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## Analysis: Fast U.S. exit from GM welcomed, even at loss

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By [John Crawley](#)

WASHINGTON (Reuters) - Prospects are slim the U.S. Treasury will fully recover \$50 billion in taxpayer money extended to General Motors Co GM.UL but an accelerated exit, even at a loss, would be welcomed by investors and a nod to consumers weary of the bumpy ride with "Government Motors."

Taxpayers are expected to take a loss on paper of up to \$4.9 billion when Treasury seeks to shed a third of its 60.8 percent equity stake in GM's first share sale later this month. The stock would have to outperform high-end expectations for the government to simply recoup its initial loss, and meet minimum repayment criteria in future sales of GM shares.

"The onus is on the Treasury Department to come up with a plan to make sure taxpayers get their money in full," U.S. Sen. Charles Grassley, whose inquiries have prompted a Treasury watchdog to launch two investigations into the GM bailout.

Success defined by Grassley would require the Treasury to recoup the entire \$50 billion in working capital and bankruptcy financing extended to GM since the start of 2009.

The Bush administration handed out the first \$14 billion before leaving office, imposing covenants on spending and restrictions on executive bonuses. Terms also required GM to sell its private planes. U.S. auto executives flying on corporate jets to testify in Congress had caused a stir in late 2008.

Peter Morici, a University of Maryland economist and bailout critic, said the Treasury-led rescue was a political response, not a cold business calculation. "It would never get all its money back," he said.

Success defined by the Obama administration would involve the Treasury regaining the \$36 billion it handed to GM -- \$6 billion in pre-bankruptcy help and \$30.1 billion in Chapter 11 exit financing.

GM is on track to shave about \$9.2 billion from the \$50 billion total bailout figure over the past several months. It has returned \$7.1 billion in unused loan money and will repurchase \$2.1 billion of preferred shares after the IPO. It also has made interest and other payments.

There is an expectation among current and former administration officials involved in the GM restructuring that the balance of nearly \$41 billion is unlikely to come back to the Treasury -- that GM shares would have to trade at unprecedented heights in a short period of time to raise enough cash.

But even at a loss, these officials consider the venture successful. There was widespread fear that a GM collapse would bring down domestic auto manufacturers and suppliers. The Bush administration estimated an industry failure would cost 1 million jobs, including suppliers, and reduce U.S. GDP by 1 percent.

"The IPO, I think, is going to begin doing a couple of things: One, reduce our stake in General Motors as a company, and as we move forward, begin to recoup the money that we invested in saving those jobs throughout the Midwest," Obama spokesman Robert Gibbs said on Thursday.

Steven Rattner, who headed the White House/Treasury task force that pushed GM and Chrysler Group into bankruptcy, told Reuters in a recent interview that the administration wants to recover as much as it can as quickly as it can.

But the outcome for taxpayers, Rattner said, depends on the health of the financial markets, GM's performance, the economy, and the patience of Treasury in selling its stake over a period of years.

The Treasury will emerge from the IPO as a minority investor in GM with a 43 percent interest. GM has estimated the IPO would be priced at \$26 and \$29 per share.

Bernie McGinn, chief investment officer at McGinn Investment Management in Alexandria, Virginia, believes GM will be punished in the marketplace to some extent over the bailout. But he said the pace of the government exit and any government stake may become less of an issue going forward.



GM, he said, is well positioned financially and investors will be more interested in the health of management and its business decisions.

"Now they have to go out and compete in the marketplace," McGinn said. "Ultimately, the investment will hinge on whether they can sell automobiles."

David Cole, chairman emeritus of the Center for Automotive Research in Ann Arbor, Michigan, believes a small percentage of consumers have turned away from GM because of government involvement.

He said the degree of future success depends on the economy, and whether GM produces quality vehicles and whether consumers feel those cars and trucks are priced fairly and meet their needs.

"For the investment community it is 'how can I make money?'" For the consumer, it is "what's the best product value?"

(Editing by [Richard Chang](#))

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