

About.com US Economy

The Auto Bailout

By Kimberly Amadeo, About.com Guide

Dec 31 2009

By January 2009, the government used \$24.9 billion of the \$700 billion bailout fund¹ for the Big 3 auto companies:

- \$17.4 billion for General Motors and Chrysler.
- \$6 billion for GMAC.
- \$1.5 billion for Chrysler Financial.



(Credit: Bill Pugliano/Getty Images)

The purpose of the loans was to provide operating cash for GM and Chrysler, and to keep making auto loans available for car buyers. Ford Credit planned to use funds from the Term Asset-Backed Securities Loan Facility (TALF²), a government program for auto, student and other consumer loans.

In December 2008, the auto industry asked the government for a \$34 billion bailout to avoid bankruptcy. The Big 3 stated that their demise would trigger 3 million layoffs within a year, plunging the economy further into recession.

Many opposed the bailout, saying U.S. automakers brought their near-bankruptcy on themselves by not retooling for an energy efficient era, reducing their competitiveness in the global market.

Auto Bailout Specifics

The auto bailout proposal from the Big 3 auto companies totaled \$34 billion in government loans. In return, the companies promised to fast-track development of energy-efficient vehicles, and consolidate operations. GM and Ford agreed to streamline the number of brands they produced. They also won agreements from the UAW union to delay contributions to a health trust fund for retirees and reduce payments to laid-off workers. The three CEO's agreed to work for \$1 a year and sell their corporate jets.

GM's Bailout³

GM received \$6 billion through GMAC, which became a bank holding company. GM asked for \$18 billion in loans, of which \$4 billion was needed to avoid bankruptcy before the end of 2008. In return, GM agreed to give the government warrants for common stock, preferred stock, and a promise to repay the loan in 2012, when it anticipates it will again break even. GM pledged to cut its debt by \$30 billion by converting debt ownership for equity. It agreed that union health-care benefits would be paid to retirees in 2010. It promised to sell its Saab, Saturn and Hummer divisions, reducing the number of models for sale to 40. It would reduce employment from 96,000 to 45,000 by 2012. (Source: Bloomberg, [Chrysler Financial to Get \\$1.5 Billion to Aid Car Sales](#)⁴, January 19, 2009)

Chrysler's Bailout

Chrysler's \$1.5 billion EESA loan was made to a new financing corporation, Chrysler Financial, set up for the purpose. The interest rate for the loans was 1 point above LIBOR⁵. In addition, Chrysler Financial promised to pay the government \$75 million in notes and reduce executive bonuses by 40%. As a result, car buyers will

get 0% financing for five years on some models. (Source: Washington Post, [U.S. Expands Aid to Auto Industry](#)⁶, January 19, 2009)

Chrysler received \$4 of the \$7 billion bridge loan it originally requested. It also asked for \$6 billion from the Energy Department to retool for more energy efficient vehicles. In return, Chrysler's owner Cerberus vowed to convert its debt to equity. Chrysler wanted the Big 3 to partner with the Federal government in a joint venture to develop alternative energy vehicles. Chrysler pledged to debut an electric vehicle in 2010, ramping up to 500,000 by 2013.

Ford's Bailout Proposal

Ford requested a \$9 billion line-of-credit from the government, and a \$5 billion loan from the [Energy Department](#)⁷. Ford pledged to accelerate development of both hybrid and battery-powered vehicles, retool plants to increase production of smaller cars, close dealerships, and sell Volvo. Ford is in better shape than GM or Chrysler because it had already mortgaged its assets in 2006 to raise \$24.5 billion. Although Ford didn't need, and didn't receive any funds, it also didn't want its competition to get the upper hand thanks to the government bailout.

Congressional Plan

Congress first explored whether a planned bankruptcy reorganization was the best alternative for the companies, but realized that would take too long to implement. Congress was divided on whether to use the [\\$700 billion EESA funds](#)⁸, instead of the \$25 billion available from an Energy Department energy-efficient loan program.

Why the Bailout Is Needed

December 2008 U.S. auto sales dropped 37% compared to a year earlier. This was 400,000 fewer vehicles, or the equivalent of two factories' annual output. GM and Chrysler had the worst decline, while Ford's loss was about the same as industry leaders Honda and Toyota.

However, many in Congress accused the auto-makers of not operating competitively for years. The companies delayed making alternative energy vehicles, instead reaping profits from sales of SUV's and Hummers. When sales declined in 2006, they launched 0% financing plans to lure buyers. Union members were paid \$70 per hour, on average, while new hires made \$26 per hour. GM had twice as many brands as needed, and twice as many dealerships, thanks to state franchise regulations. For them, the bailout was needed to restore the U.S. auto industry to global competitiveness. (Source: WSJ.com, [Big Three Seek \\$34 Billion Aid](#)⁹, December 3, 2008; Bloomberg, [UAW Offers Cuts](#)¹⁰, December 3, 2008; The Economist, [Back AGain](#)¹¹ December 3, 2008))

The Impact of the Big 3 Automakers on the U.S. Economy

The auto industry [contribute 3.6%](#)¹², or \$500 billion to total U.S. GDP output. A 30% decline in auto sales translates directly into a 1% decrease in economic output. The auto industry also employs 850,000 workers in manufacturing, and 1.8 million workers in auto dealerships. Therefore, a decline in output results in direct job losses, as well as auto-industry related losses. (Source: BLS, [Auto Industry Employment](#)¹³)

However, these figures include foreign-owned as well as the Big 3 auto makers. At the time of the bailout, many analysts felt that Chrysler would go bankrupt, even with a bailout, and Ford didn't really need it. Therefore, the main impact from the bailout was to save jobs at GM. However, the economic slowdown caused GM to slash its employment and production, whether it received a bailout or not. Furthermore, once the

recession is over, Toyota and Honda will continue to increase their U.S. factories, providing jobs for U.S. auto workers. (Updated December 31, 2009)

This About.com page has been optimized for print. To view this page in its original form, please visit:

http://useconomy.about.com/od/criticalissues/a/auto_bailout.htm

©2010 About.com, Inc., a part of *The New York Times Company*. All rights reserved.

