

GENERAL MOTORS ACCEPTANCE CORP

Form 10-K/A

April 13, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K/A**  
**Amendment No. 1**

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004, 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**

**GENERAL MOTORS ACCEPTANCE CORPORATION**

(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**

(Registrant's telephone number, including area code)

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

**Title of each class**

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8.75% Notes due July 15, 2005	10.30% Deferred Interest Debentures due June 15, 2015
6 5/8% Notes due October 15, 2005	7.30% Public Income NotES (PINES) due March 9, 2031
6 1/8% Notes due January 22, 2008	7.35% Notes due August 8, 2032
8 7/8% Notes due June 1, 2010	7.25% Notes due February 7, 2033
6.00% Debentures due April 1, 2011	7.375% Notes due December 16, 2044
10.00% Deferred Interest Debentures due December 1, 2012	

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

## Edgar Filing: GENERAL MOTORS ACCEPTANCE CORP - Form 10-K/A

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. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of December 31, 2004, there were outstanding 10 shares of the issuer's \$.10 par value common stock.

Documents incorporated by reference. None.

### **Reduced Disclosure Format**

The registrant meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format.

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**Explanatory Note**

General Motors Acceptance Corporation (GMAC or the Company) is filing this amendment to Form 10-K for the fiscal year ended December 31, 2004, which was filed with the Securities and Exchange Commission on March 16, 2005 (2004 Form 10-K). The Reports of Independent Registered Public Accounting Firm, which appear on pages 53 and 54 of the 2004 Form 10-K, did not include the signature of Deloitte & Touche LLP. At the time of the March 16, 2005 filing of the Form 10-K with the Securities and Exchange Commission, GMAC was in possession of manually-signed copies of the audit opinions, but the signature in typed form was inadvertently omitted from the electronic version. The purpose of this amendment is to file the Reports of Independent Registered Public Accounting Firm which include the signatures in typed form.

Except for the amendment described above, this Form 10-K/A does not modify or update other disclosures in, or exhibits to, GMAC's 2004 Form 10-K. For convenience and ease of reference, this amendment sets forth Item 8 Financial Statements and Supplementary Data from the 2004 Form 10-K in its entirety with the applicable changes. Because this amendment only incorporates the signature in typed form of Deloitte & Touche LLP on the Reports of Independent Registered Public Accounting Firm, the dates of all reports and certifications remain as originally filed.

GMAC's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports are available on the Company's internet website, free of charge, as soon as reasonably practicable after the reports are electronically filed with or furnished to the United States Securities and Exchange Commission (SEC). These reports are available at [www.gmacfs.com](http://www.gmacfs.com), under Investment, Financial Statements, and SEC Filings.

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\* Refer to the 2004 Form 10-K filed on March 16, 2005.

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**Part I**

**Item 8. Financial Statements and Supplementary Data**

The Consolidated Financial Statements, together with the notes thereto and the reports of Management and of Deloitte & Touche LLP dated March 14, 2005, begin on page 3 of this 10-K/A. Unaudited supplementary financial data for each quarter within the two years ended December 31, 2004 is included herein on page 47.

GMAC's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports are available on the Company's internet website, free of charge, as soon as reasonably practicable after the reports are electronically filed with or furnished to the United States Securities and Exchange Commission (SEC). These reports are available at [www.gmacfs.com](http://www.gmacfs.com), under Investment, Financial Statements, and SEC Filings.

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**Signatures**

General Motors Acceptance Corporation

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 13th day of April, 2005.

**General Motors Acceptance Corporation**  
(Registrant)

/s/ SANJIV KHATTRI

/s/ LINDA K. ZUKAUCKAS

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Sanjiv Khattri  
Executive Vice President and Principal Financial Officer

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Linda K. Zukauckas  
Controller and Principal Accounting Officer



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**Statement of Responsibility for Preparation  
of Financial Statements**

General Motors Acceptance Corporation

The Consolidated Financial Statements, Financial Highlights and Management's Discussion and Analysis of Financial Condition and Results of Operations of General Motors Acceptance Corporation and subsidiaries (GMAC) were prepared by management, who is responsible for their integrity and objectivity. Where applicable, this financial information has been prepared in conformity with the Securities Exchange Act of 1934, as amended, and accounting principles generally accepted in the United States of America. The preparation of this financial information requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. The critical accounting estimates that may involve a higher degree of judgment and complexity are included in Management's Discussion and Analysis.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited the consolidated financial statements of GMAC; and their report is included herein. The audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The General Motors Board of Directors, through its Audit Committee (composed entirely of independent directors), is responsible for overseeing management's fulfillment of its responsibilities in the preparation of the consolidated financial statements. The GM Audit Committee annually recommends to the Board of Directors the selection of independent auditors in advance of General Motor's Annual Meeting of Stockholders and submits the selection for ratification at the Meeting. In addition, the GM Audit Committee reviews the scope of the audits and the accounting principles being applied in financial reporting. The independent auditors, representatives of management, and the internal auditors meet regularly (separately and jointly) with the GM Audit Committee to review the activities of each, and to ensure that each is properly discharging its responsibilities. To reinforce complete independence, Deloitte & Touche LLP has full and free access to meet with the GM Audit Committee without management representatives present, to discuss the results of the audit, the adequacy of internal control, and the quality of financial reporting. Certain aspects of these responsibilities are delegated to GMAC's Audit Committee, comprised of General Motor's Chief Financial Officer, Treasurer and President of GM Asset Management.

/s/ ERIC A. FELDSTEIN

/s/ SANJIV KHATTRI

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Eric A. Feldstein  
Chairman  
March 14, 2005

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Sanjiv Khattri  
Executive Vice President and  
Chief Financial Officer  
March 14, 2005

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## Management's Report on Internal Control over Financial Reporting

General Motors Acceptance Corporation

General Motors Acceptance Corporation's management is responsible for establishing and maintaining effective internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

Management conducted, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria. Based on the assessment performed, management concluded that as of December 31, 2004, GMAC's internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on their assessment, management determined that there were no material weaknesses in the Company's internal control over financial reporting as of December 31, 2004.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing on the following page, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2004.

/s/ ERIC A. FELDSTEIN

/s/ SANJIV KHATTRI

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Eric A. Feldstein  
Chairman  
March 14, 2005

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Sanjiv Khattri  
Executive Vice President and  
Chief Financial Officer  
March 14, 2005

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**Report of Independent Registered Public Accounting Firm**

General Motors Acceptance Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that General Motors Acceptance Corporation and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of General Motors Acceptance Corporation and subsidiaries as of and for the year ended December 31, 2004. Our report, dated March 14, 2005, expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

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Deloitte & Touche LLP

Detroit, Michigan

March 14, 2005

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**Report of Independent Registered Public Accounting Firm**

General Motors Acceptance Corporation:

We have audited the accompanying Consolidated Balance Sheet of General Motors Acceptance Corporation and subsidiaries as of December 31, 2004 and 2003, and the related Consolidated Statements of Income, Changes in Stockholder's Equity and Cash Flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of General Motors Acceptance Corporation and subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective July 1, 2003, General Motors Acceptance Corporation and subsidiaries began consolidating certain variable interest entities to conform to Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

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Deloitte & Touche LLP

Detroit, Michigan

March 14, 2005

**Table of Contents****Consolidated Statement of Income**

General Motors Acceptance Corporation

Year ended December 31, <i>(in millions)</i>	2004	2003	2002
<b>Revenue</b>			
Consumer	\$10,117	\$8,479	\$6,808
Commercial	2,177	1,950	2,059
Loans held for sale	1,269	1,024	843
Operating leases	6,768	6,807	6,279
Total revenue	20,331	18,260	15,989
Interest and discount expense	9,535	7,564	6,834
Net revenue before provision for credit losses	10,796	10,696	9,155
Provision for credit losses	1,944	1,721	2,153
Net revenue	8,852	8,975	7,002
Insurance premiums and service revenue earned	3,528	3,178	2,678
Mortgage banking income	2,100	2,663	1,788
Investment income	845	631	524
Other income	3,508	3,129	3,531
Total net revenue	18,833	18,576	15,523
<b>Expense</b>			
Depreciation expense on operating lease assets	4,994	5,001	4,470
Compensation and benefits expense	2,916	2,838	2,474
Insurance losses and loss adjustment expenses	2,371	2,288	2,027
Other operating expenses	4,205	4,065	3,611
Total noninterest expense	14,486	14,192	12,582
<b>Income before income tax expense</b>	<b>4,347</b>	<b>4,384</b>	<b>2,941</b>
Income tax expense	1,434	1,591	1,071
<b>Net income</b>	<b>\$2,913</b>	<b>\$2,793</b>	<b>\$1,870</b>

The Notes to the Consolidated Financial Statements are an integral part of these statements.

**Table of Contents****Consolidated Balance Sheet**

General Motors Acceptance Corporation

December 31, <i>(in millions)</i>	2004	2003
<b>Assets</b>		
Cash and cash equivalents	\$22,718	\$17,976
Investment securities	14,960	13,200
Loans held for sale	19,934	19,609
Finance receivables and loans, net of unearned income		
Consumer	149,934	134,358
Commercial	53,210	43,046
Allowance for credit losses	(3,419)	(3,042)
<b>Total finance receivables and loans, net</b>	<b>199,725</b>	174,362
Investment in operating leases, net	26,580	24,368
Notes receivable from General Motors	4,921	3,151
Mortgage servicing rights, net	3,890	3,720
Premiums and other insurance receivables	1,763	1,960
Other assets	29,648	29,817
<b>Total assets</b>	<b>\$324,139</b>	\$288,163
<b>Liabilities</b>		
<b>Debt</b>		
Unsecured	\$177,003	\$169,839
Secured	91,957	69,023
<b>Total debt</b>	<b>268,960</b>	238,862
Interest payable	3,394	3,122
Unearned insurance premiums and service revenue	4,727	4,228
Reserves for insurance losses and loss adjustment expenses	2,505	2,340
Accrued expenses and other liabilities	18,382	15,725
Deferred income taxes	3,754	3,650
<b>Total liabilities</b>	<b>301,722</b>	267,927
<b>Stockholder s equity</b>		
Common stock, \$.10 par value (10,000 shares authorized, 10 shares issued and outstanding) and paid-in capital	5,760	5,641
Retained earnings	15,491	14,078
Accumulated other comprehensive income	1,166	517
<b>Total stockholder s equity</b>	<b>22,417</b>	20,236
<b>Total liabilities and stockholder s equity</b>	<b>\$324,139</b>	\$288,163

The Notes to the Consolidated Financial Statements are an integral part of these statements.

**Table of Contents****Consolidated Statement of Changes in Stockholders Equity**

General Motors Acceptance Corporation

Year ended December 31, <i>(in millions)</i>	2004	2003	2002
<b>Common stock and paid-in capital</b>			
Balance at beginning of year	\$5,641	\$5,641	\$5,641
Increase in paid-in capital	119		
Balance at end of year	5,760	5,641	5,641
<b>Retained earnings</b>			
Balance at beginning of year	14,078	12,285	10,815
Net income	2,913	2,793	1,870
Dividends paid	(1,500)	(1,000)	(400)
Balance at end of year	15,491	14,078	12,285
<b>Accumulated other comprehensive income (loss)</b>			
Balance at beginning of year	517	(95)	(322)
Other comprehensive income	649	612	227
Balance at end of year	1,166	517	(95)
<b>Total stockholders equity</b>			
Balance at beginning of year	20,236	17,831	16,134
Increase in paid-in capital	119		
Net income	2,913	2,793	1,870
Dividends paid	(1,500)	(1,000)	(400)
Other comprehensive income	649	612	227
Total stockholders equity at end of year	\$22,417	\$20,236	\$17,831
<b>Comprehensive income</b>			
Net income	\$2,913	\$2,793	\$1,870
Other comprehensive income	649	612	227
Comprehensive income	\$3,562	\$3,405	\$2,097

The Notes to the Consolidated Financial Statements are an integral part of these statements.

**Table of Contents****Consolidated Statement of Cash Flows**

General Motors Acceptance Corporation

Year ended December 31, <i>(in millions)</i>	2004	2003	2002
<b>Operating activities</b>			
Net income	\$2,913	\$2,793	\$1,870
Reconciliation of net income to net cash provided by operating activities			
Depreciation and amortization	5,316	5,302	4,842
Amortization and valuation adjustments of mortgage servicing rights	1,384	1,602	3,871
Provision for credit losses	1,944	1,721	2,152
Net gains on sales of finance receivables and loans	(31)	(88)	(239)
Net (gains) losses on investment securities	(52)	71	(74)
Net change in:			
Trading securities	597	236	(656)
Loans held for sale	445	456	(4,715)
Deferred income taxes	(118)	(463)	(454)
Interest payable	311	358	318
Other assets	2,339	(741)	(2,383)
Other liabilities	(2,801)	(790)	(429)
Other, net	1,011	1,040	3,297
Net cash provided by operating activities	13,258	11,497	7,400
<b>Investing activities</b>			
Purchases of available for sale securities	(12,783)	(15,529)	(36,392)
Proceeds from sales of available for sale securities	3,276	7,615	12,790
Proceeds from maturities of available for sale securities	7,250	9,413	21,222
Net maturities of held to maturity securities	111	25	64
Net increase in finance receivables and loans	(127,264)	(149,487)	(142,927)
Proceeds from sales of finance receivables and loans	108,147	107,505	117,276
Purchases of operating lease assets	(14,324)	(11,033)	(16,071)
Disposals of operating lease assets	7,770	9,280	12,639
Change in notes receivable from General Motors	(1,635)	299	1,251
Purchases and originations of mortgage servicing rights, net	(1,554)	(2,557)	(1,711)
Acquisitions of subsidiaries, net of cash acquired	9	(144)	(182)
Other, net	(170)	(1,918)	(1,411)
Net cash used in investing activities	(31,167)	(46,531)	(33,452)
<b>Financing activities</b>			
Net change in short-term debt	4,123	658	1,483
Proceeds from issuance of long-term debt	72,753	82,606	46,848
Repayments of long-term debt	(57,743)	(38,944)	(24,220)
Other financing activities	4,723	1,319	333
Dividends paid	(1,500)	(1,000)	(400)
Net cash provided by financing activities	22,356	44,639	24,044
Effect of exchange rate changes on cash and cash equivalents	295	268	10
Net increase (decrease) in cash and cash equivalents	4,742	9,873	(1,998)
Cash and cash equivalents at beginning of year	17,976	8,103	10,101



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Cash and cash equivalents at end of year	<b>\$22,718</b>	\$17,976	\$8,103
<b>Supplemental disclosures</b>			
Cash paid for:			
Interest	<b>\$8,887</b>	\$6,965	\$6,333
Income taxes	<b>2,003</b>	3,479	455
Non-cash items:			
Finance receivables and loans held for sale (a)	<b>6,849</b>	3,487	
Increase in paid-in capital (b)	<b>119</b>		

(a) Represents the consolidation of certain assets related to an accounting change under SFAS 140 (refer to Note 1 of the Consolidated Financial Statements) and the adoption of FIN 46 in 2003; there was a corresponding increase in secured debt.

(b) Represents the consolidation of Banco GM under FIN 46R beginning January 1, 2004. In the fourth quarter, GMAC purchased Banco GM (refer to Note 19 of the Consolidated Financial Statements).

The Notes to the Consolidated Financial Statements are an integral part of these statements.

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# Notes to Consolidated Financial Statements

General Motors Acceptance Corporation

## **1 Significant Accounting Policies**

General Motors Acceptance Corporation (GMAC or the Company), a wholly owned subsidiary of General Motors Corporation (General Motors or GM), was incorporated in 1997 under the Delaware General Corporation Law. On January 1, 1998, the Company merged with its predecessor, which was originally incorporated in New York in 1919. The Company is a financial services organization providing a diverse range of services to a global customer base.

### **Consolidation and Basis of Presentation**

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries after eliminating all significant intercompany balances and transactions. The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing industry practices. Certain amounts in prior periods have been reclassified to conform to the current period's presentation. The most significant reclassification relates to depreciation expense on operating lease assets, which was previously netted against operating lease revenue and now is reflected as a separate component of noninterest expense.

The Company operates its international subsidiaries in a similar manner as in the United States of America (U.S.), subject to local laws or other circumstances that may cause it to modify its procedures accordingly. The financial statements of subsidiaries outside the United States generally are measured using the local currency as the functional currency. All assets and liabilities of foreign subsidiaries are translated into U.S. dollars at year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the reporting period. The resulting translation adjustments are recorded as other comprehensive income, a component of shareholder's equity.

Effective September 30, 2004, as a result of reconsidering particular transaction provisions, GMAC began to include in the Consolidated Balance Sheet the transfer of certain mortgage assets that historically had been recognized inappropriately as sales in order to reflect the transactions as secured borrowings under Statement of Financial Accounting Standards 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). As of September 30, 2004, the impact resulted in a \$6.8 billion increase in assets (\$3.3 billion in loans held for sale and \$3.5 billion in commercial finance receivables) with a corresponding increase in secured debt. Historically, these assets (and related obligations) were included in the Company's off-balance sheet disclosures as mortgage warehouse and other mortgage funding facilities. This change did not have a material impact on the Company's annual results of operations or cash flows for all periods presented.

### **Use of Estimates and Assumptions**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. In developing the estimates and assumptions, management uses all available evidence. However, because of uncertainties associated with estimating the amounts, timing, and likelihood of possible outcomes, actual results could differ from estimates.

### **Cash Equivalents**

Cash equivalents are generally defined as short-term, highly liquid investments with original maturities of 90 days or less. Certain securities with original maturities less than 90 days that are held as a portion of longer term investment portfolios, primarily relating to GMAC Insurance Holdings, Inc. (GMAC Insurance), are classified as investments.

### **Investment Securities**

The Company's portfolio of investment securities includes bonds, equity securities, asset- and mortgage-backed securities, notes, interests in securitization trusts and other investments. Investment securities are classified based on management's intent. The Company's trading securities primarily consist of interests (both retained and purchased) in certain securitizations. The retained interests are carried at fair value with changes in fair value recorded in current period earnings. Debt securities which management has the intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. All other investment securities are classified as available for sale and carried at fair value, with unrealized gains and losses (excluding other than temporary impairments) included in other comprehensive income, a component of shareholder's equity, on an after-tax basis. Investments classified as available for sale or held to maturity are considered to be impaired when a decline in fair value is judged to be other than temporary. The Company employs a systematic methodology that considers available evidence in

evaluating potential impairment of its investments. In the event that the cost of an investment exceeds its fair value, the Company evaluates, among other factors, the magnitude and duration of the decline in fair value; for equity and debt securities the financial health of and business outlook for the issuer; the performance of the underlying assets for interests in securitized assets; and the Company's intent and ability to hold the investment. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded in investment income and a new cost basis in the investment is established. Realized gains and losses on investment securities are reported in investment income and are determined using the specific identification method.

