

Moody's reviews GE, GECC Aaa long-term ratings for possible downgrade

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Moody's Investors Service Press Release

Moody's Investors Service placed the long-term ratings of General Electric Company (Aaa senior unsecured) and General Electric Capital Corporation (GECC; Aaa senior unsecured) on review for possible downgrade. The firms' Prime-1 short-term ratings were affirmed. The review also has no impact on the FDIC-guaranteed debt issued by GECC, which remains at Aaa with a stable outlook. Moody's said the review for downgrade is based primarily upon heightened uncertainty regarding GECC's asset quality and earnings performance in future periods.

General Electric Capital Services (GECS, GECC's immediate parent) recorded a \$1.5 billion consolidated pre-tax loss from continuing operations for the fourth quarter of 2008 on higher credit and other charges. Additionally, the firm revised upward its estimate for credit losses in 2009. Moody's is concerned that deepening global economic weakness could further compromise GECS' asset quality, potentially jeopardizing its ability to meet earnings objectives while also maintaining high earnings quality.

In its December 2008 press release, Moody's identified the following factors as important credit considerations for GE and GECC: (1) a downsizing of GECC and a reduction in its reliance on confidence-sensitive short-term funding while maintaining solid earnings and asset quality; (2) GECC achieving earnings of \$5 billion in 2009 and each of the next several years; (3) a restoration of the GECS dividend to GE to historical levels by 2010; (4) generation of industrial cash flow from operations that exceeds \$16 billion in 2010; (5) a suspension of share buybacks until these expectations are realized; and (6) the potential to reduce the stress on GE's industrial free cash flow either through the resumption of more significant dividends from GECS to GE or through the reduction of the GE external dividend.

Moody's said that its review will focus on each of these factors in light of weakening market conditions.

GECS Earnings Stability and Dividend Ability Key Focus

During its review, Moody's will consider potential ongoing challenges to, and increasing volatility in, GECS' earnings in an exceptionally difficult operating environment. Given this uncertainty around earnings, Moody's will also reassess GECS's ability to restore its dividend to GE to historic levels in the intermediate term.

"Historically, a hallmark of the GECC credit has been its ability to consistently create capital," Moody's analyst Mark Wasden said.

During its review, Moody's will also reevaluate its expectations of GE industrial cash flow in 2009 and 2010. The combination of potentially reduced industrial cash flows and GECS dividends would place more stress on the company's ability to meet external dividend payments through operating cash flows.

Moody's expects that GE's cash flow from operations, including the dividend from GECS, could decline below prior expectations of about \$16 billion in 2009. This expectation

considers: 1) Moody's view that the decline in GECS' 2009 net income could be more significant than originally anticipated as a consequence of accelerated and deeper deterioration of asset quality; 2) the increasingly challenging business conditions in GE's long cycle and short cycle industrial operations; and 3) a likely reduction of progress payments received by GE as a result of the slowdown in infrastructure orders worldwide, although this may be offset by working capital reductions.

Absent a timely restoration of adequate dividends from GECS, the continuation of the current high level of GE common dividends may not be possible from internally generated funds. "Incremental borrowing or reduction of existing liquidity levels to meet the dividend would be uncharacteristic for a firm with a Aaa rating," said Moody's analyst Richard Lane.

In the fourth quarter, GECS' rate of net charge-offs in continuing businesses weakened to 1.36% from .87% in the third quarter. Non-earning assets also increased to 2.12% from 1.72%, indicating mounting asset quality weakness. In its earnings announcement, management said its estimate of 2009 credit loss provisions had increased to \$10 billion -- \$1 billion higher than communicated in December 2008 -- though it also affirmed its framework for achieving 2009 earnings of \$5 billion.

"GECS' fourth quarter earnings were positive because of significant tax benefits," said Moody's Wasden. "The firm can probably compensate for some portion of higher credit costs by improving operating efficiency. But we believe the individual components of earnings are important. We therefore look for sustainable, high quality earnings as a measure of the firm's success."

