



TARP Assistance for the U.S. Motor Vehicle Industry: Unwinding the Government Stake in GMAC

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Summary

Ally Financial, formerly known as General Motors Acceptance Corporation or GMAC, provides auto financing, insurance, online banking, and mortgage and commercial financing. For most of its history, it was a subsidiary of General Motors Corporation, and it still provides significant financing both for GM vehicles and for GM dealers. Like some of the automakers, it faced serious financial difficulties due to a downturn in the market for automobiles during the 2008-2009 financial crisis and recession, while also suffering from large losses in the mortgage markets. With over 90% of all U.S. passenger vehicles financed or leased, GMAC's ability to lend, or inability to lend, was particularly important to GM's retail sales and dealer-financing capabilities.

The Bush and Obama Administrations used the Troubled Asset Relief Program (TARP) to fund assistance for the U.S. auto industry, concluding that the failure of one or two large U.S. automakers would cause additional layoffs at a time of already high unemployment, prompt difficulties and failures in other parts of the economy, and disrupt other markets. The decision to aid the auto industry was not without controversy, with questions raised as to the legal basis for the assistance and the manner in which it was carried out. The nearly \$80 billion in TARP assistance for the auto industry included approximately \$17.2 billion for GMAC.

The government's aid for GMAC was accomplished primarily through U.S. Treasury purchases of the company's preferred shares. Many of these preferred shares were later converted into common equity, resulting in the federal government acquiring a 73.8% ownership stake. This conversion from preferred to common equity significantly changed the outlook for the future government recoupment of TARP assistance. Whether the government will recoup all or most of these funds now depends largely on the future market value of the government's ownership stake. If the government's common equity ends up being worth less than the assistance provided, the company has no responsibility going forward to compensate the government for the difference. Conversely, if the common equity ends up being worth more than the assistance, the gain from this difference accrues to the U.S. Treasury (and is used to pay down the national debt as specified in the TARP statute). In addition to TARP assistance, during the financial crisis in 2008, GMAC converted from an industrial loan company into a bank holding company, an expedited conversion that was permitted by the Federal Reserve (Fed) due to prevailing emergency conditions in the financial markets. This change increased access to government assistance, including Fed lending facilities and Federal Deposit Insurance Corporation (FDIC) guarantees, while also increasing regulatory oversight of the company.

In March 2011, Ally Financial (GMAC having changed its name in 2010) filed with the Securities and Exchange Commission (SEC) for an initial public offering (IPO) of shares, which it expected to launch in the second quarter of 2011. The IPO, however, was postponed because of stock market volatility and poor performance of Ally Financial's residential mortgage unit. It is unclear whether an IPO will eventually occur or whether the government will dispose of its share of Ally Financial in some other way.

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Introduction

In 2008 and 2009, collapsing world credit markets and a slowing global economy combined to create the weakest market in decades for production, financing, and sale of motor vehicles in the United States and many other industrial countries. The production and sales slides were serious business challenges for all automakers, and rippled through the large and interconnected motor vehicle industry supply chain, touching suppliers, auto dealers, and the communities where automaking is a major industry.

Old GM and Old Chrysler, in addition to being affected by the downdraft of the recession, were in especially precarious financial positions.¹ As the supply of credit tightened, they lost the ability to finance their operations through private capital markets and sought federal financial assistance in 2008.

The separate companies that financed GM and Chrysler vehicles, GMAC and Chrysler Financial,² were also experiencing financial difficulties, with GMAC suffering from large losses in the mortgage markets as well. With 91% of U.S. passenger vehicle sales depending upon financial intermediaries to provide loans or leases,³ the auto financing companies' inability to lend damaged the prospects of Old GM and Old Chrysler pulling out of the slump, particularly since other sources of credit, such as banks and credit unions, were also reluctant to lend due to ongoing financial market disruptions.

When Congress did not pass auto industry loan legislation,⁴ the Bush Administration turned to the Troubled Asset Relief Program (TARP) to fund assistance for both automakers and for GMAC and Chrysler Financial. TARP had been created by the Emergency Economic Stabilization Act⁵

Corporate Terminology in this Report

GMAC, Inc. changed its general corporate identity to Ally Financial in May 2010, approximately a year after introducing the name Ally Bank for its banking subsidiary. This report will refer to the company as "GMAC" for historical background and "Ally Financial" for forward-looking statements; otherwise, this report will refer to the corporation as GMAC/Ally Financial.

As a result of bankruptcy proceedings, there are two companies commonly referred to as "GM." General Motors Corporation filed for bankruptcy in June 2009. In this report, that company is referred to as "Old GM." In July 2009, the majority of Old GM's assets and some of its liabilities were purchased by a new legal entity that was subsequently renamed "General Motors Company." In this report, it is referred to as "New GM." The term "GM" is used when both companies are referenced.

