Congressional Research Service

The Role of TARP Assistance in the Restructuring of General Motors

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May 9, 2013

Congressional Research Service
7-5700
www.crs.gov
R41978

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

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. Concern about the economic impact of a possible collapse of large parts of the U.S. automobile industry led both the Bush Administration and Members of Congress to seek legislative avenues to assist the automakers. Ultimately General Motors Corporation (Old GM) and its successor General Motors Company (New GM) together received more than $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 new vehicles, and implemented changes to reduce retiree legacy costs.

The federal government has sold its shares in General Motors Co. in different ways over time, including (1) a large initial public offering (IPO) in late 2010, (2) sale of stock directly to GM in December 2012, and (3) ongoing sale of stock into the public market. Following public stock sales in the first quarter of 2013, the U.S. Treasury owns approximately 17.7 % of New GM with announced plans to sell remaining shares by March 2014. Following the December 2012 stock sale, the U.S. Treasury removed restrictions on New GM owning corporate jets and eliminated certain reporting requirements, but retained TARP-imposed executive pay limits. The issue of executive pay has been the topic of a House Oversight and Government Reform Committee hearing during the 113th Congress.

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.

To date, the U.S. government has realized an $8.4 billion loss of on its investment in General Motors. Future sale of the remaining GM shares could result in gains that would offset this loss. For the U.S. government to fully recoup the nominal value of its $50.2 billion assistance, however, the price of the government's remaining shares would need to approach the $80 per share mark, between two and three times the price that has been received by the U.S. government in past sales. 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 strengthened since its emergence from bankruptcy.

In addition to questions regarding recovery of taxpayer funds, Congress has also expressed an ongoing interest in oversight of the TARP assistance for GM. Of particular note have been questions regarding the treatment of retirees from Delphi Corporation, a former Old GM subsidiary, with both hearings and legislation (H.R. 6404/S. 3544) addressing the issue in the 112th Congress.

Contents

Figures

Tables

Appendixes

Contacts

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*, which fell from just over 16.5 million units in 2007 to only 10.4 million units in 2009.[3]

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—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"—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—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"—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]

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

[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 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.

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.

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 boards of directors were appointed for both New GM and New Chrysler, with New GM's board members 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's retiree healthcare trust.[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 more than 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 November 2010 for $33 per share, with the U.S. government selling more than 412 million shares. Following the IPO, GM shares rose to a peak of over $39 per share in early 2011, and reached a low of $18.72 per share on July 25, 2012.

The U.S. government renewed its interest in selling some of its remaining 500 million shares of New GM stock in December 2012 when it announced the sale of 200 million shares at $27.50 per share. The U.S. government received $5.5 billion from this sale and reduced its ownership stake in New GM to 22.0%. At the same time, the Treasury announced it planned to sell the rest of its stock by early 2014. It announced the results of the first tranche of these open market sales in April 2013, reporting a total sale of 58.4 million shares for a total of $1.6 billion, which equates to an average sale price of approximately $28 per share.

The amount of the original GM loans that the U.S. government will recoup will depend on the price it receives for the remaining approximately 241.7 million shares. Treasury reports that the effective original cost of the U.S. government shares in New GM was $43.52 per share. To break even following the previous sales at less than this amount, the price Treasury receives for its remaining shares in New GM would need to approach $80 per share.

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.[7] 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

[6] See **Figure 1** for the details of the ownership structure of GM. For more information on Chrysler, see CRS Report R41940, *TARP Assistance for Chrysler: Restructuring and Repayment Issues*, by Baird Webel and Bill Canis.

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

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.[8] As Old GM's then-Chief Executive Officer (CEO) Fritz Henderson stated in the company's bankruptcy court filing:

> 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.[9]

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.

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 U.S. 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.[10] The decline in sales further dried up financial resources that Old GM could have used.
- **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).
- **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.[11] U.S. sales in 2009 were 10.4 million units.

[8] 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.

[9] 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.

[10] *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.

[11] 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.

