

GMAC bailout could give Cerberus a floor and exit

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NEW YORK (Reuters) - The federal bailout of auto lender GMAC LLC puts a floor under the potential losses for its owner Cerberus Capital Management and could provide a roadmap for the private equity firm and its investors to cash out with their remaining capital.

The development underscores how the deepening government support for the U.S. auto industry has spread to include help for the battered sector's most controversial participant, Cerberus, a private Wall Street firm with deep connections to the Republican Party.

Not that Cerberus, which bought a 51-percent stake in GMAC from General Motors Corp two years ago, won't take its licks as well. It will become a much smaller shareholder in the finance firm under a government-brokered restructuring.

GMAC won approval from the Federal Reserve to become a bank holding company last week, giving the auto finance company access to government lending programs.

Late on Monday, the U.S. Treasury also announced it would provide a cash infusion of \$6 billion into GMAC under the \$700 billion Troubled Asset Relief Program.

"It's a good thing for GMAC -- it literally throws GMAC a lifeline," said David Kudla, chief investment strategist of Mainstay Capital Management LLC. "So in that regard it's good for Cerberus and good for GM. They are stakeholders. GMAC desperately needed capital."

As a condition for winning bank status and access to low-cost funding from the Fed, Cerberus will have to reduce its 51 percent stake in GMAC to 33 percent of total equity and 14.9 percent of the voting shares.

Under the Fed's plan, Cerberus' co-investors will take control of their own holdings in GMAC rather than through Cerberus' fund. Cerberus has not detailed its co-investors in GMAC, but they include Japan's Aozara Bank Ltd.

General Motors Corp, which owns the rest of GMAC, will have to shrink its stake to 10 percent by transferring the rest of it to a trust. The trust will have to dispose of that stake within three years, prompting several investment bankers to expect an offering of GMAC stock.

Such an initial public offering could also allow Cerberus and its co-investors to cash out their 2006 investment in GMAC, a goal that had been thrown into uncertainty by the deepening crisis at the firm.

JP Morgan analyst Himanshu Patel said in a research note on Tuesday that GMAC could eventually go public, helping the Treasury and the firms' existing investors sell their stakes.

'A SMALLER STAKE IN A VIABLE COMPANY'

GMAC had been pushed to the brink of bankruptcy as it struggled amid a deepening credit crunch that raised its borrowing costs sharply and a housing crisis that hammered its residential mortgage lending unit, ResCap.

But GMAC has now avoided that hard landing with government assistance, a positive for Cerberus, analysts said.

"It's a smaller stake in a viable company as opposed to a larger stake in a bankrupt company," said Mirko Mikelic, a portfolio manager at Fifth Third Asset Management in Grand Rapids, Michigan.

GM also stands to benefit from a better-capitalized GMAC that can get back to its core business of providing loans for car shoppers in GM showrooms.

GMAC said it would provide loans to a wider range of borrowers as its own access to credit eases, and GM's North American sales chief Mark LaNeve said he expected that would spur sales and dealer orders.

A Cerberus spokesman declined comment on the government bailout.

The restructuring of GMAC will take the firm in a different direction than the private equity firm had envisioned.

Cerberus, which also owns a majority stake in Chrysler LLC, had been in talks with GM about a potential merger with Chrysler and was clearly eager to hold on to GMAC.

Early on in talks with Chrysler, Cerberus had floated the possibility of swapping Chrysler's auto company for the remaining 49 percent stake in GMAC, sources familiar with the talks had told Reuters.

That option would appear to be off the table now as Cerberus' total stake in GMAC is reduced and its co-investors control their own holdings.

The timetable and more details on the transfer will be provided by GMAC early next year, according to a person with direct knowledge of the transaction, who was not authorized to discuss it publicly.

Cerberus is not obligated to disclose its losses because it is a private company.

Cerberus paid a net \$6.4 billion for its share of GMAC including a later, offsetting payment from GM.

One investment banker, who asked not to be named, estimated that the current value for GMAC would be near \$9.25 billion, or roughly the book value of the firm.

That would imply that Cerberus had lost about 26 percent of its investment in GMAC before Monday's bailout was announced and would exclude the unspecified additional capital that Cerberus had invested.