The Evolution of Ally

An Interview with
Michael A. Carpenter, Chief Executive Officer, Ally Financial Inc.


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EDITORS' NOTE *Michael Carpenter was named Chief Executive Officer of Ally Financial Inc. in November 2009 and has served on its board of directors since May 2009. Most recently, Carpenter founded Southgate Alternative Investments in 2007. From 2002 to 2006, he was Chairman and Chief Executive Officer of Citigroup Alternative Investments. From 1998 to 2002, Carpenter was Chairman and Chief Executive Officer of Citigroup's Global Corporate & Investment Bank, with responsibility for Salomon Smith Barney Inc. and Citibank's corporate banking activities globally. Carpenter was named Chairman and CEO of Salomon Smith Barney in 1998, shortly after the merger that created Citigroup. Prior to Citigroup, he was Chairman and CEO of Travelers Life & Annuity and Vice Chairman of Travelers Group Inc. From 1989 to 1994, he was Chairman of the Board, President, and CEO of Kidder Peabody Group Inc. From 1986 to 1989, Carpenter was Executive Vice President of GE Capital Corporation. He received a Bachelor of Science degree from The University of Nottingham, England and an M.B.A. from the Harvard Business School, where he was a Baker Scholar. He also holds an honorary degree of Doctor of Laws from The University of Nottingham.*

COMPANY BRIEF *Ally Financial Inc. (www.ally.com) is a leading automotive financial services company powered by a top direct banking franchise. Ally's automotive services business offers a full suite of financing products and services, including new and used vehicle inventory and consumer financing, leasing, inventory insurance, commercial loans, and vehicle remarketing services. Ally Bank is the company's direct banking subsidiary and Ally's Commercial Finance unit provides financing to middle-market companies across a broad range of industries. With approximately $150.6 billion in assets as of June 2013, Ally operates as a bank holding company.*

How are you addressing today's challenges?

The company became a TARP recipient at the end of 2008 as part of the auto bailout. They realized that they could put $60 billion into GM and Chrysler but if they didn't support the company that financed all of the dealers and their retail sales, it would not work. So the U.S. Treasury put $17.2 billion into Ally and Ally became a bank holding company.

I joined the boards of CIT and Ally in Spring of 2009. The board asked me to take over at the end of 2009. The good news was that I had a team that was so much better than I had a right to expect. The bad news was that we were running a bank with no access to the financial markets.

In order to finance the dealers, the company had cut back on financing retail to the point where, in a matter of months, market share was almost zero on the retail side just to keep the dealers alive.

When I showed up, the company had no access to financial markets at all; it was culturally still a captive finance company; and it was a bank holding company that was not held in high regard by regulators.

We had to show the market that we could address reality, which meant addressing the mortgage issue. We took a huge write-down in the fourth quarter of 2009 and the only way we could do that was via a final infusion of capital from the Treasury to recapitalize the company. This allowed us to start running the business.

Then in December of 2009, I pulled the management team together and we had a conversation about what we wanted to prioritize: to build the world-class auto finance business; to de-risk our mortgage business; to access capital markets at lower and lower cost of funds; to build Ally Bank; to get cost out – we took about 20 percent of our costs out in the first few months; and to become respectable in the eyes of our regulators. Our game plan today is the same, except we're done with the mortgage business.

How has the game plan played out for the company?

In terms of our first point, we have dramatically transformed the auto finance business so that, today, every piece of business we do is competitive. We are the number-one financier of automobiles in the country; we're the largest provider of wholesale financing that is not a captive by a wide margin; and we have a very good reputation

In terms of our second point, at the end of 2010, we had de-risked the mortgage business. As we went into 2011, however, we were looking to take the company public and three black clouds formed around the mortgage business: number one was the foreclosure issue, which after many months became a $25-billion hit to the industry, a share of which was ours.

Then private-label securities claims became an issue in the market, followed by the lawsuit from FHFA against 17 banks for securities fraud. Even though we had settled our liabilities with Freddie and Fannie, this became a cloud hanging over the company.

All of this killed our IPO.

So in mid 2012, we made the decision to withdraw support from our mortgage subsidiary ResCap, which resulted in ResCap filing for bankruptcy. In May 2013, we settled with the estate and the creditors for $2 billion. With that settlement, we can move forward to the main event.

To the third point, in February 2010, we first accessed the capital markets. We did approximately $50 billion in financing that year and since that time, Ally has seen an improvement of more than 300 basis points in its unsecured funding. We have had no issue getting as much capital as we want.

To the fourth point, the two reasons to raise deposits are that they're cheaper than other sources of funding and they're more stable. The company had initiated the building of a direct bank called Ally Bank prior to my arriving at Ally and we have just accelerated its growth. Our actual operating costs are now half of what they were.

Finally, we stand in good stead with our regulators.

Today, we're an unbelievably strong domestic auto finance franchise. It's broadly based and works with the OEMs, but is dealer-centric with a very high level of service; it's competitive in every way. Ally Bank is also growing rapidly and helping us fund the business overall. There are now two terrifically strong, very well-capitalized franchises.

We are well-positioned now to return additional capital to the U.S. taxpayer. We recently announced a series of transactions, including a private placement of $1 billion in common stock, that will advance our plans to repay the U.S. taxpayer. When these transactions are concluded, Ally will have repaid approximately two-thirds of the U.S. Treasury investment.

Are you surprised at the strength of the auto industry today?

With the average vehicle being over 11 years old, the renewed consumer confidence, and low interest rates, a strong auto recovery is not surprising. With regard to the U.S. automakers, those companies paid the price for 30 years of denial. Bankruptcy allowed them to get their act together. Their vehicles are now competitive on a quality basis and a price basis, and I'm pleased to see it. ●