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THE STATE OF THE DOMESTIC AUTOMOBILE INDUSTRY: IMPACT OF FEDERAL ASSISTANCE

HEARING

BEFORE THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

ON

EXAMINING THE ROLE OF THE FEDERAL GOVERNMENT'S AUTO TASK FORCE IN THE RESTRUCTURING OF AMERICA'S AUTOMOBILE INDUSTRY

JUNE 10, 2009

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THE STATE OF THE DOMESTIC AUTOMOBILE INDUSTRY: IMPACT OF FEDERAL ASSISTANCE

WEDNESDAY, JUNE 10, 2009

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee convened at 2:36 p.m., in room SD–538, Dirksen Senate Office Building, Senator Christopher J. Dodd, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. We are here this afternoon for two purposes, the first of which I don't think we are going to get to because I don't see 12 of us here yet and I don't want to delay the hearing. What I would like to recommend, and I have already chatted briefly with Senator Shelby about this, is on the Executive Session nominees that there is going to be a vote sometime, I think tomorrow morning, on the tobacco bill and my recommendation would be during that vote or right after that vote we meet to consider these Executive Session nominations. I think based on conversations, they should be relatively noncontroversial. I would invite my colleagues to take a look at them, let me know if there is some problem that would require some further discussion and we will save it for another moment. But if we could do it tomorrow, then it will save us waiting around today.

Yes, Bob?

Senator CORKER. I wonder, the FHA nominee, I am just curious about the status. I know that obviously it is a——

Chairman DODD. Which one is this?

Senator CORKER. The FHA nominee that is not on here. I am just curious about where we are there because I know it is a very important position and very important time.

Chairman DODD. Well, let me turn to Senator Shelby for any comments.

Senator SHELBY. If I could answer that, there is a HUD investigation going on, as I understand it from staff, dealing with the RESPA and some of the companies. We don't know if he is involved or not, but we are waiting to see what comes out of the investigation. So that is my interest, is making sure that all nominees are—and I feel like he will probably be OK, but we want to make sure. So I am waiting for a little more information before I agree to move him forward.

Chairman DODD. Let me just say to my colleague, I don't know Mr. Stevens personally. I have never met the man. But he comes highly recommended, I must say, by people who are knowledgeable. In fact, Senator Martinez and I have talked about him. I think, Bob, you and I have talked about him. I have constituents in my State that are very knowledgeable about FHA work and know Mr. Stevens well and have recommended him highly.

Senator Shelby points out some issues that, candidly, the Committee cannot ignore in the midst of all of this. I have talked to the Secretary of HUD about the nominee and what steps they might be willing to take to provide some assurances to the Committee dealing with RESPA and other matters. I just don't believe in necessarily forcing this on the Committee. I would like the consultation and advice of my colleagues, as well, on a matter like this rather than just kind of bringing up the matter without any—I always like on these matters, where we can, to have bipartisan support for a nominee rather than getting into an acrimonious battle, and particularly if there is an outstanding issue, we are all aware of what can happen.

It sounds fine in this letter, but 6 months from now or a year from now, something pops up, then obvious questions are to us, well, you had some idea this might happen. Why did you go forward? I am not sure that always ought to be the standard if there is anything out there, but nonetheless, that is sort of where we are, Bob, on this one.

Do you have any comments you want to make? Mel?

Senator CORKER. I would just say that I have talked to the HUD Secretary and I think he has gone out of his way to try to alleviate those. I will say that, based on what I know about the case, and I know we are going to do some more due diligence, apparently, but we wouldn't have anybody serving in the administration, I think, or maybe in any other body. I mean, these are not to him personally, to my knowledge. But in any event, I appreciate that. I know he does come highly recommended, but there may be some issues and I certainly will defer to the Chair and Ranking Member to ensure that there is no problem. But it is a pretty important position that is not in place and he does come very, very highly recommended, so——

Chairman DODD. Senator Shelby?

Senator SHELBY. I would just like to say again that this gentleman might be very well qualified. He might be pristine clean. I hope he is. I have heard good things about him. But I think that we ought to, where there is a HUD investigation involved involving one of these companies that he was involved with, we ought to have a clean bill of health from the man before I vote on him. I don't know. You vote at your peril up here, but I have been here a few years.

Senator CORKER. Thank you.

Chairman DODD. OK. Well, let me also—I just want to make a couple of observations about the hearing today. Because of the rulings on the Chrysler bankruptcy at the Supreme Court last evening, Mr. Bloom, one of our witnesses here, was unable to have his full testimony ready for us on time yesterday. We will give you a waiver on that, knowing how busy you were. Normally, we like to get this testimony, but understanding the circumstances. However, members are rightly concerned that testimony was not delivered here until 11:30 today and our Committee has strict rules on this. I know that you are aware of that, but I do understand the problems of last evening.

As members of the Committee understand, General Motors Corporation filed for protection under Chapter 11 of the Bankruptcy Code on June 1. I have therefore been informed that Mr. Bloom may not be able to answer questions that bear on specific matters that are the subject of that ongoing litigation, and so if that is the case, a question may be asked and you will have to respond accordingly, Mr. Bloom.

But I raise those two issues that have been brought to my attention and I want to welcome our two witnesses as part of the table.

I am going to take a couple of minutes here on an opening statement, turn to Senator Shelby, and then we will get to the hearing.

Let me just say at the outset what the bottom line for me is, and every member here will have a different point of view. Getting out of the automobile industry by the U.S. Government yesterday would not be soon enough for me. My hope is that whatever else, whatever we like or dislike about the present configuration, that I want to see us get out of this business as quickly as we can. That is my interest. Obviously, there are matters to discuss on how this is all working, but I start any discussion and debate from that point of view. And again, my colleagues will express their own views on the matter, but from my standpoint here, it can't be soon enough on that matter.

So I want to welcome our witnesses, both Mr. Bloom and Dr. Montgomery, to the third in this Committee's series of hearings on the state of the American automobile industry. Today's hearing is unique because for the first time we will be hearing directly from the administration officials overseeing Federal assistance to America's domestic auto industry.

Failure of any one of Detroit's Big Three poses obviously, I believe, a grave systemic risk to the economy, threatening hundreds of thousands of jobs directly provided by these companies and imperiling over a million more jobs in related industries, from suppliers to car dealers to some 20,000 people in my home State of Connecticut alone that are directly employed or indirectly by the automobile industry.

It is for these reasons that President Bush and later President Obama marshaled the resources of our government, not only to preserve countless American jobs, but to help reestablish a foundation for a viable and competitive domestic auto industry.

With General Motors and Chrysler buckling under colossal liabilities racked up after years of incompetent management, over $170 billion in debt for General Motors and $55 billion in debt for Chrysler, the Obama administration's Auto Task Force helped develop a plan to recapitalize and overhaul the industry's strategic, financial, and organizational structure. The plan has largely been adopted as part of the prepackaged GM and Chrysler bankruptcy proposals. I believe that once finalized, they will result in the savings of thousands of American jobs—certainly that is my hope—and potentially the preservation of a very critical manufacturing sector.

Nonetheless, communities all across the Nation are not going to be spared plant shut-downs, dealer closings, mass layoffs. More-over, if approved, the deals that we know about will continue to raise important questions over unprecedented government involvement in private industry's restructuring. To me, these questions can be summed up as follows: How exactly are taxpayer dollars being used to restructure the auto industry? Why is the government taking such large ownership stakes in these companies? Is the government doing everything it can to protect American jobs? What assistance is being provided to communities devastated by auto plant and dealer closings? And when can we expect the American taxpayer to receive a return on the investments that we have made?

Before turning to my colleague from Alabama, I would like to address what I regard to be a false debate percolating over the treatment of key stakeholders. Some critics have decried the restructuring plan as a windfall to auto workers. They point to an arrangement in which creditors are being asked to forgive debt for a smaller stake in the company than being offered to the Employee Health Care Trust known as VEBA.

In the case of the GM proposal, for example, bond holders will be asked to forgive $27 billion in debt in exchange for equity in the company. They are being offered 10 percent equity plus the option to acquire an additional 15 percent later on. The VEBA, on the other hand, will forgive half of its remaining $20 billion in debt in exchange for acquiring 17.5 percent of GM's common stock, $6.5 billion of preferred shares and $2.5 billion in a $2.5 billion note.

But as I am sure our witnesses can explain, VEBA's debt forgiveness and equity stakes do not reflect the extent of the auto workers' concessions. Indeed, the companies have announced tens of thousands of layoffs as a result of the restructuring. Retirees are being told they will lose 30 percent of their health benefits as well as pension benefits. In GM's case alone, 21,000 additional people are likely to lose their jobs as a result of the bankruptcy and many UAW wages will be slashed below foreign transplant wages.

The courts have been reviewing these restructuring proposals to ensure an equitable outcome for auto workers as well as other stakeholders. Hundreds of thousands of Americans and countless businesses will be affected by the courts' decisions. It is for this reason that the President was right, in my view, to task his administration not only with assisting GM and Chrysler, but with addressing the effects of the auto industry's years of downturn on various communities.

But the President's plans are not without controversy. One aspect of the government's proposal is unprecedented. That is the government is taking a huge equity stake, 8 percent in Chrysler and a whopping 60 percent in General Motors. Understandably, the administration believes that this structure avoids the imposition of further debt on these companies, but it also begs the question, how will the government extricate itself from such a commitment in the future?

As Mr. Posner recently wrote in an essay in the Atlantic Monthly, and I quote him, "We should be concerned lest GM become a kind of economic Vietnam, where the Federal Government throws good money after bad year after year in a vain quest for victory."

I know that our witnesses today stand fast against such a notion. They worked tirelessly, I want to say, to establish the domestic auto industry's viability. But they also have toiled to rekindle our competitive edge in a truly iconic sector of the United States economy. Let us remember, not too long ago, it seems that an American could not walk a city block without sensing the strength of an American automaker's brand. Their labels adorned buses, rail cars, aircraft. They dominated the U.S. automobile market, in fact, the global market in many ways, and owning a Buick was the stuff of American dreams.

Today, those images have faded. For the first time, the domestic market share of Ford, Chrysler, and GM has slipped below 50 percent, going from 66 percent in 2001 to just 40 percent today—47 percent in today's market. The U.S. industry has long abandoned a diversified product mix and instead has had to play catch-up with foreign transplants. Only now have they recognized that they must shift their focus from SUVs and pick-ups to marketing more fuel-efficient automobiles.

Fortunately, one thing has remained constant, the skill, determination, and ingenuity of the American worker. Even in tough times, Americans are resilient, and they are certainly proving it these days. Given the proper tools, our domestic auto industry, I think, will keep fighting until we are back on top once again, and I believe that can happen.

So I look forward to the hearing today on how you, Mr. Bloom and Dr. Montgomery, are helping set the stage for such a comeback in our country. Indeed, Mr. Bloom has been intimately involved, I would point out, in negotiations with various stakeholders as well as the decisions on how best to invest taxpayer dollars in GM, GMAC, and Chrysler. I look forward to exploring the rationale behind these decisions and the administration's plans for the future.

Dr. Montgomery is tasked with a far different and a far more difficult responsibility, and that is to steer Federal assistance to communities devastated by auto-related job losses, plant closings, and dealer consolidations. So I look forward to hearing about your travels around our nation and learning of the resources you believe are required to coordinate these recovery efforts.

With that, let me turn to my colleague from Alabama for any opening comments, and then we will hear from our witnesses. Senator Shelby?

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman.

When the Detroit Three came before this Committee to ask U.S. taxpayers for bailout money, they cited the financial crisis as the reason for their troubles. The financial crisis was certainly a reason, but it was by no means the only reason these companies were failing. Although structural and managerial problems in these companies were decades in the making, they managed to convince Congress in the last administration that bankruptcy, the normal course of companies in their condition, at that time was not an option, even if it came with government financing. This was a few months ago. Instead, they said they just needed some cash to make it through until the economy returned to normal and consumers started buying cars again. Combined, the two firms received then $24 billion.

These initial billions, however, were not enough to prevent the inevitable from happening. Both Chrysler and GM have now entered the Chapter 11 bankruptcy process and each company once again needs additional taxpayer support. The Obama administration has set forth a plan for the two companies post-bankruptcy. Choosing to bypass the normal bankruptcy process, the administration presided over the restructuring through an alternative, ad hoc process.

Today's hearing, I hope, will give us the opportunity to understand how the administration came to the conclusion that this support was warranted and expectations about how the new taxpayer investments will be managed and ultimately unwound.

I look forward today to understand what considerations drove the outcomes of both the GM and the Chrysler negotiations. Why didn't the administration address the significant excess capacity in the U.S., possibly by merging Chrysler and GM? Why did the administration instead favor a merger between Chrysler and the Italian car maker Fiat? And on what did the administration base its conclusion that the new Chrysler will be viable in the long run? Did the administration take into consideration the effects that the aid to GM and Chrysler would have on other auto manufacturers in the U.S.? What underlies the determination that the U.S. Treasury should hold approximately 10 percent of the new Chrysler and 60 percent of the new GM?

By taking such significant equity stakes in the two companies, the administration has embarked on a disturbing, and I believe a difficult, road. We have been assured that the administration will stay out of day-to-day management and that it will not allow politics to influence the decisionmaking process within the companies. On the one hand, that is very reassuring. On the other, it illustrates the inherent difficulty posed by large government interventions in private markets.

If the government intends to be a silent partner of sorts, how do they intend to protect the interest of the American taxpayer as a shareholder? I am not sure you can have it both ways. Restraint may be difficult when jobs are at stake. Plants need to be closed and environmentally friendly vehicles prove not to be commercially viable. Given the government's bigger investment in GM than in Chrysler, will it make decisions that favor the former at the expense of the latter? Will the administration be tempted to use political means to boost annual car sales in an effort to shore up the perceived viability of the two companies?

The most difficult question, of course, is how Treasury intends to get out of this. Are assurances that the government's involvement in the auto industry will be temporarily realistic? Did the administration, as any private investor would, work through possible exit strategies before making its investment?

Another question: Does the administration anticipate that the taxpayer will make money on his investment, and if so, how? And do the write-offs that it has already taken in connection with its investment in these companies foreshadow more losses to come?

Does the administration here envision a long-term government participation in the auto financing business?

Of course, government action is not the only factor at play in determining the ultimate outcome for GM, Chrysler, and the taxpayer. Private sector responses are critical. Will the private sector lend to or do business with these companies? Will there ever be private sector interest in owning these companies, particularly if the government retains an ownership interest?

I look forward to hearing the administration's thoughts on these and other issues this afternoon and I commend you, Mr. Chairman, for calling this hearing.

Chairman DODD. Thank you very much.

We now have a quorum and I am going to move into executive session, if we quickly can, and deal with these two nominees.

[Recess.]

Chairman DODD. With that, we will turn to our two witnesses. Ron Bloom is a very experienced individual, advising labor and business leaders. That qualifies him, I think, to assist the Secretary and members of the Auto Task Force. He previously served for 13 years as the Special Assistant to the President of the United Steelworkers. He is a founding partner of the investment firm, banking firm of Keilin and Bloom, has an MBA from Harvard, and is a graduate of Wesleyan University in Connecticut. We have Wesleyan connections at this dais, as well, I would point out.

Ed Montgomery, Dr. Montgomery joins us as President Obama's Director of Recovery for Auto Communities and Workers. He formerly left his post as Dean of the College of Behavioral and Social Sciences at the University of Maryland. He attended Penn State University and earned a Ph.D. in economics from Harvard.

We are delighted to have both of you with us and we will begin in the order I have introduced you, so Mr. Bloom, you are up first. Try and keep your remarks relatively brief. Let me just say to all of my colleagues, testimony, evidence, supporting documents will all be included as part of the record.

STATEMENT OF RON BLOOM, SENIOR ADVISOR ON THE AUTO INDUSTRY, DEPARTMENT OF THE TREASURY

Mr. BLOOM. Thank you. Good afternoon, Chairman Dodd, Ranking Member Shelby, members of the Senate Banking Committee. Thank you for the opportunity to testify before you today.

First, let me apologize for the snafu with getting the material to you late and appreciate your indulgence on it and to commit to you that it will not happen again.

Over the past several months, the Obama administration has been working to manage an historic crisis in the American auto industry. President Obama inherited an auto industry that had lost 50 percent of its sales volume and over 400,000 jobs in the year before he took office. Two companies, General Motors and Chrysler, had received substantial loans from the prior administration and were requesting substantial additional assistance that only a government could provide. Without this assistance, both of these companies faced uncontrolled bankruptcies and a most certain liquidation, which would have caused significant job loss with a ripple effect throughout our entire economy.

Even so, President Obama was unwilling to put additional taxpayer dollars on the line unless these companies and their stakeholders were willing to fundamentally restructure, address prior bad business decisions, and chart a path toward long-term financial viability without ongoing government assistance. Therefore, the President decided to give both GM and Chrysler a chance to work with their stakeholders and secure the sacrifices necessary to make them stronger, leaner, and more competitive in a way that would justify an investment of additional taxpayer dollars.

In only a few months, GM and Chrysler, working with their stakeholders and the President's Auto Task Force, have achieved a level of restructuring that many thought impossible, positioning both companies for future viability. As a result, the President has decided to stand behind these restructurings with additional financial assistance. Consistent with prior administration's actions, this assistance is being provided from the U.S. Treasury out of the TARP program.

After proceeding through a fair and open bankruptcy process, the new Chrysler-Fiat alliance closed its sale agreement earlier today and has now emerged from bankruptcy. Its future is in the hands of its executives, managers, and workers, as it would be for any private company.

While General Motors is likely to take somewhat longer to move through the bankruptcy process, we are confident that it, too, will emerge quickly as a stronger, more viable global company. Because GM needed substantial capital that only a government could provide, and because we were committed to not piling on irresponsible amounts of new debt on top of the new GM, the U.S. Government will become a reluctant shareholder in General Motors.

The administration did not seek this outcome, but arrived at the conclusion that it represents the most responsible way to protect taxpayers while giving GM an opportunity to succeed. As the President made clear, we will manage this investment commercially and exit our position as quickly as is practicable.

Both the GM and Chrysler restructurings have required deep and painful sacrifices from all stakeholders, including workers, retirees, suppliers, dealers, creditors, and the countless communities that rely on a vibrant American auto industry. But the steps that the President has taken have not only helped to stabilize the auto industry and saved hundreds of thousands of jobs, but for the first time in decades, they have also given GM and Chrysler a chance to become viable, competitive American businesses with bright futures.

Before taking your questions, I want to give a brief overview of the process the administration has taken in addressing these issues. On February 15 of this year, the President appointed an Auto Task Force to oversee his administration's effort to help support and restructure the industry. The Task Force is co-chaired by Treasury Secretary Timothy Geithner and National Economic Council Director Lawrence Summers and includes representatives from a broad range of agencies and offices throughout the executive branch. The Task Force is staffed by a joint Treasury-NEC team, of which I am a senior member. This team reports to the Task Force and its co-chairs, who report up to the President.

