Looking to the Future

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


Michael A. Carpenter

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

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

Is true economic recovery taking place?

A lot of the statistics are misleading, but the U.S. economy is slowly improving.

Our business is doing extremely well, because on average the family car is 11 years old. So we're in the middle of a replacement cycle that was on hold during the recession. Add to that the fact that interest rates are at incredibly low levels and people are able to find appropriate financing for vehicles, so we're seeing SAAR in the range of 17 million cars. Dealers are making more money than they ever have, and we as a financier are a beneficiary of the level of activity of the industry.

You characterized the Ally story as an "ROE enhancement story." Is that still the case?

The past years have been incredibly eventful for us. As of today, we have returned $17.8 billion on the $17.2-billion investment the Treasury put into the company, and they still own 16 percent of the company. We have completed the sale of our international assets, raising almost $9 billion; in addition, we raised $1.3 billion in equity last fall. Further, the U.S. Treasury sold another $3 billion in January. We took the company public in April with a $2.6 billion IPO; and we were upgraded by our regulators to what is called Financial Holding Company status at the end of 2013.

With regard to the ROE story, when we took the company public, we said to the market, we have these two fantastic franchises – a leading auto finance franchise and direct banking franchise called Ally Bank. We have probably the cleanest balance sheet in the banking industry; we're very well-capitalized; and all of the problems are behind us, so we're a great company. Our one problem is that the return on equity is not reflective of the quality of the franchises that I just described.

We also told people at the time of the IPO that we had a three-point plan to get to a double-digit return on equity. The first point was to significantly improve our cost of funds by virtue of liability management and dealing with high-cost debt that we had on the balance sheet. We were given approval to buy $10 billion of that debt, which we began to do towards the end of last year and have now completed.

The second point was to take as much as $400 million out of our $2-billion operating expense line.

The third point was to work to achieve a level playing field when it comes to the regulatory environment as we exit the TARP program, since we had historically been held to a higher standard than other banks.

We believed that those three efforts together would get us to a decent return on equity.

Our return on equity at that time was running around 4 percent; if you look at our second quarter 2014 results, our return on equity was 8.4 percent. So we're well on the way to achieving what we promised investors at the time of the IPO in April.

Where do you go from here?

With regard to those three legs of the stool, we're midway through. On the cost side, what we reported in Q2 was a $110 million improvement over our baseline. We have a lot more opportunity to drive that return on equity, which is critical to the valuation of the company and how our stock trades.

We've spent the past five years cleaning up the mess and getting the business positioned to capitalize on its full potential. The clean-up is mostly behind us now and it's more about looking to the future.

What does it mean to be dealer-focused and how do you differentiate in this area?

The phrase we use is, "we're in and of the industry." Our people typically have spent 15 to 25 years in the auto finance business.

We cover the whole credit spectrum, and we not only provide loans but also do leases – not many banks do that, so we have a huge share of the market on the leasing side. We provide insurance products for the dealers to sell to customers. We insure their inventory. We have our own online auction, if they want to offload used vehicles.

We turnaround simple applications in four seconds, but that's not what dealers care about. They care about getting tough deals financed and want someone to work with them to structure it in a way that helps sell vehicles, and this becomes service- and people-intensive.

Our average dealer relationships have lasted 15 years and when we meet them, they often tell stories of how, during the downturn, all of the other banks went away but we stuck with them. ●