Similarly, due to bankruptcy, there are two companies commonly referred to as "Chrysler." Chrysler LLC filed for bankruptcy in April 2009. In this report, that company is referred to as "Old Chrysler." In June 2009, the majority of Old Chrysler's assets and some of its liabilities were purchased by a new legal entity that was subsequently renamed "Chrysler Group." In this report, it is referred to as "New Chrysler." The term "Chrysler" is used when both companies are referenced.

¹ For a full analysis of the decline in U.S. and other industrial country auto manufacturing during the recent recession, see CRS Report R41154, *The U.S. Motor Vehicle Industry: A Review of Recent Domestic and International Developments*, by Bill Canis and Brent D. Yacobucci.

² GMAC and Chrysler Financial were founded as captive automobile credit companies; in 2006, Cerberus Capital Management, a private equity holding company, purchased 51% of GMAC and in 2007 bought 100% of Chrysler Financial, thereby severing each from control by the respective automakers. Unlike Old GM and Old Chrysler, neither financing company went through bankruptcy.

³ CNW Research, "Sales by Finance Type by Month, 2005-2011," reports that on average over the past seven years, 67% of passenger cars in the U.S. were bought with credit, 24% were leased, and 9% bought with cash.

⁴ In December 2008, the House of Representatives passed H.R. 7321, authorizing the use of certain Department of Energy funds as bridge loans to GM and Chrysler. Passed 237-170, the bill was not acted upon in the Senate. For a complete description of Congress's consideration of auto industry loan legislation in the fall of 2008, see CRS Report R40003, *U.S. Motor Vehicle Industry: Federal Financial Assistance and Restructuring*, coordinated by Bill Canis.

⁵ P.L. 110-343, 122 Stat. 3765.

(EESA) in October 2008 to address the financial crisis. This statute specifically authorized the Secretary of the Treasury to purchase troubled assets from “financial firms,” the definition of which did not specifically mention manufacturing companies or auto financing companies.⁶ The authorities within EESA were very broad, and both the Bush and Obama Administrations used TARP’s Automotive Industry Financing Program to provide financial assistance ultimately totaling more than \$80 billion to the two manufacturers and two finance companies. This assistance was not without controversy, and questions were raised about the legal basis for the assistance and the manner in which it was carried out.⁷

The financial assistance provided to private companies by the government during the financial crisis can broadly be divided into (1) assistance for solvent companies facing temporary difficulties due to the upheaval in financial markets and (2) assistance for more deeply troubled firms whose failure was thought likely to cause additional difficulties throughout the financial system and broader economy. As a large financial institution, GMAC might have been eligible for various programs and loan facilities intended for solvent institutions, particularly after its conversion to a bank holding company. Whether or not GMAC was actually solvent, however, remains unclear. Ultimately, the TARP assistance provided to the company came from the Auto Industry Financing Program, not the programs for assisting banks. GMAC/Ally Financial also received assistance from Federal Reserve and Federal Deposit Insurance Corporation (FDIC) programs intended for healthy banks facing temporary funding issues.

Table 1 below summarizes the TARP assistance given to the U.S. motor vehicle industry.⁸

Table 1. Summary of TARP Assistance for U.S. Motor Vehicle Industry

Company	Current Government Ownership Share	Total TARP Assistance	Principal Recouped to Date by the Treasury	Principal Losses Realized by the Treasury	Income/Revenue Received from TARP Assistance	Outstanding TARP Assistance
Chrysler	0%	\$10.9 billion	\$7.9 billion	-\$2.9 billion	\$1.696 billion	\$0
Chrysler Financial	Not Applicable	\$1.5 billion	\$1.5 billion	\$0	\$0.02 billion	\$0
GM	32% (New GM)	\$50.2 billion	\$23.2 billion	-\$4.3 billion	\$0.66 billion	\$22.6 billion
GMAC/Ally Financial	73.8%	\$17.2 billion	\$2.5 billion	\$0	\$3.13 billion	\$14.6 billion

Source: U.S. Treasury, *Daily TARP Update*, September 5, 2012; *Troubled Asset Relief Program: Monthly 105(a) Report*, various dates.

Notes: Figures may not sum due to rounding.

⁶ P.L. 110-343, Division A, Section 3.

⁷ See, for example, Congressional Oversight Panel (COP), *September Oversight Report: The Use of TARP Funds in Support and Reorganization of the Domestic Automotive Industry*, September 9, 2009. This panel was created by the Emergency Economic Stabilization Act of 2008. COP’s statutory authorization and website have expired but its reports can be found at <http://cybercemetery.unt.edu/archive/cop/20110401222823/http://cop.senate.gov/>.

⁸ A more detailed accounting of the assistance for GM can be found in CRS Report R41401, *General Motors’ Initial Public Offering: Review of Issues and Implications for TARP*, by Bill Canis, Baird Webel, and Gary Shorter.

