer of 2009. Reasoning that Chrysler was not financially strong enough to be an independent company, the Obama Administration reached an agreement with Fiat to take over the management of New Chrysler in a bankruptcy reorganization;⁵ Fiat also received a 20% equity ownership stake in the new company.⁶

Corporate Terminology in This Report

As a result of bankruptcy proceedings, there are two companies commonly referred to as "Chrysler." Both are discussed in this report. Chrysler LLC filed for bankruptcy in April 2009. In this report, that company is referred to as "Old Chrysler." In June 2009, the majority of Old Chrysler's assets and some of its liabilities were purchased by a new legal entity that was subsequently renamed "Chrysler Group." In this report, it is referred to as "New Chrysler." The term "Chrysler" is used when both companies are referenced.

Similarly, there are two companies commonly referred to as "GM." Both are discussed in this report. General Motors Corporation filed for bankruptcy in June 2009. In this report, that company is referred to as "Old GM." In July 2009, the majority of Old GM's assets and some of its liabilities were purchased by a new entity that was subsequently renamed "General Motors Company." In this report, it is referred to as "New GM." The term "GM" is used when both companies are referenced.¹

GMAC, Inc., originally the financing arm of Old GM, changed its general corporate identity to Ally Financial in May 2010, approximately a year after introducing the name Ally Bank for its banking subsidiary. Except for historical background and forward-looking statements, this memo will refer to the corporation as GMAC/Ally Financial.²

¹ For a discussion of GM's restructuring, bankruptcy, and IPO, see CRS Report R41401, *General Motors' Initial Public Offering: Review of Issues and Implications for TARP*, by Bill Canis, Baird Webel, and Gary Shorter.

² For a discussion of federal assistance to GMAC/Ally Financial, see CRS Report R41846, *TARP Assistance for the U.S. Motor Vehicle Industry: Unwinding the Government Stake in GMAC*, by Baird Webel, Gary Shorter, and Bill Canis.

³ U.S. light vehicle production fell by more than 34% in 2009 from 2008 levels, but the year-over-year fall-off was more acute for Old Chrysler, whose production fell by 57%. Other automakers' U.S. production fell as well: GM's by 48%, Toyota's by 28%, Honda's by 27%, and Ford's by 13%. Source: "North American Car and Truck Production," *Automotive News*, January 11, 2010.

⁴ For an analysis of the decline in U.S. auto manufacturing during the recent recession, see CRS Report R41154, *The U.S. Motor Vehicle Industry: A Review of Recent Domestic and International Developments*, by Bill Canis and Brent D. Yacobucci.

⁵ In re Chrysler LLC, Case No. 09 B 50002, Opinion Granting Debtors' Motion Seeking Authority to Sell, Pursuant to 11 U.S.C. § 363, Substantially all of the Debtors' Assets, 9-10, May 31, 2009 (as corrected by Errata Order, June 2, (continued...))

The U.S. government's assistance to Chrysler ultimately resulted in New Chrysler owing the government several billions of dollars in loans and the government having an initial 9.9% ownership stake in New Chrysler.⁷ In May 2011, the loans directly owed by New Chrysler were repaid; in July 2011, Fiat purchased the U.S. government's remaining interests in the company, thereby ending direct government involvement with New Chrysler.⁸ The TARP assistance for Chrysler, however, was not fully recouped due to losses in the bankruptcy process and because the ultimate value of the government's ownership stake in Chrysler was less than the amount of outstanding TARP assistance.

This report describes the progress that New Chrysler has made since it was created from the sale of the Old Chrysler assets in July 2009 and the path of the divestment of the federal government's stake in Chrysler.

