Basis of the Financial Stability Oversight Council’s
Final Determination Regarding General Electric Capital Corporation, Inc.

Introduction

Pursuant to section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Financial Stability Oversight Council (Council) has made a final determination that material financial distress at General Electric Capital Corporation, Inc. (GECC) could pose a threat to U.S. financial stability and that GECC should be subject to supervision by the Board of Governors of the Federal Reserve System (Board of Governors) and enhanced prudential standards.

In reaching this determination, the Council carefully considered a broad range of information in light of the statutory factors set forth in section 113(a)(2) of the Dodd-Frank Act, both separately and in conjunction with each other. The Council has considered information available through existing public and regulatory sources, as well as information provided by GECC. The Council also consulted with GECC’s primary financial regulatory agency, the Board of Governors.

On June 3, 2013, the Council made a proposed determination under section 113 of the Dodd-Frank Act that material financial distress at GECC could pose a threat to U.S. financial stability and that GECC should be subject to Board of Governors supervision and enhanced prudential standards. The Council provided GECC with an explanation of the basis for the Council’s proposed determination. On June 28, 2013, the Council received a letter from GECC stating that GECC would not request a hearing to contest the proposed determination.

Based on the Council’s evaluation of all the facts of record in light of the factors that the Council is required to consider under section 113 of the Dodd-Frank Act and the Council’s interpretive guidance regarding nonbank financial company determinations (Interpretive Guidance),1 the Council has voted to make a final determination that material financial distress at GECC could pose a threat to U.S. financial stability and that GECC will be supervised by the Board of Governors and subject to enhanced prudential standards.

The Council’s final determination does not constitute a conclusion that GECC is experiencing material financial distress. Rather, consistent with the statutory standard for determinations by the Council under section 113 of the Dodd-Frank Act, the Council has determined that material financial distress at the company, if it were to occur, could pose a threat to U.S. financial stability.

Summary

Because GECC is a significant participant in the global economy and financial markets and is interconnected to financial intermediaries through its financing activities and its funding model, as well as other factors described herein, material financial distress at GECC could cause an

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impairment of financial intermediation or of financial market functioning that would be sufficiently severe to inflict significant damage to the broader economy.

A wholly owned subsidiary of the General Electric Company (GE Company), GECC is a savings and loan holding company (SLHC) and one of the largest holding companies in the United States by assets, with $539 billion in total consolidated assets as of December 31, 2012. GECC is a significant source of credit to the U.S. economy, providing financing to both commercial and consumer customers. In 2012, GECC had outstanding credit to more than 243,000 commercial customers and 201,000 small businesses, as well as credit extended to 57 million consumers in the United States.

GECC is a significant participant in the global economy and financial markets and is interconnected with financial intermediaries through its financing activities and its funding model, as well as through other activities in which GECC engages. These activities include activities in wholesale short-term funding markets, which link GECC to other large financial institutions that are significant financial intermediaries and with the financial markets more broadly. For example, GECC is a significant issuer of commercial paper (CP) in the United States. Large global banks and large nonbank financial companies have significant exposure to GECC, including through the purchase of GECC’s CP and long-term debt and the provision of backup lines of credit to GECC. Money market mutual funds (MMFs) and asset managers are purchasers of CP issued by GECC. Material financial distress at GECC could trigger a run on MMFs more generally and lead to a broader withdrawal of investments from the CP market and other short-term funding markets. Because MMFs and the short-term funding markets serve as important sources of funding for financial firms, a withdrawal of investments from those markets could impair the ability of financial and other firms to fund their operations. In addition to the impairment to the economy that could arise from the failure of GECC, a reduction in funding for several large financial institutions resulting from material financial distress at GECC could impair financial intermediation or financial market functioning, significantly impairing the broader economy.

