The committee met, pursuant to call, at 9:30 a.m., in Room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] Presiding.


Also Present: Representatives Levin and Kaptur.
Mr. SACHS. Chairman, thank you very much. Let me start by commending this committee for keeping at this, because this is of extraordinary importance for the American economy. Nobody likes this crisis, nobody likes these bailouts. History will record that this committee made a great service to the country in passing the TARP legislation. We have a crisis that is unprecedented in its speed and ferocity. It is hard to get everything right. You are doing the right thing. I would plead with you to stay in session to get this one done as well, otherwise we will have a meltdown in this economy that is of absolutely extraordinary proportion. This industry has enormous value worth preserving. These are some of the largest companies in the entire world. This is absolutely the worse financial crisis since the Great Depression. We all agree, aside from specific tactics on the need for a large government loan and a government involvement, so we are down to the details.

In my view, Chapter 11 is not the best option right now. It is extraordinarily unpredictable. The last time we did a Chapter 11 was Lehman Brothers. That turned out to be the single biggest financial shock in modern history. And I think that we want to avoid going to that route as a first
resort. In my view, it is the last resort. There are
tremendous unpredictabilities on the consumer side, the
finance side and the supplier side. Possibilities of
cascading disasters that I think we would do best to avoid
right now. Now, we all agree that we need a significant
restructuring. What GM put forward in detail, for example,
is a very significant balance sheet restructuring. I believe
that it can be done outside of Chapter 11, and I think that
is what should be attempted right now. And I think it is
enormously impressive what they put forward and enormously
important for us to support that process. They call for an
oversight board that can help that process. I agree with
that. And I think that this is the basic structure in which
this should proceed. Who should pay for this? This is the
hot potato that everybody is worrying about, understandably.
There are three sources of funds it seems to me, not just
two. One is a direct loan by the Fed.

I think Chairman Bernanke is the missing personality at
these negotiations, quite frankly. I do not understand the
reticence of the Fed right now. The Fed lent against Bear
Stearns assets. The Fed lent against Citibank assets. The
Fed can lend against GM collateral. This is a big mistake
that is being made right now. This is a systemic financial
risk in this country and a substantial one. And we need the
Fed here as well. So in my opinion, this is the first place
where we should be looking for financing. Second is TARP.

It fits perfectly with the intentions of the TARP that this
be used for this purpose. And I am so happy with the
testimony of Mr. Dodaro yesterday and again today. This is
absolutely appropriate that the TARP should be used for this
purpose. The third is section 136. I also support that.

Let’s be pragmatic. Get this job done so that we don’t
have a meltdown. Have a new administration come in. It is
going to have to take a longer term look at this in early
2009 to help this process go forward. This is not the end of
the story, this is the beginning. That does not mean endless
amounts of new money. That is not what I am implying. What
I am implying is a government support for a basic
restructuring of this industry to achieve financial
restructuring, balance sheet change and model change along
the lines of the environmental goals that we all share. So
we need to get there because otherwise we will have a
meltdown. I think at this point the double standard with
Wall Street is so painful and so palpable it is hard actually
to understand. How one throws a $306 billion guarantee over
Citigroup without a single hearing or a single plan or a
single datum, but we can’t get even a loan effectively senior
and collateralized for millions of workers is a shock to me.

I don’t even understand what they are thinking right
now. Because this is absolutely as systemic as Citigroup or
 absolutely as systemic as the other financial matters. This
is our largest industry. Are we going to watch it melt down
by Christmastime? That is what we are talking about, with
all of the disintegration of value that would go along with
this. So I think we have to frankly, in my opinion, have
Chairman Bernanke and Treasury Secretary Paulson here at the
table. We have three sources of funds. It needs to be
worked out. This is not an endless open-ended process.
There are plans on the table which your committee has
successfully elicited, a great contribution of these hearings
I might add. And it is going to be a process now to get to
the next administration for a longer term considered
strategy.

Let me finally add that all around the world governments
are supporting their automobile industries. Just now
yesterday President Sarkozy made announcements about Ford--I
am sorry, about France. This is going to be a worldwide
phenomenon given that we are in the sharpest downturn in
modern history. And so please do not leave this weekend. I
don’t want to open up to see what the markets look like on
Monday morning because Congress has gone home and hasn’t been
able to figure out how to do $25 billion when we have got
trillions of dollars at stake. Thank you very much.

[The information follows:]
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RPTS KESTERSON

DCMN MAGMER

[1:28 p.m.]

The CHAIRMAN. You are pretty free with our weekends,

Mr. Sachs.

Mr. SACHS. With all due respect.

The CHAIRMAN. You may have to give notes to our

responsive spouses, significant others and children.

First of all, I appreciate—let me ask this. Do you

have an opinion on the response that was made by the Treasury

and the Fed in various combination to Citigroup and AIG?

Take them one at a time. What did you think about the

response to AIG?

Mr. ALTMAN. I think the AIG bailout was necessary. I

think the deal that the U.S. government got was very poor.

AIG is a global organization with an incredible amount of--

The CHAIRMAN. They didn’t declare bankruptcy, did they?

Mr. ALTMAN. No.

The CHAIRMAN. Do you think they should have? I mean,

why the requirement for bankruptcy here and not AIG? I am

picking up—or similarly with Citigroup. Both of those got

large amounts of money without bankruptcy. Why is bankruptcy

a necessity for the autoworkers or--

Mr. ALTMAN. In this case, what I am advocating is that

the government does not turn its back on General Motors when
they go bankrupt. In fact--

The CHAIRMAN. I understand that.

Mr. ALTMAN. --I am advocating a much greater amount of assistance than what General Motors and the rest are asking for.

The CHAIRMAN. I understand that, but I still--it does seem to me there is a difference in the treatment legally in terms of bankruptcy that was provided with regard to AIG and Citigroup on the one hand and what you are advocating here.

Mr. ALTMAN. There is a difference.

The CHAIRMAN. What is the justification for being harsher on the auto companies than on the financial companies?

Mr. ALTMAN. Well, first of all, I don't think we are being harsher on the auto companies. The auto companies--

The CHAIRMAN. You don't think if AIG was told if they had to do some form of bankruptcy, they wouldn't have thought that was being harsher?

Mr. ALTMAN. I am sorry. I didn't hear the question.

The CHAIRMAN. Well, if AIG had been told that they had to declare some form of bankruptcy, et cetera, you don't think they would have considered that to be harsher than what in fact happened?

Mr. ALTMAN. Sure. Absolutely.

The CHAIRMAN. Then why isn't it harsher for the auto
companies than it was for AIG?

Mr. ALTMAN. No, no. What I am saying is that I think the only hope for General Motors and the rest is to go bankrupt, to restructure, to perhaps even change the management of this company.

The CHAIRMAN. We changed the management of AIG without bankruptcy, and we restructured. I just don’t understand why you have to take the extra step of bankruptcy here and didn’t do it there. And there is this concern of a disparity that—and the ranking member made the point with regard to even the treatment of requests for approval of various forms of banking.

I appreciate it. I think that that is both a perception problem and a real problem; and I have to say I think there is to some extent in the culture and at the decision-making level what I have said before, a blue collar/white collar bias. I have heard a lot of requests from Mr. Gettelfinger to have the blue collar workers that he aptly represents reduce their compensation because it is greater than some other autoworkers. But my guess is the average autoworker gets significantly less in annual compensation than the average worker at Citigroup or AIG. And no one asked that they reduce their wages. We did talk about cutting out their bonuses, but I am sure the autoworkers would be perfectly willing to give up their bonuses, which they don’t have. So
that is what is troubling to me.

Let me ask the panelists, Mr. Sachs, Mr. Rohatyn, who has some experience here, what is the likelihood in your judgment of our taking some action and it leading ultimately to success, to the survival of the companies? Mr. Rohatyn.

Mr. ROHATYN. I would think, Mr. Chairman--and depending on how quickly it is done, because every day that goes by creates another problem--I would think you have a 50/50 chance of being successful. The case is difficult to make from a popular point of view, but I think it is vital from a substantive point of view.

The CHAIRMAN. You do substantive and we will do popular or unpopular.

Mr. Sachs?

Mr. SACHS. I think the chances of GM and Ford remaining self-standing, successful companies is over 90 percent.

Very, very high probability. Chrysler, obviously, the chance that it gets merged with some other company is more likely. But these are major global enterprises. Unless in the middle of this crisis they are driven to disaster, they will survive and they will recover.

