

November 3, 2008

U.S. Rejects G.M.'s Call for Help in a Merger

By **BILL VLASIC** and **MICHELINE MAYNARD**

DETROIT — The Treasury Department has turned down a request by [General Motors](#) for up to \$10 billion to help finance the automaker's possible merger with [Chrysler](#), according to people close to the discussions.

Instead of providing new assistance, the Treasury Department told [G.M.](#) on Friday, the Bush administration will now shift its focus to speeding up the \$25 billion loan program for fuel-efficient vehicles approved by Congress in September and administered by the Energy Department.

Treasury officials were said to be reluctant to broaden the \$700 billion financial rescue program to include industrial companies or to play a part in a G.M.-Chrysler merger that could cost tens of thousands of jobs.

But it remained unclear whether the officials were also seeking to avoid making any decision that would conflict with the goals of a new presidential administration. The Democratic candidate, Senator [Barack Obama](#), has said in recent days that he supports increasing aid to the troubled auto companies, while Senator [John McCain](#) has not said whether he would support aid beyond the \$25 billion.

While G.M. and Chrysler continue to talk, no deal is expected until the government clarifies its role, if any. Potential investors in the deal have been hesitant to back the merger without federal assistance.

G.M.'s chairman, [Rick Wagoner](#), had lobbied Treasury Secretary [Henry M. Paulson Jr.](#) to provide emergency aid to the auto companies under the [bailout](#) program to stabilize the financial markets.

The Bush administration is still considering a range of options to aid the Detroit automakers, which are losing billions of dollars and rapidly depleting their cash reserves, said auto industry and administration officials, who did not want to be identified because of the sensitive nature of the discussions.

The first step is to get the Energy Department to expedite the release of the \$25 billion in low-interest loans for G.M., Chrysler and the [Ford Motor Company](#).

Beyond that, the administration is also bringing the Commerce Department into discussions about channeling additional aid to the automakers.

With auto sales deteriorating to their lowest level in 15 years, Detroit's traditional Big Three are struggling to stay solvent and avoid bankruptcy.

The deepening troubles led G.M. into merger talks in September with Chrysler's majority owner, the private equity firm Cerberus Capital Management, and the request to the Treasury Department for assistance.

Auto industry executives and analysts said over the weekend that the loan program is essential to retooling plants and developing vehicles that meet more stringent government fuel-economy mandates.

Getting the loans will allow G.M., [Ford](#) and Chrysler to redirect money already budgeted for cleaner cars to other capital needs.

"The auto companies are clearly running out of cash, and badly in need of more liquidity," said David Cole, chairman of the Center for Automotive Research in Ann Arbor, Mich. "Releasing the \$25 billion in loans is a necessary first step."

The Detroit companies employ more than 200,000 workers in the United States and provide health care and pensions to more than one million Americans. The companies are also a lifeline to thousands of dealers and countless suppliers.

Support for aiding the industry is growing among political leaders in states with heavy automotive employment. Last week, the governors of Michigan, Ohio, New York, Kentucky, Delaware and South Dakota wrote a letter to Mr. Paulson and the [Federal Reserve](#) chairman, [Ben S. Bernanke](#), urging "immediate action" to assist the industry.

"While all sectors of the economy are experiencing difficult times, the automotive industry is particularly challenged," the letter said. "As a result, the financial well-being of other major industries and millions of American citizens are at risk."

Cerberus, which bought Chrysler last year for \$7.4 billion, has been unable to reverse a steady decline in the fortunes at the company, the smallest of Detroit's Big Three. While overall auto sales in the United States are down 12.8 percent this year, Chrysler's sales have fallen 25 percent, mainly because of its focus on gas-guzzling sport utility vehicles and pick-up trucks.

Cerberus has had discussions with the Japanese automaker [Nissan Motor](#) and its French partner, Renault, about bringing Chrysler into their international automotive alliance. But people familiar with the discussions said Cerberus is now focused solely on a potential G.M. deal.

The depth of the Big Three's problems will become even more evident this week with the release of October sales figures and third-quarter earnings announcements by G.M. and Ford.

Industry sales fell 26.6 percent in September, but October's totals could be even worse. The auto research Web site Edmunds.com forecasts that sales of new vehicles during the month will drop nearly 30 percent from the same period last year.

[Copyright 2008 The New York Times Company](#)

[Privacy Policy](#) | [Search](#) | [Corrections](#) | [RSS](#) | [First Look](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)