**Loans Held for Sale**

Loans held for sale may include automotive, residential and commercial mortgage receivables and loans and are carried at the lower of aggregate cost or estimated fair value, or if qualifying for

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hedge accounting pursuant to Statement of Financial Accounting Standards 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133) reported at fair value. Fair value is based on contractually established commitments from investors or is based on current investor yield requirements. Revenue recognition on consumer automotive finance receivables is suspended when finance receivables and loans are placed on nonaccrual status. Retail automotive receivables are placed on nonaccrual status when contractually delinquent for 120 days. Interest on residential and commercial mortgage loans held for sale is accrued until such loans become 60 days delinquent.

**Finance Receivables and Loans**

Finance receivables and loans are reported at the principal amount outstanding, net of unearned income. Unearned income, which includes deferred origination fees reduced by origination costs and unearned rate support received from GM, is amortized to consumer or commercial revenue over the contractual life of the related finance receivable or loan using the interest method. Loan commitment fees are generally deferred and amortized into commercial revenue over the commitment period. Other credit-related fees, including letter and line of credit fees, are recognized as other income when earned.

*Nonaccrual loans*

Consumer and commercial revenue recognition is suspended when finance receivables and loans are placed on nonaccrual status. Retail automotive receivables are placed on nonaccrual status when contractually delinquent for 120 days. Commercial automotive receivables and loans and commercial and industrial loans are placed on nonaccrual status when contractually delinquent for 90 days. Residential mortgages and commercial real estate loans are placed on nonaccrual status when contractually delinquent for 60 days. Warehouse, construction, and other lending receivables are placed on nonaccrual status when contractually delinquent for 90 days. Revenue accrued but not collected at the date finance receivables and loans are placed on nonaccrual status is reversed and subsequently recognized only to the extent it is received in cash. Finance receivables and loans are restored to accrual status only when contractually current and the collection of future payments is reasonably assured.

*Impaired loans*

Commercial loans are considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement and the recorded investment in the loan exceeds the fair value of the underlying collateral. GMAC recognizes income on impaired loans as discussed previously for nonaccrual loans. If the recorded investment in impaired loans exceeds the fair value, a valuation allowance is established as a component of the allowance for credit losses. In addition to commercial loans specifically identified for impairment, the Company has portfolios of smaller-balance homogeneous loans that are collectively evaluated for impairment, as discussed within the allowance for credit losses accounting policy.

**Allowance for Credit Losses**

The allowance for credit losses is management's estimate of incurred losses in the lending portfolios. Portions of the allowance for credit losses are specified to cover the estimated losses on commercial loans specifically identified for impairment. The unspecified portion of the allowance for credit losses covers estimated losses on the homogeneous portfolios of finance receivables and loans collectively evaluated for impairment. Additions to the allowance for credit losses are made by charges to the provision for credit losses. Amounts determined to be uncollectible are charged against the allowance for credit losses. Additionally, losses arising from the sale of repossessed assets collateralizing automotive finance receivables and loans are charged to the allowance for credit losses. Recoveries of previously charged-off amounts are credited to the allowance for credit losses.

The Company performs periodic and systematic detailed reviews of its lending portfolios to identify inherent risks and to assess the overall collectibility of those portfolios. The allowance relates to portfolios collectively reviewed for impairment, generally consumer finance receivables and loans, and is based on aggregated portfolio evaluations by product type. Loss models are utilized for these portfolios which consider a variety of factors including, but not limited to, historical loss experience, current economic conditions, anticipated repossessions or foreclosures based on portfolio trends, delinquencies and credit scores, and expected loss factors by receivable and loan type. Loans in the commercial portfolios are generally reviewed on an individual loan basis and, if necessary, an allowance is established for individual loan impairment. Loans subject to individual reviews are analyzed based on factors including, but not limited to, historical loss experience, current economic conditions, collateral performance, and performance trends within specific geographic and portfolio segments, and any other pertinent information, which result in the estimation of specific allowances for credit losses. The allowance related to specifically identified impaired loans is established based on discounted expected cash flows, observable market prices, or for loans that are solely dependent on the collateral

for repayment, the fair value of the collateral. The evaluation of these factors for both consumer and commercial finance receivables and loans involves complex, subjective judgments.

**Securitizations and Other Off-balance Sheet Transactions**

The Company securitizes, sells and services retail finance receivables, wholesale loans, commercial investment securities, and residential and commercial mortgage loans. Interests in the securitized and sold loans are generally retained in the form of interest-only strips, senior or subordinated interests, cash reserve accounts, and servicing rights. The Company's retained interests are generally subordinate to investors interests. The investors and

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the securitization trusts generally have no recourse to the Company's other assets for failure of debtors to pay when due.

GMAC retains servicing responsibilities for all of its retail finance receivable and wholesale loan securitizations and for the majority of its residential and commercial mortgage loan securitizations. The Company may receive servicing fees based on the securitized loan balances and certain ancillary fees, all of which are recorded in other income for retail finance receivables and wholesale loans, and mortgage banking income for residential and commercial mortgage loans. The Company also retains the right to service the residential mortgage loans sold as a result of mortgage-backed security transactions with Ginnie Mae, Fannie Mae, and Freddie Mac and for the sale of automotive finance receivables. GMAC also serves as the collateral manager in the securitizations of commercial investment securities.

Gains or losses on securitizations and sales depend on the previous carrying amount of the assets involved in the transfer and are allocated between the assets sold and the retained interests based on relative fair values at the date of sale. Since quoted market prices are generally not available, GMAC estimates the fair value of retained interests by determining the present value of future expected cash flows using modeling techniques that incorporate management's best estimates of key variables, including credit losses, prepayment speeds, weighted average life and discount rates commensurate with the risks involved and, if applicable, interest or finance rates on variable and adjustable rate contracts. Credit loss assumptions are based upon historical experience, market information for similar investments, and the characteristics of individual receivables and loans underlying the securities. Prepayment speed estimates are determined utilizing data obtained from market participants, where available, or based on historical prepayment rates on similar assets. Discount rate assumptions are determined using data obtained from market participants, where available, or based on current relevant treasury rates plus a risk adjusted spread based on analysis of historical spreads on similar types of securities. Estimates of interest rates on variable and adjustable contracts are based on spreads over the applicable benchmark interest rate using market-based yield curves. Gains on securitizations and sales are reported in other income for retail finance receivables and wholesale loans, and mortgage banking income for residential and commercial mortgage loans. Retained interests are recorded at fair value with any declines in fair value below the carrying amount reflected in other comprehensive income, a component of shareholder's equity, or in earnings, if declines are determined to be other than temporary or if the interests are classified as trading. Retained interest-only strips and senior and subordinated interests are generally included in available for sale investment securities, or in trading investment securities, depending on management's intent at the time of securitization. Retained cash reserve accounts are included in other assets.

GMAC uses certain off-balance sheet warehouse structures as funding sources for commercial mortgage loans originated by the Company. The originated loans are first sold to either a bankruptcy-remote special purpose entity or a third-party bank, which then issues both senior and subordinated loan participations. The senior loan participations are purchased by a third-party bank or its commercial paper conduit, and the subordinate participation is purchased (or retained) by GMAC. The Company retains the associated subordinate loan participations within a bankruptcy-remote subsidiary. Subordinate loan participations are classified either as loans held for investment or loans held for sale. Loans held for sale are recorded at the lower of aggregated cost or fair value, in accordance with Statement of Financial Accounting Standards 65, *Accounting for Certain Mortgage Banking Activities* (SFAS 65). The amount by which the cost of such loans exceeds fair value is recorded as a valuation allowance, thereby reducing the carrying value of the loan. The determination of fair value is based on current market yield requirements, which consider the likelihood of default, and recent trading activity. The returns on these commercial mortgage assets have limited prepayment risk, either because the loans cannot be prepaid without penalty or because the expected returns assume the loans will be prepaid immediately upon the expiration of the penalty period, if limited. Securities that are either retained from securitizations or purchased for investment are classified as available for sale, trading, or held to maturity and are accounted for under Statement of Financial Accounting Standards 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115), with consideration given to SFAS 140, which considers the prepayment risk, if any, associated with the investments. Interest-only strips are either purchased or retained, are classified as either available for sale or trading, and are accounted for in accordance with SFAS 115, with further guidance provided by SFAS 140, and Emerging Issues Task Force 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets* (EITF 99-20), which considers the prepayment risk, if any, associated with the investments.

#### **Investments in Operating Leases**

Investments in operating leases are reported at cost less accumulated depreciation and net of origination fees or costs. Income from operating lease assets, which includes lease origination fees net of lease origination costs, is recognized as operating lease revenue on a straight-line basis over the scheduled lease term. Depreciation of vehicles is generally provided on a straight-line basis to an estimated residual value over a period of time consistent with the term of the underlying operating lease agreement. The Company evaluates its depreciation policy for leased vehicles on a regular basis.

The Company has significant investments in the residual values of assets in its operating lease portfolio. The residual values represent an estimate of the values of the assets at the end of the lease contracts and are initially recorded based on residual



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values established at contract inception by using independently published residual value guides and estimates. Realization of the residual values is dependent on the Company's future ability to market the vehicles under then prevailing market conditions. Over the life of the lease, GMAC evaluates the adequacy of its estimate of the residual value and may make adjustments to the extent the expected value of the vehicle (including support payments from GM) at lease termination changes. In addition to estimating the residual value at lease termination, the Company also evaluates the current value of the operating lease asset and tests for impairment, to the extent necessary, based on market considerations and portfolio characteristics. Impairment is determined to exist if the undiscounted expected future cash flows are lower than the carrying value of the asset. When a lease vehicle is returned to GMAC, the Company reclassifies the asset from investment in operating leases to other assets at the lower of cost or estimated fair value, less costs to sell.

## **Mortgage Servicing Rights**

The Company capitalizes the value expected to be realized from performing specified residential and commercial mortgage servicing activities for others as mortgage servicing rights (MSRs). Such capitalized servicing rights are purchased or retained upon sale or securitization of mortgages. These rights are amortized in proportion to, and over the period of, the estimated future net servicing cash flow stream of the related mortgage loans. Pursuant to the Company's risk management program, the majority of the MSRs are hedged to mitigate the effect of changes in MSRs fair value resulting from changes in interest rates. If the changes in the fair value of the hedged MSRs are highly correlated to changes in the fair value of the derivative financial instruments, the carrying values of hedged MSRs are adjusted for the change in fair value and the resultant gain or loss is recognized in earnings. MSRs that do not meet the criteria for hedge accounting treatment (as specified by SFAS 133) are carried at the lower of cost or fair value.

The Company evaluates mortgage servicing rights for impairment by stratifying its portfolio on the basis of the predominant risk characteristics (loan type and interest rate). To the extent that the carrying value of an individual stratum exceeds its fair value, the mortgage servicing rights asset is considered to be impaired. Impairment that is considered to be temporary is recognized through the establishment of (or an increase in) a valuation allowance, with a corresponding unfavorable effect on earnings. If it is later determined that all or a portion of the temporary impairment no longer exists for a particular tranche, the valuation allowance is reduced, with a favorable effect on earnings.

Each quarter, the Company evaluates its MSRs and considers the amount of valuation allowance unlikely to be recovered through future interest rate increases. To estimate this amount, the Company analyzes historical changes in mortgage and other market interest rates to determine the magnitude of interest rate and corresponding MSR value increases with only remote probability of occurring. To the extent recoverability is remote, both the gross MSR asset and the related valuation allowance are reduced by such amount, which is characterized as other than temporary impairment.

Since quoted market prices for MSRs are generally not available, GMAC estimates the fair value of MSRs by determining the present value of future expected cash flows using modeling techniques that incorporate management's best estimates of key variables, including expected cash flows, credit losses, prepayment speeds, and return requirements commensurate with the risks involved. Cash flow assumptions are based on the Company's actual performance, and where possible, the reasonableness of assumptions is periodically validated through comparisons to other market participants. Credit loss assumptions are based upon historical experience and the characteristics of individual loans underlying the MSRs. Prepayment speed estimates are determined utilizing data obtained from market participants. Return requirement assumptions are determined using data obtained from market participants, where available, or based on current relevant interest rates, plus a risk adjusted spread. Since many factors can affect the estimate of the fair value of mortgage servicing rights, the Company regularly evaluates the major assumptions and modeling techniques used in its estimate and reviews such assumptions against market comparables, if available. Also, the Company closely monitors the actual performance of its MSRs by regularly comparing actual cash flow, credit and prepayment experience to modeled estimates. In addition to the use of derivative financial instruments, the Company periodically invests in available for sale securities (i.e., U.S. Treasury Securities) to mitigate the effect of changes in fair value from the interest rate risk inherent in the mortgage servicing rights.

## **Reinsurance**

The Company assumes and cedes insurance risk under various reinsurance agreements. The Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk with other insurance enterprises. The Company remains liable with respect to any reinsurance ceded if the assuming companies are unable to meet their obligations under these reinsurance agreements. The Company also assumes insurance risks from other insurance companies, receiving a premium as consideration for the risk assumption. Amounts recoverable from reinsurers on paid losses and loss adjustment expenses are included in premiums and other insurance receivables. Amounts recoverable from reinsurers on unpaid losses, including incurred but not reported losses, and loss adjustment expenses pursuant to reinsurance contracts are estimated and reported with premiums and other insurance receivables. Amounts paid to reinsurers relating to the unexpired portion of reinsurance contracts are reported as prepaid reinsurance premiums within premiums and other



insurance receivables.

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### **Reposessed and Foreclosed Assets**

Assets are classified as reposessed and foreclosed and included in other assets when physical possession of the collateral is taken, regardless of whether foreclosure proceedings have taken place. Reposessed and foreclosed assets are carried at the lower of the outstanding balance at the time of repossession or foreclosure, or fair value of the asset less estimated costs to sell. Losses on the revaluation of reposessed and foreclosed assets are charged to the allowance for credit losses at the time of repossession. Subsequent holding period losses and losses arising from the sale of reposessed assets collateralizing automotive finance receivables and loans are expensed as incurred.

### **Goodwill and Other Intangibles**

Goodwill and other intangible assets, net of accumulated amortization, are reported in other assets. In accordance with Statement of Financial Accounting Standards 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill represents the excess of the cost of an acquisition over the fair value of net assets acquired. Goodwill is no longer amortized, but reviewed for impairment at least annually utilizing a two step process. The first step of the impairment test requires the Company to define the reporting units, which for GMAC represents the operating segments as disclosed in Note 23. Then, the fair value of each of these reporting units is compared to its carrying value. If the carrying value is higher than the fair value, there is an indication that impairment may exist; if the carrying value is less than the fair value, no impairment exists and the second step does not need to be completed. The fair value of the reporting units is determined based on various analyses, including discounted cash flow projections. The first step of the 2004 impairment test indicated no impairment exists, therefore the second step was not required. Other intangible assets, which include customer lists, trademarks, and other identifiable intangible assets, are amortized on a straight-line basis over an estimated useful life of 3 to 10 years.

### **Impairment of Long-Lived Assets**

The carrying value of long-lived assets (including premises and equipment and investments in operating leases as well as certain identifiable intangibles) are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable from the estimated undiscounted future cash flows expected to result from its use and eventual disposition. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured as the amount by which the carrying amount of the assets exceeds the fair value as estimated by discounted cash flows. In the 2004 review, no material impairment was recognized.

### **Premises and Equipment**

Premises and equipment, stated at cost net of accumulated depreciation and amortization, are reported in other assets. Included in premises and equipment are certain capitalized software costs. The capitalized software is generally amortized on a straight-line basis over its useful life for a period not to exceed three years. Capitalized software that is not expected to provide substantive service potential or for which development costs significantly exceed the amount originally expected is considered impaired and written down to fair value.

### **Deferred Policy Acquisition Costs**

Commissions and other costs of acquiring insurance, and compensation paid to producers of extended service contracts that are primarily related to and vary with the production of business are deferred and recorded in other assets. These costs are subsequently amortized as a component of other operating expenses over the terms of the related policies and service contracts on the same basis as premiums and revenue are earned, except for direct response advertising costs which are amortized over a three year period, based on the anticipated future benefit.

### **Unearned Insurance Premiums and Service Revenue**

Insurance premiums, net of premiums ceded to reinsurers, and service revenue are earned over the terms of the policies. The portion of premiums and service revenues written applicable to the unexpired terms of the policies is recorded as unearned insurance premiums or unearned service revenue. For short duration contracts, premiums and unearned service revenue are earned on a pro rata basis. For extended service and maintenance contracts, premiums and service revenues are earned on a basis proportionate to the anticipated loss emergence.

### **Reserves for Insurance Losses and Loss Adjustment Expenses**

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Reserves for insurance losses and loss adjustment expenses are established for the Company's liability for the unpaid cost of insured events that have occurred as of a point in time. More specifically, the reserves for insurance losses and loss adjustment expenses represent the accumulation of estimates for reported losses and a provision for losses incurred but not reported, including claims adjustment expenses, relating to direct insurance and assumed reinsurance agreements. Estimates for salvage and subrogation recoverable are recognized at the time losses are incurred and netted against insurance losses and loss adjustment expenses. Reserves are established for each business at the lowest meaningful level of homogeneous data based on actuarial analysis and volatility considerations. Since the reserves are based on estimates, the ultimate liability may be more or less than such reserves. Adjustments in such estimated reserves are included in the results of operations in the period in which the adjustments

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are considered necessary. Such adjustments may be material to the results of the operations and financial condition and could occur in a future period.

## **Derivative Instruments and Hedging Activities**

In accordance with Statement of Financial Accounting Standards 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133), all derivative financial instruments, whether designated for hedging relationships or not, are required to be recorded on the balance sheet as assets or liabilities, carried at fair value and periodically adjusted. At inception of the derivative contract, GMAC designates each qualifying derivative financial instrument as a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). GMAC also uses derivative financial instruments which, although acquired for risk management purposes, do not qualify as hedges under GAAP. Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges, along with the gain or loss on the hedged asset or liability attributable to the hedged risk, are recorded in current period earnings. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative financial instruments is recorded in other comprehensive income, a component of shareholder's equity, and recognized in the income statement when the hedged cash flows affect earnings. The ineffective portions of cash flow hedges are immediately recognized in earnings. Changes in the fair value of derivative financial instruments held for risk management purposes that do not meet the criteria to qualify as hedges under GAAP are reported in current period earnings. The ineffective portions of fair value and cash flow hedges are immediately recognized in earnings as offsets to income and expenses related to the hedged assets or liabilities. The hedge accounting treatment described above is no longer applied if a derivative financial instrument is terminated or the hedge designation is removed. For fair value hedges, any changes to the hedged asset or liability remain as part of the basis of the asset or liability and are recognized into income over the original hedge period. For cash flow hedges, any changes in fair value of the derivative financial instrument remain in other comprehensive income, a component of shareholder's equity, and are reclassified into earnings in the same period during which the hedged asset or liability affects income.

