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GAO
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Highlights

Highlights of GAO-10-151, a report to congressional committees

TROUBLED ASSET RELIEF PROGRAM

Continued Stewardship Needed as Treasury Develops Strategies for Monitoring and Divesting Financial Interests in Chrysler and GM

Why GAO Did This Study

The Department of the Treasury (Treasury) provided $81.1 billion in Troubled Asset Relief Program (TARP) aid to the U.S. auto industry, including $62 billion in restructuring loans to Chrysler Group LLC (Chrysler) and General Motors Company (GM). In return, Treasury received 9.85 percent equity in Chrysler, 60.8 percent equity and $2.1 billion in preferred stock in GM, and $13.8 billion in debt obligations between the two companies.

As part of GAO's statutory responsibilities for providing oversight of TARP, this report addresses (1) steps Chrysler and GM have taken since December 2008 to reorganize, (2) Treasury's oversight of its financial interest in the companies, and (3) considerations for Treasury in monitoring and selling its equity in the companies. GAO reviewed documents on the auto companies' restructuring and spoke with officials at Treasury, Chrysler, and GM, and individuals with expertise in finance and the auto industry.

What GAO Recommends

GAO recommends that the Secretary of the Treasury ensure the expertise needed to monitor Treasury's investment in Chrysler and GM remains in place, report to Congress on its general approach for monitoring the companies' performance, and have a plan for evaluating the optimal method and timing for divesting Treasury's equity. Treasury generally agreed with GAO's findings, conclusions, and recommendations.

View GAO-10-151 or key components.
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What GAO Found

Chrysler and GM have made changes since December 2008 to address key challenges to achieving viability, but the ultimate effect of these changes remains to be seen. The companies have eliminated a substantial amount of their long-term debt, reduced the number of brands and models of vehicles they sell, rationalized their dealership networks, and lowered production costs and capacities by reducing the number of factories and employees. It is difficult to fully assess the impact of these changes because of the short amount of time that has passed since reorganization and the low level of new vehicle sales. Moreover, Chrysler and GM are revaluing their assets and liabilities based on their reorganizations in 2009 and expect to prepare financial statements based on this effort in the coming months.

Treasury does not plan to be involved in the day-to-day management of Chrysler and GM, but it plans to monitor the companies' performance. Treasury developed several principles to guide its role as a shareholder, including the commitment that although Treasury reserves the right to set up-front conditions to protect taxpayers and promote financial stability, Treasury will oversee its financial interests in a hands-off, commercial manner. The conditions that Treasury set for the companies include requiring that a portion of their vehicles be manufactured in the United States and that they report to Treasury on the use of the TARP funding provided. Treasury officials told us that they are also requiring that Chrysler and GM submit financial information on a regular basis and that they plan to meet with the companies' top management on a regular basis to discuss the companies' financial condition.

Treasury should make certain that its current approach for monitoring and selling its equity in Chrysler and GM fully addresses all important considerations financial and industry experts identified. For example, Treasury initially hired or consulted with a number of individuals with experience in investment banking or equity analysis to help assess Chrysler's and GM's financial condition and develop financing packages for the companies. Many of these individuals have recently left as the restructuring phase of Treasury's work has been completed. Treasury will need to ensure these staff and any staff that depart in the future are replaced as needed with similarly qualified personnel. Also, Treasury does not currently contract with or employ outside firms with specialty expertise for its work with the auto industry but may need to do so in the future, to make sure sufficient expertise is available to oversee the government's significant financial interests in Chrysler and GM. In addition, although Treasury officials told us they are considering all options for divesting the government's ownership interests, including an initial public offering or private sale, they have focused primarily on a series of public offerings for GM and have not identified criteria for determining the optimal time and method to sell. Regardless of the option pursued, however, Treasury is unlikely to recover the entirety of its investment in Chrysler or GM, given that the companies' values would have to grow substantially above what they have been in the past.