

GMAC LLC
Form 10-K
February 27, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

▶ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008, or

“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 1-3754

GMAC LLC

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

38-0572512
(I.R.S. Employer
Identification No.)

200 Renaissance Center

P.O. Box 200 Detroit, Michigan

48265-2000

(Address of principal executive offices)

(Zip Code)

(313) 556-5000

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(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act (all listed on the New York Stock Exchange):

Title of each class

8 ⁷ / ₈ % Notes due June 1, 2010	7.30% Public Income Notes (PINES) due March 9, 2031
6.00% Debentures due April 1, 2011	7.35% Notes due August 8, 2032
10.00% Deferred Interest Debentures due December 1, 2012	7.25% Notes due February 7, 2033
10.30% Deferred Interest Debentures due June 15, 2015	7.375% Notes due December 16, 2044

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Aggregate market value of voting and nonvoting common equity held by nonaffiliates: Not applicable, as GMAC LLC has no publicly traded equity securities.

Documents incorporated by reference. None.

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Part I

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**Item 1. Business
General**

GMAC LLC was founded in 1919 as a wholly owned subsidiary of General Motors Corporation (General Motors or GM). On November 30, 2006, GM sold a 51% interest in us (the Sale Transactions) to FIM Holdings LLC (FIM Holdings). FIM Holdings is an investment consortium led by Cerberus FIM Investors, LLC, the sole managing member. The consortium also includes Citigroup Inc., Aozora Bank Ltd., and a subsidiary of The PNC Financial Services Group, Inc. On December 24, 2008, the Board of Governors of the Federal Reserve System approved our application to become a bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act). Refer to Item 12 for further details of current GMAC ownership and future changes in ownership that will be required as a result of this approval. The terms GMAC, the Company, we, our, and us refer to GMAC LLC and its subsidiaries as a consolidated entity, except where it is clear that the terms mean only GMAC LLC.

Our Business

GMAC is a leading, independent, globally diversified, financial services firm with approximately \$189 billion of assets and operations in approximately 40 countries. We currently operate in the following primary lines of business Global Automotive Finance, Mortgage (Residential Capital, LLC or ResCap), and Insurance. The following table reflects the primary products and services offered by each of our lines of business.

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Global Automotive Finance

Our automotive finance business extends automotive financing services primarily to franchised GM dealers and their customers through two reportable segments – North American Automotive Finance operations and International Automotive Finance operations.

Through our Automotive Finance operations, we:

Provide consumer automotive financing products and services, including purchasing or originating, selling and securitizing automotive contracts and leases with retail customers primarily from GM and GM-affiliated dealers, and performing servicing activities, such as collection and processing related to those contracts and leases;

Provide automotive dealer financing products and services, including financing the purchases of new and used vehicles by dealers, making loans or extending revolving lending facilities for other purposes to dealers, subsequently selling and securitizing automotive dealer receivables and loans, and servicing and monitoring such financing;

Provide fleet financing to automotive dealers and others for the purchase of vehicles they lease or rent to others;

Provide full-service individual leasing and fleet leasing products, including maintenance, fleet, and accident management services as well as fuel programs, short-term vehicle rental, and title and licensing services;

Provide vehicle remarketing services for dealer and fleet customers; and

Hold a portfolio of automotive contracts, leases, and automotive dealer finance receivables for investment or sale, together with interests retained from our securitization activities.

ResCap

We are a leading real estate finance company focused primarily on the residential real estate market.

Through our ResCap operations, we:

Originate, purchase, sell, and securitize residential mortgage loans primarily in the United States but also internationally;

Provide primary and master servicing to investors in our residential mortgage loans and securitizations;

Provide collateralized lines of credit, which we refer to as warehouse-lending facilities, to other originators of residential mortgage loans;

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Hold a portfolio of residential mortgage loans for investment and interests retained from our securitization activities and;

Provide specialty financing and equity capital to residential land developers and homebuilders. During 2008, these origination activities have been contracted significantly due to market conditions and the sale of our resort finance business and our model home business.

Our ResCap operations have curtailed activities related to both its business capital group, which provides financing and equity capital to residential land developers and homebuilders, and its international business group, which has substantially all of its operations outside of the United States except for insured mortgages in Canada. We are currently investigating various strategic alternatives related to all aspects of the ResCap business. These strategic alternatives include potential acquisitions as well as dispositions, alliances, and joint ventures with a variety of third parties with respect to some of ResCap's business.

Insurance

We offer automobile service contracts, personal automobile insurance coverages (ranging from preferred to nonstandard risk), selected commercial insurance coverages, and other consumer products.

Through our Insurance operations, we:

Provide automotive extended service and maintenance contracts through automobile dealerships, primarily GM dealers in the United States and Canada, and similar products outside North America;

Provide automobile physical damage insurance and other insurance products to dealers in the United States and internationally;

Offer vehicle and home insurance in the United States and internationally through a number of distribution channels, including independent agents, affinity groups, and the internet; and

Invest proceeds from premiums and other revenue sources in an investment portfolio from which payments are made as claims are settled.

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Industry and Competition

Global Automotive Finance

The consumer automotive finance market is one of the largest consumer finance segments in the United States. The industry is generally segmented according to the type of vehicle sold (new versus used) and the buyer's credit characteristics (prime or nonprime). In 2008 and 2007, we purchased or originated \$46.6 billion and \$62.7 billion, respectively, of consumer automotive retail and lease contracts. In most cases, we purchase these contracts from GM-affiliated dealers when the vehicles are purchased or leased by consumers. For purposes of discussion in this section, loans related to our consumer automotive-lending activities are referred to as retail contracts.

In 2008, the credit and capital markets became increasingly disrupted, particularly in the second half of the year. This market dislocation, which has continued to persist into 2009, is evidenced by many developments including a significant reduction in availability of consumer credit and a severe reduction in overall liquidity in the consumer finance industry from many sources, including the disruption of the automotive asset-backed securitization markets. Refer to the Funding and Liquidity section in Item 7 for further discussion.

Automotive manufacturers have also been significantly impacted by reduced liquidity. Overall economic conditions worsened throughout 2008 as unemployment rates increased and consumer demand fell. This caused new vehicle demand to decrease. Additionally, automotive loan and lease production have significantly contracted across the industry, particularly in the fourth quarter of 2008, due to these stressed conditions and their impact on the consumer.

These developments adversely impacted us and many of our competitors; however, the consumer automotive finance business continues to be highly competitive in this environment. We face intense competition from large suppliers of consumer automotive financing, which include captive automotive finance companies and large national banks. In addition, we face competition from smaller suppliers, including regional banks, savings and loans associations, and specialized providers (including local credit unions). Some of our competitors have access to significant capital and other resources. Additionally, many of these same competitors have historically been able to access capital at a lower cost than GMAC. GMAC's recent approval to become a bank holding company should provide GMAC with access to capital at a lower cost to remain competitive in the automotive finance market place. Smaller suppliers often have a dominant position in a specific region or niche segment, such as used vehicle financing or nonprime customers.

Commercial financing competitors primarily consist of other manufacturer-affiliated finance companies and national and regional banks. Refer to Risk Factors in Item 1A for further discussion.

ResCap

During 2008, the domestic and international mortgage and capital markets experienced severe and increasing dislocation. The market dislocation, which has continued to persist into 2009, is evidenced by many developments including:

Continued significant reduction in most nonconforming loan production, which adversely impacted profitability and operational stability of most mortgage lenders;

A severe reduction in overall liquidity available to the entire residential real estate finance sector from many sources, including continued disruption of the nonconforming term securitization markets and asset-backed commercial paper markets;

Aggressive management of credit exposure on existing facilities by liquidity providers as evidenced by, among other things, increased margin calls and decreased advance rates;

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Significant increases in repurchase requests due to alleged breaches of representations and warranties;

Increased bankruptcy and business failure of many mortgage market participants and consolidation among mortgage industry participants, which impacts access to mortgage products and profits within a sector of fewer, more sophisticated participants; and

Greater regulation imposed on the industry resulting in increased costs and the need for higher levels of specialization.

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These developments have continued to adversely impact ResCap and many of its competitors. A significant decline in mortgage loan production and increased repurchase demands have negatively impacted the profitability of many mortgage lenders and undermined their operational stability. In addition, the continued tightening (or loss) of liquidity and increase in the cost of capital to the residential real estate finance market has reduced the number of industry participants that are able to effectively compete. To compete effectively in this environment requires a high level of operational, technological, and managerial expertise and access to cost-effective capital.

Large and sophisticated financial institutions dominate the residential real estate finance industry. The largest 10 mortgage lenders combined had a 72% share of the residential mortgage loan origination market as of December 31, 2008, up from 55% in 2004. We are the seventh largest producer of residential mortgage loans in the United States (as ranked by *Inside Mortgage Finance*). Continued consolidation in the residential mortgage loan origination market may adversely impact business in several respects, including increased pressure on pricing or a reduction in our sources of mortgage loan production if originators are purchased by competitors. This consolidation trend has carried over to the servicing side of the mortgage business. The top 10 residential mortgage servicers combined had a 66% share of the total residential mortgages outstanding as of December 31, 2008, up from 54% as of December 31, 2004. We are the sixth largest servicer of residential mortgage loans in the United States (as ranked by *Inside Mortgage Finance*).

Prime credit quality mortgage loans are the largest component of the residential mortgage market in the United States with loans conforming to the underwriting standards of Fannie Mae, Freddie Mac, and Ginnie Mae.

A source of capital for the residential real estate finance industry is warehouse lending. These facilities provide funding to mortgage loan lenders and originators until the loans are sold to investors in the secondary mortgage loan market. We face competition in our warehouse-lending operations from banks and other warehouse lenders, including investment banks and other financial institutions. During 2008, we have continued to reduce the size of our warehouse-lending business and have not provided facilities secured by nonconforming loans, except prime jumbo mortgage loans.

Our mortgage business operates in a highly competitive environment and faces significant competition from commercial banks, savings institutions, mortgage companies, and other financial institutions.

Insurance

We operate in a highly competitive environment and face significant competition from insurance carriers, reinsurers, third-party administrators, brokers, and other insurance-related companies. Competitors in the property and casualty markets in which we operate consist of large multiline companies and smaller specialty carriers. Our competitors sell directly to customers through the mail, the internet, or agency sales forces. None of the companies in this market, including us, holds a dominant overall position in these markets.

Through our Insurance operations, we provide automobile and homeowners insurance, automobile mechanical protection, and commercial insurance. We primarily operate in the United States; however, we also have operations throughout Europe, Latin America, Asia-Pacific, Canada, and Mexico.

Factors affecting our consumer products business include overall demographic trends that affect the volume of vehicle owners requiring insurance policies, and claims behavior. Since the business is highly regulated in the United States by state insurance agencies and primarily by national regulators outside the United States, differentiation is largely a function of price and service quality. In addition to pricing policies, profitability is a function of claims costs and investment income. Although the industry does not experience significant seasonal trends, it can be negatively affected by extraordinary weather conditions that can affect frequency and severity of automobile claims. Our automotive service contract business is dependent on new vehicle sales, market penetration, and the warranty coverage offered by automotive manufacturers.

Certain Regulatory Matters

We are subject to various regulatory, financial, and other requirements of the jurisdictions in which our businesses operate. In light of current conditions in the global financial markets, regulators have increased their focus on the regulation of the financial services industry. As a result, proposals for legislation that could increase the scope and nature of regulation of the financial services industry are possible. The following is a description of some of the primary regulations that currently affect our business.

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Bank Holding Company Status

On December 24, 2008, and in connection with the conversion of GMAC Bank into a Utah-chartered commercial nonmember bank, GMAC LLC and IB Finance Holding Company, LLC (IB Finance) were each approved as bank holding companies under the BHC Act. IB Finance is the direct holding company for GMAC's bank depository institution, GMAC Bank. As a result, we are now subject to the supervision and examination of the Board of Governors of the Federal Reserve System (the FRB). GMAC will be required to file various reports with and will be subject to examination by the FRB. The FRB has the authority to issue orders to bank holding companies to cease and desist from unsafe or unsound banking practices and from violations of laws, rules, regulations or conditions imposed in writing by the FRB. The FRB is also empowered to assess civil money penalties against institutions or individuals who violate any laws, regulations, orders, or written agreements with the FRB, to order termination of certain activities of nonbanking subsidiaries of bank holding companies, and to order termination of ownership and control of a nonbanking subsidiary by a bank holding company. In addition, GMAC Bank is subject to regulation and examination primarily by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions. GMAC's nonbank subsidiaries generally are subject to regulation primarily by their functional regulators, including the applicable state insurance regulatory agencies in the case of its insurance subsidiaries, and the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority, and/or state securities regulators in the case of its securities subsidiaries.

Permitted Activities As a bank holding company, subject to certain exceptions, we are required to obtain FRB approval prior to acquiring more than 5% of any class of voting shares of any nonaffiliated depository institution or other company. Furthermore, we are generally limited to the business of banking, managing or controlling banks, and other similar activities. As a new bank holding company, however, we are permitted a two-year grace period to comply with these restrictions on activities (we may apply for three one-year extensions). We are currently reviewing our business activities and will make necessary modifications, if any, within the required time periods.

Gramm-Leach-Bliley Act of 1999 The enactment of the Gramm-Leach-Bliley Act of 1999 (GLB Act) eliminated large parts of a regulatory framework that had its origins in the Depression era of the 1930s. Effective with its enactment, new opportunities became available for banks, other depository institutions, insurance companies, and securities firms to enter into combinations that permit a single financial services organization to offer customers a more comprehensive array of financial products and services. To further this goal, the GLB Act amended the BHC Act by providing a new regulatory framework applicable to financial holding companies, which are bank holding companies that meet certain qualifications and make an election to become financial holding companies. The FRB regulates, supervises and examines financial holding companies, as it does all bank holding companies. However, insurance and securities activities conducted by a financial holding company or its nonbank subsidiaries are regulated primarily by functional regulators. As a bank holding company, we are permitted to apply, subject to GMAC Bank (and any depository institution subsidiary that we may acquire in the future) being well-capitalized, well-managed and in compliance with applicable Community Reinvestment Act (CRA) requirements, to become a financial holding company pursuant to the BHC Act, and we are currently considering such an application. As a financial holding company we would be permitted to engage in a broader range of financial and related activities than those that are permissible for bank holding companies, and in most cases would not be required to obtain prior FRB approval to engage in such activities.

Capital Adequacy Requirements Our bank depository institution, GMAC Bank, is required to maintain well-capitalized levels which dictate a Total capital ratio of 10% and a Tier 1 capital ratio of 6%.

Additionally, on July 21, 2008, GMAC, FIM Holdings, IB Finance, GMAC Bank, and the FDIC (collectively, the Contracting Parties) entered into a Parent Company Agreement (PA). The PA requires that GMAC maintain a total equity to total assets ratio of at least 5%. The PA defines total equity and total assets as total equity and total assets, respectively, as reported on our Consolidated Balance Sheet in our quarterly and annual reports filed with the SEC. The PA further requires that GMAC, beginning December 31, 2008, maintain a ratio of tangible equity to tangible assets of at least 5%. For this purpose, tangible equity means total equity minus goodwill and other intangible assets, net of accumulated amortization (other than mortgage servicing assets), and tangible assets means total assets less all goodwill and other intangible assets (other than mortgage servicing assets). Further, the PA requires GMAC Bank to obtain FDIC approval prior to engaging in certain affiliate transactions and for any major deviation or material change from its business plan for a seven-year period. The PA also requires GMAC,

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FIM Holdings, and IB Finance to submit certain periodic reports to the FDIC and to consent to examinations by the FDIC to monitor compliance with the PA, any other agreements executed in conjunction with the ten-year extension of the existing two-year disposition requirement, and applicable law.

Furthermore, on July 21, 2008, the Contracting Parties entered into a Capital and Liquidity Maintenance Agreement (CLMA). The CLMA requires capital at GMAC Bank to be maintained at a level such that GMAC Bank's leverage ratio is at least 11% for a three-year period. For this purpose, leverage ratio is determined in accordance with the FDIC's regulations related to capital maintenance.

In addition to the above, as a bank holding company, we will be subject to risk-based capital and leverage guidelines by federal regulators that will require that our capital-to-assets ratios meet certain minimum standards.

The risk-based capital ratio is determined by allocating assets and specified off-balance sheet financial instruments into four weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Under the guidelines, total capital is divided into two tiers: Tier 1 capital and Tier 2 capital. Tier 1 capital generally consists of common equity, minority interests, and qualifying preferred stock; less goodwill and other adjustments. Tier 2 capital generally consists of preferred stock not qualifying as Tier 1 capital, limited amounts of subordinated debt, and other adjustments. The amount of Tier 2 capital may not exceed the amount of Tier 1 capital.

Total capital is the sum of Tier 1 capital and Tier 2 capital. Under the guidelines, banking organizations are required to maintain a minimum Total capital ratio (total capital to risk-weighted assets) of 8% and a Tier 1 capital ratio of 4%. Our bank depository institution, GMAC Bank, will continue to be required to maintain well-capitalized levels which dictate a Total capital ratio of 10% and a Tier 1 capital ratio of 6%, as described above.

The federal banking regulators also have established minimum leverage ratio guidelines. The leverage ratio is defined as Tier 1 capital divided by adjusted average total assets (which reflect adjustments for disallowed goodwill and certain intangible assets). The minimum leverage ratio is 4% for bank holding companies. We will not be subject to any specific requirements for this ratio other than maintaining the minimum of 4%.

The minimum risk-based capital requirements adopted by the federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. The Basel Committee has proposed a revision to the Accord (Basel II). U.S. banking regulators are in the process of incorporating the Basel II Framework into the existing risk-based capital requirements. The Basel II rules will also apply to our operations in non-U.S. jurisdictions.

Limitations on Bank Holding Company Dividends and Capital Distributions Federal statutes and regulations place restrictions and limitations on the amount of dividends or other distributions payable by our banking subsidiary GMAC Bank to us, as well as on other capital distributions by a bank holding company. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of current operating earnings and only if prospective earnings retention is consistent with the organization's expected future needs and financial conditions. Various federal statutory provisions also limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. In addition to these explicit limitations, the federal bank regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in unsafe or unsound banking practices, and, depending upon the circumstances, could find that paying a dividend or making a capital distribution would constitute an unsafe or unsound banking practice.

Transactions with Affiliates Certain transactions between GMAC Bank and any of its affiliates are subject to federal statutory and regulatory restrictions. Pursuant to these restrictions, covered transactions between GMAC Bank and its affiliates (i) generally are limited to 10% of GMAC Bank's capital stock and surplus, with an aggregate limit of 20% of GMAC Bank's capital stock and surplus for all such transactions (collectively, the Affiliate Transaction Restrictions), (ii) in the cases of certain credit transactions, are subject to stringent collateralization requirements, and (iii) must be conducted in accordance with safe and sound banking practices.

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Furthermore, there is an attribution rule that provides that a transaction between GMAC Bank and a third party will be treated as a transaction between GMAC Bank and an affiliate to the extent that the proceeds of the transaction are used for the benefit of, or transferred to, an affiliate of GMAC Bank. For these purposes, covered transactions generally include the purchase of assets by GMAC Bank from an affiliate and GMAC Bank's extension of credit to an affiliate, the purchase of securities issued by a GMAC Bank affiliate, the acceptance of affiliate securities as security for a loan by GMAC Bank, and any guarantee or other financial support provided by GMAC Bank to or on behalf of a GMAC Bank affiliate. Transactions between GMAC Bank and its affiliates, or any GMAC Bank transaction to which an affiliate is a party, also must be conducted on terms and conditions, including credit terms, that are no less favorable to GMAC Bank than would be offered in good faith to an unaffiliated party.

GM and GMAC Bank are affiliates for purposes of the Affiliate Transaction Restrictions. Moreover, GMAC is treated as an affiliate of GMAC Bank for federal regulatory purposes. The FRB is authorized to exempt, in its discretion, transactions or relationships from the requirements of these rules if it finds such exemptions to be in the public interest and consistent with the purposes of the rules. On December 18, 2008, we requested on behalf of GMAC Bank an exemption from the Affiliate Transaction Restrictions to permit GMAC Bank to provide financing to consumers, primarily through GM-affiliated dealers, to enable them to purchase automobiles from dealers in the United States that obtain floorplan financing from GMAC. The attribution rule applies to these loans because most of the funding is transferred to the dealer and from the dealer to GMAC in repayment of the dealer's floorplan loan. A limited exemption was granted on December 24, 2008, which was made subject to several conditions. Such conditions include, among others, an overall cap on covered transactions entered into pursuant to the exemption, as well as limitations on customers that may be lent to and terms of loans that may be made. This limited exemption described above does generally not apply to consumer leasing and generally does not permit GMAC Bank to provide any dealer floorplan financing for GM vehicles. Until such time as either GM is no longer an affiliate of GMAC and GMAC Bank or we are unable to obtain further exemption or waivers with respect to these restrictions, the ability to grow GMAC Bank will be limited and GMAC Bank will not be able to fund the majority of GMAC's consumer and commercial automotive assets.

Source of Strength Pursuant to FRB policy and the FDIC Parent Company Agreement dated July 21, 2008, GMAC is expected to act as a source of strength to GMAC Bank. Pursuant to the FDIC Capital and Liquidity Maintenance Agreement dated July 21, 2008, GMAC is required to commit necessary capital and liquidity to support GMAC Bank, and this support may be required at inopportune times for GMAC.

U.S. Treasury Troubled Asset Relief Program

On December 29, 2008, as part of the Automotive Industry Financing Program created under the Troubled Asset Relief Program (TARP) established by the U.S. Department of Treasury (the Treasury) under the Emergency Economic Stabilization Act of 2008 (the EESA), we entered into an agreement (the Purchase Agreement) with the Treasury pursuant to which GMAC issued and sold to the Treasury preferred membership interests and a ten-year warrant to purchase additional preferred membership interest (all of such warrants were exercised on December 29) (collectively, the TARP Preferred Interests), for an aggregate purchase price of approximately \$5.0 billion in cash. As a result of these investments, subject to certain exceptions, GMAC and its subsidiaries are generally prohibited from paying dividends or distributions on, or redeeming, repurchasing or acquiring, other common and preferred equity securities without the consent of the Treasury, unless GMAC has redeemed the TARP Preferred Interests or Treasury has transferred all of such interests to a third party. Exceptions to these restrictions include, among others, the ability to pay regular distributions on preferred membership interests that are otherwise permitted under the terms of the TARP Preferred Interests. GMAC has further agreed that, until such time as the Treasury ceases to own any units of the TARP Preferred Interests, GMAC will comply with certain restrictions on executive privileges and compensation. GMAC must also take all necessary action to ensure that its corporate governance and benefit plans with respect to its senior executive officers comply with Section 111(b) of the EESA as implemented by any guidance or regulation under the EESA, including the Treasury's guidelines set forth in Notice 2008-PSSFI. For further details regarding these restrictions on compensation as a result of the TARP investments, refer to Item 11 Compensation Discussion and Analysis, beginning on page 201.

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International Banks and Finance Companies

Certain of our foreign subsidiaries operate in local markets as either banks or regulated finance companies and are subject to regulatory restrictions, including Financial Services Authority (U.K.) requirements. These regulatory restrictions, among other things, require that our subsidiaries meet certain minimum capital requirements and may restrict dividend distributions and ownership of certain assets. Total assets in regulated international banks and finance companies approximated \$16.7 billion and \$17.7 billion as of December 31, 2008 and 2007, respectively.

U.S. Mortgage Business

Our U.S. mortgage business is subject to extensive federal, state, and local laws, rules, and regulations, in addition to judicial and administrative decisions that impose requirements and restrictions on this business. As a Federal Housing Administration lender, our U.S. mortgage business is required to submit audited financial statements to the Department of Housing and Urban Development on an annual basis. It is also subject to examination by the Federal Housing Commissioner to assure compliance with Federal Housing Administration regulations, policies, and procedures. The federal, state, and local laws, rules, and regulations to which our U.S. mortgage business is subject, among other things, impose licensing obligations and financial requirements; limit the interest rates, finance charges, and other fees that can be charged; regulate the use of credit reports and the reporting of credit information; impose underwriting requirements; regulate marketing techniques and practices; require the safeguarding of nonpublic information about customers; and regulate servicing practices, including the assessment, collection, foreclosure, claims handling, and investment and interest payments on escrow accounts.

Depository Institutions

On December 24, 2008, GMAC Bank received approval from the Utah Department of Financial Institutions (UDFI) to convert from an industrial loan corporation to a commercial nonmember state chartered bank. GMAC Bank, which provides services to both our North American Automotive Finance and ResCap operations, was previously chartered as an industrial bank pursuant to the laws of Utah, and its deposits are insured by the FDIC. GMAC is required to file periodic reports with the FDIC concerning its financial condition. Assets in GMAC Bank approximated \$32.9 billion and \$28.4 billion as of December 31, 2008 and 2007, respectively.

As a commercial nonmember bank chartered by the State of Utah, GMAC Bank is subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on GMAC Bank's results of operations and financial condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, GMAC Bank must meet specific capital guidelines that involve quantitative measures of GMAC Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. GMAC Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require GMAC Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of December 31, 2008, we are in compliance with our regulatory capital requirements.

Furthermore, our Global Automotive Finance and ResCap operations have subsidiaries that are required to maintain regulatory capital requirements under agreements with Freddie Mac, Fannie Mae, Ginnie Mae, the Department of Housing and Urban Development, the Utah State Department of Financial Institutions, and the FDIC.

Insurance Companies

Our Insurance operations are subject to certain minimum aggregate capital requirements, net asset and dividend restrictions under applicable state insurance laws, and the rules and regulations promulgated by the U.S. Financial Services Authority in England, the Office of the Superintendent of Financial Institutions of Canada, the National Insurance and Bonding Commission of Mexico, and the Financial Industry Regulatory Authority. Under various state insurance regulations, dividend distributions may be made only from statutory unassigned surplus, with approvals required from the state regulatory authorities for dividends in excess of certain statutory limitations.

Other Regulations

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Some of the other more significant regulations that GMAC is subject to include:

Privacy The GLB Act imposes additional obligations on us to safeguard the information we maintain on our customers and permits customers to opt-out of information sharing with third parties. Regulations have been enacted

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by several agencies that establish obligations to safeguard information. In addition, several states have enacted even more stringent privacy legislation. If a variety of inconsistent state privacy rules or requirements are enacted, our compliance costs could increase substantially.

Fair Credit Reporting Act The Fair Credit Reporting Act provides a national legal standard for lenders to share information with affiliates and certain third parties and to provide firm offers of credit to consumers. In late 2003, the Fair and Accurate Credit Transactions Act was enacted, making this preemption of conflicting state and local laws permanent. The Fair Credit Reporting Act was also amended to place further restrictions on the use of information sharing between affiliates, to provide new disclosures to consumers when risk-based pricing is used in the credit decision, and to help protect consumers from identity theft. All of these new provisions impose additional regulatory and compliance costs on us and reduce the effectiveness of our marketing programs.

Sarbanes-Oxley The Sarbanes-Oxley Act of 2002 implements a broad range of corporate governance and accounting measures designed to promote honesty and transparency in corporate America. The principal provisions of the act include, among other things, (i) the creation of an independent accounting oversight board; (ii) auditor independence provisions that restrict nonaudit services that accountants may provide to their audit clients; (iii) additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer certify financial statements; (iv) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve-month period following initial publication of any financial statements that later require restatement; (v) an increase in the oversight of and enhancement of certain requirements relating to audit committees and how they interact with the independent auditors; (vi) requirements that audit committee members must be independent and are barred from accepting consulting, advisory, or other compensatory fees from the issuer; (vii) requirements that companies disclose whether at least one member of the audit committee is a financial expert (as defined by the SEC) and, if not, why the audit committee does not have a financial expert; (viii) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions, on nonpreferential terms and in compliance with other bank regulatory requirements; (ix) disclosure of a code of ethics; (x) requirements that management assess the effectiveness of internal control over financial reporting and that the Independent Registered Public Accounting Firm attest to the assessment; and (xi) a range of enhanced penalties for fraud and other violations.

USA PATRIOT/Anti-Money-Laundering Requirements In response to the September 11, 2001 terrorist attacks, on October 26, 2001, President Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA Patriot Act). Title III of the USA Patriot Act amends the Bank Secrecy Act and contains provisions designed to detect and prevent the use of the U.S. financial system for money laundering and terrorist financing activities by, among other things, imposing new compliance obligations on savings associations, trust companies and securities broker-dealers. Pursuant to these laws, it is the obligation of covered institutions to identify their clients, monitor for and report on suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and to share information with other financial institutions. To comply with applicable obligations we have implemented necessary internal practices, procedures, and controls.

Employees

We had approximately 22,700 and 26,700 employees worldwide as of December 31, 2008 and 2007, respectively. The 2008 headcount includes approximately 1,500 ResCap employees who received notices in 2008 that their employment will terminate during the first quarter of 2009.

Additional Information

A description of our lines of business, along with the results of operations for each segment and the products and services offered, are contained in the individual business operations sections of Management's Discussion and Analysis of Financial Condition and Results of Operations, which begins on page 27. Financial information related to reportable segments and geographic areas is provided in Note 24 to the Consolidated Financial Statements.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K (and amendments to these reports) are available on our internet website, free of charge, as soon as reasonably practicable after the

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reports are electronically filed with or furnished to the SEC. These reports are available at www.gmacfs.com. Choose United States, Investor Relations, and SEC Filings (under Quick Links). These reports can also be found on the SEC website located at www.sec.gov.

Item 1A. Risk Factors

Because of the following factors, as well as other factors affecting our operating results and financial condition, past financial performance should not be considered a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Risks Related to Becoming a Bank Holding Company

Our business, financial condition and results of operations could be adversely affected by new regulations to which we are subject as a result of becoming a bank holding company.

On December 24, 2008, the Board of Governors of the Federal Reserve System approved our application to become a bank holding company under the Bank Holding Company Act of 1956, as amended. As a bank holding company, we are subject to the comprehensive, consolidated supervision of the FRB. We are also subject to risk-based and leverage capital requirements, information reporting, and other regulatory requirements. In addition, GMAC's banking subsidiary GMAC Bank is subject to regulation and examination primarily by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions. This regulatory oversight is established to protect depositors, federal deposit insurance funds and the banking system as a whole, not security holders. Many of these regulatory requirements are new for us and will require significant expense and devotion of resources to fully implement processes that will be necessary to ensure continued compliance.

It is possible that certain of our existing business activities will not be deemed to be permissible under applicable banking law. As a new bank holding company, we are permitted a two-year grace period to comply with these restrictions on activities. We may also apply for three one-year extensions. We are currently reviewing our business activities and may be required to make modifications that could have a material impact on our business. We are also subject to restrictions on transactions between GMAC Bank and its affiliates. For example, GM is currently an affiliate of GMAC Bank for purposes of Section 23A of the Federal Reserve Act (Section 23A). Section 23A prohibits GMAC Bank from purchasing certain low-quality assets from its affiliates or generally from engaging in specified covered transactions with any one affiliate that exceed 10% of its capital stock and surplus or with all of its affiliates that, in the aggregate, exceed 20% of its capital stock and surplus. In connection with our application to become a bank holding company, we requested and received from the Federal Reserve a limited exemption with respect to these restrictions as described above. However, until such time as either GM is no longer an affiliate of GMAC and GMAC Bank or we are unable to obtain further exemptions or waivers with respect to these restrictions, there will be substantial restrictions on the activities of GMAC Bank and our ability to fund a material amount of assets through GMAC Bank will be restricted.

If we are unable to satisfy applicable regulatory capital requirements in the future, we could become subject to enforcement actions and/or FDIC receivership.

As a bank holding company, if we fail to satisfy regulatory capital or other requirements, we may be subject to serious consequences ranging in severity from being precluded from making acquisitions, to becoming subject to formal enforcement actions by the Federal Reserve and FDIC receivership. If this were to occur, such actions could impair us from successfully executing our business plan and have a material adverse effect on our business, results of operations, and financial position.

We may not be successful in implementing our business plan as a bank holding company.

As a new bank holding company, we intend to undertake new business activities. Doing so is subject to inherent risks. There can be no assurance that we will be able to execute on these plans in a timely manner, or at all, which would have a material adverse effect on our business, results of operations, and financial position.

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Other Risks Related to Our Business

Our business and the businesses of our subsidiaries, including Residential Capital, LLC (ResCap), require substantial capital, and continued disruption in our funding sources and access to the capital markets would continue to have a material adverse effect on our liquidity and financial condition.