Government Assistance to the U.S. Motor Vehicle Industry

The initial U.S. government loans to assist the U.S. motor vehicle and motor vehicle financing industry were made by the Bush Administration in December 2008 and January 2009. At that time, \$24.8 billion in assistance was provided to the four companies,⁹ the first of what would eventually total nearly \$80 billion in assistance through the Troubled Asset Relief Program (TARP).¹⁰ TARP was authorized by the Emergency Economic Stabilization Act¹¹ (EESA), enacted in the fall of 2008 to address the ongoing financial crisis. This statute specifically authorized the Secretary of the Treasury to purchase troubled assets from "financial firms," the definition of which did not mention manufacturing companies.¹² According to the U.S. Treasury Department,

The overriding objective of EESA was to restore liquidity and stability to the financial system of the United States in a manner which maximizes overall returns to the taxpayers. Consistent with the statutory requirement, Treasury's four portfolio management guiding

(...continued)

2009)(Bankr. S.D.N.Y.).

⁶ The terms of the agreement with Fiat allowed the Italian automaker to increase its equity stake in Chrysler upon meeting certain performance benchmarks.

⁷ This 9.9% stake was reduced to 6.5% by July 2011 due to additional shares issued to Fiat for fulfilling certain performance benchmarks, such as producing a new fuel efficient engine at one of its Michigan plants. See the **Appendix** for more detail.

⁸ U.S. Department of the Treasury, "Treasury Exits Investment in Chrysler Group LLC," press release, July 21, 2011, available at <http://www.treasury.gov/press-center/press-releases/Pages/tg1253.aspx>.

⁹ The loan recipients and the initial loans they received from the Bush Administration in December 2008 and January 2009 were as follows: General Motors Corporation (\$14.3 billion), Chrysler LLC (\$4 billion), GMAC (\$5.0 billion), and Chrysler Financial (\$1.5 billion).

¹⁰ According to the U.S. Treasury Department, \$410 billion of the originally authorized \$700 billion TARP fund has been disbursed and 75% of it has been recovered. The Treasury Department maintains an ongoing tally of all TARP assistance and recoupment, including to the auto companies; this is available at <http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/Pages/Home.aspx>.

¹¹ P.L. 110-343, 122 Stat. 3765.

¹² P.L. 110-343, Division A, Section 3.

principles for the TARP are: (i) protect taxpayer investments and maximize overall investment returns within competing constraints; (ii) promote stability for and prevent disruption of financial markets and the economy; (iii) bolster market confidence to increase private capital investment; and (iv) dispose of investments as soon as practicable, in a timely and orderly manner that minimizes financial market and economic impact.¹³

The authorities within TARP were very broad, and when Congress did not pass specific auto industry loan legislation,¹⁴ the Bush Administration turned to TARP for funding, arguing that to not provide any assistance to Old Chrysler (and Old GM) would make the recession much worse.

The Obama Administration took office and built on this precedent. In 2009, both Chrysler and GM received additional TARP loans, which kept them functioning as they went through a major restructuring prompted by the Obama Administration's Auto Task Force.¹⁵ GMAC/Ally Financial received additional capital infusions, enabling the company to survive both the economic downturn in the auto market as well as large losses on the company's mortgage operations. Chrysler Financial, in contrast, required no additional aid and relatively quickly repaid the TARP loan it received. The assistance for the auto industry was not without controversy, and questions were raised about the legal basis for the assistance and the manner in which it was carried out.¹⁶

Table 1 summarizes the TARP assistance given to the U.S. motor vehicle and motor vehicle financing industry.¹⁷

¹³ TARP, "Monthly 105(a) Report to Congress," U.S. Department of the Treasury, July 2010, p. 10.

¹⁴ In December 2008, the House of Representatives passed H.R. 7321, authorizing the use of certain Department of Energy funds as bridge loans to GM and Chrysler. Passed 237-170, the bill was not acted upon in the Senate. For a complete description of Congress's consideration of auto industry loan legislation in the fall of 2008, see CRS Report R40003, *U.S. Motor Vehicle Industry: Federal Financial Assistance and Restructuring*, coordinated by Bill Canis.

¹⁵ The Auto Task Force was established by the Obama Administration in February 2009. It is chaired by Treasury Secretary Geithner and composed of officials from a wide range of federal agencies, including the departments of Labor, Commerce, and Transportation. On a day-to-day basis, the task force was managed for most of 2009 by Steven Rattner, and in 2010 by Ron Bloom. Timothy Massad, Assistant Secretary for Financial Stability, currently oversees the implementation and wind down of TARP.