- **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.[12] Old GM had obligations of nearly $30 billion to fully fund retiree health care and pension funds.[13]
- **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[14] 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 fuel efficiency. These vehicles, such as pickup trucks and sport utility vehicles, had been critical to Old GM's profitability.[15]

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

(share of units sold)

Company	2000	2009	2012
General Motors	28.1%	19.9%	17.9%
Toyota	9.3%	17.0%	14.4%
Ford	23.1%	16.1%	15.5%
Honda	6.6%	11.0%	9.8%
Chrysler	11.7%	8.9%	11.4%

Sources: "U.S. Light Vehicle Sales," *Market Data Book*, *Automotive News*, 2002, and "U.S. Car and Light Truck Sales by Make, 2009 and 2012," *Automotive News*.

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

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

[14] The Auto Task Force was established by the Obama Administration in February 2009, was 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.

[15] 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.

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.

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 George W. Bush Administration in December 2008 and January 2009. At that time, $24.8 billion in assistance was provided to the four companies,[16] the first of what would eventually total nearly $80 billion in assistance through the Troubled Asset Relief Program.[17] TARP was authorized by the Emergency Economic Stabilization Act (EESA),[18] 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.[19] According to the Treasury,

> 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.[20]

The authorities within TARP were very broad. When Congress did not pass specific auto industry loan legislation,[21] the Bush Administration turned to TARP for funding, arguing that failure to provide assistance to the auto industry would make the recession much worse and would impose other costs on federal taxpayers, such as providing unemployment benefits for displaced workers.

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 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 not

[16] 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).

[17] For more information on TARP see CRS Report R41427, *Troubled Asset Relief Program (TARP): Implementation and Status*, by Baird Webel.

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

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

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

[21] 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.

without controversy, and questions were raised about the legal basis for the assistance and the manner in which it was carried out.[22]

Table 2 summarizes the TARP assistance given to the U.S. motor vehicle manufacturing and financing industries.[23]

Table 2. Summary of TARP Assistance for U.S. Motor Vehicle Industry

($ in billions)

Company	Current Government Ownership Share	Total TARP Assistance	Principal Recouped to Date by Treasury	Principal Losses Realized by Treasury	Income/Revenue Received from TARP Assistance	Outstanding TARP Assistance
Chrysler	0%	$10.9	$7.9	-$2.9	$1.7	$0
Chrysler Financial	Not Applicable	$1.5	$1.5	$0	$0.02	$0
GM	17.7% (New GM)	$50.2	$29.4	-$8.4	$0.8	$11.4
GMAC/Ally Financial	73.8%	$17.2	$2.5	$0	$3.4	$14.6

Source: U.S. Treasury, *Daily TARP Update*, May 1, 2013; *Troubled Asset Relief Program: Monthly 105(a) 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 funds loaned for GM's operations. While the funds were provided to GM, they are included in the GMAC/Ally assistance as they resulted in government ownership of 35% of GMAC.

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 Auto Task Force. (A complete listing of GM's TARP loans and related payments to the government can be found in the **Appendix**.)

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

[22] 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/.

[23] 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.

Administration gave Old GM two months, until June 1, to devise a more thorough restructuring and thereby qualify for more U.S. government aid.[24]

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.[25] One continuing issue from the bankruptcy that has drawn particular congressional interest is the treatment of some retirees of Delphi Corporation, which had previously been a GM subsidiary. The House Committee on Oversight and Government Reform held two hearing on the GM assistance and Delphi pension issues during the 112th Congress.[26] In addition, legislation entitled the Delphi Pensions Restoration Act of 2012 was introduced in both the House (H.R. 6404) and the Senate (S. 3544).[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. To whatever degree these tax savings do increase the value of New GM, this benefit would also accrue to other common shareholders.

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

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

[26] See http://oversight.house.gov/hearing/delphi-pension-fallout-federal-government-picked-winner-and-losers-so-who-won-and-who-lost/ and http://oversight.house.gov/hearing/the-administrations-auto-bailouts-and-the-delphi-pension-decisions-who-picked-the-winners-and-losers/.

