The U.S. Treasury Department's
Summary Response to GAO Recommendations

January 4, 2010

This Summary Response describes the three recommendations in the GAO's November 2009 report, *Continued Stewardship Needed as Treasury Develops Strategies for Monitoring and Divesting Financial Interests in Chrysler and GM,* and summarizes Treasury's actions to address each such recommendation. As described below, Treasury's Office of Financial Stability (OFS) continues to make substantial progress in administering and monitoring Treasury's interests in GM and Chrysler.

Treasury continues to enjoy a productive relationship with the GAO and welcomes the GAO's recommendations on the Troubled Asset Relief Program (TARP). Treasury's interactions with the GAO include providing information responsive to specific requests and facilitating comprehensive briefings on TARP programs with senior Treasury staff. In addition, Treasury apprises the GAO of its progress on implementing recommendations and of key developments in current and proposed programs and policies under the Emergency Economic Stabilization Act of 2008.

GAO Recommendation 1:
Ensure that the department has the expertise needed to adequately monitor and divest the government's investment in Chrysler and GM, and obtain needed expertise in areas where gaps are identified. In addressing any existing or future expertise gaps, Treasury should consider both in-house and external expertise.

<u>Summary of Treasury's Actions in Response to this Recommendation</u>
Treasury continues to assess and take steps to maintain the expertise required to adequately monitor and manage Treasury's interests in Chrysler and GM. Treasury's auto team (Auto Team) is currently comprised of four individuals with the appropriate knowledge and experience in investment banking, private equity, asset management, and corporate law in order to advise Treasury regarding the ongoing monitoring process and the methods and timing of divesting the government's interests in GM and Chrysler. We are in the process of hiring one or two additional professionals for the Auto Team.

As with other TARP programs, OFS oversees the investments in the automotive companies. Additional OFS personnel who possess the relevant financial, legal or other skills assist the Auto Team when necessary.

The reduction in the number of people on the Auto Team has been natural and planned, reflecting the transition from the intensive processes of restructuring and bankruptcy to the current need for asset management and monitoring. The restructuring phase of Treasury's involvement required a large team given the breadth of the work involved, including industry and company diligence, evaluation of GM's and Chrysler's business plans, structuring of Treasury's investments, negotiations amongst stakeholders, overseeing the complex legal process and issues associated with the bankruptcies, and documenting the various agreements. Now that Treasury's involvement has transitioned to the monitoring phase, the size of the team required is significantly smaller than what was necessary during the restructuring phase. Similarly, Treasury anticipates that a smaller team will be sufficient for safely exiting these investments in the future.

Treasury has determined that, other than the additional hiring mentioned above, the current makeup of the Auto Team is adequate to monitor the taxpayers' interests in the automotive companies. If additional personnel are needed in the future, Treasury will utilize the capabilities present within Treasury or hire the appropriate personnel.

GAO Recommendation 2:
Report to Congress on how it plans to assess and monitor the companies' performance to help ensure the companies are on track to repay their loans and to return to profitability. In reporting to Congress, Treasury should balance the need for transparency with the need to protect certain proprietary information that would put the companies at a competitive disadvantage or negatively affect Treasury's ability to recover the taxpayers' investments.

<u>Summary of Treasury's Actions in Response to this Recommendation</u>
In order to protect the taxpayer's investments, Treasury has established requirements under which GM and Chrysler must report financial information, which Treasury uses to closely monitor the financial condition of Chrysler and GM. The financial reporting requirements are set forth in Treasury's credit agreements with the companies and other agreements that specify the rights of the companies and their shareholders, including Treasury. Moreover, the companies provide additional financial, managerial, and operating information in monthly reporting packages, which Treasury uses to monitor the health of GM and Chrysler and the status of its investments.

As evidence of their commitments to transparency, both GM and Chrysler currently issue certain reports on their respective financial positions and performance, which are available on their respective websites. Additionally, GM and Chrysler are expected to become voluntary SEC filers in 2010. As voluntary SEC filers, the companies would provide certain reports on SEC forms to the SEC, notwithstanding the absence of any SEC requirement to do so because they are private companies. These reports will also be available on their respective websites. If and when the companies have publicly traded securities, they would be subject to normal SEC reporting.

Treasury is also committed to the Administration's goal of transparency and has provided a wealth of information on the Automotive Industry Financing Program on FinancialStability.gov. Also, Treasury currently provides updates to the TARP oversight bodies, such as the Congressional Oversight Panel and the Special Inspector General for TARP, concerning the status of its investments and its role in monitoring the financial condition of GM and Chrysler. Treasury will provide additional reports with respect to the status of its investments in the automotive companies as circumstances warrant. Treasury also recognizes the importance, as noted by the GAO, of striking an appropriate balance in its public reporting between our goal of transparency and the need to avoid compromising either the competitive positions of these automotive companies or Treasury’s ability to recover funds for taxpayers.

GAO Recommendation 3:
Develop criteria for evaluating the optimal method and timing for divesting the government’s ownership stake in Chrysler and GM. In applying these criteria, Treasury should evaluate the full range of available options, such as IPOs or private sales.

<u>Summary of Treasury’s Actions in Response to this Recommendation</u>
Treasury seeks to dispose of its ownership interests as soon as practicable. We will periodically evaluate both public and private options to exit the equity investments under the AIFP. Both GM and Chrysler are expected to go public, but the final decision will be made in both cases by the companies’ boards of directors and will depend on, among other things, the state of the public securities markets. The government is most likely to exit its GM investment by gradually selling shares in the market following a public offering. For Chrysler, the exit strategy may involve either a private sale or a gradual sale of shares following a public offering.

Members of the Auto Team are experienced in selling stakes in private and public companies and are aware of the factors that need to be considered through this process. Some factors the Auto Team will consider include: company and industry sales and production volumes, inventory levels, market share, profitability, liquidity and cash flow, and overall market conditions to determine the optimal time and method of sale. The Auto Team is committed to maximizing taxpayer returns on their investment, and therefore, will continue to act in a commercial manner. Private majority shareholders typically do not reveal their long-term exit strategies in order to prevent other market participants from taking advantage of such information. Accordingly, Treasury intends to make details regarding exit decisions available in a manner that balances its transparency obligations with its obligations to maximize taxpayer returns.