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# **Government Assistance for GMAC/Ally Financial: Unwinding the Government Stake**

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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. 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 provide 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, which changed its name to Ally Financial in 2010.

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 at its highest point. This conversion from preferred to common equity significantly changed the outlook for the future government recoupment of the TARP assistance. After such a conversion, if the government's common equity were to end up being worth less than the assistance provided, the company would have no responsibility going forward to compensate the government for the difference. Conversely, if the common equity were to be 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).

Beginning in November 2013, the government's stake in Ally Financial began dropping due to share dilution and the sale of the government's stock through both private placements and open market sales. As of August 14, 2014, the government owned 15.6% of Ally Financial stock and it announced it would continue selling stock, but did not announce a definite end date for these sales. As of August 29, 2014, the Treasury has recouped a total of \$13.2 billion in principal repayments, with \$2.1 billion in assistance still outstanding. It has realized \$1.8 billion in losses, but has received \$4.6 billion in dividends and other income. On balance, the government has recouped a total of \$17.8 billion, \$600 million more than the original TARP assistance for GMAC.

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, and also increased regulatory oversight of the company.

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## Background

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. 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,<sup>1</sup> 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,<sup>2</sup> 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,<sup>3</sup> 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 Act<sup>4</sup> (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.<sup>5</sup> The

### 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, referred to in this report as "Old GM," filed for bankruptcy in June 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, referred to as "Old Chrysler," filed for bankruptcy in April 2009. 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," referred to as "New Chrysler." The term "Chrysler" is used when both companies are referenced.

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> P.L. 110-343; 122 Stat. 3765.

<sup>5</sup> P.L. 110-343, Division A, Section 3.

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.<sup>6</sup>

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 (Fed) 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.

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

(\$ billions)

Company	Current Government Ownership Share	Total TARP Assistance	Principal Recouped to Date by the Treasury	Losses Realized by the Treasury	Income/Revenue Received from TARP Assistance	Outstanding TARP Assistance
Chrysler	0%	\$10.9	\$7.9	-\$2.9	\$1.7	\$0
Chrysler Financial	Not Applicable	\$1.5	\$1.5	\$0	\$0.02	\$0
GM	0%	\$50.2	\$39.0	-\$11.2	\$0.7	\$0
GMAC/Ally Financial	15.6%	\$17.2	\$13.2	-\$1.8	\$4.6	\$2.1

**Source:** U.S. Treasury, *Daily TARP Update*, August 29, 2014; *Troubled Asset Relief Program: Monthly 105(a) Report*, various dates.

**Notes:** Figures may not sum due to rounding.

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

<sup>6</sup> 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/>.

markets.<sup>7</sup> This conversion allowed access to Fed lending facilities and also increased regulatory oversight of the company.

In March 2011, the company, now renamed Ally Financial,<sup>8</sup> filed with the Securities and Exchange Commission (SEC) for an initial public offering (IPO) of shares. An IPO is 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 would recoup its assistance for GMAC/Ally Financial. In July 2011, however, Ally put its IPO on hold because of what one news story called the “near shutdown in global equity capital markets.”<sup>9</sup> The IPO process was restarted and ultimately completed in May 2014. Sales of government shares during the IPO reduced the government ownership to 15.6% of the company.

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 2008-2009 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 undertaking an IPO in 2011 as the uncertainty surrounding future losses from mortgages had been a drag on the company. 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. 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.<sup>10</sup>

The authority to purchase assets under TARP expired during the 111<sup>th</sup> Congress, as did the TARP Congressional Oversight Panel, a temporary panel created in the TARP statute.<sup>11</sup> Congress, however, has shown continued interest in the program with TARP oversight hearings in the House during 113<sup>th</sup> Congress.<sup>12</sup>

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<sup>7</sup> 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 at <http://www.federalreserve.gov/newsevents/press/orders/orders20081224a1.pdf>.

<sup>8</sup> The company changed its name in 2010.