## **Loan Commitments**

The Company enters into commitments to make loans whereby the interest rate on the loan is set prior to funding (i.e., interest rate lock commitments). Interest rate lock commitments for loans to be originated or purchased for sale, and for loans to be purchased and held for investment (including commitments to acquire senior interests in mortgage loan pools from off-balance sheet facilities), are derivative financial instruments in accordance with SFAS 133 and Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments* (SAB 105). SAB 105 summarizes the views of the United States Securities and Exchange Commission (SEC) staff regarding the application of GAAP to loan commitments accounted for as derivative instruments. SAB 105 was effective for commitments to originate or purchase loans to be held for sale and for commitments to purchase loans to be held for investment (also referred to as interest rate lock commitments, or IRLCs) that were entered into after March 31, 2004. SAB 105 provides specific guidance on the measurement of loan commitments accounted for at fair value, specifying that fair value measurement exclude any expected future cash flows related to the customer relationship or loan servicing.

Prior to April 1, 2004, upon entering into the commitment, GMAC recognized loan commitments at fair value based on expected future gain on sale, including an estimate of the future MSR. For certain products, the future gain on sale (exclusive of MSR value) was known based on transparent pricing in an active secondary market and was included in current period earnings. Any additional value associated with the loan commitments (including the future value of the MSR) was deferred and recognized in earnings at the time of the sale (or securitization) of the loan. As a result of SAB 105, effective April 1, 2004, GMAC no longer recognizes the value of the commitment at the time of the rate lock. However, subsequent changes in value from the time the locks are recognized as assets or liabilities, with a corresponding adjustment to current period earnings, but exclude any future MSR value. Upon sale of the loan, the initial estimated value associated with the rate lock, along with the MSR, are recognized as part of the gain on sale (or securitization). The impact of adopting the provisions of SAB 105 resulted in a deferral in the timing of recognizing the value of certain loan commitments, but did not have a material impact on the Company's financial condition or results of operations.

## **Income Taxes**

GMAC (including its domestic subsidiaries) joins with General Motors in filing a consolidated U.S. federal income tax return. Certain other GMAC subsidiaries file tax returns in local jurisdictions. The portion of the consolidated tax recorded by the Company and its subsidiaries included in the consolidated tax return generally is equivalent to the liability that would have been incurred on a separate return basis and is settled as GM's tax payments are due. Deferred tax assets and liabilities are recognized for the future tax consequences of events that have been recognized in the financial statements or tax returns, based upon enacted tax laws and rates. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. The Company also establishes reserves related to disputed items with various tax authorities when the item becomes probable and the costs can be reasonably estimated.



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**Recently Issued Accounting Standards**

**FASB Interpretation No. 46R** In December 2003, the Financial Accounting Standards Boards (FASB) released a revision to Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46R) to clarify some of the provisions of the original interpretation (FIN 46) and to exempt certain entities from its requirements. FIN 46R provides special effective date provisions to enterprises that fully or partially applied FIN 46 prior to the issuance of the revised interpretation. In particular, entities that had already adopted FIN 46 were not required to adopt FIN 46R until the quarterly reporting period ended March 31, 2004. Since GMAC adopted FIN 46 effective July 1, 2003, the Company adopted FIN 46R for the period ended March 31, 2004. Among other matters, FIN 46R changed the primary beneficiary analysis of variable interest entities as it relates to fees paid to decision makers. However, these changes did not impact the conclusions of the Company's primary beneficiary analysis previously reached under FIN 46 and, as such, the adoption of FIN 46R did not impact the Company's financial condition or results of operations.

**Statement of Position 03-3** In December 2003, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3), that addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP 03-3 does not apply to loans originated by the entity. SOP 03-3 limits the accretable yield to the excess of the investor's estimate of undiscounted expected principal, interest, and other cash flows (expected at acquisition to be collected) over the investor's initial investment in the loan and it prohibits carrying over or creating a valuation allowance for the excess of contractual cash flows over cash flows expected to be collected in the initial accounting of a loan acquired in a transfer. SOP 03-3 and the required disclosures are effective for loans acquired in fiscal years beginning after December 15, 2004. Adoption of SOP 03-3 is not expected to have a material impact on the Company's financial condition or results of operations.

**EITF 03-1** In March 2004, the Emerging Issues Task Force released Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (EITF 03-1). EITF 03-1 provides guidance for determining when an investment is other than temporarily impaired and applies to investments classified as either available for sale or held to maturity under SFAS 115 (including individual securities and investments in mutual funds), and investments accounted for under the cost method. In addition, EITF 03-1 contains disclosure requirements for impairments that have not been recognized as other than temporary. In September 2004, the FASB voted to delay the effective date of the recognition and measurement provisions related to determining other than temporary impairment on available for sale securities. The effective dates for the disclosure requirements varied depending on the type of investment being considered, however, all disclosure requirements are now effective. Management is monitoring the ongoing discussions by the FASB related to this issue in order to assess the potential impact of this guidance on the financial statements of the Company.

**2 Insurance Premiums and Service Revenue Earned**

The following table is a summary of insurance premiums and service revenue written and earned.

Year ended December 31, (in millions)	2004		2003		2002	
	Written	Earned	Written	Earned	Written	Earned
Insurance premiums						
Direct	\$2,400	\$2,604	\$2,295	\$2,511	\$2,132	\$2,274
Assumed	611	630	607	577	483	498
Gross insurance premiums	3,011	3,234	2,902	3,088	2,615	2,772
Ceded	(348)	(347)	(406)	(379)	(386)	(381)
Net insurance premiums	2,663	2,887	2,496	2,709	2,229	2,391
Service revenue	1,319	641	1,336	469	1,235	287

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Insurance premiums and service revenue	\$3,982	\$3,528	\$3,832	\$3,178	\$3,464	\$2,678
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Prior to 2002, substantially all of GMAC Insurance's vehicle service contract business resulted from contracts between GM and the retail consumer, as GM, in turn, would insure its business risk through a contractual liability policy purchased from GMAC Insurance (while GM remained the direct obligor to the customer). Under this arrangement, GMAC Insurance recognized insurance premium revenue in accordance with Statement of Financial Accounting Standards 60, *Accounting and Reporting by Insurance Enterprises* (SFAS 60). Beginning in 2002, the business model changed, with substantially all vehicle service contracts being sold directly by GMAC Insurance to the retail customers. The change was designed to concentrate all business related to service contracts with GMAC Insurance (where the activities are managed), rather than splitting the business between GM and

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GMAC Insurance. This new relationship resulted in GMAC Insurance being the direct obligor of the vehicle service contracts and in the use of the gross method of accounting in accordance with Emerging Issues Task Force 99-19, *Recording Revenue Gross as a Principal versus Net as an Agent* (EITF 99-19). Under this method of accounting, GMAC Insurance recognizes the gross contract price billed to the customer as revenue, and expenses the amount of commissions paid to dealers. This change in the business model relative to the role of GMAC Insurance in directly providing vehicle service contracts to consumers results in a current and prospective increase in GMAC Insurance's unearned insurance revenue, a decrease in unearned premium, and an increase in deferred policy acquisition costs and related amortization. This trend will continue until service contracts with GM terminate (and premiums are fully earned from such contracts written prior to 2002), and GMAC Insurance's new role, as direct obligor, reaches a steady state.

**3 Mortgage Banking Income**

The following table presents the components of mortgage banking income:

Year ended December 31, (in millions)	2004	2003	2002
Mortgage servicing fees	<b>\$1,488</b>	\$1,402	\$1,343
Amortization and impairment of mortgage servicing rights (a)	<b>(1,112)</b>	(2,048)	(2,314)
Net gains on derivatives related to MSRs (b)	<b>243</b>	507	685
Net loan servicing income (loss)	<b>619</b>	(139)	(286)
Gains from sales of loans	<b>788</b>	2,155	1,601
Mortgage processing fees	<b>143</b>	285	206
Other	<b>550</b>	362	267
Mortgage banking income (c)	<b>\$2,100</b>	\$2,663	\$1,788

(a) Includes additions to the valuation allowance, representing impairment considered to be temporary.

(b) Includes SFAS 133 hedge ineffectiveness, amounts excluded from the hedge effectiveness calculation and the change in value of derivative financial instruments not qualifying for hedge accounting.

(c) Excludes net gains realized upon the sale of investment securities used to manage risk associated with mortgage servicing rights, which are reflected as a component of investment income.

**4 Other Income**

Details of other income were as follows:

Year ended December 31, (in millions)	2004	2003	2002
Automotive receivable securitizations and sales			
Gains on sales:			
Wholesale securitizations	<b>\$497</b>	\$488	\$445
Retail automotive portfolio sales transactions	<b>53</b>	51	
Retail automotive securitizations	<b>9</b>	37	239
Interest on cash reserves deposits	<b>60</b>	45	51
Service fees	<b>59</b>	40	159
Other	<b>75</b>	99	134



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Total automotive receivable securitizations and sales	753	760	1,028
Real estate services	464	410	389
Interest and service fees on transactions with GM	370	384	470
Other interest revenue	297	298	104
Interest on cash equivalents	244	143	97
Late charges and other administrative fees	164	111	103
Full service leasing fees	153	137	77
Insurance service fees	136	119	107
Factoring commissions	77	77	68
Specialty lending fees	60	62	66
Fair value adjustment on certain derivatives (a)	(26)	(103)	(47)
Other	816	731	1,069
<hr/>			
Total other income	\$3,508	\$3,129	\$3,531

(a) Refer to Note 16 to the Consolidated Financial Statements for a description of the Company's derivative activities.

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**5 Other Operating Expenses**

Details of other operating expenses were as follows:

Year ended December 31, (in millions)	2004	2003	2002
Insurance commissions expense (a)	\$928	\$830	\$653
Technology and communications expense	569	508	489
Advertising and marketing	537	261	256
Professional services	474	361	317
Premises and equipment depreciation	294	279	297
Rent and storage	253	223	208
Full service leasing vehicle maintenance costs	215	171	118
Lease and loan administration	175	273	304
Auto remarketing and repossession expenses	136	239	272
Amortization of intangible assets	11	11	19
Operating lease disposal gain	(192)	(43)	(116)
Other	805	952	794
<b>Total other operating expenses</b>	<b>\$4,205</b>	<b>\$4,065</b>	<b>\$3,611</b>

(a) The increase in insurance commissions expense is primarily the result of GMAC Insurance becoming the direct obligor of GM vehicle service contracts during 2002. As a result, GMAC recognizes the gross contract price billed to the customer as revenue, and expenses the amount of commissions paid to dealers. Refer to Note 2 to the Consolidated Financial Statements for additional details on this arrangement.

**6 Investment Securities**

The Company's portfolio of securities includes bonds, equity securities, asset- and mortgage-backed securities, notes, interests in securitization trusts and other investments. The cost, fair value and gross unrealized gains and losses on available for sale and held to maturity securities were as follows:

December 31, (in millions)	2004				2003			
	Cost (a)	Gross unrealized		Fair value	Cost (a)	Gross unrealized		Fair value
gains		losses	gains			losses		
<b>Available for sale securities</b>								
<b>Debt securities</b>								
U.S. Treasury and federal agencies	\$2,198	\$18	\$(8)	\$2,208	\$716	\$7	\$(1)	\$722
States and political subdivisions	556	40		596	575	51		626
Foreign government securities	792	14	(1)	805	681	10	(2)	689
<b>Mortgage-backed securities:</b>								
Residential	103	5	(5)	103	58			58
Commercial	973	9	(3)	979	636	9	(6)	639
Asset-backed securities	506	3		509	593	6		599
Interest-only strips	252	80	(3)	329	460	133	(1)	592

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Principal-only strips	1			1	1	1		2
Collateralized debt obligations	153			153	53	1		54
Corporate debt securities	2,117	65	(5)	2,177	2,012	94	(5)	2,101
Other	1,160	32	(2)	1,190	1,005	34	(1)	1,038
<b>Total debt securities (b)</b>	<b>8,811</b>	<b>266</b>	<b>(27)</b>	<b>9,050</b>	<b>6,790</b>	<b>346</b>	<b>(16)</b>	<b>7,120</b>
Equity securities	1,505	731	(6)	2,230	1,185	522	(9)	1,698
<b>Total available for sale securities</b>	<b>\$10,316</b>	<b>\$997</b>	<b>\$(33)</b>	<b>\$11,280</b>	<b>\$7,975</b>	<b>\$868</b>	<b>\$(25)</b>	<b>\$8,818</b>
<b>Held to maturity securities</b>								
Total held to maturity securities (c)	\$135	\$4	\$(1)	\$138	\$240	\$5	\$(12)	\$233

(a) Net of \$17 and \$104 of losses in value determined to be other than temporary for the years ended December 31, 2004 and 2003, respectively.

(b) In connection with letters of credit relating to certain assumed reinsurance contracts \$142 and \$107 of primarily U.S. Treasury securities were pledged as collateral as of December 31, 2004 and 2003, respectively.

(c) Primarily mortgage-backed securities.

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The fair value, unrealized gains (losses), and amount pledged as collateral for the Company's portfolio of trading securities were as follows:

December 31, (in millions)	2004	2003
<b>Trading securities</b>		
Fair value		
Mortgage-backed securities:		
Residential	\$1,141	\$1,899
Commercial	366	263
Mortgage residual interests	780	686
Interest-only strips	448	402
Principal-only strips	201	167
Corporate debt securities	249	228
Debt and other	360	497
<b>Total trading securities</b>	<b>\$3,545</b>	<b>\$4,142</b>
Net unrealized gains (losses) (a)	\$35	\$(341)
Pledged as collateral	\$2,910	\$1,949

(a) Unrealized gains and losses are included in investment income on a current period basis. Net unrealized losses totaled \$798 at December 31, 2002.

The maturity distribution of available for sale and held to maturity debt securities outstanding is summarized in the following table. Actual maturities may differ from those scheduled as a result of prepayments by issuers.

December 31, 2004 (in millions)	Available for sale		Held to maturity	
	Cost	Fair value	Cost	Fair value
Due in one year or less	\$1,251	\$1,253	\$10	\$10
Due after one year through five years	2,431	2,476		
Due after five years through ten years	2,506	2,580		
Due after ten years	630	660	5	5
Mortgage-backed securities and interests in securitization trusts	1,993	2,081	120	123
<b>Total securities</b>	<b>\$8,811</b>	<b>\$9,050</b>	<b>\$135</b>	<b>\$138</b>

The following table presents gross gains and losses realized upon the sales of available for sale securities.

Year ended December 31, (in millions)	2004	2003	2002
Gross realized gains	\$138	\$270	\$402
Gross realized losses	(49)	(202)	(121)

Net realized gains	<b>\$89</b>	\$68	\$281
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Investment securities classified as available for sale and held to maturity that were in an unrealized loss position had a fair value of \$2,318 million and \$1,677 million, and gross unrealized losses of \$34 million and \$37 million as of December 31, 2004 and 2003, respectively. The fair value of these securities in a continuous loss position less than twelve months was \$2,301 million and \$1,067 million with gross unrealized losses of \$33 million and \$18 million as of December 31, 2004 and 2003, respectively. In the opinion of management, these securities are not considered to be other than temporarily impaired. Refer to Note 1 to the Consolidated Financial Statements for discussion of the evaluation of potential impairment of investments.

In the fourth quarter of 2004, the Company transferred a \$102 million subordinate investment security from the held to maturity to available for sale classification due to a change in its intent to no longer hold the security to maturity. The change in the Company's intent was due to significant deterioration in the credit quality of the underlying collateral supporting the investment. The amortized cost of the security approximated its fair value on the date of transfer due to impairment charges taken in previous years. This security was included in collateralized debt obligations under available for sale securities as of December 31, 2004. The amortized cost of this security was \$93 million and \$126 million at December 31, 2003 and 2002, respectively. In 2003, there was \$34 million of realized losses related to this security; in 2002, there was \$16 million of unrealized loss related to this security.

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**7 Finance Receivables and Loans**

The composition of finance receivables and loans outstanding was as follows:

December 31, (in millions)	2004			2003		
	Domestic	Foreign	Total	Domestic	Foreign	Total
<b>Consumer</b>						
Retail automotive	\$73,911	\$18,314	\$92,225	\$71,513	\$16,538	\$88,051
Residential mortgages	54,643	3,066	57,709	44,281	2,026	46,307
<b>Total consumer</b>	<b>128,554</b>	<b>21,380</b>	<b>149,934</b>	<b>115,794</b>	<b>18,564</b>	<b>134,358</b>
<b>Commercial</b>						
Automotive						
Wholesale	19,154	8,752	27,906	17,433	8,069	25,502
Leasing and lease financing	466	1,000	1,466	477	983	1,460
Term loans to dealers and others	2,890	787	3,677	3,327	746	4,073
Commercial and industrial	12,019	2,184	14,203	7,689	2,089	9,778
Real estate construction	2,658	152	2,810	1,966	87	2,053
Commercial mortgages (a)	2,024	1,124	3,148	130	50	180
<b>Total commercial</b>	<b>39,211</b>	<b>13,999</b>	<b>53,210</b>	<b>31,022</b>	<b>12,024</b>	<b>43,046</b>
<b>Total finance receivables and loans (b) (c)</b>	<b>\$167,765</b>	<b>\$35,379</b>	<b>\$203,144</b>	<b>\$146,816</b>	<b>\$30,588</b>	<b>\$177,404</b>

(a) During 2004, the Company transferred approximately \$2.4 billion of loans held for sale to loans held for investment based on an evaluation of management's intent for the disposition of the loans. The cost basis of such loans exceeded the fair value of such loans by approximately \$100. In accordance with SFAS 65, the loans were transferred at the lower of cost or fair value on the transfer date.

(b) Net of unearned income of \$7,562 and \$7,347 at December 31, 2004 and 2003, respectively.

(c) The aggregate amount of finance receivables and loans maturing in the next five years is as follows: \$73,756 in 2005; \$29,676 in 2006; \$23,087 in 2007; \$14,595 in 2008; \$8,365 in 2009 and \$61,227 in 2010 and thereafter. Prepayments may cause actual maturities to differ from scheduled maturities.

The following table presents an analysis of the activity in the allowance for credit losses on finance receivables and loans.

