United States Government Accountability Office

Report to Congressional Committees

October 2013

TROUBLED ASSET RELIEF PROGRAM

Status of Treasury's Investments in General Motors and Ally Financial

GAO Highlights

Highlights of GAO-14-6, a report to congressional committees

Why GAO Did This Study

As part of its Auto Industry Financing Program (AIFP), funded through the Troubled Asset Relief Program (TARP), Treasury committed $67.3 billion to automaker GM and to Ally Financial, a large bank holding company whose primary business is auto lending. TARP's authorizing legislation mandates that GAO report every 60 days on TARP activities.

This report examines (1) the current financial condition of the two companies and (2) the status of Treasury's investments in the companies and its plans to sell those investments.

To examine the financial condition of GM and Ally Financial, GAO reviewed industry, financial, and regulatory data for the time period from the beginning of 2008 through the second quarter of 2013. GAO also reviewed Treasury reports and documentation detailing Treasury's investments in GM and Ally Financial and its proposed strategies for divesting itself of the investments, as well as both companies' financial filings and reports. In addition, GAO interviewed officials from Treasury, the Board of Governors of the Federal Reserve (Federal Reserve), GM, Ally Financial, and financial analysts who study GM and Ally Financial.

In its written comments on a draft of this report, Treasury describes the auto industry's recovery and the progress Treasury has made in unwinding its investments in GM and Ally Financial. Treasury, the Federal Reserve, GM, and Ally Financial also provided technical clarifications, which were incorporated, as appropriate.

View GAO-14-6. For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov.

October 2013

TROUBLED ASSET RELIEF PROGRAM

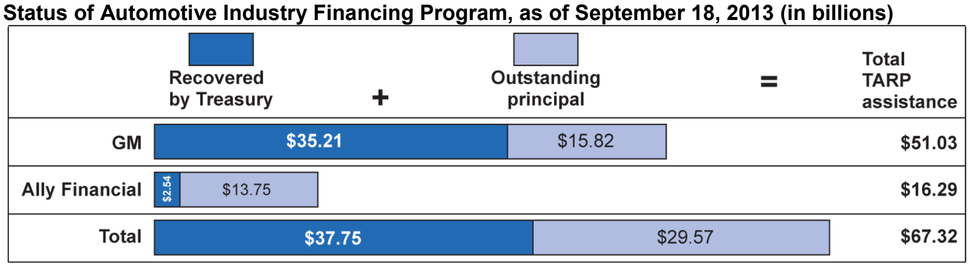
Status of Treasury's Investments in General Motors and Ally Financial

What GAO Found

Since receiving federal assistance, General Motors Company (GM) has shown increasingly positive financial results. For each of the past 3 years, GM has reported profits, positive and growing operational cash flow, and a stable liquidity position. This improved financial performance has been reflected in GM's credit rating, as each of the three largest credit rating agencies has increased GM's long-term credit rating. However, GM faces continued challenges to its competitiveness. For instance, its market share of vehicles sold in North America remains smaller today than in 2008. Furthermore, GM continues to carry large pension liabilities.

With Treasury's investments in Ally Financial, the company's condition has stabilized. For example, Ally Financial's capital and liquidity positions have stabilized or improved over the last 4 years. Such improvements have been noted by the three largest credit rating agencies, each of which has upgraded Ally Financial's credit rating. However, Ally Financial's credit rating remains below investment grade and its mortgage unit—Residential Capital LLC—impacted the company's financial performance. The mortgage unit filed for bankruptcy in May 2012, and these proceedings are ongoing. Analysts with whom GAO spoke indicated that the resolution of its mortgage unit's bankruptcy will be a positive development for Ally Financial's future financial performance.

Status of Automotive Industry Financing Program, as of September 18, 2013 (in billions)



Source: GAO analysis of Treasury data.

Note: Numbers may not sum because of rounding.

As of September 18, 2013, the Department of the Treasury (Treasury) has recovered about $35.21 billion of its $51 billion investment in GM and reduced its ownership stake from 60.8 percent to 7.32 percent. By early 2014, Treasury plans to fully divest its GM common shares through installments and estimates that it will lose at least 19 percent of its original investment. Treasury is working to exit from Ally Financial with a recent agreement to sell all of its preferred stock to the company for approximately $6 billion, but Treasury faces challenges. As a regulated bank holding company, Ally Financial must be well capitalized to receive its regulator's approval to repurchase shares from Treasury. Earlier this spring, Ally Financial's tier 1 common ratio fell below the required 5 percent in the Federal Reserve's "stress test," and the Federal Reserve objected to the company's capital plan. Ally Financial also faces growing competition in the consumer lending and dealer financing sectors that could impact its financial performance in the future. The extent of Treasury's recoupment on its Ally Financial investment will depend on the ongoing financial health of the company.

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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October 29, 2013

Congressional Committees:

In 2008 and 2009, the Department of the Treasury (Treasury) provided significant support to the automotive industry—including both auto manufacturers and automotive finance companies—after deteriorating economic conditions resulted in a dramatic decline in auto sales and significant financial losses in the industry. In particular, through the Automotive Industry Financing Program (AIFP) under the Troubled Asset Relief Program (TARP), Treasury committed approximately $51 billion to help General Motors Company (GM).[1] Through AIFP, Treasury also provided about $16.3 billion to GMAC, a financial services company whose businesses included providing consumer financing for vehicle purchases and dealer financing for inventory. In 2010, GMAC LLC became Ally Financial, Inc. (Ally Financial).[2] While Treasury has recouped much of its investments in these companies—most notably, through GM's initial public offering (IPO) in November 2010—more than $29.57 billion of Treasury's assistance to GM and Ally Financial remained outstanding as of September 18, 2013.[3]

This report is based on our continuing analysis and monitoring of Treasury's activities in implementing the Emergency Economic Stabilization Act of 2008 (EESA), which provided GAO with broad oversight authorities for actions taken under TARP.[4] This report examines (1) the financial condition of GM and Ally Financial and (2) the status of Treasury's investments in the companies and its plans to wind down those investments.

[1]Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, § 101, 122 Stat. 3765, 3767 (codified at 12 U.S.C. § 5211). This report focuses on GM and Ally Financial and does not examine the assistance provided to other auto manufacturers or auto financing companies through AIFP, including Chrysler Holdings.

[2]GMAC renamed itself Ally Financial, Inc., in 2009 and expanded its depository banking operation under the name of Ally Bank. For this report, we use GMAC to refer to the company for activities and events that predate the name change.

[3]The amount outstanding does not include write-offs and realized losses that Treasury has absorbed and dividends, interest, and other income that Treasury has realized on its investments.

[4]Pub. L. No. 110 -343, § 116, 122 Stat. 3765 3783 (codified at 12 U.S.C. § 5226).

To examine the financial condition of GM and Ally Financial, we reviewed financial and industry data for 2008 and 2009, respectively, through June 2013 for both companies. To assess GM's financial condition, we reviewed its net income, operating income, operating cash flow, credit ratings, sales of automobiles, share of the North American market, and pension obligations and pension plan funding for its U.S. employees. For Ally Financial, we reviewed capital ratios, net income, net interest spread, return on assets, nonperforming asset ratio, liquidity ratio, bank deposits, operating cash flow, and credit ratings. To describe the status of Treasury's investment in GM and Ally Financial, we reviewed Treasury's Section 105(a) Reports to Congress detailing the levels of the investments made in GM and Ally Financial, including the number of shares owned by Treasury and Treasury's daily transactions reports.[5] We also interviewed Treasury officials.

To analyze Treasury's plan to wind down its investments, we reviewed Treasury documentation relating to its exit from GM and Ally Financial. In addition, we reviewed the Board of Governors of the Federal Reserve System's (Federal Reserve) publicly available reports relating to its 2013 stress tests on bank holding companies with assets of $50 billion or more and the Comprehensive Capital Analysis and Review 2013.[6] We also interviewed officials from Treasury, Federal Reserve, Federal Deposit Insurance Corporation (FDIC), GM, and Ally Financial. We assessed the completeness and accuracy of all data used in this report and determined they were sufficiently reliable for the purposes of this report. For each data source we reviewed the data for completeness and obvious errors, such as outliers, and determined that these data were sufficiently reliable for our purposes. We reviewed past GAO data reliability assessments to

[5]Under EESA, every 30 days, Treasury must submit to Congress reports on actions taken and funds obligated and spent during the reporting period as well as detailed financial statements covering, among other items, agreements made, assets purchased, transactions that occurred, and the valuation or pricing method used for each transaction. § 105(a), 122 Stat. at 3771-72.

[6]Stress testing is one tool that helps bank supervisors measure whether a bank holding company has enough capital to support its operations throughout periods of stress. The Dodd-Frank Wall Street Reform and Consumer Protection Act requires the Federal Reserve to perform an annual stress test of bank holding companies with $50 billion or more in total consolidated assets. Pub. L. No. 111-203, § 165(i)(1)(A), 124 Stat. 1376, 1430 (2010)(codified at 12 U.S.C. § 5365(i)(1)(A)). The Comprehensive Capital Analysis and Review is an annual assessment by the Federal Reserve of the internal capital planning process and capital adequacy of large, complex U.S. bank holding companies. 12 C.F.R. §225.8.

ensure that we, in all material respects, used the data in a similar manner and for similar purposes. For a more detailed discussion of the scope and methodology, please see appendix I.

We conducted this performance audit from March 2013 to October 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings based on our audit objectives.

Background

The decision to provide substantial amounts of funding to the auto industry—more than 12 percent of all authorized TARP funds—and to accept equity in the companies in return for some of the assistance reflects Treasury's view of the automotive industry's importance to the U.S. economy. According to Treasury officials, Treasury provided assistance not simply because of the industry's importance, but because of the severity of the crisis and the desire to prevent significant disruption to the economy that would have resulted from uncontrolled liquidations of Chrysler and GM. To help stabilize the industry and avoid economic disruptions, Treasury disbursed $79.7 billion through AIFP from December 2008 through June 2009. The majority of the assistance was used to support two automakers, Chrysler and GM, during restructuring, along with their automotive finance companies, Chrysler Financial and GMAC.[7] In July 2009, Treasury outlined guiding principles for the investments made to the auto industry, including:

- exiting its investments as soon as practicable in a timely and orderly manner that minimizes financial market and economic impact;
- protecting taxpayer investment and maximizing overall investment returns within competing constraints;

[7]Treasury disbursed a total of $12.4 billion to Chrysler-related entities including Old Chrysler and New Chrysler. Of the $12.4 billion that was disbursed to Chrysler-related entities under TARP, Treasury collected more than $11.1 billion through principal repayments, sale of investments, and interest. While Treasury retains a right to receive proceeds from a liquidation trust related to Old Chrysler, no significant future cash flows are expected. Treasury completed its exit from New Chrysler in July 2011.

