

Chrysler Ready To Sever Ties With U.S. Government

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DETROIT (AP) — Chrysler Group LLC, newly profitable and confident in its revamped products, will soon sever its ties with the U.S. government after most — but not all — of the bailout loans it got two years ago are repaid.

Italian automaker Fiat SpA agreed late Thursday to buy the U.S. Treasury's 6 percent interest in Chrysler for \$500 million. Once the deal closes, the government will no longer hold a stake in the auto company. Treasury officials said it could take up to three months to make sure the agreement meets regulatory approvals, but it will likely close more quickly than that.

The deal will give Fiat a majority 52 percent stake in the automaker, just two years after it agreed to manage Chrysler after its bankruptcy.

President Barack Obama is expected to announce the agreement Friday during a trip to a Chrysler facility in Toledo, Ohio.

The U.S. government will ultimately lose around \$1.3 billion in the deal. The government authorized \$12.5 billion in loans for Chrysler from the end of 2008 through Chrysler's bankruptcy filing in the summer of 2009. The Treasury Department said Thursday that Chrysler has repaid \$11.2 billion — including \$2 billion in undrawn loans — but it is unlikely to recover the rest. Government officials have long said that they didn't expect to recover the full amount they loaned to Chrysler and General Motors Co. during the auto industry downturn, and that their top priority was saving thousands of auto jobs.

"We didn't do this to maximize return. We did it to save jobs," Treasury Secretary Timothy Geithner said during a trip to Detroit in April. On Thursday, Geithner noted that GM and Chrysler are hiring again and making new investments at U.S. plants, which wouldn't have happened had they gone bankrupt.

Fiat also agreed to pay \$75 million for the right to purchase the Chrysler shares held by a trust for retired autoworkers. The Treasury Department will receive 80 percent of those proceeds, or \$60 million, while the government of Canada will get \$15 million. The trust holds a 47.5 percent stake in the company. It is expected to sell its shares when Chrysler eventually holds an initial public offering, which could happen later this year or early next year.

Chrysler has made a remarkable turnaround in that time. Before entering bankruptcy proceedings, the company was nearly out of cash, starved after a decade under the ownership of German automaker Daimler AG and private equity firm Cerberus Capital Management. It needed U.S. government money to survive.

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But in the first three months of this year, Chrysler made a net profit of \$116 million and is forecasting 2011 earnings of \$200 million to \$500 million.

Under the leadership of Fiat CEO Sergio Marchionne, the company has cut costs and revived its sales by refurbishing most of its lineup of Jeep, Chrysler, Dodge and Ram vehicles. Sales of the Jeep Grand Cherokee were nearly three times higher in May than in the same month a year ago.

Fiat received a 20 percent stake in Chrysler after it emerged from bankruptcy proceedings in exchange for management expertise and technology. The Italian automaker has gradually raised its stake by meeting benchmarks set by the government. Last month, it paid about \$1.3 billion to buy another 16 percent of the company.

Chrysler repaid the bulk of its loans on May 24, when it paid off \$7.6 billion from the U.S. and Canadian governments. Chrysler repaid that money through a combination of bank loans, bond sales and money from Fiat.

Fiat's stake is likely to rise to 57 percent before the end of the year, when Chrysler meets another milestone set by the U.S. government: Producing a 40 mpg small car in the U.S. All told, Fiat has the right to purchase more than 70 percent of Auburn Hills, Mich.-based Chrysler.

This wasn't the first time Chrysler had to be rescued by the U.S. government. In the early 1980s the company, led by legendary pitchman Lee Iacocca, paid off \$1 billion in government-guaranteed loans in three years.

The government still owns 26.5 percent of GM after selling part of its stake in GM's initial public offering in November. GM received \$49.5 billion from the government in exchange for a 61 percent stake in the company. The Treasury Department has said it will hold off selling the rest of its shares until at least August, after GM reports its second-quarter results. The government would need to sell its remaining shares at \$53 apiece to break even on its investment. On Thursday, GM's shares closed at \$29.60.

The third Detroit automaker, Ford Motor Co., didn't seek a bailout.

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