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S. Hrg. 111-462

GMAC FINANCIAL SERVICES AND THE TROUBLED ASSET RELIEF PROGRAM

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HEARING

CONGRESSIONAL OVERSIGHT PANEL

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, FEBRUARY 25, 2010

Printed for the use of the Congressional Oversight Panel

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CONGRESSIONAL OVERSIGHT PANEL
Panel Members
Elizabeth Warren, Chair
Paul Atkins
J. Mark McWatters
Richard H. Neiman
Damon Silvers

C O N T E N T S

GMAC FINANCIAL SERVICES AND THE TROUBLED ASSET RELIEF PROGRAM

THURSDAY, FEBRUARY 25, 2010

U.S. Congress,
Congressional Oversight Panel,
Washington, DC.

The Panel met, pursuant to notice, at 10:01 a.m. in Room SD-342, Dirksen Senate Office Building, Elizabeth Warren, Chair of the Congressional Oversight Panel, presiding.

Present: Elizabeth Warren [presiding], Richard Neiman, Paul S. Atkins, and J. Mark McWatters.

OPENING STATEMENT OF ELIZABETH WARREN, CHAIR, CONGRESSIONAL OVERSIGHT PANEL

Chair Warren. The February 25, 2010 hearing of the Congressional Oversight Panel is now called to order. Good morning, my name is Elizabeth Warren, I am the chair of the Congressional Oversight Panel.

Because today's hearing will focus on Treasury's efforts to stabilize GMAC through the Troubled Asset Relief Program, it makes sense to begin with an accounting of the assistance, to date.

As of today, taxpayers have spent $17.2 billion to bail out GMAC. We now own 56.3 percent of this company. Other banks have received tens of billions of dollars under TARP, but aspects of GMAC's funding are without precedent. Of all of the banks bailed out under TARP, only GMAC received money through the Automotive Industry Finance Program, an initiative originally established to support General Motors and Chrysler. Of all of the banks bailed out under TARP, only GMAC needed additional TARP funds to meet the capital buffers required under the stress test.

GMAC's unusual treatment by Treasury may be due, in part, to the company's unusual history. It was founded in 1919 as a wholly-owned subsidiary of General Motors, intended to provide financing for clients to buy cars and dealers to buy inventory.

Since then, GMAC has expanded far beyond the realm of automotive lending to provide home mortgages, auto insurance for both dealers and consumers, and even credit to various manufacturers and distributors in the non-auto industries. In 2006, it ceased to be a subsidiary of GM, and it now ranks as the 14th largest bank in the United States.

Even in light of GMAC's unique background, Treasury's exceptional actions require special scrutiny. Today's hearing will help inform the Panel's March Oversight Report, which will examine the ways that TARP was used to support GMAC, the rationale behind the support and the approach being taken by GMAC's new management to return the company to profitability, and to repay the taxpayers.

The Panel would also like to explore the issue as to whether GMAC is lending again, and whether it is lending on favorable terms.

Let us not forget, as we do this hearing, that Treasury bailed out GMAC on no fewer than three occasions: in December 2008, in May 2009 and again in December 2009. On each occasion, Treasury had a choice to make on behalf of taxpayers: Was another bailout worth it? Was GMAC such a unique, irreplaceable player in our financial system that it must not be allowed to collapse? Or should it be required to bear the full cost of its mistakes and suffer failure?

Three times, GMAC asked Treasury to cast it a lifeline, and three times, Treasury said yes. The critical question we must ask going forward is whether this was the best and most appropriate possible use of taxpayer dollars under TARP, and whether we can expect a request for a fourth bailout in the future.

To help the Panel examine these issues, we will hear from three panels of witnesses. On our first panel, we are joined by two members of the Administration. On our second panel, we will hear from two executives from GMAC. And, finally, on our third panel, we will hear from industry analysts.

To all of our witnesses, please note that we sincerely thank you for being here. These are complex issues of national importance, and we appreciate your willingness to help us learn from your perspectives.

Before we proceed with the first panel, allow me first to offer my colleagues an opportunity to provide their opening remarks.

[The prepared statement of Chair Warren follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

STATEMENT OF PAUL ATKINS, MEMBER, CONGRESSIONAL OVERSIGHT PANEL

Mr. Atkins. Well, thank you very much, Madam Chair. Today's hearing on General Motors Acceptance Corporation is a significant one for this panel. It marks the first time that we will explore the circumstances of a particular recipient of TARP funding, and what a recipient GMAC is.

GMAC is sort of a hybrid: Two automobile companies were given a special deal under TARP and all of the other recipients of TARP funds, besides GMAC, were truly banks and had operated as banking institutions for years. They had grown, supposedly, too big to fail.

It's widely acknowledged that GMAC was not one of these institutions. It was not of great systemic significance in and of itself. In what, basically, was a series of ad hoc political decisions, the U.S. government has advanced approximately $17 billion in taxpayer funds, so far, to GMAC on top of, of course, the other billions that were given to GM and Chrysler in the auto bailouts.

Unlike the automobile companies, GMAC never went through bankruptcy; it never went through a reorganization. Every step of the way it's being treated a bit differently and is, I think, in a way, a model for moral hazard. Its shareholders were not wiped out--unlike the millions of shareholders of General Motors--all of this has been done in the name of trying to keep low cost lending available to support GM's automobile sales, but ironically most of the money that's being poured into GMAC has gone into its mortgage loan portfolio.

The government now owns a majority interest in GMAC and appoints board members. The original shareholders still have their ownership interests, albeit diluted. The government appoints board members, but how are they chosen? Who do these board members represent? Under State law, they have fiduciary duties to all shareholders; does Treasury try to influence them? How will they judge management? Directors have a critical advisory role, as well as an oversight role, and so what attributes is Treasury looking for?

GMAC was artificially declared to be a bank holding company only after it reorganized itself so that the Fed could even consider its application. It changed its industrial loan corporation to a State bank so it could be eligible for TARP and other programs.

GMAC, at the time, didn't meet the Fed's criteria for bank holding companies. The Fed, of course, required it to raise capital. But GMAC could not raise capital in the private sector. Government money has flown into GMAC three times now, and each time we hear that it's the last. First, Treasury put in about $5.25 billion at the end of 2008, then five months later, of course, in May 2009, another $7.88 billion, and then just last month, another $3.98 billion. And most of this money has not necessarily gone into automobile loans but, of course, into ResCAP.

So, I guess today what I will be interested in hearing is what GMAC management is doing to work on a plan to get the company out from under Uncle Sam's wing and to be back independent, again. Is it viable? Has Treasury ever made an assessment to that effect? If it made such an assessment before putting in money, it's obviously not being much publicly discussed. We need to talk about Ally Bank, as well, and other aspects. So, I'll be interested in exploring these with you today.

Thanks.

Chair Warren. Thank you, Mr. Atkins.

Superintendent Neiman.

STATEMENT OF RICHARD NEIMAN, MEMBER, CONGRESSIONAL OVERSIGHT PANEL

Mr. Neiman. Thank you and good morning.

I am very pleased that the Panel is devoting its March report and this hearing to the subject of GMAC. Support for GMAC is an especially significant TARP initiative, because GMAC is both a large bank holding company and a critical part of the American automobile industry. Therefore, the support uniquely embodies both large governmental interventions in the financial system, and in the auto industry.

As we know, GMAC was the only one of the 19 stress tested bank holding companies that did not raise sufficient private capital. It therefore required additional governmental support in order to meet its SCAP mandated capital buffer requirement.

As a result of a series of TARP infusions, the U.S. Treasury and the U.S. taxpayer now own 56 percent of GMAC's equity, and over $17 billion invested.

Importantly, GMAC was rescued not because it is too big to fail, but because it is too interconnected to fail. Or, to be more precise, too co-dependent with General Motors, with Chrysler and the American automobile industry. It was deemed that a failure of GMAC would have significantly undermined or fatally derailed the stabilization of the American auto manufacturers with significant impact on our economy.

GMAC is the nearly exclusive provider of inventory lending to GM and Chrysler dealers, essentially enabling their distribution system of cars and trucks to function. The importance of GMAC's role was actually increased last year when Chrysler Financial was absorbed by GMAC. In fact, GMAC is arguably even more interconnected today than it was before the financial crisis, given the Treasury's current investment and controlling positions in GMAC and the auto companies.

During the hearing, I will be most interested to learn from our distinguished witnesses how you are addressing the ongoing risk of interconnectedness. I'd like to hear about your near-term business plans for GMAC's existing lines of business, as well as your strategic vision over the long term.

I hope to learn about your specific plans to ensure GMAC's viability, and to reduce the auto companies--and GMAC's--codependence, going forward.

I recognize it is possible that the goal of reducing GMAC's codependence with the auto industry may, at times, run counter to the goal of increasing GMAC's profitability.

I very much look forward to hearing how you will balance these considerations and manage the difficult strategic issues that confront you, and I look forward to hearing your testimony.

[The prepared statement of Mr. Neiman follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Chair Warren. Thank you, Superintendent Neiman.

Mr. McWatters.

STATEMENT OF J. MARK McWATTERS, MEMBER, CONGRESSIONAL OVERSIGHT PANEL

Mr. McWatters. Thank you, Professor Warren. I very much appreciate the attendance of the witnesses and I look forward to hearing your views.

On three separate occasions over the past 15 months, the American taxpayers have involuntarily invested approximately $17 billion in GMAC. Since the CBO, the Congressional Budget Office, has assigned a 59 percent subsidy rate to the various auto-related bailouts--including GMAC--as of December 2009, it is not unreasonable to assume that the taxpayers will lose approximately $10 billion of the $17 billion of TARP funds allocated to GMAC.

Given the magnitude of these projected losses, three fundamental issues remain for our consideration. First, prior to committing taxpayer resources to GMAC, Treasury was obligated to demonstrate that GMAC--and GMAC alone--was capable of providing the auto finance services to both the retail customers and dealers of Chrysler and GM and that no other group of new or existing financial institutions could reasonably fill the void upon the liquidation of GMAC.

It is not unreasonable to anticipate that many financial institutions and private equity firms would welcome the opportunity to extend credit to the retail customers and dealers of Chrysler and GM and to securitize the instruments received in such transactions. Even if GMAC--and GMAC alone--possessed the expertise necessary to conduct an auto finance business, a question nevertheless arises as to why the United States government sanctioned and subsidized such monopolistic power, instead of encouraging healthy competition from other private sector financial institutions seeking to enter the market.

Second, if Treasury carries the burden of the first issue, Treasury must next demonstrate that it had no choice but to bail out GMAC's ill-conceived bets in the subprime market in the hopes of saving GMAC's auto finance business. In satisfying this burden, Treasury must show that no viable approach existed under the U.S. Bankruptcy Code, or otherwise, to extricate GMAC's auto finance business from the taint of its insolvent mortgage finance business, other than through the expenditure of $17 billion of taxpayer-funded resources.

GMAC could have, for example, and without limitation, sold its auto finance business for fair market value to a third party outside of bankruptcy, or sold its auto finance business to a third party under Sec. 363 in a bankruptcy proceeding. If GMAC's auto finance business is truly viable and profitable, it is not unreasonable to consider that other financial institutions and private equity firms would welcome the opportunity to acquire GMAC's auto finance business with its captive group of customers.

Third, even if GMAC carries the burden on both issues, Treasury must also demonstrate why GMAC was too big or too interconnected with the financial system and the overall economy to fail, and why GMAC merited such unprecedented largesse when so many other American businesses and families are suffering from the worst economic downturn in several generations.

It is also troublesome that Treasury would commit the taxpayers to fund three rounds of bailouts for an institution that placed risky bets on the subprime market. Although GMAC faced bankruptcy and potential liquidation as a result of its ill-advised investments, the taxpayer-funded bailouts of the company injected unwarranted moral hazard risk into the market and all but established the United States government as the implicit guarantor of any future losses arising from such activities. Such action will also encourage other private sector participants to engage in less-than-prudent behavior, confident in the expectation that the taxpayers will again offer a bailout upon the reversal of their economic fortune.

A market economy, by necessity, must cull the products and services of the weakest participants so that those who have developed innovative and competitive ideas may prosper on a level playing field. The opportunity for entrepreneurs to succeed or fail, based upon their own acumen and judgment, must survive the current recession and the implementation of the TARP program.

Thank you for joining us today, and I look forward to our discussion.

Chair Warren. Thank you very much, Mr. McWatters.

I want to note the absence of panel member Damon Silvers. Mr. Silvers has recused himself on all matters relating to the auto industry before the Panel. All of us who serve on this panel do so on a part-time basis and Mr. Silvers, in his day job, is the Director of Policy and Special Counsel to the AFL-CIO.

The AFL-CIO has expressed views on the use of TARP funding in the auto industry and for that reason, Mr. Silvers did not feel it was appropriate for him to be involved in our oversight of Treasury's assistance to GMAC.

We miss his good counsel, but we understand that he's working to protect the integrity of the process.

So, with that, I'd like to introduce our first panel. We have Ron Bloom who is the Senior Advisor to the Secretary of the Treasury on the Presidential Task Force on the Auto Industry, and we have Jim Millstein, Chief Restructuring Officer for the U.S. Department of Treasury. Thank you both for being here. I'll ask you for opening statements, I'll ask you to hold them to five minutes, but any written remarks will be included in the record.

Mr. Bloom.

STATEMENT OF RON BLOOM, SENIOR ADVISOR TO THE SECRETARY OF THE TREASURY, PRESIDENTIAL TASK FORCE ON THE AUTO INDUSTRY

Mr. Bloom. Thank you. Good morning, Chair Warren, and members of the Congressional Oversight Panel, thank you for the opportunity to testify before you today. We are here to report on the auto financing market and the relationship between GMAC and the Treasury's investments in General Motors and Chrysler.

Over the past year, the Obama Administration has been working to manage an historic crisis in the American automobile industry. Working with their stakeholders and the President's Auto Task Force, both GM and Chrysler underwent fair and open bankruptcies and have emerged as stronger global companies. The steps that the President took kept many hundreds of thousands of Americans working and gave GM and Chrysler a chance to be competitive businesses.

A viable auto industry requires financing for both dealers and consumers. The vast majority of automobile purchases in the U.S. are financed, including an estimated 80 to 90 percent of consumer purchases and substantially all dealer inventory purchases. For the last 80 years, the auto industry has largely relied upon dedicated financing providers which have unique resources and long-term experience underwriting automotive credit.

GMAC has been the primary source of financing for GM's dealers and consumers for over 90 years. At the time of Treasury's initial investment in GMAC, in December 2008, GMAC provided wholesale financing for 85 percent of GM's dealer inventories and consumer financing for 25 percent of GM's retail sales.

As a result of the financial crisis, credit availability to auto dealers and consumers became severely impaired. Uncertainty about the future of GMAC and Chrysler impaired the ability of their captive finance companies--GMAC and Chrysler Financial--to access the capital markets. Some estimates suggest that the contraction in the auto finance market reduced auto sales by 1.5 to 2.5 million cars per year.

By late 2008, one of GMAC's primary sources of funding, the securitization market, was in severe distress, forcing GMAC to dramatically restrict its lending activities to auto consumers in order to preserve necessary capital for dealers. GMAC was not able to access alternative sources of funding. Without government assistance, GMAC would have been forced to suspend financing lines to creditworthy dealerships, leaving them unable to purchase inventory for their lots.

Without orders for cars, GM would have been forced to slow or shut down its factories indefinitely to match the drop in demand. Given its significant overhead, a slow-down or stoppage in production would have toppled GM.

When the prior Administration decided to provide assistance to GMAC in December 2008, GMAC at the time was providing $23.3 billion of financing for GM dealers. Had Treasury allowed GMAC to fail, no single competitor or group of competitors could have stepped in to absorb GMAC's entire loan portfolio. At that time, 75 percent of GM dealers received their financing from GMAC, while the next five lenders made up only 8 percent of such lending. The remaining dealers were serviced by 200 banks, most of which provided financing for only a single dealer.

