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The Role of TARP Assistance in the Restructuring of General Motors

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Abstract
[Excerpt] This report analyzes the crisis leading to Old GM's bankruptcy, the U.S. government's assistance to, and role in, the new company, the progress that General Motors Company has made since it was created, and the recoupment of the U.S. government's assistance for GM.

Keywords
General Motors, bankruptcy, federal assistance, Troubled Asset Relief Program, TARP

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The Role of TARP Assistance in the Restructuring of General Motors

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Summary

General Motors Corporation (Old GM) was a publicly traded company from 1916 until its bankruptcy in 2009. As part of restructuring, Old GM and its successor General Motors Company (New GM) together received over $50 billion in federal assistance through the U.S. government's Troubled Asset Relief Program (TARP). In exchange for this financial support, the U.S. Treasury received 60.8% of the new company, with the rest of New GM held by the United Auto Workers (UAW) retiree health care trust fund, the governments of Canada and Ontario, and holders of Old GM's bonds. In its restructuring, GM closed plants, cut its hourly and salaried workforce, shed three brands, reduced debt, introduced popular new vehicles, and implemented changes in retiree legacy costs that had been a major financial drain.

In November 2010, New GM conducted an initial public offering (IPO) of stock to investors, once again becoming a publicly traded company, although the post-bankruptcy owners, including the U.S. government, continue to hold significant stakes in the company. In the IPO, 550 million common shares were sold by GM shareholders at a market price of $33 a share, raising over $18 billion. The U.S. Treasury sold over 412 million shares in the IPO and received approximately $13.5 billion from its sale of shares. In addition, it continues to own 32% of New GM's common stock. The only capital New GM itself raised through the IPO was $4.9 billion from the simultaneous sale of preferred stock.

GM is not the only company that received TARP funds as a result of the 2008-2009 financial crisis. More than 700 institutions received support, with the U.S. government taking ownership stakes in five large companies: GM, Chrysler, GMAC (now called Ally Financial), AIG, and Citigroup. In general, ownership of private companies was not a goal of TARP and the U.S. government has sought to reduce its ownership stakes when possible while maximizing the taxpayers' return from the assistance.

The strength of New GM's stock price, and the related recoupment of government assistance to the company, have hinged on two major factors: the success of GM's restructuring and the performance of the global economy, including retail auto sales. New GM's finances have improved markedly since emerging from bankruptcy, and the company has achieved 10 consecutive quarters of profitability. The global economy's prospects, however, have become clouded, especially in Europe. The prospects of slow growth there and in China (GM has large operations in both regions) have prompted many investors to avoid some major automakers, including New GM, Ford, and Daimler (parent of Mercedes-Benz). The shares of these three automakers have all dropped by a third or more since the summer of 2011, while the Dow Jones Industrial Average has risen by over 25% during the same period.

With the IPO sale of some of its New GM shares in November 2010, the U.S. government realized a $4.4 billion loss on these shares. Future sale of the remaining U.S. stake in GM could result in gains that would offset this loss. In order for the U.S. government to fully recoup the nominal value of its $50.2 billion assistance, however, the government's shares would need to sell for over $52 per share, compared to the recent trading range of under $25 per share. It is unclear when the U.S. Treasury will sell additional shares in GM, given recent volatility in the stock market and the unsettled economic outlook.

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Introduction

In 2008 and 2009, collapsing world credit markets and a slowing global economy combined to create the worst market in decades for production and sale of motor vehicles in the United States and other industrial countries. 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 General Motors Corporation (Old GM), whose U.S. production dropped by 48%, and for Chrysler LLC (Old Chrysler), whose U.S. production fell by 57%.[2] A similar pattern was reflected in U.S. light vehicle *sales*, as they fell from just over 16.5 million units in 2007 to only 10.4 million units in 2009.[3]

The production and sales slides 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 GM and Old Chrysler were in especially precarious positions.[4] The immediate crisis that brought these two companies to bankruptcy was a loss of financial liquidity as the banking system's credit sources froze and neither company had enough internal reserves to weather the economic storm. As a result, they turned to the U.S. government for assistance in November 2008.

In December 2008 and the early months of 2009, both automakers and two auto-financing companies[5] received federal financial assistance from the Bush and Obama Administrations. As discussed later in this report, that funding enabled Old GM and Old Chrysler to begin restructuring their operations, a process that was ultimately continued in bankruptcy court.

Corporate Terminology in This Report

As a result of bankruptcy proceedings, 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.

Similarly, 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.

GMAC, Inc., 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 report will refer to the corporation as GMAC/Ally Financial.[1]

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[1] For a discussion of U.S. government 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.