<sup>9</sup> “IPO View-Firms Feel the Chill as Equity Markets Freeze,” *Reuters*, September 30, 2011.

<sup>10</sup> 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, at <http://media.ally.com/index.php?s=43&item=543>.

<sup>11</sup> 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://cybercemetery.unt.edu/archive/cop/20110401222823/http://cop.senate.gov/>.

<sup>12</sup> See U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Government Operations, *Oversight of the SIGTARP Report on Treasury’s Role in the Delphi Pension Bailout*, 113<sup>th</sup> Cong., 1<sup>st</sup> sess., September 11, 2013 and U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Economic Growth, Job Creation and Regulatory Affairs, *Bailout Rewards: The Treasury Department’s Continued Approval of Excessive Pay for Executives at Taxpayer-Funded Companies*, 113<sup>th</sup> Cong., 1<sup>st</sup> sess., February 26, 2013.

## 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.<sup>13</sup> 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.<sup>14</sup>

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 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.<sup>15</sup> 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.<sup>16</sup> 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.

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<sup>13</sup> 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.

<sup>14</sup> 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.

<sup>15</sup> Congressional Oversight Panel, *January Oversight Report: An Update on TARP Support for the Domestic Automotive Industry*, January 13, 2011, p. 72.

<sup>16</sup> "GM Sells Finance Stake, Board Supports Wagoner," *CNNMoney*, April 3, 2006.

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.<sup>17</sup>

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.<sup>18</sup> 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. 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.<sup>19</sup> 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 gradually unwound. Since the transformation into a bank holding company, GMAC renamed itself Ally Financial, Inc. and expanded its depository banking operations under the name Ally Bank.<sup>20</sup> In December 2013, the Fed approved Ally Financial's application for financial holding company status, which allows the company to engage in a broader range of businesses, such as insurance, than would have been permissible as a bank holding company.<sup>21</sup>

Ally has faced increasing competition for auto deal financing plans. According to a recent GAO report,

Ally Financial faces growing competition in both consumer lending and dealer financing from Chrysler Capital, GM Financial, and other large bank holding companies. This competition may affect the future profitability of Ally Financial, which could influence the share price of Ally Financial once the company becomes publicly traded and thus the timing of Treasury's exit.<sup>22</sup>

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<sup>17</sup> Statistics from Inside Mortgage Finance, 2009 Mortgage Market Statistical Annual, vol. I, p. 41, 157, vol. II, pp. 271-273.

<sup>18</sup> 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.

<sup>19</sup> 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>.

<sup>20</sup> Ally Financial, "Ally Financial Statement on New Corporate Brand," press release, May 10, 2010, <http://media.ally.com/index.php?s=43&item=401>.

<sup>21</sup> Ally Financial, "Ally Financial Granted Financial Holding Company Status," press release, December 23, 2013, <http://media.ally.com/2013-12-23-Ally-Financial-Granted-Financial-Holding-Company-Status>.

<sup>22</sup> U.S. Government Accountability Office, *Troubled Asset Relief Program: Status of Treasury's Investments in General Motors and Ally Financial*, GAO 14-6, October 2013, p. 28, <http://www.gao.gov/assets/660/658636.pdf>.



Following the government assistance and restructuring of the auto industry, GMAC/Ally Financial provided much of the floor plan and retail financing for New GM and New Chrysler. The relationship among the companies, however, has been in flux.

In 2010, New GM acquired AmeriCredit Corporation, and renamed it General Motors Financial Company, a subsidiary now competing with GMAC/Ally Financial. GM added to the rebuilding of its own lending business when GM Financial purchased Ally's international auto lending operations in 2013, reportedly doubling the size of GM's in-house lender. According to GM, GM Financial now offers financing for about 80% of GM's worldwide sales.<sup>23</sup> Similarly, Chrysler has taken steps to re-establish a unit that could provide floor plan financing to its dealers, instead of using Ally Financial. In 2013, it reportedly established Chrysler Capital for that purpose, in conjunction with Spanish lender Banco Santander.<sup>24</sup>