The CHAIRMAN. Thank you.

Mr. Friedman, one last question because--and I began and Mrs. Maloney ably carried out on the issue you raised about the lawsuit. One of the arguments we got was, though, that
the three American companies are only some of the plaintiffs.
If they withdrew as plaintiffs, would that end the lawsuit?
Would it be more than a symbolic victory to get them out if
other plaintiffs were able to go forward on the same legal
issues?

Mr. FRIEDMAN. There are definitely other plaintiffs.
But let us be honest, the leaders of these lawsuits have been
the Big Three.
The CHAIRMAN. I understand that. But, as a practical
matter, what would the effect be if they got out? Would
their lawsuit still go forward?

Mr. FRIEDMAN. You would have to ask the members of the
other foreign companies and some of the dealers what they
would do. But I would think it would be incredibly difficult
for them to maintain those lawsuits if the Big Three stepped
away.

The CHAIRMAN. The gentlewoman from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Mr. Friedman, I serve on the Science Committee as well
as this committee, so I am really extremely interested in the
alternative vehicles and all that goes into that. And I
worry about the fact that we have to continue this,
particularly with the price of gasoline going down as in the
1970s when everybody suddenly thought, well, let us bring
back the big cars. But I do see a difference here with
people really looking forward to having the fuel-efficient
cars. Do you think that that is one of the factors that—why
people are not buying a car right now, that they know this is
coming soon and there are already the hybrids and they don’t
want to buy a car that is going to lose value, that doesn’t
last as long as some cars have in the past?
Mr. FRIEDMAN. I am not sure people are avoiding cars
because they are just holding back and waiting for the next
silver bullet.
I think the challenge, actually, has been for the last 7
years before the credit crisis people weren’t buying as many
cars; and the reason for that was because gas prices went up
and they were less affordable. But, even more importantly,
what happened during those 7 years was overall sales went
down by 1 million, but domestic sales went down by 2 million.
And what that means is the Big Three were losing market
share and the imports were gaining market share in part
because they had a better reputation and in part because they
had better fuel-efficient vehicles.
Gas prices are low now, but basically we have low prices
by recession. That is not a sound basis for a financial and
energy or an environmental policy. We need to be prepared
for when gas prices spike again.
Mrs. BIGGERT. What we also had, though, was the rebates
that people got with the 60,000 cars in each of the different
companies if they bought a hybrid car. And that was put in
in 2005, and most all of those have expired now. Do you
think that that is one way to go back to spur people to buy
cars?

Mr. FRIEDMAN. I think there are two steps that we need.
One in general for buying cars, I do think we need to find a
way to get consumers more resources to buy new cars and that
those resources should be directly tied to the performance of
those vehicles, not just hybrid vehicles but even just a
simple conventional vehicle like some of the technology Ford
is talking about that can boost fuel economy by 25, 30 or 40
percent.

The tricky thing is going to be, how do you pay for
that? Now, one option is in the broader stimulus to invest
money, to encourage consumers to buy more cars. Another
option is to create a system of fees and rebates to help move
the market while you are also increasing standards.

Mrs. BIGGERT. There is, you know, the EISA, section
136. And you talked a little bit about that, and I wasn’t
quite clear what you meant. But this really is to encourage
the companies to invest in the type of cars that we want to
see.

But one of the plans that was brought up was to take
some of that money and to infuse the three car companies to
provide the money from that. But isn’t going to then
reduce--isn't that going to reduce the amount of research and
development into finding the ways to improve CAFE standards
and all of the things we need to do?
Mr. FRIEDMAN. I do worry there are risks of robbing
Peter to pay Paul. If that money is shifted over without the
same conditions that are currently under it, which is that
those investments must provide at least a 25 percent increase
in fuel economy, if the car companies and if Congress does
not accept the fact that the auto industry's future has to be
founded on increasing fuel economy and innovation, these
plans will all be doomed to fail.
We need to invest in them in a smart way and make sure
consumers get something back. I think it is powerful if we
can tell consumers we will save you $30 billion by 2025 by
requiring automakers to do more than they already have to in
terms of fuel economy. I think that will build significant
confidence in a world that right now, because of the previous
bailout, are not very comfortable with where this money may
or may not go.
Mrs. BIGGERT. Just a short question for anyone who
wants to answer. We used to be able to deduct interest on
auto loans. A lot of that has gone into home equity loans.
Does anybody think that that should come back? Will that
spur coming back? Mr. Lester?
Mr. LESTER. I think overall that is one mechanism that
would be able to stimulate consumers to begin to buy vehicles
as it was done in the past that consumers were able to write
off interest on the loans. I know it is being researched now
through Senator Mikulski. But I do think that it is one
viable option.

Mrs. BIGGERT. Thank you. Yield back.

The CHAIRMAN. The gentlewoman from California.

Sorry. The gentleman from Pennsylvania.

Mr. KANJORSKI. Thank you, Mr. Chairman.

Mr. Sachs, I listened to your testimony there at the end
as I returned from a break, and I have to say I am in full
sympathy with what you are saying. I can't understand all of
this problem and we are arguing over what pot this comes out
of. It is like—I gave an example just recently when someone
asked me. It is like having a starving man come up to you,
and you go through a mental argument with yourself as to what
pocket you should take the money out of in order to buy him
food. In the meantime, he starves to death.

In this, it seems the inaction of the Congress and the
administration in arguing over the energy pot, the TARP pot
or whether we develop a new pot, who really cares? What I do
care about is how we structure this, because I think there
are several precedents in the future that we have to make.
One I am disturbed about is that we are rushing this in the
11th hour to do something very quickly with very poor
forethought; and just having come off the Wall Street rescue program, I think we can all see now that what we anticipated to be responsible implementation by the executive branch of government has not necessarily followed. Now, maybe they were great at Goldman Sachs, but I don’t think they would have written some of the deals they wrote for Goldman U.S.A. and, as a result, we have to tighten up what authorities we allow these people to do in dealing with the taxpayers’ money.

Now one of the things that I think we have to come up with is several conclusions. I watched all of the testimony yesterday before the Senate, and I was particularly moved by the questioning of Senator Corker and then the testimony of Mr. Zandi. And I think they really in a clutch put our problem.

Mr. Corker, he is a Republican; and I am a Democrat. So understand this is very bipartisan, this discussion. I thought he was absolutely on the ball when he talked about the problem with these companies are they are not real companies. When you look at their balance sheet, you reject the viability of success of these companies. They are not going to make it. They have to be restructured. They have to have haircuts, if you will, through all of the elements of contribution, whether it is management, labor, suppliers, creditors, dealers. They all have to be brought in.
Now, that is a hard thing to put together. We know from our experience with Chrysler bailout number one, it took 3 months to do that, 90 days. So what can we do in a week? We can’t do much. I don’t think we can get to a final settlement to prevent bankruptcy if bankruptcy is 25 days off.

So my remedy would be very simple. Right now, let us take the big risk, with what we have pending, do an emergency plug-in of $4 billion for General Motors, $4 billion for Chrysler—that is what they say they basically need to make March 31st—and then dedicate ourselves, together with the present and the future administration, to put a settlement sheet together as to what the Congress and the taxpayers need as assurances which would mean restructuring these companies. And not being too optimistic as to whether or not they are going to do this.

Impose a master, a super master on the board—or oversight that can impose a settlement. Tell them what they have to do. If the creditors aren’t willing to take a haircut, enforce a haircut. If we can did that, I think we can get to a very optimistic program.

Now, with all that being said, there is one other area I would like to hear from you, very quickly. I am disturbed with the fact that they have woven into their network the inability for any one of them to fail without causing
systemic risk to the whole system. We have allowed something
to occur in this system that one little, small company like
Chrysler can force the United States Government to come in
with untold amounts of money. Because if they fail, the
suppliers fail or the other companies fail. It will be
systemic risk. Something we did in the law to allow them to
get that complicated.

And part of that is having them become financial
institutions, too. Why can’t we spin off their financial
elements from these, quote, manufacturers? Let them be
manufacturers and let banks do financing. What is the
problem with that?

As I hear through all of the testimony, particularly
from Chrysler, the biggest part of their business and the
most important asset they have is the financial part of the
asset. I think they would forego the car business. They
want to be in the financial business. Let us separate them.

What is your thoughts on this? Very quickly.

Mr. SACHS. Thank you very much, Congressman.

