RAMIFICATIONS OF AUTO INDUSTRY BANKRUPTCIES (PART II)

HEARING
BEFORE THE
SUBCOMMITTEE ON
COMMERCIAL AND ADMINISTRATIVE LAW
OF THE
COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES
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RAMIFICATIONS OF AUTO INDUSTRY BANKRUPTCIES (PART II)

TUESDAY, JULY 21, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMERCIAL AND ADMINISTRATIVE LAW,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 11:10 a.m., in room 2141, Rayburn House Office Building, the Honorable Steve Cohen (Chairman of the Subcommittee) presiding.


Also present: Representatives Jackson Lee and Smith.

Staff present: (Majority) James Park, Counsel; Adam Russell, Professional Staff Member; and (Minority) Daniel Flores, Counsel.

Mr. COHEN. This hearing of the Committee on the Judiciary, Subcommittee on Commercial Administrative Law will now come to order. Without objection, the Chair will be authorized to declare a recess of the hearing. I will now recognize myself for a short statement.

With our hearings today and tomorrow, we will continue to explore the ramifications of the automobile industry bankruptcies. Back in May, the full Judiciary Committee heard testimony from a wide spectrum of viewpoints, most of which to some degree, took issue with the plans of the presidential task force for the auto industry for restructuring Chrysler and General Motors.

Today is the opportunity for the task force to answer critics of its plan. One issue that has raised considerable concern with Members of Congress, on both sides of the aisle, is the treatment of automobile dealers in the Chrysler and GM bankruptcy processes.

As part of its restructuring, there were 789 dealerships that were eliminated by Chrysler, giving in effect the dealers less than a month’s notice. Similarly, General Motors plans to wind down and then close 2,500 of its 6,300 dealerships, representing 40 percent of its dealerships. That is a lot of jobs in our communities and in America.

The affected auto dealers contend their stores are not a cost to either General Motors or Chrysler. The dealers assert that GM and Chrysler benefit from having more dealers not fewer. The car dealers also contend that GM and Chrysler select the dealerships for termination by using an arbitrary selection process.
I am particularly concerned about the impact these have on minority dealers, who I fear will suffer disproportionately. In my district, Mr. John Roy, the owner of a Chrysler dealership in South Haven, Mississippi, but a resident of my district, was the only African American Chrysler dealer within a 300-mile radius around Memphis.

He sold cars not only in Tennessee but in Missouri, Arkansas and Mississippi. Over many years he built a reputation for high quality customer service. He is one of only two Chrysler dealers in the Memphis area to receive an elite five star rating for customer satisfaction with Chrysler.

He was also number one in sales for the Memphis metropolitan area for Chrysler. Notwithstanding all those facts and his outstanding business acumen, his dedication to outstanding performance over the years as a loyal Chrysler dealer, Chrysler decided to terminate his franchise. To me, it is unconscionable that Chrysler would treat a successful and loyal dealer in such a manner.

While I understand the task force had no role in selecting particular dealerships for closure, I would like to know to what extent the task force considered the impact of widespread dealership closures on the economy and on communities around the Nation and on the minority community that had been held back for so many years in this industry as well as others, but this industry especially.

Another issue of some concern to Members is the treatment of those with tort claims against the old Chrysler and General Motors. Totally new system, central to the reorganizations of Chrysler and GM was the sale of their viable assets, newly created entities, pursuant to Section 363 of the Bankruptcy Code.

These new entities become the new Chrysler and General Motors. The sales were approved free and clear of liabilities including claims of accident victims, victims of defective products and present asbestos claims.

The end result is the tort victims can recover little or nothing for their injuries because they can only assert their claims against the limited assets of the old GM and the old Chrysler, which is negligible. I would like to know the task force plans for ensuring that tort victims receive just compensation for their injuries, which they should and have in other particular situations like this.

I thank Mr. Bloom for appearing before the Subcommittee today and I hope his testimony will be enlightening. I am sure it will be. I now recognize my colleague, Mr. Franks, the distinguished Ranking Member of the Subcommittee for his opening remarks.

Mr. Franks?

Mr. Franks. Well, thank you, Mr. Chairman. Welcome, Mr. Bloom. Mr. Bloom, it has been claimed by some that all your auto task force ever sought was viable General Motors and a viable Chrysler. But sir, I simply do not see the evidence pointing to that being true.

Viable companies aren’t made by delivering ownership of them to the union whose unrelenting contract demands and unbending work rules drove them headlong down to the road to bankruptcy in the first place.
Viable companies don’t slash and burn the rights of the secured bond holders knowing that the issuance of new corporate bonds is bound to be a key in their future survival. Viable companies don’t ransack their dealerships based on criteria that seem to range from arbitrary at best to overtly political at worst.

Viable companies don’t eagerly sign up for CAFE standards that can only force them to make small cars Americans don’t want for the nonexistent profits that don’t follow. Viable companies aren’t the product of a President who says he doesn’t want to run auto companies and then fires the CEO and lets his auto task force run them instead.

Mr. Bloom, it is my view that what the President and the auto task force sought was not viable companies but pliable companies, companies that could be converted into shells with which the Administration could shake down investors, undermine constitutionally protected property rights and pass large portions of the companies to the control of the United Auto Workers Union.

All of this, to date, has been accomplished. So my question for you today rhetorically at first is, why and how did you not see that the Administration pursued its short-term political goals, and as it was doing so it was devastating the long-term future of our bond markets?, bond markets on which the Administration must rely upon to finance the overwhelming debt is putting upon the American people?

Did you not see that the American people would be outraged at the Administration’s transparent manipulation of these companies would be simply to put the bankruptcies to gift wrap them for the union?

Did you not see that the lawlessness of what the task force was doing as it put together deals would be shredding the Bankruptcy Code? For the past 8 years, President Obama and others like him allege that the Bush administration was lawless.

A return to lawfulness was their pledge. But this Administration that lawlessly gives imaginary constitutional rights to foreigners who seek to attack Americans, this is the Administration that lawlessly deprives American citizens and investors of their contractual rights, rights that are the bedrock of America’s economy and their prosperity.

This is the Administration that lawlessly is sowing the seeds of America’s economic ruin. But Mr. Bloom, I will just say that, you know as I have said before, that the foundation of this economy is not all what we as conservatives just point at as competition.

It is trust. It is the belief that those who would put forward capital investment can trust their government to enforce contracts as they promised and this Administration has done everything but that, and I hope the American people are watching. I hope they wake up in time, I am not sure they will.

With that, Mr. Chairman, I yield back.

Mr. COHEN. Thank you, Mr. Franks.

I now would like to recognize the distinguished Chairman of the Committee for an opening statement, Mr. Conyers.

Mr. CONYERS. Thank you, Chairman Cohen. I am happy to be here today. I didn’t know I would have to rise in defense of the Administration, the United Automobile Workers, the bankruptcy
courts and I don't know who else is lambasted. You give me options.

Well, it is generous of you. I will probably need more than 5 minutes, but all I am going to do is straighten out one thing because I had some other points I wanted to make. For you to think that the UAW had so many concessions, I would like to make you feel a little bit better.

They gave up so many concessions that their leadership was wrongly criticized because every time they went in to negotiations with the admonition that you guys are going to have to come up with more, it was the union that gave up more pensions, more sick care, more working conditions, reducing staff.

You know, those weren't executives that were laid off. The people that lost their job, my dear friend, were working people. UAW didn't sit down and say, “Let us cut out some locals and let us send some plants overseas.” They didn't want to do that.

So for you to think that they won big prizes there was a lot of resistance in the automobile systems. And how do I know, because all three American automobile companies are headquartered in Detroit and that was how I know that.

So maybe you will feel a little bit better as a result of finding that out and maybe you will hear some more things at this hearing that will make you think about what it is we are doing. We are in for a tough time, and I think that your misunderstanding of how those negotiations went, well we will all help you feel a lot better when this hearing is over with.

Now, there is one problem I have that I hope comes into the discussion, not necessarily with our distinguished first witness. But why do we get so much resistance from the amendment that one of our colleagues, Mr. Maffei and Obey and LaTourette all have passed, that they were opposing this amendment, an effort to try to get the dealers a better deal?

And by the way, it wasn't just the nearly 800 auto dealers that got this rude awakening. It was also about 1,700 Chrysler dealers. There were also 1,700 General Motors dealers and some of them were importuned to take additional inventory and then the next day they got a telegram saying their dealership was being closed down.

And when they tried to return the additional cars, they said no you took them now. That is on your watch. So this should be very helpful because I really enjoy working with Trent Franks and, just to get the record straight, now will be very helpful for both him and myself.

And I will yield to him if he wants me too.

No? Okay, I turn my time back.

Mr. COHEN. Thank you, Mr. Chairman. I appreciate your comment. I would like to take Mr. Franks' defense. He didn't say anything about the Detroit Lions at all.

Mr. CONYERS. That was too easy a shot and he is a gentleman. He wouldn't do that.

Mr. COHEN. The next Member who seeks recognition on this, the distinguished Ranking Member of the full Committee, the gentleman from San Antonio, Texas, Mr. Lamar Smith, and you are recognized.
Mr. SMITH. Thank you, Mr. Chairman. And I just want to warn the Chairman of the full Committee that he may want to make his same comments after I finish my statement as well because they are very similar to Trent Franks.

Mr. Chairman, I am increasingly troubled by the actions of the Administration and the GM and Chrysler bankruptcies. Through these and so many other actions, the Administration is taking us from morning in America to mourning for the American way.

The GM and Chrysler bankruptcies are a major reason why. They have been the leading edge of the Administration’s war on capitalism. From the auto bankruptcies to financial institutions, to government-run healthcare, the Administration is staging a government takeover of much of the private sector.

Whether it is taxpayer-funded bailouts or shady deals behind closed doors and the auto bankruptcies, the Administration’s solution is to bully businesses into government-run deals that benefit political allies. These deals are funded by unprecedented government spending and tax hikes on American families and businesses.

The auto task force’s actions did not aim to produce viable companies. They aim to advance the Administration’s political agenda and reward the Administration’s political friends. The auto task force trampled the rights of secured creditors and other investors then swept them aside.

It then delivered company ownership to the UAW, its faithful supporter. The union now owns 55 percent of Chrysler. It also owns 35 percent of GM When the government sells its own stake in GM, surely it will turn the union’s share into a majority share.

The Administration clearly sees these as political gains for itself but what have been the gains for the American people? America has not gained but has lost much. Through the auto task force actions, particularly its destruction of secured creditor’s rights, the Administration has severely undermined the rule of law.

It has struck a devastating blow to the integrity of the Bankruptcy Code and contract law. It has shaken the confidence of investors and America’s willingness to honor laws that protect creditors. The protection of creditors has made America the gold standard for investors from overseas.

After the Administration’s actions in these bankruptcies, the American standard is looking more like fool’s gold. These actions could hardly come at a worse time. The Administration has pushed America deeper into debt.

The GM and Chrysler bankruptcies have helped to reveal the Administration’s way of doing business. This is the Administration of the bait and switch. The Administration said it wanted to spend taxpayer money only to produce viable companies.

Instead it spent the money to increase the size of government, politicize the economy and reward union patronage. Vice President Biden said, “We have to go spend money to keep from going bankrupt.”

That is the kind of illogical thinking that has perpetuated the recession and led the Administration to take over private companies.

I thank you, Mr. Chairman, and I will yield back.

Mr. CONYERS. Well, wait a minute.
Mr. SMITH. And I will yield to the Chairman of the full Committee first.

Mr. CONYERS. Well, all I want to do is associate with all the remarks that I discussed with Mr. Franks, I apply to you.

Mr. SMITH. I understand, Mr. Chairman.

Mr. CONYERS. Just to save time.

Mr. SMITH. I understand. I will yield back to the Subcommittee Chairman.

Mr. COHEN. Thank you. We have a difference of opinion here. One side thinks this is a war on capitalism and the other side thinks it is a surgery to try to protect against Wall Street inflicted suicide on capitalism. Anybody, who on this side wants to make—

Mr. Maffei, you are recognized, sir.

Mr. MAFFEI. Thank you, Mr. Chairman. If it is all right with the Chairman, I am going to actually speak about the topic of the hearing today. I want to thank Mr. Bloom very much for coming. For a century, the American auto industry has been a vital pillar of our economy, providing well paid jobs to hard working middle class Americans who are the foundation of this country.

My grandfather was a plant manager at a General Motors factory in Syracuse, New York. That plant closed in the early 1990's and now almost all of the auto and parts manufacturing facilities in upstate New York are gone, lost as part of past restructuring efforts.

In the most recent of the multiple restructuring attempts by GM and Chrysler, Federal assistance was granted first by the George W. Bush administration. I do want to remind my colleagues that I know this was 7 months ago, but it was the George Bush administration at the end of 2008 that first granted this Federal assistance. There was no vote by Congress on this policy then and there has not been since.

As 2009 began in an effort to ensure long term viability of these companies, President Obama appointed an auto task force to oversee the restructuring process. The task force reviewed and actively worked with Chrysler and GM during their reorganization.

Yet the Congress and the American public were left in the dark as to how the task force, then led by Steven Rattner, reached its conclusion, and I think that is the underlying problem. There simply has not been very good communication between the President's auto task force and Congress.

The decisions were implemented without the auto manufacturers or the task force presenting evidence publicly or even privately to Congress, that some aspects of this reorganization would actually benefit the auto companies financially.

Included in this reorganization was the closing of hundreds of auto dealerships around the country, including several in my home area of central New York. However, there has been very little transparency into how these dealers were closed or how these closings, excuse me, will benefit GM and Chrysler today or down the line.

Then to make matters worse, many of these dealers were able to produce evidence that they had been successful, sometimes even by the same standards that GM and Chrysler were purporting to use.
And there was no dealer appeal process for Chrysler, and at the
time it seemed like a sham appeal process with GM.

At this point I would like to make it clear that I believe that
Congress has no interest in running the day-to-day operations of
these companies nor does the Obama administration. Yet, with so
much taxpayer money invested, it is our responsibility to provide
adequate oversight.

We in Congress did not ask for this responsibility, but once pub-
lic funds were involved, we cannot ignore it. We don't want to hurt
the auto manufacturers in their restructuring efforts moving for-
ward, but auto dealers are indeed a big part of our local community
and the national economy. They employ about approximately 50
people each and they need to have a seat at the table as well.

In short, we don't just want a bailout for the auto industry. We
don't want a bailout for the auto industry to become a washout for
the auto dealerships.

Thank you very much, Mr. Chairman.

Mr. COHEN. Thank you.

We switched from the gentleman from Syracuse to the gentleman
from North Carolina that passed Syracuse in the NCAA, Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman for calling the hearing. I
have two other meetings, Mr. Chairman. I probably won't be able
to stay for the entire hearing. Mr. Bloom, good to have you with
us. My colleagues, as we all know, automobile dealers generally are
the leaders in their respective communities.

I mean, they sponsor the Little League teams. They sponsor Boy
Scout, Girl Scout efforts. They lead the way in responding to causes
of charity, to aid the impoverished and now, unfortunately, some
of these dealers are going to find themselves perhaps in the impov-
erished ranks along with their many employees.

Mr. Bloom, as you probably know, many dealers have testified to
Congress that they can discern no logical principle upon which re-
tained dealers were separated from terminated dealers. And some
have said, I am not alleging this, but some have alleged that part-
sisan politics may have reared her head in distinguishing between
the terminated and those who were retained.

If you know anything about that, I would be glad to hear from
you. You may not know anything about it. If the termination of
dealers, in fact, was not based upon any legal or economic prin-
ciple, I would like to know on what it was based.

And furthermore, I would like to know, Mr. Bloom, if you know
if the auto task force played a role in the decisions to terminate
dealerships and if such a role was involved, what was it? These are
questions that have nagged at me for some time. Again, I thank
you for being here.

Mr. Chairman, thank you for calling the hearing and I yield back
my time.

Mr. COHEN. Thank you, sir. I appreciate your statement. Is there
any other Member on the Democratic side?

Mr. Johnson, the distinguished gentleman from Georgia and the
Subcommittee Chairman of the——

Mr. JOHNSON. Courts and Competition Policy——

Mr. COHEN [continuing]. And I was thinking of antitrust. Thank
you.
Mr. JOHNSON. All right. Thank you, Mr. Chairman. And I would want to thank you for holding this week’s very important hearings on the ramifications of the auto industry bankruptcies. We have talked about shared sacrifice over the past year.

In fact, almost every criticism of the handling of the restructuring of GM and Chrysler is met with the response that shared sacrifice is required. No one expected the restructuring of these great American companies to be painless, and certainly it has not been.

But exclaiming that bankruptcies require sacrifices from all parties involved does not answer the fundamental question of whether or not parties to these bankruptcies have been treated fairly. There is a significant difference, Mr. Chairman, between making a sacrifice and being sacrificed.

And it seems to me that significant numbers of automobile dealers have been sacrificed without just cause, without explanation and without any available resource, and if left to their own devices, the automobile manufacturers would try to do the same thing to their workers who are the backbone of this economy.

So when the taxpayers are called upon to bail out the industry to the tune of billions upon tens of billions of dollars, then the taxpayers have a right to regulate how these companies operate, the amount of bonuses that they give out to their top executives for being mediocre at best, the rewards that the executives get for having absolutely no vision about the future and also the lack of social responsibility.

That every leader in every industry should consider not just their own profit but what impact do our decisions have on the future of this country and its people and the world, as a matter of fact, because global warming is happening.

And you know, this was foreseeable; many people tried to deny it but at this point, only those who have their heads firmly implanted I guess I will say in the soil, would not dispute the effects of how automobiles contribute to the global warming problem.

And so workers should be able to organize and we shouldn’t blame the unions for getting us to this point. Blame is on the financial services industries and on the automobile manufacturers for failing to have vision about the future. The chickens have come home to roost.

And I intend to explore through the hearings today and tomorrow the treatment of our Nation’s automobile dealers. GM and Chrysler have set the wheels in motion to close thousands of dealerships across the country.

No one knows why certain dealerships have been chosen for closure while others have escaped this fate. Minority-owned dealerships and their communities are being disproportionately impacted. And both GM and Chrysler seem to have abandoned their stated commitments to increase and retain the number of successful minority dealers in the United States, again, social responsibility.

