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Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street S.W., Suite 3E-218
Mail Stop 9W-11
Washington, D.C. 20219
Docket ID OCC-2013-0016

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington D.C. 20429
Attention: Comments/Legal ESS
RIN 3064-AE04

Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551
Docket No. R-1466

Re: *Liquidity Coverage Ratio: Proposed amendment to outflow rates for non-deposit retail funding*

Ladies and Gentlemen:

General Electric Capital Corporation ("*GE Capital*")[1], by letter dated January 31, 2014 (the "*Initial Letter*"), commented on the notice of proposed rulemaking (the "*NPR*") issued by the

[1] GE Capital is a wholly-owned subsidiary of the General Electric Company ("*GE*"), a diversified holding company that employs over 300,000 people and operates in more than 100 countries worldwide. GE's businesses include energy, aviation, healthcare, transportation and financial services. GE Capital provides a broad range of financial services for consumers and businesses of all sizes, with a focus on providing commercial loans and leases to the middle market and to businesses operating in the same industries as GE's industrial businesses.

GE Capital is a grandfathered unitary savings and loan holding company ("*SLHC*") and was historically supervised by the Office of Thrift Supervision. Since July 2011, GE Capital has

Office of the Comptroller of the Currency, the Federal Reserve and the Federal Deposit Insurance Corporation (the "*FDIC*" and, collectively, the "*Agencies*") to implement a quantitative liquidity requirement (the "*U.S. LCR*") based on the international liquidity coverage ratio framework (the "*Basel LCR*") published by the Basel Committee on Banking Supervision (the "*Basel Committee*").[2]

We appreciate the Agencies' on-going dialogue concerning the NPR with financial institutions that will be subject to the U.S. LCR, including GE Capital. We are proposing in this supplemental letter an amendment to the NPR's treatment of non-deposit retail funding based on the stability of certain senior unsecured floating rate debt products that GE Capital has issued that fall into this category — namely, the notes issued to retail customers and counterparties under the GE Interest Plus ("*GEIP*") program described below.[3] In the 2008-2009 financial crisis, actual outflow rates experienced by GE Capital on these notes were substantially lower than the 100% outflow rate assigned to all such funding by Section 32(a)(3) of the U.S. LCR. Establishing conservative but reasonable outflow rates for non-deposit retail funding may be a higher priority for GE Capital as a nonbank SIFI than for insured banks and other depository institutions because of our more limited access to normal bank funding sources, including retail deposits (as discussed in the Initial Letter).

The Initial Letter addressed our core concerns with the proposed implementation of the U.S. LCR, particularly with respect to its effects on non-depository institutions other than bank holding companies ("*BHCs*").[4] Among such effects, the Initial Letter noted that the proposed application of a 100% outflow rate as of the first day of the 30-day calculation period for non-

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been supervised by the Board of Governors of the Federal Reserve System (the "*Federal Reserve*"). GE Capital is also a nonbank financial company designated for supervision by the Federal Reserve (a "*nonbank SIFI*") under Section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act*"). As GE Capital is internationally active and does not have substantial insurance activities, it will be subject to the U.S. LCR (as defined below) as proposed.

2 Agencies, *Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring; Proposed Rule*, 78 F.R. 71818 (Nov. 29, 2013) (U.S. LCR); Basel Committee, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (Jan. 2013) (Basel LCR).

3 We understand that similar variable denomination floating rate demand notes are issued by other securities issuers, including Ally Financial Inc., Duke Energy Corporation, Ford Motor Credit Company LLC, and Caterpillar Financial Services Corporation.

