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THE U.S. HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
SUBCOMMITTEE ON TARP, FINANCIAL SERVICES AND  
BAILOUTS OF PUBLIC AND PRIVATE PROGRAMS

**WRITTEN TESTIMONY OF THE HONORABLE CHRISTY ROMERO**  
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**FOR THE TROUBLED ASSET RELIEF PROGRAM**  
**(SIGTARP)**

BEFORE THE  
THE U.S. HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
SUBCOMMITTEE ON TARP, FINANCIAL SERVICES AND  
BAILOUTS OF PUBLIC AND PRIVATE PROGRAMS

July 10, 2012

Chairman McHenry, Ranking Member Quigley, members of the Committee, I want to thank the Committee for its continued support of SIGTARP. I want to thank you for inviting me to testify today regarding TARP investments in the automotive industry and SIGTARP's audit of the decision making relating to General Motors' ("GM")<sup>1</sup> topping-up the pensions of certain hourly employees of Delphi Corporation. Delphi was GM's components manufacturing division that was spun off from GM in 1999 and has since been GM's largest auto parts supplier. I will address today the significant work that SIGTARP has conducted on our audit. I will also address the refusal by three former Treasury officials on the Auto Team to provide information to SIGTARP, which is preventing us from completing our audit. I have included additional background on the auto bailouts, the history of GM's agreements related to Delphi employees' pensions, and the current status of the TARP assistance to the auto industry, which is still very much alive today.

SIGTARP's mission is to serve the interest of all taxpayers who funded TARP through transparency, coordinated oversight, and robust enforcement. Today's hearing involves two of those critical mission areas – transparency and coordinated oversight. SIGTARP provides transparency of the financial crisis and the Government's response to the financial crisis so that we can all learn from lessons of the past in order to better protect taxpayers in the future.

Transparency is also important because taxpayers who shouldered the burden and risk of TARP have an absolute right to know how these funds are spent, and the decision making behind TARP spending.

Coordinated oversight is a key component of SIGTARP's mission because the TARP bailout morphed into 13 subprograms of more than \$400 billion spent for banks, the auto industry,

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<sup>1</sup> For the purposes of this testimony, prior to July 10, 2009, "GM" refers to General Motors Corporation, the entity that filed bankruptcy. References to "GM" on and after July 10, 2009 refer to General Motors Company, the entity that acquired substantially all of the assets from General Motors Corporation.

housing, securities markets, and AIG. SIGTARP and GAO are in constant communication to closely coordinate our efforts so that we can leverage each other's expertise and resources, cover the full playing field, and avoid unnecessary duplication.

SIGTARP and GAO undertook a closely coordinated review of the events that resulted in GM's decision to top-up the pensions of certain hourly employees but not salaried employees at Delphi. Both groups of employees were previously covered under GM's pension plans when Delphi was a GM subsidiary. SIGTARP initiated its audit after receiving two separate requests from members of the House Committee on Oversight and Government Reform, Congressman Michael R. Turner (R-OH) and former Congressman Christopher J. Lee (R-NY).<sup>2</sup> Prior to initiating this audit, SIGTARP learned from GAO that it was also reviewing the Pension Benefit Guaranty Corporation's ("PBGC") termination of the Delphi pensions. In order to avoid duplication and ensure a full review, SIGTARP and GAO agreed to split the work, with GAO taking the lead on PBGC's termination of the pensions and related issues, given its historical expertise related to pensions, and SIGTARP taking the lead on Treasury's role in the decision, and whether the Administration or Auto Task Force pressured GM to provide additional funding for the Delphi pensions, given SIGTARP's expertise.

### ***The Presidential Auto Task Force and Treasury's Auto Team***

On February 15, 2009, the President convened the Presidential Task Force on the Auto Industry ("Auto Task Force") to deal with the bailouts of GM and Chrysler and named Treasury Secretary Timothy Geithner and National Economic Council Director Lawrence Summers to serve as co-chairs. The President also named several cabinet-level officials from across the Executive

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<sup>2</sup> SIGTARP has also received requests for information on the Delphi pension issue from Senator Debbie Stabenow, Senator Roger Wicker, and Senator Charles Schumer.

