This 3DAdvisors Report Covers:	
	Insider Trading: Insider Trading Behavior
✓	**Accounting**: Quality of Earnings Issues
	Governance: Corporate Governance Issues

More on GMAC Mortgage Portfolio Risk
General Motors Corporation (NYSE:GM) Update

January 2, 2003

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General Motors Corporation provides automotive-related products and services by primarily designing, manufacturing and marketing vehicles, as well as providing communications services and financial services. The company operates in two segments, Automotive, Communications Services and Other Operations, and Financing and Insurance Operations.

Summary of 3DAdvisors Findings for GM

- **Accounting:** More on GMAC mortgage portfolio risk

Discussion of 3DAdvisors Findings

Accounting: More on GMAC mortgage portfolio risk

Readers of 3DA research on GM are by now aware of our concerns that GM, through GMAC's mortgage operations, is taking on higher levels of risk through its exponential growth of Loans Held for Investment and that the disclosure behavior concerning this risk is troubling. From an accounting and operational perspective, our concerns are based on the knowledge that GMAC has not traditionally been in this business but now seems to be plowing into it in a big way. GMAC is both originating and buying a rapidly-growing amount of these sub-prime and/or non-conforming loans but may not have the experience in the mortgage market that it traditionally has enjoyed in the auto loan marketplace.

Among our growing list of concerns in this area is that GMAC's provisioning for these loans looks inadequate as well. A good case in point is to look at how GMAC underestimated its allowance for Mortgage Service Rights (MSR) at year-end 2001. At that time, the Company utilized a $491 valuation allowance for its MSR and carried the corresponding MSR asset on the books at $4.8 billion. By Q3 of '02, however, just nine months later, the impairment write-down had taken the value of this asset down to $2.85 billion, far greater than the provisioning would have assumed.

Our argument here is that GMAC had significantly missed the mark on properly assessing the risk component of its $4.8 million Mortgage Servicing Asset. It would seem it has only itself to blame for the error. These MSR's, or rights to service loans, are contracted under primary or master servicing agreements. The fair value estimates of these MSR's had historically been, according to the Company, "based upon assumptions derived from similar transactions, which occur in the marketplace". Things began changing, however in that marketplace. Instead of basing these assumptions on outside, or independent, experience, GMAC began using its own models with which to base its fair value estimates. And thus, according to GMAC's 2001 10K: "Continued industry consolidation and other factors have led to substantial decline in relevant market transactions for certain residential mortgage products, particularly since April '01". In response to this, in Q2, '01 GMAC had "increased its reliance on its own mortgage servicing rights cash flow history for certain assumptions" in the valuation of these rights on the books.

GMAC's problem with the large $1.16 billion write off may very well be that mortgage loan volume had risen to levels not previously seen, proving estimation models developed from internal Company data to be inadequate. The difficulties in estimating the fair market value of these MSR's and the amount of their subsequent impairment write-off, demonstrates the risky nature of some of GMAC's mortgage-related business and its rather lonely position out there in the marketplace.

Based on this, it is hard to accept, as adequate, the Company's $315 million allowance for losses in its rapidly-growing Mortgage Loan Portfolio, especially given the substantial rise in Loans Held for Investment. During the last nine months, Loans Held for Investment have jumped from $3.38 billion to $12.2 billion (360%) while their allowance has moved up by only 90%.

We think the increased concentration of Loans Held for Investment (described in our December 1 update) is a cornerstone of this risky posture. First of all, since these Loans are being "Held for Investment" they do not have to be "marked to market" as they would have to be if they were "Held for Sale". By reclassifying an increasing amount of these to "Held for Investment", the Company may be delaying taking big hits to earnings when these loans start falling behind. The Company has already demonstrated that it has shoved non-performing loans into this category in the past. It could easily be including a large component of these in the category now, in addition to loans that cannot be either sold, or resold, conventionally. We are definitely of the opinion that the Loans Held for Investment represents a big jump in the risk posture at GMAC, and one in an area that is not the Company's traditional area of expertise.