

**Prepared Remarks of John W. Snow
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Before the Detroit Economic Club**

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I want to thank Keith Crain for that very kind introduction. It is good to be back in Detroit. I have many warm memories of my long association with this city going back nearly 60 years. When you grow up in Toledo as I did, coming to the big city of Detroit was a great treat. I grew up listening to WJR, the Voice of the Great Lakes. I am delighted to renew these close ties and for the opportunity to address you again today. Being in Detroit is always like coming home to me.

This is my third address to the Detroit Economic Club. The first was on my second week on the job as Treasury Secretary. On that occasion, I spoke about how the economy needed a strong shot in the arm, with pro-growth policies to get things moving again. When I was here in 2005, I was able to talk about the remarkable economic turnaround that was in progress, and fortunately this has continued for most of America. However, I recognize that Michigan faces special challenges, and my hope is that the recent Chrysler announcement will serve as a boost for the company, the industry and the entire state of Michigan.

Now, back in private life, I'm very excited to be part of another homecoming to Detroit — the return of Chrysler to American ownership. I am pleased to be able to talk to you today about what this means to the North American automotive industry. I also want to share with you my views on the growing role of private investment in the economy, as well as my thoughts on the economic outlook for the rest of 2007.

Let me begin by telling you a bit about Cerberus and the growing role of private investment. Cerberus is one of the world's leading private investment firms with approximately \$26 billion under management. Our investors are primarily made up of pension plans, charitable endowments, insurance companies, and other long-term savings and retirement programs, including many state pension funds. Our investors represent a broad snapshot of working Americans.

Another reason I'm so pleased to be involved with a firm like Cerberus is because it's right in the middle of the growing and positive role that private investment is playing in revitalizing the economy. Carpenters fix up old houses and rebuild them. Likewise, Cerberus fixes up underperforming companies and rebuilds them. Our entire focus is on improving the performance of the companies we buy. We bring real operational expertise to bear on our investments, with a cadre of over 150 seasoned executives who are able to provide a wealth of advice, as well as supplement management teams to produce superior results. We do this patiently, taking a long-term view on our investments. Unlike many purely private equity firms, Cerberus does not invest with an exit strategy in mind. We invest with a "buy, build and hold" strategy.

I've now had the opportunity to observe first hand how private equity investing is in many cases the right prescription for success where other forms of ownership have failed to produce good results.

For example, companies frequently are forced into the trap of focusing on the next quarterly report, and making short-sighted decisions to boost earnings now, at the expense of investing in the long term health of the enterprise. It's a trap that can be hard to get out of, as the stock market pushes for quick results and immediate fixes. Sound, long term strategy loses out. It can be like running on a treadmill that doesn't stop.

The prescription we offer is patient capital. Because our investors - pension funds, state teachers' retirement programs – have a long investment horizon, we can afford to have the long view...to do things right. We can provide freedom from the short-term-itis caused by the vicious

cycle of quarterly results. We can take the time to invest in a strategy that may take a couple years, rather than a couple of months, to come to fruition.

Some of the companies we buy can also suffer from being an unrequited stepchild of a larger corporate parent, perhaps from being swept up in another merger or acquisition. The company can become starved for attention and capital investment, or perhaps serve merely as a cash cow for other unrelated corporate activities. Sometimes they are weighed down by the needs of the parent...like GMAC. Sometimes they are the product of a merger that didn't realize full potential, like Chrysler.

The solution we offer these companies is freedom. We can free a company to focus on what it does best, and provide them with resources to do it. For a starved enterprise with a sound strategy, we can offer much needed investment in products and people, freeing captured value. We are able to inject equity directly, and also efficiently raise capital in the debt markets.

Now sometimes people think of "debt" or leverage as bad. In reality, corporate debt and equity are flip sides of the same coin. Both represent positive investments that can create jobs. Debt represents the confidence of the bond markets—people don't lend money if they don't have the expectation of a positive return. Either way, we address underinvestment. Many of our investments like Chrysler, for example, actually de-leverage the balance sheet.

We are an active parent—we pay attention, sit on boards, and offer expertise and solutions reflecting a wealth of experience. In many ways, we're like a coach, crafting a winning team out of a group of bright prospects that lacked only the right equipment and guidance to succeed. Some companies hold assets with terrific potential, but lack the right strategy for getting the most value out of those assets.

