

GMAC Demand Notes – What’s the Risk (January 3, 2006)

With all the talk of a GM bankruptcy, many investors have been asking the question – What’s the risk in holding GMAC Demand Notes?

For years many have utilized GMAC Demand Notes as an account for cash reserves that pays a much higher rate of interest (5.5% as of 12/30/05) than a typical money market account. The rules are about the same in terms of check writing and other features.

With speculation of a GM bankruptcy running wild on Wall Street and Main Street over the past few months, some have begun to wonder about the risk of GMAC Demand Notes. Unlike accounts at a local bank, GMAC Demand Notes are not FDIC insured. In addition, Demand Notes are regarded as unsecured debt by GMAC, meaning that no specific assets have been pledged to pay off these obligations. So, theoretically an investor’s money is at risk. Brokers and others who are employing fear tactics to accumulate more assets in their proprietary products have done a very good job of preying on investors’ concern over GMAC Demand Notes and a GM bankruptcy to their benefit.

In our opinion, the actual risk of losing money in GMAC Demand Notes is very, very remote. First, GM must actually file bankruptcy for the scenario that some lay out to even occur. While GM may seek bankruptcy-court protection at some point in the distant future to reduce pension and healthcare burdens, we simply don’t believe it will happen anytime soon. Second, the assumption is that if GM were to file bankruptcy, they will immediately start dipping into GMAC Demand Note accounts to pay off creditors. The reality is that although GMAC Demand Notes are unsecured debt, there is ample cash and other assets available to mitigate any perceived risks. Additionally, the GMAC division boasts growing profits and a healthy, stable financial structure that would typically result in an investment grade status for its debt if it were a stand alone entity. However, issues with the parent company have tarnished GMAC’s credit rating. This reality is not lost on GM management, which has publicly acknowledged that it may sell all or part of GMAC. Were GMAC to be sold, any risk in owning Demand Notes would be diminished even further.

For those who are still concerned, however, there is an alternative. GMAC Bank offers a Money Market Savings Account with a yield (4.2% as of 12/30/05) that is lower than Demand Notes, but more generous than typical money market accounts. The GMAC Bank money market savings account is FDIC insured up to \$100,000 per depositor (just like other banks).

What about Ford Interest Advantage Floating Rate Demand Notes? This type of account, offered by Ford Motor Credit Company, has a similar structure to that of GMAC Demand Notes. Again, these Notes are not FDIC insured. They are unsecured obligations of Ford Motor Credit. Ford Interest Advantage Floating Rate Demand Notes currently yield about 5%.

For the record, our goal is not to be a spokesperson for GMAC or Ford Motor Credit. We just want to offer a more practical and realistic view of Demand Notes. For more information on GMAC Demand Notes or GMAC Bank, visit www.gmacbank.com. For more information on Ford Interest Advantage Floating Rate Demand Notes, visit www.fordcredit.com.

In the meantime, if a broker or other financial services representative tries to scare you out of your Demand Notes, consider whether he is really doing it in your best interest or his.

UPDATE FOR THIS RESEARCH REPORT:

[GMAC Demand Notes – The New Risks \(June 30, 2008\)](#)

[Update: GMAC Demand Notes – The New Risks \(December 11, 2008\)](#)