[27] For more information on issues surrounding Delphi Corporation pensions, please see CRS Report R42076, *Delphi Corporation: Pension Plans and Bankruptcy*, by John J. Topoleski.

[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.

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 five divisions: GM North America (GMNA), GM Europe (GME), GM South America (GMSA), GM Financial and GM International Operations (GMIO).[31] In 2012, over 47% of GM's vehicle sales were outside North America and Europe, primarily in developing countries in Asia. In China alone in 2012, GM's joint ventures there sold 2.8 million vehicles, approximately 30% of all its worldwide sales.[32] In 2010, GM sales in China exceeded those in the United States for the first time.[33]

Table 3 shows GM's sales and earnings worldwide over the past three years. 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 $7.9 billion earned in 2012, $7.0 billion was earned in North America. The other divisions lost money or broke even; GM's GMIO division earned $2.2 billion.[34]

Table 3. General Motors Company Results

(comparing 2010, 2011, and 2012)

	Net Sales & Revenue	Vehicles Sold Worldwide	Earnings before Interest and Taxes
Total			
2010	$135.6 billion	8.3 million	$ 7.0 billion
2011	$150.3 billion	9.0 million	$ 8.3 billion
2012	$152.3 billion	9.3 million	$7.9 billion

Source: GM Annual Reports, 2011 and 2012.

Notes: Revenues are before intercompany transfers and corporate and other eliminations.

According to GM, since 2009, it has announced investments of $8.5 billion in its U.S. facilities, creating or retaining more than 24,700 jobs.[35] GM's annual reports show its worldwide employment in **Table 4**, by major corporate divisions.

[31] GM's GMIO Division includes Asia Pacific, Africa, Middle East and Russia; China is the largest GM market in GMIO.

[32] CRS analysis of GM Chart Set, CY 2012 Results, February 14, 2013.

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

[34] CRS analysis of GM Chart Set, CY 2012 Results, February 14, 2013.

[35] GM Press Release, "GM Invests $332 Million for New Fuel-Efficient Powertrains," April 4, 2013, http://media.gm.com/content/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2013/Apr/0404-powertrain-investments.html.

Table 4. General Motors Co. Worldwide Employment

(yearend, in thousands)

GM Unit	2010	2011	2012
GMNA	96	98	101
GME	40	39	37
GMIO	32	34	39
GMSA	31	33	32
GM Financial	3	3	4
Total Worldwide	**202**	**207**	**213**

Source: "Highlights," *General Motors Company 2011and 2012 Annual Reports.*

The New GM of 2009 differed in a number of ways from the Old GM:[36]

- *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. In 2011, GM's market share rose to 19.7% but dropped to 17.9% in 2012.[37] 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

[36] 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*.

[37] 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.

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.[38] 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.[39] The $2.1 billion in preferred stock was repurchased by New GM in December 2010, following the company's IPO.[40]

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, Chrysler, and AIG 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.

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[38] 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.

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

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

- 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.[41]

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. In December 2012, the U.S. government also sold 200 million shares directly to GM at a 7.9% premium over the market price at the time. It plans to sell the remaining shares in stages, with a target date of March 2014 to complete the sale of all GM shares held by the U.S. government. The first tranche of these sales (58 million shares) was completed in April 2013.

Table 5. Companies in which the U.S. Government held Large Stakes under TARP

Company	Current Government Ownership Share	Maximum Government Ownership Share	Method of Sale of Ownership Stake
GM	17.7%	60.8%	Initial public offering, sale to GM, and gradual public sale of stock
Chrysler	0%	9.9%	Negotiated sale
GMAC/Ally Financial	73.8%	73.8%	Not determined
AIG	0%	92%	Secondary public offering and gradual sale of stock
Citigroup	0%	34%	Gradual sale of stock

