



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 2009

William S. Eckland, Esq.
Sidley Austin LLP
1501 K Street, N.W.
Washington, D.C. 20005

Dear Mr. Eckland:

This is in response to the request by GE Money Bank (“Bank”), Salt Lake City, Utah, for an exemption from section 23A of the Federal Reserve Act and the Board’s Regulation W¹ to permit Bank to purchase approximately [] billion of consumer loan receivables (“Receivables”) from an affiliate, GE Consumer Finance, Inc. (“GECFI”), Stamford, in connection with a proposed reorganization of the consumer lending business of General Electric Capital Corporation (“GECC”), Fairfield, both in Connecticut.²

Section 23A and Regulation W limit the amount of “covered transactions” between a bank and any single affiliate to 10 percent of the bank’s capital stock and surplus and limit the amount of covered transactions between a bank and all its affiliates to 20 percent of the bank’s capital stock and surplus. “Covered transactions” include a bank’s purchase of assets from an affiliate and a bank’s extension of credit to an affiliate. The statute and regulation also require a bank to secure its extensions of credit to, and certain other covered transactions with, affiliates with prescribed amounts of collateral. In addition, section 23A and Regulation W prohibit a bank from purchasing low-quality assets from an affiliate.

Bank is primarily engaged in offering installment and revolving loans to consumers for the purchase of goods and services. Until recently, Bank would sell a [] percent undivided participation interest in many of the loans generated by its consumer lending programs to two nonbank affiliates (collectively “Monogram”) on a daily basis. Bank would retain the loan accounts associated with the participated loans, the servicing for the participated receivables, and the remaining undivided [] percent

¹ 12 U.S.C. § 371c; 12 CFR part 223.

² Bank and GECFI are subsidiaries of GECC.

interest in the loans.³ The approximate value of the undivided participation interest owned by Monogram in all such loans is [].

As part of a one-time corporate reorganization of GECC's consumer lending activities, Bank (1) terminated the participation arrangement with its affiliates in October 2008 and now originates and holds 100 percent of newly generated loan receivables and (2) proposes to reacquire certain high-quality Receivables previously participated to Monogram. In connection with the proposed transaction, GECFI will purchase the Receivables from Monogram, including the related loan loss reserve held by Monogram, for sale to Bank.

None of the Receivables relate to loans that are low-quality assets, as defined by Regulation W.⁴ The purchase price for the proposed transaction would be approximately [] billion, which was determined by an unaffiliated accounting firm to be fair market value. As noted, the purchase would also include the related loan loss reserve held by the nonbank affiliate against the Receivables.

Section 23A and Regulation W specifically authorize the Board to exempt, in its discretion, transactions or relationships from the requirements of the statute and rule if the Board finds such exemptions to be in the public interest and consistent with the purposes of section 23A.⁵ The Board has approved exemptions under section 23A for one-time asset transfers that are part of a corporate reorganization and that are structured to ensure the quality of the transferred assets. As in previous cases reviewed by the Board, the proposed transaction in this case is a byproduct of a one-time corporate reorganization. The sale of Receivables to Bank is part of a larger reorganization of GECFI's consumer lending business into Bank. According to GECFI, this exemption is in the public interest because the reorganization is expected to enhance the efficiency of its lending programs and to allow borrowers served by the GECFI to continue to obtain appropriately priced credit.

In addition, Bank and GECFI has made the following commitments as part of their exemption request:

1. For five years after the purchase of the Receivables from GECFI, GECC or GECFI will make either (i) a cash payment to Bank equal to the book value at the end of each calendar quarter, plus write-downs by Bank, of any

³ []

⁴ 12 CFR § 223.3(v).

⁵ 12 U.S.C. § 371c(f)(2); 12 CFR 223.43(a).

purchased Receivable that becomes a low-quality asset (as defined by Regulation W) during that quarter or (ii) quarterly purchases from Bank (or its operating subsidiaries) of any purchased Receivable that becomes a low-quality asset (as defined by Regulation W) during that quarter at a price equal to the book value at the end of that quarter plus previous write-downs by Bank of any such asset. GECC or GECFI will make the cash payment or will purchase the Receivables within 30 days after the end of each calendar quarter.

2. If GECC or GECFI make a cash payment to Bank in connection with its obligation under the first commitment, Bank will hold an amount of risk-based capital equal to the book value of any purchased Receivable that becomes a low-quality asset so long as Bank (or any operating subsidiary) retains ownership or control of such Receivable. For example, under this dollar-for-dollar capital requirement, the risk-based capital charge for each transferred asset that becomes a low-quality asset would be 100 percent (equivalent to a 1250 percent risk weight), rather than the 8 percent requirement (equivalent to a 100 percent risk weight) that would apply to a similar defaulted loan asset that is not a part of the transferred asset pool.
3. Bank is well capitalized and well managed and would remain so after the transaction.

These commitments are similar to commitments relied on by the Board in previous internal corporate reorganizations. These commitments have been modified, however, to clarify that the funds transferred by GECC or GECFI to Bank to support any of the Receivables that become low-quality assets will remain in the bank to provide a cushion of additional capital in excess of Bank's required regulatory capital. The commitments ensure that these funds will remain available to Bank and will not be returned to GECC or GECFI through a dividend or a return of capital.⁶ In addition, a majority of Bank's board of directors has reviewed and approved the transaction. The Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC") have reviewed the transaction and informed the Board that they have no objection to the proposal, subject to the conditions discussed above and to the conditions discussed in their letters to the Board.⁷

⁶ See Board letter dated December 21, 2007, to Andres Navarette, Esq. (Capital One Financial Corporation).

⁷ []

In light of these considerations and all the facts presented, the reorganization transaction appears to be consistent with safe and sound banking practices and on terms that would ensure the quality of the assets transferred. Accordingly, the transaction appears to be consistent with the purposes of section 23A, and the Director of the Division of Banking Supervision and Regulation, pursuant to authority delegated by the Board, and with the concurrence of the General Counsel, hereby grants the requested exemption.

This determination is specifically conditioned on compliance by GECC, GECFI, and Bank with all the commitments and representations made to the Board in connection with the exemption request. These commitments and representations are deemed to be conditions imposed in writing in connection with granting the exemption and, as such, may be enforced in proceedings under applicable law. This determination is based on the specific facts or circumstances of the proposed transaction and may be revoked if a material change in those facts or circumstances occurs or if GECC, GECFI, or Bank fails to observe any of their commitments or representations. Granting this exemption does not represent a determination concerning the permissibility of any other transactions engaged in by GECC, GECFI, or Bank that are subject to section 23A or Regulation W.

Sincerely yours,

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

cc: Federal Reserve Bank of San Francisco
Federal Deposit Insurance Corporation
Office of Thrift Supervision