In many communities, and especially in minority communities, automobile dealers play an integral role in the community. They provide essential services, and they serve as critical economic engines.
These closures will be devastating. Instead of having a dealership that is easy for consumers to access so that they can purchase cars, now we have, you know, if allowed to continue, we will severely restrict the number of buyers of automobiles because they can’t go 50, 60, 70 miles to a dealership to purchase a vehicle.

And if Toyota is right down the street from them, where do you think they are going to go? And so it is a mindless, ridiculous concept to shut down the dealerships. I have got a dealership in my district that once employed over 100 people and those people were local people, contributing to the economy, and now they have about 13 and this is because of the war on dealers, on automobile dealers.

I don’t what the intent of this decision by the automobile manufacturers would be or I don’t know what they intended to accomplish, but certainly I support the congressman and he is just a freshman but Congressman Maffei, and I know you.

I am just—mind slips some time. I support your bill that would rectify this wrong. And it is not too much to ask that GM and Chrysler fully justify their decisions to impose the hardships associated with dealer closures promptly and publicly.

I want to thank also Mr. Ron Bloom for your public service with this presidential task force on the automobile industry. Once again, I want to thank the Chairman for scheduling these hearings and I look forward to hearing from the witnesses over the next 2 days, and I yield back the balance of my time.

Mr. COHEN. Thank you. Without objection, other Members’ opening statements will be included in the record.

Would you like to make a statement, sir? I didn’t mean—thank you, Mr. Jordan. Thank you.

Mr. Bloom, thank you for participating in today’s hearing. Without objection——

Mr. DELAHUNT. Mr. Chairman, the Chair of the Committee.

Mr. COHEN. Thank you. That is why I have a Vice Chairman to help me on such things.

I would like to recognize the gentleman from North Carolina, Mr. Watt, I didn’t recognize him. Thank you, Mr. Vice Chairman for——

Mr. WATT. I will be very brief, Mr. Chairman. I just wanted the Committee to know that while a number of the Members of our Subcommittee and Committee were imagining conspiracies that were taking place in this sector of our economy, some of us were out there actually trying to help the dealers.

And so I wanted to submit for the record, ask unanimous consent to submit for the record, a letter that we addressed to the chairman of the Federal Reserve and the acting administrator of the U.S. Small Business Administration and the secretary of the Treasury back on March 26, 2009 requesting that the Administration consider taking some steps to assist the small and minority dealers, who, even before bankruptcy was being contemplated, were experiencing severe economic distresses.

We suggested that the Administration consider an adjustment of SBA’s size criteria. We suggested that they allow floor plan loans to be guaranteed by the SBA.

We suggested that they enact a support program similar to the Auto Supplier Support Program that they had just approved, and
we suggested that they waive the AAA rating requirement for automobile loans under the term asset-backed securities lending facility that was under the Financial Services Committee’s jurisdiction and was included in the legislation that we passed, or authorized at least, in the legislation we passed.

And a number of these steps have been actually taken by the Administration and I didn’t want us to lose sight of the fact that while all of the criticism was taking place and the conspiracy theories were being dreamed about, that there was some actual work being done by some of us to try save some of these dealerships.

And I hope we don’t, in the context of these hearings, lose sight of one question that I hope Mr. Bloom will address is whether we are making some progress in saving the domestic automobile industry. It is one thing to look back and criticize everything that has been done, but we have an obligation, in my estimation, to also look at what progress, if any, is being made and I hope we don’t lose sight of that.

And since all of the statements up to this point had been a little conspiracy oriented and negative, I thought I would at least ought to try to put a little balance on these statements. With that I appreciate the Chairman yielding me a little bit of time since I was here early for this hearing, and I yield back to the Chair of the Subcommittee.

Mr. COHEN. Thank you, Mr. Watt. Were there any statements you wanted introduced in the record without objection?

Mr. WATT. The letter dated March 26, 2009.

Mr. COHEN. Without objection, it will be entered in the record. [The information referred to follows:]
March 26, 2009

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

The Honorable Timothy Geithner
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Mr. Darryl Hairston
Acting Administrator
U.S. Small Business Administration
409 Third Street, SW
Washington, DC 20416

Dear Chairman Bernanke, Secretary Geithner and Mr. Hairston:

We applaud the announcement made on March 19 about the Auto Suppliers Support Program. This Program, along with funding provided earlier to domestic automobile manufacturers, helps address two critical parts of the stress in the automobile industry. However, a critical part of the industry remains in great danger—the nation's automobile dealerships, especially small and minority-owned dealerships. Most of these dealerships are struggling to survive. They are increasingly forced to strain dwindling resources as they contend with reduced or cancelled lines of credit, non-renewed floor plan loans, increases in floor plan interest rates and the overall lack of lending for working capital and to finance automobile purchases.

The recently announced Obama-Biden Small Business Emergency Rescue Plan, while helpful, does not provide sufficient assistance to the automobile dealers (particularly minority-owned dealerships) in that only 20% of them can benefit from the Plan because the balance of these dealerships (approximately 80%) exceed the "gross receipts" SBA eligibility criteria.
To assist small and minority automobile dealerships during this economic crisis we urge you to give strong and prompt consideration to the following proposals:

- **Adjustment of SBA Size Criteria.** An executive order temporarily waiving or increasing the size criteria to $60 million annual receipts applicable to SBA loans would assist more automobile dealerships (and would also assist many other kinds of small businesses if applied more broadly). There already exists a precedent for this. During similar economic times in 1980, the SBA implemented the Emergency Dealer Assistance Program, a special program for auto dealers that temporarily amended the SBA’s automobile retail size standards. More information about the 1980 program is attached for your convenient review.

- **Allow Floor Plan Loans to be Guaranteed by the SBA.** Allowing the use of SBA guaranteed loans for floor plan financing would provide critical assistance. The 1980 Emergency Dealer Assistance Program also allowed loans to be made for “any worthwhile business purpose, including working capital.” A similar amendment to SBA standards, in conjunction with the increase in SBA size criteria outlined in the first point above, would be of substantial benefit to automobile dealers.

- **Enact a Support Program Similar to the Auto Supplier Support Program.** The program announced on March 19 provides auto supply companies with the critical assistance they need to continue their operations. Auto dealers are similarly situated and, like auto suppliers and manufacturers, are an essential component if this critical sector of the domestic economy is to survive. Enacting a program for auto dealers, like the one approved for auto suppliers, would assist the Administration’s broader efforts to ensure that the Financial Stability Plan reaches the main street businesses that create or retain good jobs for American workers.

- **Waive AAA Requirement for Automobile Loans Under the Term Asset-Backed Securities Lending Facility (TALF).** It is virtually impossible at this time for loans to finance automobile purchases to secure AAA ratings. Accordingly, the AAA rating requirement in the program announced on March 3, 2009 effectively excludes these loans from eligibility. We have previously made you aware of this problem and urge you to revise the TALF to address it.

We urge you to examine these and other options to assist the nation’s automobile dealerships and urgently request a meeting to discuss these issues in greater detail with representatives of the Minority Automobile Dealers Association. It would be extremely timely if such a meeting could be arranged on March 30 or March 31 during the time that many minority entrepreneurs will be in Washington to explore other ways that they can be involved with the TARP, TALF and other economic recovery programs.
Mr. ISSA. Mr. Chairman?
Mr. COHEN. Yes, sir, Mr. Issa, you seek recognition?
Mr. ISSA. Yes I do.
Mr. COHEN. You are so recognized for an opening statement.

Sincerely,

Melvin L. Watt
Member of Congress

Barbara Lee
Chairwoman
Congressional Black Caucus

James E. Clyburn
House Majority Whip

Corrine Brown
Member of Congress

Cc: Ms. Valerie Jarrett
Mr. Michael Stratmanis
Mr. Issa, I would like unanimous consent to put my full statement into the record.

But as I sit next door where we are with the special I.G. for the TARP, it was irresistible to go back and forth and to include in what I believe this hearing has to concentrate on.

And that is the whole question of whether or not both the TARP and, Mr. Bloom, I realize that you are brand new to the job, but we are certainly going to need to ask you questions like, with $3.8 billion simply waived, forgiven on the sale of—the DIP financing money was that forgiven when Chrysler was sold while other assets weren't?

We are going to have to ask why is it that when a General Motors dealership in my district has their franchise taken away, even though they are outperforming a competing one, with it is not taken away the several million dollars they owe to GM's financing arm for the purchase of that franchise?

And I hope that you can shed some light on how when in fact franchises that had real value had them taken away through government fiat. Ultimately the government made the deal and codified the deal and the courts have upheld it and yet, companies which had assets taken away and given to the competitor across town, have not had the liabilities given at the same time. And it is one of the great questions.

Today we are seeing auto dealers around the country, everyone on the dais having them, who were top performers, who performed better than the companies across town that were given their franchises and effectively given all their business, and now they are finding themselves with personal guarantees.

So after they take what is left of a company, basically the real estate on the dealership, they have taken the franchise away. That real estate is devalued because there is nothing else you can do with it, and there is no brand name under which you can, they are being gone after personally.

So I hope today when, essentially under your predecessor's watch, billions of dollars were simply given away of TARP money in the transaction of moving Chrysler to a foreign owner, that you can also answer the question of how we are going to bring some effective justice to the employees and owners of those franchises, who through no fault of their own, and quite frankly through no precedent under which they were being denied State franchise rights and the rights that they would normally have been granted to at least be compensated for the taking.

This is not like Chrysler and GM were renting facilities. Chryslers and GMs had an asset developed by these people that was simply being given to somebody else without any predetermined basis and showing of need.

So I hope today, in addition to all the other questions that you are prepared to answer how you are going to bring some fairness to the process after the fact when your predecessor certainly didn't bring fairness to the process during it.

With that, I thank the Chairman and yield back.
Mr. COHEN. Thank you, Mr. Issa. Was government fiat a double
entendre?

Mr. ISSA. Yes, the government fiat of selling to Fiat, and by the
way, just in case we are wondering, I really would like to see where
that great technology that Fiat’s going to bring to Chrysler is be-
cause I personally own two Dodge vehicles that has the great tech-
nology of Mercedes, and the last time I checked in Europe, Fiat
doesn’t quite equal Mercedes when it comes to technology, Mr.
Chairman.

Mr. COHEN. And I have an Alfa that has been in my garage for
3 years.

Mr. ISSA. And that is the best place for it, you know that.

Mr. COHEN. Mr. Delahunt, you are recognized, sir.

Mr. DELAHUNT. I thank the gentleman—I am going to yield to
Mr. Watt as much time he may consume.

Mr. WATT. No, I am reacting to what Mr. Issa said more than
anything because he made it sound like Mr. Bloom is brand new
to the job. He is not. And it reminded me that through an oversight
on my part, I failed to acknowledge that right after we sent this
March 26 letter that I have submitted for the record, Mr. Bloom
was on the job at that point, and I had a discussion with him late
at night.

He was working, trying to work through some of these issues. I
had a phone conversation with him and I wanted to publicly appre-
ciate him for going beyond the regular business day and having
that conversation with me about some of the proposals that we had
submitted.

I will yield back.

Ms. JACKSON LEE. Mr. Delahunt, would you yield just a minute
to me? Mr. Delahunt, will you yield just a minute? I will be very
brief.

Mr. COHEN. I don't think we can do that. We have to limit it to
Members of the Committee, Subcommittee.

Ms. JACKSON LEE. I don’t think there is a Committee rule.

Mr. DELAHUNT. I will yield 45 seconds to the lady from Texas.

Ms. JACKSON LEE. I thank the gentleman. Let me thank the
Committee for holding this hearing. Mr. Bloom, thank you. I en-
gaged, we didn't finish our conversation but I do thank you. I just
want to lay on the table a question that I hope we can all come
to, the Administration and the Congress, how can we help the
automobile dealers?

How can we work with the manufacturers to make them whole,
to place them back in their community, to keep the jobs and to
make them the viable, economic engines that they are? I think if
we can work together on that, we will be moving this country’s
economy forward.

Thank the gentleman, and I yield back.

Mr. COHEN. Thank you.

Mr. DELAHUNT. And reclaiming the time, and I will be very brief.
I will just simply echo the sentiments of the gentlelady from Texas.
And I think the concern that you are hearing here is that every
Member of Congress has within his district several dealerships.
And I think it was the gentleman from North Carolina, Mr.
Coble, who indicated that it isn’t just about a business, it is about
a vital piece of the community because it is the car dealer that is the face of GM or Chrysler or whatever company because historically, those dealerships have played a significant role in the life of every community and I think every Member on this panel will testify to that.

And I think the gentlelady is correct when she requests your guidance and possibilities to, you know, bring a fair measure of justice to the auto dealers. You know, transparency is important. There have been significant complaints about transparency.

The gentleman from California, Mr. Issa, talks about government fiat. Well, I don't know if the government was sitting in in the creditors' meetings. That just simply isn't the case. Understanding that there has to be shared sacrifice here, but everyone is entitled to a full explanation of the rationale for decisions that are made.

And with that, I yield back.

Mr. COHEN. Thank you, sir.

If there are no further statements, we will proceed with Mr. Bloom and we thank you for participating. Without objection, your written statement will be placed into the record, and we have asked that you limit your remarks to 5 minutes.

There will be a lighting system, green, go, yellow, you are down to the last minute and red, you are supposed to be concluding. The Subcommittee Members will be permitted to ask questions, but also subject to the 5-minute limit after you conclude.

I am pleased to introduce our witness, Mr. Bloom, Senior Advisor to the Department of the Treasury, heads the presidential task force for the auto industry, previously special assistant to the president of the United Steel Workers based out of Pittsburgh since 1996. And prior to that he was an investment banker, graduate of Wesleyan University, received his MBA from Harvard Business School.

Thank you, Mr. Bloom, for being here. And will you proceed with your testimony, and let us know if we are going to continue to be able to see the USA in our Chevrolet?

TESTIMONY OF RON BLOOM, SENIOR ADVISOR, U.S. DEPARTMENT OF THE TREASURY

Mr. BLOOM. Members of the Subcommittee, thank you for the opportunity to testify before you today. On behalf of the Obama administration and its auto task force, I am here to report on the restructurings of General Motors and Chrysler.

As you know, the new GM and the new Chrysler have recently emerged from bankruptcy and are now operating as independent companies. While this process has been very difficult, it has resulted in two great American companies being given a new lease on life and has kept hundreds of thousands of Americans working.

During the bankruptcy proceeding, every affected stakeholder had a full opportunity to have his or her claim heard and every creditor will almost certainly receive more than they would have had the government not stepped in.

I want to make clear from the outset that this is a position that neither the President nor his Administration invited. Only a few months ago, both of these companies came to the government in a
state of complete insolvency, facing almost certain liquidation without government support.

Despite this, President Obama made a decision that he could only responsibly justify providing additional taxpayer dollars if the companies fundamentally restructured their businesses, which meant real and painful sacrifices from all their stakeholders, from workers and retirees to dealers, suppliers and communities.

In addition, the President gave his auto task force a clear directive, to take a commercial approach to these restructurings and refrain from intervening in the day-to-day decisions of the companies.

He did this because the long-term viability of these companies and their ability to repay the government investment would be seriously undermined if the government became involved in individual business decisions.

In only a few months, both companies have achieved a degree of restructuring that many thought impossible. After proceeding through open bankruptcy processes, they have now emerged stronger and more capable of competing as global companies.

The companies are now being run by their management teams under the direction of new independent, world class boards of directors. As is appropriate given these developments, the task force will be shifting its focus to monitoring the taxpayer’s investment as we move forward.

As is the case whenever a company as large and interconnected as GM or Chrysler is fundamentally restructured, the costs in economic and human terms are substantial. However, completely avoiding these costs would have required an unacceptably large amount of taxpayer resources.

For both companies, this meant substantial sacrifices from all stakeholders, sizable reductions in their workforces, plant footprints in dealer networks, significant reductions in the claims of secured and unsecured creditors, significant concession on compensation and benefits for active employees and healthcare benefits for retirees and leaving behind a variety of unsecured claims, including on product liability and worker’s compensation, a decision the companies made on a commercial basis.

I know that several of you and your colleagues have raised particular issues with different aspects of the restructurings, all of which I am happy to discuss here today. Before turning to your questions however, let me say a brief word about automobile dealers.

The Administration understands the importance of supporting America’s dealers during this period of crisis and has taken steps to ensure financing for dealers at this time. Indeed, had the President not stepped forward, GM and Chrysler would have liquidated. All of their dealer franchise agreements would have been terminated and just about all of their dealers would have failed.

Instead, as a result of the President’s commitment, both new companies are now in a position to move forward with a substantial majority of their dealer networks intact. As was the case for plant closings, brand consolidation and other business matters, the task force was not involved in the specifics of the companies’ dealer consolidation plan, nor in any individual decisions about affected dealerships.
However, the companies have presented a commercial case for their overall plans, which is supported by the overwhelming majority of independent industry experts and which we believe is necessary. There is no question that this process has been difficult for some dealers.

But I think it is important to recognize that the sacrifices being made by the small minority of dealers that are being wound down in this process stand alongside the substantial sacrifices being made by thousands of workers, retirees, creditors and communities across this country.

This explains one of the Administration’s primary concerns with the amendment to the financial services appropriation and other legislation on dealers. It could set a dangerous precedent, raising substantial legal concerns to attempt intervention into a closed judicial proceeding on behalf of one of these stakeholders.

It could also jeopardize taxpayer returns as private capital markets, which will be the future investors in these companies and purchasers of the government shares, may be loathe to participate where there is ongoing uncertainty about the rules of the game.

I understand that several Members have raised concerns about the dealer restructuring process, and while specific questions are best posed to the companies themselves, we have played and will continue to play a role in helping facilitate this communication and ensuring that the process is open and transparent.

In a better world, the choice to intervene would not have had to occur. But amid the worst economic crisis in three quarters of a century, the Administration’s actions avoided a devastating liquidation and put a stop to the long practice of kicking hard problems down the road.

While difficult for all stakeholders involved, these transactions provide GM and Chrysler with an extraordinary second chance, and a very real opportunity to succeed and prosper in the years ahead. Thank you.

[The prepared statement of Mr. Bloom follows:]
Good morning.

Chairman Cohen, Ranking Member Franks, and members of the House Judiciary Commercial and Administrative Law Subcommittee, thank you for the opportunity to testify before you today.

Introduction

On behalf of the Obama Administration and the Auto Task Force, I am here to report on the restructurings of General Motors and Chrysler and the broader state of the American automobile industry.

