

Chrysler Financial executives refused loans to avoid compensation caps

Jerry White
24 April 2009

Top executives at Chrysler Financial turned away a government loan because they did not want to abide by new federal limits on pay, according to findings by a federal watchdog agency reported by the *Washington Post*.

Earlier this month, the Obama administration offered a \$750 million loan to Chrysler Financial, which is a major lender to Chrysler dealerships and customers. In rejecting the loan, the company's owners—private equity firm Cerberus Capital Management—opted to borrow from a group of private banks, including JPMorgan Chase and Citigroup, which charged more for the money than the government would have, the *Post* reported. This added to the financial burden carried by the Detroit automaker, which is reportedly preparing to file for bankruptcy as early as next week.

“It was certainly a deal-breaker from Treasury's perspective,” said Neil Barofsky, the special inspector general for the bailout program known as the Troubled Asset Relief Program, or TARP.

Chrysler Financial had received a previous loan of \$1.5 billion before Congress imposed limited restrictions on compensation for executives receiving federal money. As the money began to run out in March, the Treasury Department began crafting an additional \$750 million loan. On April 7, the Treasury asked Chrysler Financial to have its top 25 executives sign waivers regarding their compensation, according to the special inspector general's report.

The *Post* explained, “Those waivers would have barred the executives from suing the Treasury or Chrysler Financial over new pay restrictions,” which were still being worked out. “Within a week, Chrysler Financial responded that ‘it was unable to obtain waivers from all 25 executives,’ the report said.” The

“request for additional funding was denied.”

Chrysler Financial claimed that it rejected the loan because it had adequate private funding. “If Chrysler Financial needs the cash to support Chrysler, they [the executives] are not going to put the auto company at risk,” a senior industry official, who spoke on condition of anonymity, told the *Post*. “These guys aren't going to blow up the car company for their personal reasons.”

In fact, the record indicates the opposite. From the beginning, Cerberus—which bought an 80 percent stake in the Detroit automaker from DaimlerChrysler in 2007—has never been committed to maintaining the long-term health of Chrysler. Cerberus is known on Wall Street as a “vulture” fund, which specializes in “stripping and flipping” distressed companies after selling off profitable assets and gutting the jobs and living standards of their employees.

Cerberus' billionaire owner, Stephen Feinberg, who got his start as a trader with the junk bond investment firm Drexel Burnham Lambert, thought he would make a killing by buying Chrysler. He was particularly interested in merging its financial arm with GMAC—the finance company at General Motors, which Cerberus also bought.

Cerberus, whose chairman is former Bush Treasury Secretary John W. Snow, put together the multibillion-dollar deal, involving the investment arm of Abu Dhabi as well as hedge funds such as York Capital. Like most private equity firms, it used very little capital of its own and immediately loaded the company with crippling amounts of debt.

“Cerberus piled about \$20 billion of debt onto Chrysler,” according to the *New York Times*, which added, “As car sales plunged across the industry—and, in particular, at Chrysler—the carmaker began to buckle under its load.”

Cerberus is now looking for help from the Obama administration to merge Chrysler Financial and GMAC in hopes that it can still salvage a profit from its takeover.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact