

Multi-Industry/Electrical Equipment

Robert T. Cornell • 212.526.2498

GE's eligibility for TLGP could significantly reduce cost of debt

Today's announcement of GE's eligibility for the FDIC Temporary Liquidity Guarantee Program provides the company an opportunity to fund out US debt over the next nine months or so at levels that could be very attractive, in our view. With the company's CDS spreads trading at around 500 basis over, there has been understandable concern in the financial community about how GE would react. We believe funding at such levels for GE Capital would be unattractive as would the liquidation/sale of assets to reduce or eliminate the need to borrow. In our view, **the company's participation in the FDIC program could take the cost of debt down meaningfully, and give GE flexibility to position GE Capital's portfolio to generate attractive longer term returns.** We think this improves GE Capital's liquidity, and more importantly allows GE to be selectively active in the market where returns could be above historical levels, assuming our funding costs are accurate.

So what exactly does GE's eligibility into the program mean? The FDIC created the program to "strengthen the confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt." With GE's eligibility to the program, GE's maturing debt refinanced from the time of eligibility to June 30, 2009 will be guaranteed by FDIC. The amount is capped at \$139 billion of US debt. This means that the company could reissue the \$15B that comes due in 4Q08 and the \$27B that comes due in the 1H09 at interest rates reflecting not only the guarantee of a AAA rated company but that of FDIC. **That means that instead of looking at funding costs at 500 basis points over, the spread could narrow down potentially to 30-50 basis points over...a big win for GE.** The current program doesn't include GE's capital needs beyond mid 2009, but the timing is such that we believe GE has the flexibility to deal with such needs in a shareholder friendly manner.

How did GE qualify for the TLGP, it's not a bank or thrift? We believe GE's industrial loan bank in Utah allowed the company to be grandfathered into the program. We should also point out that we believe that GE's participation does not require the company to take on any government investment into equity.

Bob Cornell
Barclays Capital
212 526 2498

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General Electric (GE - USD17.81) 1-Overweight / Positive A/C/D/E/J/K/L/M/N

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