We bring a fresh set of eyes. We have a roster of the best of the best; a full-time, world class management team that knows how to improve operations. Turning things around requires ingenuity. It requires trying different things; taking intelligent risks. It requires asking questions that, in many cases, haven't been asked before. We break the mold and find new ways to do things that are better than they've been done in the past. We often see things that those who have been too close to a company for too long have not recognized.

But the real spice in this recipe is the ability to offer the right kind of incentives. We can offer powerful incentives to focus and align owners, managers and workers toward one goal -- making the company viable again, and thereby more valuable.

Private investment is no magic elixir. But it is also more than just a flavor of the month. I believe it offers simply the best hope for restoring competitiveness to sectors of the U.S. economy that need it most. And stronger, growing companies are the best way I know of to provide job security, increase employment, raise living standards – and keep America's economy strong.

While still small by comparison with the size of public equity markets, private equity is transforming the way capital markets operate, claiming more and more of global merger and acquisition activity. In the process, it is improving the efficiency and productivity of businesses everywhere, adding a new forceful element of innovation and vitality to business enterprises here and abroad. Private equity has been instrumental in returning many underperforming companies to financial health and competitive vigor, to the benefit of their employees, suppliers and the communities in which they operate.

The development of private equity is another chapter in the continuing evolution of competitive market economies, the latest manifestation of market economies' singular capacity to continuously innovate. The large pools of capital directed by private equity make our capital markets more efficient, providing higher returns for millions of average citizens whose pensions invest in private equity funds; and importantly making the real economy – the performance of

business enterprise – more productive and more competitive. Private investment today is a powerful force shaping global economic activity and driving businesses to higher levels of performance and productivity.

America's prosperity depends on well-functioning business enterprises that innovate and invest in new technologies. These are the enterprises that create the products we desire and the jobs that drive prosperity. Well-functioning businesses are the key to economic success and private equity is a vital force in promoting competitive and productive business behavior. Private equity is continually raising the bar, keeping public companies on their toes and helping underperforming companies to improve.

Over twenty-five years ago, when Chrysler faced bankruptcy, it turned to the United States government for assistance. Today, Chrysler again faces new financial challenges. But it is private investment stepping in to inject much needed support. That speaks volumes for the transformation of our economy. Private equity was virtually unheard of at that time. Now, Cerberus has the opportunity to use the tremendous financial innovation of private investment to turn Chrysler around, to restore it to financial success, and to help it be a continuing source of good jobs for many Americans, as well as great products for American consumers.

Chrysler is a company with some of the best brand names in the world. It's also a company with a dedicated workforce, a talented management team, and a sound, long-term, turn-around plan. We firmly believe in Chrysler becoming a strong American car company again. We're betting on Chrysler, its workers, and its leadership. And we're betting on America. The idea of America without a strong auto industry is unthinkable. It's the cornerstone of the American manufacturing sector. No other industry has such far reaching effects on the American economy. No other industry so well defines and enables the American spirit of individual freedom.

That is why I was so pleased and proud to have been part of the historic announcement made on May 14 in Stuttgart. Dieter Zetsche, Tom LaSorda, and I announced that Cerberus would be purchasing 80% of Chrysler Corporation, including the Dodge, Chrysler and Jeep brands, as well as Chrysler's auto financing arm. We have quickly cleared the necessary regulatory steps with the FTC, and we remain on course to close the sale by the end of July. We are working hard with Chrysler dealers, the union, and management for a successful turnover and getting back on the road to long term success.

Some people have expressed surprise that our bid received support from the UAW. But that came as no surprise to us. In many of the companies we have invested in, the workforce is represented by organized labor. We respect that; we have good relations with labor. Good labor-management relationships are critical to any enterprise's success. We understand the environment of union companies. We have a sound record of working effectively with union companies and helping them achieve long-term success.

I spent my business career in the transportation industry – railroads, ocean transportation, ports, terminals and so on – and worked closely and productively with labor organizations over a long period of time.

We very much appreciate the support we received from Ron Gettelfinger of the UAW and Buzz Hargrove of the CAW in this transaction. We look forward to a highly productive, cooperative and mutually advantageous relationship with them as we move forward together.

