Ford took $6B government loan in 2009 — and debt still haunts company

- Tesla borrowed money from Saudi Arabia and George Soros to pay off their loan

Phoebe Wall Howard, Detroit Free Press

More than a decade after the last economic crisis, Ford Motor Company is still paying down a fat government loan created by Congress at the start of the Great Recession to aid automakers with factory projects.

Critics at the time focused on General Motors and Chrysler, each declaring bankruptcy and accepting government bailout loans through the U.S. Treasury Department's Troubled Asset Relief Program (TARP) to reorganize during the auto crisis that hammered the industry between 2008 and 2010.
Meanwhile, Ford took a different path.

But in the end, it accepted a government loan, too.

The debt remains on Ford books today as the company navigates a pandemic.

In September 2009, Ford entered into an agreement with the Department of Energy and borrowed $5.9 billion as part of a loan program created to finance automotive projects designed to help vehicles built in the U.S. meet higher mileage requirements and lessen U.S. dependence on foreign oil.

The company is one of three auto recipients currently listed on the Advanced Technology Vehicles Manufacturing (ATVM) loan program site.

While critics of government assistance, including Ford executives, still focus on the government bailouts, few have mentioned in recent years the loan program that handed out money during the same time period explicitly to shore up automakers.

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Then-CEO Alan Mulally is praised for having the foresight to mortgage everything just prior to that crisis, including the Blue Oval, because Ford was in trouble before anyone else and took action before anyone else.

More: Ford Fiesta, Focus owners could get thousands of dollars apiece, lawyers predict

More: Ford counts its cash amid pandemic after $70M exec pay exceeds company's profit in 2019

Ford, Nissan and Tesla are listed as loan recipients of a program that had strict financial solvency requirements to qualify. Nissan was awarded $1.6 billion for its Tennessee operations.Tesla garnered $465 million for California operations

Both Tesla and Nissan had fully repaid their loans as of September 2017, according to CNBC. Ford had not.

While Tesla stock surges, Ford is furiously working to shore up its financials.

The loan plus interest creates an additional burden for Ford as cash supplies shrink.

"As of December 31, 2019, an aggregate $1.5 billion was outstanding," Ford disclosed in its most recent 10-K filing with the U.S. Securities and Exchange Commission. "The ATVM loan is repayable in quarterly installments of $148 million, which began in September 2012 and will end in June 2022."

Documents filed by Ford show the company owes payments of $591 million in 2020, $591 million in 2021 and $289 million in 2022.

"They'll have to come up with a way to pay, otherwise they'll ultimately pay more for the privilege of borrowing," said Charles Elson, director of the Weinberg Center for Corporate Governance at the University of Delaware. "This is the sort of thing that keeps people up at night. This is a 3 o'clock in the morning problem for the management team."

Dark days

During good times, automotive analysts said, Ford could have socked away money and paid off debt in anticipation of bad times. That didn't happen.

"This is now very unpleasant and very difficult," said Elson, whose public policy school is named for John Weinberg, Ford's banker for years.

Charles Elson, a professor of corporate governance at the University of Delaware, speaks at a New York conference hosted by CNBC's Jim Cramer in May 2016.

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In applying for the loan, Ford said the money would be spent to upgrade 13 facilities in Michigan, Illinois, Kentucky, Missouri, New York and Ohio — "resulting in state-of-the-art assembly and manufacturing plants" with flexibility to build fuel-efficient vehicles that meet changing demands.

The government site notes that "Ford updated several facilities to continue improving fuel efficiency in more than a dozen popular vehicles, including the Escape, Fiesta, Focus, Fusion and Taurus car models, as well as the F-150 light-duty truck."

On a side note, the Fiesta has always been built in Mexico. Production of the Fiesta, Focus, Taurus and Fusion will have been discontinued by the end of 2020. The company this year settled a class-action lawsuit involving a defective transmission in its Focus and Fiesta vehicles.

Ford is praised on the government website for its "commitment to introducing new hybrid, plug-in hybrid and all-electric vehicles."

Chump change

Ford says the government debt payments are "relatively small" and cause no alarm.

"The loan matures in June 2022. We plan to pay off the loan in full and on time," T. R. Reid, Ford spokesman, told the Free Press on Tuesday. "At the end of Q1, the principal balance was $1.3 billion."

When asked whether Ford had requested deferral of its loan payments, Reid said additional information would be revealed in upcoming regulatory filings.

$5 billion bruise

Ford isn't alone in the struggle, but it entered 2020 reporting a much smaller-than-expected profit than its competitors. Executives said they were disappointed and promised to do better.

The Ford earnings report for the first three months of 2020 reflected a $2 billion loss, which was mostly unrelated to COVID-19. Ford later warned Wall Street to expect a $5 billion loss in the second quarter, reflecting the impact of shuttering factories between March and May.

Tim Stone, chief financial officer at Ford, has said the company believes it has enough money to get through 2020. Ford reported in April that it had $34 billion in cash on hand and $35 billion in liquidity at the end of the first quarter.

