

CHRYSLER'S BANKRUPTCY

Will Chapter 11 Lead to a "New Lease on Life"?

On April 30, 2009, President Obama announced at the White House that Chrysler LLC would enter Chapter 11 bankruptcy proceedings to restructure itself. While Chrysler did strike a partnership deal with Fiat by the federal government's end-of-April deadline, the White House auto task force felt a government-backed bankruptcy was necessary for Chrysler to survive.¹



What forced the bankruptcy? Debt. Or more precisely, hedge fund managers. Not all Chrysler bondholders could agree to cut the company's debt from \$6.9 billion to under \$3 billion. The Obama administration cited about 40 hedge funds holding about 30% of the debt as the obstruction.²

What happens now? Chrysler motors on, but with federal help. The Obama administration foresees a 30- to 60-day bankruptcy proceeding under Section 363 of the bankruptcy code, but realistically this could take many months. Chrysler dealerships will continue to receive cars, but franchise arrangements with dealers may be canceled, and GMAC (with federal support) will now provide dealer financing. The White House claims supplier contracts will remain in force.³



Do you work for Chrysler? You may be sad ... or hopping mad. Chrysler employees made concessions to try and help the company, and now this. Is there any real job security for non-union Chrysler employees? The White House anticipates no reduction in Chrysler's workforce, but it won't call the shots here. Chrysler still has the right, under bankruptcy proceedings, to lay off workers, terminate pension plans, and request salary reductions and termination of United Automobile Workers contracts through a judge. Fortunately for UAW members, changes were approved to their contract on April 29, 2009 that presumably will lead to that contract continuing.³

How about the pensions? The official April 30, 2009 statement of the Pension Benefit Guaranty Corporation says: "As the bankruptcy process unfolds, the PBGC will work with Chrysler, its unions, and all other stakeholders to ensure continuation of the pension plans ... Benefits in the Chrysler pension plans are guaranteed up to the limits set by law. If one or more of the plans end in the course of bankruptcy, many workers and retirees, typically those who retire at younger ages, would see reduced benefits." See pbgc.gov/workers-retirees/chrysler.html for information.⁴

How much federal money goes into this? The U.S. government will take an 8% share in the new version of Chrysler. It has provided \$5.5 billion in federal aid to the automaker; now it will

provide between \$7-8 billion more to keep Chrysler operating. Chrysler CEO Robert Nardelli will step down at the end of the bankruptcy period.¹



Will it really give Chrysler a “new lease on life”? That is the claim of President Obama, but while auto industry analysts and Chrysler employees hope for the best, there are still some question marks. Presumably, it will take two or three years (at the earliest) for the Fiat-built Chryslers to arrive in U.S. dealerships. In the interim, Chrysler will offer what it has been offering – in the view of many

consumers, a weak product line. There is no guarantee that Fiat-built Chryslers with better gas mileage will wow new car shoppers. Consumers and their dollars will still have the final say when it comes to Chrysler’s longevity and prosperity.

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Citations.

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