Our liquidity and ongoing profitability are, in large part, dependent upon our timely access to capital and the costs associated with raising funds in different segments of the global capital markets. We depend and will continue to depend on our ability to access diversified funding alternatives to meet future cash flow requirements and to continue to fund our operations. Our funding strategy and liquidity position have been significantly adversely affected by the ongoing stress in the credit markets that began in the middle of 2007. These adverse conditions reached unprecedented levels through 2008, and have continued in recent months. The capital markets remain highly volatile and access to liquidity has been significantly reduced. These conditions, in addition to the reduction in our credit ratings, have resulted in increased borrowing costs and our inability to access the unsecured debt markets in a cost-effective manner. This has resulted in an increased reliance on asset-backed and other secured sources of funding, which also has been constrained in the current environment. Some of these facilities have not been renewed placing additional pressure on our liquidity position, and our inability to renew loans and facilities as they mature would have a further negative impact on our liquidity position. It could become more difficult to renew loans and facilities as many lenders and counterparties are also facing liquidity and capital challenges as a result of the current stress in the financial markets. We also have significant maturities of unsecured debt each year. Approximately \$11.8 billion of our outstanding unsecured long-term debt matures in 2009, and \$7.3 billion matures in 2010. In order to retire these instruments, we either will need to refinance this debt, which will be very difficult should the current volatility in the credit markets continue or worsen, or generate sufficient cash to retire the debt.

Upon our approval to become a bank holding company, we received from the U.S. Department of Treasury a \$5 billion investment under their Troubled Asset Relief Program (TARP). Eligibility to participate in further government funding programs, such as the Temporary Liquidity Guarantee Program (the TLG Program), is subject to the approval of various governmental authorities, which may include the Federal Reserve Board, the U.S. Treasury and the FDIC, and such approvals are subject to numerous conditions. We may not be successful in completing the actions or satisfying the conditions required by the Federal Reserve to obtain approval for further government funding. GMAC's inability to do so could have a material adverse effect on its business, results of operations, and financial position.

Furthermore, we have recently provided a significant amount of funding to ResCap, and ResCap remains heavily reliant on support from us in meeting its liquidity and capital requirements. Any negative events with respect to ResCap could serve as a further drain on our financial resources.

ResCap's liquidity has also been adversely affected, and may be further adversely affected in the future, by margin calls under certain of its secured credit facilities that are dependent in part on the lenders' valuation of the collateral securing the financing. Each of these credit facilities allows the lender, to varying degrees, to revalue the collateral to values that the lender considers to reflect market values. If a lender determines that the value of the collateral has decreased, it may initiate a margin call requiring ResCap to post additional collateral to cover the decrease. When ResCap is subject to such a margin call, it must provide the lender with additional collateral or repay a portion of the outstanding borrowings with minimal notice. Any such margin call could harm ResCap's liquidity, results of operations, financial condition, and business prospects. Additionally, in order to obtain cash to satisfy a margin call, ResCap may be required to liquidate assets at a disadvantageous time, which could cause it to incur further losses and adversely affect its results of operations and financial condition. Furthermore, continued volatility in the capital markets has made determination of collateral values uncertain compared to historical experience, and many of ResCap's lenders are taking a much more conservative approach to valuations. As a result, the frequency and magnitude of margin calls has increased, and we expect both to remain high compared to historical experience for the foreseeable future.

Recent developments in the market for many types of mortgage products (including mortgage-backed securities) have resulted in reduced liquidity for these assets. Although this reduction in liquidity has been most acute with regard to nonprime assets, there has been an overall reduction in liquidity across the credit spectrum of mortgage products. As a result, ResCap's liquidity has been and will continue to be negatively impacted by margin calls and changes to advance rates on its secured facilities. One consequence of this funding reduction is that ResCap may decide to retain interests in securitized mortgage pools that in other circumstances it would sell to investors, and ResCap will have to secure additional financing for these

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retained interests. If ResCap is unable to secure sufficient financing for them, or if there is further general deterioration of liquidity for mortgage products, it will adversely impact ResCap's business.

Our borrowing costs and access to the debt capital markets depend significantly on our credit ratings.

The cost and availability of unsecured financing generally are dependent on our short-term and long-term credit ratings. Each of Standard & Poor's Rating Services; Moody's Investors Service, Inc.; Fitch, Inc.; and Dominion Bond Rating Service rates our debt. Most of the recent credit rating actions have been negative, and several of these agencies currently maintain a negative outlook with respect to our ratings. Ratings reflect the rating agencies' opinions of our financial strength, operating performance, strategic position, and ability to meet our obligations. Further downgrades of our credit ratings would further increase borrowing costs and constrain our access to unsecured debt markets, including capital markets for retail debt and, as a result, would negatively affect our business. In addition, future downgrades of our credit ratings could increase the possibility of additional terms and conditions being added to any new or replacement financing arrangements, as well as impact elements of certain existing secured borrowing arrangements.

Agency ratings are not a recommendation to buy, sell, or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

Our indebtedness and other obligations are significant and could materially adversely affect our business.

We have a significant amount of indebtedness. As of December 31, 2008, we had approximately \$126 billion in principal amount of indebtedness outstanding. Interest expense on our indebtedness constitutes approximately 65% of our total financing revenues. In addition, under the terms of our current indebtedness, we have the ability to create additional unsecured indebtedness. If our debt payments increase, whether due to the increased cost of existing indebtedness or the incurrence of additional indebtedness, we may be required to dedicate a significant portion of our cash flow from operations to the payment of principal of, and interest on, our indebtedness, which would reduce the funds available for other purposes. Our indebtedness also could limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions.

The profitability and financial condition of our operations are heavily dependent upon the performance, operations, and prospects of GM.

A significant portion of our customers are those of GM and GM dealers and other GM-related employees. As a result, a significant adverse change in GM's business, including significant adverse changes in GM's liquidity position and access to the capital markets, the production or sale of GM vehicles, the quality or resale value of GM vehicles, the use of GM marketing incentives, GM's relationships with its key suppliers, GM's relationship with the United Auto Workers and other labor unions, and other factors impacting GM or its employees, or a GM bankruptcy, would have a significant adverse effect on our profitability and financial condition.

We provide vehicle financing through purchases of retail automotive and lease contracts with retail customers of primarily GM dealers. We also finance the purchase of new and used vehicles by GM dealers through wholesale financing, extend other financing to GM dealers, provide fleet financing for GM dealers to buy vehicles they rent or lease to others, provide wholesale vehicle inventory insurance to GM dealers, provide automotive extended service contracts through GM dealers, and offer other services to GM dealers. In 2008, our share of GM retail sales and sales to dealers were 32% and 81%, respectively, in markets where GM operates. As a result, GM's level of automobile production and sales directly impacts our financing and leasing volume, the premium revenue for wholesale vehicle inventory insurance, the volume of automotive extended service contracts, and the profitability and financial condition of the GM dealers to whom we provide wholesale financing, term loans, and fleet financing. In addition, the quality of GM vehicles affects our obligations under automotive extended service contracts relating to such vehicles. Further, the resale value of GM vehicles, which may be impacted by various factors relating to GM's business such as brand image or the number of new GM vehicles produced, affects the remarketing proceeds we receive upon the sale of repossessed vehicles and off-lease vehicles at lease termination.

Our Global Automotive Finance operations are highly dependent on GM sales volume. In 2008, global vehicle sales declined rapidly, and there is no assurance that the global automotive market, or GM's share of that market, will not suffer a significant further downturn. Vehicle sales volume could be further adversely impacted by any restructuring that would reduce the number of GM retail channels and core brands or consolidate GM's dealer network.

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In the event that GM or any of its significant subsidiaries were to file for bankruptcy, sales volume could decrease as a result of a reduction in consumer confidence, and GM's business could be otherwise materially adversely affected. This would in turn have a materially adverse impact on our business. In addition, pursuant to contractual arrangements with GM, whenever GM offers vehicle financing and leasing incentives to customers (e.g., lower interest rates than market rates), it will do so exclusively through GMAC, subject to certain limitations and exceptions. In the event of a GM bankruptcy, it is possible that GM would reject this exclusivity arrangement with us. If GM did so, this could have a material adverse effect on our business, profitability and financial condition.

It is difficult to predict with certainty all the consequences of a GM bankruptcy. However, there may be systemic economic impacts, such as increased unemployment rates, that could further impact our business.

We have substantial credit exposure to GM, and a GM bankruptcy could impact certain of our funding facilities.

We have entered into various operating and financing arrangements with GM. As a result of these arrangements, we have substantial credit exposure to GM.

As a marketing incentive, GM may sponsor residual support programs for retail leases as a way to lower customer's monthly payments. Under residual support programs, the contractual residual value is adjusted above GMAC's standard residual values. At lease origination, GM pays us the present value of the estimated amount of residual support it expects to owe at lease termination. When the lease terminates, GM makes a true-up payment to us if the estimated residual support payment is too low. Similarly, we make a true-up payment to GM if the estimated residual payment is too high and GM overpaid GMAC. Additionally, under what we refer to as lease pull-ahead programs, customers are sometimes encouraged by GM to terminate leases early in conjunction with the acquisition of a new GM vehicle. As part of these programs, we waive all or a portion of the customer's remaining payment obligation under the current lease. Under most programs, GM compensates us for the foregone revenue from the waived payments. Since these programs generally accelerate our remarketing of the vehicle, the resale proceeds are typically higher than otherwise would have been realized had the vehicle been remarketed at lease contract maturity. The reimbursement from GM for the foregone payments is, therefore, reduced by the amount of this benefit. GM makes estimated payments to us at the end of each month in which customers have pulled their leases ahead. As with residual support payments, these estimates are trueed-up once all the vehicles that could have been pulled ahead have terminated and been remarketed. To the extent that the original estimates were incorrect, GM or GMAC may be obligated to pay each other the difference, as appropriate under the lease pull-ahead programs. GM is also responsible for risk sharing on returned lease vehicles in the United States and Canada whose resale proceeds are below standard residual values (limited to a floor). In addition, GM may sponsor rate support programs, which offer rates to customers below the standard market rates at which we purchase retail contracts (such as 0% financing). Under rate support programs, GM is obligated to pay us the present value of the difference between the customer rate and our standard rates. The amount of this payment is determined on a monthly basis based on subvented contract originations in a given month, and payment for GM's rate support obligation is due to us on the 15th of each following month.

Our credit exposure to GM is significant. As of December 31, 2008, we had approximately \$2.5 billion in secured exposure, which includes primarily wholesale vehicle financing to GM-owned dealerships, notes receivable from GM, and vehicles leased directly to GM. We further had approximately \$1.9 billion in unsecured exposure, which includes estimates of payments from GM related to residual support and risk-sharing agreements. If GM were to file for bankruptcy, payment on our unsecured exposures could be delayed or might not occur at all. In addition, we would become an unsecured creditor of GM to the extent that proceeds from the sale of our collateral related to secured exposures are insufficient to repay GM's obligations to us. Under the terms of certain agreements between GMAC and GM, GMAC has the right to offset certain of its exposures to GM against amounts GMAC owes to GM.

In connection with our dealer floorplan securitizations, if GM either (1) becomes subject to liquidation under Chapter 7 of the U.S. Bankruptcy Code or a similar provision of state or federal law; or (2) ceases to operate as an automobile manufacturer or undertakes to sell all or substantially all of its automobile manufacturing assets or business, in either case, after a petition has been filed under Chapter 11 of the U.S. Bankruptcy Code or a similar provision of state or federal law, then an early amortization event will occur with respect to such securitizations. Principal collections on the dealer accounts will be paid in accordance with the transactions documents, and no additional borrowings may be made during an early amortization period. In addition, if either of the two GM specific events were to occur as indicated above, an immediate event of default would occur under our \$11.4 billion secured revolving credit facility that we entered into in June 2008. In this

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circumstance, all amounts outstanding under this facility would become immediately due and payable and, if the amounts outstanding were not repaid, the collateral securing the facility could be sold by the lender under the facility.

Our profitability and financial condition have been materially adversely affected by declines in the residual value of off-lease vehicles, and the residual value of off-lease vehicles may continue to decrease.

Our expectation of the residual value of a vehicle subject to an automotive lease contract is a critical element used to determine the amount of the lease payments under the contract at the time the customer enters into it. As a result, to the extent the actual residual value of the vehicle, as reflected in the sales proceeds received upon remarketing at lease termination, is less than the expected residual value for the vehicle at lease inception, we incur additional depreciation expense and/or a loss on the lease transaction. General economic conditions, the supply of off-lease vehicles, and new vehicle market prices heavily influence used vehicle prices and thus the actual residual value of off-lease vehicles. Also contributing to the weakness in the used vehicle market are the historically low consumer confidence levels, which influence major purchases, and the weakening financial condition of auto dealers. During 2008, sharp declines in demand and used vehicle sale prices affected GMAC's remarketing proceeds for these vehicles, and resulted in impairments totaling \$1,234 million for the year ended December 31, 2008. Weak residual values also contributed to total loss provisions of \$626 million for the year ended December 31, 2008 on our balloon finance contract portfolio.

These trends may continue or worsen. GM's brand image, consumer preference for GM products, and GM's marketing programs that influence the new and used vehicle market for GM vehicles also influence lease residual values. In addition, our ability to efficiently process and effectively market off-lease vehicles impacts the disposal costs and proceeds realized from the vehicle sales. While GM provides support for lease residual values, including through residual support programs, this support by GM does not in all cases entitle us to full reimbursement for the difference between the remarketing sales proceeds for off-lease vehicles and the residual value specified in the lease contract. Differences between the actual residual values realized on leased vehicles and our expectations of such values at contract inception could continue to have a negative impact on our profitability and financial condition.

The occurrence of recent adverse developments in the mortgage finance and credit markets has adversely affected ResCap's business, liquidity and its capital position and has raised substantial doubt about ResCap's ability to continue as a going concern.

ResCap has been negatively impacted by the events and conditions in the broader mortgage banking industry, most severely but not limited to the nonprime and nonconforming mortgage loan markets. Fair market valuations of mortgage loans held-for-sale, mortgage servicing rights, securitized interests that continue to be held by ResCap and other assets and liabilities ResCap records at fair value has significantly deteriorated due to weakening housing prices, increasing rates and severity of delinquencies and defaults of mortgage loans. These deteriorating factors have also resulted in higher provision for loan losses on ResCap's mortgage loans held-for-investment and real estate-lending portfolios. The market deterioration has resulted in rating agency downgrades of asset- and mortgage-backed securities, which in turn has led to fewer sources of, and significantly reduced levels of, liquidity available to finance ResCap's operations. Most recently, the widely publicized credit defaults and/or acquisitions of large financial institutions in the marketplace has further restricted credit in the United States and international-lending markets.

ResCap is highly leveraged relative to its cash flow and continues to recognize substantial losses resulting in a significant deterioration in capital. There continues to be a risk that ResCap will not be able to meet its debt service obligations, default on its financial debt covenants due to insufficient capital and/or be in a negative liquidity position in 2009. ResCap remains heavily dependent on GMAC for funding and capital support, and there can be no assurance that GMAC will provide such support.

In light of ResCap's liquidity and capital needs, combined with volatile conditions in the marketplace, there is substantial doubt about ResCap's ability to continue as a going concern. If GMAC determines to no longer support ResCap's capital or liquidity needs, or ResCap is unable to successfully execute its other initiatives, it could have a material adverse effect on ResCap's business, results of operations, and financial position.

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ResCap has significant near-term liquidity issues. There is a significant risk that ResCap will not be able to meet its debt service obligations and other funding obligations in the near-term.

ResCap expects continued liquidity pressures for at least the early part of the 2009. ResCap is highly leveraged relative to its cash flow. As of December 31, 2008, ResCap's liquidity portfolio (cash readily available to cover operating demands from across its business operations and maturing obligations) totaled \$0.5 billion.

ResCap expects that additional and continuing liquidity pressure, which is difficult to forecast with precision, will result from the obligation of its subsidiaries to advance delinquent principal, interest, property taxes, casualty insurance premiums and certain other amounts with respect to mortgage loans ResCap services that become delinquent. Recent increases in delinquencies with respect to ResCap's servicing portfolio has increased the overall level of such advances, as well as extending the time over which ResCap expects to recover such amounts under the terms of its servicing contracts. ResCap also must find alternate funding sources for assets that must periodically be withdrawn from some of its financing facilities as maximum funding periods for those assets expire. In addition, in connection with the recent restructuring of ResCap's credit facilities, ResCap became subject to requirements to maintain minimum consolidated tangible net worth and consolidated liquidity balances in order to continue its access to those facilities. ResCap will attempt to meet these and other liquidity and capital demands through a combination of operating cash and additional asset sales. The sufficiency of these sources of additional liquidity cannot be assured, and any asset sales, even if they raise sufficient cash to meet ResCap's liquidity needs, may result in losses that negatively affect our overall profitability and financial condition.

Moreover, even if ResCap is successful in implementing all of the actions described above, its ability to satisfy its liquidity needs and comply with any covenants included in its debt agreements requiring maintenance of minimum cash balances may be affected by additional factors and events (such as interest rate fluctuations and margin calls) that increase ResCap's cash needs making ResCap unable to independently satisfy its near-term liquidity requirements.

We have extensive financing and hedging arrangements with ResCap, which could be at risk of nonpayment if ResCap were to file for bankruptcy.

As of January 31, 2009, we had approximately \$4.1 billion in secured financing arrangements (of which approximately \$2.6 billion had been funded) and secured hedging agreements with ResCap, and we owned approximately \$500 million of ResCap notes. Amounts outstanding under the secured financing and hedging arrangements fluctuate. If ResCap were to file for bankruptcy, ResCap's repayments of its financing facilities, including those with us, could be slower than if ResCap had not filed for bankruptcy. In addition, we could be an unsecured creditor of ResCap to the extent that the proceeds from the sale of our collateral are insufficient to repay ResCap's obligations to us. It is possible that other ResCap creditors would seek to recharacterize our loans to ResCap as equity contributions or to seek equitable subordination of our claims so that the claims of other creditors would have priority over our claims. As a holder of unsecured notes, we would not receive any distributions for the benefit of creditors in a ResCap bankruptcy before secured creditors are repaid. We may also find it advantageous to provide debtor-in-possession financing to ResCap in a bankruptcy proceeding in order to preserve the value of the collateral ResCap has pledged to us. In addition, should ResCap file for bankruptcy, our investment related to ResCap's equity position would likely be reduced to zero. Based on January 31, 2009, balances, this would result in a \$3.1 billion charge to our investment in ResCap.

Current conditions in the residential mortgage market and housing markets may continue to adversely affect ResCap's earnings and financial condition.

Recently, the residential mortgage market in the United States, Europe, and other international markets in which ResCap conducts business has experienced a variety of difficulties and changed economic conditions that adversely affected ResCap's earnings and financial condition in full-year 2007 and in 2008. Delinquencies and losses with respect to ResCap's nonprime mortgage loans increased significantly and may continue to increase. Housing prices in many parts of the United States, the United Kingdom and other international markets have also declined or stopped appreciating, after extended periods of significant appreciation. In addition, the liquidity provided to the mortgage sector has recently been significantly reduced. This liquidity reduction combined with ResCap's decision to reduce its exposure to the nonprime mortgage market caused its nonprime mortgage production to decline, and such declines are expected to continue. Similar trends have emerged beyond the nonprime sector, especially at the lower end of the prime credit quality scale, and have had a similar effect on ResCap's related liquidity needs and businesses in the United States, Europe, and other international markets. These trends have resulted in significant writedowns to ResCap's mortgage loans held-for-sale and trading securities portfolios and additions to its

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allowance for loan losses for its mortgage loans held-for-investment and warehouse-lending receivables portfolios. A continuation of these conditions, which we anticipate in the near term, may continue to adversely affect ResCap's financial condition and results of operations.

Moreover, the continued deterioration of the U.S. housing market and decline in home prices in 2007 and 2008 in many U.S. and international markets, which we anticipate will continue for the near term, are likely to result in increased delinquencies or defaults on the mortgage assets ResCap owns and services. Further, loans that were made based on limited credit or income documentation also increase the likelihood of future increases in delinquencies or defaults on mortgage loans. An increase in delinquencies or defaults will result in a higher level of credit losses and credit-related expenses, as well as increased liquidity requirements to fund servicing advances, all of which in turn will reduce ResCap's revenues and profits. Higher credit losses and credit-related expenses also could adversely affect ResCap's financial condition.

ResCap's lending volume is generally related to the rate of growth in U.S. residential mortgage debt outstanding and the size of the U.S. residential mortgage market. Recently, the rate of growth in total U.S. residential mortgage debt outstanding has slowed sharply in response to the reduced activity in the housing market and national declines in home prices. A decline in the rate of growth in mortgage debt outstanding reduces the number of mortgage loans available for ResCap to purchase or securitize, which in turn could lead to a reduction in ResCap's revenue, profits and business prospects.

Our earnings may decrease because of increases or decreases in interest rates.

rising interest rates will increase our cost of funds;

rising interest rates may reduce our consumer automotive financing volume by influencing consumers to pay cash for, as opposed to financing, vehicle purchases, or not buying new vehicles;

rising interest rates may negatively impact our ability to remarket off-lease vehicles;

rising interest rates generally reduce our residential mortgage loan production as borrowers become less likely to refinance, and the costs associated with acquiring a new home becomes more expensive;

rising interest rates will generally reduce the value of mortgage and automotive financing loans and contracts and retained interests and fixed income securities held in our investment portfolio.

We are also subject to risks from decreasing interest rates. For example, a significant decrease in interest rates could increase the rate at which mortgages are prepaid, which could require us to write down the value of our retained interests and mortgage servicing rights. Moreover, if prepayments are greater than expected, the cash we receive over the life of our mortgage loans held-for-investment, and our retained interests would be reduced. Higher-than-expected prepayments could also reduce the value of our mortgage servicing rights and, to the extent the borrower does not refinance with us, the size of our servicing portfolio. Therefore, any such changes in interest rates could harm our revenues, profitability, and financial condition.

Our hedging strategies may not be successful in mitigating our risks associated with changes in interest rates and could affect our profitability and financial condition, as could our failure to comply with hedge accounting principles and interpretations.

We employ various economic hedging strategies to mitigate the interest rate and prepayment risk inherent in many of our assets and liabilities. Our hedging strategies rely on assumptions and projections regarding our assets, liabilities, and general market factors. If these assumptions and projections prove to be incorrect or our hedges do not adequately mitigate the impact of changes in interest rates or prepayment speeds, we may experience volatility in our earnings that could adversely affect our profitability and financial condition.

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In addition, hedge accounting in accordance with Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) requires the application of significant subjective judgments to a body of accounting concepts that is complex and for which the interpretations have continued to evolve within the accounting profession and amongst the standard-setting bodies. In our 2006 Form 10-K, we restated prior period financial information to eliminate hedge accounting treatment that had been applied to certain callable debt hedged with derivatives.

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Our residential mortgage subsidiary's ability to pay dividends to us is restricted by contractual arrangements.

On June 24, 2005, we entered into an operating agreement with GM and ResCap, the holding company for our residential mortgage business, to create separation between GM and us on the one hand, and ResCap, on the other. The operating agreement restricts ResCap's ability to declare dividends or prepay subordinated indebtedness to us. This operating agreement was amended on November 27, 2006, and again on November 30, 2006, in conjunction with the Sale Transactions. Among other things, these amendments removed GM as a party to the agreement.

The restrictions contained in the ResCap operating agreement include the requirements that ResCap's total equity be at least \$6.5 billion for dividends to be paid. If ResCap is permitted to pay dividends pursuant to the previous sentence, the cumulative amount of such dividends may not exceed 50% of ResCap's cumulative net income (excluding payments for income taxes from our election for federal income tax purposes to be treated as a limited liability company), measured from July 1, 2005, at the time such dividend is paid. These restrictions will cease to be effective if ResCap's total equity has been at least \$12 billion as of the end of each of two consecutive fiscal quarters or if we cease to be the majority owner. In connection with the Sale Transactions, GM was released as a party to this operating agreement, but the operating agreement remains in effect between ResCap and us. At December 31, 2008, ResCap had consolidated total equity of approximately \$2.2 billion.

A failure of or interruption in the communications and information systems on which we rely to conduct our business could adversely affect our revenues and profitability.

We rely heavily upon communications and information systems to conduct our business. Any failure or interruption of our information systems or the third-party information systems on which we rely could cause underwriting or other delays and could result in fewer applications being received, slower processing of applications, and reduced efficiency in servicing. The occurrence of any of these events could have a material adverse effect on our business.

We use estimates and assumptions in determining the fair value of certain of our assets, in determining our allowance for credit losses, in determining lease residual values, and in determining our reserves for insurance losses and loss adjustment expenses. If our estimates or assumptions prove to be incorrect, our cash flow, profitability, financial condition, and business prospects could be materially adversely affected.

We use estimates and various assumptions in determining the fair value of many of our assets, including certain loans held-for-investment for which we elected fair value accounting, retained interests from securitizations of loans and contracts, mortgage servicing rights, and other investments, which do not have an established market value or are not publicly traded. We also use estimates and assumptions in determining our allowance for credit losses on our loan and contract portfolios, in determining the residual values of leased vehicles, and in determining our reserves for insurance losses and loss adjustment expenses. It is difficult to determine the accuracy of our estimates and assumptions, and our actual experience may differ materially from these estimates and assumptions. As an example, the continued decline of the domestic housing market, especially (but not exclusively) with regard to the nonprime sector, has resulted in increases of the allowance for loan losses at ResCap for 2006 and 2007. A material difference between our estimates and assumptions and our actual experience may adversely affect our cash flow, profitability, financial condition, and business prospects.

Our business outside the United States exposes us to additional risks that may cause our revenues and profitability to decline.

We conduct a significant portion of our business outside the United States which exposes us to risks. The risks associated with our operations outside the United States include:

multiple foreign regulatory requirements that are subject to change;

differing local product preferences and product requirements;

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fluctuations in foreign currency exchange rates and interest rates;

difficulty in establishing, staffing, and managing foreign operations;

differing labor regulations;

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consequences from changes in tax laws; and

political and economic instability, natural calamities, war, and terrorism.

The effects of these risks may, individually or in the aggregate, adversely affect our revenues and profitability.

Our business could be adversely affected by changes in currency exchange rates.

We are exposed to risks related to the effects of changes in foreign currency exchange rates. Changes in currency exchange rates can have a significant impact on our earnings from international operations as a result of foreign currency translation adjustments. While we carefully watch and attempt to manage our exposure to fluctuation in currency exchange rates, these types of changes can have material adverse effects on our business and results of operations and financial condition.

We are exposed to credit risk, which could affect our profitability and financial condition.

We are subject to credit risk resulting from defaults in payment or performance by customers for our contracts and loans, as well as contracts and loans that are securitized and in which we retain a residual interest. For example, the continued decline in the domestic housing market has resulted in an increase in delinquency rates related to mortgage loans that ResCap either holds or retains an interest in. Furthermore, a weak economic environment and the continued deterioration of the housing market could exert pressure on our consumer automotive finance customers resulting in higher delinquencies, repossessions, and losses. There can be no assurances that our monitoring of our credit risk as it impacts the value of these assets and our efforts to mitigate credit risk through our risk-based pricing, appropriate underwriting policies, and loss mitigation strategies are or will be sufficient to prevent a further adverse effect on our profitability and financial condition. As part of the underwriting process, we rely heavily upon information supplied by third parties. If any of this information is intentionally or negligently misrepresented and the misrepresentation is not detected before completing the transaction, the credit risk associated with the transaction may be increased.

Fluctuations in valuation of investment securities or significant fluctuations in investment market prices could negatively affect revenues.

Investment market prices in general are subject to fluctuation. Consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value that could negatively affect our revenues. Additionally, fluctuations in the value of investment securities available-for-sale could result in unrealized losses recorded in equity. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments, national and international events, and general market conditions.

We may be required to repurchase contracts and provide indemnification if we breach representations and warranties from our securitization and whole-loan transactions, which could harm our profitability and financial condition.

When we sell retail contracts or leases through whole-loan sales or securitize retail contracts, leases, or wholesale loans to dealers, we are required to make representations and warranties about the contracts, leases, or loans to the purchaser or securitization trust. Our whole-loan sale agreements generally require us to repurchase retail contracts or provide indemnification if we breach a representation or warranty given to the purchaser. Likewise, we are required to repurchase retail contracts, leases, or loans and may be required to provide indemnification if we breach a representation or warranty in connection with our securitizations. Similarly, sales of mortgage loans through whole-loan sales or securitizations require us to make representations and warranties about the mortgage loans to the purchaser or securitization trust. Our whole-loan sale agreements generally require us to repurchase or substitute loans if we breach a representation or warranty given to the purchaser. In addition, we may be required to repurchase mortgage loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its origination. Likewise, we are required to repurchase or substitute mortgage loans if we breach a representation or warranty in connection with our securitizations. The remedies available to a purchaser of mortgage loans may be broader than those available to us against the original seller of the mortgage loan. Also, originating brokers and correspondent lenders often lack sufficient capital to repurchase more than a limited number of such loans and numerous brokers and correspondents are no longer in business. If a purchaser enforces its remedies against us, we may not be able to enforce the remedies we have against the seller of the mortgage loan to us or the borrower.

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Like others in the mortgage industry, ResCap has experienced a material increase in repurchase requests. Significant repurchase activity could continue to harm our profitability and financial condition.

Significant indemnification payments or contract, lease, or loan repurchase activity of retail contracts or leases or mortgage loans could harm our profitability and financial condition.

We have repurchase obligations in our capacity as servicer in securitizations and whole-loan sales. If a servicer breaches a representation, warranty, or servicing covenant with respect to an automotive receivable or mortgage loan, the servicer may be required by the servicing provisions to repurchase that asset from the purchaser. If the frequency at which repurchases of assets occurs increases substantially from its present rate, the result could be a material adverse effect on our financial condition, liquidity, and results of operations.

A loss of contractual servicing rights could have a material adverse effect on our financial condition, liquidity, and results of operations.

We are the servicer for all of the receivables we have originated and transferred to other parties in securitizations and whole-loan sales of automotive receivables. Our mortgage subsidiaries service the mortgage loans we have securitized, and we service the majority of the mortgage loans we have sold in whole-loan sales. In each case, we are paid a fee for our services, which fees in the aggregate constitute a substantial revenue stream for us. In each case, we are subject to the risk of termination under the circumstances specified in the applicable servicing provisions.

In most securitizations and whole-loan sales, the owner of the receivables or mortgage loans will be entitled to declare a servicer default and terminate the servicer upon the occurrence of specified events. These events typically include a bankruptcy of the servicer, a material failure by the servicer to perform its obligations, and a failure by the servicer to turn over funds on the required basis. The termination of these servicing rights, were it to occur, could have a material adverse effect on our financial condition, liquidity, and results of operations and those of our mortgage subsidiaries. For the year ended December 31, 2008, our consolidated mortgage servicing fee income was approximately \$1.8 billion.

The regulatory environment in which we operate could have a material adverse effect on our business and earnings.

Our domestic operations are subject to various laws and judicial and administrative decisions imposing various requirements and restrictions relating to supervision and regulation by state and federal authorities. Such regulation and supervision are primarily for the benefit and protection of our customers, not for the benefit of investors in our securities, and could limit our discretion in operating our business. Noncompliance with applicable statutes or regulations could result in the suspension or revocation of any license or registration at issue, as well as the imposition of civil fines and criminal penalties.

Our operations are also heavily regulated in many jurisdictions outside the United States. For example, certain of our foreign subsidiaries operate either as a bank or a regulated finance company, and our insurance operations are subject to various requirements in the foreign markets in which we operate. The varying requirements of these jurisdictions may be inconsistent with U.S. rules and may materially adversely affect our business or limit necessary regulatory approvals, or if approvals are obtained, we may not be able to continue to comply with the terms of the approvals or applicable regulations. In addition, in many countries the regulations applicable to the financial services industry are uncertain and evolving, and it may be difficult for us to determine the exact regulatory requirements.

In light of current conditions in the U.S. financial markets and economy, regulators have increased their focus on the regulation of the financial services industry. For instance, in October 2008, Congress passed the Emergency Economic Stabilization Act of 2008, which in turn created the Troubled Asset Relief Program and the Capital Purchase Program. We are unable to predict how these and any future programs will be administered or implemented or in what form, or whether any additional or similar changes to statutes or regulations, including the interpretation or implementation thereof, will occur in the future. Any such action could affect us in substantial and unpredictable ways and could have an adverse effect on our business, financial condition, and results of operations. We are also affected by the policies adopted by regulatory authorities and bodies of the United States and other governments. For example, the actions of the Federal Reserve and international central banking authorities directly impact our cost of funds for lending, capital raising and investment activities and may impact the value of financial instruments we hold. In addition, such changes in monetary policy may affect the credit quality of our customers. Changes in domestic and international monetary policy are beyond our control and difficult to predict.

