

THE AUTO BRIDGE PLAN

Here's what Barney Frank's Financial Services Committee is proposing to bail out the US auto manufacturers, using money from TARP.

- **Short-term Operating Plan –**
The automaker must submit a short-term operating plan that describes the intended use of the loans, including the commitment of resources to develop a long-term restructuring plan and repayment of the loan to taxpayers with interest.
- **Long-Term Restructuring Plan –**
By March 31, 2009, loan recipients must submit to Treasury an acceptable restructuring plan for long-term viability and international competitiveness, including meeting enhanced fuel efficiency standards and for advanced technology vehicle manufacturing, and restructuring of existing debt.
- **Executive Compensation and Corporate Governance –**
All executive compensation restrictions from TARP apply to loan recipients for the duration of the loan plus the following additional

restrictions:

- No bonuses to employees making more than \$200,000 (which Treasury will adjust for inflation).
 - No golden parachutes under any circumstances.
 - No compensation plan that could encourage manipulation of reported earnings to enhance compensation.
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- **Warrants** – Treasury must obtain warrants from each loan recipient (or economic equivalent in the case of a privately held firm) equal to **20 percent** of the loan or such greater percentage as may be determined by Treasury in consultation with the Oversight Board.
 - **Dividends** – Recipients may not pay any dividends for duration of the loan.
 - **Acceleration of Repayment for Failure to Comply** – If a company receiving a loan fails to prepare an acceptable restructuring plan, the Treasury can demand accelerated repayment of the loan.

▪ **Terms of Loans:**

- Term: 7 years (or longer as may be determined by the Oversight Board).
- Interest Rate: 5% for first 5 years and 9% thereafter.
- Super Seniority: All other obligations and liabilities of a recipient will be subordinate to the loan—putting the taxpayer in the first position for repayment.
- No prepayment penalty.

I'm most interested in requirement for the March 31, 2009 long-term restructuring plan. The demands on fuel efficiency should be more precise. And the emphasis on "international" profitability—rather than "domestic" profitability is a bit of a gimmick, IMO. GM will be able to show international profitability a lot quicker than it will be able to show domestic profitability because of its ongoing legacy costs and the health care costs that it bears but some of its competitors don't.

I'm going to go read the draft bill now—what are your thoughts on this?