Of the two auto financing companies, Chrysler Financial received relatively minor amounts of TARP assistance (\$1.5 billion) and repaid this loan relatively quickly with interest. GMAC, however, ultimately required much more extensive assistance which resulted in the federal government taking a majority ownership stake in the company. In addition, during the crisis, GMAC converted from an industrial loan company into a bank holding company, an expedited conversion permitted by the Federal Reserve due to emergency conditions in the financial markets.⁹ This conversion allowed access to Federal Reserve lending facilities and also increased regulatory oversight of the company.

In March 2011, the company, now renamed Ally Financial, filed with the Securities and Exchange Commission (SEC) for an initial public offering (IPO) of shares. An IPO would be a major step in unwinding the government involvement in GMAC/Ally Financial. The price at which the government might be able to sell shares during and after an IPO would be instrumental in determining whether the government will recoup its assistance for GMAC/Ally Financial. In July 2011, however, Ally indicated it was putting its IPO on hold because of what one news story called the “near shutdown in global equity capital markets.”¹⁰ In November, speaking after the company reported a \$210 million loss in the third quarter of 2011, Ally’s CEO Michael Carpenter reportedly said that the company would not issue the IPO until investors stopped thinking that “financial stocks are the absolute worst thing you could possibly own.”¹¹ No indication has been made that the IPO process will be restarted and it is unclear how the government will eventually sell its stake in Ally Financial.

In addition to auto financing, GMAC was a large participant in the mortgage markets, particularly through subsidiaries known as ResCap. The bursting of the housing bubble and the recent financial crisis resulted in substantially negative returns from the company’s mortgage operations with prospects of future losses. The financial status of ResCap was a factor in Ally not issuing an IPO in 2011. The uncertainty surrounding future losses from mortgages had been a drag on Ally Financial and ultimately the ResCap subsidiaries filed for Chapter 11 bankruptcy in May 2012. This bankruptcy was possible because the ResCap operations were legally separate from Ally Financial, with Ally holding stock in these companies. Ally Financial took an approximately \$1.3 billion charge due to the bankruptcy, but the company saw the action as a positive step, allowing it to focus on its core automotive and direct banking operations.¹²

The authority to purchase assets under TARP expired during the 111th Congress, as did the TARP Congressional Oversight Panel, a temporary panel created in the TARP statute.¹³ The 112th Congress, however, has shown continued interest in the program with the creation of a

⁹ For more information on issues surrounding industrial loan companies, see CRS Report RL32767, *Industrial Loan Companies/Banks and the Separation of Banking and Commerce: Legislative and Regulatory Perspectives*, by N. Eric Weiss. The Federal Reserve Board’s approval of the conversion can be found here: <http://www.federalreserve.gov/newsevents/press/orders/orders20081224a1.pdf>.

¹⁰ “IPO View-Firms Feel the Chill as Equity Markets Freeze,” *Reuters*, September 30, 2011.

¹¹ “Ally Reports \$210 million Loss,” *Detroit News*, November 2, 2011.

¹² For more information, see Ally Financial, “Ally Financial Announces Key Strategic Actions to Strengthen Company and Accelerate Ability to Repay U.S. Treasury,” press release, May 14, 2012, <http://media.ally.com/index.php?s=43&item=543>.

¹³ The TARP Congressional Oversight Panel held hearings and published reports on all facets of TARP support, including the auto industry and the auto financing companies. Its final report on this sector, *January Oversight Report: An Update on TARP Support for the Domestic Automotive Industry*, was released on January 13, 2011. Although COP has disbanded, its reports are still available at <http://www.creditslips.org/creditslips/2011/04/tarp-cop-gone.html>.

Subcommittee on TARP and Financial Services by the House Committee on Oversight and Government Reform and oversight by the Senate Committee on Banking, Housing, and Urban Affairs.¹⁴

The remainder of this report addresses the role that GMAC/Ally Financial plays in financing the automobile industry, summarizes the government's assistance to GMAC/Ally Financial, and concludes with the outlook going forward for Ally Financial and TARP repayments.

Why Assist Auto Financing Companies?

Auto financing companies have a dual role in auto retailing. Because of the high price of motor vehicles, more than 90% of customers finance or lease their vehicle. While outside financial institutions such as credit unions and banks also lend to finance such purchases, the automobile companies themselves have long offered financing and leasing to consumers through related finance companies (such as GMAC, Chrysler Financial, Ford Motor Credit, and Toyota Motor Credit). In addition to the financing of retail auto purchases, dealers have traditionally used the manufacturers' finance arms to purchase the automobile inventory from the manufacturers. These loans are called floor plan financing.¹⁵ As the banking crisis intensified in 2008-2009, floor plan and retail financing were seriously affected as the financing companies were unable to raise the capital to fund the manufacturer-dealer-consumer pipeline. Thus, in order to assist the auto manufacturers, it was deemed important to assist the auto financing companies.

