The Ruggles Report™

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The Ruggles' Report is an ongoing, independently published report with insights, reflections and opinions from noted vehicle expert David Ruggles.

6510 Abrams Rd, #610
Dallas, Texas 75231
www.cybercalc.com

Another Round With Rattner

I've been "stalking Steve Rattner for months now in an effort to get to the nuts and bolts of the auto industry bailout and subsequent restructuring. There are those who have hung the Car Czar moniker on him, and he tries to be flattered by it. But as Rattner explains it, his great great grandfather was a fur trader in Russia and would turn over in his grave at the thought of any of his offspring being referred to as any kind of "czar".

I have followed the workings of the Auto Task Force in the news, agonized daily with my dealer friends in the industry, watched hours of CSPAN hearings, attended Rattner's presentation at a Federal Reserve Conference in Detroit in May 2010, read his subsequent book Overhauled and penned my review of it. I've even participated in an internet teleconference for press members and now just last week attended his presentation to the International Motor Press (IMPA) in New York City.

Any undertaking of the size and magnitude of the auto industry restructuring will have its critics, and the government's revamp of the auto industry is no exception. With any endeavor of this size, mistakes will be made. In my own view, shedding dealers was a mistake. Rattner himself watches the sales progress being made by GM and Chrysler on a regular basis these days for signs of progress. Dealers are the customers of the manufacturer. Shedding customers will not sell more vehicles. The report provided by the Special Investigator of the Troubled Asset Relief Fund agreed and excoriated the Task Force for enabling the dealer terminations. When I asked Rattner about the dealer terminations in May 2010 he said the Task Force tried to make sure all parties involved made sacrifices. The Task Force regarded dealers collectively as a single constituency. As the economy and business climate improve, GM and Chrysler will need additional dealers to maximize market share, or will lose ground to competitors.

Rattner fielded a variety of questions and the occasional speech. When asked about GM's IPO, he says he believes the government can now afford to be patient and wait to sell their GM stock at a premium as the stock continues to rise. He believes GM's stock is still a bargain at current value, even compared to Ford. I didn't ask if he owned stock in any of the auto companies, but in the interest of full disclosure, I own some of both GM and Ford. The taxpayers own about 26% of GM and a larger percentage of GMAC/Ally. Chrysler is still controlled by the U.S. government, although Fiat just increased its holdings based on meeting previously established benchmarks.

When asked why "car guys" weren't part of his Task Force, which instead was made up of people with no real interest in cars but plenty of real world expertise in business restructuring, Rattner was ready with an answer. He asked everyone to recall when the Rick Wagner, CEO of GM, Alan Mullaly, CEO of Ford, and Robert Nardelli, CEO of Chrysler came to Capital Hill to beg for a bailout. They came in separate private jets, for which they were soundly scolded by members of the Congressional committee. Mulally came because he knew that Ford would crater if either GM or Chrysler went down, as it would send a ripple of disaster through the supplier base. Such a disruption would have shut down all North American auto production and would have pushed Ford into bankruptcy as well. The three CEOs testified that for a mere 25 billion dollars, allocated based on company size and need, a disaster could be averted. Also on the auto maker side of the discussion was respected economist for Moody Ratings, Mark Zandi. Zandi took direct issue with the CEOs, stating it would take 75 billion dollars at a minimum, and probably as much as 125 billion dollars. The bailout was ultimately 82 billion dollars, which is being repaid or redeemed rapidly. It is obvious the "car guys" were in complete denial as to their financial condition, even Ford's Mulally. I have thought from the beginning that Ford was not so much smarter and forward thinking than the other car companies in their move to borrow money while they could. It was more a case of the Ford family wanting to protect the status of their favored status of the stock. The family lives off the dividends of that stock.

But what about the questions that everyone has in the backs of their minds?

Why was Rick Wagoner removed? Wagoner was steeped in GM corporate culture and was in complete denial about the condition of the company and the need for bankruptcy. In short, the finance specialists like Rattner decided to bet more on the jockey than the horse. Not knowing how much his company would need to survive was really the straw that sealed his fate. The report GM filed after the Bush administration bridge loan was so deficient there really was no other choice for the Task Force other than to replace Wagoner.

Why was the UAW favored over other constituent group? Rattner says it is more a matter of perception than anything else. First, world class car companies need skilled workers to build the vehicles. Bankers and bondholders can't build cars. In addition, he went through a list of concessions imposed on the UAW. The 320 job classifications previously in place are no more. There is no more "jobs bank," where the Detroit 3 paid workers to stay home to watch Oprah and drink beer. The union has agreed to serious wage and work rules cuts. Their heath care fund has been turned into a VEBA – or Voluntary Employee Beneficiary Association. Fortunately this has been funded by stock, laying a lot of risk on the union but looking like it will pay off well based on current stock value. The union pensions had already been funded UNLIKE the pensions of the white collar workers and the executives like Wagoner. GM had decided that it was better to bet their executive's pensions on GM than on the stock market or other investments. That bet didn't pay off, but the Task Force included a generous pension replacement for white collar workers. The value of bond holders and stockholders had already been determined by the market. The stock was trading at less than fifty cents at time of bankruptcy declaration, and GM bonds were next to worthless. In fact, many bondholders had bought their holdings at distressed prices and were looking to make a killing. Many held bonds that were insured by Credit Default Swaps that would only pay off in the case of a complete default. That group of bondholders WANTED to be wiped out, to the consternation of the legitimate bond holders. Rattner then asked rhetorically, what should they have done different with the UAW given the real world situation they were in?

Rattner is the guy that engineered the nuts and bolts of the restructuring and is clearly relishing the current tide of success of GM and Chrysler. Despite my disagreements with some of the actions of his Task Force, his book is must reading for those interested in economics, the auto business, and politics. "Car Guys" probably wouldn't have terminated dealers, but would they have gotten anything else right?

About Dave Ruggles

Dave Ruggles is a widely known, auto industry veteran with more than three decades' worth of experience. His self-titled Ruggles Report *is a highly acclaimed industry insider brief detailing the latest hot-button topics in automotive sales, training, recruiting, finance and service.*

Ruggles has spent his working life in every phase of the retail side of the auto business, new and used, sales and management, including consulting and training in both the US & Japan. He has been a dealer for Mercedes Benz, Chrysler, Dodge, GMC, Ford, Mazda, and Subaru and has consulted for one of the world's largest privately owned Toyota dealer groups located in Nagano Prefecture Japan.

Ruggles also blogs at autosandeconomics.com and writes regular columns for Ward's Dealer Business*,* Auto Finance News*, and* The Daily Post*.*

He lives in Las Vegas, Nevada.

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