

Times of London

April 30, 2009

Chrysler bankruptcy to provide 'new lease of life' President Obama said the US carmaker will get up to \$7.5bn in US Government aid to restructure and relaunch

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Chrysler, America's third-biggest carmaker, went into Chapter 11 bankruptcy protection today, having won \$8 billion in US Government funding to help it restructure.

But President Barack Obama vowed to use the court process to wipe out the investments of rebel fund managers that refused to give up their claims to Chrysler's debt, forcing the company to go bust.

"A group of investment firms and hedge funds decided to hold out for the prospect of an unjustified taxpayer-funded bailout," the President said.

"I don't stand with those who held out when everybody else is making sacrifices. And that's why I'm supporting Chrysler's plans to use our bankruptcy laws to clear away its remaining obligations so the company can get back on its feet," he added.

President Obama's comments were a stark warning to the bondholders of \$27.2 billion of General Motors' debt, who demanded that their share in a restructured GM be increased from the 10 per cent offered by the Government to 58 per cent in return for wiping out the carmaker's borrowings.

GM and Chrysler were last month given tight deadlines by the President to present viable business plans, which included slashing their debts, or face bankruptcy.

Chrysler had until May 1 to renegotiate its liabilities to the United Auto Workers union and its lenders and finalise a deal with Fiat, the Italian vehicle manufacturer. GM has a June 1 deadline.

Under the terms announced today, Chrysler's partnership with Fiat will go ahead, with the Italian company taking an initial 20 per cent stake in return for sharing its fuel-efficient technology.

Fiat will be able to increase the stake by up to 35 per cent if it hits three milestones set by the Government on improving Chrysler's production, but it cannot take a majority stake until Chrysler's debts to American taxpayers are repaid.

Bob Nardelli, Chrysler's chief executive, will step down after the restructuring process, which the Government expects to take between 30 and 60 days.

The Government will provide up to \$3.3 billion to fund Chrysler through the bankruptcy and a further \$4.7 billion loan when it emerges from court protection.

The new business will be run by a nine-person board, with members nominated by United Auto Workers (UAW), the US and Canadian Governments and Fiat. The board will pick a new chief executive.

The UAW will hold 55 per cent of the company in return for dropping its claim to half of the \$10.6 billion that Chrysler owes workers' healthcare funds.

Chrysler's four largest lenders – JP Morgan Chase, Citigroup, Morgan Stanley and Goldman Sachs, agreed to accept a share of \$2 billion in return for wiping out more than \$4 billion of the company's \$6.9 billion debt.

But smaller lenders, reportedly led by Oppenheimer Funds, Perella Weinberg Partners and Stairway Capital Management, refused the \$2 billion settlement, even after it was increased to \$2.25 billion in last-minute talks with the Treasury.

The renegade lenders accused the Government of offering more junior creditors, such as the union, more favourable terms.

Some smaller lenders are expected to argue in the bankruptcy court that Chrysler should be liquidated so that they can receive a better payout on their debts, some of which were secured on the company's physical assets.

But Jerry Reisman, senior partner at Reisman, Peirez & Reisman, said that the lenders had a tough case to prove.

"The Government wants Chrysler to survive, for workers to keep their jobs and suppliers to be paid," the bankruptcy specialist said. "It's going to be very difficult for the lenders to convince the court to protect them."