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For Immediate Release

Treasury Tough Negotiator, but Unlikely to Recover Full Investment

Recommends Placing Chrysler, GM Shares in Independent Trust

WASHINGTON, D.C. - The Congressional Oversight Panel today released its September oversight report, "The Use of TARP Funds in Support and Reorganization of the Domestic Automotive Industry." In protecting the interests of taxpayers, the Panel found Treasury negotiated aggressively with all the players in the automotive industry. While Treasury has conceded that it is unlikely to recover the entire amount invested, other goals also influenced Treasury's overall strategy.

Even before last year's financial crisis, the American automotive industry was facing severe strains. In 2008, U.S. automotive sales fell to a 26-year low. By the end of the year, a long-term slump became an acute crisis, with Chrysler and General Motors (GM) unable to secure credit and facing reduced consumer demand. Without new financing, they faced collapse -- a potentially crippling blow to the American economy that could eliminate nearly 1.1 million jobs. Facing this prospect, the Troubled Asset Relief Program (TARP) was used to provide American automotive companies with short-term financing and additional loans to finance the bankruptcy reorganizations of Chrysler and GM.

American taxpayers now own 10 percent and 61 percent of the new Chrysler and GM companies respectively. Treasury's support for the automotive industry differed significantly from its assistance to the banking industry. The bulk of the funds were available only after the companies had filed for bankruptcy, wiping out their old shareholders, cutting their labor costs, reducing their debt obligations and replacing some top management. The government's role raises serious oversight issues, particularly Treasury's conflict between competing objectives.

The Panel recommends that, to mitigate the potential conflicts and political issues inherent in owning Chrysler and GM shares, Treasury should take exceptional care to explain its decision making and provide a full, transparent picture of its actions. The Panel also recommends that Treasury consider placing its GM and Chrysler shares in an independent trust that would be insulated from political pressure and government interference.

Given the questions about whether Treasury had the authority to use of TARP funds to aid the ailing domestic automotive industry, Treasury should provide a legal analysis justifying this decision. The Panel found that further questions about the propriety of the bankruptcy proceedings -- accusations of illegal behavior and allegations that statutory bankruptcy priorities were overturned -- are overblown and inaccurate. The full report can be found at cop.senate.gov.

The Congressional Oversight Panel was created to oversee the expenditure of the

Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform. The Panel members are: former Securities and Exchange Commissioner Paul S. Atkins, Congressman Jeb Hensarling (R-TX), Richard H. Neiman, Superintendent of Banks for the State of New York, Damon Silvers, Associate General Counsel of the AFL-CIO and Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard Law School.

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