Ally previously had preferred lender agreements with Chrysler and GM but these expired in April 2013 and February 2014, respectively. It continues to support auto financing with the two Detroit automakers, but without an exclusive agreement to finance their respective vehicle sales incentive programs.<sup>25</sup>

As of March 31, 2014, Ally Financial was the 20<sup>th</sup>-largest U.S. bank holding company, with approximately \$148.5 billion in total assets.<sup>26</sup> In its annual filing with the SEC in early 2014,<sup>27</sup> Ally reported three major lines of business:

- **Dealer Financial Services.** These services include automotive finance and insurance, providing loans, leases, and commercial insurance to 16,000 auto dealers and 4 million retail customers. These operations had \$116.4 billion of assets and generated \$4.7 billion of total net revenue in 2013.
- **Mortgages.** GMAC/Ally Financial historically had significant mortgage operations, but Ally Financial exited the large portions of their residential mortgage operations with the ResCap bankruptcy filing and with the divestment of other mortgage financing activities. The bankruptcy court confirmed the bankruptcy plan in December 2013. Ally's mortgage operations had \$8.2 billion of assets on December 31, 2013, and generated \$76 million of total net revenue in 2013.
- **Depository banking.** Ally Bank raises deposits through the Internet, telephone, mobile, and mail channels. Its consumer banking activities include savings and money market accounts, certificates of deposit, interest-bearing checking accounts, and individual retirement accounts. At the end of 2013, it had \$52.9 billion of deposits, including \$43.2 billion of retail deposits.

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<sup>23</sup> General Motors Financial Company, *Strategic and Operational Overview*, January 2014, <http://www.gmfinancial.com/Docs/Investors/strategic-and-operational-overview.pdf>.

<sup>24</sup> Nathalie Tadema, "Chrysler, Santander Form Financing Arm," *Wall Street Journal*, February 6, 2013, <http://online.wsj.com/article/BT-CO-20130206-712148.html>.

<sup>25</sup> Ally Financial, *Form 10-K for the fiscal year ending December 31, 2013*, March 3, 2014, pp 2-3.

<sup>26</sup> "Top 50 Bank Holding Companies," available from the Federal Financial Institutions Examination Council at <http://www.ffeic.gov/nicpubweb/nicweb/top50form.aspx>.

<sup>27</sup> Ally Financial, *Form 10-K for the fiscal year ending December 31, 2013*, March 3, 2014. Statistics from pp. 1-4.

GMAC/Ally Financial's past role as a mortgage servicer led to further interactions with TARP as the company participated in the TARP Home Affordable Modification Program (HAMP). GMAC/Ally Financial has received approximately \$96 million in servicer incentive payments for participating in HAMP.<sup>28</sup> The company faced criticism for documentation issues in its foreclosure proceedings and reported a \$230 million charge to the company's 2011 earnings due to foreclosure-related complaints.<sup>29</sup>

## 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 declined to identify individual institutions to which it loans funds. GMAC itself, however, reported that at the end of 2008, it had \$7.6 billion outstanding from the Fed's Commercial Paper Funding Facility (CPFF).<sup>30</sup> The Dodd-Frank Wall Street Reform and Consumer Protection Act,<sup>31</sup> passed in July 2010, required 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 and the Term Auction Facility (TAF).<sup>32</sup>

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<sup>28</sup> U.S. Treasury, *Troubled Asset Program Monthly 105(a) reports—July 2014*, August 11, 2014, p. 114; available at <http://www.treasury.gov/initiatives/financial-stability/reports/Documents/July%202014%20Monthly%20Report%20to%20Congress.pdf>.

<sup>29</sup> Ally Financial, *Form 10-K for the fiscal year ending December 31, 2011*, February 28, 2012, p. 31.

<sup>30</sup> GMAC LLC., *Form 10-K for the fiscal year ending December 31, 2008*, February 29, 2009, p. 69.

<sup>31</sup> P.L. 111-203; 124 Stat. 1376.