Year ended December 31, (in millions)	2004			2003			2002		
	Consumer	Commercial	Total	Consumer	Commercial	Total	Consumer	Commercial	Total
Allowance at beginning of year	\$2,533	\$509	\$3,042	\$2,347	\$644	\$2,991	\$1,690	\$355	\$2,045
Provision for credit losses	1,926	18	1,944	1,643	78	1,721	1,693	460	2,153
Charge-offs									
Domestic	(1,469)	(96)	(1,565)	(1,246)	(199)	(1,445)	(940)	(169)	(1,109)
Foreign	(269)	(7)	(276)	(278)	(25)	(303)	(120)	(30)	(150)
<b>Total charge-offs</b>	<b>(1,738)</b>	<b>(103)</b>	<b>(1,841)</b>	<b>(1,524)</b>	<b>(224)</b>	<b>(1,748)</b>	<b>(1,060)</b>	<b>(199)</b>	<b>(1,259)</b>
Recoveries									
Domestic	112	10	122	108	21	129	107	35	142

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Foreign	81	3	84	32	7	39	18	3	21
Total recoveries	193	13	206	140	28	168	125	38	163
Net charge-offs	(1,545)	(90)	(1,635)	(1,384)	(196)	(1,580)	(935)	(161)	(1,096)
Impacts of foreign currency translation	17	6	23	(7)	(18)	(25)	(20)	13	(7)
Securitization activity	17	28	45	(66)	1	(65)	(81)	(23)	(104)
Allowance at end of year	\$2,948	\$471	\$3,419	\$2,533	\$509	\$3,042	\$2,347	\$644	\$2,991

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The following table presents information about commercial finance receivables and loans specifically identified for impairment.

December 31, (in millions)	2004	2003
Impaired loans	\$1,337	\$1,337
Related allowance	235	333
Average balance of impaired loans during the year	1,376	1,175

**8 Off-Balance Sheet Securitizations**

The Company securitizes automotive and mortgage financial assets as a funding source. GMAC sells retail finance receivables, wholesale loans, residential mortgage loans, commercial mortgage loans and commercial mortgage securities. The information contained below relates only to the transfers of finance receivables and loans that qualify as off-balance sheet securitizations under the requirements of SFAS 140.

The Company retains servicing responsibilities for and subordinated interests in all of its securitizations of retail finance receivables and wholesale loans. Servicing responsibilities are retained for the majority of its residential and commercial mortgage loan securitizations and the Company may retain subordinated interests in some of these securitizations. GMAC also holds subordinated interests and acts as collateral manager in the company's collateralized debt obligation (CDO) securitization program.

As servicer, GMAC generally receives a monthly fee stated as a percentage of the outstanding sold receivables. For retail automotive finance receivables where GMAC is paid a fee, the Company has concluded that the fee represents adequate compensation as a servicer and, as such, no servicing asset or liability is recognized. Considering the short-term revolving nature of wholesale loans, no servicing asset or liability is recognized upon securitization of the loans. As of December 31, 2004, the weighted average basic servicing fees for GMAC's primary servicing activities were 100 basis points, 100 basis points, 29 basis points and 8 basis points of the outstanding principal balance for sold retail finance receivables, wholesale loans, residential mortgage loans and commercial mortgage loans, respectively. Additionally, the Company retains the rights to cash flows remaining after the investors in most securitization trusts have received their contractual payments. In certain retail securitization transactions, retail receivables are sold on a servicing retained basis, but with no servicing compensation and, as such, a servicing liability is established and recorded in other liabilities. As of December 31, 2004 and December 31, 2003, servicing liabilities of \$30 million and \$22 million, respectively, were outstanding related to such retail securitization transactions. For mortgage servicing, the Company capitalizes the value expected to be realized from performing specified residential and commercial mortgage servicing activities as mortgage servicing rights (refer to Note 10 to the Consolidated Financial Statements).

GMAC maintains cash reserve accounts at predetermined amounts for certain securitization activities in the unlikely event that deficiencies occur in cash flows owed to the investors. The amounts available in such cash reserve accounts totaled \$118 million, \$1,046 million, \$44 million, and \$10 million as of December 31, 2004 related to securitizations of retail finance receivables, wholesale loans, residential mortgage loans, and commercial mortgage loans, respectively, and \$167 million, \$1,219 million, \$13 million and \$5 million as of December 31, 2003, respectively.

The following table summarizes pre-tax gains on securitizations and certain cash flows received from and paid to securitization trusts for transfers of finance receivables and loans that were completed during 2004:

Year ended December 31, (in millions)	2004				Commercial mortgage securities
	Retail finance receivables	Wholesale loans	Mortgage loans		
			Residential	Commercial	



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Pre-tax gains on securitizations	\$9	\$497	\$602	\$54	\$11
<b>Cash inflows:</b>					
Proceeds from new securitizations	1,824	9,188	29,412	2,108	935
Servicing fees received	105	174	208	20	
Other cash flows received on retained interests	340	808	729	216	68
Proceeds from collections reinvested in revolving securitizations		91,360			
Repayments of servicing advances	75		947	147	
<b>Cash outflows:</b>					
Servicing advances	(64)		(1,035)	(169)	
<b>Purchase obligations and options:</b>					
Representations and warranties obligations	(1)		(66)		
Administrator or servicer actions	(75)				
Asset performance conditional calls			(137)		
Cleanup calls	(269)		(3,797)		

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The following table summarizes pre-tax gains on securitizations and certain cash flows received from and paid to securitization trusts for transfers of finance receivables and loans that were completed during 2003 and 2002:

Year ended December 31, (in millions)	2003					2002				
	Retail	Wholesale	Mortgage loans		Commercial	Retail	Wholesale	Mortgage loans		Commercial
	finance		Residential	Commercial		finance		Residential	Commercial	
Pre-tax gains on securitizations	\$37	\$488	\$522	\$75	\$14	\$239	\$445	\$562	\$30	\$18
<b>Cash inflows:</b>										
Proceeds from new securitizations	1,604	3,625	29,566	3,342	1,870	9,982	2,327	38,025	1,848	439
Servicing fees received	228	164	250	20		247	146	268	17	
Other cash flows received on retained interests	753	174	955	317	69	1,361	318	1,044	86	37
Proceeds from collections reinvested in revolving securitizations	862	97,829		5		482	104,485			
Repayments of servicing advances	114		1,208	116		117		1,333	116	
<b>Cash outflows:</b>										
Servicing advances	(118)		(1,242)	(117)		(117)		(1,449)	(122)	
<b>Purchase obligations and options:</b>										
Representations and warranties obligations	(25)		(154)					(70)		
Administrator or servicer actions	(146)					(198)				
Asset performance conditional calls			(122)					(58)		
Cleanup calls	(885)		(1,919)			(289)	(55)	(494)		

Key economic assumptions used in measuring the estimated fair value of retained interests of sales completed during 2004 and 2003, as of the dates of such sales, were as follows:

Year ended December 31,	Retail	Mortgage loans		Commercial
	finance	Residential (b)	Commercial	mortgage
	receivables (a)			securities
<b>2004</b>				
<b>Key assumptions (c) (rates per annum):</b>				
Annual prepayment rate (d)	0.9-1.0%	0.0-51.3%	0.0-50.0%	0.0-19.9%
Weighted average life (in years)	1.6-1.8	1.1-5.5	0.4-8.8	2.5-17.4
Expected credit losses (e)		0.0-10.9%	0.0%	0.0-3.1%
Discount rate	9.5%	6.5-24.8%	4.3-15.0%	8.2-11.7%
<b>2003</b>				
<b>Key assumptions (c) (rates per annum):</b>				
Annual prepayment rate (d)	0.9%	3.1-59.9%	0.0-50.0%	0.0%
Weighted average life (in years)	1.6	1.1-5.9	1.4-6.2	2.5-25.1
Expected credit losses (e)		0.4-7.3%	0.0-0.8%	0.0-1.6%
Discount rate	9.5%	6.5-14.5%	2.6-10.8%	8.6-10.0%

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- (a) The fair value of retained interests in wholesale securitizations approximates cost because of the short-term and floating rate nature of wholesale loans.
- (b) Included within residential mortgage loans are home equity loans and lines, high loan-to-value loans and residential first and second mortgage loans.
- (c) The assumptions used to measure the expected yield on variable rate retained interests are based on a benchmark interest rate yield curve, plus a contractual spread, as appropriate. The actual yield curve utilized varies depending on the specific retained interests.
- (d) Based on the weighted average maturity (WAM) for finance receivables and constant prepayment rate (CPR) for mortgage loans and commercial mortgage securities.
- (e) Amounts totaling \$39 million and \$83 million at December 31, 2004 and 2003, respectively, have been established for expected credit losses on automotive finance receivables securitized in off-balance sheet transactions. Such amounts are included in the fair value of the retained interests, which are classified as investment securities.

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The table below outlines the key economic assumptions and the sensitivity of the fair value of retained interests at December 31, 2004 to immediate 10% and 20% adverse changes in those assumptions.

Year ended December 31, (\$ in millions)	Retail finance	Mortgage loans		Commercial mortgage
	receivables (a)	Residential	Commercial	securities
Carrying value/fair value of retained interests	\$748	\$1,247	\$443	\$314
Weighted average life (in years)	0.1-1.5	1.1-5.4	0.1-17.3	1.5-24.1
Annual prepayment rate	0.5-1.6% WAM	0.0-55.0% CPR	0.0-55.0% CPR	0.0-21.1% CPR
Impact of 10% adverse change	\$(1)	\$(49)	\$	\$(1)
Impact of 20% adverse change	(2)	(86)	(1)	(2)
Loss assumption	(b)	0.3-26.1%	0.0-4.2%	0.0-39.5%
Impact of 10% adverse change	\$(4)	\$(50)	\$(7)	\$(13)
Impact of 20% adverse change	(9)	(93)	(12)	(26)
Discount rate	9.5-12.0%	6.5-40.0%	3.8-26.3%	5.3-15.0%
Impact of 10% adverse change	\$(3)	\$(36)	\$(5)	\$(18)
Impact of 20% adverse change	(7)	(68)	(11)	(35)
Market rate (d)	2.7-3.6%	(c)	(c)	(c)
Impact of 10% adverse change	\$(4)	\$(15)	\$	\$
Impact of 20% adverse change	(8)	(30)		

(a) The fair value of retained interests in wholesale securitizations approximates cost because of the short-term and floating rate nature of wholesale receivables.

(b) Net of a reserve for expected credit losses totaling \$39 at December 31, 2004. Such amounts are included in the fair value of the retained interests, which are classified as investment securities.

(c) Forward benchmark interest rate yield curve plus contractual spread.

(d) Represents the rate of return paid to the investors.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% and 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities. Additionally, the Company hedges interest rate and prepayment risks associated with certain of the retained interests; the effects of such hedge strategies have not been considered herein.

Expected static pool net credit losses include actual incurred losses plus projected net credit losses divided by the original balance of the outstandings comprising the securitization pool. The table below displays the expected static pool net credit losses on the Company's

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securitization transactions.

December 31, (a)	2004	2003	2002
Retail automotive	<b>0.4%</b>	0.4%	0.6%
Residential mortgage	<b>0.0-26.1%</b>	0.0-26.1%	0.0-24.8%
Commercial mortgage	<b>0.0-4.2%</b>	0.0-6.6%	0.0-4.1%
Commercial mortgage securities	<b>0.0-39.5%</b>	0.9-33.7%	0.3-36.8%

(a) Static pool losses not applicable to wholesale finance receivable securitizations because of their short-term nature.

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The following table presents components of securitized financial assets and other assets managed, along with quantitative information about delinquencies and net credit losses.

December 31, (in millions)	Total finance receivables and loans		Amount 60 days or more past due		Net credit losses	
	2004	2003	2004	2003	2004	2003
Retail automotive	\$97,631	\$100,628	\$806	\$755	\$1,044	\$1,128
Residential mortgage	129,550	104,378	6,686	4,974	944	682
<b>Total consumer</b>	<b>227,181</b>	<b>205,006</b>	<b>7,492</b>	<b>5,729</b>	<b>1,988</b>	<b>1,810</b>
Wholesale	49,197	46,644	51	47	2	5
Commercial mortgage	21,353	22,621	410	652	130	66
Other automotive and commercial	22,155	17,364	544	636	71	194
<b>Total commercial</b>	<b>92,705</b>	<b>86,629</b>	<b>1,005</b>	<b>1,335</b>	<b>203</b>	<b>265</b>
<b>Total managed portfolio (a)</b>	<b>319,886</b>	<b>291,635</b>	<b>\$8,497</b>	<b>\$7,064</b>	<b>\$2,191</b>	<b>\$2,075</b>
Securitized finance receivables and loans	(96,801)	(94,622)				
Loans held for sale (unpaid principal)	(19,941)	(19,609)				
<b>Total finance receivables and loans</b>	<b>\$203,144</b>	<b>\$177,404</b>				

(a) Managed portfolio represents finance receivables and loans on the balance sheet or that have been securitized, excluding securitized finance receivables and loans that GMAC continues to service but has no other continuing involvement (i.e., in which GMAC retains an interest or risk of loss in the underlying receivables).

**9 Investment in Operating Leases**

Investments in operating leases were as follows:

December 31, (in millions)	2004	2003
Vehicles and other equipment, at cost	\$34,189	\$31,682
Accumulated depreciation	(7,609)	(7,314)
<b>Investment in operating leases, net</b>	<b>\$26,580</b>	<b>\$24,368</b>

The future lease payments due from customers for equipment on operating leases at December 31, 2004 totaled \$12,182 million and are due as follows: \$5,492 million in 2005, \$3,731 million in 2006, \$2,230 million in 2007, \$691 million in 2008, and \$38 million in 2009.

**10 Mortgage Servicing Rights**

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GMAC capitalizes the present value of expected future cash flows associated with performing specified mortgage servicing activities for others. Such capitalized servicing rights are purchased or retained upon sales or securitizations of mortgages. The following table summarizes mortgage servicing rights activity and related amortization.

Year ended December 31, (in millions)	2004	2003	2002
Balance at beginning of year	<b>\$4,869</b>	\$4,601	\$5,331
Originations and purchases, net of sales	<b>1,554</b>	2,639	1,718
Amortization	<b>(879)</b>	(1,118)	(891)
SFAS 133 hedge valuation adjustments	<b>(272)</b>	446	(1,557)
Other than temporary impairment	<b>(453)</b>	(1,699)	
Balance at end of year	<b>\$4,819</b>	\$4,869	\$4,601
Valuation allowance	<b>(929)</b>	(1,149)	(1,918)
Carrying value at end of year	<b>\$3,890</b>	\$3,720	\$2,683
Estimated fair value at end of year	<b>\$3,990</b>	\$3,798	\$2,759

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The following table summarizes the change in the valuation allowance for mortgage servicing rights:

Year ended December 31, (in millions)	2004	2003	2002
Valuation allowance at beginning of year	<b>\$1,149</b>	\$1,918	\$491
Additions (a)	<b>233</b>	930	1,427
Other than temporary impairment	<b>(453)</b>	(1,699)	
Valuation allowance at end of year	<b>\$929</b>	\$1,149	\$1,918

(a) Additions to the valuation allowance, which are reflected as a component of mortgage banking income, represent impairment considered to be temporary.

During 2004 and 2003, the Company recorded other than temporary mortgage servicing rights impairment of \$453 million and \$1,699 million, respectively, reducing both the mortgage servicing rights gross carrying value and valuation allowance by this amount. This amount was based on a statistical analysis of historical changes in mortgage and other market interest rates to determine the amount that the mortgage servicing rights asset value will increase with only a remote probability of occurring. The adjustment to the valuation allowance reduces the maximum potential future increase to the mortgage servicing rights carrying value (under lower of cost or market accounting), but it has no impact on the net carrying value of the asset or on earnings.

The Company has an active risk management program to hedge the value of mortgage servicing rights. The mortgage servicing rights risk management program contemplates the use of derivative financial instruments and treasury securities that experience changes in value offsetting those of the mortgage servicing rights, in response to changes in market interest rates. Refer to Note 16 to the Consolidated Financial Statements for a discussion of the derivative financial instruments used to hedge mortgage servicing rights. Treasury securities used in connection with this risk management strategy are designated as available for sale or trading. At December 31, 2004, there was approximately \$1.3 billion of such treasury securities outstanding related to this risk management activity.

Key economic assumptions and the sensitivity of the current fair value of mortgage servicing rights to immediate 10% and 20% adverse changes in those assumptions are as follows:

December 31, 2004 (\$ in millions)	GMAC Residential	GMAC- RFC	GMAC Commercial Mortgage	Total
Estimated fair value	<b>\$2,683</b>	<b>\$684</b>	<b>\$623</b>	<b>\$3,990</b>
Weighted average prepayment speed (CPR)	<b>19.67%</b>	<b>29.84%</b>	<b>2%-8% (a)</b>	
Impact on fair value of 10% adverse change	<b>\$(160)</b>	<b>\$(26)</b>	<b>\$(3)</b>	<b>\$(189)</b>
Impact on fair value of 20% adverse change	<b>(304)</b>	<b>(49)</b>	<b>(6)</b>	<b>(359)</b>
Weighted average discount rate	<b>10.01%</b>	<b>12.64%</b>	<b>9.40%</b>	
Impact on fair value of 10% adverse change	<b>\$(81)</b>	<b>\$(20)</b>	<b>\$(6)</b>	<b>\$(107)</b>
Impact on fair value of 20% adverse change	<b>(157)</b>	<b>(39)</b>	<b>(11)</b>	<b>(207)</b>

(a) The majority of commercial mortgage loans are subject to prepayment penalties during a rate lockout period. Therefore, prepayment speed assumptions will change as loans mature from 2% during the rate lockout period to 8% once the lockout period has expired.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% and 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any



other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

## 11 Premiums and Other Insurance Receivables

Premiums and other insurance receivables consisted of the following:

December 31, <i>(in millions)</i>	2004	2003
Prepaid reinsurance premiums	<b>\$344</b>	\$343
Reinsurance recoverable on unpaid losses	<b>775</b>	870
Reinsurance recoverable on paid losses (a)	<b>56</b>	102
Premiums receivable (b)	<b>588</b>	645
<b>Total premiums and other insurance receivables</b>	<b>\$1,763</b>	\$1,960

(a) Net of \$5 and \$2 allowance for uncollectible reinsurance recoverable on paid losses at December 31, 2004 and 2003, respectively.

(b) Net of \$5 and \$8 allowance for uncollectible premiums receivable at December 31, 2004 and 2003, respectively.