Now I know the big question lurking on many people's minds: Why will Cerberus be able to turn Chrysler around when so many other valiant efforts have not?

We are not naïve; we know the course ahead will be difficult. We come to Chrysler with our eyes wide open and a clear sense of the challenge. But we are confident we can meet the challenge. We believe in the U.S. manufacturing industry in general, and we believe in the future of the U.S.

auto industry and Chrysler in particular. We have already invested extensively in the U.S. manufacturing sector, as well as the auto sector—firms like Guilford Mills, Peguform, as well as more recently, in GMAC.

Fundamentally, we view Cerberus's role as helping Chrysler achieve its full potential. Private ownership offers many advantages in that regard. As a private company, Chrysler will be able to implement a plan to build longer-term value, to make strategic investments and to focus all of its energies on improving the company's performance – all without fear of short term negative market reaction from quarterly public company reports and the pressures to meet analyst targets.

Chrysler has many strengths that we aim to build on. First, we are fortunate to have a well-thought-out strategic plan developed by Tom LaSorda and his team. We are impressed by it and by the company's commitment to it.

Second, we will support this team with talented and able advisors from Cerberus, who bring to the table their substantial operational expertise.

Third, we are impressed by the range of new products and technologies that Chrysler is developing, such as the relaunch of their mini-van line this fall — a product Chrysler invented.

Fourth, Chrysler has talented and dedicated employees. Chrysler people care about their company and are devoted to its success.

Fifth, Chrysler enjoys an extensive and excellent dealer network and a great group of suppliers.

None of this is meant to gloss over the very real underlying challenges facing Chrysler and the U.S. auto industry, due to intense global competition, and here at home, dramatically rising health care costs.

Rising health care costs in America have eroded the competitiveness of the auto and manufacturing sectors. The long term viability of these industries requires addressing the root causes of this problem in a comprehensive fashion. I'm pleased to see that the presidential candidates on both sides have made solving the healthcare problem a high priority. Any real solution should include some essential components: empowering consumers to be better purchasers of healthcare; fixing our broken malpractice liability system; employing modern information technology throughout healthcare; eliminating medical errors; and dealing with the current patchwork of health insurance coverage. On the latter point, our current system unfairly imposes higher costs on all the industries that provide good health coverage, like autos, as costs are shifted from all those industries that don't. These burdens need to be borne in a more equitable manner. Attention to this important national problem now must be sustained beyond just the campaign season.

But right now we're in the midst of another critical debate in Washington that will fundamentally determine the future of the auto industry in America. The stakes are simply that high. It is a topic with which I have some experience, because back in 1976, as administrator of the National Highway Traffic Safety Administration, I was charged with putting the first CAFE standards into effect.

The U.S. Senate recently passed what I would call a one-sided approach to fuel economy standards. I say one-sided because automobile use in the U.S. consumes only 20% of our national energy usage. It makes no sense then to put a disproportionate share of the burden of energy reduction and environmental improvement on the back of one industry. But, that is exactly what the Senate bill does. It does little to encourage energy conservation by the other 80% of the economy, and next to nothing to expand our domestic energy supplies.

Despite hard work by Senators Levin, Stabenow, Voinovich, Bond, Pryor and McCaskill, along with many many others, we came up short on efforts to achieve feasible fuel economy standards in the Senate. The Senate bill has to be fixed in the House. We believe it will be. So much depends on getting that done.

We're so very fortunate to have John Dingell, the illustrious Chairman of the Energy and Commerce Committee, leading the effort in the House to produce a sensible outcome. No one gives a better lesson in the basic economics of this issue. No one is a better or more able champion of good public policy in this area. We're also working closely with other senior leaders, the Michigan delegation, including Fred Upton, Joe Knoellenberg, Dave Camp and Sandy Levin. But make no mistake, this will be a very hard fight.

Let me be clear that we understand the need to wean ourselves off of uncertain foreign sources of energy and gain greater energy independence. As Americans, we understand the value of cleaner air and the need to reduce production of CO₂. But we are also committed to keeping a strong, viable auto industry right here in America with good paying jobs. We believe ALL of these worthy public policy goals are essential goals.