From the beginning of this process, the President gave the Auto Task Force two clear directions. The first was to refrain from intervening in the day-to-day management of these companies. Our role has been to act as a potential investor of taxpayers' resources, and as such we have not become involved in specific business decisions like where to open a new plant or which dealers to close. This is the job of management, and while we have been engaged in dialog and discussion about their approach, we have not substituted our judgment about specific decisions for theirs.

Second, the President was clear that he wanted us to behave in a commercial manner. That is to be sure that all stakeholders are treated fairly and receive neither more nor less than they would have simply because the government was involved. Because the investments made by both the prior and current administrations to support the auto companies have come from the TARP, the Task Force and its staff activities have been subject to the full range of disclosure and reporting requirements under the EESA statute. This includes oversight by the GAO, EESA's Financial Stability Oversight Board, the Special Inspector General for TARP, or SIGTARP, and the Congressional Oversight Panel established under EESA, as well as required reporting to multiple House and Senate committees.

In a better world, the choice to intervene in these companies would not have had to have been made. But amidst the worst economic crisis in three-quarters of a century, the administration's decisions avoided a potentially devastating liquidation and put a stop to the long practice in the auto industry of kicking hard problems down the road. While difficult for all stakeholders involved, these restructurings provide GM and Chrysler with a new lease on life and a chance to fundamentally restructure and succeed. Thank you.

Chairman DODD. Dr. Montgomery, welcome.

STATEMENT OF EDWARD MONTGOMERY, DIRECTOR OF RECOVERY FOR AUTO COMMUNITIES AND WORKERS, THE WHITE HOUSE

Mr. MONTGOMERY. Thank you, Chairman Dodd, Ranking Member Shelby, and members of the Committee. I appreciate this opportunity to appear here today to discuss assistance that is being provided to and being sought by communities and workers affected by auto job losses.

As you are well aware, the current recession is arguably the most severe since the Great Depression and has had a profound impact upon our businesses, workers, homeowners, and homeowners throughout the country. As striking as this decline has been for the country as a whole, the situation is even more severe in much of the auto manufacturing heartland.

Just as Mr. Bloom has discussed the challenges to our two biggest auto companies, or two of our biggest auto companies, and the steps we are taking to help meet these challenges, I want to briefly discuss the process we have begun to help the hundreds of auto communities struggling to deal with rising unemployment.

When President Obama appointed me as the new Director of Recovery for Auto Communities and Workers, my mandate was to cut through red tape and assure that the full resources of our Federal Government are leveraged to assist the workers, communities, and regions that have historically relied upon the auto industry. The administration is developing a comprehensive effort that will help lift up the hardest-hit areas by using the unprecedented levels of resources and funding provided by the Recovery Act and available through regular government programs. We have also been engaged in our effort to identify new initiatives that may be helpful going forward in this effort to support auto communities.

Upon appointment, my first order of business was to get out and directly hear from affected workers, businesses, and the communities. We have held town halls and meetings in Michigan, Ohio, Indiana, with hundreds of stakeholders to identify ways in which the Federal Government can be helpful. We plan to continue these sessions in a broader range of communities in the weeks and months ahead. These sessions have been more than just listening tours. We have established an interagency team, including representatives from the Department of Labor, Energy, Commerce, the Small Business Administration, Transportation, Justice, Health and Human Services, EPA, and Treasury that have accompanied me to these meetings to hear first-hand what works and what doesn't. As a result, they have already started implementing next steps and working with local officials on how to address problems and issues that are raised.

The Recovery Act has made possible a wide range of investments in auto and other communities to both combat the current economic developments and begin to transform our economy for future long-term growth. Some examples of ways agencies have targeted support for auto communities in particular include the General Services Administration's accelerated purchase of over 17,000 new fuel-efficient vehicles, adding over $280 million in demand for new cars. Secretary Solis from the Department of Labor announced a $50 million targeted Green Jobs Training Initiative that is targeted toward auto communities. In January, the Department of Labor also announced—since January—over $16 million in National Emergency Grants to support dislocated auto workers in various States.

Recently, Secretary Duncan announced $7 million in a special competitive grant to establish innovative and sustainable community college programs to prepare displaced auto and other workers for second careers. This grant program will be used to develop national models that can be replicated around the country.

The Small Business Administration has announced extensions to its 7(a) lending program and recently announced development of a floorplan financing program for auto dealers, RV dealers, and boat dealers.

And EPA has announced millions of dollars in grants to help revitalize former industrial and commercial sites in auto and other communities. Recently, Michigan was the largest recipient of those funds.

One of the most pressing challenges is to ensure that auto communities have access to existing Federal programs and new funding available in the Recovery Act. We have taken steps to ensure that auto communities have an equal chance to access Federal funds. Some examples of that include the Department of Energy recently held workshops for county and local municipalities to train leaders in how to apply for the Energy Efficiency Conservation Block Grants. The Department of Energy also held meetings with local businesses and financial officials to talk about how to make sure small businesses can access their new loan guarantee programs.

The Commerce Department, through the Manufacturing Extension and the Economic Development Administration, have held numerous workshops in the auto region to help companies diversify and provide tailored assistance as well as to help regions with their strategic planning.

And recently, the Department of Labor convened all the rapid response coordinators throughout the Midwest to make sure that we provide a consistent level of service and to help States with their planning efforts.

The administration approach realized that there is no single agency that holds the key to economic growth and that there is no magic bullet. The challenges that the regions face did not appear overnight and they will not be resolved overnight. Credit for businesses cleaning up private properties, transportation issues, job training, schools, public safety, and health care are all integral parts of the solution. Local and national foundations also have a role to play and we have begun to find ways to reach out and partner with them. State and local governments have and must play a central role in these efforts, reflecting choices that each area must make about how best to use their assets. Our comprehensive recovery strategy will not only recognize, but it will support these heterogeneous local efforts.

Families and workers in auto communities face challenges unlike many of us have faced in our lifetimes. I share the President's commitment to helping these workers and communities both in the near term as we go through the recovery, but over the long term to make sure that they fully share in our economic prosperity.

I look forward to working with the members of this Committee, and thank you for the opportunity to be here today.

Chairman DODD. Thank you very much, Doctor, and I am going to ask the clerk to put us at 5 minutes and follow it fairly religiously here. We have got a lot of members, and we want to get a round in. The second round usually thins out the membership, and we can spend a little more time in the second round if we get to that point. And I will leave the record open. I know some will be coming and going, and so the record will remain open for questions to be submitted. To our witnesses, I would ask that you respond to them in a timely fashion.

Let me begin with you, Mr. Bloom, if I can, and I will have a question for you, Mr. Bloom, and for you, Dr. Montgomery, and then give both of you a chance to respond to them.

First of all, the administration has taken bold action, and it has been controversial, clearly. As you have heard both in Senator Shelby's and my opening comments, a lot of questions are being raised by people across the spectrum. And while there are going to be a lot of job losses obviously associated with this restructuring, I for one subscribe to the notion that had you not taken this action or tried this action, the job losses and the effect on our economy would be far more calamitous than it is even with the kind of erosion. We are talking about maybe down to like 90,000 jobs in automobile manufacturing from some 340,000 only months ago, not to mention the impact on retirees and benefits and pensions. So it has been a major blow to our economy. But inaction, as I said, I think would have been worse, and the liquidation of GM and Chrysler would result in hundreds of thousands of jobs and related jobs being lost.

So the questions are the following: Treasury's proposed equity stakes in GM and Chrysler are giving people great pause, as you have heard already just in the two opening statements that Senator Shelby and I have made. Why did the Treasury such large equity stakes rather than providing these companies with more loans? Number two, explain if you would how the Treasury determined the size of these stakes to be taken? And given the Treasury's large stakes in these companies, particularly GM, how will the U.S. Government quickly extricate itself?

As I said in my opening comments, I would like us to be out of this business yesterday. Obviously, that is not going to happen, but the point is I think a lot of us would like to see us get beyond this, get out of it, and get these businesses back functioning on their own. Given the stakes we have, how easy is that going to be to achieve?

And for you, Dr. Montgomery, I admire you taking on this job. The President obviously has a lot of confidence in you. As I understand it, you have no budget to operate really with, other than what exists around? So we need to know if we can do anything to help. Obviously, all of us, some more than others, our colleagues from, obviously, Detroit, Michigan, from Ohio, Senator Brown, Senator Bayh come to mind immediately. I presume all of us here are being adversely affected by job losses, some more than others. And obviously we want to help our communities during times of readjustment like this.

So what additional tools are you going to be ask of us or will the administration ask of us in the Congress to be helpful for you to perform your job? Holding town meetings is great and listening to people are wonderful things to do, but I suspect that the people who show up at those meetings want to know what if any kind of help is going to be there for them as they try to find a new economic path for themselves and their families in the midst of this economic hardship.

So we need to get some additional specificity as to what you are going to be asking of us and how we can help minimize the kind of economic blows these communities are going to be facing. Your response to the questions.

Mr. BLOOM. Yes, thank you, Senator. Let me try to address your three questions, if I can.

In terms of the equity stake and why equity and why not debt, let me answer that this way. The size of the stake and the determination was done through the following process: The first thing that happened was the companies put forward a business plan which we very vigorously reviewed and challenged them on, but eventually came to a business plan, and through that business plan really a financial need was determined because we saw how much money they needed to right-size their business, to take the necessary steps, in the case of General Motors in the bankruptcy to pay off some of the secured debt. So there were a whole variety of needs that the company had, and that really determined the sort of starting point from the discussion.

The second step was directly on your point, which was how do you determine how much of it should be debt and how much of it should be equity. And, obviously, as I said in my opening comment, the President did not start out with wanting to be a shareholder, but the dilemma we faced was that one of this company's core problems for a lot of years was that it was too highly leveraged. So for us to try to fix General Motors with more debt would simply have not fixed the problem.

General Motors' key competitors, among them companies like Toyota and Volkswagen, have very minimal levels of debt—debt approximately equal either to the amount of cash they have on the balance sheet or to 1 year's profit. So we were very mindful of trying to set up General Motors to have a competitive balance sheet because that is one of the competitive weapons in the marketplace.

And so that really left us that if we were not going to overburden the company with debt, then the only remaining security we could have would be equity, and certainly we did not want to give this money away. This is the taxpayers' hard-earned money. And so the determination was to take equity.

In terms of the size of the stake and how that was determined, that was determined in arm's-length dealings with the other key stakeholders to the company who wanted to also be owners. That included the bond holders where we had a vigorous debate and the UAW on behalf of the retiree trust, and they obviously wanted more equity than we wanted to give them, and we wanted to give them less because, on behalf of the taxpayer, the objective should be to get as much as you can to get as much value as you can out of the enterprise. So it was really determined through arm's- length negotiation. The other equity shareholder in General Motors is the Canadian Government, who was also making a very sizable investment, but in that case, they are investing side by side with us, and so they are proportionally getting the same amount of equity as we are per dollar invested. That part of it was just straight up, but to the others it was simply arm's-length bargaining.

On the question of how we get out, obviously this is a key issue. The President has been quite clear that he is a reluctant shareholder and he wants to exit as soon as practicable. Now, "as practicable" in this company is not going to mean tomorrow morning. When this company comes out of bankruptcy, it is going to be a private company. The new General Motors is not going to be publicly listed. It will take some time for it to achieve a listing on the stock exchange, do what is called an IPO and begin to trade its shares publicly. We would expect that would likely happen sometime in 2010, and that would be our goal. And then after that, there will be an orderly process where these shares will be disposed of. But it needs to be orderly because, again, these are taxpayer dollars, and while the President did not want to be a shareholder, once we have become a shareholder, we certainly want to achieve fair value for those shares so the taxpayers can get back this investment.

Chairman DODD. Thank you.

Quickly, Dr. Montgomery. My time is already——

Mr. MONTGOMERY. Yes, the initiative that we are undertaking is using the current resources provided under the Recovery Act, which really provides an unprecedented level of dollars that we can use to either support—as Mr. Bloom has pointed out, to support the industry, to make sure that the companies are viable, step one; to talk about how we support the suppliers and the Treasury through its supplier support program, the Small Business Administration through its 7(a) loan program, and through its dealer program all have made efforts to support suppliers and keep that part of the sector viable.

As far as the workers are concerned, there are over a billion dollars in additional funding, multiple billions of dollars in additional funding for job retraining assistance on top of which, of course, we have extended and expanded unemployment insurance.

As we think about going into the longer term and the new growth potential, there are in the Recovery Act funds within the Department of Energy to make new investments in different sectors, to grow different areas of the economy, everything from smart grid to alternative energy to modern fuel-efficient cars, the next-generation vehicles.

And so there are a variety of different currently available resources to make investments, and my job at this point is to make sure that people in these regions have full access to those dollars.

As we go forward, it may turn out that additional investments are necessary, but right now we want to make sure that the current investments are being fully utilized.

Chairman DODD. I am sure my colleagues will have some additional questions along that similar line, but let me stop there and turn to Senator Shelby.

Senator SHELBY. Mr. Bloom, following up on Senator Dodd's question a minute ago, how many years do you think the Government will be involved in General Motors and Chrysler as far as their investment? Would it be in your judgment 3 years, 5 years, 10 years, 12 years, or what? You have got some kind of judgment there. You say it is not going to be quick to get out.

Mr. BLOOM. Yes, Senator, as I indicated, the sort of legal framework in which we are, which is to say a private company and then an IPO is a certain amount of kind of a runway period. Senator, at this point, we do not have a specific target in terms of years. The factors that will influence that will be many, how the market is doing, how the capital markets are doing. We are going to be a very large shareholder in a company, and so as you know, for a large shareholder to be selling share can be disruptive to the other shareholders. And so we want to be mindful of that.

At this point, the President's direction is to get out, his phrase and order to us, "as soon as practicable." But beyond that, we do not have at this point a defined timeframe.

Senator SHELBY. Will you put together a plan, though, that you could operate, a blueprint, some architecture? You got in. The question is: How long will the Government be involved in running a huge manufacturing or owning a huge manufacturing plant? I think that is a fair question.

Mr. BLOOM. It is, sir, and I want to appreciate your point. We are owning it. We are not managing it, sir. And that is important, and the President has been clear on that.

But to your question, I think——

Senator SHELBY. But you are involved, aren't you, as a stockholder?

Mr. BLOOM. There will be a very limited involvement as a shareholder. The President has issued a series of guidelines of how he intends us to act as a shareholder. We do not intend to involve ourselves in day-to-day management, those sorts of decisions. The shares will only be voted on what we call core governance issues, which is to say the election of directors or a change of control transaction. So, yes, there will be some involvement, but it will not be onerous or overbearing involvement.

But back to your question, there will be a strategy to get out. It will be to access the public markets and to sell when it is determined that the market is appropriate for selling. But I do not anticipate there will be a detailed blueprint, again, because the mere issuance of that blueprint we believe would be market disruptive and would cause an overhang in the stock, which, again, would defeat the very purpose we are trying to achieve, which is to get out quickly but to do it in a way that maximizes the shares for the benefit of the taxpayers.

Senator SHELBY. Do you believe the Government has put as much money in GM and Chrysler as they are ever going to put in? Or do you anticipate more down the road as Mr. Montgomery did not say "anticipated" but could be more money?

Mr. BLOOM. Yes, sir. Let me——

Senator SHELBY. In all fairness to us and the taxpayers.

Mr. BLOOM. It is a very fair question, sir. It is our absolute intent that this be the last assistance provided to these two companies. We have spent a tremendous amount of time diligencing the companies, and we have worked very hard to assure ourselves that this is their last visit. You never say never in this world, but our whole work, the basis of our analysis has been that this is a one-shot affair. We are going to do this, and then we are going to construct an orderly exit, and then it will be back to business as usual.

Senator SHELBY. What if GM and Chrysler—what if it does not work out as you anticipated? Will you then recommend more money just to keep it going, to keep a few people employed? Maybe more than a few. A lot of people employed.

Mr. BLOOM. It is very hard to speculate about a hypothetical, Senator, but I can tell you——

Senator SHELBY. That could be more than a hypothetical.

Mr. BLOOM. Well, I believe it is a hypothetical because I believe——

Senator SHELBY. OK. It is at the moment.

Mr. BLOOM.——we have constructed a conservative plan. We have what we call stress-tested it. We have looked at cases where the recovery is slower than most economists believe it will be, where the company is not fully capable of executing its turnaround.

So we have looked hard at this question, and it is our belief and our confident belief that this will be the last trip to the well.

Senator SHELBY. I have just got a few seconds. What I deem conflicts of interest, the Federal Government is now the principal labor, environmental, and safety regulator, a customer, tax collector, financier, and pension guarantor of two of the three domestic auto manufacturers. Unprecedented. It also holds considerable equity positions we are talking about in each entity, and managing these varied responsibilities will engender conflicts everywhere. Other conflicts will arise by way of the Government's investment in two competing entities.

What process have you put in place, if you have, to help identify, to manage, and then report such conflicts to the Congress, especially this Committee?

Mr. BLOOM. Well, let me talk generally about the President's admonitions in this area. He has been very clear that the policy directives regarding things like the environment or CAF? or health and safety are not within our purview. We have no authority to deal with the companies on those matters and do not expect to have any authority. Whatever the Congress passes and the President signs that becomes the law of the land we would expect would apply to all companies who do business absolutely similarly, and the President's has been crystal clear that he expects no special accommodation to either of these two companies in any of those areas.

We intend to be essentially a passive shareholder who is trying to get our money back so we can give it back to the American people. And we will leave to others to determine what the proper policies are regarding other matters.

Senator SHELBY. Thank you.

Senator Brown.

[Presiding.] Thank you, Senator Shelby.

Senator Bennet of Colorado.

Senator BENNET. Thank you, Mr. Chairman. Thank you, Mr. Bloom and Mr. Montgomery, for being here today. I wanted to start by saying congratulations on the speed at which the Chrysler situation was dealt with in bankruptcy. As somebody who used to make his living restructuring companies in bankruptcy, nothing this complicated, this has been lightning quick. And there were a lot of people that said it could not be done, that you were not going to come in in 30 days. You did not, but you came in pretty close to it. And I think that at least in my view is a major step forward to trying to create some credibility here on these matters. I want to say congratulations on that.

With all that said, I want to echo the Chairman's view that the American taxpayers want to be out of these companies as soon as possible, "as soon as practicable" is the language that you have used, and all I can say is that I hope you are as successful at that as you have been getting this bankruptcy accomplished.

I guess, Mr. Bloom, my first question for you is whether or not you would be willing or could shed some light—I am sure it is in the bankruptcy documents—on some of the underlying assumptions that underlay the arm's-length negotiation that you were talking about. What were some of the assumptions relating to sales of automobiles in the United States, the cash-flow of the companies?

How did you and the other parties think about how to value first the enterprise itself and then to distribute it to the constituencies in the bankruptcy?