Background on GMAC/Ally Financial

General Motors Acceptance Corporation (GMAC) was created by Old GM in 1919 to provide credit for its customers and dealers. Over the decades, GMAC expanded into providing other financial products, including auto insurance (beginning in 1939) and residential mortgages (beginning in 1985), but remained a wholly-owned subsidiary of Old GM. GMAC's operations were generally profitable over the years. In 2003, for example, the company contributed \$2.8 billion to Old GM's bottom line with total assets of \$288 billion.¹⁶

In 2006, Old GM spun off GMAC into an independent company, with Cerberus Capital Management purchasing 51% of GMAC for approximately \$14 billion; GM retained a 49% share. At the time the automaker was under financial pressure to locate additional capital. In 2005, Old GM had recorded its largest annual loss since 1992, stemming primarily from its auto business. GM's overall corporate credit rating declined and caused GMAC's credit rating to be

¹⁴ See, for example, U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *TARP Oversight: Evaluating Returns on Taxpayer Investments*, 112th Cong., 1st sess., March 17, 2011.

¹⁵ According to the Comptroller of the Currency, "Floor plan, or wholesale, lending is a form of retail goods inventory financing in which each loan advance is made against a specific piece of collateral. As each piece of collateral is sold by the dealer, the loan advance against that piece of collateral is repaid. Items commonly subject to floor plan debt are automobiles, large home appliances, furniture, television and stereo equipment, boats, mobile homes, and other types of merchandise usually sold under a sales finance contract." Comptroller of the Currency, Administrator of National Banks, *Comptroller's Handbook*, "Floor Plan Loans (Section 210)," March 1990, p. 1.

¹⁶ General Motors Corp., *Form 10-K for the fiscal year ending December 31, 2003*, March 11, 2004, p. II-4 and General Motors Acceptance Corp., *Form 10-K for the fiscal year ending December 31, 2003*, March 9, 2004, p. 7.

lowered to junk status, making it more difficult for the finance unit to raise capital. In turn, the lower credit rating increased GMAC's cost of financing GM vehicle sales.¹⁷ It was reported that GMAC paid interest rates of up to 5.4 percentage points above comparable Treasury securities on its debt, versus 1.7 to 2.7 percentage points above in 2004. It was thought that selling the controlling stake to Cerberus would provide GMAC with lower credit costs through better access to capital markets.¹⁸ After the spinoff, providing financing for Old GM customers and dealers remained a large portion of GMAC's business, and the two companies remained linked through numerous contracts and through Old GM's continued 49% ownership stake in GMAC.

As the early 2000s housing boom turned to the late 2000s housing bust, the previously profitable GMAC mortgage operations began generating significant losses. GMAC was exposed to the mortgage markets both as an investor and as a participant. For example, in 2006, GMAC held approximately \$135.1 billion in mortgage assets. GMAC's ResCap subsidiary was the country's sixth-largest mortgage originator and fifth-largest mortgage servicer in 2008. GMAC as a whole produced over \$51 billion in mortgage-backed securities in that year.¹⁹

At the same time the housing market was encountering difficulties, automobile sales were dropping, which negatively affected GMAC's core auto financing business. In addition, GMAC, along with nearly all financial firms, faced difficulties in accessing capital markets for funding that previously had been relatively routine.²⁰ Prior to the crisis, GMAC's banking operations had been operating as an industrial loan corporation (ILC) rather than under a federal bank holding company charter.²¹ Much of the federal government support offered in response to the financial crisis at the time, particularly the initial assistance provided under the TARP Capital Purchase Program, was not available to GMAC because it was organized as an ILC.

GMAC applied for federal bank holding company status in November 2008, and the Federal Reserve approved the application in an expedited manner in December 2008.²² As part of the approval, neither Old GM nor Cerberus was allowed to maintain a controlling interest in GMAC and some of the links between Old GM and GMAC were to be gradually unwound. Since the transformation into a bank holding company, GMAC has renamed itself Ally Financial, Inc. and has expanded its depository banking operations under the name Ally Bank.²³

Following the government assistance and restructuring of the auto industry, GMAC/Ally Financial has provided much of the floor plan and retail financing for New GM and New

¹⁷Congressional Oversight Panel, *January Oversight Report: An Update on TARP Support for the Domestic Automotive Industry*, January 13, 2011, p. 72.

¹⁸ "GM Sells Finance Stake, Board Supports Wagoner," *CNNMoney*, April 3, 2006.

¹⁹ Statistics from Inside Mortgage Finance, 2009 Mortgage Market Statistical Annual, vol. I, p. 41, 157, vol. II, pp. 271-273.

²⁰ For more information on the financial crisis from 2007 to 2009, see CRS Report RL34182, *Financial Crisis? The Liquidity Crunch of August 2007*, by Darryl E. Getter et al. and CRS Report R40173, *Causes of the Financial Crisis*, by Mark Jickling.

²¹ For more information on ILCs, see CRS Report RL32767, *Industrial Loan Companies/Banks and the Separation of Banking and Commerce: Legislative and Regulatory Perspectives*, by N. Eric Weiss.