Progress Noted on Liquidity, Capital Position

Positively, during the fourth quarter, GE management met interim targets to improve the liquidity and capital positions of GECS and GECC. Outstanding commercial paper (GECS) declined to \$72 billion from \$88 billion at the end of the third quarter, and the company affirmed its intention to reduce CP balances to \$50 billion by the end of 2009. As a consequence of this reduction, committed bank line coverage of commercial paper balances improved to 83% from 71% at the end of the third quarter, reflecting good progress towards the company's objective of 100% coverage by the end of 2009. Management also continued to diversify funding sources to include additional deposits and other alternatives, which increased by \$25 billion in 2008 with continued growth slated for 2009.

GECC has also utilized the U.S. Federal Reserve's Commercial Paper Funding Facility (CPFF) and the FDIC's Temporary Liquidity Guarantee Program (TLGP). Though temporary in nature, Moody's believes these programs have had a stabilizing effect on GECC's short-term liquidity, while the company shifts its funding profile to be less reliant on commercial paper.

GECS ended 2008 with cash of \$36 billion, the result of fourth quarter pre-funding of about \$13 billion of 2009 planned term debt issuance of \$45 billion, a \$5.5 billion capital injection from GE, and higher retained cash flow due to the lower dividend payout to GE. Additionally, GECC reduced its leverage during the quarter.

Moody's believes the measures taken by management and the firm's access to government support programs have ameliorated near-term liquidity risks at the firm and have also reduced the potential near-term need for GE support.

GE Industrial Business Likely to Soften

Moody's also notes that GE's industrial businesses retain strong competitive positions, and should demonstrate improved performance once the economy rebounds. Additionally, the company's \$172 billion of infrastructure equipment and service backlog provides important visibility into future revenue. Recent initiatives to reduce costs and enhance cash flow generation should also help to support near term operating performance.

"Nevertheless, the global economic downturn and continued tight credit market conditions create some strong headwinds for the company's long cycle Energy, Aviation, Transportation, and Healthcare businesses," said Moody's Lane. "Reduced order flow and deferral or cancellation of existing orders could be a more significant concern in the coming year."

Performance of the company's short cycle businesses (appliances, lighting, and local television stations) continue to exhibit weakness and could see greater earnings erosion during 2009. The impact of these short cycle businesses on GE industrial's overall performance, however, should be modest as they represent less than 5% of industrial operating profit.

The following ratings are placed under review (see Moodys.com for complete lists):

General Electric Company

Senior Unsecured: Aaa

Subordinate Shelf: (P)Aa1

General Electric Capital Services, Inc.

Senior Unsecured Shelf: (P)Aa1

Backed Subordinate: Aaa

General Electric Capital Corporation

Senior Unsecured: Aaa

Subordinate: Aa1

Preferred Stock: Aa2

GE Capital Australia Funding Pty. Ltd.

Backed Senior Unsecured: Aaa

GE Capital Canada Funding Company

Backed Senior Unsecured: Aaa

GE Capital European Funding

Backed Senior Unsecured: Aaa

GE Capital UK Funding

Backed Senior Unsecured: Aaa

GE Japan Funding K.K.

Backed Senior Unsecured: Aaa

On December 2, 2008, Moody's affirmed the Aaa long-term and Prime-1 short-term ratings of GE and GECC, following the announcement by GE that it would undertake measures to strengthen GECC's financial position.

The principal methodology used in rating GE is the Heavy Manufacturing Methodology, and in rating GECC is Analyzing the Credit Risks of Finance Companies, both of which can be found at www.moodys.com [http://www.moodys.com] in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that

may have been considered in the process of rating these issuers can also be found in the Credit Policy & Methodologies directory.

General Electric Company, headquartered in Fairfield, Connecticut, is one of the largest diversified companies in the world, reporting consolidated revenues of \$183 billion for the twelve months ended September 2008.

General Electric Capital Corporation, based in Stamford, Connecticut, is the legal entity which holds GE's investments in the commercial and consumer finance sectors.

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