- improving the strength and viability of GM and Chrysler so that they can contribute to economic growth and jobs without government involvement; and
- managing its ownership stake in a hands-off, commercial manner, including voting its shares only on core governance issues, such as the selection of a company's board of directors and major corporation events or transactions.[8]

Assistance to GM

GM is one of the world's largest automotive companies and does business in more than 120 countries worldwide. As of December 31, 2012, it employed 213,000 workers worldwide and marketed vehicles through a network of independent retailers totaling 20,754 dealers. In North America, GM manufactures and markets the following brands: Buick, Cadillac, Chevrolet, and GMC.

Treasury provided a $13.4 billion loan in December 2008 to the Old GM to fund working capital.[9] Treasury also lent $884 million to the Old GM for the purchase of additional ownership interests in a rights offering by GMAC. In April 2009, Treasury loaned an additional $6 billion to fund Old GM as it worked to submit a viable restructuring plan (working capital loan). These funds, along with loans from the Canadian government and concessions from nearly every stakeholder, including the company's primary labor union—the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)—were intended to give the companies time to restructure to improve their competitiveness and long-term viability.

[8] Treasury established two other programs under AIFP—the Auto Supplier Support Program and the Auto Warranty Commitment Program. The Auto Supplier Support Program was designed to ensure that automakers received the parts and components they needed to manufacture vehicles and that suppliers had access to liquidity on their receivables. Under this program, GM and Chrysler received loans, all of which have been repaid. The Auto Warranty Commitment Program was designed to mitigate consumer uncertainty about purchasing vehicles from the restructuring automakers by providing funding to guarantee the warranties on new vehicles from those automakers. Funds were provided to GM and Chrysler under this program, but both companies were able to continue to honor consumer warranties and the funds have been repaid in full.

[9] General Motors Company is a new legal entity that was created through the bankruptcy process to purchase substantially all of the operating assets of the former firm. Throughout this report, we refer to the prereorganization company as "Old GM" and the postreorganization company as "GM."

As a condition of receiving this assistance, Old GM was required to submit a plan to Treasury that would, among other things, identify how it intended to achieve and sustain long-term financial viability. GM's initial viability plan submitted in February 2009 was rejected. The plan established targets for addressing some of the company's key challenges to achieving viability, including reducing debt, numbers of brands and models, dealership networks, and production costs and capacity. In 2009, Old GM filed a voluntary petition for reorganization under Chapter 11 of the U.S. bankruptcy code. Subsequently, in June 2009, Treasury provided Old GM with $30.1 billion under a debtor-in-possession financing agreement to assist during the restructuring.[10] The newly organized GM was able to purchase most of the operating assets of the former company through a sale under Section 363 of the bankruptcy code.[11] When the sale was completed on July 10, 2009, Treasury converted most of its loans into 60.8 percent of the common equity in GM and $2.1 billion in preferred stock.[12] In addition, $6.7 billion of the TARP loans remained outstanding after the bankruptcy. In spring 2011, the bankruptcy was completed, and Old GM's remaining assets and liabilities were transferred to liquidating trusts. As we concluded in our past work, the federal assistance allowed GM to restructure its balance sheets and obligations through the bankruptcy code and tackle key challenges to achieving viability.[13]

Assistance to Ally Financial

Ally Financial, previously known as GMAC, formerly served as GM's captive auto finance company.[14] The primary purpose of auto financing is to provide credit to consumers so that they can purchase automobiles. In

[10]A debtor-in-possession financing agreement is financing arranged by a company while under a Chapter 11 bankruptcy reorganization.

[11]11 U.S.C. § 363 (2010).

[12]Preferred stock is equity ownership that usually pays a fixed dividend and gives the holder a claim on corporate earnings that is superior to the claims of common stock owners. Preferred stock also has priority in the distribution of assets when a bankrupt company is liquidated.

[13]GAO, *TARP: Treasury's Exit from GM and Chrysler Highlights Competing Goals, and Results of Support to Auto Communities Are Unclear*, GAO-11-471 (Washington, D.C.: May 10, 2011).

[14]A captive auto lender's primary business is to finance the purchase of a specific manufacturer's automobiles.

determining how to finance their purchases, consumers have many financial institutions from which to choose, including banks, credit unions, and auto finance companies, all of which may offer loans or other credit accommodations for the purchase of new and used automobiles. In addition to consumer financing, auto dealers have also traditionally used manufacturers' finance companies to finance their purchase of the automobile inventory that they sell (known as floor-plan financing).[15]

Prior to the financial crisis, GMAC's subsidiaries expanded into other areas of financial services, such as auto insurance and residential mortgages, but GMAC remained a wholly owned subsidiary of the Old GM. In 2006, Cerberus Capital Management purchased 51 percent of the company. GM retained a 49 percent ownership stake. As the housing market declined in the late 2000s, the previously profitable GMAC mortgage business unit began producing significant losses. For example, the company's Residential Capital LLC (ResCap) subsidiary—which by 2006 had grown to be the country's sixth-largest mortgage originator and fifth-largest mortgage servicer—lost approximately $17 billion from 2007 through 2009. During the same time period, automobile sales in the U.S. dropped from 16.4 million to 10.4 million, negatively affecting the company's core auto financing business.

According to Treasury, Treasury determined that without government assistance GMAC would be forced to deny or suspend financing to creditworthy dealerships, leaving them unable to purchase automobile inventory for their lots.[16] Without orders for automobiles from dealerships, GM would have been forced to slow or shut down its factories indefinitely to match the drop in demand. Given its significant overhead, a slow-down or stoppage of this magnitude would have caused GM to topple, according to Treasury.

[15]Floor-plan, or wholesale, lending is a form of retail goods inventory financing in which each loan advance is made against a specific piece of collateral. As each piece of collateral is sold by the dealer, the loan advance against that piece of collateral is repaid. Items commonly subject to floor-plan debt are automobiles, large home appliances, furniture, television and stereo equipment, boats, mobile homes, and other types of merchandise usually sold under a sales finance contract.

[16] Before the financial crisis, Chrysler had owned a finance company, Chrysler Financial. Chrysler Financial ceased operating and its business taken on by GMAC.

However, GMAC was not initially eligible for assistance under the TARP Capital Purchase Program (CPP).[17] To become eligible for federal financial assistance, GMAC sought to convert GMAC Bank's charter from an industrial loan company into a commercial bank in 2008 and applied to the Federal Reserve for bank holding company status.[18] GMAC also submitted an application to participate in the Capital Purchase Program, conditional upon becoming a bank holding company. The Federal Reserve approved GMAC's bank holding company application in December 2008. Although GMAC originally applied for participation in CPP, in late December 2008, as a part of AIFP, Treasury agreed to purchase $5 billion in senior preferred equity from GMAC and received an additional $250 million in preferred shares through warrants that Treasury exercised immediately.

Treasury subsequently provided GMAC with additional assistance through TARP.

- In May 2009, Treasury purchased $7.5 billion of mandatory convertible preferred shares from GMAC.[19]
- In December 2009, Treasury purchased additional shares—$2.5 billion of trust preferred securities and approximately $1.3 billion of mandatory convertible preferred shares.[20] Also, in December 2009, Treasury converted $3 billion of existing mandatory convertible

[17]As a commercial company, GMAC was not originally eligible for TARP assistance through the Capital Purchase Program. However, in December 2008, Treasury established AIFP to provide assistance to the U.S. automotive industry to help avoid disruptions that would pose systemic risk to the nation's economy; Treasury subsequently provided assistance to GMAC through AIFP.

[18]A bank holding company is a company that owns, or has controlling interest in 25 percent or more of the ownership in one or more banks. 12 U.S.C. § 1841(a) (2011). An industrial loan company is an FDIC-supervised, state-chartered financial institution whose distinct features include the fact that it can be owned by a commercial firm that is not regulated by a federal banking agency.

[19]Mandatory convertible preferred stock is a type of preferred share that must be converted to common stock on or before a certain contractual date. Also, in May 2009, Treasury exercised its option to exchange its $884 million loan with Old GM for a 35.4 percent common ownership share in GMAC

[20]A trust preferred security is a security that has both equity and debt characteristics, created by establishing a trust and issuing debt to it. Their use in meeting certain capital requirements was restricted by the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 171, 124 Stat. 1376, 1433-35 (2010).

preferred shares into common stock, increasing its common equity stake from 35 percent to 56.3 percent.

- In December 2010, Treasury converted preferred stock in Ally Financial that had a liquidation preference of $5.5 billion into common stock. This stock conversion resulted in Treasury's owning approximately 74 percent of Ally Financial. In addition, as of September 2013, Treasury continues to hold $5.9 billion of Ally Financial's mandatory convertible preferred shares. Ally Financial pays a 9.0 percent fixed dividend annually to Treasury on these preferred shares.[21] As will be discussed later in this report, Ally Financial has entered into an agreement with Treasury to repurchase the mandatory convertible preferred shares with possible completion of the transaction sometime later this year.

As of June 2013, Ally Financial was the 20th largest U.S. bank holding company, with total assets of $150.6 billion. Its primary line of business is auto financing—both consumer financing and leasing and dealer floor-plan financing. As a bank holding company, Ally Financial is regulated and supervised by the Federal Reserve.[22] In addition, Ally Financial owns Ally Bank, an Internet and-telephone-based, state-chartered nonmember bank that is supervised by the FDIC and the Utah Department of Financial Institutions. Ally Bank has over $92 billion in assets and $50.8 billion in total deposits, as of June 30, 2013.

[21]Ally Financial is a privately held institution. These institutions did not issue warrants to purchase shares of common stock for TARP investments. Instead, Treasury received from privately held institutions warrants to purchase a specified number of shares of preferred stock (warrant preferred stock) that paid annual dividends at 9 percent. Unlike the warrants issued by publicly held institutions, such as Bank of America Corporation or Citigroup, Inc., Treasury exercised these warrants immediately.

[22]12 U.S.C. § 1844(b)-(c).

Financial Condition of GM and Ally Financial

General Motors's Financial Results Have Been Increasingly Positive Since Receiving Federal Assistance, but Questions Remain

Since receiving federal assistance, GM has shown increasingly positive financial results. For each of the last 3 years, GM has reported profits, a positive and growing operating cash flow, and a stable liquidity position. This improved financial performance has been reflected in GM's credit ratings, with each of the three largest credit rating agencies increasing GM's long-term credit rating. Although Moody's upgraded GM's rating to investment grade on September 23, 2013, Standard and Poor's and Fitch Ratings rate GM as below investment grade as of the same month. Furthermore, GM's market share of vehicles sold in North America was smaller than in 2008, and it continued to carry large pension liabilities.