Branch to serve as members of the Auto Task Force. While the Auto Task Force was formed to deal with Chrysler and GM, the day-to-day decisions and duties fell to a group of Treasury officials known as the Auto Team. As reported in SIGTARP’s audit “Factors Affecting the Decisions of General Motors and Chrysler to Reduce their Dealership Networks” (“Dealership Audit”), the Auto Team had the responsibility of evaluating GM and Chrysler’s restructuring plans and negotiating the terms of any further assistance.

The Auto Team was headed by Steven Rattner, the co-founder of a private equity firm, and Ron Bloom, former investment banker and the head of collective bargaining for the United Steelworkers Union. Mr. Rattner and Mr. Bloom reported directly to Auto Task Force co-chairs Secretary Geithner and Larry Summers. Mr. Rattner left the team in July 2009, leaving Mr. Bloom as the head of the Auto Team. The Auto Team had a staff of 15 people who were employed by Treasury.

### ***SIGTARP’s Process in Conducting its Audit***

SIGTARP obtained and analyzed documents from Treasury; PBGC; GM; Delphi; the Delphi Salaried Retirees Association (“DSRA”); the International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America (“UAW”); International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers (“IEU”); and the United Steelworkers of America (“USW”). These documents included memorandums, briefing slides, contracts, court documents, correspondence, and other documentation. Additionally, SIGTARP reviewed all relevant email correspondence obtained from Treasury, GM, and Delphi, including both internal and external correspondence.

In order to bring full and complete transparency to the American taxpayers in its audits, testimony by witnesses is absolutely necessary and critical to SIGTARP's review. One common theme that runs through SIGTARP's audits is that there was often a lack of detailed and complete documentation of Government decision-making during the financial crisis and TARP. Documents do not tell the whole story. Many decisions were made through in-person meetings and telephone conversations (often at break-neck speed), necessitating witness testimony on all of the issues considered, the roles of individuals and groups, and the rationale for decision making, among other things. Because TARP spanned two Administrations and because many officials who worked on TARP related issues have since left the Government, interviews of former Treasury or other Government officials becomes critical to gaining a complete picture.

SIGTARP has interviewed 43 current and former officials from GM, Delphi, DSRA, all three unions, PBGC, and Treasury, including Auto Team officials Steven Rattner, Sadiq Malik, and David Markowitz. However, these interviews do not provide a complete picture of the Auto Team's role. Information obtained from witnesses and documents led SIGTARP to determine that other members of the Auto Team including Harry Wilson and Matt Feldman were closely involved in the Delphi pension issues and their testimony to SIGTARP is critical to determine the nature of their involvement. Mr. Bloom's role as the co-head of the Auto Team and, after July 2009, the sole head of the Auto Team, is also critical.

### ***Refusals for interviews***

Despite SIGTARP's multiple interview requests, the three former members of the Auto Team who worked for Treasury, Mr. Bloom, Mr. Wilson, and Mr. Feldman, have refused to meet with SIGTARP to provide information and answer questions concerning SIGTARP's audit.

Because each of these individuals is a former Treasury official, SIGTARP first requested interviews through Treasury, and was told that these former Treasury officials would not appear for interviews. SIGTARP then reached out directly to these former Treasury officials on multiple occasions to request interviews. These efforts culminated on April 30, 2012, when SIGTARP's General Counsel sent a letter to each of the three former Treasury officials stating that SIGTARP had contacted them for assistance in our congressionally requested audit and that our understanding was that each was refusing to appear to discuss his role, which SIGTARP would report to Congress. Even then, these former Treasury officials have not appeared for an interview.

There is no valid reason for these former Treasury officials to refuse to be interviewed by SIGTARP. Mr. Bloom, who was previously interviewed by SIGTARP related to our audit on the termination of auto dealerships, has not provided a reason for refusing SIGTARP's interview. Mr. Wilson, in refusing to be interviewed told SIGTARP that he was incredibly busy and would be of no help. Mr. Feldman, through his attorney, has provided a letter to this Committee suggesting that his deposition in Delphi's bankruptcy proceedings should provide a complete understanding of Mr. Feldman's work and erase the need for SIGTARP to speak with him. In that deposition, Feldman stated that he had responsibilities across GM and Delphi and that he had been the "lead person at Treasury on pension issues." As we have told Mr. Feldman's attorney, a prior deposition in a bankruptcy proceeding does not change SIGTARP's need to interview him.<sup>3</sup> Given the

