

Briefing Note

Proposed Financial Support for the Canadian Automotive Sector

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www.parl.gc.ca/pbo-dpb

The *Federal Accountability Act* mandates the Parliamentary Budget Officer (PBO) to provide independent analysis to the Senate and House of Commons on the state of the nation's finances, the government's estimates and trends in the national economy.

The Parliamentary Budget Officer (PBO) was asked to provide a briefing note on the Government of Canada's (GC) proposed financial assistance package to the Canadian automotive sector. Given the size and scope of the proposed expenditure, the request is consistent with the PBO's mandate to support parliamentarians in providing independent analysis on the state of the nation's finances and scrutiny of the Estimates (i.e. planned expenditures).

This report is current to January 29, 2009.

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Abbreviations

Abbreviation	Full Form
AIFP	Automobile Industry Financing Program
BIA	Bankruptcy and Insolvency Act
BPS	Basis Point
C\$	Canadian Dollars
CS	Common Shares
CCAA	Companies' Creditors Arrangement Act
DCFS	Daimler Chrysler Financial Services
DIP	Debtor in Possession
EDC	Export Development Corporation
Ford	Ford Motor Company
GC	Government of Canada
GMC	General Motors Corporation
GMAC	General Motors Acceptance Corporation
IC	Industry Canada
NPV	Net Present Value
PBO	Parliamentary Budget Officer (Canada)
TARP	Troubled Asset Relief Program
US	United States of America
US\$	United States Dollars
UST	United States Department of the Treasury
VEBA	Voluntary Employees Beneficiary Association

Background

The Parliamentary Budget Officer (PBO) was asked to provide a briefing note on the Government of Canada's (GC) proposed financial assistance package to the Canadian automotive sector. The request was made by the MP for Parkdale-High Park. Given the size and scope of the proposed expenditure, the request is consistent with the PBO's mandate to support parliamentarians by providing independent analysis on the state of the nation's finances and scrutiny of the Estimates (i.e. planned expenditures).

All three United States (US)-based automakers (i.e. Ford, Chrysler and General Motors) have indicated publicly that they face financial solvency challenges¹ that could impact on-going operations resulting in potential employee layoffs. As a result of the challenging financial situation, credit rating agencies have lowered their issuer credit ratings for the three automakers to default or near-default status (Annex A).

The GC has committed potential financial assistance up to C\$4 billion² to support the Canadian subsidiaries of the US automakers (Annex B contains the Canadian *framework* deal terms). The automakers have not yet received assistance from the GC and have publicly indicated that, since receiving the assistance from the US government, they are not in need of immediate financial assistance from the GC but are reviewing term sheets (i.e. proposed deal terms) and are in discussions with the Canadian Auto Workers union.³

There are a number of means available to companies to address the challenges of financial solvency which should be considered in the context and the current circumstances of the automobile manufacturers. Among these means there are generally accepted or more common approaches, noted below, that can be an integral part of the company's business reorganization plan:

- the disposition of non-core businesses and assets to retire debt, while restructuring its operations – discontinuing less profitable or loss-making businesses;
- the reduction of labour and/or other operating costs – to increase earnings and improve debt service capacity; and
- the re-negotiating of debt and other obligations with creditors via the Companies' Creditors Arrangement Act (CCAA) and Bankruptcy and Insolvency Act (BIA) – this could include the conversion of debt in to equity or lower cost securities such as debentures or convertible bonds, term extensions, grace periods, reduction of interest rate below the risk-adjusted rate.⁴

¹ Credit ratings agency Moody's Investors Service downgraded its ratings for General Motors Corporation and Chrysler LLC, placing them in the non-investment category

(<http://news.moneycentral.msn.com/provider/providerarticle.aspx?feed=AP&date=20081203&id=9403562>).

² \$2.7 billion of the \$4 billion to come from GC, January 27, 2009, Budget 2009

(<http://www.budget.gc.ca/2009/plan/bpc3e-eng.asp#12>)

³ GM Canada – won't tap aid for now, January 26, 2009

(<http://www.theglobeandmail.com/servlet/story/RTGAM.20090126.wrgm26/BNStory/Business/>).

⁴ William P. Mako, International Monetary Fund: Governments should discourage rate reductions that provide an undeserved competitive advantage and preserve weak companies from liquidation. Grace periods on debt service

Given the automakers' financial solvency issues, it is useful to consider potential GC financing in the context of the company's reorganization plan. Such an approach may help parliamentarians better connect the proposed measures and the potential fiscal and appropriations considerations.

Issue: Do parliamentarians have sufficient information and analysis to deliberate on the various issues related to the support package?

A financial assistance package for the Canadian operations of the automobile manufacturers was announced by the Prime Minister of Canada on December 20, 2008. To date, the GC has published, on its website, the broad framework for the potential assistance package (Annex B). In addition, Industry Canada (IC) has provided the Office of the PBO with information on the financial issues related to the three US automakers as well as analysis on the potential economic impact of a further reduction in the solvency of the companies.

Given that the assistance package is in a preliminary stage and has not been fully negotiated and signed, the Office of the PBO does not have a final term sheet agreed upon by the parties or the analysis of a final financial assistance package from IC. Once the relevant financial deal terms are available, the Office of the PBO may undertake further analysis of the GC's proposed financial assistance package and report such an assessment to parliamentarians or the relevant parliamentary committee, including the potential impact on the fiscal framework.

Given the context and issues noted above, the purpose of this note is to highlight for parliamentarians the key considerations and watch items that they may wish to examine as part of the parliamentary debate process and the Estimates approval process for the financial assistance being sought. *As with previous briefing notes and analytical reports of the PBO, this briefing note will not examine nor comment on the policy aspects of the proposed measure, as it is outside of the mandate of the PBO.*

The Nature of Restructuring

Restructuring⁵ is a systematic and structured approach adopted by companies facing business downturns and the threat of financial insolvency⁶ to ensure a timely return to profitability. A systematic approach to providing financial assistance could include the following steps:

- a clear articulation by the government regarding its financial objective(s) and expected outcomes from the support package. These outcomes should be transparent and measurable, such that the government may be able to determine the end-point of the assistance period;
- the recipients should provide a business re-organization plan with clear actions and targets;

usually postpone the day of reckoning for non-viable companies - *Corporate restructuring in East Asia: Promoting best practices*

⁵ Also referred to as corporate restructuring, and financial restructuring.

⁶ Canada's two principal insolvency statutes include the Companies' Creditors Arrangement Act (CCAA) and the Bankruptcy and Insolvency Act (BIA).

- the government and legislature should examine the available options based on international best practices to best address the stated objectives and outcomes; and
- the potential fiscal and appropriations impact and risks stemming from the proposed financial bailout should be clearly identified, including the reasonableness of the financial package:
 - in this regard, adequacy of the dollar amount of financial assistance, terms, conditions, the nature and type of financial assistance (debt, equity, loan guarantees, grants, conditionally repayable grants etc.) and potential risks to the government should be examined.

The Canadian Proposal (a Framework)

The GC has offered financial assistance to the Canadian automobile manufacturers in response to the domestic manufacturers' requests for financial assistance and in parallel with the financial assistance offered by the United States Department of the Treasury (UST). On December 20, 2008 Prime Minister Harper stated, "Yesterday, the United States government announced a short-term financing package for troubled automakers. We recognize that an integrated industry requires an integrated approach, and we have been working closely with the US administration in the development of our response."⁷

The US government has committed to provide US\$17.4 billion from the Troubled Asset Relief Program ("TARP") funds to the US automakers. In addition to the assistance package provided to the automobile manufacturers the automobile financing subsidiary of General Motors Corporation (GMC), General Motors Acceptance Corporation (GMAC) and that of Chrysler have received a combined US\$6.5 billion in order to enhance credit availability for the purchasers of new automobiles. This brings the total package to US\$23.9 billion which is expected to grow based on the continued decline in automobile sales.

Additional pressures are being felt by suppliers to the manufacturers, with the fallout from the drop in auto sales and the global recession. The first of expected bankruptcy filings was announced January 20, 2009 with the bankruptcy of a number of private US auto parts suppliers⁸.

As part of the economic stimulus package unveiled in the 2009 Budget, the GC has proposed reopening the Bank Act in order to permit the banks to re-enter the automobile leasing business. The objective of this would be to "kick start the market" to help dealers order more cars and trucks.⁹ The GC has also proposed the creation of a \$12-billion Canadian Secured Credit Facility, in order to improve credit availability for consumers to purchase and lease new vehicles.¹⁰

⁷ "Check Against Delivery", Statement by the Prime Minister of Canada, December 20, 2008 (<http://pm.gc.ca/eng/media.asp?id=2359>).

⁸ Private US auto supplier group files for liquidation, Reuters, January 20, 2009 (<http://www.reuters.com/article/marketsNews/idINN2040771220090120?rpc=44>).

⁹ Banks could re-enter auto leasing, Globe and Mail, January 29, 2009 (<http://www.theglobeandmail.com/servlet/story/LAC.20090129.RBUDGETAUTOS29/TPStory/?query=auto+financing>).

¹⁰ Budget 2009, January 27, 2009 (<http://www.budget.gc.ca/2009/plan/bpc3a-eng.asp#12>)

Given the preliminary nature of the proposed support package and the timing of this briefing note, the Office of the PBO has noted, below, a general list of key issues that parliamentarians may wish to examine:

Key Considerations	Notes & Observations
<u>Goals and objectives of financial assistance:</u> What are the stated goals and expected outcomes of GC's financial support? If the goals and expected outcomes have been decided, the nature and type of financial assistance considered can be assessed to evaluate if there is a fit between these goals, outcomes and the nature and type of financial assistance. In other words, do the design, terms and conditions of the financial support encourage attainment of the stated goals?	The GC has number of choices in designing its financial support including: grants, conditionally repayable contributions for reimbursing eligible costs, loans, loan guarantees to banks and financial institutions that have exposures to the automakers.
<u>Utilization of funds:</u> Designating the use of funds would to some extent mitigate the risks to the GC and ensure that taxpayer dollars are used strictly in accordance with the approved re-organization plan aimed to achieve the financial goals.	Has the GC targeted its financial assistance? Are the funds designated for specific purposes such as payments for meeting restructuring costs, payments to creditors, maintaining domestic jobs within the industry, etc?
<u>Terms and conditions:</u> Terms and conditions of the financial assistance including pre-disbursement conditions, ranking of the liens and collaterals, financial performance targets, limitations on executive compensation, specification of the purposes for which the loan proceeds will be utilized are generally carefully considered by lenders/investors to ensure asset protection and that the company meets its financial and non-financial targets.	Has the GC ensured the protection of the taxpayer in the event of success or failure of the assistance package? Does the package ensure that there is upside opportunity such as common share conversion feature (warrants in addition to debt) in the event of a turnaround and there is down side protection such as a Debtor In Possession conversion feature in the event of bankruptcy?
<u>Fiscal impact:</u> Details of the proposed financial package including the terms and conditions to examine the potential fiscal impact.	<p>If the financial assistance is structured as a grant or contribution, the entire allocation would be recognized as an expenditure in the Public Accounts of Canada in the year of the allocation.</p> <p>If the financial assistance is structured as a loan, there would be a corresponding asset on the balance sheet of the GC. An expense would be recorded should the loan become impaired or written off as a result of a default. A non-cash expense may also be recorded at the time the loan is made reflecting a provision for impaired assets/loans.</p>

	<p>The Export Development Corporation (EDC) is acting as an agent of the GC for the financial assistance package. As an export credit agency, EDC may provide loans, guarantees and receivables insurance to transactions that are outside the risk appetite of commercial banks (i.e. transactions where the default risk is above the risk tolerance of financial institutions). These loans may still be considered on a commercial basis, just with a higher level of assumed risk.</p> <p>For a loan to be administered by EDC under the <i>Canada Account</i>, there is an implication that the transaction risks and default rate exceed EDC's normal operating thresholds and that the loan is being provided on a largely non-commercial basis. Given that the GC has communicated that EDC will be administering up to \$4 billion through Canada Account, there is an implication that the assistance would be provided on a less-than-commercial basis, suggesting that the assistance may be considered as an expenditure, for fiscal purposes, rather than an asset on the balance sheet of the GC.</p> <p>Should the assistance package include the use of loan guarantees, a contingent liability equal to the expected value of loss on guarantee would be disclosed in the notes to the financial statements of the GC. At the time the guarantee is issued, an allowance is estimated by taking into consideration the nature of the loan guarantee, loss experience and current conditions at the date of the preparation of the financial statements. The allowance is reviewed on an ongoing basis. The initial establishment of the allowance and subsequent annual changes are recorded as expenses of the GC. If greater than the allowance, an actual guarantee payment would represent an expense of the GC.</p>
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Should it be desired by parliamentarians and/or parliamentary committees, the Office of the PBO could examine the specific terms and conditions of the financial assistance package and report on the potential fiscal impact stemming from package once the relevant information is made available (i.e. after terms are accepted by the parties). In the interim, this briefing note uses publicly available information to provide a comparison between the Canadian and US government financial deal terms to the automakers. Such a comparison may help parliamentarians in benchmarking certain aspects of the proposed assistance package.