GECC holds a large portfolio of on-balance sheet assets comparable to those of the largest U.S. bank holding companies (BHCs). If GECC were unable to access funding markets, GECC could either reduce its provision of credit or be forced to sell assets quickly to fund its operations and meet its obligations. If GECC had to rapidly liquidate assets, the impact could drive down asset prices and cause balance sheet losses for other large financial firms on a scale similar to those that could be caused by asset sales by some of the largest U.S. BHCs. The resulting capital losses across financial firms, particularly during a time of general economic distress, could exacerbate the stresses on the financial system and economy by forcing other firms to sell assets and draw on their credit lines to meet liquidity pressures. If GECC were unable to access funding markets, there could be a reduction in credit availability, which could lead to a broader reduction in economic activity.

\[ p. 15 \]

\[ Id at p. 4. \]

\[ Based on data provided by GECC and other large BHCs to the Board of Governors on the Y-9C report as of the fourth quarter 2012. \]
GECC also provides credit to a wide range of middle-market companies that are significant components of the broader economy. Material financial distress at GECC that limits its ability to continue to provide credit to middle-market companies, particularly if it occurred during a period of overall stress in the financial services industry or in a weak economic environment, could have an adverse effect on middle-market borrowers.

According to 2012 financial disclosures, 52 percent of GECC’s assets were based, and 43 percent of its revenues were generated, outside of the United States. The challenges associated with a rapid resolution of a company of GECC’s size, complexity and international operations could exacerbate the other factors described herein and thus increase the risk that the company’s material financial stress could pose a threat to the financial stability of the United States.

The Council has considered potential mitigants that could reduce the potential for material financial distress at GECC to be transmitted to other financial firms and markets, including diversification of GECC’s funding sources, signified in part by a reduction in CP issuance since 2008, and an improved capital position and liquidity base. The Council also considered the potential support that GECC’s parent could provide GECC in the future, depending on GE Company’s financial condition at such time. While these and other mitigants may reduce the extent to which material financial distress at GECC may be likely to occur, they do not appear to significantly reduce the potential that material financial distress at GECC, if it did occur, could be transmitted to other companies and markets to a sufficient degree that it could pose a threat to U.S. financial stability.

Based on the Council’s evaluation of all the facts of record in light of the statutory factors that it is required to consider under the Dodd-Frank Act, the Council has concluded that material financial distress at GECC could cause an impairment of financial intermediation or of financial market functioning that would be sufficiently severe to inflict significant damage on the broader economy. Therefore, the Council has made a final determination that material financial distress at GECC could pose a threat to U.S. financial stability and that GECC should be subject to Board of Governors supervision and enhanced prudential standards.

**Determination that GECC is Predominantly Engaged in Financial Activities**

The Council is authorized to determine that a “nonbank financial company” will be subject to supervision by the Board of Governors and enhanced prudential standards. A company is a nonbank financial company, and thus eligible for a determination by the Council, if it is predominantly engaged in financial activities, subject to certain exceptions. For purposes of Title I of the Dodd-Frank Act, a company is “predominantly engaged in financial activities” if at least 85 percent of the company’s and its subsidiaries’ annual gross revenues are derived from, or at least 85 percent of the company’s and its subsidiaries’ consolidated assets are related to, “activities that are financial in nature” as defined in section 4(k) of the Bank Holding Company

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Act (BHC Act).\textsuperscript{8} GECC is a nonbank financial company and thus is eligible for a final determination by the Council.

Based on GECC’s income statement for year-end 2012, more than 85 percent of GECC’s revenues are derived from activities that are financial in nature. In addition, based on GECC’s consolidated balance sheet as of year-end 2012, more than 85 percent of GECC’s assets are related to activities that are financial in nature. These activities include insurance, lending, underwriting and dealing, investing and trading activities, and merchant banking activities.

The Statutory Standard and the Legal Framework for a Final Determination

Under section 113 of the Dodd-Frank Act, the Council may determine that a nonbank financial company will be supervised by the Board of Governors and be subject to prudential standards if the Council determines that (1) material financial distress at the nonbank financial company could pose a threat to the financial stability of the United States (the First Determination Standard) or (2) the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the nonbank financial company could pose a threat to the financial stability of the United States (the Second Determination Standard).