Links in this article:

1. http://useconomy.about.com/od/criticalissues/a/govt_bailout.htm
2. <http://useconomy.about.com/b/2009/03/23/fed-launches-125-trillion-talr-program.htm>
3. http://useconomy.about.com/od/businesses/tp/GM_Bankruptcy.htm
4. http://www.bloomberg.com/apps/news?pid=20601087&sid=aRreBZ_PYMt0&refer=home
5. <http://useconomy.about.com/od/glossary/g/LIBOR.htm>
6. http://www.washingtonpost.com/wp-dyn/content/article/2009/01/16/AR2009011602874_2.html?hpid=topnews
7. <http://useconomy.about.com/od/governmentagencies/p/Energy.htm>
8. http://useconomy.about.com/od/criticalissues/a/govt_bailout.htm
9. http://online.wsj.com/article/SB122823078705672467.html?mod=todays_us_page_one
10. <http://www.bloomberg.com/apps/news?pid=20601087&sid=asaMazI74544&refer=home>
11. http://www.economist.com/business/displaystory.cfm?story_id=12718590
12. http://useconomy.about.com/od/grossdomesticproduct/f/GDP_Components.htm
13. <http://www.bls.gov/bls/auto.htm>

HOW I MADE IT: CAL WORTHINGTON

A steady drive to the top

Car-selling legend blends perseverance and a memorable shtick

KRISTENA HANSEN

The job: Selling cars. But just about everyone who lived in California over the last half-century knows that. Worthington, whose "My Dog Spot" commercials made him one of the most famous auto salesmen in history, has owned 27 dealerships and sold more than 1 million cars by his reckoning in his career.

Now 89, he still owns four dealerships, 10 office buildings, two shopping centers, a 10,000-acre ranch, television studio, advertising agency and finance company. He also has a 9-year-old son.

"I get too bored if I don't have something to do," he said.

Starting poor: Born the seventh of nine children in tiny Bly, Okla., since faded from the map, Worthington remembers every day as a struggle. "We were starving and barefooted," he said. "I had a very awful childhood." Dropping out of school at 15, he worked a variety of jobs. Until joining the military at age 20 he never earned more than 29 cents an hour, he said.

Decorated airman: As an Army Air Corps pilot in World War II, Worthington flew 29 combat missions over Germany, earning the Distinguished Flying Cross and other decorations. But after the war, commercial airlines refused to hire him because he didn't have a college degree. Worthington wasn't interested in going back to school.

"I had to have more excitement," he said. "The world was changing so fast, and I didn't want to be sitting in class learning about the rainfall in Burma."

First car lot: Worthington rented an empty lot in Cor-



MARIANNA DIAMOS/Los Angeles Times

FETCHING: Cal Worthington's distinctive TV ads featuring his "dog" Spot began as a parody of another car dealer's spots. Among Spot stand-ins over the years were a gorilla, penguin, camel and bear.

pus Christi, Texas, for \$25 and the first week sold three cars, including his own. Profit was \$500 — almost double what he made in a month in the Air Force — but he had to hitchhike home. "I was the car dealer without any cars," he said. But he was hooked.

California: Moving to Huntington Park in 1949, he bought a Hudson dealership the next year from Earl "Madman" Muntz and began advertising on radio. Later he made live, three-minute television ads starring himself. Realizing the power of the medium, in 1959 he began hosting a country music show, "Cal's

Corral," from his dealership with guests that over the years included Buck Owens, Johnny Cash and Roger Miller.

He was determined to never be poor again. "I worked a lot harder than the other guys did," he said. "I worked day and night. Seven days a week was standard for me."

In 1963, at a time other car sellers were suffering, Worthington bought a dealership in Long Beach (he still owns it) and sold 800 cars in the first month.

Spot: The TV commercials that made Worthington famous began in 1971 as a parody of competitor

Fletcher Jones' ads that featured puppies. Worthington's first "My Dog Spot" commercial featured a live, snarling gorilla. "I found this little fella down at the pound, and he's so full of love," he said to the camera.

Over the years, the commercials — in which he always referred to the animals as a dog named Spot — featured a penguin, camel, bull, elephant, bear and tiger. None of them featured a dog.

The sense of humor he learned as a child to pull through the rough times was paying off. "People would say to me 'Cal, where's your dog Spot?'" he said. "That became my standard greeting."

Bumps in the road: In 1969, an accountant embezzled \$350,000, which nearly brought down his business, Worthington says. In 1978 he was charged by the state attorney general with deceptive advertising (Worthington settled without admitting wrongdoing). He's been married and divorced three times and fought a messy, much-publicized palimony suit, which he won.

Through it all, he kept selling cars and running other businesses. According to a 2002 interview with his daughter, Courtney, who ran one of the dealerships, Worthington grossed \$600 million that year.

No retirement: Though his dealerships saw a 33% drop in sales in 2009, business is up a bit this year. So Worthington is looking into buying another dealership. "It's like watching a football game," he said. "You just keep looking at the score."

He won't consider retirement. "How in the world people retire, I don't know," he said. "It takes a lot of guts."

business@latimes.com