How a Loophole Benefits GE in Bank Rescue

By Jeff Gerth and Brady Dennis, June 29, 2009

General Electric, the world's largest industrial company, has quietly become the biggest beneficiary of one of the government's key rescue programs for banks.

At the same time, GE has avoided many of the restrictions facing other financial giants getting help from the government.

The company did not initially qualify for the program, under which the government sought to unfreeze credit markets by guaranteeing debt sold by banking firms. But regulators soon loosened the eligibility requirements, in part because of behind-the-scenes appeals from GE.

As a result, GE has joined major banks collectively saving billions of dollars by raising money for their operations at lower interest rates. Public records show that GE Capital, the company's massive financing arm, has issued nearly a quarter of the $340 billion in debt backed by the program, which is known as the Temporary Liquidity Guarantee Program, or TLGP. The government's actions have been "powerful and helpful" to the company, GE chief executive Jeffrey Immelt acknowledged in December.

GE's finance arm is not classified as a bank. Rather, it worked its way into the rescue program by owning two relatively small Utah banking institutions, illustrating how the loopholes in the U.S. regulatory system are manifest in the government's historic intervention in the financial crisis.

The Obama administration now wants to close such loopholes as it works to overhaul the financial system. The plan would reaffirm and strengthen the wall between banking and commerce, forcing companies like GE to essentially choose one or the other.

"We'd like to regulate companies according to what they do, rather than what they call themselves or how they charter themselves," said Andrew Williams, a Treasury spokesman.

GE's ability to live in the best of both worlds -- capitalizing on the federal safety net while avoiding more rigorous regulation -- existed well before last year's crisis, because of its unusual corporate structure.

Banking companies are regulated by the Federal Reserve and not allowed to engage in commerce, but federal law has allowed a small number of commercial companies to engage in banking under the lighter hand of the Office of Thrift Supervision. GE falls in the latter group because of its ownership of a Utah savings and loan.

Unlike other major lenders participating in the debt guarantee program, including Bank of America, Citigroup and J.P. Morgan Chase, GE has never been subject to the Fed's stress tests

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or its rules for limiting risk. Also unlike firms that have received bailout money in the Troubled Assets Relief Program, or TARP, GE is not subject to restrictions such as limits on executive compensation.

The debt guarantee program that GE joined is administered by the Federal Deposit Insurance Corp., which was reluctant to take on the new mission, according to current and former officials who were not authorized to speak publicly. The FDIC also initially resisted expanding the pool of eligible companies, fearing it would add more risk to the program, the officials said.

Despite those misgivings, there have been no defaults in the loan guarantee program. It has helped buoy confidence in the credit markets and enabled vital financial firms to raise cash even during the darkest days of the economic crisis. In addition, the program has raised more than $8 billion in fees.

"The TGLP program has been a moneymaker for us," FDIC chairman Sheila C. Bair has said. "So I think there have been some benefits to the government and the FDIC."

For its part, GE said that it properly applied for and qualified for the program. "We were accepted on the merits of our application," company spokesman Russell Wilkerson said.

The current good fortune of General Electric, ranked by Forbes as the world's largest company, has roots in the Great Depression, when it created a consumer finance arm so that cash-starved families could buy its appliances.

What grew from those beginnings is now a powerful engine of profit, accounting for nearly half of its parent's net earnings in the past five years. GE may be better known for light bulbs and home appliances, but GE Capital is one of the world's largest and most diverse financial operations, lending money for commercial real estate, aircraft leasing and credit cards for stores such as Wal-Mart. If GE Capital were classified as a banking company, it would be the nation's seventh largest.

Unlike the banking giants, GE Capital is part of an industrial company. That allows GE to offer attractive financing to those who buy its products.

At the height of last fall's financial crisis, GE's cash cow became a potential liability. As credit markets froze, analysts feared that GE Capital was vulnerable to losing access to cheap funding -- largely commercial paper, or short-term corporate IOUs sold to large investors.

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