Some in this debate would disregard the concerns of places like Michigan and Ohio. But your concerns need to be heard. In the end, we have to have a policy that serves the needs of the entire nation.

The auto industry has been and continues to be at the center of meeting our nation's needs for a strong national defense. The industry's military and technological contributions, contrary to some recent commentators, are an engine of both economic and national security. We take a back seat to no one on that point.

Congress needs to understand that auto companies must not only meet the demands of good public policy, but they must also meet "the market test." Auto companies survive and prosper only if they manufacture vehicles that people are willing to buy. Government mandates requiring production of certain types of vehicles — particularly ones that are smaller, lighter, and less safe - - won't work unless consumers want to buy those types of cars. If companies don't listen to their customers, they will go out of business.

I understand those who question the whole idea of the government imposing auto fuel economy standards. After all, what they amount to is the government telling people what kinds of vehicles they can buy. Our economic system is based on the fundamental premise that people as consumers should decide what they want in what color, size and shape, rather than having the government decide what is best for them.

As a result, many members of Congress oppose the whole idea of CAFE and are pledged to vote against any legislation containing more stringent CAFE standards. I certainly appreciate their view. But the winds of politics have created a Hobson's choice. That choice is between reasonable legislation that significantly raises auto fuel economy standards, but gives the industry a fighting chance to survive, versus severe legislation that would certainly cripple the industry, destroy jobs and make auto manufacturers in the U.S. uncompetitive. Given these two choices, there is only one sensible answer in my view.

We are urging the Congress to embrace the kind of bipartisan approach taken in H.R. 2927, a bill put together by a diverse and growing group of legislators. We think this bill strikes the right balance. This approach is no cakewalk — it will be very tough to meet. But it is a standard that will challenge — not crush — the industry.

We are not asking for handouts or special treatment. What we are asking for is a fighting chance to turn this great American company around. We believe in Chrysler and we believe that it can overcome its current difficulties and return to profitability. That is our goal. Unworkable proposals

like the Senate bill, or similar bills in the House, are just too much to heap on an industry and a company already struggling to get back on its feet.

It's essential that our efforts to succeed. I believe they offer the best hope for both the industry and this region to thrive again. The health of the auto industry remains of critical importance for the country itself, because it has served as a traditional bellwether for the state of our economy. This is shown by the fact that the auto industry, all in all, provides the greatest number of jobs of any industry in America. We want to see that continue.

Just as the automotive industry is an important component of national output, overall macroeconomic conditions also set the stage for the auto market. While the housing adjustment is taking longer to wring out of the system than many expected, the bright spot in the economy remains the underlying strength of our national labor markets, which continue to support spending by consumers. Last week's good numbers on jobs and wages confirm that labor markets remain strong. These figures indicate the economy is regaining momentum, with growth rebounding smartly in the 2nd quarter, returning to long term growth trends. The global economy continues to perform well, reflecting a normal rebalancing. At the same time the U.S. has slowed, Europe and Japan have rebounded. U.S. exports are poised to pick up nicely as a result.

While broad economic trends remain favorable, I remain most concerned about rising protectionist sentiments here in America, and around the globe. The collapse of the Doha round of trade negotiations is a serious blow. And everywhere I go I hear growing concern about currency misalignments, particularly in Asia. I'm pleased to see the G7 and the IMF expanding their efforts to monitor currencies, and the underlying monetary policies that drive them. For instance, as the Japanese economy has recovered, financial market observers are puzzled by a lingering interest-rate gap between Japan and other major economies. As a result, the currency adjustment process has clearly lagged. This phenomenon is worthy of greater attention in Washington and elsewhere.

In conclusion, I want to thank you again for letting me share my views with you today on the state of the economy and the opportunity we have to revive the great American icon that is Chrysler. I've also shared with you my belief that the involvement of private investment in the economy, as seen in the Chrysler purchase, offers perhaps the last best hope of turning around the auto industry and basic manufacturing in the U.S. But to get this job done, we need policy makers in Washington to give us a fighting chance to make it work. That's all we ask.

Our best and only hope is that Washington follows the strong lead of officials here in Michigan, and crafts reasonable and responsible policies for energy security, climate change, and for a strong and healthy U.S. auto industry. Thank you again for inviting me here today and I look forward to responding to your questions.

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