<sup>32</sup> 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 Assistance<sup>33</sup>

As part of its response to the then-ongoing financial crisis, the FDIC created the Temporary Liquidity Guarantee Program to encourage liquidity in the banking system.<sup>34</sup> 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 matured in October 2012 and December 2012 respectively. In return for the guarantee, the FDIC received approximately \$393 million in fees from GMAC/Ally Financial.

<sup>33</sup> For more information on the FDIC, see CRS Report R41718, *Federal Deposit Insurance for Banks and Credit Unions*, by Darryl E. Getter.

<sup>34</sup> 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.

## 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)<sup>35</sup> 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 other than GMAC who were judged to need additional capital were able to raise this capital from the private market and the Capital Assistance Program was never used. GMAC was unable to raise capital from the private market and instead received the two additional rounds of assistance from the Auto Industry Financing Program as 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 were the GM Trust (9.9%) and Cerberus Capital (8.7%).<sup>36</sup>

The 73.8% government ownership stake has been reduced to a current level of 15.6% through a share dilution and through both private and public equity sales by the government. In total, the U.S. Treasury has recouped \$13.2 billion of the principal and \$4.6 billion in dividends and other income to the government since the government assistance began. Of the assistance, \$2.1 billion is still outstanding.<sup>37</sup>

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<sup>35</sup> The other three AIFP recipients were Chrysler Financial, Chrysler, and General Motors.

<sup>36</sup> According to a spokesman in Ally Financial's Investor Relations, the GM Trust, officially known as the GMAC Common Equity Trust, was a fund set up to by General Motors to hold equity in GMAC/Ally. Cerberus Capital is a private investment firm established in 1992, investing in distressed securities and assets.

<sup>37</sup> U.S. Treasury, *Daily TARP Update*, January 31, 2014.

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

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

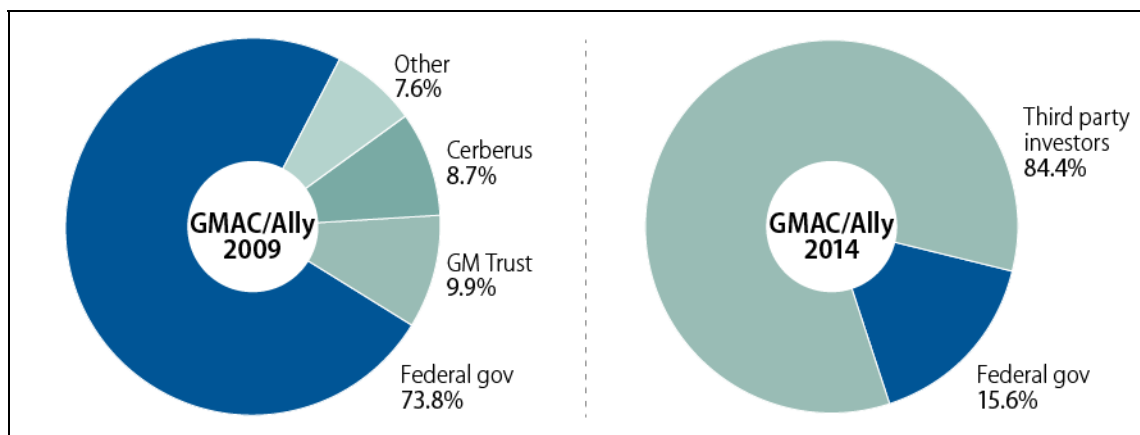
Date	Company	Type of Assistance	Amount
<b>Assistance from the Government</b>			
December 2008	GMAC	Preferred Stock Purchase	\$5.0 billion
December 2008	Old GM	Loan	\$884 million
May 2009	GMAC	Preferred Stock Purchase	\$7.5 billion
December 2009	GMAC	Trust Preferred Securities Purchase	\$2.54 billion
December 2009	GMAC	Preferred Stock Purchase	\$1.25 billion
<b>Recompense to the Government</b>			
December 2008- January 2014	GMAC/Ally Financial	Dividends and Interest	\$3.68 billion
March 2011	Public Offering by the U.S. Treasury	Trust Preferred Securities Sale	\$2.67 billion
December 2013	Repurchase by Ally Financial	Preferred Shares	\$5.93 billion
January 2014	Private Sale of Shares by the U.S. Treasury	Common Equity	\$3.02 billion
April-May 2014	Ally Financial Initial Public Offering	Common Equity	\$2.56 billion
<b>Equity Exchange</b>			
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 (including warrants) to Common Equity	\$3 billion for 20.9% of common equity
December 2010	GMAC/U.S. Treasury	Preferred Equity (including warrants) 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:** 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**