²² See Federal Reserve System "Order Approving Formation of Bank Holding Companies and Notice to Engage in Certain Nonbanking Activities," December 24, 2008, available at <http://www.federalreserve.gov/newsevents/press/orders/orders20081224a1.pdf>.

²³ Ally Financial, "Ally Financial Statement on New Corporate Brand," press release, May 10, 2010, <http://media.ally.com/index.php?s=43&item=401>.

Chrysler. The relationship among the companies, however, is in flux. New GM acquired AmeriCredit Corporation, and renamed it General Motors Financial Company, a subsidiary now competing with GMAC/Ally Financial.²⁴ GM Financial plans to expand its floor plan financing for dealers, contending that it will provide new financing options for them. A GM executive said that leaving Ally Financial with most of GM's auto financing was "a risk to GM that is unacceptable," citing the possibilities that Ally could either curtail its dealer lending or might someday be purchased by another bank that would not want to engage in auto financing.²⁵ GM Financial reportedly would like to boost its share of the GM auto finance market to 20%, increase its share of subprime lending, and increase leasing (including in Canada where Ally cannot offer leasing under Canadian banking rules).²⁶

GM and Ally Financial's relationship is further complicated by GM's interest in purchasing Ally's international auto lending operations, which would more than double the assets of GM Financial, if the sale is completed. Ally put these assets up for bid in July 2012, and GM's finance unit is reportedly one of 30 bidders.²⁷

As of June 30, 2012, Ally Financial was the 15th-largest U.S. bank holding company, with approximately \$178.6 billion in total assets.²⁸ In the latest annual filings with the Securities and Exchange Commission (SEC),²⁹ Ally reports three major lines of business:

- **Automotive financing.** Ally Financial's Global Automotive Services unit held approximately \$120.5 billion in assets, split between North American financing (\$97.0 billion), international financing (\$15.5 billion), and insurance operations (\$8.0 billion).
- **Residential mortgages.** Ally Financial's mortgage origination and servicing operations held approximately \$33.9 billion in assets as of the end of 2011 and originated or purchased \$56.3 billion in mortgages in 2011. (This report was prior to the May 2012 ResCap bankruptcy filing noted above.)
- **Depository banking.** Ally Bank had \$39.6 billion in total deposits at the end of 2010, with \$27.7 billion of this from retail customers.

GMAC/Ally Financial's participation in mortgage markets has led to further interactions with TARP as the company participates in the TARP Home Affordable Modification Program (HAMP), with more than 41,000 active permanent modifications under HAMP at the end of June 2012.³⁰ GMAC/Ally Financial has received approximately \$171 million in incentive payments for

²⁴ A report by the TARP Congressional Oversight Panel (COP) considered the effect of GM's purchase of AmeriCredit on GMAC/Ally Financial. In the report, COP foresaw that GM's AmeriCredit unit might compete against GMAC/Ally Financial and make it more difficult for taxpayers to recoup their investment in GMAC/Ally Financial. See Congressional Oversight Panel, *January Oversight Report: An Update on TARP Support for the Domestic Automotive Industry*, January 13, 2011.

²⁵ "GM Financial to Offer Floorplan Loan Program for Dealers," *Automotive News*, June 1, 2011.

²⁶ "GM Financial Goes after Canadian Leasing, Subprime Markets," *Detroit News*, June 2, 2011.

²⁷ Rick Rothacker, "GM Unit Bids for Ally International Businesses," *Reuters*, August 13, 2012.

²⁸ "Top 50 Bank Holding Companies," available from the Federal Financial Institutions Examination Council at <http://www.ffiec.gov/nicpubweb/nicweb/top50form.aspx>.

²⁹ Ally Financial, *Form 10-K for the fiscal year ending December 31, 2011*, February 28, 2012. Statistics from pp. 1-5.

³⁰ U.S. Treasury, *Making Home Affordable Program: Performance Report through June 2012*, August 3, 2012, p. 12, available at <http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Documents/August%202011%20MHA%20Report%20FINAL.PDF>. For more information on HAMP, see CRS Report R40210, (continued...)

participating in HAMP.³¹ The company has faced criticism for documentation issues in its foreclosure proceedings. In 2010, the company temporarily suspended foreclosure proceedings in many states, and it was named in lawsuits filed by some of those affected by its foreclosure actions or on their behalf.³² In February 2012, Ally Financial reached an agreement in principle with the federal government and 49 states to address the foreclosure-related complaints, resulting in a \$230 million charge to the company's 2011 earnings.³³

Government Assistance for GMAC/Ally Financial

GMAC/Ally Financial benefited from both general and specific government assistance during the financial crisis. Such assistance included (1) Federal Reserve lending facilities, where an institution could borrow cash from the Fed in return for less liquid securities; (2) the FDIC's Temporary Liquidity Guarantee Program (TLGP), which guarantees debt issued by banks; and (3) the Troubled Asset Relief Program, which primarily provided additional capital to strengthen the company's balance sheet.