Mr. BLOOM. Yes, sir. Let me first thank you for those kind words relative to the speed. I think Benjamin Franklin said that an imminent hanging tends to concentrate the mind. I think that is what we had in the case of Chrysler, and I think it was a good tonic.

Relative to how we went about our business and this bargain, essentially the process was the following: The companies in each case came up with a business plan, and it is the management, obviously who is responsible for putting forward a business plan. We viewed ourselves essentially as a potential investor of the taxpayers' money. And so as an investor, we went and then diligenced that plan. We criticized it. Whatever they said, we asked, "Did you consider this? Did you consider that?" So whatever assumption they made, we kind of flipped it on its head and asked the reverse. And, obviously, we used our own assumptions, too. If they believed that SAR was going to be X, we asked what would happen if it was 0.8x or 1.2x.

We did not fasten on any single point estimate but, rather, as a lender and an investor, what we really did is simply acted, I think, as traditional investors were, which is to say we looked at a variety of scenarios. We asked ourselves if SAR is higher, if SAR is lower, if execution is better or worse than planned, how do these things look? And that brought us to an enterprise value using relatively traditional financial techniques—multiples of earnings, discounted cash-flows, I think the things that you would expect any third-party investor to look at.

Now, obviously, you know, we are the Government, and we are doing this because the President has directed that this is a critical industry. But, nevertheless, we tried in every aspect of this to be commercial, to ask ourselves what is the cash-flow capability, what is the likely earnings capacity of the company, *et cetera.* From that we created models of potential enterprise value, and from there we engaged in the kind of bargaining that I described, which is to say arm's-length bargaining between a lender/investor and the various other stakeholders to the case.

Senator BENNET. The tension the Ranking Member talked about between—or the Government not involving itself in the day-to-day management decisions of the company, which I think is certainly the right approach. But sitting here thinking about what—if those projections do not come true, if you have quarter upon quarter of growth or lack of growth, if the companies do not, for example, begin to produce automobiles that will compete in the marketplace, what is the Government's role at that point as the investor of our taxpayer money in this enterprise? What if they do not live up to your expectation?

Mr. BLOOM. Well, as a lender in Chrysler and as a lender in General Motors, there will be covenants—there are covenants regarding performance, and lenders, as you know, have rights that we would expect to avail ourselves of. But I know that the President is highly committed to not having this be—to wander into the middle of the company and take it over. The company will have a board of directors. It will be comprised of independent businessmen. And I would point you to the two gentlemen who have agreed to serve as Chair of Chrysler and GM, respectively, Mr. Whitacre just announced yesterday and Mr. Kidder a week or so ago, two excellent individuals. We expect them to run the company.

Senator BENNET. My time is up, regrettably, Mr. Chairman, so I will yield back.

Senator BROWN. Thanks, Senator Bennet.

Senator Corker.

Senator CORKER. Thank you, Mr. Chairman, and thank you both for being here. I do want to point out that you are fudging a little bit on the history side of this. I think the administration prior to you all coming in laid out a loan program that said if the companies put forth a viable plan by February 17th, they would not call the loan by the end of March. They did not do that, and that would have precipitated you calling the loan.

So I think somehow or another everybody is letting you get away with this precedent thing. The fact was that the prior administration had set in place a set of procedures that said if the companies did not present a viability plan that was appropriate, they would call the loan. You all did not do that. They did not put in place a plan, and instead you are putting in place a plan. So I just want to get the record straight there.

Let me talk a little bit about the money that has gone in. I think we have got about $85 billion in the companies now. We have got $50 billion in GM, $16 billion in Chrysler. We have got $14 billion in the fin–cos. We have got $5 billion in the suppliers. I know that you have answered very affirmatively there will be no more money, but my understanding is—and I see some of the other Senators sort of moving around a little bit with Section 136 money in the energy bill. How much has GM applied there, and how much do you expect them to get out of another pocket, if you will? It is all our money.

Mr. BLOOM. Yes, sir. Let me try to answer your question.

The first thing, just a very small correction. I think that the total U.S. Government commitment to Chrysler is $12 billion. The remaining funds are coming from the Canadian Government. But that is——

Senator CORKER. The $81 billion—you know, a lot of money, yes. You know, we had a guy named Mark Zandi up here who told us if we put $1 in these companies, we would end up between $75 and $125 billion. Obviously, we already have blown past that, and I think a number of us were working to try to keep that from happening. But to the 136, how much money have they applied for and how much will they get out of another pocket?

Mr. BLOOM. I believe both of the companies do have applications in for 136 funding. My understanding is that is a highly competitive process where many, many——

Senator CORKER. How much have they applied for?

Mr. BLOOM. I think they both applied on the order of $5 or $6 billion, but I have no indication that they will necessarily receive it. It is a competitive process. There are dozens of companies applying for 136 assistance. If they are deemed worthy, they will get it. If they are not, they will not.

Senator CORKER. I just see some of the policy things that are trying to be changed around 136, which looks like they may have a really good chance of receiving it. But let us just say that they get half of that. We are going to be, you know, in the $86, $87 billion range.

On the UAW piece, I know there has been a lot said about shared sacrifice. I would just like some yes/no's. It is my understanding that the existing employees are making exactly, per the new contract, per hour what they were making under the old contract. Is that yes/no?

Mr. BLOOM. The answer to that is no. Their base wages have remained——

Senator CORKER. Their base wages are exactly the same.

Mr. BLOOM. I am going to try to answer your question. There is a cost-of-living improvement, which they had in their paycheck, which has gone away, of about $1 an hour.

Senator CORKER. So the base wages are exactly the same.

Mr. BLOOM. The cost-of-living——

Senator CORKER. The health care benefits are exactly the same. Is that correct?

Mr. BLOOM. The active employee health is the same.

Senator CORKER. I did notice that you did away with the Monday after Easter holiday, but my guess is they do not get very fearful when you come in the room to negotiate. How has that been, that negotiation?

Mr. BLOOM. Well, I would let them speak for whether they are fearful or not. I think the negotiation between the UAW and the companies has been extremely vigorous and arm's-length. I believe they have made very difficult sacrifices.

Senator CORKER. I do not want to go into a long dialog here, but I have not heard many sacrifices yet. I am talking about by active employees.

Mr. BLOOM. About $7 an hour of reduction in their compensation package. To me, that is a pretty big——

Senator CORKER. Things like paying time-and-a-half after 40 hours instead of before and those kind of things.

Mr. BLOOM. The companies value the total package of concessions at about $7 an hour.

Senator CORKER. Well, I guess what has troubled me about this is I know politics are not involved, although I would like to know who we call. I know you all are not involved in politics. But what is the number Barney Frank called about keeping the plant open in his district? Because if it is not at your level, I would like to know who—we have got the same kind of thing happening in Tennessee. Who is that people do call to get those things changed?

Mr. BLOOM. I can only speak for the administration, Senator, and I can tell you what the President has directed us to do and what we are doing, which is we are not meddling in those matters.

Senator CORKER. Well, who made that decision?

Mr. BLOOM. The President.

Senator CORKER. Oh, the President kept the plant open.

Mr. BLOOM. No. I said the President directed the administration——

Senator CORKER. Well, who is it Barney Frank called to get——

Mr. BLOOM. I cannot comment on a conversation between two people, neither of whom are in the administration.

Senator CORKER. Well, let me go a different angle politically then. You know, the Greatest Generation we all hailed. We have statues and tributes to the Greatest Generation, many of which invested in bonds in GM and thought that throughout retirement GM was going to be something that paid them and I imagine there are circumstances in our country today where a GM bondholder, an 80-year-old veteran that expected to get retirement, has been basically made toast by the decisions of this task force.

And then if you look at the UAW's component, I mean, they have come out really, really well from the standpoint of their ownership. I know that you and Steve Rattner who I wish was here; I really respect him and think he answers questions very clearly, as do you. But, you know, I guess I have been a little discouraged to hear that, well, we do not need them anymore. They loaned us money, but we do not—but we have to have workers. And I think there has been an overt concern that if you did not do everything necessary on the workers' side that they would strike. I know a number of occasions you all pointed to what happened in New York State. I just wondered if you might educate us a little bit into that thinking and basically sort of these God-like decisions where, in essence, bondholders are stuffed who invested in the company, you do not need them anymore, but others are not.

Mr. BLOOM. Well, let me try to answer that, sir. First, I hope we never would act God-like or anything approaching that.

I think there is sacrifice in General Motors to go around for everyone. There are enormous victims of the fact that General Motors is a failed enterprise. Bondholders are clearly among them. The communities who had come to rely on those jobs, the dealers, the list is very, very long.

Tragically, this chairman became insolvent, very, very insolvent, and it is a failed enterprise. And that meant that the only way to revitalize it, if we wanted to revitalize it—we really had three choices: One is we could have let it liquidate, with all the damage that would have caused. Second, we could have made good on all promises with taxpayer dollars, and that I think would have been many multiples of the investment that has already been made. And, third, we could have taken a commercial—which is what we believe we did, a commercial approach to this restructuring. And in a commercial approach to a restructuring, a business owner, a financial investor will look in a pretty hard-nosed way at who is needed to make the company succeed going forward and who is not.

For instance, in General Motors, the decision was made, as it was in Chrysler—which we supported—to take the suppliers who supply the company with goods and services and essentially pay them at 100 cents on the dollar, which nobody else got. And the reason was not about bleeding hearts for suppliers. It was about the commercial decision that if you do not have a steering wheel, you cannot make a car. And so commercially putting—taking those unsecured claims of suppliers and leaving them behind did not make commercial sense.

There are warranty holders, people who had bought GM cars, worth on its balance sheet many billions of dollars. The commercial decision was made that those warranty holders, if you made them angry, probably would not buy a new GM car, and your best base of future car buyers is prior car buyers.

So in all these cases, we believe in a very clear-eyed way and with the company in the lead and the Treasury questioning them every step of the way, commercial decisions were made about how to treat each constituent. I believe that everyone has made enormous sacrifice, and I believe those sacrifices have met two tests: one, in each case the stakeholder did better than he would have if the Government had not intervened; and, second, he was treated in a fair way given the commercial realities of the marketplace.

As you know, in the Chrysler case, a bankruptcy judge heard over 30 hours of testimony on this exact set of questions and ruled completely in our favor in a very detailed 47-page opinion. It was upheld unanimously by the court of appeals, and the Supreme Court just decided not to take up the matter. They did not see any issues that rose to them.

So I believe this has received enormous scrutiny by judicial officials at all levels and enormous scrutiny in the media, and we are quite comfortable and confident this has been done in a commercial fashion.

Now, we understand there are a lot of disgruntled people, unhappy people, but, unfortunately, in a failed enterprise that is inevitable.

Senator BROWN. Thank you. Thank you, Senator Corker.

Senator Bayh?

Senator BAYH. Gentlemen, I would like to thank you for what you are doing. Mr. Bloom, I assume you could be making a lot more money with a lot less aggravation doing something else, so I am grateful to you, and Mr. Montgomery, it was good being with you in Kokomo, Indiana. I am grateful for the town hall meeting you had and for the floorplan financing that you announced while you were in our State, so thank you both for that.

Look, I am one of those who thought that it was not an appropriate thing to run a gamble at this moment in time with the economy of the country, and there were some pretty sober analyses out there that if we just allowed these enterprises to fail, it wouldn't have just been them. It would have been the supply chain, as you were pointing out. It would have been dealers across the country. It would have been middle-class people. A lot of communities would have been hurt by this.

And if the economy had been growing by leaps and bounds, maybe that is a risk worth running. But given the present state of the economy, I think the better judgment was to not run that risk as long as there was a credible—and I emphasize the word credible—plan in place to try and maximize the chances that the taxpayers were going to get a return on their money. You don't just throw money after a losing proposition, but if you have a reasonable prospect of getting repaid, then it was the right thing to do. So I would like to focus on that issue.

Mr. Bloom, I understand you want to maintain maximum flexibility here and there are just a lot of imponderables out there we don't know. You are a bright businessman. You have analyzed this, as you were saying in response to several of my colleagues, from a hard-nosed business perspective. What do you think the chances are that the taxpayers will ultimately be repaid?

Mr. BLOOM. Senator, I appreciate the question and it is a fair question. I think the best I can give you is that we have certainly looked at scenarios where, over time, a very substantial portion and potentially all of the taxpayer investment in General Motors will be returned. But I by certainly no means would say that I am highly confident that that will occur. But I think there are reasonable scenarios where it could occur. There are obviously——

Senator BAYH. The word "reasonable," at least in the law, normally denominates a probability of greater than 50 percent. A reasonable person would——

Mr. BLOOM. I don't think I would put a probability on it. You are perhaps a lawyer. I am not.

Senator BAYH. That is a handicap I constantly struggle to overcome.

[Laughter.]

Mr. BLOOM. And you are doing a fine job. No. Look, we have looked at a lot of scenarios, and obviously that was a key objective for us, is to say to the President that there is a reasonable chance that this can happen, and that was a basis—that was one of the key basis that we took when we insisted as we did that the company be aggressive in its business plan, because at the end of the day, the ability to pay back the money through the sale of the shares is based on the profitability of the enterprise. The profitability of the enterprise is based on the hard—one aspect of it is based on how hard-nosed they are prepared to be about dealing with their realities.

Senator BAYH. Well, let me ask you this, then. Based upon assuming that there is a reasonable improvement in market conditions, we are not going to be selling this few vehicles forever, God willing. So we are into, say, GM for $50 billion. It looked to me like their total capital is, what, about $83 or $84 billion? We are 60 percent. That would get you to about $50 billion. What kind of earnings per share at a normal market multiple do they have to achieve in order to reach that kind of market gap?

Mr. BLOOM. Well, I am sure you and many others can do the arithmetic. I mean, the company will have a trading multiple. It is hard to know exactly what that will be. Again, it will depend on a wide variety of factors, but honestly, I say what I said, which is I think there is a reasonable chance. It will obviously take a period of time and it will a recovery in our economy. But obviously it is a key focus for us.

Senator BAYH. With the amount of holdings that the taxpayers now have—you say there is no schedule, and I understand that. I mean, the overhang is going to be substantial. Therein lies the problem. Perhaps you haven't contemplated this, but would just a periodic sale on some sort of preordained basis, so you are not trying to time the market and the market could kind of factor that in so that we would gradually whittle down our holdings over a period of time, would that be something you would contemplate?

Mr. BLOOM. We have looked at a variety of exit strategies. You know, there is some history out there. You have the privatizations in Eastern Europe and in Western Europe and in England. We have really tried to do a pretty wide canvass, and I think the conclusion is there is no perfect system. We looked at what Bill Gates did with Microsoft, which was a kind of a timed schedule. I think our judgment at this point is that a prearranged time schedule will create more problems than it solves, but I can assure you that was one of the strategies that we examined.

Senator BAYH. My last two questions, and I think you already answered one of them, is in your view—I will just ask them both and let you respond. The supply chain, is it in reasonably healthy condition right now? That is number one.

Number two, if you are an employee or a shareholder of Ford, what do you make of all this and how do you compete?

Mr. BLOOM. Your first question, sir, is I can't tell you that the supply chain is relatively healthy. The supply chain is troubled. The OE sector is troubled. But we are monitoring it very carefully. We are deeply aware of the interrelatedness of the supply chain. When the supply chain goes down, even if you didn't have a view about saving GM and Chrysler, you have got Ford and Honda and Nissan connected to the same group of suppliers. So we are deeply aware of the interconnectivity of this and we are monitoring it closely. We believe it can hold together, but we are very much mindful of that.

The Ford question is one that, again, we have looked at carefully. We believe that Ford is a good and competitive company. We believe they will be able to survive and thrive as the economy turns around. But obviously, we are in constant dialog with them. And I would also say that Ford has chosen affirmatively not to participate in this program and that is their choice, but that was their choice.

Senator BAYH. Thank you again, gentlemen.

Senator BROWN. Thank you, Senator Bayh.

Senator Johanns?

Senator JOHANNS. Thank you, Mr. Chairman.

Mr. Bloom, reference was made in the previous question about intervention from a Congressman, Barney Frank. You can see why that leads to so much suspicion back home and even amongst members of this panel. I don't have that kind of power, and yet dealerships were closed in the State of Nebraska. Were you aware of that? Did the CEO or somebody call you and say, wow, what do I do with this? Barney Frank has called me and he wants this facility left open.

Mr. BLOOM. No, sir, we were not.

Senator JOHANNS. Did you learn about it then after the fact?

Mr. BLOOM. I learned about it pretty much the same way you learned about it.

Senator JOHANNS. OK. Do you know of any other special deals that have been made out there?

Mr. BLOOM. We have not participated in any of that activity. And again, I can only speak to what the President has directed the administration officials involved in this to do and what we have been admonished to do and what I believe we have done——

Senator JOHANNS. So when you——

Mr. BLOOM.——and I assure you we are going to continue to do what he asked us to do.

Senator JOHANNS. So when you say you haven't participated, does that mean you don't know of any other special deals that were struck?

Mr. BLOOM. I don't know what I don't know, sir. What I can tell you is that the Auto Task Force has been explicitly and very clearly discussed—this was discussed with them and I have—and we have regular discussions internally about this and I can assure you that nobody from the administration has been involved in trying to pressure these companies to make specific decisions regarding dealers or regarding plants, and I know that we have been instructed not to do so in the future and that we will not.

Senator JOHANNS. Let me, if I might, focus for a minute or two here and talk to you about the rights of people. I didn't do a lot of bankruptcy when I practiced law, but I did do some. Is my understanding correct that if you are a shareholder and you just go through a regular old bankruptcy, that on the other end of that bankruptcy, you are going to basically end up with nothing?

Mr. BLOOM. I would say the overwhelming majority of bankruptcy cases are premised on the company being insolvent, and with the shareholders at the bottom of the totem pole, I think a shareholder should expect to not receive any recovery. There are a few exceptions to prove the rule, but yes, I think that is a fair description.

Senator JOHANNS. And that is what happened with shareholders in General Motors. They basically have a stock certificate that is a worthless piece of paper.

Mr. BLOOM. The company's plan does not provide for any recovery for shareholders. As you know, General Motors is an ongoing case and so I can't predict with certainty the outcome, but yes, the plan that has been filed does not contemplate a recovery for shareholders.

Senator JOHANNS. Dealers that have been notified that they won't be dealers for General Motors any more, same deal. They are out of luck.

Mr. BLOOM. I think the dealers would be expected to have an unsecured claim against what is called the old co-estate and they will recover what other unsecured creditors recover.

Senator JOHANNS. OK. So dealers, shareholders, they come out of this basically with nothing if the plan is adopted.

Mr. BLOOM. I think they come out of it as they would in a traditional bankruptcy, which is to say as either unsecured creditors, or in the case of shareholders, even below that.

Senator JOHANNS. Now, every once in a while, an employee would come to my office and say, you know, I am an employee of XYZ Company. They just filed bankruptcy. They owe me 2 weeks worth of wages. I would say, well, let us file a claim. I hope you don't need that money to buy groceries because I don't think you are going to see it. And I was always right. Employees had no rights. Describe the rights of the employees like you have described for me the rights of dealers, the rights of shareholders in just a regular bankruptcy.