[2] Other automakers' U.S. production fell as well: 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. GM and Chrysler sales in 2008 were made by Old GM and Old Chrysler; 2009 sales include sales made by both entities before they filed for bankruptcy as well as sales made by new GM and new Chrysler after bankruptcy.

[3] U.S auto sales for most of the decade 2000-2009 were above 16 million units per year. Ward's, *Ward's Motor Vehicle Facts & Figures 2009*, "U.S. Retail Sales of Cars and Trucks."

[4] For a full analysis of the decline in U.S. and other industrial country 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] At the time, Chrysler Financial and GMAC were both owned by Cerberus Capital Management.

Alone among the world's major automakers, Old GM and Old Chrysler filed for bankruptcy in the summer of 2009 and, with oversight from the Obama Administration as well as the bankruptcy court, restructured their operations in an attempt to become more competitive companies. New GM and New Chrysler are now governed by new boards of directors. New GM's board members were initially chosen by the U.S. Treasury Department. Both reorganized companies had sizable ownership stakes held by the U.S. government and the United Auto Workers (UAW) union, although these stakes have been reduced in recent months.[6]

As auto markets improved in 2010, so too did New GM's balance sheet and its outlook. The company paid off its remaining $6.7 billion federal loan and repurchased $2.1 billion in preferred stock held by the U.S. government. This left the government holding over 900 million shares of common equity received in return for assistance from the Troubled Asset Relief Program (TARP). New GM's stock was offered in the IPO in December 2011 for $33 per share and rose to a peak of over $39 per share in early 2011.

Since the IPO, no further U.S. government shares have been sold, and the government still owns approximately 500 million shares of New GM. The amount of the original GM loans that the U.S. government will recoup will depend on the price it receives for these shares. It is not known when the Treasury will seek to sell its shares. To break even, the Treasury would need to see its shares in New GM sell for over $52 a share. Since April 2012, however, the stock has consistently traded below $25 per share.[7]

This report analyzes the crisis leading to Old GM's bankruptcy, the U.S. government's assistance to, and role in, the new company, the progress that General Motors Company has made since it was created, and the recoupment of the U.S. government's assistance for GM.

General Motors' Capital Crisis in 2008-2009

General Motors Corporation was a publicly traded company from 1916 until it filed for bankruptcy in June 2009.[8] It faced a capital crisis in 2008 and 2009 because the normal avenues for raising capital were unavailable: auto sales were plummeting; the company had limited success in selling off assets; its efforts to cut costs were affected by the long timeline required to determine the efficacy of such steps; and sources of capital in the open market were frozen by the financial meltdown. As a consequence, the company's executives tried to arrange U.S. government bridge loans beginning in the fall of 2008.[9] As Old GM's then-Chief Executive Officer (CEO) Fritz Henderson stated in the company's bankruptcy court filing:

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[6] After the GM IPO, the U.S. government owned 33.3% of New GM (and 9.85% of New Chrysler). The Voluntary Employee Beneficiary Association (the UAW's retiree health care plan) owned 10.7% of New GM (and 67.7% of New Chrysler). The Canadian and Ontario governments owned 9.3% of New GM (and the Canadian government owned 2.46% of New Chrysler).

[7] New Chrysler repaid its $5.9 billion TARP loan in May 2011 and purchased the U.S. government's equity stake a month later for $500 million, ending its TARP connection with the U.S. government. See CRS Report R41940, *TARP Assistance for Chrysler: Restructuring and Repayment Issues*, by Baird Webel and Bill Canis.

[8] William J. Holstein, *Why GM Matters: Inside the Race to Transform an American Icon* (Walker & Company, 2009), p. 4.

[9] A bridge loan is a temporary, short-term loan made with the expectation that it will be repaid as soon as longer-term financing can be arranged.

> By the fall of 2008, [Old GM] was in the midst of a severe liquidity crisis, and its ability to continue operations grew more and more uncertain with each passing day. The Company previously has recognized the need for bold action to modify and transform its operations and balance sheet to create a leaner, more efficient, productive and profitable business; and it had expended a tremendous amount of resources and effort, on operational, strategic partnering, and financial fronts, to accomplish this task. Unfortunately, because of the continuing and deepening recession, aggravated by the collapse of Lehman Brothers Holdings on September 15, 2008, GM was not able to achieve its objective. As a result of the economic crisis, the Company was compelled to seek financial assistance from the federal government.[10]

When capital markets are functioning normally, companies might arrange for debt financing through a major investment bank. In 2007, Alan Mulally, Ford Motor Company's president and CEO, arranged for Ford to borrow $23.5 billion to finance restructuring. Private capital was still available at that time, allowing Ford to mortgage all of its assets to obtain a large loan. An article in *Fortune* described the precarious position that led Ford to refinance its operations:

> When Mulally arrived in September 2006, he took over a company on the verge of collapse. Ford lost $12.6 billion that year and another $2.7 billion in 2007. Mulally put up every asset, including the blue-oval trademark, as collateral to borrow $23.5 billion to keep the company afloat. Then he set about his mission of creating a global Ford, both in terms of the vehicles it produces and how it produces them.[11]

As Old GM's bankruptcy filing indicated, these avenues for raising capital were not available in 2008 and 2009. By then, Old GM was facing extreme financial stress, for several reasons:

- **Decline in the U.S. auto market.** In 2008 and the first half of 2009, U.S. auto sales were in a freefall, ultimately dropping further than at any time in three decades. The 2009 combined sales of Old GM and GM fell by 30% (compared with 2008 sales), a much steeper decline than any other automaker, except the combined sales of Old Chrysler and Chrysler.[12] The decline in sales further dried up financial resources that Old GM could have utilized.
- **Steady loss of U.S. market share.** General Motors—which at its peak sold 51% of all autos in the United States—saw its market share slide from over 28% in 2000 to under 20% in 2009 (see **Table 1** below).

[10] Affidavit of Frederick A. Henderson Pursuant to Local Bankruptcy Rule 1007-2, U.S. Bankruptcy Court, Southern District of New York, filed June 1, 2009.

[11] Alex Taylor III, "Can This Car Save Ford?," *Fortune*, April 22, 2008.

[12] *Automotive News*, "US Car and Light Truck Sales by Make—12 Months 2009," January 5, 2010, and "US Car and Light Truck Sales by Make—12 Months 2008," January 12, 2009.

Table 1. Top Sellers of Light Vehicles in the United States

Share of units sold

Company	2000	2009
General Motors	28.1%	19.9%
Toyota	9.3%	17.0%
Ford	23.1%	16.1%
Honda	6.6%	11.0%
Chrysler	11.7%	8.9%

Sources: "U.S. Light Vehicle Sales," *Market Data Book*, *Automotive News*, 2002, and "U.S. Car and Light Truck Sales by Make, 2009," *Automotive News*.

Notes: Ford data do not include Volvo, Land Rover, and Jaguar; GM data do not include Saab. Sales in 2000 are for Old GM and Old Chrysler. Sales in 2009 are the combined sales of Old GM/GM and Old Chrysler/Chrysler.

- **Break-even point for car making was too high.** The break-even point is the volume of sales at which net sales (i.e., gross sales less discounts, returns, and freight costs) equal costs. According to Old GM, sales in the U.S. market would have needed to hit a rate of 11.5 million to 12 million vehicle units a year for it to break even.[13] U.S. sales in 2009 were 10.4 million units.
- **Exceptional labor and retiree health care costs.** The Detroit 3 automakers (Old GM, Ford, and Old Chrysler) negotiated contracts with the UAW over the years that expanded benefits for union workers to a level the companies could not sustain when imported vehicles began to take large shares of the U.S. market. Old GM estimated that its retiree health care and pension costs added $1,500 to the cost of every U.S.-made vehicle and exceeded the cost of the steel used in the vehicles.[14] Old GM had obligations of nearly $30 billion to fully fund retiree health care and pension funds.[15]
- **Corporate culture.** It was alleged at the time of bankruptcy that Old GM's corporate executives had been too bureaucratic and out of touch with U.S. car buyers' preferences. The Auto Task Force at the Treasury Department, which oversaw restructuring of Old GM (and Old Chrysler), repeatedly said that changing GM's senior executive corps and the internal corporate culture would be one of the most important steps in Old GM's transformation to a more competitive company. The Obama Administration's firing of Old GM's then-chairman and CEO, Rick Wagoner, in 2009, and its appointment of new board members and a new chairman and CEO, were intended, in part, to emphasize to all stakeholders the importance of changing the business model.
- **Higher gasoline prices.** In 2008, gasoline prices rose to over $4 a gallon in many parts of the United States, adversely affecting demand for large vehicles with low

[13] Jeff Green and Caroline Salas, "GM Said to Speed Cutbacks to Lower Break-Even Point," *Bloomberg*, April 22, 2009, at http://www.bloomberg.com/apps/news?sid=aOloQhPHrqX0&pid=newsarchive.

[14] Julie Appleby and Sharon Silke Carty, "Ailing GM Looks to Scale Back Generous Health Benefits," *USA Today*, June 23, 2005.

[15] Bill Visnic, "UAW Cornered on VEBA?," *Edmunds*, February 27, 2009, at http://www.autoobserver.com/2009/02/uaw-cornered-on-veba.html.

