

**MEMORANDUM FOR THE RECORD**

Event: Interview with Michael Neal, CEO of GE Capital

Type of Event: Phone interview

Date of Event: Monday, May 3, 2010 at 5:00 p.m.

Team Leader: Desi Duncker

Location: 1717 Pennsylvania Avenue, Suite 800, Washington, DC; FCIC large conference room

Participants - Non-Commission:

- Michael Neal, CEO of GE Capital
- Chris Moore, Attorney, GE Capital
- Reginald Brown, Wilmer Hale
- Dan Rosenthal

Participants - Commission:

- Desi Duncker
- Troy Burrus
- Sarah Knaus

MFR Prepared by: Sarah Knaus

Date of MFR: May 3, 2010

Summary of the Interview or Submission:

**This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted as such.**

Desi began the interview by introducing the team and explaining that we are from the FCIC. He attempted to begin recording the interview, but the witness's lawyer, Reginald Brown, insisted that it not be recorded.

**DUNCKER:** Mike, tell us about your background and a general description of your career at GE.

I'm in my 31<sup>st</sup> year at GE. I started with GE in 1979 on the industrial side of the business and have done different jobs in different parts of the company. In the mid-80s I moved into GE Credit, which was at the time much smaller than where we are today. I've always been in operational positions, including my first position in Commercial Equipment Financing. In the

early 1990s, I became an Executive VP of GE Capital. From there, I became President and COO of GE capital in the late nineties. When Jeff Immelt became the Chairman, GE Capital was split into several different businesses and I became head of the commercial business, which was the biggest piece. About two years ago we reconstituted GE Capital as one company and I became CEO of the whole company.

**DUNCKER:** Can you talk about the evolution of GE's lending? Particularly getting into and out of the mortgage businesses?

When I joined GE, we owned an insurance company called Genworth, which we later sold. We also had ERC, which was sold to SwissRe. With the sales of these two companies, GE exited the insurance business. We had a consumer business named GE Money, with Dave Resin as CEO. I ran commercial finance, which composed about 2/3 of the company at the time. The consumer group acquired a company called WMC, which was a reasonable-sized mortgage company with headquarters in Burbank, CA. We were in that business for a few years. At the time we called it an "Alt-A originator of mortgages." We became increasingly uncomfortable with that business and the market's trend towards riskier products. In late 2006 and early 2007, we made the decision to exit that business. By spring of 2007, we had shut it down and sold the portfolio. Although we are now out of the US mortgage business, we do have other mortgage companies outside of the US.

**DUNCKER:** What interactions have you had with regulators since 2004?

We have many regulators around the world and are reasonably heavily regulated. OTS is our regulator here in the States. They are in the headquarters almost all of the time in Connecticut, and are quite involved in our business. I meet with them two to three times a year and any time that they would request it.

**DUNCKER:** Can you tell about how lending activity has changed with the latest financial crisis, over past 3 years?

I would say that it was pretty much business as usual in 2007. It's not like we didn't have issues from time to time, it's a big company with different product lines, but we were operating with some regularity. 2007 was a good year, with \$12 billion in net income. There was nothing extraordinary or out of the norm, our volumes were strong, portfolio quality was quite good, and we didn't have any issues in funding at all. 2007 was the best year of GE Capital in history. In 2008, although there were issues with BS's failure and then the GSEs, up until that point it was pretty typical on a volume standpoint and a pretty good year. It got worse as the year progressed. With the failure of Lehman and issues with money market funds, people were getting more nervous about where the market would go. As you're very aware, we were involved with the CPFF and TLGP program in Q4 of that year. We made a conscious decision to reduce our CP program under the heading of ensuring safety and security.

GE Capital does not engage in exotic products. We're a main street lender to consumers across the world. We are pretty boring. We're focused principally on the corporate mid-market, and markets that banks don't serve as well as we think we can. We have a sizable commercial real estate business that has done quite well. We also have an energy services business, and a GE airline leasing business. In 4Q2008, based on our concern about where the markets may go, we decided to reduce our footprint by reducing the size of our commercial paper program, which had been just under \$100 billion in outstandings.