Mr. BLOOM. The treatment of employees in regular bankruptcy varies all over the lot, largely because the entity trying to reorganize, if it is a 363 sale, which is going on in the case of General

Motors and was in Chrysler, the entity providing—being the sponsor of the new entity is going to make determinations about what the proper treatment is for employees. And in the case of General Motors, the decision was by the management that keeping both salaried and hourly workers working and on the payroll was an important part of maintaining the continuity of the business and having a successful enterprise going forward.

And so the determination was made to continue to pay wages in the ordinary course, as I indicated, as it was for suppliers, as it was for warranty holders. These are business judgments that are made by companies in bankruptcies all the time, and I have been involved in many, many bankruptcies where employees did receive continuity of wages. I have been in bankruptcies where they didn't. And honestly, it has been all over the lot.

Senator JOHANNS. What influence did the administration have on that issue—did you have on that issue?

Mr. BLOOM. I think the influence we had is to work with the company to try to come up with, as I have described it before, a commercial approach to this question, which is to say how do we best maximize the value of the government's investment, because the government is putting a huge amount of money into these enterprises and the only way we get it back is if there is a viable enterprise going forward.

And so the question we asked the company in each case is what is the smallest amount you have to give—because obviously you would like the smallest burden you can have—what is the smallest amount you have to give consistent with building a successful enterprise? And every single stakeholder—we challenged the company to make that kind of determination and that was the role we played, essentially, as I said to an earlier question, we are not the management. We are not running the company. But we are the provider of capital, and so I think we had an obligation to challenge them to make sure they were acting in a thoughtful and commercial fashion, and that is what we tried to do.

Senator JOHANNS. Let me ask one last question. I am over time here, but let me ask one last question. During any of these discussions, as shareholder rights were being extinguished, as dealer rights were being extinguished, as people were sacrificing and our communities were being affected, *et cetera, et cetera,* did anybody with the administration, with the Task Force, every say, you know, it seems like buying 60 percent of General Motors is a big enough decision where we should go to Congress and ask them what they think of this?

Mr. BLOOM. I think the President was proceeding under the authority that was created through the creation of the TARP and the prior administration made loans under that and the President determined that these investments were appropriate and proper under that legislation.

Senator JOHANNS. You agree with me, I would hope, that loans by the prior administration are a vastly different creature than ending up with ownership of 60 percent of General Motors.

Mr. BLOOM. I would certainly say what I said, which is the administration believes it was proceeding under statutory authority that it was granted and doing the best it could in a very difficult circumstance.

Senator JOHANNS. Last question——

Senator BROWN. Thank you——

Senator JOHANNS. OK, I will——

Senator BROWN. Go ahead and take a last question, but this is your third last question and this is your last question, but go ahead, Senator, if you want.

Senator JOHANNS. I will stick around. Thank you.

Senator BROWN. Well, go ahead. Go ahead, because we may not do a second round. Go ahead.

Senator JOHANNS. Just in your role, does that make your uncomfortable?

Mr. BLOOM. In my what?

Senator JOHANNS. In your role.

Mr. BLOOM. Does it make me uncomfortable?

Senator JOHANNS. That we never got an opportunity to say yes or no on this?

Mr. BLOOM. Senator, I am working as hard as I can under the direction of the President to try to save these companies and minimize the taxpayer dollars required to do it. It is obviously an exceedingly challenging task. We are all doing the best we can.

Senator JOHANNS. Thank you, Mr. Chairman.

Senator BROWN. Thank you, Senator Johanns.

I will take my 5 minutes now. I appreciate very much both of your being here. I know the personal sacrifices you both make in taking these very difficult jobs, the hours away from home with small children. Mr. Bloom, I appreciate your driving from Pittsburgh every week. Thank you for that.

I particularly appreciate that you took this commercial approach, that both the Bush administration and the Obama administration want GM and Chrysler to move forward, not to liquidate those companies. There almost seems to be a perception in this room and among some, not just in this body but elsewhere, perhaps, that the employees took no hits but everybody else did, the dealers, the bond holders, the executives, the communities.

God knows when you represent a State like I do, you see what kind of hits communities take and you see what kind of hits workers take. There are tens of thousands of workers that are losing their jobs, not just at Chrysler and GM, but the tier one suppliers and the tier two suppliers and beyond, many of them small, family owned, non-union companies that pay $12, $15 an hour or more in many cases, but not more in many other cases. So I see that the $7 an hour assessment you made plus the lost jobs plus what it has meant to the communities.

So a lot of us, and I think the country, appreciates that you have done this in a way that keeps these companies alive and, we hope, growing in the years ahead, and I appreciate your generally optimistic assessment for the future.

I want to talk a little bit about last year, what happened and kind of where we are going now, and then I want to be more specific on one question about a community that is really—another community in Ohio that has been hit hard by all of this.

Last year, some of our Committee members worked with the Bush administration to provide non-TARP loans to the automakers. Our legislation would have required the companies to achieve concessions from various stakeholders within a strict timeframe, as you recall, before you were on board. As my colleagues recall, the legislation was filibustered. The bill ultimately died in the Senate.

Today, many of the same critics calling for specific concessions from workers and from bond holders are now saying the government-backed plans unfairly advantage one stakeholder over another. You have touched on that in response to questions from Senator Corker and Senator Bayh and others, but compare, if you would, the concessions in last year's legislation to those in the current restructuring plans being considered in bankruptcy court in both cases.

Mr. BLOOM. I think in all cases, the stakeholders, and certainly including the UAW, the concessions wrested from them were in excess of those that had been contained in the legislation that didn't pass but were largely embodied in the loan agreements. So in fact—and I think that is appropriate, because as it worked out from December until April, the market got worse. The economy got worse. Car sales were even lower than they had been projected to be. So in light of that, we did insist that everybody give more, and that certainly includes the UAW. It does include the bond holders. But it includes all the key stakeholders.

Senator BROWN. Understanding your response on questions on decisions that GM makes, whether it is a plant closing, whether it is a downsizing of a plant, whether it is an assembly plant or a stamping plant or whatever, an engine plant, whether it is what happened with dealers, you do have an ongoing oversight responsibility obviously of this whole restructuring. A lot of us are troubled by some of the decisions. I mean, you can see the frustration on both sides here with what happened to dealers and how badly it was handled. I mean, I personally thought the free market could work with dealers and let them figure out—let them succeed or fail and that would then clear out the number of dealers that we might have gotten to anyway that way. But that is not what Chrysler and GM decided.

But some other decisions, and I want to talk specifically about one. GM chose to close the most productive stamping plant they have. They have three stamping plants, Mansfield, Ohio—full disclosure, my home town, I don't live there now—and then one in—I am sorry, they have, I believe, four or five plants, but one in Indiana, a couple in Michigan, other places, one in Parma, Ohio, too. The GM stamping plant in Mansfield was consistently ranked higher according to the competitive operating agreement that GM, that does its own assessment, has the lowest manufacturing cost per ton. GM chose to close that plant.

How does the administration—I mean, they made that decision. I know it wasn't a political decision. The local Congressman said President Obama should go and explain to the workers why he closed the plant. That was a political statement, to be sure. How does the administration oversee the operations of these companies to make sure they are making objective and transparent decisions? I mean, there were some arguments to close it, I assume, although they didn't make them very well. There were many more arguments to keep it open. It is some 1,100 people work there. It is devastating to a community that size. We all know what these plant closings do to a community.

Talk to me about your oversight and the demands for transparency in these companies that Federal taxpayers have major investments in.

Mr. BLOOM. Senator, certainly any particular plant closing is devastating to a community and certainly General Motors is closing a number of facilities. As I indicated before, we have made a pretty determined—not a pretty, an absolute determination that we are not going to get into micromanaging their decisions. We certainly have encouraged, however, the companies to be forthcoming. So if a particular community or a local union wants an explanation of how a judgment was made, we would expect the company to talk to them, as we would expect them to talk to dealers.

But we are not going to go in on top of them and say, why Mansfield and why not X? It just——

Senator BROWN. Will you insist to them that they be more forthright to answer some of Senator Johanns' questions, his concerns about the dealers? Will you insist to them that they disclose to their dealers how they made these decisions, why they made the decisions, that they disclose to communities why and how they made these decisions? Is that your role?

Mr. BLOOM. Recognizing that there is a competitive issue where public disclosure of certain kinds of information can put the company at a competitive disadvantage, and so not being able to make a blanket comment like that. But I would say, yes, that we would be asking GM and insisting that GM have and open and transparent dialog with all of its stakeholders, and to the extent it is not, we are more than happy to facilitate that and insist that it occur. Again, I want to be cautious because there can be competitive issues where the public airing of information can be harmful to the company. But certainly as a general matter, we would expect the company to be open, transparent, and responsive to communities, to stakeholders in these sorts of matters, yes.

Senator BROWN. One last question. There was discussion earlier on Senator Johanns' questions about stockholders, creditors, others getting in line but the dollars never get to them, I guess, in line. What is going to happen with people that have product liability claims, that somebody drove a Chrysler and that Chrysler malfunctioned and someone was paralyzed as a result of a defective product? What happens to their claims?

Mr. BLOOM. Again, just to be direct with you, that is obviously a very emotional and difficult issue for those people who are victims, and nobody takes delight in not seeing them get all that they would like to get. But unfortunately, again, if one looks at the way bankruptcies are conducted, bankruptcies are about taking liabilities the companies can no longer afford and finding a way to discharge them in an orderly way.

We would expect the company will act in accordance with traditional bankruptcy practice and law on how product liability claims are handled, which is to say that largely, they would be a matter for the old estate to be dealt with and therefore will not receive the full recompense they would hope. That is clearly a terrible thing for those individuals, but again, there are a lot of people that General Motors made promises to that it can't honor and we really don't have an alternative, as I said, other than to essentially write an endless check to deal with that situation.

Senator BROWN. There was no money set aside by the two big auto companies for claims like that that would have been untouched in bankruptcy proceedings, I assume?

Mr. BLOOM. There is not a separate trust or an insurance policy or anything like that. The companies are largely self-insured, both of them, on this matter. And in the Chrysler bankruptcy, there was objection on that and the judge found it to be, again, an ordinary course treatment.

Senator BROWN. Thank you again, Mr. Bloom. Thank you, Dr. Montgomery.

Senator Bunning?

Senator BUNNING. Thank you, Mr. Chairman.

Last month, Secretary Geithner told this Committee the government was going to, and I use his word, "try"—that is his word—not to interfere in choosing which plants to close or dealers to close or other specifics of bankruptcy plans. I should also note that he said he would come directly back to this Committee once GM filed for bankruptcy, but I don't see him here today. So I will ask you the question instead. Did the government in any way influence the selection of plant or dealerships to close?

Mr. BLOOM. I can answer that question very directly, Senator. The answer is no.

Senator BUNNING. OK. Thank you. For the taxpayers' sake, in GM, just to break even, the new General Motors will have to get up to a market capitalization of about $70 billion. That is roughly 15 percent higher than GM's all-time high, when as a much larger company it was selling high margin SUVs as fast as they could make them.

It seems pretty clear to me that the taxpayers will never get back their money. So please explain to me how we are going to get our money back if, in fact, General Motors' new entity has to get up 15 percent higher than the highest General Motors was in the history of the old General Motors.

Mr. BLOOM. Let me try to answer that question.

I hope I was clear, Senator, that there is no guarantee that we would get our money back. But I did say there were scenarios where I thought it was reasonable that we could.

I think the only way I would disagree with your logic is that when GM was worth 15 percent less than that, in its all-time high, piled on top of that equity was a huge amount of debt. So that the total value of the enterprise was, in fact, close to a multiple of that number.

One of the things we have done by deleveraging the company is we have given the equity more space in the total capital structure. So I think if, in fact, General Motors returned to the total enterprise value that it had in that period, in fact we would get all our money back.

But I understand those days were reliant on high-margin SUVs, *et cetera*. I do not think we would expect that those kind of times would be occurring anytime soon. So our analysis is not based on that.

I think what it is really based on, though, is a much more conservative capital structure so the total enterprise value, before the shareholders get the ownership, there are fewer deductions for the debt and other liabilities.

Senator BUNNING. We all know that the original projections of auto sales was approximately 18 million units at the all-time high. And we know that we are now sitting at about 9 million units, and that's why we are having such major problems.

Could you give us an estimate on where we would have to get to in sales to at least break even?

Mr. BLOOM. Unfortunately, it is not just one number because obviously sales matter a lot. So does market share, so does margin, so does fixed costs. So you've got four or five different variables that have an interplay.

What I can say is if you look at the company's projections, they do not project—their publicly filed projections—they do not project a return to the 18 million level, nor to the market share that they enjoyed when they had that 18 million overall industry level. So I think the company has taken a more conservative approach versus that hypothesis.

And again, as I said, it would be factoring all of those things into the other. Clearly, it will require some recovery in the economy. But I think most of us feel that at least some amount of recovery is pretty likely.

Senator BUNNING. Well, I think you're absolutely right about the economy recovering. It's a question of timing.

Mr. BLOOM. Yes, sir.

Senator BUNNING. Just like when will General Motors come out of bankruptcy. That's a question of timing. But the fact of the matter is that's very important if, in fact, we're going to have an exit strategy for us to reduce our 60 percent stakehold in General Motors.

Mr. BLOOM. It is certainly important and we're moving quickly as we can, recognizing that this is a court-driven process. As the Senator indicated earlier, we got Chrysler done in 41 days. I think, candidly, GM could be a little slower because it is a more complicated matter. But we intend to proceed as quickly as we can, recognizing that all the affected stakeholders have rights and they're going to be heard by the judge. And that's a judicial process that we certainly respect.

But you're absolutely right, the sooner we get out, the sooner we can get to organizing an IPO, the sooner we can begin to dispose of our stake. And clearly we intend to do that in as orderly a way as we can.

Senator BUNNING. Mr. Montgomery, I apologize for not asking you any questions but my time is limited. I am sorry. Thank you.

Senator BROWN. Thank you, Senator Bunning.

Senator Kohl.

Senator KOHL. Thank you very much.

Mr. Rattner—I am sorry. Mr. Bloom, a month ago, Mr. Rattner appeared before our Committee in a closed-door meeting, and he said that it would cost more to retool the Chrysler engine plant in

Kenosha, Wisconsin, and he felt that in light of that, they are better off just moving those jobs to Mexico. With all of the taxpayer money that Chrysler has received, I do not understand, in spite of his statement, why we would move these jobs to Mexico. Doesn't it make better sense to utilize the retooling fund that is available for something just such as this to retool that factory in Kenosha so that we can keep the jobs here in the United States?

Mr. BLOOM. Let me try to respond to that, Senator. First, I want to deal with a process point. I think clearly the company did a poor job of communicating with local elected officials and community folks about the Kenosha decision, and I believe the CEO has apologized for that. It was not proper, and I hope we will not have a repeat of that in terms of the communication.

In terms of the substance of the decision, again, what I hope Mr. Rattner said, because I believe these are the facts, is that Chrysler made a decision a couple of years ago to build two new engine plants, one in the U.S. and one in Mexico. And by the time of this matter coming before us, hundreds of millions of dollars had already been spent on the plant in Mexico, and also hundreds of millions of dollars on a plant in the U.S. So for us to go in and overturn that, number one, it would violate the basic principle that I indicated the President has insisted upon, which is we not interfere in the day-to-day management decisions; and, number two, just as a business matter, it would require walking away from hundreds of millions of dollars of investor capital.

So I think the reality is for reasons of both principle and practical business, this simply is not a decision that can be revisited. That is certainly a terrible event for the folks in Kenosha, and there is no way to make it a good event. The only thing I can say is I think, in fairness, the alternative was the liquidation of Chrysler that would have been far worse for everybody concerned. But certainly we appreciate the difficult situation, whether it is Mansfield or Kenosha, that these closings bring upon communities.

Senator KOHL. Mr. Bloom, last week, it was announced that a General Motors plant in Janesville, Wisconsin, was one of three plants in the running to make small cars, and if that occurred in Janesville, 1,400 workers would be put back to work. Is the auto task force working with General Motors and the Department of Energy to help retool that plant in Janesville?

Mr. BLOOM. What we are doing, sir, is trying to ensure that General Motors has a fair process where the three communities have a chance to have an open dialog with it, where they make a fair and reasoned decision and are transparent with folks about the way they are doing it. But we are not insisting that General Motors locate that factory in Janesville any more than we are in the other potential locations.

As I said in reference to, I think, a question of Senator Brown's, we are insisting that the company be forthright and that it deal fairly with Janesville as well as the other facilities. But we are not intervening and insisting that Janesville or any other place get any special consideration.

Senator KOHL. Thank you. Mr. Bloom, as you know, there have been verifications of profitable dealerships that were doing a good job, making money, employing people, doing exactly what General

Motors or Chrysler would want them to do, being notified that they have to close.

Now, what is the point?

Mr. BLOOM. Sir, the companies had determined that their dealer network was not over the long term maximizing value for the company. The company had a far greater number of dealers than their competitors per car sold, and analysts throughout the industry, I think of every stripe, have indicated that the companies are over-dealered. That causes over time the brand to degrade. It causes pressure for price cutting. It causes the dealerships to not be as attractive in terms of their physical make-up, *et cetera*. And the companies determined that to be successful, they needed to realign their dealer networks.

In that context, they persuaded us that that was generally a sound business decision, that to do it quickly, relatively quickly, was, in fact, appropriate and would get to the good result as quickly as possible. From there, it was the companies decision how to do it, which dealers to choose. And that was the decision they made. We believe—we insisted, and I think they did do it, using fair and objective criteria of what were the dealers that were selling the most cards, had the best throughput, had the best other metrics that were objective metrics. And on that basis, the company has determined that it cannot bring all its dealers forward and be successful.

This is obviously, again, a different sacrifice for those dealers, but without these sorts of difficult changes, we are not going to have a successful General Motors.

Senator KOHL. Well, I thank you. I still think your willingness to accept in this case dealerships being forced to close who may have been in business, for example, 20, 30, 40 years and are profitable, were running a business, and the point of running businesses is to make money. That is why Chrysler and General Motors are going out of business. So here you have dealerships that have a history of profitability, and yet they are still being told that they have to close, and you come before us and simply say, "Well, you know, they made those decisions and we go along with it." I do not think that is a good enough answer, sir, but perhaps it is the best you can do.

Senator BROWN. Thank you, Senator Kohl. Do you want an answer there?

Mr. BLOOM. I would be happy to, if you would like me to take another minute. I mean, I appreciate, sir, that you are not satisfied. A dealer's profitability is not the only measure of whether or not that dealer network is best serving a long-term interest of the company and all of its stakeholders. If there are too many dealers in a particular area, while it may be that an individual dealer is making money, you still have the issue of whether or not he is sufficiently investing in a showroom to get returning customers, whether or not he is pricing the product in a way that is maximizing value for all concerned, whether or not he is offering the kind of service that brings people back.