The Council may subject a nonbank financial company to Board of Governors supervision and prudential standards if either the First or Second Determination Standard is met. The Council evaluated GECC under the First Determination Standard.

In considering whether to make a determination that a nonbank financial company shall be supervised by the Board of Governors and be subject to enhanced prudential standards, section 113 of the Dodd-Frank Act requires the Council to consider the following 10 statutory considerations:\textsuperscript{9}

1. the extent of the leverage of the company;
2. the extent and nature of the off-balance-sheet exposures of the company;
3. the extent and nature of the transactions and relationships of the company with other significant nonbank financial companies and significant bank holding companies;
4. the importance of the company as a source of credit for households, businesses, and State and local governments and as a source of liquidity for the United States financial system;
5. the importance of the company as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities;
6. the extent to which assets are managed rather than owned by the company, and the

\textsuperscript{8} Dodd-Frank Act section 102(a)(6), 12 U.S.C. § 5311(a)(6). The Board of Governors’ Regulation PP describes activities that are financial in nature as defined in section 4(k) of the BHC Act and establishes the requirements for determining if a company is predominantly engaged in financial activities for purposes of Title I of the Dodd-Frank Act. \textit{See} 78 Fed. Reg. 20756 (April 5, 2013) (to be codified at 12 C.F.R. part 242).

\textsuperscript{9} The Council may also consider any other risk-related factors that it deems appropriate.
extent to which ownership of assets under management is diffuse;
7. the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the company;
8. the degree to which the company is already regulated by 1 or more primary financial regulatory agencies;
9. the amount and nature of the financial assets of the company; and
10. the amount and types of the liabilities of the company, including the degree of reliance on short-term funding.\(^{10}\)

In considering whether material financial distress at GECC could pose a threat to U.S. financial stability, the Council considered each of the statutory considerations in section 113 of the Dodd-Frank Act, including the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of GECC. While the Council considered GECC’s activities in evaluating GECC under the First Determination Standard, the Council did not consider whether the nature, scope, size, scale, concentration, interconnectedness, or mix of GECC’s activities, absent material financial distress at GECC, could pose a threat to U.S. financial stability.

As noted in the Council’s Interpretive Guidance, the Council will consider a “threat to the financial stability of the United States” to exist “if there would be an impairment of financial intermediation or of financial market functioning that would be sufficiently severe to inflict significant damage on the broader economy.” The Interpretive Guidance also states that “material financial distress” exists “when a nonbank financial company is in imminent danger of insolvency or defaulting on its financial obligations.”

In addition, the Interpretive Guidance states that for purposes of considering whether material financial distress at a nonbank financial company could pose a threat to U.S. financial stability, the Council intends to assess the impact of the company’s material financial distress “in the context of a period of overall stress in the financial services industry and in a weak macroeconomic environment.”

**Analysis of Potential Effects of Material Financial Distress at GECC**

**Consideration of Transmission Channels**

Consistent with the Dodd-Frank Act and the Interpretive Guidance, the Council evaluated the extent to which material financial distress at GECC could be transmitted to other financial firms and markets and thereby pose a threat to U.S. financial stability through the following three transmission channels: (1) the exposures of creditors, counterparties, investors, and other market participants to GECC; (2) the liquidation of assets by GECC, which could trigger a fall in asset prices and thereby could significantly disrupt trading or funding in key markets or cause significant losses or funding problems for other firms with similar holdings; and (3) the inability or unwillingness of GECC to provide a critical function or service relied upon by market participants and for which there are no ready substitutes. In evaluating whether material financial distress at GECC could be transmitted to other firms and markets through the

\(^{10}\) See Dodd-Frank Act section 113(a)(2), 12 U.S.C. § 5323(a)(2).
transmission channels to a degree that could cause a broader impairment of financial intermediation or of financial market functioning, the Council has considered the statutory factors set forth in section 113 of the Dodd-Frank Act.

