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Biography

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Keith Hennessey

It's great to be back on Ask the White House. As I sit here on a brisk and windy 23 degree day in Washington, DC, I can hear Marine One taking off with the President. He's on his way to Walter Reed Army Medical Center to visit some of our injured troops and to thank them for their service.

I'd be happy to take your questions about last Friday's Presidential announcement on the auto industry, or any other current economic topics.

Brian, from **Doylestown, PA** writes:
Mr. Hennessey,Hi, What is the administration's plan to help the car companies? Thank you Happy holidays.

Keith Hennessey
I think I'll start with an easy one first. Thanks for the question, Brian.

Last Friday the Administration offered loans to the US auto manufacturers. GM and Chrysler agreed to take loans, for a total of up to $17.4 B.

These are, in effect, short-term loans. The firms have until March 31, 2009 to negotiate with their "stakeholders" (workers, creditors, dealers, and suppliers) on a restructured firm. If they can do that by March 31 of next year and demonstrate to the (next) Administration that they are a "viable" firm, then they can continue to use the loaned funds to operate.

If they cannot make the hard choices to restructure and become viable, they have to repay the loan in April of next year. We presume that, at that point, the firm would enter a bankruptcy restructuring under Chapter 11 of the bankruptcy code.

We define "viable" as: 1. The firm can pay back the loan. 2. The firm has a positive net present value, using reasonable assumptions. (In layman's terms, the firm has to be "worth something".

Cliff, from **Brimfield, Ohio** writes:
Director Hennessey: When it comes to the auto companies. You could flip a coin and get maybe a 5050 but many on the street say we should not have helped. How does one tell a guy who is working at McDonalds for $8 an hour. That we will use his tax money to bailout a group that makes several TIMES his hourly wage. I once read or heard that many of the auto workers are paid around 90 of their pay when they are not working or sent home. It's hard to swallow. If this was a car. The engine is knocking and smoking but we are going to supply enough money to put some gas in it. To get it off the highway before it dies. I sure hope this LOAN has some built in protections for the AMERICAN TAXPAYERS. Thank You and wish You, your family and staff a Very Merry Christmas and Happy New Year.

Keith Hennessey
Thanks for both the hard question and the warm Christmas wishes. Yes, we are putting taxpayer money at risk, and the President is acutely aware of that risk. He determined that the broader risk to the economy of not doing so was even greater. We're in a recession right now, and if these firms were to suddenly liquidate, our economists estimate that roughly another 1.1 million people would lose their jobs in the near future. That's a staggering number by itself, and there would be broader ramifications to the rest of America, and especially to that region of the country, if those firms were to shut down.

Nobody likes to be in this situation where we are faced with the option of massive economic damage from sudden liquidations, or putting hard-won taxpayer dollars on the line for loans to companies that are struggling to survive. So we done the best job we can to maximize the chance that both the loans will get paid back, and that the companies will emerge as viable firms that do not need ongoing taxpayer support.

On specifics, there are limitations on executive compensation that accompany these loans, as well as tougher conditions limiting bonuses than existed on prior loans from Treasury to banks. The auto manufacturers have to sell their corporate jets and can't issue or increase new dividends. And Treasury put their new loan as high in the queue as possible, so that if these firms do fail, they can maximize the funding the taxpayer gets back.

But let's be clear, we are putting taxpayer dollars at risk. We're doing that because the consequences of not doing so are even greater.

Kim, from **Kentucky** writes:
Hi Keith, I read the statement by the Press Secretary regarding the NY Times article that misrepresented the current financial crisis. In one portion of the White House response, it stated that the reason for the economic downturn was due to, "cheap money flowing into the U.S. from the rest of the world, so that there was no natural restraint on flush lenders to push loans on Americans in risky ways." What does that mean, exactly, and how did all of this affect the auto industry? Thanks and have a blessed holiday season

Keith Hennessey
As incomes in large developing countries (like China and India) begin to grow, they save a lot. This increases the amount of savings available (around the world) to be invested. When there's a lot of money to be invested, the price of that investing (the interest rate charged) comes down, in the US and around the world. It becomes inexpensive to borrow.

In general, that's a good thing. Lower interest rates allow more businesses to expand, and more families to be able to afford college loans, car loans, and home mortgages.

But this happened so dramatically that, when combined with innovations in the mortgage lending business, excesses developed. The mortgage lending industry started pushing loans to people that they clearly never should have been offered, because they'd never be able to afford paying them back.

As for problems in the auto industry, that's a different story that has little to do with the above described challenge.

Marla, from **Modesto, CA** writes:
My husband and I purchased a Tanning Salon/Vacation Travel Agency back in early 2007, things were looking good. We now struggle day to day to make the bills. I am wondering if you expect the economy to turn around fairly soon after the change of Presidency? We are sure that a change will turn around the economy but will it hit our end soon enough? Were just a small business but I want to know our Presidents are just as concerned about helping us turn our business around as they are about the big auto makers

Keith Hennessey
For eight years, the President's primary economic focus has been to keep the entire economy growing. We're in a recession now, and that hurts everyone, including small business owners like you and your

husband.

The secondary effects of a sudden failure of the US automakers are a big concern. The national unemployment rate is 6.7%, and if we were to lose 1.1 million more jobs from the failure of these companies, it could have a devastating impact on the US economy as a whole.