¹⁶ See, for example, Congressional Oversight Panel (COP), *September Oversight Report: The Use of TARP Funds in Support and Reorganization of the Domestic Automotive Industry*, September 9, 2009. This panel was created by the Emergency Economic Stabilization Act of 2008. COP's statutory authorization and website have expired but its reports can be found at <http://cybercemetery.unt.edu/archive/cop/20110401222823/http://cop.senate.gov/>.

¹⁷ A more detailed accounting of the assistance for GM can be found in CRS Report R41978, *The Role of TARP Assistance in the Restructuring of General Motors*, by Bill Canis and Baird Webel.

Table 1. Summary of TARP Assistance for U.S. Motor Vehicle Industry

Company	Current Government Ownership Share	Total TARP Assistance	Principal Recouped to Date by the Treasury	Principal Losses Realized by the Treasury	Income/Revenue Received from TARP Assistance	Outstanding TARP Assistance
Chrysler	0%	\$10.9 billion	\$7.9 billion	-\$2.9 billion	\$1.69 billion	\$0
Chrysler Financial	Not Applicable	\$1.5 billion	\$1.5 billion	\$0	\$0.02 billion	\$0
GM	32% (New GM)	\$50.2 billion	\$23.2 billion	-\$4.3 billion	\$0.66 billion	\$22.6 billion
GMAC/Ally Financial	73.8%	\$17.2 billion	\$2.5 billion	\$0	\$3.13 billion	\$14.6 billion

Source: U.S. Treasury, *Daily TARP Update*, September 5, 2012; *Troubled Asset Relief Program: Monthly 105(a) Report*, various dates.

Notes: Figures may not sum due to rounding. At the time the companies were established through bankruptcy proceedings in 2009, the federal ownership stake of New Chrysler was 9.9% and New GM 60.8%. New Chrysler was authorized to draw up to \$12.9 billion in loans, but approximately \$2.1 billion was never utilized.

Chrysler: Two-Time Recipient of Federal Aid

Since 1980, when it first received federal assistance, Chrysler has had four different ownership structures, as shown in the **Appendix**. During this time, its share of the U.S. passenger car market fell by half while its share of the light truck market¹⁸ has generally grown (**Table 2**).

Table 2. Chrysler Market Share

Sales as a percent of total U.S. sales

Year	Passenger Cars	Light Trucks
1980	8.6%	10.4%
1990	9.2%	13.9%
2000	8.2%	21.2%
2010	4.9%	14.1%

Source: "Market Data Book: Sales," *Automotive News*, various dates.

Notes: 1980 data do not include Jeep; Chrysler purchased American Motors Corporation (AMC)/Jeep in 1987. Data for 1980-2000 refer to sales by Old Chrysler.

In the late 1970s, Old Chrysler was losing market share as successive oil price shocks raised the price of gasoline and many Americans began deserting large American cars for small, more fuel-efficient German and Japanese imports. More stringent federal safety, fuel efficiency, and

¹⁸ Light trucks include pickup trucks, SUVs, and minivans.

pollution standards required a level of capital investment that Old Chrysler did not possess.¹⁹ As the smallest of the Detroit 3, and without stronger financial resources, Old Chrysler faced possible bankruptcy. In December 1979, to avoid the loss of a large American manufacturer, Congress approved a \$1.5 billion federal loan guarantee proposed by the Carter Administration.²⁰ The loan was repaid and the warrants received by the federal government as part of the assistance were sold at auction for \$311 million.²¹

After it received the federal loan guarantee, Old Chrysler revamped its operations and developed several new vehicle lines, including the minivan. Old Chrysler's fortunes changed in the 1990s as the economy expanded and as the auto industry was becoming more globalized and integrated. In 1998, Old Chrysler and Daimler announced a merger of their operations, an event that was heralded by some as emblematic of the global restructuring of the auto industry.²² Others questioned whether the different German and American corporate cultures could be effectively meshed.²³

