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Big 3 tamp down bankruptcy talk

Carmakers, analysts say filing could spell doom

Christine Tierney and Alisa Priddle / The Detroit News

The chief executives of Detroit's Big Three may not have achieved much in Washington last week -- but they did manage to persuade some key politicians that growing calls for bankruptcy as a solution for the struggling industry might instead spell its doom.

Advocates have proposed a special sort of bankruptcy for the automakers -- a "prepackaged" filing that could neatly resolve most of their cost problems by severing the car companies' obligations to dealers and unions. By contrast with traditional bankruptcies, negotiations in a prepackaged plan take place before the filing.

But auto executives -- and many debt analysts -- say any kind of bankruptcy would be extremely difficult for one or more of the Big Three because of their complex relationships with dealers, unions, suppliers and other stakeholders. Many political leaders, including President-elect Barack Obama, agree.

General Motors Corp. Chairman and CEO Rick Wagoner told lawmakers last week that a bankruptcy would rapidly degenerate into a liquidation of the company.

GM would run through cash at an even faster rate as a bankrupt company because consumers would shun its products, he said. "There'd be a massive loss of revenue under any scenario," Wagoner said.

Most leaders oppose filing

The Bush administration opposes an auto bankruptcy. And Obama recently told the TV program "60 Minutes" he wasn't in favor of bankruptcy for any of the automakers, saying they would be unable to obtain access to the credit they would need.

Rep. Barney Frank, chairman of the House Financial Services Committee, one of the committees which heard from the CEOs of the U.S. automakers last week, said that, unlike the situation at steel or airline companies, bankrupt car companies would be more likely to lose customers.

"Bankruptcy will make it very difficult to sell cars because of the ongoing relationship between the person and the corporation," Frank said. Car buyers are likely to worry about the vehicle's warranty and the ability to get service.

According to research that GM cited last week, 80 percent of customers would not buy a vehicle from a bankrupt automaker.

A study released Friday found consumers currently planning to buy a domestic vehicle "are only half as likely to do so if the company goes bankrupt," said David Myhrer, vice president of Morpace Automotive Brand Strategy Practice, a marketing research firm based in Farmington Hills.

In recent weeks, as Detroit's automakers warned that they were running out of cash, several commentators and politicians, including former Massachusetts Gov. Mitt Romney, advocated a pre-packaged bankruptcy as an alternative to a conventional reorganization under Chapter 11 of the bankruptcy law. A so-called "prepack," they said, would allow automakers to bypass the uncertainty and messiness that can bog down bankruptcy proceedings.

Delphi Corp., a formerly GM-owned supplier, is still in bankruptcy four years since its filing.

A prepackaged bankruptcy appears simpler. "They have a plan agreed to before they go in," said bankruptcy lawyer Kenneth Dalto of Kenneth J. Dalto & Associates in Farmington Hills.

Prepacks have become more common in the past five years, Dalto said, but the companies that choose that option tend to have few creditors.

He said he had never seen a prepack involving companies with as many stakeholders as the automakers. "It's very difficult because you've got to get everyone's agreement beforehand," he said. That would include suppliers and other unsecured creditors, he said, banks and other secured creditors, unions and dealers.

It's not a speedy process. "They can't do all that in a month," Dalto said.

Sales would continue to drop

In testimony in Washington last week, Chrysler LLC Chairman Robert Nardelli said the automaker looked at prepackaged and other types of bankruptcy but ruled them all out.

A bankruptcy would sink retail sales, he said, noting that sales dropped 37 percent when DaimlerChrysler AG said it would sell Chrysler in February 2007.

"Our factories would likely be idled for a significant period of time while we renegotiate contracts with thousands of suppliers and our primary lenders," Nardelli said.

Ultimately, he said, "we cannot be confident that we will be able to successfully emerge from bankruptcy."

Nardelli said the cost of financing a restructuring in Chapter 11 would exceed the loans the automakers are now seeking.

GM, Ford Motor Co. and Chrysler are seeking \$25 billion in bridge loans. Chrysler appears to be in the most precarious position, with Nardelli saying it could come "dangerously close to a minimum liquidity level" by the end of the year. GM said in its latest quarterly filing that it expected its reserves to fall below the minimum necessary to fund operations in the first half of 2009, barring an infusion of cash or an improvement in the economy.

Ford has more cash on hand than its rivals after mortgaging its assets, including the blue oval trademark, in 2006.

But Ford CEO Alan Mulally told lawmakers that the bankruptcy of any one automaker would ripple through the entire industry because the Big Three share the same suppliers.

Standard and Poor's Ratings Services has assigned them all the same CCC+ rating, Ford included.

"The downgrades reflected our view of Ford's expanding and ongoing cash use in its automotive operations," S&P said Monday.

"We expect Ford's cash use to further reduce its cash balances during the next few quarters, which will test the company's ability to maintain sufficient liquidity throughout 2009," it said.

Gregg Lemos Stein, an associate director with S&P, said one alternative to a bankruptcy might be an exchange of debt. Under that process, the company buys back debt at a slightly higher price than where it's trading -- but below the original value. GMAC Financial Services, 49 percent owned by GM, is planning to do that. GMAC's Rescap unit also has reduced debt that way.

Another alternative that has been floated is the possibility of a bailout similar to Chrysler Corp.'s three decades ago, but on a larger scale. In exchange for financing and guarantees, the government would be able to put pressure on all parties, including unions, dealers and management, to renegotiate contracts and make other necessary adjustments to help the companies recover.

Lemos Stein said no company as large as GM or Ford had attempted a prepackaged bankruptcy. "That doesn't mean we consider it impossible, but we'd consider it a very, very complicated undertaking," he said.

Analyst Mark Oline of Fitch Ratings, which put Chrysler on Rating Watch Negative last week because of its diminishing cash reserves, said comparisons with airline bankruptcies are invalid.

The airlines filed to get out from labor contracts and pension liabilities. "The auto industry has already done a lot of that outside bankruptcy," he said.

People accepted the bankruptcy of the airlines and continued to fly. "I'm not convinced it would be the same for the auto industry," Oline said. "Sales are already being impacted by the specter of it."