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Reduced debt request in auto bailout amendment a tough sell

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An amendment introduced Thursday to a Senate bailout bill seeks to tighten the requirements for automakers seeking federal bridge loans to please Republicans, but some industry experts say the terms may be excessive.

The amendment proposed by Sen. Bob Corker, R-Tenn., one of the sharpest critics of the bailout, insists that automakers receiving loans from the government negotiate huge reductions in their debts by March 15 and cut the compensation of union workers to the levels of the assembly line workers at Japanese companies in North America by the end of March. Otherwise the automakers would have to repay the loan in full or declare bankruptcy.

Corker accused the heads of Detroit's automakers and the United Auto Workers in recent hearings of asking for taxpayer money without making sufficient sacrifices. He introduced his amendment Thursday to toughen a bailout bill that passed the House Wednesday, but that many Senate Republicans oppose.

The amendment requires automakers to reduce their unsecured debt by two-thirds by getting bondholders and other unsecured creditors to accept debt for equity.

Mark Oline, managing director of Fitch Ratings, said 30 cents on the dollar is about what the bonds are trading at today.

"But you'd be taking a very large haircut on the principal and interest," he said. He added that investors may be willing to do that if the alternative is bankruptcy.

David Kudla, CEO and chief investment strategist of Mainstay Capital Management LLC in Grand Blanc, said it's unreasonable to expect a car company to achieve a debt reduction of this magnitude in a short period of time under current market conditions. He cited the example of GMAC Financial Services, controlled by Cerberus Capital Management LP, which has fallen short of its goal to reduce its debt sufficiently to meet the requirements to become a bank holding company.

"These are difficult financial markets," Kudla said. "The time frame they're putting on these austerity measures is just unreasonable."

With Tennessee being the home of Nissan Motor Co.'s U.S. headquarters and having been selected the site of a new Volkswagen AG plant, "you know what politics are behind it, as well," Kudla said.

William Andrews, managing director and automotive advisory group co-lead at BBK in Southfield, said the bankruptcy deadline could put enough pressure on creditors to force them to agree to a deal.

But it creates a very tense negotiating climate, he said. "It's a gun that may be too loaded."

The amendment also calls for an end to the jobs bank, in which idled union workers collect nearly full pay, and immediate cuts in compensation.

UAW President Ron Gettelfinger already has agreed to make concessions on both wages and the jobs bank, and the labor contract he signed last year would bring worker compensation levels at Detroit's automakers in line with those of non-union workers are foreign manufacturers' U.S. plants.

"There's a punitive character to the bill," said Harley Shaiken, a labor expert and professor at the University of California-Berkeley. "It is focusing to an unusual extent on labor costs when there's already been progress in this area."

The amendment also requires the UAW to accept at least half the payments they are owed for a health care fund agreed in the last labor contract in the form of stock. In that contract, the union and automakers found a way to reduce the companies' health care burdens by establishing funds called Voluntary Employees Beneficiary Associations, or VEBAs, which would be funded by the companies and managed by the unions.

In exchange for these requirements, the bill provides up to $14 billion in loans, enough to allow General Motors Corp. and Chrysler LLC to keep their operations going through the first quarter.