U.S. DEPARTMENT OF THE TREASURY

Treasury Notes

Putting Taxpayers in a Stronger Position to Continue Recovering Their Investment in Ally Financial

By: Timothy G. Massad 5/14/2012

The Board of Directors of Residential Capital, LLC (ResCap) announced that it has filed to enter into a Chapter 11 reorganization process. While it is unfortunate that a Chapter 11 filing became necessary for ResCap, we believe that this action puts taxpayers in a stronger position to continue recovering their investment in Ally Financial. To understand why that is the case, it is important to start with a few key facts.

ResCap is a residential mortgage company owned by Ally Financial. It is a separate and distinct company from Ally that has its own board of directors and creditors. Ally Financial is a larger company that—in addition to owning ResCap—runs an automotive financing business and a retail banking operation. Ally's automotive financing business is profitable, and its retail banking operation is growing.

During the financial crisis, Treasury invested in Ally Financial because it was critical to the rescue of the American automobile industry. Our nation was in an unprecedented economic crisis, and private capital had all but dried up. The investment in Ally helped ensure that General Motors and Chrysler dealers still had the ability to provide car loans to their customers and to obtain the financing they needed to run their businesses. Without that financing, the rescue of the auto industry—which independent estimates have found saved more than one million jobs—would not have been possible.

Two years later, in early 2011, the financial markets had stabilized and the worst of the crisis had passed. Ally Financial, Treasury, and many independent analysts believed that it was possible to proceed with an initial public offering of Ally, which would have enabled Treasury to begin exiting its common equity investment. However, Ally was forced to delay the IPO due to intensifying issues related to ResCap’s legacy mortgage liabilities—old loans made during the days before the housing bubble burst—and a general weakening in the IPO market.

ResCap has continued to struggle with losses from its old loans. In fact, due to those losses, ResCap cannot meet its financial obligations to its creditors. When this happens, companies customarily file for bankruptcy. It provides a single forum and court-supervised process for reviewing and resolving the claims of all creditors and other claimants.

Yesterday, the board of directors of ResCap independently determined that a Chapter 11 filing was the best path forward for resolving ResCap's legacy liabilities. Ally's board of directors and Treasury both agreed with that judgment and consented to the filing. Additionally, to help further advance its efforts to repay taxpayers, Ally Financial also announced concurrently with the ResCap filing that it would explore strategic alternatives for its international business.

It is important to emphasize that Treasury has already recovered $5.5 billion, or almost one-third, of our investment in Ally. And the company has played a critical and necessary role in the successful rescue of the American automobile industry. As with all of our investments, our objective today is to exit in a manner that balances speed of recovery with maximizing returns for taxpayers. We believe that by addressing the legacy mortgage liabilities at ResCap, the action taken today will put taxpayers in a stronger position to maximize the value of their remaining investment in Ally.

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