I think, in general, the logic that you are making a
loan against a credible scenario, but it is going to be taken
up again in the spring by the new administration in a more
clarified structure is the right logic of what is happening
right now. You don’t have the time to fine tune this thing,
but you can’t let it go at the same time. I would urge you
to go a couple of months later, let this new government come in, have a moment to find their seats, to actually think through this thing so that maybe it is May 1, maybe it is June 1.

But you are right, that this is a two-step process. We can't let the meltdown happen right now. The bigger restructuring depends on the quality of executive branch leadership and your oversight.

I feel your pain on TARP. I want to commend you for passing TARP, though. It made a huge, positive contribution.

And on the subject--

The CHAIRMAN. The time has expired.

The gentleman from Delaware.

Mr. CASTLE. Thank you, Mr. Chairman.

I am actually going to follow up along the same lines, Professor, that Mr. Kanjorski was just asking about.

You indicated in your opening statement here that virtually any of these sources that have been discussed potentially could help with the auto bailout, and you are critical that the Federal Reserve has not been involved. You talked about the TARP. You talked about, I think, the section 136 funds which are out there. My question is, is there any reason why we couldn't use multiple sources, maybe even some of the larger banks that hopefully are being restored to credibility and more liquidity could be involved
as well?

Mr. SACHS. Essentially, the Fed option is a loan to one of our big banks or a group of banks which then on loan against a nonrecourse collateral of Big Three collateral; and GM testified this morning that they have some collateral for that this morning, also. That is why they could be a part of this solution.

No doubt it is going to chop it up, and using all three would make sense. But it means getting people in the room to negotiate something. That is why I say the weekend, as painful as it is, is really important to get this thing done. And I don’t think that there is a magic to not using section 136 or only TARP and so forth, but probably all three can play a role.

Mr. CASTLE. And, just briefly, you basically I think in answering Mr. Kanjorski were--you are agreeing that we could do something on a temporary--it could be 6 month or 4 month basis over the more permanent funding solution at a later time?

Mr. SACHS. I would urge you not to make it so short term that everybody says, my God, there is no solution here. But, on the other hand, you don’t have to solve a 5-year problem today; and you shouldn’t solve a 5-year problem today. Because you need the executive branch, and that means a new government and giving them a bit of time. So I would
go 6 months out and get that done with the positive intention
that we are on a new path in this country and that this is to
make a new industry out of this. And I think you will make a
great contribution that way.

Mr. CASTLE. Good. Thank you.

Mr. Dodaro, have you looked--has your office looked at
these numbers and are you in agreement with the numbers? I
mean, we have seen the reports from Ford, Chrysler and
General Motors, and we have looked at them, and our staff has
looked at them. I am not saying we have the expertise to
understand them. They are making representations today which
you probably heard about the exact amount of money they need
even on a month-by-month basis at this point. We need, I
think, verification of that or the rebuttal side of it if
that is what the case is.

Have you all looked at that carefully? Are you
satisfied that their representations are accurate? I am not
suggesting they are misrepresenting intentionally, but they
are accurate in terms of their numbers?

Mr. DODARO. First of all, we were brought in at the
time when they were prepared to plan. So we have only had
the opportunity like everybody else to look at the plans
since they were submitted late on Tuesday.

Mr. CASTLE. That is right. We assume you are a lot
brighter in this area than we are.
Mr. DODARO. There are a couple of issues, Congressman. Number one, we have read the plans. We don’t have normal access to the records of private sector entities. We have tried to look at some of the publicly available information.

Now, Chrysler being held by a private equity firm doesn’t produce public financial statements. So the publicly available information on them is really very limited at all. And looking at the plans, there are assumptions in the plans that I think need to be monitored very carefully. There is assumptions that they can exchange equity for some of the debt that they owe. There is assumptions that they can negotiate with a number of their stakeholders in bringing down some of their costs. There are assumptions about car sales going forward. So that is why we have suggested, you know, the immediate approach and even the cash draws that are in place.

There ought to be certifications by the companies that credit is not available anywhere else. Someone on behalf of the Federal Government should look at the cash flow information, the details that support their plans and disburse the money, even in the immediate period. The money is to be needed between January and March, and circumstances can change. So somebody on behalf of the Federal Government.

That is why we had suggested a board or some entity that
provides the immediate assistance could get those operating
plans and cash flow justifications and make sure that it is
warranted in that case, while the more longer term
restructuring issues could be settled along the lines that
Professor Sachs is talking about.

Mr. CASTLE. Well, I agree. I think clearly we need the
board; I think clearly we need your engagement and
involvement in it. But it is interesting, because you are
sort of endorsing the shorter-solution-first concept as well.

Mr. DODARO. There are many issues. This is a very
complicated situation. And I think that if the government
goes into it, we ought to go in with eyes wide open, that
this is--as I mentioned in my opening statement, you have
short-term liquidity issues, but you have restructuring
issues, and this is all occurring against the backdrop of a
very uncertain, unchartered economic climate.

The CHAIRMAN. The gentlewoman from California.

Ms. WATERS. Thank you very much, Mr. Chairman.

I have tried to concentrate my efforts on the small
dealerships. One of the reasons I do this is because
politicians and others are constantly saying we are bailing
out Wall Street, but what about Main Street? And it has
become the kind of rhetoric with no meaning to it. And I
really am concerned about Main Street. And while the
manufacturers came in here today talking about they have some
consolidation plans, they failed to really tell us what those consolidation plans are.

I maintain that simply getting rid of all these small dealerships and consolidating by allowing the big boys to buy out all of the small dealerships—I want to ask Mr. Lester. Many of those small dealerships are minorities. Many of them are in trouble. I keep hearing that they can get no help from the financial arms of these auto manufacturers, whether it is GMAC or the others. They all have these financing arms that have shut down on them.

One can make an argument, well, they are in financial trouble. However, as I understand it, they are literally blocking the ability for small, independent companies to be able to stay afloat, just as they are asking us to help them do or to be able to buy up some of the other smaller dealers that would like to sell.

Could you help me understand? What do you know about this consolidation plan? Why can’t you get money from these financing arms? And if you can’t get money from them, surely you can get money from these banks that we are bailing out. What is going on?

Mr. LESTER. Right now, there is an overall freeze for access to capital via a captive institution or a larger financial institution to provide credit or capital to any dealership. As a result of this credit freeze that we are in
right now, most of the banks and the captives deem it too high risk to lend to dealers now when, historically, they were courting dealers, particularly minority dealerships, for their business.

As relates to the captives, it is even to the point as well as the financial institutions that when we are in an environment of decreasing our interest rates, they are increasing them and putting a stronger requirement onto the dealerships. And when we are in an environment where there is very few traffic in those stores, you cannot hold your operating—working capital requirements on a monthly basis if you have a squeeze from your local bank curtailing your loan, you have a squeeze from your lender, increasing your floor plan rates, and you have the inability and also the actual shutting down of your access of credit from via your line of credit with your financial institutions.

Ms. WATERS. I understand that, if I may, that many of these small independent banks have operated very well for many years. They are good managers, and they just happen to be caught up in this economic crisis. But if they can stay afloat as the automobile manufacturers are asking us to keep them afloat that they would be able to resume and make a profit and do well. Is that true?

Mr. LESTER. Yes. Many of the dealerships believe that if they can get some help they can survive these turbulent
times. Dealers are one of the most resilient entrepreneurs out there. But if there is no help or no availability to capital, they will just go away, run out of cash and close their doors.

Ms. WATERS. Are the big automobile manufacturers that were here today, are they calling in their loans today at their financing arms? Are they squeezing small independent dealers now?

Mr. LESTER. Yes. They are to the point of asking for—curtailing their floor plan loans. They are shutting down lines of credit. They are not providing any access to capital to the standpoint where, when you had available credit made available, they have actually closed those lending down.

Ms. WATERS. Do you believe that if we are to rescue these big automobile manufacturers we should insist or include in our language support for the small independent dealers?

Mr. LESTER. Yes. If support is going to be given to the manufacturers, the dealers also have to get some fair support as well as they have—they work hand in hand. If they can make it, there is not going to be anyone left to sell it.

Ms. WATERS. Thank you very much, Mr. Chairman.

The CHAIRMAN. The gentleman from Alabama.
Mr. BACHUS. Thank you.

Professor Sachs, I want to welcome you and express to you that I have enjoyed our friendship and working together on issues. It is good to see you.

I am going to address my question to Professor Altman, because my question deals with restructuring. And I think we all agree that there has to be a fundamental restructuring of the industry. And my first question, the Comptroller General mentioned that general restructuring—I may be paraphrasing you. There are a lot of complex issues. I think you expressed your concern that these couldn’t be dealt with in a matter of months or weeks for sure; is that correct?