Based on our analysis of GM's reported financial data, the company's financial performance has improved since 2008. We assessed GM's financial performance by examining its reported net income, operating income, and operating cash flow.[23]

- Net income (loss): Net income (net profit or loss) is the difference between total revenues and expenses and represents the company's income after all expenses and taxes have been deducted. For 2010, 2011, and 2012, GM reported net income of $6.5 billion, $9.3 billion, and $6.1 billion, respectively (see table 1). In 2008, prior to the federal government's assistance and Old GM's bankruptcy, GM reported a net loss of $30.9 billion. As we found in our prior work, a key result of the restructuring was that GM lowered its fixed costs by reducing the number of employees, plants, and dealerships, among other things.[24] Reduced fixed costs allow GM to be profitable with fewer sales, thereby lowering its "break-even" level.
- Operating income (loss): Operating income (loss) describes a company's profit and loss from its core operations. It is the difference between the revenues of a business and the related costs and expenses, excluding income from sources other than its core

[23]Data are from GM's Form 10-Ks, in the year, they were reported. Subsequent adjustments may have been made in later corporate filings.

[24]GAO-11-471.

business (e.g., income derived from investments). GM reported operating income of $5.1 billion and $5.7 billion in 2010 and 2011, respectively (see table 1). In 2012, GM took an approximate $27 billion goodwill impairment charge that significantly reduced its operating income, contributing to a $30.4 billion operating loss.[25]

- Operating cash flow: Operating cash flow refers to the amount of cash generated by a company's core business operations. Operating cash flow is important because it indicates whether a company is able to generate sufficient positive cash flow to maintain and grow its operations, or requires external financing. In its 2010, 2011, and 2012 annual reports, GM reported operating cash flow of $6.6 billion, $7.4 billion, and $9.6 billion, respectively. Further, in 2010 GM reported total available liquidity from automotive operations of $32.5 billion, including $5.9 billion from credit facilities. This amount had increased slightly by 2012, when GM reported total available liquidity of $37.2 billion, including $11.1 billion from credit facilities. Finally, GM reported current assets greater than current liabilities from 2010 through 2012, indicating that it could meet all current liabilities without additional financing.

Table 1: GM's Net Income, Operating Income and Cash Flow (in billions), 2008-2012

	2008	2010	2011	2012
Net income (loss)	($30.9)	$6.5	$9.3	$6.1
Operating income (loss)	(21.2)	5.1	5.7	(30.4)
Operating cash flow	(12.1)	6.6	7.4	9.6

Source: GAO's review of GM filings with the Securities and Exchange Commission (SEC). Net income for 2010, 2011, and 2012 excludes non-controlling interests. Data are from GM Form10-Ks, in the year they were reported. Subsequent adjustments may have been made in later corporate filings.

[25]Subsequent to its 2012 annual goodwill impairment testing, GM reversed $36.2 billion of its deferred tax asset valuation allowances for its GM North America reporting unit. The reversal of the deferred tax asset valuation allowances resulted in the carrying amount of GM's GM North America reporting unit exceeding its fair value. As a result, GM performed an event-driven goodwill impairment test in the 3 months ended December 31, 2012. Based on the results of this test, GM recorded a goodwill impairment charge of $26.4 billion in the 3 months ended December 31, 2012. The remaining goodwill impairment charges were from GM's European and international operations operating units. According to the Federal Accounting Standards Board (FASB), an impairment exists when the carrying amount of goodwill exceeds its implied fair value. If the carrying amount exceeds the implied fair value, the difference is recognized as an impairment loss. However, the recognized loss cannot be more than the carrying amount. (ASC 350-20-35-2 and 350-20-35-11)

Note: We did not include information for 2009 because GM began operations that year. Consequently, annual data for 2009 are not comparable to data for previous or subsequent years. Information for 2008 is for Old GM. On July 10, 2009, GM applied fresh-start reporting, following the guidance in Accounting Standards Codification (ASC) 852, "Reorganizations" (ASC 852). The consolidated financial statements for the periods ended on or before July 9, 2009, do not include the effect of any changes in the fair value of assets or liabilities as a result of the application of fresh-start reporting. GM's financial information at and for any period after July 10, 2009, is not comparable to Old GM's financial information, which is provided only for reference.

These improvements in GM's financial performance have been reflected in its credit ratings. A credit rating is an assessment of the credit worthiness of an obligor as an entity or with respect to specific securities or money market instruments.[26] Credit ratings are important because investors and financial institutions may consider them when making investment and lending decisions. The three largest credit rating agencies have each increased GM's long-term credit rating two steps in the past 3 years.[27] Fitch Ratings and Standard and Poor's raised their long-term rating on GM from BB- to BB+. Moody's raised its long-term corporate family rating on GM from Ba2 to Baa3, an investment grade rating (i.e., the issuer or bond has a relatively low risk of default). Comparatively, Standard and Poor's also rates Ford Motor Company as one step below investment grade, with a positive outlook. Fitch and Moody's upgraded Ford to an investment grade rating in April and May 2012, respectively. Toyota, another competitor of GM, maintains an investment grade rating with all three of these credit rating agencies.

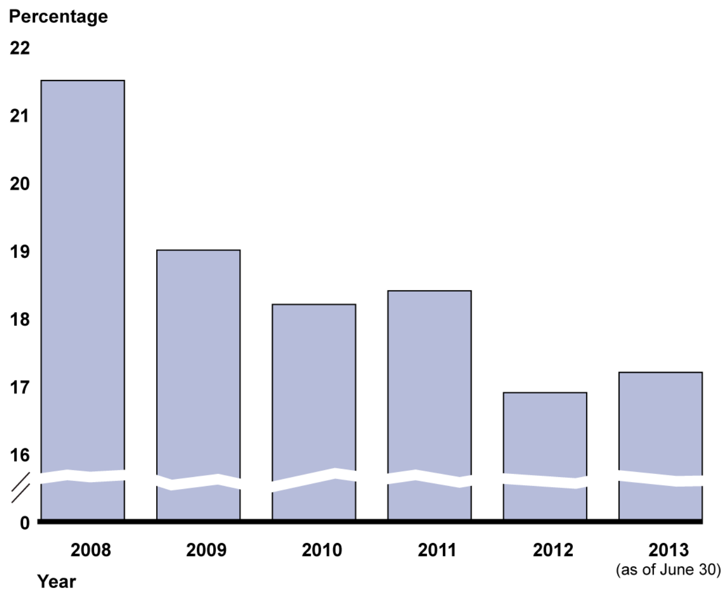
Although GM's financial performance has improved significantly since the company initially received federal assistance, questions remain about competitiveness and costs. One of the factors in GM's improved financial condition has been increased sales of automobiles generally, including GM's, over the last 3 years. Overall, North American vehicle sales increased more than 23 percent from 2010 to 2012, rising from 14.4 million to 17.8 million. Over this same period, sales of GM automobiles in North America increased 15 percent, from 2.6 million to 3 million. However, GM's North American market share generally has declined over

[26]Securities Exchange Act of 1934, Pub. L. No. 73-291, § 3(a)(60), 48 Stat. 881 (codified at 15 U.S.C. § 78c(a)(60)).

[27] Each of the three credit rating agencies uses its own methodology to evaluate qualitative and quantitative information about a company to develop its rating. These ratings are considered opinions of the credit rating agencies.

the past 5 years (see fig. 1).[28] In 2008, GM reported capturing 21.5 percent of the North American market, compared with 16.9 percent in 2012. GM reported that its North American market share was 17.2 percent through the second quarter of 2013.

Figure 1: GM's North American Market Share, 2008-2013



Source: GAO analysis of GM SEC filing.

Another factor contributing to GM's financial performance has been its ability to control labor costs. GM's ability to remain competitive will also depend on its ability to continue to control costs, in particular its labor costs. Labor costs refer to the costs that GM incurs to pay workers to build its vehicles at factories in the United States and elsewhere. Through its restructuring, GM lowered labor costs, in part by reducing its workforce and making more efficient use of its remaining workers. For instance, it has closed plants and run additional shifts at existing plants, increasing production capacity at those plants. In September 2011, GM and the

[28]GM's worldwide market share from 2008 to 2012 remained largely flat. In 2008 GM reported worldwide market share of 12.4 percent, compared with 11.5 percent in 2012.

UAW reached an agreement on a new 4-year contract that would increase the company's labor costs by 1 percent annually, according to GM executives. In November 2011, the Center for Automotive Research (CAR) reported that GM's 2011 labor costs of $56/hour—while still among the highest in the industry—were in line with those of its competitors. CAR reported that Ford and Toyota had labor costs of $58 and $55 per hour, respectively. As we concluded in prior work, maintaining competitive labor costs in future negotiations is important to GM's bottom line.[29] GM officials told us another important factor in maintaining competitiveness is GM's ability to design, build, and sell vehicles that customers want to purchase.

Finally, GM's large pension obligations could have a potential impact on GM's costs. Based on our analysis of GM's filings with the Securities and Exchange Commission (SEC), GM reported U.S. pension plan assets of $68 billion and obligations of $82 billion in 2012, creating an underfunded position of approximately $14 billion.[30] This underfunded position is somewhat less than in fiscal year 2009, when it reported an underfunded position of $17.1 billion. Prior to its receipt of government assistance and restructuring, GM had taken steps to reduce the risk it faced from its underfunded plan, including modifying or closing plans to new hires or halting further benefit accruals.[31] More recently, it offered selected salaried retirees an option to receive a lump-sum settlement and those selected salaried retirees that did not elect a lump-sum had their benefit settled with GM via the purchase of an annuity contract with an insurance company. GM paid lump-sum payments totaling $3.6 billion and a total annuity premium of $27 billion in exchange for the insurance company assuming future obligations to the beneficiaries. Some analysts with whom we spoke saw this move as largely net neutral because of the amount of cash GM used to complete this transaction. Others viewed it somewhat positively for GM because, despite the cash used, the transfer

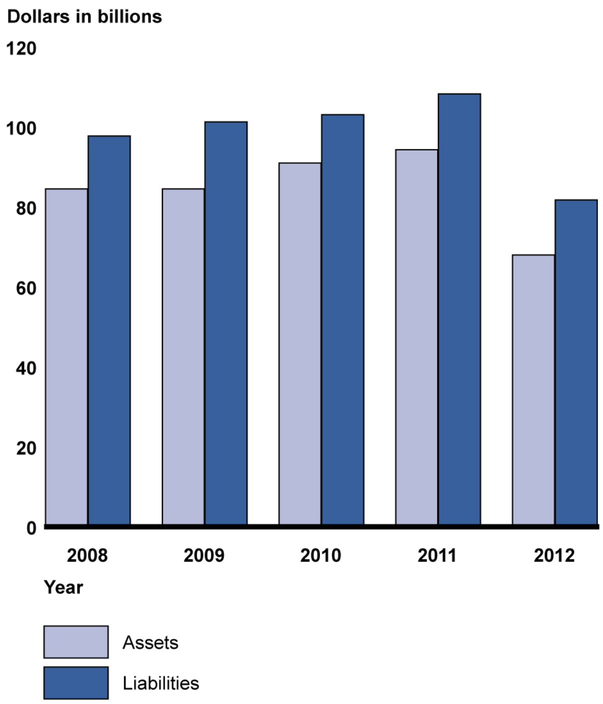
[29]GAO-11-471.