A Comparison of the Canadian and US Assistance Packages

The Canadian financial assistance package as presented by Prime Minister Harper on December 20, 2008 is provided in a backgrounder on the Prime Minister's website (Annex B). This package is compared to the term sheets for the financial assistance package provided by United States Treasury (UST) to the US automobile manufacturers. The US program is called the Automobile Industry Financing Program (AIFP) and has been funded under the Troubled Asset Relief Program (TARP) which was originally established to fund the banking crisis and the bank failures in the US in the fall of 2008 (Annex C).

The following chart provides a detailed comparison of the terms and conditions of the US deal and the framework of the proposed/preliminary Canadian package. A summary of the key differences follows:

Key Deal Terms	Canadian Financial Assistance Package¹¹	US Financial Assistance package to General Motors Corporation and Chrysler¹²
Objective	The GC is committed to supporting the auto industry.	The US has funded the US automobile manufacturers under the Automobile Industry Financing Program (AIFP). The goal of the funding was to prevent a significant disruption of the American automobile industry which would pose a systemic risk to financial market stability and have a negative effect on the economy of the United States.
Assistance	Loans of up to C\$4 billion (\$2.7 billion from GC and remainder from the Province of Ontario).	GMC Up to US\$13.4 billion December 29, 2008 - \$4.0 billion January 16, 2009, \$5.4 billion

¹¹ GC backgrounder – Government Support to the Auto Industry, December 20, 2008 (<http://pm.gc.ca/eng/media.ask?id=2357>).

¹² Indicative Summary of Terms for Secured Term Loan Facility, December 19, 2008 (<http://www.treasury.gov/press/releases/hp1333.htm>).

	EDC will extend access to accounts receivable insurance for Canadian automotive suppliers.	February 17, 2009 - \$4.0 billion Chrysler Up to US\$4 billion
Term	91 day renewable to a maximum of 3 years	Due December 29, 2011
Interest	Current LIBOR (e.g.1.42%)+ 300 bps	LIBOR floor of 2%, plus 300 bps, in event of default increases to 800 bps
Security	The loans are secured by: <ul style="list-style-type: none"> ▪ Chrysler – lien on all unencumbered assets ▪ GMC – senior status to the extent permitted under existing agreements 	First priority liens on all unencumbered assets and junior liens on all encumbered assets.
Use of Funds	General business	General business
Restructuring Plan Due Date	Preliminary plan - February 20, 2009 Detailed plan - March 31, 2009	Preliminary plan - February 17, 2009 Detailed plan - March 31, 2009
Conditions	Payments to auto parts suppliers made on reasonable commercial terms. Limits on executive compensation and performance pay. Oversight of Transactions and Financial Condition.	Divest all private aircraft or interest therein owned prior to close date. Notice of material transactions. Limits on executive privileges, compensation and performance pay. Weekly, bi-weekly and monthly reporting requirements. Oversight of Transactions and Financial Condition.
Tax Payer Protection	Warrants ¹³ for non-voting Common Shares equivalent to 20% of the aggregate amount of all loans.	UST will receive warrants equal to 20% of the maximum loan amount, capped at 20% of the issued and outstanding common equity interest of the company. In the event the warrant limit reduces the number of warrants issued, the UST will receive additional notes equal to 6.67% of the maximum loan amount less one third the number of the warrants actually granted times the exercise

¹³ Warrant – A financial instrument entitling the holder to buy a specific amount of securities at a specific price, usually above the current market price at the time of issuance, for an extended period, anywhere from a few years to forever. In the case that the price of the security rises to above that of the warrant's exercise price, then the investor can buy the security at the warrant's exercise price and resell it for a profit. Otherwise, the warrant will simply expire or remain unused. Source : InvestorWords.com

		<p>price.</p> <p>The UST will not exercise any voting power with respect to the equity interests received upon exercise of the warrants.</p>
Restructuring plan components	<p>A plan with specific actions sufficient to ensure long term viability, including agreement with all stakeholders of needed reductions in structural costs required to restore competitiveness.</p>	<p>Must include specific actions that would result in :</p> <ol style="list-style-type: none"> 1. Repayment of the loan amount and any other financing extended by the Government. 2. Ability to comply with applicable fuel efficiency and emissions requirements and commence domestic manufacture of advanced technology vehicles. 3. Achievement of a positive NPV using reasonable assumptions and including repayment of the loan amount and any other financing extended by the Government. 4. Rationalization of costs, capitalization and capacity with respect to the manufacturing workforce, suppliers and dealerships of the company. 5. A product mix and cost structure that is competitive in the US marketplace. <p>The plan should extend through 2010 monthly and annually through 2014 and include detailed historical and projected financial statements.</p>
DIP Loan conversion	Not stated	<p>Upon the filing of involuntary or voluntary bankruptcy the lender has the exclusive right, exercisable at its option, to convert the facility into a debtor-in-possession facility in form and substance acceptable to the lender.</p>
Restructuring Targets (based on best efforts)	Not stated	<ol style="list-style-type: none"> 1. Reduction of the outstanding unsecured public indebtedness by not less than two thirds through conversion of existing

		<p>public debt into equity or debt.</p> <ol style="list-style-type: none"> 2. Reduction of the total amount of compensation, including wages and benefits paid to their US employees so that by no later than December 31, 2009, the average total amount of such compensation as certified by the Secretary of Labour be equivalent to that paid per hour and per person to employees of Nissan Motor company (Nissan), Toyota Motor Corporation (Toyota), or American Honda Motor Company (Honda) within the US. 3. Application of the work rules to their US employees, beginning no later than Dec. 31, 2009 in a manner that is competitive with Nissan, Toyota and Honda. 4. Limitation of the future payments or contributions to the account of the voluntary employee beneficiary association (VEBA). <p>By no later than February 17, 2009:</p> <ol style="list-style-type: none"> 1. A term sheet signed on behalf of the Company and the leadership of each major US labour organization providing for the Labour Modifications. 2. A term sheet signed on behalf of the Company and VEBA providing the VEBA modifications; and 3. A term sheet signed on behalf of the Company and representatives of holders of the Company's public debt providing for the Bond Exchange. 4. Approval of the Labour modifications by the Union. 5. Receipt of all necessary VEBA Approvals. <p>Commencement of an exchange offer to implement the Bond Exchange.</p>
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Chrysler Alliance with Fiat

It appears as part of the Chrysler restructuring plan, in order to meet the fuel efficiency and advanced technologies component of the agreement with UST, Chrysler has entered into a strategic alliance with Fiat. Chrysler will now have access (US Restructuring Plan Component #2) to the fuel efficient cars and the technologies at Fiat, the distribution network in the growing economies, and cost savings associated with the size of the two companies. Fiat will have a 35% stake in Chrysler as well as have access to the distribution network established by Chrysler in North America.¹⁴ The FIAT deal helps Chrysler meet the requirements of the US deal.

In addition to the financial assistance to the automobile manufacturers, the US Government has also provided assistance to the automobile financing entities as stated previously. The terms of these arrangements are summarized below:

Key Terms of the Automobile Financing Company Assistance

Key Deal Terms	US Financial Assistance package for GMAC ¹⁵	US Financial Assistance package Chrysler LB Receivables Trust ¹⁶
Assistance	\$5.0 billion Fixed rate Cumulative Perpetual Preferred Membership Interests, Series D-1	\$1.5 billion Secured Term Loan
Term	Perpetual Life	5 years term loan, Due January 16, 2014
Interest	Cumulative distribution 8% per annum	LIBOR plus 1%, in year 1, LIBOR plus 1.5% years 2-5
Security	None. Ranks senior to common membership interest and pari passu with preferred membership interests other than preferred membership interest which by their terms rank junior to any preferred membership interests.	Guarantor is Chrysler Holding LLC. An Indenture Trustee will hold perfected first priority liens on all existing and after acquired property of the Borrower including but not limited to all fund in the Funding account and collection account and all Auto Loans.
Use of Funds	Not stated	To fund retail loans made to enable the purchase of automobiles.
Conditions	May not be redeemed for a period of three years from date of investment.	Auto loans must meet certain geographic, credit quality and other standard over-concentration limits.

¹⁴ Fiat Takes 35% stake in Chrysler, January 20, 2009 (<http://news.bbc.co.uk/1/hi/business/7839542.stm>).

¹⁵ GMAC LLC Preferred Membership Interests Summary of Preferred Terms, December 29, 2008 (<http://www.treasury.gov/press/releases/hp1335.htm>).

¹⁶Chrysler LB Receivables Trust Secured Term Loan Summary Terms, January 16, 2009 (<http://www.treasury.gov/press/releases/hp1362.htm>).

	Limits on Executive Compensation.	If borrower elects to sell the Auto loans to another securitization vehicle, it must repay the loan in full. Limits on Executive Compensation.
Tax Payer Protection		In lieu of warrant, UST will receive as additional consideration Class B Notes issued under the Indenture up to 5% of the maximum loan amount (20% of which vest on the Closing date and 20% on each of the succeeding anniversary dates). The Class B notes will have the same terms and maturity date as the Class A Notes.

The key differences between the Canadian proposal framework and the US deals are summarized below:

- There has not been a clear stated Objective of the financial assistance package provided to the automobile industry in Canada, whereas the United States has established the problem and specific objectives of the package to resolve the problem upfront in the legislation.
- The UST has set an interest rate floor for LIBOR of 2%, resulting in a minimum interest rate of 5% for the term. There does not appear to be such a floor in the Canadian proposal, where the rate is LIBOR plus 300 basis points. At current LIBOR rates this would indicate a rate for the loan of approximately 4.2%.
- Compared to the US term sheet, the Canadian restructuring plan requirements appear comparatively general, simply stating they must ensure long term viability and restore competitiveness. The UST is much more specific and requires the ability to repay the loan, achieve a positive net present value (NPV) after repayment of the loans; ability to comply with fuel efficiency and emission requirements, rationalization of costs throughout the organization and providing a product mix and cost structure that is competitive in the US market place.
- In addition to the requirements of the restructuring plan the UST has also provided a number of targets that are to be met on a best efforts basis such as lower debt levels (conversion to equity), lower labour costs and lower benefit payments.
- The UST has included a debtor-in-possession (DIP) conversion feature, which provides for the UST to the convert the facility into a DIP in the event of a bankruptcy. The features of DIP financing are provided as additional information in Annex D. A DIP conversion feature may provide significant protection for a lender in the case of a bankruptcy filing. The enforceability of the DIP feature is key and should be negotiated prior to providing funding.

It should be noted that since the GC proposal is still in a preliminary stage, the GC may yet have the opportunity to match desirable deal terms from the US, or other, term sheets.

The Experience in Other Jurisdictions

To date, it appears that no other country has provided a financial assistance package to support day to day operations in their respective domestic automobile industries. There are a number of countries contemplating support to the industry and their actions and announcements to date are provided below.