Mr. DODARO. I think they need to be carefully thought through, and I think there has to be somebody at the table representing the Federal Government and the taxpayers’ interest and safeguarding those, to be done successfully, to achieve the right outcome.

Mr. BACHUS. All right. And I think you are dealing—restructuring, it usually takes years. I mean, does it not? I am not against that. I am just saying it is not something you go in on a Friday and you come out a month later. Is that—am I accurate? Or would you say—

Mr. ALTMAN. Yeah, I would endorse that. In a Chapter 11 reorganization, the average time is 18 months to 2 years.

Mr. BACHUS. So it is not a short and sweet process.
Mr. ALTMAN. This is a very complex company with many international as well as domestic aspects. It would not be a short period, and that is why they need sustainable funding for a long period of time.

Mr. BACHUS. That is actually where I was going. It is a process of several months, at least, if not 18 months to 2 years, particularly with the challenges that the domestic automobile industry has and the extent of restructuring. So even this idea of prepackaged—I mean, there is issues that prepackaged is—certain things should be dealt with, but they have to be dealt with during that process of restructuring.

Which brings me to this. They are going to need financing. You don’t have restructuring without significant financing.

Mr. ALTMAN. Absolutely.

Mr. BACHUS. And I think you have to have successful restructuring to get the money back. So it ought to be—whether you are a Democrat or Republican or conservative or liberal, we ought to all want a fundamental and successful restructuring. And that can’t happen without financing.

Mr. ALTMAN. Absolutely. And the idea that we put forward is that they would get more than the $18 billion that General Motors is asking for. We actually ran through our models to look at what the $18 billion would bring to them, and they still come out as a likely bankrupt company with the
$18 billion. With $4 billion or $8 billion, you know, there
is almost no chance.

Now, in terms of the restructuring, that probably would
take a minimum of 12 months, probably closer to 2 years,
which is consistent with the likely--how long the recession
is likely to last. So the best time for them to be coming
out would be when the recession is over; and in this period
of time, they need this 40 to $50 billion or more.

The testimony yesterday in the Senate from Mr. Zandi was
the fact that they needed 75 to $125 billion, all three of
them. And the numbers are much larger than what they are
asking for. They are going to be come back asking for a lot
more in a very short period of time.

Mr. BACHUS. But if you give them $20 million without
structural changes, then you lose that. If there is a
successful restructuring and they are profitable, you know,
there is not a loss to the taxpayer, at least the taxpayer is
protected. So that maybe sounds a little different.

Let me wrap it up by saying that--because my time will
expire--I am very disappointed--I expressed this to the first
panel--with the financial institutions that have received
hundreds of billions of dollars with the express intent of
loaning that to America’s manufacturers. And is that not a
source of funds?

Mr. ALTMAN. Yes. Well, let me mention, with respect to
the DIP financing, it is—these are experienced institutions dealing with DIP financing. They could help out enormously, but they also should help out in terms of providing part of the DIP financing funds. It is a good investment for them. It is a good investment for the United States taxpayer. And I believe this is the way to go rather than simply having no participation on the part of expertise in this area.

The CHAIRMAN. The gentleman from North Carolina.

Mr. WATT. Thank you, Mr. Chairman. Three questions.

First, Mr. Lester, I take it if we do something either short term or intermediate term, your position is we ought to include the suggestions that you have outlined in some detail on the bottom of page 3 and the top of page 4 of your testimony?

Mr. LESTER. Yes.

Mr. WATT. Mr. Sachs, what is your take on what kind of pressure we should be putting on this private equity firm to ante up this money for Chrysler’s part of this? There seem to be two or three different kinds of spins that are being put on that. Can you give me your brief take on that?

Mr. SACHS. I don’t put the Chrysler situation really different—so different from the other two in that regard. I think none of them—

Mr. WATT. Do you think the private equity firm would sit there and allow Chrysler to go into bankruptcy as opposed
to anteing up the rest?

Mr. SACHS. Yes.

Mr. WATT. Why?

Mr. SACHS. Because if there is no chance of financing that gives them the way out, that may be their best shot right now, is to take zero.

Mr. WATT. Even if they have the money?

Mr. SACHS. Yeah, because it may just go under. If there is no financing for restructuring, it doesn’t make sense.

Mr. WATT. Okay. And, Mr. Sachs, again, you talk about a 6-month time frame, but you heard Mr. McCotter’s suggestion that we do this on an even narrower time frame. What was your reaction to Mr. McCotter’s suggestion about how we do this on a smaller amount with a shorter time frame?

Mr. SACHS. I think this is relevant also for this restructuring issue. We can’t send a signal that we are just dripping an IV line into a moribund patient. That will not work. The idea of doing this for 3 weeks is a zero in my mind. It doesn’t make any sense.

Six months only works, by the way, if it is done in a very positive way with President-Elect Obama saying, we are going to make this work for the longer term; we are going to be in there.

And--sorry, if I might, Congressman, just to
emphasize—we don’t need Chapter 11 to do a balance sheet restructuring. We can do it in the shadow of this and preserve value.

Mr. WATT. You are arguing about something that I am on your side on.

Mr. SACHS.  Yep.

Mr. WATT. What is the 6-month cost? Is that the $19 billion or what did that come to, the 6-month cost that you are talking about?

Mr. SACHS. I would have to add up for each of them, which we could do on that basis. But it is somewhere around the number you are giving.

Mr. WATT. Sixteen, eighteen billion?

Mr. SACHS. Something like that.  Yes.

Mr. WATT. So you are suggesting that a viable approach to this, instead of 34, making a $34 billion commitment, would be to do it in a 6-month increment?

Mr. SACHS. What I am suggesting in the reality of this is that what we are doing right now is getting to a position where a more fundamental decision can be taken in the spring. And it is going to require more money in the spring. But against the kind of longer-term scenarios that have been presented to this committee. So I don’t want to cut it so close that the consumers say it is an abandonment. On the other hand, you don’t have to settle everything for the long
term right now. You really do have to carry it in a positive way to the next government.

Mr. WATT. What is your reaction to that, Mr. Dodaro?

Mr. DODARO. Basically, we had suggested if the Congress makes the determination they want to provide assistance here, structuring a short-term and a longer-term approach is an appropriate way to go forward.

Mr. WATT. So what you are saying is consistent with what Professor Sachs is saying?

Mr. DODARO. Yes. The only additional point that I would make, Congressman, is that even in the short term I think there has to be a guardian, a Federal guardian and an independent person making sure that the disbursements are warranted even during that short intermediate period of time.

Mr. WATT. To the extent part of that money would come out of the TARP, there is already an existing framework for doing that. Is there one in the section--whatever--106 money or whatever it is?

Mr. DODARO. Yeah. What I am talking about, though, would be more rigorous than what is in the TARP program right now.

Mr. WATT. Do you mean what we expected the TARP oversight people to do, rather than what they are actually doing?

Mr. DODARO. I think we need more information up front
to have confidence that the government's expenditures are there, and in the short term I would have a higher risk premium.

The CHAIRMAN. The gentleman from Massachusetts.

Mr. LYNCH. Thank you, Mr. Chairman.

I appreciate the ranking member’s work as well. I want to thank the witnesses for their thoughtful testimony, all of the witnesses here today.

I remain unconvinced, just after listening to the CEOs of the various companies, that any of these plans might ultimately work the way they have laid them out. Just as a threshold matter, the projections that they have for growth in auto sales from year to year during this supposed bailout, totally inconsistent with the employment numbers that we saw come out today; and the projections of some related industries like the steel industry, they are projecting a different trend certainly.

And if I take Mr. Dodaro’s suggestion, I would make an assertion, sort of put a marker down, that we need to have a domestic auto industry in the United States. It may not be the Big Three. It might be the Big Two. That might be what has to happen here.

But I am concerned—I hear the different views of bankruptcy, especially with respect to Mr. Dodaro and Professor Altman and Professor Sachs. I am concerned,
Professor Altman, with your scenario there where they have this, you know, bankruptcy proceeding, we try to take care of this problem in bankruptcy. I have had dealings as an attorney trying to represent employees, trying to get their pension funds and their health and welfare benefits from companies that have gone into bankruptcy. Bankruptcy courts are not known for their speed, God knows. And I think easily with companies of this size, number one, it could be a very long bankruptcy. It could be 3 to 4 years, and they would be in bankruptcy when the market comes back. And I think they would be at a severe disadvantage with respect to some of these foreign automakers. I think they would lose a lot of market share, and they wouldn't be able to respond. As well, not only the effect on the firms themselves but also the cascading bankruptcies that might happen, that probably will happen with these suppliers right down the line.

