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Written Testimony of Ron Bloom, Former Senior Advisor to the Secretary of the Treasury Before the House Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs July 10, 2012

Chairman McHenry, Ranking Member Quigley, and members of the Subcommittee, good morning.

While I am here today, at your request, in my capacity as a former Treasury official, I left the Treasury Department in February of 2011 and left government service in September of 2011. I am therefore not in a position to discuss events since February 2011 or anything concerning possible future actions.

During the period of my government service, I testified regarding the Treasury's automotive investments in front of the Senate Banking Committee on June 10, 2009; the House Judiciary Commercial and Administrative Law Subcommittee on July 21, 2009; the Congressional Oversight Panel on July 27, 2009 and February 25, 2010; and the House Subcommittee on Regulatory Affairs, Stimulus Oversight and Government Spending on June 22, 2011.

In addition, I participated in numerous meetings and discussions and helped prepare and deliver written and oral responses to countless inquiries of SIGTARP, GAO the Congressional Oversight Panel and individual elected officials and staff from both the House of Representatives and the Senate.

I understand that the Committee has taken an interest in issues regarding the pensions of certain former employees of the Delphi Corporation. As you may know, I was named as a defendant in a lawsuit in federal court in Michigan (*Black et al. v. PBGC et al.*). On September 2, 2011, I was dismissed from the case, as was Treasury and the President's Auto Task Force.

Background on Auto Industry Involvement

When President Obama took office, the American automobile industry was on the brink of collapse. Access to credit for car loans dried up and U.S. auto sales plunged by 40 percent. Auto manufacturers and suppliers dramatically curtailed production. In the year before President Obama took office, the industry shed over 400,000 jobs.[1] As 2008 came to a close, both GM

[1] http://www.bls.gov/iag/tgs/iagauto.htm. Automotive Industry: Employment, Earnings, and Hours. Bureau of Labor Statistics.

and Chrysler were running out of cash and faced the prospect of uncontrolled liquidations. Amid the worst financial crisis since the Great Depression, credit markets were frozen and no alternative sources of financing were available to GM and Chrysler. In this context, the potential collapse of the U.S. auto industry posed a substantial risk to financial market stability and would have had a negative effect on the economy as a whole. Therefore, the previous Administration provided $24.8 billion to the auto industry.[2]

When President Obama took office, we faced a full-fledged recession, our financial system was still exceedingly fragile, and GM and Chrysler were requesting additional assistance. After studying the restructuring plans submitted by GM and Chrysler, President Obama decided that he would not commit any additional taxpayer resources to these companies without fundamental change and accountability. He rejected their initial plans and demanded that they develop more ambitious strategies to reduce costs and increase efficiencies to become more sustainable.

However, President Obama also recognized that failing to stand behind these companies would have consequences that extended far beyond their factories and workers. GM and Chrysler were supported by a vast network of auto suppliers, which employed three times as many workers and depended on the automakers' business to survive. An uncontrolled liquidation of a major automaker would have had a cascading impact throughout the supply chain, causing failures and job loss on a much larger scale. Because Ford and other auto companies depended on those same suppliers, the failure of the suppliers could have caused those auto companies to fail as well.[3] Also at risk were the thousands of auto dealers across the country, as well as small businesses in communities with concentrations of auto workers.

It was the interdependence among the automakers, suppliers, dealers, and communities that led some experts at the time to estimate that at least 1 million jobs could have been lost if GM and Chrysler went under.[4] Other estimates suggested that job losses could have been even higher.[5]

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[2] The previous Administration provided $13.4 billion to GM, $4.0 billion to Chrysler, $5.9 billion to Ally Financial (formerly GMAC), and $1.5 billion to Chrysler Financial.

[3] http://voices.washingtonpost.com/economy-watch/2008/12/fords_mulally_gm_would_drag_en.html. "Ford's Mulally: GM Would Drag Entire Industry Into Bankruptcy." *The Washington Post*. December 3, 2008.

http://finance.yahoo.com/blogs/daily-ticker/bailouts-gm-chrysler-were-good-ford-too-alan-113859133.html. "Bailouts of GM, Chrysler Were Good for Ford Too: Alan Mulally." Yahoo! Finance. June 26, 2012.