[30]Plan liabilities and assets reflect measurements in accordance with Financial Accounting Standards. Both plan liabilities and assets could grow or diminish overtime, depending on such factors as investment returns, interest rates, changes in plan demographics, and whether benefits are revised in future years.

[31]We have previously reported on GM's pension plan and steps it has taken to reduce the size of its pension obligations. See GAO, *Troubled Asset Relief Program: Automaker Pension Funding and Multiple Federal Roles Pose Challenges for the Future*, GAO-10-492,(Washington, D.C.: April 6, 2010).

reduces the risk of future volatility in the company's cash pension obligations. GM does not expect any mandatory contributions to the pension plans in the next several years.[32] Figure 2 shows the trends in GM's U.S. pension plans' liabilities and assets.

Figure 2: Trends in GM's U.S. Pension Plans' Liabilities and Assets



Source: GAO analysis of GM SEC filing.

Note: U.S. pension data were taken from the benefit obligations and the fair value of plan assets on December 31 of the corresponding year.

Financial Condition of Ally Financial Has Stabilized, but Challenges Remain

With Treasury's investments in Ally Financial, the company's condition has stabilized. To assess Ally Financial's condition, we examined multiple capital, profitability, and liquidity measures. These measures suggest that Ally Financial's financial performance is improving. The three largest credit rating agencies have noted these improvements by upgrading Ally Financial's rating. However, the ratings remain below investment grade,

[32]Minimum funding requirements are set forth in the Employee Retirement Income Security Act of 1974. Pub. L. No. 93-406, 88 Stat. 829 (codified as amended at 29 U.S.C. §§ 1001-1461). For more information, see GAO-10-492.

and Ally's mortgage unit—Residential Capital LLC—impacted the company's financial performance.

Ally Financial's capital position has remained the same or improved since 2009. Capital can be measured in several ways, but we focused on tier 1 capital because it is currently the strongest form of capital.[33] We examined Ally Financial's tier 1 capital ratio and tier 1 leverage ratio and compared them to minimums required under the Federal Reserve's capital adequacy guidelines for bank holding companies. We also examined Ally Financial's tier 1 common ratio. The Federal Reserve has long held the view that bank holding companies generally should operate with capital positions well above the minimum regulatory capital ratios, with amount of capital held commensurate with a bank holding company's risk profile.[34]

- Tier 1 capital and common capital ratios: A tier 1 capital ratio measures tier 1 capital as a percentage of risk-weighted assets. As shown in table 2, Ally Financial's tier 1 capital ratio increased from 2009 to 2010 but declined slightly in 2011 and 2012. Federal Reserve

[33]Tier 1 capital is currently considered the most stable and readily available capital that a banking institution can have to support its operations by absorbing unexpected financial losses. It consists of core capital elements, such as common stockholders' equity and noncumulative perpetual preferred stock. As defined in the Federal Reserve's Risk-Based Capital Adequacy Guidelines, tier 1 capital is composed of common and non-common equity elements, some of which are subject to limits on their inclusion in tier 1 capital. *See* 12 CFR § 225, Appendix A, § II.A.1. These elements include common stockholders' equity, qualifying perpetual preferred stock, certain minority interests, and trust preferred securities. Certain intangible assets, including goodwill and deferred tax assets, are deducted from tier 1 capital or are included subject to limits. *See* 12 CFR § 225, Appendix A, § II.B. Tier 1 common capital is tier 1 capital less the non-common elements of tier 1 capital, including perpetual preferred stock and related surplus, minority interest in subsidiaries, trust preferred securities, and mandatory convertible preferred securities. 12 CFR §225.8(c)(8). Common equity is considered the most loss-absorbing form of capital. In July 2013, the federal banking regulators issued revised requirements for minimum capital, regulatory capital, and additional capital "buffers" to enhance the resiliency of banking organizations during periods of financial stress. These new standards will be implemented over multiple years. *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule,* 78 Fed. Reg. 62019 (Oct. 11, 2013); 78 Fed. Reg. 55340 (Sept. 10, 2013).

[34]*Capital Plans*, 76 Fed. Reg. 74631, 74632 (Dec. 1, 2011); *see also Capital Adequacy Guidelines for Bank Holding Companies*, 12 CFR § 225, Appendix A, § I.

Capital Adequacy Guidelines require bank holding companies to have a tier 1 risk-based capital ratio of at least 4 percent.[35] Ally Financial's tier 1 one capital ratio met or exceeded the minimum ratio required each year from 2009 through 2012. A tier 1 common capital ratio measures common capital—that is, the common equity component of tier 1 capital as a share of risk-weighted assets. Ally Financial's tier 1 common ratio has increased from 4.85 percent at year-end 2009 to 6.98 percent at the end of the first quarter of 2013.[36] Higher tier 1 capital and common capital ratios may indicate that a bank holding company is in a better position to absorb financial losses.

- Tier 1 leverage ratio: A tier 1 leverage ratio shows the relationship between a banking organization's core capital and total assets. The tier 1 leverage ratio is calculated by dividing the tier 1 capital by the firm's average total consolidated assets. Generally, a larger tier 1 leverage ratio indicates that a company is less risky because it has more equity to absorb losses in the value of its assets. Ally Financial's leverage ratio remained largely unchanged from 2009 through 2012 (see table 2).

Table 2: Ally Financial Capital Ratios, 2009-2012

	2009	2010	2011	2012
Tier 1 capital ratio	14.15%	15.00%	13.71%	13.13%
Tier 1 common capital ratio[a]	4.85	8.57	7.57	6.98
Tier 1 leverage ratio	12.70	13.05	11.50	11.16

Source: GAO's analysis of Ally Financial filings with SEC. Data are from Ally Financial Form10-Ks, in the year they were reported. Subsequent adjustments may have been made in later corporate filings.

[a]Federal Reserve Capital Adequacy Guidelines do not require a minimum tier 1 common capital ratio. However, companies subject to the Federal Reserve's capital plan rule must develop a capital plan that demonstrates the company's ability to meet a tier 1 common ratio above 5 percent under stressed conditions. See 12 CFR 225.8(d)(2) (i)(B).

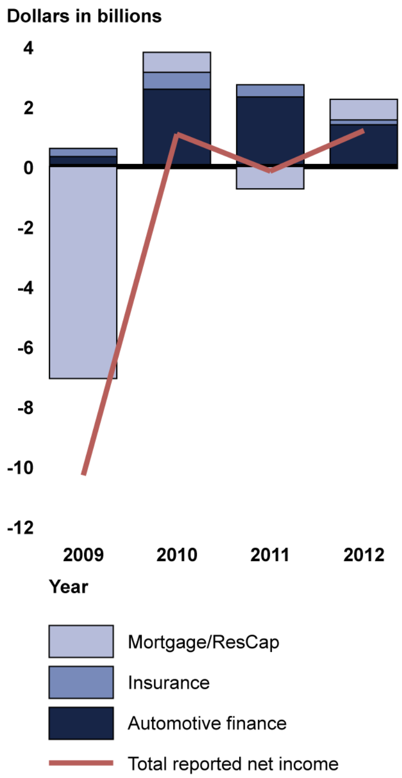
[35]12 C.F.R. 225, Appendix G, § 3(a)(1)(ii). Federal Reserve Capital Adequacy Guidelines require bank holding companies to have a minimum tier 1 risk-based capital ratio of 6 percent to be considered well capitalized. 12 C.F.R. § 225.2(r)(ii).

[36]As previously mentioned, GMAC (now Ally Financial) became a bank holding company in December 2008. We examined financial data from 2009 to 2013 because Ally Financial became subject to new regulatory and reporting requirements when it became a bank holding company.

Ally Financial's profitability has also improved since 2009. We examined several measures of profitability, including net income (loss), net interest spread, return on assets, and nonperforming assets ratio.

- Net income (loss): Ally Financial suffered a net loss in 2009 of $10 billion, but has reported net income for 2 of the last 3 years. As shown in figure 3, the 2009 loss was driven by substantial losses in its mortgage business operating unit. Ally Financial reported net income of $1.1 billion in 2010, a loss of $160 million in 2011, and net income of $1.2 billion in 2012.

Figure 3: Ally Financial Net Income (Loss) by Operating Unit, 2009-2012



Source: GAO analysis of Ally Financial Filings with SEC.

Notes: Data are from Ally Financial 10-Ks, in the year they are reported. Subsequent adjustments may have been made in later corporate filings. Total reported net income does not always equal the sum of the three operating units because of the exclusion of "other" income.

- Net interest spread: The net interest spread is the difference between the rate on total interest-earning assets and the rate on total interest-bearing liabilities, excluding discontinued operations for the period. In general, the larger the spread, the more a company is earning. Ally saw its net interest spread increase from a reported .58 percent at the end of 2009 to 1.14 percent at the end of 2012 (see table 3).

- Return on assets (ROA): ROA is calculated by dividing a company's net income by its total assets. It is an indication of how profitable a company is relative to its total assets and gives an idea of management's efficiency in using its assets to generate earnings. A higher ROA suggests that a company is using its assets efficiently. Ally reported improved ROA from the end of 2009 to 2012, with a reported negative 5.79 percent ROA for 2009 and a positive .65 percent in 2012 (see table 3).

- Nonperforming asset ratio: This ratio measures asset quality by dividing the value of nonperforming assets by the value of total assets. The lower the ratio, the fewer poorly performing assets a company holds. As shown in table 3, Ally's nonperforming asset ratio fell from 4.36 percent for the fourth quarter of 2009 to 1.06 percent for the fourth quarter of 2012.

Table 3: Selected Financial Performance Metrics for Ally Financial, 2009-2012

Financial performance metric	2009	2010	2011	2012
Net interest spread	.58	1.23	1.07	1.14
Return on assets	(5.79)	.61	(.09)	.65
Nonperforming asset ratio[a]	4.36	3.46	2.69	1.06

Source: GAO analysis of Ally Financial filings with SEC. Data are from Ally Financial Form 10-Ks, in the year they were reported. Subsequent adjustments may have been made in later corporate filings.

