

GM, TARP AND TRAVELING DOWN THE ROAD

Okay, a couple of folks have been pining for a post on GM and the TARP announcement yesterday. From the New York Times:

The Treasury Department injected \$5 billion into GMAC, the automobile financing company, as part of a deal announced Monday night that will let GMAC convert itself into a bank holding company to reduce its borrowing costs and thus borrow money at low rates from the Federal Reserve.

...

The Treasury will buy \$5 billion worth of preferred equity shares in GMAC, which used to be the financing subsidiary of General Motors and is now owned jointly by G.M. and Cerberus Capital Management, the private equity firm that owns Chrysler.

A Treasury official said on Monday night that the deal had already closed and that GMAC already had the money. In addition, the Treasury said it would lend General Motors \$1 billion so that it could purchase additional equity offered by GMAC.

The deal came after intense efforts to prevent a collapse of GMAC, which is a crucial source of automobile sales financing. It has been reeling from both the paralysis in credit markets and huge losses from its mortgage lending subsidiary, Residential Capital.

Last Wednesday, the Federal Reserve tentatively approved GMAC's petition to become a bank-holding company but demanded that it persuade most of its bondholders to convert their debt into

equity and to raise more money to meet minimum capital reserve requirements.

...

In shoring up GMAC, the Treasury resorted to using money from the Troubled Asset Relief Fund, the \$700 billion rescue program for financial institutions that Congress approved in early October.

The Treasury had already allocated all the \$350 billion that Congress authorized for the first half of the program. But even though the Treasury Department has not yet requested the second half of the money, officials said they could provide the financing to GMAC because they have not actually used all of the money allocated for recapitalizing banks.

As to GM and TARP, Marcy wrote about that here. The story was when the decision was made to make GMAC a bank holding company, and that was over a week ago. Once that was made what was announced yesterday and described in the NYT piece above was a foregone conclusion. The whole reason behind cutting GM and Cerberus' percentage of ownership, and, more importantly, voting power in GMAC was to speed GMAC's designation as a bank holding company. There was one purpose to that accelerated move, and that was to allow access to TARP funds and free up GMAC's ability to offer credit to its dealers and customers. That was necessary to assist GM in its effort to maintain viability and to accomplish the initial goals of the bridge loan previously agreed to. There is nothing nefarious or particularly shocking about the government and GM doing exactly what they said they were doing in the first place. So, for those wondering why there have been no "Breaking News" posts flying off our fingertips, there you have it. This is just not shocking news.

As to the posting schedule, well, believe it or not, we like to spend a little time with our

families, travel and enjoy the holidays too. Marcy will likely check in today, but she is visiting family and her internet connection is not the greatest. I too am going to be scarce today as I must travel up to Lake Powell for a couple of days, although I will be checking in later this afternoon and tonight. In the meantime, use this thread to discuss GM-TARP or whatever else you folks desire. Cheers!