In December 2008 the Swedish government announced commitment to provide emergency loans and credit guarantees totaling US\$3.1 billion for the domestic operations of Volvo (a subsidiary of Ford) and Saab (a GM company). There is also a package of loans available to fund research and development of new technologies and fuel efficiency in the automotive sector.¹⁷ The Swedish government has reiterated they will not take over the domestic operations and are currently in discussions with the US parent companies about the proposed domestic assistance announced in December.¹⁸

The government of France has recently commented in the media they will be providing up to US\$7.8 billion to their domestic automobile manufacturers in the form of *soft* loans. More specifically, on January 20, 2009 the French government announced they would be providing up to €6billion in state aid.¹⁹ The financial aid will go to support the operations of Renault and PSA Peugeot Citroen, as well as the suppliers and distributors in France. There are no terms announced for the financial assistance package as yet; however, it is expected there would be a commitment to certain car volumes and to the safeguarding of French jobs.

To support the automobile industry in Argentina the government announced in December 2008 they would provide low cost (lower than market interest rates) loans to individuals purchasing their first new car. The Argentine government has indicated the program will cost approximately US\$900 million.²⁰

The German government has proposed offering a grant of US\$3,250 to individuals for the purchase of a new or slightly used vehicle. The individuals are eligible for a grant if they are disposing of a vehicle that is at least 9 years old.²¹ The grant is part of the German stimulus package in response to the global economic crisis.

¹⁷ Sweden's Auto Bailout \$3.4 billion, Huffington Post, December 11, 2008 (http://www.huffingtonpost.com/2008/12/11/swedens-auto-bailout-34-b_n_150150.html).

¹⁸ Sweden won't take over Saab or Volvo: official, Reuters.com, January 12, 2009 (<http://www.reuters.com/article/euDealsNews/idUSTRE50B75920090112>).

¹⁹ French car industry to get up to €6bn in state aid, Financial Times, January 20, 2009 (http://www.ft.com/cms/s/0/e85468b4-e6df-11dd-8407-0000779fd2ac.dwp_uuid=e8477cc4-c820-11db-b0dc-000b5df10621.html).

²⁰ Argentina to help first-time car buyers, Marketwatch.com, December 6, 2008 (<http://www.marketwatch.com/news/story/argentina-help-first-time-new-car/story.aspx?guid=%7B1269BA8A-DFCD-46BA-A62A-D6348B8939B5%7D&dist=TNMostRead>).

²¹ Scrapping Bonus Injects Life Into New Car Sales, Spiegel online, January 23, 2009 (<http://www.spiegel.de/international/business/0,1518,603233,00.html>).

The Italian and South Korean governments have announced they will consider providing assistance to their domestic auto industries. The topic was to be discussed in a review of business sectors by the governments in the last week of January 2009.

On January 27, 2009, the UK car automotive industry was provided with a commitment to help the industry. The Government has offered guarantees for loans of up to £1.3 billion from the European Investment Bank (EIB) as well as guarantees to support up to a further £1.0 billion of lending or loans for investment not eligible for EIB support. They are also considering additional funding for the financing arms of the automobile makers, in order to improve access to credit for purchasers of automobiles. No additional terms have been announced.²²

The Australian government issued a report on their domestic car industry in November 2008 titled “A New Car Plan for a Greener Future”. The purpose of the report was to provide a plan for reinventing the Australian car industry. Specifically the plan was to prepare for a low-carbon future and ensure that the Australian automotive industry is indispensable to the global automotive industry. The plan includes funding of \$3.4 billion over the period 2011 to 2020 to fund the transformation of the industry, with funding allocated to investments in plant and equipment and associated labour. The goal of the funding is to increase competitiveness and productivity, with a focus on research and development. There is also a Green Car Innovation fund of \$1.3 billion for the period 2009-2020. The funding is provided to support research and development and the commercialization of Australian technologies that significantly reduce fuel consumption, greenhouse gas emissions, or the weight of vehicles. Additional small amounts of funding are available to help in job losses and retraining as a result of the anticipated consolidation and better integration of the supply chain in the industry. There have been no bail-out type funds made available as yet.²³

In December the Chinese government announced the China Export and Import Bank would provide \$1.5 billion in loans to domestic car manufacturer Chery Automobile to support expansion into international markets.²⁴ In January 2009, the Chinese government also lowered taxes and offered subsidies on new automobile purchases in order to stimulate demand.²⁵

PBO Comment

At this time, the GC and the automakers have not completed a financial assistance transaction. This note serves to brief parliamentarians on the broad nature of the proposed Canadian framework as well as key features of the US term sheet that may be of interest to Canada. Currently, it appears that the US automakers are focused on completing a transaction with the US government prior to completing one with the GC. This implies that the GC may have some

²² In full: Mandelson car Statement, BBC News, January 27, 2009 (http://news.bbc.co.uk/1/hi/uk_politics/7854329.stm).

²³ A New Car Plan for a Greener Future, Australian Government Department of Innovation, Industry Science and Research (<http://www.innovation.gov.au/automotivereview/Documents/NEWCARPLANGREENERFUTUREweb.html>).

²⁴ China's Eximbank grants loans for Chery's expansion, December 8, 2008 (http://www.china.org.cn/business/2008-12/08/content_16913119.htm).

²⁵ The Chinese auto bail out: Lower taxes on sub 1.6L, and subsidies for sub 1.3L, January 15, 2009 (<http://www.chinacartimes.com/2009/01/15/the-chinese-auto-bail-out-lower-taxes-on-sub-16l-and-subsidies-for-sub-13l/>).

challenges in driving specific deal terms to the satisfaction of its own objectives such as Canadian job guarantees.

However, a cursory overview of the term sheet of the US assistance package suggests that there are a few key deal terms that could mitigate fiscal risks for the GC and may warrant inclusion in a final Canadian assistance package. Key among these terms is:

- clarity of objectives;
- the interest rate floor;
- specificity of the restructuring plan as it relates to the Canadian context and law (i.e. CCAA, BIA); and,
- a DIP conversion feature that is negotiated prior to funding and thus enforceable, that provides downside risk protection to the GC in the event of bankruptcy.

One other key consideration is the protection of jobs in the automotive sector for both the manufacturers and the supply chain. Employment and supply chain considerations should be examined prior to finalizing Canadian funding.

If the Canadian assistance package is completed in the same form and substance as the US package, the GC would be providing assistance in the form of a loan to the automobile manufacturers. It appears the loan would be administered by EDC under the *Canada Account*. Accordingly, there is an implication that the transaction risks and default rate exceed EDC's normal operating thresholds and that the loan is being provided on a largely non-commercial basis, suggesting that the assistance may be considered as an expenditure, for fiscal purposes, rather than an asset on the balance sheet of the GC.

Annex A - Credit Ratings

Chrysler LLC	General Motors Corp.	Ford Motor Co.
<p>S&P lowered its corporate credit rating to "CC" on December 22, 2008 from "CCC+" and lowered the issue-level ratings on the company's senior secured debt. The outlook is negative. A rating of CC is given when a company is expected to undertake a distressed exchange of debt, perhaps for equity. A CC rating implies that the company is at substantial default risk generally within six months.</p> <p>Separately, Fitch Ratings downgraded and placed on rating watch negative the issuer default ratings of Daimler Chrysler Financial Services America LLC, cutting the rating to "CC" from "B-," which indicates default is probable.</p> <p>The downgrade "reflects the deteriorating financial condition of Daimler Chrysler Financial Services parent company Chrysler LLC," Fitch said, also citing the terms of the government loan deal and the potential for a distressed debt exchange. Fitch has Chrysler's issuer default rating at "C," indicating default is imminent.</p> <p>Fitch said it would cut Daimler Chrysler Financial further if the automaker files for bankruptcy protection or its viability becomes suspect.</p> <p>Data source: http://www.economicnews.ca/cepnews/wire/article/193034 www.standardsandpoors.com</p>	<p>Standard & Poor's lowered its ratings on the unsecured debt of GM and General Motors of Canada Ltd. to C from CC, and revised its recovery rating on GM's debt to 6 - which means the amount lenders can expect to recover is negligible (0 to 10 percent) in the event of a payment default.</p> <p>A C rating is issued in special situations including:</p> <ul style="list-style-type: none"> ▪ Structured or project finance obligations that are currently highly vulnerable to non-repayment that do not have an issuer credit rating ▪ Issuers with poor recovery prospects for issuers when the issuer credit rating is CCC or CC ▪ Issuers that have continued to pay when the company is in bankruptcy ▪ Preferred stocks and deferrable debt that is paying, but in arrears 	<p>S&P issued a CCC+ rating with a credit watch on Ford Motor Company.</p> <p>CCC rating is an indication of most risky situation regarding potential default. S&P defines Standard & Poor's Ratings Services defines 'CCC' as applying to entities that are vulnerable to non-payment and depend on favorable business, financial, and economic conditions to be able to meet all their financial commitments.</p>

Annex B

Background - Government Support to the Auto Industry

20 December 2008
Ottawa, Ontario

Rationale

As indicated in the November 2008 Speech from the Throne and, more recently, by the governments of Canada and Ontario, the Government of Canada is committed to supporting the auto industry.

Form of Assistance

The Government of Canada and the Government of Ontario will provide short-term loans through the government's Canada Account managed by Export Development Canada (EDC) payable to General Motors of Canada Limited and Chrysler Canada Inc.

EDC will also extend access to accounts receivable insurance coverage to Canadian automotive suppliers.

The Government of Canada will also support improved access to credit for Canadian households and businesses, which will improve access to car loans and dealer financing in Canada at a time when global credit markets are severely disrupted.

Loan Amounts

Terms loans will be provided up to \$4 billion.

Allocation of Loans

General Motors of Canada is eligible for loans up to \$3 billion, and Chrysler Canada is eligible for loans up to \$1 billion.

Interest Rate

Interest charged on these instruments will be set at 300 basis points above the London Interbank Offered Three-Month Rate (Libor + 300 bps).

Closing Date on Loans

The closing date for these liquidity facilities is December 29, 2008.

Timing of Loan Disbursement and Terms

General Motors:

- closing: \$ 0.8 billion
- January 30, 2009: \$ 1.2 billion
- February 27, 2009: \$ 1.0 billion

Chrysler:

- closing: \$ 0.4 billion
- January 30, 2009: \$ 0.4 billion
- February 27, 2009: \$ 0.2 billion

Security

Access to loans will require a lien be put on Chrysler Canada's unencumbered Canadian assets. In the case of General Motors of Canada, access to loans will require that the governments of Canada and Ontario be granted senior status for the demand loans to the extent permitted by law under existing agreements. In exchange, the governments through EDC will receive warrants for non-voting common shares equal to 20 per cent of the loans made to the parent companies of Chrysler and General Motors' Canadian operations.

Terms of Loans

These are 91-day renewable loans, up to a maximum of three years. Renewals of these loans require that each borrower makes a submissions no later than February 20, 2009, of acceptable restructuring plans that include specific actions sufficient to ensure long-term viability of the borrower's business operations. Renewal will also require that each borrower demonstrate acceptable evidence no later than March 31, 2009, that the plan will proceed, including agreement with all stakeholders of needed reductions in structural costs required to restore competitiveness.

Uses of Funds

The funds will be used for general business purposes.

Conditions

Amounts owing to automotive parts suppliers to be paid according to reasonable automotive sector commercial terms and conditions including timing.

Borrowers must accept limits on executive compensation, including performance pay.

Borrowers must provide fully-authorised warrants for non-voting stock.

Borrowers must report material transactions (any business or other financial transaction with an associated value in excess of \$125 million).

Weekly reports to be provided on cash and liquidity positions, production and revenues as well as rolling thrice-monthly projections.

Federal and Ontario government officials or their duly-appointed contractors or agents shall have unimpeded access to the borrower's records.

