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FCIC memo of staff interview with Lisa Arquette, Robert Burns, Patricia Colohan, Diane Ellis, Christopher Spoth, John Thomas, FDIC

Christopher Spoth

Diane Ellis

Lisa Arquette

Patricia Colohan

John Thomas

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MEMORANDUM FOR THE RECORD

Event: Interview with FDIC Staff

Type of Event: Group Interview

Date of Event: March 15, 2010

Location: Offices of the FDIC in the 6th floor conference room

Participants - Non-Commission:

- Christopher Spoth
- Diane Ellis
- Lisa Arquette
- Patricia Colohan
- John Thomas
- Robert Burns (by phone)

Participants - Commission:

- Tom Greene
- Tom Krebs
- Jay Lerner
- Bart Dzivi
- Troy Burrus

Date of MFR: March 15, 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 except where clearly indicated as such.

FCIC staff met with the FDIC regarding its contact and discussions with General Electric (GE) during 2008 and 2009. We identified ourselves to them as agents working on behalf of the Financial Crisis Inquiry Commission (FCIC). We asked them if they would be willing to speak with us regarding their dealings with GE. They agreed and provided the following information:

1. The FDIC became involved with GE during the crisis of 2008, after the collapse of Lehman Brothers. The CEO of GE, Jeffrey Immelt, had requested that GE be allowed to participate in two programs (TLGP and CPFF), one of which was being administered by the FDIC. The TLGP or Temporary Liquidity Guarantee Program was being administered by the FDIC. The FDIC had created this program to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and by providing full

coverage of non-interest bearing deposit transaction accounts, regardless of dollar amount. GE was one of the largest issuers of unsecured debt in the form of Commercial Paper (CP), but was not covered by this program. After review and analysis by FDIC staff, as well as discussion between Immelt, then Treasury Secretary Paulson and others, GE Capital Corporation (GECC) was allowed to participate in the TLGP. GE had to guarantee GECC's FDIC guaranteed debt in order for GECC to be allowed to participate in the program.

2. GE through GE Capital Services (GECS) and GECC was experiencing larger than normal yield spreads in their CP despite their AAA rating. Therefore, they were paying a lot more to issue CP than they had in the past. They were also finding it harder to issue longer term CP, since the demand was for very short-term CP (overnight or a few days). Also, SIVs were under a lot of stress during this time. They are not sure how much of GECS CP was held by SIVs. Money Market Funds were withdrawing large sums from the CP market seeking safer investment vehicles at this time. By entering the TLGP, the yield spread was greatly reduced and it was perceived by the market as a safer investment.
3. GECS operates two banks chartered in Utah, GE Capital Financial, Inc. (GECF) and GE Money Bank (GEMB). OTS is the regulator of GEMB; FDIC is the regulator of GECF. In order to be accepted into the TLGP, the FDIC required GECC to undergo a due diligence review. The FDIC along with OTS did an onsite review of GECS. They did a very thorough review looking at the current financial statements and ratings of GECS (they were a high quality company). Once they were allowed into the program, subsequent monitoring was done by the FDIC.
4. The review showed no subprime mortgages on the US books. The UK books had approximately \$25 billion in subprime mortgages. The review revealed GECS had \$30 billion in unsecured credit card loans to various customers, \$220 billion in commercial loans to businesses, and \$85 billion in residential loans to consumers. The review also looked at their loss history, leverage lending and all of their portfolios to determine the overall risk factors. A comparison was done to other institutions in order to complete the overall risk factors. An asset quality assessment and loss rate analysis under a worst case scenario were conducted. The review concluded GECS had a lower than normal leverage ratio in 2008, but later in 2008 and 2009, the ratio increased to be more in line with other institutions (5% of tangible common equity). They had around \$40 billion in direct investments and there was a cash infusion from GE to GECC in the amount of \$8.8 billion. There was no request by the FDIC or OTS for a capital injection. The loan loss reserves at GECC were shorter than FDIC likes to see. GECC had a nine month reserve; the FDIC likes to see a twelve month reserve. The final conclusion was GECC knew

their risk exposure better than many other institutions at an individual exposure level. They had pressure on their ability to fund and the length of time they could fund. Short-term was easy to roll/fund (1-2 week term), but 6 month was not being rolled. The report was done by the FDIC in October of 2009 and given to OTS. OTS should have a copy of the report findings.

5. The rating agencies had put all companies under pressure in 2008. The spreads had increased by 400 – 500 basis points, which meant it was more costly to place CP in the market. GE historically funded itself with unsecured debt in the CP market. In 2008, they had a peak of \$100 billion in CP outstanding. With liquidity concerns in the market, GE was concerned about their funding structure. They had some repurchase agreements on their books, but it was an insignificant amount. FDIC found no abnormal issues at GECC prior to the market crisis in 2008.
6. The FDIC has an embedded team at GECC. They work with OTS and did another review sometime in late 2009. They are not aware of any reports being sent to the US Treasury. Jonathan Doherty at OTS was the liaison with the FDIC.
7. During the review, the FDIC spent time speaking at length with Jeff Bornstein, senior VP and CFO of GECS. They also spent significant time (over a month) looking over documents. GECS is working on a matrix for all of their various types of loans so that they have a grading system for their entire portfolio. The best documents for us to review would be the summary FDIC provided to OTS (between Sep and Dec 2008). Might be interesting to look at the risk and liquidity issues at GECC. Their books had a large amount of broker deposits, had \$100 billion in CP and \$350 billion in medium/long-term notes. They needed to roll about \$15 – 20 billion every six months and \$30 – 40 billion every year. They also have a large source of offshore funding due to their operations abroad.
8. Banks and thrifts were admitted into the TLGP in October of 2008. Because it was an affiliate of an IDI, but was neither a bank holding company nor a thrift holding company that was fully compliant with Section (4)(k) of the Bank Holding Company Act, GECC was eligible to submit a request through OTS, which then gave it to FDIC for the chairperson to approve. GECC along with some others (i.e. Citigroup) were admitted into the program. Not all of the applications submitted were accepted by the FDIC. Conditions were asked for by the FDIC from GECC in order for their acceptance. The major condition was GE had to guarantee the debt. There is a transmittal letter detailing the terms and conditions placed on GECC for acceptance into the program. GECC became eligible for the program in November 2008. The program helped them due to the decrease in spreads and enabled them to ladder out their funding source. They are now

much better off than they were before the crisis started. Cantwell F. Mukenfuss, III is the attorney at Gibson, Dunn and Crutcher, LLP in DC who represents GE.

9. We thanked them for the information provided. We asked them for a copy of the transmittal letter relating to GE. They will get a copy to us. The interview terminated at this point.

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