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<sup>3</sup> The presence of a deposition in a bankruptcy is not an excuse to prevent an Inspector General from obtaining information. Mr. Feldman and Mr. Wilson were deposed in the summer of 2009. Mr. Bloom was not deposed. In June 2011, Mr. Bloom testified before Congress about GM, but did not answer any questions related to Delphi pensions, citing a private lawsuit brought against him by the DSRA. Mr. Bloom has since been dismissed as a party to the lawsuit. We have read the depositions and find it necessary to speak to these members of the Auto Team. SIGTARP does not represent the interest of any parties in the bankruptcy and should not be limited in its fact finding to questions asked by those parties. Moreover, certain relevant facts occurred after the depositions.

objectives of SIGTARP’s review, interviewing the “lead person at Treasury on pension issues” would be critical. SIGTARP’s General Counsel has informed me that SIGTARP does not have the ability to compel witness testimony. These individuals’ refusal to speak to SIGTARP poses a significant obstacle to SIGTARP’s ability to complete its audit and to taxpayers gaining a full understanding of the discussions and considerations involved in GM’s decision.

***SIGTARP’s Audit is Not Duplicative of GAO’s Audits***

GAO has confirmed to SIGTARP that it has not conducted an audit of the issues under SIGTARP’s review. GAO has published two reports related to the Delphi pensions: a timeline of events leading to the hourly pension top-up and a review of the PBGC termination of Delphi’s hourly and salaried pension plans. In its December 2011 report, GAO reported, “Although acknowledging the significant role Treasury played in GM’s restructuring, GM and Treasury officials stated that Treasury’s role was advisory concerning GM’s decisions not to take on additional Delphi pension liabilities but to honor the top-up agreements with some unions.” GAO confirmed with SIGTARP that they did not interview the Auto Team on the issues being reviewed by SIGTARP, but rather made the statement about the “advisory role” based on statements made in the bankruptcy depositions and by current Treasury employees who were not involved in GM’s decision on Delphi pensions. GAO’s report footnotes that SIGTARP is reviewing the role of the Treasury and the Auto Task Force.

***Background on Delphi Spin-Off***

In 1999, Delphi was spun off from GM. Delphi maintained a close relationship with GM and remained a crucial part of GM’s supply chain. Delphi has since been GM’s largest supplier of

automotive systems, components, and parts, and GM has been Delphi's largest customer with annual purchases that ranged from approximately \$6.5 billion to approximately \$10.2 billion between 2005 and 2008.

At the time of the Delphi spin-off, about 95 percent of all Delphi hourly employees were represented by unions, including the UAW, IUE, and USW. UAW was the largest union and represented roughly 72 percent of Delphi's union workforce, followed by the IUE and the USW representing 24 percent and 4 percent, respectively. At the time, Delphi's salaried employees were not represented by a union or organized as a group or association.

When Delphi was spun-off from GM in 1999, GM agreed to guarantee the pension benefits of select Delphi hourly retirees should their pension plans ever be terminated or their benefits capped. Under the 1999 agreements, in the event Delphi ceased to do business or experienced financial distress and terminated or froze its pension plans, GM would provide those UAW, IUE, and USW Delphi retirees who had worked at GM prior to the spin-off with the same pension benefits provided to the unions' GM retirees. Further, any reduction in the benefits GM provided to the unions' GM retirees would reduce GM's obligation to the unions' Delphi retirees. Delphi's salaried retirees and other hourly retirees who had worked at GM prior to the spin-off were not given pension benefit guarantee agreements. The GM agreements with UAW, IUE, and USW Delphi retirees were scheduled to expire in 2007.

In 2005, Delphi filed for bankruptcy, a bankruptcy that would last until October 2009. In 2007, with Delphi still in bankruptcy, GM entered into a memorandum of understanding that extended the unions' pension benefit guarantees. In 2007, GM also agreed, subject to certain conditions, to assume all of Delphi's hourly pension plans in two tranches. In September 2008, in the first tranche, the pensions of about 24 percent of Delphi's hourly plan participants amounting

to \$2.4 billion in pension liability was transferred to GM's hourly pension plan. As a result, those Delphi hourly employees whose pensions were transferred were no longer part of Delphi's hourly pension plan. The second tranche, a liability estimated at \$3.2 to \$3.5 billion, was due to be transferred to GM if Delphi consummated its planned bankruptcy reorganization. However, the reorganization did not occur and, therefore, GM decided not to assume the second tranche. In September 2008, Delphi froze and ceased funding the salaried pension plan and then in November 2008, it froze and ceased funding the hourly pension plan.