Source : GC backgrounder – Government Support to the Auto Industry, December 20, 2008

Link : <http://pm.gc.ca/eng/media.asp?id=2357>

Annex C

Indicative Summary of Terms for Secured Term Loan Facility December 19, 2008

Based upon the preliminary information provided to the United States Department of the Treasury (the “UST”) regarding the proposed Facility, the following Summary of Terms outlines (for discussion purposes only) the key terms and conditions of a potential transaction. This Summary of Terms is not intended to be a comprehensive list of all relevant terms and conditions of the transactions contemplated herein. Further, these terms are subject to completion of due diligence, legal and other internal review and receipt of related approvals satisfactory to UST and any other approval procedures customary for a transaction of this nature. Final terms will be included in definitive documentation based on this Summary of Terms and executed by the applicable parties. This Summary of Terms is intended for the sole benefit of the Company identified on Appendix A and certain of its affiliates and shall not be relied upon by any other person.

Facility: A term loan that is full recourse to Borrower(s) (except as provided on Appendix A), secured by a first or junior lien, as applicable, on all of Borrower(s)’ assets, and is subject to the terms and conditions contained herein and in the definitive Facility documentation.

Borrower(s): As set forth on Appendix A.

Lender: UST, on a committed basis.

Guarantor(s): As set forth on Appendix A. The Borrower(s) and the Guarantor(s) shall hereinafter each be referred to as a “**Loan Party**,” and collectively, as “**Loan Parties**.”

Closing Date: As set forth on Appendix A.

Loan: Lender will make available to Borrower(s) a loan in an aggregate amount up to the amount set forth on Appendix A (the “**Loan Amount**”) in predetermined draw amounts, as further specified on Appendix A.

Availability: On the dates specified in Appendix A, Borrower(s) may request Lender to fund a draw up to an amount set forth on Appendix A for such date (each such funding, an “**Advance**”). At the time of each funding of an Advance by the Lender (each, an “**Advance Date**”), Borrower(s) shall be in compliance with all of the covenants, representations and warranties of this Facility.

Unless otherwise agreed by the UST, Borrower(s) must provide the UST with its request at least two (2) business days’ prior to the date on which an Advance will be funded by Lender. For the avoidance of doubt, notice received by the UST after 5:00 pm Washington, DC time on any business day shall be deemed to be received on the following business day.

Use of Funds: The Borrower(s) shall utilize the proceeds from the Advances as set forth on Appendix A.

Currencies: All Advances, prepayments and payments of fees and indemnities and any other payments under the Facility shall be made in United States Dollars.

Collateral: As set forth on Appendix A. As security for Borrower(s)' performance of all of their obligations under the Facility and Guarantor(s)' performance of their obligations under the Guaranties, the applicable Loan Parties will grant to Lender a security interest in and to the Collateral (with the applicable lien priority specified with respect thereto on Appendix A).

Maturity Date: The Facility will terminate and the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender, will be due and fully payable on the earliest of (i) the Expiration Date (as set forth on Appendix A), (ii) the occurrence of a Termination Event, or (iii) the occurrence of an Event of Default, at the option of the Lender.

Interest Rate: Each Advance shall accrue interest at a rate per annum equal to (i) the sum of (x) the greater of (A) three-month LIBOR and (B) the LIBOR Floor, plus (y) the Spread Amount, multiplied by (ii) the outstanding principal balance of such Advance. The Interest Rate shall be determined on the Closing Date and reset on each Interest Payment Date and shall be calculated on a 360-day year basis for the actual number of days elapsed (including the first day but excluding the last day) occurring in the related Interest Period. Interest on the Advances shall be payable in arrears on each Interest Payment Date in respect of the previous Interest Period, and together with all outstanding principal and other amounts owing, on the Maturity Date.

Interest Period: For each Advance, (i) initially, the period commencing on the related Advance Date and ending on the calendar day prior to the next succeeding Interest Payment Date, and (ii) thereafter, each period commencing on an Interest Payment Date and ending on the calendar day prior to next succeeding Interest Payment Date. Notwithstanding the foregoing, no Interest Period may end after the Maturity Date.

Interest Payment Date: Set forth on Appendix A.

LIBOR Floor: Set forth on Appendix A.

Spread Amount: Set forth on Appendix A.

Mandatory Prepayments: Subject to any mandatory prepayments from the following amounts required under existing secured credit agreements, Borrower(s) shall apply 100% of the net cash proceeds of any of the following transactions to prepay, on a pro rata basis, the aggregate outstanding Advances: (i) sales, liquidations or other transfers of any Collateral other than sales in the ordinary course of business, (ii) the incurrence by any Borrower of any debt (other than permitted indebtedness including the refinancing of prior indebtedness) or any equity or other capital raises (other than contributions of indemnity payments received by the Company and required to be applied to satisfy obligations of its subsidiaries), either public or private, whether in connection with a primary securities offering, a business combination of any kind, or otherwise, (iii) to the extent unencumbered, nonordinary

course asset sales (including aircraft divestments); provided that, with respect to clause (ii), in no event will any of the Collateral or Lender's security interest therein be released to the applicable Loan Party until the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender shall have been paid in full. Notwithstanding anything to the contrary contained herein, any amounts advanced and repaid cannot be reborrowed.

Optional Prepayments: Upon written notice to the Lender at least two business days in advance, Borrower(s) may prepay all or a portion of the outstanding Advances, without penalty; provided that in no event will any of the Collateral be released to the applicable Loan Party until the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender shall have been paid in full. Notwithstanding anything to the contrary contained herein, any amounts advanced and repaid cannot be reborrowed.

Executive Privileges and Compensation: Until such time as the Facility is repaid in full and the UST ceases to own any equity securities of the Company acquired pursuant to this Facility (including any Warrants and underlying Equity Interests acquired by the UST upon exercise thereof) (the "**Relevant Period**"), the following restrictions on executive privileges and compensation shall apply to the "**Relevant Companies**," as defined on Annex A:

1. The Relevant Companies shall be subject to the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the UST's guidelines that carry out the provisions of such subsection for systemically significant failing institutions as set forth in Notice 2008-PSSFI;
2. The Relevant Companies and their respective SEOs (as defined below) shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with Section 111(b) of the EESA and the guidelines set forth in Notice 2008-PSSFI;
3. The Relevant Companies shall comply in all respects with the limits on annual executive compensation deductibles imposed by Section 162(m)(5) of Internal Revenue Code of 1986, as amended, as applicable;
4. None of the Relevant Companies shall pay or accrue any bonus or incentive compensation to the 25 most highly compensated employees (including the SEOs) (collectively, the "**Senior Employees**") except as approved by the President's Designee;
5. None of the Relevant Companies shall adopt or maintain any compensation plan that would encourage manipulation of their reported earnings to enhance the compensation of any of its employees; and
6. The Relevant Companies shall maintain all suspensions and other restrictions of contributions to Benefit Plans that are in place or initiated as of the Closing Date.

At any time during the Relevant Period, the Lender shall have the right to require any Relevant Company to claw back any bonuses or other compensation, including golden parachutes, paid to any Senior Employees in violation of any of the foregoing.

Within 120 days of the Closing Date, the principal executive officer (or person acting in a similar capacity) of each Relevant Company shall certify in writing, under penalty of perjury, to the Lender's Chief Compliance Officer that such Relevant Company's compensation committee has reviewed the compensation arrangements of the SEOs with its senior risk officers and determined that the compensation arrangements do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of such Relevant Company. Each Relevant Company shall preserve appropriate documentation and records to substantiate such certification in an easily accessible place for a period not less than three (3) years following the Maturity Date.

"President's Designee" means one or more officers from the Executive Branch designated by the President. **"SEOs"** means the Loan Parties' "senior executive officers" as defined in subsection 111(b)(3) of the EESA and regulations issued thereunder, including the rules set forth in 31 C.F.R. Part 30, or as otherwise may be defined by the UST. **"Benefit Plan"** means, collectively, any compensation, bonus, incentive and other benefit plans (including supplemental executive retirement plans), arrangements and agreements (including golden parachute, severance and employment agreements).

Asset Divestment: With respect to any private passenger aircraft or interest in such aircraft that is owned or held by any Loan Party or any subsidiary immediately prior to the Closing Date, such party shall demonstrate to the satisfaction of the President's Designee that it is taking all reasonable steps to divest itself of such aircraft or interest. Further, no Loan Party shall acquire or lease any such aircraft or interest in such aircraft.

Material Transactions: The Loan Parties shall provide prompt notice to the President's Designee of any asset sale, investment, contract, commitment, or other transaction not in the ordinary course of business proposed to be entered into with a value in excess of \$100 million (a **"Material Transaction"**). The President's Designee shall have the right to review and prohibit any such Material Transaction if the President's Designee determines that it would be inconsistent with or detrimental to the longterm viability of such Loan Party.

Restrictions on Expenses: During the Relevant Period, the Company shall maintain and implement its comprehensive written policy on corporate expenses (**"Expense Policy"**) and distribute the Expense Policy to all employees of the Company and its subsidiaries covered under the policy. Any material amendments to the Expense Policy shall require the prior written consent of the President's Designee, and any material deviations from the Expense Policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the President's Designee.

The Expense Policy shall, at a minimum: (i) require compliance with all applicable law, (ii) apply to the Company and all of its subsidiaries, (iii) govern

(a) the hosting, sponsorship or other payment for conferences and events, (b) travel accommodations and expenditures, (c) consulting arrangements with outside service providers, (d) any new lease or acquisition of real estate, (e) expenses relating to office or facility renovations or relocations, and (f) expenses relating to entertainment or holiday parties; and (iv) provide for (a) internal reporting and oversight, and (b) mechanisms for addressing non-compliance with the policy.

Restructuring Plan: By no later than February 17, 2009, the Company shall submit to the President's Designee a plan to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries (the "**Restructuring Plan**"), which Restructuring Plan shall include specific actions intended to result in the following:

1. Repayment of the Loan Amount and any other financing extended by the Government under all applicable terms and conditions;
2. Ability of the Company and its subsidiaries to (x) comply with applicable Federal fuel efficiency and emissions requirements, and (y) commence domestic manufacturing of advanced technology vehicles, as described in section 136 of the Energy Independence and Security Act of 2007 (Public Law 110-140; 42 U.S.C. 17013);
3. Achievement by the Company and its subsidiaries of a positive net present value, using reasonable assumptions and taking into account all existing and projected future costs, including repayment of the Loan Amount and any other financing extended by the Government;
4. Rationalization of costs, capitalization, and capacity with respect to the manufacturing workforce, suppliers and dealerships of the Company and its subsidiaries; and
5. A product mix and cost structure that is competitive in the United States marketplace.

The Restructuring Plan shall extend through 2010 monthly and annually through 2014 and shall include detailed historical and projected financial statements with supporting schedules and additional information as may be requested by the President's Designee.

Restructuring Targets: In addition to the Restructuring Plan, the Company and its subsidiaries shall use their best efforts to achieve the following targets:

1. Reduction of their outstanding unsecured public indebtedness (other than with respect to pension and employee benefits obligations) by not less than two-thirds through conversion of existing public debt into equity or debt (a "**Bond Exchange**") and other appropriate means;
2. Reduction of the total amount of compensation, including wages and benefits, paid to their U.S. employees so that, by no later than December 31, 2009, the average of such total amount, per hour and per person, is an amount that is competitive with the average total amount of such

compensation, as certified by the Secretary of Labor, paid per hour and per person to employees of with Nissan Motor Company, Toyota Motor Corporation, or American Honda Motor Company whose site of employment is in the United States (the “**Compensation Reductions**”);

3. Elimination of the payment of any compensation or benefits to U.S. employees of the Company or any subsidiary who have been fired, laid-off, furloughed, or idled, other than customary severance pay (the “**Severance Rationalization**”).

4. Application of the work rules to their U.S. employees, beginning not later than December 31, 2009, in a manner that is competitive with Nissan Motor Company, Toyota Motor Corporation, or American Honda Motor Company whose site of employment is in the United States (the “**Work Rule Modifications**” and, together with the Compensation Reductions and Severance Rationalization, the “**Labor Modifications**”); and

5. Provision that not less than one-half of the value of each future payment or contribution made by them to the account of the voluntary employees beneficiary association (or similar account) (“**VEBA**”) of a labor organization representing the employees of the Company and its subsidiaries shall be made in the form of the stock of the Company or one of its subsidiaries (the “**VEBA Modifications**”), and the total value of any such payment or contribution shall not exceed the amount of any such payment or contribution that was required for such time period under the collective bargaining agreement that applied as of the day before the Closing Date.