So what I would like to hear from you--here is the essence of my question: Is there some way--and we are looking at this as a pre-bankruptcy sort of assistance now. Is there a way--you describe, Professor Altman, about a super seniority granted to the taxpayer. That is job one for us in Congress. We have to protect the taxpayer. Is there a way to grant super seniority outside of bankruptcy before we go into bankruptcy to any monies that might go?

And, again, I am not convinced that it needs to or that
it should. But we have got to protect those interests.

Is there a way to create a receivership in some way to
make sure that whatever dollar goes to GM or Chrysler or Ford
that if eventually they do collapse into bankruptcy that the
first dollar that comes out of there, before a dollar goes to
any of those CEOs, that the taxpayers are repaid? Or is
there some other configuration--

I tried to look through history about different examples
that might be comparable to this one, and I looked at the
steel seizure cases during the Truman administration where he
went in and just took control of the steel industry. He
obviously was overturned by the Supreme Court because he
didn’t have congressional authorization to do that. But, in
this case, maybe it would be incumbent upon Congress to grant
President Obama when he is in office some emergency type of
power.

Could you just elaborate on how you see that all working
out?
Mr. ALTMAN. Under the law, you are not permitted to issue new debt and take precedent over existing debts that have been collateralized with assets behind it. So that is protected. General Motors has put forward a plan that they say they have unencumbered assets--

Mr. LYNCH. Let me stop you there, though. If Congress passed another law, would it be unconstitutional, would we be derogating the rights of contract if we put the taxpayers' lien ahead of everybody else in the special circumstances?

Mr. ALTMAN. It would undermine, I think, the entire credit system that we have in the United States, to be perfectly honest with you. The flow of credit would come to a halt, even in good times.

Mr. LYNCH. It looks pretty undermined right now. I am just saying we are trying to protect the taxpayers. I understand the principles involved, but these are extraordinary--

Mr. ALTMAN. The only way they could get some precedent for the taxpayer would have new unencumbered assets be put up as collateral, And then the question is what is the value of those. A lot of those are intangibles and would have some trouble convincing me that you are going to get your money back in a short period of time.

Mr. LYNCH. Mr. Chairman, can I have one of the other
4881 witnesses--Mr. Sachs, you have a--
4882 Mr. KANJORSKI. [presiding.] Very quickly.
4883 Mr. LYNCH. Professor Sachs, do you want to take a crack
4884 at that?
4885 Mr. SACHS. On the seniority question. Well, I actually
4886 wanted to respond to the other question, which is we should
4887 not plan for failure of sticking at 10 million units per
4888 year, which is where the economy is right now. So I don’t
4889 find the recovery scenario unrealistic in the same way. We
4890 have to plan for a macroeconomic recovery, and this is part
4891 of it. And there will be a macroeconomic recovery, and by
4892 doing this will help it considerably. That won’t happen in
4893 2009, but it will happen in 2010, 2011, 2012. We have gone
4894 from 17 million units down to 10.1 million. We are not going
4895 to stay at 10.1 million unless we do everything wrong right
4896 now.
4897 Mr. LYNCH. Okay. Thank you, Mr. Chairman. Thank you
4898 for your forbearance.
4899 Mr. KANJORSKI. Mr. Green.
4900 Mr. GREEN. Thank you, Mr. Chairman.
4901 Mr. Dodaro? Am I pronouncing that correctly? Sir, I am
4902 going to exclude you from my questions. And believe me, it
4903 is not because I love you any less than I love the others.
4904 Okay. But I do have questions for your colleagues who are
4905 with you today.
My first question is, given that we expended 85 billion plus an additional 37.8 billion plus an additional 40 billion--depending on who is counting, between 112 and 152 billion thereabout--to bail out AIG, was it in our national interest to do so? Let us have Mr. Altman address this first, please. Was it in our interest to do so, national interest?

Mr. ALTMAN. I think it was in our interest to bail out--

Mr. GREEN. That will be sufficient. I only say this because time is of the essence. I still love you. I want to hear more. But it was in our national interest to do so.

If you concur with Mr. Altman, and you believe that it was in our national interest to bail out AIG and to have 306 billion thereabout in guarantees for Citi, if you think that it was in our national interest to do so, would you kindly extend a hand into the air? If you think it was in our national interest to do so. In the national interest of the United States of America.

All right. I think we have all hands, saving one.

Am I to conclude, Mr.--is it--I can't quite see the name as well as I should. Do you differ, sir?

Mr. ROHATYN. I beg your pardon?

Mr. GREEN. Do you think that it was in our national interest to bail out AIG?
Mr. ROHATYN. Yes, I do.

Mr. GREEN. So everybody agrees. All right. Thank you.

Now to the next question. Is it in our national interest to bail out the auto industry? Is it in our national interest? In you think so, kindly extend a hand into the air.

Everybody agrees that it is in our national interest to do so. Thank you. You may lower your hands.

If it is in our national interest to do so, do you think that indecision is going to be a decision that will impact our national interest? If you do, raise your hand.

Indecision will be a decision that is going to impact us.

Thank you very much. All hands, for the record, were raised.

And do you agree that indecision will ultimately become a decision that is going to be to the detriment of the national interest of the American economy, the national interest of the country? I don’t mean to be so elementary, but this is a good way for us to get a message to the American people.

Okay. It appears that we seem to think—we seem to think that we must do something to take care of the auto industry. After all, France is going to do it, Japan will do it, China will do it. Countries protect their auto industries.
The question is will we allow ourselves to become victims of what Dr. King called the paralysis of analysis? We can literally analyze this to death. We did not analyze AIG to death. Someone took bold, decisive action. That bold, decisive action, whether we admit it or not, has provided some stability in the financial markets. It really has. Sending a clear and concise message makes a difference. At some point, someone in a very high office has got to send a clear and concise message we are not going to sacrifice the American auto industry.

Now, they have come in and they have done everything saving roll over and play dead, and I suspect that if we had said, would you be willing to roll over and play dead, somebody would have literally rolled over and played dead. I think they are willing to make whatever concessions we can concoct. And we ought to have strings attached, we ought to do everything that we can to make sure that the American taxpayer is protected, but the truth of the matter is, we must act. This is in the interest of the American people. More importantly, said another way, it is in our national interest.

I think that at some point this talk about Chapter 11 and Chapter 7 is going to put us in a position where we are going to bankrupt the American dollar. Now, this is where I--my time is up, so I will simply close with this: The full
faith and credit of the American economy is based upon full
faith and credit of the American dollar. We are playing with
fire. We are playing with economic fire.

Thank you. I yield back.

Mr. KANJORSKI. Thank you, Mr. Green.
The gentlelady from California. Do you have something
to submit to the record?

Ms. WATERS. Thank you very much. I would like to
submit for the record a letter from John Lewis relative to
the small dealerships, and also an article from the New York
Times entitled "Auto Dealerships Teeter as Big Three
Decline."

Mr. KANJORSKI. Without objection, so ordered.

[The information follows:]
Mr. KANJORSKI. The gentleman Mr. Cleaver.

Mr. CLEAVER. Thank you, Mr. Chairman.

I would like to say amen to the sermon by Bishop Al
Green. I do think that he said it all and did it quite
eloquently. I just appreciate your participation here. Very
good reflexes.

The issue that I am concerned about is waiting, and I do
think there is a difference in how we handle Wall Street and
how we are handling our automobile industry. I get that all
things come to those who wait. Sometimes, though, it is just
leftovers from the fellows who got there first, and this is
where I think we find the automobile industry.

One of the issues that I would hope that you could help
me understand and deal with—I have two automobile plants in
my district, in Missouri, Kansas City, Missouri. If we don’t
act equally fast for GMAC and for Chrysler financing, it
won’t matter if we can make cars if we still don’t have the
capacity to buy them. So I would like for you to—if I am
off base, if you would help me. And if I am, support me.

Professor Sachs. And thank you for being here again.

Mr. SACHS. Thank you. It is an honor always to be in
front of this committee.

