Bridge Loan for Automakers Preferable to Bankruptcy, Study Finds

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While lawmakers debated a rescue plan for the auto industry Monday, a new study contended that a bankruptcy filing by two of the Detroit carmakers would cost taxpayers four times as much as a federal bailout and generate broad economic fallout.

A $30-billion bridge loan from the government would cost taxpayers $16.4 billion over two years; allowing two of the automakers to slide into bankruptcy would cost taxpayers $65.9 billion, according to a study by two Michigan consulting firms, BBK and Anderson Economic Group.

Even with a government loan, automakers and their suppliers would still have to slash payrolls by almost 500,000 over the next two years, the study estimated. However, Chapter 11 bankruptcy filings would result in the loss of 1.8 million jobs over two years -- about half the industry's total direct and indirect employment in the U.S.

"The findings indicate a bridge-loan scenario would be the more financially sound choice," said Patrick Anderson, chief executive of Anderson Economic Group.

The conclusions regarding a bridge loan are based on several assumptions, including that the government would realize $10 billion from an equity stake in the carmakers and that half of the loan would be repaid once the companies stabilized.

The taxpayer losses under the bankruptcy scenario result primarily from lost income and Social Security taxes because of widespread layoffs at the automakers and their suppliers, as well as higher outlays for unemployment benefits.

Some experts, however, argue that a Chapter 11 filing may be the best way for General Motors Corp., in particular, to restructure its crushing $60-billion debt burden.

Lynn LoPucki, a UCLA law professor who specializes in bankruptcy law, said there were simply too many parties with a stake in GM's future -- union members, retirees, dealers, bondholders, suppliers -- for an agreement to be devised outside Bankruptcy Court.

Lawmakers suggest "getting all of the creditors together in a room and agreeing on a plan to reduce GM's debt," LoPucki said. "It's impossible to get everybody in a room -- there are hundreds of thousands of creditors involved here."

In Chapter 11 proceedings, a committee would represent the interests of GM's creditors, making it easier to reach agreement on debt restructuring and renegotiating or terminating contracts, LoPucki said. Although bankruptcy law provides special protections for labor contracts, he said bankruptcy judges are typically sympathetic to employer efforts to reduce payroll expenses -- a crucial goal for GM.

"Bankruptcy will give them their best shot at survival," LoPucki said.

Bridge Loan for Automakers Preferable to Bankruptcy, Study Finds (continued)

GM's board has discussed a bankruptcy filing but doesn't consider it a viable option. The company, which told Congress it needed $4 billion to make it to the end of the year, would not comment Monday on whether it had hired bankruptcy counsel. Chrysler, which said it needed $4 billion to make it to March 31, said last week that it had retained an advisory firm to consider the option of bankruptcy, which it rejected.

Ford Motor Co. is in better financial shape. But Ford CEO Alan Mulally said Monday that a bankruptcy filing by GM or Chrysler could drag his company and a slew of industry suppliers under as well.

Kriss Andrews, head of the auto practice at BBK, said a bankruptcy would take too long to save the automakers. It can take months for the parties simply to agree on a plan for operating the company during bankruptcy, and it's not unusual for cases to drag on for years.

Although a filing could allow a company to put off paying outstanding bills from suppliers, Andrews said it would drive customers away at a time when the automakers were already having trouble moving cars out of showrooms.

This year, U.S. vehicle sales are on pace to drop below 13 million units, compared with more than 16 million in 2007. Forecasters don't expect sales to top 15 million before 2011 at the earliest.

"A bankruptcy judge can do a lot of things, but he can't tell someone to go out and buy a car or who to buy it from," Andrews said.
A so-called prepackaged bankruptcy, in which a company files for Chapter 11 only after reaching agreements with most of its creditors, probably wouldn't work in the case of the Big Three, said Craig Litherland, a bankruptcy specialist with law firm Gilbert Oshinsky in Austin, Texas.
Filing a "prepack" can get a company in and out of Bankruptcy Court in a few months. **But Litherland noted that prepackaged bankruptcies generally worked only when there was an easy-to-manage group of creditors, which is not the case with the automakers.**

In addition, a company that can get creditors to agree to a prepackaged bankruptcy plan typically is emerging from a period of financial trauma and is expecting better times ahead, Litherland said. With auto sales expected to drop again next year, smooth sailing appears to be a distant hope for the Big Three.

Zimmerman is a Times staff writer.