Although Daimler improved efficiencies and quality, invested \$10 billion in new facilities, and helped Chrysler develop 34 new models,²⁴ the so-called "marriage of equals" did not work out. As time went on it became apparent that it had de facto become a takeover of Old Chrysler by Daimler with an unclear vision and pathway to integration of the German and American companies.²⁵ The Chairman of the Board of DaimlerChrysler said in a 2007 speech that the companies would split because (1) synergies between the two companies were limited and (2) price pressures on Old Chrysler in the U.S. market were adversely affecting Daimler's overall profitability and share prices.²⁶ Others said Daimler lost interest because of growing losses at Old Chrysler and its rising health care costs.²⁷ While Daimler had paid \$37 billion for Old Chrysler in 1998, it sold 80% of it for \$7.4 billion in 2007 to Cerberus Capital Management, a private equity investment company.²⁸

Old Chrysler was not the only auto industry investment by Cerberus. In addition to the manufacturing operations, it also bought Chrysler Financial, the automaker's financing arm, and

¹⁹ U.S. General Accounting Office, *Guidelines for Rescuing Large Failing Firms and Municipalities*, March 29, 1984.

²⁰ Chrysler Corporation Loan Guarantee Act of 1979, P.L. 96-185, signed by President Carter on January 7, 1980.

²¹ For more information see CRS Report R40005, *Chrysler Corporation Loan Guarantee Act of 1979: Background, Provisions, and Cost*, by James M. Bickley.

²² For example, see David Cole interview on Jim Lehrer's *NewsHour* on May 8, 1998. At that time, Cole was the Director of the Office for the Study of Automotive Transportation at the University of Michigan Transportation Research Institute, http://www.pbs.org/newshour/bb/business/jan-june98/benz_5-7.html.

²³ Ibid. Remarks of Harvey Shaiken, Professor of Labor and Industrial Relations, University of California, Berkeley.

²⁴ "Cerberus Takes Over Majority Interest in Chrysler Group and Related Financial Services Business for EUR 5.5 billion (\$7.4 billion) from DaimlerChrysler," press release by Daimler, May 14, 2007, <http://www.daimler.com/dccom/0-5-7153-1-858191-1-0-0-0-0-0-16694-0-139715-0-0-0-0-0-0.html>.

²⁵ "Daimler-Chrysler: Why the Marriage Failed," Analysis of Michelle Krebs, *Edmunds AutoObserver*, May 17, 2007.

²⁶ Speech of Dr. Dieter Zetsche, Chairman of the Board of DaimlerChrysler, May 14, 2007, http://www.daimler.com/Projects/c2c/channel/documents/1202966_dcx_corp_2007_speeches_zetsche20070514_e.pdf.

²⁷ "Daimler Pays to Dump Chrysler," *CNNMoney.com*, May 14, 2007.

²⁸ Daimler AG, *Hoover's*, http://www.hoovers.com/company/Daimler_AG/hxyhki-1.html. According to John Snow, Cerberus Chairman, "Cerberus is one of the world's leading private investment firms with approximately \$26 billion under management. Our investors are primarily made up of pension plans, charitable endowments, insurance companies and other long-term savings and retirement programs, including many state pension funds." Excerpted from a statement at National Press Club, July 18, 2007.

51% of GMAC, Old GM's financing arm. Cerberus management had an optimistic outlook, with the Cerberus Chairman, John Snow, observing that such private equity investments had a unique role in strengthening U.S. manufacturing:

Fundamentally, we view Cerberus's role as helping Chrysler achieve its full potential. Private ownership offers many advantages in that regard. As a private company, Chrysler will be able to implement a plan to build longer-term value, to make strategic investments and to focus all of its energies on improving the company's performance—all without fear of short term negative market reaction from quarterly public company reports and the pressures to meet analyst targets.²⁹

Had the U.S. economy not suffered a financial crisis and recession—with auto sales starting to fall in 2007 and accelerating their decline into 2009—Cerberus might have strengthened Old Chrysler as it planned. Despite its ownership by a private equity company, Old Chrysler was in precarious financial straits similar to Old GM. In testimony in the Senate, Old Chrysler Chairman and CEO Robert Nardelli explained the reasons the company sought federal aid in December 2008:

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.³⁰

Chrysler's Restructuring Through Bankruptcy

When it made the initial TARP loans to Chrysler, the Bush Administration required Old Chrysler to submit a viability plan in February 2009 as a precondition for further federal assistance. Old Chrysler's viability plan forecast restructuring the company through plant closings, labor concessions, operational changes, dealership closings and other measures. President Obama rejected this viability plan at the end of March 2009, saying it did not go far enough, giving the company one month (until May 1) to devise a more thorough restructuring plan and obtain the support of major stakeholders, including labor unions, dealers, creditors, suppliers, and bondholders.³¹

During April 2009, Old Chrysler worked with its stakeholders to devise a restructuring plan that would meet the requirements of the Auto Task Force and avert bankruptcy. While the company reached tentative agreements with most stakeholders, a group of creditors would not agree to the proposal. Some larger banks, such as JP Morgan, agreed to write down their debt by more than two-thirds; however, a few mutual funds and hedge funds holding about 30% of the debt balked. Old Chrysler could only avoid bankruptcy if all of its creditors approved the settlement, so the

²⁹ From remarks of John Snow, Cerberus Chairman, at National Press Club, July 18, 2007.

³⁰ Statement of Robert Nardelli, Chairman and CEO, Chrysler LLC, before the Senate Committee on Banking, Housing, and Urban Affairs, December 4, 2008.

³¹ A similar plan was required of General Motors.

disagreement prompted a filing in bankruptcy court on April 30. Old Chrysler became the first major U.S. auto company to seek bankruptcy protection since Studebaker in 1933.³²

Old Chrysler reached agreement with most of its stakeholders prior to filing for bankruptcy, thereby helping to speed the bankruptcy court decisions, which were completed in just 42 days. Many of the liabilities of Old Chrysler were initially subsumed by a special entity known as Old Carco, and they remain in bankruptcy.³³ Most of Old Chrysler's assets were sold during the court proceedings to New Chrysler, now officially known as Chrysler Group LLC. The government provided New Chrysler with a final TARP installment to assist in the transformation to a new, smaller automaker.

Post-Bankruptcy Chrysler

New Chrysler began operations on June 1, 2009. Old Chrysler's departing Chairman and CEO Robert Nardelli summarized the gains that came from the bankruptcy proceedings:

Through the hard work and foresight of many Chrysler stakeholders, Chrysler Group will soon begin operations with significant strategic advantages, such as a wage and benefit structure for active and retired employees that is competitive with those of transplant manufacturers; a reduction of debt and interest expense; the disposition of idle assets; a rationalized and more efficient dealer network; and sound agreements with our suppliers. While this has been an extremely difficult chapter in Chrysler's history for all involved, the new Company and its customers, employees and suppliers can now begin on a fresh page.³⁴

The largest equity owner in New Chrysler in 2009 was the United Auto Workers' health care retirement trust, known as a VEBA (Voluntary Employee Beneficiary Association). The union's VEBA trust was accorded a large piece of Chrysler because Old Chrysler's retiree healthcare liability of \$8 billion could not be met with a cash contribution and was instead converted into an equity stake.³⁵ New Chrysler's other major stakeholder was Fiat, which became a partner to manage New Chrysler, help it finance its operations, and develop a new stream of competitive vehicles, including small, fuel-efficient passenger cars, such as those Fiat builds in Europe. As part of this agreement, Fiat was given a 20% equity stake without making a direct financial contribution.³⁶ These ownership stakes and others are shown in **Figure 1**.

³² "Chrysler Files to Seek Bankruptcy Protection," *New York Times*, May 1, 2009. Studebaker filed for bankruptcy in 1933 and a reorganized Studebaker began business in 1935, producing motor vehicles until it went out of business in 1966.

³³ On April 30, 2010, Old Carco transferred its remaining assets and liabilities to a liquidating trust and was dissolved in accordance with the bankruptcy court plan. Chrysler Group's Amendment Number 4 to Form 10-12G filed with the U.S. Securities and Exchange Commission on May 5, 2011, p.3.

