

Chrysler files for bankruptcy

David Kiley and David Welch

The historic move hinges on a fast trip through court, billions more federal dollars, and an alliance with Fiat.

Unable to get all of Chrysler's creditors on board with a restructuring of its debt, the automaker and the U.S. Treasury Dept. put the company into bankruptcy today, Apr. 30. President Barack Obama, in a White House statement delivered shortly after noon ET, said the Administration supported a bankruptcy filing and lambasted a group of Chrysler bondholders who held out for better terms.

Obama said the bankruptcy process will be "quick and efficient," and reassured car buyers that the government will back any new car warranties. The Treasury will provide financing for the company while it is in bankruptcy and pave the way for the automaker to reemerge from the process as a smaller, leaner company with Italian automaker Fiat (FIA.MI) as a major shareholder.

Obama said that while major bondholders agreed to take one-third of what they owed, and the unions agreed to pay and benefit cuts, a "group of investment firms and hedge funds continued to hold out for a taxpayer bailout." Obama described them as a "small group of speculators" and said the Chapter 11 process is "designed to deal with the last few holdouts."

In a statement published on The Wall Street Journal Web site, the recalcitrant bondholders said they sought an accommodation with the government.

"Under long recognized legal and business principles, junior creditors are ordinarily not entitled to anything until senior secured creditors like our investors are repaid in full. Nevertheless, to facilitate Chrysler's rehabilitation, we offered to take a 40% haircut even though some groups lower down in the legal priority chain in Chrysler debt were being given recoveries of up to 50% or more and being allowed to take out billions of dollars. In contrast, over at General Motors, senior secured lenders are being left unimpaired with 100% recoveries, while even GM's unsecured bondholders are receiving a far better recovery than we are as Chrysler's first lien secured lenders," the group said.

The statement added: "Our offer has been flatly rejected or ignored. The fact is, in this process and in its earnest effort to ensure the survival of Chrysler and the well-being of the company's employees, the government has risked overturning the rule of law and practices that have governed our world-leading bankruptcy code for decades."

Chrysler CEO Robert Nardelli, who will be leaving the company after the transition, said on CNBC that the Chapter 11 filing is "a bittersweet conclusion." He added, "I think breathing new life into Chrysler is what it's all about."

The bankruptcy filing would be the first in U.S. history by a major automaker. It will come after Chrysler in recent days had struck major deals for concessions from its unions and most of its bondholders, made up of large banks and hedge funds. A Chrysler bankruptcy could even be a shot across the bow to bondholders in General Motors, which is also headed toward bankruptcy if it cannot get its unsecured creditors to take stock in exchange for most of their \$27 billion in bonds.

The sticking point on Wednesday—the last day before the White House's 11:59 p.m. Thursday deadline for a "financial viability" plan that would earn Chrysler additional government loans to stay in business—was a group of smaller banks and hedge funds that refused to take substantial writedowns, known as a "haircut" or "cramdown," on the value of their bonds.

Treasury even sweetened the deal, offering \$2.25 billion for the \$6.9 billion in debt instead of the original \$2 billion. About 75% of the creditors agreed, but a few hedge funds held out.

The bondholders could be playing a poker game in which they are hoping to use legal tactics to stall bankruptcy proceedings and get the agreeable creditors—namely JPMorgan Chase (JPM), Morgan Stanley (MS), Citigroup (C), and Goldman Sachs (GS)—to offer them more or buy their debt. Douglas Bernstein, a bankruptcy attorney at the firm of Plunkett Cooney in Bloomfield Hills, Mich., says that's the only way to get more money than waiting on a judge's decision. "It is highly doubtful that these bondholders would do better in an actual Chapter 11 filing than by cutting a deal," says Bernstein.

Late Wednesday, Administration officials and the President held out hope that they could strike a deal. During Wednesday's prime-time press conference at the White House, President Obama appeared to point to a Chrysler bankruptcy filing, although he said it was "not yet clear" Chrysler would have to move forward with one. "I am actually very hopeful, more hopeful than I was 30 days ago, that we can see a resolution that maintains a viable Chrysler automobile company out there." He added: "The fact that the major debt holders appear ready to make concessions means that even if they ended up having to go through some sort of bankruptcy, it would be a very quick type of bankruptcy."

