GMAC Executive Summary*

In 1919, to meet the growing demand of American families hoping to purchase their own automobiles, General Motors Company (GM) founded its own in-house credit arm, General Motors Acceptance Corporation. GM's goal was to lay the groundwork for a successful automotive industry by providing credit for car dealers to purchase inventory and by extending loans to individual borrowers to buy their own cars from those dealers.

Over the decades, GM's once-small credit arm expanded far beyond the realm of automotive lending, providing home mortgages beginning in 1985, auto insurance for both dealers and consumers, and even financing to manufacturers and distributors in the non-automotive sectors. In 2006, GM spun the General Motors Acceptance Corporation off into an independent company, GMAC Inc. (GMAC), which today ranks as the fourteenth largest bank holding company (BHC) in the United States.

Soon after GMAC began its independent life, its existence came under threat when the U.S. financial system plunged into crisis. By late 2008, GMAC's residential mortgage unit was suffering crippling losses due to the downturn in the housing market, and its automotive financing operations faced an uncertain future as GM barreled toward bankruptcy.

GMAC's historic ties to GM would, in the end, prove to be its salvation. As Treasury considered using funds from the Troubled Asset Relief Program (TARP) to rescue GM and Chrysler, it quickly came to the conclusion that GM could not survive without GMAC's financial underpinning. In particular, GMAC provided GM dealers with almost all of their "floorplan financing" – that is, loans to purchase their inventory. Without access to this credit, many dealers would be forced to close their doors. On December 29, 2008, as part of its bailout of the domestic automotive industry, the federal government provided GMAC with $5 billion in emergency funding.

In the months that followed, GMAC became further entwined in the government's financial rescue efforts. It was one of 19 banks subjected to "stress tests" to ensure that it could withstand even a sharp economic downturn. When the stress tests revealed that GMAC needed to increase its capital buffers and it could not raise that capital in the markets, the government provided further investments of $7.5 billion in May 2009 and of $3.8 billion in December 2009. As its lending capacity shrank, GMAC continued financing GM's dealerships, even as it was forced to shrink the availability of loans to customers to buy cars. Over the same period, GMAC also acquired part of the operations of Chrysler Financial Services Americas LLC (Chrysler

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Financial) and took on the role of the dominant floorplan financer for Chrysler dealerships as well.

Although the Panel takes no position on whether Treasury should have rescued GMAC, it finds that Treasury missed opportunities to increase accountability and better protect taxpayers' money. Treasury did not, for example, condition access to TARP money on the same sweeping changes that it required from GM and Chrysler: it did not wipe out GMAC's equity holders; nor did it require GMAC to create a viable plan for returning to profitability; nor did it require a detailed, public explanation of how the company would use taxpayer funds to increase consumer lending.

Moreover, the Panel remains unconvinced that bankruptcy was not a viable option in 2008. In connection with the Chrysler and GM bankruptcies, Treasury might have been able to orchestrate a strategic bankruptcy for GMAC. This bankruptcy could have preserved GMAC's automotive lending functions while winding down its other, less significant operations, dealing with the ongoing liabilities of the mortgage lending operations, and putting the company on sounder economic footing. The Panel is also concerned that Treasury has not given due consideration to the possibility of merging GMAC back into GM, a step which would restore GM's financing operations to the model generally shared by other automotive manufacturers, thus strengthening GM and eliminating other money-losing operations.

There is no doubt that Treasury's actions to preserve GMAC played a major role in supporting the domestic automotive industry. These same steps, however, have reinforced GMAC's dominance in automotive floorplan financing, perhaps obstructing the growth of a more competitive lending market. The rescue also came at great public expense. The federal government has so far spent $17.2 billion to bail out GMAC and now owns 56.3 percent of the company. Both GMAC and Treasury insist that the company is solvent and will not require any additional bailout funds, but taxpayers already bear significant exposure to the company, and the Office of Management and Budget (OMB) currently estimates that $6.3 billion or more may never be repaid.

In light of the scale of these potential losses, the Panel is deeply concerned that Treasury has not required GMAC to lay out a clear path to viability or a strategy for fully repaying taxpayers. Moving forward, Treasury should clearly articulate its exit strategy from GMAC. More than a year has elapsed since the government first bailed out GMAC, and it is long past time for taxpayers to have a clear view of the road ahead.