Watchdog: Taxpayers May Lose $27B In Bailout

Marcy Gordon, AP Business Writer

WASHINGTON (AP) — A government watchdog says U.S. taxpayers stand to lose $27 billion from the 2008 financial bailout, up from an estimate of $22 billion made in the fall.

A report issued Wednesday by the special inspector general for the Troubled Asset Relief Program says the estimate is higher because of increased losses for the Treasury Department on sales of shares in bailed-out companies.

Ally Financial, the former financial arm for General Motors, still owes $14.6 billion of the $17.2 billion in aid it received. The report says taxpayers can expect to lose $5.5 billion on that investment because of the company's losses on risky mortgages issued ahead of the financial crisis.

The report also criticized the Treasury for lacking a plan to unwind its investment in Ally. Taxpayers own 74 percent of the company.

Ally and GM together owe more than half of the $67.3 billion still owed U.S. taxpayers by companies that were bailed out during the financial crisis, according to the quarterly report to Congress by Special Inspector General Christy Romero.

The total owed is down from $84.2 billion as of Sept. 30, as banks and other financial companies have repaid their investments and Treasury has received proceeds from stock sales. Insurer American International Group Inc., which received the biggest bailout of the crisis, $182 billion, finished repaying it last year.

After the 2008 crisis, Congress authorized $700 billion for the bailout of financial companies and automakers under the TARP. About $413 billion was lent.

GM owes $21.6 billion of the $49.5 billion bailout it received.

To recover all of its investment in GM, Treasury would need to sell the General Motors Co. shares it still holds at an average "break-even" price of $71.86 each — more than double their current price of around $28. Treasury has held the stock for over two years, awaiting a better price.

Ally shares aren't publicly traded.

Romero's report said Treasury "has no concrete exit plan" for Ally, which was formerly called GMAC.

While repaying the taxpayers' investment in Ally is important, Treasury must focus attention on the company's finances, the report says.

"Taxpayers saved GMAC, and they should not be put in the position of needing to save the company again," it says.

Treasury disputed the report's finding.

The department does have an exit strategy for the Ally investment, Assistant Secretary for Financial Stability Timothy Massad said in a letter to Romero.

Ally had originally planned to make an initial public offering of its stock to assist Treasury's exit, but the plan was postponed in 2011, Massad noted. He said two actions occurred last year that were part of the strategy. Ally's mortgage-lending subsidiary Residential Capital LLC filed for bankruptcy protection and the company sold its international operations to raise cash.

After ResCap is restructured in the bankruptcy proceeding and the sales of overseas operations are completed, Treasury will be able to recover its investment through a sale of its Ally stock or additional asset sales, Massad said. He said the actions chosen will depend on market conditions and Ally's progress.

In a statement, Detroit-based Ally said the actions it took last year were designed to put the company in a strong position to exit the bailout program and that it has made progress toward the goal.

"Ally is highly confident in its ability to repay the remaining U.S. Treasury investment in full," the company said.

Romero's report also said her office has uncovered and prevented fraud related to TARP. Investigations by her office to date have resulted in criminal charges against 119 people, including 82 senior company executives, according to the report. Eighty-three people have been convicted. Civil charges have been filed against 58 people.

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