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

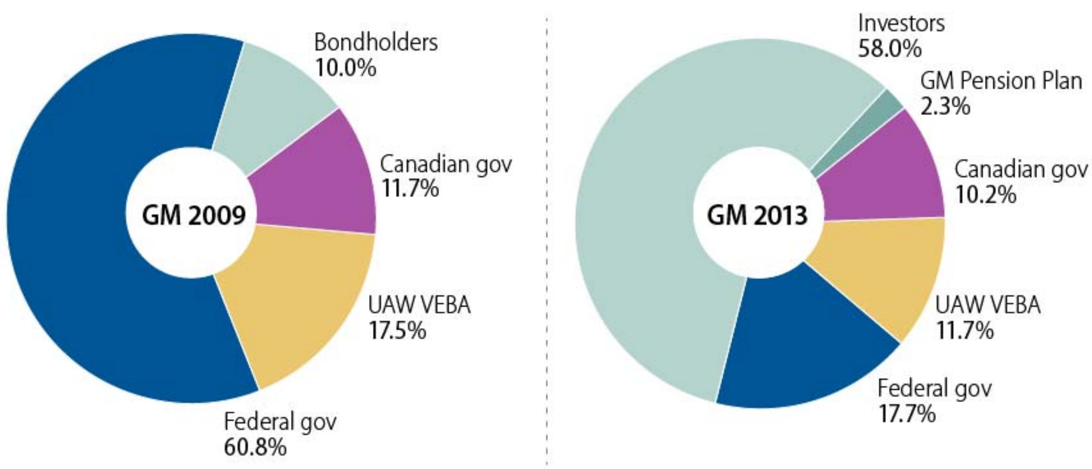
Note: Some of the government ownership in AIG resulted from a Federal Reserve loan, not from TARP assistance.

Figure 1 shows the ownership structure of GM in 2009 when the new company emerged from bankruptcy and its current structure after the Treasury stock sales announced in April 2013.

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

Figure 1. GM Ownership Structure

(2009 vs. 2013)



Source: General Motors Company.

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

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.[42] An additional $2.1 billion was converted into shares of preferred stock held by the U.S. Treasury which were redeemed in December 2010. The approximately $40.7 billion remaining was effectively converted into an initial 60.8% equity stake.[43] The partial sale of this stock has returned approximately $20.6 billion and the U.S. Treasury has received approximately $0.8 billion in dividends and interest along with approximately $0.1 billion in other recoveries from the bankruptcy process of Old GM. Proceeds from all TARP repayments, such as the sales of GM stock, are specified by the TARP statute to "be paid into the general fund of the Treasury for reduction of the public debt."[44]

Offsetting the original $50.2 billion in loans with the total of repayments, recoveries and other income leaves approximately $19.1 billion to be recouped. The government now holds approximately 241.7 million shares, or 17.7% of GM's common equity. For the government's remaining 17.7% of the company to be worth $19.1 billion, the price of GM stock would need to approach $80 per share, between two and three times what the U.S. government has received for any of its previous sales of GM stock. (Preceding amounts may not sum precisely due to rounding.) If the Treasury follows through on its announced plan of selling the remaining stock

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

[43] Approximately $1 billion of the debt remained legally owed by Old GM; however, little of this has been recovered through the bankruptcy process.

[44] P.L. 110-343, §106(d).

by early 2014, it would require a rapid and extraordinary rise in GM stock for the government to recoup the total nominal value of its assistance to GM.

Whether the government is able to sell the remaining common shares at a sufficient price to recoup the 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 some 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.[45] 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. For example, CBO estimated in October 2012 that the budget cost of the TARP assistance for the entire auto industry would be $20 billion,[46] and the Treasury in coordination with OMB estimated lifetime cost as of December 31, 2012 to be $20.3 billion.[47] Neither of these analyses, however, reports separately the individual gains or losses on Chrysler, GM, and GMAC/Ally Financial.