As you know, the New GM and the New Chrysler have recently completed the purchase of assets through bankruptcy processes and are now operating as independent companies. While this has been exceedingly difficult and painful, it has resulted in two great American companies being given a new lease on life and has kept literally hundreds of thousands of Americans working. During the bankruptcy proceedings, every affected stakeholder had a full opportunity to have his or her claim heard and every creditor will almost certainly receive more than they would have had the government not stepped in.

The President did not invite the government’s involvement in these proceedings. Just a few months ago, both of these companies were on the brink of complete failure and requested substantial financial assistance that only government could provide. Without such assistance, both companies would almost certainly have been liquidated, with a devastating impact on communities throughout the country.

Despite that very real prospect, President Obama was unwilling to provide additional tax dollars to these companies unless they and their stakeholders were willing to fundamentally restructure, address prior bad business decisions, and chart a path toward a sustainable future that would not require ongoing government assistance.

Therefore, the President made two decisions. First, he gave both GM and Chrysler a limited window to work with their stakeholders to secure the sacrifices necessary to make them stronger, leaner, and more competitive so that an investment of additional taxpayer dollars could be justified. Second, he directed his Auto Task Force to take a commercial approach to these restructurings and refrain from intervening in the day-to-day decisions of these companies. He did this precisely because the companies’ long-term viability and ability to repay the taxpayer dollars they were receiving would be seriously undermined if the government became involved in day-to-day business decisions.

In only a few months, both General Motors and Chrysler – working with their stakeholders and the President’s Auto Task Force – have achieved things that many thought impossible. After proceeding through fair and open bankruptcy processes, both the New Chrysler and the New GM have emerged as stronger global companies.
This process required deep and painful sacrifices from all stakeholders – including workers, retirees, suppliers, dealers, creditors, and the countless communities that rely on a vibrant American auto industry. Anytime a company as large and interconnected as GM or Chrysler becomes fundamentally insolvent, the collateral damage is enormous. However, the steps that the President took not only avoided a potentially catastrophic collapse and brought needed stability to the entire auto industry, but kept hundreds of thousands of Americans working and for the first time in decades, gave the New GM and New Chrysler a chance to become viable, competitive American businesses with bright futures.

**President Obama’s Auto Task Force**

On February 15, 2009 the President appointed an Auto Task Force to oversee his Administration’s efforts regarding the industry. The Task Force is co-chaired by Treasury Secretary Timothy Geithner and National Economic Council Director Lawrence Summers, includes representatives from across the executive branch, and is staffed by a joint Treasury-NEC team, of which I am now the senior member. This team reports to the Task Force and its co-chairs, who report up to the President.

From the beginning of this process, the President gave the Auto Task Force two clear directions regarding its approach to the auto restructuring. The first was to behave in a commercial manner by ensuring that all stakeholders were treated fairly and received neither more nor less than they would have simply because the government was involved. The second was to refrain from intervening in the day-to-day management of these companies. Our role was to act as a potential investor of taxpayer resources, and not become involved in specific business decisions, which are the job of management. The President was clear in his view that it would be both politically improper and economically unwise to view our reluctant interventions in these private companies as opportunities to achieve broader policy objectives.

Because the investments made by both the prior and current Administrations to support the auto companies have come from the TARP, the Task Force and its staff’s activities have been subject to the full range of disclosure and reporting requirements under the EESA statute. This includes oversight by the GAO, EESA’s Financial Stability Oversight Board, the Special Inspector General for TARP or “SIGTARP,” the Congressional Oversight Panel established under EESA, and the OMB as well as required reporting to multiple House and Senate committees.

Given the emergence of the New GM and the New Chrysler from bankruptcy, the involvement of the Auto Task Force with the companies will now change. The companies are being run as commercial enterprises by their management teams, and they will report to new, independent Boards of Directors. In acting as a lender and investor in New Chrysler and New GM, the Auto Task Force will closely monitor the loans and investments made in both companies going forward.

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1 The other members of the Task Force are the secretaries of Transportation, Commerce, Labor, and Energy, along with the Chair of the President’s Council of Economic Advisers, the Director of the Office of Management and Budget, the EPA Administrator, the Director of the White House Office of Energy and Climate Change, and the Chief Economist for the President’s Economic Recovery Advisory Board.
Chrysler

The New Chrysler completed its purchase of assets through the bankruptcy process on June 10, 2009. The Company is now run by its new Board of Directors, under the leadership of its new Chairman C. Robert Kidder and a new management team.

This achievement was the culmination of a series of steps that began with the company submitting a detailed business plan to the U.S. Treasury on February 17, 2009, which on March 30th the President announced was not viable. However, the President also determined that Chrysler could achieve viability through a partnership, likely with the international automobile manufacturer Fiat.

On April 30th, after Chrysler and its stakeholders made important and meaningful sacrifices, the President determined that Chrysler had made sufficient progress to justify an additional investment of U.S. taxpayer resources. In order to effectuate these agreements, on April 30th Chrysler filed for bankruptcy. Just over one month later, after a court process that gave all creditors a chance to raise their concerns, the bankruptcy court approved the sale of substantially all of Chrysler’s assets to the new Chrysler-Fiat Alliance.

In approving the sale motion, Judge Gonzalez held that the bankruptcy proceedings had been fair and open, and “that all relevant standards [had] been established to grant the relief requested” and that “the assets in the Sale Transaction [were] sold free and clear of liens, claims, interests, and encumbrances pursuant to section 363(1) of the Bankruptcy Code. In re Chrysler LLC, 405 B.R. 84, 113 (Bankr. S.D.N.Y. 2009).

While this proceeding received an understandably large amount of public scrutiny, neither the speed nor the substance of the court process was exceptional. As Judge Gonzalez explained, “[t]he sale transaction...is similar to that presented in other cases in which exigent circumstances warrant an expeditious sale of assets prior to confirmation of a plan. The fact that the U.S. government is the primary source of funding does not alter the analysis under bankruptcy law.” In re Chrysler LLC, 405 B.R. 84, 87 (Bankr. S.D.N.Y. 2009).

On June 6th, this judgment was affirmed unanimously by a three-judge panel of the Second Circuit Court of Appeals. On Tuesday, June 9th the U.S. Supreme Court denied an application to stay the closing of the sales transaction leading to the successful emergence of New Chrysler. The President’s commitment to completing this alliance helped ensure that tens of thousands of jobs have been saved.

Reaching this historic alliance was only possible because of unprecedented sacrifices from Chrysler and all of its key stakeholders.

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1 To effectuate this transaction, substantial taxpayer dollars were utilized. When the President announced the future direction for Chrysler on April 30th, he committed to funding, over $9 billion by providing both debtor-in-possession financing during the bankruptcy period and exit financing. Because of the accelerated time frame of the bankruptcy, the proportion of the funding through the exit financing was greater than initially expected. Ultimately, $1.9 billion of funding was provided in debtor-in-possession loans and $6.2 billion was provided in exit financing. Added to the exit financing was a $350 million commitment related to a loss sharing agreement with GMAC that is not expected to be utilized. Also, the governments of Canada and Ontario funded more than $2.0 billion in debtor-in-possession and exit financing.
The UAW made important concessions on wages, benefits, and retiree health care. These concessions brought New Chrysler’s compensation in line with Toyota and other transplants. In addition, the UAW retirees exchanged an almost $8 billion fixed obligation to the Voluntary Employees’ Beneficiary Association (VEBA) retiree health trust for a $4.6 billion unsecured note and stock in New Chrysler. This arrangement shifts substantial risk onto the retiree health care trust and will likely result in meaningful reductions in health care benefits for New Chrysler’s 150,000 retirees. The Trust, beyond a single seat on the Company’s Board of Directors, will have no role in the governance of the Company. However, the ability of the Trust to provide decent benefits over the long-term will require that the Company’s stock become valuable, thus significantly aligning the interests of the Company and a key stakeholder.

Chrysler’s largest secured creditors agreed to an exchange of $2 billion in cash for their $6.9 billion in outstanding secured debt. The Court determined that the $2 billion was well in excess of the liquidation value of Chrysler and thus found the treatment of secured creditors in the bankruptcy process to be very normal and conventional. In addition, it was always made clear to the secured lenders that no one contested their right and they were therefore free to take their collateral and do with it as they pleased, including either liquidating the company or operating it. Instead, they made a commercial choice to take their recovery in cash.

New Chrysler determined that meaningful actions were required to reduce the overcapacity in both the Company’s plant footprint and dealer network. Therefore New Chrysler’s business plan included reductions in plants and dealers across the United States. These decisions, while difficult, are absolutely critical to making New Chrysler competitive ensuring the success of the Company in the future. Importantly, the New Chrysler retained the overwhelming majority of dealers from the old company – 87 percent of dealers by volume.

Product liability and some workers compensation claimants will not be permitted to carry their claims forward to New Chrysler. This was a difficult decision, which New Chrysler made on a commercial basis. While everyone involved is certainly sympathetic to the hardships faced by these claimants, the company made a commercial decision quite similar to that of hundreds of other companies going through bankruptcies.

The Company’s successful emergence, in conjunction with financial support from the U. S. and Canada, has put New Chrysler on a solid footing to succeed and generate jobs well into the 21st century.

General Motors

The New General Motors completed its purchase of assets through the bankruptcy process on July 10, 2009. This process also included President Obama’s rejection of GM’s February 17th business plan. As part of that rejection, on March 30th the President outlined a framework for General Motors to achieve financial viability. After two months of significant work by the company’s management and engagement with its stakeholders, GM developed a more robust operating plan. As a result, the President deemed GM’s plan viable and on June 1, 2009 committed approximately $30.1 billion of additional federal assistance from the TARP to support the company’s

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$30.1 billion is on the high end of the range. See In re Chrysler LLC, 405 B.R. 84, 97-98 (Bankr. S.D.N.Y. 2009).
restructuring. To effectuate its plan, General Motors filed for bankruptcy protection and, like Chrysler, utilized Section 363 of the bankruptcy code to conduct a sale of certain of its assets to New GM.

As with Chrysler, every one of the company’s stakeholders made substantial sacrifices. These include:

- **The UAW made significant concessions on compensation that will result in New GM also having wage rates comparable to foreign competitors.** In addition, the GM VEBA retiree health trust exchanged a $20 billion fixed obligation for a $2.5 billion note and stock in New GM (in the form of $6.5 billion in preferred stock, 17.5% in common equity of New GM and warrants to purchase an additional 2.5% in common equity at a $75 billion strike price).

- **Unsecured creditors will receive 10% of the equity of New GM, plus warrants for an additional 15% of the new company.** This settlement makes it highly likely that unsecured creditors will recover far more than they would have if GM had liquidated. As Judge Gerber explained, “the only alternative to an immediate sale [was] liquidation—a disastrous result for GM’s creditors, its employees, the suppliers who depend on GM for their own existence, and the communities in which GM operates.” In re General Motors Corp., 2009 WL 1959233, at 2 (Bankr. S.D.N.Y. July 5, 2009). And “[i]n the event of a liquidation, creditors now trying to increase their incremental recoveries would get nothing.” Id. (emphasis added). This includes pre-petition product liability claim holders, who will receive their pro-rata share of the disposition of the unsecured creditors’ consideration.

- **New GM’s plan includes reductions in its workforce—both hourly and salaried—and in its plant footprint.** These steps are part of the company’s broad effort to right-size the business to reflect current and expected levels of demand. The resulting New GM is now operating with a dramatically improved cost structure. Its breakeven point has been lowered to a 10 million annual unit environment compared to a prior breakeven point of more than 16 million. Because of its reduced debt-load and the elimination of other post-retirement benefit obligations, New GM has credit statistics consistent with its well capitalized peers.

- **New GM is maintaining franchise agreements with the substantial majority of the old company’s dealers, and providing a wind-down process for dealers not moving forward.**

**Automotive Dealers**

The Administration understands the importance of supporting America’s auto dealers during this period of crisis in the auto industry. We also understand the importance of this issue for many members of Congress, and have had occasion to speak directly with several of you and your colleagues about this issue over the past several weeks.

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1. In exchange for the total $49.5 billion of funding ($30.1 billion to effectuate the bankruptcy process and $19.4 billion that was provided before the bankruptcy filing), the U.S. Treasury received $8.8 billion in debt and preferred securities as well as a 60.8% equity stake in New GM (The U.S. Treasury’s equity stake is about 90% on a fully diluted basis). The Governments of Canada and Ontario invested $9.5 billion and received a proportional share of each of these securities.
While many issues in this process have been very painful – for dealers, retirees, laid off workers and product liability victims to name only some of the stakeholders who have sacrificed – it is important to recognize what would have happened if the President had not stepped forward. These companies would have been liquidated and all of their dealer franchise agreements would have been terminated.

Instead, as a result of the restructurings, both new companies are in a position to move forward with new networks that maintain franchise agreements with the substantial majority of the dealers. For example, the New Chrysler’s network maintains 87% of the old Chrysler’s dealers by volume. Even after these restructurings, New GM and New Chrysler will have the most extensive dealer networks in the country, with more rural representation than any other companies. New GM, for instance, will have more rural and small town dealers than Toyota, who sells almost as many cars, has total dealers in the country.

Consistent with the Task Force’s role, we were not involved in the design or implementation of New GM or New Chrysler’s dealer rationalization plans. We were not involved in any individual decisions about dealers, and we do not intend to be going forward.

I understand that several members have raised concerns about the processes the Companies have taken with respect to the dealers. Specific questions about the criteria used in the process or individual dealer determinations are best posed to the Companies themselves. However, throughout this process we have played an oversight role and sought to help ensure transparency in the process. Over the past several weeks, New GM and New Chrysler have worked to explain their processes, and have made several accommodations and clarifications in response to important issues raised by members of this committee and others. We have been assured that any dealer which seeks detailed information about the decision criteria and its specific case will receive this information promptly from the companies.

In addition, the companies have engaged recently with several members of Congress – including members of this subcommittee – about potential additional modifications of their review and reconsideration processes that would further increase transparency and objectivity for everyone involved. We have been supportive of this process, in our role as a facilitator, to ensure this process is transparent, fair and objective.

However, the Administration strongly opposes the amendment to the Financial Services appropriations bill that attempts to restore prior Chrysler and GM franchise agreements. The decision to invest taxpayer dollars into these companies required all stakeholders to make difficult sacrifices, and at this point it would set a dangerous precedent, potentially raising enormous legal concerns, to say nothing of the substantial financial burden it would place on the companies, to intervene into a completed portion of a judicial bankruptcy proceeding on behalf of one particular group. Political intervention of this nature could also jeopardize taxpayer returns by making it far more difficult for the companies to access private capital markets if there is ongoing uncertainty about whether Congress will intervene to overturn judicially approved business decisions anytime that it disagrees with the judgments of the companies.

**Steps to Stabilize Auto Finance Market**
A viable auto industry requires automotive financing for dealers and consumers. The vast majority of automobile purchases in the U.S. are financed, including an estimated 80%-90% of consumer purchases and substantially all dealer inventory purchases. Given the importance of the availability of financing, a total of $13.4 billion of TARP funding has been committed to GMAC, $7.5 billion of which has been funded under the oversight of the Auto Task Force. Also, $4 billion of this funding is being used by GMAC to support New Chrysler dealers and New Chrysler customers as Chrysler Financial will no longer fulfill that role. Together, these funding will allow GMAC to meet the needs of a substantial number of dealers and customers for both Chrysler and GM.

Also, the Treasury Department, in conjunction with the Federal Reserve, has continued to expand the TALF program to support lending broadly and auto lending in particular. This program has helped automotive finance companies raise over $26.5 billion through July 2009 to support consumer purchases of vehicles. And, in a positive note for the taxpayer, Chrysler Financial recently successfully completed a TALF offering allowing it to repay the $1.5 billion loan that it previously borrowed from the Treasury Department. With the resolution of the fate of Chrysler and GM and the improvement in the capital markets, the availability of credit to dealers and customers across the automotive industry should continue to improve. Also, as of July 1st, auto, RV and other dealerships can apply for SBA-guaranteed floor plan financing, which will make it easier for these small businesses to borrow against their inventory and increase their cash flow.

Stabilizing the Auto Supply Base

Because of the credit crisis and the rapid decline in auto sales, many of the nation’s auto parts suppliers have struggled to access credit and have faced uncertainty about the prospects for their businesses and for the auto companies that rely on them. Suppliers that ship parts to auto companies generally receive payment about 45-60 days after shipment. In a normal credit environment, suppliers can either sell or borrow against those commitments—so-called “receivables” in the interim period to pay their workers and fund their ongoing operations. However, due to the uncertainty about the ability of the auto companies to honor their obligations, banks have been unwilling to extend credit against these receivables.

On March 19, 2009 the U.S. Treasury announced a $5 billion Automotive Supplier Support Program to address this problem. Any eligible domestic auto company may participate. This program has contributed to the stability of the supplier base and the OEMs at a critical time. In addition, based on commercial decisions by GM and Chrysler to pay their suppliers through their filings, the supplier industry was provided financial support beyond what typically occurs in most

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1 Figure includes Auto Loan, Auto Lease, and Motorcycle ABS issuance as noted in a report produced by the Markets Group at the Federal Reserve Bank of New York on July 8, 2009.

2 The Program is implemented through a special purpose vehicle (“SPV”) and functions as follows: The OEMs initially identify critical suppliers to participate in the Program. Once included, the OEM submits receivables of the suppliers eligible for the Program. For those receivables, a participating supplier is entitled to be paid directly from the SPV. Suppliers have the option of receiving payment immediately, in which case they pay a 3% discount on receiving payment under the supply contract’s normal payment terms (usually 45-60 days), in which case the supplier pays a 2% discount. In either scenario, since the supplier receives payment from the SPV, the payment is certain. When the OEM’s payment is due to the supplier under the terms of their contract, the OEM makes the payment to the SPV. The SPV then bears the risk of the OEM’s non-payment, and the supplier is secure. Also, New GM and New Chrysler made determinations as of July 1st to reduce their allocated commitments thereby shrinking the size of the program to $3.5 billion, which they are confident is sufficient to address the needs of the supply base.
bankruptcies. This action was taken based on the commercial necessity of ensuring continuity of supply for the manufacturers.

Now with the emergence of New GM and New Chrysler and with the threat of liquidation greatly reduced, there has been some modest opening in credit market access for suppliers. Nonetheless, the Task Force is mindful of the continuing challenges facing auto suppliers and is continuing to actively monitor the health and state of the supply base during this period of industry restructuring.

Auto Warranty Commitment Program

Toward the beginning of the restructuring process, the Auto Task Force implemented a Warranty Program to give confidence to GM’s and Chrysler’s customers during a period of substantial uncertainty regarding the outlook for the companies. With the successful emergence of the new companies, consumers can now feel assured that the companies have the financial wherewithal to meet their warranty commitments on a continuing basis. As such, the Auto Task Force determined that it was appropriate to end the Warranty Program. I am happy to report that $641 million invested in the program has been returned to United States Government along with interest payments on the program. This achievement represented a prudent short-term use of taxpayer funds.

Conclusion

In a better world, the choice to intervene would not have had to be made. But amid the worst economic crises in three-quarters of a century, the Administration’s decisions avoided a devastating liquidation and put a stop to the long practice in the auto industry of kicking hard problems down the road. The Auto Task Force worked quickly to assist GM and Chrysler and did so in a fair and open way. While difficult for all stakeholders involved, these transactions provide New GM and New Chrysler with a new lease on life and a chance to succeed.

Mr. COHEN. Thank you, Mr. Bloom.

We will now have questions, and I will yield myself 5 minutes to ask. First, when we started this hearing, you came up to the panel and were kind enough to express some thoughts to some Members and some of that was very optimistic on the automobile dealerships, the automobile company’s success as General Motors.
Can you share some of that with us so that we have some positive
ideas?

Mr. Bloom. Yes, I think there is some good news. I think it is
much too early to speak definitively about whether or not these
restructurings will indeed succeed. But as we examine General Mo-
tors and as we examine Chrysler, we believe and continue to be-
lieve, that with this difficult and painful restructuring the compa-
nies can succeed.

I think I mentioned to you that, for example, General Motors has
in the last few years released some cars that are very popular
among the American people that have received numerous accolades
in the automotive press by objective outsiders.
The Malibu was the car of the year. The new Chevy Camaro,
which has been released recently is selling quite well, appears to
be very popular. So we believe these companies are positioned for
success, but obviously the implementation of these plans is still
going to take a lot of hard work ahead and we intend to be moni-
toring that closely.

Mr. Cohen. Do you believe Cash for Clunkers is successfully
going to spur new automobile sales?

Mr. Bloom. We are quite hopeful that the Cash for Clunkers
Program will have its intended effect, which is to boost sales of new
cars by inducing people to turn in older, less fuel efficient cars. Yes,
we are very hopeful it will succeed.

And while it is a given amount of money in a particular period
of time, hopefully if it appears to be a success, Congress will con-
sider expanding it in the period ahead.

Mr. Cohen. Let me ask you this. On the question of the deal-
erships and the particular one I mentioned in my area, Mr. Roy in
South Haven, outstanding dealer, top flight, give me the logic or
the understanding or should there have been some or can there be
some consideration given to a successful minority dealer?

Mr. Bloom. Well, obviously by the opening statements, and as I
tried to indicate in my remarks, obviously the situation confronting
dealers is one that is occupying a lot of attention and many Mem-
bers of Congress have reached out to us directly to speak about
this. I am not in a position to give you a chapter and verse about
a particular dealer. I am certainly happy to——

Mr. Cohen. How about just a general thing about a minority
dealer who does great and gets recognized?

Mr. Bloom. The fundamental reality facing the companies and
their dealer network was the following. By all measures, these
companies had far too many dealers relative to the number of cars
they were selling.

As for an example, the average Toyota dealer sells almost four
times as many cars as the average Chevrolet dealer. And all out-
side experts that we consulted, and we obviously came to our inde-
pendent decision, but we did listen to a lot of voices.

All those voices agreed that this over dealer-ing, this too large
dealer network was placing a burden on the companies in terms of
their long-term ability to succeed. Having too many dealers erodes
the brand equity and therefore the company’s ability to get a fair
value for its product for all of its dealers and therefore eventually
for the company as well.
And so the decision was made, and it was not our decision specifically about exactly which dealers would be eliminated, but we did press the companies to say, “You have to do a lot of things to become more profitable.”

“You have to rationalize your plant network. You have to get concessions for your hourly employees. You have to reduce your level of interest payments on your debt. You have to take many, many difficult, hard steps that put many, many people into a very difficult circumstance and that included the dealers.”

And so the company came forward with a program to substantially rationalize their dealer network. We wanted to assure ourselves, and we did assure ourselves, that that program was based on objective criteria and the companies have then gone and they have implemented that program.

We believe that that program, not by itself but as part of these other steps, was a critical part of positioning these companies for future success.

Mr. COHEN. Let me ask you this because my time is about to expire. I understand you are trying to do rational, objective basis and all, did that not in fact discriminate against in an inordinate manner minority dealers who might have gotten into the game late and had areas that weren’t as necessarily as affluent historically as the nonminority dealers?

Mr. BLOOM. We were concerned about that issue. The data we saw, particularly from Chrysler, but GM as well, showed that in fact there was not a disproportionate impact on minority dealers. That said, we have met with the Minority Dealers Association. We have met with the company. The companies have assured us they are committed to their minority dealer programs where they are trying to increase their minority dealer representation, and we intend to monitor that progress well.

I would also add that the SBA Program, which member Watt spoke about earlier, in some respects was not—while not targeted to minority dealers, was targeted at the smaller dealers, and that program was modified to permit it to do auto dealer financing, and that program is underway as well.

Mr. COHEN. Thank you.

I now recognize the Ranking Member of the Subcommittee, Mr. Franks, for 5 minutes.

Mr. FRANKS. Well, thank you, Mr. Chairman. Mr. Chairman, I made a point earlier that bankruptcy law over the years and the process has always given great deference to secured lenders, and of course there are a lot of reasons for that.

But one of the most important reasons is that when someone makes a secured loan they have confidence that the government will enforce that and that is the basis of being able to make loans sometimes in challenging circumstances like in the Chrysler bankruptcy.

Now, under the Chrysler bankruptcy, the secured lenders, the secured creditors of Chrysler got 29 cents on the dollar. These were secure. That is a very unusual situation. Usually in a bankruptcy, they are paid 100 percent and then the unsecured lenders are—the remainder of the assets are split up among them.
But in this case, very unusual, they got 29 percent on the dollar for secured. Now, the unsecured, UAW, the unsecured I think the UAW was owed around $20 billion in all, got 55 cents on the dollar and the ownership of Chrysler to which the secured creditors were probably entitled.

And now this turns lending expectations in the future upside down, and it literally changes the Bankruptcy Code to where nobody knows what it means. And if the airlines go into bankruptcy in the future or face some of these same kinds of crises that the auto industry, we are going to rue the day that we tossed law aside and justice aside for the sake of political expediency.

And I think that sometimes all too often justice is sacrificed in the name of expediency in this place, but in this particular situation, it is going to have a very real consequence on the future bond market. So Mr. Bloom, let me shift gears and talk to you a little bit about that Chrysler bankruptcy.

Tom Lauria, counsel for Perella Weinberg, has stated that your predecessor, Steve Rattner, threatened Perella Weinberg that the Obama administration, “With the full force of the White House Press Corps would destroy its reputation if it continued to fight,” the auto task force’s proposed shortchanging of secured Chrysler creditors.

Let me ask you a series here, did you witness that? Did Mr. Rattner ever discuss that with you? Did Mr. Obama ever discuss it with you? Did Rahm Emanuel ever discuss it with you? Did any other White House or auto task force official ever discuss it with you?

And I will stop there and ask you among those, did any of those individuals, did you witness that or any of those——

Mr. BLOOM. I would be happy to answer that specific question if you would like. I could address your opening comment, as well, if that is helpful.

Mr. FRANKS. Well, answer the question.

Mr. BLOOM. As to your specific question, since this matter was the subject of an extensive court proceeding, I, in fact, discussed this matter extensively with Mr. Rattner, and the simple fact is it never occurred. No comment of that nature was ever made by anybody associated with the auto task force.

Mr. FRANKS. So you openly deny that? All right, I appreciate——

Mr. BLOOM. Absolutely, categorically deny it.

Mr. FRANKS. That is a straightforward answer, Mr. Bloom, and I appreciate it. So let me——

Mr. BLOOM. And if you would like, I can comment on your statement about turning bankruptcy law on its head but——

Mr. FRANKS. Sure, that would be fine.

Mr. BLOOM. All right. I think I would respectfully disagree with your view, Congressman, and let me try to explain it this way. First, the treatment of the secured creditors was approved by the bankruptcy court. It was approved in an extensive decision by Judge Gonzales, who went on at great length to determine that, in fact, this was absolutely ordinary course treatment.

There was no turning of the law on its head. Judge Gonzales’ decision was upheld by the court of appeals in a unanimous ruling
and the Supreme Court saw no reason to intervene in the process, so in fact there was no turning of the law on its head.

A judge, whose job it is to ensure that bankruptcy law is upheld, had no problem whatsoever with the treatment of the secured creditors and Chrysler. The secured creditors in Chrysler made a business decision to take 29 cents in cash as opposed to their two other options. One, is they could have moved to try to have the company liquidated.

They choose to believe, and I think they were right, and the judge, in fact, affirmed this point as well that the 29 cents they received was far greater than they would have received in liquidation, which is, in fact, the task necessary to meet it.

Number two, they could have, and we made clear to the lenders, we were perfectly prepared to have them as what is called credit bids for these assets and become the owner of them and then they could have done with them as they chose. They could have chosen to run the assets or again they could have liquidated.

They chose not to take that option as well. We had a commercial arm’s length negotiation with these banks. It was a difficult bargain as all bargains in this situation were, and it resulted where it resulted.

Mr. Franks. Mr. Bloom, I am out of time. Do you think this has ramifications for future bond lenders?

Mr. Bloom. No. I think, in fact, the bankruptcy court indicated this was in fact ordinary course treatment. I do not, sir.

Mr. Franks. If you are a bond lender I think you would have a different perspective.

Thank you, Mr. Chairman.

Mr. Cohen. Thank you, Mr. Franks.

Mr. Conyers?

Mr. Conyers. Thank you very much, Chairman Cohen. I was going to refer my good friend Mr. Forbes to the bankruptcy committee that handled, Mr. Franks, I was going to refer this subject of bankruptcy to another Subcommittee on Judiciary but you are a Member of the Subcommittee that handles bankruptcy.

So we have got lawyers up and down the back row here that can help you appreciate that what happened was not out of the course of the usual procedure. Now, I haven’t heard this stated yet, but the Chrysler appeal is still pending in the United States Supreme Court. Does that make you feel any better? Some, okay, we are getting there.

Now, the whole idea is that they approved this agreement at the lower level, but they did not dismiss the continuing appeal by Chrysler and probably a great number of secured creditors who would probably like to join in and be heard at that hearing. So this was not out of the usual course of events.

It is an unusual situation and, you know, as one who has some knowledge of the labor movement in the automobile industry, they made great concessions on hourly wages. That was not something that President Gettelfinger had any pleasure in taking back to his union to be approved, and they did approve it, but they weren’t taking over.

And finally, just remember the auto industries came to the government. We weren’t looking for companies’ takeover. They were
going out of business. They were desperate. They came and fortunately this Administration took a whole lot of concern, and they realized that to let the automobiles, two of the largest go under would not be worth it. It would be better for them to work out this agreement of creating new companies.

Now, maybe these other two dealers that were saved should have done what the Ford Motor Company did. They refused. They declined. They didn’t want any part of it and so everybody had an opportunity to do that. They came to us on bended knee literally trying to stay in business.

And sure it was tough and sure they had to give up a lot of things but what about the workers that gave up their jobs? What about the plants that closed down? And I am investigating whether some of those factories moved overseas, which is going to leave me thinking about the North American Free Trade Agreement in a new light. So I just want you to feel as well as you can as a valuable Member of this Committee.

Mr. FRANKS. Would the gentleman yield for 1 minute?

Mr. CONYERS. Sure.

Mr. FRANKS. I just, I guess, because I take the gentleman’s points and I appreciate the sincerity of it, but you still remain in a situation here where secured lenders got 29 cents on the dollar, unsecured lenders, in the case of, or unsecured creditors in the case of UAW were 55 cents on the dollar.

I realize everybody lost things and a lot of jobs were lost, but if this becomes the norm, secured lending will disappear and jobs will disappear far more than what has happened here, and it is a precedent Mr. Chairman.

So that is—I thank you for yielding.

Mr. CONYERS. Mr. Bloom, how should I answer that to make him feel better?

Mr. BLOOM. I am not sure I can him feel better but I can try to answer it again. It is in fact quite common for secured lenders to not be fully paid out in a bankruptcy. That is, unfortunately, there are many companies whose wherewithal is simply smaller than their secured loan, number one.

Number two, the idea that unsecured creditors of one sort of another receive a different treatment, again, is very common in a bankruptcy. For example, in the Chrysler bankruptcy is it true that the UAW had their health care benefits dramatically modified but not completely eliminated.

But the suppliers to these companies had their debts paid in the ordinary course. Why, because it was a commercial decision by the company to maintain relationships with their supply base because you can’t make cars without having steering wheels.

The companies also decided to continue to honor the warranty claims of prior owners of their cars. Why, because on a commercial basis, the last buyer of a GM or Chrysler car is the most likely candidate to be the next buyer.

So the companies made a whole series of commercial decisions and their relationship with the UAW, which as people who know about it know is based on a very, while professional, a very arm’s length, sophisticated relationship. They extracted all from the UAW that they felt possible.
And that was the basis on which that deal was done, and likewise their treatment of the secured lenders. So I believe, again, and I think the courts have affirmed this that this was in fact while it was much larger, while it was done under a microscope, this was, in fact, ordinary course treatment.

Mr. COHEN. Mr. Conyers, do you yield?

Mr. CONYERS. Yes sir, I return.

Mr. COHEN. Thank you, Senator.

Mr. CONYERS. Thank you for your generosity.

Mr. COHEN. All right, Mr. Jordan, do you seek recognition?

Mr. JORDAN. Yes.

Mr. COHEN. You are recognized for 5 minutes.

Mr. JORDAN. Thank you, Mr. Chairman.

Mr. Bloom in your opening statement you said that GM and Chrysler are operating as independent companies. You said that you were instructed as a member of the auto task force to refrain from intervening in the day-to-day decisions of these companies. Do you really believe those two statements?

Mr. BLOOM. Yes.

Mr. JORDAN. Well, let me ask you this. How do those statements square with the series of events and facts that we have seen play out in the last several months? How do they square with the fact that President Obama fired Rick Wagoner?

How do they square with the fact that the government task force, the taxpayers, have a 60 percent equity stake in GM, control the majority of the board? How do they square with the fact that 2 weeks ago in an interview Fritz Henderson said he is on a “short leash” when it comes to running General Motors?

How do those statements square with the fact that Barney Frank, as reported in the Wall Street Journal, can call up Mr. Henderson and get special treatment for a facility in his State? How do they square with the facts that Mr. Franks brought up where you have Mr. Lauria an attorney, a Democrat attorney, who stated publicly that he is willing to testify to threatening treatment his client got from the White House?

Let me put it in this context as well. Over the last 6 weeks, I have sat through hearings that question Mr. Ken Lewis, that question Mr. Ben Bernanke, questioned Mr. Hank Paulson about the treatments Ken Lewis and Bank of America got in their acquisition of Merrill Lynch, the threats and the intimidation and, frankly, in my judgment, the deception they received from members of our government in that dealing.

So to me it just—when you walk through these series of events and I will even say this, I remember the Sunday night before General Motors was going to announce, file for bankruptcy. We were on a conference call. Maybe some of the Members of this Committee, I assume Mr. Conyers was on that same conference, or maybe our Chairman.

In the intro to that conference call, Mr. Sperling, made this statement, he said, “We will only get involved in decisions with General Motors if they are a, quote, ‘major event’.” And so Mr. Rattner spoke, Mr. Sperling spoke, and it was time for questions and several Members got on and this and that, in fact the speaker
was on the conference call, majority leader Hoyer was on the conference call.

I believe maybe Mr. Conyers spoke. And finally I asked a question to Mr. Sperling, “You said in your opening statements you only get involved if it is a major event.” I said, “Can you define ‘major event’ for me because it is going to be pretty major tomorrow in Mansfield, Ohio when they shut down a facility in our district.”

It is going to be pretty major for the 1,200 families who are impacted by that. I said, “Can you define ‘major events’?” And he said, “Congressman we don’t really have a working definition.” And he gave a couple of examples, but what that told me was it can be any darn thing you guys want it to be.

And so, again, I am nervous and I want—I guess I will finish with this question and let you respond. Are you at all nervous about the unprecedented involvement we are seeing from the government in the auto industry, in the financial industry, and if some people have their way, coming soon to every family across this country in the health care industry?

Mr. Bloom. I think I will avoid answering the back two parts of your question. I have no comment on the health care industry or the broader financial industry. My responsibility is to work with the auto task force on the automobile industry, so I will try to be responsive to you there.

I think it is a legitimate concern to wonder whether or not the government will intervene. I think it is a legitimate concern.

Let me try to respond to at least some of the points you made. I have made a note or two but I didn’t jot them all down. I said already and I don’t know how to say it more clearly that we—the statements attributed to Mr. Lauria are not true.

Now, I don’t know what else to say about it. Mr. Lauria has not, in fact, come under oath, and so continuing to raise some—I don’t have another answer other than no.

Mr. Jordan. Okay, fine.

Mr. Bloom. Relative to your comment about Mr. Frank, again, I can speak for how the task force operated, and the task force did not say to General Motors that the plant in Mansfield, Ohio, which you are speaking about, should or should not be closed.

What the task force said to General Motors was, “You have too much capacity. You have more plants than can justify given the numbers of cars you sell. In order for a high fix cost company to be successful it has to align its capacity with its demand.” And so the——

Mr. Jordan. Yes it is, when you got the final plan, let us say what you said was accurate then. You get the final plan from GM that they said, “Okay. We are closing plant A. We are keeping plant B open. We are going to hold on plant C.” Did you give the thumbs up or thumbs down when you get the final plan?

Mr. Bloom. No, no, we did not. What we gave is a thumbs up or thumbs down on the overall plan. Did we believe or did——

Mr. Jordan. Same difference.
Mr. Bloom. No, I am trying to answer your question. Did we or did we not believe that the overall plan created the possibility of a viable General Motors? The answer is yes. It required plant closings. But whether or not the plan——

Mr. Jordan. No but here is the point——

Mr. Bloom [continuing]. Whether or not the plan——

Mr. Jordan [continuing]. At some point you had to, as the auto task force, sign off on the plan that had facilities, manufacturing facilities, around this country being closed.

Mr. Bloom. That is the inevitable result of a company shrinking its footprints.

Mr. Jordan. So how can you stand there and say——

Mr. Bloom. Plants to be closed.

Mr. Jordan [continuing]. We didn’t decide which—I mean there is——

Mr. Bloom. Because we didn’t decide which plant would close?

Mr. Jordan. And you expect American people to believe that when in fact it was the government who told Rick Wagoner to take a hike, it is the government who has 60 percent equity stake in the company. It is the government who appoints the majority of the board.

It is the government who has Fritz Henderson on a “short leash” and this is his testimony or this is his statement, and you expect American people to believe that the auto task force is not running General Motors?

Mr. Bloom. What I said was, “The auto task force is not running General Motors. We are not running it. It is being run by its management and an independent board of directors.” If you have ever met Mr. Whitaker, who will be the chairman of the board of this company, an exceedingly successful private sector individual with impeccable independence and credentials, I can assure it is his intention that the board will operate as an independent board and will direct the affairs of the company and will be a very challenging taskmaster for the management.

What we will do as the shareholder is we will refrain from intervening in the board’s business or the company’s day-to-day operations. We have reserved, and this is part of the record, we have reserved the right to vote our shares up or down on the directors but we will not be intervening in the day-to-day operation of the company. We didn’t during the restructuring process and we won’t in the future.

Mr. Jordan. Thank you, Mr. Chairman.

Mr. Cohen. Thank you, Mr. Jordan.

I now recognize the gentleman from Cape Cod.

Mr. Delahunt. I am going to defer for the moment to the gentleman from North Carolina, Mr. Watt, because I just walked in and I have been unable to get a drift of the questions, so——

Mr. Cohen. Watts is recognized and the gentleman from Cape Cod will be known from hereafter as Mr. Congeniality.

Mr. Watt. He certainly will be known as a good friend of the gentleman from North Carolina for deferring. I don’t know about Mr. Congeniality, but he has been my friend for a long time and that is consistent with our friendship. Mr. Bloom, I first of all
wanted to thank you for the comments about looking forward about what you project.

I know you don’t have a crystal ball about what is out there ahead, but this is at least reassuring to know that you believe, and the task forces believes and the board and the companies believe, that these automobile participants are moving in the right direction.

Let me ask a couple of specific questions. In order to implement the Cash for Clunkers legislation there are some regulations required. Can you give us a status report on how those regulations are proceeding and when we anticipate it because I guess nobody can really do anything with that program until the regulations are filed?

Mr. Bloom. Allow me, Congressman to get back to you with a very specific response that I know in general people are working as quickly as possible and I believe that the hope is to have the program fully operational by the end of the month, but let me, if I may, get back to you later today with a more precise answer.

Mr. Watt. Great. Perhaps you will want to get back to me as part of that answer with the answer to the next question too because one of the concerns I have heard expressed by the dealers and sales people. Actually, it is not the dealers that have expressed it in any formal way but sales people that I have talked to are friends of mine.

They are concerned that this Cash for Clunkers thing is going to really drive a lot more people to foreign manufacturers than to the domestic manufacturers. There is nothing in the legislation, I don’t believe, that really prefers domestic manufacturers over foreign manufacturers.

I guess, I mean I know enough about it to know there really is no foreign made car or domestic made car. The content of all these cars is kind of mixed up with international. But I am wondering in response to them whether there is anything—is it possible to do anything that would weight this program more towards, in the regulations, to weight it more toward rewarding domestic manufacturers?

I guess we blurred the lines even more with the merger that got approved with Fiat and Chrysler, so you can get back to me on that, too. The final question I wanted to raise I raised with you off the record.

There are a number of people who, it seems to me in my conversations with them, are kind of in a deferred purchase mode similar to the position they were in when substantial advancements were being made in digital technology, sound equipment, you know, the next thing.

And a lot of people perceived that over the next 2, 3, 5 years the whole automobile industry and the technology is going to change and improve so much, you will get a lot more efficient cars, and they are reluctant to get into the market.

Is there anything we can do to address that by maybe suggesting a program that would empower the dealers or the manufacturers, I guess, to take these cars that are being produced now or facilitate recycling those, even the ones that are being bought today, prob-
ably 2 years from now will be out of date, at least a lot of us hope they will be out of date because of advances in technology.

Mr. Bloom. Well, a couple things. First, just my colleague hands me a note, the final rule will actually be issued later this week and we hope the program will be up and running shortly after that, so that is the answer on the Cash for Clunkers.

I think our view and we have talked to a lot of experts and looked at a lot of survey, there are a lot of reasons why people aren’t buying cars today. Our judgment is the key reasons candidly are a very bad economy where people are afraid of losing their home and their job, et cetera and obviously the President is doing everything he can to get that piece moving and the lack of financing.

And again we have done tremendous things from the investment in GMAC to the utilization of the TALF program, almost $26 billion dollars of retail auto financing has been done through the TALF. So we are doing a lot of things, I think, Cash for Clunkers among them to stimulate overall demand.

We haven’t particularly picked up that issue. I mean technology continues to move quickly in the industry, and I think that is a good thing. Cars are getting better every year. We don’t candidly see a step change in the next 4 years, but we absolutely see continuing improvement. But let us look at that issue and we will certainly consider whether that particular problem could be remedied.
Mr. DELAHUNT. Have there been any projections that have credibility in terms of what would have—what kind of impact it would have had in terms of lost jobs?

Mr. BLOOM. I am not——

Mr. DELAHUNT. On the vertical, if you will?

Mr. BLOOM. I am not aware of a single point estimate, but I think it is safe to say that the failure of these companies include the suppliers, include all the dealers, include all the ancillary suppliers, would have been many, many hundreds of thousands.

Whether it would have gotten into the millions I don’t know. We did not do a single point estimate. We looked at many scenarios but I think, you know, devastating is the only word that can be used for the consequence, which is why I think the President decided to step in.

Mr. DELAHUNT. You know, I think we all hope for growth in terms of these two new companies now and Ford seems to be surviving well. In fact, I talk about new technology. I just have been driving a Ford Fusion. It is truly remarkable.

Mr. BLOOM. Cool car.

Mr. DELAHUNT. I mean, you know, 40 miles to the gallon. This is the future. But as we see growth, hopefully, in terms of the new alignment of automobile manufacturers are you aware have there been any discussion that those that were terminated, I am talking the dealerships now, would they be given any priority if a business decision was made in terms of expansion?

In other words, those that are terminated I think out of just fairness ought to be at the play and I guess my question is it is obviously very speculative because we don’t know if there is going to be growth, but presuming that there is, is there an opportunity for, if you are aware, for these auto dealers who have been terminated to receive some sort of priority?

Mr. BLOOM. The issue of whether or not in the case of a future expansion the auto dealers who might still be interested in becoming franchisees for GM and Chrysler has been a matter that has been discussed between the NADA, the dealers association, and both of the companies.

The auto task force has played a role in facilitating those dialogues. Some of them have in fact included Members of Congress. And I think in the context of a non-legislative solution to this situation, I think that is a matter that we would expect to be discussing.

Mr. DELAHUNT. Thank you, Mr. Bloom.

Mr. COHEN. Mr. Maffei or Mr. Johnson, either or both.

Mr. JOHNSON. Thank you. All right I just did the same thing with my senior as well but——

Mr. COHEN. You mean in terms of seniority don’t you?

Mr. JOHNSON. Yes, that is correct.

Mr. COHEN. Okay, thank you.

Mr. JOHNSON. Even though you have more gray hair than I do, but I had to look at your driver’s license to determine who is the oldest but I do have my suspicions about that. Mr. Bloom, GM and Chrysler have decided that they had too many dealers. What was the rationale for that conclusion?
Mr. Bloom. Well, the companies, again, in comparison to their successful competitors, particularly the transplants, have again as I said earlier almost four times as many dealers per car sold as their most successful competitors.

And their business judgment was that that dealer network erodes their brand equity over time, puts all the dealers into competition to be cutting prices opposed to trying to maintain value, hurts resale values of the cars because whenever you sale a car at too low a price you hurt the ability of the car to maintain value at resale.

And so like a whole series of consequences, which as I said earlier outside experts we consulted with, universally agreed, was bad for the company.

Mr. Johnson. Well, let me say that——

Mr. Bloom. We accepted that broad conclusion. We then tasked the companies with coming up with a specific plan as to how to rationalize their dealer networks and that is what they did.

Mr. Johnson. Let me ask this question then. Isn’t it a fact that the automobile dealers purchase the automobile as soon as the roll off of the assembly line?

Mr. Bloom. That is correct.

Mr. Johnson. And they finance those purchases through either their own lending sources or through lending programs of the manufacturer?

Mr. Bloom. The companies actually provide financing for period of time and then the dealer takes over the financing costs, but certainly over time if the car stays on the lot for a while, yes, it is the dealer who is securing the financing for it.

Mr. Johnson. Doesn’t it make sense that more dealers would purchase more cars and have them available for the public to purchase——

Mr. Bloom. Right the problem is when you have too many dealers or none of the dealers are selling the necessary number of cars——

Mr. Johnson. Well, then how could you choose and select which dealers to close?

Mr. Bloom. We didn’t choose.

Mr. Johnson. Because that is——

Mr. Bloom. But I can tell you how the companies——

Mr. Johnson [continuing]. I know of some that were top dealers.

Mr. Bloom. I appreciate that people have been approached by particular dealers who believe they were not treated fairly. And as I said we have encouraged the companies and I believe they have complied with this in all times to provide transparency to individual dealers when they believe that the process was not fair to them.

But I can tell you the criteria for instance that General Motors used. It was sales. It was customer satisfaction. It was capitalization. It was profitability, four objective measures.

Mr. Johnson. None of which——

Mr. Bloom. Of the dealers——

Mr. Johnson [continuing]. Seemed to be logically consistent with having vehicles available to the public in locations that are accessible to——
Mr. BLOOM. Convenience is clearly an important factor.

Mr. JOHNSON [continuing]. And also the number of people who were let go because the dealerships were closing, you know, I mean we are trying to create jobs here to pull us out of this economic debacle, which was caused by lack of regulation in the financial markets.

So we are trying now to create jobs for the American people where they can go out and purchase a new car. And by the way when they purchase a new car under the Cash for Clunkers situation are there, you probably don't know this, but fuel efficiency standards or are we just going to go from one inefficient fueled vehicle to another like say the muscle cars, the Camaros, and I love Camaros. I own one.

Mr. BLOOM. You should check out the mileage on the new Camaro. It is substantially ahead of the mileage on the old one.

Mr. JOHNSON. Well, I am happy to note that.

Mr. BLOOM. The Cash for Clunkers program does have a specific regulation and it was in the law sorry, in the legislation that requires that the car you trading against have better mileage than the car you are trading in.

Look convenience is clearly and important factor but there are other factors and if the dealers undercapitalized, if he is not selling a good number of vehicles, if he doesn't maintained——

Mr. JOHNSON. Well, the reason why he is not adequately capitalized is because the manufacturers closed out the lines of lending opportunities.

Mr. BLOOM. The manufacturers didn’t close out the lending opportunities. The lending opportunities were hurt by the overall decline in the economy. There is no question that the loss of jobs for dealers is a very serious problem, but the question is, what is the alternative? And as we evaluated it the alternatives were two.

One we could have let the companies liquidate and as I tried to respond earlier to Congressman Delahunt's question I think the comparison between that and what has happened is astronomical. The second thing we could have done is we could have insisted that these companies honor every one of their promises. We could have insisted they lay off no employees.

We could have insisted they pay their bond holders in full, their secured creditors in full, and their dealers in full. The problem with that solution is it would have cost the taxpayers a multiple, a serious multiple of the already very substantial investment that was made.

So we tried to choose a middle ground where we invested the necessary capital to revitalize the company but honestly not more than we had to do because these are taxpayer dollars and we wanted to minimize the investment and we obviously want to try to get the investment back.

Mr. COHEN. Would the gentleman yield sir? Just a minute.

Mr. JOHNSON. Yes, I will ask one question before I yield.

Mr. COHEN. I asked——

Mr. JOHNSON. I want to know why the illustrious Rick Wagoner was let go of his responsibilities at GM, and if you could keep it very short so I could yield to my friend Mr. Delahunt.
Mr. BLOOM. I will keep it short. I will keep it short. I think the judgment was made that Mr. Wagoner had done many good things and worked very hard but that he was not the best person to take the company forward in the difficult circumstance it was facing.

Mr. JOHNSON. All right. Thank you, sir.

Mr. DELAHUNT. You reference I think, I thank the gentleman for yielding, you reference Mr. Bloom a multiple. Would you give us an estimate of that multiple?

Mr. BLOOM. Well, it is hard——

Mr. DELAHUNT. I know it is a range, and I know you cannot be precise, and I am——

Mr. BLOOM. Certainly in the case of General Motors, if all of the claimants were to be made completely whole, the Obama administration committed roughly $30 billion to the DIP financing. I think you could expect that number to have at least doubled.

Mr. DELAHUNT. So rather than $30 billion, the taxpayer would have been on the hook for more——

Mr. BLOOM. More than $60.

Mr. DELAHUNT [continuing]. Than $60.

Mr. BLOOM. More than $60.

Mr. DELAHUNT. And this course was not taken?

Mr. BLOOM. Right. That course was not taken.

Mr. JOHNSON. Mr. Chairman, I yield back the balance of whatever time I have left.

Mr. COHEN. Thank you.

That gives us time to recognize Mr. Issa here.

Mr. ISSA. For such time as I may consume I trust? Thank you, Mr. Chairman.

Mr. Bloom, earlier, you know, I was congratulating you on your new position and giving you a little bit of a pass for the sins of the past even though you were there. Perhaps that was a mistake. So let me go through a couple of things. First of all, quite frankly why was it in the taxpayer’s best interest to forgive the money that we put into DIP financing, $3.8 billion?

Mr. BLOOM. I assume you are speaking about Chrysler?

Mr. ISSA. Chrysler.

Mr. BLOOM. Yes, the $3.8 billion was actually not all forgiven in the case of the DIP. That was an original estimate based on the bankruptcy going for 60 days. The bankruptcy, in fact, went for 42 days, so a much smaller amount was forgiven, less than half of that and a lot of that will in fact be recouped by the nature of the loan we made.

The loan has various features that include essentially incremental fees and other features that will allow us to recoup. In fact, just about all that money if the company succeeds. In addition, the government owns 8 percent of the common stock of the company and has warrants to purchase additional stock in the company, so we are actually hopeful if new Chrysler succeeds that just about all of the $8 billion that in total was committed by the Obama administration can, in fact, be returned.

Mr. ISSA. Why was it that we took 8 percent in warrants and the UAW got 55 percent? Why wouldn’t the go forward investment of workers who had no statutory claim, why wouldn’t theirs be war-
rants? Wouldn’t that have been more appropriate and equally enticing to people to stay with the company and make it succeed?

Mr. Bloom. Let me try to answer that. First thing, the UAW didn’t receive any stock in the company. The holder of the shares, the 55 percent I believe you are speaking about, is held by an independently managed trust called a VEBA whose responsibility it is to write health care for the roughly 150,000 Chrysler UAW represented retirees.

So the UAW right now——

Mr. Issa. Right, wasn’t that, in fact, a normal in bankruptcy claim, which would have had not standing ahead of debt?

Mr. Bloom. If there had been a liquidation of Chrysler——

Mr. Issa. No, ahead of our——

Mr. Bloom [continuing]. No, I am——

Mr. Issa [continuing]. $3.8 billion of our DIP financing, our DIP?

Mr. Bloom. Yes, well, and again our DIP financing as I said was converted into partly the exit facility, which as I explained we hope to fully get back. The UAW had a pre-petition claim but in addition, in order to operate Chrysler, it was necessary to reach a labor agreement with the UAW because, in fact, if people don’t come to work you can’t make cars.

And so a very——

Mr. Issa. So what discount did you get in return for that 55 percent? What discount did you get in negotiations?

Mr. Bloom. Well, the value of that 55 percent at this point in time is actually quite low. The company’s equity value today, sitting as we sit, is quite modest.

Mr. Issa. Mr. Bloom if you don’t mind, because you were there.

Mr. Bloom. I am trying to answer your question.

Mr. Issa. Please answer the question.

Mr. Bloom. I was trying to.

Mr. Issa. No, I don’t care how low it was. What value did you get in the UAW contract because you were——

Mr. Bloom. We made a——

Mr. Issa [continuing]. The asset went to retirees. I want to understand what you got in the contract of people who wanted jobs and our $3.8 billion in other funds gave them the ability to still have a job.

Mr. Bloom. What we got was substantial concessions in the active workforce about $7 an hour of reduction in the hourly compensation of benefits package as such that at this point the Chrysler——

Mr. Issa. And——

Mr. Bloom [continuing]. Hourly employees are paid essentially the same as the transplant employees, which had been the admonition in the original Senate bill which was not passed back in December.

So the sacrifices, which were envisioned at that point in time were in fact more than done by the UAW and a very large obligation to pay retiree insurance claims was also substantially reduced such that a note for $7 billion, not a cash payment, as well as this amount of stock, which may or may not be worth something in the future was part of an overall bargain that was made with the UAW.
Mr. Issa. And I am completely supportive of all the—if Chrysler turns around these will be paid.

Mr. Bloom. Yes.

Mr. Issa. My question on behalf of the stockholders here is and I would like you to follow up in writing if you would, I don’t think we have time to go back and forth here, is simply in the preference why we did not give ourselves the most immediate and guaranteed returns and give others a stake in the upside but less immediately guaranteed and in particularly the stock versus warrant, preferred debt, and so on, so if you would answer that in writing.

Because I have one more question for you which is in this liquidation we gave no consideration to the injured parties in this case. The car dealer, A, who had his asset taken away from him and given to car dealer, B. Are you willing to on a go-forward basis to look for positive win-wins, insist that the auto companies look for opportunities in which some reasonable recognition of these losses to these dealers who had their asset taken away from them, their growing concern, often profitable growing concern?

That includes the residual inventory they have in the way of, you know, their facilities with all this fine equipment, designed specifically for Chrysler, designed specifically for GM. Are you willing to do that as part of your go-forward, if you will, car czar project? Because in my district I have people who are still being asked to pay on buildings and assets and so on that they bought from the car company when in fact the asset they bought was taken away from them. They still want the liability paid.

And in their case they are not being given any kind of if there is a future expansion will they get a benefit from it, do they have the right to be preferred if in fact a new dealership is opened somewhere in America in the foreseeable future, and in the case of certain assets they are holding they are neither being given debt relief nor even a preferred position to liquidate those.

Mr. Bloom. I am not the car czar. I think I would answer as follows——

Mr. Issa. Okay.

Mr. Bloom. In the case of Chrysler——

Mr. Issa. Today I know the car czar actually has no official authority.

Mr. Bloom. Doesn’t exist.

Mr. Issa. You have real authority and real ability.

Mr. Bloom. I will try to answer your question, sir. Chrysler has made provision and has already agreed that it will buy, it has purchased in fact, just about all the cars from its terminated dealers. This may——

Mr. Issa. Mr. Bloom my time is limited. It is not about cars. It is about all the other assets used to——

Mr. Bloom. I was getting to that.

Mr. Issa. Represent a growing concern.

Mr. Bloom. I was getting to that.

Mr. Delahunt. Mr. Chairman, I ask unanimous consent that Mr. Issa be given as much time as necessary for Mr. Bloom to fully answer the question.

Mr. Issa. Thank you.
Mr. Bloom. Chrysler has also agreed to repurchase the parts and the special tools from all their dealers and they are in the process of doing that. Regarding your question about the preference, I think answered earlier that we have had discussions with Members of Congress, with the companies, and with the NADA, relative to whether or not something along those lines could be discussed.

Again, as I said in the context of the non-legislative solution I think we are prepared to play a role in facilitating those continued dialogues.

Mr. Issa. Okay. And I guess the only follow up anecdotal comment because I feel like what you told us was very good, non-legislative. I think it begs the question of whether or not we should empower legislative solutions both, not just a sense of Congress, but in fact something with some teeth in it that, so that in fact this unprecedented taking from one dealer and being given to another can be resolved at least more fairly than it is.

Mr. Bloom. I would just observe and again I guess we are going to disagree. I don't think this is an unprecedented taking. Both bankruptcy courts have passed upon this as an absolutely ordinary course basis and I think I articulated earlier that the Administration believes that the legislation, the specific legislation, that is being considered, is going to make the situation worse not better.

But with that said, we always believe that dialogue is valuable and on the specific issue you raised which is preference in the future, that is an item that has been discussed and I would hope we could continue to discuss it.

Mr. Issa. But when I say unprecedented, I beg the indulgence, pre-empting State franchise laws allowing agreements made with companies who had nexus in a State to simply be set aside into a one size fits all with no consideration and no ability of a consideration between the gainer, not Chrysler, but a particular Dodge dealer and the loser, another Dodge dealer, that pre-emption of any recourse, any place for those dealers to go.

And by the way, sometimes the dealer that was a winner here and a looser there, we are not questioning that it might have had to have been done, but it does appear as those it was done in a way to pre-empt all the other possible considerations including an inter-party right of, wait a second, I lost 200 cars a year, you gained 200 cars a year. What am I getting for that? Those parties don't even have the ability to seek recourse from each other do they?

Mr. Bloom. To my knowledge they don't, but I am not an expert on the State franchise laws in your State. If they believe they were wronged under State franchise laws presumably they have recourse. In the bankruptcy court, which is where this was approved, it was approved as not being either illegal or certainly not unconstitutional, so that is the way and we obviously agree with the decision of the judge and the appeals court who upheld it.

Mr. Issa. Well, I thank the Chairman for his indulgence and I certainly think the courts have made mistakes. Again I think back during World War II and the Japanese internment everyone thought it was okay from a court standpoint until long after the war.
And I think this is going to go down as something that could have been done better, now has been codified, but in fact I don't think this body has done speaking as to the fairness to the parties that have been injured while we have been trying to bail out the auto companies.

I thank the Chairman and yield back.

Mr. Cohen. Thank you, sir.

Mr. Maffei, do you seek recognition?

Mr. Maffei. Yes, Mr. Chairman.

Mr. Cohen. Five minutes, or as much time as Mr. Delahunt wants you to have.

Mr. Maffei. Yes.

Mr. Delahunt. Again I recommend that the gentleman have as much time as he needs.

Mr. Cohen. Easy for you to say.

Mr. Maffei. Thank you again, Mr. Bloom for appearing here today. I am just trying to get some clarification. Is it the Administration's position that the companies would have been liquidated had the current dealer networks been maintained even if all the other reforms had been made?

Mr. Bloom. I can't speculate on a hypothetical as to what would have happened if one piece of the puzzle hadn't been done the way it was done. There was a comprehensive plan put forward to save the company. All the stake holders were asked to sacrifice. They all did and we think it is positioned the company for success.

It is always possible to imagine one more penny, what one more straw in the camel's back. I don't know which straw or other straw might have done. I know these were completely failed enterprises in need of dramatic restructuring and that is what we tried to effectuate.

Mr. Maffei. I think part of the problem that we are having is that, you know, when you take a more conventional retailer that is trying to sell more products, obviously, to sell more products they have more stores.

So they would create a whole store network, which would hopefully sell more products. If because of economic conditions or because of the products, they just aren't that popular, the stores stops selling as much then they would in fact have to close stores, but that is because they pay the people and they pay the employees in the stores. They pay the rents or the mortgages for the stores. They pay the inventory.

In this case you have dealers. The dealers pay the employees in their stores. They pay the rent and the mortgage. They pay the inventory. They pay even substantially the advertising costs and a lot of other things.

And it is very unclear to us even after all this time and debate what exactly the disadvantage is to the company. So, I mean, you said earlier in this hearing by all measures these companies had far too many dealers relative to the number of cars they were selling. Says who?

Mr. Bloom. Well, says all the comparative data with other dealer, with other more successful companies.

Mr. Maffei. Like Toyota and Honda, so—
Mr. Bloom. Every other single successful company and says all the outside experts we consulted, and says us based on our judgment of looking at the facts.

Mr. Maffei. I mean, can you give me an actual—can you——

Mr. Bloom. I will tell you on Toyota, Toyota sells roughly four times as many—the average Toyota dealer sells roughly four times as many cars as the average Chevy dealer.

Mr. Maffei. But the correlation doesn't mean causation.

Mr. Bloom. I agree.

Mr. Maffei. So I am trying to figure out like what—why is there a—other than we just looked at other companies and sort of seen this. What is the reason why it costs the companies so much money——

Mr. Bloom. What I tried to explain is that——

Mr. Maffei [continuing]. Yes.

Mr. Bloom. I will try again and if my explanation isn't satisfactory I apologize. When you have too many dealers, none of the dealers can achieve the kind of quality of service, the modern equipment that is needed, the advertising revenue that is needed, all of those things come with scale.

And so if you have a whole series of under-scaled dealers, then all the dealers are putting forward to the consumer a face that is less good than the competition's face, and at the end of the day, the consumer has to choose between a Toyota or a Honda, a GM, a Ford or a Chrysler.

Mr. Maffei. And there is no advantage——

Mr. Bloom. And what we want to do, and what GM wants to do, and I guess the other point I would try to make is I don't assume that the companies are right about anything they do. We obviously are critical of everything they do. On the other hand, I think it is logical to assume that their effort here was to become more profitable and nothing else.

There was no other motive. Now, that doesn't mean they are right. It might be that having four times as many dealers as everyone else is a good business judgment. We disagree with it. But the only possible motive for the companies wanting to reduce their dealer network was to become more profitable, because they were hugely unprofitable.

And as a matter of justifying taxpayer investment, they wanted to try to become more profitable. So they are only motive could be the same motive that we would all have for these companies, which is that they be successful.

Mr. Maffei. I share that motive and I appreciate your answer, Mr. Bloom. I don't necessarily agree with it though. I don't know why we would necessarily assume that there couldn't be, possibly be other motives involved with the auto companies any more than we would assert that there were. I just don't know how we would ever know that.

Mr. Bloom. I can't——

Mr. Maffei. Obviously——

Mr. Bloom. I don't know what I don't know.

Mr. Maffei. Yes.

Mr. Bloom. I don't know what other motive——
Mr. Maffei. No, I am not saying you should, I am just saying that is, I do think that that is a leap of faith and to a certain extent I think that the auto task force, you know, all these experts and these measures are fairly vague and I do think that they decided to or that they bought the auto company’s argument that a Toyota or a Honda-like model was a better one.

But for decades we got along well without——

Mr. Bloom. By the way, it is an argument the NADA agrees with. I mean, the only issue that has ever been under debate with the NADA is the speed of the reduction in the dealer network.

Mr. Maffei. Now, my——

Mr. Bloom. So I haven’t found anybody yet, and maybe I will learn something and I am always happy to learn, but I have found nobody who doesn’t think that an over-dealer network produces a drag on the company’s ability to be successful, but I am certainly open to learning new facts.

Mr. Maffei. Thank you, Mr. Bloom.

Thank you, Mr. Chairman.

Mr. Cohen. Thank you. I would like to ask you a couple of questions, sir. First of all the issue about dealerships, you are saying that dealerships and the number is a drag on the business, is that correct?

Mr. Bloom. Yes.

Mr. Cohen. Was that determined by the labor unions that have been the object of scorn from some on the other side claiming that they are responsible for the problems with General Motors and Chrysler or was that the decision of the management?

Mr. Bloom. The labor union had absolutely nothing to do with the discussion regarding the size of the dealer network or what the appropriate actions would be. That was a discussion between us and the management.

Mr. Cohen. And some people have said that the reason people buy or are more likely to buy foreign cars than American cars is because foreign cars get better gas mileage. Was the determination to have cars that got not as good of fuel efficiency as Japanese cars the decision of the labor unions or the decision of management?

Mr. Bloom. Those sorts of decisions, I think, are normally the decisions of management.

Mr. Cohen. And some said that the reason why people would buy Japanese cars is because they were, and European cars is they were more durable and better able to survive impacts. Was the design of those cars the decision of labor or the decision of management?

Mr. Bloom. I think, normally, those would be management decisions.

Mr. Cohen. What did management do right?

Mr. Bloom. Well, I think that obviously the companies failed, so there is plenty of blame to go around. But I do think it is fair to note, and let me talk about GM for a minute, that in the last half dozen years, the company has, in fact, taken many very good and positive steps to rectify its long-term problems.

There have been a series of innovative contracts negotiated with the union even before this that had reduced labor costs and elimi-
nated benefits to make them more competitive. The company had been starting to produce much better cars.

If you look at the quality surveys, J.D. Power, the other independent agencies, they will tell you that on new car quality, a significant part of the GM fleet measures up very, very well against any other competitor in the marketplace.

I think the problem was they were simply not moving quickly enough, and so we felt, in order to justify taxpayer investment, that the things that they were doing needed to be done far faster and more significantly.

But I think the company’s broad strategic direction that it undertook half a dozen years ago was generally in the right direction. It just wasn’t as significant enough, as change-oriented enough, didn’t involve as many of the difficult sacrifices that unfortunately were required to bring the company to position for profitability.

Mr. COHEN. I haven’t been in the new car market for a long time. I have five vehicles. My newest one is a 2000, and it is leap years newer than my other cars. But as I think I recall, American cars, in general, were equal to or cheaper than European cars. I kind of looked at a Lexus one time and they were a lot more than it would cost me to get a Chevrolet or a Ford or whatever.

Is that accurate to say that American cars were——

Mr. BLOOM. I think that——

Mr. COHEN [continuing]. Not more expensive than European cars?

Mr. BLOOM. I think you got to be careful to compare an apple to an orange. I mean, clearly, you know, a BMW or a Mercedes costs the consumer more than a Chevrolet, but there are Cadillacs that are closer in price to BMWs.

I think the issue that the car companies have faced is like-to-like, so in other words a car that would be viewed as competitive, a Malibu versus a Camry, which was a typical comparison that over time, because of many, many factors, the dealer networks among them, the companies were not able to receive the same kind of value for their car in the marketplace because of a variety of consumer concerns.

Now, again, pointing to a good thing on GM, the Malibu is selling at essentially the same price point as the Camry today. That, unfortunately, is not true for most of the fleet, but it is true for part of the fleet. So I think, simply saying, you know a BMW costs more than a Chevrolet, I don’t think that is a fair comparison but I think you are on to an important point.

The erosion of brand equity over time was a very significant concern, were like-to-like, both of these companies were not able to receive the same value in the marketplace because the consumer wasn’t willing to pay it.

And in the end, you know, the consumer is the decider. And with that problem in mind, again, that to us was a big sign of how significant the restructuring needed to be.

Mr. COHEN. Compare the salaries of General Motors and Chrysler executives with those at Nissan and Toyota for me.

Mr. BLOOM. The compensation arrangements regarding the senior executives at the transplants are not as readily available as they would be relative to GM. But I would say this, because they
are a TARP recipient, the companies will be subject to the executive compensation restrictions that are in the law and in the regulation. Special Master Feinberg will be reviewing their compensation.

Mr. COHEN. Let me draw back a little bit, I was talking about the salaries of the old GM.

Mr. BLOOM. Oh, I don’t have good data on that.

Mr. COHEN. Would it be fair to say that the chief execs at General Motors and Chrysler earned a lot more than the folks did at Toyota and Nissan?

Mr. BLOOM. I think chief executives, you know, across in different countries generally aren’t paid the same. I think that could be true but I don’t honestly have data on that subject. As——

Mr. COHEN. It is true, and I don’t think the union——

Mr. BLOOM. It certainly could be true but, again, our focus has been forward. There is blame to go everywhere and so what we try to ask ourselves is what can we do to get these companies profitable going forward.

And on executive compensation there are going to be very specific restrictions that the companies will face and they will abide by the law and by the regulations under the guidance of the Special Master.

Mr. COHEN. Let me, with Mr. Delahunt’s permission, go an extra minute. Does——

Mr. DELAHUNT. Without objection, got a new system up here.

Mr. COHEN. General Motors has worked out I believe the situation with the Tort claims, is that correct?

Mr. BLOOM. I mean, there is an understanding relative to GM about product liability claimants going forward, that if you are hurt in an accident in a GM car from here forward you would be able to——

Mr. COHEN. What about Chrysler?

Mr. BLOOM. The situation with Chrysler is not the same. That has not been worked out.

Mr. COHEN. Why is there a difference?

Mr. BLOOM. Those were commercial decisions that the companies made. And again, we asked ourselves are these reasonable commercial approaches? Chrysler took one approach. GM took another. I think there are pluses and minuses to both of the approaches in terms of how they will be perceived in the marketplace.

And again, and just—we chose not to get in and say to GM because Chrysler did it this you got to do it this way. These are very different companies. They are in very different circumstances and the management came to us, again, with an overall plan that we tried to certify whether or not it had a good chance of achieving viability. But we did not say, because GM did it this way, or because Chrysler did it this way, GM has to do it that way.

Mr. COHEN. You don’t think that the task force maybe should have some reason to look after the people that are injured in Chrysler, if there are, hopefully there will be none, but if there are——

Mr. BLOOM. No, I think tragically it is impossible to think there won’t be. And look, it is a very difficult situation. There are many, many people in a bankruptcy situation who are treated badly.
There is no way to sugar-coat that. Again, our alternative was to do nothing and nobody would get anything or to open a checkbook that I think everyone would agree would be endless, so very difficult decisions were made.

It is obviously heart-rending to hear about a product liability victim. It is terrible to hear about a dealer. It is terrible to take an auto worker who put 27 years on the line and tell him he is losing his job. None of those give anybody involved, at least on our side, and I believe the company’s, too, the slightest bit of satisfaction.

The only thing that gives us satisfaction is a hope and a belief that we have saved these companies and given them the chance to succeed. But I am not going to try and suggest that there aren’t terrible stories about people who thought they had commitments that are not going to be able to have them honored. That is a fact.

Mr. COHEN. Thank you, sir.

Mr. FRANKS. Well, thank you, Mr. Chairman. Mr. Chairman, I know that we have already touched on the bankruptcy situation quite a lot, but let me just point out that you know Ford declined the bailout.

You know some of us, myself included, voted against the bailout early on because we could kind of sense from history that whenever government gets a hold of things and comes in and tries to run things that the disaster that follows is predictable, and certainly I think we have only seen the tip of the iceberg here.

But Ford declined a bailout because it was able to find a $23 billion secured loan and it put all its assets up for that. And if this had occurred before Ford did this, there is no way Ford would have gotten a loan like that. We would have Ford in bankruptcy as well.

And we are portending a lot of bankruptcy down the road and I am afraid more government takeover. And I am just wondering when this all happened, did the auto task force ever consider the adverse impacts for labor law and enforcement against the UAW when the UAW and U.S. government went partnership in Chrysler?

I mean, you know, you have got—GM is another example. The government owns 60 percent of GM Now, I got to ask you, some of this is rhetorical, Mr. Bloom, but the chaos that is going to follow here, is anybody going to buy General Motors’ cars in the American public? Are they going to buy Chrysler’s cars when they know that government is running the situation?

Mr. BLOOM. Well,——

Mr. FRANKS. I think you are going to see a huge change in the market share between Ford if the Obama administration and the UAW don’t conspire to wipe them out as well.

Mr. BLOOM. Just a couple of points. First thing, the UAW is in no way, shape or form running either of these companies. These trusts hold non-voting shares. They both have the right to select one person to sit on the Board of Directors. That is the entire influence that the UAW or the trust has on the management of the company.

Relative to government ownership, again, the alternative was liquidation and our judgment was that liquidation would have been far worse. But I certainly appreciate that you think a bailout was
the wrong idea, and therefore I assume a liquidation you think would have been superior——

Mr. FRANKS. Well, I would absolutely——

Mr. BLOOM. The question of whether or not the American people will buy cars from these companies is yet to be known. But so far, in the period since Chrysler emerged and since GM emerged, although GM has just been out a few days, but during the pendency of their bankruptcy when the American people knew that the plan was to have government ownership, GM and Chrysler sales have been holding up quite well. But——

Mr. FRANKS. I am going to yield just briefly here to Mr. Jordan, but let me just go on the record and predict that the market share between Chrysler, Ford and GM as it was prior to all of this is going to be dramatically different in the future because the American people are going to not think that government is better at building cars than Detroit was.

In fact, a lot of Detroit’s problems were because of government policy in a great deal. They told them how to build cars in the first place, but time will tell that. There are two kinds of people that predict the future, those who don’t know and those who don’t know that they don’t know. So I understand and I can’t—but I am going to go on record and make my prediction anyway.

And to suggest that the only ideal, only possible alternative was liquidation, I think it flies in the face of history. A lot of the major car companies we had including I think two out of the three big ones that we have now were at one time in a crisis situation, and private sector came in and did something and they survived.

The private sector always makes these decisions better than government and if we take it in reverse look what happened when the government owned the telephone companies, it was a disaster. And we went the other way and we passed that off to private sector and I can get my Web site on my Blackberry today and it is 3 cents a minute instead of what it would be at $3 a minute.

There are a lot of examples but I don’t have time to go through them all. But Mr. Bloom, I don’t envy you, sir. You are in the middle of a mess that God only knows how it will ultimately turn out.

With that I yield to Mr. Jordan. He is much more eloquent than I am.

Mr. JORDAN. I don’t know about that, but I thank the gentleman for yielding. And I too appreciate the role that Mr. Bloom is trying to fill. You know in my first round you went through I think some great lengths to talk about how you are not involved in certain decisions about plant closings, dealership closings, et cetera, you know, even though you got rid of the previous CEO, even though we have a majority ownership in the company and control the majority of the board.

And I, like Mr. Franks, has been against this whole bailout road that this country and this government has traveled down. I think it is just wrong. But the question that comes to mind is why not? Why weren’t you involved in more of the decisions?

If in fact the American taxpayer is on the hook, if in fact we control of the majority of the board, if in fact you thought it was appropriate to get rid of the former CEO, if in fact GM had to go in
to bankruptcy like we know they did, they must have been doing something wrong, why in the heck not?

And to a previous question, you said you don’t assume, I think this is a direct quote from you, you don’t assume the companies are right on any decision they come to, so it seems to me you are trying to have it both ways. On one hand, you want to weigh in on some decisions but not on others.

And so my question to you is which is it and where do you—or not where do you—where will you, as the new leader, where will you draw the line? Is it going to be the same thing Mr. Sperling told me and others on that conference call when it is a quote “major event” but he can’t define it?

Mr. BLOOM. Yes, I think——

Mr. JORDAN. Where does the line—where do you draw the line and what is your definition?

Mr. BLOOM. The line is that we were involved in helping to finance a restructuring and insisting that the companies come up with a business plan to become profitable or to give them the possibility of becoming profitable and we were quite involved in analyzing that, but not dictating the details of it. In terms of our behavior going forward——

Mr. JORDAN. Yes, but doesn’t that——

Mr. BLOOM. In terms of our——

Mr. JORDAN. But let me just say this real quick. Doesn’t that seem contradictory, because you know obviously again the company did something wrong or they wouldn’t have been in this situation to start with.

So if you are going to step in and fix it, why not step in all the way and, in fact, I am reading stuff about your background, Mr. Bloom. Your personality seems to be one who likes to step in and take charge. I mean, that just seems to be your background, so why didn’t you do that?

Mr. BLOOM. I think we did step in very aggressively. We did not step in in terms of dictating which factories would close. What we stepped in and did very aggressively was insist that the companies position themselves for profitability.

We acted as if this was essentially as we were the agent of this being our money. And so in the context of it being our money, we are not managers. We don’t run automobile companies. We know our task force, our group knows a lot about investing. We know a lot about what it takes to make a company successful, but we are not managers.

And so the role of a manager is to put together a business plan and then to take it essentially to the investor and for the investor to scrutinize the plan, ask a lot of questions about the plan. But at the end of the day it is either support the plan or not support the plan and that was the role we played.

Going forward our role will be to closely monitor the investment. There is a huge amount of taxpayer dollars that are in these companies, to closely monitor the investment, to make sure the company is living up to its commitments that it made, but the board of directors will be responsible for seeing to it that the management is doing its job.
And I hope you will agree that the Chrysler board of directors has been fully announced. The GM board of directors will be announced shortly. These are independent businessmen and women—

Mr. JORDAN. I understand that—

Mr. BLOOM [continuing]. With impeccable credentials.

Mr. JORDAN. Is there, answer my question. Is there a definition, is there a set of circumstances that you have defined, put on paper that indicate when you will step in a say no, you can’t do that or yes, that is okay. When do you do that?

Mr. BLOOM. We will not intervene in the management decisions. If the company, if the government believes that the Board of Directors is not doing its job, the government would have the right, as the shareholder, to replace the board.

That would be the only time there would be an intervention. Other than that, we will simply be monitoring, obviously we will consult with the companies, we will be in dialog with them—

Mr. JORDAN. Is it fair—

Mr. BLOOM [continuing]. But we will not intervene in their decisions.

Mr. JORDAN. Is it fair to say that it is totally subjective? It can be what you want it to be—

Mr. BLOOM. No, I don’t think it is objective at all. I think it is quite a bright line.

Mr. JORDAN. Okay. Do you think, Mr. Bloom, I am going to change directions here. Do you think the energy policy or lack of an energy policy as well as CAFE standards that have been passed and policies that have been passed by our government have impacted, I mean, led to this situation where GM was in trouble, Chrysler was in trouble? Do you attribute any cause there?

Mr. BLOOM. I don’t happen to believe that CAFE standards are the cause for the company’s problems. The company has successful competitors who make a lot of money. They all live under the same standards. I don’t happen to believe, but I do believe that the efforts that are being made now to create a uniform set of standards, so California doesn’t have one set of rules and other places other set of rules, is a good step forward.

Mr. JORDAN. I agree.

Mr. BLOOM. I think that the companies are fully prepared to compete under the revised rules and when we stress tested the business plan our assumption is that they will be in full compliance with the CAFE standards.

Mr. JORDAN. What is the timeline for the auto task forces? Is there a wind-down for the task force? What is your vision of when you will no longer be needed?

Mr. BLOOM. I can’t say when we will be finally no longer needed, but there will be a winding down of our overall activities because, as I said, we are moving more to that monitoring phase. So I think in the fairly short period ahead, the size will be contracting. We will have fewer people we need and many of our members, many of the folks who worked on it will be returning to their former lives.
Mr. Jordan. What is the background of the members of the auto
task force do? Do any of you have any experience in the auto manu-
facturing or auto dealerships business?

Mr. Bloom. I don’t believe that any of us have been specifically
involved with auto dealers. Most of the members of the task
force——

Mr. Jordan. Auto manufacturing?

Mr. Bloom. I mean, I have generally been involved in manufactur-
ing situations, but I have—but none of us have been involved
as an executive of a manufacturing company if that is your ques-
tion. I think a number of us have had a lot of experience with manu-
facturing companies dealing with them either as investors, as
legal advisors or in other roles like——

Mr. Jordan. No experience running auto manufacturing compa-
nies or no experience running auto dealerships?

Mr. Bloom. None of the members of the task force ran an auto
dealership or an auto manufacturing company.

Mr. Jordan. Thank you, Mr. Chairman.

Mr. Cohen. Thank you.

And I now recognize, for our final round of questions for as much
time as exists in the universe, the distinguished gentleman from
Michigan, honorable Vice Chairman of this Committee and Mr.
Congeniality, Mr. Delahunt.

Mr. Delahunt. Thank you, Mr. Chairman. Maybe you can help
me, Mr. Bloom, because I heard my friend the Ranking Member
talking about government incapable of running these new compa-
nies or anything, any business. Were the government officials that
were part of the management team in the old General Motors?

Mr. Bloom. No.

Mr. Delahunt. Were there any government officials in the old
Chrysler that were government officials?

Mr. Bloom. No.

Mr. Delahunt. In terms of the old management teams in both
of those automobile manufacturers, was there, were they all private
sector individuals?

Mr. Bloom. To my knowledge largely, yes and certainly nobody
from the government.

Mr. Delahunt. So there is nobody from the government?

Mr. Bloom. No.

Mr. Delahunt. So the government didn’t drive those two auto
manufacturers into the mess that we have had to deal with?

Mr. Bloom. I don’t see how one could ascribe their problems to
the government.

Mr. Delahunt. Okay. There has also been talking about, you
know, the bailout and again I think it was my friend from Arizona
that alluded to the fact that some of these companies had been in
trouble before and worked their way out of them and that pro-
voked, with me, a memory of that—he was the CEO of Chrysler,
Lee Iacocca.

Mr. Bloom. Name rings a bell.

Mr. Delahunt. Did Chrysler at any point in time receive govern-
ment loans or government guarantees or, I don’t want to use the
term but let us call it a bailout.
Mr. Bloom. Yes. I think in the late 1970’s, early 1980’s, Chrysler was the recipient of a government bailout. As I recall the fact they repaid all that money——

Mr. Delahunt. Does that——

Mr. Bloom [continuing]. With interest and went on to have a fairly successful run for quite some time.

Mr. Delahunt. That was my memory. Maybe that is why I am confused that, you know, I guess bailouts don’t work except——

Mr. Bloom. When they work.

Mr. Delahunt [continuing]. When they work.

Mr. Bloom. Yes.

Mr. Delahunt. My memory is that there was a senator from my home State, which is Massachusetts, Paul Tsongas, who put forth this rather, at that point in time, unique idea that the government, in particular crisis, carefully and cautiously could intervene. And in the case of Chrysler, again this is my memory and contradict me if you think I am inaccurate, not only did the taxpayer recover all, but my memory is there were millions of dollars in profits?

Mr. Bloom. That is true. All the money was repaid with interest and some warrants which were granted that actually made the recovery larger than the investment by a meaningful amount.

Mr. Delahunt. And nobody lost their jobs?

Mr. Bloom. Well, there were you know, again, shared sacrifice as there is in this case. But again, I think the judgment at time, which I happen to think was wise one, was a heck of a lot better than the alternative.

Mr. Delahunt. And the alternative would have been if as in the case that we are dealing with now, the latter-day Chrysler and the latter-day GM would have been a disaster in terms of unemployment, in terms of lost jobs, in terms of the impact on the community.

But the Congress back in the 1970’s saw it differently, offered legislation that provided relief for Chrysler and at least until recent times, Chrysler appeared to prosper and the taxpayer made some money and people were able to live their lives in a way that gave them dignity and security and hope.

Mr. Bloom. I think that is a very fair rendering of the facts. Like, as in the Chrysler situation, the tragedy we faced today is that because the capital markets are not fully functioning there simply is not private capital around that can intervene here.

If there was, I can assure you we would have played an exceedingly different role, but tragically there wasn’t and therefore the President decided that we needed to step in.

Mr. Delahunt. Thank you, Mr. Bloom.

Mr. Cohen. Thank you, sirs.

Mr. King seeks recognition.

Mr. King. Thank you, Mr. Chairman. Appreciate being recognized and appreciate your testimony, Mr. Bloom. I just would take off of the questions asked by Mr. Delahunt and the statement that there wasn’t enough private capital around to solve this problem.

Would you consider the union pension funds and the other capital investments that went into this private capital or public capital?
Mr. Bloom. I am not sure I know what you mean by the union pension fund.

Mr. King. Why don’t you then—all union resources that went into this to hold this together, would you consider that to be private funds or public funds?

Mr. Bloom. Just let me try to answer but I just want to be sure I am tracking the facts. The pension fund, the pension plan, the General Motors and Chrysler pension plan were not involved in investing in this transaction one way or the other.

Mr. King. Could you let this Committee know what union funds are involved in the transaction?

Mr. Bloom. Well, there is a—something called a VEBA, which is a trust that is used to provide retiree health care benefits for the retirees. In both cases those VEBAs had substantial claims to cash and other consideration that they had achieved as part of a collective bargaining agreement.

Mr. King. Were those public or private funds?

Mr. Bloom. Those are private funds between the—but those were claims. Those were not capitals. Those were not fresh money. Those were simply claims and those claims were converted into substantially reduced modified claims in the new company.

Mr. King. Were they current or future claims?

Mr. Bloom. They are essentially claims for future retiree insurance benefits.

Mr. King. Thank you. And then from a collateral perspective, where would you rank them at—would you consider that to be secured investors or unsecured with regard to all of those impacted by Chapter 11?

Mr. Bloom. In both cases the VEBA in a Chapter 11 would be an unsecured claimant.

Mr. King. Okay, and I imagine this panel has already examined the secured creditors who lost a significant position in this negotiation. I would rather, Mr. Bloom, as I have watched what has unfolded during this Administration, and I understand you haven’t had an opportunity to play in on this thing from the beginning.

But I am looking at at least eight huge formerly private sector entities that have been nationalized by the Obama administration in a few months and three large investment bank firms, AIG, Fannie and Freddie, who were private and now a government-sponsored enterprise, now solely owned by the taxpayers of America, and then General Motors and Chrysler.

That is eight huge entities and it is hard to fathom that if one rolls back in their mind’s eye 6 months or a year ago that if that prediction had been made, I think that most Americans would have shook their heads and said that can’t happen in the United States of America.

Also I recall a President, who was elected at least in part because he took on President Bush and challenged President Bush for going into Iraq without an exit strategy and so I think it is ironic that President Bush had an exit strategy. It was victory.

It was negotiated with the SOFA agreement, the Status of Forces Agreement and the exit strategy in Iraq is being followed to the letter by President Obama, but I know of no exit strategy to get the
public investor, the taxpayers divested of these private sector entities.

Is there something that you are familiar with that you could tell this panel that would give us some hope that Americans might end up with less nationalization in the future in a way that they might be divested at least of a automaker's investment? That is really the central question I am interested in.

Mr. Bloom. Okay. I will try to answer that and I may have my history wrong. I think that, to the extent the government became an owner of AIG and Fannie and Freddie. It was done under the prior Administration.

In terms of the exit strategy for the car companies which I am more directly knowledgeable about, the strategy is that our expectation is that next year, as early in the year as feasible, but the precise timing remains in discussion, we would expect General Motors to undertake an initial public offering where they will sell shares into public markets so the company will then be freely traded on one of the stock exchanges.

And then at that point, over a period of time, and we don't have a defined set period but the President has said that he wants this stock sold as soon as is practicable. So the objective will be without disrupting the market, without diluting the value or degrading the value of our remaining stake, we will be undertaking a program to sell these shares out into the public capital markets which is why it is so important that these companies be run in a private sector——

Mr. King. I appreciate that statement and to the record. That gives some hope and something to watch. And so my final question then would be your predecessor was involved in day-to-day operations of the automakers to the extent of multiple phone calls a day some days and has said so. I guess Chris Henderson said so publicly about the discussion with your predecessor.

And so I would ask if you could describe for this panel what you expect that day-to-day involvement to be with the automakers?

Mr. Bloom. I mean, it is obviously still evolving but what I said was and what I expect we will be doing is we will be and continue to be in regular contact. There is obviously a lot of government money at stake here. But it will be largely in the form of monitoring to understand what is going on at the company and to assure ourselves that the commitments they have made in the various documents that they have agreed to with us, the loan agreements and other things are being adhered to.

So that will be our principal role. We will also I would expect be involved in facilitating consultations with Members of Congress, with effective stakeholders, with anyone else because we obviously believe, while we believe it is generally good practice, in this particular case we will insist that the companies be open and transparent be it with Congress, Committees or other communities, effective stakeholders generally and we will be also ensuring that as well.

Mr. King. Mr. Bloom, thank you for this dialog. I appreciate it. Mr. Chairman, thank you, and I yield back.

Mr. Cohen. Thank you, Mr. King, thank you.
I would like to thank Mr. Bloom for his testimony today. Without objection Members will have 5 legislative days to submit any additional written questions forward to the witnesses and ask to be answered as promptly as you can to be part of the record.

Without objection the record will remain open for 5 legislative days for the submission of any other materials. Again, I thank everyone for their time and patience. The hearing of the Subcommittee on Commercial Administrative Law is adjourned.

[Whereupon, at 1:32 p.m., the Subcommittee was adjourned.]
APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

RESPONSE TO POST-HEARING QUESTIONS FROM RON BLOOM, SENIOR ADVISOR, U.S. DEPARTMENT OF THE TREASURY

Questions for the Record
Subcommittee on Commercial and Administrative Law
Hearing on the Ramifications of Auto Industry Bankruptcies, Part II
July 21, 2009

Ron Bloom, Senior Advisor, U.S. Department of the Treasury

Questions from the Honorable Steve Cohen, Chairman

1. Please describe any continuing efforts by the Auto Task Force to monitor and address the condition of the U.S. automobile industry since the completion of the Section 363 asset sales in the General Motors and Chrysler bankruptcy cases, including the financial health of automobile manufacturers, suppliers, and dealers.

2. In light of the spate of auto supplier bankruptcies this year— including the Lear filing in July—do you have any data concerning the effectiveness of the Automotive Supplier Support Program that you can share with the Subcommittee? What are the criteria by which the Treasury Department would measure the success of this program?

3. How do you answer those who contend that the use of Section 363 sales in the GM and Chrysler cases establishes a bad precedent that invites debtors to effectively circumvent the normal Chapter 11 reorganization process?

4. What is the threshold for triggering the Treasury Department’s involvement in corporate reorganizations in situations that might otherwise be handled through a “normal” bankruptcy process?

5. If there are any additional points you wish to make—by way of elaborating upon your hearing testimony or responding to the testimony of the witnesses who testified the day after you—please do so.

Questions from the Honorable Trent Franks, Ranking Member

UAW Campaign Contributions

1. What is the total value that UAW or UAW-affiliated interests received through the General Motors (GM) and Chrysler bankruptcy deals brokered by the Auto Task Force?

2. In dollars, what is the ratio between the total value that UAW or UAW-affiliated interests received in these bankruptcies and the total value of campaign contributions the UAW or UAW-affiliated interests gave to President Obama’s 2008 presidential campaign?
Chrysler Secured Creditors

1. Tom Lauria, counsel for the investment firm Perella Weinberg, has stated that your predecessor, Steve Rattner, threatened Perella Weinberg that the Obama Administration, with “the full force of the White House Press corps...would destroy its reputation if it continued to fight” the Auto Task Force’s proposed deal for secured Chrysler creditors.

   a. Did you witness that threat?
   b. Did Mr. Rattner ever discuss that threat with you?
   c. Did President Obama ever discuss that threat with you?
   d. Did Rahm Emanuel ever discuss that threat with you?
   e. Did any other White House or Auto Task Force official ever discuss that threat with you?
   f. Do you have any personal knowledge with which to confirm or deny that this threat was made?

