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# Congress of the United States

House of Representatives

Washington, DC 20515-1306

December 5, 2008

Chairman Frank, Ranking Member Bachus,

Thank you for holding this hearing today, and for providing this opportunity to thoughtfully engage the issue of a possible auto bailout.

I represent a district that is greatly invested in the auto industry. Illinois' 6th Congressional District is home to many auto company suppliers and, of course, dealers. We know what a vibrant domestic auto industry means to this country.

Frankly, we don't know what the other side of a bailout would look like for suppliers, dealers, and the auto companies as whole entities. We don't know, but we have been told that there is a great urgency, one that requires immediate action.

Today I offer a word of caution. We have seen this urgency before and it was just two months ago. The only way to keep our financial system and way of life from collapse, we were told, was to purchase \$700 billion worth of "troubled assets." It turns out that was not the case; the effort shifted focus and the asset purchase program never got off the ground as it was proposed.

It is my hope that the conversation before the committee today will move us away from the false choice of spending billions of taxpayer dollars or facing an economic free-fall following bankruptcy. Of course, these are not the only options. Given the extraordinary circumstances, a bankruptcy, or more appropriately a restructuring, does not have to take the form of the Congress pushing the auto companies out the door to go stand in front of a bankruptcy judge. Rather, a thoughtful restructuring that reestablishes a viable and competitive domestic auto industry primed for growth is an option that would insulate taxpayers and protect against traumatic economic uncertainty.

Today it is unclear whether all options and alternatives have been exhausted. This is most evident in that just two days ago – after the auto companies had submitted their "plans" – the UAW announced that it would allow the auto companies deferral of payments to their VEBA, and that the "jobs bank" would be eliminated. Further work is being done in the industry even after the UAW had said it had done enough.

There are still more steps that can be taken before we ask the taxpayers to shoulder the burdens of these auto companies. For example, why not replace some of the auto companies' VEBA debt obligations with equity stakes in the companies? We could eliminate some of the burdensome

debt and allow the UAW to benefit from the upside of any recovery. Cerberus has tremendous private resources; why is Cerberus not willing to push in more private capital to Chrysler?

If we proceed with a bailout, we run the ironic risk of further hampering the auto companies' ability to shed debt. In a restructuring effort, debt holders will likely be willing to take a haircut on their debt. They will take the haircut or won't get paid. With auto companies standing with the backing of the federal government, debt holders will not be so willing to negotiate down and instead will leave American taxpayers to absorb the cost. Additionally, the auto companies have expressed trepidation about defaulting on their current debt if the federal government were to insist on priority in debt repayment. Taxpayers absolutely should be afforded the right to be repaid first—of course, in a bailout scenario, without the taxpayers the subordinate debt holders would get nothing.

We have been told that urgency requires immediate action, but we seem to stumble from one week to another without a cohesive plan. Just two weeks ago the request was \$25 billion, and today it is \$34 billion. UAW concessions were being offered even after the auto companies submitted their "plans" to return to profitability. Private capital remains on the sidelines, and taxpayers are being asked to take a back seat to debt holders that might not otherwise get repaid.

So, I offer a word of caution today. In my view, we lack the clarity about the consequences of action or inaction, or some alternative action, to prudently act on behalf of the taxpayer. The last two months have shown us that even in extraordinary times, the sun continues to rise. To respond well to the urgent, a sense of clarity is required. We lack that now, but I look forward to the work ahead of us in restoring a stable economic foundation.

A handwritten signature in black ink, appearing to read 'P. Roskam', written over a horizontal line.

Peter J. Roskam  
Member of Congress