



The Role of TARP Assistance in the Restructuring of General Motors

Baird Webel, Bill Canis

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General Motors Corporation (Old GM) was a publicly traded company from 1916 until its bankruptcy in 2009. As part of restructuring, Old GM and its successor General Motors Company (New GM) together received over \$50 billion in federal assistance through the U.S. government's Troubled Asset Relief Program (TARP). In exchange for this financial support, the U.S. Treasury received 60.8% of the new company, with the rest of New GM held by the United Auto Workers (UAW) retiree health care trust fund, the governments of Canada and Ontario, and holders of Old GM's bonds. In its restructuring, GM closed plants, cut its hourly and salaried workforce, shed three brands, reduced debt, introduced popular new vehicles, and implemented changes to reduce retiree legacy costs, which had been a major financial drain.

The federal government has sold its shares in General Motors Co. in two ways. In November 2010, New GM conducted an initial public offering (IPO) of stock to investors, once again becoming a publicly traded company, although the post-bankruptcy owners, including the U.S. government, continued to hold significant stakes in the company. Of the 550 million shares sold in the IPO, the U.S. Treasury sold approximately 412 million, for which it received \$13.5 billion. This sale left the U.S. Treasury owning 32% of the company's common shares. The only capital New GM itself raised through the IPO was \$4.9 billion from the simultaneous sale of preferred stock.

In December 2012, the U.S. Treasury announced the sale of an additional 200 million shares priced at \$27.50 per share (\$2.00 per share above the market price on December 20, 2012). These shares were purchased directly by New GM itself for \$5.5 billion, reducing the government's ownership stake in New GM to 22%. At the same time, the Treasury announced that it expects to sell the remainder incrementally by March 2014 and that it has removed restrictions on New GM owning corporate jets as well as certain reporting requirements. TARP-imposed executive pay limits, however, will remain.

GM is not the only company that received TARP funds as a result of the 2008-2009 financial crisis. More than 700 institutions received support, with the U.S. government taking ownership stakes in five large companies: GM, Chrysler, GMAC (now called Ally Financial), AIG, and Citigroup. In general, ownership of private companies was not a goal of TARP, and the U.S. government has sought to reduce its ownership stakes when possible while maximizing the taxpayers' return from the assistance.

The strength of New GM's stock price, and the related recoupment of government assistance to the company, have hinged on two major factors: the success of GM's restructuring and the performance of the global economy, including retail auto sales. New GM's finances have improved markedly since its emergence from bankruptcy, and the company is once again consistently profitable. To date, the U.S. government has realized a \$7.5 billion loss on its investment in General Motors. Future sale of the remaining 300 million GM shares could result in gains that would offset this loss. In order for the U.S. government to fully recoup the nominal value of its \$50.2 billion assistance, however, the government's remaining shares would need to sell for nearly \$70 per share, well more than double the price that has been received by the U.S. government in past sales.

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