[4] http://www.cargroup.org/documents/Detroit_Three_Contraction_Impact.pdf. "The Impact on the U.S. Economy of a Major Contraction of the Detroit Three Automakers." Center for Automotive Research. November 4, 2008.

[5] http://banking.senate.gov/public/_files/ZandiSenateBankingCommittee120408.pdf. Mark Zandi, "The State of the Domestic Auto Industry: Part II." Testimony before the U.S. Senate Banking Committee. December 4, 2008.

http://www.epi.org/page/-/pdf/bp227.pdf?nocdn=1. Robert E. Scott, "When giants fall: Shutdown of one or more U.S. carmakers could eliminate up to 3.3 million U.S. jobs." Economic Policy Institute. December 3, 2008.

These were grave risks at a time when our economy was losing 750,000 jobs per month and our financial system was still at risk. Credit markets were still not functioning properly and bank lending had contracted substantially, and therefore there was no chance of securing private lending on a scale sufficient to save GM and Chrysler. To avoid the liquidation of the companies, the President decided to give GM and Chrysler a chance to show that they could take tough and painful steps to become viable, profitable companies—and to stand behind them if they could. Working with their stakeholders and the President's Auto Task Force, both GM and Chrysler underwent fair and open bankruptcies that resulted in stronger global companies. This process required deep and painful sacrifices from all stakeholders—including workers, retirees, suppliers, dealers, creditors, and the countless communities that rely on a vibrant American auto industry. However, the steps that the President took not only avoided a catastrophic collapse and brought needed stability to the entire auto industry, they also kept hundreds of thousands of Americans working and gave GM and Chrysler a chance to once again become viable, competitive American businesses. And they avoided further shocks to our financial system and economy at a time when we could least afford it.

Auto Industry Recovery

Today, the American auto industry is mounting a comeback. In 2011, the industry reached an important milestone when all three Detroit automakers returned to profitability for the first time since 2004. Ford posted its highest profit since 1999, while GM posted its best annual profit ever in its 103-year history. In addition, GM became the world's best-selling automaker again in 2011, despite shedding four brands in bankruptcy.

This positive financial performance is the result of expanded production and sales. In 2011, GM, Chrysler, and Ford increased their U.S. market share for the second year in a row (from 45.0 percent to 46.9 percent). Before 2010, the last time the Detroit Three gained market share against their foreign competitors was in 1995. In addition, exports of motor vehicles in 2011 increased by 21 percent over 2010.[6]

This increase in market share and exports translates into more American jobs. Since June 2009, the auto industry has added over 233,000 jobs—the fastest pace of job growth in the auto industry since 1997.[7] In addition, since June 2009, GM and Chrysler have announced investments totaling over $11.5 billion in their U.S. facilities, creating or saving over 27,000 jobs.

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[6] http://tse.export.gov/TSE/. TradeStats Express. Department of Commerce.

[7] http://www.bls.gov/iag/tgs/iagauto.htm. Automotive Industry: Employment, Earnings, and Hours. Bureau of Labor Statistics.

Investments and Repayments

The U.S. Government provided a total of $80 billion to stabilize the U.S. automotive industry through investments in GM, Chrysler, Chrysler Financial, Ally Financial (formerly GMAC), and programs to support auto suppliers and guarantee warranties. As of today, $40 billion has been returned to taxpayers. While the Government does not anticipate recovering all of the funds that it invested in the industry, loss estimates from Treasury and the Congressional Budget Office have consistently improved. Independent analysts estimate that the Administration's intervention saved the federal government tens of billions of dollars in direct and indirect costs, including transfer payments like unemployment insurance, foregone tax receipts, and costs to state and local governments.[8]

Treasury committed $12.5 billion to Chrysler ($4.0 billion under the Bush Administration and $8.5 billion under the Obama Administration, including undrawn commitments of $2.1 billion) and has recouped $11.2 billion. In May 2011, Chrysler repaid $5.1 billion in loans six years before their maturity date and terminated its ability to draw on the remaining $2.1 billion commitment. In June 2011, Fiat agreed to pay Treasury $500 million for its equity in Chrysler.[9]

