

**WRITTEN SUBMISSION OF GE CAPITAL  
TO THE FINANCIAL CRISIS INQUIRY COMMISSION**

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Chairman Angelides, Vice-Chairman Thomas, and Members of the Commission, I appreciate the opportunity to appear before you today. My name is Michael Neal. I am the Chairman and CEO of GE Capital and Vice Chairman of General Electric. We at GE and GE Capital hope that our participation on this panel today is helpful as you pursue your important mission of analyzing the causes of the financial crisis.

I grew up in Georgia, graduated from Georgia Tech, and started with GE in 1979 working on the Company's industrial side. I worked in vendor financial services and equipment financing. In 2000, I was named GE Capital's President and Chief Operating Officer. In 2002, I became President and CEO of GE Commercial Finance and President of GE Capital Services. Three years later, I was named a Vice Chairman of GE and Chairman of GE Capital, positions I hold today.

I am proud to lead a company that is focused on lending to Main Street businesses and consumer activity. GE Capital is a leader in equipment lending/leasing, middle market corporate finance, aircraft financing, healthcare financing, franchise financing, fleet leasing, dealer financing, and energy financing. Still, the turmoil in the markets over the past two and a half years has been unlike anything I had seen or experienced during my more than 30 years at GE. Many Americans have lost their savings, their jobs, or their homes, and confidence in our financial system and its institutions has been shaken. Yet, GE Capital has continued to lend to middle-market and small businesses throughout this period, and we will continue to do so. GE Capital remains committed to doing our part to promote economic recovery and renewal and, in

particular, to continuing to focus our efforts on extending credit and offering products to our customers.

GE Capital was able to meet its short and long term funding needs throughout the financial crisis. GE raised more than \$15 billion of capital through an equity offering and managed through the challenges of the past three years without seeking assistance through the Federal Government's TARP Capital Purchase Program. GE Capital did participate in the CPFF and TLGP liquidity programs, however. My colleague Mark Barber will speak to those shortly.

GE Capital believes that it is imperative that steps be taken to prevent similar crises in the future. Leaders in Congress are now hard at work on financial reform, and this Commission is building a historical record to help to understand what failed, what worked, and what could work better. We support these efforts and, in particular, we support reasonable oversight of systemic risks to avoid similar problems in the future.

Today, the Commission has requested that we address several topics, including GE Capital's role as a financial services company and GE Capital's participation in certain programs instituted to address the financial crisis. I will provide you with an overview of GE Capital's organization and history as well as a description of our lending activities throughout the financial crisis. Mark Barber will then provide you with an overview of GE Capital's commercial paper program and describe GE Capital's participation in the CPFF and TLGP programs.

### **Background**

GE Capital Corporation is the principal subsidiary of General Electric Capital Services, which is in turn wholly owned by General Electric Company. Since its founding by Thomas Edison, GE has been an integral part of the U.S. economy. GE is the only company listed in the Dow Jones Industrial Index today that was also included in the original index in 1896.

The origins of what is now GE Capital can be traced back to the early 1930s, when GE founded GE Credit Corporation for the purpose of helping families finance purchases of GE appliances. Since that time, GE Capital has grown significantly in breadth and size, and we are now a global company. Our 57,000 employees serve over 100 million customers through operations in over 55 countries. GE Capital's revenues in 2009 were approximately \$51 billion, and our net income for the year was \$1.7 billion.

### **GE Capital's Lending Portfolio**

GE Capital's lending portfolio focuses on five sectors: consumer financing, commercial lending and leasing, energy financial services, aviation services, and real estate. Our business in this area today supports more than 170,000 small businesses in their daily operations and includes sales finance and private-label card services for retail customers. In 2009, we loaned more than \$74 billion in the retail consumer space to approximately 54 million active customers. Our business relationships include small companies and household names, such as Lowe's, Gap, eBay, JCPenney, Rooms To Go, and Walmart.

The largest portion of GE Capital's lending portfolio, commercial loans and leases, accounts for approximately 34 percent of our total holdings. We entered this business in the 1960s. A majority of GE Capital's commercial customers are medium-sized companies in core industries such as manufacturing, healthcare, and technology equipment, with sales revenues as low as \$50 million per year. GE Capital will continue its focus on providing capital to the middle-market businesses of America that are so critical to our economy and creating well-paying and stable jobs. In 2009, we extended \$72 billion in credit to commercial customers, including approximately \$27 billion to small businesses.

