

GM FILES FOR BANKRUPTCY

It finally happens. What does it mean?

June 1, 2009 was a sad day for General Motors: the venerable automaker, now financially vulnerable, filed for Chapter 11 bankruptcy (and was kicked out of the Dow Jones Industrial Average).^{1,2}

This shocked no one, and the stock market didn't suffer. The Dow gained more than 2% on June 1, pushing past the 8,700 mark.³ But GM's bankruptcy will have a huge impact on lives and communities in Southeast Michigan and across the nation.



What's the goal here? The goal is for GM to arrange financing so that it can leave Chapter 11 as a viable, albeit leaner, company. GM is still in business, although it is closing or idling two (eventually, perhaps four) assembly plants, three stamping plants, five power-train manufacturing plants, and three service and parts warehouses. It is also aiming to cut 21,000 of 54,000 factory positions held by members of the United Auto Workers.¹ It plans to reduce its dealerships by 1,100

or more within the next 18 months.⁴ It is projected that Oakland County, MI alone will lose 6,600 jobs.⁵

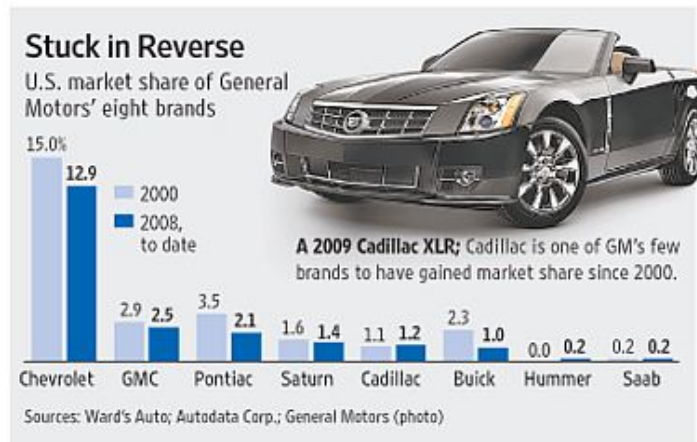
The government-supervised reorganization will leave a new GM with new owners, at least for the time being: under the plan, the U.S. government will hold 60% of GM, the UAW 17.5%, the Canadian government 12% and GM bondholders 10%.¹ If GM can't viably reorganize, a Chapter 7 bankruptcy (liquidation) would be the next option – but GM is likely “too big to fail” in the eyes of the Obama administration.⁴

What about employees and their pensions? The most depressing aspect of the bankruptcy is the many non-union GM employees who now have no job security. Pay cuts, job cuts, office closings – GM can request permission to do any of this from the presiding bankruptcy judge. (Whether it would make such a request is anyone's guess.) While GM is supposed to honor new contracts forged with the UAW, it also legally has the option to ask a bankruptcy judge if it can void them and renegotiate terms with the union.⁴

As for pensions and healthcare benefits, the White House said May 31, 2009 that pensions and health care benefits of GM workers would simply transfer to the new GM. While GM could legally request the bankruptcy judge to reduce or terminate pensions and health benefits for non-union workers, no one is saying it will. Terminating pensions would require a trial, and even if the judge ruled in GM's favor, pension plan participants would still get about one-third of their benefits via arrangement with the Pension Benefit Guaranty Corporation. If GM's non-union retirees were to lose healthcare benefits, they would be covered by Medicare.⁴

Could the GM bankruptcy be as quick as Chrysler's? So everyone hopes. It appears Chrysler might be out of bankruptcy this summer, if Fiat purchases the bulk of its assets as planned. Of course, Chrysler has a buyer. GM is trying to restructure without a buyer – and with a lot of help from Washington and Ottawa. The U.S. government has loaned GM \$19.4 billion and could commit up to \$30 billion more. The Canadian federal government and the Ontario provincial government are collectively directing \$9.5 billion to GM.¹

What might the new GM look like? As widely discussed, GM will likely restructure itself around its strongest assets and liquidate or sell the rest. Pontiac is out of the picture, and Saturn may be out of the picture also if GM can't get a buyer. Saab has a for-sale tag on it. Hummer looks to have a buyer, and most of Opel is supposed to be sold to a Canadian supplier (Magna) and a Russian car maker (GAZ). Any fuel-efficient vehicles aside, GM's days of dominance appear long gone. In fact, the forecasting firm IHS Global Insight thinks that the new GM will be about a third smaller, and capture only about 15-16% North American market share in the next few years.⁶



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Citations.

¹usatoday.com/money/autos/2009-06-01-gm-bankruptcy_N.htm?loc=interstitialskip [6/1/09]

²reuters.com/article/domesticNews/idUSTRE55043Y20090601 [6/1/09]

³smartmoney.com [6/1/09]

⁴nytimes.com/2009/06/02/business/02primer.html?ref=business [6/1/09]

⁵detnews.com/article/20090601/AUTO01/906010376/1361/Oakland-County-staggered-by-an-estimated-6-600-GM-job-losses [6/1/09]

⁶popularmechanics.com/automotive/new_cars/4319666.html [6/1/09]