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Ford this month went back to the banks to seek extension on $5.35 billion in loans from banks including J.P. Morgan Chase.

"The company is looking to complete the extension ahead of its earning call on July 30," according to Reuters. "They want to be prepared so they can say something good. That they were able to extend the liquidity another year."

More: [Analyst says Ford needs to 'rip the Band-Aid off' after $2B loss: What he means]

Cash flow, or liquidity, is a lifeline during crisis.

On March 19, Ford announced that it was borrowing $15.4 billion against two lines of credit. The company also withdrew guidance for its financial performance because of unpredictable circumstances.

"Ford Motor Company is taking a series of initiatives to further bolster the company’s cash position amid the coronavirus health crisis," the company said at the time.

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Still, the costs associated with renegotiating financial deals are not trivial, said professor Kara Bruce at the University of Toledo College of Law, who specializes in bankruptcy and commercial law.

"I can tell you, when a company is negotiating with its creditors, the bankruptcy alternative is at the forefront of those discussions," she said. "Dealing outside of bankruptcy offers parties a lot of control they don't always have in bankruptcy."

Ford CEO James Hackett and President Donald Trump during a meeting with automotive executives in the White House, Friday, May 11, 2018, in Washington.

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Ford CEO Jim Hackett released a statement, “Like we did in the Great Recession, Ford is managing through the coronavirus crisis in a way that safeguards our business. ... We plan to emerge from this crisis as a stronger company.”

Meanwhile, Ford has declined to discuss financial details when asked during two of its recent meetings hosted by prominent banks.

"Ford is in the final days of a scramble mode — paying one credit card with another credit card until the gig is up," said market analyst Jon Gabrielsen.

One of the nation's top bankruptcy lawyers, whose firm prohibited him from being named because it works with the auto industry, said Ford's "substantial losses are cause for concern."

Grim reality

Still, candor isn't always an option, said John McElroy, longtime industry observer and host of "Autoline After Hours."

"Even though things are really tough, you've got to say, 'We're going to come out of this and be OK,' " he said. "To come out and say, 'Man, we're in deep trouble,' — the financial markets would go crazy. Suppliers would start to worry. Employees would be demoralized. It's a real tightrope to tell the truth without setting everybody's hair on fire."

Recent borrowing has signaled a grim reality, however.

"At the very beginning of the pandemic, when General Motors and Ford announced how much money they were going to borrow, it set off alarm bells in my mind," McElroy said. "It was obvious they expected financial devastation in the marketplace and went to get money to carry them through. Now, just recently, we've seen Ford go back to the banks and ask them for another year before they have to pay that money back. So, clearly Ford believes the situation is worse now than what it thought three months ago."

More: Ford dividend cut a sign of more coronavirus troubles ahead

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No question, Ford is under scrutiny.

"This will be a difficult earnings report for Ford," said David Kudla, CEO and chief investment strategist with Mainstay Capital Management, a Grand Blanc investment adviser who manages $2.7 billion in assets for clients who include many Ford employees.

Mainstay Capital Management's CEO David Kudla at the New York Stock Exchange to ring the closing bell in January 2020.

Mainstay Capital Management's CEO David Kudla at the New York Stock Exchange to ring the closing bell in January 2020. (Photo: Nicole Pereira, NYSE)

"Ford was in trouble when times were booming," McElroy said.

Keep hope alive

Dire predictions about Ford are premature, Reid said.

"People who follow us closely know Ford’s balance sheet was consciously strong leading up to the pandemic," he said. "That cash and liquidity, together with additional cash management and preservation and cost reductions, is why we’re able to both manage through the crisis and strategically invest in Ford’s future."

Ford is not worried, Reid said.

"We had financial flexibility in 2008 and have deliberately managed the balance sheet since then so that we’re well prepared for economic downturns — including this one," he said.

Report: Ford using government-backed loans to pay off debt

Sam Abuelsamid

Ford was the only one of Detroit's three automakers able to avoid taking a direct government bailout in 2009 to bypass bankruptcy. However, that doesn't mean it hasn't been able to benefit from some government largess.

Back in 2006 before the credit markets collapsed, Ford essentially mortgaged every facility it had in order to borrow $23.5 billion. That money was used to provide operating cash flow that General Motors and Chrysler didn't have when things went south in 2008. The money allowed Ford to keep the lights on, but it also saddled the company with the debt service payments of $ 318 per vehicle in the second quarter of this year.

Rather than direct bailouts, Ford has been able to take advantage of several government-backed low interest loan programs like the Advanced Technology Vehicle Manufacturing program run by the Department of Energy to fund new vehicle development and factory retooling. Ford is also getting tax breaks and low interest loans from various states as well as other countries like the UK and Russia. At the same time, it has used profits earned in the past year to pay down higher interest debt earlier than planned. In doing so, Ford hopes to get back from junk bond status to investment grade by late 2011 or early 2012.

[Source: Wall Street Journal]

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