Again, these are difficult, difficult individual decisions, but if we get in there and start telling the company you can do this and you cannot do that, then we might as well make them an arm of the

U.S. Government. And I do not think anybody thinks that is the right thing to do. What we have to do is we have to give General Motors the kind of discipline to come up with a business plan that makes sense, where they can make money. We have to put a first-class board of directors in place, and again, I want to point you to Ed Whitacre and Bob Kidder, two-first class businessmen who have agreed to chair the boards of these two companies, guys who have run big, large, complicated companies, done it well, done it effectively. And I think they give you a good sense of how the Obama administration intends to treat this matter.

Senator BROWN. Thank you, Senator Kohl.

Before turning to Senator Hutchison, one comment about that. I think all of us are frustrated. On the one hand, we tell you we do not want the Government running these businesses; on the other hand, we tell you we wish that you would step in and make GM and Chrysler do this, this, and this. And I understand, we all do that. I have done that. But I think none of us has really heard—I know that a lot of the dealers think this. I know a lot of the public thinks this. I think now a lot of Senators and Congressmen and Congresswomen think this, that we have never really heard the economic argument made by Chrysler or GM to close these dealerships unilaterally the way they have, understanding they pick off in many cases those that might be the weakest in terms of profits and sales, although as Senator Kohl said, many of them are making money, many of them, he said, have been around 20, 30, 40 years. I have some in Ohio who have been around 75 years. They are closed. And it is tragic because all of the dealers do so much for the communities and all that. So I just wish that the two major companies would explain better sort of the economics of it, why they did it.

The other point I want to make—and I apologize, Senator Hutchison—you mentioned Janesville. Have you made public the three communities, if there are, in fact, three—you seem to sound like there are—that GM is looking at for the small cars? Or would you like to make that announcement right now, Mr. Bloom?

Mr. BLOOM. You know, I know there are three. I know there is one in Michigan, in Janesville. To be perfectly honest, I do not recall whether it has been made public, but we will get back to you on that.

Senator BROWN. The third one in Ohio, by chance?

Mr. BLOOM. No, comment, Senator.

Senator BROWN. Well done, Herb.

Senator KOHL. I am not telling you.

Senator BROWN. Senator Hutchison.

Senator HUTCHISON. Thank you, Mr. Chairman.

Mr. Bloom, I heard what you said to Mr. Kohl, Mr. Brown, and Mr. Johanns, and it is not coming together for me either. And I am going to refer to the March 30th White House Determination of Viability Summary for the General Motors Corporation in response to their viability plan on February 17th in which the document states, "The company is currently burdened with underperforming brands, nameplates, and an excess of dealers. The plan does not aggressively enough act to curb these problems."

It goes on to say that:

> GM has been successfully pruning unprofitable or underperforming dealers for survival years; however, its current pace will leave it with too many such dealers. These underperforming dealers create a drag on the overall brand equity of GM and hurt the prospects of the many stronger dealers who could help GM drive incremental sales.

Then, on May the 15th, the Treasury Department says that:

> As with the case with Chrysler dealer consolidation plans, the task force was not involved in deciding which dealers or how many dealers were part of GM's announcement.

So it seems to me that the task force and the Treasury is saying you did not act aggressively enough, you have not cut back on enough dealers, but you are saying to the public, Gee, we are not involved in those decisions. And, in fact, now that we know what dealers are being closed in both Chrysler and GM, there are profitable dealers that are being closed, not just underperforming. And I still do not understand when the dealer buys the car, the dealer provides the real estate, the dealer provides the showroom and the repairs and rents the signs, how is it a drag on the company, and why is the White House saying that an excess of dealers is a problem, even profitable dealers? It is a disconnect for me, I think, as well as many of my colleagues.

Mr. BLOOM. Let me see if I can answer that. I think you certainly accurately quoted the President's statement on, I think, a fact sheet from the 30th. It is certainly an accurate quote. I think what we said in addition, however, is we said that overall General Motors is burdened by excess capacity in many areas. We said that their plant footprint has excess capacity, their dealer network has excess capacity, their white- and blue-collar ranks, all of these things are not commensurate with the current size and prospects of the company.

And so what we told General Motors when we rejected their February 17th submission is you need to go back and you need to take a more aggressive approach. And, yes, that included dealers, but it included plants and it included white-collar head count and it included blue-collar head count, and it included every aspect of the company from the top to the bottom. And the company came back with a more aggressive plan to rationalize its dealer network.

I think what we said on the 15th was also true, which is we did not give them a numerical target, but we certainly did say, regarding plants, regarding dealers, regarding white- and blue-collar head count, regarding all these matters, that you need to be more aggressive, because our judgment was on the February 17th plan that they were not going to achieve the kind of profitability that would make them long-term viable.

It was their determination that this level of consolidation of the dealers was consistent with a path to long-term viability, and we did not say why not five more or ten more or five or ten less. We scrutinized the analysis in all areas and concluded that overall it was a proper plan and reflected a good business judgment and, therefore, was worth investing taxpayer resources into it.

Again, I know you find this answer not satisfactory, but the simple fact that a dealer is making money does not indicate that the dealer network in that community is maximizing revenue and repeat customers and satisfied customers and the things you need to be a successful car company.

The company's large competitors are selling cars that—excuse me, are using dealers that have more than twice as many cars per dealer sold than GM or Chrysler do. Now, some of that is due to the geographic make-up of where the sales take place, where GM and Chrysler are selling in more rural areas, but even when you compare urban area to urban area, which would be an apples-to-apples comparison, the throughput of these other companies is far higher, and our judgment and the judgment of many, many outside experts we have consulted is this is one, certainly not the only, but this is one of the reasons why the companies have not been successful.

Senator HUTCHISON. I think what makes it so hard is because there are other points where there are competing explanations. For instance, in one case, every dealer—four dealers in one town of over 100,000 people are being closed. And it is clear that a new dealer is going to be brought in. One new dealer, not one of the four that is being closed. And yet all of those dealers were doing fine.

So rather than giving the nod to one of the four that had been with you for years and years and years—I do not mean you; I mean General Motors or Chrysler. But there just seems to be a loyalty disconnect here, and also what you have just said is, OK, you want bigger dealerships that can do more volume sales, and yet you are doing bigger dealerships that—you are doing bigger dealerships, more volume, and yet in the contract that is being put forward by GM, if they sign it, they take away their right to protest now any dealer that would come in within 4 or 6 miles. So there is just so much disconnection, which is why I think the dealers are feeling so wronged about this.

And let me give you one other example of where I would like to ask if the task force is going to take a position. One of the dealers that is being closed, Chrysler in this instance, Chrysler Financial is asking for 3 percent of their loan balance to cover potential chargebacks. Now, Chrysler, of course, has now closed, but these dealers are going to be able to sell used cars, but not under the Chrysler name. So for one dealer, who has been in business for 90 years in Texas, it is a $90,000 requirement for a $1,500-a-year annual risk.

Now, is the task force going to look into that kind of requirement and say there should be some protection here with our taxpayer dollars?

Mr. BLOOM. Let me try to answer two or three of the points you raised, Senator.

Regarding the new participation agreement, I do not know if you are aware of this or not, but General Motors has been in active dialog over the recent period with both the NADA, the National Association, as well as their own Dealer Council, and I believe that NADA has put out a statement indicating that they find the modifications that have been made to the go-forward agreement, participation agreement to meet the majority of the dealer concerns. So I think concerns were raised. I think you and others brought them to the attention of GM. And I think good dialog was had, and I think a good result.

So certainly when Members of Congress bring to our attention situations, we absolutely will do everything we can to facilitate dialog between the affected stakeholder and the company. Now, we are not going to intervene and become the arbitrator of a dispute, but we certainly are going to ask and insist that the companies listen carefully to the concerns of any stakeholder, and if it is the particular situation you mentioned regarding the Chrysler dealer or the participation agreement, which is a broader issue, we are going to insist that they be listened to.

But, again, I do not want to mislead you. We are not going to substitute our judgment on every particular case. I do know in the case of the Chrysler dealers that are not being brought forward that every single car on their lots is going to be moved to another dealer with financing provided by either GMAC or other entities. And so all the dealers are going to be able to sell their cars at dealer cost.

Again, this was a matter that was raised. Members like you brought it to attention, and I think a good solution was made. We certainly see our role as monitoring and staying on top of these things, and whether it is a Senator or a mayor or anybody who identifies a stakeholder who is not being dealt with, we are going to insist on everybody getting a hearing.

But as I said earlier—I do not want to mislead you—we are not going to get in and kind of arbitrate disputes between the company and its stakeholders. We are going to insist these companies manage themselves in a commercial fashion.

Senator HUTCHISON. Thank you, Mr. Chairman. Of course, my time is up, but I would just say that unfortunately it is the taxpayers' money that you are largely managing, and I just think we have a requirement not only to help the people where plants have closed, which I think is huge and important, but also the many communities and the dealers that are getting shafted in many ways. And I do not think we as taxpayers would want to have that result, and I would hope you would be a very strong watchdog on all of their behalfs.

Thank you.

Senator BROWN. Thank you, Senator Hutchison.

Senator Bennett, thank you for your patience.

Senator BENNETT. Thank you very much, Mr. Chairman.

Gentlemen, I do not envy you your task. Let me just make it clear I recognize how difficult all of these issues are, and thank you for your diligence and your attempt to get them solved. You have probably been around Washington long enough to know that is a set-up for what is coming.

[Laughter.]

Mr. BLOOM. First 24 hours.

Senator BENNETT. Yes, OK. Just picking up a little quickly on what Senator Hutchison had to say, we will now in Utah have no Chrysler dealers from Las Vegas to Provo. And a lot of people live between Las Vegas and Provo. Now, all right, it is a rural area. There are a lot of rural areas and there are a lot of miles, but by virtue of that decision, that guarantees that there will be no possible way for Chrysler to come back in that very large stretch of population.

I have talked to some of the dealers there, and they are making the same point that Senator Hutchison is making, that if the market says, OK, there needs to be a dealer there, the dealers that have been serving Chrysler diligently for all of these decades, who have been shut out now, will not be allowed to set up the new dealership that comes along and some new kid will show up—new kid not necessarily by age, but come along and say, OK, I have this very large market now exclusively myself.

I do not know what you can do about it, but I am working with Senator Hutchison and the NADA to see what we can think about doing about it, and we are going to be talking to you about that. I just warn you that that may be coming.

Mr. BLOOM. Forewarned.

Senator BENNETT. OK. Let us talk for just a minute about the whole question now of the viability of General Motors. I take your point that the market cap can be achieved with a much better, cleaner balance sheet so that we do not have to compare the new GM to the old GM. But I would point out to you that in terms of a true vulture capitalist—a lot of people do not like that term, but that is basically what you are here as the Government. As a true vulture capitalist, you have gone exactly the wrong way.

General Motors, if a true vulture capitalist—I am quoting from Homer Jenkins, but I like what he says, and he just happens to put it better than I can.

Mr. BLOOM. I admit to reading it.

Senator BENNETT. You admit to reading it, OK. He says:

> The bailout has deeply politicized the company's business model by privileging its money-losing domestic operations, saddled with the UAW——

you may not like that term——

> over its money-making foreign ones. A truly commercial vulture investor would have done exactly the opposite, dumped North America and kept the promising businesses in China, Russia, Europe, and Latin America.

And I have talked to General Motors people in these other countries, and they are profitable in these other countries, have been profitable. It is the North American activities that have hurt them. And if indeed you were to take General Motors' production out of North America, out of the $9 million car market that Senator Bunning was talking about, it would increase the market share and thereby the profitability of all of the others.

Now, the outrage politically would have been enormous for that, but if you are going to talk in straight market terms, that would have been the thing to do.

I remember—I will just say this and then get your comment on it—reading—I cannot tell you the date now, but it is 4 or 5 years ago—a cover story in Fortune Magazine called "The Demise of General Motors." And they outlined at that time, when the economy was doing very well, that General Motors was doomed for a variety of reasons. And one of the interesting things they said was about the quality of General Motors' cars and how everybody said General Motors' cars were terrible quality, that at that time General Motors' quality had gotten back to the point where it was as good as Toyota or Honda or any of the rest of it, and they quoted an expert who said the quality is very, very good, and no one will buy them because the reputation had come along.

And we are now facing a situation where that legacy of the market is still there, and I read columnists who say, well, now the Government will insist that General Motors make good cars. I think General Motors has been making good cars for the last 4 or 5 years, but they are running into that problem.

Now, as you deal with all that, do you have a reaction?

Mr. BLOOM. Yes, I do, and let me start by trying to agree with you. I may not end there, but I think you are right. I think General Motors has been kicking problems down the road for a long time. I think that is an accurate description. I think very intelligent, thoughtful people have been talking about General Motors deep in systemic problems for a long time, and they have not been listened to. And I think the President was clear, these problems have been kicked down the road for a long time.

I also agree with you that as little as 3 or 4 or 5 years ago, GM's quality by a lot of measures was up at Toyota's, up at anybody's. The problem is, as you know, consumer sentiment lags reality because for a long time, when their transplant cars were better, GM was living on reputation, and then it flips. So these are problems that are not addressed overnight. And I think that—and so you are right, this is going to take some time to evolve.

The Government is not going to insist that General Motors make good cars. That is not something a government can insist. What we can do, and I believe what we have done, is help the company to rethink its business model and to restructure its balance sheet. So I think what——

Senator BENNETT. Let me just quickly, because I do not want to take too much more time, but isn't the Government going to focus on North America and castrate General Motors overseas?

Mr. BLOOM. Let me answer that question. I do not think it is accurate to say that we are castrating General Motors overseas. I would just observe to you, for instance, that their European operation, in fact, is also deeply troubled. And provisions are being made without United States taxpayer dollars to deal with their European operations. They do have profitable operations other parts of the world. We are encouraging them to grow those, but not with U.S. taxpayer dollars.

The decision to make an investment in GM and its North American operations is obviously because these are United States taxpayer dollars. And so while we are a vulture capitalist, we are an American vulture capitalist, and the determination was to get them competitive in North America so they can make money in North America. And that is the focus of the activity. That is the only justification for taxpayer dollars because we are trying to preserve American jobs in American communities and American suppliers and American dealers, because it is American taxpayers.

But the insistence, as any good vulture capitalist would do before he put money in, was to insist that there was a path to profitability, and to get competitive whether it be dealers or be employees or be debt level or be suppliers or be white-collar, whatever it was, to insist that General Motors get competitive so their good cars can find space in the marketplace and can be successful. And that has been the effort, and that is what we have tried to do.

Senator BENNETT. Thank you, Mr. Chairman.

Senator BROWN. Thank you, Senator Bennett.

Before adjourning, Senator Shelby has one question and I have one question. My question will be for Dr. Montgomery.

Mr. MONTGOMERY. Excellent.

Senator BROWN. We feel like you are sitting there alone, Dr. Montgomery, with little to do.

Mr. MONTGOMERY. OK.

Senator SHELBY. Do you want me to go ahead, Mr. Chairman?

Senator BROWN. Yes. Go ahead, Senator Shelby.

Senator SHELBY. Thank you. I would like to get back quickly on how we get out. We are in. We, the taxpayer, the government, is in big time. We know this. How much thought went in, just roughly, from your judgment, went into getting into GM and Chrysler and how much thought went in how do we exit? How do we get out? I think the term was used earlier, could this be an economic Vietnam?

Mr. BLOOM. Yes, sir.

Senator SHELBY. In other words, easy to get in, hard to get out.

Mr. BLOOM. I think that is a very fair question, Senator, and again, I want to try to talk about our process. There was a tremendous amount of thought and debate about whether or not an equity stake was the proper vehicle. But again, I think when you walk down our decision tree, if you decide that you are going to invest in the company because today's capital markets are not going to provide capital to this company, the need of the company for capital is not determined by us. It is determined by an analysis of the business.

But at the end of the day, the company has a forecast. You beat it up all you can, but eventually you have got to decide there is a certain amount of money that is needed. Once you decide the money is the X, then you have either got to do it as debt or equity. I mean, you could do it as a gift, but that seems crazy.

So it is going to be debt or it is going to be equity, and the problem is, when you look at Toyota, when you look at Volkswagen, when you look at Daimler, when you look at Honda, you find companies that are not levered. So I think you are driven to equity by the decision to try to maximize the return and have a successful company.

As far as the exit, it is going to be orderly. It is going to take advantage of a profitable company in our private capital markets.

Senator SHELBY. What is it going to take? I know you don't know how many years the government will be in. You don't know exactly whether or not there will be more money. In other words, GM and Chrysler, things don't work out quite as you maybe thought they would and they need more money and you go back to the well. What will it take to get them on their feet and the money back? It will have to be a pretty rosy scenario, wouldn't it?

Mr. BLOOM. No, sir, I really don't think it is. I mean—and I want to emphasize that.

Senator SHELBY. Describe the scenario you would think——

Mr. BLOOM. We believe that using a conservative set of assumptions about market share, about overall market, about margins, about costs, about all the things that would go in, we strongly believe that this is the last money that GM will require. Now, I can't make a promise about the future——

Senator SHELBY. No——

Mr. BLOOM.——but I can assure you that it has been a vigorously debated and thought about question and it is our best judgment that that is the case, that this is it.

Senator SHELBY. You say that you believe—it is your judgment, you don't believe they will need more money. Now, what is your best judgment—I know you don't know, but your best judgment on when the exit will come on behalf of the taxpayer, and will the taxpayer ever be made whole?

Mr. BLOOM. Senator, I don't have a point estimate best judgment about when we will be able to exit. I do believe that there is a reasonable probability that we can get most, if not all, of our money back. That is the way I would say it to the President and that is the way I said it to him and the way I say it to you here today.

Senator SHELBY. Do you believe it is very important for the government not to be owner of a huge industrial company?

Mr. BLOOM. I believe it is profoundly important that we exit this investment as soon as is practicable.

Senator SHELBY. Thank you.

Senator BROWN. Thank you, Senator Shelby, and I will ask my one question and I will call on Senator Johanns and Senator Corker if they would keep it under 3 minutes, if possible.

Dr. Montgomery, I want to talk about for a moment the issue of suppliers, some of their concerns. I chaired a hearing last month with the Economic Policy Subcommittee of the Banking Committee on manufacturers and access to credit. One of the witnesses was an auto supplier and the message he and his members get regularly is if you supply for autos, you are on a black list and banks won't loan to you.

The administration stated that the updated SBA loan program is a source of credit for them. That is not what we found typically, because loan eligibility is determined by banks and banks are not making those decisions affirmatively for them. So I want to know what the administration's plans are for SBA specifically for loans for them.

Are there other things we can do beyond promoting diversifying into new clean energy areas through MEP, through the Manufacturing Extension Partnership? What is the plan to provide financing? Are there National Emergency Grants for non-traditional auto-related workers, like dealers and suppliers? Are there new authorities from Congress, like the Defense Production Act? I just want to pick your brain for a moment on how do we get this. How do we get suppliers financed when credit is still pretty frozen if you are an auto supplier?