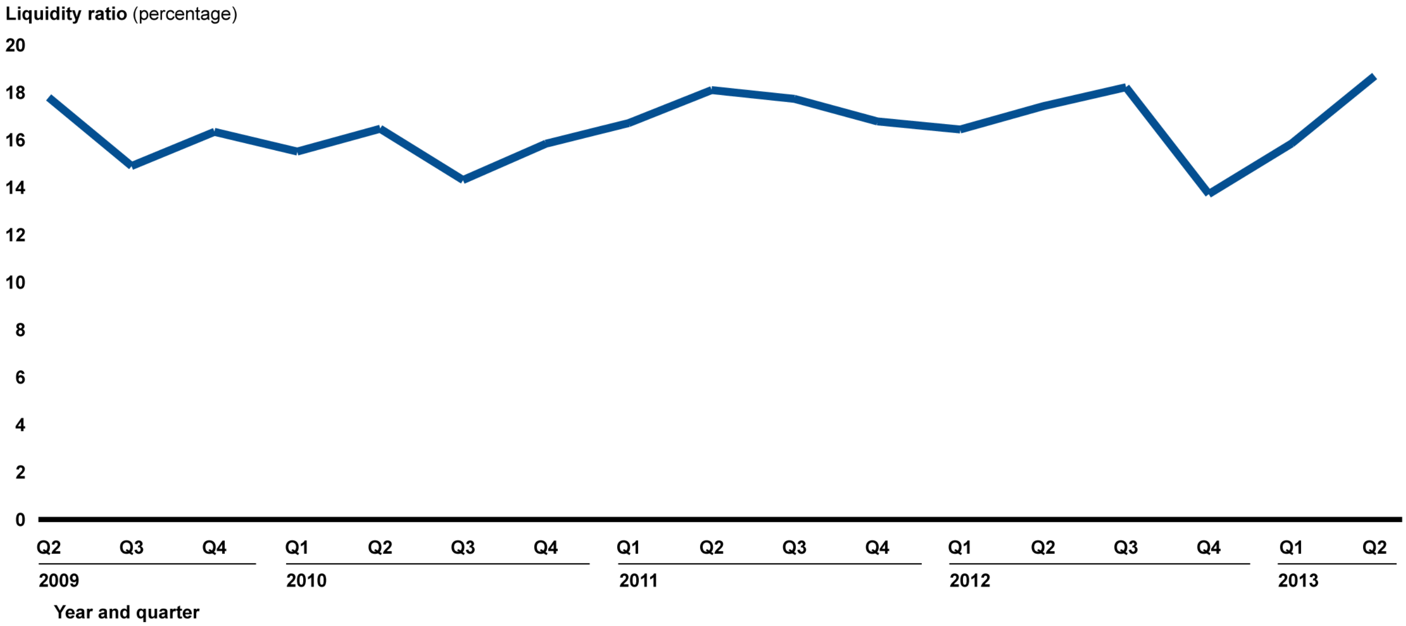
[a]Nonperforming asset ratio data from SNL Financial for December of corresponding year.

In addition, Ally Financial's liquidity position has generally stabilized since 2009. To examine Ally Financial's liquidity position, we examined the company's total liquidity ratio, bank deposits, and operating cash flow.

- Total liquidity ratio: Liquidity ratios measure a bank's total liquid assets against its total liabilities. Generally, a high ratio indicates a relatively large margin of safety in covering short-term debts. Overall, Ally Financial's liquidity ratio remained stable from 2009 through the third quarter of 2012 (see fig. 4). Reductions in the fourth quarter of 2012 ratio are associated with the repayment of $7.4 billion in

Temporary Liquidity Guarantee Program debt.[37] For the quarter ending June 30, 2013, Ally Financial reported a total liquidity ratio of 18.7 percent.

Figure 4: Ally Financial Liquidity Ratio, June 2009-June 2013



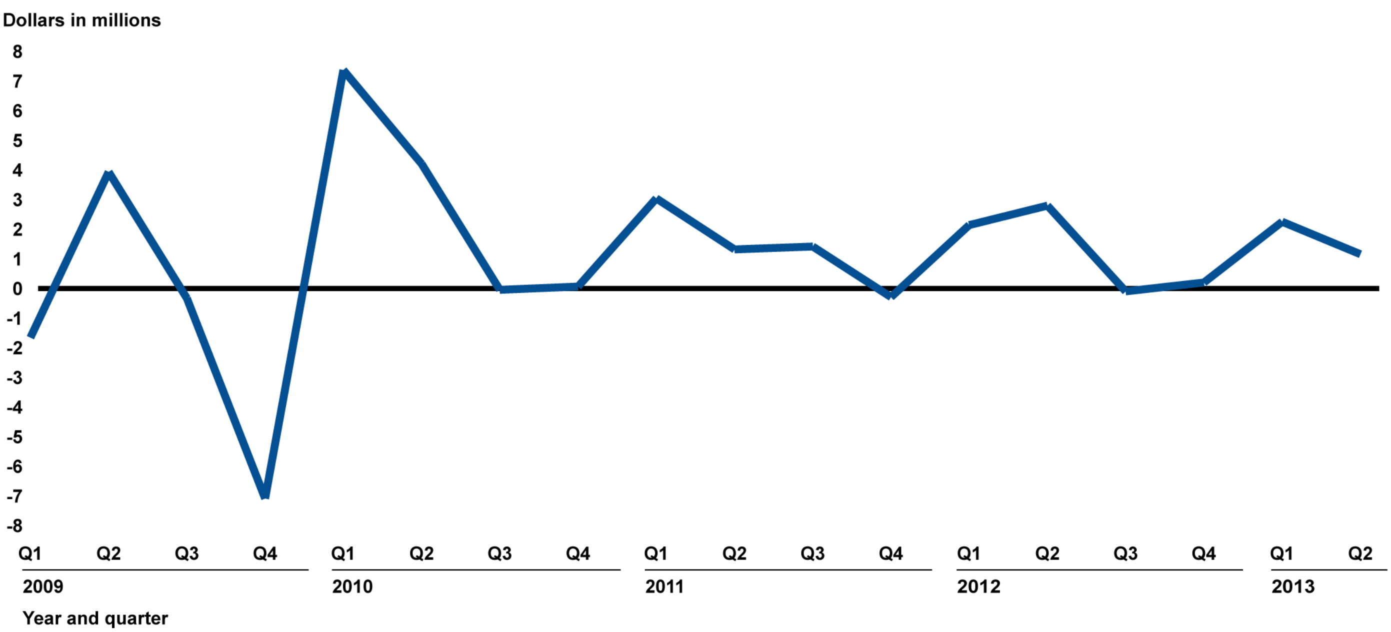
Source: SNL.

- Bank deposits: Bank deposits are the funds that consumers and businesses place with a bank, and growth in deposits is an important factor in the bank's liquidity position. From December 2008 to December 2012, Ally Bank saw its deposits grow from $19.2 billion to $46.9 billion. Deposits accounted for 37 percent of Ally's total funding as of the fourth quarter of 2012, offering the company a low-cost source of funding that is less sensitive to interest rate changes and market volatility than other sources of funding.

[37]FDIC created the Temporary Liquidity Guarantee Program in October 2008 to encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies and providing full coverage of non-interest-bearing deposit transaction accounts. In 2009, Ally Financial issued $7.4 billion in debt under this program with maturity dates in October and December 2012. Ally Financial repaid $2.9 billion on October 30, 2012, and the remaining $4.5 billion on December 19, 2012.

- Operating cash flow: From the first quarter of 2009 through the second quarter of 2013, Ally Financial generated positive cash flow from operating activities in all but 6 quarters (see fig. 5). However, as the figure shows, cash flows have also varied greatly over this period. In each of the last 3 years, the company repaid unsecured debt maturities averaging more than $10 billion, a move that could improve its cash flow by reducing the amount required to service its debt. Analysts expect Ally's annual unsecured maturities to be substantially lower going forward, and the company reported annual maturities of $5.6 billion or less for the years 2014 through 2018.

Figure 5: Ally Financial Operating Cash Flow, January 2009-June 2013



Source: SNL.

Ally Financial's improving financial condition is reflected in its credit rating. Ally's long-term credit rating with two of the three largest credit rating agencies has seen multiple upgrades since 2009. Currently, Ally's long-term ratings with Moody's, Standard and Poor's, and Fitch Ratings are B1, B+, and BB-, respectively. However, these ratings all remain below investment grade.

According to analysts with whom we spoke, Ally's mortgage unit, ResCap impacted the company's financial condition. Recent events are providing a clearer picture of Ally Financial's potential exposure to ResCap's obligations. ResCap filed for bankruptcy in May 2012.[38] In June 2013, a bankruptcy judge approved a settlement agreement that releases Ally Financial from any and all legal claims by ResCap and many of its creditors in exchange for $2.1 billion in cash from Ally Financial and its insurers.[39] In June 2013, the bankruptcy judge also granted ResCap permission to repay $1.1 billion in debt owed to Ally.[40] The agreement still must be incorporated into ResCap's formal plan for exiting bankruptcy and be approved by the bankruptcy court.[41] Hearings on this agreement and related motions are scheduled to take place later this year. According to analysts with whom we spoke, knowing the amount of Ally Financial's final potential exposure to ResCap and that Ally Financial will no longer support ResCap financially are positive developments for the company's future financial condition. Treasury officials told us that in their view, the recent ResCap settlement agreement between the ResCap creditors (other than the FDIC and the FHFA) and Ally Financial resolves the uncertainty of the ResCap bankruptcy and Ally Financial's potential financial liabilities related to ResCap.

[38]*See* Voluntary Petition, *In re* Residential Capital, LLC, No. 1:12-12020 (Bankr. S.D.N.Y. May 14, 2012).

[39]*See* Order Granting Debtors' Motion for an Order Under Bankruptcy Code Sections 105(A) and 363(B) Authorizing the Debtors to Enter Into a Plan Support Agreement with Ally Financial Inc., the Creditors' Committee, and Certain Consenting Claimants, *In re* Residential Capital, LLC, No. 1:12-12020 (Bankr. S.D.N.Y. June 26, 2013); Debtors' Motion for an Order Under Bankruptcy Code Sections 105(A) and 363(B) Authorizing the Debtors to Enter Into a Plan Support Agreement with Ally Financial Inc., the Creditors' Committee, and Certain Consenting Claimants at 7, *In re* Residential Capital, LLC, No. 1:12-12020 (Bankr. S.D.N.Y. May 23, 2013). The agreement does not include claims made by the Federal Housing Finance Agency and Federal Deposit Insurance Corporation.

[40]*See* Order Granting Debtors' Motion for Entry of an Order Under 11 U.S.C. §§ 105 and 363 Authorizing the Debtors To Satisfy Certain Secured Claims at 2, *In re* Residential Capital, LLC, No. 1:12-12020 (Bankr. S.D.N.Y. June 13, 2013).