Many large national banks faced significant threats to their own financial health and lacked the capacity to aggressively grow their auto lending portfolios. Moreover, GM estimates that it would have taken a new provider up to six months to create the infrastructure, systems, and human capital necessary to replace GMAC.

Like GMAC, Chrysler Financial also faced a severe liquidity crisis last year. In the spring of 2009, it became clear that a Chrysler bankruptcy could well be required to effectuate a restructuring of the company. Chrysler Financial had approximately $20 billion of conduit financing that was slated to expire by July 2009, some of it immediately upon the occurrence of a Chrysler bankruptcy. Without these conduits, Chrysler Financial would have been forced to discontinue financing any new inventory for Chrysler dealers, the dealers would have been unlikely to find alternative financing, and the purchase of new vehicles from Chrysler by dealers through Chrysler Financial would have ceased entirely.

Since Chrysler Financial financed approximately 60 percent of dealer purchases from Chrysler, this would have resulted in a near-total collapse of Chrysler revenues. Given the state of the credit markets and the threat of a Chrysler bankruptcy, Chrysler looked for, but found no, refinancing alternative. Without a viable financing source for its customers and dealers, a successful restructuring of Chrysler would, likewise, not have been possible.

Now, let me turn to my colleague, Jim Millstein, to speak to the particular strategies we employed to deal with this situation.

Chair Warren. Mr. Millstein.

STATEMENT OF JIM MILLSTEIN, CHIEF RESTRUCTURING OFFICER, U.S. DEPARTMENT OF THE TREASURY

Mr. Millstein. Thank you Chair Warren, members Neiman, Atkins and McWatters.

I appreciate the opportunity to be here this morning, my name is Jim Millstein, I am the Chief Restructuring Officer of the Treasury Department. I joined Treasury in late May of 2009 after 28 years of working in the private sector on financial restructurings.

I am going to focus on the actual investments that we made, and the staging of those investments over the three different tranches that we did.

As Mr. Bloom indicated, GMAC applied for, and received, approval to become a bank holding company in December of 2008. Shortly thereafter, the prior Administration invested $5.0 billion in GMAC, and GMAC was able to raise an additional $2.0 billion from its existing shareholders.

After the Obama Administration took office, Secretary Geithner announced the Financial Stability Plan, a key component of which was the ``stress test.'' The Treasury worked with federal banking supervisors to develop the Supervisory Capital Assessment Program (SCAP) to determine whether the nation's largest bank holding companies had a capital buffer sufficient to withstand losses and sustain lending in a significantly more adverse economic environment. Domestic bank holding companies with year-end 2008 assets exceeding $100 billion were required to participate in the SCAP. GMAC, with $173 billion in assets as of year-end 2008, was one of these 19 institutions.

On May 7, 2009, the Federal Reserve released the initial results of the stress test, which required--in GMAC's case--that it raise $13.1 billion of new capital. In consultation with the banking supervisors, Treasury agreed to help meet GMAC meet that requirement by investing additional capital in two traunches. The first investment of $7.5 billion was made on May 21st to address its immediate capital needs. Treasury ultimately invested an additional $3.8 billion on December 30th, about $1.8 billion less than was originally anticipated, largely due to less disruption to GMAC's business from the GM and Chrysler bankruptcies.

Concurrent with the May transaction, GMAC also received regulatory approvals that enabled it to enhance its liquidity. The FDIC approved GMAC's application to issue debt under the Temporary Liquidity Guarantee Program, and the company ultimately issued $7.4 billion of unsecured debt, guaranteed by the FDIC, under that program. The FDIC also increased the amount of brokered deposits that GMAC's bank subsidiary could raise. Today, those are at about $31 billion.

In addition, the Federal Reserve Board granted a waiver under Sec. 23-A of the Federal Reserve Act expanding its bank subsidiaries' ability to fund consumer and dealer finance loans for GM and Chrysler with deposits traded to Chrysler Financial, given the lack of funding options for Chrysler Financial and the ramifications its failure would have had on Chrysler, as Mr. Bloom has testified, several options were reviewed. It was determined that the most effective method to provide financing to Chrysler dealers and customers was to capitalize GMAC's existing auto origination platform to a level adequate for it to assume these financing responsibilities.

Therefore, in May, as part of the stress test results, the Federal Reserve determined that GMAC required $4 billion in additional capital to fund Chrysler's dealer and customer originations, and that $4 billion was part of the $7.5 billion that was put in, in May.

So, in conclusion, the Administration's investment in GMAC has been, and continues to be, a critical component of the effort to stabilize the auto industry. Providing GM and Chrysler with a viable source of financing enabled Treasury to facilitate the successful restructuring of each of these auto companies. GMAC was uniquely positioned to provide the personnel and infrastructure to originate and service auto loans and is now the largest provider of retail and wholesale financing to both GM and Chrysler customers and dealers.

It has now capitalized at levels well above historical industry averages and it has, in fact, procured $2.0 billion of new, unsecured financing based on the capitalization efforts that Treasury has made.

As the owner of 56.3 percent of GMAC's common equity, we have already designated two members of GMAC's Board, we have two more that we are in the process of identifying, and soon to designate. And as we have said on a number of occasions in other contexts, as well, the United States government is a reluctant shareholder in these circumstances, and we intend to dispose of our investments as soon as practical, consistent with protecting the taxpayers' interests.

I thank you.

[The joint prepared statement of Mr. Bloom and Mr. Millstein follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Chair Warren. Thank you very much, Mr. Millstein.

So, I'll start with our questions here. Many analysts and academics have pointed out that, in their view, bankruptcy would have been a preferable way to deal with GMAC. That, ultimately, it would have put it in a better long-term financial position, permitted it to recover on stronger footing, and cost less money for the taxpayer.

So, the first question I have is whether Treasury ever considered bankruptcy as an option, either for GMAC or for a sub-set of GMAC, more specifically, for ResCAP.

Mr. Bloom.

Mr. Bloom. Let me address your GMAC question.

Chair Warren. You're going to have to turn your microphone on. That's all right.

Mr. Bloom. You know, I'm sick, but I'm here today anyway.

At the time we were looking at the situation evolving for GM and Chrysler, obviously the situation with GMAC was integral to that. And we did look at a number of different options for GMAC.

Our conclusion at the time was that bankruptcy for Chrysler and GM would be very hard to avoid. We obviously didn't make the final decision until the last minute, but as we were strategizing our way through this in April and in May, our conclusion was that a bankruptcy for Chrysler and for General Motors would be very, very hard to avoid. And that, in order to successfully reorganize these companies, we would have to support them going into bankruptcy.

Those were exceedingly complex and challenging transactions. Both of them had enormous execution risks inside of them. The decision we had to make----

Chair Warren. I'm sorry, execution risks? There were people who were executed? What are you talking about?

Mr. Bloom. Execution risks, meaning the ability to conduct the bankruptcy successfully and have the companies come out the other side.

Chair Warren. All right.

Mr. Bloom. As reorganized entities.

Chair Warren. So, you were concerned that if you put them into bankruptcy, they might actually fail?

Mr. Bloom. Right.

Chair Warren. No matter how many taxpayer dollars we pumped in.

Mr. Bloom. Right, right. That's what we were thinking about with General Motors and Chrysler.

Chair Warren. Okay.

Mr. Bloom. But we made a decision----

Chair Warren. And I presume that's because there was concern that people wouldn't buy their cars?

Mr. Bloom. There were many concerns. People might not buy their cars, you're in a legal process, as you well know, the bankruptcy judge is the entity responsible--no complex bankruptcy is without risk.

Chair Warren. Okay.

Mr. Bloom. So, but we concluded--weighing the risks and the benefits, the rewards, the alternatives--that that was the proper route to take with General Motors and Chrysler.

To add a GMAC bankruptcy into that equation, in our judgment, would have exponentially increased the risk of concluding all three transactions in a successful way.

Chair Warren. And why is that?

Mr. Bloom. Because you now added an independent set of--if you'll use my phrase again--execution risks for concluding a GMAC bankruptcy, number one. And number two, the effect of a GMAC bankruptcy failing would have been that both the Chrysler and the GM bankruptcies would have failed.

Chair Warren. So, but wait a minute. You decided to go forward with the auto industry bankruptcy ultimately because you believed it was the chance--the only chance, I take it--to get that industry back on firm footing. And you wiped out all of its equity, you caused its debt to have to take a haircut, and that's what helped put it back on firm footing. That, and billions of dollars of taxpayer money.

Mr. Bloom. Correct.

Chair Warren. When it came to GMAC, you didn't wipe out the equity.

Mr. Bloom. Right.

Chair Warren. You left the equity intact, all of the debt continued to be repaid at 100 cents on the dollar; a far better deal to have been an investor in GMAC than to have been an investor in GM. I'm still not understanding why not? Why the difference in the treatment?

Mr. Bloom. Because these two are connected. If we had allowed GMAC to go in, as well, we felt--and I'll give you a second answer in a minute, but let me deal with your first point--if GMAC had gone in as well, we felt like we would have been putting the success of the GM and Chrysler bankruptcies at substantially higher risk.

Chair Warren. But what is the additional risk that's added--you're telling us----

Mr. Bloom. Because----

Chair Warren [continuing]. That GMAC is deeply intertwined, which is the sole reason to save it.

Mr. Bloom. No, what I'm saying is, that if the GMAC bankruptcy had not been successful, which was an independent event that had its own independent risk factors associated with it--that would have caused the failure of the GM and Chrysler bankruptcies, even if they would have otherwise have been successful. So, the risk is sitting on top of--and therefore influencing--our judgment, because you've got to make one judgment about the totality of this situation. That's the first point.

The second point is that the investment dollars that we had to consider if GMAC had gone into bankruptcy, were very, very substantial. There was obviously a lot of money invested in the case we're examining, the stress test called for $13 billion, it's wound up to only be $11.3 billion, but obviously that's a lot of money. But the alternative was not free of very, very substantial investment, as well.

Chair Warren. So, let me stop you there. I'm going to be disciplined about time, because I've been bad about this sometimes at hearings in the past. I'm going to stop there, we'll just return to this when I----

Mr. Bloom. Okay.

Chair Warren [continuing]. When I have my next question. Because I have some questions about why that would be more expensive.

Mr. Bloom. Okay.

Chair Warren. Mr. Atkins.

Mr. Atkins. Well, actually, I would want to----

Chair Warren. Please.

Mr. Atkins [continuing]. Continue in that vein, and you should finish your thought because I guess when we look back at it, as Professor Warren was saying, the disparate treatment of the various shareholders, it may be, perhaps, here the shareholders put in more skin in the game, ultimately, and maybe that's what you were getting to but I just--I wanted to hear you out as far as your justification of this treatment?

Mr. Bloom. Well, just on the specific point you make, I would point out that the GMAC shareholders have been very, very substantially diluted by the transactions that----

Mr. Atkins. But not wiped out.

Mr. Bloom. They have not been completely wiped out, that is correct, but I just want to note for the record that there's been very, very substantial dilution for the shareholders, the investments that were made were made in a series of instruments that Mr. Millstein can talk more about, but they were preferred shares and so they are senior to existing equity. There was not any particular effort to protect shareholders, there was simply a judgment made that to bring the company into bankruptcy, as well, (a) would have exponentially decreased the success probabilities of GM and Chrysler, and (b) that when we looked at the overall possible exposure we would face, in addition to the execution risk, even in a transaction that went exactly as planned, the dollars that would have been required to execute a GMAC bankruptcy would have been very, very substantial. In excess of the dollars that were invested, in fact.

Mr. Millstein. May I just--I obviously wasn't part of the Treasury team making decisions at the time, but I have been in and around the bankruptcy courts a little bit over the course of my career and one thing I would add in this regard is that there are very few instances in which a finance company has been successfully reorganized in Chapter 11. Finance companies, obviously, are intermediaries between people who lend to them and their own lending they make.

And as Chair Warren knows, the ability for a finance company to continue to draw on its pre-petition lines of credit is terminated upon the filing of a bankruptcy. So, GMAC would have had no ability to fund ongoing originations, both for dealers or customers, after a filing of Chapter 11. It would have required a massive DIP.

And if you look today at, you know, the outstanding customer receivables, that is, the loans that GMAC makes to individual lessors and buyers of cars, as well as to the dealers, you're looking at a $40 billion to $50 billion outstanding balance of receivables.

So, in the spring of 2009 after one of the greatest seizures in the credit markets in the history of the world, when DIP financing was not available at all from the regular lenders--had the government of the United States wanted to facilitate the reorganizations of Chrysler and GM by ensuring that there was continued availability of dealer floor plan financing as well as financing available to customers to purchase GM and Chrysler cars, it would likely have had to have been the DIP lender to the reorganization.

Mr. Atkins. But, in effect, the United States is the DIP lender. I mean, it has stepped in----

Mr. Bloom. Well, no----

Mr. Atkins [continuing]. To, I mean, the only reason why GMAC can even attract any sort of money from the marketplace is because the U.S. government is there. And, you know, I don't know--if you look at it, at its inventory and what's able to be financed, you know, is the quality there to stand independently from the U.S. government, I guess is the----

Mr. Bloom. I think the point we're making, though, is that the dollars required to finance GMAC in a bankruptcy would have been, literally, on the order of $50 billion. Because all of the financing, as it ran off and assuming you--and our judgment was you needed to support dealer financing, because if you don't do that, the dealers can't buy cars, and if the dealers can't buy cars, the companies don't make cars, in addition to the retail. So, the total dollars that would have been required since there was no alternative financing market; these markets were in very, very severe stress at that time--

So, to finance all of this, it would have been all government money. And eventually what would have happened to it is unknowable, but we're literally talking about $40 billion or $50 billion.

Mr. Atkins. Okay, but Ford has been able to make it through this whole time, right? And, they were able to make----

Mr. Bloom. Ford wasn't in bankruptcy.

Mr. Atkins. Right. But, if you compare the two companies, I mean, I'm just--my time is out here, but what I want to explore later is have we created this huge moral hazard by supporting bad bets in the past, the U.S. government taking over those bets in effect, and you look at somebody like Ford that has not gone down that road, is independent, has not had to rely on the U.S. government.

Thank you, sorry.

Chair Warren. Thank you, Mr. Atkins.

Superintendent Neiman.

Mr. Neiman. Thank you.

And having already thanked you for being at the hearing today, I also do want to, though, thank you for your government service. We all know that there are, you know, millions of dedicated individuals who spend their full life working in governmental service, but the fact that you have all decided to leave, for this period of time, private practice to join the government, this is as critical a time as any, and I appreciate you for your government service.

Mr. Bloom. Thank you.

Mr. Neiman. You know, I want to come back to my opening statement regarding interconnectedness between the two entities as well as forward-thinking strategic issues going forward.

You know, given the government's control of both GM and GMAC and that your destinies are so interrelated, are there issues that arise where you might need to distinguish between GMAC's long-term survivability and its deference to the needs of GM?

So, obviously, there are certain actions or practices which may benefit GM, but may be at odds or actually conflict with the interests of GMAC. And just one obvious example would be pricing and underwriting the terms of dealer loans.

I'd be interested in your thoughts, going forward, as well as how you actually manage these types of conflicts?

Mr. Millstein. I think it's an excellent question. There's no game plan, there's no roadmap for what the government of the United States has done, here. And so we're all guided by first principles. And among the first principles that we in the Treasury Department certainly are deploying in this regard is that we don't bring any special expertise to the management of private commercial enterprises. We don't have any monopoly of wisdom on the right strategy for GM as a car manufacturer, or for GMAC as a finance company.

So, we have said and we are--I can tell you with someone overseeing some of our biggest investments--we are avoiding any effort to try to micromanage these companies. The approach we've taken is that, unfortunately our capital was required in one of the worst financial crises of our generation, to help sustain financial stability, but that we have populated the companies that we've invested in, largely changed the boards over, in many cases, with people we think are qualified to make these kinds of strategic decisions and to help guide the managements in evaluating the strategic alternatives available to them and we have tried to stay away from even pretending that we bring some special knowledge of this.