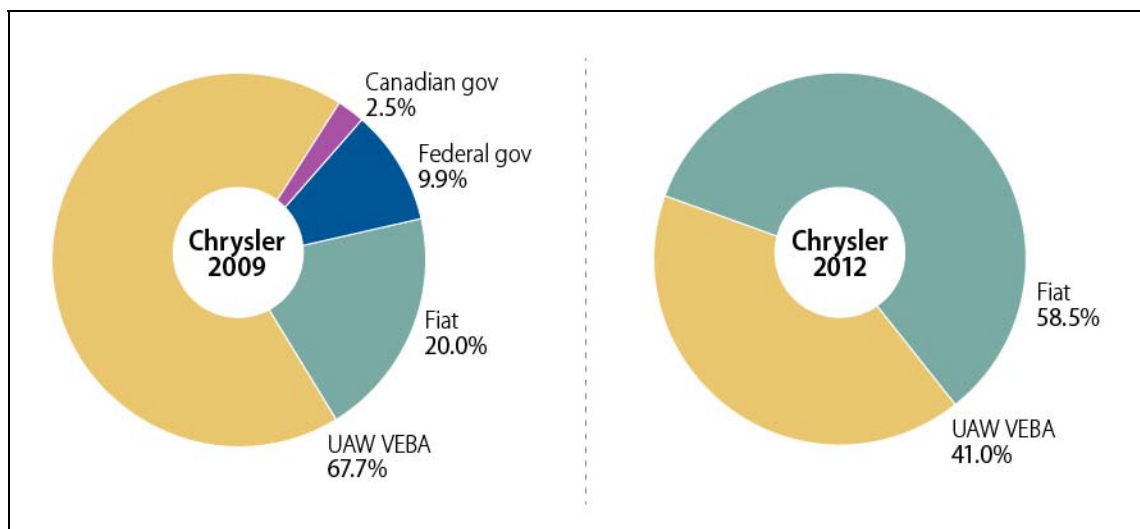
³⁴ "Court Approves Sale of Chrysler LLC Operations to New Company Formed with Fiat," Chrysler LLC press release, June 1, 2009.

³⁵ In addition to ownership stakes, the UAW VEBA received a \$4.6 billion unsecured note from New Chrysler as well as \$2.5 billion note and \$6.5 billion in preferred stock from New GM. U.S. House of Representatives, Judiciary Committee's Subcommittee on Commercial and Administrative Law, *Ramifications of Auto Industry Bankruptcies, Part II*, "Testimony of Ron Bloom, Senior Advisor at the U.S. Treasury Department," July 21, 2009.

³⁶ In re Chrysler, 405 B.R. 84, 10 (2009) (opinion granting debtor's motion seeking authority to sell, pursuant to 11 U.S.C. §363, substantially all of the Debtor's assets.)

The bankruptcy court decision outlined steps³⁷ that Fiat could take to raise its equity stake in New Chrysler by meeting three performance benchmarks, including production at a U.S. plant of both a new fuel efficient engine and a new vehicle with fuel efficiency of at least 40 miles per gallon.

Figure I. Chrysler Ownership Structure
2009 and 2012



Source: U.S. Treasury Department and Chrysler Group LLC.

Note: The 2009 ownership structure is how the new company emerged from bankruptcy.

Fiat took additional steps in 2011 to buy additional equity in New Chrysler. In April 2011, it exercised an option to purchase an additional 16% stake for \$1.3 billion. In June 2011, it announced that it would pay the U.S. Treasury \$500 million to buy back the government's 6% equity interest. This transaction was completed on July 21, 2011. When combined with the performance benchmark events described above and the sale of the Canadian equity interest, these cumulative steps have given Fiat a 58.5% equity stake in New Chrysler, with the remaining equity held by the UAW VEBA.

Fiat's share could rise to more than 70% if it exercises the rights it holds to purchase some of the UAW VEBA Trust stake. Fiat purchased these rights from the U.S. Treasury for \$60 million. A chronology of Chrysler's ownership since bankruptcy is shown in the **Appendix**.

Assessing the Cost of TARP Assistance for Chrysler

The federal government provided \$10.9 billion in financial support for Chrysler in 2008 and 2009, as detailed in **Table 3**.