Federal Reserve Assistance

Historically, the Federal Reserve has declined to identify individual institutions to which it loans funds. GMAC itself, however, reported that at the end of 2008, that it had \$7.6 billion outstanding from the Federal Reserve Commercial Paper Funding Facility.³⁴ The Dodd-Frank Wall Street Reform and Consumer Protection Act,³⁵ passed in July 2010, requires the Fed to detail its emergency lending through the financial crisis; details of such lending were released in late 2010. This release did not include borrowing from non-emergency facilities, such as the discount window. **Table 2** summarizes the information released by the Federal Reserve regarding GMAC/Ally Financial's borrowing from the Commercial Paper Funding Facility (CPFF) and the Term Auction Facility (TAF).³⁶

(...continued)

Preserving Homeownership: Foreclosure Prevention Initiatives, by Katie Jones.

³¹ U.S. Treasury, *Troubled Asset Program Monthly 105(a) reports—July 2012*, August 10, 2012, p. 107; available at <http://www.treasury.gov/initiatives/financial-stability/reports/Documents/July%202012%20Monthly%20Report.pdf>.

³² See, for example, "JPMorgan, Ally Face 'Hydra' of Foreclosure Probes," *Bloomberg Businessweek*, Oct. 6, 2010, available at <http://www.businessweek.com/news/2010-10-06/jpmorgan-ally-face-hydra-of-foreclosure-probes.html>.

³³ Ally Financial, *Form 10-K for the fiscal year ending December 31, 2011*, February 28, 2012, p. 31.

³⁴ GMAC LLC., *Form 10-K for the fiscal year ending December 31, 2008*, February 29, 2009, p. 69.

³⁵ P.L. 111-203, 124 Stat. 1376.

³⁶ For additional detail on the operation of these Fed lending programs, see CRS Report RL34427, *Financial Turmoil: Federal Reserve Policy Responses*, by Marc Labonte.

Table 2. GMAC/Ally Financial Borrowing from the TAF and CPFF
(\$ in billions)

Date	Program	Outstanding Borrowing (at month's end)	Interest Rate
October 31, 2008	CPFF	\$5.6	3.88% to 3.60%
November 30, 2008	CPFF	\$6.4	3.88% to 3.42%;
	TAF	\$0.01	0.6%
December 31, 2008	CPFF	\$7.5	3.88% to 3.21%;
	TAF	\$0.01	0.6%
January 31, 2009	CPFF	\$7.9	3.52% to 3.18%
February 28, 2009	CPFF	\$7.1	3.39% to 3.18%
March 31, 2009	CPFF	\$6.1	3.24% to 3.18%
April 30, 2009	CPFF	\$0	none
June 30, 2009	TAF	\$2.0	0.25%
July 31, 2009	TAF	\$2.0	0.25%
August 31, 2009	TAF	\$4.1	0.25%
September 20, 2009	TAF	\$4.0	0.25%
October 31, 2009	TAF	\$4.0	0.25%
November 30, 2009	TAF	\$5.0	0.25%
December 31, 2009	TAF	\$5.0	0.25%
January 31, 2010	TAF	\$2.0	0.25%
February 28, 2010	TAF	\$0.75	0.25%
March 31, 2010	TAF	\$0.75	0.50%
April 30, 2010	TAF	\$0	none

Source: CRS calculations with Federal Reserve CPFF and TAF data.

Note: The CPFF and TAF closed to new borrowing in February 2010 and March 2010 respectively.

FDIC Assistance³⁷

As part of its response to the then-ongoing financial crisis, the FDIC created the Temporary Liquidity Guarantee Program (TLGP) to encourage liquidity in the banking system.³⁸ One component of this program guarantees senior unsecured debt issued by banks before October 31, 2009, with coverage until December 31, 2012. Based on its size, GMAC/Ally Financial was eligible to issue up to \$7.4 billion of debt under the program and it did so in three tranches: \$2.9 billion in October 2009 and \$3.5 billion and \$1 billion in December 2009. This debt will mature

³⁷ For more information on the FDIC, see CRS Report R41718, *Federal Deposit Insurance for Banks and Credit Unions*, by Darryl E. Getter and Victor Tineo.

³⁸ See the initial announcement at <http://www.fdic.gov/news/news/press/2008/pr08100.html>. See also <http://www.fdic.gov/news/news/press/2008/pr08105.html>, which provides further details of the program.

in October 2012 and December 2012 respectively. In return for the guarantee, the FDIC received approximately \$393 million in fees from GMAC/Ally Financial.

