LEGISLATIVE DIGEST
HOUSE REPUBLICAN CONFERENCE | CHAIRMAN ADAM PUTNAM
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H.R. 7321 – Auto Industry Financing and Restructuring Act

EXECUTIVE SUMMARY

Representative Barney Frank (D-MA) introduced the Auto Industry Financing and Restructuring Act on December 10, 2008. It will be considered on the floor under a structured rule on December 10, 2008.

This legislation provides a $14 billion bridge loan to three U.S. auto manufacturers, and allows a Presidential designee to oversee the restructuring of the auto manufacturing industry to ensure they can achieve long-term financial viability. Each eligible manufacturer is required to submit a long-term restructuring plan to the President's designee no later than March 31, 2009. Loans made under this act are for seven years at an annual interest rate of five percent during the five year period beginning on the date of disbursement and nine percent for the following two years. The President's designee may choose to extend the term of the loan beyond 7 years. This bill also includes executive compensation limits and stock warrants for the Government.

Today, House Republican leaders proposed an alternative to this legislation. This plan would provide temporary government insurance rather than a taxpayer-funded bailout, and would also establish benchmarks and a timeline for restructuring of the auto industry. The benchmarks would include several UAW concessions and the companies' creditors would agree to a framework to reduce each company's indebtedness by at least one-third.

The Congressional Budget Office has not produced a cost estimate for this legislation as of December 10, 2008.

FLOOR SITUATION

H.R. 7321 was introduced by Representative Barney Frank (D-MA) on December 10, 2008. H.R. 7321 will be considered under a structured rule. The rule:

- Provides one hour of debate equally divided and controlled by the chairman and ranking minority member of the Committee on Financial Services.
- Waives all points of order against the bill and against its consideration.
- Provides that the bill shall be considered as read.
- Provides that the amendment printed in the Rules Committee report shall be in order if offered by Rep. LaTourette or his designee.
- Provides that the amendment made in order shall be considered as read, shall be separately debatable for 10 minutes equally divided and controlled by the proponent and an opponent, and shall not be subject to demand for a division of the question.
- Waives all points of order against the amendment printed in the report.
- Provides one motion to recommit with or without instructions.

H.R. 7321 is expected to be considered on the House floor on December 10, 2008.

BACKGROUND

The American automotive industry is currently facing severely unfavorable economic conditions. Specifically, consumer demand for U.S. automakers' products has decreased due to the recent credit crunch and economic downturn. Manufacturers, suppliers, dealers and consumers are all having difficulty finding credit. Additionally, increased foreign competition, steep labor and legacy costs, and strict Corporate Average Fuel Economy (CAFE) standards have contributed to the domestic automakers' troubles. The American auto industry (comprised chiefly of General Motors, Chrysler, and Ford) directly employs thousands of workers and supports millions of jobs in related industries. The Big Three domestic market share has declined from 70% in 1998 to 53% in 2008.

In December 2007, Congress authorized a $25 billion loan program for automakers and parts suppliers to produce more fuel efficient cars and light trucks as part of H.R. 6, the Energy Independence and Security Act of 2007 (Legislative Digest for H.R. 6). $7.5 billion in taxpayer funds needed to guarantee the $25 billion in low-interest loans was appropriated on September 20, 2008, with the enactment of the omnibus spending bill (P.L. 110-329).

The Big Three have requested large sums of government financial assistance to ensure their viability, and submitted financial plans to Congress on December 2, 2008. General Motors has indicated that the company could run out of money before January 2009, and says it needs $10 billion to remain viable through March 2009. Likewise, Chrysler says it needs around $4 billion and Ford has requested access to a federal line of credit in that event that the economy dramatically deteriorates. On December 5, 2008, the Labor Department announced that the U.S. unemployment rate is 6.7%, the highest rate in 15 years.

Today, House Republican leaders proposed an alternative to this legislation. This GOP plan would provide temporary government insurance rather than a taxpayer-funded bailout, and would also establish benchmarks and a timeline for restructuring of the auto industry. The benchmarks would include several UAW concessions and the companies' creditors would agree to a framework to reduce each company's indebtedness by at least one-third.