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Our inability to remain in compliance with regulatory requirements in a particular jurisdiction could have a material adverse effect on our operations in that market with regard to the affected product and on our reputation generally. No assurance can be given that applicable laws or regulations will not be amended or construed differently, that new laws and regulations will not be adopted, or that we will not be prohibited by local laws from raising interest rates above certain desired levels, any of which could materially adversely affect our business, financial condition, or results of operations.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our reported revenues, profitability, and financial condition

Our financial statements are subject to the application of U.S. generally accepted accounting principles, which are periodically revised and/or expanded. The application of accounting principles is also subject to varying interpretations over time. Accordingly, we are required to adopt new or revised accounting standards or comply with revised interpretations that are issued from time to time by recognized authoritative bodies, including the Financial Accounting Standards Board and the SEC. Those changes could adversely affect our reported revenues, profitability, or financial condition.

General business and economic conditions may significantly and adversely affect our revenues, profitability, and financial condition.

Our business and earnings are sensitive to general business and economic conditions in the United States and in the markets in which we operate outside the United States. A downturn in economic conditions resulting in increased short- and long-term interest rates, inflation, fluctuations in the debt capital markets, unemployment rates, consumer and commercial bankruptcy filings, or a decline in the strength of national and local economies and other factors that negatively impact household incomes could decrease demand for our financing and mortgage products and increase mortgage and financing delinquency and losses on our customer and dealer financing operations. We have been negatively impacted due to (i) the significant stress in the residential real estate and related capital markets in 2007 and 2008, and, in particular, the lack of home price appreciation in many markets in which we lend and (ii) decreases in new and used vehicle purchases, which have reduced the demand for automotive retail and wholesale financing.

If the rate of inflation were to increase, or if the debt capital markets or the economies of the United States or our markets outside the United States were to continue in their current condition or further weaken, or if home prices or new and used vehicle purchases continue at the currently reduced levels or experience further declines, we could continue to be adversely affected, and it could become more expensive for us to conduct our business. For example, business and economic conditions that negatively impact household incomes or housing prices could continue in their current condition or further decrease (i) the demand for our mortgage loans and new and used vehicle financing and (ii) the value of the collateral underlying our portfolio of mortgage and new and used vehicle loans held for investment and interests that continue to be held by us, and further increase the number of consumers who become delinquent or default on their loans. In addition, the rate of delinquencies, foreclosures, and losses on our loans (especially our nonprime mortgage loans) as experienced recently could be higher during more severe economic slowdowns.

Any sustained period of increased delinquencies, foreclosures, or losses could further harm our ability to sell our mortgage and new and used vehicle loans, the prices we receive for our mortgage and new and used vehicle loans, or the value of our portfolio of mortgage and new and used vehicle loans held-for-investment or interests from our securitizations, which could harm our revenues, profitability, and financial condition. Continued adverse business and economic conditions could, and in the near-term likely will, further impact demand for housing, new and used vehicles, the cost of construction, and other related factors that have harmed, and could continue to harm, the revenues and profitability of our business capital operations.

In addition, our business and earnings are significantly affected by the fiscal and monetary policies of the U.S. government and its agencies and similar governmental authorities in the markets in which we operate outside the United States. We are particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States. The FRB's policies influence the new and used vehicle financing market and the size of the mortgage origination market, which significantly impacts the earnings of our businesses and the earnings of our business capital activities. The FRB's policies also influence the yield on our interest-earning assets and the cost of our interest bearing liabilities. Changes in those policies are beyond our control and difficult to predict, and could adversely affect our revenues, profitability and financial condition.

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The worldwide financial services industry is highly competitive. If we are unable to compete successfully or if there is increased competition in the automotive financing, mortgage, and/or insurance markets or generally in the markets for securitizations or asset sales, our margins could be materially adversely affected.

The markets for automotive and mortgage financing, insurance, and reinsurance are highly competitive. The market for automotive financing has grown more competitive as more consumers are financing their vehicle purchases, primarily in North America and Europe. Our mortgage business faces significant competition from commercial banks, savings institutions, mortgage companies, and other financial institutions. Our insurance business faces significant competition from insurance carriers, reinsurers, third-party administrators, brokers, and other insurance-related companies. Many of our competitors have substantial positions nationally or in the markets in which they operate. Some of our competitors have lower cost structures, lower cost of capital, and are less reliant on securitization and sale activities. We face significant competition in various areas, including product offerings, rates, pricing and fees, and customer service. This competition may increase as we have recently increased pricing on certain lending activities. If we are unable to compete effectively in the markets in which we operate, our profitability and financial condition could be negatively affected.

The markets for asset and mortgage securitizations and whole-loan sales are competitive, and other issuers and originators could increase the amount of their issuances and sales. In addition, lenders and other investors within those markets often establish limits on their credit exposure to particular issuers, originators and asset classes, or they may require higher returns to increase the amount of their exposure. Increased issuance by other participants in the market, or decisions by investors to limit their credit exposure to us or to require a higher yield for us or to automotive or mortgage securitizations or whole loans, could negatively affect our ability and that of our subsidiaries to price our securitizations and whole-loan sales at attractive rates. The result would be lower proceeds from these activities and lower profits for our subsidiaries and us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our primary executive and administrative offices are located in Detroit, Michigan, New York, New York, and Charlotte, North Carolina. In Detroit, we lease approximately 220,000 square feet from GM pursuant to a lease agreement expiring in November 2016. In New York, we lease approximately 18,000 square feet of office space under a lease that expires in July 2011, and in Charlotte, we lease approximately 26,000 square feet of office space under a lease expiring in May 2009.

The primary office for our North American Automotive Finance operations is located in Detroit, Michigan, and is included in the totals referenced above. Our International Automotive Finance operations include leased space in approximately 30 countries totaling approximately 678,000 square feet. The largest countries include the United Kingdom and Italy with office space under lease of approximately 121,000 square feet and 87,000 square feet, respectively.

The primary office for our U.S. Insurance operations is located in Southfield, Michigan. Other significant offices are located in Maryland Heights, Missouri and Winston-Salem, North Carolina. In Southfield, we lease approximately 91,000 square feet of office space under leases expiring in March 2010. Our Maryland Heights and Winston-Salem offices are approximately 136,000 square feet and 444,000 square feet, respectively, under leases expiring in September 2014. Our Insurance operations also have leased offices in Mexico and the United Kingdom.

The primary offices for our ResCap operations are located in Fort Washington, Pennsylvania, and Minneapolis, Minnesota. In Fort Washington, ResCap leases approximately 450,000 square feet of office space pursuant to a lease that expires in November 2019. In Minneapolis, we lease approximately 259,000 square feet of office space under a lease expiring in March 2013. ResCap also has significant leased offices in Texas and California.

In addition to the properties described above, we lease additional space throughout the United States and in the approximately 40 countries in which we operate, including additional facilities in Canada, Germany, and the United Kingdom. We believe that our facilities are adequate for us to conduct our present business activities.

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Item 3. Legal Proceedings

We are subject to potential liability under various governmental proceedings, claims, and legal actions that are pending or otherwise have been asserted against us.

We are named as defendants in a number of legal actions, and we are occasionally involved in governmental proceedings arising in connection with our respective businesses. Some of the pending actions purport to be class actions. We establish reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving legal claims may be higher or lower than any amounts reserved for the claims. On the basis of information currently available, advice of counsel, available insurance coverage, and established reserves, it is the opinion of management that the eventual outcome of the actions against us, including those described below, will not have a material adverse effect on our consolidated financial condition, results of operations, or cash flows. However, in the event of unexpected future developments, it is possible that the ultimate resolution of legal matters, if unfavorable, may be material to our consolidated financial condition, results of operations, or cash flows. Furthermore, any claim or legal action against GM that results in GM incurring significant liability could also have an adverse effect on our consolidated financial condition, results of operations, or cash flows. For a discussion of pending cases against GM, refer to Item 3 in GM's 2008 Annual Report on Form 10-K, filed separately with the SEC, which report is not deemed incorporated into any of our filings under the Securities Act of 1933, as amended (Securities Act) or the Securities Exchange Act of 1934, as amended (Exchange Act).

Pending legal proceedings, other than ordinary routine litigation incidental to the business, to which GMAC became, or was, a party during the year ended December 31, 2008, or subsequent thereto, but before the filing of this report are summarized as follows:

Shareholder Class Actions

On September 19, 2005, a purported class action complaint, *Folksam Asset Management v. General Motors, et al.*, was filed in the U.S. District Court for the Southern District of New York, naming as defendants GM; GMAC; and GM Chairman and Chief Executive Officer G. Richard Wagoner, Jr.; Vice Chairman John Devine; Treasurer Walter G. Borst; and Chief Accounting Officer Peter Bible. Plaintiffs purported to bring the claim on behalf of purchasers of GM debt and/or equity securities during the period February 25, 2002, through March 16, 2005. The complaint alleges that defendants violated Section 10(b) and, with respect to the individual defendants, Section 20(a) of the Exchange Act. The complaint also alleges violations of Sections 11 and 12(a) and, with respect to the individual defendants, Section 15 of the Securities Act, in connection with certain registered debt offerings during the class period. In particular, the complaint alleges that GM's cash flows during the class period were overstated based on the reclassification of certain cash items described in GM's 2004 Form 10-K. The reclassification involves cash flows relating to the financing of GMAC wholesale receivables from dealers that resulted in no net cash receipts and GM's decision to revise Consolidated Statements of Net Cash for the years ended 2002 and 2003. The complaint also alleges misrepresentations relating to forward-looking statements of GM's 2005 earnings forecast that were later revised significantly downward. In October 2005, a similar suit, asserting claims under the Exchange Act based on substantially the same factual allegations, was filed and subsequently consolidated with the *Folksam* case, *Galliani, et al. v. General Motors, et al.* The consolidated suit was recaptioned as *In re General Motors Securities Litigation*. Under the terms of the Sale Transactions, GM is indemnifying GMAC in connection with these cases.

On November 18, 2005, plaintiffs in the *Folksam* case filed an amended complaint, which adds several additional investors as plaintiffs, extends the end of the class period to November 9, 2005, and names as additional defendants three current and one former member of GM's audit committee, as well as independent accountants, Deloitte & Touche LLP. In addition to the claims asserted in the original complaint, the amended complaint adds a claim against defendants Wagoner and Devine for rescission of their bonuses and incentive compensation during the class period. It also includes further allegations regarding GM's accounting for pension obligations, restatement of income for 2001, and financial results for the first and second quarters of 2005. Neither the original complaint nor the amended complaint specify the amount of damages sought, and the defendants have no means to estimate damages the plaintiffs will seek based upon the limited information available in the complaint. On January 17, 2006, the court made provisional designations of lead plaintiff and lead counsel, which designations were made final on February 6, 2006. Plaintiffs subsequently filed a second amended complaint, which added various underwriters as defendants.

Plaintiffs filed a third amended complaint in *In re General Motors Securities and Derivative Litigation* on August 15, 2006 (certain shareholder derivative cases brought against GM were consolidated with *In re General Motors Securities Litigation* for coordinated or consolidated pretrial proceedings, and the caption was modified). The amended

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complaint did not include claims against the underwriters previously named as defendants; alleged a proposed class period of April 13, 2000, through March 20, 2006; did not include the previously asserted claim for the rescission of incentive compensation against Mr. Wagoner and Mr. Devine; and contained additional factual allegations regarding GM's restatements of financial information filed with its reports to the SEC. On October 13, 2006, the defendants filed a motion to dismiss the amended complaint in the shareholder class action litigation, which remains pending. On December 14, 2006, plaintiffs filed a motion for leave to file a fourth amended complaint in the event the Court grants the defendants' motion to dismiss. The defendants have opposed the motion for leave to file a fourth amended complaint.

Motion for Consolidation and Transfer to the Eastern District of Michigan

On December 13, 2005, defendants in *In re General Motors Corporation Securities Litigation* (previously *Folksam Asset Management v. General Motors Corporation, et al.* and *Galliani v. General Motors Corporation, et al.*) and *Stein v. Bowles, et al.* filed a Motion with the Judicial Panel on Multidistrict Litigation to transfer and consolidate these cases for pretrial proceedings in the U.S. District Court for the Eastern District of Michigan.

On January 5, 2006, defendants submitted to the Judicial Panel on Multidistrict Litigation an Amended Motion seeking to add to their original Motion the *Rosen, Gluckstern, and Orr* cases for consolidated pretrial proceedings in the U.S. District Court for the Eastern District of Michigan. On April 17, 2006, the Judicial Panel on Multidistrict Litigation entered an order transferring *In re General Motors Corporation Securities Litigation* to the U.S. District Court for the Eastern District of Michigan for coordinated or consolidated pretrial proceedings with *Stein v. Bowles, et al.*; *Rosen, et al. v. General Motors Corp., et al.*; *Gluckstern v. Wagoner, et al.*; and *Orr v. Wagoner, et al.* (while the motion was pending, plaintiffs voluntarily dismissed *Rosen*). In October 2007, the U.S. District Court for the Eastern District of Michigan appointed a special master for the purpose of facilitating settlement negotiations in the consolidated case, now captioned *In re General Motors Corporation Securities and Derivative Litigation*. The parties reached an agreement to settle the *GM Securities* litigation on July 21, 2008, which required GM to pay \$277 million. This settlement was finally approved by the District Court in January 2009, and an objector filed a notice of appeal to that approval order on January 30, 2009.

Item 4. Submission of Matters to a Vote of Security Holders

The following matter was submitted to a vote of GMAC security holders during the fourth quarter of 2008:

Effective November 14, 2008, the holders of GMAC's Class A and Class B Common Equity Interests approved by joint unanimous consent the acquisition by GMAC, or one of its subsidiaries, of ResMor Trust Company (an indirect subsidiary of Residential Capital, LLC) and the transfer of ResMor Trust Company by GMAC Residential Funding of Canada, Ltd. to GMAC or one of its subsidiaries.

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Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities
Membership Interests

We currently have authorized and outstanding common voting membership interests consisting of 216,719 Class A Membership Interests (Class A Interests) and 323,201 Class B Membership Interests (Class B Interests), which have equal rights and preferences in our assets and constitute all of the common voting interests of GMAC (Class A Interests and Class B Interests are collectively referred to as our Common Membership Interests). Currently, FIM Holdings owns all 216,719 Class A Interests (40.14% of total GMAC common voting interests) and GM, through a wholly owned subsidiary of GM, owns all 323,201 Class B Interests (59.86% of total GMAC common voting interests).

We further have authorized and outstanding 8,330 Class C Membership Interests (Class C Interests), which are deemed profits interests and not capital interests, as those terms are defined under applicable tax regulations, and are held directly by GMAC Management LLC, a wholly owned subsidiary of GMAC. Class C Interests were issued pursuant to the GMAC Management LLC Class C Membership Interest Plan, an incentive compensation plan. GMAC currently has no intention to issue further Class C Interests pursuant to this plan.

Our Common Membership Interests and Class C Interests are privately held. As such, there is no established trading market for these interests.

Preferred Membership Interests*Series D-1 and Series D-2 Preferred Membership Interests*

On December 29, 2008, as part of the Automotive Industry Financing Program created under the Troubled Asset Relief Program (TARP) established by the U.S. Department of Treasury (the Treasury) under the Emergency Economic Stabilization Act of 2008 (the EESA), we entered into an agreement (the Purchase Agreement) with the Treasury pursuant to which we issued and sold to the Treasury (i) 5,000,000 units of GMAC's Fixed Rate Cumulative Perpetual Preferred Membership Interests, Series D-1, having a capital amount of \$1,000 per share (the Series D-1 Preferred Interests) and (ii) a ten-year warrant to purchase up to approximately 250,000 units of GMAC's Fixed Rate Cumulative Perpetual Preferred Membership Interests, Series D-2 (the Warrant Interests), at an initial exercise price of \$0.01 per unit (the Warrant), for an aggregate purchase price of \$5.0 billion in cash (collectively, the TARP Preferred Interests). On December 29, 2008, the Treasury exercised the Warrant for 250,000 Warrant Interests for an aggregate exercise price of approximately \$2,500.

Cumulative distributions on the Series D-1 Preferred Interests accrue at a rate of 8% per annum, on (i) the capital amount per unit of Series D-1 Preferred Interests and (ii) the amount of accrued and unpaid distributions for any prior distribution period on the Series D-1 Preferred Interests, if any. Distributions will be paid only if and when declared by GMAC's Board of Managers. Declared distributions on the Series D-1 Preferred Interests will be payable quarterly, in arrears. The Series D-1 Preferred Interests have no maturity date and rank senior to GMAC's Common Membership Interests and Class C Interests (collectively, the Junior Membership Interests), and rank equal with GMAC's other preferred membership interests with respect to the payment of distributions and amounts payable upon liquidation, dissolution and winding-up of GMAC.

The Series D-1 Preferred Interests generally are nonvoting, other than class-voting on certain matters under certain circumstances, including, generally, the authorization of senior membership interests, the amendment of the Series D-1 Preferred Interests and any exchange, reclassification, merger and consolidation involving the Series D-1 Preferred Interests (other than a conversion of GMAC into a corporation). If distributions on the Series D-1 Preferred Interests have not been paid for an aggregate of six quarterly distribution periods or more, whether or not consecutive, GMAC's authorized number of managers constituting its Board of Managers will be automatically increased by two, and the holders of the Series D-1 Preferred Interests will have the right to elect managers to fill the newly created manager positions. These two managers will serve until all accrued and unpaid distributions on the Series D-1 Preferred Interests have been paid in full.

After the date that is three years from the date of issuance of the Series D-1 Preferred Interests, GMAC may, at its option, redeem, in whole or in part, from time to time, the Series D-1 Preferred Interests then outstanding. Prior to this date, GMAC may redeem the Series D-1 Preferred Interests if (i) GMAC has raised aggregate gross proceeds in one or more Qualified Equity Offerings (as defined in Amendment No. 6 to the LLC Agreement, which was filed as Exhibit 3.2 to our

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Form 8-K dated January 2, 2009) of not less than \$1.25 billion and (ii) the aggregate redemption price does not exceed the aggregate net cash proceeds from such Qualified Equity Offerings. Any redemption of the Series D-1 Preferred Interests shall be at a redemption price equal to (i) the capital amount per unit of Series D-1 Preferred Interests, plus (ii) any accrued and unpaid distributions. Holders of the Series D-1 Preferred Interests do not have any right to require the redemption or repurchase of any shares of the Series D-1 Preferred Interests. Any redemption of the Series D-1 Preferred Interests is subject to the consent of the Board of Governors of the Federal Reserve System.

The Warrant Interests have the same rights, preferences, privileges, voting rights and other terms as the Series D-1 Preferred Interests, except that (i) the Warrant Interests receive distributions at a rate of 9% per annum and (ii) the Warrant Interests may not be redeemed until all of the Series D-1 Preferred Interests have been redeemed.

If approved by the GMAC Board of Managers, distributions on the Series D-1 Preferred Interests and the Warrant Interests are payable quarterly on February 15, May 15, August 15, and November 15 of each year.

Subject to certain exceptions, the Purchase Agreement generally prohibits GMAC and its subsidiaries from paying dividends or distributions on, or redeeming repurchasing or acquiring, their membership interests or other equity securities without the consent of the Treasury or, in the case of tax distributions on Junior Membership Interests, without the consent of the President's Designee (as defined in H.R. 7321) unless GMAC has redeemed the Series D-1 Preferred Interests and Warrant Interests or Treasury has transferred all of the Series D-1 Preferred Interests and Warrant Interests to a third party. Exceptions to these restrictions include, among others, the ability to pay regular distributions on preferred membership interests that are otherwise permitted under the terms of the TARP Preferred Interests.

The Series D-1 Preferred Interests, the Warrant, and the Warrant Interests were issued to the Treasury in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. GMAC has agreed to register the resale or secondary offering of the Series D-1 Preferred Interests and the units of Warrant Interests issued on the exercise of the Warrant no later than March 31, 2009.

Class E Preferred Membership Interests

On December 31, 2008, GMAC completed private exchange offers and cash tender offers pursuant to which GMAC purchased and/or exchanged certain of its and its subsidiaries' (including ResCap's) outstanding notes (the Offers). In connection with the settlement of the Offers, GMAC issued 2,576,601 units of Class E Preferred Membership Interests (the Class E Interests) to Preferred Blocker Inc. (Blocker), a Delaware corporation and wholly owned nonconsolidated subsidiary of GMAC.

Blocker is entitled to receive from GMAC in respect of the Class E Interests, when, as and if declared by GMAC's Board of Managers out of funds legally available for payment, cash distributions at the rate per annum of 11.86%. Distributions shall be payable quarterly on February 15, May 15, August 15, and November 15 of each year. Distributions not declared by GMAC's Board of Managers will accumulate. On January 16, 2009, GMAC completed a \$1.25 billion rights offering (the Rights Offering) pursuant to which GMAC issued additional common membership interests to FIM Holdings and a subsidiary of GM. Upon completion of the Rights Offering, the distribution rate on the Class E Interests was reduced from 15.25% per annum to 11.86% per annum. The Class E Interests generally are nonvoting, other than class-voting on certain matters under certain circumstances that are specifically related to the Class E Interests.

Pursuant to the terms of the Offers, Blocker then issued 2,576,601 units of new 9% Cumulative Perpetual Preferred Stock (the Blocker Preferred Stock) to investors. Holders of the Blocker Preferred Stock are entitled to receive from Blocker, when, as and if declared by Blocker's Board of Directors out of funds legally available for payment, cash dividends at a rate per annum equal to 7%. Upon completion of the Rights Offering, the interest rate on Blocker Preferred was reduced from 9% to 7%. Distributions are payable quarterly on February 15, May 15, August 15, and November 15 of each year, and are cumulative.

GM Preferred Membership Interests

We currently have authorized and outstanding 1,021,764 GM Preferred Membership Interests, all of which are held by GM Preferred Finance Co. Holdings Inc., a wholly owned subsidiary of GM. We are required to make distributions for each fiscal quarter with respect to the GM Preferred Interests if certain conditions are met. Distributions are made in cash on a pro

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rata basis no later than the tenth business day following the delivery of our quarterly and annual financial statements, and are paid at the rate of 10% per annum. Our Board of Managers is permitted to reduce any distribution to the extent required to avoid a reduction of the equity capital of GMAC below a minimum amount of equity capital equal to approximately \$15.5 billion, which was our net book value as of November 30, 2006, as determined in accordance with accounting principles generally accepted in the United States of America. In addition, our Board of Managers may suspend the payment of distributions with respect to any one or more fiscal quarters with majority members' consent. Distributions not made do not accumulate.

Refer to Item 12 for further information regarding ownership of the foregoing common and preferred membership interests.

Distributions

For the year ended December 31, 2008, there were \$79 million of distributions on our Common Membership Interests and no distributions on our Preferred Membership Interests. The distributions made on our Common Membership Interests primarily represented remittances to GM for tax settlements and refunds received related to tax periods prior to the Sales Transactions as required per the terms of the Purchase and Sale Agreement between GM and FIM Holdings. Prior to the Sale Transactions we paid cash and noncash dividends to GM of \$9.7 billion in 2006.

Item 6. Selected Financial Data

The selected historical financial information set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements, and the notes to consolidated financial statements. The historical financial information presented may not be indicative of our future performance.

As of and for the year ended December 31,

<i>(\$ in millions)</i>	2008	2007	2006	2005	2004
Total financing revenue	\$ 18,395	\$ 21,187	\$ 23,103	\$ 21,312	\$ 20,324
Interest expense	11,870	14,776	15,560	13,106	9,659
Depreciation expense on operating lease assets	5,483	4,915	5,341	5,244	4,828
Impairment of investment in operating leases	1,234				
Net financing (loss) revenue	(192)	1,496	2,202	2,962	5,837
Total other revenue (a)	17,050	10,303	12,620	11,955	9,868
Total net revenue	16,858	11,799	14,822	14,917	15,705
Provision for credit losses	3,683	3,096	2,000	1,074	1,953
Impairment of goodwill and other intangible assets (b)	58	455	840	712	
Total other noninterest expense	11,256	10,190	9,754	9,652	9,496
Income (loss) before income tax expense	1,861	(1,942)	2,228	3,479	4,256
Income tax (benefit) expense (c)	(7)	390	103	1,197	1,362
Net income (loss)	\$ 1,868	\$ (2,332)	\$ 2,125	\$ 2,282	\$ 2,894
Total assets	\$ 189,476	\$ 248,939	\$ 291,971	\$ 324,321	\$ 325,854
Total debt	\$ 126,321	\$ 193,148	\$ 236,985	\$ 254,698	\$ 268,997
Total equity	\$ 21,854	\$ 15,565	\$ 14,369	\$ 21,685	\$ 22,436

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- (a) 2008 amount includes \$12.6 billion for gains on the extinguishment of debt, primarily related to private exchange and cash tender offers settled during the fourth quarter. 2006 amount includes realized capital gains of \$1.1 billion primarily related to the rebalancing of our investment portfolio at our Insurance operations.
- (b) Relates primarily to goodwill and other intangible asset impairments taken at our Insurance operations in 2008, ResCap in 2007, our Commercial Finance Group operations in 2006 and 2005, and our former commercial mortgage operations in 2005.
- (c) Effective November 28, 2006, GMAC, along with certain of its U.S. subsidiaries, converted to limited liability companies (LLCs) and became pass-through entities for U.S. federal income tax purposes. Our conversion to an LLC resulted in a change in tax status and the elimination of a \$791 million net deferred tax liability through income tax expense.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. For a discussion of important risk factors that could cause actual results to differ, refer to Item 1A. The following section should be read in conjunction with the more detailed information, including our financial statements and the notes thereto, which appear elsewhere in this Annual Report.

Background

GMAC is a leading, independent, globally diversified, financial services firm with approximately \$189 billion of assets at December 31, 2008. Founded in 1919 as a wholly owned subsidiary of General Motors Corporation (General Motors or GM), GMAC was established to provide GM dealers with the automotive financing necessary to acquire and maintain vehicle inventories and to provide retail customers the means by which to finance vehicle purchases through GM dealers. On November 30, 2006, GM sold a 51% interest in us (the Sale Transactions) to FIM Holdings LLC (FIM Holdings), an investment consortium led by Cerberus FIM Investors, LLC, the sole managing member. The consortium also includes an affiliate of Citigroup Inc., Aozora Bank Ltd., and a subsidiary of The PNC Financial Services Group, Inc. On December 24, 2008, the Board of Governors of the Federal Reserve System approved our application to become a bank holding company under the Bank Holding Company Act of 1956, as amended. Refer to Item 12 for further details of current GMAC ownership and future changes in ownership that will be required as a result of this approval.

We currently operate in the following primary lines of business – Global Automotive Finance, Mortgage (Residential Capital, LLC or ResCap), Insurance, and Other. The following table summarizes the operating results of each line of business for the years ended December 31, 2008, 2007, and 2006. Operating results for each of the lines of business are more fully described in the MD&A sections that follow.

Year ended December 31, (\$ in millions)	2008	2007	2006	Favorable/ (unfavorable) 2008-2007 % change	Favorable/ (unfavorable) 2007-2006 % change
Total net revenue (loss)					
Global Automotive Finance	\$ 2,771	\$ 4,955	\$ 4,361	(44)	14
ResCap	(298)	1,676	4,318	(118)	(61)
Insurance	4,743	4,902	5,616	(3)	(13)
Other	9,642	266	527	n/m	(50)
Total	\$ 16,858	\$ 11,799	\$ 14,822	43	(20)
Net (loss) income					
Global Automotive Finance	\$ (2,066)	\$ 1,485	\$ 1,243	n/m	19
ResCap	(5,611)	(4,346)	705	(29)	n/m
Insurance	459	459	1,127		(59)
Other	9,086	70	(950)	n/m	107
Total	\$ 1,868	\$ (2,332)	\$ 2,125	180	n/m

n/m = not meaningful

Our Global Automotive Finance operations offer a wide range of financial services and products (directly and indirectly) to retail automotive consumers, automotive dealerships, and other commercial businesses. Our Global Automotive Finance operations consist of two separate reportable segments—North American Automotive Finance operations and International Automotive Finance operations. The products and services offered by our Global Automotive Finance operations include the purchase of retail installment sales contracts and leases, offering of term loans, dealer floorplan financing and other lines of credit to dealers, fleet leasing, and vehicle remarketing services. In addition, our Global Automotive Finance operations utilize asset securitization and whole-loan sales to

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the extent available as a critical component of our diversified funding strategy. Whereas most of our operations have historically focused on prime automotive financing to and through GM or GM-affiliated dealers, our Nuveel and National operations, which are part of our North American Automotive Finance operations, have focused on nonprime automotive financing through GM-affiliated dealers and also provide private-label automotive financing. Our National operations, which is also part of our North American Automotive Finance operations, have focused on prime and nonprime financing through non-GM dealers.

During late 2008, in response to the recent credit environment and other market conditions, our North American Automotive Finance operations temporarily implemented a more conservative purchase policy for consumer automotive financing generally limiting purchases to customers having a credit score of 700 or greater. As a result of the general tightening on credit underwriting, effective January 2009, we have ceased originating financing volume through Nuveel and National. We have also increased the rates we charge dealers for nonincentivized consumer automotive financing. These changes in pricing and underwriting are related to the current market environment, which has reduced our access to funding and increased our cost of funds. Upon obtaining bank holding company status in late December 2008, we modified our credit criteria to include retail financing for customers with lower credit bureau scores. Additionally, our International Automotive Finance operations recently announced plans to cease retail and wholesale originations in Australia, New Zealand, and retail originations in certain European markets. Our International Automotive Finance operations also announced plans to reduce retail originations in certain Latin American markets due to the current market environment that has reduced our access to funding and increased funding costs. We further plan to implement a more conservative pricing policy throughout remaining European markets to more closely align lending activity with the current capital markets. As a result of these actions, automotive financing volume was significantly lower in 2008 as compared to 2007. We expect these actions to remain in place until the credit markets stabilize and accessibility improves.

Our ResCap operations engage in the origination, purchase, servicing, sale, and securitization of consumer (i.e., residential) mortgage loans and mortgage-related products. In response to market conditions, ResCap has substantially eliminated its production of loans that do not conform to the underwriting guidelines of Fannie Mae, Freddie Mac, and Ginnie Mae. ResCap has further curtailed activities related to both its business capital group, which provides financing and equity capital to residential land developers and homebuilders, and its international business group, which has substantially all of its operations outside of the United States, except for insured mortgages in Canada. Certain agreements are in place between ResCap and us that restrict ResCap's ability to declare dividends or prepay subordinated indebtedness owed to us that may inhibit our ability to return funds for dividend and debt payments.

Our Insurance operations offer vehicle service contracts and underwrite personal automobile insurance coverages (ranging from preferred to nonstandard risks), homeowners' insurance coverage, and selected commercial insurance coverages in the United States, Canada, and internationally. We are a leading provider of vehicle service contracts with mechanical breakdown and maintenance coverages. Our vehicle service contracts offer vehicle owners and lessees mechanical repair protection and roadside assistance for new and used vehicles beyond the manufacturer's new vehicle warranty. We underwrite and market nonstandard, standard, and preferred-risk physical damage and liability insurance coverages for passenger automobiles, motorcycles, recreational vehicles, and commercial automobiles through independent agency, direct response, and internet channels. Additionally, we market private-label insurance through a long-term agency relationship with Homesite Insurance, a national provider of home insurance products. We also provide commercial insurance, primarily covering dealers' wholesale vehicle inventory.

Other operations consist of our Commercial Finance Group, certain equity investments, corporate activities, and reclassifications and eliminations between the reportable segments.

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Consolidated Results of Operations

The following table summarizes our consolidated operating results for the periods shown. Refer to the operating segment sections of the MD&A that follows for a more complete discussion of operating results by line of business.