[41]*See* Joint Chapter 11 Plan Proposed by Residential Capital, LLC, et al., and the Official Committee of Unsecured Creditors, *In re* Residential Capital, LLC, No. 1:12-12020 (Bankr. S.D.N.Y. July 3, 2013).

Treasury Is Working to Exit from Its Remaining Investments in GM and Ally Financial

Treasury Plans to Exit from GM by Early 2014 but Projects a Loss on its Investment

Treasury invested over $51 billion in GM through AIFP. In exchange for this assistance, Treasury received 60.8 percent of the common equity in GM, $2.1 billion in preferred stock, and $7.1 billion in notes from GM. Through September 18, 2013, Treasury had recovered about $35.21 billion of its investments in GM and reduced its ownership stake to 7.32 percent through three major actions.[42] As of September 18, 2013, Treasury has recouped $37.75 billion from its GM and Ally Financial investment.[43]

First, Treasury participated in GM's IPO in November 2010, selling about 412.3 million shares at an average price per share of approximately $32.75. This sale generated $13.5 billion for Treasury and reduced its ownership share to 32 percent. As we found in our 2011 report, by participating in GM's IPO, Treasury tried to fulfill two goals—to maximize taxpayers' return and to exit the company as soon as practicable.[44]

Second, GM and Treasury entered into an agreement that allowed GM to repurchase 200 million shares in December 2012. According to GM, as a general matter, GM was interested in reducing Treasury's interest in GM and facilitating Treasury's eventual complete exit from GM ownership. GM purchased the shares at $27.50 per share, about 7.8 percent over the market price of about $25.50. This generated about $5.5 billion in revenue for Treasury and further reduced its ownership interest to just over 22 percent. GM officials said that they determined the premium price based on an arms-length negotiation between GM and Treasury. According to GM officials, the decision to agree to a premium price

[42] In May 2010, GM repaid to Treasury the $6.7 billion TARP loan.

[43] The amount of recoupment does not include dividends, interest, and other income Treasury has realized on its investments.

[44] GAO-11-471.

reflected the benefits GM and other stakeholders received from the transaction, including increased knowledge as to when and how Treasury was going to exit its holdings thereby eliminating the perceived "overhang" on GM's common stock price; mitigation of the stigma associated with the "Government Motors" moniker that negatively impacted customer perceptions; and the fact that the transaction was accretive to earnings. Furthermore, as part of the transaction, Treasury agreed to remove certain governance and reporting requirements. Treasury announced in December 2012 that it planned to divest fully of its GM common equity stake within 12-15 months, subject to market conditions.

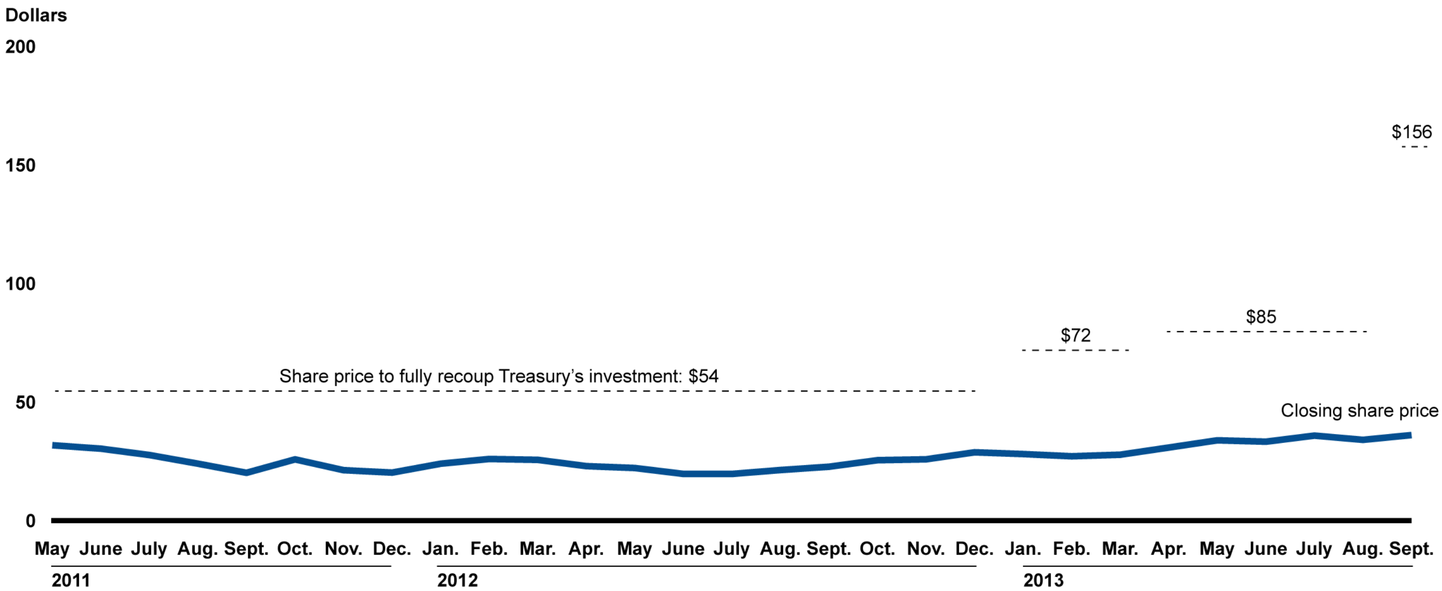
Third, to achieve its goal of fully divesting by 2014, Treasury has developed and is implementing an exit strategy to sell its shares in tranches. Similar to the process Treasury used to divest its ownership in Citigroup, Treasury began placing its GM shares on the market in tranches, or "dribbles," for a specific time period, beginning in January 2013.[45] Treasury reports these sales after the end of each period for selling a particular tranche. According to Treasury officials, in the case of GM, the dribble approach is a better divestment method than discrete large offerings given the remaining size of its equity holdings and time frame in which it is planning to exit. Furthermore, the dribble approach helps (1) secure the highest possible prevailing market price for taxpayers, (2) limit the impact of additional supply in the market, and (3) ensures that Treasury has flexibility to average the proceeds over time and make adjustments if necessary. As of September 2013, Treasury has sold over 811 million shares for more than $25 billion, leaving it with 101,336,666 shares which represent a 7.32 percent ownership stake in GM. On September 26, 2013, Treasury announced it was launching a third pre-defined written trading plan for its GM common stock.

Although Treasury has implemented a plan to divest itself of its ownership stake in GM, it does not anticipate fully recouping its investments. In September 2013, Treasury projected approximately at least a 19 percent loss on its GM investment. The extent of the loss, however, will depend on GM's stock price. As shown in figure 6, the price of GM's stock is not at the level needed for Treasury to fully recoup its investment.

[45]Treasury contracted with financial institutions to develop and implement the dribble approach for selling the GM shares.

Nevertheless, according to Treasury officials, Treasury has continued to sell its shares in line with its guiding principle of exiting its TARP investments as soon as practicable while maximizing return to taxpayers. Doing so, however, has increased the break-even price—that is, the price the stock must reach for Treasury to fully recoup its investment—for its remaining shares. Based on our analysis, we estimate that GM's stock price would have to reach $156 per share for Treasury to fully recoup its investment as of September 16, 2013. At the beginning of September 2013, GM's stock was trading at around $36 per share.

Figure 6: Breakeven Price for GM Shares Needed for Treasury to Fully Recoup Its Investment



Source: GAO analysis.

Treasury Is Working to Exit from Ally Financial and Faces Challenges Unwinding Its Investments

Although Treasury's ownership stake in Ally Financial has remained unchanged for the last 3 years at about 74 percent, the company has recently announced planned actions that will facilitate Treasury's exit, pending regulatory approval. As of September 2, 2013, Treasury has recovered about $2.5 billion of the $16.3 billion invested in Ally Financial from a sale of trust preferred shares.[46] Treasury's remaining investment in

[46]Treasury has also received about $3.4 billion in dividend payments from Ally Financial.

Ally Financial consists of common stock and $5.9 billion in mandatory convertible preferred shares. In August 2013, Ally Financial announced plans, discussed below, to repurchase the mandatory convertible preferred shares.

Treasury has stated that it would like to divest itself of its ownership stake in Ally Financial in a manner that balances the speed of recovery with maximizing returns for taxpayers. Furthermore, Treasury has stated that it will unwind its remaining common stock investment through a sale of stock (either public or private sale) or through future sales of assets. As of September 2013, Treasury has announced the plan for unwinding its preferred stock investments in Ally Financial, though not for its common stock investment. According to Treasury officials, Treasury will announce its precise plans for the common stock investment once it is ready to take action.

To accelerate repayment of Treasury's investment and strengthen its longer term financial profile, Ally Financial announced in May 2012 that it was undertaking two strategic initiatives. These initiatives were (1) the discontinuation of providing financial support to its subsidiary ResCap pursuant to the ResCap bankruptcy and (2) the sale of its international auto finance business. ResCap's mortgage business created significant uncertainty for Ally Financial and thus an impediment to Ally Financial's ability to repay Treasury's investment. Also, Ally Financial sought to sell its international operations as a means to accelerate repayment plans to Treasury. At the same time as Ally Financial's announcement last year, Treasury stated that the company's two strategic initiatives would put taxpayers in a stronger position to continue recovering their investment in Ally Financial. As previously noted, Ally Financial achieved a settlement agreement with the ResCap creditors, which was approved by the bankruptcy court in June 2013. In addition, during the second quarter of 2013, Ally Financial completed the sale of its international auto finance business in Europe and the majority of its finance operations in Latin America. Ally Financial plans to complete the sale of its remaining international assets—its operations in Brazil and its joint venture in China—in late 2013 and 2014, respectively.

However, in exiting its Ally Financial investment, Treasury faces challenges and considerations, including Ally Financial's failure to meet Federal Reserve capital requirements and competition from other institutions, which may ultimately affect the price of Ally Financial stock once the company is publicly traded.

