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Treasury bails out GMAC - \$5 billion

Auto finance company gets direct investment from government in return for equity stake and dividends.

By David Goldman, CNNMoney.com staff writer
Last Updated: December 29, 2008: 8:46 PM ET

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NEW YORK (CNNMoney.com) -- The government, widening its bailout of the troubled U.S. auto industry, said Monday it would invest \$5 billion in GMAC, the finance arm that is key to the survival of General Motors.

In addition to the direct investment, the Treasury Department said it would lend \$1 billion to GM so the automaker could invest in GMAC as the financing company reorganizes.

In return, the Treasury Department will receive warrants for preferred equity and will be paid a possible 9% dividend.

The company is currently 51% owned by Chrysler's parent company Cerberus Capital Management and 49% by GM.

General Motors (GM, [Fortune 500](#)) and Chrysler were expected to receive \$4 billion each in emergency aid from the Treasury Department's Troubled Asset Relief Program (TARP) on Monday. However, that delivery of the loan was stalled. An industry source told CNN that the automaker expects the loan to come Tuesday, delayed due to the complexity of the transaction.

GMAC's viability is critical to the automaker's recovery. GMAC has lost \$7.9 billion over the past five quarters, mostly from risky subprime mortgage bets made by its Residential Capital division. The holdings plummeted in value when the housing market began to decline in 2007.

Despite lacking sufficient capital, GMAC won approval from the Federal Reserve last Wednesday to become a bank holding company. The Fed cited "emergency conditions" for its approval, saying the company was important to the future success of GM.

As part of the conditions outlined by the Fed, Cerberus must reduce its stake in GMAC to 33% and GM's share must drop to less than 10%. Cerberus will distribute the remainder of its stake to its investors and GM's stake will go into an independent trust to be sold off within three years.

The status in change opened the door for GMAC to receive the much-needed funds from TARP and other government bailout programs.

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Markets	Last	Change
Dow Jones	8,483.93	-31.62 / -0.37%
Nasdaq	1,510.32	-19.92 / -1.30%
S&P 500	869.42	-3.38 / -0.39%
10-year Bond	114 20/32	Yield: 2.09%
U.S. Dollar	1 euro = \$1.410	0.014

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