Mr. Neiman. Well, let me give another example of where these conflicts could arise. Certainly in approving a strategic plan going forward, there are issues around shedding the mortgage business. On one hand, you would think that increasing interdependence and concentration of risk with respect to GM after shedding this would present an increased risk to the taxpayer.

On the other hand, it may also decrease risk if you're avoiding a diversification of the business. So, how do you manage these risks, and how have you assessed the risks around shedding a volatile business like the mortgage business? Is it in the interests of the taxpayer, or is it not in the interests of the taxpayer?

Mr. Millstein. Again, the Board of Directors of GMAC has done an evaluation of the strategic alternatives around ResCAP, they've shared that analysis with us--ResCAP being the mortgage subsidiary--and we think the conclusions they've reached, particularly around the recapitalization that we participated in December--we think the conclusions they reached are reasonable. Again, we have not independently directed, guided or tried to manage that process.

Mr. Neiman. So, the role with respect to the Treasury and GMAC is no different than others. We have heard from staff discussions that Treasury did play a stronger advisory role with respect to GMAC than other entities, than to GM. Is that an accurate characterization?

Mr. Millstein. I can't speak to GM or Chrysler, the car companies--I mean, we have a lot invested in GMAC, we have a lot invested in the car companies. We are taking our oversight responsibilities seriously, we have frequent contact with the management to evaluate the strategies they are employing and the results of their operations, but again, I don't think we're in a position to dictate policy for them.

Mr. Bloom. And it's hard to compare. Jim works more on GMAC, I am more responsible for oversight of GM and Chrysler.

But I can tell you, again, we're quite engaged in terms of knowing what's going on at GM and Chrysler, but we likewise, with GM, we are not saying to them, ``You know, we think this is the right strategy,'' and most assuredly not giving them advice on how to manage their relationship with GMAC. We take that--just like they manage their relationship as another supplier--as something that the Board and the management are responsible for.

Chair Warren. Thank you.

I want to go back to this number you mentioned, Mr. Bloom--$40 to $50 billion dollar--oh, I'm sorry, Mark. I apologize. I was----

Mr. McWatters. You know, when you're fourth in line----

Chair Warren. I apologize.

Mr. McWatters. All of the good questions are taken.

Chair Warren. Mr. McWatters, I do apologize.

Mr. McWatters. Mr. Bloom, on a fair market value basis, is GMAC solvent today?

Mr. Bloom. I think----

Mr. McWatters. Solvent meaning assets greater than liabilities, including contingent liabilities?

Mr. Bloom. The balance sheet would suggest it is. And remember, this is now an entity that is subject to federal supervision of two different banking regulators. The bank itself, Ally Bank of the FDIC, and the bank holding company, by the Federal Reserve Board.

It went through the stress test, which was a reasonably rigorous testing of the assets on its balance sheet, under adverse scenarios, and the stress test concluded it needed--originally the conclusion was, it needed $13 billion of incremental capital. That turned out to be--after we saw the results of the GM and Chrysler bankruptcies, it proved to be $1.8 billion less. But the point being that federal banking supervisors are on top of this company, as any other banking institution. And it has had the benefit of significant capital injections from the United States Treasury. But I think the----

Mr. McWatters. Do you anticipate any more capital injections?

Mr. Bloom. Well, no, I certainly hope not. I think this is worth talking about because it answers another question that was posed earlier. Which is, we sit today holding 56 percent of the common stock, but we also hold significant convertible preferred stock, which if there is further deterioration in the quality--this is how banking regulators talk about capital--the quality of its capital, common stock has a higher quality capital, more loss absorbing than preferred stock. We, actually, sit on a lot of preferred stock that is convertible into common. It would be further dilutive of the other shareholders' interests were we to do it, but it would help sustain GMAC's capital position, if needed.

I think we sort of recognize that if it needs us to convert, we may very well have to. But from the point of view of our exit strategy, we think the most likely way the taxpayers will be paid back is through an initial public offering--remember, this is now a private company. And we think that sometime in the near future, there will be an opportunity to do an initial public offering for this company and in connection with that, most likely we will convert some of our preferred into common so as to give ourselves access to the public markets to reduce our investment and repay the taxpayers.

Mr. McWatters. Okay, so your view is that GMAC is solvent today and will most likely not require any more taxpayer funds?

Mr. Bloom. I certainly hope so.

Mr. McWatters. If the CBO is correct and the taxpayers lose anywhere near $10 billion on this investment, how can the pre-bailout shareholders, equity holders of GMAC still be in existence? I mean, is there a possibility that taxpayers will take a $10 billion hit, but a shareholder, that, let's say, owned GMAC in 2008 will someday receive a greater return?

Mr. Bloom. No, I think--I think the answer is that first thing, the final valuation of what we receive is yet to be determined. The CBO report I think you refer to refers to the overall----

Mr. McWatters. It does.

Mr. Bloom [continuing]. In the auto space. That is subject, obviously, to the particular investments and it is certainly not impossible that we will not receive all of the money back. That is not impossible.

I think the answer to your question, however, unfortunately raises the practical question. Which is, the only way to completely wipe out shareholders who have legal rights in the other extent, is to go through a bankruptcy proceeding. And as we've been dialoguing about before--and I've tried to explain, and Jim as well, and you may not accept the explanation--but the judgment was that a bankruptcy filing for GMAC was not a prudent course of action under the circumstances.

So, there's been very, very substantial dilution, the investments were made in preferred stock, the conversion prices were set by arm's length valuations, so we believe we've received as fair a value as was available, and the alternative--which is to completely, entirely eliminate all other shareholding interests--was one that was just not deemed to be practical.

Mr. McWatters. Well, my time's up, so just let me recap. It sounds like the taxpayers could lose a lot of money on this transaction with the existing shareholders as of 2008 pre-bailout----

Mr. Bloom. I don't think I said the shareholders could lose a lot of money, I said there are scenarios where the shareholders will not receive all of their money back. The precise consequences of the investment and what the shareholders--and what the government gets back--is yet to be determined.

Mr. Millstein. May I just weigh in on that? I think it highly unlikely that the independent third-party shareholders of GMAC are going to get a return if the taxpayers of the United States are not paid in full.

Mr. McWatters. Okay. Fair enough.

Chair Warren. So, I want to go back, then, to the question about the dollars.

Mr. Bloom, you were just testifying that you thought that the cost of a bankruptcy, in effect, what we would have to put for DIP financing, would be somewhere in the range of $40 billion to $50 billion, is that right?

We've been having conversations, as you know, for the last couple of months, and the numbers that have been quoted to us by Treasury up to now has been about $6 billion per month, for a total of somewhere between $10 billion and $18 billion for what would have been required in DIP financing if GMAC had been in bankruptcy. So, I'm puzzled about how the number grows this morning to potentially $50 billion.

Mr. Bloom. The number had a very wide range associated with it. The issue is that at that time, if GMAC had gone into bankruptcy as Jim and you dialogued about before, all of their securitizations, their conduits, would have gone into runoff. And so all new origination of dealer financing and retail financing would have had to have been done by somebody. And, at the time, the only reliable somebody was the United States government.

So, the question is, how long would the company have been in bankruptcy for--which is quite hard to know, in fact, I think unknowable at the time--and for the pendency of that event, all new dealer originations, which roll off on a regular basis, and all new consumer originations, would have had to have been provided by the government, because that was the only entity available.

Chair Warren. Well, but if we're talking about time, I mean, I presume the possibility of a quick 363 sale, as happened in the auto industry, could have made this a relatively speedy procedure----

Mr. Bloom. No, because----

Chair Warren. But, it still doesn't help me understand why it is that, in our conversations with Treasury to this point, we have heard $6 billion per month and a total of $10 billion to $18 billion as Treasury's own estimate, until this morning, of what DIP financing would have----

Mr. Millstein. Madam Chair----

Mr. Bloom. Let me deal with the 363 and then Jim can talk about the numbers.

Mr. Millstein. Yes.

Mr. Bloom. A 363 sale of GMAC would have been a 363 sale of the platform. The new company would still have had to originate car financing. So, whether it would have been a DIP or a capitalization of the new company, all of the originations of the--first thing, you would have had to have been successful with the 363. Second thing, if you were successful with the 363, you still would have had to have capitalized the new company with all origination funds that were required.

Chair Warren. I understand--I do understand that. And I understand how this works.

Mr. Bloom. Okay.

Chair Warren. The difference is, that you're trying to capitalize what is now a much stronger company.

Mr. Bloom. No question about that.

Chair Warren. Because you have wiped out its old equity----

Mr. Bloom. Right.

Chair Warren [continuing]. And you have wiped out some portion of its old debt.

Mr. Bloom. No question about it.

Chair Warren. So, the notion that somehow we save money by propping up a weaker, more impaired company than we do by cleaning it up and putting it on the block just doesn't add up for me.

Mr. Bloom. I think what I said was that weighing all of the risks, we believed this was the most prudent course of action. If everything had occurred absolutely perfectly, it might have been optimum to do it that way. But what we had to take account of in the real world was the cumulative execution risks that would have occurred if we had all three of these companies in bankruptcy at the same time. And given that it was now putting at risk--it was our judgment--that it would put at risk the GM and the Chrysler bankruptcies, the consequences of those failures were, from our perspective, outweighed the risks that might have occurred if everything had gone perfectly.

Chair Warren. So here's what I never understand about GMAC, when we talk about this, when we try to read everything here. It's that at some moments GMAC is so deeply integrated with the auto industry, I notice the bailout did not come in its capacity as a bank, in effect, it came through the auto portion. And as a result, GMAC did not have to do the ordinary things that a bank would have done in terms of under the capital infusion program, they didn't have to give the same kind of projections about their business plan, and so on. We did this as part of the auto bailout.

But then, it shifts over. And you say, ``No, no. It's really not like the auto industries, it's really an independent bank, it's got a very different financing structure, we've got to go ahead and bail it out.'' Only we didn't bail it out as part of a bank bailout program.

So, it looks to me like this thing keeps moving back and forth. I'm not understanding what's going on here, Mr. Bloom.

Mr. Bloom. Let me make two comments on that. One is, obviously GMAC is a finance company. So, no question about that.

Chair Warren. Of course.

Mr. Bloom. As you know, the prior Administration chose to make the original infusion into GMAC under the auto finance program.

Chair Warren. And why is that?

Mr. Bloom. I don't know why the prior Administration chose to make the decision they made. But they did.

Chair Warren. So, they treat it as part of an integrated approach to deal with the problem in the auto industry.

Mr. Bloom. I'm not commenting on what the prior Administration did, I'm just observing what they did.

I think we chose not to move it, but it had already been established there.

I also think--and Jim can give you more color on this--but I don't think there is a substantive difference in terms of which program they were financed under.

Mr. Millstein. All of these programs are under TARP. And whether it's the----

Chair Warren. It's always the taxpayers' money.

Mr. Millstein. Exactly. And the TARP restrictions are pretty uniform across each of the different programs in terms of restrictions on executive pay, the luxury expense policies--one incremental burden or requirement that would have been placed upon GMAC had it been funded under the CAP program or the CPP program, rather than AIFP--the automobile program--is they would have been required to produce regular reports on their lending activities.

Chair Warren. Yes, and are they doing that?

Mr. Millstein. But, in fact, they are doing that.

Chair Warren. So, you are having them follow the same procedures they would have----

Mr. Millstein. It's part of our ongoing monitoring of this entity that they provide us with that information.

Chair Warren. Thank you. I'm past my time.

Mr. Atkins.

Mr. Atkins. Okay, thank you. I just wanted to go back quickly to the existing shareholders so that--not to beat that one too much--but there are other ways to, you know, really actually get rid of them besides reorganization or bankruptcy. It happens all of the time in the VC situation where former management has, you know, perhaps not done what's--what the market wants--so new capital comes in and basically the old guys are diluted out so much that there's really nothing left and they basically hit the road unless they're insiders or they have some special expertise to bring. You know, is that the case here?

Mr. Bloom. Most of our investment is in preferred stock which, by its nature, is superior to the common shareholder. So, in fact, if there's not a return, common shareholders--as Jim pointed out--don't receive recovery when preferred shareholders aren't fully compensated.

So, I don't think as a practical matter, the shareholders are getting--the old shareholders, excuse me--are getting anything out of this thing if the government doesn't get its money back.

Mr. Millstein. And in terms of just the structure of investment, because this is actually something that we were very concerned with, and we looked exactly at that model, in terms of how to think about the next step, we hold $2.5 billion of senior preferred in the capital structure, but we also hold north of $10 billion of convertible preferred.

So, when the opportunity comes to access the public equity markets in an IPO, we will convert that convertible preferred in common--in whole, or in part--in order to access and find ourselves an exit. That will be further substantial dilution to the other shareholders.

Mr. Atkins. Okay.

Well, then let's look quickly, too, because time is short here, with respect to the stress test. The one thing that this panel has pointed out about a stress test is that basically they only looked through this year, and not beyond. So, GMAC recently had a 144A offering, where they raised $2 billion, but at a pretty high price--even more than Ally Bank pays at its advertised rates, 8.3 percent for 5-year notes--and so there is $24 billion in debt coming due this year, $22 billion next year, and $13 billion the year after.

At those rates, you know, with car sales still rocky and this debt coming due, what is the outlook? It's solvent now, but what's the outlook on capital in the future?

Mr. Millstein. Yes, let me see if I can address that, I mean, it's hard to predict the future. If you look back a year and a half there's been a little volatility in the markets, and my guess is we'll see similar volatility going forward, good and bad.

Clearly these finance companies--GMAC is not unique in the problems it faces in terms of how it's going to fund itself forward. And I think the funding program remains a work in process. Clearly the unsecured credit markets--what they call the wholesale funding markets, which is where this company funded itself and other finance companies fund themselves primarily in the period prior to the crisis--are in shaky shape. There is unsecured financing available again, in the long-term debt markets, but it is more expensive and the spreads are higher.

And the fact that they've accessed the market is a good start, but they've got, as you mentioned, work to do.

Mr. Atkins. Yeah, but even--oh, I'm sorry.

Mr. Millstein. So, what I was going to say is it's a work in process. And in part, they've got access to deposits now through Ally that they hadn't had before, which lowers their cost of capital, but the wholesale funding markets have got to come back. The ABS market, the Asset Backed Securities market, is back. TALF was an enormous catalyst to getting those markets to function again, the spreads have come down enormously there.

So, we're by no means out of the woods in this crisis, and this company--as a finance company and a bank--is by no means out of the woods, but it's gotten off to a good start.

Mr. Atkins. But if you compare these rates and this track record with Ford, for example, and GMAC has huge government backing, obviously, as the majority shareholder----

Mr. Millstein. That's right.

Mr. Atkins [continuing]. The majority stakeholder there, you know, the market loves auto paper, so why is there this----

Mr. Millstein. You know, in fact, I mean, here's the--it's more general phenomenon rather than GMAC-specific. Those rates are right on top of where Ford Motor Credit is borrowing money without government support. So, it's really a function of the remaining dislocation in the unsecured, long-term bond market.

Chair Warren. Okay, I'm going to stop you there.

Mr. Atkins. Thanks.

Chair Warren. Superintendent Neiman.

Mr. Neiman. Following on this interdependence and interconnectedness, have you, in any way, considered a strategy of recombining GMAC and GM in recognition of that interdependence and presumably also the viewpoint of the capital markets? And, if so, what are the considerations on both sides of that?

Mr. Bloom. There is no consideration of that going on. GMAC's long-term strategy is an evolving thing, which we are obviously very mindful of, but there is no active consideration of that idea at the moment.

I think we've all learned--as Jim pointed out--from the last year and a half to never say never, but no, that is not something that's on the table at the moment.