Capital Requirements

In contrast to GM, Ally Financial is a regulated bank holding company that must receive the Federal Reserve's approval before it can repurchase its preferred shares from Treasury. However, Ally Financial's initial plan to repurchase the mandatory convertible preferred shares stalled after the Federal Reserve objected to its proposed capital plan in the spring 2013 Comprehensive Capital Analysis and Review (CCAR). The Dodd-Frank Wall Street Reform and Consumer Protection Act requires the Federal Reserve to conduct an annual supervisory stress test of bank holding companies with $50 billion or more in total consolidated assets to evaluate whether the companies have sufficient capital to absorb losses resulting from adverse economic conditions.[47] As part of the stress test for each company, the Federal Reserve projects revenue, expenses, losses, and resulting post-stress test capital levels, regulatory capital ratios, and the tier 1 common ratio under three scenarios (baseline, adverse, and severely adverse).[48] In March 2013, the Federal Reserve reported the results of its most recent supervisory stress test and of the CCAR exercise. The Federal Reserve found that Ally Financial's tier 1 common capital ratio fell below the required 5 percent under the severely adverse scenario. Ally Financial was the only one of the 18 bank holding companies tested that fell below this required level.[49]

Further, as previously indicated, the Federal Reserve objected to Ally Financial's capital plans during the 2013 CCAR.[50] CCAR is an annual exercise the Federal Reserve conducts to help ensure that financial institutions have robust, forward-looking capital planning processes that take into account their unique risks and sufficient capital to continue

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[47]Pub. L. No. 111-203, §165(i)(1)(A), 124 Stat. 1376, 1430 (2010) (codified at 12 U.S.C. § 5365(i)(1)(A)).

[48]12 C.F.R. § 252.134(a)(2).

[49]In 2013 18 bank holding companies were subject to the Dodd-Frank Act stress tests and CCAR. These were Ally Financial Inc., American Express Company, Bank of America Corporation, The Bank of New York Mellon Corporation, BB&T Corporation, Capital One Financial Corporation, Citigroup Inc., Fifth Third Bancorp, The Goldman Sachs Group, Inc., JPMorgan Chase and Co., KeyCorp, MorganStanley, The PNC Financial Services Group, Inc., Regions Financial Corporation, State Street Corporation, Sun Trust Banks, Inc., U.S. Bancorp, and Wells Fargo and Co.

[50]In November 2011, the Federal Reserve issued a new regulation requiring large bank holding companies to submit an annual capital plan. *Capital Plans*, 76 Fed. Reg. 74631 (Dec. 1, 2011) (codified at 12 C.F.R. § 225.8). The same 18 bank holding companies subject to the Dodd-Frank stress tests were subject to CCAR.

operating during periods of economic and financial stress.[51] As part of the CCAR process, the Federal Reserve evaluates institutions' capital adequacy; internal processes for assessing capital adequacy; plans to make capital distributions, such as dividend payments or stock repurchases; and other actions that affect capital.[52] The Federal Reserve may object to a capital plan because of significant deficiencies in the capital planning process or because one or more relevant capital ratios would fall below required levels under the assumption of stress and planned capital distributions.[53] If the Federal Reserve objects to the proposed capital plan, the bank holding company is only permitted to make capital distributions if the Federal Reserve indicates in writing that it does not object and must resubmit the capital plan to the Federal Reserve following remediation of these deficiencies.[54] Of the 18 bank holding companies reviewed in 2013, the Federal Reserve objected to Ally Financial's and one other company's capital plans.[55]

According to the Federal Reserve, Ally Financial's capital ratios did not meet the required minimums under the proposed capital plan. Specifically, the Federal Reserve reported that under stress conditions Ally Financial's plan resulted in a tier 1 ratio of common capital of 1.52 percent, which is below the required level of 5 percent under the capital plan rule. According to the Federal Reserve report, these results assumed that Ally Financial remained subject to contingent liabilities associated with ResCap. The Federal Reserve required Ally Financial to

[51] 12 C.F.R. § 225.8(d).

[52] 12 C.F.R. § 225.8(e).

[53] 12 C.F.R. § 225.8(e)(2)(ii). A capital distribution is defined as a redemption or repurchase of any debt or equity capital instrument, a payment of common or preferred stock dividends, a payment that may be temporarily or permanently suspended by the issuer on any instrument that is eligible for inclusion in the numerator of any minimum regulatory capital ratio, and any similar transaction that the Federal Reserve determines to be in substance a distribution of capital. 12 C.F.R. § 225.8(c)(2) .

[54] 12 C.F.R. § 225.8(d) (4), (e)(2)(iv).

[55] The other bank holding company resubmitted a new capital plan under the Federal Reserve's regulation. After reviewing the plan, the Federal Reserve decided not to object to the resubmitted capital plan.

resubmit a capital plan.[56] Ally Financial resubmitted its new capital plan to the Federal Reserve in September 2013, and in accordance with federal regulation, the Federal Reserve will have 75 days to review the plan.[57]

On August 19, 2013, Ally Financial announced that it had entered into agreements with certain accredited investors to issue and to sell to them an aggregate of 166,667 shares of its common stock (private placement securities) for an aggregate purchase price of $1 billion. Ally Financial did not identify the investors. According to Ally Financial, the agreement would strengthen the company's common equity base and support its capital plan resubmission to the Federal Reserve. The agreement requires that the private placement close no later than November 30, 2013. Also on August 19, Ally Financial and Treasury entered into an agreement under which Ally Financial is to repurchase all of the mandatory convertible preferred shares. The agreement is conditioned on Ally Financial receiving a non-objection by the Federal Reserve on its resubmitted CCAR capital plan and the closing of the private placement securities transaction.

Competition from Other Lenders

Ally Financial faces growing competition in both consumer lending and dealer financing from Chrysler Capital, GM Financial, and other large bank holding companies. This competition may affect the future profitability of Ally Financial, which could influence the share price of Ally Financial once the company becomes publicly traded and thus the timing of Treasury's exit. Similar to its GM investment, the eventual amount of Treasury's recoupment on its Ally Financial investment will be determined by the share price of Ally Financial stock.

- Chrysler Capital: In February 2013, Chrysler announced that it had entered into an agreement with Santander Consumer USA Inc., a

[56] In its quantitative assessment, the Federal Reserve evaluated each bank holding company's ability to make all planned capital actions in its CCAR capital plan and maintain poststress capital ratios of greater than 5 percent of tier 1 common capital and all required regulatory minimum levels. The evaluations are based on the results of stress tests run by the bank holding companies and poststress capital ratios estimated by the Federal Reserve's CCAR. In the qualitative assessment, the Federal Reserve evaluates the analysis underlying the capital plan to determine whether it appropriately addresses potential risks based on the reasonableness of the assumptions and analysis underlying the capital plan, the robustness of the bank holding company's capital adequacy process, and corporate governance and controls in the capital planning process. 12 C.F.R. § 225.8.

[57] 12 C.F.R. § 225.8(e)(2)(i)(B).

subsidiary of Banco Santander, S.A., that specializes in subprime auto lending, to provide a full spectrum of auto financing services to Chrysler Group customers and dealers under the name of Chrysler Capital. Under the 10-year, private-label agreement, Santander Consumer USA was to establish a separate lending operation dedicated to providing financial services under the Chrysler Capital name, including financing for retail loans and leases, new and used vehicle inventory, dealership construction, real estate, working capital, and revolving lines of credit. The agreement grants Santander Consumer USA the right to a minimum percentage of Chrysler's subvention volume and the right to use the Chrysler Capital name for its auto loan and lease offerings.[58] Santander Consumer USA will also provide loans to Chrysler dealers to finance inventory, working capital, and capital improvements. On May 1, 2013, Chrysler Capital started its lending operations.

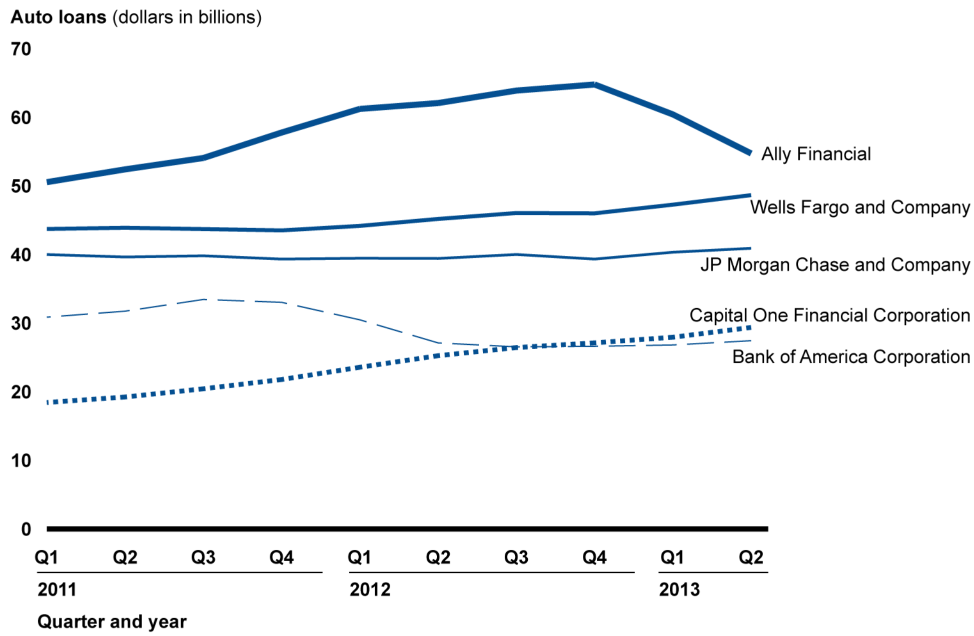
- GM Financial: In 2009, GM acquired AmeriCredit Corporation (AmeriCredit), a subprime automobile finance company, to serve its subprime customers. AmeriCredit was renamed GM Financial and made a wholly owned subsidiary of GM. Its target lending market is lending to consumers who have difficulty securing auto financing from banks and credit unions. According to GM officials, the purpose of GM Financial is to drive incremental GM automobile sales by providing solid and stable funding for GM dealers and consumers. GM Financial would serve as a captive lender for GM, much as GMAC did. This year, GM Financial increased its overall assets by purchasing Ally Financial's international assets in Europe and Latin America, including the dealer financing arrangements in these countries.

- Other bank holding companies: We compared the amount of Ally Financial consumer auto lending with four large bank holding companies (Bank of America Corporation, Capital One Financial Corporation, JPMorgan Chase & Company, and Wells Fargo & Company) that reported consumer automobile loans. These data do not include all types of automobile financing, such as automobile leasing and dealer financing, only retail consumer automobile loans

[58]Subvention occurs when a manufacturer offers financial incentives through a finance company conditioned upon the consumer financing the purchase of a vehicle or leasing a car through a finance company.

for the time period.[59] As shown in figure 7, the dollar amount of consumer auto loans Wells Fargo & Company and Capital One Financial Corporation made increased from March 2011 through June 2013. However, Ally Financial remained the leader among the four institutions for the same time period.

Figure 7: Dollar Amount of Consumer Auto Loans for Five Large Bank Holding Companies, 2011-2013



Source: GAO Analysis of Consolidated Financial Statements for Holding Companies, Federal Reserve Board.