Year ended December 31, (\$ in millions)	2008	2007	2006	Favorable/ (unfavorable) 2008-2007 % change	Favorable/ (unfavorable) 2007-2006 % change
Revenue					
Total financing revenue	\$ 18,395	\$ 21,187	\$ 23,103	(13)	(8)
Interest expense	11,870	14,776	15,560	20	5
Depreciation expense on operating lease assets	5,483	4,915	5,341	(12)	8
Impairment of investment in operating leases	1,234			n/m	
Net financing (loss) revenue	(192)	1,496	2,202	(113)	(32)
Other revenue					
Net servicing income	1,498	1,649	770	(9)	114
Insurance premiums and service revenue earned	4,329	4,378	4,183	(1)	5
(Loss) gain on mortgage and automotive loans, net	(1,560)	508	1,470	n/m	(65)
Gains on extinguishment of debt	12,628	563		n/m	n/m
Investment (loss) income	(446)	473	2,143	(194)	(78)
Gains on sale of equity-method investments, net			411		(100)
Other income	601	2,732	3,643	(78)	(25)
Total other revenue	17,050	10,303	12,620	65	(18)
Total net revenue	16,858	11,799	14,822	43	(20)
Provision for credit losses	3,683	3,096	2,000	(19)	(55)
Noninterest expense					
Insurance losses and loss adjustment expenses	2,522	2,451	2,420	(3)	(1)
Impairment of goodwill and other intangible assets	58	455	840	87	46
Other operating expenses	8,734	7,739	7,334	(13)	(6)
Total noninterest expense	11,314	10,645	10,594	(6)	
Income (loss) before income tax (benefit) expense	1,861	(1,942)	2,228	196	(187)
Income tax (benefit) expense	(7)	390	103	102	n/m
Net income (loss)	\$ 1,868	\$ (2,332)	\$ 2,125	180	n/m

n/m=not meaningful

2008 Compared to 2007

We reported net income of \$1.9 billion for the year ended December 31, 2008, compared to a net loss of \$2.3 billion in 2007. The 2008 results were primarily driven by a fourth quarter private debt exchange and cash tender offers that resulted in a \$11.5 billion pretax gain on extinguishment of debt. The majority of the gain was offset by losses experienced by ResCap and our Global Automotive Finance operations as

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adverse market conditions continued to persist, both domestically and internationally. Disruption within the mortgage, housing, and capital markets contributed to a lack of liquidity, depressed asset valuations and a weak used vehicle market, impairments on lease residual values, additional loss provisions related to credit deterioration, and lower production levels. Despite these adverse factors, our Insurance operations remained profitable.

Total financing revenue decreased by 13% during the year ended December 31, 2008, compared to 2007, due primarily to a decrease in the size of ResCap's loan portfolio caused by lower loan production, continued portfolio run-off, and the deconsolidation of \$27.4 billion in securitization trusts in late 2007. Additionally, increased delinquency rates adversely impacted ResCap's financing revenue. Global Automotive Finance operations experienced a decrease in consumer finance revenue due to tighter underwriting standards and lower industry sales; however, the decrease was offset by an increase in operating lease revenue. Operating lease revenue (along with the related depreciation expense) increased due to an increase in the average size of the operating lease portfolio. The increase in the average size of the operating lease portfolio primarily occurred during the first half of 2008 as the portfolio was recovering from the transfer of approximately \$12.6 billion of net operating assets to GM during November 2006 as part of the Sales Transactions. During the second half of 2008, the portfolio size began to decrease as we exited leasing in certain markets and increased pricing as a result of the impact of significant declines in used vehicle prices.

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Interest expense decreased 20% during the year ended December 31, 2008, compared to 2007. The decrease was primarily due to lower average borrowings at ResCap due to a \$34.9 billion reduction in the asset base, partially offset by higher funding rates due to unfavorable market conditions and our 2008 refinancing initiatives, which primarily consisted of our private debt exchange. Our Global Automotive Finance operations experienced an increase in interest expense due to increased credit spreads, increased funding costs related to asset growth in certain international markets, and unfavorable foreign currency movements.

The \$1.2 billion impairment of vehicle operating lease assets resulted from significant declines in used vehicle demand and used vehicle sale prices. Impairments recognized by our North American Automotive Finance operations totaled \$1.2 billion and consisted of \$808 million related to sport-utility vehicles and trucks in the United States and Canada and \$384 million related to the car portfolio in the United States. The impairment recognized by our International Automotive Finance operations totaled \$42 million and related to its full-service leasing portfolio.

Net servicing income decreased 9% during the year ended December 31, 2008, compared to 2007, primarily due to decreases in servicing fees collected from GM as certain operating leases transferred during the Sales Transactions continue to run-off as they reached the end of their lease term.

Insurance premiums and service revenue decreased 1% during the year ended December 31, 2008, compared to 2007. Insurance premiums and service revenue earned was adversely affected by fewer U.S. personal automotive policies and lower volume in dealership-related products due to sharp declines in vehicle sales, challenging domestic pricing conditions, and the sale of our U.S. reinsurance managing general agency in November 2008. The business that our U.S. reinsurance agency underwrote was ceded to the purchasing entity. The decrease was partially offset by growth in international operations, both organically and through our acquisition of U.K.-based Provident Insurance in June 2007.

The net loss on mortgage and automotive loans was \$1.6 billion for the year ended December 31, 2008, compared to a net gain of \$508 million for 2007. The losses recognized in 2008 were primarily due to the sale of certain mortgage loans to enhance liquidity at significantly lower prices due to the absence of traditional investor demand. Unfavorable pricing on automotive loans and decreased securitization activity impacted our North American Automotive Finance operations. These losses were partially curtailed by focusing mortgage loan originations and sales on our prime conforming and government-sponsored products. Additionally, the decrease was partially offset by certain fixed-pricing arrangements established in prior years by our Global Automotive Finance operations.

Gains on extinguishment of debt totaled \$12.6 billion during 2008. During the fourth quarter of 2008, the private debt exchange and cash tender offers generated pretax gains of \$11.5 billion; of which Other operations recognized \$10.7 billion and ResCap recognized \$757 million. This gain represents the difference between the carrying value of the exchanged notes and the fair value of the newly issued securities. Refer to the Critical Accounting Estimate section in this MD&A for further discussion related to the private debt exchange and cash tender offers. The 2008 results also include additional debt extinguishment gains of \$1.3 billion recognized by ResCap, offset by losses of \$23 million recognized by Other operations due to the repurchase and extinguishment of ResCap debt. Both of these activities occurred during the second and third quarters of 2008.

Investment losses were \$446 million for the year ended December 31, 2008, compared to investment income of \$473 million in 2007. The decrease primarily related to a decrease in the size of the investment portfolio, extreme market volatility that resulted in unfavorable valuation adjustments, higher realized losses, and impairment charges on certain investments. The valuation adjustments include declines in the fair value of asset-backed securities and related interests as a result of increased credit losses, rating agency downgrades, declines in the value of underlying collateral, market illiquidity, and changes in discount rate assumptions in certain foreign markets.

Other income decreased 78% during the year ended December 31, 2008, compared to 2007. Results were adversely impacted by decreased real estate-related revenue due to continued stress in the mortgage and capital markets and its effect on homebuilders and unfavorable valuation adjustments related to assets and liabilities measured at fair value. Also, the 2008 results reflect equity-method investment losses and a \$570 million full equity-method investment impairment due to the decline in credit market conditions and unfavorable asset revaluations.

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The provision for credit losses increased 19% during the year ended December 31, 2008, compared to 2007. The increase was primarily driven by credit losses for automotive retail balloon contract loans as demand for used vehicles continued to decrease, causing a significant reduction in underlying collateral values. Additionally, weak used vehicle prices drove higher losses due to increased loss severity and repossession rates. The credit provision for commercial receivables also increased due to declining dealer financial health caused by decreasing vehicle sales due to tightened credit standards and conservative consumer spending patterns. These increases were partially offset by decreases related to lower loan origination levels and a decrease in the size of the portfolio following the deconsolidation of various ResCap financing securitizations during the second half of 2007. Additionally, certain fair value elections were made by ResCap on January 1, 2008, which resulted in a lower provision expense because these elected assets within ResCap's held-for-investment loan portfolio were no longer subject to an allowance.

The impairment of goodwill during the year ended December 31, 2008 was primarily the result of a charge taken by our Insurance operations during the fourth quarter. Refer to the Insurance operations section of MD&A and Note 11 to the Consolidated Financial Statements for more details.

Other operating expenses increased 13% during the year ended December 31, 2008, compared to 2007. The increase was primarily driven by higher operating lease disposal losses of \$361 million as a result of less favorable remarketing results, higher professional service fees of \$215 million, increased restructuring expenses of \$100 million, higher automotive remarketing and repossession expenses of \$85 million due to an increase in returned vehicle volume, increased full-service leasing vehicle maintenance costs of \$68 million, and increased mortgage representation and warranty expenses of \$38 million.

Our consolidated income tax benefit was \$7 million during the year ended December 31, 2008, compared to income tax expense of \$390 million during the year ended December 31, 2007. Our effective tax rate is heavily dependent upon the pretax income mix between our pass-through and taxable entities. For 2008, the income recognized by pass-through entities on the private debt exchange and cash tender offers was subject to a slightly lower nominal state income tax rate than operating losses incurred earlier in the year. Meanwhile, at our taxable entities, tax expense consisted of ongoing tax provisions on operating profits plus valuation allowance established at certain foreign subsidiaries. Specifically, operating losses incurred primarily at our foreign mortgage subsidiaries were subject to full valuation allowance that resulted in no tax benefit for these subsidiaries. In 2008, losses incurred at our automotive finance and mortgage pass-through entities, combined with other tax adjustments resulted in an immaterial tax expense for the year. Overall, our consolidated tax expense decreased \$397 million for the year ended December 31, 2008, compared to the same period in 2007. Included within tax expense was expense related to the establishment of valuation allowances for the years ended December 31, 2008 and 2007, of \$1.0 billion and \$91 million, respectively. These valuation allowances primarily related to deferred tax assets on our mortgage operations in continental Europe, the United Kingdom, Canada, and Australia.

2007 Compared to 2006

We reported a net loss of \$2.3 billion for the year ended December 31, 2007, compared to net income of \$2.1 billion in 2006. These results reflect the adverse effects of the continued disruption in the mortgage, housing, and capital markets on ResCap and lower levels of realized capital gains by our Insurance operations, which more than offset the continued strong performance in our Global Automotive Finance operations. ResCap results were adversely affected by domestic economic conditions, including delinquency increases in the mortgage loans held-for-investment portfolio and a significant deterioration in the securitization and residential housing markets. ResCap was also affected by a downturn in certain foreign mortgage and capital markets. The disruption of the mortgage, housing, and capital markets has contributed to a lack of liquidity, depressed asset valuations, additional loss provisions related to credit deterioration, and lower production levels.

Total financing revenue decreased by 8% during the year ended December 31, 2007, compared to 2006, due to decreases experienced by ResCap because of declines in mortgage loan asset balances, lower warehouse-lending balances, and an increase in nonaccrual loans due to higher delinquency rates. Mortgage loan asset balances decreased due to lower loan production, continued portfolio run-off, and the deconsolidation of \$27.4 billion in ResCap securitization trusts. In addition, our North American Automotive Finance operations experienced decreases in consumer finance revenue due to lower retail asset levels, as a result of increased securitization and whole-loan sale activity as the business moved to an originate-to-distribute model. Operating lease income declined 7% during the year ended December 31, 2007, compared to

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2006, due to a reduction in our operating lease portfolio that was primarily driven by the transfer of operating lease assets to GM during November 2006, as part of the Sale Transactions. Similarly, depreciation expense on operating lease assets decreased 8% during the year ended December 31, 2007, compared to 2006, as a result of this reduction.

Interest expense decreased 5% during the year ended December 31, 2007, compared to 2006. This reduction was primarily due to lower levels of outstanding debt as a result of lower asset balances due to increased securitizations and whole-loan sale activity and lower mortgage loan production levels. Additionally, the decrease is attributable to a favorable impact in 2007 of mark-to-market adjustments on certain cancelable swaps, which hedge callable debt. The decrease was also due to the absence of a 2006 debt tender offer in our North American Automotive Finance operations, which resulted in a \$225 million pretax charge in 2006.

Net servicing income increased 114% during the year ended December 31, 2007, compared to 2006. This increase was attributable to positive results in hedging activity and an increase in the average size of the mortgage servicing rights portfolio at ResCap. The increase in the average servicing portfolio resulted in an increase in servicing fees of \$206.7 million. Increased asset securitization activity and whole-loan sales by our North American Automotive Finance operations also contributed to the increase in comparison with 2006 levels.

Insurance premiums and service revenue increased 5% during the year ended December 31, 2007, compared to 2006. The increase was primarily due to growth internationally, both organically and through the second quarter acquisition of Provident Insurance, and higher earnings in the automotive service contract business. The increase was partially offset by challenging pricing conditions in the domestic personal insurance and reinsurance businesses.

The net gain on sale of loans was \$508 million for the year ended December 31, 2007, compared to \$1.5 billion for the year ended December 31, 2006. The decrease was primarily attributable to the decline in the fair value of mortgage loans held-for-sale and obligations to fund mortgage loans due to lower investor demand and lack of domestic and foreign market liquidity adversely affecting ResCap. As a result, the pricing for various loan product types deteriorated, as investor uncertainty remained high concerning the performance of these loans. These trends were partially offset by a \$526 million gain in 2007 on the sale of residual cash flows related to the deconsolidation of \$27.4 billion in ResCap securitization trusts. The decrease was also offset by higher gains realized by our North American Automotive Finance operations due to an increase in securitization and whole-loan sale activity and improved sale margins as a result of the stable-to-declining interest rate environment.

Gains on extinguishment of debt totaled \$563 million for the year ended December 31, 2007. During the fourth quarter of 2007, we paid \$900 million through open-market repurchases and \$241 million through a tender offer for publicly traded ResCap debt securities, resulting in an after-tax gain of \$563 million. There were no such gains on extinguishment of debt during 2006.

Investment income was \$473 million for the year ended December 31, 2007, compared to \$2.1 billion in 2006. The decrease is primarily due to a \$980 million decrease in realized capital gains within our Insurance operations as a result of rebalancing the portfolio in late 2006. Additionally, the decrease was due to the decline in the fair value of retained interests held by ResCap through off-balance sheet securitizations, resulting from increasing credit loss, discount rate, and prepayment speed assumptions associated with the stress in the domestic and foreign mortgage markets.

The decrease in gain on sale of equity-method investments, net, relates to a gain on sale of ResCap's equity investment in a regional homebuilder during the year ended December 31, 2006. We realized no similar gain in 2007.

Other income decreased 25% during the year ended December 31, 2007, compared to 2006. The decline was due to a reduction in loans to GM in connection with the Sale Transactions, lower lending balances from a commercial mortgage subsidiary that resulted from the sale of 79% of the business in 2006. The decrease was also driven by increased impairment charges on land contracts and model homes, a loss on model home sales, lower equity income, and a decrease in fee income due to decreased mortgage loan production.

The provision for credit losses increased 55% during the year ended December 31, 2007, compared to 2006. The increase was driven by the continued deterioration in the domestic housing market, which resulted in higher loss severity and frequency, lower home prices, and higher delinquencies at ResCap. Our provision for the automotive finance business

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remained unchanged as decreases in our North American operations were offset by increases in our International operations. The provision decreased for our North American operations because of lower on-balance sheet consumer receivables. Lower balance sheet receivable levels were due to lower production levels, compared to 2006 levels, and the sale or securitization of \$26.9 billion of consumer finance receivables during the year ended December 31, 2007, compared to \$22.5 billion during 2006. The decrease was more than offset by an increase in allowance coverage rates for our North American operations, as a result of deterioration in the credit performance and an increase for our International operations due to increases in the size of our portfolio, particularly in Latin America.

Insurance losses and loss adjustment expenses remained relatively flat during the year ended December 31, 2007, compared to 2006. The slight increase was primarily due to our international operations, including the Provident Insurance acquisition and organic growth in other businesses. The increase was partially offset by lower loss experience in our U.S. automotive service contract and personal insurance businesses driven by lower volumes and lower weather-related losses affecting our reinsurance business.

The goodwill impairment charge of \$455 million during the year ended December 31, 2007, was the result of the impairment of goodwill at our ResCap business in the third quarter of 2007 as a result of certain triggering events including credit downgrades and losses for the business. Refer to Note 11 to the Consolidated Financial Statements for more details. We recorded a charge of \$840 million during the year ended December 31, 2006, relating to the impairment of goodwill and intangible assets at our Commercial Finance operations.

Income tax expense was \$390 million during the year ended December 31, 2007, compared to \$103 million in 2006. In 2006, certain of our unregulated U.S. subsidiaries became disregarded or pass-through entities for U.S. federal income tax purposes upon their conversion to LLCs. The conversion resulted in the one-time favorable elimination of a net deferred tax liability of \$791 million through income tax expense. A similar benefit to income tax expense was absent from the 2007 results. Results for the year ended December 31, 2007, reflect the effect of our domestic subsidiaries generally not being taxed at the entity level resulting in our effective tax rate on a consolidated basis varying significantly, compared to 2006. The primary reason is that the majority of the net loss experienced at ResCap is attributed to its LLCs and no tax benefit for these losses are recorded. Excluding ResCap, the consolidated effective tax rate is approximately 17%, which represents the provision for taxes at our non-LLC subsidiaries combined with taxable income that is not subject to tax at our LLC subsidiaries. The effective tax rates applicable to our non-LLC subsidiaries remain comparable with 2006.

Outlook

While future market conditions remain uncertain, our operations will continue to look for ways to bring the business in line with the realities of the economic environment. We will continue to reduce costs, balance sheet exposure, and related liquidity requirements through effective asset management. We remain committed to offering a competitive menu of high quality product offerings within the selected core markets. We will continue our growth plan in areas of opportunity and in areas where we continue to maintain a competitive advantage. The following summarizes the key business issues for our operations in 2009:

Global Automotive Finance In 2009, we expect continued weakness in the economic environment caused by stress in the capital and housing markets and high unemployment that will continue to exert pressure on our consumer automotive finance customers resulting in higher delinquencies, repossessions, and losses as compared to historical levels. This will not only impact the financing margins and market valuations on our owned portfolio, but also impact the profit margins we recognize for sold assets. Credit performance in our commercial portfolios could also worsen in 2009 as more dealers experience financial distress as a result of declining profitability and low industry and GM sales volumes. Lower automotive industry sales volume and declining GM sales could also adversely affect our origination volumes for both the consumer and commercial portfolios. As a bank holding company, we expect greater access to more cost-competitive funding sources in 2009. However, our cost of borrowings is expected to remain relatively high, which could result in a lower penetration of GM sales and negatively impact our ability to expand our presence in non-GM dealer networks.

We actively manage our credit risk and believe that as of December 31, 2008, we have appropriately reserved for estimated losses incurred in the portfolios. However, a prolonged or deeper economic recession could continue to adversely affect our earnings and financial condition. As many of our credit exposures are collateralized by

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vehicles, the severity of losses is particularly sensitive to a decline in used vehicle prices, which may continue to adversely affect credit severity and residual values in our lease portfolio. In addition, continued weakness or further deterioration in macroeconomic factors may result in increased bankruptcy filings by our customers (both consumer and commercial), which would have a negative impact on frequency of losses.

ResCap We do not anticipate the domestic and international market economic conditions will improve during 2009; thus the unfavorable impacts on our residential mortgage operations may continue. These economic conditions include housing market contractions, home price depreciation, reduction in liquidity sources, the elimination of virtually all secondary securitization markets with the exception of government-sponsored or insured markets, and a significant increase in delinquencies with increasing severity and frequency of loss. The economic conditions will result in our residential mortgage operations having lower net interest margin, higher provision for loan losses, lower production and gain on sale margins in our core agency-eligible products, higher real estate investment impairments, and larger expected losses on real estate acquired through foreclosure.

We are exposed to valuation and credit risk on the portfolio of residential mortgage loans held-for-sale and held-for-investment and on the interests retained from our securitization activities of these asset classes. In addition, we are exposed to credit risk in our asset-based lending business. Credit losses in our consumer portfolio are influenced by general business and economic conditions of the industries and countries in which we operate. We actively manage our credit risk and believe that as of December 31, 2008, we have appropriately reserved for estimated losses incurred in the portfolios. However, a negative change in economic factors (particularly in the U.S. economy) could adversely affect our 2009 earnings. As many of our credit exposures are collateralized by homes, the severity of losses is particularly sensitive to a decline in residential home prices. In addition, the overall frequency of losses would be negatively influenced by an increase in adverse macroeconomic factors, such as unemployment rates and bankruptcy filings.

As a result of the difficult market conditions and resulting impact on ResCap's business, ResCap is likely to continue to rely on GMAC for support in the near-term.

Insurance In 2009, we expect to have positive underwriting results and to mitigate risks caused by a current unstable investment environment. We will continue to aggressively pursue growth in both the domestic and international markets in all product lines through examining viable organic growth initiatives.

Our extended service product line is largely dependent upon new vehicle market sales and vehicle quality. Due to our relationship with GM, we are particularly sensitive to changes in its market share and vehicle quality. Automotive sales forecasts anticipate that new vehicle sales will be lower in 2009. We continue to expect a competitive pricing environment in our domestic consumer products in 2009. Extraordinary weather conditions can have a large impact on underwriting results in our consumer and automobile dealership physical damage products. We mitigate our potential loss exposure through active management of claim settlement activities and believe we have appropriately reserved for unpaid losses and loss adjustment expenses as of December 31, 2008.

We expect to take actions to create a stable earnings stream from our investment portfolio in this volatile investment environment including, but not limited to, mitigating exposure to certain high risk sectors. The performance of our portfolio is dependent upon investment market prices and other underlying factors.

Funding and liquidity Our ability to fund our Global Automotive Finance and ResCap operations in a cost-efficient manner is a key component of our profitability. During the second half of 2008, the mortgage and capital markets experienced significant stress that translated into significant increases in the cost and a lack of availability of new funding. Currently, the cost of funding in the unsecured markets is prohibitive while secured funding costs reflect the fact that investors are more cautious in today's market environment and that the public asset-backed securities market is generally not available. It is against this backdrop that we continue our ongoing practice of exercising prudent liquidity and capital management. We remain focused on our liquidity position. Despite the

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funding cost increases we are experiencing, we continue to move forward with our funding plan and work to extend key facilities and find alternative sources of funding. In particular, we are focused on growing our consumer retail deposit base through GMAC Bank. Refer to the Funding and Liquidity section in this MD&A for further discussion.

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Global Automotive Finance Operations

Results of Operations

The following table summarizes the operating results of our Global Automotive Finance operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reportable segments and include eliminations of balances and transactions among our North American and International reportable segments.

Year ended December 31, (\$ in millions)	2008	2007	2006	Favorable/ (unfavorable) 2008-2007 % change	Favorable/ (unfavorable) 2007-2006 % change
Revenue					
Consumer	\$ 4,326	\$ 5,334	\$ 5,681	(19)	(6)
Commercial	1,745	1,743	1,602		9
Loans held-for-sale	472	143		n/m	n/m
Operating leases	8,196	7,217	7,735	14	(7)
Total financing revenue	14,739	14,437	15,018	2	(4)
Interest expense	8,777	8,610	9,216	(2)	7
Depreciation expense on operating lease assets	5,480	4,913	5,328	(12)	8
Impairment of investment in operating leases	1,234			n/m	
Net financing (loss) revenue	(752)	914	474	(182)	93
Other revenue					
Servicing fees	295	403	270	(27)	49
Gain on automotive loans, net	444	840	537	(47)	56
Gain on extinguishment of debt	41			n/m	
Investment income	7	422	399	(98)	6
Other income	2,736	2,376	2,681	15	(11)
Total other revenue	3,523	4,041	3,887	(13)	4
Total net revenue	2,771	4,955	4,361	(44)	14
Provision for credit losses	1,416	510	510	(178)	
Noninterest expense	3,578	2,732	2,679	(31)	(2)
(Loss) income before income tax (benefit) expense	(2,223)	1,713	1,172	n/m	46
Income tax (benefit) expense	(157)	228	(71)	169	n/m
Net (loss) income	\$ (2,066)	\$ 1,485	\$ 1,243	n/m	19
Total assets	\$ 143,211	\$ 161,364	\$ 134,603	(11)	20

n/m = not meaningful

2008 Compared to 2007

Global Automotive Finance operations experienced a net loss of \$2.1 billion during the year ended December 31, 2008, compared to net income of \$1.5 billion during the year ended December 31, 2007. Weaker performance was primarily driven by impairment on operating lease assets of \$1.2 billion, higher provisions for credit losses due to weaker consumer and dealer performance, and valuation losses on certain investment securities due to weak used vehicle prices and weaker economic conditions. Additionally, declines in new vehicle financing originations, due to tighter underwriting standards and lower industry sales, adversely impacted results.

Total financing revenue increased 2% for the year ended December 31, 2008, compared to 2007, despite the decrease in consumer revenue. Consumer revenue, combined with interest income on consumer loans held-for-sale, decreased 12% due to tighter underwriting standards and lower industry sales. The income on consumer loans held-for-sale is related to interest on loans that are expected to be sold in whole-loan and securitization transactions over the next twelve months and the increase over the prior year resulted from the movement of the business to an originate-to-distribute platform. The decrease in consumer revenue was offset by the 14% increase in operating lease revenue. Operating lease revenue (along with the related

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depreciation expense) increased because the average size of the operating lease portfolio increased. The increase in the average size of the portfolio primarily occurred during the first half of 2008 and resulted from an increase to the operating lease portfolio following the transfer of approximately \$12.6 billion of net operating assets to GM during November 2006 as part of the Sales Transactions. This increase was partially offset during the second half of 2008 due to a significant decrease in volume as we increased lease pricing and restricted leasing originations due to significant declines in used vehicle prices. We aligned our originations to levels consistent with reduced funding sources as a result of the disruption in the capital markets.

Interest expense increased 2% for the year ended December 31, 2008, compared to 2007, primarily due to increased credit spreads, increased funding costs related to asset growth in certain international markets, and unfavorable foreign currency movements.

The \$1.2 billion impairment of vehicle operating lease assets resulted from significant declines in used vehicle demand and used vehicle sale prices. Impairments recognized by our North American Automotive Finance operations totaled \$1.2 billion and consisted of \$808 million related to sport-utility vehicles and trucks in the United States and Canada and \$384 million related to the car portfolio in the United States. The impairment recognized by our International Automotive Finance operations totaled \$42 million and related to its full-service leasing portfolio.

Servicing fees decreased 27% for the year ended December 31, 2008, compared to 2007, primarily due to decreases in servicing fees collected from GM, as certain operating leases transferred during the Sales Transactions continued to run-off as they reached the end of their lease term.

Net gain on automotive loans decreased 47% for the year ended December 31, 2008, compared to 2007. The decrease was driven by unfavorable pricing due to deterioration in market conditions and a decrease in off-balance sheet securitization activity by our North American Automotive Finance operations. The decrease was partially offset by certain fixed-pricing arrangements in previously established flow agreements that generated higher gains.

Investment income decreased 98% during the year ended December 31, 2008, compared to 2007. The decrease was primarily related to a decrease in the size of the investment portfolio, weak economic conditions affecting the performance of the investments, and unfavorable valuation adjustments related to our retained interests on retail off-balance sheet securitizations.

Other income increased 15% for the year ended December 31, 2008, compared to 2007, due to higher interest income on intercompany loans caused by higher lending levels. The intercompany-lending activities represents the activity of our Global Automotive Finance operations before the elimination of balances and transactions with our other reportable segments.

The provision for credit losses was \$1.4 billion for the year ended December 31, 2008, compared to \$510 million for the year ended December 31, 2007. The increase was driven by credit losses for retail balloon contract loans as demand for used vehicles continued to decrease, causing a significant reduction in underlying collateral values. Additionally, weak used vehicle prices and weak economic conditions affecting the consumer drove higher losses due to increased loss severity and repossession rates. The credit provision for commercial receivables also increased due to declining dealer financial health caused by decreasing vehicle sales due to tightened credit standards and conservative consumer spending patterns.

Noninterest expenses increased 31% for the year ended December 31, 2008, compared to 2007. The increase was primarily attributable to restructuring costs at our North American Automotive Finance operations and increased losses on operating lease disposals as a result of weak used vehicle prices. Additionally, remarketing costs increased due to an increase in returned vehicle volume.

Our Global Automotive Finance operations experienced an income tax benefit of \$157 million for the year ended December 31, 2008, compared to tax expense of \$228 million for the year ended December 31, 2007. The tax benefit resulted from operating losses, particularly from our Canadian operations. Certain of our U.S. subsidiaries are not subject to U.S. federal, state, or local tax expense due to their status as pass-through entities for U.S. federal income tax purposes. Our banking and foreign subsidiaries are generally taxable corporations and continue to be subject to U.S. federal, state, local, and foreign income tax.

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2007 Compared to 2006

Net income increased to \$1.5 billion for the year ended December 31, 2007, compared to \$1.2 billion for 2006. North American operations benefited during the year ended December 31, 2007, from lower interest expense and higher gains on sales and servicing fee income due to an acceleration of our transition to an originate-to-distribute model in the United States, which resulted in higher levels of off-balance sheet securitizations and whole-loan sales.

Total financing revenue decreased 4% for the year ended December 31, 2007, compared to 2006. The decrease in consumer revenue resulted from a reduction in retail asset levels in our North American Automotive Finance operations since December 31, 2006, due to increased securitization and whole-loan sales activity. Operating lease revenue (along with the related depreciation expense) decreased due to a reduction of our operating lease portfolio that was primarily caused by the transfer of approximately \$12.6 billion of net operating lease assets to GM during November 2006, as part of the Sale Transactions. These decreases in financing revenue in our North American Automotive Finance operations during the year ended December 31, 2007, were partially offset by improved results in our International Automotive Finance operations that were driven by growth in the loan and lease portfolio and favorable foreign currency exchange rate movements.

Interest expense decreased 7% for the year ended December 31, 2007, compared to 2006. The reduction was primarily due to lower levels of unsecured debt as a result of a shift to secured and off-balance sheet funding sources and the absence of a debt tender offer in 2007. The year ended December 31, 2006, included the earnings impact of a \$1 billion debt tender offer to repurchase certain deferred interest debentures that resulted in a pretax unfavorable impact of \$225 million. Additionally, the decrease was attributable to a favorable impact in 2007 of mark-to-market adjustments on certain cancelable swaps that hedged callable debt. The 2006 mark-to-market adjustments were unfavorable due to movement in the benchmark forward yield curve and the inability to apply hedge accounting. The decrease was partially offset by unfavorable foreign currency adjustments in our International Automotive Finance operations.

Net gain on automotive loans increased 56% for year ended December 31, 2007, compared to 2006. The increase was primarily a result of an increase in whole-loan and off-balance sheet securitization activity by our North American Automotive Finance operations. For the year ended December 31, 2007, our North American Automotive Finance operations executed approximately \$26.9 billion in whole-loan and off-balance sheet securitization transactions, compared to \$22.5 billion during 2006. Additionally, the gain on sale margins improved as a result of the stable-to-declining interest rate environment and servicing fees increased 49% as a result of the growth in the off-balance sheet portion of the serviced portfolio.

Investment income increased 6% during the year ended December 31, 2007, compared to 2006. The increase was primarily due to an increase in the average balance of investment securities, driven by higher levels of retained and residual interests in off-balance sheet securitized assets.

Other income decreased 11% for the year ended December 31, 2007, compared to 2006, due to lower revenue on intercompany loans due to the reduction in loans to GM in connection with the Sale Transactions and lower intercompany-lending levels with our other operating segments. In addition, a decrease in the average balance of cash and cash equivalents during the year ended December 31, 2007, resulted in lower interest income.

Our provision for credit losses remained unchanged during the year ended December 31, 2007, compared to 2006. The provision decreased for our North American Automotive Finance operations due to lower on-balance sheet consumer receivables, consistent with our acceleration of the originate-to-distribute model. The decrease was partially offset by an increase in allowance coverage rates for our North American Automotive Finance operations, as a result of deterioration in the credit performance during the second half of 2007, and an increase for our International Automotive Finance operations due to an increase in the size of the portfolio, particularly in Latin America.

Noninterest expenses increased 2% for the year ended December 31, 2007 compared to 2006. The increase was primarily attributed to the first annual exclusivity fee of \$75 million paid to GM in connection with our ten-year exclusivity right to U.S. subvented automotive consumer business.

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Income tax expense was \$228 million during the year ended December 31, 2007, compared to an income tax benefit of \$71 million in 2006. In 2006, certain of our unregulated U.S. subsidiaries became disregarded or pass-through entities for U.S. federal income tax purposes upon their conversion to an LLC. The election resulted in the one-time favorable elimination

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of a net deferred tax liability of \$383 million through income tax expense in 2006. Due to our election to be treated as a disregarded or pass-through entity, a federal tax provision is no longer required for certain of our U.S. subsidiaries. In addition, the year ended December 31, 2007, includes the unfavorable impact of the establishment of an \$89 million tax valuation allowance against certain deferred tax assets within our Canadian operations.

