

McTevia analyzes effect of GM bankruptcy on suppliers for Booth Newspapers

GM's expected bankruptcy filing Monday likely will trigger string of Michigan auto supplier bankruptcies

By Rick Haglund | Detroit Bureau

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DETROIT -- Michigan is bracing for a tough few months as General Motors Corp. puts the final touches on its Chapter 11 bankruptcy filing.

Major Michigan suppliers Visteon Corp. and Metaldyne Corp. filed for their own Chapter 11 bankruptcy reorganization Thursday in what experts say could be the first of a long list in the coming months.

"It's going to be a very hard summer if GM does go into bankruptcy," Gov. Jennifer Granholm said during a conference on Mackinac Island.

Combined with critically low auto sales, a GM bankruptcy is likely to push more major suppliers into their own filing, one supplier expert said.

"I think you're going to see a dozen or more publicly traded tier-one suppliers file for Chapter 11 in the next 90 to 120 days," said Craig Fitzgerald, an auto-supplier consultant at Plante & Moran in Southfield.

Suppliers face trouble in a GM bankruptcy because the automaker will seek court permission to reduce payments to many of them for parts already produced, experts said. That likely will trigger loan agreement defaults with lenders, forcing these suppliers to file for bankruptcy.

Ripples of woe already washed over three West Michigan suppliers Thursday, named among the top 30 unsecured creditors for Visteon or Metaldyne.

Visteon's largest local creditors are Brown Corp. in Ionia, for \$1.9 million, and Leon Plastics, at 4901 Clay Ave. SW in Grand Rapids, who is owed \$1.07 million.

In Big Rapids, Metaldyne owes \$439,000 to Big Rapids Products Inc.

A substantially longer, and deeper, list would hit West Michigan suppliers in the wake of a GM default.

A Chapter 11 filing by GM became all but assured Thursday when it agreed to sweeten a deal with bondholders if they agreed not to challenge its restructuring in bankruptcy.

Major bondholders accepted GM's plan to give them as much as 25 percent ownership in the "new GM" that would emerge from bankruptcy.

Initially, bondholders would get 10 percent of the shares in the new company. The U.S. Treasury would get a 72.5 percent ownership share, while the United Auto Workers union retiree health care trust would own 17.5 percent of the new company.

Remaining bondholders, many of them individuals who bought GM bonds as retirement investments, have until 5 p.m. Saturday to accept GM's offer.

Regardless of the outcome, GM is expected to head into bankruptcy court Monday, as part of the restructuring deadline set by President Barack Obama's administration.

That bankruptcy, combined with the lowest level of car sales in more than 25 years, likely will result in a domino-effect series of bankruptcies or shutdowns for hundreds of suppliers, experts say.

"It'll be exponential," said Derek Witte, a bankruptcy law professor at the Grand Rapids campus of Thomas Cooley Law School. "GM's bankruptcy will trigger tier-one (supplier) bankruptcies, which will trigger bankruptcies in the lower tiers.

"When it gets down to toolmakers and tier fours, many of them will just close their door and we'll never even hear about them," he said.

Suppliers considered essential to the operation of GM likely will fare better and continue to get paid during the bankruptcy.

But Alan Baum, an analyst at The Planning Edge in Birmingham, said GM is likely to slash the size of its supplier base in bankruptcy, much like it is doing with its dealer network.

"For a number of suppliers, this could be the death knell," Baum said. He believes hundreds of direct suppliers could be eliminated.

"You're going to have a thinning-out of suppliers," agreed James McTevia, a corporate-turnaround specialist in Bingham Farms. "I think it's necessary."

The coming months will be painful not only for the suppliers but the state.

Michigan's economy is likely to shed 13,000 jobs this year, even if GM and Chrysler LLC quickly reorganize in bankruptcy court, according to an estimate by the Center for Automotive Research in Ann Arbor.

Labor Secretary Hilda Solis, Commerce Secretary Gary Locke and Ed Montgomery, the Obama administration's director of recovery for auto communities and workers, announced Thursday they will be in Michigan next week to discuss federal recovery efforts for communities affected by the Chrysler and GM's bankruptcies.

Solis and Montgomery will visit Romulus and Ypsilanti on Tuesday. Locke will be in Lansing on Wednesday.