

FIAT FUNDS FROM SUBSIDIARY LOAN COULD AID CHRYSLER

by **Greg Gardner**

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The Italian automaker Fiat SpA is seeking billions of dollars in U.S. banking rescue funds through one of its subsidiaries -- money that could be used to prop up its deteriorating cash reserves and, ultimately, help Fiat and Chrysler LLC finalize an alliance that could rescue the Auburn Hills-based automaker.

President Barack Obama's auto task force has given Chrysler until May 1, which is less than three weeks away, to reach a deal with its banks, the UAW and Fiat -- or face bankruptcy.

Fiat is not seeking direct U.S. taxpayer assistance for its proposed alliance with Chrysler. Rather, it is seeking the funds through its majority-owned subsidiary, CNH Capital, which expects to borrow from a Federal Reserve program to repay a \$5.2-billion loan from Fiat last year.

CNH Capital is the finance arm for CNH Global, which is the world's second-largest maker of farm and construction equipment after Deere & Co. -- just like Ford Credit is the finance arm for Ford Motor Co.

Fiat owns a 90% stake in CNH Global, which grew out of the 1999 merger between New Holland and Case Corp.

Calling in its loan

Fiat wants the loan it gave to CNH repaid soon because slumping auto sales in Europe and South America caused the Italian automaker to burn through 45% of its cash in 2008, and even more this year. Consequently, Standard & Poor's cut Fiat's credit rating last month to junk bond status, questioning its ability to meet debt payments coming due in the next year.

One solution may come from the Federal Reserve Bank of New York, which administers the complex Term Asset-Backed Securities Loan Facility, or TALF. It was created to thaw the frozen market for loans backed by mortgages, auto loans and credits. Demand for these assets came to a virtual standstill in the second half of 2008 because investors feared borrowers of the underlying loans would default.

The Federal Reserve Bank does not disclose which businesses are applying for or receiving loans, or the amounts loaned to individual borrowers under the TALF program, a spokeswoman said.

Fiat aims for TALF

However, Fiat Chief Executive Sergio Marchionne said last month at the company's annual shareholders meeting in Turin, Italy, that CNH would be able to access the TALF sometime in April. At the Geneva Auto Show on March 3, Marchionne also said Fiat had "no intention of going to America to take their taxpayers' money to help Fiat in Italy."

These loans to CNH would not violate that pledge.

First, CNH sells its equipment throughout the world, but its headquarters are in Burr Ridge, Ill., outside Chicago.

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Second, the TALF money is created by the Federal Reserve Bank under its authority to control the nation's money supply. It is not taxpayer money appropriated by Congress, like the Troubled Asset Relief Program (TARP), which has provided \$17.4 billion in federal loans to GM and Chrysler.

"If CNH is able to get one of these loans, the money doesn't go directly to Fiat," said Craig Litherland, a bankruptcy attorney with the firm of Gilbert Oshinsky in Washington, D.C. "But at some level, CNH's shareholders benefit, and that includes Fiat. It opens up the availability of cash for Fiat."

Separately, Standard & Poor's further downgraded Chrysler's credit rating Friday for about \$8.9 billion of secured debt. These are loans held by banks that were made as part of the 2007 deal through which DaimlerChrysler sold 80.1% of Chrysler to Cerberus Capital Management. Daimler retained the remaining 19.9%.

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