2. The day after Mr. Rattner reportedly made this threat, President Obama appeared before the White House Press Corps and characterized certain secured Chrysler creditors as “greedy speculators” who refused to make “sacrifices” and were holding out for an “unjustified taxpayer-funded bailout.” Couldn’t that statement of the President’s be interpreted to be consistent with Mr. Rattner’s reported threat that the White House would use the “full force of the White House Press Corps” to “destroy” Perella Weinberg’s reputation?

3. Perella Weinberg represented senior, secured investors who were legally entitled to 100 cents-on-the-dollar in bankruptcy from Chrysler’s assets before other creditors received any returns on the debts owed to them.

   a. Accordingly, wasn’t the President’s statement that Chrysler secured creditors were holding out for an “unjustified taxpayer-funded bailout” incorrect?
   b. Prior to the President’s aforesaid statements, didn’t a group of other secured Chrysler creditors issue a statement that the Auto Task Force’s proposal to them was “outside the well established legal framework and cannot be rationalized as being commercially reasonable?”

4. Did the Auto Task Force exclude from the Chrysler bankruptcy negotiations Perella Weinberg and other senior, secured creditors who weren’t recipients of federal funds
under the Troubled Asset Relief Program (TARP) before the offer to pay senior, secured creditors 29 cents-on-the-dollar was presented to them?

5. Others have reported that Mr. Rattner threatened other Chrysler senior, secured creditors with IRS audits and SEC investigations if they did not accept the demands of the Auto Task Force.
   a. Did you witness the making of such threats?
   b. Did Mr. Rattner ever discuss such threats with you?
   c. Did President Obama ever discuss such threats with you?
   d. Did Rahm Emmanuel ever discuss such threats with you?
   e. Did any other White House or Auto Task Force official ever discuss such threats with you?
   f. Do you have any personal knowledge with which to confirm or deny that such threats were made?

6. If Chrysler’s secured creditors had received 100 cents-on-the-dollar in the Chrysler bankruptcy deal, could that deal still have yielded the UAW or UAW-affiliated interests majority control of Chrysler?
   a. Was the goal of the Auto Task Force to structure a deal that would award majority control of Chrysler to the UAW or UAW-affiliated interests?
   b. If that was not the goal of the Auto Task Force, why was it important to broker a deal in the Chrysler bankruptcy that yielded secured creditors a substantially worse deal (29 cents-on-the-dollar) than the UAW or UAW-affiliated interests received (55 cents-on-the-dollar)?

7. After President Obama’s aforementioned press conference, Perella Weinberg accepted the Auto Task Force’s demand that senior, secured creditors receive 29 cents-on-the-dollar in the Chrysler bankruptcy. Subsequently, all other senior, secured creditors accepted the Auto Task Force’s demand, except for certain Indiana pension funds.
   a. Were threats made by Mr. Rattner or other Auto Task Force members to these other entities?
   b. If so, when?
   c. Do you have any personal knowledge with which you can confirm or deny that threats were made?
8. Some have alleged that banks among Chrysler’s senior secured creditors who were TARP recipients were intimidated by the Auto Task Force to accept 29 cents-on-the-dollar for the debts owed to them by Chrysler.
   a. Were you a witness to efforts to intimidate those entities?
   b. Did the President tell you about efforts to intimidate those entities?
   c. Did Mr. Rattner tell you about efforts to intimidate those entities?
   d. Did Rahm Emmanuel tell you about efforts to intimidate those entities?
   e. Did any other White House or Auto Task Force official tell you about efforts to intimidate those entities?
   f. Do you have any personal knowledge with which you can confirm or deny that efforts to intimidate others were made?

9. The banks discussed in Question 11 were obligated to pay back TARP money and to make the best return possible for their shareholders.
   a. Why would these TARP recipients have accepted 29 cents-on-the-dollar instead of 100, if the President, the Auto Task Force, or officials with authority over or under the TARP program had not threatened them with adverse TARP consequences?
   b. Did the Auto Task Force attempt to get these banks to settle for 29-cents-on-the-dollar so it could leverage that result to force other secured creditors into accepting the same deal?
   c. It has been alleged that these banks accepted 29 cents-on-the-dollar in the Chrysler deal because they were promised a *quid pro quo* in the GM bankruptcy – i.e., a GM deal that would make up for the unfair losses in Chrysler.
      i. Didn’t TARP recipients who were secured creditors in the GM bankruptcy get 100 cents-on-the-dollar for the debts owed them by GM? If not, what return did they get?
      ii. Was the return the TARP recipients realized in the GM bankruptcy a real or apparent *quid pro quo* for the steep losses they took in the Chrysler bankruptcy?

10. When the Auto Task Force offered TARP recipients 29 cents-on-the-dollar in the Chrysler bankruptcy, did you or the Task Force consider the degree to which that would undermine the TARP recipients’ ability to pay off their TARP debts to the taxpayers or attract new private capital?
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a. If you or the Task Force did not consider that, why not?

b. If you or the Task Force did consider that, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered a deal that returned so little to the TARP recipients for the debts Chrysler owed them?

c. To the extent the Chrysler bankruptcy deal cut into these banks' returns on their investments in Chrysler, didn't it diminish their ability to repay TARP funds?

d. Couldn't it also have suggested to potential new sources of private capital for these banks that, while these banks were participants in the TARP program, they could be vulnerable to higher risk that could be politically-tinged?

**Impairment of the Taxpayers' Abilities to Recover Their Investments in GM and Chrysler**

*Investment in GM*

1. To date, what is the total value of the taxpayers' investment in GM?

2. How much of it has already been forgiven by the federal government?

3. How much will the value of each share of government-held GM stock have to rise by the Obama Administration's 2010 target date for selling off that stock, in order for the taxpayers to recover all of the TARP loans and other government financial investment or support made in or given to GM so far?

   a. Do you have a credible financial analysis from the Department of the Treasury, the Office of Management and Budget or any private economist showing that the price of government-held GM stock will rise that high by that time?

   b. How much would GM's stock have to rise in that same period for the taxpayers to recover through the sale of GM stock the loans and other support the Administration has not forgiven?

   c. How much more would GM's stock have to rise for the taxpayers to recover through the sale of GM stock the loans and other support the Administration has forgiven?

4. Rather than recover money for the taxpayers, is it your intention to explore conveying government shares in GM to the UAW or UAW-affiliated interests?
Investment in Chrysler

1. To date, what is the total value of the taxpayers’ investment in Chrysler?

2. How much of it already has been forgiven?

3. Did that loan forgiveness make it easier for the Auto Task Force to broker the bankruptcy deal that helped to convey majority ownership of Chrysler to the UAW or UAW-affiliated interests?

4. How do you propose that the taxpayers will ever be able to recover their investment in Chrysler?

Generally

1. How likely is it that, with the events that took place in the GM and Chrysler bankruptcies – both to award real or perceived “sweetheart deals” and to abrogate contract rights – private investors will ever offer to take Chrysler and GM ownership shares off of the hands of the government, the UAW or UAW-affiliated interests?

Broader Ramifications for the Economic Recovery, Bond Markets, Lending Markets and Debtor-in-Possession Financing Markets

Impacts on the Economic Recovery

1. The Chrysler bankruptcy deal in particular has destabilized contract rights and secured investment. Doesn’t that jeopardize America’s ability to recover promptly from the current credit crisis and recession?
   a. Did you or the Auto Task Force consider the adverse ramifications the Task Force’s actions might have for the broader economic recovery?
   b. If not, why not?
   c. If you or the Task Force did consider those adverse ramifications, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

2. Didn’t the treatment of secured creditors and other creditors in these bankruptcies undermine the ability of TARP recipients to recruit private investment capital in the future – and therefore exit TARP?
Impacts on the Bond Markets

1. Aren’t experts already saying that the Auto Task Force’s treatment of secured creditors in the Chrysler bankruptcy has broad, long-term ramifications for the corporate, municipal and U.S. bond markets?

   a. Did you or the Auto Task Force consider the adverse impacts the Task Force’s treatment of Chrysler’s secured bondholders’ rights could have on the ability of Chrysler and GM to make successful corporate bond offerings in the future?

      i. If not, why not?

      ii. If you or the Task Force did consider those adverse impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

   b. Are you aware of the degree to which interest rates in the bond markets rose due to the loss of investor confidence in them after the Auto Task Force’s actions in the Chrysler and GM bankruptcies?

   c. Did you or the Auto Task Force consider those potential impacts on the bond markets as it considered favoring the interests of unsecured Chrysler creditors over Chrysler’s senior, secured bondholders in the Chrysler bankruptcy?

      i. If not, why not?

      ii. If you or the Task Force did consider those potential impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

   d. Did you or the Auto Task Force consider the effects the Task Force’s actions would have on the U.S. bond markets on which the Administration must rely to finance U.S. public debt?

      i. If not, why not?

      ii. If you or the Task Force did consider those adverse impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

   e. Did you or the Auto Task Force consider whether the bond markets, as they watched what the federal government was doing to Chrysler’s bondholders,
would fear that the federal government would do the same, if need be, to its own U.S. bondholders?

i. If not, why not?

ii. If you or the Task Force did consider those potential adverse impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

f. Did you or the Auto Task Force consider the adverse impacts that the federal government’s actions in the GM and Chrysler bankruptcies could have on investor confidence in U.S. bonds and the ability of the federal government Administration to finance the increasing public debt it is incurring?

i. If not, why not?

ii. If you or the Task Force did consider those adverse impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

2. As the Auto Task Force took actions with potential impacts on interest rates on bonds, did you or the Auto Task Force consider the connection between interest rates on bonds and mortgage interest rates – i.e., that as bond rates rise, mortgage rates rise?

a. If you or the Task Force did consider those adverse impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

b. Did you or the Auto Task Force consider the potential for domino effects on the mortgage markets when it took actions in Chrysler that could raise interest rates on bonds?

c. As the Obama Administration attempts to stabilize the mortgage markets, shouldn’t you or the Auto Task Force have considered the potential adverse effects the Auto Task Force’s actions could have on the mortgage markets?

Impacts on Lending Markets

1. Did you or the Auto Task Force consider that the Task Force’s actions in the Chrysler bankruptcy could have adverse impacts on secured lending?

a. If not, why not?
b. If you or the Task Force did consider those adverse impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

2. In light of the Auto Task Force’s actions, isn’t there a danger that interest rates will rise in sectors that may be prone to federal intervention, since investors may have concluded they have reason for diminished confidence in the federal government’s willingness to protect or faithfully honor secured lenders’ rights?

3. Ford was able to avoid asking for a federal bailout because it obtained over $23 billion in secured loans before the downturn in the auto sales market last year. After the actions of the Auto Task Force with regard to Chrysler’s secured creditors, is it less likely that Ford could have gotten those loans today?

4. Some experts suggest that the airline sector is dangerously close to a wave of bankruptcies. After the Auto Task Force’s actions in the Chrysler bankruptcy, is it possible that airlines will be less able to take out secured loans like Ford did and avoid bankruptcy or the need to ask for federal bailouts?

5. Did the Auto Task Force follow a specific legal or economic principle as it pursued its different treatment of Chrysler’s secured creditors and GM’s secured creditors? If not, couldn’t that be destabilizing for the bond markets and the lending markets?

The Delphi Bankruptcy and the DIP Lending Market

1. In the Delphi bankruptcy, the Auto Task Force’s intervention produced a deal with Platinum Equity that left Delphi’s debtor-in-possession (DIP) lenders with a recovery of 20 cents-on-the dollar. Did the Auto Task Force consider whether that precedent might chill the DIP lending market?

2. As a result of the Auto Task Force’s actions in Chrysler and Delphi, is it possible that private DIP lenders will either raise their interest rates and tighten other terms of lending or simply leave the DIP market altogether in sectors in which the federal government might intervene?

3. If private DIP lending dries up, won’t that leave the government as the leading source of DIP financing, potentially exposing the taxpayers to liability for further bailouts?

4. Did you or the Auto Task Force consider the potential adverse impacts discussed in Questions 1-3 of this section as you and the Task Force intervened in the Delphi bankruptcy?

   a. If not, why not?
b. If you or the Task Force did consider those adverse impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered a deal that threatened to produce them?

Dealership Closings

1. In both the Chrysler and GM bankruptcies, the termination of hundreds or thousands of dealership franchises was integral to the bankruptcy deals. Are you aware that dealers have testified to Congress that they can discern no logical principle upon which retained dealers were separated from terminated dealers?

2. The Red State blog and other sources have assembled information suggesting a relationship between dealers being terminated and their owners having previously contributed to or supported Republican elected officials. Can you disprove that?
   a. These sources suggest a similar correlation between dealers being retained and their owners being contributors to or supporters of Democrat elected politicians. Can you disprove that?

3. Did you or the Auto Task Force play any role in the decisions to terminate dealerships? If so, please describe that role, and the legal, economic or other principles you or the Auto Task Force applied in that role, in as much detail as possible.

4. Is it true that Chrysler asked for debtor-in-possession financing to help repurchase inventory from terminated dealers, in light of the fact that the dealers were forced to close in a short time period?
   a. Is it correct that the Treasury Department objected to such assistance?
   b. If so, do you know why Treasury objected to helping the dealers with that assistance?

5. Is it true that many dealers are being left with millions of dollars of debt in inventory, infrastructure, and single-use facilities that can result in personal bankruptcy? If so, what is the Auto Task Force doing to help these small business people do as well in their bankruptcy cases as did GM, Chrysler, the UAW and UAW-affiliated interests did in GM’s and Chrysler’s cases?

6. Is it true that the Auto Task Force has argued that having more dealers causes pressure for price-cutting vehicles, and that it used that as a rationale for terminating dealers? If so:
   a. Why do you believe that raising vehicle prices will make GM and Chrysler more competitive?
b. Why do you believe that it is more important to help GM and Chrysler charge more for their cars than to assure that consumers pay the lowest possible prices for cars during the current recession?

**Leveraging of Bailouts and Bankruptcies To Support New CAFE Standards**

1. Between the dates the Auto Task Force forced Chrysler and GM into bankruptcy, both companies signed up to President Obama’s ambitions, new plan to meet a 35.5 mile-per-gallon CAFE standard by 2016.
   a. Isn’t there an appearance that the Obama Administration and the Auto Task Force used their power over GM and Chrysler to force the companies to sign up to these standards?
   b. Did the Auto Task Force or the President in fact use their power to force the companies to sign up to the new standards?
   c. Did the Auto Task Force and the President use GM and Chrysler’s commitments as leverage to get other companies to sign up to the new standards?

2. Was it a goal of the President and his Administration to use the President’s and the Auto Task Force’s authority over GM and Chrysler to advance the Administration’s climate and energy agendas?

**Dismissal of GM CEO and Board Members**

1. President Obama once claimed that he didn’t want to run GM and Chrysler.
   a. Didn’t President Obama make the decision to fire GM CEO Rick Wagoner?
   b. Did President Obama also make the decision to dismiss multiple members of GM’s board of directors? If not, who did?

2. Why did the President and the Auto Task Force dismiss Mr. Wagoner and the GM board members?
   a. Was it because Mr. Wagoner and the dismissed GM board members refused to help the UAW, UAW-affiliated interests or TARP lenders obtain preferential deals?
   b. Was it because Mr. Wagoner and the dismissed GM board members argued that the Auto Task Force’s restructuring plans would not return the company to profitability?
c. Was it because Mr. Wagoner and the dismissed GM board members argued that the Auto Task Force's restructuring proposals would not assure a responsible, prompt or full repayment of the taxpayers' investment in GM?

d. Was it because the Auto Task Force wanted to keep in place managers in whom Mr. Wagoner and the GM board members had lost confidence?

Potential for UAW Self-Dealing and Other Conflicts of Interest

1. The Auto Task Force brokered deals that leave the UAW or UAW affiliated interests the majority owner of Chrysler and a minority owner and potential future majority owner of GM.
   a. Are you concerned that the UAW or UAW-affiliated interests may self-deal when it is time for them to negotiate new contracts with GM and Chrysler?
   b. Are you concerned that the UAW or UAW-affiliated interests may be able to leverage ownership of GM and Chrysler into deals that it can then use to leverage better union contracts out of Ford?

2. Couldn't it threaten consumer interests – consumer prices, consumer safety, and consumer choices – that the UAW and UAW-affiliated interests will now represent the owner and strike-ready labor force of Chrysler and GM and the strike-ready labor force of Ford?

3. The U.S. government is now the minority owner in Chrysler and majority owner in GM, while the UAW or UAW-affiliated interests are the majority owner in Chrysler and the minority owner in GM.
   a. Did you or the Auto Task Force consider the potential adverse impacts for labor law, antitrust law, safety law, and other legal enforcement issues raised by the UAW-United States government partnerships in Chrysler and GM?
   b. If not, why not?
   c. If you or the Task Force did consider those adverse impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

4. Couldn't there be an appearance that the federal government could ignore or respond less vigorously to UAW, GM or Chrysler labor law, antitrust law, safety law, or other legal violations?
a. Did you or the Auto Task Force consider the apparent conflict of interests inherent in the federal government being both an owner in and a law enforcement agent against GM and Chrysler?
   i. If not, why not?
   ii. If you or the Task Force did consider those adverse impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

b. Isn’t it possible that there will be real conflicts of interest over time?

c. Couldn’t real and apparent conflicts of interest be particularly acute regarding GM, since the federal government owns more than 60 percent of the company?

d. Couldn’t there also be real or apparent dangers that the UAW and the federal government could conspire to the competitive disadvantage of Ford and other private automakers—whether through labor, law enforcement or other practices?

e. Couldn’t that any such practices harm Ford or other competitors of GM and Chrysler?

f. Did you or the Auto Task Force consider the potential for lax labor law enforcement at GM or Chrysler to lead to poorer GM and Chrysler vehicle quality, and thus lower vehicle safety?
   i. If not, why not?
   ii. If you or the Task Force did consider those adverse impacts, please describe the content and conclusions of the analysis conducted and explain why you and the Task Force nevertheless brokered deals that threatened to produce them?

g. How can the Auto Task Force guarantee that the UAW and the federal government are not tempted to use their market power and conflicted enforcement authority to the disadvantage of non-union and foreign-transplant automakers?