SUMMARY

Presidential Designee: The bill allows the President to designate one or more officers ("auto czar") from the Executive Branch to oversee the restructuring of the auto manufacturing industry to ensure they can achieve long-term financial viability. The designee has the authority to review and veto decisions made by eligible automotive manufacturers that are over $100 million.

Bridge Financing: This legislation would allow the President's designee to authorize and direct the disbursement of $14 billion in bridge loans to the three auto manufacturers who submitted restructuring plans to Congress on December 2, 2008. Funding for this bridge loan would come from money previously appropriated for the automobile industry to produce advanced technology vehicles in the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act for FY2009 (P.L. 110-329). The bill also authorizes such sums as are necessary to replenish the funds that had previously been made available to the Secretary of Energy. The amounts provided by the Act are designated as emergency funding.

Progress Assessment Measures: The President's designee is required to establish measures by January 1, 2009, for assessing the progress each eligible auto manufacturer has made toward restructuring. Each eligible auto manufacturer will be evaluated every 45 days beginning on the date that the President's designee establishes assessment measures.

Long-Term Restructuring Plans: Each eligible manufacturer is required to submit a long-term restructuring plan to the President's designee no later than March 31, 2009. The plan that is submitted by each auto manufacturer must be negotiated and agreed upon by the automobile manufacturer and other interested parties, including employees of the manufacturer, trade unions, creditors, suppliers, auto dealers, and shareholders. If an auto manufacturer fails to submit a negotiated plan that will help them achieve long-term viability, they will be required to repay the bridge loan within 30 days.

The restructuring plan should result in the repayment of all government financing; the ability to comply with applicable fuel efficiency and emissions requirements; the achievement of profitability, including repayment of financial assistance provided by this bill; efforts to rationalize costs, capitalization, and capacity with respect to manufacturing workforce, suppliers, and dealerships; proposals to restructure existing debt; and a product mix and cost structure that is competitive in the United States.

Upon plan approval, the President's Designee is authorized to provide long-term financial assistance to the auto manufacturers.

Terms and Conditions for Loans: Loans made under this act are for a minimum of seven years at an annual rate of interest five percent during the five year period beginning on the date of disbursement and nine percent for the remainder of the loan's duration. By accepting the loan, each auto manufacturer agrees to allow the President's designee to examine their financial records and other data that may be relevant to the financial assistance.

Taxpayer Protection: Auto firms receiving assistance under this legislation must provide warrants for the purchase of non-voting stock equal to 20% of the value of the loan. With common stock purchases limited to 20% of all outstanding common stock, any remainder will be preferred stock.

The President's designee will establish specific standards regarding executive compensation (including golden parachutes) and corporate governance for firms receiving assistance. No dividends will be paid out during the duration of government assistance. Additionally, while a loan is outstanding, the automobile manufacturer may not own or lease private passenger aircraft.

Oversight: The bill requires the Comptroller General (GAO) to continually oversee the activities and performance of the President's designee. The Comptroller General will report to Congress every 60 days on such oversight. The bill expands the duties of the Special Inspector General for the Troubled Asset Relief Program (TARP) to include oversight and investigations of the President Designee for the auto manufacturing industry.

Study: The bill requires auto manufacturers that receive financial assistance under this act to conduct an analysis of potential uses of excess production capacity to make vehicles for sale to public transit agencies. The Comptroller General of the United States must analyze these studies and provide reports to the Congress and the President's Designee.

AMENDMENT MADE IN ORDER UNDER THE RULE

Representative LaTourette (R-OH): The amendment requires that any lending assistance provided under the Troubled Asset Relief Program (TARP) or the Energy Independence and Security Act (EISA) to an insured depository institution shall report the amount of any increase or decrease in new lending attributed to the TARP or EISA assistance. If the institution cannot provide an accurate report, the institution shall report the total amounts of increase or decrease in overall new lending in its quarterly reports.

COST

The Congressional Budget Office (CBO) has not produced a cost estimate for H.R. 7321 as of December 10, 2008.

STAFF CONTACT

For questions or further information contact the Conference Policy Office at 6-2302.