Mr. Neiman. How about a strategy of encouraging alternative sources of dealer financing to encourage competitors to GMAC to foster a sound industry?

Mr. Bloom. Well, I mean, we do need to start by taking the world where we find it. Roughly 80 percent of dealer financing is provided by the captives of one sort or another. So, if you kind of walk across the companies, they all have between 70 and 80 percent of their dealers provided by their captives. The exception is, obviously, Chrysler which is sort of now part of GMAC. But Ford does 77 percent, and the numbers are similar.

The largest single provider of dealer financing in the third-party market, the unaffiliated market, is less than 2 percent of total dealer financing. Those banks are, obviously, free and welcome to come and finance auto dealers, which would be wonderful, you know, this is a competitive environment, it's free to happen. But again, as Jim points out, the capital markets--while enormously more stable than they were--are not fully healed and banks are not rushing in, today, into that market. So, we have to take what we have, and the reality is, for 80 years the almost exclusive model for dealer financing has been captives. Or, if you will, companies that specialize in it.

And whether there's a new model that would need to evolve over time is something certainly worth thinking about, but we walk into this situation taking it as we found it.

Mr. Neiman. Now, recognizing that there is no assurance of the viability of GMAC going forward, are there any contingency plans being made for the assumption of this dealer financing role in the event that GMAC was unable to provide dealer financing going forward?

Mr. Bloom. I mean, General Motors and Chrysler, as part of their long-term planning, I am sure, are looking at many, many things. I would have to direct that question to them, though, given the role we play.

I think we believe--as Jim has said--that GMAC at this point is stable. Over the long term, is General Motors going to be considering a variety of alternatives? Again, I would direct that question to them.

Mr. Neiman. Do you have any comment?

Mr. Millstein. I mean, I'd have to--if Mr. Bloom is unwilling or unable to share with----

Mr. Bloom. Unable.

Mr. Millstein [continuing]. Unable to share with you what GM's strategic plans may be in this regard, I certainly have no insight into that.

Mr. Neiman. Right.

Well, thank you. Recognizing that we have the executives from GMAC on the next panel, are there any recommendations that you would make to us now to make sure we explore, or maybe areas of frustration that you have seen in your role at Treasury that we should be sure that we explore in our next panel?

Mr. Millstein. No, listen, I have to say I think that we've got a very professional management team, a very good Board, they've been very cooperative with us in answering our questions and information requests, and I think they will be very forthcoming with you, as well.

Mr. Neiman. That raises another point. In the AIG situation, which you know extremely well, Treasury utilized a trust to hold its shares. Is that something that was considered here, or do you see benefits for those shares being held in trust? And because they're not, what were the considerations----?

Mr. Millstein. I'll give you a little AIG tech time, but just to correct the record, the Federal Reserve--when it made its original investment in September of 2008--took 79 percent of the shares of AIG and established--it established a trust.

Mr. Neiman. Right, correct, thank you.

Mr. Millstein. The Treasury preferred is actually held by the Offices of Financial Stability inside of the Treasury Department.

Mr. Neiman. So, was there any consideration of utilizing a trust in this situation? Recognizing the difference?

Mr. Bloom. I think we have--both with GM and with Chrysler, and with GMAC from time to time--we have looked at various structural options and our conclusion is that it does not enhance our position to do that.

Mr. Neiman. Thank you.

Mr. Bloom. Thank you.

Mr. Neiman. My time is expired.

Chair Warren. Mr. McWatters.

Mr. McWatters. Thank you.

Would you please provide a little more detail and color respecting your exit strategy--how it will work and the timing that you anticipate today?

Mr. Millstein. Yes. I think, as Mr. Atkins pointed out, there's a significant wall of maturities on the debt side that GMAC faces, and that they're doing a good job chipping away at. This first offering of $2 billion of unsecured debt is part of it.

We think until that wall of maturity is confronted and dealt with, and successfully hurdled, it's unlikely that we can sell stock in this company--you have to have a stable platform going forward for stock and equity investors are longer term investors. And so, the first path towards an exit, here, requires the refinancing of the balance sheet, and creating a longer runway of liquidity.

The management team and board know that, and they're working hard at it. Assuming that is accomplished--and we're hopeful it will be--we think that the, given that it's a private company--the most likely path for us to facilitate an exit is for an IPO to occur. And, you know, it's hard to know what market conditions will be, whether they will be favorable, but my guess is that we're looking at some time at least a year out.

Mr. McWatters. Okay, thank you.

If GMAC is ``too big to fail,'' if it continues to be too big to fail, what specific actions are you taking to negate that? I mean, how do we know that a year from now we won't have this problem again? Because you have two automobile manufacturers that are building cars, but they're going through this gridlock that is GMAC that will back up and stop everything behind it. So, how are you addressing that?

Mr. Bloom. I think Jim has spoken about the very hard work that we've asked the Board and the management to take on to make GMAC a viable company. So, that is obviously our principal strategy, and as I responded to--I think it was Superintendent Neiman--General Motors and Chrysler are obviously deeply aware of GMAC's circumstance, but I can't speculate because I simply don't know exactly what the nature of their contingency planning is.

But, as Jim says, we're trying to be very cautious about this and not be more optimistic than the facts warrant, but we do believe that GMAC has been stabilized, we do believe it has challenges ahead, and so our principal focus right now is supporting the management and the Board as they make this a long-term, viable enterprise.

Mr. McWatters. But, my question is the creation of the monopoly. GMAC has become a greater monopoly with respect to the ability to finance floor plan for Chrysler and GM dealers. If there were other competitors out there, we wouldn't have had this problem, right?

Mr. Millstein. That's right.

Mr. McWatters. A year ago, GMAC would have----

Mr. Bloom. I'm not sure how they're more of a monopoly. I mean, their share of GM dealers is about what it was.

Mr. McWatters. I know, but they have the implicit guarantee of the United States government, it's very difficult to compete against that.

Mr. Bloom. I'm not sure I agree with that.

Mr. McWatters. That's fine.

Mr. Millstein. Mr. McWatters, when you have the next panel, I think you should explore with the management team why it is that the dealer financing market is dominated by, effectively, the affiliates of manufacturers or former affiliates of manufacturers. There's a reason which, I think, they can explain to you better than I can, because whatever I would tell you would have come from them.

But, I think there are good and valid reasons for why each of the manufacturers sort of dominates the financing of its dealers.

Mr. Bloom. And, again, going back in history, the dealers--there were dealers who chose to not finance with the captives, historically, but it was a very small group. And they were able to do it, but the fact is--as Jim points out--there is quite a bit of expertise in organizing this platform. It is less true on the retail side, but on the dealer side, this is a very specialized kind of lending. And banks, historically, were free to go into it if they wished to, but most have taken very, very small positions in the aggregate.

Mr. McWatters. Okay. Thank you.

I'll stop there.

Chair Warren. Thank you very much.

Mr. Bloom, Mr. Millstein, I appreciate your coming today. We ask that you stay, if you can, during the next two panels. We may have some questions we want to ask at the end. I know you have very difficult schedules, but we would be grateful if you could stay and hear the rest of the witnesses.

With that, you're excused for now, the record will be held open for additional questions that we may send, but we appreciate your appearance here today.

I ask Mr. Carpenter and Mr. Hull to come and sit. While they are coming our way, I will introduce them.

Michael Carpenter is Chief Executive Officer of GMAC Financial Services, and Robert Hull is Chief Financial Officer of GMAC Financial Services.

Thank you both for being here with us today, we appreciate it. As soon as you're settled, Mr. Carpenter and Mr. Hall, I'll ask each of you if you'd like to make opening remarks. We ask that you hold them to no more than five minutes. We will put any written remarks in the record that you wish to have printed there.

So, Mr. Carpenter.

STATEMENT OF MICHAEL CARPENTER, CHIEF EXECUTIVE OFFICER, GMAC FINANCIAL SERVICES

Mr. Carpenter. Good morning Chair Warren and Panel members Atkins, Neiman, and McWatters.

On behalf of GMAC and its approximately 19,000 employees, we are extremely grateful for the investment from the U.S. government in our company at a time of unprecedented international financial turmoil, we view repayment of that investment as our highest priority along with operating the bank with the utmost attention to safety and soundness.

I joined GMAC as CEO in November of 2009 and have the perspective of serving on its Board of Directors since May of 2009.

The capital investment by Treasury has been critical in allowing GMAC to support the domestic auto industry's revitalization. GMAC has a unique position in the auto industry as one of the largest providers of credit to dealers and consumers, and we are able to hold that position in large part because of our infrastructure, our history in the business, and the experience of our employees.

At the end of 2009, GMAC supplied 90.9 percent of GM dealer floor planning financing and 77.3 percent of Chrysler dealer floor planning financing in the U.S. This type of financing is vital for these small businesses to have inventory on their lots, and is not generally available from banks.

Given the lack of liquidity from other sources during the financial crisis, it is fair to say that without the government support of GMAC, thousands of GM and Chrysler dealers would not have survived, and tens of thousands of their employees would have been thrown out of work, and many thousands of consumers would not have been able to buy GM or Chrysler vehicles.

After I took over as CEO at the end of 2009, GMAC took substantial write-downs and reserves, primarily in our legacy mortgage business, in order to position GMAC for the future. Importantly, these restructuring actions have allowed GMAC to demonstrate to the capital markets that we have ``ring-fenced'' the risk of our mortgage business.

These actions allow us to access the capital markets, in February, for the first time since 2007, raising $2.0 billion of unsecured debt funding.

As we look ahead, GMAC is focused on six strategic objectives. First and foremost, our mission is to be the premier automotive finance franchise across multiple brands. Automotive financing is our core business and we have the infrastructure, talent and experience to expand this area of our business.

Our second objective is to reduce our cost structure and ensure that GMAC is a low cost, high service competitor.

Our third objective is to continue to improve our access to the capital markets in order to ultimately repay Treasury's investment, and our reentry to the unsecured capital markets this month was a critical first step.

The fourth objective in our plan is to fully transition to a bank holding company model and ensure that we operate at a high standard of safety and soundness.

Our fifth objective is to improve our ongoing liquidity position by building a stable base of deposit funding at Ally Bank. Previously, GMAC was a wholesale funded finance company, and as demonstrated by the capital markets disruption, funding diversity is critical to any financial firm.

And sixth, we are focused on continuing to address the challenge related to our legacy mortgage business in order to minimize any future impact on GMAC. The actions taken at the end of 2009 were significant, and we are now exploring strategic alternatives for the mortgage business which minimize risk to GMAC, but continue the important role of ResCAP as the fifth largest mortgage servicer to three million homeowners with $376 billion of outstanding mortgages.

As I have described, the support received from the U.S. government has been critical in allowing GMAC to play an important role in the rebuilding of the U.S. auto industry and positions the company for future success.

GMAC has made approximately $1.0 billion in dividend payments on the taxpayers' investment so far and plans to repay the U.S. government in full over the next several years.

Our financial plan anticipates that as the company's financial performance improves during 2010 and beyond, the debt capacity will be available at more competitive rates. More importantly, we and our financial advisors believe that an initial public offering should be possible sometime in the next two years, and this would allow us to return to being an investment grade company, reduce our overall capital intensity, and begin paying back the U.S. taxpayer in full.

Finally, as requested----

Chair Warren. Can I ask you to stop there? And, please, give us all of your written remarks and we'll put them in the record.

Mr. Carpenter. Absolutely. Thank you.

[The prepared statement of Mr. Carpenter follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Chair Warren. All right. Thank you.

Mr. Hull.

STATEMENT OF ROBERT HULL, CHIEF FINANCIAL OFFICER, GMAC FINANCIAL SERVICES

Mr. Hull. Sure. Good morning, Chair Warren and Panel members Atkins, Neiman, and McWatters.

Thank you for the opportunity to address a few topics on behalf of GMAC which include the impact of the TARP investment, the manner in which that assistance contributed to our financial stability, and our ability to support the auto industry.

I will also address the effects that GMAC's restructuring and other strategic initiatives are expected to have on our future financial performance. The government assistance provided to GMAC was critical to stabilizing the company and the U.S. auto industry, and we are grateful for that assistance.

As a result of the U.S. Treasury's investment in GMAC, we strengthened our capital ratios and can continue to provide roughly $30 billion of wholesale financing to auto dealers and to service approximately $60 billion in consumer auto loans.

Auto finance companies, like GMAC, are critical to the auto manufacturers' ability to sell vehicles. Automotive sales are dependent on the availability of dealer inventory and the financing available to retail consumers. In the fourth quarter of 2008, the lack of stability in the global capital markets coupled with GMAC's need to preserve capital, required us to largely shut off consumer auto financing. After receipt of the initial TARP investment in December of 2008, we were able to lift the restrictions and offer retail financing for consumers. We've now returned to more normal levels of consumer financing volume, and have helped stabilize the U.S. auto industry. This translates into roughly $6 billion of new retail auto financing per quarter from GMAC.

Now, let's turn to the financing of auto dealers, some of the most important small businesses in the United States. By the second half of 2008, GMAC's ability to finance the inventory of GM dealers was severely constrained. Auto dealers finance their vehicle inventory through line of credit arrangements with finance companies like us, and without that financing, dealers can't buy cars from the manufacturers.

Given GM and Chrysler's financial instability over the past year, as well as an overall contraction in lending, vehicle inventory, or floor plan financing, through traditional banks has been scarce to non-existent for them. GMAC has served in a unique role that worked with both auto makers to support their dealer networks.

Let me now turn to GMAC's capital restructuring, if I might. Historically, GMAC funded itself by accessing the secured and unsecured capital markets in obtaining financing from other banks. With the mortgage crisis of the last two years, our mortgage sub incurred losses that reduced our capital levels. Weaker economic conditions and reduced consumer spending also had an effect that drove used car prices down. As a result, GMAC's financial performance was impaired, further reducing our capital levels. This hurt our debt rating, which in turn led banks and unsecured creditors to view GMAC as a higher-risk credit, and to decrease their unsecured lending to us, and therefore GM and the dealerships. The broad disruption in the capital markets exacerbated this situation. From 2007 through 2009, the company was unable to access the unsecured market without government assistance.

Throughout 2008, GMAC completed a number of funding transactions, nonetheless. We restructured $46 billion of bank lending commitments, we completed two very large bond exchanges and we sold many non-strategic businesses. Even still, GMAC's liquidity and capital position continued to erode.

In the fourth quarter of 2009, our capital position improved thanks to substantial investments from the Treasury, which you know about. Along with our capital structure, our liquidity profile also materially improved due to $11 billion of net deposit growth, the issuance of $7.4 billion of debt through the TLGP program, and reentering the securitization market in 2009 with $1.8 billion of new funding aided by the TALF program.

The increased liquidity and capital as well as the steady performance of our portfolio enabled our auto business to return to profitability in 2009. At the end of 2009, we undertook several actions to strengthen the capital position and to minimize the ongoing risk of the legacy mortgage business. Details of the capital actions are listed in my written testimony. At the end of 2009, GMAC's total capital ratio was a healthy 15.5 percent, which significantly exceeds a well-capitalized standard of 10 percent.

In summary, while GMAC has experienced recent financial difficulty, 2009 was a transformational year for us. We made great strides in strengthening our $170 billion balance sheet, improving our capital and liquidity positions, and have returned in 2010 to the capital markets, as you know, without further government support and are now focused on profitability and repaying the U.S. Treasury as quickly as possible.

Thanks again for the opportunity to speak with you and we welcome your questions.

[The prepared statement of Mr. Hull follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Chair Warren. Thank you very much, Mr. Hull.

So, what I'd like to start with is--I just want to make sure I understand the business model. Does GMAC cross-subsidize the sale of GM cars? Is that how this works? Is there a cross-subsidization that takes place, here, between GM and GMAC?

Mr. Carpenter. Go ahead.

Chair Warren. Either one--Mr. Hull, Mr. Carpenter, whatever is easiest for the two of you.

