

KILLING GM IN THE GUISE OF SAVING IT

Several articles out this morning make it look like the Bush Administration is planning on "helping" GM by dismantling it softly and breaking the union, all with no apparent focus to making it viable again.

First, there's this story suggesting that Bush may ask for the same concessions as Corker demanded last week.

Over the weekend, analyst Brian Johnson of Barclays Capital issued a report suggesting that the White House may still demand some significant concessions from the United Auto Workers as a condition of any short-term financial aid.

"Based on comments on the CBS show Face the Nation this Sunday morning by Senators Corker (R-Tenn.) and Levin (D-Mich.), we believe it is highly likely that the White House bailout may impose many of the same conditions Senator Corker insisted upon on Thursday in his attempt to forge a compromise," Johnson said.

That amendment would have required General Motors, Chrysler, the UAW and bondholders to replace half of the companies VEBA contributions with stock, eliminate the jobs banks and buyouts and agree to competitive wages, benefits and work rules by March 31 or be forced into bankruptcy court. Johnson has advocated many of the same provisions in his roadmap for a GM turnaround.

Note, once again, the silence about concessions from dealers?

Yesterday, Carl Levin gave similar warnings that

the Bush Administration—which refused to even place compensation limits in TARP that Wall Street bankers couldn't drive an Escalade through—is going to place real demands on GM and Chrysler.

And meanwhile, just by coinkydink, Bank of America is calculating how much money GM would need to fund bankruptcy proceedings.

GM may need around \$30 billion in debtor-in-possession loans, which are used to pay for a company's operating expenses as it restructures under bankruptcy protection, Bank of America analysts said in a report issued late on Friday.

The \$30 billion represents around two times GM's working capital, with an additional \$10 billion cushion for further earnings hits and to fund suppliers, the bank said.

GM had \$36 billion in long-term debt as of September 30, according to a regulatory filing.

To support GM, and the industry, the government will need to lend funds to support the company in bankruptcy rather than out of bankruptcy, as that is the only way to ensure the government has the most senior claim on the automaker's assets, the bank added.

"The alternative to attempt to legislate a senior position for the government outside of bankruptcy, as appeared in earlier versions of the auto bailout legislation, represents a violation of contract law, a dangerous precedent that all government interventions to date have sought to avoid," the bank said.

Bank of America suggests that the money from the Troubled Asset Relief Program, or TARP, could be combined with funds from section 13 of the Federal Reserve

Act, which allows the Fed to lend to companies on a secured basis under "unusual and exigent conditions."

"With the DIP in place to allow fundamental cost restructuring, restoring the long-term viability of GM could mean a longer payback of government funds over a 5-10 year period and perhaps sooner through a sale or refinancing," the bank added.

Bank of America, of course, got at least \$15 billion in TARP funds—with only those Escalade-sized loopholes to limit what it can and can't do with the money. But it sounds like it has a suspiciously well-developed plan for how to put GM into bankruptcy. Which, as we've noted repeatedly, would likely lead to liquidation, since consumers won't buy a car with the stench of bankruptcy hanging around it. Is BoA preparing to get another sweetheart deal, where it gives faux-capitalist cover for a deal in which the government assumes all the risk?

Regardless. I noted yesterday that the people crafting these deals don't appear to be negotiating in good faith. Who would have imagined that the White House would conduct the same kind of bad faith negotiations as Bob Corker?