**Exposure Channel**

*A nonbank financial company’s creditors, counterparties, investors, or other market participants have exposure to the nonbank financial company that is significant enough to materially impair those creditors, counterparties, investors, or other market participants and thereby pose a threat to U.S. financial stability.*

In evaluating the potential threat that material financial distress at GECC could pose to U.S. financial stability through the exposure channel, the Council has considered the exposures of GECC’s creditors, counterparties, investors, and other market participants to GECC. GECC is highly dependent on wholesale funding, including through its use of wholesale short-term funding, particularly CP, and use of long-term debt and securitization debt, which exposes other large financial institutions to GECC. GECC also has off-balance-sheet exposures to other large financial institutions through its derivatives activities and maintenance of credit lines with other large financial institutions. In addition, there is approximately $77 billion in gross notional credit default swaps outstanding for which GECC is the reference entity.

The on- and off-balance sheet exposures of large financial institutions to GECC expose those companies to material financial distress at GECC, which could serve as a mechanism by which material financial distress at GECC could be transmitted to those firms and to financial markets more broadly. For example, if GECC were to experience material financial distress and default on its obligations, its default could cause losses to large financial institutions with exposure to GECC, which could impair the ability of those firms, as well as GECC, to serve as financial intermediaries. In addition to the impairment from material financial distress at GECC, simultaneous losses to several large financial intermediaries could impair financial intermediation or financial market functioning that could be sufficiently severe to significantly impair the broader economy. The aggregate exposures of large financial institutions to GECC could lead to contagion effects and serve as a mechanism by which material financial distress at GECC could be transmitted to financial markets more broadly.

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The Council considered GECC’s indirect interconnections to other large financial institutions in evaluating the potential for material financial distress at GECC to pose a threat to U.S. financial stability. In the event of material financial distress at GECC, particularly during times of economic stress, investors might assume that other large financial institutions have exposure to GECC. This could cause a loss of investor confidence in those institutions and lead investors and counterparties to reduce their exposure to those institutions generally. It may also result in an increase in the cost of credit or a decrease in credit availability. A simultaneous reduction in credit or a significant sale of assets by several large financial institutions could impair financial intermediation or financial market functioning. Any of these effects could significantly impair the broader economy.

The Council has considered the exposure of MMFs, a significant source of funding for the financial system, to GECC in evaluating the potential for material financial distress at GECC to pose a threat to U.S. financial stability. Significant purchasers of GECC’s CP include MMFs and asset managers. If GECC were to experience material financial distress, numerous MMFs could be at risk of “breaking the buck,” which could lead to a run on MMFs and a broader withdrawal of investments from the CP market and other short-term funding markets generally. This would affect pension funds, municipalities, consumers, and others that rely on the liquidity of MMFs and pose substantial risks to the broader economy. Moreover, because large, global banks fund themselves in part through short-term funding markets, a withdrawal of funding from those markets could impair those firms’ ability to serve as financial intermediaries, thereby transmitting financial distress to other firms and financial markets more broadly. Material financial distress at GECC could pose a threat to U.S. financial stability even if the purchasers of GECC’s CP were not MMFs. Investors in CP markets may quickly withdraw their investments from the CP market and other short-term funding markets if a large CP issuer, such as GECC, were to fail to meet its CP obligations.

**Asset Liquidation Channel**

A nonbank financial company holds assets that, if liquidated quickly, would cause a fall in asset prices and thereby significantly disrupt trading or funding in key markets or cause significant losses or funding problems for other firms with similar holdings.

In evaluating the potential threat that material financial distress at GECC could pose to U.S. financial stability through the asset liquidation channel, the Council has considered the extent to which GECC holds financial assets that, if liquidated quickly, could significantly disrupt financial markets or the broader economy.  