Mr. Hull. Sure.

No, GMAC does not cross-subsidize the sale of cars.

Chair Warren. So, you don't offer cheaper financing than anyone else does in order to support the sale of GM cars?

Mr. Hull. Actually, we do offer that, but that's not--GM provides that subsidy, it's essentially a marketing expense, it's called subvention in the industry. So, if you see a zero percent rate on a car, in a dealership, GM has effectively paid for that rate under what would be our standard rate.

Chair Warren. All right, so GM is offering, in effect, to pay a portion of the consumer's finance cost, and they offer it exclusively to you, or do they offer that to other financial institutions? Would they offer that to another bank, for example?

Mr. Hull. They offer it through us, but they have the ability to go elsewhere with a new----

Chair Warren. I'm sorry, ``they'' meaning the consumer?

Mr. Hull. No, ``they'' being GM. So, GM offers that exclusive--that subvented financing through GMAC, but they have the ability to go elsewhere over the course of the next several years, if they want to do it.

For example, they can offer programs, other leasing and retail lending programs through other players. We do have a first right at it, but they have the right to go elsewhere.

Chair Warren. So, right now, your business model is that you have the exclusive right to sell, in effect, zero percent financing on GM cars and get the difference from GM.

Mr. Hull. It is a large part of our business.

Chair Warren. This is a large part of your business. Is the same true, also, with dealership financing? Or is there something different about the arrangement in dealership financing?

Mr. Hull. It's completely different.

Chair Warren. All right.

Mr. Hull. So we would fund a dealership, the thirty----

Chair Warren. In the same way that anyone else in the market would?

Mr. Hull. For the most part, that's right. And the only difference with the dealership is that they see us as an integral part of the relationship with the manufacturer, because we know them, we've known them for 90 years and they know that we know how their systems work, and we're able to deliver to their needs and on the timeframe that they have.

But there absolutely are commercial floor plan arrangements with unaligned finance companies.

Chair Warren. So, you see yourself as having two advantages, then, in the marketplace, if I'm understanding this correctly. That is, that you have a deal with GM to get money from GM and offer--this is how you build up a big volume--offer what appears to be, to the customer, below-market financing.

And your other part is simply that you know the dealership world.

Mr. Hull. That's right.

Chair Warren. Is that a fair----

Mr. Carpenter. I would add to that--we are--from a systems point of view--integrated with the dealers and the manufacturers. So, to help you visualize it, if you imagine a dealer placing an order for an automobile from GM for a particular VIN number, we will finance that purchase when the sale is made by the dealer, we will get reimbursed. It's a closed loop system.

And being part of--an integral part of--that system is both beneficial to the manufacturer and to the dealer and also reduces the credit risk of the business substantially.

Chair Warren. Okay. So, I understand why GM would want to finance its dealers and why it would want to finance the sale of its goods; many businesses do this. What I don't understand, then, is what the justification is for being an independent bank that takes deposits that has a backup from the United States government. There are lots of businesses that finance the sale of their goods, but they're stuck with that as part of their internal model, internal pricing, internal profits--and they don't reach federally insured deposits, and they don't reach a backup from the United States government.

So, why, in this case, do you function in this very integrated way that makes you look like simply a financing arm of GM and yet you get all of the benefits of being an independent bank?

Mr. Carpenter. Let's break the question, I think, into two parts. There are many manufacturers, obviously, that provide financing for their products--whether it be copy machines or whatever it is. Some of those manufacturers have their own captive finance companies that are not banks, other companies contract with third-party vendor finance providers like GE Capital. And you have both models in existence.

So, that's the answer to the first part of the question. You know, with regard to the second part of the question, this is--in my judgment--a very attractive business for a bank with insured deposits. And the reason that I would say that is that if you look at all of the asset classes that a bank could lend to--if you look at the history over many, many years, the risk characteristics of this asset class are the most favorable of any asset class.

For example, the loss ratios in dealing with automobile dealers with the system that we have of integration, is somewhere around 10 to 20 basis points. And so----

Chair Warren. I would think that it would be attractive to other----

Mr. Carpenter. And so, as a credit----

Chair Warren [continuing]. Other banks.

Mr. Carpenter. The creditworthiness of the banking activity is extremely high, and the degree of comfort of using federally insured deposits to finance those, should be extremely high.

Chair Warren. All right. We're over our time, so I'm going to let Mr. Atkins pick up.

Mr. Atkins. Thank you very much.

Well, let me just pick up in that vein because part of the justification that Treasury was using to bail out GMAC was that it would be so difficult for other types of banks to step into--especially the floor plan financing--of dealers.

But, as we've seen, the market really likes this paper and it's obviously very high quality----

Mr. Carpenter. Yes.

Mr. Atkins. And they like it better than mortgages, I guess. So I guess my real question is, you all basically subsumed the old Chrysler Financial and integrated it into your system and it sounds like, without much of a hitch. And as we all know, system integrations typically have lots of hitches.

And so I just want to get back to the question of why is there so little competition? Why do not other financial institutions step into this? You have high-quality paper, it sounds like it's not that hard to integrate into existing things, you have VIN numbers and other things to keep track of inventory, what's the deal here?

Mr. Carpenter. It's a great question.

Let me start by making the observation that there are numerous sectors in the financial services industry that banks do not participate in that have been the province of finance companies, historically. I spent 10 years at GE Capital, almost every business we ran was a business a bank had exited. And, so if you look at factoring and specialty leasing and a lot of different businesses, they're businesses that banks don't participate in, because the value of being a focused competitor is extremely high.

Now, having said that, your observations about the credit characteristics of this asset class, the receptivity of the marketplace for auto paper is absolutely correct. And I think the barrier to entry, if you will, is not money and cost of money--it's infrastructure and the knowledge--it's the knowledge of the automobile business, how automobiles are dealt with in the wholesale channel, the retail channel and the systems that are acquired and the relationships that are necessary to manage that business over time represent a very significant barrier to entry.

Now, is it a barrier to entry that a major bank could overcome over many years? Absolutely. It would cost a great deal of money and historically they have not shown the appetite to do it. So, if you look at which of these dealers actually get financing from banks, they fall into two categories. One is the local bank down the street, where the bank is taking a very different risk. We're a secured lender, they're taking a risk on the business, the character of the business person in the community. And the other characteristics are some of the largest--often public--dealerships which are of interest to the larger banks, just like any other major commercial credit.

Mr. Atkins. Okay. All right. Well, thank you.

Let me move onto, then, other aspects, because obviously we don't have a lot of time.

With respect to ResCAP, you know, clearly I don't know the whole history of getting into that line of business, because if it sounds like this is a great business and Ford Motor Credit didn't get into that line, to use them as an example, what do you see as the value of ResCAP now? I mean, as far as both intrinsically and how does it add to the mix? Right now it's the great sucking sound, so----

Mr. Carpenter. I think that's a great question, Mr. Atkins.

The history is that General Motors decided to diversify its financial services business many years ago and built up this mortgage banking business. For GMAC, over the last several years, it has been what I have described, publicly, as a millstone around the company's neck. It has been the single-greatest barrier to the company's access to the capital markets, it has been the greatest barrier on our profitability as an enterprise.

So, I look at ResCAP as a problem to be solved, not as an opportunity. And as such, the actions that we took at the end of last year--and, by the way, the mortgage marketplace, in general, has been a minefield for many, many companies, as you know only too well. And so, the focus of our activities has been--or my activities since joining the company--has been to quantify the risk in ResCAP, to ring-fence that risk, and over time, to minimize that risk so that GMAC is freed from that burden, going forward.

Chair Warren. Thank you.

Mr. Atkins. My time is up.

Chair Warren. Mr. Neiman.

Mr. Neiman. Thank you. I'd like to follow-up on that line of questioning, because this is really critical to the strategic plans going forward. And you talk about exploring strategic alternatives for ResCAP and the mortgage business, and also ring-fencing the mortgage exposure. Can you go into that in a bit more detail, and specifically, I'd like to understand, has there been a decision with respect to divesting the mortgage business, and understanding--well, I should stop there. Has there been a decision to divest ResCAP?

Mr. Carpenter. Mr. Neiman, I would say this--our focus has been to de-risk ResCAP as it relates to GMAC and its principal mission in the auto finance segment. The first step in doing that was to mark the mortgage assets to fair value, to put additional reserves in the company, and to make sure that our MSR, which is our Mortgage Servicing Rate asset, was fairly valued. And that was the agenda for--for the fourth quarter of last year, which puts ResCAP on a sounder footing, going forward.

When we talk about exploring strategic alternatives, what we're trying to do for the U.S. taxpayer is maximize the value of that set of assets. That could mean anything from a sale of ResCAP in its entirety, to the sale of individual assets, some of which are ongoing, to the joint ventures or any other transaction or approach that companies typically refer to when they talk about pursuing strategic alternatives.

Mr. Neiman. So, in developing your strategic plan you set out six areas of strategic objectives----

Mr. Carpenter. Yes.

Mr. Neiman [continuing]. Where are you in the process of developing and disclosing a strategic plan? And I'd be also interested in the approval process for that plan, the timing.

Mr. Carpenter. Good question.

We have engaged two major securities firms to help us analyze the numerous alternatives for this asset. And there are many, and the solutions are going to be complex. And so we have engaged two major Wall Street firms to help us through that process.

They have just begun their process. My expectation is, in the next several months, two or three different alternatives will be analyzed. We will then, as the normal course, present those alternatives to our Board of Directors, with a recommendation from management as to how to proceed.

In the meantime, we are actually already in the process of selling some of the mortgage assets where we think the timing for those asset sales is now. And the objective is to end up--as we head towards the IPO--with not having to have a conversation with this panel or any other--about our mortgage business, going forward.

Mr. Neiman. So, can you share with us your current thoughts and how you're addressing the pros and cons of being a diverse financial institution with a mix of assets, a very serious a mono-line institution which is even a captive mono-line and the risks that come with that?

Mr. Carpenter. That is a great question and I would say this--diversity is a good thing, but some of the things that we're diversified with don't exactly help. And so the context I would give is this--there are mono-line, or narrowly based banks. A number of the credit card organizations are, in fact, banks, and they are, in fact, mono-lines.

I think you have to look at what are the risk return characteristics of the balance sheet to judge whether or not one is comfortable with that lack of diversity. And I would simply make the argument--as I did a moment ago--that of all of the asset classes, the auto finance asset classes at both the dealer level and the individual consumer level--are among the absolute lowest risk loans that any kind of financial institution can make.

And so, I would make the argument that if you are to be very focused in an asset class, this would be the asset class you would be most comfortable being focused on as a bank.

Chair Warren. Mr. McWatters.

Mr. McWatters. Thank you.

And thank you, gentlemen, for appearing today.

On a fair market value basis, is GMAC solvent?

Mr. Carpenter. The answer is yes, but I'll let Rob give you the specifics.

Mr. Hull. I think Mike's right. You know, we have tried to--I think so----

Mr. McWatters. Okay.

Mr. Hull. We have fair-valued a lot of our assets, Mr. McWatters, and certainly on the ResCAP side, the broad base of our assets. So, strictly on the basis of our accounting statements, we've got $20 billion of equity on our books, and that would imply that our assets are greater than the attendant liabilities. Whether you can sell them at a market-clearing price, that has to be tested.

Mr. McWatters. Sure. Do you anticipate that GMAC will require a fourth round of taxpayer-funded bailouts?

Mr. Carpenter. That's certainly not our expectation. Our actions we took at the end of the fourth quarter were quite far-reaching and we believed--we believe--are unlikely to require additional capital from the Treasury.

Mr. McWatters. Okay.

Do you believe the taxpayers will be paid in full or will there be a shortfall as the Congressional Budget Office anticipates?

Mr. Carpenter. The business plan that we have developed--which obviously is based on a series of assumptions about, among other things, the vitality of the capital markets--would lead me to the conclusion that we have a high likelihood of repaying the U.S. Treasury and the U.S. taxpayer, in full.

Mr. McWatters. Why do you think there is such a material difference between your internal analysis and the CBO's analysis?

Mr. Carpenter. I have not read the CBO's analysis--maybe you have, Rob?

Mr. Hull. No.

Mr. Carpenter. I haven't read the CBO's analysis and so I couldn't answer that question.

Mr. McWatters. Okay, then when do you anticipate the $17 billion then will be repaid in full?

Mr. Carpenter. Well, I think the first step, as we mentioned a moment ago, is to access the debt capital markets. Because any bank or any finance company depends upon its ability to access the debt capital markets. We've crossed that bridge in the last month or so.

The second challenge is to return the organization to a reasonable--a respectable level of profitability which I believe we're on track to do. That, in turn, will position us to be able to take the company public.

Now, we're not going to be able to do a $17 billion IPO, in all likelihood. And therefore, the initial public offering will be at a more modest size than that, and that will then require subsequent offerings to completely exit the U.S. Treasury.

Our financial advisors are telling us as long as we execute the plan that we are embarked upon, that certainly we can undertake the IPO in the next year or two and then repay the rest of the money shortly thereafter.

Mr. McWatters. Is ResCAP fixed?

Mr. Carpenter. That's a very absolute question, and I can't give you an absolute answer. I would say within the realms of reasonable business judgment, we have contained the foreseeable ResCAP risk. There are obviously a variety of scenarios in which ResCAP could be more problematic. For example, if we see a substantial double-dip in house prices, that would certainly put some stress on ResCAP.

Mr. McWatters. Has ResCAP originated any loans which have been securitized and that are now being put back to ResCAP?

Mr. Carpenter. The answer to that is yes.

Mr. McWatters. Do you know the dollar amount of that?

Mr. Carpenter. I don't have it off the top of my head, but we could certainly get you those numbers.

The way this works is if a Fannie Mae or a Freddie Mac reaches the conclusion that they believe there was inadequate underwriting on loans, they have the right to put back those loans to us, or claim a credit from us.

We have established--in the last two quarters--a total of $1.3 billion of reserves against exactly those claims on the ResCAP balance sheet, which we believe is an adequate reserve.

Mr. McWatters. Okay, I'm done.

Chair Warren. Okay.

I'd like to ask just a little bit about the current status of your lending. Perhaps let's start on the consumer side. Could you just bring me up-to-date, Mr. Hull, a little bit on GMAC's lending to consumers right now? Are they lending, the volume, the comparison in volume--what's going on there?

Mr. Hull. Sure. GMAC has been on a steady uptick since receiving funding in the fourth quarter of 2008. We did about $6 billion of consumer auto receivables in the fourth quarter and about $18 billion of volume on the mortgage side in the fourth quarter. And our commercial business worldwide----

Chair Warren. I'm sorry, I just want to make sure I'm following--the $18 billion is new loans?

Mr. Hull. Right.

Chair Warren. Placed new loans?

Mr. Hull. Right, right. So eight----

Chair Warren. I just want to follow.

Mr. Carpenter. But, these are all to be securitized. We just inventory them----

Mr. Hull. Right.

Mr. Carpenter [continuing]. And securitize them. We're not investing in mortgages.

Chair Warren. Okay. That's what I want to know.

Mr. Hull. Right, so on the mortgage----

Chair Warren. Okay, so you're bringing them in, you're securitizing them, and moving them on out, and the same is true of the auto loans?

Mr. Hull. Not necessarily.

Chair Warren. You hold those?

Mr. Carpenter. The auto loans are--some are securitized, and as Mr. Millstein was describing earlier on, those markets have become a little bit more friendly over time, and others are funded on balance sheet--both at Ally Bank and GMAC.

Chair Warren. Okay.

And as a proportion of GM sales--I just want to stick with the auto loans for a minute--as a proportion of GM sales, what proportion are you financing relative to three months ago, six months ago, a year ago, a couple of years ago--I'm just trying to get a----

Mr. Hull. A year ago when credit was unavailable to us, we were really down to zero, by and large, close to it. We're now at roughly a third--on the retail auto side--of GM's volume, and so----

Chair Warren. Oh, wait, I got a little lost. So, when financing was very hard to get for autos, you went to zero?