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**12 Other Assets**

Other assets consisted of:

December 31, (in millions)	2004	2003
Premises and equipment at cost	\$3,083	\$2,909
Accumulated depreciation	(1,228)	(1,008)
Net premises and equipment	1,855	1,901
Fair value of derivative contracts in receivable position	9,489	10,025
Goodwill, net of accumulated amortization	3,274	3,223
Restricted cash collections for securitization trusts (a)	2,217	2,291
Cash reserve deposits held for securitization trusts (b)	1,835	1,922
Equity investments	1,751	1,560
Real estate investments	1,473	1,219
Deferred policy acquisition cost	1,444	1,038
Accrued interest and rent receivable	1,178	767
Servicer advances	769	946
Debt issuance costs	754	716
Repossessed and foreclosed assets, net	615	595
Investment in used vehicles held for sale	530	642
Intangible assets, net of accumulated amortization (c):		
Customer lists and contracts	33	33
Trademarks and other	20	24
Other assets	2,411	2,915
Total other assets	\$29,648	\$29,817

(a) Represents cash collections from customer payments on securitized receivables. These funds are distributed to investors as the related secured debt matures.

(b) Represents credit enhancement in the form of cash reserves for various securitization transactions executed by the Company.

(c) Aggregate amortization expense on intangible assets was \$11 for each of the years ended December 31, 2004 and 2003, respectively.

Amortization expense is expected to approximate \$9 in each of the next five fiscal years.

The changes in the carrying amounts of goodwill for the periods indicated, were as follows:

(in millions)	North American Operations	Commercial Finance Group	International Operations	GMAC Residential	GMAC-RFC	GMAC Commercial Mortgage	Insurance	Total
Goodwill at beginning of 2003	\$14	\$1,535	\$490	\$327	\$106	\$130	\$671	\$3,273
Goodwill acquired			4		2	12		18
Impairment losses and other (a)		(109)	(1)		(5)	(4)		(119)
Foreign currency translation effect		32	11		8			51
Goodwill at beginning of 2004	\$14	\$1,458	\$504	\$327	\$111	\$138	\$671	\$3,223

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Goodwill acquired			<b>1</b>	<b>11</b>	<b>1</b>	<b>3</b>		<b>16</b>
Impairment losses and other								
Foreign currency translation effect		<b>25</b>	<b>10</b>		<b>5</b>		<b>(5)</b>	<b>35</b>
Goodwill at end of 2004	<b>\$14</b>	<b>\$1,483</b>	<b>\$515</b>	<b>\$338</b>	<b>\$117</b>	<b>\$141</b>	<b>\$666</b>	<b>\$3,274</b>

(a) In September 2003, GMAC received \$110 related to a settlement of a claim involving the 1999 acquisition of the asset-based lending and factoring business of The Bank of New York. Of the settlement amount, \$109 represented a purchase price adjustment, reducing the related goodwill, while the remainder represented a reimbursement of tax claims paid on behalf of The Bank of New York.

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**13 Debt**

The presentation of debt in the following table is classified between domestic and foreign based on the location of the office recording the transaction.

December 31, (\$ in millions)	Weighted average interest rates (a)		2004			2003		
	2004	2003	Domestic	Foreign	Total	Domestic	Foreign	Total
<b>Short-term debt</b>								
Commercial paper			\$4,330	\$4,065	\$8,395	\$7,846	\$5,311	\$13,157
Demand notes			8,802	354	9,156	8,632	300	8,932
Bank loans and overdrafts			4,555	7,294	11,849	3,536	4,944	8,480
Repurchase agreements and other (b)			23,569	2,058	25,627	9,420	3,133	12,553
Total short-term debt	2.8%	2.1%	41,256	13,771	55,027	29,434	13,688	43,122
<b>Long-term debt</b>								
Senior indebtedness								
Due within one year	3.9%	3.1%	26,757	10,537	37,294	26,273	8,007	34,280
Due after one year	4.9%	5.0%	152,680	22,685	175,365	140,286	19,063	159,349
Total long-term debt (c)	4.7%	4.7%	179,437	33,222	212,659	166,559	27,070	193,629
Fair value adjustment (d)			1,205	69	1,274	1,985	126	2,111
Total debt (e)			\$221,898	\$47,062	\$268,960	\$197,978	\$40,884	\$238,862

(a) The weighted average interest rates include the effects of derivative financial instruments designated as hedges of debt.

(b) Repurchase agreements consist of secured financing arrangements with third-parties at the Company's Mortgage operations. Other primarily includes non-bank secured borrowings. The increase from December 2003 is reflective of the Company's replacement of various off-balance sheet facilities with on-balance sheet funding facilities. In addition, the increase is reflective of the Company's accounting treatment for certain mortgage transfers as secured borrowings effective September 30, 2004, as described in Note 1 to the Consolidated Financial Statements.

(c) The Company has issued warrants to subscribe for up to \$300 aggregate principal amount of 6.5% notes due October 15, 2009. The warrants entitle the holder to purchase from GMAC the aggregate principal amount at par plus any accrued interest. The warrants are exercisable up to and including October 15, 2007. In each December 2003 and February 2004, \$125 of the warrants were exercised, resulting in \$50 aggregate principal amount of these warrants remaining outstanding.

(d) To adjust designated fixed rate debt to fair value in accordance with SFAS 133.

(e) Includes secured debt, as depicted by asset class in the following table.

The following summarizes assets that are restricted as collateral for the payment of the related debt obligation primarily arising from securitization transactions accounted for as secured borrowings and repurchase agreements:

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December 31, <i>(in millions)</i>	2004		2003	
	Assets	Related secured debt (a)	Assets	Related secured debt (a)
Mortgage assets held for sale or held for investment	\$74,022	\$68,041	\$50,593	\$46,600
Retail automotive finance receivables	18,163	17,474	21,046	20,251
Investment securities	4,522	3,597	1,896	2,148
Investment in operating leases, net	1,098	1,032		
Real estate investments and other assets	2,514	1,813	34	24
<b>Total</b>	<b>\$100,319</b>	<b>\$91,957</b>	<b>\$73,569</b>	<b>\$69,023</b>

(a) Included as part of secured debt are repurchase agreements of \$8,827 and \$4,322 where GMAC has pledged assets, reflected as investment securities, as collateral for approximately the same amount of debt at December 31, 2004 and 2003, respectively.

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The following table presents the scheduled maturity of long-term debt at December 31, 2004, assuming that no early redemptions will occur. The actual payment of secured debt may vary based on the payment activity of the related secured assets.

Year ended December 31, <i>(in millions)</i>	
2005	<b>\$37,294</b>
2006	<b>38,819</b>
2007	<b>24,321</b>
2008	<b>11,422</b>
2009	<b>9,609</b>
2010 and thereafter	<b>91,820</b>
Long-term debt (a) (b)	<b>213,285</b>
Unamortized discount	<b>(626)</b>
Total long-term debt	<b>\$212,659</b>

(a) Debt issues totaling \$17,209 are redeemable at or above par, at the Company's option anytime prior to the scheduled maturity dates, the latest of which is November 2049.

(b) The Company's debt includes \$525 in fixed rate notes and \$75 in variable rate notes which provide the holders the option to put the debt to GMAC at specific dates prior to the scheduled maturity. In addition, the Company's debt includes \$26,187 notes containing a survivor's option enabling the holder to put the debt back to GMAC at par prior to maturity in the event of the holder's death. The Company repurchased \$39 and \$63 of these notes prior to maturity during 2004 and 2003, respectively. The latest maturity date of these notes is November 2024.

To achieve the desired balance between fixed and variable rate debt, GMAC utilizes interest rate swap and interest rate cap agreements. The use of such derivative financial instruments had the effect of synthetically converting \$56,722 million of its \$165,128 million of fixed rate debt into variable rate obligations and \$29,188 million of its \$103,208 million of variable rate debt into fixed rate obligations at December 31, 2004. In addition, certain of GMAC's debt obligations are denominated in currencies other than the currency of the issuing country. Foreign currency swap agreements are used to hedge exposure to changes in the exchange rates of these obligations.

**Liquidity facilities**

Liquidity facilities represent additional funding sources, if required. The financial institutions providing the uncommitted facilities are not legally obligated to fund those facilities. The following table summarizes the liquidity facilities maintained by the Company.

	Committed Facilities		Uncommitted facilities		Total liquidity facilities		Unused liquidity facilities	
	2004	2003	2004	2003	2004	2003	2004	2003
December 31, <i>(in billions)</i>								
Automotive operations:								
Syndicated multi-currency global credit facility (a)	<b>\$8.9</b>	\$8.5	\$	\$	<b>\$8.9</b>	\$8.5	<b>\$8.9</b>	\$8.5
U.S. Mortgage operations (b)			<b>7.6</b>	3.9	<b>7.6</b>	3.9	<b>3.9</b>	1.6
Other:								
U.S. asset-backed commercial paper liquidity and receivables facilities (c)	<b>22.9</b>	22.6			<b>22.9</b>	22.6	<b>22.9</b>	22.6
Other foreign facilities (d)	<b>5.0</b>	4.7	<b>15.0</b>	14.1	<b>20.0</b>	18.8	<b>8.4</b>	8.4
Total	<b>\$36.8</b>	\$35.8	<b>\$22.6</b>	\$18.0	<b>\$59.4</b>	\$53.8	<b>\$44.1</b>	\$41.1

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- (a) The entire \$8.9 is available for use by GMAC in the U.S., \$0.8 is available for use by GMAC (UK) plc and \$0.8 is available for use by GMAC International Finance B.V. in Europe. This facility serves primarily as backup for the Company's unsecured commercial paper programs.
- (b) Includes \$1.3 secured master note program with a third-party financial institution, guaranteed by GMAC. The borrowing is currently unsecured; however, upon request by the financial institution or any assignee, the Company is required to pledge mortgage servicing rights valued at 200% of the outstanding balance as collateral. Also includes interbank deposit lines and federal funds lines with various banking institutions.
- (c) Relates to New Center Asset Trust (NCAT) and Mortgage Interest Networking Trust (MINT), which are qualified special purpose entities administered by GMAC for the purpose of funding assets as part of GMAC's securitization and mortgage warehouse funding programs. These entities fund assets through the issuance of asset-backed commercial paper and represent an important source of liquidity to the Company. At December 31, 2004, NCAT commercial paper outstandings are \$9.7 and are not consolidated in the Company's Consolidated Balance Sheet. At December 31, 2004, MINT had commercial paper outstanding of \$1.5, which is reflected as secured debt in the Company's Consolidated Balance Sheet and is included in repurchase agreements and other short-term debt. Refer to Note 1 to the Consolidated Financial Statements.
- (d) Consists primarily of credit facilities supporting operations in Canada, Europe, Latin America and Asia-Pacific.

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The syndicated multi-currency global facility includes a \$4.35 billion five year facility (expires June 2008) and a \$4.55 billion 364-day facility (expires June 2005). The 364-day facility includes a term loan option, which, if exercised by GMAC upon expiration, carries a one-year term. Additionally, a leverage covenant restricts the ratio of consolidated unsecured debt to total stockholder's equity to no greater than 11.0:1, under certain conditions. More specifically, the covenant is only applicable on the last day of any fiscal quarter (other than the fiscal quarter during which a change in rating occurs) during such times as the Company has senior unsecured long-term debt outstanding, without third-party enhancement, which is rated BBB+ or less (by Standard & Poor's), or Baa1 or less (by Moody's). GMAC's leverage covenant ratio was 8.6:1 at December 31, 2004, and the Company was therefore in compliance with this covenant. The leverage covenant calculation excludes from debt those securitization transactions that are accounted for as on-balance sheet secured financings.

**14 Reserves for Insurance Losses and Loss Adjustment Expense**

The following table provides a reconciliation of the activity in the reserves for insurance losses and loss adjustment expenses.

Year ended December 31, (in millions)	2004	2003	2002
Balance at beginning of year	\$ 2,340	\$ 2,140	\$ 1,797
Reinsurance recoverables	(871)	(812)	(602)
Net balance at beginning of year	1,469	1,328	1,195
Incurred related to			
Current year	2,344	2,252	1,970
Prior years (a)	27	36	57
Total incurred (b)	2,371	2,288	2,027
Paid related to			
Current year	(1,567)	(1,579)	(1,388)
Prior years	(558)	(582)	(568)
Total paid	(2,125)	(2,161)	(1,956)
Other (c)	15	14	62
Net balance at end of year (d)	1,730	1,469	1,328
Reinsurance recoverables	775	871	812
Balance at end of year	\$ 2,505	\$ 2,340	\$ 2,140

- (a) Incurred losses and loss adjustment expenses during 2004 related to events of prior years are attributable to changes in reserve estimates for claims, which are based on additional knowledge available to the Company during 2004. In addition, also includes \$29 related to reinsurance agreements the Company decided to commute during 2004. During 2003, incurred losses related to events of prior year are attributed to the development of additional information indicating probable additional ultimate losses on U.S. assumed auto reinsurance and U.S. direct auto business. During 2002, the change is primarily attributable to the development of additional information indicating probable ultimate losses on assumed auto reinsurance, partially offset by favorable development in expected vehicle service contract losses.
- (b) Reflected net of reinsurance recoveries totaling \$312, \$374, and \$500 for the years ended December 31, 2004, 2003, and 2002, respectively.
- (c) Effects of exchange rate changes for the years ended December 31, 2004, 2003, and 2002. Also included in 2002 is \$56, which represents reserves acquired through the purchase of subsidiaries.



- (d) Includes exposure to asbestos and environmental claims from the reinsurance of general liability, commercial multiple peril, homeowners and workers' compensation claims. Reported claim activity to date has not been significant. Net reserves for loss and loss adjustment expenses were \$8, \$10, and \$8 at December 31, 2004, 2003, and 2002, respectively.

## 15 Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of:

December 31, (in millions)	2004	2003
<b>Deposits</b>		
Consumer	\$2,909	\$750
Commercial	3,248	3,298
Employee compensation and benefits	1,790	1,761
Factored client payables	1,430	1,083
Mortgage escrow deposits	1,321	1,026
Fair value of derivative contracts in payable position	953	1,196
Securitization trustee payable	514	665
GM payable, net	200	556
Taxes payable	58	391
Accounts payable and other liabilities	5,959	4,999
<b>Total accrued expenses and other liabilities</b>	<b>\$18,382</b>	<b>\$15,725</b>

## 16 Derivative Instruments and Hedging Activities

GMAC enters into interest rate and foreign currency futures, forwards, options, and swaps in connection with its market risk management activities. Derivative financial instruments are used to manage interest rate risk relating to specific groups of assets and liabilities, including investment securities, loans held for sale, mortgage servicing rights, debts and deposits, as well as off-balance sheet securitizations. In addition, foreign exchange contracts are used to hedge foreign currency denominated debt and foreign exchange transactions.

GMAC's primary objective for utilizing derivative financial instruments is to manage market risk volatility associated with interest rate and foreign currency risks related to the assets and liabilities of the automotive and mortgage operations. Managing this volatility enables the Company to price its finance and mortgage offerings at competitive rates and to minimize the impact of market risk on earnings of the Company. These strategies are applied on a decentralized basis by the respective automotive financing and mortgage operations, consistent with the level at which market risk

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is managed, but are subject to various limits and controls at both the local unit and consolidated level. One of the key goals of the Company's strategy is to modify the asset and liability and interest rate mix, including the assets and liabilities associated with securitization transactions that may be recorded in off-balance sheet special purpose entities. In addition, the Company uses derivative financial instruments to mitigate the risk of changes in the fair values of loans held for sale and mortgage servicing rights. Derivative financial instruments are also utilized to manage the foreign currency exposure related to foreign currency denominated debt. The following summarizes GMAC's derivative activity based on the accounting hedge designation:

**Fair Value Hedges**

GMAC's fair value hedges primarily include hedges of fixed-rate debt, mortgage servicing rights, and loans held for sale:

*Debt obligations* Interest rate swaps are used to modify GMAC's exposure to interest rate risk by converting fixed rate debt to a floating rate. Generally, individual swaps are designated as hedges of specific debt at the time of issuance with the terms of the swap matching the terms of the underlying debt. As the terms of the swap are designed to match the terms of the debt, the vast majority of the Company's interest rate swaps receive short-cut treatment under SFAS 133, resulting in no hedge ineffectiveness. However, certain of the Company's fair value hedges of debt do not receive short-cut treatment, because of differences in option features between the interest rate swap and the companion debt, in which case, hedge ineffectiveness is measured based on the difference in the fair value movement of the swap and the related debt.

*Mortgage servicing rights* In determining the portion of mortgage servicing rights to hedge, the Company takes into account both natural offsets from mortgage loan production and any available for sale investment securities (e.g., U.S. Treasury notes) used to manage the interest rate risk inherent in mortgage servicing rights. Derivative financial instruments approved for use under the Company's risk management program include: call and put options on treasuries or swaps; mortgage-backed security futures, treasury futures and LIBOR futures; interest rate caps and floors; swaptions; and swaps. GMAC designates a fair value hedging relationship for derivative financial instruments used to hedge the change in the fair value of mortgage servicing rights. For purposes of hedge designation, the loans underlying the mortgage servicing rights asset are aggregated into groups of similar assets. In doing so, management considers characteristics such as loan type, interest rate type (i.e., fixed or variable), coupon interest rate (for fixed), and scheduled maturity. If the changes in the fair value of the hedged mortgage servicing rights are highly correlated to changes in the fair value of the derivative financial instruments, the hedged mortgage servicing rights are adjusted for the change in fair value of the risk being hedged, and the resultant gain or loss is recorded in the Consolidated Statement of Income. The Company closes hedge periods based upon derivative rebalancing or interest rate moves, which resulted in hedge periods closing on average every two business days during 2004. Effectiveness is assessed using historical hedge period data. The Company measures hedge effectiveness employing a statistical-based approach, which must meet thresholds for R-squared, slope and F-statistic.

*Loans held for sale* The Company uses derivative financial instruments to hedge its exposure to risk associated with its mortgage loans held for sale. After loans are funded, they are generally sold into the secondary market to various investors, often as mortgage-backed securities sponsored by Fannie Mae, Freddie Mac, or Ginnie Mae. Mortgage loans that are not eligible for agency sponsored securitization are sold through public or private securitization transactions or in whole loan sales. The primary risk associated with closed loans awaiting sale is a change in the fair value of the loans due to fluctuations in interest rates. The Company's primary strategies to protect against this risk are selling loans or mortgage-backed securities forward to investors using mandatory and optional forward commitments and the use of interest rate swaps. Hedge periods are closed daily, representative of daily hedge portfolio rebalancing due to new loan fundings and sales. Effectiveness is measured using historical daily hedge period data. The Company measures hedge effectiveness employing a statistical-based approach, which must meet thresholds for R-squared, slope, and F-statistic.

