

MEMORANDUM FOR THE RECORD

Event: Interview with Mark Barber, Deputy Treasurer, GE Capital

Type of Event: Group interview

Date of Event: April 1, 2010

Team Leader: Tom Krebs

Participants – Non-Commission:

- Mark Barber, Deputy Treasurer – GE Capital
- Chris Moore, Attorney – GE Capital
- Reginald Brown, General Counsel – WilmerHale

Participants – Commission:

- Tom Krebs
- Desi Duncker
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Date of MFR: May 1, 2010

Summary of the Interview or Submission:

Please note the following:

- *This is not a transcript of the interview and should not be quoted as such.*
- *This is merely a synopsis of comments and is not necessarily a statement of fact or of the opinions of the FCIC team.*
- *In some cases, answers were rearranged to place into appropriate topic areas. The content was not changed—only the order in the document.*

Background

Mark Barber is the Deputy Treasurer of GE Capital in charge of managing the commercial paper program. He has spent twenty years at GE Capital and ten within the firm's treasury department.

General Electric Capital Services, Inc. (GECS) was incorporated in 1984 in Delaware. All of its outstanding common stock is owned directly or indirectly by General Electric Company.

GECS's principal subsidiary, GE Capital Corporation, is wholly-owned and conducts most of GE's financial services operations. Operating segments comprise our four business focused on the broad markets they serve: GE Commercial Finance, GE Money, GE Industrial and GE Infrastructure. For segment reporting purposes certain financial services businesses are included in the industrial operating segments that actively manage such businesses and report their results for internal performance measurement purposes. These operations are subject to a variety of regulations in their respective jurisdictions. Our services are offered primarily in North America, Europe and Asia.

Mr. Barber noted that he would be discussing the commercial paper market from the perspective of an issuer. GE does not fund itself using repurchase agreements. Note that GE was also the first US corporation to fund using Islamic funding.

He then walked the FCIC team through a presentation discussing the commercial paper market as a whole and GE Capital's role in it.

Issuing of Commercial Paper

The issuing of commercial paper consists of the following: price discovery process, risk discovery process and settlement. This is at the base of the yield curve, so it is all inexpensive funding for GE.

GE Capital decides what it needs to raise (based on maturing debt and cash needs), and they set the pricing for various maturities, and then goes to market. The Company uses two issuing agents, and a net settlement process. This system is electronic, which wasn't the case in 1995. They price through the curve, looking at LIBOR and the Federal Funds rate. The controlling system is Bloomberg (25-30% of transactions), but they also transact over the phone. Net settlement occurs through the Depository Trust Company (DTC).

The investors have established relationships with GE Capital and have performed their due diligence ahead of time.

Asset-backed commercial paper was a single-digit percent of GE Capital's CP issuance and then rose to 55%, before falling back now. Currently, the only significant ABCP vehicle is Edison (currently around \$2 billion), which is in run-off mode.

Growth of the Market

The growth of money-market funds (MMF) have led to the growth in the CP market, as there is a daily competition for funds in \$5.5 trillion market for short-term debt instruments. CP is currently \$1.1 trillion of this (down from its peak of \$2.1 trillion in July 2007).

The investing in CP by MMF was bolstered by the following factors: deep investor base, wide range of issuers differentiated by credit ratings, price transparency, same-day settlement, etc.

At the market's peak in July 2007, asset-backed commercial paper was a larger slice of the market (at 55%). Now, however, unsecured CP is 61% of the market, as it was back in 2001. 72% of GE Capital's commercial paper investors are fund managers, compared to 39% in 1980, and 56% in 2000. Other investors include banks & brokers, insurance companies and public funds (*i.e.*, county treasurers and municipal treasurers). In 2001, GE has 6.0% share of the CP issuance market, and issued \$117 billion. In 2009, GE had a 3.4% share and issued \$47 billion.

GE's corporate goal is to have a weighted-average maturity of 55 days.

2007 and 2008

Before the second quarter of 2007, there was an unprecedented amount of liquidity, and investors were looking for higher yield. Afterward, there was volatility in ABCP. However after 2007, some buyers who had left for lower-quality, higher-yielding vehicles came back to GE paper.

Mr. Barber walked the FCIC team through the 2007 events that affected the commercial paper market. As a result of the dislocations, in 2007, GE Capital reaffirmed funding plans and continued investor communication, and renewed focus on operational readiness. Mr. Barber then walked the FCIC team through the 2008 market events. Whenever there's turmoil in the markets, Tier 2 issuers really suffer. To deal with these events, GE Capital bolstered its capital base with \$15 billion from its parent and a strengthened Income Maintenance Agreement with the parent GE. The Company also bolstered its liquidity profile by ramping up its cash, reducing reliance on commercial paper and utilizing government programs.

Mr. Barber then discussed the Commercial Paper Funding Facility (CPFF), and how this helped allay liquidity concerns in the market. CPFF outstandings peaked at \$350.5 billion, which was 27% of Tier 1 commercial paper outstandings. The Term Liquidity Guaranty Program was enacted to strengthen confidence and encourage liquidity in the banking system. GE was competitively disadvantaged by its initial exclusion from this program, but was then allowed in because of its ownership of a depository institution. For TLGP, GE paid a total of \$2.3 billion in fees to the government.

Other Issues

Investor relationships are built over years, and there is direct contact unfiltered by a third party. The largest investors all have credit teams. Note that Mr. Barber's team also conducts due diligence on the investor to make sure they will be a suitable counterparty.

GE Capital is no longer in the US mortgage market, as they sold WMC Mortgage assets in 2007.

The general understanding is that although the backup bank lines are available, you don't want to draw on them, as it sends a bad signal (*i.e.*, CIT, Countrywide). GE Capital has alternative sources of funding: deposits (GE Capital has two US depository institutions) and secured financing. GE Interest Plus is a cash management account made for investors to support GE Capital.

Secondary Market

The dealers' willingness to buy in the primary market depends on their ability to resell in the secondary market. The strength of the secondary market is important to GE Capital for marketing their paper. Additionally, they purchase some CP and retire it, in which case they're wearing a dealer hat. Immediately after the Lehman bankruptcy, there was a demand for GE paper in the secondary market.

GE and GE Capital

GE Capital is a wholly-owned subsidiary of GE. GE Capital does diversified, non-bank lending. The Company is primarily focused on mid-market financing, and they are not a captive finance unit. (Financing of GE products is a single-digit percentage of their activities.) The ratings in part reflect GE ownership, and there is a lot of evidence of GE's support. A third of GE Capital is consumer-focused. There are the largest private-label credit-card issuer in the US. The other 2/3 is commercial finance, largely secured lending.

There is a centralized treasury function that sets policy, and the treasury organization is focused on match funding. They have what they call the ALCO process—that is, their asset-liability committee. In the summer of 2007, they took steps to be ready for the crisis.

There is a seat for risk management at the highest levels.