Delphi's pension plans were insured by PBGC, a Government-backed pension insurer, which places liens on companies' assets when they do not adequately fund their pension plans. After Delphi's failure to make required minimum pension contributions in 2008, PBGC placed liens on certain Delphi assets. Further, in December 2008, Delphi disclosed that its pension plans may need to be terminated by PBGC.

### ***Background of the Auto Bailout and the Auto Team***

In November 2008, the CEOs of the big three U.S. automakers (GM, Ford, and Chrysler) testified before Congress asking the Government on behalf of their respective companies for billions of dollars in taxpayer assistance. Without the assistance, they argued their companies would not be able to remain solvent and continue their operations in the wake of the financial crisis. In testimony before the Senate Banking Committee on November 18, 2008, Rick Wagoner, then-CEO of GM, said that if the domestic auto industry were allowed to fail, "the societal costs would be catastrophic: three million jobs lost within the first year, U.S. personal income reduced by \$150 billion, and a government tax loss of more than \$156 billion over three years... not to mention the broader blow to consumer and business confidence."

On December 18, 2008, Treasury made the decision to make TARP money available to the U.S. auto industry and created TARP's Automotive Industry Financing Program ("AIFP") and two additional TARP programs supporting the auto industry. According to Treasury, it made this decision to use TARP funds for AIFP to "prevent a significant disruption of the American automotive industry, which would pose a systemic risk to financial market stability and have a negative effect on the economy of the United States." Over the next several months and years, Treasury provided a total of \$79.7 billion to bailout GM, Ally Financial (formerly GMAC), Chrysler, and Chrysler Financial.<sup>4</sup> Of the \$79.7 billion in TARP funds disbursed, GM received \$50.2 billion, Ally received \$17.2 billion, Chrysler received \$10.9 billion, and Chrysler Financial received \$1.5 billion.<sup>5</sup>

Treasury first provided GM with a \$13.4 billion TARP loan in December 2008 under AIFP to help the company continue operating. The loan agreement required GM to submit a restructuring plan for review and approval by the "President's Designee" by February 17, 2009. The loan agreement also required GM to make "Labor Modifications"<sup>6</sup> to its collective bargaining agreement that were approved by the UAW, which had the effect of incorporating union involvement in GM's restructuring.<sup>7</sup>

On February 15, 2009, the President established the Auto Task Force. Two days later, as SIGTARP reported in its Dealership Audit, GM and Chrysler submitted restructuring plans to the Auto Team that called for a reduction in auto dealerships. GM also stated in its restructuring plan

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<sup>4</sup> While Ford initially sought taxpayer assistance, Ford ultimately did not use any TARP funds when Treasury made funding available.

<sup>5</sup> Numbers may not total due to rounding.

<sup>6</sup> Labor Modifications were defined in the loan agreement as reductions in total compensation and changes in work rules to be competitive with Nissan, Toyota, and Honda, and the elimination of compensation or benefits for employees who have been fired or laid-off.

<sup>7</sup> The loan agreement notes that union approval of the Labor Modifications was required. Only the UAW's approval was required because the UAW was the only union representing active employees at GM in December 2008.

that Delphi's failure to address its underfunded pension plans and raise the financing needed to exit bankruptcy would pose "a significant risk" to GM's restructuring, and that GM had "no obligation to absorb Delphi's salaried pension plan."

As SIGTARP reported in its Dealership Audit, the Auto Team worked with GM and Chrysler to devise and implement a strategy for restructuring and negotiating the terms of any further assistance. Brian Deese, who was Special Assistant to the President for Economic Policy and an assistant to Lawrence Summers, served as a White House liaison to the Auto Team. On March 30, 2009, the Auto Team released its response after reviewing the restructuring plans. The Auto Team rejected both plans noting that GM's proposed pace of closing dealerships was too slow and was an obstacle to its viability. GM was given 60 days to submit a "more aggressive plan." The Auto Team concluded that Chrysler could succeed only if it developed a partnership with another automotive company.