Mr. MONTGOMERY. My impression, Senator, is that obviously the issue that you raised about suppliers and having access to credit is one that we hear a lot, I heard a lot as I have traveled through the Midwest States. The administration obviously has tried to move on a variety of fronts from the supplier program under the

TALF, TARP, to the SBA 7(a) expansion to the floorplan for using collateral, all three of which are trying to provide various different participants in the industry credit.

There are additional mechanisms to support dealers or to support workers. You had mentioned NEG grants, National Emergency Grants. Those are typically available for retraining, not as a matter of collateral, but there are ways that you can support the workforce at dealers through the provision of National Emergency Grants. And, in fact, the States of Ohio, Indiana, and Michigan—Ohio and Michigan have come in for National Emergency Grants and have used those. Minnesota came in for a National Emergency Grant to support a pooling of dealers, all of whom were relatively small in size but in aggregate the total effect was fairly significant in terms of dealer layoffs. So they did come in for a National Emergency Grant.

So there are a variety of different mechanisms. The SBA is one. Agriculture has ways to support rural facilities and getting credit out to them. So there are a variety of different mechanisms we are already looking at and obviously we are trying to monitor going forward. I am told from the Small Business Administration that volume has picked up in the last couple of months and I think there are some positive signs, but clearly not out of the woods yet.

Senator BROWN. Thank you.

Senator Corker?

Senator CORKER. Thank you, Mr. Chairman, and thank you both again for being here. My temperature got a little up with some of the revisionist statements about some of the past, and I didn't get to the point of I do want to thank you guys for your service. Even though I know that your political biases are showing in many ways throughout this bankruptcy and I feel like some of the decisions should have been made in different ways, that doesn't take away from the fact that you are away from your families and you are doing things that certainly are not as productive for you financially as in other ways.

That sort of takes me down the path. I know we have talked—I have a bill, look, if you guys decide to close every dealer, I guess, in the country, that is certainly your decision. I have a bill that just states—and I hope I don't have to offer it—that states that you will at least make whole dealers that you close for their inventories and parts, and we actually have talked some with GM. I think they plan on doing that with all of their dealers and I know they are going through a transition period.

I do think that when you look at the history of Chrysler and the fact that the executives there, Jim Press and others, were actually pressing dealers to take inventory, and in some ways even kind of threatening them. We have seen evidence of some pretty heavy-handed stuff. If you are going to be part of our dealer network—this was 6 months ago—then you have to take delivery of these cars so we can show them as sales.

And I think that the way, again, a political decision that you made, because the amount of money could not have been that large, but the decision that you made in this bankruptcy to take these people all across the country that are small business people, that borrowed money, that have signage and may have borrowed

$400,000 or $500,000, a couple million in some cases to revamp their dealerships, and to basically say, you are terminated, you are toast and we are not even going to take you out of your automobiles and parts which we forced you to take during our time of need, that was a decision that you and this Task Force made.

You decided—when I say God-like, I mean, a 363 bankruptcy is pretty much a God-like kind of thing. I mean, you decide the winners and losers and it marches on. The Supreme Court, by the way, just said they wouldn't take the case. They didn't say grace over the decisions.

But back to the Chrysler issue. Is there no ill feelings on behalf of the Task Force with those decisions about just saying to all these small owners across the country that have borrowed money, that have taken inventory to try to keep the company alive and basically you all are saying, you are toast because we don't need you anymore?

Mr. BLOOM. Well, again, Senator, I think that, as I said, the list of victims of a failed corporation is very wide and it certainly includes dealers. I think——

Senator CORKER. And we are not trying to get you to reinstate dealers you don't need——

Mr. BLOOM. I understand——

Senator CORKER.——but just taking care of their liabilities.

Mr. BLOOM. I do believe that Chrysler has agreed to buy back all of the cars from the dealers whose franchise agreement is not being renewed and I believe that is being effectuated. My understanding is there is continuing dialog between Chrysler and the dealer and others like you about what to do about the parts. I can assure you, we will stay on top of it. We will continue to monitor it. These are not our decisions, but we are certainly in favor of the company working, whether it be Senators or dealer representatives or anybody, to try to achieve fair and equitable resolutions.

I do think, in fairness, that the intervention of you and others has produced a better result for the participation agreement going forward on GM. It has produced a better result for the cars for the Chrysler dealers who are not being taken forward. And we would expect that dialog to continue.

And the role we are going to play is to continue to encourage the companies to work with affected constituents to try in a commercial way to deal fair and equitably. But we are not going to insist that they do X or Y because we are not running these companies.

Senator CORKER. Right, and I know my time——

Senator BROWN. I am sorry. Time is up.

Senator Johanns? I apologize, Bob. Senator Johanns?

Senator JOHANNS. Thank you very much.

You know, I have to tell you at the end of this hearing, and it has been a long afternoon and we appreciate your patience, it is our government that comes across as heartless and indifferent, indifferent because you keep saying, well, even though we own 60 percent, we don't want to be in the middle of this. We don't want to run it. But you own it. I don't know how you sustain that position over time.

And then Senator Brown asked a really good question about product liability claims. It reminded me of a very poignant letter

I got from a lady back home in Nebraska, a quadriplegic, injured in an auto accident with a Chrysler product, battles Chrysler for years and years and years, finally right on the edge of getting into court and the bankruptcy is filed. And of course she is not going to get anything from Chrysler. You know that, and yet you said in your testimony, well, she probably won't get as much as she wished. Come on. She is not going to get anything. You file a stay of bankruptcy, then you file a discharge and the case is over.

We put billions of dollars into this company and then jobs go to Mexico while people here in the United States are losing their jobs, and yet we say, well, we are not going to touch that. We don't want to run this company. How many years can this go on?

Mr. BLOOM. Well, I guess I would say this, sir. I am sorry that you feel like we have been heartless. I think we have worked to save hundreds and hundreds of thousands of jobs and thousands and thousands of dealers. The alternatives for this company—both of these companies—was nothing for anybody, and the alternative that we have managed to craft here, while it is very painful for many—very painful for many—preserves businesses that can be successful going forward, can provide tens and tens of thousands of Americans with jobs, thousands of successful dealers, hundreds of thousands of supplier jobs, and strong communities.

So I think while it has been exceedingly painful and I would not debate a word you say about the particular circumstance or dozens of others that I am sure exist, I think when you balance it out, what has happened here, while very, very difficult, has been a remarkable act of trying to save two great American companies at great sacrifice to many, but in the aggregate, I believe it is far, far better than the alternatives that we faced. But that is our judgment and I certainly respect people's right to disagree with it.

Senator JOHANNS. I will wrap up with this with the 20 seconds I have. Hard decisions are best made in a transparent sort of way. For Congress to wake up like the rest of the American public on Monday and find out that over the weekend we had bought General Motors with all of the problems associated with it is really outrageous—really outrageous.

Thank you, Mr. Chairman.

Senator BROWN. Thank you, Senator Johanns. Thank you, Senator Corker. Thanks to both of you for remaining. If you have further questions, either of you or anyone else, the record will remain open for seven more days.

Dr. Montgomery, thank you for being here and thank you for your service. Mr. Bloom, thank you for being here and thank you for your service.

The Committee is adjourned.

[Whereupon, at 4:52 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions follow:]

PREPARED STATEMENT OF SENATOR SHERROD BROWN

Thank you, Mr. Chairman.

I want to thank our witnesses, Mr. Bloom and Dr. Montgomery, for joining us. I appreciate your service.

Over the past few months, I have had several conversations with each of you because the auto industry crisis is a crisis for my State.

This crisis hit home in Mansfield, Ohio, where GM has one of its best stamping plants. Workers at this plant were asked to make concessions over the past 2 years, and they did. They were asked to produce in an exceptionally efficient manner, and they now rank at or near the top across a range of performance standards. Mansfield played by the rules, did all that was expected of them, and made it to the top ranks of GM stamping plants. Yet GM has decided to close this facility.

This crisis hit home in Twinsburg, where Dr. Montgomery recently visited. Twinsburg is home to the most modern stamping plant in Chrysler's network. It ranks among the highest in safety and productivity. Yet Twinsburg workers and their families got the rug pulled out from under them last month.

The crisis is playing itself out every single day as auto suppliers struggle to find credit. If a manufacturer has auto customers, banks seem to put them on a "black list" and do not want to extend any loans, even those backed by the Small Business Administration (SBA).

The crisis is playing itself out in Warren and Dayton where Delphi salaried retirees played by the rules are left without the pensions they deserve.

These stories from Mansfield and Twinsburg are unfortunately not unique.

There are more stories . . . stories from small Ohio towns like Trotwood, Van Wert, and Greenwood, and from other areas across Ohio and throughout the Midwest.

That is why it angers me when I hear these restructuring proposals for Chrysler and GM portrayed as giveaways to the United Auto Workers. They are far from giveaways; American autoworkers, their families, and their communities are taking it on the chin.

Just 3 years ago, there were 250,000 members of the UAW. After these GM and Chrysler restructurings, the number of members will be below 100,000.

Those are men and women like you and me. They work hard, they support their families, and they are watching as their chance at the American dream goes up in smoke.

It's an American tragedy. And anyone who dismisses it should be ashamed.

Wages have decreased, and for entry level workers wages have frozen. Key health care benefits were eliminated for both active and retired workers.

These concessions, combined with swapping GM's contributions owed to the VEBA with stock, a step that will increase risks for retirees, will save GM billions.

Every facet of this restructuring has an impact on hard-working Americans, on their communities, their states, and the Nation as a whole.

It is absolutely critical that there are no missteps that victimize Americans, jeopardize the industry's recovery, or shortchange our economy.

I look forward to hearing Mr. Bloom's thoughts on the Treasury Department's strategy for using TARP funds to aid the auto industry.

I also look forward to Dr. Montgomery's vision for the auto communities he is dedicated to assisting.

In moving forward today, I'd like to pose a couple of thoughts and questions for Mr. Bloom and Dr. Montgomery's consideration.

Is the government doing everything it can to protect and create American jobs?

Is the government ensuring that top-performing segments of Chrysler and GM aren't sacrificed because of information gaps, expediency, or politics?

I held a conference call with mayors from auto communities. Nearly all of them raised the fact that they may need to eliminate police and fire personnel because of the shortfall in tax revenue from plant closings. Some mayors already have.

The worry from these mayors reminds us we are talking about more than jobs and bottom lines. In short, what kind of return do the American people deserve on this investment?

Thank you again for your service, and I look forward to your testimonies.

PREPARED STATEMENT OF SENATOR MICHAEL F. BENNET

I'd like to thank Mr. Bloom and Mr. Montgomery for appearing here today. Both of these witnesses have an extremely difficult and delicate task of confronting the severe financial condition of our domestic automobile industry, and assisting the communities that are grappling with staggering job losses.

A liquidation of our domestic auto industry would have devastated our already struggling economy, caused painful job losses and impacted countless other business sectors, which depend on the continuing vibrancy of the Big Three.

All of this being said, however, I'm extremely concerned about the rapid increase in our budget deficit. Our fiscal trajectory is unacceptable in the long run. The CBO recently concluded that the debt held by the public could reach 62 percent of the GDP in 2011 and that's assuming that our economy continues to recover. I look at my three daughters and worry that our inability to control our deficits today will affect their opportunities and their children's opportunities. There is enough blame to go around. Washington in recent years simply did not act to secure the nation's fiscal health. And now, with this economic emergency leading to unexpected spending, we need to be thinking beyond the near term. As our economy turns around, we'd better have a plan for restoring the fiscal health of this country.

Given this backdrop, we must think very carefully about the government's future involvement in the domestic auto industry. The Auto Task Force must begin planning *now* for how to remove the government from the auto business. 'Exit strategy', a term that has rightly been applied in other contexts, is an appropriate topic here today also. I think an exit strategy from the auto industry ought to encompass three basic goals:

(1) seek to reform and repair the auto industry so it can compete in the long run,

(2) get out as soon as is practicable, and

(3) retrieve as much of the taxpayer investment as is practicable.

I'd like to elaborate for a moment on this third goal of protecting the taxpayer investment. Our exit strategy from GM and Chrysler should seek also to minimize any further financial exposure to the American taxpayers. This will not be an easy task given the government's substantial stake in GM and the weakened condition of the company.

I look forward to hearing from our witnesses about how to make this work. Also, I will be listening for testimony about the specific components of the restructuring. It is extremely important that we get this right-both from the perspective of the American taxpayer and the tens of thousands of people whose livelihoods depend upon a functioning domestic auto industry. If we don't do this correctly, we will only have increased the national debt and invited even more taxpayer subsidies.

Thank you Mr. Chairman.

PREPARED STATEMENT OF RON BLOOM

SENIOR ADVISOR, TREASURY DEPARTMENT

JUNE 10, 2009

Good morning.

Chairman Dodd, Ranking Member Shelby, members of the Senate Banking Committee, thank you for the opportunity to testify before you today.

Introduction

Over the past several months, the Obama Administration has been working to manage an historic crisis in the American auto industry. President Obama inherited an auto industry that had lost 50 percent of its sales volume and over 400,000 jobs in the year before he took office. Two companies—GM and Chrysler—had received substantial loans from the prior Administration and were requesting substantial additional assistance that only a government could provide.

Without additional assistance, both of these companies faced uncontrolled bankruptcies and almost certain liquidation, which would have caused substantial job loss with a ripple effect throughout our entire economy. However, President Obama was unwilling to put additional tax dollars on the line unless these companies and their stakeholders were willing to fundamentally restructure, address prior bad business decisions, and chart a path toward long-term financial viability without ongoing government assistance.

Therefore, the President decided to give both GM and Chrysler a chance to work with their stakeholders and secure the sacrifices necessary to make them stronger, leaner, and more competitive in a way that would justify an investment of additional taxpayer dollars. In only a few months, both GM and Chrysler—working with their stakeholders and the President's Auto Task Force—have achieved a level of restructuring that many thought impossible. In virtually every respect, the concessions these companies have secured exceed the restructuring conditions included in the December 2008 loan agreements to GM and Chrysler. While difficult, these actions position both companies for future viability. As a result, the President has decided to stand behind these restructurings with additional financial assistance. Consistent with the prior Administration's loan agreements, this assistance is being provided from the U.S. Treasury out of the TARP program.

After proceeding through a fair and open bankruptcy process, the new Chrysler-Fiat alliance has now been approved and is scheduled to close its sale agreement on Wednesday June 10, 2009. While General Motors is likely to take somewhat longer to move through the bankruptcy process, we are confident that it too will emerge quickly as a stronger more viable global company.

This restructuring process has required deep and painful sacrifices from all stakeholders—including workers, retirees, suppliers, dealers, creditors, and the countless communities that rely on a vibrant American auto industry. But the steps that the President has taken have not only helped to stabilize the auto industry and saved hundreds of thousands of jobs—but for the first time in decades—they have also given GM and Chrysler a chance to become viable, competitive American businesses with bright futures.

President Obama's Auto Task Force

In recognition of the unique role of the American auto industry to our economy and the multifaceted challenges that industry was facing, on February 15, 2009 the President appointed an Auto Task Force to oversee his Administration's efforts to help support and restructure the industry. The Task Force is co-chaired by Treasury Secretary Timothy Geithner and National Economic Council Director Lawrence Summers, and includes representatives from a broad range of agencies and offices throughout the executive branch.[1] The Task Force is staffed by a joint Treasury-NEC team, of which I am a senior member. This team reports to the Task Force and its co-chairs, who report up to the President.

From the beginning of this process, the President gave the Auto Task Force two clear directions regarding its approach to the auto restructurings. The first was to refrain from intervening in the day-to-day management of these companies. Our role has been to act as a potential investor of taxpayer resources, and as such we have not become involved in specific business decisions like where to open a new plant or which dealers to close. This is the job of management and while we have been engaged in dialog and discussion about their approach, we have not substituted our judgment about specific decisions for theirs.

Second, the President was clear that he wanted us to behave in a commercial manner—that is to be sure that all stakeholders were treated fairly and received neither more nor less than they would have, simply because the government was involved.

Because the investments made by both the prior and current Administrations to support the auto companies have come from the TARP, the Task Force and its staff's activities have been subject to the full range of disclosure and reporting requirements under the EESA statute. This includes oversight by the GAO, EESA's Financial Stability Oversight Board, and the Special Inspector General for TARP or "SIGTARP," and the Congressional Oversight Panel established under EESA, as well as required reporting to multiple House and Senate committees.

Chrysler

On February 17, 2009, Chrysler submitted a detailed business and operating plan for assessment by the Auto Task Force. While this plan took several steps to restructure the struggling Company, it did not go far enough to address Chrysler's issues with scale, quality, technology, and product portfolio. For these and other reasons, on March 30 the President announced that he had determined that as a stand-alone company, Chrysler was not viable. However, The President also determined that Chrysler could achieve viability through a partnership that addressed the shortcomings of its viability plan. The partner most likely to fill this role was the international automobile manufacturer, Fiat.

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[1] The other members of the Task Force are the secretaries of Transportation, Commerce, Labor, and Energy, along with the Chair of the President's Council of Economic Advisers, the Director of the Office of Management and Budget, the EPA Administrator, and the Director of the White House Office of Energy and Climate Change.

Over the next month, Chrysler worked closely with Fiat and its other stakeholders to secure the necessary concessions to reach agreement around a viable partnership. On April 30, the President determined that Chrysler had made sufficient progress in its commercial viability to justify an additional investment of U.S. taxpayer resources. In order to effectuate these agreements, on April 30 Chrysler filed for bankruptcy. One month later, after a court process that gave all creditors a chance to raise their concerns, the bankruptcy court approved the sale of substantially all of Chrysler's assets to the new Chrysler-Fiat Alliance. On June 5, this judgment was affirmed unanimously by a three-judge panel of the Second Circuit Court of Appeals. On Tuesday, June 9 the U.S. Supreme Court denied an application to stay the closing of the Chrysler-Fiat Alliance.

As a result, the new Chrysler-Fiat Alliance is scheduled to close its sale agreement on Wednesday, June 10, 2009 and successfully emerge from the bankruptcy process. When that occurs, Chrysler's future success will be in the hands of its executives, managers, and workers—as it would be for any private company. But the President's commitment to completing this alliance in this short period of time helped ensure that tens of thousands of jobs that would have been lost if Chrysler had liquidated will now be saved.