We absolutely need first to make sure that these
companies don’t go into default in the next week, 2 or 3
weeks, and second, that we spur demand again. There will be
many parts of that next year. Part of it will be automobile financing turned back on, because it is off right now, as you know very well. Part of it will be the overall stimulus program. Part of it will be TARP and its successors working more effectively. So the demand side and preventing this disaster which--where delay is risking are the two goals that we need to put together.

Mr. ALTMAN. I would endorse the need to move quickly. My fear is that if we move and we do it with a Band-Aid or two, I know 4 billion doesn't sound like a Band-Aid, but we are going to come back very soon to ask for a lot more, and then more, because this recession is not going away in 6 months. So we have to be prepared for that. And I agree with Jeff that we need to have a fiscal stimulus after the new administration comes in to get demand going again, and so that is part of the package.

Mr. CLEAVER. My final question. Someone unfortunately brought up subprime loans in the automobile industry this morning, which was just unfortunate that someone would do that. The economy is not in trouble because we have had foreclosures on Cadillacs or Chevies. But do any of you see anything wrong with--in any agreement also making sure that to get an automobile loan, your credit score doesn't have to be 700, 750? I mean, we may need--yes, yes, Mr. Lester, I am sure you can respond to this.
Mr. LESTER. I think that is what the problem is now. The requirements that the financial institutions as well as the captains have put on the consumer, no one has the ability—very few people have the ability to have a 700 FICA score to go out and buy a Ford Focus, for example. We are in an economic disaster, and we can’t afford for these manufacturers and dealerships to go away. This country can’t take it. You already mentioned that if we go away, the dollar will disseminate.

Mr. CLEAVER. So do you think that something like this should be included in any agreement?

Mr. LESTER. I think TARP loosening up, making the announcement a week before last about loosening and providing access for capital to lenders for auto loans and student loans, that is hopefully—once it gets up and running, it will--

Mr. CLEAVER. What I am saying is should we have a de-icer amendment?

Mr. LESTER. Yes.

Mr. SACHS. I would not suggest it. It would overburden this specific action right now. This has to be a priority for the next Treasury Secretary. That is for sure.

The CHAIRMAN. [Presiding] Thank you.

Let me just say—I am going to ask for unanimous consent for about 90 seconds. I noticed Mr. Rohatyn had a comment he
5071 wanted to make, and just given his experience, ask him if he
5072 had something he wanted to add.
5073 Mr. ROHATYN. Yes, Mr. Chairman, I do. I think it is
5074 terribly important that there not be any--
5075 The CHAIRMAN. You are cutting in and out.
5076 Mr. ROHATYN. I think it is terribly important, because
5077 people are going to be listening to what comes out of this
5078 meeting, what comes out of the other meeting, whether there
5079 is any hope for these companies or whether they are being
5080 condemned to death, which would be a terrible thing for us,
5081 and I think somehow, somewhere, somebody has to put out some
5082 kind of a release or information with respect to the
5083 commitment to the industry among the political leadership in
5084 this country.
5085 The CHAIRMAN. I have been asked--and I think it is a
5086 fair point. I have been trying not to say much, because when
5087 you are trying to work things out--let us just say the
5088 better--in advance, but I have been struck by a pretty broad
5089 consensus here that something should be done. There are only
5090 a couple of Members that took a fairly strong position saying
5091 free enterprise being what it is, don't do this. Now, that
5092 doesn't necessarily get us there, but I think if you are
5093 listening, we have gotten to the question of how to do this.
5094 I think the majority of this committee appears to me to have
5095 resolved the question about whether the answer is yes. It is
not a guarantee of success, but it clearly is a step forward.

The gentleman from Colorado.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

And, Mr. Rohatyn, that is exactly where I was going to
go. Three weeks ago when the automakers came to this
committee, they didn’t present us with much that we could get
our arms around. It wasn’t very helpful. Today the
information, their business plans, much more substantial,
much more professional. Obviously painted a bleak picture
for today, but a much brighter picture given restructuring
for a year, 2 years, 3 years down the road. The
technological leaps that they are making with respect to
batteries and the like really do benefit us as consumers and
us as a Nation going forward on an energy basis.

And, you know, just back in Colorado, you know, I have
got to deal with people on the street. So you have got to
ask--I have got to ask three questions. One, is the domestic
auto industry essential to this country, meaning, if it were
to fail, would the damage be too great for us to sustain over
a reasonable period of time? Second, is there a way in the
short run to maintain these companies so that they are
competitive and successful in the long run? And the third
one is can we substantially protect the American taxpayer in
maintaining the domestic auto industry?

And I think the answer is yes. And I think it is a
combination of things that Professor Sachs is saying, Professor Altman and you, Mr. Rohatyn. It may not be that we do a Chapter 11, because I have a lot of experience in that field, and it just takes too long, and there are different hurdles and judges and things you have got to deal with. But we need to have something that provides powers to an oversight committee or to somebody to do the restructuring necessary with all of the interest holders in here, the bondholders, the shareholders, the management, unions, retirees, the lenders, the suppliers. I mean, everybody has got to take a hit in this deal. So you can't do it without some sort of law in place to do that.

And then—and I disagree with you, Mr.—Professor Altman, the taxpayer can be assured of a senior interest in this situation. And that is what I believe. If, in fact, we are going to be the lender of last resort, as you suggested, then we must act like a lender of last resort and make sure that our investors, the taxpayers, are protected to the nth degree if we can do that.
Mr. ALTMAN. I disagree. You cannot be senior to existing loans that have collateral.

You can be senior to the unsecured, yes.

Mr. PERLMUTTER. If we were to take a Chapter 11, we could have a priming loan. I am not suggesting a Chapter 11. In a Chapter 11 you can have a priming loan that is senior to any other interest.

Mr. ALTMAN. Absolutely.

Mr. PERLMUTTER. And I don’t know why we couldn’t do that otherwise.

Mr. ALTMAN. You would have to pass new legislation.

Mr. PERLMUTTER. Right.

Anybody else want to respond.

Mr. ALTMAN. Which would be a massive request, Congressman.

Mr. PERLMUTTER. And why?

Mr. ALTMAN. Because you would be changing the whole capitalistic system.

Yes, you would, Jeffrey. You would be putting existing creditor capital at risk at any time that the government could come in and take a senior position above existing capital. That is what happens. In other countries, when that happens, you lose the capital.
Mr. PERLMUTTER. But you can do that in Chapter 11 now?

Mr. ALTMAN. That's correct, and that is the only place you can do that.

Mr. PERLMUTTER. But we are asked to come in with $34 billion in an emergency to keep these companies afloat so they can get to the brighter future. I have got to protect the taxpayer from something that might happen here.

Mr. ALTMAN. Well, I do believe you can do a lot to get a senior status in this loan. One way to do it is to get the existing creditors to go away and take equity. And I think General Motors is making that plan. I think that is a good idea. And then you don't have to worry about them; they take equity in place of the debt. And then you can go in and be senior, and there is nothing wrong with that.

But just to force it down them, I think that would be a mistake.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

The CHAIRMAN. Well, take that--I remember when the press office said you can only do that as a Chapter 11. That is true if you are a lawyer arguing in court.

You are now before the body that wrote Chapter 11 and it can rewrite Chapter 11. And there is a problem that lawyers have, which is to assume in the normal course of a legal argument you are restricted to choose between column A and column B. We can write column C third. So the answer is, it
would not be -- it would not necessarily be that we mandated people to do things, you can come up with constitutional issues with that.

But the old doctrine of unconstitutional conditions on gifts seems to me have long since disappeared into the mists. And if we are going to vote all that money we can put on it any conditions that we think appropriate. So we are not restricted to either Chapter 11 or not. We can write what we think is appropriate with these powers.

The gentleman from California.

Mr. SHERMAN. Thank you, Mr. Chairman.

I think these hearings show that we ought to pass a bill. Our best chance to pass a bill is to write one that has got tough standards to protect consumer warranties, to make sure that the U.S. Government is involved in deciding which plants get closed and which stay open, and to deal with executive compensation and perks and deal with a number of the other issues that have come up.

Clearly, everybody has got to give something. Now, the shareholders are going to give. We are going to dilute them if we get sufficient warrants. And if time permits, I want to ask the witnesses about how many warrants that ought to be.

The executives -- I think I join several of my colleagues in torturing them, and that is just a taste of what we would
like to put in the bill. The unions have made substantial
concessions, have indicated they are going to make more. But
we have been talking here about the creditors, and not just
making the loans senior, our debt senior to theirs, but to
actually write down the liability.