**Cash Flow Hedges**

GMAC enters into derivative financial instrument contracts to hedge exposure to variability in cash flows related to floating rate and foreign currency financial instruments. Interest rate swaps are used to modify exposure to variability in expected future cash flows attributable to variable rate debt. Currency swaps and forwards are used to hedge foreign exchange exposure on foreign currency denominated debt by converting the funding currency to the same currency of the assets being financed. Similar to the Company's fair value hedges, the swaps are generally concurrent with the debt issuance, with the terms of the swap matching the terms of the underlying debt. GMAC recognized an immaterial amount of hedge ineffectiveness on cash flow hedges related to floating rate debt for the years ended December 31, 2004 and 2003.

The Company uses derivative financial instruments to hedge its exposure to variability in expected cash flows associated with the future issuance of bonds payable related to securitizations of mortgage loans held for investment. The primary risk associated with these transactions is the variability on the issuance price of the debt securities. The Company's primary strategy to protect against this risk is selling loans or mortgage-backed securities



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forward, using mandatory and optional forward commitments. Upon issuance of the debt securities, the hedging relationship terminates and the changes in fair value of the hedging instrument are reclassified out of other comprehensive income and into earnings over the term of the debt securities, as an adjustment to yield.

**Economic Hedges not Designated as Accounting Hedges**

GMAC utilizes certain derivative financial instruments to manage interest rate, price, and foreign exchange risks, which do not qualify or are not designated as hedges under SFAS 133. As these derivatives are not designated as accounting hedges, changes in the fair value of the derivative instruments are recognized in earnings each period. Similar to the fair value hedging activities described above, the Company utilizes certain derivatives that do not qualify as accounting hedges under SFAS 133, to economically hedge the value of mortgage servicing rights and mortgage loans.

In addition, the following describes other uses of derivatives that do not qualify for hedge accounting:

*Off-balance sheet securitization activities* GMAC enters into interest rate swaps to facilitate securitization transactions where the underlying receivables are sold to a non-consolidated qualified special purpose entity (QSPE). As the underlying assets are carried in a non-consolidated entity, the interest rate swaps do not qualify for hedge accounting treatment. The use of swaps allows for more efficient execution of the securitization transaction as it allows the QSPE to issue asset-backed securities with different characteristics than the underlying assets.

*Foreign currency debt* GMAC has elected not to treat currency swaps that are used to convert foreign denominated debt back into the functional currency at a floating rate as hedges for accounting purposes. While these currency swaps are similar to the foreign currency cash flow hedges described in the foregoing, the Company has not designated them as hedges as the changes in the fair values of the currency swaps are substantially offset by the foreign currency revaluation gains and losses of the underlying debt.

*Mortgage related securities* The Company uses interest rate options, futures, swaps, caps, and floors to mitigate risk related to mortgage related securities classified as trading.

The following table summarizes the pre-tax earnings effect for each type of accounting hedge classification, segregated by the asset or liability hedged.

Year ended December 31, (in millions)	2004	2003	2002	Income Statement Classification
<b>Fair value hedge ineffectiveness gain (loss):</b>				
Debt obligations	\$46	\$45	\$68	Interest and discount expense
Mortgage servicing rights	70	348	363	Mortgage banking income
Loans held for sale	(12)	(2)	27	Mortgage banking income
<b>Cash flow hedges ineffectiveness gain (loss):</b>				
Debt Obligations	(19)	(1)	1	Interest and discount expense
<b>Economic hedge change in fair value:</b>				
<i>Off-balance sheet securitization activities</i>				
Financing operations	(26)	(102)	(47)	Other income
Mortgage operations	(18)	254	311	Mortgage banking income
Foreign currency debt (a)	44	87	66	Interest and discount expense
Loans held for sale or investment	(60)	(86)	147	Mortgage banking income
Mortgage servicing rights	(7)	(16)	110	Mortgage banking income
Mortgage related securities	(95)	(13)	109	Investment income
Other	(18)	19	(86)	Other income
<b>Total gain (loss)</b>	<b>\$(95)</b>	<b>\$533</b>	<b>\$1,069</b>	

(a) Amount represents the difference between the changes in the fair values of the currency swap, net of the revaluation of the related foreign denominated debt.



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The following table presents additional information related to the Company's derivative financial instruments.

Year ended December 31, (in millions)	2004	2003	2002
Net gain on fair value hedges excluded from assessment of effectiveness	<b>\$180</b>	\$175	\$212
Expected reclassifications from other comprehensive income to earnings (a)	<b>(1)</b>	(1)	(6)

(a) Estimated to occur over the next 12 months.

Derivative financial instruments contain an element of credit risk in the event that counterparties are unable to meet the terms of the agreements. Credit risk associated with derivative financial instruments is measured as the net replacement cost should the counterparties which owe GMAC under the contract completely fail to perform under the terms of those contracts, assuming no recoveries of underlying collateral, as measured by the market value of the derivative financial instrument. At December 31, 2004, the market value of derivative financial instruments in an asset or receivable position (from GMAC's perspective) was \$9.5 billion, including accrued interest of \$1.1 billion. The Company minimizes the credit risk exposure by limiting the counterparties to those major banks and financial institutions that meet established credit guidelines. As of December 31, 2004, more than of 89% of GMAC's exposure is with counterparties with a Fitch rating of A+ or higher. Additionally, the Company reduces credit risk on the majority of its derivative financial instruments by entering into legally enforceable agreements that permit the closeout and netting of transactions with the same counterparty upon occurrence of certain events. In order to further mitigate the risk of counterparty default, the Company maintains collateral agreements with certain counterparties. The agreements require both parties to maintain cash deposits in the event the fair values of the derivative financial instruments meet established thresholds. The Company has placed cash deposits totaling \$40 million and \$153 million at December 31, 2004 and 2003, respectively, in accounts maintained by counterparties. The Company has received cash deposits from counterparties totaling \$266 million and \$102 million at December 31, 2004 and 2003, respectively. The cash deposits placed and received are included on the Consolidated Balance Sheet in Other assets and Other liabilities, respectively.

## 17 Pension and Other Postretirement Benefits

**Pension**

Certain GMAC employees are eligible to participate in various domestic and foreign pension plans of General Motors. Benefits under the plans are generally related to an employee's length of service, salary and, where applicable, contributions. For these plans, GMAC is a participating employer in GM sponsored retirement plans. As such, GM allocates pension expense to GMAC for participating employees. The allocation is made on a pro-rata basis and, as such, is impacted by the various assumptions (discount rate, return on plan assets, etc.) that GM utilizes in determining its pension obligation. Detailed information about GM's pension plans can be found in the GM Annual Report on Form 10-K. Pension expense allocated for GMAC employees participating in GM plans totaled \$50 million, \$51 million, and \$26 million for the years ended December 31, 2004, 2003, and 2002, respectively.

Other employees (primarily at the Mortgage operations, Commercial Finance Group, and certain subsidiaries of GMAC Insurance) participate in separate retirement plans that provide for pension payments to eligible employees upon retirement based on factors such as length of service and salary. The following summarizes information relating to these non-GM sponsored plans:

Year ended December 31, (in millions)	2004			2003		
	GMAC Mortgage Operations	GMAC Insurance	Commercial Finance Group	GMAC Mortgage Operations	GMAC Insurance	Commercial Finance Group
Benefit obligation	<b>\$250</b>	<b>\$34</b>	<b>\$23</b>	\$247	\$28	\$18

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Fair value of plan assets	<b>211</b>	<b>21</b>	<b>18</b>	154	16	12
Funded status	<b>(39)</b>	<b>(13)</b>	<b>(5)</b>	(93)	(12)	(6)
Unrecognized net actuarial gain (loss)	<b>39</b>	<b>5</b>		91	5	(1)
Unrecognized prior service cost	<b>1</b>			1		
Net transition obligation						
Accrued benefit cost	<b>\$1</b>	<b>\$(8)</b>	<b>\$(5)</b>	\$(1)	\$(7)	\$(7)
Net pension expense (a)	<b>\$34</b>	<b>\$5</b>	<b>\$5</b>	\$26	\$4	\$5

(a) Net pension expense for year ended December 31, 2002, totaled \$21, \$3, and \$5 for GMAC Mortgage operations, GMAC Insurance, and Commercial Finance Group, respectively.

Cash contributions to these non-GM sponsored pension plans made by GMAC Mortgage operations, GMAC Insurance, and Commercial Finance Group for the year ended December 31, 2004 were \$37 million, \$4 million, and \$3 million, respectively.

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The expected rate of return on plan assets is an estimate determined by the Company by summing the expected inflation and the expected real rate of return on stocks and bonds based on allocation percentages within the trust. The weighted average assumptions for the non-GM sponsored pension plans are presented below.

Year ended December 31,	2004	2003
Discount rate	6.02%	6.68%
Expected return on plan assets	8.67%	8.68%
Rate of compensation increase	5.27%	5.32%

**Other Postretirement Benefits**

GMAC and certain of its subsidiaries participate in various postretirement medical, dental, vision, and life insurance plans of General Motors while other GMAC subsidiaries participate in separately maintained postretirement plans. These benefits are funded as incurred from the general assets of the Company. GMAC accrues postretirement benefit costs over the active service period of employees to the date of full eligibility for such benefits. The Company has provided for certain amounts associated with estimated future postretirement benefits other than pensions and characterized such amounts as other postretirement benefits. Notwithstanding the recording of such amounts and the use of these terms, the Company does not admit or otherwise acknowledge that such amounts or existing postretirement benefit plans of the Company (other than pensions) represent legally enforceable liabilities of the Company. Other postretirement benefits expense of the Company totaled \$72 million, \$74 million, and \$67 million in 2004, 2003, and 2002, respectively.

**18 Income Taxes**

The significant components of income tax expense were as follows:

Year ended December 31, (in millions)	2004	2003	2002
Current income tax expense			
U.S. federal	\$1,518	\$1,411	\$908
Foreign	128	161	206
State and local	(37)	351	290
Total current expense	1,609	1,923	1,404
Deferred income tax expense			
U.S. federal	(466)	(196)	(128)
Foreign	142	63	(9)
State and local	149	(199)	(196)
Total deferred expense	(175)	(332)	(333)
Total income tax expense	\$1,434	\$1,591	\$1,071

A reconciliation of the statutory U.S. federal income tax rate to the Company's effective tax rate applicable to income is shown in the following table.



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Year ended December 31,	2004	2003	2002
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
Change in tax rate resulting from:			
State and local income taxes, net of federal income tax benefit	2.7	2.3	2.8
Tax-exempt income	(0.8)	(0.7)	(0.5)
Foreign income tax rate differential	(1.3)	(0.2)	(0.1)
Other(a)	(2.6)	(0.1)	(0.8)
Effective tax rate	33.0%	36.3%	36.4%

(a) Reflects the benefit of favorable settlements with various tax authorities (both U.S. and International) as well as the impact of changes in reserve requirements.

Deferred tax assets and liabilities result from differences between assets and liabilities measured for financial reporting purposes and those measured for income tax return purposes. The significant components of deferred tax assets and liabilities are reflected in the following table.

December 31, (in millions)	2004	2003
<b>Deferred tax liabilities</b>		
Lease transactions	\$3,416	\$3,967
Mortgage servicing rights	785	536
Deferred acquisition costs	584	428
Unrealized gains on securities	337	295
Debt issuance costs	335	123
Hedging transactions	220	145
Accumulated translation adjustment	113	19
State and local taxes	92	65
Other	16	68
Gross deferred tax liabilities	5,898	5,646
<b>Deferred tax assets</b>		
Provisions for credit losses	1,105	1,092
Postretirement benefits	288	277
Unearned insurance premiums	278	250
Sales of finance receivables and loans	100	(17)
Foreign tax credits (a)	73	63
Insurance reserves	65	65
Other	235	266
Gross deferred tax assets	2,144	1,996
Net deferred tax liability	\$3,754	\$3,650

(a) Net of valuation allowance of \$112 as of December 31, 2004 and 2003.

Foreign pre-tax income totaled \$1,004 million in 2004, \$784 million in 2003, and \$633 million in 2002. Foreign pre-tax income is subject to U.S. taxation when effectively repatriated. The Company provides federal income taxes on the undistributed earnings of foreign subsidiaries, except to the extent that such earnings are

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indefinitely reinvested outside the United States. At December 31, 2004, \$1,782 million of accumulated undistributed earnings of foreign subsidiaries was indefinitely reinvested. Quantification of the deferred tax liability, if any, associated with indefinitely reinvested earnings is not practicable.

The Corporation has open tax years from 1998 to 2003 with various U.S. and foreign taxing jurisdictions. These open years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they related to the amount, timing or inclusion of revenue and expenses or the sustainability of income tax credits for a given audit cycle. The Corporation has established a liability of approximately \$260 million for those matters where the amount of loss is probable and estimable. The amount of the liability is based on management's best estimate given the Corporation's history with similar matters and interpretations of current laws and regulations.

**19 Transactions with Affiliates**

As a wholly owned subsidiary, GMAC enters into various operating and financing arrangements with its parent, GM. A master intercompany agreement governs the nature of these transactions to ensure that they are done on an arms length basis, in accordance with commercially reasonable standards and in the best interest of GMAC as a diversified financial services company.

**Balance Sheet**

A summary of the balance sheet effect of transactions with GM and affiliated companies is as follows:

December 31, (in millions)	2004	2003
Dealer receivables due from GM (a)	\$125	\$112
Notes receivable from GM and affiliates	4,921	3,151
Advances to improve GM leased properties (b)	919	852
Accounts receivable from (payable to) GM and affiliates (c)	(1,506)	(731)
Capital contributions (non-cash)	119	
Dividends paid	\$1,500	\$1,000

(a) GMAC provides wholesale financing and term loans to dealerships owned by GM. These amounts are included in finance receivables and loans.

(b) During 2000, GM entered into a sixteen year lease arrangement with GMAC, under which GMAC agreed to fund and capitalize improvements to three Michigan GM leased properties totaling \$1.3 billion.

(c) Includes wholesale settlements payments to GM, subvention receivables due from GM, and notes payable, which are included in accrued expenses, other liabilities, and debt, respectively.

In January 2004, GMAC assumed management and financial control of GM's Brazilian financing operation (Banco GM, or BGM), while GM maintained legal ownership. As a result of entering into this arrangement, effective January 1, 2004, GMAC began consolidating BGM, which previously had been consolidated by GM. The impact of the consolidation was a \$119 million increase in capital, which represents the net assets of the Brazilian operations on December 31, 2003. In the fourth quarter of 2004, GMAC purchased BGM from GM for \$336 million resulting in the transfer of legal ownership to GMAC.

Retail and lease contracts acquired by GMAC that included rate and residual subvention from GM, payable directly or indirectly to GM dealers, as a percent of total new retail installment and lease contracts acquired were as follows:

Year ended December 31,	2004	2003
GM and affiliates rate subvented contracts acquired:		
North American operations	63%	78%
International operations	58%	60%

In addition to subvention programs, GM provides payment guarantees on certain commercial assets GMAC has outstanding with certain third-party customers. As of December 31, 2004 and 2003, commercial obligations guaranteed by GM were \$1,285 million and \$1,311 million, respectively.

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**Income Statement**

A summary of the income statement effect of transactions with GM and affiliated companies is as follows:

Year ended December 31, (in millions)	2004	2003	2002
<b>Net financing revenue:</b>			
GM and affiliates lease residual value support	\$ 526	\$ 986	\$ 1,315
Wholesale subvention and service fees from GM	174	160	149
Interest paid on loans from GM	(45)	(22)	(40)
Consumer lease payments (a)	348	225	60
Insurance premiums earned from GM	450	479	498
<b>Other income:</b>			
Interest on notes receivable from GM and affiliates	163	151	204
Interest on wholesale settlements (b)	101	106	136
Revenues from GM leased properties	63	58	50
<b>Service fee income:</b>			
GMAC of Canada operating lease administration (c)	28	35	50
Rental car repurchases held for resale (d)	16	22	17
Other		14	13
<b>Expense:</b>			
Employee retirement plan costs allocated by GM	114	116	86
Off-lease vehicle selling expense reimbursement (e)	(51)	(60)	(70)
Payments to GM for services, rent and marketing expenses	281	67	69

- (a) GM sponsors lease pull-ahead programs whereby consumers are encouraged to terminate lease contracts early in conjunction with the acquisition of a new GM vehicle, with the customer's remaining payment obligation waived. For certain programs, GM compensates GMAC for the waived payments, adjusted based on the remarketing results associated with the underlying vehicle.
- (b) The settlement terms related to the wholesale financing of certain GM products are at shipment date. To the extent that wholesale settlements with GM are made prior to the expiration of transit, interest is received from GM.
- (c) GMAC of Canada, Limited administers operating lease receivables on behalf of GM of Canada Limited (GMCL) and receives a servicing fee, which is included in other income.
- (d) GMAC receives a servicing fee from GM related to the resale of rental car repurchases.
- (e) An agreement with GM provides for the reimbursement of certain selling expenses incurred by GMAC on off-lease vehicles sold by GM at auction.

**20 Comprehensive Income**

Comprehensive income is composed of net income and other comprehensive income, which includes the after-tax change in unrealized gains and losses on available for sale securities, cash flow hedging activities and foreign currency translation adjustments. The following table presents the components and annual activity in other comprehensive income:

Year ended December 31, (in millions)	Unrealized gains on investment securities (a)	Translation adjustments (b)	Cash flow hedges	Accumulated other comprehensive income (loss)
Balance at December 31, 2001	\$226	\$(377)	\$(171)	\$(322)

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2002 net change	77	137	13	227
Balance at December 31, 2002	303	(240)	(158)	(95)
2003 net change	245	300	67	612
Balance at December 31, 2003	548	60	(91)	517
<b>2004 net change</b>	<b>78</b>	<b>306</b>	<b>265</b>	<b>649</b>
<b>Balance at December 31, 2004</b>	<b>\$626</b>	<b>\$366</b>	<b>\$174</b>	<b>\$1,166</b>

- (a) Primarily represents the after-tax difference between the fair value and amortized cost of the available for sale securities portfolio.
- (b) Includes after-tax gains and losses on foreign currency translation from operations for which the functional currency is other than the U.S. dollar. Net change amounts are net of taxes totaling \$104, \$153, and \$73 for the years ended December 31, 2004, 2003, and 2002, respectively.

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The net changes in the following table represent the sum of net unrealized gains (losses) of available for sale securities and net unrealized gains (losses) on cash flow hedges with the respective reclassification adjustments. Reclassification adjustments are amounts recognized in net income during the current year and that would have been reported in other comprehensive income in previous years.

