

***Both automakers must meet demanding terms.***

**A loan at last.** On December 19, President Bush announced that \$17.4 billion in TARP funds would be loaned to General Motors and Chrysler in December and February. The two companies will receive a total of \$13.4 billion in bridge loans this month; an additional \$4 billion could be borrowed two months from now. GM and Chrysler are slated to receive \$4 billion apiece on December 29; GM will get another \$5.4 billion on January 16.<sup>1</sup>

This significant favor comes with stipulations. The funds are designed to keep both companies solvent through the end of March. At that time, the Obama administration will take a look and see if GM and Chrysler are meeting the terms of the loans. If they do, they could get further monies from Washington. If they don't, they will have to pay the loans back by the end of April; that could mean Chapter 11 bankruptcy.<sup>2,3</sup>

**What are the loan conditions?** The key terms are pretty much in line with the recommendations of Sen. Bob Corker (R-TN), who worked hard to break the impasse over the issue in Congress. Corker wanted the United Auto Workers to reduce wages so that GM and Chrysler could compete with Honda, Toyota and other foreign-based auto firms with U.S. plants. He also called for debt-for-equity swaps to help GM and Chrysler cut their debt down to about a third of its current size. The loan demands this debt reduction, and requires both automakers to reach an agreement with the United Auto Workers to renegotiate salaries and benefits.<sup>2</sup>

That's not all. The UAW Jobs Bank will be done away with, and the UAW's wage structure will have to be made "competitive" with the wage structure adopted by foreign-owned competitors by the end of 2009.<sup>3</sup> The UAW has called the conditions of the loan package "unfair".

**What chance do the companies have to survive?** Well, a merger is a possibility. Last week, the *Wall Street Journal* claimed GM and Chrysler were in merger talks, but both companies denied it.<sup>4</sup> Besides the necessity of restructuring debt, the automakers need to commit to the development of new and competitive vehicles, cut costs further, and possibly gain more concessions from the UAW.

Beyond that, the issue is simply cash flow. Demand for new cars is at its lowest level in a generation. If the economy improves in mid-2009, it only figures that demand would rise. The UAW recently decided to assume

some health care costs for union retirees and allow GM and Chrysler to pay new hires at lower wages; that should translate to a sizable long-term financial break for both companies.<sup>5</sup>

The future is still a question mark. On Friday, Fitch Ratings lowered the credit ratings of both Chrysler and GM to “CCC” – one level above default. In announcing the downgrade, it said that in its opinion, the default of both GM and Chrysler is imminent.<sup>6</sup> But the new administration may be even more supportive of domestic automotive giants and the UAW, and help both companies survive in their current form.

**Citations.**

<sup>1</sup> [freep.com/article/20081219/BUSINESS01/81219021](http://freep.com/article/20081219/BUSINESS01/81219021) [12/19/08]

<sup>2</sup> [nytimes.com/2008/12/20/business/20auto.html?\\_r=1&ref=business](http://nytimes.com/2008/12/20/business/20auto.html?_r=1&ref=business) [12/19/08]

<sup>3</sup> [money.cnn.com/2008/12/19/news/companies/auto\\_crisis/index.htm?postversion=2008121912](http://money.cnn.com/2008/12/19/news/companies/auto_crisis/index.htm?postversion=2008121912) [12/19/08]

<sup>4</sup> [marketwatch.com/news/story/gm-chrysler-reportedly-reopen-merger/story.aspx?guid={1D6A184F-52E8-48D9-9E15-21D1DA9F5250}&dist=msr\\_1](http://marketwatch.com/news/story/gm-chrysler-reportedly-reopen-merger/story.aspx?guid={1D6A184F-52E8-48D9-9E15-21D1DA9F5250}&dist=msr_1) [12/18/08]

<sup>5</sup> [money.cnn.com/galleries/2008/autos/0811/gallery.autos\\_crisis\\_causes/5.html](http://money.cnn.com/galleries/2008/autos/0811/gallery.autos_crisis_causes/5.html) [12/19/08]

<sup>6</sup> [marketwatch.com/news/story/Fitch-downgrades-GM-Chrysler-one/story.aspx?guid={23B9A665-A6B8-482E-A5AB-D35F0F6DC3ED}&dist=hplatest](http://marketwatch.com/news/story/Fitch-downgrades-GM-Chrysler-one/story.aspx?guid={23B9A665-A6B8-482E-A5AB-D35F0F6DC3ED}&dist=hplatest) [12/19/08]