

SENATE AUTO HEARING: “RUSSIAN ROULETTE WITH THE ECONOMY”

The auto execs are before Senate Banking today—go here for the hearing.

Dodd is up, arguing that not helping the Big Two and a Half is like playing Russian Roulette with the American economy. He’s also beating up on Paulson for his irresponsibility with our TARP funds.

In my view of we’re going to insist on reforms from the auto industry, we ought to also require reforms from the finance industry.

Also note, they’ve got representatives from both the suppliers (the head of Johnson Controls) and the dealers (the President of CT’s auto dealers). The House hearing last time had such representatives, and it really made the hearings more valuable for the executives.

Shelby up. Took him 2.6 seconds to talk about labor.

Gene Dadaro, from the GAO, up. He’s talking about what past bailouts have involved. I’m curious whether he was consulted on TARP? He’s also demanding a board with real oversight. Again. Was he consulted on TARP?

Dick Shelby seems to believe he’s an expert on the auto industry. Still pressing for bankruptcy.

Dadaro states clearly that he believes Treasury has the ability to intervene. Shelby’s pushing to get Treasury to do this.

Bob Bennett has an interesting idea: you give TARP money to the auto companies’ creditors, in exchange for equity in the auto companies. That would change the cash shortage of the auto

companies, while watering down stock.

Jack Reed, clarifies that we should expect concessions from suppliers and dealers as well as the UAW. Finally! Someone who notices that the Big 2.5 have contracts with more than just the UAW!

Schumer: UAW made concessions yesterday, but where are the dealers? Where are the bondholders?

Menendez suggests requiring a dollar for dollar concession from stake-holders in any bailout. Also raising the possibility that a bailout includes prohibitions on a foreign maker buyout of Chrysler.

Evan Bayh, as the first auto state Senator up: Isn't it true that there's too much uncertainty to allow these companies to go bankrupt right now?

Sherrod Brown, on differences between 1979 and now: UAW already made concessions, the Big 2.5 have already restructured significantly.

James Fleming: The ripple on effect is a tsunami on the dealers who employ people in your home states. If you do not pass this bill, the effect on your constituents will be enormous. Consider the human side on what's going on—go into those dealerships. It's tough work, they're writing the paychecks out, they do not have massive staffs. They're making about 50,000 a year working in a dealership—that will go away.

[Halleluyah—it is high time we got dealers in here to talk about this.]

Keith Wandell: Largest supplier of automotive batteries to aftermarket and equipment manufacturer, 7th largest in world, and 3rd largest in North America. Had we not saved Plastex and bridged this to avoid liquidation, all 52 assembly plants Plastex supplies would have been affected for some period of time.

I can assure you that even though every foreign car maker that assembles cars in North America,

they too are deeply concerned about the viability of the supply base in North America.

Mark Zandi (from Moody's): 1) Govt should provide help. Without help, they'll be in bankruptcy. If auto makers file anytime in the next few weeks, it'll be badly damaging to the economy. 2) \$34 billion will not be sufficient. It would need between \$75 billion to \$125 billion, light vehicle will be 11 million in 2009. 17 million not supportable by underlying demand. 3) If plans fully executed, could result in viable industry. Have already made significant strides. Labor costs have declined during this decade. UAW concessions, further cost savings. 4) Recommend Congress provides aid, in exchange for warrants and restrictions on exec comps. Aid in two tranches. Reasonable concern that bankruptcy would preclude people from buying cars, but also need reassurances that warranties would be honored. Automakers have reasonable plan to restructure their businesses.

[This guy better be careful, or he's going to be put in charge of the oversight board.]

Mark Zandi may have finally gotten through to Shelby that the government is going to have to pay this anyway.

Crapo asks whether Oversight Board needs authority to impose restructuring conditions "as a Chapter 11 court could." Would having an oversight trustee affect confidence?

Wagoner: If people saw funding coming, we would have to present a plan to convince people we could execute it.

Nardelli says everyone's business was 20% leasing—and leasing has been all but shut down by credit crunch.

Gettelfinger says, yeah, put someone in charge of the bailout. But make sure you're addressing health care and unfair trade.

Crikey. Senator Corker just revealed that DOE

rejected all the applications for energy retooling projects. The car companies had not been informed.

Casey: "And then we heard this garbage about this \$73 an hour? That's a totally lie, a lie that was deliberately propagated."

Woohoo!!!

Nardelli: Just in the last week, 240 dealers quit, another 250 about to, because they can't get credit.

Zandi says a bailout would be worth 1.50 in economic stimulus (with \$1.80 being investment in infrastructure, \$1.10 to rebates).

Dodd asks another great question: should Congress pre-empt state-level franchise laws, making it easier to reduce dealers. The dealer guy hates it, not surprisingly.