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GM, Ford notes carry more risk

By Susan Tompor
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(Excerpt)

As General Motors Corp. stock crashes, retirees and others are wondering what could happen to another chunk of savings that once looked as good as cash.

They're e-mailing me and asking: What should I do with my GMAC Demand Notes?

Nearly \$4 billion was tied up in GMAC Demand Notes as of Sept. 30. It's money to use for college tuition, mortgage payments or vacations.

As GMAC's picture becomes grimmer, it's money that's increasingly at risk.

What to do with notes

The notes are not FDIC-insured. These are short-term, unsecured debt obligations of GMAC LLC. This means there's no property that backs up the debt. The risks are spelled out at www.gmacfs.com.

The notes are available to GM and GMAC retirees and employees, and others including GM dealers and stockholders. Checks can be written on the accounts for at least \$250. The yield is 5.25% and can adjust weekly.

But as I warned savers in April, these accounts are not completely safe.

Some savers are withdrawing money. About \$5.65 billion was invested in GMAC Demand Notes as of June 30.

No access issues seen

Michael R. Stoller, a GMAC spokesman in Detroit, noted that no one has had trouble accessing money in GMAC Demand Notes.

"There have been no obstacles or any sort of access issues," Stoller said.

This week, we've heard more worries. GM said in a regulatory filing that the troubled markets have raised doubts that the mortgage business of its GMAC LLC financial arm can survive.

GM owns 49% of GMAC; the rest is owned by Cerberus Capital Management.

GMAC, the largest lender to GM, wants to be declared a bank holding company so it can qualify for some of the Treasury department's \$700-billion bank bailout money.

A Ford caution issued

"This is not necessarily a safe cash reserve account that we thought it was three or four years ago," said David Kudla, CEO of Mainstay Capital Management in Grand Blanc.

Kudla said Ford retirees and employees also should be cautious about Ford Interest Advantage accounts, which are not insured.

See www.fordcredit.com.

Kudla has been stressing that investors must know exactly what they own. It's not a checking account or money market account.