> fuel efficiency. These vehicles, such as pickup trucks and SUVs, had been critical to Old GM's profitability.[16]

U.S. Government Assistance to the Motor Vehicle Industry

The initial U.S. government loans to assist the U.S. motor vehicle and motor vehicle financing industries 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,[17] the first of what would eventually total nearly $80 billion in assistance through the Troubled Asset Relief Program.[18] TARP was authorized by the Emergency Economic Stabilization Act (EESA),[19] 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.[20] 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 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.[21]

The authorities within TARP were very broad, and when Congress did not pass specific auto industry loan legislation,[22] the Bush Administration turned to TARP for funding, arguing that to not provide any assistance to the auto industry would make the recession much worse.

After it took office, in 2009, the Obama Administration built on this precedent and both Chrysler and GM received additional TARP loans. GMAC/Ally Financial received additional capital infusions, enabling the company to survive the economic downturn in the auto market as well as large losses on its 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

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[16] Affidavit of Frederick A. Henderson, part of General Motors filing in the U.S. Bankruptcy Court, Southern District of New York, June 1, 2009, pp. 18-19.

[17] 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).

[18] According to the Treasury Department, $410 billion of the authorized $700 billion TARP fund has been disbursed, of which 75% has been recovered. The Treasury Department maintains an ongoing tally of all TARP assistance and recoupment, http://www.treasury.gov/initiatives/financial-stability/briefing-room/reports/Pages/Home.aspx.

[19] P.L. 110-343, 122 Stat. 3765.

[20] P.L. 110-343, Division A, Section 3.

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

[22] 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.

not without controversy, and questions were raised about the legal basis for the assistance and the manner in which it was carried out.[23]

Table 2 summarizes the TARP assistance given to the U.S. motor vehicle manufacturing and financing industries.[24]

Table 2. 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.

Note: Figures may not sum due to rounding.

U.S. Government Assistance for GM Through Bankruptcy

In December 2008, Old GM received $13.4 billion from the U.S. Treasury, the first of several loans made through TARP. Old GM received additional loans from TARP of $2 billion in April and $4 billion in May 2009. These loans kept Old GM's operations alive as it went through a drastic restructuring overseen by the Obama Administration's Auto Task Force.[25] (A complete listing of GM's TARP loans and related payments to the government can be found in the **Appendix**.)

[23] 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/.

[24] A more detailed accounting of the assistance for GM can be found in CRS Report R41401, *General Motors' Initial Public Offering: Review of Issues and Implications for TARP*, by Bill Canis, Baird Webel, and Gary Shorter.

[25] 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 U.S. government 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.

Old GM's Viability Plan of February 2009, which was a U.S. Treasury requirement to obtain additional loans after the initial loan of December 2008, laid out a plan of recovery based on changes in operations, labor costs, and other factors. President Obama rejected that plan at the end of March 2009, saying it was insufficient for a total recovery of the company. The Administration gave Old GM two months, until June 1, to devise a more thorough restructuring and thereby qualify for more U.S. government aid.[26]

Throughout the spring of 2009, Old GM worked with various stakeholders, including the UAW, bondholders, creditors, dealers, and suppliers, to devise a new restructuring plan that would be approved by the Auto Task Force and avert bankruptcy. While the company succeeded in reaching tentative agreements with most stakeholders, a group of creditors would not agree to the terms offered, thus prompting GM to file for bankruptcy on June 1, 2009.

During the bankruptcy proceedings, the government provided a final installment from TARP: a $30 billion loan to facilitate the transformation to a new, smaller company, bringing total U.S. government loans related to GM to more than $50 billion. While much of the $30 billion was used by GM during the restructuring process, a majority of it was not used, and $16.4 billion remained in an escrow account on September 30, 2009.[27]

GM also benefited financially during and after the bankruptcy process from previous policy rulings by the Internal Revenue Service (IRS).[28] Under normal circumstances, a corporation undergoing bankruptcy is not able to carry forward previous tax losses since the bankruptcy process is considered a change in the control of the company.[29] Government holdings through TARP, however, generally have not been treated by the IRS as causing such a change in control. Because of this, New GM was able to carry forward $45 billion in losses and other costs incurred by Old GM, allowing it to avoid paying taxes on future profits for up to 20 years. Included in this figure are net operating losses of approximately $16 billion.[30] These tax savings are not counted as part of TARP support. In theory, these tax rulings should make the ownership stake held by the U.S. Treasury more valuable when this stake is sold. To whatever degree these tax savings do increase the value of New GM, this benefit would also accrue to the other owners of the company.

Post-Bankruptcy General Motors

A new company was established in July 2009, after just 40 days in federal bankruptcy proceedings. New GM began with smaller U.S. operations than its predecessor company and a major presence overseas. GM operates as four divisions: GM North America (GMNA), GM Europe (GME), GM South America (GMSA), and GM International Operations (GMIO). In

[26] Old Chrysler's Viability Plan was also rejected by the Obama Administration, and it was given 30 days to restructure.

[27] General Motors Company, *Form 10-Q Quarterly Report*, April 7, 2010, p. 37.

[28] The IRS issued several notices on this issue, including Notice 2008-100, I.R.B. 2008-44, October 14, 2008; Notice 2009-14, I.R.B. 2009-7, January 30, 2009; Notice 2009-38, I.R.B. 2009-18, April 13, 2009; and Notice 2010-2, I.R.B. 2010-2, December 14, 2009.

[29] The tax code generally does not permit such assumption of tax losses in order to discourage companies from making acquisitions solely for the purpose of assuming tax losses.

[30] "GM's Tax Shelter," *Wall Street Journal*, July 31, 2009.

2012, over 47% of GM's vehicle sales have been outside North America and Europe, primarily in developing countries in Asia. In China alone in the second quarter of 2012, GM's joint ventures sold 672,000 vehicles, 28% of all its worldwide sales. In 2010, GM sales in China exceeded those in the United States for the first time.[31]

Table 3 shows GM's second-quarter sales and earnings worldwide over the past three years, comparing second quarter results of each year. It is noteworthy that GM's North American sales are more lucrative, as the larger cars, pickup trucks, and SUVs sold in North America carry higher profit margins than the smaller vehicles sold elsewhere in the world. Of the $2.1 billion earned in the second quarter of 2012, $2.0 billion was earned in North America. The other divisions lost money, broke even, or saw only a small profit.

Table 3. General Motors Company Results

Comparing 2Q 2010, 2011 and 2012

	Net Revenue	Vehicles Sold	Earnings before Interest and Taxes
Total			
2Q 2010	$33.2 billion	2.2 million	$2.0 billion
2Q 2011	$39.4 billion	2.3 million	$3.0 billion
2Q 2012	$37.6 billion	2.4 million	$2.1 billion

Source: GM Earnings Chart Set, August 4, 2011, and August 2, 2012.

Notes: Revenues are before intercompany transfers and corporate and other eliminations. GM's second quarter is April-June.

According to GM's 2011 Annual Report, it has "announced investments in 29 U.S. facilities, totaling more than $7.1 billion since July 2009, with more than 17,500 jobs created or retained."[32] The same report provides its worldwide employment as shown in **Table 4**.

Table 4. General Motors Co. Worldwide Employment

Yearend, in thousands

GM Unit	2010	2011
GMNA	96	98
GME	40	39
GMIO	32	34
GMSA	31	33
GM Financial	3	3
Total Worldwide	**202**	**207**

Source: "Highlights," *Vision in Motion, General Motors Company 2011 Annual Report*, p. 4.

[31] "GM's China Sales Pass U.S. for First Time in History," *The Economic Times*, January 24, 2011.

[32] Daniel F. Akerson, Chairman and CEO, "Letter to Stockholders," in *Vision in Motion, General Motors Company 2011 Annual Report*, p. 2.

The New GM of 2009 differed in a number of ways from the Old GM:[33]

- *Employment was cut.* Old GM had 91,000 U.S. employees in 2008; new GM had 75,000 immediately after bankruptcy. Its worldwide employment fell from 243,500 to 209,000 during the same time period.
- *Plants were closed.* Old GM announced that, of the 47 U.S. plants it operated in 2008, 13 would close by 2010. The closed plants and machinery remained with Old GM.
- *Brands were shed.* The Pontiac, Saturn, and Hummer brands were terminated, and Saab was sold to a Dutch company. Among its remaining brands, GM's U.S. market share fell from 22% in 2008 to 19.8% in 2009 and further declined to 19.1% in 2010. But in the first six months of 2011, GM's market share rose to 19.9%.[34] In addition, its sales in China rose by nearly 30% in 2010, exceeding U.S. sales for the first time.
- *Health care costs for retired U.S. union workers were transferred to the UAW.* Old GM reached agreement with the UAW in 2007 to transfer the financial responsibility for U.S. hourly workers' retiree health care to the union's VEBA (Voluntary Employee Beneficiary Association), thus removing $30 billion in obligations. The UAW signed similar agreements with Ford and Old Chrysler. The Detroit 3 agreed to fund the VEBAs with cash or stock. The union made additional concessions concerning retiree health care in 2009 negotiations. The GM restructuring agreement gave the VEBA a significant ownership stake in GM because the company did not have the financial resources to provide cash.
- *Many expensive liabilities were jettisoned.* Left with Old GM were environmental liabilities estimated at $350 million for polluted properties, including Superfund sites; certain tort liability claims, including those for some product defects and asbestos; and contracts with suppliers with whom New GM would not be doing business.