Some debt holders want better terms

The worry for employees and customers of Chrysler has been that a Chapter 11 reorganization filing would lead to the company's liquidation under Chapter 7 of the bankruptcy code. That seems very unlikely now. A government source familiar with the negotiations said: "Chrysler will survive and avoid liquidation. Whether that happens in or out of bankruptcy remains uncertain at this point."

A group of large banks and hedge funds holding about \$5.2 billion in Chrysler's secured debt agreed on Tuesday, Apr. 28, to take a reduction to \$1.5 billion, plus a small percentage of equity in the automaker. But a group holding another 25% of the debt, or about \$1.7 billion, has balked, wanting better terms.

Meanwhile the United Auto Workers accepted a package of concessions involving wage, overtime, vacation, and benefit cuts, and agreed to take 55% of the company's equity in place of \$4.5 billion owed to the union's health-care trust fund that pays future obligations for workers and retirees.

Since December, Chrysler has been granted \$4.5 billion in taxpayer loans to stay afloat. The company failed last month to provide the Administration with a recovery plan deemed viable by a White House auto task force. The automaker was then given 30 additional days to work out a new plan with unions and debt holders to lower its costs and debt payments and forge an alliance with another automaker.

On the block: the Chrysler brand

Chrysler and Fiat have been organizing an alliance since January and were reportedly finalizing an arrangement Wednesday that would make Fiat a major shareholder in Chrysler should it file for bankruptcy. The two companies plan to share technology and manufacturing, reintroduce the Fiat and Alfa Romeo brands to the U.S., and more widely distribute Chrysler-Jeep vehicles abroad.

A source close to Chrysler says that Fiat—which has an agreement to take a 35% stake in the U.S. automaker—is working on an operating plan that would sell Fiat cars at Chrysler's dealerships. Fiat's upscale Alfa Romeos could be sold at select dealerships. The two companies

are also reviewing the Chrysler brand and trying to figure out if they should keep it. Assuming the Fiat-Chrysler alliance goes through, five brands—including Fiat's two—would be too many. No decision has been made on Chrysler, but a source close to the plans said that the brand is on the block.

That would be an emotional decision for Chrysler because it's the automaker's namesake. But Chrysler's brand has the lowest sales of those in play, which include Dodge and Jeep. The Town & Country minivan is the top Chrysler seller. But some think that Chrysler could get consumers to move to the Dodge Caravan minivan.

The Obama Administration has been clear that it wanted to see Chrysler stay in business to save jobs and avoid further stress on auto suppliers, which have been decimated by rapidly falling auto sales. If a raft of suppliers go out of business, it could spell trouble for such healthy automakers as Ford (F) and Toyota (TM), as well as hurt General Motors (GM), which the White House is also trying to keep in business with government loans and forced restructuring.

Bankruptcy could take mere weeks

If the overall shape of Chrysler's recovery plan is so close as to be within \$1.7 billion, why not find a way to make the remaining debt holders happy? Because bankruptcy law is intricate. The bondholders who have agreed to the haircut have probably done so on the condition that all the bondholders are treated the same. So if all of the debt holders fail to agree, effectively none of them do.

But Chrysler and the White House may have achieved enough to submit a "pre-packaged" bankruptcy petition by Apr. 30 or May 1. According to bankruptcy law experts, they would have to have 66% of the debt holders in agreement on the haircut, which would usually compel a bankruptcy judge to force the other creditors to take the same deal. Under that scenario, bankruptcy proceedings could take place quickly, in just a matter of weeks. Then Chrysler and Fiat would reemerge and get on with relaunching the company.

A bankruptcy filing has been controversial, because some experts believe consumers would lose what faith remains in the company and its products, driving sales volume so low that Chrysler might not survive. But on the positive side, Chrysler could use bankruptcy court to eliminate rapidly hundreds of underperforming dealers that it is otherwise prevented from cutting off under state franchise laws.

"That has always been the upside of a Chapter 11 filing for both Chrysler and GM," says Bernstein.

Will consumers care how it plays out for Chrysler in the next 48 hours? "I think the public has been pretty well prepared for a fast bankruptcy for Chrysler for a few months, and the company seems to be already at its low point without falling off a cliff, so it may not make much difference at this point," says independent marketing consultant Dennis Keene.

However it goes, there will be a new Chrysler in the works by Friday.

KILEY, David and WELCH, David. Chrysler files for bankruptcy. **BusinessWeek**, New York, 30 abr. 2009. Disponível em: <www.businessweek.com>. Acesso em: 4 maio. 2009.