As reported in SIGTARP's Dealership Audit, a Treasury document summarizing TARP's AIFP efforts noted that, although Chrysler and GM were on two different paths, "their best chance of success may well require utilizing the bankruptcy code in a quick and surgical way." According to Treasury, this would not entail liquidation or a conventional bankruptcy. Instead a "structured" bankruptcy would function as a tool "to make it easier for Chrysler and General Motors to clear away old liabilities." In an internal memo, Auto Team officials reiterated that their goal was to take advantage of the bankruptcy code to reject dealership franchise agreements without significant upfront costs. Chrysler filed for bankruptcy on April 30, 2009. GM filed bankruptcy on June 1, 2009. As reported in SIGTARP's Dealership Audit, during bankruptcy, both companies accelerated their dealership termination process.

### ***GM's Top-up of Pensions of Certain Delphi Hourly Retirees***

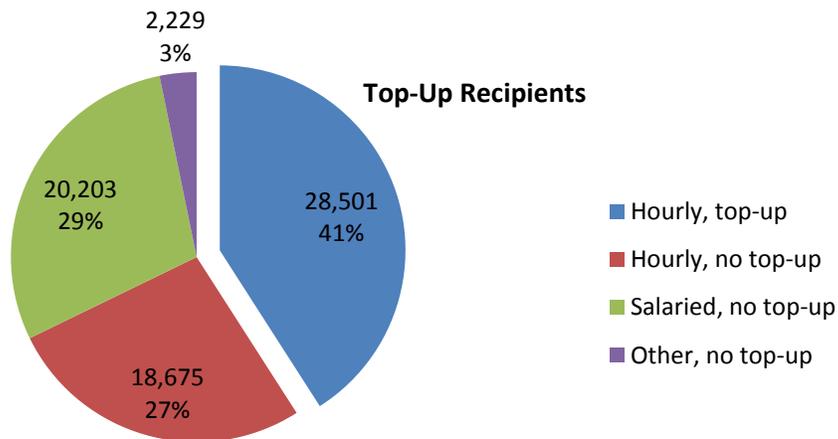
In the month prior to GM filing bankruptcy on June 1, 2009, GM negotiated with the UAW on a new collective bargaining agreement, with some negotiations occurring at Treasury in Washington, D.C. Members of the Auto Team were involved in these discussions. Part of the negotiations between GM and UAW included discussing Delphi pension issues. In July 2009, PBGC terminated Delphi's pension plans, which meant PBGC assumed responsibility for making reduced pension benefit payments to both hourly retirees and salaried retirees. As part of GM's bankruptcy restructuring, GM agreed to assume UAW's Delphi pension benefit guarantee in GM, but not the IUE and USW's guarantees. After GM emerged from bankruptcy and its restructuring was completed in July 2009, the newly emerged GM agreed to reestablish the IUE and USW's Delphi pension benefit guarantees.

Since October 2009, PBGC has paid Delphi's hourly and salaried retirees statutorily defined pension benefit payments that are often lower than retirees' previously promised benefits. Additionally, GM has topped-up the pension payments received by those UAW, IUE, and USW retirees covered by the pension benefit guarantee agreements with supplemental payments, which has increased the payments to their full promised benefit level. According to an analysis completed by GAO, Delphi's pension plan participants total roughly 70,000 individuals, of which 41 percent are covered by a pension top-up. Figure 1 provides a breakdown of the participants according to whether they are covered by GM's top-up.<sup>8</sup>

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<sup>8</sup> The hourly retirees not covered include anyone who never was qualified because they were not members of the unions securing these agreements, were not members of the GM hourly plan prior to the spinoff, or lost their qualifications because they had a break in their employment or otherwise lost their seniority. Individuals who would otherwise be covered, but do not meet the retirement criteria of the plan, will also not receive top-ups. U.S. Government Accountability Office, "GM Agreements with Unions Give Rise to Unique Differences in Participant Benefits," GAO-12-168, 12/15/2011.

**Figure 1: Delphi Retirees and Employees Covered by GM Top-Ups, by Plan**



Source: PBGC and GM data via GAO

SIGTARP is missing key details regarding GM’s decision to top-up certain pensions. Mr. Bloom, Mr. Feldman, and Mr. Wilson played key roles on the Auto Team, particularly with respect to decisions made pertaining to GM. Without their information, SIGTARP does not have sufficient facts to determine their role in the Delphi decision or to make a determination as to whether there was any pressure on GM in that decision.

