



Auto Workers

GM Workers' Risky Savings Plan

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Company insiders could lose billions through a GMAC investment once deemed as good as cash.

DETROIT - It's bad enough that General Motors employees and retirees risk losing their jobs and their retirement benefits if the automaker runs out of cash and can't scare up more bailout money in Washington. But many insiders also are in danger of losing \$3.9 billion in savings through an investment once deemed as good as cash.

These investments, called GMAC Demand Notes, have been marketed over the years as a safe place for GM employees, retirees and others to park their money. For as little as \$1,000, investors could buy a note paying well above most money-market accounts. (The current rate is 5.25%.) Many GM insiders have squirreled away their college and retirement funds in these notes.

Although they offer the convenience of a money market account, with check-writing privileges, GMAC demand notes are, in fact, high-risk investments. They are unsecured short-term debt obligations. Unlike money market accounts or bank certificates of deposit, they are not insured by the Federal Deposit Insurance Corp. If GMAC goes under, those demand notes are wiped out.

Debt analyst Kathleen Shanley of Gimme Credit issued a special warning for investors holding GMAC Demand Notes Wednesday, after GMAC reported a \$2.5 billion loss for the third quarter. "Folks, these are high-risk investments and not a safe place to park your cash. Please cash in your funds while you can and leave GMAC to the distressed debt investors. If you want to support GMAC, buy a FDIC-insured certificate of deposit in GMAC Bank instead." The good news is that it's easy to get out of these demand notes by writing a check for the entire balance.

Some investors have already caught on. Demand Note balances have fallen steadily from \$6.6 billion at the end of last year, to \$5.7 billion at the end of June, to \$3.9 billion currently.

Meanwhile cash balances at GMAC, now 51% owned by Cerberus Capital Management, are shrinking fast as new sources of funding remain difficult to obtain. This week, GMAC said there is "substantial doubt" that its Residential Capital mortgage subsidiary can continue as a "going concern" without additional help. GMAC wants to be declared a bank holding company so it can qualify for some of the Treasury department's \$700 billion bank bailout money.

Both General Motors and Ford Motor are expected to report huge losses and further cutbacks on Friday due to sagging consumer confidence and the global credit squeeze. Senior auto company executives were in Washington, D.C., Thursday seeking emergency aid for the struggling industry.

Barclays Capital analyst Brian Johnson on Thursday estimated that GM burned through \$4.2 billion of cash in the third quarter and will end 2008 with \$15.9 billion. With no sales improvement expected next year and without government aid, Johnson expects GM's cash balance to fall to \$5 billion next year, "below the company's \$14 billion minimum working cash needs." GM declined to comment before Friday's quarterly earnings announcement.

Without a bailout, some industry analysts say GM--and perhaps Ford and Chrysler as well--could be forced to file for bankruptcy. If all three collapsed, the fallout would spread quickly to suppliers and would even temporarily shut down the U.S. factories of healthier foreign automakers. The Center for Automotive Research in Ann Arbor, Mich., says 3 million Americans would lose their jobs in one year, costing the government \$60 billion in lost tax revenue.

Yet while the ship is in danger of sinking, GMAC continues to market its Demand Notes to members of the "GM/GMAC family"--GM employees, retirees and their family members, as well as shareholders, dealers and suppliers. According to GMAC's Web site, you can even get a bonus if you refer a friend: "\$25 for you, \$25 for your friend." Nowhere on the Web site does it mention GMAC's junk credit ratings (Caa1/B- at Moody's and S&P).

A GMAC spokeswoman says it's up to individual investors to decide whether to put their money in unsecured notes, but adds, "We are pursuing various opportunities and working to increase our flexibility and access to funding."

Ford Motor Credit, by the way, has a similar program, called Ford Interest Advantage. Its rates are not quite as high--3.9% for investments up to \$15,000. It, too, is junk-rated, but you don't find this on Ford Credit's Web site. Ford Credit did not return a phone call seeking comment.

GE Capital runs a similar program called GE Interest Plus. GE's triple 'A' ratings are prominently featured on the GE Interest Plus Web site; the current interest rate for small balances is 3.05%.

Says Shanley of Gimme Credit: "You have to understand you're taking on the credit risk of the company."

David Kudla, whose Mainstay Capital advises many auto industry employees, says, "the important thing is for people to know what they're buying."