The U.S. government was the majority owner of the company that emerged from the bankruptcy process, as the majority of the TARP loans made to GM were converted into an initial 60.8% government ownership stake in New GM. In addition, $6.7 billion of the TARP loans remained outstanding after the bankruptcy and the U.S. government received $2.1 billion in preferred stock.[35] Following positive financial results in the quarters after emerging from bankruptcy, New GM used cash in the escrow account that held its TARP borrowings to pay off the $6.7 billion in outstanding loans by April 2010.[36] The $2.1 billion in preferred stock was repurchased by New GM in December 2010, following the company's IPO.[37]

[33] Old GM—General Motors *Corporation*—remains in bankruptcy and is officially the Motors Liquidation Company, with the assets and liabilities that were not attached to the new General Motors *Company*.

[34] In the first six months of 2011, New GM's light vehicle sales accounted for 19.9% of the market, compared to 16.9% for Ford, 12.8% for Toyota, 10.1 for New Chrysler and 9.6% for Honda. The current market shares of these five automakers can be compared with the shares in 2009, as shown in **Table 1**. Sourced from the *Automotive News* database.

[35] Preferred stock is an equity instrument, but it does not confer any control over the company and typically has a set dividend rate to be paid by the company; it is similar economically to debt, except that in most cases the issuer may waive dividend payments on preferred stock under certain circumstances.

[36] According to the Special Inspector General for TARP, "all of these payments were made, with Treasury's (continued...)

Elements of U.S. Government Ownership

In addition to its ownership of GM, the U.S. government acquired large common ownership stakes in Chrysler, GMAC/Ally Financial, Citigroup, and AIG through TARP funds and other assistance during the financial crisis. It has sold its stakes in Citigroup and Chrysler, but retains large common shareholdings in the other companies. **Table 5** details the government ownership stakes in these companies.

Exercising managerial control was not a stated goal of the shareholdings in these companies. Instead, the stated purpose was to compensate taxpayers for the assistance given the companies while not saddling the companies with large liabilities that could hinder recovery. The Obama Administration laid out four core principles to guide the management of the government's ownership stakes:

- The government has no desire to own equity any longer than necessary, and will seek to dispose of its ownership interests as soon as practicable.
- In exceptional cases where the government feels it is necessary to respond to a company's request for substantial assistance, the government will reserve the right to set up-front conditions to protect taxpayers, promote financial stability, and encourage growth.
- After any up-front conditions are in place, the government will manage its ownership stake in a hands-off, commercial manner.
- As a common shareholder, the government will only vote on core governance issues, including the selection of a company's board of directors and major corporate events or transactions.[38]

Disposing of large ownership stakes in companies can be done in a variety of manners, including large-scale public offerings of shares, negotiated sales of large blocks of shares to other entities, and gradual share sales in the stock market. All of these sales methods have been used by the government in disposing of holdings of the companies discussed here. Following its emergence from bankruptcy, New GM was not publicly traded, thereby precluding a gradual sale of stock into the stock market, as was done in the case of the U.S. government's holdings in Citigroup. The size of the company and of the government's stake in New GM made a negotiated private sale to another entity unlikely, and any private sale would have been subject to questions about whether the government received a fair price. Thus, the U.S. government chose to participate in an initial public offering in which it and other shareholders could sell significant amounts of their GM stock.

(...continued)

permission, using funds from the escrow account that held TARP funds provided to GM." "Quarterly Report to Congress," Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), July 21, 2010, p. 108.

[37] U.S. Treasury, "General Motors to Repurchase Treasury Preferred Stock," press release, October 28, 2010, http://financialstability.gov/latest/pr_10282010.html.

[38] U.S. Treasury, "FACT SHEET: Obama Administration Auto Restructuring Initiative," press release, June 1, 2009, http://www.financialstability.gov/latest/05312009_gm-factsheet.html.

Table 5. Companies with Large Government Ownership Stakes

Company	Current Government Ownership Share	Maximum Government Ownership Share	Method of Sale of Ownership Stake
GM	32.0%	60.8%	Initial Public Offering
Chrysler	0%	9.9%	Negotiated Sale
GMAC/Ally Financial	73.8%	73.8%	Not Determined
AIG	53%	92%	Secondary Public Offering
Citigroup	0%	34%	Gradual Sale of Stock

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

Note: Some of the government ownership in AIG resulted from a Federal Reserve loan, not from TARP assistance.

