



SIGTARP

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

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SIGTARP INVESTIGATIVE EFFORTS LEAD TO CRIMINAL CHARGES AGAINST GENERAL MOTORS AND DEFERRED PROSECUTION AGREEMENT WITH \$900 MILLION FINANCIAL PENALTY

\$50 Billion TARP-Recipient General Motors Admits to Failing to Disclose Deadly Safety Defect in Its Cars to Consumers and U.S. Regulator

Independent Monitor to Be Appointed to Oversee General Motors' Reporting of Safety Issues and Public Statements

WASHINGTON, DC – The Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the U.S. Department of Justice, the U.S. Attorney's Office for the Southern District of New York, the Inspector General of the United States Department of Transportation, and the Federal Bureau of Investigation today announced the filing of criminal charges against General Motors Company (GM), a \$50 billion dollar TARP recipient, charging GM with concealing a potentially deadly safety defect from its U.S. regulator, the National Highway Traffic Safety Administration ("NHTSA"), from the spring of 2012 through February 2014, and, in the process, misleading consumers concerning the safety of certain of GM's cars.

The defect consisted of an ignition switch that had been designed and manufactured with too-low torque resistance and could therefore move easily out of the "Run" position into "Accessory" or "Off" (the "defective switch"). When the switch moved out of Run, it could disable the affected car's frontal airbags – increasing the risk of death and serious injury in certain types of crashes in which airbags were otherwise designed to deploy. The models equipped with the Defective Switch were the 2005, 2006, and 2007 Chevrolet Cobalt; the 2005, 2006, and 2007 Pontiac G5; the 2003, 2004, 2005, 2006, and 2007 Saturn Ion; the 2006 and 2007 Chevrolet HHR; the 2007 Saturn Sky; and the 2006 and 2007 Pontiac Solstice. To date, GM has acknowledged a total of 15 deaths, as well as a number of serious injuries, caused by the defective switch.

Additionally today, the U.S. Attorney's Office for the Southern District of New York also announced a deferred prosecution agreement with GM under which the company admits that it failed to disclose a safety defect to NHTSA and misled U.S. consumers about that same defect. The admissions are contained in a detailed statement of facts attached to the agreement. The agreement requires GM to pay a \$900 million financial penalty by no later than September 24, 2015, and imposes on GM an independent monitor to review and assess policies, practices, and procedures relating to GM's safety-related public statements, sharing of engineering data, and recall processes. GM agrees to pay the penalty under a final order of forfeiture in a parallel civil action also filed today in the Southern District of New York.

The criminal charges are contained in an Information alleging one count of engaging in a scheme to conceal material facts from NHTSA and one count of wire fraud. If GM abides by all of the terms of the agreement, the Government will defer prosecution on the Information for three years and then seek to dismiss the charges.

“General Motors’ criminal conduct found by SIGTARP and our law enforcement partners defies comprehension,” said Christy Goldsmith Romero, Special Inspector General for the Troubled Asset Relief Program (SIGTARP). “Our investigation uncovered that GM learned about a life-threatening ignition switch defect that would cause air bags not to inflate, but concealed the deadly safety defect from its regulator, and from people buying used cars from GM dealers. The worst part about this tragedy is that it was entirely avoidable. GM could have significantly reduced the risk of this deadly defect by improving the key design for less than one dollar per vehicle but GM chose not to because of the cost. Americans stepped-up and bailed out General Motors with \$50 billion; and General Motors must step up and make substantial corporate changes to prevent anything like this from happening again. SIGTARP commends U.S. Attorney Bharara for bringing these charges and standing united in the fight against TARP-related crime.”

“For nearly two years, GM failed to disclose a deadly safety defect to the public and its regulator,” said Manhattan U.S. Attorney, Preet Bharara. “By doing so, GM put its customers and the driving public at serious risk. Justice requires the filing of criminal charges, detailed admissions, a significant financial penalty, and the appointment of a federal monitor. These measures are designed to make sure that this never happens again. “

According to the allegations in the Information, as well as other documents filed today in Manhattan federal court, including the statement of facts:

From the spring of 2012 through February 2014, GM deceived consumers and NHTSA, its U.S. regulator, by failing to disclose the connection that certain of its personnel had identified between the defective switch and airbag non-deployment. GM also falsely represented to consumers that vehicles equipped with the defective switch posed no safety concern.

Early Knowledge of the Defective Switch

GM engineers knew before the defective switch even went into production in 2002 that it was prone to easy movement out of the Run position. Testing of a prototype showed that the torque return between the Run and Accessory positions fell below GM’s own internal specifications. But the engineer in charge of the defective switch approved its production anyway.

