

## Chrysler could raise interest rate in trade talks

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Reuters

NEW YORK - Potential debt investors in Chrysler Group LLC may push for a higher interest rate on the US automaker's term loan to better offset business risks, people familiar with the matter said yesterday.

Chrysler's top executives held a conference call with potential lenders to address key questions about the terms of the \$US3.5 billion loan and additional details about the company's financial metrics, sources said.

It could not be immediately learned what was discussed on Thursday's call. But investors this week said the current rate may not adequately compensate lenders for the risks involved in investing in the company's loan.

Investors added that due to the large size of the loan Chrysler may have to raise the interest rate to make the deal more attractive to investors. One investor said the company could lift the interest rate on the loan to as much as 6.5 per cent to make it more attractive.

"You're paying back government debt and the company will generate negative free cash flow for the next year," another investor said this week.

The investor added that Chrysler is likely first to pay down the \$US4 billion trust note held by the healthcare trust affiliated with the United Auto Workers union, known as the Veba.

Chrysler is seeking the \$US3.5 billion term loan as part of a package refinance about \$US7.5 billion in government loans made during its historic 2009 bailout.

Chrysler, which is operated by Fiat SpA, declined to comment. Chief executive Sergio Marchionne said he intends to repay the loans from the United States and Canada by the end of June.

Analysts have said that Chrysler's vehicle lineup remains heavily skewed toward pickup trucks and SUVs at a time when fuel prices are on the rise. The company has few small car offerings now except for the Fiat 500, a new brand whose launch has been beset with delays.

"This looks like a very ambitious refinancing for a company that still has some major challenges in front of it," Conway Mackenzie consultant Fred Hubacker said.

Another investor who was shown the deal said given the large size of the loan, lenders did not feel pressed to rush in. "Worst case, they can always pick it up in the secondary," the investor said.

### Payback time

Chrysler and its larger US rival General Motors Co took a federal bailout at the height of the financial crisis in 2009 as auto sales collapsed and consumer credit dried up.

Chrysler was saddled with high-interest government loans, which bear interest rates from around 7 to 20 per cent.

The US Treasury took an equity stake in GM, which has halved in GM's blockbuster initial public offering last year.

Earlier Thursday, sources said the US Treasury would not start selling its remaining stake in GM until August at the earliest, due in part to the stock's lacklustre share performance.

On May 4, Marchionne met with bankers and other investors to kick off its effort to raise \$US6 billion in a term loan and bonds to repay the government debt. The refinancing would put the automaker on a firmer financial footing, ahead of a potential IPO that could come later this year.

The \$US3.5 billion term loan is led by Morgan Stanley. Bank of America Merrill Lynch, Citigroup and Goldman Sachs are to the right of Morgan Stanley.

The \$US2.5 billion second-line bond deal is led by Bank of America Merrill Lynch.

Chrysler also plans to use about \$US1.27 billion in cash from Fiat to help repay the loans. Chrysler is also seeking a \$US1.5 billion revolving line of credit that will not be used to pay back the government.

Goldman Sachs is Chrysler's financial adviser.

Morgan Stanley, the lead agent bank on the deal, has been marketing the loan at four percentage points to 4.25 percentage points above Libor with a 1.25 per cent Libor floor, along with a discount of 99 to 99.5 cents on the dollar.

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