Right now, people are buying GM debt for 15 cents on the
dollar; and if everything goes swimmingly—should they get a
dollar on the dollar if things go swimmingly, only because
the taxpayers ride to the rescue—Professor Altman, do you
see a way not only to make the taxpayers’ debt senior but to
actually provide for a reduction in the amount that GM, for
example, has to pay on its unsecured debt.

Mr. ALTMAN. Yes. What you are referring to is
something known as a "distressed exchange," and the creditors
are offered, let’s say, 20 cents on the dollar in new
securities, equity, preferred stock. And they have to
evaluate whether or not it is to their interest to do so.

Mr. SHERMAN. So this would only be voluntarily.

Is there any way for us to write a statute that makes it
mandatory?

Mr. ALTMAN. Well, as Chairman Frank said, you can do
whatever you want.

Mr. SHERMAN. I am a little concerned about the takings
clause.

Mr. ALTMAN. I wouldn’t recommend that. It is much
better. And I think GM has a good plan in that respect to
write down the debt. $30 billion, I think, was in their plan
to reduce it; and I think that makes sense. But I ran it
through my model, and they still come up a bankrupt entity
even after doing that.

Mr. SHERMAN. Mr. Sachs, a new line of questioning:
Let's say the doubters are right, and all we can do is give a
transfusion to a patient who is ultimately going to expire
with regard to GM and Chrysler. One of the things about a
business cycle is that companies fail at the very time that
other companies are failing. It would be nice if we could
arrange it so that companies only fail during good economic
times.

How much higher will our GDP be if we do nothing but
delay the dissolution of GM and Chrysler by 12 months.

Mr. SACHS. Very, very slight. And that certainly can't
be the goal of this exercise.

Mr. SHERMAN. So if we were to spend--

Mr. SACHS. This would not be the right way to do
capital spending.

Mr. SHERMAN. If we put in the money, one of the reasons
to put in the money is maybe the companies will survive.

Mr. SACHS. I would say more than a good chance.

Mr. SHERMAN. Another way to put in the money is, maybe
we can delay by 12 months their failure to survive.
You are saying that second objective is of slight value to the United States?

Mr. SACHS. I think that's right. It would be marginally present, but that can't be the point of this exercise. But I would not be so pessimistic to think that there isn't a trajectory out of this. That is the whole point.

Mr. SHERMAN. I just started with a worst case assumption. I am not asking you to embrace it.

Mr. SACHS. Absolutely.

Mr. SHERMAN. Mr. Rohatyn—if I am pronouncing that correctly—the chairman's draft calls for us to get warrants with a value of 20 percent of the money we are putting in. And the question is—I mean, these are companies you could buy the whole company according to today's values for $2 billion, $3 billion, $4 billion, and we are talking about putting in $34 billion. When you use the standard approaches used to value warrants, would we end up, if we exercised the warrants, owning well over 90 percent of the outstanding shares if you looked at what the value of the warrants would be?

Mr. ROHATYN. Well, I think that you certainly would try not to wind up with 90 percent of the equity of the company.

Mr. SHERMAN. I would disagree with you. If we are taking 99 percent of the risk, I hope we do end up with 90
percent of the company. And if the shareholders don't want
to take that deal, they can seek money elsewhere.

I yield back.

Mr. GREEN. [Presiding.] Thank you.

Mr. Manzullo is recognized for 5 minutes.

Mr. MANZULLO. Thank you, Chairman.

I am sorry I missed your testimony. I was working with
two small manufacturers trying to keep them afloat during
these times of crisis.

My question goes to the $25 billion that has been set
aside already. It is actually $7 billion because, I think it
was the CBO said that they estimated at 20 percent of
default. So, therefore, $7 billion has been parked in order
to guarantee $25 billion in loans to the Big Three for the
process of retooling.

And my question would be, at least at this point, based
upon the testimony of an immediate need, why not use a
portion of that to keep these companies going, and then
revisit the bigger issue sometime in March or whatever period
of time they said the instant money would not be available?

And all that would take--and I think there are votes in both
Houses--would be to have a simple amendment saying that this
money--I think what is called "136 money"--whatever it is,
could be reprogrammed for meeting general operating expenses.
And I would like to know your thoughts on that, Mr. Friedman.

Mr. FRIEDMAN. Well, I think one of the flaws with that plan is, if you looked in the companies' plans, they are already depending—they are already expecting that money as part of their recovery plans. So maybe there is an argument—in fact, I think there is an argument—to find ways to accelerate getting them that money under some of the same conditions they were already going get the money, such as a 25 percent improvement in fuel economy.

But they need additional money is what they are asking for. They are already expecting that money.

Mr. MANZULLO. They probably won’t get it.

Mr. FRIEDMAN. Additional money or the base money?

Mr. MANZULLO. Well, the additional money. I mean, this Congress is very reluctant. I mean, if this is emergency money—I mean, let's put it this way. If you hear at least Chrysler and GMC, they won't be around in 30 days even to worry about that 136 money. So why not use a portion of that to keep them afloat? You can always come back and add to the pot if it is necessary, and some people would vote for that, to replenish the original $25 billion for environmentally new cars.

Mr. FRIEDMAN. Well, I think no matter what you need to find a way, even if you move the money forward, you need to
find a way to preserve the fact that that money is supposed
to go towards advanced technology.

Mr. MANZULLO. How can you preserve it if the company is
out of business?

Mr. FRIEDMAN. I think the first step is making sure
they are going to be sustainable businesses. But you would
be mortgaging their future if you did not require them to
invest in--

Mr. MANZULLO. They don't have a future based upon what
they said unless they get billions of dollars up front. So
why not use that money that is already there to fix the roof
that covers the area where the R&D is going on with the new
cars?

Mr. FRIEDMAN. I would argue to accelerate that money
under the same conditions, and I would argue--I think the
panel has discussed that there are two other sources for that
money. We have to make sure that these companies, as
Professor Sachs said, are planning for an macroeconomic
recovery. And in a macroeconomic recovery, gas prices are
going to shoot up as China and India and the other countries
start guzzling gas more. And these companies are going to be
in trouble again if a--

Mr. MANZULLO. I can't agree with what you are saying
because what you are saying will not come to pass if they
have no money to keep on going.
Professor Sachs.

Mr. SACHS. Congressman, I think using the section 136 as part of this is appropriate, in my opinion. But quantitatively I think it is likely to need to be part of a package that includes some of the TARP.

I think the Fed can do some things on its own, by the way. And this is one of the missing actors here. I would like Chairman Bernanke to step up and help this process more than has been the case so far, because they are making loans that are a lot riskier than this one.

Mr. MANZULLO. The problem they aren’t making loans to the Big Three is the plans are woefully insufficient.

Mr. SACHS. No. They could be doing this on terms that are better than what they are doing right now and are appropriate for preserving our financial system. So TARP, section 136, and the Fed offer three ways, and it is going to have to be a package. If it is only a very narrow, constricted, begrudging amount, Congressman; you will not succeed in your objective, I am afraid.

Mr. MANZULLO. Anybody else?

Mr. ROHATYN. I think Professor Sachs is absolutely right. I completely share Professor Sachs’ views. Either we do this on a large scale or just there is no point to it.

Mr. MANZULLO. I mean, the plan isn’t there. You have got GMC that wants to go into the--GM wants to go into the
commercial banking business, which I think is absurd. So to pull out of the doldrums and to correct our mistakes based on making automobiles, we are going to go in the commercial banking business.

No one has ever done an analysis of the impact that that will have on community banks, credit unions, and on national banks that have local branches across the country. But that is part of their plan.

The union people sit here—Mr. Gettelfinger sat there, and I thought he had a pretty reasonable approach. He says, Yeah, we are here. He said, We are willing to sit down. There has been no viable plan that has been presented to this Congress in the details that are necessary to warrant that type of money.

The CHAIRMAN. [Presiding.] The gentleman’s time has expired.

Mr. MANZULLO. Thank you, Mr. Chairman.

The CHAIRMAN. Do we have any members?

Mr. Foster, are you next?

Mr. FOSTER. One number that I think is absolutely crucial, and I would like to see developed by an entrusted third party, is the total value of GM’s unencumbered assets, and that could be used as collateral either by DIP financing or some sort of prebankruptcy financing, and to compare that to the capital injection you are going to need for return to
And that is the fundamental number that I think this whole discussion depends on. And I would be interested in knowing who it is that we can trust to develop this number.