I can't predict exactly when the economy will turn around, but most private forecasters are not looking at the first quarter of 2009 as the turning point. More of them seem to be focusing on the second half of next year.

Paul, from **South Carolina** writes:
Why don't you provide the health benefits that the UAW workers have to the people of the United States? Could it be that it is too expensive and would break our countries economy? So why would you pay for the limited, UAW, benefits for those workers who, by their union representation, have raped the big three for years? P.S. just like his no new taxes father, another Bush republican blinked when those Democrats whined. God Bless America, or what will be left of it after the next 4 or 8 years.

Keith Hennessey
The loan the Administration gave to the automakers last Friday requires that the firms renegotiate contracts with the UAW and reach new agreements in the first quarter of 2009. The terms of the loan set out targets for compensation – "Reduction of the total amount of compensation, including wages and benefits, paid to their 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."

In other words, the firms are given a target for their negotiations which says that, by the end of next year, workers in the firms receiving loans (GM & Chrysler) are paid compensation that is competitive with that paid by the foreign manufacturers to US workers in their plants.

Sean, from **Orlando Florida** writes:
Why has the President given corporations billions of dollars without strings when these multinational entities can use this money to further their efforts to free themselves from American regulations? For that matter, why am I only allowed 1 question?

Keith Hennessey
I think technically that's two questions.

Let's look at the strings the auto companies must face for their loans. To get a loan, a US automaker: - Must restructure to have a positive net worth (technically "positive net present value using reasonable assumptions") by March 31, 2009. - Must provide warrants for non-voting stock. - Must comply with applicable Federal fuel efficiency and emissions requirements. - Must have the ability to begin making advanced technology vehicles. - Must allow the government to look at its books and records. - Must report any transaction >$100M. - Must limit executive compensation, bonuses, and golden parachutes. - Must disallow corporate jets. - Must not issue new dividends while the government loan is outstanding. - Must, to the extent possible by law, make the government loan senior.

Randall, from **Ohio** writes:
As I wrote to the President, Wouldn't it be a good idea to have a voucher program good for several thousand dollars off the purchase price of an american made car for all U.S. citizens that pay taxes? This would be an economice stimulous and insurace that the auto industry would have the ability to recover.

Keith Hennessey
The goal is to have viable US automakers that can survive and be profitable withOUT ongoing government support. For this to happen, these firms must be competitive with their overseas counterparts, and without subsidies.

So one of the goals of these loans was to structure them to be temporary. The taxpayer is, in effect, loaning the firms funds while they restructure to be competitive, and is giving the firms just over three months to do that. Beyond and after that, it's up to the firms and their workers, creditors, dealers, and suppliers. If they make the hard decisions to restructure to becom competitive and viable, then they can survive. If not, they'll have to go through a bankruptcy process to restructure.

Kim, from **Kentucky** writes:
Hi Keith, In most cases, failing businesses file bankruptcy,reorganize or just close down entirely. How does the bailout by the government help auto makers in this situation? What would happen if all U.S. auto manufacturers failed simultaneously? Thanks, and have a great day.

Keith Hennessey
The loans do two things: (1) they buy the firms time to restructure outside of bankruptcy, and (2) they buy the firms time to plan for an "orderly bankruptcy" process if the restructuring outside of bankruptcy fails.

Airlines go through bankruptcy fairly frequently. But an airline ticket is a "perishable good" – once you use it, you don't care if the airline is around. When you buy a car, however, you may be considering whether the company will be around over the next few years to fulfill your warranty, service your car, and sell you parts. There is therefore a concern that a bankruptcy filing for a US automaker could lead to a decline in sales that could further weaken the firm.

Most experts acknowledge that it's far better for these firms to restructure outside of bankruptcy, so they can avoid that risk. The hard part is whether that risk is so important that it's worth putting taxpayer funds at risk to provide a loan to allow that process to happen. The President's judgment was that the risk of a bankruptcy NOW leading to liquidation was too big, and the damage done to the broader economy of a liquidation was too great, to take that risk. This is reinforced by the fact that we're in a transition to a new Administration, and the President didn't think it would be right to leave his successor with the risk of a major US industry collapsing.

So he authorized the provision of these loans, but with a hard deadline of March 31 of 2009. We hope the firms will use these funds to restructure outside of bankruptcy, and we believe that if they make those hard choices, they can be successful again. If not, then that three month period will allow them time to prepare for an orderly bankruptcy process, that will maximize the chance of the firm successfully emerging from bankrutpcy.

If these firms were all to fail simultaneously, we would expect at least 1 million jobs to be lost suddenly, and probably 3/4 of a point to be knocked off next year's GDP growth.

Sharon, from **Annapolis, MD** writes:
Will the plan for the assistance to the auto industry require them to produce affordable, fuel efficient family cars? I would like to see automobiles produced by American companies that are designed to lower the emmissions into our atmosphere and are less dependent upon foreign oil. Is bio fuel in the future for the US auto industry?

Keith Hennessey
Here are two of the conditions of the loan. The firm must: - comply with applicable Federal fuel efficiency and emissions requirements, and - commence domestic manufacturing of advanced technology vehicles.

Keith Hennessey
Thanks everyone for some challenging questions!

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