

THE CERBERUS MYSTERIES DEEPEN

I don't mean to alarm you. But I'm getting more and more worried about Cerberus' role in the auto relief signed last Friday.

First, as plunger noted, Cerberus just suspended the ability of its investors to withdraw from its fund.

Cerberus Capital Management CBS.UL plans to pay 20 percent of year-end withdrawals in cash and suspend the remaining withdrawals for investors in its Cerberus Partners fund, television network CNBC said on Tuesday.

[snip]

We believe it is necessary to suspend withdrawals in part so as to [sic] to unduly increase the illiquidity of the fund for remaining investors and to permit the fund to take advantage of the buying opportunities currently available in this depressed market on a limited basis,

Now, since I'm not an investor in Cerberus, this doesn't affect me directly. But I am rather troubled that Cerberus took this move just days after the Federal government loaned \$4 billion to a Cerberus subsidiary without requiring that Cerberus reveal any of its financial data publicly. Turns out, we all only had to wait a few days to get a sense of their financial status ... and it's not good.

Then, there's the continued, seemingly universal uncertainty about Cerberus' role in the loans to Chrysler and GM.

Press reports are conflicted over the terms that Cerberus agreed to in return for the assistance. While the *Wall Street Journal* reported over the weekend

that Cerberus had agreed to backstop the loan by having Chrysler's financial services subsidiary pay the government its first \$2 billion in earnings or dividends, the *New York Times* said that guarantee applied only if the subsidiary was sold.

It's unclear whether Chrysler Financial is currently profitable or pays dividends, since Cerberus hasn't publicly disclosed such information. Nor has Cerberus said whether Chrysler Financial or any of its assets are for sale. It has also not disclosed who potential buyers for the finance sub might be.

The terms of the government loan, as published on the Treasury Department's website, specify that Cerberus could make taxpayers whole for losses of up to \$2 billion on the facility. But those terms are prefaced with the phrase, "to the extent permissible under existing agreements."

"What does that mean?" asked William Bratton, a law professor at Georgetown University, who added that the "vague" wording made it sound as if the agreement depended on waivers from Cerberus' lenders. The identity of those lenders has also not been disclosed.

[snip]

In contrast, legislation that was passed by the House but failed in the Senate would have given the government the right to a \$4 billion equity stake in Cerberus if Chrysler defaulted on the bridge loan.

Here are those terms (and here are the terms for GM). Note the due diligence TBD on the Chrysler terms. An even more troubling detail? They're only giving Chrysler \$4 billion, whereas GM gets

two later payments. Yet Chrysler said it needed around \$7 billion to survive. In other words, they don't appear to intend to have Chrysler survive.

Meanwhile, I have been calling around to Congressional staffers and people are either gone for the holidays—as they should be—or unable to find anyone who knows the answers to my questions about Cerberus. Nobody—at least nobody in the Democratic caucus—appears to have a handle on this.

In any case, here's my fear.

Bush—or rather, you and I—just loaned Chrysler \$4 billion dollars. According to reports, the management of Chrysler—up to and possibly including Chrysler's CEO Bob Nardelli—was not involved in negotiations over the loan. Instead, Cerberus oversaw those negotiations. Yet, Cerberus may not be on the hook for any of that loan. In fact, Cerberus is trying to sever ties with the actual recipient of the loan altogether.

I'm no financial whiz. But that seems like the equivalent of an evil step-parent negotiating but refusing to co-sign on a loan, ensuring that the loan won't even pay for food and shelter, then abandoning its step-child on the side of the road with the loan as its sole protector.

And meanwhile, Cerberus has just told investors they can't have their own money back—partly because it intends to "take advantage of the buying opportunities currently available in this depressed market."

I told you we should have nationalized Chrysler.