In 2009, the economy was really getting very soft. Our volume was getting soft as well, although we were completely engaged in the markets. In 2008, we took a hard look at capital allocation and at the most and least attractive businesses in our portfolio. We decided to lower our ENI to \$425 billion, which put us into a safer position from a borrowing standpoint. We increased our capital, lowered our leverage, and increased bank lines. We actually took the bank lines and cash on hand up to 2.5x the CP program, just to make sure the business was as safe as it could be. We are winding down red businesses outside the US, including the UK mortgage company. We have already exited our Australian mortgage business, and are we're working on some interest with some banks around the world. We worked with the green companies that compose the ENI to help them stay in the marketplace, but the demand just was not there at the time. For the year, we came in a little under our budget in terms of new volume, which was principally driven by the lower demand.

**DUNCKER:** I'm going to dig into some points you mentioned. You talked about the reduction of ENI and exiting the mortgage business in US, UK, Australia. What are the businesses that you're looking to exit and the kinds of green businesses?

Green businesses are our "Core Co.," including large commercial platforms, leasing companies, and equipment financing focusing on mid- to small-sized companies. Our real estate company is shrinking, to about half its size. We also have a vertical tier of companies, including energy financial services, which has great synergy with GE Energy, and GECAS, which is the largest commercial aircraft leaser in the world. These will be the future of the company. In the US, we also have a private label credit business, which is a consumer business and a retail lending business for boats, RVs, and other goods. We have business that supports the dealers and the ultimate consumer credit. We also have a large portfolio of banks that we either own or own a piece of. We own stakes in banks in Hungary, the Czech Republic, Poland and Turkey, as well as some bank interests in Latin American and Asia. We own stakes in less than 15 banks. We have a joint venture with Hyundai in Korea, which is the best consumer finance company in the country. We own 49% and Hyundai owns 51%.

As for businesses that we will exit, we are looking to largely exit our world-wide mortgage positions, and intend to leave our joint ventures in banks between now and 2012. We are also trying to wind our way out of partnerships with companies to finance and operate fleet

equipment, including Penske, TMP, and GEC Co. We have a plan in place to wind down, sell, or exit red businesses.

**DUNCKER:** Can you talk about GE's funding model?

It's not an area I'm an expert in. However, I think that CP was about the same size through most of the decade until we started to reduce the size in 4Q2008. It is a smaller part of our debt stack than our long-term debt. We've always had a business model we think will make money and it was not until the Reserve Fund broke a dollar that we decided to build a conservative plan.

**DUNCKER:** What happened in Sept 2008 from your perspective?

From a Treasury perspective, I know you've talked to Barber, but things were pretty good for us up through most of 2008. After Lehman and after the Reserve Fund broke the buck, we became more concerned about the ability to issue longer-dated maturities, particularly around CP. It was just a time when everybody was worried about where the economy was going, with a lot of business failures and customers coming under stress. That was when we got into TLGP and CFPF.

**DUNCKER:** Was there an instance where a difficulty in CP forced you to abruptly change your lending strategy?

Not that I'm aware of, but Mark Barber lived it every day and he would now.

**DUNCKER:** How is GE now different than GE 4 years ago?

Today the CP program is much smaller, about \$45 billion. That is supported by about \$60 billion of cash position and \$52 billion of bank lines. From that standpoint, borrowing is pretty good. The rates have come in nicely, we're a stable AA borrower, and on any given day our price of borrowings is just slightly higher than JPMorgan, which is generally where we have been.

**DUNCKER:** Can you tell me about the relationship between GE and GE Capital?

We are a wholly owned subsidiary. Jeff Immelt is my boss. We just happen to be one of the larger GE businesses, and while we do have some synergies we do not have a lot. We finance the products of the healthcare business and the aircrafts leased often have GE engines. The GE business is a relatively small piece of what we do. Think about us as a financial services company and not a captive company. We also support the appliance business through their dealers and distributors.

**DUNCKER:** What do you think caused the financial crisis?

It was a lot of things. We were actually talking about this earlier today. I would point to the massive amount of liquidity in the marketplace, which was finding its way to customers outside

of its normal channels. What happened is that you had more liquidity than I had ever seen, and it was compounded by new sources of capital around the world that were seeking a home in the US because it's still the best place to invest. People may have been aware that there was a bubble in the making, and were somewhat concerned about asset values and very expensive properties.

Then you had this originate to distribute model, which I think was a big change and a big deal. You had a market that changed to the point where people who were originating the business were originating it to sell. This changed the way that people behaved. When an underwriter underwrote an eight year financing for a machine tool, we look at that as an 8 year risk, because the product has to survive 8 years. This is different than someone who has the idea of warehousing the loan for 30-60 days and then throwing it into a structured product funding vehicle.