Mr. ALTMAN. I think you would have to get an outside party. I don’t think you could trust the companies in this case. And any of us--looking at their financial statements would be very difficult to understand. You would have to value every one of those assets, both tangible and intangible. And I do believe they have unincumbent assets.

But can you get, for example Opal in Germany, can you get the German Government which has a stake in this, too, in providing money to Opal under certain conditions, can you be able to transfer that equity to a lender here?

It is a very good question, excellent question, and one that I was wrestling with myself in trying to prepare the testimony.

Mr. SACHS. Congressman, I don’t think with all due respect that it is really the question for this weekend or before you recess or before the new government comes in. This has to be viewed practically as a two-part process. You have a basic framework that has been put in front of this committee, which I find very valid and very credible and absolutely worth the American people investing in.

Then we are going to have a new government that is
responsible for helping to answer a lot of these questions. We don’t have, with the outgoing administration, the capacity to do these things right now; but we are going to have a new government. In 6 months’ time you will get a lot of answers. And it is important, even in a month-and-a-half time you will get a lot of answers that you will not get right now. I think, therefore, pragmatically, because these decisions really are needed in hours--day two, you are leaving town--putting the kinds of protections that are in your draft legislation, I think, are appropriate. Assigning oversight responsibility to the Cabinet, ministers of departments of the incoming government are completely--and of the outgoing government, for that matter--are completely appropriate.

But the fine-tuning, in my opinion, is not commensurate with our macroeconomic reality. Last week, $306 billion was thrown over something without 1/100th of what you are asking for right now in scrutiny because events are moving at trillions of dollars very, very fast.

And I think it is important that we understand the macroeconomic crisis that we are in, and that the American people understand the macroeconomic crisis we are in. This is not normal, what is happening. This isn’t even normal about a difficult situation for the auto industry. This is a global macroeconomic crisis unprecedented since the Great
Depression. And so we have to act with the speed that is imperfect in answering a lot of things, but is realistic to the circumstances that our country and the world face.

Mr. FOSTER. It seems to me that the long-term issue that we are dancing around is that the problem here is declining market share. And the reason for that is, it is fundamentally less expensive to produce cars and components in developing nations. You can get a good engineer for $10,000 a year in India and $2-a-day factory labor in China. And they can be trained to do a decent job of assembling quality cars. And the only way to preserve the car industry long term is to acknowledge that we have a national security in preserving a self-sufficient automobile industry, and that nothing short of some combination of tariffs, nontariff barriers, subsidies or repeated capital injections—which is sort of what we are doing here—nothing short of that sort of thing is actually going to do the trick to make a long-term, stable automobile industry here. And I think that sometimes gets called a national auto policy. But it is pretty much what it comes down to.

Mr. SACHS. If that is a question, Congressman, I would disagree with that.

Mr. FOSTER. What is wrong with it?

Mr. SACHS. The auto industry in the long term is a growing industry. There will be actually hundreds of
millions of new vehicles when the world’s middle-income
countries continue to achieve economic growth. Our industry
has a chance to be a technological leader. We can make
breakthroughs. They have been long delayed because our
pricing policies, our national policies on this, have not
been what they need to be.

It is not only the industry. It is the choices we made
as a country politically, personally, and the company that
has led us to a situation where we are. But we are on the
verge of leap-frog technologies. This is the absolute truth,
whether it is fuel cell technologies, plug-in hybrids, these
are major, world-class companies we are dealing with.

The CHAIRMAN. The gentlewoman from California.

Ms. SPEIER. Thank you, Mr. Chairman.

Thank you all for participating. I have two trains of
thought that I would like to pursue. One is around demand.
All of this to me makes no sense at all if we don’t create a
demand for these vehicles. And the American people right now
are damn mad. They do not want us to bail out this industry.
And if we then pump tens of billions of dollars into this
industry over the course of the next 6 or 8 months, and the
American people continue to be angry about that, they are not
going to buy the cars. So where are we?

Mr. SACHS. Congresswoman, they are mad that
unemployment jumped to 6.7 percent today and 560,000 jobs
were lost. They are going to be very mad when unemployment reaches 9 percent. They will be really mad if unemployment reaches 12 percent. If we allow the most important industry in this country to disintegrate, believe me, the fury will be nothing like what will happen when they hear about a $25 billion bailout.

We have to take the macroeconomics seriously right now. We are in the steepest descent we have been in in modern times. This is crucial to stop this. So the American people need to understand this isn’t a favor for the industry, this is a favor for the American people. That is the most important thing they need to understand. This is to break a collapse of our economy that is under way right now. And this can be understood.

Ms. SPEIER. All right. Let me ask you a further question.

Does it make sense--and this is a question for any of you who would like to answer it--for us to create a tax credit so that American motorists go out and buy cars that American manufacturers build that are making over 30--that give more than 30 miles per gallon.

Mr. FRIEDMAN. Congresswoman, we have actually been working in California for a plan very much like that, based on vehicle emissions, where if you purchase a vehicle that gets improved emissions, you get a tax break from the
government. That will encourage people to buy better
vehicles, it will encourage more competition in the industry.
And right now when we are in the world of a fiscal stimulus
we can probably afford to just do that part of it.

Now, in the long run, you want to add a financing
portion of that, and that is some sort of fee for vehicles
that pollute too much and use too much gas. So I think this
is an opportunity again to take some of the policies that are
being formulated in California and move them nationally.

I also think we have other opportunities to stimulate
demand and to deal with the fact that, as gas prices go up,
people are also going to be looking for alternatives to cars.
We have got a lot of truck plants that build vehicles that
have body-on-frame construction. You can start moving some
of these plants over to rail, over to buses. We can
revolutionize our transportation industry while stimulating
our economy.

So this is a down payment. We need a whole other
conversation about a broader macroeconomic stimulus to get
consumers buying, but also get consumers options other than
cars.

Ms. SPEIER. Thank you.

Now, the other train of thought: Cerberus really
troubles me. They paid $7 billion for Chrysler, and now they
want $7 billion as part of their rescue. And they have just
stripped Mervyn’s of all its real estate, and now 30,000 employees of that company are on the street because they are liquidating.

They are a private equity firm. We don’t know anything really about their holdings and what they have done to Chrysler or how much money they have already taken out of Chrysler. I don’t understand why we should be bailing them out.

Comments?

Mr. DODARO. I think that in that particular case there needs to be a really high threshold and representations that credit is not available in other sources before the government moves in. This is why I think that there needs to be a Federal guardian. There needs to be somebody asking for additional information before the Federal Government makes that decision. Not that we go around with a particular point of view, but you need more information. And I think you need a greater degree of representation for the reasons that you mention.

Ms. SPEIER. Thank you. I yield back.

The CHAIRMAN. I thank the panel.

And responding again to Mr. Levin, let me leave people with a two-part question: Should we do something and what should we do? There is a lot more agreement that we should do something, unless the President apparently today called on
us once again to make the $25 billion from the energy
efficiency part available in ways that many of us disagree
with because it would too greatly loosen those.

And I think it is fair to say that the job report today,
this disastrous job report, has heightened the interest in
doing something.

The one thing I will say is that it is obviously going
to be incumbent upon us, given the wide recognition that it
is important to do something, we are going to have to have
some give here; and if we are lucky, we will come out with a
bill next week that nobody likes. Because any bill that any
individual liked couldn't pass.

But--there is a sufficient consensus that we have to do
something, but I hope we will get something acceptable to
enough Members of both Houses so we will avert disaster.

And I will just repeat--and Mr. Rohatyn said it might
not be popular--one of the things we have learned is, if we
didn't know it before, averting disaster is no basis for a
political campaign. If you do something good, people are
happy. If you do something--if you avoid something bad,
people are not happy.

And one thing--and I have to say to my friends, the
economists here, on whose judgment we rely a great deal; and
they understand this--there is one very important metric in
economics which is a disaster in politics, that is, reducing
the rate at which something bad is happening. That can be a
sign of real success in a public policy term. Any politician
who goes and takes credit for saying, Yes, things are really
bad, but boy, would they have been worse if it wasn’t for me,
perhaps should study to become an economist because he or she
will need an alternative profession.

But I believe--and I am encouraged from talking to my
colleagues informally as well as formally--there is an
understanding that we have got to work together. There are a
lot of ways to do this. No one can be certain, but I have
some more optimism than I had before that we will get
ourselves to a point in a reasonable way until next year, and
we will have several months in which we can work on this.

The hearing is adjourned.

[Whereupon, at 3:00 p.m., the committee was adjourned.]