



GMAC may be most likely to need taxpayer help

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- * \$11.5 billion capital shortfall
 - * Fewer options than other lenders
- By Jonathan Stempel

NEW YORK, May 7 (Reuters) - GMAC LLC, the auto and mortgage lender, will likely be forced to seek more taxpayer help in its effort to raise \$11.5 billion of new capital following the government "stress test" of its balance sheet.

But unlike the nine other lenders that underwent similar tests and were deemed to require more capital -- only two of which, Bank of America Corp (BAC.N: Quote, Profile, Research, Stock Buzz) and Wells Fargo & Co (WFC.N: Quote, Profile, Research, Stock Buzz), need more than GMAC -- GMAC has few obvious ways to raise the sum it needs.

While it could convert preferred shares issued as part of a \$6 billion federal bailout in December, that would get it only about halfway to the target. GMAC became a bank holding company in connection with that bailout and a debt restructuring.

The capital shortfall adds to problems for Detroit-based GMAC, which has lost money in six of the last seven quarters as mortgage and other credit losses soar, while sales volume falls at former parent General Motors Corp (GM.N: Quote, Profile, Research, Stock Buzz). It has three major operations: auto finance, mortgage lending and insurance.

"GMAC's first option is to get more money from the government," said Van Conway, the president and a turnaround expert at Conway, MacKenzie and Dunleavy in Birmingham, Michigan.

"If that fails, it may have to dispose of more profitable units, and that means insurance," he added. "But if GMAC were to sell businesses, given market conditions, it would not be a good time."

GMAC, in a statement, said \$9.1 billion of the \$11.5 billion must be new Tier-1 capital. It did not say how it plans to raise the needed sums. The company declined to elaborate.

GMAC is the main source of financing for GM customers, and was once a major driver of the automaker's earnings before GM sold a majority stake to private equity firm Cerberus Capital Management LP [CBS.UL] and other investors in 2006.

Banks may cover any capital shortfalls through a mixture of asset sales, share sales, and perhaps the conversion of the government's preferred shares into equity stakes.

At yearend, GMAC had \$6.29 billion of preferred equity, including \$5 billion obtained from the government's Troubled Asset Relief Program, and \$1.29 billion from other investors.

GMAC's auto finance business will get a boost this month when it becomes the preferred lender to Chrysler customers as part of the Obama administration's agreement with that automaker, which is in bankruptcy.

The administration pledged to provide the capital GMAC needs to support the Chrysler business. GMAC would not have access to the \$1.5 billion of TARP money that Chrysler Financial got.

GMAC also has a profitable insurance business, which typically generates about two-fifths of overall revenue.

But its mortgage business, including Residential Capital LLC, has lost money for 10 straight quarters, and GMAC has said the survival of ResCap remains in doubt.

With the government hoping to refashion GM and Chrysler into smaller companies, preserve jobs and bolster the troubled economy, it may be in its interest to ensure GMAC survives.

There is a little more than \$100 billion remaining in the \$700 billion TARP fund, which Treasury Secretary Timothy Geithner could tap.

This could be supplemented as more lenders that are relatively healthy return their taxpayer money. Congress, in contrast, does not want to authorize more bailout money, and already faces a slew of unpopular spending requests, including a potential \$100 billion for the International Monetary Fund. (Reporting by Jonathan Stempel; Additional reporting by Poornima Gupta in Detroit, and Emily Kaiser and Glenn Somerville in Washington, D.C.; Editing by Phil Berlowitz).