TARP Assistance

GMAC applied for the Treasury's TARP Capital Purchase Program in 2008 at the same time as it applied to the Fed for permission to convert to a bank holding company. By the time the application was approved, Treasury had announced the Auto Industry Financing Program (AIFP)³⁹ and the assistance received by GMAC/Ally Financial came under this program rather than the TARP bank assistance programs. GMAC received three large rounds of assistance through TARP: (1) \$5.25 billion on December 30, 2008, (2) \$7.5 billion on May 21, 2009, and (3) \$3.98 billion on December 30, 2009. This assistance was provided through the purchase of various types of preferred equity in GMAC, including mandatory convertible preferred stock and trust preferred securities. Holders of preferred equity are entitled to dividends before any dividend is paid to holders of common stock, but they have no voting rights in the company. The Treasury received warrants for approximately \$825 million in additional preferred equity in conjunction with these transactions and the preferred stock has paid dividends since its purchase. In addition to the direct assistance for GMAC/Ally Financial, the company also received indirect TARP assistance in the form of an \$884 million loan to Old GM for participation in a December 2008 rights offering for GMAC common stock.

In early 2009, the Treasury and banking regulators conducted stress tests on large banks, including on GMAC. These tests were intended to identify financial institutions that needed additional capital. Such banks were to be eligible for the new TARP Capital Assistance Program if they proved unable to raise needed capital from the private markets. Ultimately the banks judged to need additional capital were able to raise this capital from the private market and the Capital Assistance Program was never used. GMAC, however, was unable to raise capital from the private market and instead received the two additional rounds of assistance from TARP's Auto Industry Financing Program detailed above.

Since the initial assistance in 2008, the government not only injected additional capital into GMAC/Ally Financial, but also changed the form of the government investment. The \$884 million loan to Old GM was converted in May 2009 into approximately 35% of common equity held by the U.S. Treasury. In December 2009, \$3 billion of preferred shares was converted into an additional 21% of common equity, raising the federal ownership to more than 56%. The warrants that came along with the assistance were also exercised. In December 2010, \$5.5 billion of preferred equity was converted into approximately 17.5% of the company's common equity, raising federal ownership to 73.8%. The other large shareholders are the GM Trust (9.9%) and Cerebus Capital (8.7%).

The U.S. Treasury recouped \$2.54 billion of the principal to GMAC/Ally Financial through a sale of preferred equity and GMAC/Ally Financial has paid approximately \$3.13 billion in dividends and other income to the government since the government investment began.⁴⁰ In total, the government now holds 73.8% of Ally Financial's common equity and \$5.9 billion of preferred equity.

³⁹ The other three AIFP recipients were Chrysler Financial, Chrysler, and General Motors.

⁴⁰ U.S. Treasury, *Daily TARP Update*, September 5, 2011.

Table 3 details the TARP assistance for the company. **Figure 1** shows the ownership structure that has resulted from the conversion of TARP assistance into common equity.

Table 3. Chronology of TARP Assistance for GMAC/Ally Financial

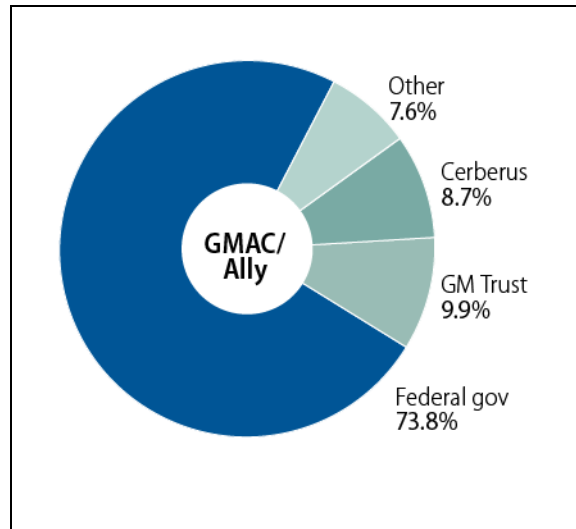
Date	Company	Type of Assistance	Amount
Assistance from the Government			
December 2008	GMAC	Preferred Stock Purchase	\$5.0 billion
December 2008	Old GM	Loan	\$884 million
May 2009	GMAC	Preferred Stock Purchase	\$7.5 billion
December 2009	GMAC	Trust Preferred Securities Purchase	\$2.54 billion
December 2009	GMAC	Preferred Stock Purchase	\$1.25 billion
Recompense to the Government			
December 2008-present	GMAC/Ally Financial	Dividends	\$3.0 billion
December 2008	GMAC	Warrants (exercised on receipt)	\$250 million
May 2009	GMAC	Warrants (exercised on receipt)	\$375 million
December 2009	GMAC	Warrants (exercised on receipt)	\$190 million
March 2011	Public Offering by the U.S. Treasury	Trust Preferred Securities Sale	\$2.54 billion (principal); \$0.13 billion (other income)
Equity Exchange			
May 2009	Old GM/U.S. Treasury	Loan to Common Equity	\$884 million for 35.4% of GMAC common equity
December 2009	GMAC/U.S. Treasury	Preferred Equity to Common Equity	\$3 billion for 20.9% of common equity
December 2010	GMAC/U.S. Treasury	Preferred Equity to Common Equity	\$5.5 billion for 17.5% of common equity

Source: U.S. Treasury, *Troubled Asset Relief Program: Monthly 105(a) Report*, various dates.