³⁷ The three performance benchmarks and the terminology are cited in Chrysler Group's Amendment Number 4 to Form 10-12G filed with the U.S. Securities and Exchange Commission on May 5, 2011, p. 155, at <http://www.sec.gov/Archives/edgar/data/1513153/000119312511131157/d1012ga.htm>.

Table 3. Chronology of TARP Assistance For Chrysler

Date	Company	Type of Transaction	Amount
Assistance from the Government			
January 2009	Old Chrysler	Loan	\$4.0 billion
April 2009-April 2010	Chrysler Suppliers Receivables	Loan	\$120 million
April 2009	Chrysler Warranty Program	Loan	\$280 million
May 2009	Old Chrysler	Loan	\$1.88 billion
May 2009	New Chrysler	Loan	\$4.6 billion
Total			\$10.9 billion
Bankruptcy Restructuring			
May 2009	Old Chrysler/New Chrysler	Loan Transfer	\$500 million of \$4.0 billion loan to Old Chrysler assumed by New Chrysler
Recompense to the Government			
January-June 2009	Old Chrysler	Loan Interest	\$52 million
May 2009	New Chrysler	Common Equity and Options as fee for loan	9.9% of common equity (subsequently diluted to 6%)
July 2009	Chrysler Warranty Program	Loan Principal Repayment	\$280 million
July 2009	Chrysler Warranty Program	Loan Interest	\$3 million
April 2009-April 2010	Chrysler Suppliers Receivables	Loan Interest	\$6 million
March 2010	Chrysler Suppliers Receivable	Additional Note (fee)	\$45 million
April 2010	Chrysler Suppliers Receivables	Loan Principal Repayment	\$123 million
May 2010	Old Chrysler	Settlement of \$3.5 billion in loans (from bankruptcy proceeds)	\$1.9 billion (\$1.6 billion written off)
May-December 2010	Old Chrysler	Partial Settlement of \$1.9 billion loan (from bankruptcy proceeds)	\$48 million
January 2010-May 2011	New Chrysler	Loan Interest	\$1.12 billion
May 2011	New Chrysler	Loan Principal (full repayment)	\$5.08 billion
May 2011	New Chrysler	Additional Notes (fee)	\$388 million
July 2011	New Chrysler/Fiat	Sale of Common Equity and Rights	\$560 million
Total			\$9.6 billion

Source: U.S. Treasury, *Troubled Asset Relief Program: Monthly 105(a) Report*, various dates; *Troubled Asset Relief Program: Dividends and Interest Report*, various dates.

TARP assistance for Chrysler, like most of the TARP assistance, was initially provided through financial instruments that were expected to be repaid or repurchased by the recipients. In the bankruptcy process, however, some of the loans to Old Chrysler remained with the bankrupt company and the loan to New Chrysler included common equity in the new company in return. Common equity is not expected to be repaid by the company, but represents an ownership stake in the company. Similar conversions of TARP assistance into common equity were also undertaken for a small number of other TARP recipients, including GM, GMAC/Ally Financial, AIG, and Citigroup.

In general, government holding of common equity means that whether the government recoups its assistance depends on the price it receives when the government sells this equity. If the government's common equity stake ends up being sold for less than the amount of the government's assistance, the company involved has no legal responsibility to compensate the government for the difference. If the value of the government's equity stake is sufficiently high, however, the government may end up making a greater gain on the assistance than if the company directly repaid the assistance. As specified by the TARP statute, any proceeds from equity sales "shall be paid into the general fund of the Treasury for reduction of the public debt."³⁸

In the case of New Chrysler, the agreement for sale to Fiat of the U.S. government's remaining interests in the company resulted in a \$560 million payment³⁹ to the Treasury, compared to \$1.8 billion in TARP assistance outstanding.⁴⁰ Even including other gains, such as \$1.1 billion in interest payments received, the government recouped less money from the TARP assistance for Chrysler than the loans given to Chrysler. Exactly how large a loss might be attributed to the Chrysler assistance, however, depends on what accounting method is used.