Term Sheet Requirements: By no later than February 17, 2009, the Company shall submit to the President’s Designee:

1. A term sheet signed on behalf of the Company and the leadership of each major U.S. labor organization that represents the employees of the Company and its subsidiaries (collectively, the “**Unions**”) providing for the Labor Modifications; and
2. A term sheet signed on behalf of the Company and representatives of the VEBA providing for the VEBA Modifications; and
3. A term sheet signed on behalf of the Company and representatives of holders of the Company’s public debt providing for the Bond Exchange.

Restructuring Plan Report: On or before March 31, 2009, the Company shall submit to the President’s Designee a written certification and report detailing the progress made by the Company and its subsidiaries in implementing the Restructuring Plan. The report shall identify any deviations from the Restructuring Targets and explain the rationale for these deviations, including an explanation of why such deviations do not jeopardize the Borrower’s long-term viability. The report shall also include evidence satisfactory to the President’s Designee that the following events have occurred:

1. Approval of the Labor Modifications by the members of the Unions;

2. Receipt of all necessary approvals of the VEBA Modifications other than regulatory and judicial approvals, provided that the Company must have filed and be diligently prosecuting applications for any necessary regulatory and judicial approvals; and
3. The commencement of an exchange offer to implement the Bond Exchange.

President's Designee

Review/Certification: The President's Designee will review the Restructuring Plan Report and other materials submitted by the Company to determine whether the Company and its subsidiaries have taken all steps necessary to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries in accordance with its Restructuring Plan. If the President's Designee determines that these standards have been met, he will so certify (the "**Plan Completion Certification**").

Termination Event: If the President's Designee has not issued the Plan Completion Certification by March 31, 2009 or such later date (not to exceed 30 days after March 31, 2009) as the President's Designee may specify (the "**Certification Deadline**"), the maturity of the Loan shall be automatically accelerated and any portion of the Loan Amount not invested in or loaned to the Borrower's principal financial subsidiaries shall become due and payable on the 30th day after the Certification Deadline, without any further action on the part of the Lender.

Reporting Requirements: In addition to the foregoing, the Loan Parties shall deliver to Lender the following periodic reports and certifications:

1. Weekly status report, commencing with the week of December 15, 2008, detailing the 13-week rolling cash forecast for the Company and its subsidiaries (on a consolidated and consolidating basis);
2. Bi-weekly liquidity status report, commencing with the second week following the Closing Date, detailing, with respect to the Company and its subsidiaries (on a consolidated and consolidating basis): (i) the current liquidity profile; (ii) expected liquidity needs; (iii) any material changes in their business since the date of the last status report; (iv) any transfer, sale, pledge or other disposition of any material asset since the date of the last status report; and (v) any changes to their capital structure.
3. Monthly certification that (i) the Expense Policy conforms to the requirements set forth herein; (ii) the Company and its subsidiaries are in compliance with the Expense Policy; and (iii) there have been no material amendments thereto or deviations therefrom other than those that have been disclosed to and approved by Lender.
4. Monthly certification that all Benefit Plans with respect to Senior Executive Officers are in compliance with Section 111(b) of the EESA; and

5. Certified copies of all publicly filed financial reports and auditors opinions.

Access to Information And Right to Audit: At all times while the Facility is in effect, the Borrower(s) and each of their direct and indirect subsidiaries shall permit the Lender and its agents, consultants, contractors and advisors, and the Special Inspector General of the Troubled Assets Relief Program, access to personnel and any books, papers, records or other data that may be relevant to the financial assistance, including compliance with the financing terms and conditions.

Representations And Warranties: As of each day the Facility is in place, the Loan Parties shall be deemed to make customary corporate and asset-level representations and warranties to Lender. In addition, with respect to Warrants currently issued to the UST and to be issued to the UST under the Facility as provided below, the Borrower(s) will represent and warrant to the UST that, as of the date of this Indicative Summary of Terms and each date any Warrants are delivered, (i) the Warrants have been duly authorized and constitute a valid and legally binding obligation of the Company enforceable against it in accordance with its terms; (ii) the shares of common stock issuable upon exercise of the Warrants (the “**Warrant Shares**”) have been duly authorized and reserved for issuance upon exercise of the Warrants, and when so issued in accordance with the terms of the Warrants will be validly issued, fully paid, and non-assessable; (iii) Loan Parties have the corporate power to enter into this Facility, to execute and deliver the related Facility documentation and the Warrants and to carry out its obligations hereunder and thereunder (which includes the issuance of the Warrants and Warrant Shares); (iv) the execution, delivery, and performance by Loan Parties of the Facility documents and the Warrants, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by all necessary corporate action on their respective parts, and no further approval or authorization is required on their respective parts; (v) each Facility document, when executed and delivered by the applicable Loan Parties and Lender, is a valid, binding and enforceable obligation of each such Loan Party.

Conditions Precedent to Closing: Closing of the Facility and the funding of the first Advance will be subject to, the satisfaction of customary conditions precedent, including but not limited to:

1. Execution of mutually satisfactory Facility documentation and completion of all conditions to funding contained therein;
2. Receipt of customary legal opinions from in-house, domestic and local foreign counsel to the Loan Parties acceptable to Lender including, but not limited to, security interest perfection, PTO filings and analogous foreign law opinions, general corporate matters and enforceability, and an Investment Company Act opinion;
3. Receipt of officer’s certificates and standard closing documents and certificates with respect to each Loan Party, each in a form acceptable to Lender;
4. The Lender’s interests in the Collateral shall be perfected in accordance with applicable law (except to the extent the interests will be perfected

on a post-closing basis, as may be agreed to by the Lender) and all necessary waivers, amendments, approvals and consents to the pledge of such Collateral shall have been obtained;

5. With respect to Collateral on which Lender will have a first priority lien, evidence that all then-existing liens thereon have been released or will be released simultaneously with the funding of the first Advance;

6. With respect to Collateral on which Lender will have a lien of junior priority, an intercreditor agreement duly executed by the other lienholders, in form and substance acceptable to Lender in its sole discretion;

7. With respect to any equity investments that constitute Collateral, receipt of approvals duly executed by the Loan Parties' applicable creditors consenting to the pledge of such equity investments, to the extent required;

8. With respect to any real property that constitutes Collateral, receipt of an environmental indemnity from the applicable Loan Party;

9. Receipt of approvals duly executed by the Guarantor(s)' applicable creditors consenting to the guaranty, to the extent required;

10. A waiver shall have been duly executed by the Loan Parties and each SEO and delivered to the UST releasing the UST from any claims that the Loan Parties and/or the SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI;

11. A waiver shall have been duly executed by each SEO and delivered to the Loan Parties (with a copy to the UST) releasing the Loan Parties from any claims the SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI;

12. A waiver shall have been duly executed by the Loan Parties and each Senior Employee and delivered to the UST releasing the UST from any claims that the Loan Parties and such Senior Employees may otherwise have as a result of the Loan Parties' failure to pay or accrue any bonus or incentive compensation as a result of the foregoing;

13. A waiver shall have been duly executed by each Senior Employee and delivered to the Loan Parties (with a copy to the UST) releasing the Loan Parties any claims that the SEOs may otherwise have as a result of the

Loan Parties' failure to pay or accrue any bonus or incentive compensation as a result of the foregoing;

14. No material pending or threatened litigation not otherwise disclosed to and approved by Lender;

15. Payment of all fees and expenses due at the Closing Date;

16. Satisfaction of the additional conditions precedent set forth on Appendix A; and

17. Delivery or performance (to the satisfaction of the Lender) of all other conditions to closing and due diligence items that may be requested by the Lender.

Conditions Precedent to each Advance: The obligation of Lender to make each Advance (including the initial Advance) will be subject to the satisfaction of the following conditions precedent:

1. No unmatured Event of Default or Event of Default shall have occurred and be continuing; and

2. Other customary conditions precedent.

Covenants Unless waived by Lender, the Loan Parties shall be subject to customary covenants for this type of transaction (with certain exceptions to be mutually agreed), including, but not limited to the following negative covenants: (i) prohibition on redemption or buyback of any capital stock of the Company (other than pursuant to contracts existing as of December 2, 2008), (ii) restriction on transfer of assets, (iii) restriction on issuance of stock that would dilute the Warrants, (iv) negative pledge, (v) no fundamental change, (vi) limitation on transactions with affiliates, (vii) prohibitions on any dividends and distributions (or the economic equivalent) other than what is owed to unaffiliated entities pursuant to contract or law as of December 2, 2008, (viii) prompt notice of material adverse change with respect to any Loan Party, (ix) prohibition on creation of any new U.S. pension obligations until all U.S. pension plans maintained by the Company or any of its subsidiaries have been fully funded, and (x) such other covenants as may be deemed appropriate by Lender.

Financial Covenants: At all times, the Company must satisfy each of the financial covenants set forth on Appendix A.

Events of Default: Will include, but not be limited to each of the following events (as the same relates to each Loan Party):

1. Breach of representations, warranties or covenants or other terms and conditions of the Facility;

2. Default on any payment obligation under the Facility;

3. Bankruptcy/insolvency of any Borrower;
 4. Going concern qualification with respect to any Borrower or any Guarantor in any correspondence from its accountants;
 5. Change in control of any Borrower or any Guarantor;
 6. Any Borrower's or any Guarantor's default under any other debt or prepayment obligations the outstanding principal balance of which equals or exceeds \$10 million;
 7. Lender ceases to have a perfected first or junior (as applicable) security interest or ownership interest in any material portion of the Collateral;
 8. Cross default to any other facility or arrangement between any Borrower or any Guarantor or any of their affiliates and Lender.
- Upon the occurrence of any of the foregoing, Lender shall have the option to declare that an Event of Default has occurred, at which time the Facility will terminate and all amounts owing with respect to the Facility will be immediately due and payable without presentment, demand, protest or notice of any kind, all of which shall be waived by the Loan Parties; provided, however, it is understood and agreed that a bankruptcy or insolvency of any Loan Party shall be immediately deemed an automatic Event of Default without the need for Lender to declare it as such. Lender shall be entitled to any and all remedies pursuant to the Facility documents and applicable law, each of which shall be cumulative and in addition to every other remedy available to the Lender.

DIP Loan Conversion: Upon the filing of a voluntary or involuntary bankruptcy petition by or in respect of any Loan Party, Lender shall have the exclusive right, exercisable at its option, to convert this Facility into a debtor-in-possession facility in form and substance acceptable to Lender.

Joint and Several Liability: In the event of multiple Borrowers or Guarantors, such parties will be jointly and severally liable to Lender for all representations, warranties, covenants, obligations and liabilities of each of the Borrowers or Guarantors, as applicable, under the Facility. An unmatured Event of Default or an Event of Default of one party will be considered an unmatured Event of Default or an Event of Default by each party, and Lender shall have no obligation to proceed against one party before proceeding against the other party. Such parties shall waive any defense to their obligations under the Facility based upon or arising out of the disability or other defense or cessation of liability of one party versus the other. A party's subrogation claim arising from payments to Lender shall constitute a capital investment in another party subordinated to any claims of Lender, and equal to a ratable share of the equity interests in such party.

Summary of Warrant Terms

Warrant: Under the terms of the commitment, the UST will receive warrants to purchase common shares of the Company.

Exercise Price Per Share: The 15 day trailing average price determined as of December 2, 2008. The exercise price per share shall be subject to anti-dilution adjustments.

Amount: The total number of warrants will be equal to 20% of the Maximum Loan amount divided by the Exercise Price per Share, provided that the number of Warrants will be capped at 20% of the issued and outstanding common equity interests of the company, before giving effect to the exercise of the Warrants (“The Warrant Limit”).

Additional Notes: In the event that the Warrant Limit reduces the number of Warrants issuable to the UST, the UST will receive Additional Notes in an amount equal to 6.67% of the Maximum Loan Amount less a sum equal to onethird of the number of Warrants actually granted to the UST times the Exercise Price Per Share.

