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Statement by Jan A. Bertsch, Senior Vice President and Treasurer – Chrysler Group LLC, Before the Congressional Oversight Panel for the Troubled Asset Relief Program Field Hearing on the Automotive Industry Financing Program

July 26, 2009, Detroit - Members of the Panel, thank you for giving me the opportunity to discuss with you the financial assistance provided to the domestic auto industry, specifically to Chrysler LLC and to Chrysler Group LLC, under the Automotive Industry Finance Program (AIFP) component of the Troubled Asset Relief Program (TARP). My name is Jan Bertsch, and I am Senior Vice President and Treasurer of Chrysler Group LLC, a new company that purchased the principal operating assets of Chrysler LLC on June 10, 2009 in a sale authorized by the United States Bankruptcy Court of the Southern District of New York.

I would like to place my comments in context for the Panel by describing the series of events that culminated in the United States Department of the Treasury providing a secured loan to Chrysler Group LLC of approximately $7 billion on June 10, 2009 in connection with the closing of that sale.

Chrysler LLC (now, Old Carco LLC)

In the fall of 2008, the global credit crisis hit the domestic auto industry with full force. In effect, the credit markets stopped functioning normally and the availability of loans to both dealers and consumers became severely restricted. On December 2, 2008, Chrysler LLC (now known as “Old Carco LLC”) submitted a viability plan to Congress as part of its request for a $7 billion working capital bridge loan from the U.S. government. At that time, Old Carco indicated in its Congressional testimony that the availability of credit to automotive consumers and dealers was the single most important element of its viability.

On January 2, 2009, Old Carco received a $4 billion bridge loan from the United States Department of the Treasury. The terms of the loan required the company to submit a restructuring plan to achieve and sustain long-term viability, international competitiveness and energy efficiency. Old Carco submitted its restructuring plan on February 17, 2009 in the midst of continued credit market turmoil that had resulted in rejection of consumer loan applications and lost sales to dealers, which in turn led to reduced wholesale orders for vehicles and further vehicle production cuts. This chain of events had created a rapidly declining seasonally adjusted annual selling rate (SAAR) trend which directly and immediately reduced cash inflow in a manner that could not be addressed adequately through even the most aggressive restructuring actions. These market conditions led directly to a dramatic industry-wide decline in automotive sales.

Old Carco noted in its restructuring plan that although it believed that it could achieve viability on a standalone basis, it had signed a non-binding letter of intent for a strategic alliance with Fiat S.p.A. in January 2009, which alliance would greatly improve its long-term viability. The alliance was conditioned upon Old Carco meeting all restructuring targets set forth in its U.S. Treasury loan agreement, including achieving concessions from its key constituents (unions, lenders, dealers, suppliers and owners). The restructuring plan also noted that the alternative to either a standalone plan or a strategic alliance was liquidation, which at a minimum would result in tens of thousands of jobs lost at the company and its dealers across the country. The entire domestic auto industry was also at risk of collapsing, due to the already weak economy and the dependence of OEMs on common suppliers, which collapse would have burdened the country with enormous social and economic costs.

The President’s Auto Task Force (the “Task Force”), which was formed on February 20, 2009, participated in discussions with Old Carco, its advisors and key stakeholders – in particular with the UAW, the agent banks for the secured lenders, its majority owner, Cerberus, as well as with Fiat. Those discussions focused on achieving the concessions necessary for the long term viability of the company, consistent with the restructuring targets set forth in the UST loan agreement. On March 30, 2009, the Task Force concluded that Old Carco’s plan would not likely lead to viability on a standalone basis and that it needed a partner to be successful in the global automotive industry. It noted, however, that an alliance with Fiat could be the basis of a path to viability in that Fiat was prepared to transfer valuable technology to Old Carco and, after extensive consultation with the Obama Administration, had committed to building new fuel efficient cars and engines in U.S. factories. The Administration indicated that it would provide Old Carco with working capital for 30 days to conclude a definitive agreement with Fiat and secure the support of stakeholders, and, if successful, would provide a secured loan to fund the restructuring plan in order to help the alliance succeed as outlined in a revised term sheet between Old Carco and Fiat dated as of March 29, 2009.

Over the next 30 days the parties continued to work around the clock to avoid bankruptcy by securing stakeholder concessions and reaching agreement on the terms of a strategic alliance that would enable the company to preserve U.S. jobs , develop more fuel efficient vehicles and expand its sales in international markets. Since concessions by all key stakeholders could not be assured, the Task Force, Old Carco, the UAW, the VEBA, Cerberus and Fiat, and their respective legal and financial advisors also considered a bankruptcy alternative, what the lawyers refer to as a “363 sale” under the Bankruptcy Code.