Treasury officials noted that such competition could also be a benefit because Ally Financial's assets could be viewed as valuable to the other

[59]Consumer automobile loans are defined as the Federal Reserve defines them for bank holding company reporting purposes. *See Instructions for Preparation of Consolidated Financial Statements for Bank Holding Companies*, Reporting Form FR Y-9C, Schedule HC—Consolidated Balance Sheet. Automobile loans are all consumer loans extended for the purpose of purchasing new and used passenger cars and other vehicles such as minivans, vans, sport-utility vehicles, pickup trucks, and similar light trucks for personal use. *Id.* at HC-C-13. These loans include both direct and indirect consumer automobile loans as well as retail installment sales papers purchased by the bank from automobile dealers. *Id.*

competitors. Treasury officials noted that the value of Ally Financial can be demonstrated by the recent private placement agreement. Specifically, if Treasury sells its Ally Financial common stock at the share price agreed to in the private placement agreement—$6,000 per share—Treasury would receive a significant profit on its Ally Financial investment.

Agency and Third Party Comments

We provided a draft of this report to FDIC, the Federal Reserve and Treasury for their review and comment. In addition, we provided excerpts of the draft report to Ally Financial, GM, and Chrysler Capital to help ensure the accuracy of our report.

Treasury provided written comments which are reprinted in appendix II. Treasury agreed with the report's overall findings. In its written comments, Treasury describes the auto industry's recovery and the progress Treasury has made in unwinding its investments in Ally Financial and GM. Treasury also noted that it expects to complete the exit from GM by the first quarter of 2014 and wind down the remaining Ally Financial investment either by selling stock in a public or private offering, or through future asset sales.

The Federal Reserve, Treasury, Ally Financial, GM, and Chrysler Capital provided technical comments that we incorporated as appropriate. In its technical comments, GM highlighted what third parties have suggested could have happened had Treasury not provided assistance to the auto industry, including the potential adverse effects on unemployment levels and tax receipts of all levels of government. FDIC did not provide any comments.

We are sending copies of this report to the appropriate congressional committees. This report will also be available at no charge on our website at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or clowersa@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

A. Nicole Clowers
Director
Financial Markets
and Community Investment

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United States Senate

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The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report is based on our continuing analysis and monitoring of the U.S. Department of the Treasury's (Treasury) activities in implementing the Emergency Economic Stabilization Act of 2008 (EESA), which provided GAO with broad oversight authorities for actions taken under the Troubled Asset Relief Program (TARP).[1] Under TARP, Treasury established the Automotive Industry Financing Program, through which Treasury committed $51 billion to help General Motors Company (GM) and $16.3 billion to GMAC LLC, a financial services company that provides automotive financing and that later became Ally Financial, Inc. (Ally Financial).

This report examines (1) the financial condition of GM and Ally Financial and (2) the status of Treasury's investments in the companies as well as its plans to wind down those investments.

To assess the financial conditions of GM, we analyzed net income, operating income, operating cash flow, operating income, sales of automobiles, GM's share of the North American market, credit ratings, and pension obligations and pension plan funding for GM's U.S. employees from 2008 through the second quarter (June 30) of 2013. For Ally Financial, we reviewed the institution's capital ratios, net income, operating income, net interest spread, return on assets, nonperforming assets ratio, liquidity ratio, bank deposits, operating cash flow, and credit ratings, generally from 2008 through the second quarter (June 30) of 2013. To obtain information on the financial ratios and indicators used in their analyses of GM's or Ally Financial's financial condition, we interviewed staff from Treasury, the Board of Governors of the Federal Reserve System (Federal Reserve), Federal Deposit Insurance Corporation (FDIC), GM, Ally Financial, and analysts from the three largest credit rating agencies as well as investment firms. To select analysts from investment firms to interview, we identified analysts who covered GM. We identified them using GM's investor relations webpage (http://www.gm.com/company/investors/analyst-coverage.html) and selected four to contact based on an electronic search for automotive equity analysts cited in reputable trade and business publications. We reached out to four analysts and interviewed two. We also interviewed analysts responsible for covering GM from one of the credit rating agencies and analysts responsible for covering Ally from all three of the

[1]Pub. L. No. 110-343, § 116, 122 Stat. 3765, 3783 (codified at 12 U.S.C. § 5226).

credit rating agencies. The views of these analysts cannot be generalized to all analysts from investment firms and credit rating agencies.

We reviewed past GAO reports, information from GM's and Ally Financial's annual 10-K filings with the Securities and Exchange Commission, reports and documentation from Treasury and the companies, and data from SNL Financial from 2008 through the second quarter (June 30) of 2013. For both GM and Ally Financial, we collected information, generally from 2008 through the second quarter (June 30) of 2013, the most recent information that was publicly available. We have relied on SNL Financial data for past reports, and we reviewed past GAO data reliability assessments to ensure that we, in all material respects, used the data in a similar manner and for similar purposes. For each data source we reviewed the data for completeness and obvious errors, such as outliers, and determined that these data were sufficiently reliable for our purposes. We also reviewed the credit ratings from three rating agencies for each of these companies. Although we have reported on actions needed to improve the oversight of rating agencies, we included these ratings because they are widely used by GM, Ally Financial, Treasury, and market participants.

To examine the status of Treasury's investments and its plans to wind down those investments, we reviewed Treasury's TARP reports, which included monthly 105(a) and daily TARP updates on AIFP program data for the time period from 2008 through September 2013.[2] We have used Treasury's data on AIFP in previous GAO reports. We determined that the AIFP program data from Treasury were sufficiently reliable to assess the status of the program. For example, we tested the Office of Financial Stability's internal controls over financial reporting as they related to our annual audit of the office's financial statements and found the information to be sufficiently reliable based on the results of our audit of the TARP

[2]Under EESA, every 30 days, Treasury must submit to Congress reports on actions taken and funds obligated and spent during the reporting period as well as detailed financial statements covering, among other items, agreements made, assets purchased, transactions that occurred, and the valuation or pricing method used for each transaction. §105(a), 122 Stat. at 3771-72.

financial statements for fiscal years 2009, 2010, 2011, and 2012.[3] AIFP was included in these financial audits. Using the AIFP program data, we analyzed Treasury's equity ownership and recovery of funds in GM and Ally Financial for the time period from January 2009 to September 2013. We reviewed the data for completeness and obvious errors, such as outliers, and determined that these data were sufficiently reliable for our purposes. For the divestment of GM equity, we interviewed Treasury and GM officials on the December 2012 repurchase of GM shares and the "dribble" strategy developed by Treasury. For analyzing Treasury's exit from Ally Financial, we reviewed Treasury and Federal Reserve documentation, such as Treasury's monthly reports to Congress, Treasury's contractual agreements for the mandatory convertible preferred shares, and the proposed capital plan that Ally submitted to the Federal Reserve. We also reviewed two publicly available reports from the Federal Reserve on the Dodd-Frank Wall Street Reform and Consumer Protection Act and capital plan analysis, Dodd-Frank Act Stress Test 2013: Supervisory Stress Test Methodology and Results and Comprehensive Capital Analysis and Review 2013: Assessment Framework and Results.[4] In addition, we interviewed officials from Treasury's Office of Financial Stability, Federal Reserve, Federal Reserve Bank of Chicago, FDIC, GM, and Ally Financial.

We conducted this performance audit from March 2013 to October 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings based on our audit objectives.

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[3]See GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2012 and 2011 Financial Statements*, GAO-13-126R (Washington, D.C.: Nov. 9. 2012); *Financial Audit: Office of Financial (Troubled Asset Relief Program) Fiscal Years 2011 and 2010 Financial Statements*, GAO-12-169 (Washington, D.C.: Nov. 10, 2011); *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Years 2010 and 2009 Financial Statements*, GAO-11-174 (Washington, D.C.: Nov. 15, 2010); and *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) Fiscal Year 2009 Financial Statements*, GAO-10-301 (Washington, D.C.: Dec. 9, 2009).

[4]Board of Governors of the Federal Reserve System, *Dodd-Frank Act Stress Test 2013: Supervisory Stress Test Methodology and Results*, March 2013, and Board of Governors of the Federal Reserve System, *Comprehensive Capital Analysis and Review 2013: Assessment Framework and* Results, March 2013.

Appendix II: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

October 2, 2013

A. Nicole Clowers
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Re: Response to GAO's Draft Report: "Auto Industry Financing Program: Status of Treasury's Investments in General Motors and Ally Financial"

Dear Ms. Clowers:

Thank you for the opportunity to review the Government Accountability Office's (GAO) draft report of September 17, 2013 titled "Auto Industry Financing Program: Status of Treasury's Investments in General Motors and Ally Financial." This letter provides Treasury's official response to the report.

Treasury appreciates GAO's analysis of the American auto industry's improvement since the financial crisis, when it was on the brink of collapse. Indeed, the actions taken by the Obama Administration to protect the broader economy by stabilizing the auto industry gave the industry a new lease on life – both General Motors (GM) and Chrysler are now profitable and creating jobs at the fastest pace in 15 years. Moreover, at least 340,000 jobs have been created since June 2009 when GM and Chrysler emerged from bankruptcy.

We also welcome GAO's acknowledgment that Treasury has made significant progress in unwinding its investments in GM and Ally Financial (Ally), formerly known as GMAC. In fact, Treasury announced last week that it has recouped more than 70 percent of the initial investment in GM and reduced the taxpayer's stake of GM stock from over 60 percent at the peak to approximately 7 percent today. Also last week, Treasury announced that it will continue its sales of GM common stock by launching a third pre-defined written trading plan. We still expect to complete the exit from GM by the first quarter of 2014.

Ally has succeeded in implementing the strategy we announced in May 2012 to sell its international auto finance business and resolve the legacy mortgage liabilities related to its subsidiary, Residential Capital, LLC. In addition, Treasury recently announced that Ally will repay taxpayers an additional $6 billion, subject to Federal Reserve approval of a transaction announced in August. After that transaction closes, Treasury will have recovered more than two-thirds of the taxpayer's investment in Ally. We expect to wind down the remaining Ally investment either by selling stock in a public or private offering, or through future asset sales, balancing the speed of our exit with maximizing the return for taxpayers.

While there is still more to work to be done, the decision to rescue the American auto industry helped the economy recover from the financial crisis and enabled the auto industry to come roaring back.

Thank you once again for the opportunity to review and comment on the report. We look forward to continue working with you in the future.

Sincerely,

Timothy G. Massad
Assistant Secretary for Financial Stability

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Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

A. Nicole Clowers, (202) 512-8678, clowersa@gao.gov

Staff Acknowledgments

In addition to the individual named above, Raymond Sendejas (Assistant Director), Bethany Benitez, Emily Chalmers, Nancy Eibeck, Matthew Keeler, Risto Laboski, Sara Ann Moessbauer, Marc Molino, and Roberto Pinero made key contributions to this report.

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