Mr. Carpenter. Let me explain. When the financial crisis was at its worse, what happened was GMAC had limited liquidity. What it chose to do as a matter of policy was protect its ability to finance dealer inventory.

Chair Warren. Okay.

Mr. Carpenter. The result of that was we didn't have enough capacity to fund retail sales. And so our share of retail sales dropped to, I believe, it was 6 percent.

Mr. Hull. Yeah.

Mr. Carpenter. Six percent of GM's retail sales. Which, you know, the good news is we saved the dealers, the bad news, there weren't a lot of sales being financed.

Today we represent, depending on the month, somewhere between 30 and 40 percent of GM sales, at retail.

Chair Warren. And, let's just talk pre-crisis for a minute--2007, what was your percentage?

Mr. Carpenter. It would have been in the mid-forties.

Chair Warren. Mid-forties? So, you're not quite back----

Mr. Carpenter. We're not quite back, but we're getting back.

Chair Warren. And on rates? Are you competitive with others----

Mr. Hull. Right.

Chair Warren [continuing]. In what you charge?

Mr. Hull. We're highly competitive at standard rates, we do our best to be as competitive as possible, given our cost of funding, and then of course, you have the subvented rates, which you and I discussed earlier.

Chair Warren. That's right--but, in total, you would say it's the same, pretty much, as you could get if you went to a bank or you went to a credit union or some other financing source?

Mr. Hull. You can always--yes.

Mr. Carpenter. Yes.

Mr. Hull. Yes.

Mr. Carpenter. Within 25 basis points, usually.

Chair Warren. And then, if we could just talk about the dealers for a minute. I just want to get a picture of what's going on.

Mr. Carpenter. Sure.

Mr. Hull. Sure.

Chair Warren. With the dealers, you're still financing about the same proportion of dealers that you did, say, pre-crisis in 2007?

Mr. Hull. Similar. I mean, we're trying--and now we've added Chrysler to that equation and we're at, you know, similar penetration percentages overall with them, plus or minus.

Chair Warren. Okay. Plus or minus, you would say it's about the same, and that's the one you're telling me did not go down?

Mr. Carpenter. Correct.

Chair Warren. During the crisis, that's the one that you held steady?

Mr. Hull. Exactly.

Chair Warren. How about the rates? The rates that you charge? The interest rates on these loans?

Mr. Carpenter. Well, I think the rates that we charge to the dealers are, I want to say competitive, but the reality is, I don't think many of these dealers have a lot of alternatives.

Chair Warren. Okay.

Mr. Carpenter. And so, I would say relative to what I would call the general creditworthiness of the dealer community, they're actually pretty attractive.

Chair Warren. Can you give me an idea of what the rates are, generally, that dealers are paying?

Mr. Carpenter. It varies. Do you know off-hand?

Mr. Hull. It----

Mr. Carpenter. I was going to say somewhere around six?

Mr. Hull. Right. That's fair.

Mr. Carpenter. Six percent.

Chair Warren. About six percent?

Mr. Carpenter. Something like that.

Chair Warren. And when you say it varies, I'm just curious----

Mr. Hull. It's credit.

Chair Warren. You make individual assessments of the creditworthiness of each of the dealerships?

Mr. Carpenter. The creditworthiness of dealerships and also what are we financing? For example, if we finance a mortgage on their facility, that would obviously carry different terms and conditions----

Chair Warren. Of course.

Mr. Carpenter [continuing]. Than financing automobiles.

Chair Warren. Okay, all right. That's very helpful. Thank you.

Mr. Atkins.

Mr. Atkins. Professor Warren wants an angle on negotiating your next purchase, maybe. [Laughter.]

Mr. Carpenter. I don't think we're allowed to do that.

Mr. Atkins. No, I just meant, figure out what the other side is paying.

Just one quick question before we get on to another topic. Do you all have any barriers to entry, do you have any designs on financing Ford or Toyota or other dealers? Or is there such a brand loyalty that people don't do that?

Mr. Carpenter. Well, I think that is a very good question. And one of the answers to your earlier diversity question is, if we can, in fact, diversify the mix of brands that we do business with, that is actually helpful. And so we would like to do that over time. We're in the process of talking to some smaller organizations currently. I think that the bank model is sufficiently attractive relative to the captive finance model, that if we can demonstrate an equivalent level of service to a captive that we can, over time, demonstrate a very attractive proposition for other manufacturers. But that's not this year's business, or probably next year's.

Mr. Atkins. Have you thought about changing your name? That might help.

Mr. Carpenter. We are actually in the process of changing our name, this year.

Mr. Atkins. Okay.

Mr. Carpenter. We're going to Ally Bank. We're going to Ally as the brand name we use.

Obviously, if you're the Chrysler dealers, and I can imagine, if I were a Chrysler dealer and I'd been competing for 40 years with the GM dealer down the street, I don't really like doing all of my business on GM paper.

Mr. Atkins. Right.

Mr. Carpenter. So, we're trying to be responsive to that.

Mr. Atkins. Okay.

Well, I want to turn now to politics, but with a small ``p,'' not a big ``P'' like here in Washington, because as Chairman and Chief Executive, you have to deal with a Board, you want the board behind you. And you have to, obviously, now deal with a big majority shareholder who is choosing these board members.

So, I'd like to understand that relationship, between you and Treasury. Do you talk to them daily, weekly, monthly? How do you deal with your board members? Do you find them--well, I'll leave it at that for now.

Mr. Carpenter. Well, let me start with the Board. I joined the Board, as I said, in May of 2009 and in the period between May and taking over as CEO, we had 36 board meetings. So, this has been a very, very active board of directors, it's a very capable and knowledgeable board of directors and it has spent an enormous amount of time learning the business and the issues.

And so, it has currently two Treasury-appointed board members and as Jim mentioned earlier on, there will be another two Treasury-appointed board members, and one other board member.

So, it's a very active board, it takes its governance responsibilities very seriously. It takes its relationships with the Fed and the FDIC on safety and soundness also very seriously.

With regard to our relationships with the Federal government, we clearly have a number of important relationships. We have an important relationship with the Fed, as a major regulator, and we have ongoing--I would say, probably daily dialogue, not myself, but--daily dialogue with them, and I have a meeting at least once a month with my management team, and the Fed, on a whole array of compliance-related issues.

We have a similar relationship with the FDIC, which is currently focused on Ally Bank, which is very important to us, and so those are relationships which are challenging. They challenge us, constantly, to do a better job.

Mr. Atkins. Do your board members realize that they have a fiduciary duty to the shareholders as a whole? Or do you think that they view themselves as representing Treasury?

Mr. Carpenter. I think the Board has a responsibility--realizes it has--a responsibility to the shareholders and the stakeholders, as a whole, but we're very mindful of the fact that Treasury owns 56 percent of the company on a fully-diluted basis, much more than that.

Mr. Atkins. I just want to make sure that these guys don't view themselves as government flunkies, basically----

Mr. Carpenter. Absolutely not. Absolutely not. One of the things that was decided early on in the establishment of the Board was there was an extensive dialogue with Treasury as to whether or not all of the board members could, in fact, function as equal partners in the Board, and in fact that was affirmed.

With regard to Treasury, I would say, first of all, it's been a very positive relationship. To be able to get the last round of financing done between the time I joined the company, on the 17th of November, and the 23rd of December, showed a remarkable degree of responsiveness and competence on the part of Treasury.

I would describe the interactions that I've had with Treasury as being those you would expect of a concerned and committed shareholder. We have had discussions in which, you know, I and my team have been challenged, strongly, on many issues----

Chair Warren. I think we're going to have to stop there, Mr. Carpenter.

Mr. Carpenter. Thank you.

Chair Warren. But we have the point. Thank you.

Mr. Neiman.

Mr. Neiman. I'd like to shift to a subset of issues around ResCAP in your mortgage business.

As you know, our panel has taken a particular interest and emphasis on the foreclosure crisis and overseeing the implementation of the Treasury's HAMP Program.

In reviewing the Treasury's most recent report, as of the end of January, GMAC Mortgage, Inc. has reported the highest percentage of delinquent loans that have been converted to trial modifications or permanent modifications. At 50 percent, it's an impressive number. Is there something that you would like to share with us, as to whether you're doing, employing a process, or resources that you think we would benefit from hearing, or that other servicers could----

Mr. Carpenter. Well, thank you for the opportunity to brag a little bit.

We're very proud of our track record. We actually modified, in total, 100,000 mortgages since becoming a bank holding company. We have modified 12,000, permanently modified mortgages under the HAMP program, which is more than any other mortgage servicer even though we're not by any means the largest, and the highest percentage of delinquencies.

And in terms of lessons learned, Mr. Neiman, that like any new process, it has had its growing pains. And I think the thing that we did right, from day one, that has allowed us to be as successful as we've been, is we were very focused on getting the documentation----

Mr. Neiman. Up front?

Mr. Carpenter [continuing]. From the end customer, up front. And not relying on verbal commitments and saying, ``Show us the data and we'll give you the temporary period of time.''

There are other things--if I had my mortgage team here, they'd give you three or four other ideas. I'd be happy to correspond with you separately.

Mr. Neiman. Okay, that was very helpful.

Mr. Carpenter. Give you some thoughts.

Mr. Neiman. Okay, picking up on your remarks about lessons learned, we also have lessons learned in our industry of financial institutions who have relied on reliable sources of deposit funding who have had an overemphasis as bank mortgage companies and unfortunately, some of those lessons involving WAMU and IndyMac and Golden West turned out not very successful.

Can you share with us any of your strategies so that--to the extent that you intend to stay in this business--will not end up with the same result?

Mr. Carpenter. Well, I would make two observations. The first one is, if you look at dealer financing, it's a business we've been in for 90 years. In fact, we've been in the auto finance business for 90 years, we've only lost money in one year--2008. If you look at dealer financing--dealer financing has typically had losses of five to ten basis points. And in the worst year that we've seen, which is 2008--20 basis points.

So, the losses are extraordinarily low by any standard I'm aware of.

And secondly, on the automobile side, on the retail side of the business, I would say--and somewhat, maybe, facetiously--the last thing a consumer wants to do is give up their automobile. They'll give up many other things before they give up their automobile, and so our track record, (a) because of the importance of the automobile to the customer, and (b) because we are financing an asset where, in the worst case, we can repossess it and sell it, our loss experience relative to other areas of consumer activity--like credit cards--is extraordinarily favorable.

Mr. Neiman. So, is this dependence--though yes, you've had a track record of low loss rates with respect to dealer financing? But how do you assess the interdependence on an auto industry that is so fragile at this point?

Mr. Carpenter. Well, I think, again, that's a very good question and I'm not sure I can give you the perfect answer. But I would say in this situation, obviously the dealer has a dependency on the manufacturer. And if any one of the manufacturers has a problem, the dealer has a problem.

We have the benefit of having a loan against an asset, we know exactly where it is, we know what the VIN number is, and we have the ability to go in and drive it off the lot. And that gives us an awful lot of protection, even in the worst of scenarios.

Mr. Neiman. Thank you.

Mr. Carpenter. Thank you.

Mr. Neiman. My time is expired.

Chair Warren. Thank you.

Mr. McWatters.

Mr. McWatters. Thank you.

Would you please briefly describe how the $17 billion of taxpayer funds have been used by your company? In other words, what were the uses of those funds?

Mr. Carpenter. I'm going to have to defer that to Rob, because I wasn't there through the whole period.

Mr. Hull. Sure, and it's a fair question.

And so the in-flows and out-flows, obviously, are fairly complex in a $170 billion business, but suffice it to say, when we do an origination in a quarter, like the $6 billion of auto or the $18 billion of mortgage--admittedly, we originate mortgages and then we simply re-sell them when they mature to the agencies--on the auto side, we may largely sell them into flow agreements, we may hold some of them in the bank, but largely we may also securitize those, like we did in two transactions in the back end of 2009.

So, those funds, in the traunches they came in at, were used to create capital, so we could borrow, so we could go to the markets and get more liquidity to give it to that kind of origination. So, strictly speaking, it has gone to the originations for autos and mortgages over the course of time. Again, mortgages will turn very quickly and we'll get that cash back.

Mr. McWatters. Okay, thank you.

What specific risk management in internal control policies and procedures have you adopted to ensure that there will not be the need for another bailout?

Mr. Carpenter. We have significant internal risk controls, which are in compliance with bank holding company, Fed, FDIC regulations. They, as you know, examine us constantly for our adherence on compliance and risk management. We have, at the board level, a Risk Compliance Committee that meets every month and which management reports to, we have very significant policies in terms of risk limits, whether it be on securities, or whether it be on loans. We have credit policies in place, all of which are well-defined, all of which are monitored closely by the management chain, all of which are regularly audited by our own auditors, all of which is regularly audited by the Fed and the FDIC examiners. So, we have extremely comprehensive risk management procedures.

Mr. McWatters. Okay, thank you.

Has GMAC sold any mortgage-backed securities to either the Fed or to Treasury?

Mr. Hull. Not to my knowledge.

Mr. McWatters. Great.

As a segue to our next panel, Mr. Whalen--I was reading his remarks--gave Ally Bank an F rating and an overall negative rating for GMAC. I think it's only fair that you have a chance to comment.

Mr. Carpenter. I haven't read his remarks, and I have no idea on what basis he would reach that conclusion. All I can tell you is Ally Bank is one of the best capitalized banks around, it has a very successful consumer-driven marketing strategy that's internet based, and I think is a bright spot.

Mr. McWatters. Okay.

Does your auto finance business earn a rate of return unto itself sufficient to attract third-party capital? Private sector capital?

Mr. Carpenter. Yes, it does. It's consistently, as I said, been profitable, except in 2008. With the right kind of capital structure, long-term on a return on equity basis or any other measure you'd like to use, it's an attractive business.

Mr. McWatters. I know this was before your time but why was there the need for ResCAP?

Mr. Carpenter. That is before my time. General Motors, at some point, decided to diversify its financial services activities into the mortgage business and you'd have to ask them why they did it at the time.

Mr. McWatters. Okay, fair enough.

I'm done.

Chair Warren. Thank you very much.

Thank you, Mr. Carpenter. Thank you, Mr. Hull. We appreciate your being here, very much.

And I'd like to call the next panel.

Mr. Carpenter. Thank you, Chair Warren and the panel.

Chair Warren. Thank you. Thank you for coming.

Mr. Whalen, Senior Vice President and Managing Director of Institutional Risk Analytics and Mr. Ward is an analyst with--is it Soleil?

Mr. Ward. Soleil.

Chair Warren. Soleil, ah.

Mr. Ward. Yes.

Chair Warren. Soleil-Ward Transportation Research.

Thank you both for being here today, I ask you for your opening remarks, and as I have with earlier witnesses, please hold them to five minutes. We will put your entire written statement in the record.

Mr. Whalen, how about if we start with you?

STATEMENT OF CHRISTOPHER WHALEN, SENIOR VICE PRESIDENT AND MANAGING DIRECTOR, INSTITUTIONAL RISK ANALYTICS

Mr. Whalen. Thank you, Madam Chairman, members of the panel. I'm going to take advantage of the fact that I get to go last and make some observations on what I've heard this morning since you have my written comments.

First, we have the fascinating dichotomy of, on the one hand, a captive financing vehicle, and on the other hand a bank holding company. I worked at the Federal Reserve bank in New York in the bank supervision area, and I'm very familiar with the criteria for approval under Section 12 and Reg Y for bank holding companies.

The thing that troubles me is that, in effect, if you want to look at the big picture, we're essentially using FDIC deposits as a replacement for commercial paper. That's really what's going on, here.

And going back to some of the earlier comments about approval process credit standards for consumer sales of automobiles, what I think you have to appreciate is that the captives take the sales that the banks won't--regardless of the price of the loan. The reality is, when the salesman puts the customer's Social Security number, the vehicle, the terms of the lease of the lease of the loan into the computer, it says yes or no.