Treasury provided $49.5 billion to GM ($13.4 billion under the Bush Administration and $36.1 billion under the Obama Administration), of which $23.2 billion has been returned to taxpayers. In April 2010, GM repaid its $6.7 billion loan to Treasury five years before its maturity date. In November 2010, Treasury sold 45 percent of its GM common equity for $13.5 billion in net proceeds from a highly successful initial public offering (IPO). In December 2010, GM repurchased all $2.1 billion of Treasury's preferred stock. Treasury currently holds 500.1 million shares or 32 percent of GM's common equity. Following GM's IPO, Treasury has a clear path to exit its remaining investment.

Conclusion

In a better world, the choice to intervene in GM and Chrysler would not have had to be made. But amid the worst economic crisis in a generation, the Administration's decisions avoided devastating liquidations and provided the American auto industry a new lease on life and a real chance to succeed.

I am prepared to do my best to answer your questions.

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[8] http://www.cargroup.org/pdfs/prnov2010.pdf and http://www.cargroup.org/pdfs/bankruptcy.pdf. "The Impact on the U.S. Economy of the Successful Automaker Bankruptcies." Center for Automotive Research. November 17, 2010.

[9] Fiat also agreed to pay Treasury $60 million for its right to proceeds above a certain threshold received by the United Auto Workers retiree healthcare trust (or VEBA). http://www.treasury.gov/press-center/press-releases/Pages/tg1199.aspx

Ron A. Bloom

Ron Bloom recently joined Lazard Frères & Co. LLC as Vice Chairman, U.S. Investment Banking where his work will focus on mergers & acquisitions, restructuring, and infrastructure.

Prior to that Mr. Bloom served as Assistant to the President for Manufacturing Policy where he provided leadership on policy development and strategic planning for the Administration's agenda to revitalize the manufacturing sector. He led the discussions with the auto industry which resulted in the industry's support for new standards that will double the fuel economy of cars and light trucks, saving consumers over $1.7 trillion and reducing oil consumption by 2 million barrels per day. He also spearheaded the launch of the Advanced Manufacturing Partnership, a consortium of the nation's top engineering Universities, leading manufacturing companies and the Federal Government to identify and invest in cutting edge technologies that can be used to help keep American manufacturing globally competitive.

Prior to joining the White House, Mr. Bloom served as Senior Advisor to the Secretary of the Treasury. In that capacity he helped lead the restructuring of General Motors and Chrysler LLC, and then led the Treasury's oversight of the companies thereafter, including GM's Initial Public Offering, the largest IPO in US history.

Prior to joining the Treasury Department Mr. Bloom served as a Special Assistant to the President of the United Steelworkers. His responsibilities included the Union's collective bargaining program in its core jurisdictions, with an emphasis on the particular issues facing the Steelworkers in its dealings with companies facing financial difficulties or undertaking corporate transactions. He also coordinated the Union's relationships with investors, in both public and private companies.

Prior to joining the Steelworkers, Mr. Bloom was one of the founding partners of the investment banking firm of Keilin and Bloom. The firm focused on financial transactions where employees played a role as stakeholders.

Mr. Bloom was a Vice President at the investment banking firm of Lazard Freres & Co. While at Lazard, Mr. Bloom worked on a wide variety of corporate transactions including mergers, acquisitions, restructuring and divestitures.

Mr. Bloom served as a research and negotiating specialist for the Service Employees International Union (SEIU). While at SEIU he negotiated collective bargaining agreements in both the public and private sector.

Mr. Bloom, 56, was born in New York City. He received his undergraduate degree from Wesleyan University and graduated with distinction from the Harvard Graduate School of Business Administration.

He currently lives in Pittsburgh.

July, 2012

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: Ron Bloom

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1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2010. Include the source and amount of each grant or contract.

None

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2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

None

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3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2010, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None

I certify that the above information is true and correct.
Signature: Date: July 5, 2012