

## **GMAC bond repayment is a key test**

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The hard-hit US car manufacturers are facing an enormous financial test: whether or not General Motors' financing arm will be able to repay \$1bn of debt due on January 14.

The fate of the January GMAC bond has become a focal point for debt market investors who are concerned about the carmakers' cash positions next year.

Prices on these bonds have plunged recently.

Investors willing to bet that GMAC will find funds to repay the bonds stand to make a 75 per cent return on their money, according to traders.

GMAC, the financing arm of General Motors, is 51 per cent owned by Cerberus, the private equity group.

With continued turmoil in the debt markets and growing concerns about the grim prospects for carmakers in the face of a recession, it is far from clear whether GMAC will be able to borrow fresh money.

Gregg Lemos-Stein, credit analyst at Standard & Poor's, said that the main concern around GMAC was the rate at which the company was spending even as its income was under pressure.

"I think the cash burn is the primary concern and where that cash burn will take the liquidity," Mr Lemos-Stein said.

"That \$1bn maturity will play a part in where that liquidity goes if they are unable to replace it. "It's a difficult funding environment. . . the autos and their funding companies are especially challenged."

Concerns about the financial health of the US car manufacturers have intensified this week.

The GMAC bond has become a focus for the credit markets, where debt from most of these companies has been trading at distressed levels in the credit markets, reflecting their junk bond ratings and concerns about their future.

Some GMAC bonds of smaller size are due before the end of the year, but analysts generally believe that the company has funds to last until the end of 2008.

The January 2009 bond is the first significant debt that has to be repaid next year by a large car manufacturer.

Gina Proia, spokeswoman for GMAC, said: "GMAC has met its commitments and we intend to continue to meet our commitments to investors.

"Clearly this is a challenging time but we are taking the steps needed to manage our business, including moves to better align origination with our funding."

GMAC has cut back on car financing, much of it channelled through General Motors dealers.

If GMAC does not repay the bonds it would send further Shockwaves through the financial system.

"Even though the market is pricing in [the probability of default], there's going to be a reaction with a firm that large," said Edward Alt-man, director of the credit and debt markets research program at NYU Stern School of Business.

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