So, for example, when I take a lease from Volvo, as I'm getting ready to do right now, I end up with Ford Motor Credit. Because neither the Volvo captive nor the banks will take me since I own my own business. And that is the route that the salesman ultimately takes with me--it's a more expensive loan for me and there is, indeed, a much higher risk premium today then there was a couple of years ago--I hear this constantly from people in the channel who I speak to.

The second issue goes back to the first panel and choices in how we did things. To me--and indeed I think this was borne out by the comments by GMAC management--not cleaning up GMAC has, indeed, left a millstone around their neck. And while I hope and expect that the reserve that they've taken for the repurchase for the defaulted loans is going to be adequate, as they just testified, I'm not optimistic on that front.

I think both ResCAP and the other originators of private label securitizations--and remember what we're talking about in the past is paper that GMAC didn't necessarily sell to Fannie or Freddie. They oftentimes were going into the pure private label market. And I think the loss rates there are going to be quite high. And I would be really surprised if ResCAP did not continue to be a source of funding need in terms of credit losses from securitizations going forward for a number of years.

You won't necessarily see it immediately, because litigation, the process of foreclosure--all of these things take a lot of time. But I will tell you that that--that lingering question, that unliquidated claim is going to prevent them from offering shares to the public, in my opinion.

I've worked as an investment banker on IPOs as well as restructurings and I can tell you right now that there is no way on God's green earth that any rational investor is going to want to take a flier on what's going on with the mortgage side of this business at GMAC until they're pretty sure of that that outcome is going to be.

So, I think that question mark is going to preclude an initial public offering as an exit strategy until such time as we absolutely know what's going on with ResCAP.

Finally, let me say, I think that, you know, while I have great love and admiration for my friends in the Federal Reserve system, the decision to make GMAC a bank holding company was a very tortured one. And I am not privy to what they talked about with Treasury and the other parties, but I can just say, speaking as a bank analyst who's a principal of a company that rates every bank in the United States and does so from a consumer perspective--my ratings are a lot tougher than Moody's and S&P, because ultimately there's a woman in a bathrobe with bunny slippers who subscribes to Value Line who came to our office once who wanted to know where to put $7 million of her money that was sitting in a credit union.

So, when I give her an A or an F for a given bank, I've got to be pretty sure that's she's going to be okay, even if she's above the insured limit.

I think the Fed has created a terrible problem, here. Because on the one hand, they have to regulate this entity as though it were, in fact, a bank holding company, but indeed it's a mono-line that has two-thirds of its liabilities in non-core funding, funding that could walk out the door tomorrow because Ally has put in place those terms, the customers can leave without penalty.

So, I think going forward, the panel should really focus on what business is this company in, what business is it going to be in prospectively, and how stable is that business? And I will be happy to answer questions.

[The prepared statement of Mr. Whalen follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Chair Warren. Thank you, Mr. Whalen.
Mr. Ward.

STATEMENT OF MICHAEL WARD, ANALYST, SOLEIL-WARD TRANSPORTATION RESEARCH

Mr. Ward. Thank you, Chair Warren and members of the panel, I appreciate being here today and given the opportunity to speak with you.

My name is Michael Ward, I'm an equity analyst, I have followed the auto industry for about 30 years, I currently publish research on Ford, as well as auto suppliers and some of the dealers.

My comments will be limited to the competitive implications of an integrated GMAC and General Motors and valuation in the equity markets or an exit strategy for an integrated GM and GMAC.

It is my opinion that GM and GMAC will need to be reintegrated in order to provide the maximum value to current GM and GMAC stakeholders. My opinion is really based on four variables.

First, competitive position. I think when you look at an integrated approach, in our view it is the most efficient tool to address several variables in the marketplace, specifically pricing. Most consumers do make purchase decisions based on a monthly payment. GM is currently at a disadvantage, in my view, relative to its primary competitors that have captive finance companies because of the cost--their relative cost--at General Motors, to subvent a loan.

The second point under that competitive position would be a marketing tool. Marketing incentives are a big part of the competitive landscape in the vehicle sales market. A captive finance company provides the flexibility to offer reduced rates, as we've heard, as well as lease payments or other options that are attractive to consumers. Competitive response falls right in that same category--GM has lost market share in the U.S. market, its biggest market for the last 10 years. The market is going to get increasingly competitive over the next 10 years, not less competitive, and GM needs every advantage it can get.

Its bankruptcy process has slowed some of its new product development and it's going to be at a significant disadvantage to both Ford and Toyota, its two principal competitors.

And lastly, which was not talked about much today, is customer loyalty. In our view, vehicles financed through a captive sub do not enhance the complete ownership experience.

The second point relative to dealers, an in-house source of financing for dealers definitely provides a more consistent auto flow--it wouldn't be at a 90 percent level if that wasn't the case. One thing that was not mentioned is that most vehicle manufacturers do provide what they call ``floorplan assistance''--if a vehicle is sold quickly enough, the dealer does get, in essence, a kickback, a repayment for some of those interest costs.

In addition, as you go forward, two big variables that are going to have to be monitored--the industry, because of the correction it's had--there is now about a one-third reduction in dealer inventory. GM alone has taken about 700,000 units out of dealer inventory, and remember, those are vehicles that were being financed and paid for, and that's close to $20 billion of less capital needed in the floorplan loan side of it.

As you go forward, also, dealers are going to have to invest in their stores. Historically, they have relied on the vehicle manufacturers or the captive finance subs to provide some of that financing. As you look into more efficient type vehicles, electric vehicles and other things it's going to require some investment.

The third variable that I would look at is the source of income and financial flexibility. If you look at just GMAC, the automotive financing portion of GMAC, between 2002 and 2007, it contributed $8 billion in after-tax earnings to GM. In a highly cyclical industry like the auto industry, a stable stream of earnings is very vital as far as when you're looking at valuations, comparing it to other vehicle manufacturers.

Source of cash--if you look at Ford Motor Credit, as an example, Ford Motor Credit provides a stream of dividends to Ford Motor Company. One of the reasons that has helped Ford survive some of the downturn that we've seen, is they were able to tap Ford Motor Credit for financing and get rid of some of their debt, as well as cash to run their auto business. And then lastly, it does provide a source of financial flexibility for the vehicle manufacturers as they are able to offset some of their tax liabilities.

Lastly, on valuation, I think when you look at the vehicle manufacturers, the two most common metrics people use to value equities are on an EBIT (Earnings Before Interest and Taxes) to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) basis--Enterprise Value to EBITDA multiple--and on a PE (price/earnings ratio) basis. GM, when you have--if you have--if you do not have a captive finance subsidiary, they're going to be at a discount to their peer group, specifically Ford. Right now, Ford is trading at about five times expected 2011 earning on an EBIT to EBITDA basis, and it's trading at about eight times expected 2011 earnings on an earnings-per-share, or a PE basis.

The ownership of Ford Motor Credit definitely contributes--or will contribute--to Ford's premium multiple relative to GM. If GM was a publicly traded stock today, I would expect Ford to command at least a 20 percent premium to General Motors, and the lack of a captive finance sub would probably account for about half of that.

Thank you very much and I'd be happy to try to answer any questions.

Chair Warren. Thank you, Mr. Ward. Thank you, Mr. Whalen.

I'm trying to thread through a story about why it is that GMAC got the kind of rescue that it got. And at least one of the stories that Treasury tells around this is that they made the decision to invest in the auto industry, this started during the Bush Administration, and was carried on, then, during the Obama Administration, in large part because of jobs and other systemic implications. And we've written about that in the past, we very well may write about it again in the future. But that's, at least, a version of what's happening.

So, GMAC, the story goes, is essential because with GMAC you can't save Chrysler and GM. Indeed, I think you probably heard Mr. Bloom sit here and say, ``We couldn't even take the risk of running GMAC through bankruptcy, because GMAC was absolutely essential to the survival of GM and Chrysler, and without it, they would have failed.''

Now, so I just want to press on that part of the thread, particularly because you've addressed it partly in your written remarks and because it's part of the story, here. In Panel discussions with the former GMAC CEO Al de Molina, he said, ``No one, either by itself, or together, could have done it.'' And here, what he's talking about is replacing GMAC's floorplan financing of GM dealers, at the time. There was a concentration of risk that no one would take on, I don't know anyone who opposes that view.

And, in fact, as you heard, what GMAC did is it continued to finance the dealerships, even when it meant they wouldn't finance sales. In fact, as I understand it, during the crisis, GM auto dealership financing went up to 85 percent, was through GMAC.

So, that's really the question--how important was GMAC financing to the survival of GM and ultimately to Chrysler? But it's GM that we're really talking about here.

Mr. Whalen.

Mr. Whalen. Well, for the reasons already stated, obviously it's important. But I think it's also important to realize that the spin-off of GMAC from GM was done for entirely different reasons. Which was, to get the mortgage business which, at the time, was seen as attractive, away from the dying auto business at GM.

So, you know, and my colleague Mr. Ward has addressed this. Now we have a situation where the mortgage business is killing the former captive, and we have constructed yet a new rationale for bailing it out.

As I said in my statement, I think there's two drivers here. One is the political relationship between the Democratic Party and the United Auto Workers----

Chair Warren. So, let me--to start though, this started during the Bush Administration, this didn't start during the Obama Administration.

Mr. Whalen. No, that's true. But the United Auto Workers have friends in many places. And even though, in economic terms, it would probably be beneficial to the industry as a whole to get rid of at least one competitor in North America, the political class does not want to do this. And this is a global problem, it's not just in the U.S. that you see this.

Chair Warren. So, if you'll permit me, though, I do want to focus in, I just want to make sure we're all on the same page, here. Without GMAC, GM was unlikely to survive? At the moment when we funded it? Good arguments about why it never should have been spun off to begin with, but I just want to make sure we're on the same place on this.

Mr. Whalen. I think that's a fair statement.

Chair Warren. Fair statement.

Mr. Ward.

Mr. Ward. I think one of the things that needs to be pointed out is, every unit produced is to a dealer order. GM records revenue when a car is shipped to a dealer or production. The dealers are the customer for General Motors. They have no financing.

Chair Warren. I have come to learn that.

Mr. Ward. It's gone. I mean, if they didn't rescue GMAC--if GMAC did not exist, GM would have been Chapter 7.

Chair Warren. Okay.

Mr. Ward. They would have disappeared.

Chair Warren. All right.

Now, let me see if I can just--I just want to understand the rest of the pieces of the financing. You've raised the question, Mr. Whalen, about if GM had failed, what other--actually, let me ask about securitizations, since I've got limited time, let me just go to the securitization question.

You raised the point in your testimony there was no compelling financial or business reason to rescue GMAC, there were private alternatives available to GM and Chrysler in the marketplace for floor plan lending, and the securitization of auto loans was never really in doubt.

In fact, however, it seems that auto securitizations collapsed from $21 billion from the second quarter of 2008 to less than $3 billion in the second half of 2008. That doesn't seem to be an immediate recovery. So, I don't think I'm quite understanding your point, here, and I just want to make sure I get it on the role of securitization.

Mr. Whalen. Well, let me put it to you this way. Unlike all of the other asset classes in the securitization world, particularly mortgage securitizations, auto paper--because it is very short in maturity, very simple deals, and also because it does have a very significant following among institutional investors, basically fixed itself, and Ford is the example.

Chair Warren. Well, but wait a minute----

Mr. Whalen. Now, sales dropped off.

Chair Warren [continuing]. Going from $21 billion to $3 billion doesn't look like it fixed itself and that it only started coming back once TALF was in place, a TARP program.

Mr. Whalen. Yes. But if you look at it today, especially if you focus on--well, let me put it to you this way. Part of the attraction for investors is obviously the collateral behind the financing. But the real practical attraction is the ability of the issuer to perform on the reps and warranties made in the securities offering. That is to say, the ability to buy back bad loans, or substitute bad loans.

So, obviously, when GMAC got into trouble, Wall Street shrank back, they wanted no part of it. The banks ran from this market, too, as I'm sure Mr. Ward would confirm--they wanted no part of it.

So, what was left were the viable auto finance companies that were willing to continue doing business at the low levels of sales that we saw during that period.

So, I haven't gone through those numbers that you're referring to in detail, and I don't quibble with your characterization, but what I am saying is this is an example of an asset class that is successful, as opposed to private label mortgage securitizations which, I don't know if they will ever come back.

Chair Warren. But it did have a substantial period where they were in real trouble.

Mr. Whalen. Yes, it did.

Chair Warren. Okay.

Mr. Atkins.

Mr. Atkins. Thank you. So, let me just pick up on that. We've heard that GMAC is going to try to reinvent itself, change its name and perhaps appeal to other parties, obviously they need to make the Chrysler guys feel like they're welcome under a former GMAC label. So, now GMAC has government backing and it also has Ally Bank as a thing to support its activities in this market.

So, is GMAC getting to be more like a GSE in its current form? You know, like Fannie Mae, Freddie Mac, with this implicit government backing? Is that arguable? Is it getting better types of financing possibilities in the marketplace because of this backing? Or, what's the effect on competitors?

Mr. Whalen. I think, obviously, both GM, Chrysler, and GMAC today are government-sponsored entities, by definition. However, because of the unresolved issues at GMAC, obviously their spreads have not improved to the point where they're comparable to the other GSEs. If they were, and if the marketplace didn't have any fear that a restructuring might still take place, then I think the spreads would be narrower.

In fact, going back to the last conference call where GMAC management discussed strategic alternatives, and going back to one of your earlier questions, analysts are still asking them if there's not, in fact, a potential bankruptcy for ResCAP.

The problem we have, though, is that now that we are a bank holding company--and by we, I'm talking about GMAC--you can't do that. Because when the affiliate of a bank holding company defaults, the whole group defaults. And that's the cul-de-sac that we, meaning Treasury and the Fed, have, essentially, driven into now.

So, the decision to make this finance company a bank holding company has actually limited the Treasury's flexibility, and therefore they come back to us and say, ``Oh me, oh my, we didn't have any choice.''

Mr. Atkins. Thank you.

Mr. Ward. I'm not as familiar with that side of the market. The one thing I can point to is that, as you look at the auto industry, as far as the retail consumer, and the fact that it is perceived that GM is backed by the government or owned by the government--it has hurt General Motors in the marketplace and Chrysler in the marketplace. And to the extent that GMAC is considered to be backed along those lines, they will lose interest from dealers. Because a big part of owning a franchise is what else is behind it, including the dealer financing and other variables.

Mr. Atkins. And, Mr. Whalen, you've made a point, too, that internet banking has yet to really prove its mettle in the marketplace and I was wondering what your view is with respect to Ally Bank as being a key part of this package of revitalization?

Mr. Whalen. Well, as management has articulated their vision for the future, they seem to be focused on a broad consumer banking franchise--not just auto sales--because I, personally, don't think a mono-line is viable, as a bank holding company. I think you have to make mortgage loans, you have to make other types of loans.

But the trouble comes, and I can point you to a number of peers in the FDIC universe, that when you don't have brick and mortar branches, you have to go out and acquire and retain customers using advertising of various types, which can be quite expensive. And the example I used in my testimony was ING Direct, which is a reasonably well-run bank, but they bid up for deposits, because the home office wanted them to be big.

In this case, we have a bank holding company that has to bid up for deposits because it's a functional replacement for commercial paper.

So, we're again stuck in the very difficult business model, a business model comprised of choices where we don't have funding flexibility yet--hopefully that will come--and yet we're still being driven to finance sales as though we were a captive. And that, I think, is an issue that is really insoluble at the end of the day.

I couldn't--let me put it to you this way--I have friends in the banking business who say it's possible to have a profitable internet bank, but I don't have one to show you right now.

Mr. Atkins. Well, okay.

I'll pass the--I just have a few more seconds.