Term: Perpetual

Exercisability: Immediately exercisable, in whole or in part, at 100% of its issue price plus all accrued and unpaid dividends.

Transferability: The Warrants will not be subject to any contractual restrictions on transfer. The Company will file a shelf registration statement covering the Warrants and the Equity Interests underlying the Warrants as promptly as practicable after the date of the investment and, if necessary, shall take all action required to cause such shelf registration statement to be declared effective as soon as possible; provided, however, that if the Company is not subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act, it need not file a shelf registration statement unless and until it becomes subject to such requirements. The Company will also grant to the UST piggyback registration rights for the Warrants and the Warrant Shares and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrants and the Warrant Shares. The Company will apply for the listing of the Warrant Shares on the national exchange, if applicable, on which its Equity Interests are traded and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrants or the Warrant Shares.

Voting: Prior to the occurrence of a Termination Event or an Event of Default, the UST will agree not to exercise voting power with respect to any shares of Equity Interests of the Company issued to it upon exercise of the Warrants.

Consent: In the event that the Company does not have sufficient available authorized shares of Equity Interests to reserve for issuance upon exercise of the Warrants and/or equityholder approval is required for such issuance under applicable stock exchange rules, the Company will call a meeting of its equity holders as soon as practicable after the date of this investment to increase the number of authorized shares of Equity Interests and/or comply with such exchange rules, and to take any other measures deemed by the UST to be necessary to allow the exercise of Warrants into Equity Interests.

Substitution: In the event that the Company is not listed or traded at any time on a national securities exchange or securities association, or the consent of the Company's stockholders described above has not been received within 6 months after the issuance date of the Warrants, the Warrants will be exchangeable, at the option of the UST, for senior term debt or another economic instrument or security of the Company such that the UST is appropriately compensated for the value of the Warrants, as determined by the UST.

Optional Warrant Redemption: At any time after the aggregate outstanding Advances, with interest thereon at the applicable Interest Rate, fees, expenses, indemnities and other amounts due to Lender shall have been paid in full, the Company shall have the right to repurchase any equity security of the Company held by the UST at fair market value or, if no recognized market for such securities exists at the time of prepayment, at the value attributed to such securities by an independent third party appraiser reasonably acceptable to Lender.

Private Companies: If the Company is privately held, in lieu of warrants, the UST will receive additional notes ("**Additional Notes**") with the same priority and general terms as the facility, in an amount equal to 6.67% of the Maximum Loan Amount.

Other Terms

Fees and Expenses: The Loan Parties shall be responsible for any and all legal fees, due diligence and other out-of-pocket expenses incurred by or on behalf of the Lender in connection with this Facility, whether or not the Facility closes or funds.

Governing Law: Applicable Federal law (including conflicts of law rules), and in the absence of applicable Federal law, the law of the State of New York, without regard to conflict of laws doctrine applied in such state (other than Section 5-1401 of the New York General Obligations Law).

Not a Commitment: This term sheet is a summary of indicative terms and conditions purely for discussion purposes, does not constitute a commitment on the part of Lender and is not binding on Lender. All terms described herein are subject to due diligence satisfactory to Lender, receipt of all appropriate credit and other required internal and external approvals, final documentation satisfactory in form and substance to Lender and its legal counsel.

Appendix A to Secured Term Loan Facility

GM

Additional Terms

Company/Borrower: General Motors Corporation

Guarantor(s): All material domestic subsidiaries of the Borrower and any successor entity thereto, on a joint and several basis.

Closing Date: December 29, 2008

Loan Amount: Up to \$13.40 billion, to be made available to Borrower, upon request, as follows (subject to the Loan Parties' satisfaction of the other terms and conditions of the Facility):

Closing Date: \$4.0 billion.

January 16, 2009: \$5.4 billion.

February 17, 2009: \$4.0 billion, contingent on Congressional action.

Use of Funds: The funds advanced may be used by the Borrower for general business purposes.

Expiration Date: December 29, 2011 at 5:00 pm Washington, DC time.

Payment Date: The last business day of each calendar quarter, commencing with the first calendar quarter in 2009.

LIBOR Floor: 2.00%

Spread Amount: 300 basis points; provided that upon the occurrence and during the continuance of an Event of Default, the Spread Amount shall be equal to 800 basis points.

Financial Covenants: TBD

Additional Conditions Precedent: The Common Holders of the Class A Membership Interests of GMAC LLC and holders of the Class C Membership Interests of GMAC LLC shall have consented in writing to the pledge to Lender of the Class B Membership Interests and the Preferred Membership Interests under this Facility.

Collateral: To the extent legally and contractually permissible, the applicable Loan Parties shall grant to Lender first-priority liens on all unencumbered assets, and junior liens on all encumbered assets. Notwithstanding anything herein to the contrary, the Loan Parties shall use their best efforts to obtain all necessary waivers, amendments, approvals, or consents, as the case may be, to enable the Loan Parties to grant any such lien to the Lender as security for their respective obligations under the Facility

Relevant Companies: General Motors Corporation

Source : Indicative Summary of Terms for Secured Term Loan Facility, December 19, 2008

Link : <http://www.treasury.gov/press/releases/hp1333.htm>

**Indicative Summary of Terms for
Secured Term Loan Facility
December 19, 2008**

Based upon the preliminary information provided to the United States Department of the Treasury (the “UST”) regarding the proposed Facility, the following Summary of Terms outlines (for discussion purposes only) the key terms and conditions of a potential transaction. This Summary of Terms is not intended to be a comprehensive list of all relevant terms and conditions of the transactions contemplated herein. Further, these terms are subject to completion of due diligence, legal and other internal review and receipt of related approvals satisfactory to UST and any other approval procedures customary for a transaction of this nature. Final terms will be included in definitive documentation based on this Summary of Terms and executed by the applicable parties. This Summary of Terms is intended for the sole benefit of the Company identified on Appendix A and certain of its affiliates and shall not be relied upon by any other person.

Facility: A term loan that is full recourse to Borrower(s) (except as provided on Appendix A), secured by a first or junior lien, as applicable, on all of Borrower(s)’ assets, and is subject to the terms and conditions contained herein and in the definitive Facility documentation.

Borrower(s): As set forth on Appendix A.

Lender: UST, on a committed basis.

Guarantor(s): As set forth on Appendix A. The Borrower(s) and the Guarantor(s) shall hereinafter each be referred to as a “**Loan Party**,” and collectively, as “**Loan Parties**.”

Closing Date: As set forth on Appendix A.

Loan: Lender will make available to Borrower(s) a loan in an aggregate amount up to the amount set forth on Appendix A (the “**Loan Amount**”) in predetermined draw amounts, as further specified on Appendix A.

Availability: On the dates specified in Appendix A, Borrower(s) may request Lender to fund a draw up to an amount set forth on Appendix A for such date (each such funding, an “**Advance**”). At the time of each funding of an Advance by the Lender (each, an “**Advance Date**”), Borrower(s) shall be in compliance with all of the covenants, representations and warranties of this Facility.

Unless otherwise agreed by the UST, Borrower(s) must provide the UST with its request at least two (2) business days’ prior to the date on which an Advance will be funded by Lender. For the avoidance of doubt, notice received by the UST after 5:00 pm Washington, DC time on any business day shall be deemed to be received on the following business day.

Use of Funds: The Borrower(s) shall utilize the proceeds from the Advances as set forth on Appendix A.

Currencies: All Advances, prepayments and payments of fees and indemnities and any other payments under the Facility shall be made in United States Dollars.

Collateral: As set forth on Appendix A. As security for Borrower(s)' performance of all of their obligations under the Facility and Guarantor(s)' performance of their obligations under the Guaranties, the applicable Loan Parties will grant to Lender a security interest in and to the Collateral (with the applicable lien priority specified with respect thereto on Appendix A).

Maturity Date: The Facility will terminate and the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender, will be due and fully payable on the earliest of (i) the Expiration Date (as set forth on Appendix A), (ii) the occurrence of a Termination Event, or (iii) the occurrence of an Event of Default, at the option of the Lender.

Interest Rate: Each Advance shall accrue interest at a rate per annum equal to (i) the sum of (x) the greater of (A) three-month LIBOR and (B) the LIBOR Floor, plus (y) the Spread Amount, multiplied by (ii) the outstanding principal balance of such Advance. The Interest Rate shall be determined on the Closing Date and reset on each Interest Payment Date and shall be calculated on a 360-day year basis for the actual number of days elapsed (including the first day but excluding the last day) occurring in the related Interest Period. Interest on the Advances shall be payable in arrears on each Interest Payment Date in respect of the previous Interest Period, and together with all outstanding principal and other amounts owing, on the Maturity Date.

Interest Period: For each Advance, (i) initially, the period commencing on the related Advance Date and ending on the calendar day prior to the next succeeding Interest Payment Date, and (ii) thereafter, each period commencing on an Interest Payment Date and ending on the calendar day prior to next succeeding Interest Payment Date. Notwithstanding the foregoing, no Interest Period may end after the Maturity Date.

Interest Payment Date: Set forth on Appendix A.

LIBOR Floor: Set forth on Appendix A.

Spread Amount: Set forth on Appendix A.

Mandatory Prepayments: Subject to any mandatory prepayments from the following amounts required under existing secured credit agreements, Borrower(s) shall apply 100% of the net cash proceeds of any of the following transactions to prepay, on a pro rata basis, the aggregate outstanding Advances: (i) sales, liquidations or other transfers of any Collateral other than sales in the ordinary course of business, (ii) the incurrence by any Borrower of any debt (other than permitted indebtedness including the refinancing of prior indebtedness) or any equity or other capital raises (other than contributions of indemnity payments received by the Company and required to be applied to satisfy obligations of its subsidiaries), either public or private, whether in connection with a primary securities offering, a business combination of any kind, or otherwise, (iii) to the extent unencumbered, nonordinary course asset sales (including aircraft divestments); provided that, with respect to clause (ii), in no event will any of the Collateral or Lender's security

interest therein be released to the applicable Loan Party until the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender shall have been paid in full. Notwithstanding anything to the contrary contained herein, any amounts advanced and repaid cannot be reborrowed.

Optional Prepayments: Upon written notice to the Lender at least two business days in advance, Borrower(s) may prepay all or a portion of the outstanding Advances, without penalty; provided that in no event will any of the Collateral be released to the applicable Loan Party until the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender shall have been paid in full. Notwithstanding anything to the contrary contained herein, any amounts advanced and repaid cannot be reborrowed.

Executive Privileges and Compensation: Until such time as the Facility is repaid in full and the UST ceases to own any equity securities of the Company acquired pursuant to this Facility (including any Warrants and underlying Equity Interests acquired by the UST upon exercise thereof) (the “**Relevant Period**”), the following restrictions on executive privileges and compensation shall apply to the “**Relevant Companies**,” as defined on Annex A:

1. The Relevant Companies shall be subject to the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the UST’s guidelines that carry out the provisions of such subsection for systemically significant failing institutions as set forth in Notice 2008-PSSFI;
2. The Relevant Companies and their respective SEOs (as defined below) shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with Section 111(b) of the EESA and the guidelines set forth in Notice 2008-PSSFI;
3. The Relevant Companies shall comply in all respects with the limits on annual executive compensation deductibles imposed by Section 162(m)(5) of Internal Revenue Code of 1986, as amended, as applicable;
4. None of the Relevant Companies shall pay or accrue any bonus or incentive compensation to the 25 most highly compensated employees (including the SEOs) (collectively, the “**Senior Employees**”) except as approved by the President’s Designee;
5. None of the Relevant Companies shall adopt or maintain any compensation plan that would encourage manipulation of their reported earnings to enhance the compensation of any of its employees; and
6. The Relevant Companies shall maintain all suspensions and other restrictions of contributions to Benefit Plans that are in place or initiated as of the Closing Date. At any time during the Relevant Period, the Lender shall have the right to require any Relevant Company to claw back any bonuses or other compensation, including golden parachutes, paid to any Senior Employees in violation of any of

the foregoing.