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The Council has considered the potential effects on other large financial firms of GECC’s asset fire sales based on the size, leverage, asset composition, and the liquidity of GECC’s assets. As of the fourth quarter of 2012, GECC had $539 billion in total consolidated assets, the majority of which are owned by GECC.\textsuperscript{14} GECC owns diverse assets, including equity and debt investments that it could sell if it were to experience material financial distress. GECC also securitizes financial assets and arranges other forms of asset-backed financing as a source of funding for the commercial and consumer assets that it originates.\textsuperscript{15} GECC holds a large portfolio of assets comparable to those of the largest U.S. BHCs. If GECC were to experience material financial distress and could no longer access the wholesale funding markets, GECC could be forced to sell assets quickly to fund its operations and meet its obligations. A rapid liquidation of GECC’s assets could depress the value of similar assets held broadly in the economy, including by other large financial firms. The result could lead those companies and other owners of these assets to sell assets at fire-sale prices and become subject to financial distress themselves. This could result in reduced credit availability, potentially constraining economic growth more broadly. Furthermore, GECC’s significant reliance on wholesale funding renders its operations vulnerable to distress in the wholesale funding markets, which could result in a reduction in credit GECC provides or in GECC having to sell assets.

\textit{Critical Function or Service Channel}

\textit{A nonbank financial company is no longer able or willing to provide a critical function or service that is relied upon by market participants and for which there are no ready substitutes.}

In evaluating the potential threat that material financial distress at GECC could pose to U.S. financial stability through the critical function or service channel, the Council has considered the extent to which GECC provides a critical function or service that is relied upon by market participants and for which there are no ready substitutes, the Council has considered public and regulatory data and information provided by GECC.\textsuperscript{16}

As discussed above, GECC is a significant source of credit to the U.S. economy, providing financing to both commercial and consumer customers. GECC is an important participant in the areas of (1) middle market commercial lending and leasing, (2) consumer revolving credit, and (3) aviation financing. GECC operates in competitive markets where existing substitutes likely could replace GECC’s capacity under normal economic conditions given sufficient time and

\textsuperscript{14} It does not appear that GECC engages in third-party asset management activities.
\textsuperscript{15} As of December 31, 2012, GECC had $30 billion of securitizations outstanding (consolidated non-recourse borrowings), representing approximately 8 percent of its overall funding. GECC Annual Report on Form 10-K for the year ended December 31, 2012, p. 90.
\textsuperscript{16} The Council has considered the importance of GECC as a source of credit for households, businesses, and State and local governments and as a source of liquidity for the United States financial system (Dodd-Frank Act section 113(a)(2)(D), 12 U.S.C. § 5323(a)(2)(D)); the importance of GECC as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities (Dodd-Frank Act section 113(a)(2)(E), 12 U.S.C. § 5323(a)(2)(E)); and the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of GECC (Dodd-Frank Act section 113(a)(2)(G), 12 U.S.C. § 5323(a)(2)(G)).
resources. However, given the breadth of GECC’s role in providing credit, it is less certain that competitors could, in a more adverse economic environment, quickly replace GECC’s market share in some of the submarkets in which GECC is a key credit provider. Based on all the facts of record, the Council has determined that material financial distress at GECC that limited its ability to continue to provide credit in these markets, particularly during a period of financial distress, could have an adverse effect on borrowers in those markets.

However, GECC does not appear to be an important source of credit for low-income, minority, or underserved communities. Therefore, it is unlikely that material financial distress at GECC would have a significant impact on the availability of credit in those communities.

Existing Supervision and Regulation

In considering whether to make a final determination that GECC could pose a threat to U.S. financial stability and should be subject to Board of Governors supervision and enhanced prudential standards, the Council has considered the degree to which GECC is already regulated by one or more primary financial regulatory agencies, as required by section 113 of the Dodd-Frank Act.17

GECC is subject to consolidated supervision by the Board of Governors as a grandfathered unitary SLHC that is permitted to engage in commercial activities. The Board of Governors became the appropriate federal banking agency for GECC on July 21, 2011, when authority over SLHCs was transferred to the Board of Governors from the Office of Thrift Supervision.