4 In this letter, for simplicity, we use the term "*non-BHC company*" to refer to an entity subject to the U.S. LCR that is neither a BHC nor a depository institution. Capitalized terms not defined here have the same meaning as in the Initial Letter.

deposit retail instruments without a specified term would be unduly stringent.[5] The combined assumptions of an improbably high and improbably fast runoff could greatly reduce the utility of non-deposit retail funding sources that do not have a term associated with them but that are in fact quite stable, such as the floating rate demand notes described in this letter, as an available funding source for covered companies. Such non-deposit retail funding, however, may provide a valuable and stable way for non-BHCs to diversify their funding and we therefore respectfully suggested in the Initial Letter that the Agencies revisit the timing aspects of the runoff assumptions for non-deposit retail funding and undertake an empirical evaluation of the stability characteristics (including withdrawal behavior) of the instruments in question or provide for an assumed straight-line runoff over the 30-day period.[6]

GE Capital's particular experience with outflow rates of non-deposit funding provided by retail investors in the 2008-2009 financial crisis supports imposing outflow rates above the 10% assigned to other retail deposits (including deposits that are uninsured and transactional) but significantly below the 100% that would be applied to all other non-deposit funding from a retail customer or counterparty. Based on our experience with GE Capital's floating rate variable denomination demand notes marketed as GE Interest Plus, it would be more appropriate to apply outflow rates of 20% for non-deposit retail funding in transactional accounts up to $200,000 from a retail customer or counterparty and 40% for non-deposit retail funding in transactional accounts greater than $200,000 but up to $500,000 from a retail customer or counterparty, as outlined further below.

The GEIP program provided approximately $9 billion in funding to GE Capital as of June 4, 2014.[7] The GEIP notes are senior unsecured floating rate debt of GE Capital on which interest accrues daily. Retail customers and counterparties who open an investment account with GE

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5 NPR § _.30(b) (providing that the total net cash flow amount for the LCR calculation always includes the full sum of outflow amounts for certain instruments having no contractual maturity date, even for the first day of the 30-day calculation period) and § _.32(a)(3) (providing for a 100% outflow rate for all retail funding except stable retail deposits and other retail deposits).

6 *See* Item 7 in the Initial Letter.

7 Because notes under the GEIP program are broadly available to retail customers and counterparties who open an investment account with GE Capital, without securities law-based private placement restrictions, and because the notes are not deposits and therefore are securities for purposes of the Federal securities laws, the offer and sale of notes is registered under the Securities Act of 1933. The GEIP notes are only offered to retail customers and counterparties who have an address in the United States, and are offered on a continuing basis. The notes are in certificateless form, evidenced by the records maintained by GE Capital under the investment agreement, as reflected in reports to holders, and are freely transferable. However, no active secondary market exists for the notes.

Capital and purchase GEIP notes may redeem any portion of the principal amount of their notes at any time. GEIP notes would be accorded the same priority in the bankruptcy of GE Capital as other senior unsecured debt issued by GE Capital.

The average investment in GEIP notes is currently just over $101,000.[8] GE Capital has registered to issue over 91% of the senior unsecured debt in the program to individuals, with up to $1 billion of the GEIP notes available to businesses of all sizes.[9] Individual investors and businesses providing less than $1.5 million of funding to GE Capital would meet the definition of “retail customer or counterparty”. [10] As noted above, a prospective purchaser of GEIP notes must first open an investment account with GE Capital. Holders of the notes have transactional capabilities, including direct submission and automated payments, GEIP redemption checks,[11] electronic transfers, and wire transfers. The notes are not deposits, and investors receive disclosure that states that notes issued under the GEIP program are not bank deposits and are not covered by FDIC insurance. Interest rates paid to individuals on their investments in GEIP notes are consistently higher than those offered by GE Capital’s depository institution subsidiaries in the U.S. on savings account deposits, reflecting the absence of FDIC insurance. A minimum investment of $500 is required to open a GEIP

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8 As of June 4, 2014.

9 The GEIP program is divided into two sub-programs: first, and most significantly, a sub-program for U.S. individuals, joint account holders, custodial accounts for minors under the Uniform Gift to Minors and Uniform Transfers to Minors Act, and personal trusts; and second, a program for U.S. businesses. Notes issued under the prospectus supplements for both programs are identical, and both sub-programs are managed in the same way except that interest rates paid on investments may diverge. In our experience, funding from investors in the business program with investments under $1.5 million (as required by the proposed definition of retail customer or counterparty) has liquidity risk characteristics that are similar to those arising from funding from individuals. The prospectuses for individual and business investors are available at http://www.gecapitalinvestdirect.com/docs/prospectus.pdf and http://www.gecapitalinvestdirect.com/docs/businessprospectus.pdf, respectively.