Within 120 days of the Closing Date, the principal executive officer (or person acting in a similar capacity) of each Relevant Company shall certify in writing, under penalty of perjury, to the Lender's Chief Compliance Officer that such Relevant Company's compensation committee has reviewed the compensation arrangements of the SEOs with its senior risk officers and determined that the compensation arrangements do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of such Relevant Company. Each Relevant Company shall preserve appropriate documentation and records to substantiate such certification in an easily accessible place for a period not less than three (3) years following the Maturity Date.

"President's Designee" means one or more officers from the Executive Branch designated by the President. **"SEOs"** means the Loan Parties' "senior executive officers" as defined in subsection 111(b)(3) of the EESA and regulations issued thereunder, including the rules set forth in 31 C.F.R. Part 30, or as otherwise may be defined by the UST. **"Benefit Plan"** means, collectively, any compensation, bonus, incentive and other benefit plans (including supplemental executive retirement plans), arrangements and agreements (including golden parachute, severance and employment agreements).

Asset Divestment: With respect to any private passenger aircraft or interest in such aircraft that is owned or held by any Loan Party or any subsidiary immediately prior to the Closing Date, such party shall demonstrate to the satisfaction of the President's Designee that it is taking all reasonable steps to divest itself of such aircraft or interest. Further, no Loan Party shall acquire or lease any such aircraft or interest in such aircraft.

Material Transactions: The Loan Parties shall provide prompt notice to the President's Designee of any asset sale, investment, contract, commitment, or other transaction not in the ordinary course of business proposed to be entered into with a value in excess of \$100 million (a **"Material Transaction"**). The President's Designee shall have the right to review and prohibit any such Material Transaction if the President's Designee determines that it would be inconsistent with or detrimental to the longterm viability of such Loan Party.

Restrictions on Expenses: During the Relevant Period, the Company shall maintain and implement its comprehensive written policy on corporate expenses (**"Expense Policy"**) and distribute the Expense Policy to all employees of the Company and its subsidiaries covered under the policy. Any material amendments to the Expense Policy shall require the prior written consent of the President's Designee, and any material deviations from the Expense Policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the President's Designee.

The Expense Policy shall, at a minimum: (i) require compliance with all applicable law, (ii) apply to the Company and all of its subsidiaries, (iii) govern (a) the hosting, sponsorship or other payment for conferences and events, (b) travel accommodations and expenditures, (c) consulting arrangements with outside service providers, (d) any new lease or acquisition of real estate, (e) expenses relating to office or facility renovations or relocations, and (f) expenses

relating to entertainment or holiday parties; and (iv) provide for (a) internal reporting and oversight, and (b) mechanisms for addressing non-compliance with the policy.

Restructuring Plan: By no later than February 17, 2009, the Company shall submit to the President's Designee a plan to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries (the "**Restructuring Plan**"), which Restructuring Plan shall include specific actions intended to result in the following:

1. Repayment of the Loan Amount and any other financing extended by the Government under all applicable terms and conditions;
2. Ability of the Company and its subsidiaries to (x) comply with applicable Federal fuel efficiency and emissions requirements, and (y) commence domestic manufacturing of advanced technology vehicles, as described in section 136 of the Energy Independence and Security Act of 2007 (Public Law 110-140; 42 U.S.C. 17013);
3. Achievement by the Company and its subsidiaries of a positive net present value, using reasonable assumptions and taking into account all existing and projected future costs, including repayment of the Loan Amount and any other financing extended by the Government;
4. Rationalization of costs, capitalization, and capacity with respect to the manufacturing workforce, suppliers and dealerships of the Company and its subsidiaries; and
5. A product mix and cost structure that is competitive in the United States marketplace.

The Restructuring Plan shall extend through 2010 monthly and annually through 2014 and shall include detailed historical and projected financial statements with supporting schedules and additional information as may be requested by the President's Designee.

Restructuring Targets: In addition to the Restructuring Plan, the Company and its subsidiaries shall use their best efforts to achieve the following targets:

1. Reduction of their outstanding unsecured public indebtedness (other than with respect to pension and employee benefits obligations) by not less than two-thirds through conversion of existing public debt into equity or debt (a "**Bond Exchange**") and other appropriate means;
2. Reduction of the total amount of compensation, including wages and benefits, paid to their U.S. employees so that, by no later than December 31, 2009, the average of such total amount, per hour and per person, is an amount that is competitive with the average total amount of such compensation, as certified by the Secretary of Labor, paid per hour and per person to employees of with Nissan Motor Company, Toyota Motor Corporation, or American Honda Motor Company whose site of employment is in the United States (the "**Compensation Reductions**");

3. Elimination of the payment of any compensation or benefits to U.S. employees of the Company or any subsidiary who have been fired, laid-off, furloughed, or idled, other than customary severance pay (the “**Severance Rationalization**”).
4. Application of the work rules to their U.S. employees, beginning not later than December 31, 2009, in a manner that is competitive with Nissan Motor Company, Toyota Motor Corporation, or American Honda Motor Company whose site of employment is in the United States (the “**Work Rule Modifications**” and, together with the Compensation Reductions and Severance Rationalization, the “**Labor Modifications**”); and
5. Provision that not less than one-half of the value of each future payment or contribution made by them to the account of the voluntary employees beneficiary association (or similar account) (“**VEBA**”) of a labor organization representing the employees of the Company and its subsidiaries shall be made in the form of the stock of the Company or one of its subsidiaries (the “**VEBA Modifications**”), and the total value of any such payment or contribution shall not exceed the amount of any such payment or contribution that was required for such time period under the collective bargaining agreement that applied as of the day before the Closing Date.

Term Sheet Requirements: By no later than February 17, 2009, the Company shall submit to the President’s Designee:

1. A term sheet signed on behalf of the Company and the leadership of each major U.S. labor organization that represents the employees of the Company and its subsidiaries (collectively, the “**Unions**”) providing for the Labor Modifications; and
2. A term sheet signed on behalf of the Company and representatives of the VEBA providing for the VEBA Modifications; and
3. A term sheet signed on behalf of the Company and representatives of holders of the Company’s public debt providing for the Bond Exchange.

Restructuring Plan Report: On or before March 31, 2009, the Company shall submit to the President’s Designee a written certification and report detailing the progress made by the Company and its subsidiaries in implementing the Restructuring Plan. The report shall identify any deviations from the Restructuring Targets and explain the rationale for these deviations, including an explanation of why such deviations do not jeopardize the Borrower’s long-term viability. The report shall also include evidence satisfactory to the President’s Designee that the following events have occurred:

1. Approval of the Labor Modifications by the members of the Unions;
2. Receipt of all necessary approvals of the VEBA Modifications other than regulatory and judicial approvals, provided that the Company must have filed and be diligently prosecuting applications for any necessary regulatory and judicial approvals; and

3. The commencement of an exchange offer to implement the Bond Exchange.

President's Designee Review/Certification: The President's Designee will review the Restructuring Plan Report and other materials submitted by the Company to determine whether the Company and its subsidiaries have taken all steps necessary to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries in accordance with its Restructuring Plan. If the President's Designee determines that these standards have been met, he will so certify (the "**Plan Completion Certification**") **Termination Event:** If the President's Designee has not issued the Plan Completion Certification by March 31, 2009 or such later date (not to exceed 30 days after March 31, 2009) as the President's Designee may specify (the "**Certification Deadline**"), the maturity of the Loan shall be automatically accelerated and any portion of the Loan Amount not invested in or loaned to the Borrower's principal financial subsidiaries shall become due and payable on the 30th day after the Certification Deadline, without any further action on the part of the Lender.

Reporting Requirements: In addition to the foregoing, the Loan Parties shall deliver to Lender the following periodic reports and certifications:

1. Weekly status report, commencing with the week of December 15, 2008, detailing the 13-week rolling cash forecast for the Company and its subsidiaries (on a consolidated and consolidating basis);
2. Bi-weekly liquidity status report, commencing with the second week following the Closing Date, detailing, with respect to the Company and its subsidiaries (on a consolidated and consolidating basis): (i) the current liquidity profile; (ii) expected liquidity needs; (iii) any material changes in their business since the date of the last status report; (iv) any transfer, sale, pledge or other disposition of any material asset since the date of the last status report; and (v) any changes to their capital structure.
3. Monthly certification that (i) the Expense Policy conforms to the requirements set forth herein; (ii) the Company and its subsidiaries are in compliance with the Expense Policy; and (iii) there have been no material amendments thereto or deviations therefrom other than those that have been disclosed to and approved by Lender.
4. Monthly certification that all Benefit Plans with respect to Senior Executive Officers are in compliance with Section 111(b) of the EESA; and
5. Certified copies of all publicly filed financial reports and auditors opinions.

Access to Information And Right to Audit: At all times while the Facility is in effect, the Borrower(s) and each of their direct and indirect subsidiaries shall permit the Lender and its agents, consultants, contractors and advisors, and the Special Inspector General of the Troubled Assets Relief Program, access to personnel and any books, papers, records or other data that may be relevant to the financial assistance, including compliance with the financing terms and conditions.

Representations And Warranties: As of each day the Facility is in place, the Loan Parties shall be deemed to make customary corporate and asset-level representations and warranties to Lender. In addition, with respect to Warrants currently issued to the UST and to be issued to the UST under the Facility as provided below, the Borrower(s) will represent and warrant to the UST that, as of the date of this Indicative Summary of Terms and each date any Warrants are delivered, (i) the Warrants have been duly authorized and constitute a valid and legally binding obligation of the Company enforceable against it in accordance with its terms; (ii) the shares of common stock issuable upon exercise of the Warrants (the “**Warrant Shares**”) have been duly authorized and reserved for issuance upon exercise of the Warrants, and when so issued in accordance with the terms of the Warrants will be validly issued, fully paid, and non-assessable; (iii) Loan Parties have the corporate power to enter into this Facility, to execute and deliver the related Facility documentation and the Warrants and to carry out its obligations hereunder and thereunder (which includes the issuance of the Warrants and Warrant Shares); (iv) the execution, delivery, and performance by Loan Parties of the Facility documents and the Warrants, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by all necessary corporate action on their respective parts, and no further approval or authorization is required on their respective parts; (v) each Facility document, when executed and delivered by the applicable Loan Parties and Lender, is a valid, binding and enforceable obligation of each such Loan Party.

Conditions Precedent to Closing: Closing of the Facility and the funding of the first Advance will be subject to, the satisfaction of customary conditions precedent, including but not limited to:

1. Execution of mutually satisfactory Facility documentation and completion of all conditions to funding contained therein;
2. Receipt of customary legal opinions from in-house, domestic and local foreign counsel to the Loan Parties acceptable to Lender including, but not limited to, security interest perfection, PTO filings and analogous foreign law opinions, general corporate matters and enforceability, and an Investment Company Act opinion;
3. Receipt of officer’s certificates and standard closing documents and certificates with respect to each Loan Party, each in a form acceptable to Lender;
4. The Lender’s interests in the Collateral shall be perfected in accordance with applicable law (except to the extent the interests will be perfected on a post-closing basis, as may be agreed to by the Lender) and all necessary waivers, amendments, approvals and consents to the pledge of such Collateral shall have been obtained;
5. With respect to Collateral on which Lender will have a first priority lien, evidence that all then-existing liens thereon have been released or will be released simultaneously with the funding of the first Advance;
6. With respect to Collateral on which Lender will have a lien of junior priority, an intercreditor agreement duly executed by the other

lienholders, in form and substance acceptable to Lender in its sole discretion;

7. With respect to any equity investments that constitute Collateral, receipt of approvals duly executed by the Loan Parties' applicable creditors consenting to the pledge of such equity investments, to the extent required;

8. With respect to any real property that constitutes Collateral, receipt of an environmental indemnity from the applicable Loan Party;

9. Receipt of approvals duly executed by the Guarantor(s)' applicable creditors consenting to the guaranty, to the extent required;

10. A waiver shall have been duly executed by the Loan Parties and each SEO and delivered to the UST releasing the UST from any claims that the Loan Parties and/or the SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI;

11. A waiver shall have been duly executed by each SEO and delivered to the Loan Parties (with a copy to the UST) releasing the Loan Parties from any claims the SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI;

12. A waiver shall have been duly executed by the Loan Parties and each Senior Employee and delivered to the UST releasing the UST from any claims that the Loan Parties and such Senior Employees may otherwise have as a result of the Loan Parties' failure to pay or accrue any bonus or incentive compensation as a result of the foregoing;

13. A waiver shall have been duly executed by each Senior Employee and delivered to the Loan Parties (with a copy to the UST) releasing the Loan Parties any claims that the SEOs may otherwise have as a result of the Loan Parties' failure to pay or accrue any bonus or incentive compensation as a result of the foregoing;

14. No material pending or threatened litigation not otherwise disclosed to and approved by Lender;

15. Payment of all fees and expenses due at the Closing Date;

16. Satisfaction of the additional conditions precedent set forth on Appendix A; and

17. Delivery or performance (to the satisfaction of the Lender) of all other conditions to closing and due diligence items that may be requested by the Lender.

