

# Financial problem of general motors corporation

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General Motors Corporation asked for an instantaneous provisional Federal loan of about \$4 billion in the month of December 2008. The company anticipated to put together an extra \$4 billion in January, 2009 to support operating failures caused by low production in North America. If the situation had no chance of improvement, then the company thought of accessing \$2 billion bringing the total amount to nearly \$10 billion by the end of the first quarter of 2009. Employment had been cut to forty-two percent from 167,000 to 97,000.

The company had instantaneously ceased the entire corporate aircraft processes. This had an adverse impact on the salaried staffs. The way out for the company is to seek assistance from the U. S. government. Failure to get assistance would hamper the domestic industry and the entire supply chain (Cruz). The board of General Motors (GM) Corporation wanted to evaluate a reshuffling plan which was aimed at deducting costs and winning support for up to approximately \$12 billion from the US government. This support was provided in terms of emergency funding.

The GM wanted a bailout as they failed to manage their production suitably. Along with opponents Ford Motor Corporation and Chrysler LLC, GM hurried to accomplish the business plans required by Congress as a clause of considering nearly \$25-billion liberation package for the besieged industry. According to the GM board meeting, the United Auto Workers (UAW) president Ron Gettelfinger indicated that his union was ready to provide further allowances so as to win support for the bailout from the management of the auto companies.

As quoted by Ron Gettelfinger, “ they need to establish that executive compensation is something that they're willing to curtail. They can also give the government an equity stake in the business” (GM Bailout Plan under review). House and Senate Democratic leaders sent letters to GM, Ford and Chrysler executives declaring that the corporations desired a plausible reorganization plan. According to the statistics, the sales of the auto companies showed depressing results in the month of November, 2008. The figures revealed that October, 2008 proved to have only limited leap due to consumer improbability and tight credit.

As evaluated by the analysts, there is a probability for GM to impede burning cash if the auto industry regains its sales rate. A sales rate of approximately 13 million vehicles and a backup by federal funds would help GM to see the fruits of success. This deal would entail abrupt dispensations from creditors, administrative and the UAW. The union is under force to give up protections that permit jobless factory workers at the Detroit automakers to collect above ninety percent of their compensation by moving to a jobs bank. The union approved to constraints on the program.

A potentially more vital allowance would be payments by GM and other automakers to the retired auto-employees. This payment would be made from a \$48 billion trust fund which is planned to take over fundinghealthcare assistances from the year 2010. The modified plan of GM is required to be submitted to Congress. This plan is anticipated to illustrate deductions to executive reimbursement. The automaker rewarded its top management over \$40 million approximately in 2007 although the stock prices showed a drop of nineteen percent and there had been a loss of about \$39 billion.

Moreover, the GM plan is likely to specify that the corporation will inquire a number of bond holders to accept equity and inadequate cash disbursement to buy back the obligation they hold. That recommended debt swap is observed to be essential since GM has in excess of \$44 billion in obligation on its balance sheet according to the analysts. The auto manufacturers burned through nearly \$6.9 billion in the third quarter of 2008 and in September, 2008 concluded with about \$16.2 billion. GM required at least an amount between \$11 billion and \$14 billion to maneuver and compensate suppliers.

The company had also cautioned that it could collapse due to short of cash by the beginning of 2009 if they were unable to get any kind of government help. The revised plan from GM was likely to stress its investment in fuel-saving know-how and substitutes such as, GM's battery-powered Chevrolet Volt. Forecasters anticipate the auto manufacturers to feature private product plans that demonstrate they have a game plan for meeting federal obligations for a forty percent enhancement in fleet-wide average fuel economy to thirty-five miles per gallon by year 2020 (GM Bailout Plan under review).

GM operating with about \$15.4 billion of U. S. aid, would be in any case partly possessed by the U. S. government under the auto manufacturer's plan to cut its debt and slash dealer ranks over forty percent. If this scheme is approved by the Obama administration, then it would provide the Treasury at least fifty percent of the sixty billion shares in a reordered GM. The U. S. would unite with European and Chinese administrations in holding stakes in local auto manufacturers. The U. S. may be the major shareholder in the

country's largest automaker by transferring \$10 billion of its loans into equity.

The government gets special treatment over other GM creditors as its loans are protected by assets even as the \$27.5 billion in bond debt is unprotected. The administration has held veto power over GM expenses of above \$100 million since December liberation. According to GM, the prevailing equity holders having about 610.5 million shares outstanding, will possess about one percent of the reorganized corporation on a pro-forma basis. This would be done after approximately sixty billion more shares are issued.

Bondholders would be provided ten percent of the new stock. The U. S. and the UAW union would segregate the remaining eighty-nine percent, with at least half owned by the government. The underlying macroeconomic theory behind the GM bailout plan is the incorporation of private equity model. According to the private equity model, the business governance should not work on a daily basis. The role of the U. S. in this company is to build up a plan whereby the auto manufacturer can be self-sufficient and not require federal assistance to survive.

The company and the government do not have the intention to run the auto business on a day-to-day basis. The corporation requires slashing liabilities so that it can continue its present U. S. loans and borrow an additional of about \$11.6 billion. Under the survival plan, the company will intensify its dealer reductions to forty-two percent by 2010, from an intended thirty-four percent decrease by 2014. The plan for a government ownership stake is still

under evaluation. According to Chief Executive Officer Fritz Henderson, the U.

S. government desires that GM should opt for a feasible plan to ensure that the taxpayers get reimbursed in the case of government loans or acquire an adequate return in the case of equity. The auto manufacturer's reductions are planned to ensure productivity in a U. S. market with sales of as few as ten million autos. This was 13 percent lower than formerly predicted. The annual sales rate was approximately 9.9 million in March 2009 although the company declared its break-even target to be an industry sales rate of nearly 11.

5 million to 12 million. Losses have amounted to about \$82 billion since 2004. This led the company to the edge of collapse. Seeing the condition, the ex-President George W. Bush sanctioned the first installment of crisis U. S. loans in December, 2008. It can be concluded that the government of U. S. has no intentions of controlling the automaker for a long-term basis. The ownership of government was by default and not pre-planned (Green).

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