10 In this letter, we assume joint account holders, custodial accounts for minors, and personal trusts are all included in the term “individual” used in the proposed definition of “retail customer or counterparty”, despite the ambiguity in the definition pointed out by other commenters (*e.g.*, the Joint Trades Comment Letter).

11 Such GEIP redemption checks are check-like instruments that investors may use to redeem their securities and are cleared through the banking system by our agent bank, although such agent bank does not regard itself as maintaining accounts for the GEIP investors. Redemption checks may be made payable to the investor or to a third party. Investors receive disclosure that states that this check redemption feature does not create a deposit or banking relationship with GE Capital or any affiliate.

account. On average, current investor accounts in GEIP have been active for approximately 13 years and 81% of the accounts currently on the books were opened prior to 2008. [12]

The largest net outflow as a percentage of the total amount of GEIP debt outstanding in a calendar month over the last seven years followed the bankruptcy of Lehman Brothers.[13] In October 2008, the total amount of outstanding debt to retail customers or counterparties under the GEIP program fell by approximately 22%. Our empirical evidence demonstrates that approximately 28% of the funding provided by retail customers and counterparties investors with principal amounts of $500,000 and above was withdrawn during October 2008. In contrast, on average, investors with principal amounts under $200,000 redeemed only 12% of the funding they had provided during the same period, while investors with principal amounts of $200,000 and above but below $500,000 redeemed 24% of their investments.[14]

In light of the foregoing data, we respectfully request that the Agencies consider the following amendment to the U.S. LCR:

§ __.32 Outflow amounts.

(a) Unsecured retail funding outflow amount. A [BANK]'s unsecured retail funding outflow amount as of the calculation date includes (regardless of maturity):

(1) 3 percent of all stable retail deposits held at the [BANK];

(2) 10 percent of all other retail deposits held at the [BANK]; ~~and~~

(3) **20 percent of all non-deposit funding from a retail customer or counterparty held in a transactional account and the total aggregate funding from the retail customer or counterparty does not exceed $200,000**;

(4) **40 percent of all non-deposit funding from a retail customer or counterparty held in a transactional account and the total aggregate funding from the retail customer or counterparty is greater than $200,000 and does not exceed $500,000**;

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12 As of May 8, 2014.

13 While GEIP is a long-standing program that was initiated in 1992, GE Capital maintains month-end data for the GEIP program starting from 2007. During the financial crisis, the program did not directly receive any government support under such programs as the Temporary Liquidity Guarantee Program, the Commercial Paper Funding Facility or the Legacy Securities Public-Private Investment Program.

14 Interest rates were increased by 5 to 15 basis points on September 15, 2008 but remained constant from that point until January 5, 2009.

and

(5) 100 percent of all **other** funding from a retail customer or counterparty that is not ~~a retail deposit or a brokered deposit~~ **covered under (1) through (4) above** ~~provided by a retail customer or counterparty~~.

In order to provide a conservative margin for systemic safety and soundness, we suggest applying outflow rates of 20% and 40% for non-deposit funding from retail customers or counterparties with transactional account investments not exceeding $200,000, and above $200,000 but not exceeding $500,000, respectively (or almost two times the worst calendar month outflow GE Capital experienced in the most recent crisis within the GEIP program). Additionally, non-deposit retail funding from investors with principal amounts exceeding $500,000 would be subject to outflow rates of 100%, even though GE Capital's experience suggests that no more than 33% of such funding is likely to be withdrawn.

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We appreciate the Agencies' willingness to appropriately calibrate the U.S. LCR for the various sources of funding that might be available to covered companies, especially non-bank SIFIs. We respectfully remind the Agencies of the importance of tailoring the U.S. LCR appropriately to reflect that non-BHCs cannot rely on deposit funding as much as other covered companies, as outlined in the Initial Letter. We further encourage the regulators to amend the outflow rates for retail non-deposit funding as discussed above to avoid imposing an unfair competitive disadvantage on products that are demonstrably stable and have substantial liquidity value under the U.S. LCR framework. We hope the Agencies find these supplemental comments constructive.

Very truly yours,

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General Electric Company &
Senior Vice President–Corporate Treasury & Global Funding Operation, General Electric Capital Corporation