***Current State of TARP’s Auto Bailout***

During the financial crisis, Treasury, through TARP, provided \$79.7 billion to support automakers and their financing arms in order to “avoid a disorderly bankruptcy of one or more auto [motive] companies.” Of the \$79.7 billion in TARP auto funds used, GM received \$50.2 billion (of which \$23.2 billion has been repaid through proceeds from GM’s initial public offering, preferred stock redemption and other loan repayments), Ally received \$17.2 billion (of which \$2.7 billion has been repaid), Chrysler received \$10.9 billion (of which \$8 billion has been repaid) and Chrysler Financial received \$1.5 billion (of which \$1.5 billion has been repaid). Treasury has fully

divested itself from Chrysler and Chrysler Financial. Treasury recovered the full \$1.5 billion TARP investment in Chrysler Financial. Treasury suffered a \$2.9 billion loss on its TARP investment in Chrysler. Treasury still owns 32 percent of GM and 74 percent of Ally. That leaves a total of \$44.5 billion in TARP taxpayer auto funds still outstanding which includes the \$2.9 billion loss on Chrysler.

### **General Motors**

Treasury currently holds 32 percent of GM's common stock. Through June 30, 2012, Treasury had provided approximately \$50.2 billion to GM. Of that amount, \$20.1 billion was provided before bankruptcy and \$30.1 billion was provided as financing during bankruptcy. During bankruptcy proceedings, Treasury's loans were converted into common or preferred stock in GM or debt assumed by GM. In addition, Treasury has a claim arising from GM's bankruptcy but does not expect to recover any significant additional proceeds from this claim.

In November and December 2010, GM successfully completed an initial public offering (IPO). As part of the IPO, Treasury sold 412.3 million common shares for \$13.5 billion in net proceeds reducing its number of common shares to 500.1 million and its ownership in GM from 60.8 percent to 33.3 percent. On January 13, 2011, Treasury's ownership in GM was diluted from 33.3 percent to 32 percent as a result of GM contributing 61 million of its common shares to fund GM's hourly and salaried pension plans.

### **Chrysler**

Chrysler is no longer in TARP and taxpayers suffered a \$2.9 billion loss on the TARP investment in Chrysler.

Through October 3, 2010, Chrysler received \$10.9 billion from TARP: \$4.4 billion before bankruptcy to CGI Holding LLC — the parent company of Old Chrysler (the bankrupt entity) —

and Chrysler Financial; \$1.9 billion in financing to Old Chrysler during bankruptcy; and \$4.6 billion to New Chrysler. In consideration for its assistance to Chrysler, Treasury received 9.9 percent of the common equity in New Chrysler.

On April 30, 2010, following the bankruptcy court's approval of the plan of liquidation for Old Chrysler, the \$1.9 billion loan was extinguished without repayment. In return, Treasury retained the right to recover proceeds from the sale of assets that were collateral for the loan from the liquidation of Old Chrysler assets. Of the \$4.4 billion lent to Old Chrysler's parent company, CGI Holding LLC, before bankruptcy, \$500 million of the debt was assumed by New Chrysler while the remaining \$3.9 billion<sup>9</sup> was held by CGI Holding LLC. On May 14, 2010, Treasury accepted \$1.9 billion in full satisfaction of its \$3.5 billion loan to CGI Holding LLC.

On July 21, 2011, Treasury sold to Fiat for \$500 million Treasury's remaining equity ownership interest in New Chrysler. Treasury also sold to Fiat for \$60 million Treasury's rights to receive proceeds under an agreement with the UAW retiree trust pertaining to the trust's shares in New Chrysler. Treasury also retains the right to recover proceeds from Old Chrysler's bankruptcy, but, according to Treasury, it is unlikely to fully recover its \$1.9 billion loan.

### **Ally Financial, formerly known as GMAC**

Treasury currently holds approximately 74 percent of Ally Financial's common stock and \$5.9 billion worth of mandatorily convertible preferred shares.

On December 29, 2008, Treasury purchased \$5 billion in senior preferred equity from GMAC and received an additional \$250 million in preferred shares through warrants that Treasury exercised immediately at a cost of \$2,500. In January 2009, Treasury loaned GM \$884 million,

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<sup>9</sup> Of this \$3.9 billion, \$0.4 billion were funds received under the Auto Supplier Support Program and the Auto Warranty Commitment Program.

which it invested in GMAC. In May 2009, Treasury exchanged this \$884 million debt for a 35.4 percent common equity ownership in GMAC.