The Board of Governors has asserted its intention, to the greatest extent possible taking into account any unique characteristics of SLHCs and the requirements of the Home Owners’ Loan Act, to assess the condition, performance, and activities of SLHCs on a consolidated risk-based basis in a manner that is consistent with the Board of Governors’ established risk-based approach regarding BHC supervision. Absent a determination by the Council regarding GECC, however, GECC would not be subject to the enhanced prudential standards required under sections 165 and 166 of the Dodd-Frank Act because these standards do not apply to SLHCs unless the Board of Governors separately applies these requirements to SLHCs. Furthermore, it is possible that in the future, certain companies may no longer be subject to the Board of Governors’ authority if they successfully deregister as SLHCs. For example, if GECC were to deregister as an SLHC, even though its subsidiaries would remain subject to other regulatory regimes, the Board of Governors would no longer act as its consolidated supervisor.

A final determination by the Council under section 113 of the Dodd-Frank Act will allow the Board of Governors to apply a number of new requirements to GECC. These include enhanced prudential standards required by sections 165 and 166 of the Dodd-Frank Act, which, among other things, will require the company to: (1) meet enhanced liquidity and capital standards; (2) undergo and report periodic stress tests; (3) adopt enhanced risk-management processes; (4) submit a resolution plan providing for its rapid and orderly resolution in the event of its material financial distress or failure; and (5) provide for the early remediation of financial

distress at the company. The enhanced prudential standards required by section 165 of the Dodd-Frank Act are in addition to the authority that the Board of Governors now has to supervise and regulate SLHCs under the Home Owners’ Loan Act and are for the purpose of “prevent[ing] or mitigat[ing] risks to the financial stability of the United States that could arise from the material financial distress, failure, or ongoing activities of large, interconnected financial institutions.” In addition, the Board of Governors would have additional authorities with respect to the review of any proposals by GECC to expand its size or scope.

GECC’s U.S. depository institution subsidiaries are federally regulated. The Federal Deposit Insurance Corporation (FDIC) regulates GE Capital Bank (GECB), and the Office of the Comptroller of the Currency (OCC) regulates GE Capital Retail Bank (GECRB). GECC has a substantial number of prudentially regulated foreign subsidiaries primarily engaged in financial activities. GECC’s non-U.S. operations are subject to regulation in their respective jurisdictions.

In the United States, GECC’s lending activities are subject to a variety of federal and state regulations including, at the federal level, the Consumer Credit Protection Act, the Equal Credit Opportunity Act, the Truth in Lending Act, and certain regulations issued by the Federal Trade Commission. Its insurance activities in the United States are regulated by various state insurance commissioners, and its insurance activities abroad are regulated by non-U.S. regulatory authorities.

**Resolvability**

In considering whether to make a final determination that material financial distress at GECC could pose a threat to U.S. financial stability and that the company should be subject to Board of Governors supervision and enhanced prudential standards, the Council has considered whether the threat that material financial distress at GECC could pose to U.S. financial stability could be mitigated or aggravated by its complexity, the opacity of its operations, or its difficulty to resolve, consistent with the Interpretive Guidance. The Council has evaluated GECC’s resolvability in light of all the facts of record. “Resolvability” refers to the ease or difficulty of successfully separating and liquidating, or otherwise disposing of, the company if it should fail.

GECC is a complex and interconnected organization with many legal entities and operations in numerous states and countries, presenting challenges to a rapid and orderly resolution. These interstate and cross-border complexities, given the absence of a global resolution framework, increase the risk that material financial distress at GECC, if it were to occur, could pose a threat to the financial stability of the United States and significantly decrease the likelihood of preserving its franchise value in a recovery or resolution scenario.

A number of other factors could further complicate a resolution, including intercompany funding and shared service arrangements. Based on all the facts of record, including information provided by GECC, the Council has determined that GECC’s resolvability could aggravate the potential for GECC’s material financial distress to pose a threat to U.S. financial stability.
As noted above, a Council determination regarding GECC under section 113 of the Dodd-Frank Act will allow the Board of Governors to apply a number of new requirements to GECC, including a requirement that GECC submit a resolution plan providing for its rapid and orderly resolution in the event of its material financial distress or failure. While a company’s resolution can be complicated by its complexity, the opacity of its operations, or other exacerbating factors, the Council believes that no firm should be protected from its own failure, and these statutory tools enable regulators to facilitate the orderly liquidation of a company.