Consumer Automotive Financing

Historically, we have provided two basic types of financing for new and used vehicles: retail automotive contracts and automotive lease contracts. Due to distress in the capital markets and the used vehicle market, we have experienced funding challenges related to our lease products and decreases in lease residual values. As a result, our new lease production was significantly curtailed in the second half of 2008, and, in January 2009, we ceased originating financing volume through Nuvell, which had focused on nonprime automotive financing through GM-affiliated dealers and also provided private-label automotive financing. In most cases, we purchase retail contracts and leases for new and used vehicles from GM-affiliated dealers when the vehicles are purchased or leased by consumers. In a number of markets outside the United States, we are a direct lender to the consumer. Our consumer automotive financing operations generate revenue through finance charges or lease payments and fees paid by customers on the retail contracts and leases. In connection with lease contracts, we also recognize a gain or loss on the remarketing of the vehicle. For purposes of discussion in this section of the MD&A, the loans related to our consumer automotive-lending activities are referred to as retail contracts.

The amount we pay a dealer for a retail contract is based on the negotiated purchase price of the vehicle and any other products, such as service contracts, less any vehicle trade-in value and any down payment from the consumer. Under the retail contract, the consumer is obligated to make payments in an amount equal to the purchase price of the vehicle (less any trade-in or down payment) plus finance charges at a rate negotiated between the consumer and the dealer. In addition, the consumer is also responsible for charges related to past-due payments. When we purchase the contract, it is normal business practice for the dealer to retain some portion of the finance charge as income for the dealership. Our agreements with dealers place a limit on the amount of the finance charges they are entitled to retain. Although we do not own the vehicles we finance through retail contracts, we hold a perfected security interest in those vehicles.

With respect to consumer leasing, we purchase leases (and the associated vehicles) from dealerships. The purchase price of consumer leases are based on the negotiated price for the vehicle, less any vehicle trade-in and any down payment from the consumer. Under the lease, the consumer is obligated to make payments in amounts equal to the amount by which the negotiated purchase price of the vehicle (less any trade-in value or down payment) exceeds the projected residual value (including rate support) of the vehicle at lease termination, plus lease charges. The consumer is also responsible for charges related to past due payments, excess mileage, and excessive wear and tear. When the lease contract is entered into, we estimate the residual value of the leased vehicle at lease termination. We generally base our determination of the projected residual values on a guide published by an independent publisher of vehicle residual values, which is stated as a percentage of the manufacturer's suggested retail price. These projected values may be upwardly adjusted as a marketing incentive, if GM or GMAC considers an above-market residual to encourage consumers to lease vehicles or for a low mileage lease program. Our standard leasing plan, SmartLease, requires a monthly payment by the consumer. We also offer an alternative leasing plan, SmartLease Plus that requires one up-front payment of all lease amounts at the time the consumer takes possession of the vehicle.

In addition to the SmartLease plans, prior to September 2008, we offered the SmartBuy plan through U.S. dealerships to consumers. SmartBuy combined certain features of a lease contract with those of a traditional retail contract. Under the SmartBuy plan, the customer pays regular monthly payments that are generally lower than would otherwise be owed under a traditional retail contract. At the end of the contract, the customer has several options, including keeping the vehicle by making a final balloon payment, refinancing the balloon payment, or returning the vehicle to us and paying a disposal fee plus any applicable excess wear and excess mileage charges. Unlike a lease contract, during the course of a SmartBuy contract the customer owns the vehicle, and we hold a perfected security interest in the vehicle. Effective September 2008, we ceased offering originations of the SmartBuy product.

With respect to all financed vehicles, whether subject to a retail contract or a lease contract, we require that property damage insurance be obtained by the consumer. In addition, for lease contracts, we require that bodily injury and comprehensive and collision insurance be obtained by the consumer.

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Consumer automotive finance retail revenue accounted for \$4.3 billion, \$5.3 billion, and \$5.7 billion of our revenue in 2008, 2007, and 2006, respectively.

The following table summarizes our new and used vehicle consumer financing volume and our share of GM retail sales:

Year ended December 31, <i>(units in thousands)</i>	GMAC volume			Share of GM retail sales		
	2008	2007	2006	2008	2007	2006
Consumer financing						
GM new vehicles						
North America:						
Retail contracts	620	852	973	25%	27%	29%
Leases	309	561	624	13%	18%	19%
Total North America	929	1,413	1,597	38%	45%	48%
International (retail contracts and leases)	539	571	532	25%	23%	24%
Total GM new units financed	1,468	1,984	2,129	32%	35%	38%
Used units financed	442	504	373			
Non-GM new units financed	96	108	68			
Total consumer automotive financing volume	2,006	2,596	2,570			

Our consumer automotive financing volume and penetration levels are significantly influenced by the nature, timing, and extent of GM's use of rate, residual, and other financing incentives for marketing purposes on consumer retail automotive contracts and leases. Our North American penetration levels in 2008 were lower than what was experienced in 2007, mainly due to tighter underwriting standards, lower industry sales, and efforts to align our originations to levels consistent with reduced funding sources as a result of the disruption in the capital markets. Additionally, lease volume decreased because we increased lease pricing as a result of the significant decline in used vehicle prices and efforts to align originations with funding levels.

GM Marketing Incentives

GM may elect to sponsor incentive programs (on both retail contracts and leases) by supporting financing rates below the standard market rates at which we purchase retail contracts. These marketing incentives are also referred to as rate support or subvention. When GM utilizes these marketing incentives, it pays us at contract inception the present value of the difference between the customer rate and our standard rates, which we defer and recognize as a yield adjustment over the life of the contract.

GM may also provide incentives, referred to as residual support, on leases. As previously mentioned, we bear a portion of the risk of loss to the extent the value of a leased vehicle upon remarketing is below the projected residual value of the vehicle at the time the lease contract is signed. However, these projected values may be upwardly adjusted as a marketing incentive, if GM considers an above-market residual appropriate to encourage consumers to lease vehicles. Residual support by GM results in a lower monthly lease payment by the consumer. GM reimburses us to the extent remarketing sales proceeds are less than the residual value set forth in the lease contract.

In addition to the residual support arrangement, GM shares in residual risk on a significant portion of off-lease vehicles sold at auction. Specifically, we and GM share a portion of the loss when resale proceeds fall below the standard residual values on vehicles sold at auction. GM reimburses us for a portion of the difference between proceeds and the standard residual value (limited to a floor).

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Under what we refer to as GM-sponsored pull-ahead programs, consumers may be encouraged to terminate leases early in conjunction with the acquisition of a new GM vehicle. As part of these programs, we waive all or a portion of the customer's remaining payment obligation. Under most programs, GM compensates us for a portion of the foregone revenue from the waived payments. Additionally, since these programs generally accelerate our remarketing of the vehicle, the sale proceeds are typically higher than otherwise would be realized had the vehicle been remarketed at lease contract maturity, in which case the foregone payments would be adjusted.

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On November 30, 2006, and in connection with the sale by GM of a 51% interest in GMAC, GM and GMAC entered into several service agreements that codified the mutually beneficial historic relationship between the companies. One such agreement was the United States Consumer Financing Services Agreement (the Financing Services Agreement). The Financing Services Agreement, among other things, provided that subject to certain conditions and limitations, whenever GM offers vehicle financing and leasing incentives to customers (e.g., lower interest rates than market rates), it would do so exclusively through GMAC. This requirement was effective through November 2016, and in consideration for this, GMAC paid to GM an annual exclusivity fee and was required to meet certain targets with respect to consumer retail and lease financings of new GM vehicles.

Effective December 29, 2008, and in connection with the approval of our application to become a bank holding company, GM and GMAC agreed to modify certain terms and conditions of the Financing Services Agreement. Certain of these amendments include the following: (i) for a two-year period, GM can offer retail financing incentive programs through a third-party financing source under certain specified circumstances, and in some cases subject to the limitation that pricing offered by the third party meets certain restrictions, and after the two-year period GM can offer any incentive programs on a graduated basis through third parties on a nonexclusive, side-by-side basis with GMAC, provided that the pricing of the third parties meets certain requirements; (ii) GMAC will have no obligation to provide operating lease financing products; and (iii) GMAC will have no targets against which it could be assessed penalties. The modified Financing Services Agreement will expire on December 24, 2013. A primary objective of the Financing Services Agreement continues to be supporting distribution and marketing of GM products.

The following table summarizes the percentage of our annual retail contracts and lease volume that includes GM-sponsored rate and residual incentives.

Year ended December 31,	2008	2007	2006
North America	79%	85%	90%
International	40%	42%	52%

Consumer Credit Approval

Before purchasing a retail contract or lease from the dealer, we perform a credit review based on information provided by the dealer. As part of this process we evaluate, among other things, the following factors:

the consumer's credit history, including any prior experience with us;

the asset value of the vehicle and the amount of equity (down payment) in the vehicle; and

the term of the retail contract or lease.

We use a proprietary credit scoring system to support this credit approval process and to manage the credit quality of the portfolio. We use credit scoring to differentiate expected default rates of credit applicants, enabling us to better evaluate credit applications for approval and to tailor the pricing and financing structure according to this assessment of credit risk. We periodically review our credit scoring models and update them for historical information and current trends; these actions by management, however, do not eliminate credit risk. Improper evaluations of contracts for purchase, and changes in the applicant's financial condition after approval could negatively affect the quality of our receivables portfolio, resulting in credit losses.

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Upon successful completion of our credit underwriting process, we purchase the retail automotive financing contract or lease from the dealer.

Underwriting criteria for the U.S. consumer portfolio were tightened during 2008. In October 2008, we limited purchased contracts to consumers with FICO credit scores of 700 or above and restricted contracts with higher advance rates and longer terms. The changes in underwriting criteria were related to the current market environment, which reduced our access to funding and increased our cost of funds. On December 29, 2008, immediately after receiving the TARP investment, we expanded our retail automotive financing activities in the United States to include a broader spectrum of consumers.

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Consumer Credit Risk Management

Credit losses in our consumer automotive retail contract and lease portfolio are influenced by general business and economic conditions, including unemployment rates, bankruptcy filings, and used vehicle prices. We analyze credit losses according to frequency (i.e., the number of contracts that are ultimately charged off) and severity (i.e., the dollar magnitude of loss per charge-off occurrence). We manage credit risk through our contract purchase policy, credit approval process (including our proprietary credit scoring system), and servicing capabilities.

The process of creating a pool of retail automotive finance receivables for securitization or sale typically involves excluding retail contracts that are greater than 30 days delinquent. A portfolio that excludes delinquent contracts historically results in better credit performance in the managed portfolio than in the on-balance sheet portfolio of retail automotive finance receivables.

The managed portfolio includes retail receivables held on-balance sheet for investment and receivables securitized and sold that we continue to service and in which we have a continuing involvement (i.e., in which we retain an interest or risk of loss in the underlying receivables); it excludes securitized and sold automotive finance receivables that we continue to service but in which we have no other continuing involvement (serviced-only portfolio). We believe the disclosure of the managed portfolio credit experience presents a more complete presentation of our credit exposure because the managed basis reflects not only on-balance sheet receivables but also securitized assets in which we retain a risk of loss in the underlying assets (typically in the form of a subordinated retained interest). The following tables summarize pertinent loss experience in the managed and on-balance sheet consumer automotive retail contract portfolios. Consistent with the presentation on our Consolidated Balance Sheets, retail contracts presented in the table represent the principal balance of the automotive finance receivables less unearned income.

Year ended December 31, <i>(\$ in millions)</i>	Average retail assets			Annual charge-offs, net of recoveries (a)			Net charge-off rate		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Managed									
North America (b)	\$ 46,832	\$ 49,620	\$ 55,746	\$ 889	\$ 595	\$ 669	1.90%	1.20%	1.20%
International	18,279	17,269	15,259	145	89	113	0.79%	0.52%	0.74%
Total managed	\$ 65,111	\$ 66,889	\$ 71,005	\$ 1,034	\$ 684	\$ 782	1.59%	1.02%	1.10%
On-balance sheet									
North America (b)	\$ 32,457	\$ 40,888	\$ 50,335	\$ 679	\$ 555	\$ 659	2.09%	1.36%	1.31%
International	18,279	17,269	15,259	145	89	113	0.79%	0.52%	0.74%
Total on-balance sheet	\$ 50,736	\$ 58,157	\$ 65,594	\$ 824	\$ 644	\$ 772	1.62%	1.11%	1.18%

(a) Net charge-offs exclude amounts related to residual losses on balloon automotive SmartBuy finance contracts. These amounts totaled \$344 million, \$28 million, and \$26 million for the years ended December 31, 2008, 2007, and 2006, respectively.

(b) North America 2006 annualized charge-offs, net of recoveries, include \$100 million of certain expenses related to repossessed vehicles, which are included in other operating expenses in the Consolidated Statements of Income.

The following table summarizes pertinent delinquency experience in the consumer automotive retail contract portfolio.

	Percent of retail contracts 30 days or more past due (a)			
	Managed		On-balance sheet	
	2008	2007	2008	2007
December 31, North America	3.39%	2.82%	3.57%	3.16%
International	2.66%	2.41%	2.66%	2.41%
Total	3.11%	2.67%	3.12%	2.83%

(a) Past due contracts are calculated on the basis of the average number of contracts delinquent during a month and exclude accounts in bankruptcy.

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In addition to the preceding loss and delinquency data, the following table summarizes bankruptcies information for the U.S. consumer automotive retail contract portfolio (which represents approximately 48% and 53% of our on-balance sheet consumer automotive retail contract portfolio for 2008 and 2007, respectively) and repossession information for the Global Automotive Finance operations consumer automotive retail contract portfolio:

Year ended December 31,	Managed		On-balance sheet	
	2008	2007	2008	2007
United States:				
Average retail contracts in bankruptcy (<i>in units</i>) (a)	49,295	60,024	41,902	58,136
Bankruptcies as a percentage of average number of contracts outstanding	1.98%	2.12%	2.62%	2.52%
North America:				
Retail contract repossessions (<i>in units</i>)	80,476	77,955	59,205	70,838
Repossessions as a percentage of average number of contracts outstanding	2.71%	2.36%	2.94%	2.69%
International:				
Retail contract repossessions (<i>in units</i>)	11,978	12,090	11,978	12,090
Repossessions as a percentage of average number of contracts outstanding	0.70%	0.77%	0.70%	0.77%

(a) Includes those accounts where the customer has filed for bankruptcy and is not yet discharged, the customer was discharged from bankruptcy but did not affirm their loan with GMAC, and other special situations where the customer is protected by applicable law with respect to GMAC's normal collection policies and procedures.

The decrease in the average number of U.S. retail contracts in bankruptcy has declined consistent with the declines in the size of the U.S. retail portfolio.

Servicing

Servicing activities consist largely of collecting and processing customer payments, responding to customer inquiries such as requests for payoff quotes, processing customer requests for account revisions (such as payment extensions and refinancings), maintaining a perfected security interest in the financed vehicle, monitoring vehicle insurance coverage, and disposing of off-lease vehicles. Servicing activities are generally consistent for our Global Automotive Finance operations; however, certain practices may be influenced by local laws and regulations.

Our customers have the option to receive monthly billing statements or coupon books, and to remit payment by mail or through electronic fund transfers. Customer payments are processed by regional third-party processing centers that electronically transfer payment data to customers accounts.

Servicing activities also include initiating contact with customers who fail to comply with the terms of the retail contract or lease. These contacts typically begin with a reminder notice when the account is 2 to 15 days past due. Telephone contact typically begins when the account is 5 to 20 days past due. Accounts that become 25 to 30 days past due are transferred to special collection centers that track accounts more closely. The nature and timing of these activities depend on the repayment risk that the account poses.

During the collection process, we may offer a payment extension to a customer experiencing temporary financial difficulty. A payment extension enables the customer to delay monthly payments for 30, 60, or 90 days, thereby deferring the maturity date of the contract by the period of delay. Extensions granted to a customer typically do not exceed 90 days in the aggregate during any 12-month period or 180 days in aggregate over the life of the contract. If the customer's financial difficulty is not temporary and management believes the customer could continue to make payments at a lower payment amount, we may offer to rewrite the remaining obligation, extending the term and lowering the

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monthly payment obligation. Extensions and rewrites are techniques that help mitigate financial loss in those cases where management believes the customer will recover from financial difficulty and resume regularly scheduled payments or can fulfill the obligation with lower payments over a longer period. Before offering an extension or rewrite, collection personnel evaluate and take into account the capacity of the customer to meet the revised payment terms. Although the granting of an extension could delay the eventual charge-off of an account, typically we are able to repossess and sell the related collateral, thereby mitigating the loss. As an indication of the effectiveness of our consumer credit practices, of the total amount outstanding in the United

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States traditional retail portfolio as of December 31, 2005, only 9.2% of the extended or rewritten accounts were subsequently charged-off through December 31, 2008. A three-year period was utilized for this analysis as this approximates the weighted average remaining term of the portfolio. As of December 31, 2008, 5.7% of the total amount outstanding in the servicing portfolio had been granted an extension or rewritten.

Subject to legal considerations, we will normally begin repossession activity once an account becomes 60-days past due. Repossession may occur earlier if management determines the customer is unwilling to pay, the vehicle is in danger of being damaged or hidden, or the customer voluntarily surrenders the vehicle. Approved third-party repossession firms handle repossessions. Normally, the customer is given a period to redeem the vehicle by paying off the account or bringing the account current. If the vehicle is not redeemed, it is sold at auction. If the proceeds do not cover the unpaid balance, including unpaid finance charges and allowable expenses, the resulting deficiency is charged-off. Asset recovery centers pursue collections on accounts that have been charged off, including those accounts where the vehicle was repossessed, and skip accounts where the vehicle cannot be located.

We have historically serviced retail contracts and leases in our managed portfolio. We will continue selling a portion of the retail contracts that we originate. With respect to retail and lease contracts we sell, we retain the right to service these retail contracts and leases and earn a servicing fee for our servicing functions. Semperian LLC, a wholly owned subsidiary, performs most servicing activities for U.S. retail contracts and consumer automotive leases on our behalf. Semperian's servicing activities are performed in accordance with our policies and procedures.

As of December 31, 2008 and 2007, our total consumer automotive serviced portfolio was \$104.0 billion and \$126.5 billion, respectively, compared to our consumer automotive managed portfolio of \$80.8 billion and \$100.7 billion, respectively.

Allowance for Credit Losses

Our allowance for credit losses is intended to cover management's estimate of incurred losses in the portfolio. Refer to the Critical Accounting Estimates section of this MD&A and Note 1 to our Consolidated Financial Statements for further discussion.

The following table summarizes activity related to the consumer allowance for credit losses for our Global Automotive Finance operations.

Year ended December 31, (\$ in millions)	2008	2007
Balance at January 1,	\$ 1,309	\$ 1,460
Provision for credit losses	1,234	512
Charge-offs		
Domestic	(1,083)	(722)
Foreign	(233)	(169)
Total charge-offs	(1,316)	(891)
Recoveries		
Domestic	153	150
Foreign	67	67
Total recoveries	220	217
Net charge-offs	(1,096)	(674)
Impacts of foreign currency translation	(54)	11
Securitization activity	1	

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Allowance at end of year	\$ 1,394	\$ 1,309
Allowance coverage (a)	3.67%	2.87%

(a) Represents the related allowance for credit losses as a percentage of total on-balance sheet consumer automotive retail contracts excluding loans held-for-sale.

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Due to weak economic conditions, credit fundamentals in our North American consumer automotive portfolio have deteriorated, with more noticeable increases in those regions of the United States experiencing the highest degree of home price depreciation. Repossessions (as a percentage of contracts outstanding) and loss severity also increased during the year ended December 31, 2008, compared to 2007. The increase in loss severity is illustrated by an increase in the average loss incurred per new vehicle repossessed in the North American retail automotive portfolio, which increased from \$9,070 in 2007 to \$11,404 in 2008. The increase in loss severity was due to higher advance rates as a result of originating longer-term finance contracts (up to 72 months on new vehicles) consistent with the industry, declining collateral values, higher fuel costs, and deteriorating economic conditions. Conversely, credit trends in the International portfolio remain strong and overall delinquencies are in line with historical experience.

Due to higher repossession trends, net charge-offs as a percentage of average retail assets in North America increased during the year ended December 31, 2008, compared to 2007. The increase is representative of a general weakening in consumer credit as a result of worsening economic conditions.

In response to the weaker credit trends experienced during the year ended December 31, 2008, our North American operations tightened underwriting standards. In addition, we expanded our collection resources by approximately 33%, or over 800 collectors, in 2008 to vigilantly monitor and manage our consumer automotive portfolio.

The allowance for consumer credit losses increased at December 31, 2008, compared to December 31, 2007. The increase in the allowance was primarily attributable to losses incurred on our North American operations' SmartBuy contracts. Given the depressed state of the used vehicle market during most of 2008, an increasing number of customers are returning vehicles at the end of the contract term and the vehicles are being sold at auction for significant losses. In addition to the overall increase in the level of the allowance, the allowance for credit losses as a percentage of the total on-balance sheet consumer portfolio also increased in comparison with 2007 levels. The continued use of off-balance sheet securitizations and whole-loan sales activity within our North American Automotive Finance operations and fewer new asset originations in 2008 has resulted in an on-balance sheet portfolio with a relatively higher overall credit risk profile than historic levels. The process of building a pool of assets to be included in a securitization or sale typically excludes accounts that are greater than 30 days delinquent. In addition, the process involves selecting from a pool of receivables that are currently outstanding and thereby represent relatively seasoned accounts. A seasoned portfolio that excludes delinquent accounts historically results in better credit performance than the on-balance sheet portfolio of retail finance receivables on which the allowance for credit losses is based.

Consumer automotive leases are operating leases; therefore, they exhibit different loss performance than consumer automotive retail contracts. Credit losses on the operating lease portfolio are not as significant as losses on retail contracts because lease losses are limited to past due payments, late charges, and fees for excess mileage and excessive wear and tear. Since some of these fees are not assessed until the vehicle is returned, credit losses on the lease portfolio are correlated with lease termination volume. As further described in the Critical Accounting Estimates section of this MD&A, credit risk is considered within the overall depreciation rate and the resulting net carrying value of the operating lease asset. North American operating lease accounts past due over 30 days represented 2.27% and 1.74% of the total portfolio at December 31, 2008 and 2007, respectively.

Remarketing and Sales of Leased Vehicles

When we acquire a consumer lease, we assume ownership of the vehicle from the dealer. Neither the consumer nor the dealer is responsible for the value of the vehicle at the time of lease termination. Typically, the vehicle is returned to us for remarketing through an auction. We generally bear the risk of loss to the extent the value of a leased vehicle upon remarketing is below the projected residual value determined at the time the lease contract is signed. GM shares this risk with us in certain circumstances, as described previously under GM Marketing Incentives.

When vehicles are not purchased by customers or the receiving dealer at lease termination, we regain possession of the leased vehicles from the customers and sell the vehicles, primarily through physical and internet auctions. The following table summarizes our methods of vehicle sales in the United States at lease termination, stated as a percentage of total lease vehicle disposals.

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Year ended December 31,	2008	2007	2006
Auction			
Internet	47%	43%	38%
Physical	38%	39%	44%
Sale to dealer	10%	12%	12%
Other (including option exercised by lessee)	5%	6%	6%

We primarily sell our off-lease vehicles through:

Internet auctions We offer off-lease vehicles to GM dealers and affiliates through a proprietary internet site (SmartAuction). This internet sales program increases the net sales proceeds from off-lease vehicles by reducing the time between vehicle return and ultimate disposition, reducing holding costs, and broadening the number of prospective buyers, thereby maximizing proceeds. We maintain the internet auction site, set the pricing floors on vehicles, and administer the auction process. We earn a service fee for every sale.

Physical auctions We dispose of our off-lease vehicles not purchased at termination by the lease consumer or dealer through traditional official GM-sponsored auctions. We are responsible for handling decisions at the auction, including arranging for inspections, authorizing repairs and reconditioning, and determining whether bids received at auction should be accepted.

Lease Residual Risk Management

We are exposed to residual risk on vehicles in the consumer lease portfolio. This lease residual risk represents the possibility that the actual proceeds realized upon the sale of returned vehicles will be lower than the projection of these values used in establishing the pricing at lease inception. The following factors most significantly influence lease residual risk:

Used vehicle market We are at risk due to changes in used vehicle prices. General economic conditions, off-lease vehicle supply, and new vehicle market prices (of both GM and other manufacturers) most heavily influence used vehicle prices.

Residual value projections As previously discussed, we establish residual values at lease inception by consulting independently published guides and periodically reviewing these residual values during the lease term. These values are projections of expected values in the future (typically between two and four years) based on current assumptions for the respective make and model. Actual realized values often differ.

Remarketing abilities Our ability to efficiently process and effectively market off-lease vehicles affects the disposal costs and the proceeds realized from vehicle sales.

GM vehicle and marketing programs GM influences lease residual results in the following ways:

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GM provides support to us for certain residual deficiencies.

The brand image and consumer preference of GM products affect residual risk, as our lease portfolio consists primarily of GM vehicles.

GM marketing programs may influence the used vehicle market for GM vehicles, through programs such as incentives on new vehicles, programs designed to encourage lessees to terminate their leases early in conjunction with the acquisition of a new GM vehicle (referred to as pull-ahead programs), and special rate used vehicle programs.

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The following table summarizes the volume of lease terminations and the average sales proceeds on 24-, 36-, and 48-month scheduled lease terminations, adjusted for 2008 termination vehicle mix, in the United States serviced lease portfolio for the years shown.

Year ended December 31,	2008	2007	2006
Off-lease vehicles remarketed (<i>in units</i>)	425,567	315,512	272,094
Sales proceeds on scheduled lease terminations (<i>\$ per unit</i>)			
24-month	\$19,076	\$20,784	\$19,968
36-month	13,454	15,543	15,574
48-month	11,490	14,005	13,642

In light of current economic conditions, specifically declines in demand and used vehicle sale prices, we determined that triggering events had occurred during 2008 that required operating lease assets to be evaluated for impairment. As a result, we recognized impairment of \$1.2 billion on vehicle operating lease assets held by our Global Automotive Finance operations. This impairment consisted of \$808 million related to sport-utility vehicles and trucks in the United States and Canada and \$384 million related to the car portfolio in the United States. The impairment recognized by our International Automotive Finance operations totaled \$42 million and related to its full-service leasing portfolio.

Early lease contract terminations are impacted by GM-sponsored pull-ahead programs. Under these marketing programs, consumers are encouraged to terminate leases early in conjunction with the acquisition of a new GM vehicle. The sales proceeds per vehicle on scheduled lease terminations in the preceding table do not include the effect of payments GM is obligated to reimburse us in relation to the pull-ahead programs.

Commercial Automotive Financing*Automotive Wholesale Dealer Financing*

One of the most important aspects of our Global Automotive Finance operations is supporting the sale of GM vehicles through wholesale or floorplan financing, primarily through automotive finance purchases by dealers of new and used vehicles manufactured or distributed by GM and, less often, other vehicle manufacturers, before sale or lease to the retail customer. Wholesale automotive financing represents the largest portion of our commercial financing business and is the primary source of funding for GM dealers' purchases of new and used vehicles. In 2008, we financed 5.4 million new GM vehicles (representing an 81% share of GM sales to dealers). In addition, we financed approximately 196,000 new non-GM vehicles.

Wholesale credit is arranged through lines of credit extended to individual dealers. In general, each wholesale credit line is secured by all the vehicles financed by us and, in some instances, by other assets owned by the dealer or the operator's/owner's personal guarantee. The amount we advance to dealers is equal to 100% of the wholesale invoice price of new vehicles, which includes destination and other miscellaneous charges, and with respect to vehicles manufactured by GM and other motor vehicle manufacturers, a price rebate, known as a holdback, from the manufacturer to the dealer in varying amounts stated as a percentage of the invoice price. Interest on wholesale automotive financing is generally payable monthly. Most wholesale automotive financing of our North American Automotive Finance operations is structured to yield interest at a floating rate indexed to the Prime Rate. The wholesale automotive financing of our International Automotive Finance operations is structured to yield interest at a floating rate indexed to benchmark rates specific to the relative country. The rate for a particular dealer is based on, among other things, competitive factors, the amount and status of the dealer's creditworthiness, and various incentive programs.

Under the terms of the credit agreement with the dealer, we may demand payment of interest and principal on wholesale credit lines at any time; however, unless we terminate the credit line or the dealer defaults, we generally require payment of the principal amount financed for a vehicle upon its sale or lease by the dealer to the customer. Ordinarily, a dealer has between one and five days, based on risk and exposure of the account, to satisfy the obligation.

Wholesale automotive financing accounted for \$1.4 billion, \$1.4 billion, and \$1.3 billion of our revenues in 2008, 2007, and 2006, respectively.

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The following table summarizes our wholesale financing of new vehicles and share of GM sales to dealers in markets where we operate.

Year ended December 31, <i>(units in thousands)</i>	GMAC volume			Share of GM sales		
	2008	2007	2006	2008	2007	2006
GM vehicles						
North America	2,540	3,161	3,464	76%	77%	76%
International	2,864	2,932	2,658	85%	88%	86%
Total GM units financed	5,404	6,093	6,122	81%	82%	80%
Non-GM units financed	196	199	145			
Total wholesale volume	5,600	6,292	6,267			

Our wholesale automotive financing continues to be the primary funding source for GM dealer inventories. Penetration levels in North America in 2008 continued to reflect traditionally strong levels, consistent with recent historical experience. International levels decreased in 2008 mainly due to lower financing volume in Europe.

Credit Approval

Before establishing a wholesale line of credit, we perform a credit analysis of the dealer. During this analysis, we:

review credit reports and financial statements and, may obtain bank references;

evaluate the dealer's marketing capabilities;

evaluate the dealer's financial condition; and

assess the dealer's operations and management.

On the basis of this analysis, we may approve the issuance of a credit line and determine the appropriate size. Generally, the size of the credit line is intended to be an amount sufficient to finance approximately a 90-day supply of new vehicles and a 30-60 day supply of used vehicles. Our credit guidelines ordinarily require that advances to finance used vehicles be approved on a vehicle-by-vehicle basis.

Commercial Credit

Our credit risk on the commercial portfolio is markedly different from that of our consumer portfolio. Whereas the consumer portfolio represents a relatively homogeneous pool of retail contracts and leases that exhibits fairly predictable and stable loss patterns, the commercial portfolio exposures are less predictable. In general, the credit risk of the commercial portfolio is tied to overall economic conditions in the countries in which we operate. Further, our credit exposure is concentrated in automotive dealerships (primarily GM dealerships). Occasionally, GM provides guarantees on certain commercial loans we have outstanding. As of December 31, 2008 and 2007, approximately \$88 million and \$80 million, respectively, in commercial loans and receivables were covered by a GM guarantee. Additionally, GM is bound by repurchase

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obligations to repurchase new vehicle inventory under certain circumstances, such as dealer default.

Credit risk is managed and guided by policies and procedures that are designed to ensure risks are accurately and consistently assessed, properly approved, and continuously monitored. We approve significant transactions and are responsible for credit risk assessments (including the evaluation of the adequacy of the collateral). We also monitor the credit risk profile of individual borrowers and the aggregate portfolio of borrowers either within a designated geographic region or a particular product or industry segment. Corporate approval is required for transactions exceeding business unit approval limits.

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To date, the commercial receivables that have been securitized and accounted for as off-balance sheet transactions primarily represent wholesale lines of credit extended to automotive dealerships, which historically have experienced low losses and some dealer term loans. As a result, only the on-balance sheet commercial portfolio credit experience is presented in the following table:

Year ended December 31, <i>(\$ in millions)</i>	Total loans		Impaired loans (a)		Average loans		Annual charge-offs, net of recoveries		
	2008	2007	2008	2007	2008	2007	2008	2007	2006
Wholesale	\$ 24,129	\$ 22,961	\$ 1,312	\$ 44	\$ 24,449	\$ 22,172	\$ 10	\$ 2	\$ 6
			5.44%	0.19%			0.04%	0.01%	0.03%
Other commercial financing	3,986	4,565	248	8	4,555	4,227	4	4	4
			6.22%	0.18%			0.09%	0.09%	0.10%
Total on-balance sheet	\$ 28,115	\$ 27,526	\$ 1,560	\$ 52	\$ 29,004	\$ 26,399	\$ 14	\$ 6	\$ 10
			5.55%	0.19%			0.05%	0.02%	0.04%

(a) Includes loans where it is probable that we will be unable to collect all amounts due according to the terms of the loan.

