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GM Makes Big Bet With AmeriCredit Deal

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DETROIT ([TheStreet](#)) -- The opinions on whether or not **General Motors's** planned acquisition of auto lender **AmeriCredit** ([ACE](#)) for \$3.5 billion is a smart move run the gamut. In fact, about the only thing observers agree on is the deal is a classic risky proposition.

The skepticism makes sense: Why is a company that's still 61%-owned by the government paying a 24% premium -- in cash no less -- for a company that makes loans to people with questionable credit histories? Is it really wise for General Motors, which seems to finally be getting back on its feet, to make a return to the [subprime lending](#), especially when the economy's recovery isn't quite a done deal.

"I feel that they are making the same mistakes as before," Peter Kaufman, president of **Gordian Group LLC** told *TheStreet*, adding later: "The economy is going sideways, and if it goes down then it will bury GM."

But Pat O'Keefe, managing director of **O'Keefe & Associates Inc.**, a restructuring firm, is in the camp that sees the move as a logical step for General Motors.

"It should make GM more profitable," O'Keefe said. "GM had great success in the credit business until GMAC went into residential real estate."

Essentially it will all come down to the underwriting. GM needs to compete with **Toyota**([TM](#)) and **Ford Motor**([E](#)), which both have auto financing units, so not having its in-house operation is a disadvantage. AmeriCredit will fill a void previously occupied by GMAC Inc., which was renamed **Ally Financial Group** in May. Ally is still in recovery mode and remains majority-owned by the U.S. Treasury through its TARP program participation. GM currently owns less than a 7% stake in Ally, which still provides financing for the company as well as Chrysler. GM sold a 51% controlling stake in GMAC to a group led by buyout firm Cerberus Capital back in April 2006.

As long as underwriting standards are adhered to, auto lending could provide some much-needed growth for some banks. It's an area that's already giving some regional banks, such as **Fifth Third Bancorp**([FITC](#)) a pretty profit. As for the big money-center banks -- **Citigroup**([C](#)), **Wells Fargo**([WFC](#)) and **J.P. Morgan Chase**([JPM](#)) -- they are, in general, pulling back on their consumer finance businesses, so there's an opening for smaller lenders.

According to media reports, General Motors is planning to file for an initial public offering in mid-August, and it would presumably use the capital it raises to finance the acquisition and offset AmeriCredit's low credit rating. But the timing of when General Motors will actually make its return to the public markets is unclear. The AmeriCredit deal is expected to close in the fourth quarter.

O'Keefe thinks the expectation for General Motors to complete an IPO sometime in 2011 is probably off base. He believes the company needs a couple of more years at least before it will get a warm reception from the capital markets.

"I think the markets are still tight and GM still has a ways to go to show the market they have a business that is sustainable," he said. "They are in the show me stage right now. I don't think people are ready to jump in."

Sandra Mayerson, a bankruptcy attorney, at Squire, Sanders & Dempsey LLP agrees with Gordian Group's Kaufman that General Motors is making a wrong turn here.

"This is history repeating itself," she said. Mayerson views the transaction as an all-or-nothing proposition; it will either make General Motors a lot of money or hurt the company enormously.

"It will be interesting to see if GM learns from its mistakes," she said. "[O]r if this becomes GMAC all over again."

Mayerson also feels General Motors overpaid for the right to take this chance.

"If you have an all-cash deal, you usually get a discount on the premium or price," she explained. "[S]o it seems a little high."

AmeriCredit shares were up 11 cents at \$24.12 in midday action. The GM deal values the company at \$24.50 per share, a level the stock was trading at as recently as late April, when it reached a 52-week high of \$26.49.

--Written by Maria Woehr in New York.

<http://www.thestreet.com/print/story/10816054.html>