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Economy

President George W. Bush addresses the United States Chamber of Commerce Friday, Oct. 17, 2008, in Washington, D.C. The President spoke on the state of the economy and thanked the Chamber and its members for "efforts to support the spirit of free enterprise, and to advance the interests of business, large and small, across our great country." White House photo by Eric Draper

Fact Sheet: Financing Assistance to Facilitate the Restructuring of Auto Manufacturers to Attain Financial Viability

Conditioned Loans To The Domestic Auto Industry Will Enable Vital Restructuring, While Protecting The American Taxpayer

On Friday, December 19, President Bush announced that the Treasury Department will make loans available from the Troubled Asset Relief Program (TARP) to assist the domestic auto industry in becoming financially viable. The terms and conditions of this financing will facilitate the restructuring of our domestic auto industry, prevent disorderly bankruptcies during a time of economic difficulty, and protect the taxpayer by ensuring that only financially viable firms receive assistance.

- **These auto manufacturers will be provided with $13.4 billion in short-term financing from the TARP.** An additional $4 billion would be made available in February, contingent upon drawing down the final tranche of TARP funds.

- **The firms must use these funds to become financially viable.** Taxpayers will not be asked to provide financing for firms that do not become viable. In the event that firms have not attained viability by March 31, 2009, the loan will be called and all funds returned to the Treasury Department.

- **A firm will only be considered viable if it has a positive net present value, taking into account all current and future costs, and can fully repay the government loan.**

- **The President's preference was not to use TARP funds to assist these firms, but since Congress failed to act, executive branch action is necessary.**

Terms And Conditions

The binding terms and conditions established by the Treasury will mirror those that were supported by a majority of both houses of Congress, including:

  - Firms must provide warrants for non-voting stock.
  - Firms must accept limits on executive compensation and eliminate perks such as corporate jets.

- Debt owed to the government would be senior to other debts, to the extent permitted by law.
- Firms must allow the government to examine their books and records.
- Firms must report and the government has the power to block any large transactions (more than $100 million).
- Firms must comply with applicable Federal fuel efficiency and emissions requirements.
- Firms must not issue new dividends while they owe government debt.

The terms and conditions established by Treasury will include additional targets that were the subject of Congressional negotiations but did not come to a vote, including:

- Reduce unsecured debt by two-thirds via a debt for equity exchange.
- Make one-half of Voluntary Employee Beneficiary Association (VEBA) payments in the form of stock.
- Eliminate the jobs bank.
- Work rules that are competitive with transplant auto manufacturers by December 31, 2009.
- Wages that are competitive with those of transplant auto manufacturers by December 31, 2009.

These terms and conditions would be non-binding in the sense that negotiations can deviate from the quantitative targets above, providing that the firm reports the reasons for these deviations and makes the business case that it will achieve long-term viability in spite of the deviations. In addition, the firm will be required to conclude new agreements with its other major stakeholders, including dealers and suppliers, by March 31, 2009.

Effects Of A Domestic Auto Industry Failure

During this very critical time for the global economy, the impact of a disorderly bankruptcy would be very damaging to our manufacturing base, affecting jobs well beyond the auto industry. The additional job losses and loss from Gross Domestic Product (GDP) would likely postpone our economic recovery considerably. In addition, these effects could multiply and result in additional declines in investment, consumption, and growth, which could worsen the current recession.

- **The direct costs of American automakers failing and laying off their workers in the near term would result in a more than one-percent reduction in real GDP growth and about 1.1 million workers losing their jobs, including workers from auto suppliers and dealers.** Many workers would apply for unemployment benefits, and to the extent that retirees and other workers lost health insurance, apply for Medicaid. These new unemployment claims could cost about $13 billion and would likely add sizeable costs to State Medicaid programs. Additionally, suppliers may not be able to absorb losses from writing off the accounts payable owed by auto manufacturers and may not be able to downsize quickly, resulting in remaining auto companies having supply chains disrupted. These effects on our economy could multiply as a result of the failure of these companies.

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State of the Economy

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Secretary of Commerce
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Keith Hennessey
Assistant to the President for Economic Policy and Director of the National Economic Council
December 22, 2008
October 10, 2008
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