Conclusion

After credit markets tightened and the recession reduced auto sales in the fall of 2008, General Motors restructured through bankruptcy and began operation as a new company in July 2009. The Bush and Obama Administrations used TARP funds to provide capital to General Motors during this time, ultimately receiving in exchange 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 that bought parts from them. However, it exposed the U.S. government to the risk that not all the assistance would be recovered.

Not long after it began operation 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, selling 500 million shares of New GM stock, was the first step in removing New GM from government ownership. The GM IPO on November 18, 2010, was widely considered a success, occurring at a price of $33 a share, well above GM's initial target price of

[45] 2 U.S.C. 661-661f.

[46] Congressional Budget Office, *Report on the Troubled Asset Relief Program—October 2012*, October 11, 2012, p. 4, http://www.cbo.gov/sites/default/files/cbofiles/attachments/TARP10-2012_0.pdf.

[47] U.S. Treasury, *Troubled Asset Relief Program: Monthly 105(a) Report—March 2013*, April 10, 2013, p. 5, http://www.treasury.gov/initiatives/financial-stability/reports/Documents/March%202013%20Monthly%20Report%20to%20Congress.pdf.

$25-$26 per 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 than had been anticipated, although it realized losses on those shares nonetheless.

Even following the IPO, the U.S. government, the government of Canada, GM pension fund, and the UAW VEBA trust owned nearly half of GM. With the U.S. government's sale of GM stock in December 2012, private investors owned the majority of New GM stock for the first time since the bankruptcy. The U.S. Treasury's December 2012 announcement also moved New GM further away from government control in other ways, as the Treasury agreed to waive certain restrictions on the company—such as the ban on purchasing private jets and requirements for specified levels of U.S. manufacturing. Caps on executive pay, which GM has said adversely affect its ability to retain and attract talent, will remain.

The nominal amount of its assistance for GM that the government has yet to recover is $19.1 billion (counting recoupment of principal and income received, as shown in the **Appendix**). As the government's entire holding in GM is now in the form of common shares, its ability to recoup that sum will depend solely upon GM's share price, which in turn depends heavily on investor perceptions of GM's future profitability. GM's shares would need to approach the $80 per share mark for the government to recoup the entire nominal amount of TARP assistance, well above the share price at any time since GM reemerged as a publicly traded company.

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

Date	Recipient/Source	Amount ($ in billions)
December 2008	Old GM	$13.4
April 2009	Old GM	$2.0
May 2009	Old GM	$4.0
	GM Warranty Program	$0.4
June 2009	Old GM/New GM	$30.1
April 2009-April 2010	GM Supplier Receivables Program	$0.3
Total Funds Loaned		*$50.2*
Recoupment of Principal		
November 2009	Partial repayment of Supplier Receivables loans	$0.1
December 2009/January 2010	Partial debt repayment	$1.0
February 2010	Partial repayment of Supplier Receivables loans	$0.1
March 2010	Partial debt repayment	$1.0
April 2010	Final debt repayment	$4.7
	Final repayment of Supplier Receivables loans	$0.1
July 2010	Repayment for Warranty Program	$0.4
November 2010	Proceeds from sale of common equity	$13.5
December 2010	Repurchase of preferred stock	$2.1
March 2011-October 2012	Partial Repayment from bankruptcy proceeds	$0.1
December 2012	Proceeds from sale of common equity	$5.5
April 2103	Proceeds from sale of common equity	$1.6
Total		*$30.3*
Income Received		
December 2008-April 2009	Interest on Old GM loans	$0.1
April 2009-April 2010	Interest for GM Supplier Receivables	$0.01
March 2010	Additional Note for GM Supplier Receivables	$0.1
October 2009-April 2010	Interest on New GM loans	$0.3
September 2009-December 2010	Dividends on preferred stock	$0.3
December 2010	Gain on preferred stock sale	$0.04
Total		*$0.8*

Sources: U.S. Department of the Treasury, *Daily TARP Update for 05/01/2013*, *TARP Transactions Reports*, various dates, and *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 is not tallied here as it ultimately resulted in holdings of GMAC common equity.

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