Unfortunately, Old Carco’s secured lenders under its First Lien Credit Agreement did not agree to provide the requested concessions and Old Carco filed for bankruptcy on April 30, 2009. Fortunately, however, concessions were achieved with other key stakeholders that enabled Old Carco, Fiat, and Chrysler Group LLC (a newly formed subsidiary of Fiat) to enter into a Master Transaction Agreement dated as of April 30, 2009 (the “MTA”). The MTA called for Old Carco to transfer substantially all of its operating assets to Chrysler Group, for Chrysler Group to assume certain liabilities and pay Old Carco $2 billion in cash, and for Fiat to contribute to Chrysler Group access to competitive fuel-efficient vehicle platforms, certain technology, distribution capabilities in key growth markets and substantial cost saving opportunities. The MTA was conditioned upon, among other things, Bankruptcy Court approval, the U.S. Treasury providing a $7 billion credit facility, and GMAC providing financing to dealers and consumers. Those conditions were ultimately satisfied and the transaction closed on June 10, 2009.

The Panel has asked about the role of the U.S. Treasury and the Task Force in the process leading to the successful closing of the sale transaction. Throughout this process, members of the Task Force and personnel from U.S. Treasury and their external legal and financial advisors played a key role in facilitating negotiations between all parties, primarily, Old Carco, Fiat, the UAW, the CAW, and the VEBA, Cerberus and Daimler AG (as owners and second lien lenders), and the first lien lenders. It is my view that U.S. Treasury and the Task Force’s limited and targeted expenditure of taxpayer dollars in connection with Old Carco and Chrysler Group avoided a significant, and potentially more costly, disruption to the U.S. automotive industry and the U.S. economy. This limited and targeted approach is reflected not only in the structure and size of the bridge loan to Old Carco and the so-called “exit financing” provided to Chrysler Group, but also in the programs sponsored by U.S. Treasury for the benefit of automotive suppliers (receivables factoring program) and for the benefit of consumers (warranty protection program) earlier this year.

<u>Chrysler Group LLC (formerly, New CarCo Acquisition LLC)</u>

The Panel has also asked about the role of the U.S. Government as shareholder (or “Member” in limited liability company jargon) in Chrysler Group LLC. That role is established by the corporate governance provisions of Chrysler Group LLC’s Limited Liability Company Operating Agreement. The LLC Operating Agreement provides the Members with certain rights, including the right to designate individuals to serve on a nine member Board of Directors. A majority of the Board must be “independent” under NYSE rules. Fiat designates three Directors (one of whom must be independent), Canada designates one independent Director, VEBA designates one Director, and the U.S. Treasury designates three Directors (at least two of whom must be independent) who then designate a fourth independent Director. The Chairman is elected by the Board. The members of the Board have been designated and, as a matter of fact, are meeting this week in an extended session.

Each Director is entitled to one vote with respect to matters brought before the Board. Major Decisions require a majority vote of the Board, including at least one Fiat Director. Major Decisions include, among other things: a Chrysler Group IPO; a merger, business combination, consolidation, reorganization or transaction constituting a change of control; a sale, transfer or other disposition of a substantial portion of the assets of Chrysler Chrysler Group and its subsidiaries, taken as a whole; the opening or reopening of a major production facility; and a capital expenditure, investment or commitment in excess of $250 million.

In addition, certain actions require the affirmative vote of a majority of outstanding Membership Interests, such as repurchasing any Membership Interest from a Member; authorizing any new class of Membership Interests;

increasing the size of any Class of Membership Interests or issuing any new Membership Interests, other than as authorized under the LLC Operating Agreement; and changing Chrysler's independent auditors or materially change Chrysler's accounting policies.

Further, Chrysler Group is subject to extensive financial information reporting obligations to its Members, which will allow the U.S. Treasury to monitor the development, implementation, and modification of the company's business plan, its monthly performance against annual budget and financial projections for the remainder of the year, and its overall results of operations and financial condition on a quarterly and annual basis.

Finally, it is worth noting that both the company's LLC Operating Agreement and its First Lien Credit Agreement with the U.S. Treasury are geared toward measurable performance that will benefit the U.S. economy and therefore the U.S. taxpayer. For example, under the LLC Operating Agreement, Fiat can increase its ownership interest from 20% to 35% (by 5% increments for an aggregate increase of 15%) by achieving specified performance goals relating to technology, ecology and distribution designed to promote improved fuel efficiency, revenue growth from foreign sales, and U.S. based production. In addition, the First Lien Credit Agreement with U.S. Treasury requires that at least 40% of the company's sales volumes each year be manufactured in the United States and that the production volume of its U.S. manufacturing plants each year be equal to at least 90% of the production volume of Old Carco's plants in 2008.

With a significantly reduced cost structure and improved access to fuel efficient technology and international distribution channels, Chrysler Group will be in position to make good on the public's investment as the economy begins to recover and financing becomes available to dealers and consumers.

Thank you for the invitation to appear before you today. I look forward to your questions.

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