Chrysler To Repay $7.5 Billion Loan On Tuesday

Tom Krisher, AP Auto Writer

MACOMB TOWNSHIP, Michigan (AP) — Chrysler CEO Sergio Marchionne said Monday that his company will save $300 million in interest a year when it repays $7.5 billion in U.S. and Canadian government loans on Tuesday.

Chrysler plans to announce the repayment at a Detroit-area auto assembly plant on Tuesday afternoon. Ron Bloom, the Obama administration official who oversaw the restructuring of the auto industry, is among those scheduled to attend.

Marchionne has said that Chrysler is eager to pay back its loans in part because of the governments' high interest rates of around 12 percent, which cost the company $1.2 billion last year.

To pay back the loans, Chrysler is issuing $3.2 billion in bonds and taking out $4.3 billion in bank loans. It also will use a $1.3 billion investment from Italian automaker Fiat SpA. In exchange, Fiat will increase its ownership stake in Chrysler to 46 percent.

Under that refinancing deal, Chrysler's interest rates will fall to around 6 percent. That will boost the bottom line at the company. It reported a $116 million profit — its first quarterly profit since its 2009 bankruptcy — in the first quarter.

The company still owes the U.S. government $2 billion. The government could get some of that back by selling its 8.6 percent stake in Chrysler.

Marchionne, speaking at a grand opening celebration for a Fiat dealership in Macomb Township north of Detroit, said he hasn't discussed with the U.S. government how soon it will sell its stake in Chrysler.

Fiat, which has had management control of Chrysler since it emerged from bankruptcy protection in 2009, has an option to buy the government's shares.

The government also could sell them in an initial public stock offering.

Marchionne said he expects the government to get out of Chrysler as quickly as possible.

Marchionne said Fiat's stake in Chrysler will rise to 51 percent when Chrysler produces a 40 mpg car in the U.S. starting next year. He said Fiat can raise its stake as high as 76 percent if it exercises all options, including buying part of the 59-percent stake now owned by a health care trust fund for union retirees.

Marchionne said the timing of a public stock offering depends on the needs of the trust fund.

Chrysler took $10.5 billion from the U.S. government to survive two years ago, and it has repaid some of the money. On Tuesday, it will retire a $5.9 billion balance on the U.S. loans and $1.6 billion to the governments of Canada and Ontario.

Chrysler's action is the latest in the long comeback of the Detroit auto industry after the recession put its future in doubt. General Motors Co. got a $49.5 billion U.S. bailout in exchange for a 61 percent federal equity stake in the automaker after it emerged from bankruptcy protection. The Treasury Department now owns 26.5 percent of GM after selling part of the stake in November.

The third of the Detroit Three, Ford Motor Co., didn't seek a bailout.

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