GE Capital is also active in the real estate financing and aviation services sectors and, since the 1980s, we have been in the energy financial services sector. We are the largest financier to U.S. airlines. GE Capital is also proud to note that, as of 2009, we had extended more than \$4 billion in credit for renewable energy projects to fuel the growing Green Economy.

We do not think about GE Capital's operations as "shadow banking."

- GE Capital and its banks are regulated, and we are supervised by the Office of Thrift Supervision as a Savings and Loan Holding Company.
- GE Capital is an SEC registrant and, as such, we separately report our financial statements and related information on a quarterly and annual basis.
- As an issuer in both the long-term debt and commercial paper markets, we transparently provide information to those markets about our pricing and outstandings. The SEC oversees participants in these markets.

Finally, and perhaps most fundamentally, we concentrate on extending straightforward commercial loans and capital to largely middle-market customers. We underwrite those loans to hold, not to sell, and we match fund our debt, a policy that allows us to manage risk associated with the funding for specific assets. We did not and do not originate CDOs or SIVs. We did not and do not sell credit default insurance. We did not and do not trade securities. We did not and do not run a repo book. We use derivatives in what some might call the old-fashioned way – to hedge responsibly against interest rate, exchange rate and other fluctuations in our liabilities. Our business is focused on Main Street, and when small businesses and their customers succeed, GE Capital succeeds.

### **GE Capital's Lending Practices During The Crisis**

GE Capital's record of lending leadership continued through the financial crisis. Since the beginning of 2008, GE Capital has remained a consistent source of capital and liquidity to many U.S. companies and consumers. Our activities since then have included:

- extending \$208 billion of new financing to U.S. companies, infrastructure projects and municipalities;
- extending \$183 billion to U.S. consumers;
- taking on \$13 billion in troubled middle-market assets from Merrill Lynch in the 1<sup>st</sup> Quarter of 2008;
- purchasing \$13 billion of middle-market commercial financing from Citibank in the 3<sup>rd</sup> Quarter of 2008; and
- supporting major U.S. airlines and auto companies with financing as they work through cyclical issues.

It also bears emphasis that GE Capital did not stop lending money in late 2008. We extended \$96 billion of new credit in the fourth quarter of 2008, as compared to about \$120 billion of volume in the previous quarters of 2008. In light of the deepening crisis and growing uncertainty, we were very careful in how we underwrote new requests. But we were every bit as careful to honor our commitments and contractual obligations to our customers.

### **GE Capital's Funding and Risk Management Model**

As Mark will discuss in more detail, the commercial paper market is only one component of GE Capital's funding model. As of the end of the first quarter of 2010, commercial paper accounted for less than 10 percent of our overall debt. Stated differently, GE Capital is not a financial services company that "borrows short" to "lend long." As of December 31, 2009, GE Capital's outstanding commercial paper and long-term debt was \$47 billion and \$453 billion, respectively. Today, GE Capital has approximately \$46 billion outstanding commercial paper debt. Between cash and back-up lines, we now have more than two times liquidity against our outstanding commercial paper.

We have also reduced the leverage of GE Capital from 7.1:1 to 5.5:1. Beyond maintaining conservative practices, we also pay close attention to broader issues of risk management, as any prudent company must. GE Capital has developed a thorough risk

infrastructure. GE Capital's risk management approach rests upon three major tenets: (1) a broad spread of risk based on managed exposure limits; (2) senior, secured commercial financings; (3) and a hold to maturity model with transactions underwritten to "on-book" standards. These risk disciplines helped us navigate through the financial crisis.

### **GE Capital's Plan Going Forward**

At our annual meeting last week, we spoke to GE's shareholders about the financial crisis and the key takeaways for GE. We reiterated that GE is, first and foremost, an industrial company. GE Capital's focus on middle-market commercial lending is consistent with our parent company's focus. We will continue to maintain a straightforward and focused portfolio and to emphasize risk management, capital allocation, and cost. Consistent with this philosophy, before, during and after the crisis, GE Capital has avoided riskier structured finance businesses, reduced its balance sheet and risk, and strengthened capital ratios while enhancing its liquidity. These actions have made us a stronger company that I believe will remain capable of weathering tough economic times and unexpected challenges.

We are planning to increase our lending volume from about \$300 billion in 2009 to about \$380 billion in 2010. The demand for credit and capital slowed dramatically as a result of the recession, but we are optimistic that a rebound in growth will lead to more investment and, correspondingly, increased demand for commercial and consumer loans. We fully appreciate that our middle-market customers are critical to turning around our economy and stand ready to continue working with them in the years ahead.

I hope you will find Mark Barber's discussion of our commercial paper operations helpful, and I welcome your questions.