Conditions Precedent to each Advance: The obligation of Lender to make each Advance (including the initial Advance) will be subject to the satisfaction of the following conditions precedent:

1. No unmatured Event of Default or Event of Default shall have occurred and be continuing; and
2. Other customary conditions precedent.

Covenants Unless waived by Lender, the Loan Parties shall be subject to customary covenants for this type of transaction (with certain exceptions to be mutually agreed), including, but not limited to the following negative covenants: (i) prohibition on redemption or buyback of any capital stock of the Company (other than pursuant to contracts existing as of December 2, 2008), (ii) restriction on transfer of assets, (iii) restriction on issuance of stock that would dilute the Warrants, (iv) negative pledge, (v) no fundamental change, (vi) limitation on transactions with affiliates, (vii) prohibitions on any dividends and distributions (or the economic equivalent) other than what is owed to unaffiliated entities pursuant to contract or law as of December 2, 2008, (viii) prompt notice of material adverse change with respect to any Loan Party, (ix) prohibition on creation of any new U.S. pension obligations until all U.S. pension plans maintained by the Company or any of its subsidiaries have been fully funded, and (x) such other covenants as may be deemed appropriate by Lender.

Financial Covenants: At all times, the Company must satisfy each of the financial covenants set forth on Appendix A.

Events of Default: Will include, but not be limited to each of the following events (as the same relates to each Loan Party):

1. Breach of representations, warranties or covenants or other terms and conditions of the Facility;
2. Default on any payment obligation under the Facility;
3. Bankruptcy/insolvency of any Borrower;
4. Going concern qualification with respect to any Borrower or any Guarantor in any correspondence from its accountants;
5. Change in control of any Borrower or any Guarantor;
6. Any Borrower's or any Guarantor's default under any other debt or prepayment obligations the outstanding principal balance of which equals or exceeds \$10 million;

7. Lender ceases to have a perfected first or junior (as applicable) security interest or ownership interest in any material portion of the Collateral;

8. Cross default to any other facility or arrangement between any Borrower or any Guarantor or any of their affiliates and Lender.

Upon the occurrence of any of the foregoing, Lender shall have the option to declare that an Event of Default has occurred, at which time the Facility will terminate and all amounts owing with respect to the Facility will be immediately due and payable without presentment, demand, protest or notice of any kind, all of which shall be waived by the Loan Parties; provided, however, it is understood and agreed that a bankruptcy or insolvency of any Loan Party shall be immediately deemed an automatic Event of Default without the need for Lender to declare it as such. Lender shall be entitled to any and all remedies pursuant to the Facility documents and applicable law, each of which shall be cumulative and in addition to every other remedy available to the Lender.

DIP Loan Conversion: Upon the filing of a voluntary or involuntary bankruptcy petition by or in respect of any Loan Party, Lender shall have the exclusive right, exercisable at its option, to convert this Facility into a debtor-in-possession facility in form and substance acceptable to Lender.

Joint and Several Liability: In the event of multiple Borrowers or Guarantors, such parties will be jointly and severally liable to Lender for all representations, warranties, covenants, obligations and liabilities of each of the Borrowers or Guarantors, as applicable, under the Facility. An unmatured Event of Default or an Event of Default of one party will be considered an unmatured Event of Default or an Event of Default by each party, and Lender shall have no obligation to proceed against one party before proceeding against the other party. Such parties shall waive any defense to their obligations under the Facility based upon or arising out of the disability or other defense or cessation of liability of one party versus the other. A party's subrogation claim arising from payments to Lender shall constitute a capital investment in another party subordinated to any claims of Lender, and equal to a ratable share of the equity interests in such party.

Summary of Warrant Terms

Warrant: Under the terms of the commitment, the UST will receive warrants to purchase common shares of the Company.

Exercise Price Per Share: The 15 day trailing average price determined as of December 2, 2008. The exercise price per share shall be subject to anti-dilution adjustments.

Amount: The total number of warrants will be equal to 20% of the Maximum Loan amount divided by the Exercise Price per Share, provided that the number of Warrants will be capped at 20% of the issued and outstanding common equity interests of the company, before giving effect to the exercise of the Warrants ("The Warrant Limit").

Additional Notes: In the event that the Warrant Limit reduces the number of Warrants

issuable to the UST, the UST will receive Additional Notes in an amount equal to 6.67% of the Maximum Loan Amount less a sum equal to one-third of the number of Warrants actually granted to the UST times the Exercise Price Per Share.

Term: Perpetual

Exercisability: Immediately exercisable, in whole or in part, at 100% of its issue price plus all accrued and unpaid dividends.

Transferability: The Warrants will not be subject to any contractual restrictions on transfer. The Company will file a shelf registration statement covering the Warrants and the Equity Interests underlying the Warrants as promptly as practicable after the date of the investment and, if necessary, shall take all action required to cause such shelf registration statement to be declared effective as soon as possible; provided, however, that if the Company is not subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act, it need not file a shelf registration statement unless and until it becomes subject to such requirements. The Company will also grant to the UST piggyback registration rights for the Warrants and the Warrant Shares and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrants and the Warrant Shares. The Company will apply for the listing of the Warrant Shares on the national exchange, if applicable, on which its Equity Interests are traded and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrants or the Warrant Shares.

Voting: Prior to the occurrence of a Termination Event or an Event of Default, the UST will agree not to exercise voting power with respect to any shares of Equity Interests of the Company issued to it upon exercise of the Warrants.

Consent: In the event that the Company does not have sufficient available authorized shares of Equity Interests to reserve for issuance upon exercise of the Warrants and/or equityholder approval is required for such issuance under applicable stock exchange rules, the Company will call a meeting of its equity holders as soon as practicable after the date of this investment to increase the number of authorized shares of Equity Interests and/or comply with such exchange rules, and to take any other measures deemed by the UST to be necessary to allow the exercise of Warrants into Equity Interests.

Substitution: In the event that the Company is not listed or traded at any time on a national securities exchange or securities association, or the consent of the Company's stockholders described above has not been received within 6 months after the issuance date of the Warrants, the Warrants will be exchangeable, at the option of the UST, for senior term debt or another economic instrument or security of the Company such that the UST is appropriately compensated for the value of the Warrants, as determined by the UST.

Optional Warrant Redemption: At any time after the aggregate outstanding Advances, with interest thereon at the applicable Interest Rate, fees, expenses, indemnities and other amounts due to Lender shall have been paid in full, the Company shall have the right to

repurchase any equity security of the Company held by the UST at fair market value or, if no recognized market for such securities exists at the time of prepayment, at the value attributed to such securities by an independent third party appraiser reasonably acceptable to Lender.

Private Companies: If the Company is privately held, in lieu of warrants, the UST will receive additional notes (“**Additional Notes**”) with the same priority and general terms as the facility, in an amount equal to 6.67% of the Maximum Loan Amount.

Other Terms

Fees and Expenses: The Loan Parties shall be responsible for any and all legal fees, due diligence and other out-of-pocket expenses incurred by or on behalf of the Lender in connection with this Facility, whether or not the Facility closes or funds.

Governing Law: Applicable Federal law (including conflicts of law rules), and in the absence of applicable Federal law, the law of the State of New York, without regard to conflict of laws doctrine applied in such state (other than Section 5-1401 of the New York General Obligations Law).

Not a Commitment: This term sheet is a summary of indicative terms and conditions purely for discussion purposes, does not constitute a commitment on the part of Lender and is not binding on Lender. All terms described herein are subject to due diligence satisfactory to Lender, receipt of all appropriate credit and other required internal and external approvals, final documentation satisfactory in form and substance to Lender and its legal counsel.

**Appendix A to Secured Bridge Loan Facility
Chrysler**

Additional Terms

Company:	Chrysler Holding LLC
Borrower(s):	The Company and any successor entities thereto.
Guarantor(s):	<p>CarCo Intermediate HoldCo I and all of its direct and indirect domestic subsidiaries, on a joint and several basis.</p> <p>To the extent permissible under existing agreements, FinCo Intermediate HoldCo LC and DaimlerChrysler Financial Services Americas LLC (the "Finance Companies") shall guarantee the Loan Amount up to \$2.0 billion. Any portion of the \$2.0 billion amount that cannot be guaranteed by Finance Companies shall be paid from distributions received by the Borrower from the Finance Companies.</p>
Closing Date:	December 29, 2008
Loan Amount:	Up to \$4.0 billion, available on the Closing Date.
Use of Funds:	The Borrower shall contribute the proceeds to Chrysler LLC simultaneously with the funding of Advances with respect thereto, to be used for general business purposes.
Expiration Date:	December 29, 2011 at 5:00 pm Washington, DC time.
Payment Date:	The last business day of each calendar quarter, commencing with the first calendar quarter in 2009.
LIBOR Floor:	2.00%
Spread Amount:	300 basis points; provided that upon the occurrence and during the continuance of an Event of Default, the Spread Amount shall be equal to 800 basis points.
Financial Covenants:	TBD
Additional Conditions Precedent:	The requisite majority of the holders of the Chrysler LLC first lien indebtedness and second lien indebtedness (under the Chrysler LLC First Lien Credit Agreement and Second Lien Credit Agreement) shall have consented in writing to the pledge to the Lender of the MOPAR Parts Inventory and the real estate collateral not mortgaged to such holders.
Due Diligence Items and Closing Checklist:	TBD
Collateral:	To the extent legally and contractually permissible, the applicable Loan Parties shall grant to Lender first-priority liens on all unencumbered assets, and junior liens on all encumbered assets. Notwithstanding anything herein to the contrary, the Loan Parties shall use their best efforts to obtain all necessary waivers, amendments, approvals, or consents, as the case may be, to enable the Loan Parties to grant any such lien to the Lender as security for their respective obligations under the Facility.
Relevant Companies:	Chrysler Holding LLC and Chrysler LLC

Source : Indicative Summary of Terms for Secured Term Loan Facility, December 19, 2008

Link : <http://www.treasury.gov/press/releases/hp1333.htm>

Annex D

An Overview of Debtor-In-Possession (DIP) Financing

DIP financing is generally financing arranged by a company while under the Chapter 11 bankruptcy process. DIP financing is unique from other financing methods in that it usually has priority over existing debt, equity and other claims.

The DIP lender typically will insist on a first-priority priming lien on the debtor's inventory, receivables, and cash (whether or not previously encumbered), a second lien on any other encumbered property, and a first-priority lien on all of the debtor's unencumbered property. A priming lien pushes the pre-existing lender down in the order of lien priority.

The current economic environment has made DIP financing difficult to obtain and very expensive. According to Thomson Reuters PLC "the number of new DIP loans was about 35% below the number issued during the economic downturn in 2002 and about 46% below the number issued in 2005." Additionally, they state, according to Bryan Marsal, co-founder of the turnaround firm Alvarez & Marsal, in mid-2007 DIP financing rates were the LIBOR plus 5% and are now sitting at LIBOR plus 11-12%.

The GC is offering the automobile manufacturers a rate of LIBOR plus 3%, a significant discount from the market rates. This could be viewed as a subsidy on the interest rate of 8-9%. The interest rate subsidy is comparable to the interest rate benefit offered under the US assistance package.