Evaluation of Statutory Considerations

The following discussion describes and summarizes the Council’s consideration of each of the statutory considerations in evaluating whether material financial distress at GECC could be transmitted through one or more of the transmission channels to other financial firms and markets to such a degree that there would be an impairment of financial intermediation or of financial market functioning sufficiently severe to inflict significant damage on the broader economy.

The Council has considered the extent of the leverage of a nonbank financial company. GECC’s relatively low leverage ratio of total consolidated assets to total equity and its capital position could serve as mitigants to the potential transmission of material financial distress at GECC to other firms and markets via the exposure channel. While GECC’s efforts to strengthen its capital position could reduce the extent to which the negative effects of material financial distress at GECC could be transmitted to other firms and markets, GECC’s strengthened capital position does not appear to be sufficient to eliminate the potential that material financial distress at GECC could be transmitted to other companies and markets. In addition, in evaluating the potential for material financial distress at GECC to be transmitted to financial firms and markets via the asset liquidation channel, the Council considered the potential effects on other large financial firms of GECC’s asset fire sales based on the size, leverage, asset composition, and the liquidity of GECC’s assets. GECC is not as leveraged as some other large financial companies, which could, all things equal, reduce the amount of assets that GECC may be required to sell at fire sale prices. However, because GECC holds assets similar to those of large banks, the fire sale of those assets could impose losses on those banks.

The Council also has considered the extent and nature of GECC’s off-balance-sheet exposures. The Council has considered the extent to which GECC has on-balance-sheet exposures (CP, unsecured long-term debt, and securitization debt) and off-balance-sheet exposures (derivatives and credit lines) to other large financial institutions and the significance of those institutions in financial markets. The on- and off-balance sheet exposures of other large financial institutions to GECC expose those financial institutions to material financial distress at GECC, if it should occur.

The Council has considered the extent and nature of the transactions and relationships of GECC with other significant nonbank financial companies and significant bank holding
companies. GECC engages in various transactions with other large financial institutions, including derivatives transactions. GECC maintained committed lines of credit of approximately $50 billion with numerous large financial institutions as a source of liquidity. The Council has considered the holdings of GECC’s outstanding CP and long-term debt by other significant nonbank financial companies and significant bank holding companies and the role of those companies in financial markets. The exposures of large financial institutions to GECC could serve as a mechanism by which material financial distress at GECC could be transmitted to those firms and to financial markets more broadly.

The Council also has considered the importance of GECC as a source of credit for households, businesses, and State and local governments and as a source of liquidity for the United States financial system. GECC provides credit to households, businesses, and state and local governments primarily through its commercial and consumer lending activities. In particular, GECC participates in (1) middle market commercial lending and leasing, (2) consumer revolving credit and (3) aviation financing. Based on the facts of record, GECC does not appear to be a provider of significant trading liquidity to the U.S. financial system.

The Council has considered the importance of GECC as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities. The Council has considered the extent to which GECC provides some credit to low-income, minority and underserved community market segments, including through its subsidiary depository institutions. GECRB and GECB are subject to the Community Reinvestment Act (CRA). Both of these institutions meet their CRA obligations by engaging in community development activities. However, based on the facts of record, GECC does not appear to be an important source of credit for low-income, minority, or underserved communities; therefore, it is unlikely that material financial distress at GECC would have a significant impact on the availability of credit in those communities.

The Council has considered the extent to which GECC’s assets are managed rather than owned by the company and its subsidiaries, and the extent to which ownership of assets under management is diffuse. The relevance of this consideration to GECC is limited because it does not appear that GECC engages in third-party asset management. As of the fourth quarter of 2012, GECC had $539 billion in total consolidated assets, the majority of which are owned by GECC.