Recouping U.S. Government Aid to GM

As detailed in the **Appendix**, the U.S. government through TARP has aided the combined Old GM and New GM with more than $50 billion in loans since December 2008. Of this amount, $7.4 billion was repaid in installments.[39] An additional $2.1 billion was converted into shares of preferred stock held by the U.S. Treasury and redeemed in December 2010. The approximately $40.7 billion remaining was effectively converted into an initial 60.8% equity stake.[40] The TARP authorization to purchase new assets or make new commitments expired on October 3, 2010, but the U.S. Treasury has continuing authority to manage the government's equity in GM and its other TARP assets. Proceeds from TARP repayments are specified by the TARP statute to "be paid into the general fund of the Treasury for reduction of the public debt."[41]

The November 2010 IPO returned $13.5 billion to the government. Income received by the Treasury from dividends, interest, and other gains totals approximately $0.85 billion, leaving approximately $26.2 billion to be recovered. The government now holds approximately 500 million shares, or 32% of GM's common equity. **Figure 1** shows the ownership structure of GM in 2009 when the new company emerged from bankruptcy and its structure in fall 2012. In order for the government's 32% of the company to be worth $26.2 billion, GM's market capitalization would have to be approximately $81.9 billion. To achieve this market capitalization, the price of GM stock would have to exceed $52 per share, a significant increase from the current share prices. The last time the stock market value of GM exceeded $81.9 billion (when adjusted for inflation) was in 2000.[42]

[39] Seven installments were paid between November 2009 and July 2010.

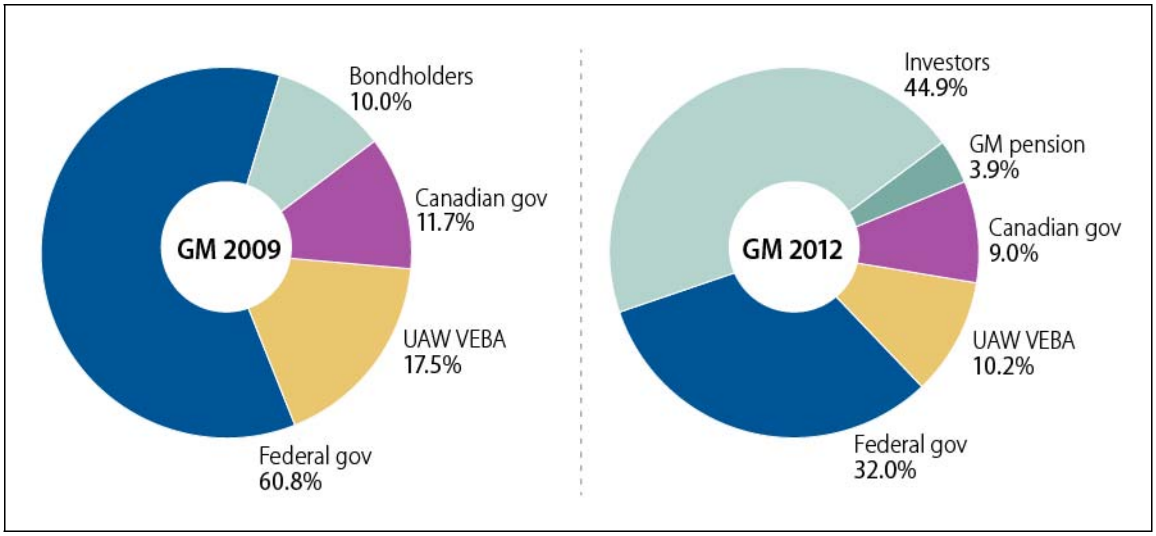
[40] Approximately $1 billion of the debt remains legally owed by Old GM; however, little of this has been recovered.

[41] P.L. 110-343, §106(d).

[42] GM market capitalization from the annual Fortune magazine ranking of the top 500 firms and Yahoo Financial. Inflation adjustment by CRS using the Bureau of Labor Statistics' consumer price index calculator.

Figure 1. GM Ownership Structure

2009 vs. 2012



Source: General Motors Company.

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

Whether or not the government is able to sell the remaining common shares at a sufficient price to recoup the $50.2 billion of assistance provided to GM is not the sole measure of whether the government shows a gain or loss on the assistance. In assessing the extent to which the government has recovered its investment, economists might also include a number of other factors, such as the cost to the government to borrow the funds that it then provided to GM, a premium to compensate the government for the riskiness of the loans, and the cost to the government of 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 on the government budget in a similar manner to loans and loan guarantees under the Federal Credit Reform Act.[43] Specifically, the expected present value of actions under TARP is to be estimated using market, risk-adjusted 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 TARP assistance for the entire auto industry would be $19 billion,[44] and the Treasury in coordination with OMB estimated lifetime cost as of May 31, 2012, to be $25.05 billion.[45] Neither of these, however, reports separately the individual gains or losses on Chrysler, GM, and GMAC/Ally Financial. Estimates of the potential gain to the federal government generally rise when the share price of the publicly traded GM shares rise and shrink when the shares fall in value.

[43] 2 U.S.C. 661-661f.