Reaching this point with this historic alliance was only possible because of an unprecedented degree of sacrifice from Chrysler, Fiat, and all their key stakeholders:

- *The UAW has made important concessions on wages, benefits, and retiree health care.* These concessions have brought Chrysler's compensation in line with Toyota and other transplants. In addition, the UAW retirees exchanged a $10 billion fixed obligation to the VEBA retiree health trust for a $4.6 billion unsecured note and stock in the new Chrysler. This arrangement shifts substantial risk onto the retiree health care trust and will likely result in meaningful reductions in retiree health care benefits for Chrysler's 150,000 retirees. While the Trust, beyond a single seat on the Company's Board of Directors, will have no role in the governance of the Company, the ability of the Trust to provide decent benefits over the long-term will require that the Company's stock become valuable, thus importantly aligning the interests of the Company and a key stakeholder.
- *Chrysler's largest secured creditors agreed to an exchange of $2 billion in cash for their $6.9 billion in outstanding secured debt.* The Court determined that the $2 billion was well in excess of the liquidation value of Chrysler [2] and thus found this to be a very normal and conventional treatment of secured creditors in the bankruptcy process. In addition, it was always made clear to the secured lenders that no one contested their right and they were therefore free, to take their collateral and do with it as they pleased, including either liquidating the company or operating it Instead, they made a commercial choice to take their recovery in cash.
- *Chrysler and Fiat determined that meaningful actions were required to reduce the overcapacity in both the Company's plant footprint and dealer network. Therefore the restructuring included reductions in plants and dealers across the United States.* These decisions, while difficult, will help make Chrysler more competitive and help ensure the success of the Company in the future. Importantly, as part of its dealer rationalization effort, Chrysler has made clear that every dealer that is not receiving a franchise agreement going forward has a guarantee that they "will be made whole, less inspection and shipment costs, for all remaining inventory."[3]
- *The U.S. and Canadian governments have provided working capital and exit financing to support the Chrysler-Fiat Alliance.* The total funding provided by the U.S. Treasury for this effort is $8.1 billion, with the governments of Canada and Ontario providing just over $2 billion.

The Company's successful emergence from bankruptcy, in conjunction with financial support from the U.S. and Canada, would put the new Chrysler-Fiat Alliance on solid footing to succeed and generate jobs well into the 21st century.

General Motors

On March 30, 2009, President Obama laid out a framework for General Motors to achieve financial viability. This framework required the company to rework its business plan, accelerate its operational restructuring and make far greater reduc-

[2] $800 million on the high end of the range, as cited in the Opinion Granting Debtor's Motion Seeking Authority to Sell, Judge Gonzalez, filed 5/31/09, page 19.

[3] Memo from Steve Landry, Chrysler, to All Chrysler, Dodge, and Jeep Dealers, Dated June 5, 2009.

tions in its outstanding liabilities. After 2 months of significant work by the company's management and engagement with its stakeholders, GM developed such a plan. As a result, the President deemed GM's plan viable and on June 1, 2009 committed approximately $30.1 billion of additional Federal assistance from the TARP to support the company's restructuring. To effectuate its plan, General Motors filed for bankruptcy protection and will utilize Section 363 of the bankruptcy code to clear away the remaining impediments to its successful re-launch.

As with Chrysler, every one of the company's stakeholder has made substantial sacrifices as part of this process. These sacrifices include:

- *The UAW made significant concessions on compensation that will result in wage rates comparable to foreign competitors. In addition,* The GM VEBA retiree health trust exchanged a $20 billion fixed obligation for a $2.5 billion note and stock in the new GM (in the form of $6.5 billion in preferred stock, 17.5 percent in common equity of the new GM and warrants to purchase an additional 2.5 percent in common equity at a $75 billion strike price).
- *Unsecured bondholders agreed to exchange $27.1 billion of their claims for 10 percent of the equity of new GM, plus warrants for an additional 15 percent of the new Company.* This outcome allows the bondholders to recover more than what was implied by the market price of their bonds, and substantially more than they would have recovered if the government had not intervened and GM had liquidated. Prior to the bankruptcy filing The Steering Committee of a group of GM bondholders confirmed that a majority of GM's bondholders supported the deal, and the percentage of individual and institutional bondholder in supporters is now over 55 percent. The bankruptcy court process will be used to confirm this treatment for those bondholders and other unsecured creditors that failed to accept or did not participate in the offer.[4]
- *GM has designed and announced a reduction in its dealer network and reduction in its plant footprint.* These steps are part of the company's broad effort to right-size the business to reflect current and expected levels of demand. The resulting GM will operate with a dramatically improved cost structure that lowers its breakeven point to a 10 million annual unit environment compared to a prior breakeven point of more than 16 million. Because of the reduced debt and other post-retirement benefit obligations, New GM will have credit statistics consistent with well capitalized peers. This provides the company with a path to a sustainable future.
- *The U.S. and Canadian governments will provide substantial financial assistance to support this restructuring.* GM will receive $30.1 billion in new assistance from the U.S. Treasury under the TARP program.[5] In return, the U.S. Treasury will receive $8.8 billion in debt and preferred securities as well as a 60 percent equity stake in the restructured company. (The U.S. Treasury's equity stake is about 50 percent on a fully diluted basis). The Governments of Canada and Ontario will invest $9.5 billion and receive a proportional share of each of these securities.

While GM's restructuring plan will result in substantial short-term sacrifices including further job reductions and dealer closings, the long term result will be a more competitive American automobile industry that will continue the long history of American growth and innovation.

Understanding the U.S. Government's Ownership Stake in General Motors

As the President has made clear, The Obama Administration is a reluctant shareholder in General Motors. We inherited a situation in which GM needed substantial capital that only the government could provide. At the same time, GM had been hobbled for years by an unsustainable debt burden. In this context, piling on irresponsible amounts of new debt on top of the new GM would have simply repeated the mistakes of the past. Likewise, giving away the equity stake to which taxpayers were rightly entitled would have been irresponsible.

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[4] While some unsecured creditors—including trade creditors and warrantee holders—will receive substantially greater recoveries than the unsecured bondholders, this reflects conventional and well-settled bankruptcy practice. As Judge Gonzalez explained in the Opinion Granting Debtor's Motion Seeking Authority to Sell, filed 5/31/09, page 1: "The sale transaction for which authorization is sought (the "Sale Transaction" or "Fiat Transaction") is similar to that presented in other cases in which exigent circumstances warrant an expeditious sale of assets prior to confirmation of a plan. The fact that the U.S. Government is the primary source of funding does not alter the analysis under bankruptcy law."

[5] Total UST commitment for GM is $49.5bn, of which $19.4bn was funded prior to bankruptcy filing on June 1st. UST commitment to debtor-in-possession funding is $30.1bn.

Therefore, the Administration made the decision to take the equity that taxpayers are entitled to, alongside a firm conviction to manage that investment commercially and exit our position as quickly as is practicable. The Administration has articulated a set of four principles that will govern its approach to managing ownership interests in financial and automotive companies that will apply directly to the government's approach to GM:

- *The government has no desire to own equity stakes in companies any longer than necessary, and will seek to dispose of its ownership interests as soon as practicable.* Our goal is to establish strong and viable companies that can quickly be profitable and contribute to economic growth and jobs without government involvement.
- *In exceptional cases where the U.S. Government feels it is necessary to respond to a company's request for substantial assistance, the government will reserve the right to set upfront conditions to protect taxpayers, promote financial stability and establish the foundation for future growth.* When necessary, these conditions may include restructurings similar to that now underway at GM as well as changes to ensure a strong board of directors that selects management with a sound long-term vision to restore their companies to profitability and to end the need for government support as quickly as possible.
- *After any up-front conditions are in place, the government will protect the taxpayers' investment by managing its ownership stake in a hands-off, commercial manner.* The government will not interfere with or exert control over day-to-day company operations. No government employees will serve on the boards or be employed by these companies.
- *As a common shareholder, the government will only vote on core governance issues, including the selection of a company's board of directors and major corporate events or transactions.* While protecting taxpayer resources, the government intends to be extremely disciplined as to how it intends to use even these limited rights.

Steps to Stabilize Auto Finance Market

A viable auto industry requires automotive financing for dealers and consumers. The vast majority of automobile purchases in the U.S. are financed, including an estimated 80–90 percent of consumer purchases and substantially all dealer inventory purchases. As Chrysler wrote in their viability plan, "[t]he availability of credit for automotive customers and dealers is the single most important element of Chrysler's viability."

Following the collapse of Lehman Brothers, credit availability to auto dealers and consumers was severely impaired. The impact of the contraction of credit was dramatic: loan approval rates dropped, interest rates increased, and financing terms tightened. This was particularly true for domestic manufacturers, most acutely for Chrysler and General Motors products as uncertainty about the future of the companies impaired the ability of GMAC and Chrysler Financial to access the capital markets.

With Chrysler posed for a successful reorganization through a sale to the New Chrysler entity, the brighter prospects for General Motors in the context of the U.S. Treasury's support of GM's reorganization, the stabilization of the value of domestic automobiles, and the creation of healthy dealer networks, credit spreads in auto asset-backed securities markets have tightened considerably in recent weeks. For example, the spread against comparable 3-year Swap rates of prime automotive retail AAA ABS have tightened by roughly 100 basis points since March and 400 basis points from their peak of more than 600 bps in November 2008. However, the current spread of 200 basis points is still above historical averages of less than 25 bps.[6]

Having the capital markets recognize the stability of the value of domestic automobiles as collateral will be the most effective mechanism for improving the provision of credit to automotive dealers and consumers. Until that time, as with many lending markets in the current financial crisis, some government support of the U.S. automotive financing marketplace has been and will continue to be required to ensure that U.S. dealers and consumers have access to the necessary financing to buy cars. To date, the U.S. Government has provided support to the automotive finance sources through a number of notable programs:

- *TALF, the joint U.S. Treasury and Federal Reserve program, in which automotive finance companies have raised over $16.8 billion for retail and lease lend-*

[6] Source: Deutsche Bank Auto Industry Outlook, May 28, 2009, and FRBNY TALF June Subscription Report.

ing through June 2009. Issuers participating in this program include Ford, Nissan, BMW, CarMax, and Honda, among others (Ford issued $3.0 billion of TALF-supported retail financing in March, and an additional $1.9 billion of retail and $0.8 billion of lease TALF-supported financing in June). While dealer floorplan loans are eligible under TALF, the rating agencies must make their own independent determinations, and the rating agencies have not rated floor plan securities AAA, regardless of the credit enhancement offered. The Federal Reserve and Treasury continue to review and study the eligibility requirements across asset classes.

- *U.S. Treasury support for automotive finance companies.* In January, the Bush Administration loaned $1.5 billion to a subsidiary of Chrysler Financial to enable Chrysler Financial to continue making retail auto loans to creditworthy Chrysler customers during the first quarter of 2009. More recently, the U.S. Treasury invested an additional $7.5 billion of capital in GMAC to fulfill two goals: (1) to enable the company to take on financing for Chrysler dealers and customers, and (2) to increase the company's capital by addressing a portion of its capital needs as identified through the stress test process GMAC completed with the Federal Reserve. As a result, GMAC, which has been a leader in providing automotive credit since 1919, is healthier and more diverse, and therefore well positioned to continue to finance creditworthy GM and Chrysler dealers and customers. As of Tuesday, June 9, 2009 GMAC has made significant progress on-boarding Chrysler dealers for both retail and wholesale floor plan financing. Retail on-boarding is nearly complete, with 2,288 Chrysler dealers (96 percent of all go-forward Chrysler dealerships) activated and ready to submit retail applications to GMAC. Wholesale floor plan on-boarding continues as planned, with 1,491 dealers activated and ready to finance new units (representing 90 percent of all go-forward dealerships that were previously financed by Chrysler Financial or GMAC). Finally, GMAC is prepared to fund the redistributed vehicles from rejected dealers to the go-forward dealers it finances (estimated 15,000 units).

Stabilizing the Auto Supply Base

Because of the credit crisis and the rapid decline in auto sales, many of the nation's auto parts suppliers have been unable to access credit and have been facing growing uncertainty about the prospects for their businesses and for the auto companies that rely on them. Suppliers that ship parts to auto companies generally receive payment about 45–60 days after shipment. In a normal credit environment, suppliers can either sell or borrow against those commitments-so-called "receivables"—in the interim period to pay their workers and fund their ongoing operations. However, due to the current uncertainty about the ability of the auto companies to honor their obligations, banks have been unwilling to extend credit against these receivables.

On March 19, 2009 the U.S. Treasury announced a $5 billion Automotive Supplier Support Program to help address this problem.[7] Any eligible domestic auto company may participate. This program has provided the necessary stability to suppliers and the OEMs at a critical time. Nonetheless, the Task Force is mindful of the continuing challenges facing auto suppliers and is continuing to actively monitor the health and state of the supply base during this period of industry restructuring.

Conclusion

In a better world, the choice to intervene in the companies would not have had to be made. But amid the worst economic crisis in three-quarters of a century, the Administration's decisions avoided a devastating liquidation and put a stop to the long practice in the auto industry of kicking hard problems down the road. While difficult for all stakeholders involved, these restructurings provide GM and Chrysler with a new lease on life and a chance to fundamentally restructure and succeed.

[7] The Program is implemented through a special purpose vehicle ("SPV") and functions as follows: The OEMs initially identify critical suppliers to participate in the Program. Once included, the OEM submits receivables of the Suppliers eligible for the Program. For those receivables, a participating supplier is entitled to be paid directly from the SPV. Suppliers have the option of receiving payment immediately, in which case they pay a 3 percent discount, or receiving payment under the supply contract's normal payment terms (usually 45–60 days), in which case the supplier pays a 2 percent discount. In either scenario, since the supplier receives payment from a government-funded SPV, the payment is certain. When the OEM's payment is due to the supplier under the terms of their contract, the OEM makes the payment to the SPV. The SPV thus bears the risk of the OEM's non-payment, and the supplier is secure.

PREPARED STATEMENT OF DR. EDWARD MONTGOMERY

DIRECTOR FOR RECOVERY FOR AUTO COMMUNITIES AND WORKERS

JUNE 10, 2009

State of Domestic Autombile Industry

Chairman Dodd, Ranking Member Shelby and members of the Committee, thank you for the invitation to testify today. As the recently appointed Director for Recovery of Auto Communities and Workers, I appreciate this opportunity to discuss assistance being provided to or being sought by communities and workers affected by auto job losses.

As you are well aware, the current recession is arguably the most severe since the Great Depression and has had a profound impact upon our businesses, workers and homeowners throughout the country. Whether measured by housing prices or stock prices, the overall impact on consumer wealth has been substantial. But the consequences of the recession have not just been felt in our savings accounts and in the value of our assets; they have rippled through corporate and small business profitability and in layoffs and job loss.

According to the Bureau of Labor Statistics (BLS), our nation has lost 6 million jobs since the recession began in December 2007. The unemployment rate has surged to 9.4 percent—the highest level in 26 years. Those who lose their jobs are stuck in unemployment for longer periods of time as the number of long-term unemployed (those jobless for 27 weeks or more) rose to 3.9 million in May or an increase of about 2.6 million since the start of the recession. Among those lucky enough to keep or find a job, the number of people working part-time because they can't get a full-time job has increased by over 4.4 million over the same period, to 9.1 million workers.

As striking as this decline is for the country as a whole, the situation is even more severe in much of the auto manufacturing heartland. Over 300,000 jobs have been lost in motor vehicle and parts manufacturing since December 2007 and some states such as Wisconsin and Delaware face the prospect of the closure of all of their automobile production facilities. In April, the unemployment rate in the three largest automobile states was 12.9 percent in Michigan, which has the highest rate in the nation, 10.2 percent in Ohio and 9.9 percent in Indiana. While employment among the traditional Detroit 3—Chrysler, GM and Ford—is concentrated in these three states in the upper Midwest, the auto industry, including the operations of foreign-based manufacturers and their suppliers, has spread out down the center of the country through Kentucky and Tennessee to Alabama, Mississippi, and Texas. In Kentucky and Alabama, which are the home of the fourth and fifth greatest number of reported motor vehicle manufacturing jobs, the unemployment rates are also near double-digit level.

It is hard to overstate the significance of this industry for the economic life of millions of Americans. The Center for Automotive Research (CAR) lists 281 counties in 27 states where substantial income or earnings comes from the automotive industry. The BLS estimates that nearly 650,000 workers are employed in motor vehicle and parts manufacturing. Adding auto or motor vehicle dealers to the mix, the reach of the automotive industry is expanded by over another million workers in nearly every community in the country. Besides those directly employed in the production of vehicles and suppliers of parts, it has been estimated that as many as 7.5 additional jobs are created for every assembly plant job in industries ranging from steel to glass, from aluminum producers to construction companies or health care providers.[1] While there is often a tendency to focus on the Original Equipment Manufacturers (OEMSs) and their suppliers when discussing the auto industry, auto dealers also represent a significant source of employment and business activity in nearly every community. This industry has been the source of R&D investment and countless innovations that have helped make our economy a technological leader, as well as created millions of well-paying jobs that help build our middle class.

While the recession has had a profound impact on the auto industry and the communities where it resides, it is important to recognize that contraction in the American auto industry did not begin in 2008. In February 2000, the BLS reported that 1.3 million workers were employed in motor vehicle and parts manufacturing. With

[1] McAlinden, Sean P. and George A. Fulton. Contribution of the Automotive Industry to the U.S. Economy in 1998: The Nation and Its Fifty States. A Study Prepared for the Alliance of Automobile Manufacturers, Inc. and the Association of International Automobile Manufacturers, Inc. by the Center for Automotive Research, Environmental Research Institute of Michigan and the Institute of Labor and Industrial Relations, The University of Michigan, Ann Arbor, March 2001.

one exception, in every year since 2000 total employment has declined so that today only a little more than half of that workforce remains. What happened in this recession is that a slow but steady decline has turned into a flood, with employment dropping nearly 28 percent in the past 12 months.[2] While multiple factors, including rising productivity, no doubt account for some of this longer-term trend, 18 months of steadily declining auto sales to the current near 30-year lows have played a major role in the current strains facing the industry, workers and the communities in which they reside and work.

The President has recognized that we cannot stand by and watch the auto industry disappear. But at the same time the President has been clear that we cannot just kick the can down the road and must insist that these companies demonstrate a credible path to financial viability. By providing additional funding within this tough but fair framework, Chrysler is poised to successfully emerge from bankruptcy this week and we are confident that GM will also successfully restructure over the coming months.

The steps the President has taken have not only avoided a liquidation of these companies—and the hundreds of thousands of jobs that would have been lost in that scenario—but have also helped stabilize the auto industry. He has committed to provide government backing for warrantees of new GM and Chrysler cars. And, under the American Recovery and Reinvestment Act (Recovery Act), the Administration has implemented a tax credit that could lead to 100,000 new car sales and save families hundreds of dollars off their purchase of a vehicle.

President Obama also appointed me as the new Director of Recovery for Auto Communities and Workers to cut through red tape and ensure that the full resources of our Federal Government are leveraged to assist the workers, communities, and regions that rely on our auto industry. Working with Labor Secretary Solis and National Economic Council Director Summers, we have been developing a comprehensive effort that will help lift up the hardest hit areas by using the unprecedented levels of funding available in the Recovery Act and resources available throughout our government to provide immediate support to workers and create new manufacturing jobs and new businesses where they are needed most. We have also been engaged in an effort, in partnership with the business, civil and government leaders in auto communities, to create new initiatives to help support auto communities going forward.