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18 The Dodd-Frank Act directs the Board of Governors to adopt a rule to define “significant nonbank financial company” and “significant bank holding company.” Dodd-Frank Act section 102(a)(7), 12 U.S.C. § 5311(a)(7). On April 3, 2013, the Board of Governors approved a final rule defining these terms (78 Fed. Reg. 20756 (April 5, 2013), to be codified at 12 C.F.R. part 242). The rule defines a “significant nonbank financial company” as (1) any nonbank financial company supervised by the Board of Governors; and (2) any other nonbank financial company that had $50 billion or more in total consolidated assets as of the end of its most recently completed fiscal year. The rule defines a “significant bank holding company” as “any bank holding company or company that is, or is treated in the United States as, a bank holding company, that had $50 billion or more in total consolidated assets as of the end of the most recently completed calendar year.”

The Council has considered the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of GECC. GECC’s funding model, including its reliance on wholesale, short-term funding, could transmit material financial distress at GECC to the broader economy. For example, GECC has approximately $43 billion of CP outstanding.\(^{20}\) Material financial distress at GECC also could lead investors to conclude that other CP issuers were also in distress, leading them to decrease CP investments generally, which could impair financial market functioning and financial intermediation. Additionally, the Council has considered the extent to which other financial firms and markets are interconnected with GECC, including through the purchase of GECC’s CP and long-term debt and the provision of backup lines of credit to GECC. The interconnections between GECC and other financial firms, including large global banks, large nonbank financial companies, and MMFs, expose those banks and financial companies to material financial distress at GECC, which could serve as a mechanism by which material financial distress at GECC could be transmitted to those firms and to financial markets more broadly.

The Council has considered the degree to which GECC is already regulated by one or more primary financial regulatory agencies. As discussed above, GECC is subject to consolidated supervision by the Board of Governors as a grandfathered unitary SLHC that is permitted to engage in commercial activities. GECC’s U.S. depository institution subsidiaries are federally regulated. The FDIC regulates GECB, and the OCC regulates GECRB. In addition, GECC has certain prudentially regulated foreign subsidiaries primarily engaged in financial activities. GECC’s non-U.S. operations also are subject to regulation in their respective jurisdictions. Its insurance activities in the United States are regulated by various state insurance authorities, and its insurance activities outside the United States are regulated by non-U.S. regulatory authorities.

The Council also has considered the amount and nature of the financial assets of the company. GECC owns diverse assets, including equity and debt investments that it could sell if it were to experience material financial distress. GECC also securitizes financial assets and arranges other forms of asset-backed financing as a source of funding for the commercial and consumer assets that it originates. As of December 31, 2012, GECC had $30 billion of securitizations outstanding (consolidated non-recourse borrowings), representing approximately 8 percent of its overall funding.\(^{21}\) A potential collapse of securitization markets could affect GECC’s ability to use this funding source.

The Council has considered the amount and types of GECC’s liabilities, including the degree of GECC’s reliance on short-term funding. GECC’s total liabilities as of December 31, 2012, totaled $457 billion, and are largely composed of the following:

- $43 billion of commercial paper;
- $9 billion of other short-term borrowings;
- $44 billion of current portion of long-term debt;
- $225 billion of long-term unsecured debt;

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\(^{21}\) Id.
• $30 billion of non-recourse asset-backed securities and collateralized borrowings; and
• $46 billion of worldwide deposits.22

The Council has considered the extent to which GECC is interconnected with large BHCs and nonbank financial companies through its reliance on wholesale funding, including its CP and its unsecured long-term debt. In addition, large banks have exposure to GECC through the provision of backup lines of credit to GECC. In addition, the Council has considered the exposure of MMFs to GECC through the purchase of GECC’s CP. A default by GECC on its debt could cause certain funds to “break the buck” (depending on their holdings at the time) and trigger a run on MMFs. This could lead investors to decrease investments in CP and other short-term funding markets generally, which could impair the provision of credit by other financial institutions that obtain funding in those markets, as well as financial market functioning and financial intermediation more broadly.

Conclusion

The Council has made a final determination that material financial distress at GECC could pose a threat to the financial stability of the United States and that GECC should be supervised by the Board of Governors and be subject to enhanced prudential standards.

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