On May 21, 2009, Treasury made an additional investment in GMAC when it purchased \$7.5 billion of mandatorily convertible preferred shares and received warrants that Treasury immediately exercised for an additional \$375 million in mandatorily convertible preferred shares at an additional cost of approximately \$75,000.

On December 30, 2009, Treasury invested another \$3.8 billion in GMAC, and Treasury received \$2.5 billion in trust preferred securities and \$1.3 billion in mandatorily convertible preferred shares. Treasury also received warrants, which were immediately exercised, to purchase an additional \$127 million in trust preferred securities and \$62.5 million in mandatorily convertible preferred shares at an additional cost of approximately \$1,270 and \$12,500, respectively. Additionally, Treasury converted \$3 billion of its mandatorily convertible preferred shares into GMAC common stock, increasing its common equity ownership from 35.4 percent to 56.3 percent.

On December 30, 2010, Treasury announced the conversion of \$5.5 billion of its mandatorily convertible preferred shares in Ally Financial to common equity, increasing Treasury's ownership stake in Ally Financial's common equity from 56.3 percent to 73.8 percent. On March 7, 2011, Treasury sold \$2.7 billion in trust preferred securities in Ally Financial in a public offering, resulting in \$2.7 billion in total proceeds to Treasury.

On March 31, 2011, Ally Financial filed a Form S-1 Registration statement for an initial public offering with the Securities and Exchange Commission ("SEC"). The document includes a prospectus relating to the issuance of Ally Financial common stock. Ally Financial stated that the proposed IPO would consist of "common stock to be sold by the U.S. Department of the

Treasury.” Treasury agreed to be named as a seller but retained the right to decide whether to sell any of its 73.8 percent ownership of Ally Financial’s common stock and in what amounts.

### **Chrysler Financial**

Chrysler Financial is no longer in TARP, having fully repaid the TARP investment. In January 2009, Treasury loaned Chrysler Financial \$1.5 billion under AIFP to support Chrysler Financial’s retail lending. On July 14, 2009, Chrysler Financial fully repaid the loan.

### **GM and Ally Financial Going Forward**

It is unclear how much taxpayers will recover from its TARP investments in GM and Ally Financial. Treasury has not sold any of its GM shares since 2010. In SIGTARP’s April 2012 Quarterly Report, we noted that Treasury will need to sell its approximately 500 million shares in GM at \$53.98 per share to break even. If the \$756.7 million in dividends and interest received by Treasury is included in this computation, then Treasury will need to recover \$26.2 billion in proceeds, which translates into a break-even price of \$52.39 per share, not taking into account other fees or costs associated with selling the shares. Over the past 18 months, GM’s stock has closed at a high of \$38.98 on January 7, 2011, and a low of \$19.05 on December 19, 2011. GM’s stock price last week was selling at \$20.51 on Thursday (July 5, 2012) last week.

Ally has not conducted its IPO despite filing its S-1 Registration statement with the SEC on March 31<sup>st</sup> of last year. Recently, on May 14, 2012, Ally announced that its mortgage subsidiary, Residential Capital, LLC, and certain of its subsidiaries (“ResCap”) filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. On a Treasury blog posting on May 14, 2012, the day of ResCap’s bankruptcy filing, Treasury Assistant Secretary Tim Massad said that “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... 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.”

SIGTARP will be monitoring Treasury's progress in the weeks and months ahead. Market conditions have slowed Treasury's progress. In addition, due to the enormity of Treasury's stake, it could take a number of years for Treasury to sell at or above break-even. According to the Congressional Oversight Panel (“COP”), the GM IPO was the largest IPO in U.S. history, and Treasury holds more GM shares than it sold in that IPO. Even if Treasury were able to sell a significant amount of its Ally stock in an IPO, as reported by COP, Treasury expects that it is likely to take one to two years following the IPO to dispose completely of Treasury's ownership stake. Both COP and GAO have suggested that Treasury decide whether it should sell its stock below the break-even price. Although that would result in taxpayers getting out of these investments more quickly, it would decrease taxpayer return. Treasury should develop a concrete exit plan for GM and Ally.

I commend the Chairman, Ranking Member, and members of the Committee for its commitment to transparency on this important issue. I am pleased to answer any questions that you may have.