Note: The December 2008 loan of \$884 million was made to Old GM for participation in GMAC's rights offering.

Figure I. GMAC/Ally Financial Ownership Structure

December 2010-present



Source: Ally Financial

Ultimate Cost of Assistance to GMAC/Ally Financial

The TARP assistance for GMAC/Ally Financial, like most of the TARP assistance, was initially provided through financial instruments that were expected to be repaid or repurchased by the recipients. Subsequently, however, the U.S. Treasury converted much of the GMAC/Ally Financial assistance into common equity in the company. Common equity is not expected to be repaid by the company, but represents an ownership stake, and possibly control, of the company. This conversion means that whether the government recoups its assistance will depend on the market value when the government sells this equity. If the government's common equity stake ends up being sold for less than the amount of the government's investment, Ally Financial has no responsibility to compensate the government for the difference. If Ally Financial's value is sufficiently high, however, the government may end up making a greater gain on the assistance than it would have had the preferred shares not been converted into common equity. As specified by the TARP statute, any proceeds "shall be paid into the general fund of the Treasury for reduction of the public debt."⁴¹

The experience of other large TARP recipients may be instructive:

- **Citigroup.** Early in 2009, \$25 billion of TARP assistance to Citigroup was converted into approximately 34% of the equity in the company, which has now been sold to private investors. This conversion proved beneficial for the government, with a capital gain of approximately \$6.9 billion from the stock sale. Other cases, however, have yet to provide similar gains.

⁴¹ P.L. 110-343, §106(d).

- **General Motors.** In the case of New GM, approximately \$40 billion in loans was converted into 60.8% of the common equity in the company. The December 2010 partial sale of the U.S. government's New GM stock, which reduced government ownership to 32%, was booked by the Treasury as a \$4.3 billion loss, since the shares sold for less than the amount of that portion of the original loan which was converted into common shares. It is possible that future stock appreciation might lead to offsetting gains when the 32% stake is sold, although the stock would have to rise significantly for this to be the case.⁴²
- **AIG.** In early 2011, \$49.1 billion of TARP preferred share holdings was converted into common equity in AIG. Combined with equity resulting from an earlier Federal Reserve loan, Treasury's holding of AIG equity totaled approximately 92%. The initial May 24, 2011, sale of the government's AIG stock reduced the Treasury's holdings to 77% of the company. Subsequent sales of stock have reduced the Treasury's holdings to 15.9% of the company. The sales have occurred at stock prices between \$29.00 and \$32.50 per share, all above the \$28.73 per share that Treasury calculates as its cost on a cash basis.
- **Chrysler.** Treasury's 6.6% common equity holdings in New Chrysler were sold to Fiat in a direct sale for \$500 million, with another \$60 million paid for equity rights that were held by the U.S. Treasury. This severed the U.S. government's financial relationship with the company through TARP. The government failed to recoup approximately \$1.3 billion of the assistance provided to Chrysler, a figure that does not take into account other economic factors, such as the Treasury's borrowing costs and the possibility of a risk premium to compensate the taxpayers for the riskiness of the assistance.⁴³ Were those factors also included, the government's cost of the loans to all the auto industry TARP recipients would be higher.

Estimates of the value of Ally Financial are affected by an absence of market information similar to the situation with GM prior to its IPO. Ally Financial reported total assets of \$178.6 billion compared with liabilities of \$160.2 billion at the end of the second quarter of 2012,⁴⁴ for a "book value" of approximately \$18.4 billion. The Congressional Oversight Panel reported that the 35 companies used by the Treasury as "comparables" for Ally Financial have traded at between 102% and 135% of book value.⁴⁵ This suggests a value of the entire company of between \$18.8 billion and \$24.8 billion and a value of the government's equity stake between \$13.9 billion and \$18.3 billion. If the government could indeed sell the 73.8% equity for approximately this value, and recover the \$5.9 billion holdings of preferred equity, the government would recoup more than the nominal amount of its total assistance for the company. Whether or not the government's

⁴² New GM's IPO was set at \$33 a share in November 2010; for the federal government to break even on its investment in New GM, the remaining U.S. Treasury's remaining 32.04% stake would need to sell for approximately \$54 a share. See CRS Report R41401, *General Motors' Initial Public Offering: Review of Issues and Implications for TARP*, by Bill Canis, Baird Webel, and Gary Shorter. On May 16, 2011, the stock was trading at just over \$24, 27% less than at the time of the IPO.

⁴³ See CRS Report R41940, *TARP Assistance for Chrysler: Restructuring and Repayment Issues*, by Baird Webel and Bill Canis.

⁴⁴ Ally Financial, *Form 10-Q for the quarter ending June 30, 2012*, August 3, 2012, p. 5.

⁴⁵ Congressional Oversight Panel, *An Update on TARP Support for the Domestic Automotive Industry*, January 13, 2011, p. 89.

stake will ultimately return this amount, however, is an open question. The recent experience with AIG and GM stock illustrates the uncertainties in this process.

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