

# CERBERUS STILL SEEKING TO PRIVATIZE PROFIT, PASS ON RISK?



Cerberus appears to be seeking to capitalize on the woes of the auto industry to do two things: first help its Republican buddies break the UAW, and after doing so, pawn off its unwanted "investment" in Chrysler onto the same union. I'm not sure I understand all the steps in this process, yet, but here are three data points.

## **Cerberus Protects Client Retirees But Not Chrysler Retirees**

Let's start with Cerberus' statement on Friday in response to the bridge loan announcement. It celebrates the bridge loan as an opportunity to wring concessions from two stakeholders: bondholders and union labor.

In addition to this, Cerberus believes that concessions by all relevant constituencies will be required to facilitate a full restructuring and recapitalization of Chrysler. In order to achieve that goal Cerberus has advised the Treasury that it would contribute its equity in Chrysler automotive to labor and creditors as currency to facilitate the accommodations necessary to affect the restructuring. Unless Chrysler's labor costs can achieve parity with the foreign transplants, and without the restructuring of Chrysler's debt, Chrysler cannot be restored to long-term health and the government loan will be unlikely to be fully repaid.

As seems to be true of all Republicans talking about concessions from stake-holders, Cerberus fails to mention any concessions from dealers, a

critical requirement for any successful restructuring.

But what I like best about Cerberus' statement (as in, like not at all) is the way it excuses its unwillingness to put any Cerberus money into Chrysler by appealing to America's retirees.

Cerberus' investors are comprised of pension and retirement plans (including funds invested for teachers, organized labor and municipal employees), charitable and educational endowments, fund-of-funds, and individual family savings. Cerberus is, therefore, entrusted with the life savings of many retirees, teachers, municipal workers and ordinary citizens.

As I've suggested, one of the two ways the UAW can meet ~~Bob Corker's~~ Cerberus' demands is to agree to allow Chrysler to renege on its promises to Chrysler retirees.

In short, Cerberus is pleading that it may require UAW retirees to give up their pensions because it must protect the pensions of other retirees. For some reason, Cerberus must have thought that logically inconsistent argument would nevertheless be more persuasive than admitting it might demand UAW retirees to give up a piece of their retirement so as to protect the current earnings of John Snow and Dan Quayle.

### **Cerberus Hopes to Use "Bailout" to Bail Out of Bad Investment?**

Note, meanwhile, Cerberus' agreement to put up equity in Chrysler in exchange for the concessions from labor and bond-holders. Now, we should have anticipated this. After all, Bush's loan offer required that the UAW accept half of its VEBA payment (VEBA is the fund negotiated in the last UAW contract that the union will use to pay for retiree healthcare) as stock and it required that bond-holders accept equity for renegotiating the debt.

*Targets:* The terms and conditions established by Treasury will include additional targets that were the subject of Congressional negotiations but did not come to a vote, including:

- *Reduce debts by 2/3 via a debt for equity exchange.*
- *Make one-half of VEBA payments in the form of stock.*

Chrysler, of course, has no publicly traded stock, so the only way the UAW can accept "stock" in Chrysler is by taking an equity share of it. (Can some financial whiz explain how the UAW is going to use equity in a company that no one wants to buy to pay healthcare costs?)

But, as this article CTuttle linked to makes clear, Cerberus is thinking big. It doesn't want to give just **some** of its stake in Chrysler to the UAW and bond-holders. It wants to give all of it away.

Cerberus Capital Management LP, Chrysler LLC's majority owner, said it plans to give **its stake** in the Auburn Hills automaker to unions, debtholders and other stakeholders in exchange for concessions, paving the way for Cerberus to exit Chrysler's automotive business – though it is unclear if labor and banks would want the company.

[snip]

Aaron Bragman, an industry analyst with IHS Global Insight, said there is no indication that unions or banks holding Chrysler's debt would want an ownership stake in the automaker.

"It looks like Cerberus is washing their hands of Chrysler's automotive

business," Bragman said.