Year ended December 31, <i>(in millions)</i>	2004	2003	2002
<b>Available for sale securities:</b>			
Net unrealized gains (losses) arising during the period, net of taxes (a)	\$125	\$199	\$(234)
Reclassification adjustment for net (gains) losses included in net income, net of taxes (b)	(47)	46	311
<b>Net change</b>	<b>78</b>	<b>245</b>	<b>77</b>
<b>Cash flow hedges:</b>			
Net unrealized gains (losses) on cash flow hedges, net of taxes (c)	264	61	(17)
Reclassification adjustment for net losses included in net income, net of taxes (d)	1	6	30
<b>Net change</b>	<b>\$265</b>	<b>\$67</b>	<b>\$13</b>

(a) Net of tax expense of \$67 for 2004 and \$109 for 2003 and tax benefit of \$128 for 2002.

(b) Net of tax expense of \$25 for 2004 and tax benefit of \$25 for 2003 and \$168 for 2002.

(c) Net of tax expense of \$142 for 2004 and \$37 for 2003 and tax benefit of \$9 for 2002.

(d) Net of tax benefit of \$1 for 2004, \$3 for 2003 and \$16 for 2002.

## 21 Fair Value of Financial Instruments

The Company has developed the following fair value estimates by utilization of available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value, so the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of using different market assumptions or estimation methodologies could be material to the estimated fair values. Fair value information presented herein is based on information available at December 31, 2004 and 2003. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been updated since those dates and, therefore, the current estimates of fair value at dates subsequent to December 31, 2004 and 2003 could differ significantly from these amounts. The following describes the methodologies and assumptions used to determine fair value for the respective classes of financial instruments.

**Investment Securities**

Bonds, equity securities, notes, and other available for sale investment securities are carried at fair value, which is based on quoted market prices. The fair value of mortgage-related trading securities is based on market quotes to the extent available, discounted using market prepayment assumptions and discount rates. If external quotes are not available, valuations are based on internal valuation models using market based assumptions. Held to maturity investment securities are carried at amortized cost. The fair value of the held to maturity investment securities is based on valuation models using market based assumptions. Interests in securitization trusts are carried at fair value based on expected cash flows discounted at current market rates.

**Loans Held for Sale**

The fair value of loans held for sale is based upon actual prices received on recent sales of loans and securities to investors and projected prices obtained through investor indications considering interest rates, loan type, and credit quality.

**Finance Receivables and Loans, Net**

The fair value of finance receivables is estimated by discounting the future cash flows using applicable spreads to approximate current rates applicable to each category of finance receivables. The carrying value of wholesale receivables and other automotive and mortgage lending receivables for which interest rates reset on a short-term basis with applicable market indices are assumed to approximate fair value either because of the short-term nature or because of the interest rate adjustment feature. The fair value of mortgage loans held for investment is based on discounted cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality; the net realizable value of collateral and/or the estimated sales price based on quoted market prices where available or actual prices received on comparable sales of mortgage loans to investors.

**Notes Receivable from GM**

The fair value is estimated by discounting the future cash flows using applicable spreads to approximate current rates applicable to certain categories of other financing assets.

**Derivative Assets and Liabilities**

The fair value of interest rate swaps is estimated based on discounted expected cash flows using quoted market interest rates. The fair value of caps, written and purchased options, and mortgage-related interest rate swaps is based upon quoted market prices or broker-dealer quotes.

The fair value of foreign currency swaps is based on discounted expected cash flows using market exchange rates over the remaining term of the agreement.

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**Debt**

The fair value of debt is determined by using quoted market prices for the same or similar issues, if available, or based on the current rates offered to the Company for debt with similar remaining maturities. Commercial paper, master notes, and demand notes have an original term of less than 270 days and, therefore, the carrying amount of these liabilities is considered to approximate fair value.

**Deposits**

Deposits represent certain consumer bank deposits as well as mortgage escrow deposits. The fair value of deposits with no stated maturity is equal to their carrying amount. The fair value of fixed-maturity deposits was estimated by discounting cash flows using currently offered rates for deposits of similar maturities.

The following table presents the carrying and estimated fair value of assets and liabilities considered financial instruments under Statements of Financial Accounting Standards 107, *Disclosures about Fair Value of Financial Instruments* (SFAS 107). Accordingly, certain amounts that are not considered financial instruments are excluded from the table.

December 31, (in millions)	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Investment securities	\$14,960	\$14,963	\$13,200	\$13,193
Loans held for sale	19,934	20,224	19,609	19,930
Finance receivables and loans, net	199,725	199,952	174,362	176,819
Notes receivable from GM	4,921	4,915	3,151	3,143
Derivative assets	9,489	9,489	10,026	10,026
<b>Financial liabilities</b>				
Debt (a)	269,678	270,734	239,495	244,786
Derivative liabilities	953	953	1,196	1,196
Deposits	4,230	4,106	1,754	1,660

(a) Debt includes deferred interest for zero coupon bonds of \$718 and \$633 for 2004 and 2003, respectively.

**22 Variable Interest Entities**

The following describes the variable interest entities that GMAC has consolidated or in which it has a significant variable interest.

**Automotive finance receivables** In certain securitization transactions, GMAC transfers consumer finance receivables and wholesale lines of credit into bank-sponsored multi-seller commercial paper conduits. These conduits provide a funding source to GMAC (as well as other transferors into the conduit) as they fund the purchase of the receivables through the issuance of commercial paper. Total assets outstanding in these bank-sponsored conduits approximated \$16.1 billion as of December 31, 2004. While GMAC has a variable interest in these conduits, the Company is not considered to be the primary beneficiary, as GMAC does not retain the majority of the expected losses or returns. GMAC's maximum exposure to loss as a result of its involvement with these non-consolidated variable interest entities is \$168 million and would only be incurred in the event of a complete loss on the assets that GMAC transferred.

**Mortgage warehouse funding** GMAC's Mortgage operations transfer commercial and residential mortgage loans through various structured finance arrangements in order to provide funds for the origination and purchase of future loans. These structured finance arrangements include transfers to warehouse funding entities, including GMAC- and bank-sponsored commercial paper conduits. Transfers of assets from GMAC into each facility are accounted for as either sales (off-balance sheet) or secured financings (on-balance sheet) based on the provisions of SFAS 140. However, in either case, creditors of these facilities have no legal recourse to the general credit of GMAC. Some of these warehouse funding



entities represent variable interest entities under FIN 46R.

Management has determined that for certain mortgage warehouse funding facilities, GMAC is the primary beneficiary and, as such, consolidates the entities in accordance with FIN 46R. The assets of these residential mortgage warehouse entities totaled \$4.6 billion at December 31, 2004, the majority of which are included in loans held for sale and finance receivables and loans, net of unearned income, in the Company's Consolidated Balance Sheet. The assets of the commercial mortgage warehouse entities totaled \$526 million at December 31, 2004, the majority of which are included in loans held for sale and finance receivables and loans, net of unearned income, in the Company's Consolidated Balance Sheet. The beneficial interest holders of these variable interest entities do not have legal recourse to the general credit of GMAC.

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*Residential mortgage loan alliances* GMAC-RFC has invested in strategic alliances with several mortgage loan originators. These alliances may include common or preferred equity investments, working capital or other subordinated lending, and warrants. In addition to warehouse lending arrangements, management has determined that GMAC does not have the majority of the expected losses or returns and as such, consolidation is not appropriate under FIN 46R. Total assets in these alliances were \$174 million at December 31, 2004. The Company's maximum exposure to loss under these alliances, including commitments to lend additional funds or purchase loans at above-market rates, is \$285 million at December 31, 2004.

*Construction and real estate lending* The Company uses a special purpose entity to finance construction lending receivables. The special purpose entity purchases and holds the receivables and funds the majority of the purchases through financing obtained from third-party asset-backed commercial paper conduits. GMAC is the primary beneficiary, and as such, consolidates the entity in accordance with FIN 46R. The assets in this entity totaled \$1.2 billion at December 31, 2004, which are included in finance receivables and loans, net of unearned income, in the Company's Consolidated Balance Sheet. The beneficial interest holders of this variable interest entity do not have legal recourse to the general credit of GMAC.

GMAC-RFC has subordinated real estate lending arrangements with certain entities. These entities are created to develop land and construct residential homes. Management has determined that GMAC does not have the majority of the expected losses or returns, and as such, consolidation is not appropriate under FIN 46R. Total assets in these entities were \$194 million at December 31, 2004, of which \$49 million represents GMAC's maximum exposure to loss.

*Warehouse lending* The Company has a facility in which it transfers mortgage warehouse lending receivables to a 100% owned SPE which then sells a senior participation interest in the receivables to an unconsolidated QSPE. The QSPE funds the purchase of the participation interest from the SPE through financing obtained from third-party asset-backed commercial paper conduits. The SPE funds the purchase of the receivables from the Company with cash obtained from the QSPE, as well as a subordinated loan and/or an equity contribution from the Company. The senior participation interest sold to the QSPE and the commercial paper issued are not included in the assets or liabilities of the Company. Once the receivables have been sold, they may not be purchased by the Company except in very limited circumstances, such as a breach in representations or warranties. Management has determined that GMAC is the primary beneficiary of the SPE, and as such, consolidates the entity in accordance with FIN 46R. The assets of the SPE totaled \$686 million at December 31, 2004, which are included in finance receivables and loans, net of unearned income, in the Company's Consolidated Balance Sheet. The beneficial interest holders of this variable interest entity do not have legal recourse to the general credit of GMAC.

*Collateralized debt obligations (CDOs)* GMAC's Mortgage operations sponsor, purchase subordinate and equity interests in, and serve as collateral manager for CDOs. Under CDO transactions, a trust is established that purchases a portfolio of securities and issues debt and equity certificates, representing interests in the portfolio of assets. In addition to receiving variable compensation for managing the portfolio, the Company sometimes retains equity investments in the CDOs. The majority of the CDOs sponsored by the Company were initially structured or have been restructured (with approval by the senior beneficial interest holders) as qualifying special purpose entities, and are therefore exempt from FIN 46R.

GMAC receives an asset management fee for purposes of surveillance of existing collateral performance. In the event that an asset is credit impaired, a call option is triggered whereby GMAC, as collateral manager, may buy the asset out of the pool and sell it to a third-party. The call is triggered only by events that are outside of GMAC's control, such as the downgrade by a rating agency of an asset in the pool or in the event more than a specified percentage of mortgage loans underlying a security are greater than 60 days delinquent (or have been liquidated). In the event the conditions under which the Company can exercise the call option are met, the Company recognizes these assets. In accordance with these provisions, GMAC did not recognize any assets as of December 31, 2004 or 2003.

For the majority of the Company's remaining CDOs, the results of the primary beneficiary analysis support the conclusion that consolidation is not appropriate under FIN 46R, because GMAC does not have the majority of the expected losses or returns. The assets in these CDOs totaled \$2.5 billion at December 31, 2004, of which GMAC's maximum exposure to loss is \$50 million, representing GMAC's retained interests in these entities. The maximum exposure to loss would only occur in the unlikely event that there was a complete loss on GMAC's retained interests in these entities. In addition, management has determined that for a particular CDO entity, GMAC is the primary beneficiary, and as such, consolidates the entity in accordance with FIN 46R. The assets in this entity totaled \$294 million at December 31, 2004, the majority of which are included in investment securities in the Company's Consolidated Balance Sheet. The beneficial interest holders of this variable interest entity do not have legal recourse to the general credit of GMAC.

*Interests in real estate partnerships* The Company's Commercial Mortgage operations syndicate investments in real estate partnerships to unaffiliated investors in the form of limited partner ownership interests (typically 99.99% of the total interests). These syndicated real estate partnerships, in turn, acquire limited partner ownership interests in various operating partnerships that develop, own, and operate affordable housing properties throughout the

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United States. Returns to investors in the partnerships syndicated by the Company are derived from flow-through low-income housing tax credits and tax losses generated by the underlying operating partnership entities. The Company does have loss exposure based on its limited partnership interest and to the investors in the guaranteed syndicated real estate partnerships to which the Company has guaranteed a rate of return. The loss exposure represents the potential under-delivery of income tax benefits by the syndicated real estate partnerships to the investors.

In certain syndicated real estate partnerships, the Company has guaranteed a specified rate of return to the investors. In the event of a shortfall in the delivery of tax benefits to the investors, the Company is required to provide funding to the syndicated real estate partnerships. Syndicated real estate partnerships that contain a guarantee (i.e., guaranteed syndicated real estate partnerships) are reflected in the Company's Consolidated Financial Statements under the financing method, in accordance with Statement of Financial Accounting Standards 66, *Accounting for Sales of Real Estate* (SFAS 66). Under the financing method, the assets and liabilities of the guaranteed syndicated real estate partnerships are reflected on GMAC's Consolidated Balance Sheet. More specifically, cash and cash equivalents and equity method investments (in the underlying operating partnership entities) of the guaranteed syndicated real estate partnerships are included in assets in the Company's Consolidated Balance Sheet. Liabilities of the guaranteed syndicated real estate partnerships consist almost entirely of a financing liability (initially equal to the amount of equity contributed by each investor), payable to each tax credit fund investor. The financing liability to the investors is extinguished over the life of the guaranteed syndicated real estate partnerships, as annual tax benefits guaranteed to each investor are delivered.

In addition to reflecting the assets and liabilities of the guaranteed syndicated real estate partnerships, the Company has variable interests in the underlying operating partnerships (primarily in the form of limited partnership interests). The results of the Company's variable interest analysis indicated that GMAC is not the primary beneficiary of these partnerships and, as a result, is not required to consolidate these entities under FIN 46R. Assets outstanding in the underlying operating partnerships approximated \$5.0 billion at December 31, 2004. GMAC's exposure to loss at such time was \$708 million, representing the financing liability reflected in GMAC's Consolidated Financial Statements, or the amount payable to investors in the event of liquidation of the partnerships. The Company's exposure to loss increases as unaffiliated investors fund additional guaranteed commitments with the Company, and decreases as tax benefits are delivered to unaffiliated investors. Considering such committed amounts, the Company's exposure to loss in future periods is not expected to exceed \$1.6 billion.

*New market tax credit funds* The Company syndicates and manages investments in partnerships that make investments, typically mortgage loans that, in turn, qualify the partnerships to earn New Markets Tax Credits. New Markets Tax Credits permit taxpayers to receive a federal income tax credit for making qualified equity investments in community development entities. For one particular tax credit fund, management has determined that GMAC does not have the majority of the expected losses or returns, and as such, consolidation is not appropriate under FIN 46R. The assets in these investments totaled \$62 million at December 31, 2004, of which \$45 million represents GMAC's maximum exposure to loss. In addition to this entity, management has determined that for another tax credit fund, GMAC is a primary beneficiary, and as such, consolidates the entity in accordance with FIN 46R. The assets in the entity totaled \$76 million at December 31, 2004, which are included in Other assets in the Company's Consolidated Balance Sheet. The beneficial interest holders of this variable interest entity do not have legal recourse to the general credit of GMAC.

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**23 Segment and Geographic Information**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance. Financial information for GMAC's reporting segments is summarized below.

**Reporting Segments**

Year ended December 31, (in millions)	Financing operations (a)		Mortgage operations				Insurance	Other (c)	Consolidated
	North American Operations (b)	International Operations (b)	GMAC Residential	GMAC-RFC	GMAC Commercial Mortgage				
<b>2004</b>									
Net financing revenue before provision for credit losses	\$5,971	\$1,670	\$262	\$1,992	\$84	\$	\$817	\$10,796	
Provision for credit losses	(806)	(144)	5	(983)			(16)	(1,944)	
Other revenue	2,210	706	1,457	1,145	1,014	3,983	(534)	9,981	
Total net revenue	7,375	2,232	1,724	2,154	1,098	3,983	267	18,833	
Noninterest expense	5,972	1,665	1,223	1,148	823	3,497	158	14,486	
Income before income tax expense	1,403	567	501	1,006	275	486	109	4,347	
Income tax expense	409	152	226	377	71	157	42	1,434	
Net income	\$994	\$415	\$275	\$629	\$204	\$329	\$67	\$2,913	
Total assets	\$192,207	\$33,495	\$15,235	\$78,706	\$15,670	\$11,744	\$(22,918)	\$324,139	
<b>2003</b>									
Net financing revenue before provision for credit losses	\$6,597	\$1,571	\$95	\$1,369	\$225	\$	\$839	\$10,696	
Provision for credit losses	(1,045)	(185)	(20)	(420)	3		(54)	(1,721)	
Other revenue	2,250	523	1,798	968	1,144	3,464	(546)	9,601	
Total net revenue	7,802	1,909	1,873	1,917	1,372	3,464	239	18,576	
Noninterest expense	6,189	1,471	1,282	1,065	858	3,186	141	14,192	
Income before income tax expense	1,613	438	591	852	514	278	98	4,384	
Income tax expense (benefit)	594	159	217	314	172	99	36	1,591	
Net income	\$1,019	\$279	\$374	\$538	\$342	\$179	\$62	\$2,793	
Total assets	\$191,658	\$27,105	\$10,205	\$60,084	\$15,193	\$10,340	\$(26,422)	\$288,163	
<b>2002</b>									
Net financing revenue before provision for credit losses	\$6,169	\$1,315	\$9	\$533	\$208	\$	\$921	\$9,155	
Provision for credit losses	(1,310)	(165)	(10)	(208)	(21)		(439)	(2,153)	

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Other revenue	2,900	373	1,180	998	898	2,840	(668)	8,521
Total net revenue	7,759	1,523	1,179	1,323	1,085	2,840	(186)	15,523
Noninterest expense	5,791	1,189	1,165	816	719	2,754	148	12,582
Income before income tax expense	1,968	334	14	507	366	86	(334)	2,941
Income tax expense (benefit)	732	128	8	194	141	(1)	(131)	1,071
Net income	\$1,236	\$206	\$6	\$313	\$225	\$87	\$(203)	\$1,870
Total assets	\$170,476	\$21,824	\$14,654	\$26,800	\$11,994	\$8,722	\$(26,742)	\$227,728

- (a) Financing operations in the MD&A also includes the Commercial Finance Group, which is a separate operating segment and is included in Other above.
- (b) North American Operations consists of automotive financing in the U.S. and Canada. International Operations consists of automotive financing and full service leasing in all other countries and Puerto Rico.
- (c) Represents the Company's Commercial Finance Group, certain corporate activities related to the Mortgage Group, reclassifications and eliminations between the reporting segments. At December 31, 2004, total assets were \$8.0 billion for the Commercial Finance Group, \$10 million for the corporate activities of the Mortgage Group and \$(30.9) billion in eliminations.

