

GM, Ford `On the Verge of Bankruptcy,'

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GM, Ford `On the Verge of Bankruptcy,' Altman Says (Update2)

By Greg Miles and Caroline Salas

July 22 (Bloomberg) — [General Motors Corp.](#) and [Ford Motor Co.](#), the two biggest U.S. automakers, have about a 46 percent chance of default within five years, according to [Edward Altman](#), a finance professor at New York University's Stern School of Business.

"Both are in very serious shape and the markets reflect that," Altman, the creator of the Z-score mathematical formula that measures bankruptcy risk, said in an interview with Bloomberg Television. The model shows that these companies are "on the verge of bankruptcy," he said.

The [Z-scores](#) for GM and Ford give both a bond rating equivalent to a CCC ranking, though GM is in slightly [worse](#) condition than Ford, Altman said. GM reported a \$38.7 billion loss in 2007, the biggest in its 100-year history, and hasn't posted a profit since 2004. The scores are based on the companies' finances at the end of the first quarter.

Moody's Investors Service said July 15 it may cut GM's Caa1 senior unsecured debt [rating](#) because the Detroit-based automaker's plan to raise at least \$15 billion by suspending its dividend, cutting management payroll by 20 percent and selling assets may not be enough to offset losses. Standard & Poor's also said in June it may lower GM's B rating. Altman said the plan to raise \$15 billion may improve GM's outlook.

Ford, based in Dearborn, Michigan, is [rated](#) Caa1 by Moody's and B by S&P, which said in June that Ford's rating may also be cut.

Ability to Refinance

"The thing that triggers a default in almost all cases is running out of cash and not being able to refinance," Altman said in an interview prior to his television appearance. "You're not going to go bankrupt as long as you can refinance short-term [liabilities](#). You will go bankrupt if you can't."

In 2005, Altman said GM had a 47 percent chance of default within five years.

GM Chief Executive Officer [Rick Wagoner](#) said in an interview July 15 that the company has the ability to raise cash, and he called bankruptcy "a bad idea." Ford has said it had access to \$40.6 billion in funds as of March 31, including credit lines.

GM's \$3 billion of 8.375 percent bonds due in 2033 rose 0.5 cent today to 58.5 cents, according to Trace, the bond-price reporting system of the Financial Industry Regulatory Authority. The debt yields 14.6 percent, or 994 basis points more than similar-maturity Treasuries. A basis point is 0.01 percentage point.

"I would not put money with GM right now because the downside is so great relative to the upside, relative to the yield," said Altman, speaking in New York. "Your downside is probably 60 percent on the debt. The risk reward ratio is pretty poor."

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