[snip]

The move to give up its equity in Chrysler could be a sign of just how difficult it would be to successfully sell Chrysler, which earlier this year had been in merger talks with General Motors Corp.

"Given this market, nobody has the cash to spend on it. Not only that, Chrysler is a company that is at risk. Their scope is very limited," Bragman said.

"They have North America and basically nothing else. Their North American share is shrinking.

The only thing Cerberus had to give, apparently, was to backstop the government loan with \$2 billion in proceeds from Chrysler Financial (and note that Chrysler—not Cerberus—is the recipient of the loan).

Cerberus is pleased that the Department of Treasury has delivered its proposal to provide assistance to Chrysler in the form of a \$4 billion secured loan to Chrysler Holdings, LLC the proceeds of which will be made available to Chrysler LLC.

[snip]

In connection with the loan to be provided by Treasury, Cerberus has agreed to utilize the first \$2 billion of proceeds from Chrysler Financial to backstop the loan allocated to Chrysler automotive.

Again, I could use the help of financial whizzes in understanding this, but did Cerberus basically offer to risk \$2 billion in exchange for freeing itself of its crappy investment?

**Retaining Nothing But the Finance Arms**

Of course, Cerberus doesn't want out of Chrysler entirely: it still intends to keep Chrysler Financial.

Cerberus is not putting up its stake in Chrysler Financial.

Meanwhile, GMAC—which is 51% owned by Cerberus—is working overtime to get rid of its mortgage arm, while at the same time tapping into taxpayer funds.

As a crucial deadline nears, GMAC LLC may be using complex financial instruments in a daring gambit with bondholders.

If the gambit pays off, it could mean that GMAC will succeed in raising the amount of capital it needs to become a bank holding company. A bank registration by GMAC, co-owned by General Motors Corp. (GM) and an investor group led by Cerberus Capital Management, would give the lender access to federal funds at a time when it has no alternative funding source.

Moreover, even if the gambit were to fail, GMAC would succeed in severing links between its ailing mortgage unit and GMAC Bank, GMAC's prized possession.

Now, given the work that masaccio has done on Credit Default Swaps (here, here, here, and here), you may be alarmed to know this is a big game with CDS. I'm hoping that masaccio shows up before the Stillers beat his Titans so he can explain the rest of the article. Best as I can decipher it, GMAC (that is, Cerberus with some help from GM, led by Ezra Merkin, who is tied to the Madoff swindle) is trying to use the CDS market to split off the crapp(ier) part of GMAC and keep the rest.

**Upping the US Taxpayer Stake in Finance in the Guise of Restoring Our Manufacturing Base**

Before I try to grasp what all this means (and I'm really not sure I get it), let me just say that I asked some people who should know what the bridge loan means financially, yet they have no clue as of yet. In other words, no one outside of Bush and his cronies—which just happens to include top Cerberus stakeholders—really know what this means or how it will be implemented.

With that reassuring point in mind, here's what I understand this to mean:

- After some high-level lobbying from his buddies at Cerberus, Bob Corker crafted a deal that will legally force the UAW to both agree to cut members' wages and then take Cerberus' unwanted investment off its hands. The resulting company will be even less able to attract new credit than it was earlier this year, which means after it survives into the first months of Obama's Administration, it'll be faced with an even greater crisis. And, it will no longer have one entity (like Cerberus) working to sell it whole to some other entity, which needs to happen to save it. In short, the UAW and bond-holders will basically be forced to cannibalize it Chrysler to try to suck some value out of it.

- Cerberus, meanwhile, will take at most a \$2 billion hit (which is not all that much, considering), while still being able to keep the profits on the outstanding loans from Chrysler car owners and dealers.
- Meanwhile, an entity that is majority-owned by Cerberus is making a wild gamble to be able to suck more from the federal teat. The move itself—making GMAC a bank so as to be able to free up some credit—makes sense on paper. But it will be done by a company whose majority owner appears to be conducting a massive scam on taxpayers.

Like I said, I could be totally misreading this. But it sure looks like Cerberus is in the middle of conducting a massive scam on the federal government.