Chair Warren. All right.

Superintendent Neiman.

Mr. Neiman. I'd like to follow-up with you on this issue of strategic plans going forward, and your very interesting comment that a mono-line bank is not a viable business model.

Recognizing your comments about the business of ResCAP, what are your views as to whether GMAC should divest itself of those non-core businesses? Would it strengthen the institution, or would it just increase the risks to the taxpayers by increasing the interdependency and concentration of its affiliation with GM?

Mr. Whalen. Well, if you were to sell it, if you could, I think it would end up costing you money. In other words, you would give the entity to someone else, but you would have to make reps and warranties regarding any future claims that would be fairly onerous. I certainly wouldn't buy the company in its current state. Even if they write down the on-balance sheet mortgage exposures to zero, you still have the legacy off-balance sheet securitization exposures which the management team alluded to and if you take a reasonable fraction of that 20, 25 percent default rate as being potentially kicked back to them in terms of demands for repurchase, that's going to be a pretty good size number.

The other thing I would comment on that, it just occurred to me because of your question, is this whole issue of modification--modification is not a panacea. The re-default rate on modifications is quite high. And I look at modification with respect to all of the banks that I cover right now as essentially a place to hide losses. As soon as a bank says, ``Oh, well, this loan is being modified,'' they don't report losses on it anymore. And there is a backlog of losses in the banking industry that's probably as much as a third to forty percent of the current charge-off rate that you can see reported in the FDIC's Quarterly Banking Profile that just came out this week.

So, as you go forward, keep in the back of your minds that there are a lot of hidden liabilities in this company. And management's trying to deal with them in good order, They have indicated they have a reserve established, but that reserve may be woefully inadequate if we don't see a really strong uptick in real estate prices in this country.

Mr. Neiman. So, you would expect to see and possibly support a continuation of that non-core business in the mortgage business?

Mr. Whalen. It looks like that's what they're doing. They're originating what we call conforming paper that they can sell to Fannie and Freddie, which is not an unreasonable process. But if those loans go bad, as you've seen in the newspaper recently with respect to the Federal Home Loan Banks, they will come back and ask the issuer to substitute or repurchase the defaulted loan, and that can get to be quite expensive.

Mr. Neiman. But, in terms of a business model going forward, and growing that business, is that where their focus should be to be a viable institution? Or expanding into other consumer and finance business lines?

Mr. Whalen. Well, going back to Mr. Ward's comment, I don't think a mono-line auto business is viable as a stand-alone, and I certainly don't think it would make a very attractive IPO.

Remember, the earlier witness alluded to the credit card mono-lines--they've all been bought.

Mr. Neiman. Right.

Mr. Whalen. The only one left is Capital One and they backed into a couple of retail regional banks so that they wouldn't get bought, essentially. It's a company I cover, and I like very much, but they had to diversify, as well. Just being a credit card company was not sufficient.

Mr. Neiman. Mr. Ward, you made reference to--I think it was picking up on some of the question I asked to the Treasury panel, as to whether they were exploring a combining of GM and GMAC, integrating GMAC back into GM. You seem very supportive of that approach?

Mr. Ward. I think it's the only way to get full value back to us, to the taxpayers. General Motors is going to come at a substantial discount to Ford, and if you just put numbers down on paper on a EBIT to EBITDA basis, three times EBIT to EBITDA doesn't get you a heck of a lot. Or, you know, six to eight times on a PE basis--it would take decades for the Treasury to get some of their investment back by selling out the stock. If you enhance it by putting the captive sub back into it, it does stand on much better footing relative to both Ford and Toyota, their two principal competitors.

There was a question earlier, when somebody asked, why did they get into the ResCAP business and other things.

Mr. Neiman. Right.

Mr. Ward. Throughout the 1990s, it was the goal of the vehicle manufacturers, when they were flush with cash--and it wasn't just General Motors--to diversify their financial services operations. It was one of the few areas that was large enough to make an impact on the automotive business because of the size and scope. And so they did make a lot of investments. Ford had several, but they divested of them. GM just held on too long.

Mr. Neiman. What are your assessments of what the strategic plan will look like when it comes out of GMAC?

Mr. Ward. I'm hopeful, as an auto analyst, that GMAC is reintegrated with General Motors.

Mr. Neiman. Okay, thank you.

Chair Warren. Very interesting, thank you.

Mr. McWatters.

Mr. McWatters. Thank you.

Mr. Whalen, your current rating for Ally Bank is an F and GMAC is negative. Would you comment on that, and also comment on what these institutions need to do to change an F to a B or maybe a C? And a negative to something less than negative? And Mr. Ward, if you could comment on his thoughts?

Mr. Whalen. Well, the F rating for Ally Bank is driven primarily from the losses they've been reporting on the income line. In other words, provisions for future credit losses. You take income, you put it in a reserve account, therefore the bank is losing money.

We included the history of their ratings going back a few years at the back of my testimony, and you can see, when the bank started reporting losses, they went from a C in one quarter, to an F.

We have, as I mentioned before, a fairly draconian letter rating system for banks, because we have 25,000 retail customers who use our ratings as an asset allocation tool. And there are banks--we currently rank about 4,000 banks F out of 8,100 or so FDIC-Insured institutions. Half of those have many factors that drove them to that, most of them, about half, are just return on equity stories. In other words, for half of the banks we currently rate F, it's provision for credit losses that is driving the rating.

Now, you'll notice that the score for Ally is also very high because of their restructuring in the fourth quarter. They don't have a horrible charge-off rate on a normalized basis if you go back a few quarters, but they really took a bath in the fourth quarter. Ally Bank wrote down a lot of assets, moved them to ResCAP, because they want to isolate the bank from the bad things that are going on at ResCAP.

In general, I want to see an end to operating losses. And I'm going to keep a negative outlook on the company as a whole until I'm sure of what's going on in ResCAP. Because at the end of the day, all of the good work that I know that these people are doing to turn their company around is for naught, if we still have a functional equivalent of Chernobyl in ResCAP bubbling way off in the corner. And that's what ResCAP is. You can't sell these businesses, you can't do much of anything with them except put them into bankruptcy.

And that's why I alluded to the difference between Washington Mutual and Bear Stearns with respect to JP Morgan. Study those two cases. In the case of Washington Mutual, all of the unliquidated claims are sitting in bankruptcy court, there is no litigation regarding those securitizations.

On the other hand, with Bear Stearns, because it wasn't restructured, you are going to see a long period of JP Morgan dealing with that pain.

Mr. Ward. I'm not really familiar with the banks and how they rate themselves, but he seems like he's got a pretty disciplined strategy, with his ratings, so I'm siding with him. [Laughter.]

Mr. McWatters. Okay. Fair enough, fair enough.

Mr. Whalen, on page 10 of your paper, you state that converting GMAC into a bank holding company was a bad public policy choice and an equally bad financial decision, why is that?

Mr. Whalen. Well, you took a company that was insolvent and you pushed through the regulatory process at the Fed, disregarding, in my opinion, the capital and managerial criteria in Reg Y and the Bank Holding Company Act, and then after the fact, Treasury put capital into an unrestructured entity and tried, essentially, to buy time. I would characterize all of the TARP investments, to date, as buying time.

But, you know, we have a saying in the analytics business, ``When you're in a hole, stop digging.'' And, I think ultimately, even today it would be beneficial to General Motors, if that's our real objective, turning that company around, if the Fed and the Treasury would put their heads together, put GMAC into bankruptcy and do it on an expedited basis, and then as Mr. Ward said, let GM buy it. I think that would be a happy ending. You could get the acquiescence of the FDIC not to seize the bank, and we would all live happily ever after.

Mr. McWatters. Thank you.

On page 15 of your paper, you talk about the putback rights with respect to defaulted subprime loans. I asked the question to management, there doesn't seem to be a lot of concern here, it seems to be that they've reserved for it and it's not as much of a problem. But, I gather you think it may be because you've underlined it in your paper?

Mr. Whalen. Well, when you're dealing with public disclosure of public companies--and GMAC still does have disclosure responsibilities under the Securities Act of 1934--you always tell investors everything you have to tell them this quarter. And I deal with this with all of the banks I cover. They tell you just enough. And they're not doing this because they're evil or duplicitous, they're doing this because there's a fine balance between public disclosure and your duty to the corporation. Boards of directors, by the way, don't have a duty to shareholders, they have a duty to the corporation. And so they try and balance the two, priorities of disclosure and investor relations.

And I'm sure based on what they know today, they think that reserve is adequate, but I would tell you, I think they're going to need more.

Mr. McWatters. Okay, thank you.

Chair Warren. Okay, good.

We're just going to ask a couple of very quick questions, I think try to move this through as quickly as we can. I just want to make sure I'm following this.

What I'm hearing is that your first option is, sell off the non-auto assets--for whatever it's going to take to sell them off--and then collapse GMAC back into GM. That would be option one. Option two is take it through bankruptcy and, in effect, try to accomplish the same end, to get the auto finance part back into GM. Not only because GMAC doesn't make any sense, but as a way to strengthen GM and get the non-auto part back out into wherever you can it, to whomever you can sell it to. Is that the view of both of you, here? Mr. Ward.

Mr. Ward. It's certainly my perspective. I'm not sure what happens with the other aspects of GMAC, but as it relates to the auto business, yes. I think the proper home would be within--to have GM and GMAC integrated.

Chair Warren. All right, and at the risk of stating the obvious, just because I want to be sure I'm clear on this, you believe that's the best thing we could do for GM before trying to save GM?

Mr. Ward. Yes, in two respects--from a competitive standpoint, as they compete with Ford and Toyota specifically--and then secondly, as a valuation. At some point, they've got to come back to the capital markets and the discount will be greater if GMAC is not part of General Motors.

Chair Warren. Right. And I'm going to presume, Mr. Whalen, that you would add to those two points, it also takes away from the risk associated right now with ResCAP, if it can be done, either through bankruptcy or through a sale, where someone else picks up that----

Mr. Whalen. That's the rub----

Chair Warren [continuing]. That unhappy----

Mr. Whalen [continuing]. Speaking as an investment banker, if I were representing GM, I would not let them buy it back unless I had an ironclad understanding with respect to the other liabilities.

And it raises the point again--but let me say this, too, Madam Chair. I've always believed that people misunderstood TARP. We should not be dancing in the street because banks have repaid their TARP funds. If it had been up to me, I would have told the banks, all of them including GMAC, ``Take the TARP money, charge it off. Take your worst loans, charge it off, don't give me the money back.'' Because if the point is reviving the U.S. economy and reviving lending, which is shrinking at an 8, 10 percent annual rate right now if you look at the latest FDIC data, then we haven't achieved anything. We should have told every one of these institutions, ``Just charge it off.'' Because the benefit to the economy, we would have gotten enormous leverage from that.

And instead, we're sitting here, counting these pennies while our financial system is still shrinking. So, you know, that's my perspective on it.

Chair Warren. Okay.

Thank you, Mr. Whalen. Thank you, Mr. Ward.

Mr. Atkins.

Mr. Atkins. Okay, thank you. I have just a couple of questions. One, I tried to explore in the earlier panel about the coming financing crunch that GMAC's going to be having. They have--over the next three years--about $60 billion of debt that's going to be coming due and they just did a 144A offering for $2 billion at 8.3 percent for five-year notes.

And so my question for you is what's the appetite in the industry considering--or in the markets--considering all of the things that the company's done to try to fix this balance sheet for that sort of capital, and what do you view as the likelihood of more TARP funds being thrown at the firm?

Mr. Whalen. Well, as I said before, as a freestanding entity, I don't know that I would be a buyer of that paper. The spreads would have to be quite high; it would be junk financing----

Mr. Atkins. Does 8.3 percent account for that, or not?

Mr. Whalen. I don't know, I would defer to Mr. Ward on that in terms of industry financing spreads but remember, if you're an investor and you're staring at ResCAP because you're buying debt from the parent, life has got a big question mark on it.

Mr. Ward. Those financing rates sound right. I think the--from the automotive perspective, historically the automotive paper has been good paper.

One of the things that did happen, I think the two biggest players in that market were Bear Stearns and Lehman, and not only did you have the disruption in the market, but the two biggest players in that market--the securitization market--disappeared, essentially.

So, you are starting to see some life in the securitization market, freestanding, away from TALF. And so I think as the cycle returns, particularly in North America, and profitability starts to come back for the industry, I think the worst is over, I would expect the appetite to improve.

Mr. Atkins. Okay, and of course TALF ends next month----

Mr. Ward. That's right.

Mr. Atkins. Unless the Fed extends it.

And then one last question--we spoke with earlier panels about how easy or difficult it is for competitors to come in, of course, as Professor Warren was asking, that was one of the rationales, of course, to bail out GMAC. What is your view with respect to the ability of other companies to pick up in here? Is it, in fact, a very siloed type of thing, or are there structural problems to this market?

Mr. Whalen. Well, as has already been alluded to, manufacturers typically provide financing for their sales. And this is common for most industries, and that's how you should look at this. When a bank comes in to provide financing for auto dealers--and this was heard from management, it was over half, someone was providing financing for those other sales--they're picking off the better customers, by definition. They're not there to get the worst customers.

So, the captive is financing the rest, and that's how they get the volumes. And they take that risk, but having said all of that, auto paper is still a very good risk. I agree with what the CEO of GMAC had to say about that.

Chair Warren. Good.

Thank you, Mr. Whalen, I appreciate that.

Superintendent Neiman.

Mr. Neiman. So, I just want to clarify, you know, really understand your assessment of the risks of remaining a--not only a mono-line, but one interdependent with GM. And how critical a risk is that if this institution remains with that level of interdependence?

Mr. Whalen. Well, I think it's the only way these businesses work, is as captives. You know, this is basically a bank holding company looking for a business model right now. And I'm very sympathetic to the people involved, I know they're doing their best, but the truth of the matter is when the private equity boys took this company out of GM, they were engaged in a little bit of arbitrage, and now we are paying the price for that.

I think the only rational decision, if you really want to help GM, is to put this thing through a restructuring, sell the auto business back to them and leave the rest of it in bankruptcy court for the Trustee to deal with.

You know, everybody always screams and yells about Lehman Brothers, but in fact, Harvey Miller and the good people in the Southern District of New York did a brilliant job on that bankruptcy. It's a case study in how you deal with a complex financial institution. And I think we ought to take their example. The only thing we lack is courage.

Mr. Neiman. We asked Treasury, is it possible, are there any plans to encourage other competitors in this market--we hear the reasons as to why other banks are not in this business--because of expertise, and systems and knowledge base--is that the reason they're not in this business?

Mr. Whalen. Well, they've had hard lessons. GE, throughout the 1980s, basically provided financing for Chrysler. They got stung hard on leasing and some of the other losses, so I think, you know, the banks are certainly aware of the size of the market and the appetite, but I think the ease of the flow going from the dealer order, financing the product, going through the customers--it's just one integrated package. You don't have to go out to market to sell it. It comes with the business, it's a revenue engine, and it continues.

And so, I think they're well aware of what the market is like out there, they just have decided to stay away. They can't compete, they haven't been offered the subvention that the captive financing companies get, and so as a result, they can't compete with them.

Mr. Neiman. Thank you.

Chair Warren. Mr. McWatters?

Mr. McWatters. I'm done.

Chair Warren. All right, good.

I just wanted to say thank you, Mr. Ward and thank you, Mr. Whalen, and express a little bit of frustration. We had asked Treasury to stay so that we might ask some questions at the conclusion of your testimony. They elected not to, and I'm sorry for that. I would like to have had them make some remarks in this context.

But I can assure you we will ask the questions based on your testimony as we go forward in our conversations with Treasury and with GMAC.

Thank you very much for being here today.

Mr. Whalen. Thank you very much.

Chair Warren. Thank you.

The record will be held open for additional questions. Thank you all. And this hearing is adjourned.

[Whereupon, at 12:46 p.m., the panel was adjourned.]