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Information concerning principal geographic areas was as follows:

**Geographic Information**

Year ended December 31, ( <i>in millions</i> )	Revenue (a)	Expense (b)	Income before income taxes	Net income	Long-lived assets (c)
<b>2004</b>					
Canada	\$1,552	\$1,258	\$294	\$194	\$5,930
Europe	2,293	1,880	413	305	3,274
Latin America	768	456	312	226	108
Asia-Pacific	309	187	122	95	267
Total foreign	4,922	3,781	1,141	820	9,579
Total domestic	13,911	10,705	3,206	2,093	22,182
Total	\$18,833	\$14,486	\$4,347	\$2,913	\$31,761
<b>2003</b>					
Canada	\$1,189	\$966	\$223	\$159	\$4,484
Europe	1,957	1,622	335	209	2,949
Latin America	603	356	247	170	89
Asia-Pacific	365	258	107	103	226
Total foreign	4,114	3,202	912	641	7,748
Total domestic	14,462	10,990	3,472	2,152	21,801
Total	\$18,576	\$14,192	\$4,384	\$2,793	\$29,549
<b>2002</b>					
Canada	\$996	\$726	\$270	\$200	\$3,298
Europe	1,422	1,221	201	127	2,583
Latin America	529	372	157	93	75
Asia-Pacific	327	231	96	59	173
Total foreign	3,274	2,550	724	479	6,129
Total domestic	12,249	10,032	2,217	1,391	21,888
Total	\$15,523	\$12,582	\$2,941	\$1,870	\$28,017

(a) Revenue consists of total net revenue as presented on the Consolidated Statement of Income.

(b) Expense is composed of total expense as presented on the Consolidated Statement of Income.

(c) Primarily consists of net operating leases assets, goodwill, intangible assets, and net property and equipment.

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**24 Guarantees, Commitments, Contingencies and Other Risks****Guarantees**

Guarantees are defined as contracts or indemnification agreements that contingently require the Company to make payments to third-parties based on changes in an underlying agreement that is related to a guaranteed party. The following summarizes the Company's outstanding guarantees made to third-parties.

December 31, (in millions)	2004		2003	
	Maximum liability	Carrying value of liability	Maximum liability	Carrying value of liability
Construction lending	\$964	\$3	\$640	\$2
Standby letters of credit	316	2	269	4
Securitization and sales:				
Agency loans sold with recourse	4,648	6	2,415	3
Commercial mortgage securitizations	1,210	1	1,301	
HLTV securitizations	416	11	587	31
Mortgage-related securities	31	29	92	44
Guarantees for repayment of third-party debt	212	3	208	

*Construction lending* The Company has guaranteed repayment of principal and interest on certain construction loans through its Commercial Mortgage operations. Additionally, the guarantees are issued on long-term fixed rate agency loans. Losses would be incurred in the event of default of the underlying construction loans. These guarantees expire at various times during 2005 to 2009.

*Standby letters of credit* The Company's Financing operations (primarily through its Commercial Finance Group) issues financial standby letters of credit to customers that represent irrevocable guarantees of payment of specified financial obligations (typically to customer's suppliers). In addition, GMAC's Mortgage operations issue letters of credit as part of its warehouse and construction lending activities. Expiration dates on the letters of credit range from 2005 to ongoing commitments, and are generally collateralized by assets of the client (trade receivables, cash deposits, etc.).

*Agency loans sold with recourse* The Company's Mortgage operations guarantee agency loans sold with recourse. Guarantees represent exposure on loans sold with recourse and subject to first loss position. Losses would be incurred in the event of default of the underlying loans. This guarantee represents an ongoing agreement with Fannie Mae.

*Commercial mortgage securitizations* The Company (through its commercial Mortgage operations) has guaranteed repayment of principal and interest associated with certain commercial mortgage loan securitization transactions. Securities issued as a result of these securitization transactions were credit enhanced by an AAA rated insurer and the Company has issued a guarantee to the insurer for a portion of the guaranteed securities. The Company has also retained an investment in these securitizations that is subordinate to these guarantees. Collateral totaling \$110 million and \$75 million has been posted with regard to these guarantees for the years ended December 31, 2004 and 2003, respectively. Losses on the guarantee would be incurred in the event that losses on the underlying collateral exceed the Company's subordinated investment. Expiration dates range from 2005 to ongoing agreements.

Also, on occasion, the Company has entered into put option agreements with third-party banks through its commercial Mortgage operations. In these agreements, the bank has the option to tender bonds to GMAC at a purchase price of par plus accrued interest thereon. Upon exercise of such tender option by the bank, GMAC agrees to repurchase the bonds from the bank from its own funds. The term of these put options varies but, in all cases is less than one year. The notional amounts of the unexercised put options aggregated \$59 million and \$39 million as of December 31, 2004 and 2003, respectively.



*High loan-to-value (HLTV) securitizations* The Company's residential Mortgage operations have entered into agreements to provide credit loss protection for certain HLTV securitization transactions. Collateral totalling \$133 million and \$163 million is pledged with regard to these guarantees for the years ended December 31, 2004 and 2003, respectively. GMAC is required to perform on its guaranty obligation when the security credit enhancements are exhausted and losses are passed through to broker-dealers or when the bond insurer makes a payment under the bond insurance policy. The guarantees terminate the first calendar month during which the security aggregate note amount is reduced to zero.

*Mortgage-related securities* GMAC-RFC has contingent obligations related to prepayment risk on sales of certain mortgage-related securities. For the years ended December 31, 2004 and 2003, the obligations require payment of remaining principal upon maturity of senior classes of issued securities and are capped at

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\$31 million and \$92 million, respectively, with this cap decreasing as the underlying securities pay down. As of December 31, 2004 and 2003, the Company had recorded a liability of \$29 million and \$44 million, respectively, representing its estimate of the amount it will pay on these obligations on a discounted cash flow basis.

*Guarantees for repayment of third-party debt* Under certain arrangements, the Company guarantees the repayment of third-party debt obligations in the case of default. Some of these guarantees are collateralized by letters of credit.

The Company's Commercial Finance Group provides credit protection to third-parties which guarantee payment of specified financial obligations of the third-party suppliers, without purchasing such obligations.

*Other guarantees* The Company has other standard indemnification clauses in certain of its funding arrangements that would require GMAC to pay lenders for increased costs resulting from certain changes in laws or regulations. Since any changes would be dictated by legislative and regulatory actions, which are inherently unpredictable, the Company is not able to estimate a maximum exposure under these arrangements. To date, GMAC has not made any payments under these indemnification clauses. The Company's Mortgage operations sponsor certain agents who originate mortgage loans under government loan programs. Under these arrangements, the Company has guaranteed uninsured losses resulting from the actions of the agents. At December 31, 2004 and 2003, the Company did not record any liabilities associated with this guarantee. Since we are unable to predict the agents actions, the Company is not able to estimate a maximum exposure related to this guarantee.

In connection with certain asset sales and securitization transactions, the Company typically delivers standard representations and warranties to the purchaser regarding the characteristics of the underlying transferred assets. These representations and warranties conform to specific guidelines, which are customary in securitization transactions. These clauses are intended to ensure that the terms and conditions of the sales contracts are met upon transfer of the asset. Prior to any sale or securitization transaction, the Company performs due diligence with respect to the assets to be included in the sale to ensure that they meet the purchaser's requirements, as expressed in the representations and warranties. Due to these procedures, the Company believes that the potential for loss under these arrangements is remote. Accordingly, no liability is reflected in the Consolidated Balance Sheet related to these potential obligations. The maximum potential amount of future payments the Company could be required to make would be equal to the current balances of all assets subject to such securitization or sale activities. The Company does not monitor the total value of assets historically transferred to securitization vehicles or through other asset sales. Therefore, the Company is unable to develop an estimate of the maximum payout under these representations and warranties.

**Commitments***Financing Commitments*

The contract amount and gain and loss positions of financial commitments, are as follows:

December 31, (in millions)	2004			2003		
	Contract amount	Gain position	Loss position	Contract amount	Gain position	Loss Position
<b>Commitments to:</b>						
Originate/purchase mortgages or securities (a)	\$13,865	\$9	\$(26)	\$10,806	\$72	\$(6)
Sell mortgages or securities (a)	11,823	6	(10)	8,322	1	(48)
Remit excess cash flows on certain loan portfolios (b)	4,335	19		4,351	6	(105)
Fund construction lending (c)	2,702			1,872		
Sell retail automotive receivables (d)	2,000					
Provide capital to equity method investees (e)	343			158		
Unused mortgage lending commitments (f)	15,519			17,625		
Unused revolving credit line commitments (g)	6,721			6,775		

(a) The fair value is estimated using published market information associated with commitments to sell similar instruments. Included as of December 31, 2004 and 2003 are commitments accounted for as derivatives with a contract amount of \$18,232 and \$14,495; a gain position of \$26 and \$60; and a loss position of \$35 and \$159, respectively.

(b) Under certain residential mortgage purchase agreements, GMAC is committed to remitting cash flows that exceed a required rate of return less credit loss reimbursements to the mortgage originators. This commitment is accounted for as a derivative.

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- (c) GMAC is committed to fund the completion of the development of certain lots and model homes up to the agreed upon amount per project.
- (d) GMAC has entered into agreements with third-party banks to sell automotive retail receivables in which GMAC transfers all credit risk to the purchaser (whole loan sales).
- (e) GMAC is committed to lend equity capital to certain private equity funds. The fair value of these commitments is considered in the overall valuation of the underlying assets with which they are associated.
- (f) The fair value of these commitments is considered in the overall valuation of the related assets.
- (g) The unused portions of revolving lines of credit reset at prevailing market rates, and as such, approximate market value.

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The mortgage lending and revolving credit line commitments contain an element of credit risk. Management reduces its credit risk for unused mortgage lending and unused revolving credit line commitments by applying the same credit policies in making commitments as it does for extending loans. The Company typically requires collateral as these commitments are drawn.

*Lease Commitments*

Future minimum rental payments required under operating leases, primarily for real property, with noncancelable lease terms that expire after December 31, 2004, were as follows:

Year ended December 31, (in millions)	
2005	<b>\$195</b>
2006	<b>158</b>
2007	<b>130</b>
2008	<b>94</b>
2009	<b>62</b>
2010 and thereafter	<b>147</b>
<b>Total minimum payment required</b>	<b>\$786</b>

Certain of the leases contain escalation clauses and renewal or purchase options. Rental expenses under operating leases were \$230 million, \$230 million and \$221 million in 2004, 2003 and 2002, respectively.

*Contractual Commitments* The Company has entered into multiple agreements for information technology, marketing and advertising, and voice and communication technology and maintenance. Many of the agreements are subject to variable price provisions, fixed or minimum price provisions, and termination or renewal provisions. Future payment obligations under these agreements totaled \$319 million and are due as follows: \$203 million in 2005, \$94 million in 2006 and 2007, \$21 million in 2008 and 2009, and \$1 million after 2010.

*Extended Service and Maintenance Contract Commitments* Extended service contract programs provide consumers with expansions and extensions of vehicle warranty coverage for specified periods of time and mileages. Such coverage generally provides for the repair or replacement of components in the event of failure. The terms of these contracts, which are sold through automobile dealerships and direct mail, range from 3 to 84 months.

The following table presents an analysis of activity in unearned service revenue.

Year ended December 31, (in millions)	2004	2003
Balance at beginning of year	<b>\$2,033</b>	\$1,161
Written service contract revenue	<b>1,237</b>	1,264
Earned service contract revenue	<b>(561)</b>	(392)
Balance at end of year	<b>\$2,709</b>	\$2,033

**Legal Contingencies**

GMAC is subject to potential liability under laws and government regulations and various claims and legal actions that are pending or may be asserted against it.

GMAC and its subsidiaries are named as defendants in a number of legal actions, and from time to time, involved in governmental proceedings arising in connection with GMAC's respective businesses. Some of the pending actions purport to be class actions. The Company establishes 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 substantially higher or lower than the amounts reserved for those claims. Based on 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 GMAC will not have a material adverse effect on the Company's 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 a legal matter, if unfavorable, may be material to the Company's consolidated financial condition, results of operations, or cash flows.

**Other Contingencies**

GMAC is subject to potential liability under various other exposures including tax, non-recourse loans, self-insurance, and other miscellaneous contingencies. The Company establishes reserves for these contingencies when the item becomes probable and the costs can be reasonably estimated. The actual costs of resolving these items may be substantially higher or lower than the amounts reserved for any one item. Based on information currently available, it is the opinion of management that the eventual outcome of these items will not have a material adverse effect on the Company's consolidated financial condition, results of operations, or cash flows.

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**Other Risks***Loans Sold with Recourse*

The Company's outstanding recourse obligations were as follows:

December 31, (in millions)	2004	2003
Loans with recourse		
Sold	\$3,449	\$3,152
Repurchased	43	56
Maximum exposure on loans sold with recourse (a):		
Full exposure	611	427
Limited exposure	53	107
<b>Total exposure</b>	<b>\$664</b>	<b>\$534</b>

(a) Maximum recourse exposure is net of amounts reinsured with third-parties totaling \$1 and \$156 at December 31, 2004 and 2003, respectively. Loss reserves, included in other liabilities, related to loans sold with recourse totaled \$7 and \$5 at December 31, 2004 and 2003, respectively.

*Concentrations*

The Company's primary business is to provide vehicle financing for GM products to GM dealers and their customers. Wholesale and dealer loan financing relates primarily to GM dealers, with collateral consisting of primarily GM vehicles (for wholesale) and GM dealership property (for loans). For wholesale financing, GMAC is also provided further protection by GM factory repurchase programs. Retail installment contracts and operating lease assets relate primarily to the secured sale and lease, respectively, of vehicles (primarily GM). Any protracted reduction or suspension of GM's production or sale of vehicles, resulting from a decline in demand, work stoppage, governmental action, or any other event, could have a substantial adverse effect on GMAC. Conversely, an increase in production or a significant marketing program could positively impact the Company's results.

The majority of GMAC's finance receivables and loans and operating lease assets are geographically diversified throughout the United States. Outside the United States, finance receivables and loans and operating lease assets are concentrated in Canada, Europe (primarily Germany and the United Kingdom), Australia and Mexico.

The Company's Insurance operations have a concentration of credit risk related to loss and loss adjustment expenses and prepaid reinsurance ceded to certain state insurance funds. Michigan insurance law and the Company's large market share in North Carolina, result in credit exposure to the Michigan Catastrophic Claims Association and the North Carolina Reinsurance Facility totaling \$722 million and \$664 million at December 31, 2004 and 2003, respectively.

*Capital Requirements*

Various international subsidiaries of the Company are subject to regulatory and other requirements of the jurisdictions in which they operate. These entities operate either as a bank or a regulated finance company in the local market. The regulatory restrictions primarily dictate that these subsidiaries meet certain minimum capital requirements, restrict dividend distributions and require that some assets be restricted. To date, compliance with these various regulations has not had a materially adverse effect on the Company's financial position, results of operations, or cash flows. Total assets in these entities approximated \$13.2 billion and \$10.4 billion as of December 31, 2004 and 2003, respectively.

The Company also has certain subsidiaries of the Mortgage operations and North American Automotive Financing operations that operate as depository institutions in the United States which are subject to minimum aggregate capital requirements, and other 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, Utah State Department of Financial Institutions, and the Federal Deposit Insurance Corporation (FDIC). Assets in the depository institutions totaled \$7.5 billion and \$3.3 billion at December 31, 2004 and 2003, respectively. Deposits in the entities are insured by the FDIC. As of December 31, 2004, the Company has met all regulatory requirements and was in compliance with the minimum capital requirements.

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GMAC Insurance is subject to certain minimum aggregated capital requirements, restricted net assets, and restricted dividend distributions under applicable state insurance law, the National Association of Securities Dealers, the Financial Services Authority in England, the Office of the Superintendent of Financial Institution of Canada, and the National Insurance and Bonding Commission of Mexico. To date, compliance with these various regulations has not had a materially adverse effect on the Company's financial position, results of operations, or cash flows.

Under the various state insurance regulations, dividend distributions may be made only from statutory unassigned surplus, and the state regulatory authorities must approve such distributions if they exceed certain statutory limitations. Based on the December 31, 2004 statutory policyholders' surplus, the maximum dividend that could be paid by the insurance subsidiaries over the next twelve months without prior statutory approval approximates \$226 million.

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General Motors Acceptance Corporation

**Summary of Consolidated Quarterly Earnings (unaudited)**

Year ended December 31, 2004 (in millions)	Reported First (a)	Restated First	Reported Second (a)	Restated Second	Reported Third (a)	Restated Third	Fourth
Total financing revenue	\$4,894	\$4,943	\$4,974	\$5,052	\$4,974	\$5,032	\$5,304
Interest and discount expense	2,206	2,223	2,228	2,253	2,367	2,398	2,661
Provision for credit losses	457	476	411	412	544	548	508
Total net revenue	4,716	4,690	4,842	4,830	4,662	4,621	4,692
Net income (b)	\$786	\$764	\$860	\$846	\$656	\$620	\$683

(a) Certain amounts have been reclassified to conform to the annual presentation (refer to Note 1 to the Consolidated Financial Statements), prior to the restatements discussed below.

(b) Net income for the quarterly period ended December 31, 2004 was previously furnished in a Form 8-K filing on January 19, 2005 as \$611.

Year ended December 31, 2003 (in millions)	First	Second	Third	Fourth
Total financing revenue	\$4,291	\$4,665	\$4,615	\$4,689
Interest and discount expense	1,794	1,854	1,959	1,957
Provision for credit losses	410	386	451	474
Total net revenue	4,543	4,929	4,493	4,611
Net income	\$699	\$834	\$630	\$630

GMAC's quarterly information for each of the three quarters ended March 31, 2004, June 30, 2004 and September 30, 2004 has been restated from previously reported results to adjust for certain amounts that were recognized in the incorrect 2004 quarterly period. These adjustments did not impact GMAC's 2004 annual results, financial condition as of December 31, 2004 or cash flows for year ended December 31, 2004, nor were any of these adjustments individually material to GMAC's annual or quarterly consolidated financial statements. Most of the adjustments relate to items detected and recorded in the fourth quarter of 2004 at GMAC's residential mortgage businesses (GMAC Residential and GMAC-RFC) that relate to earlier 2004 quarters. More specifically, certain of the adjustments were identified and corrected through internal control remediation that occurred in connection with GMAC's Corporate Sarbanes-Oxley Section 404 program. The most significant of these adjustments involve the valuation of certain interests in securitized assets, accounting for deferred income taxes related to certain secured financing transactions and the income statement effects of consolidating certain mortgage transfers previously recognized as sales.