Loss reserves for impaired loans increased from \$8 million at December 31, 2007, to \$138 million at December 31, 2008, due to economic pressures placed on dealers as a result of declining sales volume, declining financial position, and a challenging credit environment. In addition, we recorded \$33 million as a valuation allowance associated with our retained interest in off-balance sheet commercial securitization transactions. No such valuation allowance was recognized in 2007. Despite the increase in impaired wholesale receivables and dealer loans in 2008, annual charge-offs on the commercial portfolio remained at relatively low levels in 2008 as these receivables are generally secured by vehicles, real estate, other forms of collateral, and certain GM repurchase obligations, which help mitigate losses on these loans in the event of default.

Servicing and Monitoring

We service all of the wholesale credit lines in our portfolio and the wholesale automotive finance receivables that we have securitized. A statement setting forth billing and account information is prepared by us and distributed on a monthly basis to each dealer. Interest and other nonprincipal charges are billed in arrears and are required to be paid immediately upon receipt of the monthly billing statement.

Generally, dealers remit payments to GMAC through wire transfer transactions initiated by the dealer through a secure web application.

Dealers are assigned a credit category based on various factors, including capital sufficiency, operating performance, financial outlook, and credit and payment history. The credit category affects the amount of the line of credit, the determination of further advances, and the management of the account. We monitor the level of borrowing under each dealer's account daily. When a dealer's balance exceeds the credit line, we may temporarily suspend the granting of additional credit or increase the dealer's credit line or take other actions, following evaluation and analysis of the dealer's financial condition and the cause of the excess.

We periodically inspect and verify the existence of dealer vehicle inventories. The timing of the verifications varies, and no advance notice is given to the dealer. Among other things, verifications are intended to determine dealer compliance with the financing agreement and confirm the status of our collateral.

Other Commercial Automotive Financing

We also provide other forms of commercial financing for the automotive industry. The following describes our other commercial automotive financing markets and products:

Automotive dealer term loans We make loans to dealers to finance other aspects of the dealership business. These loans are typically secured by real estate, other dealership assets, and occasionally the personal guarantees of the individual owners of the dealership. Automotive dealer loans composed 2% of our Global Automotive Finance operations' assets as of December 31, 2008, consistent with 2007.

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Automotive fleet financing Dealers, their affiliates, and other companies may obtain financing to purchase vehicles, which they lease or rent to others. These transactions represent our fleet financing activities. We generally have a security interest in these vehicles and in the rental payments; however, competitive factors may occasionally limit the security interest in this collateral. Automotive fleet financing composed less than 1% of our Global Automotive Finance operations' assets as of December 31, 2008, consistent with 2007.

Full-service leasing products We offer full-service individual and fleet leasing products in Europe, Mexico, and Australia. In addition to financing the vehicles, we offer maintenance, fleet and accident management services, fuel programs, short-term vehicle rental, and title and licensing services. Full-service leasing products composed 2% of our Global Automotive Finance operations' assets as of December 31, 2008 and 2007.

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ResCap**Results of Operations**

The following table summarizes the operating results for ResCap for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reporting segments.

Year ended December 31, (<i>\$ in millions</i>)	2008	2007	2006	Favorable/ (unfavorable) 2008-2007 % change	Favorable/ (unfavorable) 2007-2006 % change
Revenue					
Total financing revenue	\$ 3,282	\$ 6,394	\$ 7,405	(49)	(14)
Interest expense	3,621	6,358	6,447	43	(1)
Net financing (loss) revenue	(339)	36	958	n/m	(96)
Servicing fees	1,488	1,790	1,584	(17)	13
Servicing asset valuation and hedge activities, net	(284)	(544)	(1,100)	48	51
Net servicing income	1,204	1,246	484	(3)	157
(Loss) gain on mortgage loans, net	(2,004)	(332)	890	n/m	(137)
Gains on extinguishment of debt	1,925	521		n/m	n/m
Other (expense) income	(1,084)	205	1,986	n/m	(90)
Total other (expense) revenue	(1,163)	394	2,876	n/m	(86)
Total net (loss) revenue	(298)	1,676	4,318	(118)	(61)
Provision for credit losses	2,231	2,580	1,334	14	(93)
Impairment of goodwill and other intangible assets		455		100	n/m
Noninterest expense	3,105	3,023	2,568	(3)	(18)
(Loss) income before income tax (benefit)	(5,634)	(4,382)	416	(29)	n/m
Income tax benefit	(23)	(36)	(289)	(36)	(88)
Net (loss) income	\$ (5,611)	\$ (4,346)	\$ 705	(29)	n/m
Total assets	\$ 47,564	\$ 82,489	\$ 135,101	(42)	(39)

n/m = not meaningful

2008 Compared to 2007

ResCap experienced a net loss of \$5.6 billion for the year ended December 31, 2008, compared to a net loss of \$4.3 billion for 2007. The 2008 results continued to be adversely affected by economic conditions both domestically and internationally. The mortgage and capital markets continued to experience severe stress throughout 2008 due to credit concerns and housing market contractions in the United States and foreign markets in which we operate, effectively eliminating liquidity sources. Reduced liquidity in the capital markets resulted in stricter mortgage

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underwriting guidelines, which when coupled with declining home prices, limited refinancing options for homeowners. Housing prices in many parts of the United States, the United Kingdom, and other international markets declined significantly during 2008. Additionally, the number of delinquent loans increased causing unfavorable severity and frequency assumptions. These adverse conditions resulted in lower net interest margins, increased losses on mortgage loan sales, a decline in fair market value of our mortgage loans held-for-sale, and higher provision for losses in our mortgage held-for-investment and lending receivables portfolio. As these market conditions persist, these unfavorable impacts on our results of operations may continue. These negative impacts were partially offset during the year by gains recognized on the extinguishment of debt as well as cost reductions from restructuring actions.

The net financing loss was \$339 million for the year ended December 31, 2008, compared to net financing revenue of \$36 million in 2007. Total financing revenue decreased for the year ended December 31, 2008, compared to 2007, primarily due to a decline in the average mortgage loan and lending receivable asset balances resulting from declines in mortgage production, continued portfolio run-off, reductions caused by the deconsolidation of \$27.4 billion in securitization trusts in

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2007, and the sale of ResCap's healthcare finance business. The decrease was further attributable to an increase in the rate of delinquencies. Interest expense decreased 43% for the year ended December 31, 2008, compared to 2007, primarily due to lower average borrowings, partially offset by higher cost of funds as a result of unfavorable capital market conditions and our refinancing initiatives in 2008.

Net servicing income decreased 3% for the year ended December 31, 2008, compared to 2007. Servicing fees declined due to higher delinquencies and a smaller portfolio as a result of sales of excess servicing and mortgage servicing rights and the run-off of our nongovernment-sponsored portfolio. However, net servicing asset valuation and hedge activities increased despite a larger decline in mortgage rates in 2008 than in 2007. Prepayment speeds in 2008 were slower due to tighter credit standards and declining home prices that limited refinancing options. Additionally, a steeper overall yield curve led to a positive impact on our hedge activities to offset asset valuation losses.

The net loss on mortgage loans was \$2.0 billion for the year ended December 31, 2008, compared to a net loss of \$332 million for 2007. The increase was primarily the result of the liquidation of mortgage loans in our international operations and certain distressed assets to enhance liquidity. During 2008, \$1.9 billion of distressed mortgage loans were sold resulting in losses of \$522 million. Additionally, market conditions in the United Kingdom and continental Europe deteriorated significantly, resulting in lower pricing, higher losses, and substantial negative fair value adjustments on the mortgage loans held-for-sale in these markets. The net loss was partially offset by focusing loan originations and sales primarily on our prime conforming and government-sponsored products.

Gains on extinguishment of debt totaled \$1.9 billion for the year ended December 31, 2008, compared to \$521 million in 2007. During the first nine months of 2008, debt extinguishment gains of \$1.3 billion were recognized following our contribution to ResCap of ResCap notes obtained through open-market repurchase (OMR) transactions or debt tender and exchange offerings. The 2008 gain also includes \$757 million related to the private debt exchange and cash tender offers completed during the fourth quarter. Refer to the Critical Accounting Estimate section in this MD&A for further discussion related to the private debt exchange and cash tender offers. The gain in 2007 was the result of a tender offer completed by ResCap during 2007 and our forgiveness of ResCap notes acquired in OMR transactions.

Other expense was \$1.1 billion for the year ended December 31, 2008, compared to income of \$205 million in 2007. The increase in expense was primarily due to the continued stress in the mortgage and capital markets and its effect on homebuilders. This resulted in declines in model home lease income and lot option fees, higher write-downs on lot option projects and model homes, an increase in the loss on sale of model homes, and unfavorable fair value adjustments related to the adoption of SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). Additionally, an impairment of \$255 million was recorded during the three months ended June 30, 2008, resulting from an adjustment in fair value on the resort finance business due to its held-for-sale classification. These adverse impacts were partially offset by lower market valuation losses on real estate owned due to lower balances following the deconsolidation of the securitized held-for-investment portfolio in late 2007.

The provision for credit losses decreased 14% for the year ended December 31, 2008, compared to 2007. The decrease was primarily driven by a smaller loan portfolio subject to allowance due to the deconsolidation of \$27.4 billion of mortgage loans held-for-investment in 2007. Additionally, certain fair value elections were made on January 1, 2008, under SFAS 159 that resulted in a lower provision because these assets were no longer subject to an allowance. These impacts were partially offset by an increase in the provision due to increased delinquencies, higher severity and frequency assumptions, and home price depreciation.

During the year ended December 31, 2007, goodwill impairment of \$455 million was recorded as a result of certain triggering events, including credit downgrades and losses for the business. No such impairment was recognized during 2008.

Noninterest expense increased 3% during the year ended December 31, 2008, compared to 2007. The increase was primarily attributable to an increase in foreign currency losses due to the strengthening U.S. dollar and the changes in unhedged exposure caused by the limited availability of willing counterparties to enter into forward arrangements. The increase was also impacted by an increase in professional fees primarily due to costs associated with ResCap's debt tender and exchange offerings during the three months ended June 30, 2008. These adverse impacts were partially offset by lower compensation and benefits expense due to announced reductions in workforce as a result of restructuring efforts.

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Income tax benefit decreased \$13 million during the year ended December 31, 2008, compared to 2007. The decrease was primarily due to the establishment of deferred tax valuation allowances by most of our foreign operations. In conjunction with our review of international deferred tax assets during 2008, we concluded a full valuation allowance should be recorded for most of our international business units since we believe these tax assets will not be realized.

2007 Compared to 2006

ResCap experienced a net loss of \$4.3 billion during the year ended December 31, 2007, compared to net income of \$705 million during 2006. During 2007, the mortgage and capital markets experienced severe stress due to credit concerns and housing market contractions in the United States. During the second half of the year, these negative market conditions spread to the foreign markets in which our mortgage subsidiaries operate, predominantly in the United Kingdom and continental Europe, and to the residential homebuilders domestically.

Net financing revenue was \$36 million for the year ended December 31, 2007, compared to \$958 million in 2006. Total financing revenue decreased for the year ended December 31, 2007, compared to 2006, primarily due to a decline in mortgage loan asset balances, lower warehouse-lending balances, and an increase in nonaccrual loans due to higher delinquency rates. Mortgage loans asset balances decreased due to lower loan production, continued portfolio run-off, and the deconsolidation of \$25.9 billion of net assets in securitization trusts. The deconsolidation resulted in the removal of \$27.4 billion of primarily nonprime mortgage loans held-for-investment and \$1.5 billion for the related allowance for credit losses. Loan production decreased because we steadily reduced our exposure to nonprime and nonconforming loans during the year ended December 31, 2007, through changes to product pricing, product offerings, and targeted asset sales. Lower warehouse-lending balances contributed to market conditions, customer bankruptcies and defaults, and our strategic decision to reduce the warehouse-lending business. The decrease in interest expense during the year ended December 31, 2007, compared to 2006, was primarily driven by lower asset levels.

Net servicing income increased 157% for the year ended December 31, 2007, compared to 2006, due to positive hedging activity results and an increase in the average size of the mortgage servicing rights portfolio. The increase in the average servicing portfolio resulted in an increase in servicing fees of \$206 million. The increase was partially offset by a decline in the valuation of mortgage servicing rights caused by unfavorable movement in the yield curve and increased prepayment assumptions.

The net loss on sale of loans was \$332 million during the year ended December 31, 2007, compared to a net gain of \$890 million for 2006. The decrease was primarily due to the decline in the fair value of mortgage loans held-for-sale and obligations to fund mortgage loans due to lower investor demand and lack of domestic and foreign market liquidity. As a result, the pricing for various loan product types deteriorated during the year ended December 31, 2007, as investor uncertainty remained high regarding the performance of these loans. The loss on sale of loans was partially offset by a \$526 million gain on the sale of residual cash flows related to the deconsolidation of \$27.4 billion in securitization trusts.

Gains on extinguishment totaled \$521 million for the year ended December 31, 2007. During the fourth quarter of 2007, debt extinguishment gains of \$369 million were recognized following our contribution of ResCap notes obtained through open-market repurchase transactions. The gain also includes \$152 million as a result of a tender offer completed by ResCap during 2007. There were no such gains on extinguishment of debt during 2006.

Other income decreased 90% during the year ended December 31, 2007, compared to 2006. The decrease was primarily due to the spread of the stress in the mortgage and capital markets and its affect on homebuilders. The result was an increase in impairment charges on land contracts and model homes of \$159 million, a loss on model home sales of \$40 million, lower equity income of \$136 million, and a decrease in fee income due to the decrease in mortgage loan production.

The provision for credit losses increased to \$2.6 billion during the year ended December 31, 2007, compared to \$1.3 billion in 2006. The increase was driven by the continued deterioration in the domestic housing market, which resulted in higher loss severity and frequency, and an increase in estimated losses related to delinquent loans. Mortgage loans held-for-investment past due 60 days or more increased to 13.3% of the total unpaid principal balance as of December 31, 2007, from 12.5% at December 31, 2006. The same economic conditions impacting mortgage loans held-for-investment also caused severe financial stress for certain warehouse-lending customers, which also contributed to the increase in

the provision for credit losses.

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Noninterest expense increased 18% during the year ended December 31, 2007, compared to 2006. The increase was driven by additional provisions for assets sold with recourse, due to market conditions driving an increase in loan repurchase activity. Under the representations, we agree to repurchase the loans, at par, if early payment default occurs. The increase was also attributed to higher legal-related costs, increased expenses related to owned real estate, and restructuring costs of \$127 million recorded during the fourth quarter of 2007. Refer to Note 25 of the Notes to Consolidated Financial Statements for additional restructuring information.

During the year ended December 31, 2007, goodwill impairment of \$455 million was recorded as a result of certain triggering events in the third quarter including credit downgrades and losses for the business. Refer to Note 11 of the Notes to Consolidated Financial Statements for additional information.

Income tax benefit decreased \$253 million during the year ended December 31, 2007, compared to 2006. In 2006, certain of ResCap's unregulated U.S. subsidiaries became disregarded or pass-through entities for U.S. federal income tax purposes upon their conversion to an LLC. The election resulted in the one-time favorable elimination of a net deferred tax liability through income tax expense. A similar reduction to income tax expense was absent from the 2007 results. Generally, there is no income tax or benefit with respect to these disregarded entities as they are nontaxable with the exception of certain state and local jurisdictions that tax LLCs at the entity level.

U.S. Residential Finance

Through our activities at ResCap, we remain one of the largest residential mortgage producers and servicers in the United States, producing approximately \$55 billion in residential mortgage loans in 2008 and servicing approximately \$365 billion in residential mortgage loans as of December 31, 2008. The principal activities of our U.S. Residential Finance business include originating, purchasing, selling, and securitizing residential mortgage loans; servicing residential mortgage loans for ourselves and others; providing collateralized lines of credit to other mortgage originators, which we refer to as warehouse lending; creating a portfolio of mortgage loans and retained interests from securitization activities; and conducting banking activities through GMAC Bank. During the fourth quarter of 2008, we sold the business that provided complementary brokerage and relocation services. Such activities were part of the U.S. Residential Finance business, prior to the sale.

Sources of Loan Production

We have two primary sources for residential mortgage loan production: the origination of loans through our direct lending network and the purchase of loans in the secondary market (primarily from GMAC Bank correspondent lenders). We have ceased loan originations through mortgage brokers and closed our wholesale channel as part of a restructuring initiative announced in September 2008.

Direct lending network Our direct lending network consists of internet and telephone-based operations. We have closed all of our retail branches as part of a restructuring initiative to streamline our operations; however, we are committed to honoring all funding commitments to these customers. We originate residential mortgage loans through our direct lending network under two brands: GMAC Mortgage and ditech.com. In addition, we conduct origination activities associated with refinancing of existing mortgage loans for which we are the primary servicer.

Correspondent lender and other secondary market purchases Loans purchased from correspondent lenders are originated or purchased by the correspondent lenders and subsequently sold to us. Most of the purchases from correspondent lenders are conducted through our affiliate, GMAC Bank. We qualify and approve any correspondent lenders who participate in the loan purchase programs. In light of current market conditions, we redirected the focus of loan originations to only originate loans through GMAC Bank correspondents, including lenders with warehouse lines of credit.

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Mortgage brokerage network Prior to the restructuring plan announced in September 2008, we originated residential mortgage loans through mortgage brokers. Subsequent to the restructuring, we ceased loan originations through mortgage brokers and closed our wholesale channel to align our operations with the redirected focus on government sponsored loan products. Loans sourced by mortgage brokers were funded by us and generally closed in the ResCap name.

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The following summarizes domestic mortgage loan production by channel:

	U.S. mortgage loan production by channel					
	2008		2007		2006	
	Dollar		Dollar		Dollar	
	No. of	amount of	No. of	amount of	No. of	amount of
Year ended December 31, (\$ in millions)	loans	loans	Loans	loans	loans	loans
Retail branches	40,316	\$ 7,389	76,882	\$ 12,260	103,139	\$ 15,036
Direct lending (other than retail branches)	35,044	6,249	92,470	10,664	135,731	12,547
Mortgage brokers	28,210	5,920	110,404	20,561	169,200	29,025
Correspondent lender and secondary market purchases	166,900	35,583	287,084	50,420	642,169	104,960
Total U.S. production	270,470	\$ 55,141	566,840	\$ 93,905	1,050,239	\$ 161,568

Types of Mortgage Loans

In response to the market conditions during 2008, we have adjusted our business model to originate primarily prime conforming and government mortgage loans. Historically, we have originated and acquired mortgage loans that generally fall into one of the following five categories:

Prime conforming mortgage loans These are prime credit quality first-lien mortgage loans secured by single-family residences that meet or conform to the underwriting standards established by Fannie Mae or Freddie Mac for inclusion in their guaranteed mortgage securities programs.

Prime nonconforming mortgage loans These are prime credit quality first-lien mortgage loans secured by single-family residences that either (1) do not conform to the underwriting standards established by Fannie Mae or Freddie Mac, because they have original principal amounts exceeding Fannie Mae and Freddie Mac limits, which are commonly referred to as jumbo mortgage loans or (2) have alternative documentation requirements and property or credit-related features (e.g., higher loan-to-value or debt-to-income ratios) but are otherwise considered prime credit quality due to other compensating factors.

Prime second-lien mortgage loans These are open- and closed-end mortgage loans secured by a second or more junior lien on single-family residences, which include home equity mortgage loans.

Government mortgage loans These are first-lien mortgage loans secured by single-family residences that are insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA).

Nonprime mortgage loans These are first-lien and certain junior lien mortgage loans secured by single-family residences made to individuals with credit profiles that do not qualify for a prime loan, have credit-related features that fall outside the parameters of

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traditional prime mortgage products, or have performance characteristics that otherwise exposes us to comparatively higher risk of loss.

Nonprime includes mortgage loans the industry characterizes as subprime, high combined loan-to-value second-lien loans, and loans purchased through the negotiated conduit asset program. The negotiated conduit asset program includes loans that fall out of its standard loan programs due to noncompliance with one or more criteria. The loans of the negotiated conduit asset program must comply with all other credit standards and other guidelines of the standard loan program.

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The following table summarizes domestic mortgage loan production by type:

Year ended December 31, (\$ in millions)	U.S. mortgage loan production by type					
	2008		2007		2006	
	No. of	amount of	No. of	amount of	No. of	amount of
loans	loans	loans	loans	loans	loans	
Prime conforming	182,373	\$ 39,559	245,953	\$ 47,376	233,058	\$ 43,350
Prime nonconforming	4,140	1,884	85,567	28,513	193,736	60,294
Prime second-lien	11,160	873	179,462	10,097	404,091	23,704
Government	72,784	12,822	24,528	3,605	25,474	3,665
Nonprime	13	3	31,330	4,314	193,880	30,555
Total U.S. production	270,470	\$ 55,141	566,840	\$ 93,905	1,050,239	\$ 161,568

Underwriting Standards

All mortgage loans originated and most of the mortgage loans purchased are subject to underwriting guidelines and loan origination standards. When mortgage loans are originated by internet or telephone, we follow established lending policies and procedures that require consideration of a variety of factors, including:

the borrower's capacity to repay the loan; except on FHA and VA streamline rate reduction refinances where capacity to repay is not required. All applicable FHA/VA guidelines are followed in order to ensure an insurable/guaranteeable loan;

the borrower's credit history; except on FHA and VA streamline rate reduction refinances where credit history is not required. All applicable FHA/VA guidelines are followed in order to ensure an insurable/guaranteeable loan;

the relative size and characteristics of the proposed loan; and

the amount of equity in the borrower's property (as measured by the borrower's loan-to-value ratio). Occasionally, the government-sponsored enterprises automated underwriting results and FHA/VA guidelines do not require the review or analysis of equity in the borrower's property.

When purchasing mortgage loans from correspondent lenders, we either underwrite the loan prior to closing or re-underwrite the loan before purchase or delegate underwriting responsibility to the correspondent lender originating the mortgage loan. When underwriting is delegated to the correspondent lender, a sample of loans are re-underwritten prior to purchase.

To further ensure consistency and efficiency, much of the underwriting analysis is conducted through the use of automated underwriting technology. We also conduct a variety of quality control procedures and periodic audits to ensure compliance with origination standards,

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including responsible lending standards and legal requirements. Although many of these procedures involve manual reviews of loans, we seek to leverage our technology in further developing our quality control procedures. For example, we have programmed many of our compliance standards into our loan origination systems and have continued to use and develop automated compliance technology to mitigate regulatory risk.

In 2008, we continued to revise product specific underwriting standards to establish more stringent requirements, which resulted in a reduction of nonconforming loan production, including the elimination of all nonprime production. The changes in underwriting standards include changes in loan-to-value requirements, FICO score minimums, and documented assets and income requirements.

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Sale and Securitization of Assets

We sell most of the mortgage loans we originate or purchase. In 2008, we sold \$54.8 billion in mortgage loans. We typically sell prime conforming mortgage loans in sales that take the form of securitizations guaranteed by Fannie Mae or Freddie Mac, and typically sell government mortgage loans in securitizations guaranteed by Ginnie Mae. In 2008, we sold \$49.8 billion of mortgage loans to government-sponsored enterprises, or 90.8% of the total loans sold, and \$5.0 billion to other investors through whole-loan sales. In 2008 we did not perform any nonagency securitizations (also referred to as private label securitizations). Since the second half of 2007, the change in the U.S. mortgage market has limited our ability to securitize many nonconforming loan products and also resulted in a lack of demand and liquidity for the subordinate interests from these securitizations. This lack of liquidity also reduced the level of whole-loan transactions of certain nonconforming mortgages.

Our sale and agency securitization activities include developing asset sale or retention strategies, conducting pricing and hedging activities, and coordinating the execution of whole-loan sales and securitizations.

Servicing Activities

Although we sell most of the residential mortgage loans we originate or purchase, we generally retain the rights to service these loans. The retained mortgage servicing rights consist of primary and master servicing rights. When we act as primary servicer, we collect and remit mortgage loan payments, respond to borrower inquiries, account for principal and interest, hold custodial and escrow funds for payment of property taxes and insurance premiums, counsel or otherwise work with delinquent borrowers, supervise foreclosures and property dispositions, and generally administer the loans. When we act as master servicer, we collect mortgage loan payments from primary servicers and distribute those funds to investors in mortgage-backed and mortgage-related asset-backed securities and whole-loan packages. Key services in this regard include loan accounting, claims administration, oversight of primary servicers, loss mitigation, bond administration, cash flow waterfall calculations, investor reporting, and tax reporting compliance. In return for performing primary and master servicing functions, we receive servicing fees equal to a specified percentage of the outstanding principal balance of the loans being serviced and may also be entitled to other forms of servicing compensation, such as late payment fees or prepayment penalties. Servicing compensation also includes interest income or the float earned on collections that is deposited in various custodial accounts between their receipt and the scheduled/contractual distribution of the funds to investors.

The value of mortgage servicing rights is sensitive to changes in interest rates and other factors (Refer to further discussion in the Critical Accounting Estimates section of this MD&A). We have developed and implemented an economic hedge program to, among other things, mitigate the overall risk of loss due to a change in the fair value of mortgage servicing rights. In accordance with this economic hedge program, we hedge the change in the total fair value of their capitalized mortgage servicing rights. The success or failure of this economic hedging program may have a material effect on the results of operations.

The following table summarizes the primary domestic mortgage loan-servicing portfolio for which we hold the corresponding mortgage servicing rights:

	U.S. mortgage loan servicing portfolio					
	2008		2007		2006	
	No. of	amount of	No. of	amount of	No. of	amount of
Year ended December 31, (\$ in millions)	loans	Dollar	loans	Dollar	loans	Dollar
Prime conforming	1,481,111	\$ 225,141	1,554,594	\$ 227,460	1,574,715	\$ 244,431

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Prime nonconforming	225,580	67,034	336,319	103,285	197,484	58,488
Prime second-lien	557,197	24,260	651,260	28,297	760,104	31,578
Government	138,802	20,323	180,453	19,454	181,477	18,835
Nonprime	258,026	28,275	349,696	40,105	374,625	50,287
Total U.S. primary servicing portfolio (a)	2,660,716	\$ 365,033	3,072,322	\$ 418,601	3,088,405	\$ 403,619

- (a) Excludes loans for which we acted as a subservicer. Subserviced loans totaled 149,750 with an unpaid principal balance of \$33.1 billion as of December 31, 2008; 205,019 with an unpaid principal balance of \$44.3 billion as of December 31, 2007; and 290,992 with an unpaid principal balance of \$55.4 billion as of December 31, 2006.

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Warehouse Lending

We are a provider of warehouse-lending facilities to correspondent lenders and other mortgage originators in the United States. These facilities enable those lenders and originators to finance residential mortgage loans until they are sold in the secondary mortgage loan market. We provide warehouse-lending facilities principally for prime conforming and government residential mortgage loans, including mortgage loans acquired through correspondent lenders. We also provide limited warehouse-lending facilities for prime second-lien residential mortgage loans, including mortgage loans acquired through correspondent lenders. During the year ended December 31, 2008, we have continued to reduce the size of our warehouse-lending business and have not provided facilities secured by nonconforming loans, except prime jumbo mortgage loans. We provide most of the warehouse-lending facilities through GMAC Bank. Advances under warehouse-lending facilities are collateralized by the underlying mortgage loans and bear interest at variable rates. As of December 31, 2008, we had total warehouse line of credit commitments of approximately \$2.4 billion, against which we had advances outstanding of approximately \$1.4 billion. We also have \$109 million of warehouse-lending receivables outstanding related to other offerings as of December 31, 2008. We purchased approximately 21% of the mortgage loans financed by our warehouse-lending facilities in 2008.

Other Real Estate Finance and Related Activities

Through GMAC Bank, we offer a variety of banking products to customers, including certificates of deposits, money market accounts, consumer loans, online banking and bill payment services. GMAC Bank also provides collateral pool certification and collateral document custodial services to third-party customers. During 2008, we sold our business that provided real estate brokerage services, full-service relocation services, mortgage closing services, and settlement services.

Business Capital

Through ResCap's Business Capital operations, we provide financing and equity capital to residential land developers and homebuilders. During 2008, Business Capital sold its resort finance business, which provided debt capital to resort and timeshare developers, to GMAC Commercial Finance and sold a substantial portion of the model home business to an affiliate of Cerberus. Subsequent to the sale, the business still consists of a variety of products for builders and developers, but is being managed down and/or sold to third parties. As of December 31, 2008, there is no origination of any new transactions within the business; the only funding provided are those required of us under our current lending commitments. The business will continue to look to reduce costs through restructuring efforts and minimize losses through asset management initiatives. During the first quarter of 2009, Business Capital may outsource its entire servicing platform to an unrelated third party. Asset management will continue to be provided within Business Capital.

The products on the Consolidated Balance Sheet consist of lending receivables in the form of first-lien construction loans, mezzanine construction loans, and working capital loans to builders. In addition, nonlending real estate assets consist of equity investments in residential construction projects, lots under options to builders, model homes under lease to builders, and owned real estate projects acquired through foreclosure or terminated options and leases.

International Business

The International Business includes substantially all of ResCap's operations outside of the United States. Due to market conditions, mortgage loan production in the foreign markets in which we operate has been suspended throughout the majority of 2008, except for insured mortgages in Canada. On January 1, 2009, ResCap's International Business completed the sale of its Canadian subsidiary to GMAC LLC. ResCap's international operations conducted business in the United Kingdom, Canada, continental Europe, Latin American, and Australia.

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The following table summarizes international mortgage loan production for the periods shown:

	International mortgage loan production					
	2008		2007		2006	
	Dollar		Dollar		Dollar	
	No. of	amount of	No. of	amount of	No. of	amount of
Year ended December 31, (<i>\$ in millions</i>)	loans	loans	loans	loans	loans	loans
United Kingdom	3,379	\$ 885	68,161	\$ 18,903	93,215	\$ 22,417
Continental Europe	3,443	901	37,364	7,150	21,849	3,926
Canada	10,948	2,050	10,117	1,947	8,117	1,311
Other	3,002	402	9,495	580	3,798	128
Total international loan production	20,772	\$ 4,238	125,137	\$ 28,580	126,979	\$ 27,782

The following table sets forth our international servicing portfolio for which we hold the corresponding mortgage servicing rights:

	International servicing portfolio					
	2008		2007		2006	
	Dollar		Dollar		Dollar	
	No. of	amount of	No. of	amount of	No. of	amount of
Year ended December 31, (<i>\$ in millions</i>)	Loans	loans	loans	loans	loans	loans
United Kingdom	52,446	\$ 8,615	82,326	\$ 19,345	108,672	\$ 23,817
Continental Europe	66,765	15,503	69,666	17,953	49,251	9,956
Canada	29,304	4,197	31,620	5,482	16,716	2,392
Other	4,277	439	2,091	312	1,274	52
Total international servicing portfolio	152,792	\$ 28,754	185,703	\$ 43,092	175,913	\$ 36,217

We traditionally exited the assets we originated through securitizations and whole-loan sales. The securitization markets are restricted or closed in each of our foreign markets. Due to liquidity needs and a lack of access to our historical exit markets, we executed a substantial number of whole-loan sales in 2008 at reduced values resulting in large losses and a significantly reduced balance sheet. In 2009, we will continue to reduce our international balance sheet exposure and related liquidity requirements through effective asset management.

Corporate and Other

ResCap's Corporate and Other operations primarily include the loan portfolio management of our purchased distressed asset portfolio and certain other nonperforming assets. As of December 31, 2008, we have suspended purchases of distressed assets and the existing portfolio is being managed into run-off. Also included in our Corporate and Other operations are costs associated with the restructuring initiative announced by ResCap during the third quarter of 2008 and corporate holding company activities.

Credit Risk Management

As previously discussed, we sell mortgage loans to third parties in the secondary market or one of the government-sponsored enterprises after origination or purchase. While loans are held in mortgage inventory before sale, we are exposed to credit losses on the loans. In addition, we bear credit risk through investments in subordinate loan participations or other subordinated interests related to certain consumer and commercial mortgage loans sold to third parties through securitizations. Management estimates credit losses for mortgage loans held-for-sale and subordinate loan participations and records a valuation allowance when losses are considered probable and estimable. The valuation allowance is included as a component of the fair value and carrying amount of mortgage loans held-for-sale. Certain loans that are sold into a securitization trust or through agency sales are subject to representations and warranties (sold with recourse) in the event of inadequate underwriting or documentation standards or, in select circumstances, borrower default. The fair value of these liabilities are estimated at the time of sale and recorded at fair value. Management closely monitors historical experience, borrower payment activity, current economic trends, and other risk factors and establishes an allowance for foreclosure losses that are considered sufficient to cover incurred foreclosure losses in the portfolio.

