

DAN COATS' HYPOCRITICAL LOBBYING: FLOORPLANS, NOT CARS

Eric Kleefield uncovers a heap of hypocrisy in IN Senate candidate Dan Coats' lobbying record, but he misunderstands what it means.

Former Sen. Dan Coats (R-IN) is running for his old Senate seat, apparently on a platform of opposing government takeover of the private sector. But as it turns out, in 2008 he lobbied the Senate on the TARP bill, on behalf of none other than Chrysler's parent company.

The NBC affiliate in South Bend quoted Coats early this week, explaining why he was returning to politics. "Well, nobody anticipated that government's going to try to run auto companies, bank insurance companies, take over the private sector," said Coats.

However, according to a federal lobbying report for the third quarter of 2008, Coats served as a lobbyist on behalf of Cerberus Capital Management, the firm that owned a majority share in Chrysler.

[snip]

Coats's campaign press secretary Pete Seat says that despite what the lobbying filings show, Coats did not seek bailout help for Chrysler. "Dan Coats never lobbied on behalf of Chrysler in pursuing federal assistance. Anything to the contrary is false and pure politics," Seat told us.

Instead, Seat says, Coats was lobbying for "small business" loan guarantees. Seat says: "Dan's only related work was on behalf of small businesses – the very

lifeblood of our economy – to ensure they could raise the capital needed to increase production, inventory and add jobs. Dan Coats did more for job growth in the third quarter of 2008 than Democrats did in all of 2009.”

Kleefield spends some time talking about Cerberus’ stake in Chrysler, the car company. But he seems unaware of what Cerberus’ big interest was: Chrysler Financial and GMAC—and of what the phrase “small business loan guarantees” means in the auto business.

Cerberus, after all, was really never that interested in the car business, notwithstanding that little Chrysler millstone it had around its neck. Rather, in the years leading up to 2008’s crash, Cerberus was making a big play for finance companies—Chrysler Financial and GMAC. And certainly in 2008, when the auto business was going south, it hoped that it would be able to become the big auto finance company.

And the GOP-wired company in fact did manage to get into the TARP world by managing to turn GMAC into a bank holding company (though it had to give up much of its 51% stake in the company to do so). Here’s Bloomberg, looking back in May of last year on the fiasco that was Cerberus’ Chrysler investment, and seeing only finance.

Cerberus, headed by Chief Executive Officer Stephen Feinberg, spent about \$15 billion in 2006 and 2007 for majority stakes in Auburn Hills, Michigan-based Chrysler and GMAC, the former financing arm of General Motors Corp.

“The financing business may still be profitable, or at least won’t be a huge dog for Cerberus,” said Elizabeth Nowicki, a professor at the Tulane University School of Law in New Orleans. “There’s some room for mitigation.”

A Cerberus spokesman declined to comment

today. In a statement yesterday, Chief Operating Officer Mark Neporent said the company has “worked diligently” with the government and other parties on the bankruptcy and expected a quick resolution.

Cerberus, with about \$24 billion in assets, reduced its ownership in GMAC to a minority stake from 51 percent in December when it converted the financing arm into a bank holding company. As part of GMAC’s agreement to become a bank in exchange for \$6 billion in federal assistance, Cerberus’s voting control is being cut to less than 15 percent.

See, what Cerberus was actually after in 2008 was a way to salvage its two finance companies, Chrysler Financial and GMAC, as a means to save the only parts of Chrysler it cared about (remember over the Christmas holidays of 2008, when Cerberus was trying to force UAW to take all of Chrysler, for free, with the understanding that Cerberus would be able to walk away with its finance arm intact?)

And so, when Coats says he was fighting for small business loans, what he really means is that he was fighting to make sure auto dealers continued to get their floor plan financing (the loans that allow them to buy cars on a month to month basis). It was a real concern. But it was a bailout, however you look at it.

Which is where Kleefield should really be looking. Not least because TARP’s Congressional Oversight Committee just released a report showing that of all the stinky bailouts the Bush Administration made (and the Obama Administration redoubled), the GMAC bailout was by far the stinkiest. But because there remains a question whether Cerberus’ dealings in the waning days of the Bush Administration would have happened if it weren’t for the hard work of Republicans Coats, John Snow, and Dan Quayle.

Here's how the TARP report describes GMAC's decision to become a bank so it could get TARP funds.

Since the 2006 spin-off, GMAC Bank had operated as an industrial loan company (ILC) because it did not meet the Bank Holding Company Act (BHCA)'s definition of a "bank."⁴⁵ In response to deteriorating market conditions, significant third quarter losses, and the prospect of looming fourth quarter losses, on November 20, 2008, GMAC requested the approval of the Board of Governors of the Federal Reserve System (the Board) under section 3 of the BHCA⁴⁶ to become a BHC upon the conversion of GMAC Bank to a commercial bank. GMAC took this step after conversations with the FDIC and Treasury about strategies for surviving the financial crisis.⁴⁷ GMAC's management maintains that the final decision to seek BHC status was a joint decision resulting from discussions between GMAC management, the board of directors, Treasury, the Federal Reserve, and the FDIC.⁴⁸

The primary reason GMAC sought to convert to a BHC appears to be to gain access to government assistance related to the financial crisis. The conversion made GMAC eligible for access to the FDIC's Temporary Liquidity Guarantee Program (TLGP) facility and the TARP's Capital Purchase Program (CPP). At the time, GMAC's board of directors was dominated by GM and Cerberus. The December 2008 announcement of the AIFP – and the subsequent funding of GMAC under this program – suggests that it may not have been necessary for GMAC to become a BHC in order to gain access to TARP funds. When GMAC submitted its BHC application one month earlier, however, TARP funds could not have been allocated

to the company unless it became a BHC;
it was not clear at that time that
funding for non-BHCs would be provided
under the AIFP.

As the rest of the report shows, GMAC continued to get bailed out because you can't bail out auto companies unless you can ensure that the dealers—those small businesses Coats is talking about—can get loans.

Now we can argue whether there were better ways to ensure dealers got the floor plan funding they needed.

But what is clear is that Dan Coats was lobbying to bring about what would become the stinkiest of the stinky bailouts. Kleefield is absolutely right to call Dan Coats on his hypocrisy. But as he'll discover, the apparent real focus of Coats' lobbying is far more damning than potential involvement in a Chrysler auto company bailout would have been.