2009-2014



Source: Ally Financial.

## Ultimate Cost of GMAC/Ally Financial Assistance

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 depends 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 recouping a greater amount 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."<sup>38</sup>

The outcomes of the government's holdings of common equity in other large TARP recipients have varied:

- **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 not provided similar gains.
- **General Motors.** In the case of New GM, approximately \$40 billion in loans out of a total of \$50.2 billion was converted into 60.8% of the common equity in the company. The Treasury sold off these shares between December 2010 and

<sup>38</sup> P.L. 110-343, §106(d).

December 2013. The assistance for GM realized an \$11.2 billion loss with additional income of \$0.7 billion.<sup>39</sup>

- **AIG.** In early 2011, \$49.1 billion of TARP preferred share holdings was converted into common equity in AIG, with the government holdings peaking at over 92% due to both TARP and Federal Reserve assistance for the company. This equity was sold over time, with sales finishing in December 2012. The loss recorded by the Treasury on the TARP portion of the AIG assistance amounted to \$13.5 billion, although this was offset by \$17.6 billion recouped from the shares that resulted from Federal Reserve assistance. The Treasury also recorded \$1.0 billion in income from the AIG assistance.<sup>40</sup>
- **Chrysler.** Treasury's 6.6% common equity holding in New Chrysler was 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. The government realized a \$2.9 billion loss on the assistance, a number partially offset by \$1.7 billion in income.<sup>41</sup>

Estimates of the cost of the assistance for Ally Financial were uncertain for much of the period since it began because of the absence of any market information on its value and the large share of equity held by the government. Since late 2013, however, the outlays for GMAC/Ally assistance have begun returning to the government in significant amounts and the company's return to the stock market provides a market value for the government's remaining shares.

Through the government's sale of assets both to third parties and to Ally itself, the government has recouped \$13.2 billion, but, in doing so, has realized \$1.8 billion in losses on these sales. These losses, however, can be offset by a total of \$4.6 billion in dividends and other income received. Thus, at this point, the government has recouped a total of \$17.8 billion, \$600 million more than the \$17.2 billion in assistance given. The \$2.1 billion in assistance still outstanding is embodied in the 15.6% of common equity (over 75 million shares) still held by the government. These shares would be worth between approximately \$1.9 billion if sold at the share price prevailing in the last week of August 2014.<sup>42</sup> While a sale at this price would show up as a realized loss compared with the \$2.1 billion outstanding, the resulting proceeds would further increase the positive recoupment from the assistance to GMAC/Ally Financial. These loss or gain amounts, however, do 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. Were those factors also included, the government's economic cost of loans to all auto industry TARP recipients would be higher.

<sup>39</sup> See CRS Report R41978, *The Role of TARP Assistance in the Restructuring of General Motors*, by Bill Canis and Baird Webel.

<sup>40</sup> See CRS Report R42953, *Government Assistance for AIG: Summary and Cost*, by Baird Webel.

<sup>41</sup> See CRS Report R41940, *TARP Assistance for Chrysler: Restructuring and Repayment Issues*, by Baird Webel and Bill Canis.

<sup>42</sup> Ally's shares traded somewhat under \$25 per share in this time, from \$24.75 to \$24.95 according to Google Finance.

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