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We periodically acquire or originate certain finance receivables and loans held-for-investment purposes. Additionally, certain loans held as collateral for securitization transactions (treated as financings) are also classified as mortgage loans held-for-investment. We have the intent and forecasted ability to hold these finance receivables and loans for the foreseeable future or until maturity. Management's view of the foreseeable future is generally a twelve-month period based on the longest reasonably reliable net income, liquidity, and capital forecast period. Credit risk on finance receivables and mortgage loans held-for-investment is managed and guided by policies and procedures that are designed to ensure that risks are accurately assessed, properly approved, and continuously monitored. In particular, we use risk-based loan pricing and appropriate underwriting policies and loan-collection methods to manage credit risk. Management closely monitors historical experience, borrower payment activity, current economic trends, and other risk factors and establishes an allowance for credit losses that we consider sufficient to cover incurred credit losses in the portfolio of loans held-for-investment.

In addition to credit exposure on the mortgage loans held-for-sale and held-for-investment portfolios, we also bear credit risk related to investments in certain asset- and mortgage-backed securities, which are carried at estimated fair value (or at amortized cost for those classified as held-to-maturity) on the Consolidated Balance Sheet. Typically, noninvestment grade and unrated asset- and mortgage-backed securities provide credit support and are subordinate to the higher-rated senior certificates in a securitization transaction.

We are also exposed to risk of default by banks and financial institutions that are counterparties to derivative financial instruments. These counterparties are typically rated single A or above. This credit risk is managed by limiting the maximum exposure to any individual counterparty and, in a majority of instances, holding collateral, such as cash deposited by the counterparty.

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Allowance for Credit Losses

The allowance for credit losses is intended to cover management's estimate of incurred losses in the portfolio. Refer to the Critical Accounting Estimates section of this MD&A and Note 1 to the Consolidated Financial Statements for further discussion.

The following table summarizes the activity related to the allowance for credit losses:

<i>(\$ in millions)</i>	Consumer	Commercial	Total
Balance at January 1, 2007	\$ 1,508	\$ 397	\$ 1,905
Provision for credit losses	2,089	491	2,580
Charge-offs	(1,282)	(413)	(1,695)
Reduction of allowance due to deconsolidation (a)	(1,540)		(1,540)
Recoveries	57	9	66
Balance at December 31, 2007	832	484	1,316
Provision for credit losses	1,673	558	2,231
Charge-offs	(724)	(421)	(1,145)
Reduction of allowance due to fair value option election (b)	(489)		(489)
Reduction of allowance due to deconsolidation (a)	(127)		(127)
Recoveries	44	18	62
Foreign exchange impacts	(67)	(13)	(80)
Sale of resort finance business (c)		(27)	(27)
Balance at December 31, 2008	\$ 1,142	\$ 599	\$ 1,741
Allowance coverage 2007 (d)	1.97%	6.82%	2.67%
Allowance coverage 2008 (d)	4.75%	15.85%	6.26%

(a) During both 2007 and 2008, we completed the sale of residual cash flows related to a number of on-balance sheet securitizations. We completed the approved actions to cause the securitization trusts to satisfy the qualifying special-purpose entity requirement of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* (SFAS 140). The actions resulted in the deconsolidation of various securitization trusts.

(b) Represents the reduction of allowance as a result of fair value option election made under SFAS 159. Refer to Note 22 to the Consolidated Financial Statements for additional information.

(c) During the three months ended September 30, 2008, ResCap completed the sale of their resort finance business to our Commercial Finance group. As a result of the sales transaction, the related allowance for credit losses was removed.

(d) Represents the related allowance for credit losses as a percentage of total on-balance sheet residential mortgage loans. Additionally, as of December 31, 2008, \$8.7 billion of unpaid principal balance includes loans held at fair value for \$1.9 billion under SFAS 159 with no related allowance for credit loss. These loans have been excluded from this calculation.

As a direct result of significant increases in delinquencies, severity, and foreclosure volume throughout 2008, we increased our consumer allowance coverage from 1.97% as of December 31, 2007, to 4.75% as of December 31, 2008. These allowance coverage percentages are based upon the allowance for credit losses related to mortgage loans held-for-investment, excluding those loans held at fair value, as a percentage of the unpaid principal balance, net of premiums and discounts. Our international operations have been primarily impacted in the United Kingdom and continental Europe, with continued delinquency rate increases, while home prices continue to decrease. Further, a reflection of increased frequency and severity assumptions across all product categories, including our prime conforming product have impacted the increase in allowance.

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We increased our commercial allowance coverage from 6.82% as of December 31, 2007, to 15.85% as of December 31, 2008. The significant increase in our allowance coverage was primarily related to numerous commercial customers, e.g., home building companies, declaring bankruptcy, and/or ceasing operations.

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The following table summarizes the allowance for loan losses by type of consumer mortgage loans held-for-investment:

	Consumer mortgage loans held-for-investment			
	2008		2007	
	Allowance as a		Allowance as a	
	Allowance for	% of the total	Allowance for	% of the total
December 31, (\$ in millions)	loan losses	asset class (a) (b)	loan losses	asset class (a)
Prime conforming mortgage loans	\$ 27	0.11	\$ 6	0.01
Prime nonconforming mortgage loans	506	2.11	102	0.24
Prime second-lien mortgage loans	189	0.78	133	0.32
Government loans	2	0.01	2	
Nonprime mortgage loans	418	1.74	589	1.40
Total consumer mortgage loans held-for-investment	\$ 1,142	4.75	\$ 832	1.97

(a) Represents the related allowance for credit losses as a percentage of total on-balance sheet residential mortgage loans.

(b) As of December 31, 2008, \$8.7 billion of the unpaid principal balance includes loans held at fair value for \$1.9 billion under SFAS 159 with no related allowance for credit loss. These loans have been excluded from the calculation.

Nonperforming Assets

The following table summarizes the nonperforming assets in our on-balance sheet held-for-sale and held-for-investment residential mortgage loan portfolios for each of the periods presented. Nonperforming assets are nonaccrual loans, foreclosed assets, and restructured loans. Mortgage loans and lending receivables are generally placed on nonaccrual status when they are 60 days or more past due or when the timely collection of the principal of the loan, in whole or in part, is doubtful. Management's classification of a loan as nonaccrual does not necessarily suggest that the principal of the loan is uncollectible in whole or in part. In certain cases, borrowers make payments to bring their loans contractually current; in all cases, mortgage loans are collateralized by residential real estate. As a result, our experience has been that any amount of ultimate loss for mortgage loans other than second-lien loans is substantially less than the unpaid balance of the nonperforming loans.

December 31, (\$ in millions)	2008	2007
Nonaccrual loans:		
Mortgage loans:		
Prime conforming	\$ 152	\$ 85
Prime nonconforming	1,842	908
Prime second-lien	452	233
Government	66	80
Nonprime (a)	3,239	4,040
Lending receivables:		
Construction (b)	1,273	550
Warehouse	75	71
Commercial real estate		10

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Total nonaccrual assets	7,099	5,977
Restructured loans	107	32
Foreclosed assets	703	1,114
Total nonperforming assets	\$ 7,909	\$ 7,123
Total nonperforming assets as a percentage of total ResCap assets	16.6%	8.6%

- (a) Includes loans that were purchased distressed and already in nonaccrual status of \$296 million and \$1.1 billion as of December 31, 2008 and 2007, respectively. In addition, includes \$218 million and \$16 million for 2008 and 2007, respectively, of nonaccrual restructured loans that are not included in restructured loans.
- (b) Includes \$26 million and \$47 million for 2008 and 2007, respectively, of nonaccrual restructured loans that are not included in restructured loans.
- During the year, ResCap completed temporary and permanent loan modifications. Loan modifications can include any or all of the following: principal forgiveness, maturity extensions, delinquent interest capitalization, and changes to contract interest rates. The majority of the modifications adjusted the borrower terms for loans in off-balance sheet securitization trusts, for which we retained the mortgage servicing rights and/or other retained interests; these modifications may ultimately

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impact the valuation of those assets. The remaining loans exist primarily in our on-balance sheet securitization trusts. If the modification was deemed temporary, our modified loans remained nonaccrual loans and retained their past due delinquency status even if the borrower has met the modified terms. If the modification was deemed permanent, the loan is returned to current status, if the borrower complies with the new loan terms. As of December 31, 2008, permanent modifications of on-balance sheet mortgage loans held-for-investment includes approximately \$302 million of unpaid principal balance.

The following table summarizes the delinquency information for the mortgage loans held-for-investment portfolio:

	As of December 31,			
	2008		2007	
	Amount	%	Amount	%
<i>(\$ in millions)</i>				
Current	\$ 25,728	78	\$ 35,558	83
Past due				
30 to 59 days	1,375	4	1,784	4
60 to 89 days	838	3	946	2
90 days or more	2,363	7	2,179	5
Foreclosures pending	2,116	6	1,846	4
Bankruptcies	783	2	735	2
Total unpaid principal balance	33,203	100	43,048	100
Net discounts	(486)		(886)	
SFAS 159 fair value adjustment	(6,829)			
Allowance for credit losses	(1,142)		(832)	
Total	\$ 24,746		\$ 41,330	

The deterioration of the domestic housing market and the stress on the domestic mortgage market continued throughout 2008 and significantly affected our provision for credit losses and the associated allowance for loss related to mortgage loans held-for-investment. The credit quality of our mortgage loans held-for-investment has experienced significant declines due to home price depreciation and higher delinquencies resulting in increased frequency and severity assumptions. The increasing trends in frequency and severity of loss continue to drive our provision for losses and our allowance higher.

Delinquency and nonaccrual levels related to mortgage loans held-for-investment increased throughout the year ended December 31, 2008. Mortgage loans held-for-investment past due 60 days or more increased to 18.4% of the total unpaid principal balance as of December 31, 2008, from 13.3% at December 31, 2007. Nonaccrual loans increased from 12.9% of the mortgage loans held-for-investment portfolio as of December 31, 2007, to 23.2% as of December 31, 2008.

As of December 31, 2008, we continue to hold mortgage loans that have features that expose us to credit risk and thereby could result in a concentration of credit risk. We currently originate only prime conforming and government mortgages in the United States and high-quality insured mortgages in Canada, which reduces our overall exposure to products that increase our credit risk. These loan products include high loan-to-value mortgage loans, payment option adjustable rate mortgage loans, interest-only mortgage loans, and teaser rate mortgages. Total loan production and combined exposure related to these products recorded in finance receivables and loans and loans held-for-sale for the years ended and as of December 31, 2008 and 2007, is summarized as follows:

<i>(\$ in millions)</i>	Loan production for the year		Unpaid principal balance as of December 31,	
	2008	2007	2008	2007
Interest-only mortgage loans	\$ 3,379	\$ 30,013	\$ 10,459	\$ 18,282
Payment option adjustable rate mortgage loans		7,585	307	1,691
High loan-to-value (100% or more) mortgage loans	563	2,942	3,833	5,896
Below market initial rate (teaser) mortgages	233	1,597	801	733

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The underwriting guidelines for these products take into consideration the borrower's capacity to repay the loan and credit history. We believe our underwriting procedures adequately consider the unique risks, which may come from these products. We conduct a variety of quality control procedures and periodic audits to ensure compliance with underwriting standards.

Interest-only mortgages Allow interest-only payments for a fixed time. At the end of the interest-only period, the loan payment includes principal payments and increases significantly. The borrower's new payment, once the loan becomes amortizing (i.e., includes principal payments), will be greater than if the borrower had been making principal payments since the origination of the loan.

Payment option adjustable rate mortgages Permit a variety of repayment options. The repayment options include minimum, interest-only, fully amortizing 30-year, and fully amortizing 15-year payments. The minimum payment option sets the monthly payment at the initial interest rate for the first year of the loan. The interest rate resets after the first year, but the borrower can continue to make the minimum payment. The interest-only option sets the monthly payment at the amount of interest due on the loan. If the interest-only option payment would be less than the minimum payment, the interest-only option is not available to the borrower. Under the fully amortizing 30- and 15-year payment options, the borrower's monthly payment is set based on the interest rate, loan balance, and remaining loan term.

High loan-to-value mortgages Defined as first-lien loans with loan-to-value ratios equal to or in excess of 100% or second-lien loans that when combined with the underlying first-lien mortgage loan result in a loan-to-value ratio equal to or in excess of 100%.

Below market rate (teaser) mortgages Contain contractual features that limit the initial interest rate to a below market interest rate for a specified time period with an increase to a market interest rate in a future period. The increase to the market interest rate could result in a significant increase in the borrower's monthly payment amount.

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Insurance**Results of Operations**

The following table summarizes the operating results of our Insurance operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other operating segments.

Year ended December 31, (<i>\$ in millions</i>)	2008	2007	2006	Favorable/ (unfavorable) 2008-2007 % change	Favorable/ (unfavorable) 2007-2006 % change
Revenue					
Insurance premiums and service revenue earned	\$ 4,285	\$ 4,338	\$ 4,149	(1)	5
Investment income	193	379	1,321	(49)	(71)
Other income	265	185	146	43	27
Total insurance premiums and other income	4,743	4,902	5,616	(3)	(13)
Expense					
Insurance losses and loss adjustment expenses	2,432	2,451	2,420	1	(1)
Acquisition and underwriting expense	1,673	1,784	1,570	6	(14)
Impairment of goodwill	42			n/m	
Total expense	4,147	4,235	3,990	2	(6)
Income before income tax expense	596	667	1,626	(11)	(59)
Income tax expense	137	208	499	34	58
Net income	\$ 459	\$ 459	\$ 1,127		(59)
Total assets	\$ 12,013	\$ 13,770	\$ 13,424	(13)	3
Insurance premiums and service revenue written	\$ 3,785	\$ 4,039	\$ 4,001	(6)	1
Combined ratio (a)	93.9%	93.5%	92.3%		

n/m = not meaningful

(a) Management uses combined ratio as a primary measure of underwriting profitability with its components measured using accounting principles generally accepted in the United States of America. Underwriting profitability is indicated by a combined ratio under 100% and is calculated as the sum of all incurred losses and expenses (excluding interest and income tax expense) divided by the total of premiums and service revenues earned and other income. For 2008, the gain on sale of our U.S. reinsurance managing general agency and our goodwill impairment was excluded.

2008 Compared to 2007

Net income from Insurance operations totaled \$459 million for the years ended December 31, 2008 and 2007. Net income for 2008 was positively impacted by a \$93 million gain on the sale of our U.S. reinsurance managing general agency, decreased insurance losses, and reduced acquisition and underwriting expenses. These positive impacts were offset by higher realized investment losses that were driven by

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other-than-temporary impairments recognized on certain investment securities, losses on sales of securities, and unfavorable investment market volatility. In addition, we experienced a decrease in premiums earned, U.S. auto policies serviced, and dealership-related products due to sharp declines in vehicle sales.

Insurance premiums and service revenue earned decreased 1% for the year ended December 31, 2008, compared to the same period in 2007. Insurance premiums and service revenue earned was adversely affected by fewer U.S. personal auto policies and lower volume in dealership-related products due to sharp declines in vehicle sales, challenging domestic pricing conditions, and the sale of our U.S. reinsurance managing general agency in November 2008. The business that our U.S. reinsurance agency underwrote was ceded to the purchasing entity. The decrease was partially offset by growth in international operations, both organically and through the acquisition of U.K.-based Provident Insurance in June 2007.

Investment income totaled \$193 million for the year ended December 31, 2008, compared to \$379 million in 2007. Investment income decreased primarily due to actions taken to reduce exposure to market volatility, which resulted in realized investment losses of \$139 million for the year ended December 31, 2008. The value of the investment portfolio was

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\$5.1 billion and \$7.2 billion at December 31, 2008 and 2007, respectively. The decrease in the investment portfolio was driven by economic volatility, including the effects on foreign-denominated securities, and the sale of our U.S. reinsurance agency, which included an investment portfolio.

Other income totaled \$265 million for the year ended December 31, 2008, compared to \$185 million in 2007. The increase was primarily due to the \$93 million gain on sale of our U.S. reinsurance managing general agency.

Acquisition and underwriting expense decreased 6% for the year ended December 31, 2008, compared to the same period in 2007. The decrease was primarily due to lower volumes of U.S. business.

During the three months ended December 31, 2008, our Insurance operations initiated an evaluation of goodwill for potential impairment in accordance with SFAS 142, *Goodwill and Other Intangible Assets*. This test was initiated in light of a more-likely-than-not expectation that one of its reporting units or a significant portion of one of its reporting units would be sold. The fair value was determined using an offer provided by a willing purchaser. Based on the preliminary results of the assessment, our Insurance operations concluded that the carrying value of one of its reporting units exceeded its fair value resulting in an impairment loss of \$42 million during the year ended December 31, 2008. No such impairment was recognized in 2007.

Income tax expense decreased 34% for the year ended December 31, 2008, compared to the same period in 2007. The decrease was primarily due to lower income before income taxes and more income generated within LLC entities during 2008.

2007 Compared to 2006

Net income from Insurance operations totaled \$459 million for the year ended December 31, 2007, compared to \$1.1 billion in 2006. The decrease in net income was primarily due to a lower level of realized capital gains.

Insurance premiums and service revenue earned totaled \$4.3 billion for the year ended December 31, 2007, compared to \$4.1 billion in 2006. The increase was primarily due to growth in international operations, both organically and through the second quarter acquisition of Provident Insurance, and higher earnings in the automotive service contract business. The increase was partially offset by challenging pricing conditions in the domestic personal insurance and reinsurance businesses.

The combination of investment and other income, net of losses decreased 62% during the year ended December 31, 2007, compared to 2006. Investment income decreased due to a \$980 million decrease in realized capital gains during the year ended December 31, 2007, in comparison with 2006. The market value of the investment portfolio was \$7.2 billion and \$7.6 billion at December 31, 2007 and 2006, respectively. The decrease was slightly offset by an increase in other income due primarily to higher service fees obtained from our international operations through organic growth.

Insurance losses and loss adjustment expenses totaled \$2.5 billion for the year ended December 31, 2007, compared to \$2.4 billion in 2006. Loss and loss adjustment expense increased due primarily to international operations, including the Provident Insurance acquisition and organic growth in other businesses. The increase was partially offset by lower loss experience in our U.S. automotive service contract and personal insurance businesses driven by lower volumes and lower weather-related losses affecting our reinsurance business.

Acquisition and underwriting expense increased 14% during the year ended December 31, 2007, compared to 2006. The increase was primarily due to continued growth in international business and increases in expenses in both the U.S. personal insurance and automotive service contract businesses.

Royalty Arrangement

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For certain insurance products, GM and GMAC have entered into agreements allowing GMAC to use the GM name on certain insurance products. In exchange, GMAC pays GM a minimum annual guaranteed royalty fee of \$15 million.

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Consumer Products

We underwrite and market nonstandard, standard, and preferred risk physical damage and liability insurance coverages for private passenger automobiles, motorcycles, recreational vehicles, and commercial automobiles and homeowners insurance through independent agencies, direct response, and internet channels. Additionally, we market private-label insurance through a long-term agency relationship with Homesite Insurance, a national provider of home insurance products. We currently operate in all 50 states and the District of Columbia in the United States, with a significant amount of our business written in California, Florida, Michigan, New York, and North Carolina.

We had approximately 2.3 million and 2.4 million consumer products policyholders as of December 31, 2008 and 2007, respectively. We offer our consumer product policies on a direct response basis through affinity groups, worksite programs, the internet, and through an extensive network of independent agencies. Approximately 405,000 and 438,000 of our policyholders were GM-related persons as of December 31, 2008 and 2007, respectively. Through our relationship with GM, we utilize direct response and internet channels to reach GM's current employees, retirees, and their families and GM dealers, suppliers and their families. We have similar programs that utilize relationships with affinity groups. In addition, we reach a broader market of customers through independent agents and internet channels.

We also underwrite personal automobile insurance coverage in Mexico, the United Kingdom, Canada, and Germany. We assume select motor insurance risks, including credit life, through programs with Vauxhall, Opel, and Saab vehicle owner relationships in Europe and through similar programs in Latin America and Asia-Pacific regions.

Other Consumer Products

We are a leading provider of automotive service contracts with mechanical breakdown and maintenance coverage. Our automotive service contracts offer vehicle owners and lessees mechanical repair protection and roadside assistance for new and used vehicles beyond the manufacturer's new vehicle warranty. These service contracts are marketed through automobile dealerships, on a direct response basis, and through independent agents in the United States and Canada. The service contracts cover virtually all vehicle makes and models; however, in the U.S. our flagship service contract product is the General Motors Protection Plan. A significant portion of our overall vehicle service contracts are through the General Motors Protection Plan and cover vehicles manufactured by GM and its subsidiaries.

Our other products include Guaranteed Asset Protection (GAP) Insurance, which allows the recovery of a specified economic loss beyond the insured value.

Internationally, our U.K.-based Car Care Plan subsidiary provides automotive service contracts to customers through direct and dealer distribution channels and is a market leader for these contracts in the United Kingdom. Car Care Plan also sells GAP products and operates in Europe and Latin America.

Commercial Products

We provide commercial insurance, primarily covering dealers' wholesale vehicle inventory. Our wholesale vehicle inventory insurance provides physical damage protection for dealers' floorplan vehicles. It includes coverage for both GMAC and non-GMAC financed inventory and is available in the United States to virtually all new car franchise dealerships. Internationally, ABA Seguros provides certain commercial business insurance exclusively in Mexico, and Car Care Plan reinsures dealer vehicle inventory in Europe, Latin America, and Asia Pacific.

We also conduct reinsurance operations internationally, generated primarily from GM and GMAC distribution channels. Reinsurance coverage is primarily insurance for insurance companies designed to stabilize their results, protect against unforeseen events, and facilitate business growth. International operations also manage a fee-focused insurance program through which commissions are earned from third-party insurers offering insurance products primarily to GMAC customers worldwide.

Underwriting and Risk Management

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We determine the premium rates for our insurance policies and pricing for our automotive service contracts based upon an analysis of expected losses using historical experience and anticipated future trends. For example, in pricing our automotive service contracts, we make assumptions as to the price of replacement parts and repair labor rates in the future.

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In underwriting insurance policies and automotive service contracts, we assess the particular risk involved and determine the acceptability of the risk and the categorization of the risk for appropriate pricing. We base our determination of the risk on various assumptions tailored to the respective insurance product. With respect to automotive service contracts, assumptions include the quality of the vehicles produced and new model introductions. Personal automotive insurance assumptions include individual state regulatory requirements.

In some instances, ceded reinsurance is used to reduce the risk associated with volatile businesses, such as catastrophe risk in U.S. dealer vehicle inventory insurance or smaller businesses, such as Canadian automobile or European dealer vehicle inventory insurance. In 2008, we ceded approximately 13% of our U.S. consumer products insurance premiums to government-managed pools of risk. Our consumer products business is covered by traditional catastrophe protection, aggregate stop loss protection, and an extension of catastrophe coverage for hurricane events. In addition, loss control techniques, such as hail nets or storm path monitoring to assist dealers in preparing for severe weather, help to mitigate loss potential.

We mitigate losses by the active management of claim settlement activities using experienced claims personnel and the evaluation of current period reported claims. Losses for these events may be compared to prior claims experience, expected claims, or loss expenses from similar incidents to assess the reasonableness of incurred losses.

Loss Reserves

In accordance with industry and accounting practices and applicable insurance laws and regulatory requirements, we maintain reserves for reported losses, losses incurred but not reported, and loss adjustment expenses. These reserves are based on various estimates and assumptions and are maintained both for business written on a current basis and policies written and fully earned in prior years to the extent there continues to be outstanding and open claims in the process of resolution. Refer to the Critical Accounting Estimates section of this MD&A and Note 1 to the Consolidated Financial Statements for further discussion. The estimated values of our prior reported loss reserves and changes to the estimated values are routinely monitored by credentialed actuaries. Our reserve estimates are regularly reviewed by management; however, since the reserves are based on estimates and numerous assumptions, the ultimate liability may differ from the amount estimated.

Investments

A significant aspect of our Insurance operations is the investment of proceeds from premiums and other revenue sources. We will use these investments to satisfy our obligations related to future claims at the time these claims are settled. Investment securities are classified as available-for-sale and carried at fair value. Unrealized losses on investment securities that are considered by management to be other-than-temporary are recognized in earnings through a write-down in the carrying value to the current fair value of the investment. Unrealized gains or losses are included in other comprehensive income, as a component of equity. Fair value of fixed income and equity securities is based upon quoted market prices where available.

Our Insurance operations have an Investment Committee, which develops guidelines and strategies for these investments. The guidelines established by this committee reflect our risk tolerance, liquidity requirements, regulatory requirements, and rating agencies considerations, among other factors. Our investment portfolio is managed by General Motors Asset Management (GMAM). GMAM directly manages certain portions of our insurance investment portfolio and recommends, oversees, and evaluates specialty asset managers in other areas.

Financial Strength Ratings

Substantially all of our U.S. Insurance operations have a Financial Strength Rating (FSR) and an Issuer Credit Rating (ICR) from A.M. Best Company. The FSR is intended to be an indicator of the ability of the insurance company to meet its senior most obligations to policyholders. Lower ratings generally result in fewer opportunities to write business as insureds, particularly large commercial insureds, and insurance companies purchasing reinsurance have guidelines requiring high FSR ratings. Our Insurance operations outside the United States are not rated, except for Provident Insurance PLC in the United Kingdom.

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On January 9, 2008, A.M. Best confirmed the FSR of our U.S. Insurance companies at A and revised the outlook to negative. On December 5, 2008, S&P assigned a BB+ rating with stable outlook for Provident Insurance PLC.

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Other Operations

Net income for Other operations was \$9.1 billion for the year ended December 31, 2008, compared to \$70 million for the year ended December 31, 2007. The increase was primarily due to a \$10.7 billion pretax gain that resulted from the December 2008 private debt exchange offers and cash tender offers. Refer to Note 1 to the Consolidated Financial Statements for more details. The increase was partially offset by equity investment losses, a full impairment of an equity investment, increased bank facility fees due to increased borrowings, other-than-temporary impairment recognized on certain investment securities due to adverse market conditions, as well as increased compensation and benefits expense, professional service fees, and IT costs. We experienced equity investment net losses of \$176 million for the year ended December 31, 2008, compared to net income of \$74 million for the same period in 2007. Additionally, during the fourth quarter of 2008, we recognized a full impairment on an equity investment of \$570 million. The equity investment losses and impairment were primarily attributed to the decline in credit market conditions and unfavorable asset revaluations.

Other operations also include the results of our Commercial Finance Group. For the year ended December 31, 2008, our Commercial Finance Group had net income of \$24 million, compared to net income of \$49 million in 2007. The decrease in net income was primarily due to increased interest expense, as a result of higher asset levels and higher interest spreads, and increased customer losses due to current market pressures on retailers. The decrease was partially offset by a \$29 million gain recognized during July 2008 related to the sale of operations in Poland.

Net income for Other operations was \$70 million for the year ended December 31, 2007, compared to a loss of \$950 million for the year ended December 31, 2006. During the year ended December 31, 2006, our Commercial Finance Group recognized a noncash charge of \$840 million (\$695 million after-tax) for impairment of goodwill and other intangibles. Excluding these impairment charges, the increases in net income primarily reflected improved profitability of our Commercial Finance Group.

Excluding the impairment charges of \$840 million during the year ended December 31, 2006, net income of our Commercial Finance Group and our corporate activities increased \$325 million during the year ended December 31, 2007, compared to 2006. The increase in net income was primarily due to decreased interest expense, a lower provision for credit losses in our Commercial Finance Group, and a \$42 million gain recognized on the repurchase and retirement of ResCap debt. The Commercial Finance Group achieved lower interest expense by decreasing its cost of borrowing through a greater use of secured funding. The lower provision for credit losses resulted from generally favorable credit experience.

Funding and Liquidity

Funding Strategy

Our liquidity and ongoing profitability are largely dependent upon our timely access to capital and the costs associated with raising funds in different segments of the capital markets. The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand, debt maturities, and unexpected deposit withdrawals. Our primary funding objective is to ensure that we have adequate, reliable access to liquidity throughout all market cycles, including periods of financial distress.

The ongoing stress in the credit markets throughout 2008 caused us to realign our priorities regarding our funding strategy. Historically, we have had a number of funding markets available to finance our business to provide loans to consumers and automotive dealers. These historic funding sources have included the public secured and unsecured debt markets, the private securitization market, domestic and international committed and uncommitted bank lines, and brokered and retail deposits originated in our wholly owned subsidiary, GMAC Bank. In the current market and economic climate, many of these markets have limited or no availability. In addition, funding costs have escalated as credit spreads have widened. In today's market, we are managing our liquidity using the following practices:

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Existing secured funding programs Over the past several years our strategy has been to maintain a prudent amount of committed credit capacity. Lack of access to the public markets in the current credit environment has resulted in an increased level of utilization across our secured facilities. We took aggressive actions throughout 2008 to renew existing programs. Examples include a new, globally syndicated \$11.4 billion senior secured revolving credit facility with a three-year maturity and extension of a key bilateral funding facility for automotive, mortgage, and commercial assets. In addition, we maintain access to our committed automotive whole loan forward flow agreements beyond 2009.

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GMAC Bank deposits As a regulated financial institution, GMAC Bank has access to funding through Federal Home Loan Bank (FHLB) advances, brokered certificates of deposit and retail deposits. GMAC Bank continues to grow and is becoming a more prominent part of our funding strategy. The deposit base has grown from \$12.8 billion at December 31, 2007, to \$19.2 billion at December 31, 2008. GMAC Bank continues to be subject to Sections 23A and 23B of the Federal Reserve Act, which currently restrict GMAC Bank's ability to lend to affiliates, purchase assets from them and enter into other transactions that involve entities that directly or indirectly control or are under common control with GMAC Bank. Refer to Transactions with Affiliates discussion in Item 1 on page 6 for further information about these restrictions.

Reduced asset originations Despite the fact that GMAC Bank is becoming a more prominent source of our funding, the ongoing stress in the capital markets throughout 2008 and our limited access to new funding, led us to adjust our credit originations accordingly. In October 2008, we implemented a more conservative purchase policy for consumer automotive financing in the United States as a result of the lack of stability in the global capital and credit markets. The changes included limiting purchases to contracts with a credit bureau score of 700 or above. Additionally, we restricted the volume of contracts we purchased with higher advance rates and longer terms. Similarly, in our International Automotive Finance operations, we have taken actions to restrict retail contract purchases by ceasing or partially ceasing operations in certain countries within Asia-Pacific and Europe. In addition, in certain geographies, we have tightened our underwriting standards and increased rates for automotive dealers.

On December 24, 2008, the Board of Governors of the Federal Reserve System approved our application to convert to a bank holding company under the BHC Act. This allowed us to convert GMAC Bank to a Utah state-chartered commercial nonmember bank giving us greater flexibility to develop more stable sources of funding. We have already begun to embark on initiatives to grow our consumer deposit-taking capabilities, including the launch of a redesigned online portal.

In late December 2008, as a result of our receipt of an investment from the U.S. Treasury Department as part of the Troubled Assets Relief Program (TARP), we announced that we were able to relax some of the restrictions we had placed on our consumer retail loan origination business. We expect these actions will help us return to more normal levels of consumer financing volume while also managing our portfolio risk during the current economic climate.

Participation in Governmental Funding Programs

On September 11, 2008, the automotive division of GMAC Bank was granted access to the Federal Reserve's Discount Window and Term Auction Facility (TAF). The Discount Window is the primary credit facility under which the Federal Reserve extends collateralized loans to depository institutions at terms from overnight up to ninety days. The TAF program auctions a pre-announced quantity of collateralized credit starting with a minimum bid for term funds of 28-day or 84-day maturity. The automotive division of GMAC Bank has pledged \$5.2 billion of automotive loans and leasing financings to participate in the Discount Window and TAF program at varying collateral requirements. At December 31, 2008, GMAC Bank had \$10 million outstanding borrowings under these programs with unused capacity of \$4.0 billion.