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

[45] U.S. Treasury, *Troubled Asset Relief Program: Monthly 105(a) Report—July 2012*, August 10, 2012, p. 4, http://www.treasury.gov/initiatives/financial-stability/reports/Documents/July%202012%20Monthly%20Report.pdf.

Conclusion

After credit markets tightened and the recession reduced auto sales in the fall of 2008, General Motors restructured its operations through bankruptcy and began operations as a new company in July 2009. The Bush and Obama Administrations used TARP funds to provide capital to General Motors during this time, in exchange for a majority ownership stake in the company. Without the U.S. government assistance, GM would not have been able to pay creditors, suppliers, or workers and would most likely have entered bankruptcy earlier with a less certain outcome. TARP support enabled it to reorganize itself in a more orderly manner and may have reduced collateral damage to many auto suppliers and some of the other automakers who buy parts from them. However, it exposed the U.S. government to risk that not all the assistance would be recovered.

Both the Obama Administration and New GM's senior management expressed interest in reducing the U.S. government's ownership stake in the company. Not long after it began operations as a new company after bankruptcy, New GM and the U.S. Treasury agreed that there should be an initial public offering of New GM stock in the latter half of 2010. The IPO was the first step in removing GM from government ownership.

The GM IPO on November 18, 2010, was widely considered a success at the time it launched. GM initially set a target price in the range of $25-$26 dollars per share. In the days prior to the offering, market interest seemed strong, and the offering occurred at a price of $33 a share. In addition, more shares were sold than originally intended due to the strength of investor demand. As a result, the government was able to recoup more money by selling some of its shares than had been anticipated, although it realized losses.

The U.S. government, the governments of Canada and Ontario, and the UAW VEBA trust still own half of GM. It is expected that these shareholders will sell their some or all of their remaining shares over the course of the next year or more. It is unclear how the U.S. government will choose to dispose of its 500 million shares. One possibility would be for it to arrange a secondary offering, at which it would offer a large number of shares for sale on a single date. Other options would include selling additional shares in the stock market from time to time; selling large blocks of shares to other investors in private transactions; or, should GM's financial strength permit, selling its shares to the company.

The nominal amount of its assistance to GM that the government has yet to recover is $26.2 billion. As the government's entire investment in GM is now in the form of common shares, its ability to recoup that sum will depend entirely upon GM's share price, which in turn depends heavily on investor perceptions of GM's future profitability. GM's shares will need to rise into the $52-$53 range for the government to recoup the TARP assistance in full.

Appendix. U.S. Government Financial Support for GM Through the Troubled Asset Relief Program

Date	Recipient/Source	Amount ($ in billions)
December 2008	Old GM	$13.40
April 2009	Old GM	$2.00
May 2009	Old GM	$4.00
	GM Warranty Program	$0.36
June 2009	Old GM/New GM	$30.10
April 2009-April 2010	GM Supplier Receivables Program[a]	$0.29
Total Funds Loaned		*$50.15*
Recoupment of Principal		
November 2009	Partial repayment of Supplier Receivables loans	$0.14
December 2009/January 2010	Partial debt repayment	$1.04
February 2010	Partial repayment of Supplier Receivables loans	$0.10
March 2010	Partial debt repayment	$1.00
April 2010	Final debt repayment	$4.68
	Final repayment of Supplier Receivables loans	$0.06
July 2010	Repayment for Warranty Program	$0.36
November 2010	Proceeds from sale of common equity	$13.5
December 2010	Repurchase of preferred stock	$2.1
March 2011-January 2012	Partial Repayment from bankruptcy proceeds	$0.14
Total		*$23.12*
Income Received		
December 2008-April 2009	Interest on Old GM loans	$0.14
April 2009-April 2010	Interest for GM Supplier Receivables	$0.01
March 2010	Additional Note for GM Supplier Receivables	$0.05
October 2009-April 2010	Interest on New GM loans	$0.34
September 2009-December 2010	Dividends on Preferred Stock	$0.27
December 2010	Gain on Preferred Stock Sale	$0.04
Total		*$0.85*

Sources: U.S. Department of the Treasury, *Troubled Asset Relief Program (TARP), Transactions Reports*, various dates, and *Troubled Asset Relief Program (TARP), Dividends and Interest Report*, various dates.

Note: Figures may not sum due to rounding. In December 2008, the U.S. Treasury provided $884 million to assist GM in GMAC's rights offerings, separate from the $13.4 billion loaned for GM's operations. While this was provided to GM, it assisted GMAC and is tallied as GMAC assistance.

a. The original April 2009 Automotive Supplier Support Program commitment was $3.5 billion for use with GM suppliers. This commitment was reduced to $2.5 billion in July 2009. Ultimately approximately $290 million of the $2.5 billion commitment was used.

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