In 2004 and 2005, as GM employees, media representatives, and GM customers began to experience sudden stalls and engine shutoffs caused by the defective switch, GM considered fixing the problem.

However, having decided that the switch did not pose a safety concern, and citing cost and other factors, engineers responsible for decision-making on the issue opted to leave the defective switch as it was and simply promulgate an advisory to dealerships with tips on how to minimize the risk of unexpected movement out of the Run position. GM even rejected a simple improvement to the head of the key that would have significantly reduced unexpected shutoffs at a price of less than a dollar a car.

At the same time, in June 2005, GM made public statements that, while acknowledging the existence of the defective switch, gave assurance that the defect did not pose a safety concern.

GM's Knowledge that the Defective Switch Causes Airbag Non-Deployment

By the spring of 2012, GM knew that the defective switch presented a safety defect because it could cause airbag non-deployment in certain GM cars. Specifically, GM personnel investigating the cause of a series of airbag non-deployment incidents learned that the Defective Switch could cause frontal airbag non-deployment in at least some model years of the Cobalt, and were aware of several fatal incidents and serious injuries that occurred as a result of accidents in which the defective switch may have caused or contributed to airbag non-deployment. This knowledge extended well above the ranks of investigating engineers to certain supervisors and attorneys at the company.

GM's Failure to Disclose the Defect and Recall Affected Cars

Yet not until approximately 20 months later, in February 2014, did GM first notify NHTSA and the public of the connection it had identified between the defective switch and airbag non-deployment incidents. The company thus egregiously disregarded NHTSA's five-day regulatory reporting requirement for safety defects.

Moreover, for much of the period during which GM failed to disclose this safety defect, it not only failed to correct its June 2005 assurance that the defective switch posed no safety concern but also actively touted the reliability and safety of cars equipped with the defective switch, with a view to promoting sales of used GM cars. Although GM sold no new cars equipped with the defective switch during this period, GM dealers were still, from in or about the spring of 2012 through in or about the spring of 2013, selling pre-owned Chevrolet, Pontiac, and Saturn brand cars that would later become subject to the February 2014 recalls. These sales were accompanied by certifications from GM, assuring the unwitting consumers that the vehicles' components, including their ignition systems and keys, met all safety standards.

GM's delay in disclosing the defect at issue was the product of actions by certain personnel responsible for shepherding safety defects through GM's internal recall process, who delayed the recall until GM could fully package, present, explain, and handle the deadly problem. Rather than move swiftly and efficiently toward recall of at least the population of cars known to be affected by the safety defect and thus certainly destined for recall, GM personnel took affirmative steps to keep the company's internal investigation into airbag non-deployment caused by the defective switch "offline" – outside of GM's regular recall process.

Moreover, on at least two occasions while the defective switch condition was well known by some within GM but not disclosed to the public or NHTSA, GM personnel made incomplete and therefore misleading presentations to NHTSA assuring the regulator that GM would and did act promptly, effectively, and in accordance with its formal recall policy to respond to safety problems – including airbag-related safety defects.

GM's Acceptance of Responsibility and Cooperation in the Government Investigation

In February 2014, GM finally conducted a recall of approximately 700,000 vehicles affected by the defective switch. By March 2014, the recall population had grown to more than 2 million vehicles. According to the U.S. Attorney's Office, since February 2014 and the inception of this federal criminal investigation, GM has taken exemplary actions to demonstrate acceptance and acknowledgement of responsibility for its conduct.

SIGTARP conducted this investigation with DOT-OIG, NHTSA, and the FBI, and the U.S. Attorney's Office for the Southern District of New York. This case is being handled by the U. S. Attorney Office's Securities and Commodities Fraud Task Force and Complex Frauds and Cybercrime Unit. Assistant U.S. Attorney Bonnie Jonas, Deputy Chief of the Criminal Division, and Assistant U.S. Attorneys Sarah Eddy McCallum and Edward A. Imperatore are in charge of the prosecution, and Assistant U.S. Attorney Jason H. Cowley, Chief of the Money Laundering and Asset Forfeiture Unit, is responsible for the forfeiture aspects of the case.

About SIGTARP

The Office of the Special Inspector General for the Troubled Asset Relief Program investigates fraud, waste, and abuse in connection with TARP. To date, SIGTARP investigations have resulted in more than 200 convictions, as well as the return of more than \$1.5 billion to the government through criminal prosecutions.

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