We began selling asset-backed commercial paper through our asset-backed conduit New Center Asset Trust (NCAT) to the Federal Reserve's Commercial Paper Funding Facility (CPFF) that went into effect on October 27, 2008. As of December 31, 2008, we had approximately \$7.6 billion of asset-backed commercial paper outstanding under this program. For further discussion, refer to the NCAT and TACN section under Secured Funding Facilities on page 80.

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On December 29, 2008, we sold \$5.0 billion of GMAC preferred membership interests and warrants, which were immediately exercised, to the U.S. Department of the Treasury as a participant in the Automotive Financing Program created under the TARP.

We are currently working to secure additional liquidity through the Federal Deposit Insurance Corporation's (FDIC) three-year Temporary Liquidity Guarantee Program (TLGP). If approved, this would allow us to issue low-cost unsecured corporate debt that is guaranteed by the FDIC.

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Recent Funding Developments

Throughout 2008, the credit markets were under pressure and our access to liquidity was significantly reduced. These conditions, in addition to the reduction in our credit ratings, resulted in increased borrowing costs and our inability to access the unsecured debt and automotive securitization markets in a cost-effective manner. In this environment our funding strategy remains unchanged and we remain very focused on our liquidity position. We have regular renewals of outstanding bank loans and credit facilities. Although several of our committed facilities were renewed in 2008, albeit at revised terms, some facilities were not renewed placing additional pressure on our liquidity position. Our inability to renew the remaining loans and facilities as they mature could have a further negative impact on our liquidity position. We also have significant maturities of unsecured notes each year. In addition, a significant portion of our customers are GM dealers, customers of GM or GM-related companies. As a result, a significant adverse change in GM's business or financial position could have an adverse effect on our profitability and financial condition.

Our business continues to be affected by these conditions and has led us to take several actions to manage resources during this volatile environment. Certain of these steps have included the following: aligning automotive originations with available committed funding sources in the United States and abroad; streamlining operations to suit the current business plans; growing GMAC Bank within applicable regulatory guidelines; reducing risk in the balance sheet; and divesting select noncore operations. In late 2008, we pursued strategies to increase flexibility and access to liquidity with the primary focus of continuing to support automotive dealers and customers. We began participating in the Federal Reserve's commercial paper purchase program through our asset-backed conduit, NCAT, converted to a bank holding company after approval from the Federal Reserve, and are pursuing the use of other government programs, such as the TLGP.

We have also recently taken actions intended to improve our capital structure that were necessary in order to obtain approval from the Federal Reserve to convert to a bank holding company. These included the following:

On December 29, 2008, we sold \$5.0 billion of GMAC preferred membership interests and warrants to the U.S. Department of the Treasury as a participant in the TARP established under the Emergency Economic Stabilization Act of 2008.

On December 29, 2008, GM and an affiliate of Cerberus Capital Management contributed to GMAC \$750 million of subordinated participations in a \$3.5 billion senior secured credit facility between GMAC and ResCap in exchange for additional common membership interests in GMAC.

On December 31, 2008, we consummated a private debt exchange and cash tender offers for a significant amount of GMAC and ResCap outstanding indebtedness for cash and new GMAC indebtedness and preferred equity. Some of the significant details of this transaction are as follows:

Approximately \$17.5 billion in aggregate principal amount of outstanding GMAC notes of various series were tendered and accepted in exchange for approximately \$2 billion of cash, new GMAC senior guaranteed notes of various series in an aggregate principal amount of approximately \$11.9 billion, and approximately \$2.6 billion aggregate liquidation preference of new GMAC cumulative preferred stock.

Approximately \$3.7 billion in aggregate principal amount of outstanding ResCap notes were tendered and accepted in exchange for approximately \$0.5 billion of cash, new GMAC 7.50% senior notes due 2013 in an aggregate principal amount of approximately \$688 million, and new GMAC 8.00% subordinated notes due 2018 in an aggregate principal amount of

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approximately \$483 million.

The net increase to our consolidated equity at December 31, 2008, as a result of these transactions was a pretax gain of approximately \$11.5 billion. Refer to Note 1 and Note 12 in the Consolidated Financial Statements for further discussion of the private debt exchange and cash tender offers.

On January 16, 2009, we completed a rights offering for \$1.25 billion of common equity from our existing shareholders.

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During 2008, we took various actions intended to improve liquidity and support the capital structure of ResCap. Significant actions included the following:

On June 4, 2008, GMAC, Residential Funding Company, LLC (RFC) and GMAC Mortgage, LLC (GMAC Mortgage), entered into a senior secured credit facility (the GMAC Facility) (guaranteed by ResCap and certain of its subsidiaries) to which we provided a capacity of up to \$3.5 billion. The proceeds of the GMAC Facility were used to repay existing indebtedness of ResCap on or prior to its maturity, to acquire certain assets, and for other working capital purposes. Under the GMAC Facility, we agreed to make revolving loans to RFC and GMAC Mortgage, and acquire \$1.3 billion of an outstanding \$1.75 billion bank term loan (the Term Loan) due to mature on July 28, 2008. ResCap paid the remainder of the Term Loan on July 28, 2008, with proceeds of a draw under the GMAC Facility. Also on June 4, 2008, we entered into a Participation Agreement (the Participation Agreement) with GM and Cerberus ResCap Financing, LLC (Cerberus Fund) (GM and Cerberus Fund are collectively, the Participants). Pursuant to the Participation Agreement, we sold GM and Cerberus Fund \$750 million in subordinated participations in the loans made pursuant to the GMAC Facility. GM and Cerberus Fund acquired 49% and 51% of the Participations, respectively. The Participants were not entitled to receive any principal payments with respect to the participations until the principal portion of the loans retained by us were paid in full. At December 29, 2008, GM and Cerberus Fund contributed to GMAC their \$750 million subordinated positions in the GMAC Facility in exchange for new common membership interests in GMAC. As of December 31, 2008, \$2.4 billion remained outstanding on the GMAC Facility, with a total commitment of \$3.0 billion. The commitment was permanently reduced from \$3.5 billion in accordance with the terms of the GMAC Facility.

During the year ended December 31, 2008, we forgave ResCap notes that we held, which resulted in ResCap recording a capital contribution equal to our purchase price for such notes of \$1.2 billion and a gain of \$1.3 billion on extinguishment of debt for the difference between the carrying value and our purchase price.

On April 18, 2008, we entered into a loan and security agreement (the MSR Facility) maturing on October 17, 2008, with RFC and GMAC Mortgage to provide \$750 million to fund mortgage servicing rights. On June 1, 2008, GMAC and ResCap entered into an amendment to the MSR Facility. This amendment increased the maximum commitment amount from \$750 million to \$1.2 billion and increased the advance rate from 50% to 85% with all other terms and provisions of the MSR Facility remaining unchanged. In addition to the \$750 million already outstanding, ResCap drew approximately \$450 million under the MSR Facility in the second quarter of 2008, fully utilizing the \$1.2 billion of available funding. During the third and fourth quarters of 2008, we forgave debt outstanding of \$792 million under the MSR Facility thereby reducing the overall indebtedness and facility capacity. Subsequent to September 30, 2008, the MSR Facility matured and was renewed to May 1, 2009, with additional amendments to the original terms. Current capacity under the MSR Facility is approximately \$240 million.

During the second quarter of 2008, Cerberus committed to purchase certain assets at ResCap's option consisting of performing and nonperforming mortgage loans, mortgage-backed securities, and other assets for net cash proceeds of \$300 million. During the third quarter, the following transactions were completed with Cerberus:

On July 14 and 15, 2008, ResCap, through its consolidated subsidiary, GMAC Mortgage, agreed to sell securitized excess servicing on two populations of loans to Cerberus consisting of \$13.8 billion in unpaid principal balance of Freddie Mac loans and \$24.8 billion in unpaid principal balance of Fannie Mae loans, capturing \$591 million and \$982 million of notional interest-only securities, respectively. The sales closed on July 30, 2008, with net proceeds of \$175 million to ResCap and a loss on sale of \$24 million.

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On September 30, 2008, ResCap completed the sale of certain of its model home assets to MHPool Holdings LLC (MHPool Holdings), an affiliate of Cerberus, for cash consideration consisting of approximately \$80 million, subject to certain adjustments, primarily relating to the sales of homes between June 20, 2008, and September 30, 2008, resulting in a net purchase price from MHPool Holdings of approximately \$59 million and a loss on sale of \$27 million. The purchase price is subject to further post-closing adjustments that are not expected to be material.

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On July 31, 2008, ResCap and GMAC finalized the Resort Finance Sale Agreement pursuant to which GMAC Commercial Finance LLC (GMACCF) acquired 100% of ResCap's Resort Finance business for a cash purchase price equal to the fair market value of the business. On June 3, 2008, ResCap received an initial deposit of \$250 million representing estimated net proceeds related to this transaction. Upon final pricing and execution of the sale, ResCap was required to repay a portion of the initial deposit to GMACCF in the amount of \$154 million representing the difference between the deposit it had received and the valuation.

On June 17, 2008, ResCap and GMACCF agreed to enter into a Receivables Factoring Facility (the Receivables Facility), whereby GMACCF agreed to purchase certain mortgage servicing advances. The servicing advances are part of the primary collateral securing the GMAC Facility and certain ResCap senior unsecured notes that mature in 2009-2015. The proceeds from the Receivables Facility were reinvested in additional servicing advances that became primary collateral. The agreement provides for the purchase of receivables that satisfy certain eligibility requirements multiplied by a purchase price rate of 85%. The maximum outstanding receivables at any point in time less the 15% discount cannot exceed \$600 million. During the year ended December 31, 2008, GMACCF purchased \$949 million face amount of receivables, resulting in a loss of \$142 million for ResCap. The Receivables Facility will mature on June 16, 2009.

In June 2008, an affiliate of Cerberus Capital Management, L.P. (Cerberus) purchased certain assets of ResCap with a carrying value of approximately \$479 million for consideration consisting of \$230 million in cash and a Series B junior preferred membership interest in a newly formed entity, CMH Holdings, LLC (CMH), which is not a subsidiary of ResCap or GMAC and the managing member of which is an affiliate of Cerberus. CMH purchased from ResCap model home and lot option assets. CMH is consolidated into ResCap under FIN 46(R) as ResCap remains the primary beneficiary. In conjunction with this agreement, Cerberus extended a term loan of \$230 million with a guaranteed overall return of \$46 million, which is to be paid down as assets are sold. The agreement also included revolving loans to CMH with a maximum limit of \$10 million that, if used, would bear interest at 15%. The loans are secured by a pledge of all the assets of CMH and will mature on June 30, 2013.

On November 20, 2008, GMAC entered into a \$430 million loan agreement (the GMAC LOC) with Passive Asset Transactions, LLC (PATI) and RFC Asset Holdings II, LLC (RAHI), which is guaranteed by RFC, GMAC Mortgage, and ResCap. The GMAC LOC is a source of contingency funding for ResCap and its subsidiaries and did not have an outstanding balance as of December 31, 2008. Assets eligible for collateralization include domestic warehouse receivables, certain excess servicing advances, and select United Kingdom assets. The original maturity date of the lending agreement was December 31, 2008; in December 2008, it was subsequently extended to January 31, 2009. In January 2009, it was extended until March 31, 2009.

On January 30, 2009, GMAC acquired 100 percent of ResCap's nonvoting equity interest in IB Finance Holdings (IB Finance), the parent company of GMAC Bank. This transaction included GMAC converting its \$806 million of preferred interests in ResCap into IB Finance interests and forgiving \$830 million of ResCap's debt. As a result, all convertible voting and economic interests in IB Finance are now owned directly by GMAC. The completion of the sale of IB Finance increased ResCap's consolidated tangible net worth, as defined, by approximately \$894 million. For this purpose, consolidated tangible net worth is defined as ResCap's consolidated equity, excluding intangible assets and any equity in GMAC Bank to the extent included in ResCap's consolidated balance sheet. Subsequent to the January 30, 2009, sale and deconsolidation by ResCap of IB Finance, ResCap remains in compliance with its consolidated tangible net worth requirement, as defined, of \$250 million.

Even with the implementation of the actions described above, ResCap remains heavily dependent on GMAC and its affiliates for funding and there can be no assurances that GMAC or its affiliates will continue such actions. We disclosed in a Form 8-K, filed January 9, 2009, that ResCap is an important subsidiary and that we believed the support we provided to ResCap was in the best interests of our stakeholders. We further disclosed that if ResCap were to need additional support, we would provide that support so long as it was in the best interests of our stakeholders. While there can be no assurances, our recently approved status as a bank holding company has increased the importance of our support for ResCap as its core mortgage loan origination and servicing business provides diversification benefits for us.

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ResCap actively manages its liquidity and capital positions and is continually working on initiatives to address its debt covenant compliance and liquidity needs, including debt maturing in the next twelve months and the identified risks and

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uncertainties. The accompanying Consolidated Financial Statements continue to reflect ResCap on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Although our continued actions through various funding and capital initiatives demonstrate support for ResCap, and our status as a bank holding company and completion of our private debt exchange and cash tender offers better positions us to be capable of supporting ResCap, there are currently no commitments or assurances for future funding and/or capital support, except as otherwise provided in this Form 10-K. Consequently, there remains substantial doubt about ResCap's ability to continue as a going concern without the support of GMAC. Should we no longer continue to support the capital or liquidity needs of ResCap or should ResCap be unable to successfully execute other initiatives, it would have a material adverse effect on ResCap's business, results of operations, and financial position.

ResCap is highly leveraged relative to its cash flow and continues to recognize substantial losses resulting in a significant deterioration in capital. As a result of GMAC's capital contribution to ResCap during the fourth quarter of 2008, ResCap's consolidated tangible net worth, as defined, was \$350 million as of December 31, 2008, and remained in compliance with its credit facility financial covenants, among other covenants, requiring it to maintain a monthly consolidated tangible net worth of \$250 million. There continues to be a risk that ResCap will not be able to meet its debt service obligations, default on its financial debt covenants due to insufficient capital, and/or be in a negative liquidity position in 2009 without continued support from GMAC.

During the third quarter of 2008, ResCap's consolidated tangible net worth, as defined, fell below \$1.0 billion, giving Fannie Mae the right to pursue certain remedies under the master agreement and contract between GMAC Mortgage, its consolidated subsidiary, and Fannie Mae. ResCap reached an agreement with Fannie Mae to provide Fannie Mae with collateral valued at \$200 million, in addition to \$100 million previously provided, and agreed to sell and transfer the servicing on mortgage loans having an unpaid principal balance of approximately \$12.6 billion, or approximately 9% of the total principal balance of loans ResCap services for Fannie Mae. In return for these actions, Fannie Mae agreed to forbear, until January 31, 2009, from exercising contractual remedies otherwise available to them due to the decline in ResCap's consolidated tangible net worth, as defined. On January 29, 2009, Fannie Mae extended the forbearance period to March 31, 2009. These remedies could include, among other things, a reduction in the ability to sell loans to Fannie Mae, a reduction in the capacity to service loans for Fannie Mae, or requiring ResCap to transfer the servicing it performs for Fannie Mae. Management believes that selling the servicing related to the loans described above will have an incremental positive impact on ResCap's liquidity and overall cost of servicing, since it will no longer be required to advance delinquent payments on those loans. Meeting Fannie Mae's collateral request had a negative impact on ResCap's liquidity. If Fannie Mae deems ResCap's consolidated tangible net worth, as defined, to be inadequate following the expiration of the forbearance period referred to above, and if Fannie Mae then determines to exercise their contractual remedies as described above, it would adversely affect ResCap's profitability and financial condition.

Similarly in the fourth quarter of 2008, Federal Home Loan Mortgage Corporation (Freddie Mac) and Government National Mortgage Association (Ginnie Mae) both requested additional security as a matter of recourse relative to ResCap's financing relationships (mortgage-backed securities). On October 17, 2008, ResCap established and funded, under agreed-upon terms with Freddie Mac, an externally managed escrow account with cash collateral totaling \$30 million. This collateral would be accessible to Freddie Mac should they incur losses directly attributable to ResCap not meeting its obligations as the seller/servicer. ResCap also reached agreement with Ginnie Mae on January 21, 2009, whereby ResCap provided Ginnie Mae cash collateral, deposited in an externally managed escrow account, totaling \$35 million. As with the security provided to Freddie Mac, this collateral would be accessible to Ginnie Mae should they incur losses directly attributable to ResCap not meeting its obligations as the seller/servicer.

On December 22, 2008, GMAC Mortgage received notice from Fannie Mae that it was in breach of the servicer rating requirement as set forth in the master agreement and contract between Fannie Mae and GMAC Mortgage. As a result of this breach, Fannie Mae is entitled to exercise certain rights and remedies as permitted by its contract with GMAC Mortgage. However, Fannie Mae has granted a temporary waiver of this requirement through March 31, 2009, subject, however, to enhanced servicing reviews by Fannie Mae and Fannie Mae's determination that GMAC Mortgage continues to provide satisfactory servicing performance. On March 31, 2009, the waiver will expire and GMAC Mortgage will be required to be in compliance with the servicer rating requirement. ResCap is taking the necessary actions to be in compliance as of March 31, 2009; however, there can be no assurance it will be in compliance as of that date.

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Cash Flows

Net cash provided by operating activities was \$14.1 billion for the year ended December 31, 2008, compared to \$1.5 billion for the same period in 2007. Net cash used by operating activities primarily includes cash used for the origination and purchase of certain mortgage and automotive loans held-for-sale and the cash proceeds from the sales of and principal repayments on such loans. Our ability to originate and sell mortgage loans at previously experienced volumes has been hindered by the continued depressed U.S. housing and automotive markets and certain foreign mortgage and capital markets. These conditions contributed to an increase in net cash flow from operating activities as cash inflows from collections and sales of mortgage and automotive loans held-for-sale outpaced cash outflows from origination and purchases of new loans.

Net cash provided by investing activities was \$10.9 billion for the year ended December 31, 2008, compared to \$18.2 billion for the same period in 2007. Considering the impact of sales activity, net cash flows associated with loans and finance receivables held-for-investment decreased approximately \$22.0 billion during the year ended December 31, 2008, compared to the same period in 2007. This decrease in cash was partially offset by an increase in cash from proceeds from sales and maturities of available-for-sale investment securities, net of purchases, of \$5.9 billion and lower net cash outflows from operating lease activities of \$8.9 billion in 2008 compared to the same period a year ago.

Net cash used in financing activities for the year ended December 31, 2008, totaled \$28.2 billion, compared to \$17.6 billion for the same period in 2007. This change was largely related to lower levels of cash provided from issuing long-term debt and a \$13.6 billion increase in net cash outflows to pay down short-term debt during the year ended December 31, 2008, compared to the same period in 2007. These decreases in cash from financing activities were partially offset by a \$5.0 billion cash inflow from issuance of senior preferred interests as a result of our participation in the TARP, increases in certificate and brokered deposit balances as part of our diversified funding strategy, and lower levels of cash used to pay down long-term debt.

Funding Sources

The following table summarizes debt and other sources of funding by source and the amount outstanding under each category for the periods shown.

(\$ in millions)	Outstanding	
	December 31, 2008	December 31, 2007
Commercial paper	\$ 146	\$ 1,439
Institutional term debt	29,994	61,457
Retail debt programs	18,121	26,175
Secured financings (a)	73,108	90,809
Bank loans and other	4,227	12,697
Total debt (b)	\$ 125,596	\$ 192,577
Bank deposits (c)	\$ 18,311	\$ 13,708
Off-balance sheet securitizations:		
Retail finance receivables	\$ 11,887	\$ 14,328
Wholesale loans	10,573	16,813
Mortgage loans	125,926	136,108
Total off-balance sheet securitizations	\$ 148,386	\$ 167,249

- (a) Includes securitization transactions that are accounted for on-balance sheet as secured financings totaling \$54,876 million and \$60,898 million at December 31, 2008 and 2007, respectively.
- (b) Excludes fair value adjustment as described in Note 12 to our Consolidated Financial Statements.
- (c) Includes consumer and commercial bank deposits and dealer wholesale deposits.

Short-term Debt

We obtain short-term funding from the sale of floating-rate demand notes under our Demand Notes program. These notes can be redeemed at any time at the option of the holder without restriction. Our domestic and international unsecured and secured commercial paper programs also provide short-term funding, as do short-term bank loans. Renewing our short-term debt maturities, particularly unsecured debt, including Demand Notes, continues to be challenging due to the heightened

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credit market turmoil. Demand Notes outstanding decreased by \$5.3 billion from \$6.6 billion as of December 31, 2007, to \$1.3 billion as of December 31, 2008. As of December 31, 2008, we had \$10.4 billion in short-term debt outstanding, a decline of \$23.4 billion from December 31, 2007. Refer to Note 12 to our Consolidated Financial Statements for additional information about our outstanding short-term debt.

Long-term Debt

Historically, the unsecured debt markets were a key source of long-term financing for us. However, given our current ratings profile and market environment, we have been unable to access the unsecured debt markets. During the year ended December 31, 2008, we did not issue unsecured long-term debt in the capital markets.

The following table presents the scheduled maturity of unsecured long-term debt at December 31, 2008, assuming that no early redemptions occur.

Year ended December 31, (<i>\$ in millions</i>)	Global Automotive		
	Finance operations (a)	ResCap (b)	Total
2009	\$ 11,238	\$ 530	\$ 11,768
2010	6,031	1,289	7,320
2011	9,842	209	10,051
2012	4,746	347	5,093
2013	1,400	539	1,939
2014 and thereafter	16,494	216	16,710
Original issued discount (c)	(5,501)		(5,501)
Total unsecured long-term debt (d)	\$ 44,250	\$ 3,130	\$ 47,380

(a) Consists of debt we or our subsidiaries incur to finance our Global Automotive Finance operations.

(b) Excludes ResCap unsecured long-term debt held by GMAC.

(c) Scheduled amortization of original issue discount is as follows: \$1,489 million in 2009; \$1,262 million in 2010; \$981 million in 2011; \$336 million in 2012; \$249 million in 2013; and \$1,184 million in 2014 and thereafter.

(d) Debt issues totaling \$14.6 billion are redeemable at or above par, at our option, anytime prior to the scheduled maturity dates, the latest of which is November 2049.

Secured Financings and Off-balance Sheet Securitizations

For 2008, more than 94% of the volume of our North American Automotive Finance operations was funded through secured funding arrangements or automotive whole-loan sales. During the year ended December 31, 2008, our North American Automotive Finance operations executed approximately \$18.7 billion in automotive whole-loan sales and off-balance sheet securitizations. In addition, our North American Automotive Finance operations executed approximately \$19.0 billion in secured funding during the year. Our International Automotive Finance operations fund approximately 39% of its operations through securitizations and other forms of secured funding.

ResCap utilizes committed and uncommitted secured facilities to fund inventories of mortgage loans held-for-investment, mortgage loans held-for-sale, lending receivables, mortgage servicing cash flows, and securities. These facilities provide funding for residential mortgage loans prior to their subsequent sale or securitization. Although unused capacity exists under the secured committed facilities, use of such capacity is conditioned upon certain collateral eligibility requirements and, as a result, access to capacity under these facilities may be limited. The unused capacity on the committed secured facilities can be utilized only upon the pledge of eligible assets that ResCap may not currently have available

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or the capacity can provide funding for future asset acquisitions. ResCap also utilizes off-balance sheet financings. ResCap's off-balance sheet financings outstanding were \$126 billion as of December 31, 2008, and \$136 billion as of December 31, 2007. A significant portion of off-balance sheet financing relates to securitizations issued in off-balance sheet trusts.

As a part of ResCap's historical capital markets activity, predominantly in its international operations, several of its securitizations have certain servicer obligations contingent on actions by bondholders. These servicer obligations exist in its Dutch, German, and Australian securitization structures. Certain of these obligations provide the investors of the trust with the ability to put back these securities to the trust at a specified date in the future at par less losses previously allocated to the bond classes. ResCap, as servicer of the trust, is obligated to advance the funds required to redeem bondholders. ResCap has the

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option to purchase loans from the trust at their par value, the proceeds of which then can be used to offset the trust's obligation to repay the servicer. The specific dates that these options can be exercised range from seven to twelve years from the securitization date. The earliest exercise date for these options is the third quarter of 2009.

The total estimated amount of Dutch and German bonds subject to these servicer obligations is approximately \$8.2 billion beginning in 2009 through 2019. The estimated obligation considers contractual amortization, prepayments, and defaults among other management assumptions. The portion that is exercisable prior to December 31, 2009 and 2010, is 1.0% of the total and 5.8% of the total, respectively. Approximately 72.5% of the total estimated bonds are eligible for this servicer obligation beginning in 2013 and after.

The total estimated amount of Australian bonds subject to these servicer obligations is approximately \$77 million, all of which are exercisable in 2011.

ResCap currently holds the residual interest (first loss bond) on all of these securitizations. To the extent that the potential bonds are put back to the SPE and the loans are repurchased, ResCap has recognized the estimated future credit losses on the underlying mortgage loans in the fair market value of the retained residuals it currently holds on its balance sheet. To the extent that losses are expected to arise from factors such as liquidity or market risk of the loans that may be purchased pursuant to its servicer obligation (i.e., losses beyond the credit losses already reflected in the residual), we estimate and record this incremental loss when the likelihood of bondholder exercise is foreseeable and the incremental loss can be reasonably estimated. During the twelve months ended December 31, 2008, ResCap recorded a \$15.8 million incremental loss related to these servicer obligations.

As of December 31, 2008, the liabilities related to these servicer obligations, after considering the valuation of residual interests, were immaterial.

The following table summarizes assets that are restricted as collateral for the payment of related debt obligations. These restrictions primarily arise from securitization transactions accounted for as secured borrowings and repurchase agreements. Excluded from the table is \$2.8 billion of assets used to support certain global funding facilities. This support has been provided by transferring these assets to a wholly owned subsidiary of GMAC, which then provides a guarantee in favor of lenders under certain funding facilities.

(\$ in millions)	December 31, 2008		December 31, 2007	
	Assets	Related secured debt (a)	Assets	Related secured debt (a)
Loans held-for-sale	\$ 2,433	\$ 660	\$ 10,437	\$ 6,765
Mortgage assets held-for-investment and lending receivables	26,294	14,725	45,534	33,911
Retail automotive finance receivables	30,676	22,091	23,079	19,094
Commercial automotive finance receivables	20,738	11,857	10,092	7,709
Investment securities	646	481	880	788
Investment in operating leases, net	18,885	16,744	20,107	17,926
Real estate investments and other assets	19,264	6,550	14,429	4,616
Total	\$ 118,936	\$ 73,108	\$ 124,558	\$ 90,809

(a) Included as part of secured debt are repurchase agreements of \$588 million and \$3.6 billion through which we have pledged assets as collateral at December 31, 2008 and 2007, respectively.

Bank Deposits

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We accept commercial and consumer deposits through GMAC Bank in the United States. As of December 31, 2008, GMAC Bank had approximately \$19.2 billion of deposits, compared to \$12.8 billion as of December 31, 2007. Deposits are an efficient and cost-effective source of funding for us and, as a result, we have been offering competitive rates in an effort to increase our deposit levels. We also have banking operations in Argentina, Brazil, Colombia, France, Germany, and Poland that fund automotive assets.

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Funding Facilities

The following tables highlight credit capacity under our secured and unsecured funding facilities as of December 31, 2008 and 2007. We utilize both committed and uncommitted credit facilities.

Unsecured Funding Facilities

The following table summarizes our unsecured committed capacity as of December 31, 2008 and 2007.

	Unsecured committed facilities December 31, 2008			December 31, 2007		Total capacity
	Outstanding	Unused capacity	Total capacity	Outstanding	Unused capacity	
<i>(\$ in billions)</i>						
Global Automotive Finance operations:						
North American operations						
Revolving credit facility	364 day	\$	\$	\$	\$ 3.0	\$ 3.0
Revolving credit facility	multiyear	0.5		0.5	3.0	3.0
Bank lines		0.4		0.4	0.8	1.0
International operations						
Bank lines		0.6	0.2	0.8	1.1	1.9
Total Global Automotive Finance operations		1.5	0.2	1.7	1.9	8.9
ResCap:						
Revolving credit facility	364 day				0.9	0.9
Revolving credit facility	multiyear				0.9	0.9
Bank term loan				1.8		1.8
Total ResCap				1.8	1.8	3.6
Other:						
Commercial Finance operations					0.1	0.1
Total Other					0.1	0.1
Total		\$ 1.5	\$ 0.2	\$ 1.7	\$ 3.7	\$ 12.6

Revolving credit facilities As of December 31, 2007, we had four unsecured syndicated bank facilities totaling approximately \$7.8 billion. GMAC had a \$3.0 billion 364-day facility maturing in June 2008 and a \$3.0 billion five-year term facility maturing in June 2012. ResCap had an \$875 million 364-day facility maturing in June 2008 and an \$875 million three-year term facility maturing in June 2010. In June 2008, lenders in the GMAC and ResCap unsecured revolving credit facilities were given the option of transferring their existing credit commitments to a new GMAC secured revolving credit facility at a multiple of their existing commitment amount. Of the 38 banks given this option, 30 of them, composing over 90% of the existing commitment amounts, exercised this option. All of the ResCap lenders opted to transfer their commitments. Some GMAC lenders chose not to transfer their commitments; therefore, they remained in the existing GMAC five-year term facility with amended terms and conditions. The remaining commitments total \$486 million and are available until June 2012. As of December 31, 2008, the

five-year term facility was fully drawn.

Bank lines As of December 31, 2008, we maintained \$447 million in committed unsecured bank facilities in Canada and \$769 million in International operations, primarily in Europe.

Bank term loan During June 2008, GMAC acquired \$1.3 billion of the outstanding \$1.8 billion ResCap term loan due to mature on July 28, 2008. This transaction was incorporated into the \$3.5 billion senior secured credit facility extended from GMAC to subsidiaries of ResCap; therefore, it utilized \$1.3 billion of the total capacity. ResCap paid the remainder of the term loan with proceeds from the \$3.5 billion credit facility provided by GMAC.

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The following table summarizes our unsecured uncommitted capacity as of December 31, 2008 and 2007. The financial institutions providing the uncommitted facilities are not legally obligated to advance funds under them.

	Unsecured uncommitted facilities December 31, 2008			December 31, 2007		Total	
	Outstanding	Unused Capacity	Total capacity	Outstanding	Unused capacity		
<i>(\$ in billions)</i>							
Global Automotive Finance operations:							
International operations							
Lines of credit	Europe	\$ 1.0	\$ 0.1	\$ 1.1	\$ 4.7	\$ 0.4	\$ 5.1
Lines of credit	Latin America	0.8	0.1	0.9	2.2	0.7	2.9
Lines of credit	Asia Pacific	0.1		0.1	0.4	0.1	0.5
Total Global Automotive Finance operations		1.9	0.2	2.1	7.3	1.2	8.5
ResCap:							
Lines of credit					0.3		0.3
GMAC Bank	Fed Funds		0.1	0.1		0.2	0.2
Other					0.1		0.1
Total ResCap			0.1	0.1	0.4	0.2	0.6
Other:							
Commercial Finance operations					0.2		0.2
Total		\$ 1.9	\$ 0.3	\$ 2.2	\$ 7.9	\$ 1.4	\$ 9.3

Global Automotive Finance lines of credit Our International operations utilize credit lines from local banks and local branches of multinational financial institutions. The lines generally have a documented credit limit to establish total capacity, but lenders are not obligated to fulfill loan requests if there is unutilized capacity. Also, lenders are not obligated to renew outstanding loans when they mature. The outstanding loans under these credit lines tend to be short-term in nature; therefore, they are renewed throughout the year. These credit lines are typically supported by a parent guarantee from GMAC LLC. As of December 31, 2008, our nonconsolidated Chinese affiliate (GMAC-SAIC Automotive Finance Company Limited) had \$1.4 billion of bank line capacity and \$1.1 billion outstanding, which is not included in the table above.

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Secured Funding Facilities

The following table shows the current capacity and potential capacity under our secured committed facilities as of December 31, 2008 and 2007. Current capacity represents funding capacity that is available upon request as excess collateral resides in certain facilities. The potential capacity on the committed secured facilities can be utilized only upon the pledge of available eligible assets.

	Secured committed facilities					
	December 31, 2008			December 31, 2007		
	Current	Potential	Total	Current	Potential	Total
<i>(\$ in billions)</i>	Outstanding capacity (a)	capacity (b)	capacity	Outstanding capacity (a)	capacity (b)	capacity
Global Automotive Finance operations:						
North American operations						
Syndicated facilities (c)	\$ 13.9	\$ 0.6	\$ 12.8	\$ 27.3	\$	\$