My first order of business upon appointment was to get out into auto communities to directly hear from workers and communities about the challenges they were facing and the economic development plans they were attempting to put in place. We have worked to establish an inter-agency team, including representatives from DOL, DOE, DOC, SBA, DOT, DoJ, HHS, EPA, and Treasury, that has accompanied me to town halls and meetings to ensure that Federal agencies are hearing firsthand about what works and what doesn't for successfully deploying services to these communities.

To date, we have held town halls and meetings in Michigan, Ohio and Indiana with hundreds of workers, employers, State and local officials, and members of affected auto communities to identify ways in which the Federal Government can help and start building strong ties between local communities and Federal agencies. Cabinet members and representatives from their agencies have actively engaged in partnering to these communities and have been figuring out how to cut red tape and support these hard hit areas. We plan to continue these sessions in a broader range of communities in the months ahead.

In conjunction with our effort to get out into communities to hear from your constituents, we have also been working on initial steps to get assistance out to auto communities as workers. As part of this effort:

- The General Services Administration accelerated the purchase of some 17,205 new fuel efficient vehicles, adding $287 million in demand for new vehicles.
- The Department of Labor has also been working with the Department of Education to make sure unemployed workers know how to apply for Pell Grants and other Federal financial aid, so they can develop new skills while the economy recovers. The Department is also undertaking an effort to encourage states to review their definitions of "approved training" for unemployment insurance purposes so that workers can, if they want, use the time while unemployed to get the skills they need. The President announced these efforts last month.
- Last week, Secretary Duncan announced a $7 million special competitive grant to establish innovative and sustainable community college programs that pre-

[2] BLS data for motor vehicle and parts has employment at 1,330,300 in February 2000, declining to 676,600 in April 2009. In April 2008 it stood at 898,000.

pare displaced workers for second careers. This first-of-its-kind grant program will be used to develop national models that can be replicated across the country, especially in communities where autoworkers have lost their jobs.

- Secretary Solis has announced a $50 million Green Jobs training initiative targeted on auto communities. This will be part of the Department of Labor's (DOL) $500 million competitive grant program to support job training projects that prepare workers for careers in energy efficiency and renewable energy industries.
- The Small Business Administration announced an extension of its 7(a) lending program to floor plan financing for auto, RV and boat dealers.

The President's Auto Task Force has also recognized that one of the most pressing challenges is to ensure that auto communities have access to existing Federal programs and new funding under the Recovery Act. Where we have identified potential challenges to accessing these funds or programs, we have taken steps to ensure that auto communities have an equal chance at accessing Federal funds. For example:

- Recognizing the emphasis Michigan has placed on green jobs in planning its recovery, the Department of Energy (DOE) held a workshop for county and local municipalities in Michigan to train local leaders on how to apply for Energy Efficiency and Conservation Block Grants, which are being given out both by formula and competitively.
- In order to make sure the new DOE grant program truly served the needs of communities in Michigan, DOE also held a roundtable discussion in Michigan to get input on how the program could best be structured.
- Recognizing the tremendous challenges auto communities face in converting shuttered plants, or brownfields, into redeveloped spaces, the Environmental Protection Agency (EPA) recently announced $10.3 million in brownfields grants for Michigan to help revitalize former industrial and commercial sites.
- The Department of Commerce's Manufacturing Extension Program (MEP)—which we have found to be one of the most highly demanded programs by auto communities—is holding a workshop tomorrow (June 11) in Ohio with manufacturers to help companies diversify their customer base and pursue opportunities for growth. This is part of a series to be offered in numerous locations across Ohio. In addition, the MEP center in Michigan has worked with the Michigan Economic Development Corporation to offer market diversification services to dozens of companies, and this is proving to be a practical approach to helping companies envision and act on new opportunities.
- Likewise, the Department of Commerce's Economic Development Administration has supported regional workshops and provided technical assistance to communities impacted by auto related dislocations to help them to develop and implement strategies to support more diversified, entrepreneurial, innovative, and hence, globally competitive regional economies.

While these efforts represent discrete new authorities or initiatives, the Recovery Act has provided a wide range of supports for auto and other communities that both combat the current economic developments and begin to build for our future economic success. In the near term, the Recovery Act provides families with an immediate refund in their paychecks and help for states and local areas to avoid cuts to their education spending and maintain their schools, reduce the burden of health care costs, and maintain their law enforcement personnel. Looking longer term, the Recovery Act is enabling the repair and improvement of the country's infrastructure; funding innovative research and development initiatives in advanced battery and electric vehicle manufacturing, smart grid development, advances in wind, solar and other alternative energy sources, and broadband and health information technologies; and creating job opportunities for Americans.

Together these programs represent an investment in transforming our very economy. Rather than try to review all of the ways in which this comprehensive effort will be affecting auto communities and their workers, let me focus on how the Department of Labor has been playing an active role in this effort.

For its part, the Department of Labor's Employment and Training Administration (ETA) has already made available to the states additional funding to extend the duration of unemployment insurance benefits, to increase benefit checks by $25, to provide administrative support to State employment services and to make funds available to states that modernize their systems. In addition, the Department has made $3.47 billion in Recovery Act funds available to support workforce investment activities. Such activities include retraining dislocated workers, summer employment for youth and community service employment for seniors. For states hardest hit by auto industry layoffs, Michigan has received $197,117,236 in Recovery Act formula funds for workforce investment and employment activities, while Ohio has received $153,073,770, and Indiana $67,142,603. These amounts are in addition to the regular funding from the Fiscal Year 2009 appropriations that will be available to these states on July 1, 2009 for these activities.

ETA is specifically addressing auto industry layoffs through its programs. The Workforce Investment Act (WIA) authorizes National Emergency Grants (NEGs) to target additional resources to expand service capacity at the State and local levels in response to significant worker dislocations. Since January 2009, ETA has awarded NEGs, or added additional resources to existing grants, in four automotive states—Missouri, Ohio, Minnesota, and Michigan.

- On February 26, 2009, Secretary Solis awarded $2,199,132 to the State of Missouri (of which $1,099,566 has been released so far) to provide training and reemployment services to approximately 574 workers dislocated from 11 auto industry suppliers at 13 different locations.
- On March 27, 2009, an $8,342,245 NEG (of which $5,074,749 has been released thus far) was awarded to Ohio to address statewide layoffs in the automotive industry. The grant was later amended to $10,000,000
- On May 18, 2009, Minnesota was awarded $1,320,100 (of which $660,052 was released immediately) to provide services to approximately 307 workers affected statewide by layoffs from 27 companies in the retail, service and manufacturing sectors of the automotive industry.

Additional resources have also been provided to existing automotive-related NEGs.

- On May 5, 2009, an additional $771,713 was provided to the State of Missouri to serve 1,200 dislocated workers affected by the closure of the Chrysler assembly plant in Fenton, Missouri, as well as layoffs from Integram St. Louis Seating and Yushin USA.
- On May 7, 2009, $4,125,000 in additional resources was added to Michigan's NEG to serve 1,500 eligible dislocated workers separated from automotive-related companies throughout the State.

Indiana is the only one of the three largest automotive states that has not requested an automotive-related NEG to date.

In addition to the NEGs, ETA administers the Trade Adjustment Assistance (TAA) program, which assists workers who have lost their jobs as a result of foreign trade. The TAA program offers a variety of benefits and services to eligible workers, including job training, income support, job search and relocation allowances, a tax credit to help pay the costs of health insurance, and a wage supplement to certain reemployed trade-affected workers 50 years of age and older.

Since June of 2008, ETA has issued over 200 TAA certifications for companies linked to the auto industry involving an estimated 34,000 workers. Companies include the General Motors Corporation, the Ford Motor Company, Chrysler LLC., Daimler Trucks North America, and numerous part-suppliers. The top three states with auto-related certifications since June of 2008 are:

- Michigan, which had 59 certifications and received $51,482,594 in TAA program training funds for 2009;
- Indiana, which had 23 certifications with 2009 TAA program training funds totaling $24,104,904; and
- Ohio which had 20 certifications and $21,976,331 in 2009 TAA program training funds.

The Recovery Act reauthorized and substantially changed the TAA program. One of the most significant changes was to more than double the maximum annual amount of TAA funds which may be used for training nationwide, from $220 million to $575 million. This increase will ensure that states have funds available to serve an increasing number of trade-affected workers under the reauthorized program. Since the effective date of the reauthorized and expanded TAA program (May 18, 2009), ETA has experienced a sharp increase in petitions under the program and expects the demand for the program to remain high. To meet this demand, the Department's fiscal year 2010 budget requests $1.8 billion for TAA, nearly double the $959 million provided for assistance to trade-displaced workers in fiscal year 2009.

And under the Workforce Investment Act, with funding from DOL, every State workforce agency is required to create and maintain a Rapid Response team. Upon notification of mass layoffs or plant closures, the Rapid Response team works with the company to provide immediate assistance and reemployment services for affected workers. In order to ensure that State Rapid Response programs, which are funded by formula resources provided to the states under the Workforce Investment Act, are ready to respond to layoffs, on April 29, 2009, the Department of Labor convened all of the Rapid Response Coordinators from the industrial Midwest at a daylong conference. At the conference we assisted the states in conducting readiness assessments of their capabilities and shared best practices so that states could provide a high quality level of service to impacted workers. Each State developed a plan for how to improve its program, with a commitment to work toward specific benchmarks.

Finally, under new funding from the Recovery Act, the Department of Labor (DOL) will soon award $500 million in competitive grants to support job training projects that prepare workers for careers in energy efficiency and renewable energy industries. Secretary Solis has already announced that $50 million of these funds will be set aside to ensure auto communities have access to these green job training opportunities. An additional nearly $250 million in Recovery Act funds will be used for construction and repair of Job Corps facilities to also incorporate green technologies. Job Corps will also develop and implement green jobs training into the curricula of all appropriate occupations.

Green jobs will play an important role in both our economic recovery and ensuring U.S. competitiveness for decades to come. Through the Recovery Act, the Departments of Energy and Housing and Urban Development, the Environmental Protection Agency and other Federal agencies will be making large investments in programs and projects that will create green jobs. As states receive Recovery Act funding and implement training and reemployment strategies, the DOL encourages states to recognize opportunities to prepare workers for green jobs related to these other sources of Federal funding. The Department and other Federal agencies have already begun to coordinate the work to strategically implement programs that ensure cooperative interactions between investments in infrastructure and research and development on one side and job training and worker placement on the other.

While I have focused on the DOL's role, I want to emphasize that the Administration's approach realizes that there is no magic bullet to transform economies and that the help for auto communities and workers is not uni-dimensional. The challenges that they face did not appear overnight and they will not be solved overnight. We recognize that credit is needed for businesses to operate, to finance new product development and to explore new markets, as well as for new businesses to form. We know that towns confronted with abandoned facilities or housing need help with clean-up so that these assets can be put back into productive use. That high speed rail and other transportation projects provide the infrastructure for growth. That without high quality schools or access to higher education our children will not have the skills they need to compete for the good jobs of the future. And finally those communities that grow provide safe streets, invest in the development of our children and give us environments where we want to live. States and local government have and must play a central role in these efforts. Local communities are best positioned to chart their own course that reflects their individual assets and desires. What is the best course for Dayton, Ohio may not be the way forward for Kokomo, Indiana or Huntsville, Alabama.

Our comprehensive recovery strategy will not only recognize but support these heterogeneous efforts. Whether it is through economic development planning grants to cities or towns or support to individual manufacturers for diversification, our efforts will support a rich array of ways auto communities want to grow. Some may look to build new industry clusters while others will build on regional strategies. Some communities may want to exploit the strengths of their anchor institutions such as their colleges and universities, while still others may want to foster an incubator environment in which a broad array of economic activities are fostered. Clearly, State and local governments must take the lead in developing these strategies, but local and national foundations have already proven that they can play a critical role in helping communities bring the necessary parties to the table and chart a course forward. They can provide needed seed money and support and an array of growth strategies. At the end of the day, however, job creation ultimately comes from the private sector. There can be no successful strategy in which they are not at the center and want to invest their capital in creating new markets and with them new jobs.

While I have presented facts and figures here today we must remember that behind the 'numbers' of the economic downturn and the auto crisis are human faces; people facing challenges unlike what many of us have faced in our lifetimes. I share the President's commitment to helping these workers and communities both in the near term as we emerge from the recession, but also over the longer term to build a base for future growth and to ensure that they share fully in our economic prosperity. I thank you for your time and look forward to our dialog on this matter.

RESPONSE TO WRITTEN QUESTION OF SENATOR REED FROM RON BLOOM

Auto Supplier Support Program

Q.1. As you may know, Rhode Island has many businesses that sell parts to direct auto suppliers. These companies are facing tight credit and a decline in demand in response to the economic downturn's impact on automobile sales.

While the Auto Supplier Support Program is meant to stabilize the supplier network, it is my understanding that because only Tier 1 manufacturers are eligible suppliers, these Rhode Island businesses that do not sell directly to Chrysler or General Motors are not able to request access to the credit this program provides. On May 6th, I wrote to Secretary Geithner urging him to consider expanding the program's eligibility to Tier 2 and Tier 3 suppliers.

What are your thoughts on broadening the Auto Supplier Support Program's eligibility to include manufacturers that sell parts to direct suppliers?

Note: A copy of my letter to Secretary Geithner is attached.

A.1. Answer not received by time of publication.

RESPONSE TO WRITTEN QUESTION OF SENATOR BAYH FROM RON BLOOM

Q.1. On June 1, Delphi Corporation announced its intention to emerge from Chapter 11 bankruptcy protection imminently. Under the reorganization plan, General Motors (GM) will absorb the obligations of Delphi's defined benefit pension plan for retired hourly workers. However, according to Delphi's June 1 filing with the bankruptcy court, the residual obligations of its pension plan will remain substantially underfunded and the plan is thus expected to be terminated by the Pension Benefit Guaranty Corporation (PBGC).

I have been contacted by hundreds of my constituents who are Delphi salaried retirees and are alarmed over the fate of their pensions, as many expect to take steep cuts in their benefits as a result of the PBGC's termination of their plan. Most of these retirees spent the better part of their careers working for GM until Delphi was spun off as an independent company in 1999. It seems reasonable that they should be able to count on receiving the pensions they were promised.

Given the fact that GM will absorb Delphi's pension obligations to its hourly retirees, would it not be appropriate for GM to do the same for Delphi's salaried retirees?

A.1. Answer not received by time of publication.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MARTINEZ FROM RON BLOOM

Q.1. President Obama has stated clearly that the "government stands behind Chrysler and GM warranties." I understand why he made this statement in April. However, in the interim, I continue to read stories that highlight consumer concern about warranties. Lately, those stories include the problems presented by the closure of dealerships that can leave substantial geographic areas without appointed service providers (see attachment).

We know from experience that 3rd party firms are capable of insuring warranties, building out service networks in areas where dealerships disappear, and effectuating vehicle service contracts, without any government backing. With this in mind, my questions relating to warranties are:

1) Why should the federal government be involved in the warranty business? Assuming we will be in the car business for an extended period of time, will you consider private sector solutions to guaranteeing warranty commitments? If you have already considered the possibility of 3rd party backing of warranties, what was the nature of these considerations, and why was the decision made to keep the government involved?
2) As the financial condition of General Motors has degraded, GMAC has been downgraded from AAA to B++. Has the Administration examined the impact of such a downgrade relative to the ability of GMAC to attract financing for vehicle services contracts and the downward pressure that a loss of VSC sales could have on surviving dealerships?
3) Additionally, in April, the Administration announced the warranty commitment program which indicated that facility would be created and administered by a 3rd party. It appears that $360 million has been set aside under this program to guarantee GM warranties. Will money be set aside for Chrysler warranties? Does the Administration still intend to have a 3rd party Administer this program?

A.1. Answers not received by time of publication.

RESPONSE TO WRITTEN QUESTION OF SENATOR REED FROM EDWARD MONTGOMERY

Unemployment Insurance

Q.1. I authored legislation to extend UI benefits that was signed into law last November. This law has provided 7 weeks of UI to individuals who have exhausted their benefits, and 13 additional weeks of benefits to unemployed workers in states that have been hit particularly hard by the economic downturn and have unemployment rates above 6 percent.

In response to prolonged levels of unemployment and the job losses resulting from the auto industry restructuring, do you think the existing duration of unemployment insurance is sufficient? Do you think additional weeks should be enacted? Should Congress extend the termination dates of these benefits, which the Recovery Act extended to December 26, 2009?

A.1. The economic crisis that the Administration inherited is the worst since the Great Depression. The number of people losing their jobs is too high and the number of people without jobs is too high. While there are some hopeful signs that the pace of job loss has slowed considerably in the second quarter compared to the first quarter, we still have a long way to go. The Recovery Act is starting to take hold and more money is going into the economy each month helping to preserve jobs and create new ones. As this process unfolds, the Administration will look forward to working with the Senator and Members of Congress to make sure that our unemployment insurance system is providing unemployed Americans with the benefits they need to help manage during these difficult economic times.

RESPONSE TO WRITTEN QUESTION OF SENATOR BAYH FROM EDWARD MONTGOMERY

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In the event that the PBGC does ultimately terminate Delphi's pension plan, what level of benefits can my constituents expect to receive? Are there any programs or resources in place to assist these retirees with understanding the process and its impact on their retirement security?

A.1. The PBGC recently announced that it will be terminating Delphi's Retirement Program for both Salaried and Hourly Employees, as well as four smaller plans sponsored by Delphi. The level of benefits that an individual participant may expect to receive will vary with such factors as age, employment status, salary, and early retirement. For instance, the maximum benefit guaranteed by the PBGC is $54,000 a year for those who retire at age 65 or retired earlier but have reached age 65 by the plan termination date. The maximum guarantee is higher for those persons retiring at a later age and lower for those who retire earlier or elect survivor benefits. There are also other limitations on the guarantee. For example, PBGC cannot guarantee more than a plan would pay as a straight-life annuity for retirement at the plan's normal retirement age, so a temporary supplement that "bridges" the difference between actual retirement age and social security retirement age may not be guaranteed or may be only partially guaranteed. PBGC may pay more than the guaranteed amount, depending on the plan funding level.

With respect to Delphi's Hourly Plan, on July 21, General Motors made the following statement about an existing Hourly Plan guarantee:

> As a result of bargaining at the time of the spin-off, General Motors Corporation did agree to top-up pension benefits for certain limited groups of hourly employees and retirees in the event that the Delphi hourly pension plan was terminated. As with other union agreements that it has assumed from the old GM, General Motors Company will honor these commitments.

The PBGC is currently reaching out to media contacts and directing people to the PBGC's website page dedicated to the Delphi plan and frequently asked questions. PBGC will communicate directly with plan participants when it has assumed responsibility for the plans and again when it has made preliminary calculations of benefit entitlement, which typically takes three to 6 months.