One straightforward way to calculate gains or losses for TARP assistance is to simply compare the amount of assistance provided by the government to the funds returned to the government in nominal amounts.⁴¹ In the case of Chrysler, TARP provided \$10.9 billion in loans to support the company. In return for this \$10.9 billion, the government is received a total of approximately \$9.6 billion:

- \$5.5 billion in loan repayments;
- \$1.9 billion in recoupment from the bankruptcy process of Old Chrysler;
- \$1.66 billion in interest and other fees; and
- \$560 million paid by Fiat for the U.S. government's New Chrysler common equity and rights.

Compared to the original \$10.9 billion TARP loans, this method arrives at an approximate \$1.3 billion gap between the funds loaned and the funds recouped. This \$1.3 billion figure, however, does not fully include a number of other cost factors that one might include, such as the cost to the government to borrow the funds which it then provided to Chrysler, a premium to compensate

³⁸ P.L. 110-343, §106(d).

³⁹ Fiat paid \$500 million for the U.S. government's equity in new Chrysler and \$60 million for the right to purchase the UAW VEBA Trust's equity in the future.

⁴⁰ New Chrysler's debts were not due until 2017.

⁴¹ The term "nominal" in economics refers to the face amount of money involved. It is typically contrasted to "real" values in which the nominal amount of money is adjusted for changes in money's value over time.

the government for the riskiness of the loans, and the cost to the government in managing the assistance given.

The budgetary scores produced by the Congressional Budget Office (CBO) and the Office of Management of Budget (OMB) take many of these additional factors into account. The TARP statute required that TARP assistance be scored for government budget purposes in a similar manner to loans and loan guarantees under the Federal Credit Reform Act.⁴² Specifically, the expected present value of actions under TARP is to be estimated using market, risk-adjusted interest rates and reflected on the federal budget at that time. The estimates produced according to these formulas, however, have only been reported in aggregate figures. For example, CBO estimated in March 2012 that the budget cost of the assistance for the entire auto industry would be \$19 billion,⁴³ and the Treasury in coordination with OMB estimated lifetime cost as of May 31, 2012, to be \$25 billion.⁴⁴ Neither of these, however, reports separately the individual gains or losses on Chrysler, GM, and GMAC/Ally Financial.

⁴² 2 U.S.C. 661-661f.

⁴³ Congressional Budget Office, *Report on the Troubled Asset Relief Program*—March 2012, p. 5, <http://cbo.gov/sites/default/files/cbofiles/attachments/03-28-2012TARP.pdf>.

⁴⁴ U.S. Treasury, *Troubled Asset Relief Program: Monthly 105(a) Report—July 2012*, August 10, 2012, p. 4.

Appendix. Chrysler Ownership Structure

Table A-1. Chrysler's Pre-Bankruptcy Ownership, 1980-2009

Years	Ownership
1980-1998	Chrysler (publicly traded)
1998-2007	Daimler
2007-2009	Cerberus Capital Management

Table A-2. Chronology of Chrysler Ownership Since 2009 Bankruptcy

(in percent)

Owners	June 2009	January 2011	April 2011	July 2011 ^a	Fall 2011
VEBA Trust	67.7%	63.5%	59.2%	44.7%	41.5%
Fiat	20.0	25.0	30.0	47.2	58.5
U.S. Government	9.85	9.2	8.6	6.5	0
Canadian and Ontario Governments	2.46	2.3	2.2	1.6	0

Source: Chrysler Group.

Notes: In May 2011, Fiat purchased additional equity from the other three owners, raising its total stake to 47.2% on a non-fully diluted basis. On a fully diluted basis, the equity ownership would be: VEBA, 45.7%; Fiat, 46%; U.S. government, 6.0%; and Canadian governments, 1.6%. The equity is considered non-fully diluted because the sequence of equity purchases is different from what was envisioned in the original agreement with Fiat. In that 2009 agreement, it was assumed that the three performance benchmarks for increasing Fiat ownership would take place before Fiat would acquire an additional 16% equity stake or the U.S. government equity interest. The sale of the U.S. government interest was approved before the ecological benchmark.

a. As described in the Notes, ownership at this point in time is on a non-fully diluted basis.

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