

THE FINANCIAL SERVICES ROUNDTABLE

Impacting Policy. Impacting People.



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The Honorable Neel Kashkari
Interim Assistant Secretary for Financial Stability
US Treasury Department
Washington, DC 20020

RE: Development of Guarantee Program for Troubled Assets

Dear Mr. Kashkari:

While we have not ascertained the extent to which our members would use such a program, the Financial Services Roundtable ("Roundtable")¹ appreciates the opportunity to provide comments to the Treasury Department ("Treasury") on the development of a guarantee program for troubled assets.

The development of a guarantee program for troubled assets is important to financial institutions ("FI"), as defined under the Emergency Economic Stabilization Act of 2008 ("EESA"), and should apply to both loans and securities.²

Generally speaking, assuming reasonable insurance costs, a FI will prefer the guarantee program to the purchase program under EESA under three scenarios: (i) when the FI desires to hold a particular asset on its balance sheet or is contractually constrained from selling the asset, (ii) when the FI has already arranged funding and hedging for the asset, it may prefer insurance to avoid having to unwind or readjust its positions as could be required by a sale, and (iii) when the assets have been designated by the FI as "available for sale" and the FI has currently committed to holding those assets.

Special Considerations

With respect to any proposal under the guarantee program, among other things, Treasury should consider (a) pricing of the insurance, (b) impact on capital, accounting and regulatory requirements, and (c) transferability, as discussed further below. In addition, any such program

¹ The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, investment products and services to the American consumer. Roundtable member companies provide fuel for America's economic engine accounting directly for \$18.3 trillion in managed assets, \$678 billion in revenue, and 2.1 million jobs.

² The Roundtable contends that the Troubled Asset Relief Program should also include troubled securities, such as, but not limited to, auction rate securities, insurance-linked securities, and asset-backed securities.

will require significant infrastructure to correctly price insurance for eligible assets, monitor performance and ensure timely reimbursement of losses.

With respect to pricing, the calculation of expected losses and the pricing mechanics should be industry-accepted and transparent so as to allow for consistent pricing and instill market confidence. Pricing of insurance for mortgage-related assets should be based upon an actuarial model similar to that used by Fannie and Freddie, or an industry accepted third-party model. Treasury should apply "stress case" scenario modeling when projecting losses to protect tax payers against overly optimistic "base case" projections. Generally, Treasury should price insurance based on expected losses, rather than the market prices for assets, which reflect not only expected losses, but also liquidity, balance sheet, and risk premiums.

With respect to capital, accounting and regulatory requirements, assets insured under the EESA should be allowed to be treated by the insured as government guaranteed assets or government issued securities for purposes of capital, risk, accounting, liquidity and regulatory calculations or determinations.

Roundtable Proposals

Below, we present three proposals for the guarantee program, each based on different types of products. When developing the guarantee program, it is important for the Treasury to evaluate and implement each of the proposals, as each addresses concerns specific to different types of products. The first is insurance on securities in the form of a "wrap", similar to the guarantee provided by monoline insurers. The second is a whole loan buyout program, under which Treasury would take ownership of a loan if the loan becomes seriously delinquent. The third is a loss sharing program under which Treasury would reimburse the insured for a fixed percentage of losses.

The Wrap Program

Under the wrap program, Treasury would guarantee the timely payment of interest and the ultimate payment of principal, similar to a monoline insurer. This program should be made available for securities, such as, but not limited to, senior securities, auction rate securities, and insurance-linked securities. Payment under the program would be triggered by shortfalls indicated on the monthly trustee or servicing reports for the security.

The entire cost of the wrap should be paid at the time of entering into the insurance, to allow for free transferability and to remove counterparty risk for Treasury. This insurance should not be cancelable and should apply for the life of the security. The insurance should be freely transferable to subsequent purchasers of the security with no consent required from Treasury.

The Buyout Program

Under the buyout program, Treasury would agree to buy from the insured FI consumer loans or mortgage loans that were current at the time of entering into the insurance agreement. Under this proposal, if a loan becomes seriously delinquent, Treasury would pay to the insured FI an agreed-upon percentage of the principal balance of the insured loan, but less than 100 percent to encourage the insured FI to prevent serious delinquency. Payment under the program would be triggered upon the determination by the insured FI that the insured loan has become seriously delinquent, as determined in accordance with industry standards.

With respect to the purchase of a seriously delinquent mortgage loan, Treasury could direct the loan servicer to use all available loan modification, foreclosure-avoidance and loss-mitigation procedures to keep deserving borrowers in their homes. Generally, Treasury should maintain the same loan servicer, who is familiar with the loan, but may choose another servicer, at its discretion.

The cost of the buyout program should be paid by the insured FI on a monthly, or other periodic, basis and based upon a constant percentage of the current balance of the insured loans. The insurance should not be cancelable, to avoid cherry-picking by the insured; however, the insurance could apply either for a fixed period of time or for the life of the loan. The insurance should be allowed to transfer with the insured loan, with Treasury's consent.

This approach could be modified to also apply to securities, such as auction rate securities, mortgage-backed securities, and asset-backed securities.

The Loss Sharing Program

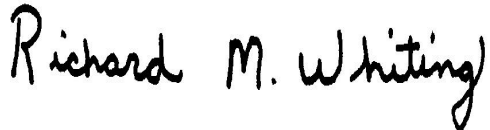
Under the loss sharing program, Treasury would reimburse the insured FI for an agreed-upon fixed percentage of principal losses on consumer loans or mortgage loans that were current at the time of entering into the insurance agreement. The fixed percentage should be less than 100 percent to encourage the insured FI to minimize losses. Payment under the program would be triggered upon presentation of the loss to Treasury on a quarterly basis, as the insured FI reduces its loss provisions by the amount of the losses on the insured loans.

The cost of this loss sharing program should be paid by the insured FI on a monthly, or other periodic, basis and should be based upon a constant percentage of the current balance of the insured loans. The insurance should not be cancelable, to avoid cherry-picking by the insured FI; however, the insurance could apply either for a fixed period of time or for the life of the loan. The insurance should be allowed to transfer with the insured loan, with Treasury's consent. Also, Treasury consent would be required for the transfer of the servicing of the loan.

This approach could be modified to also apply to securities, such as auction rate securities, mortgage-backed securities, and asset-backed securities.

Thank you again for the opportunity to provide our recommendations for the guarantee program for troubled assets. We understand that this is a developing program. As such, the Roundtable reserves the right to supplement these comments with further input from our member companies. If you have any questions, please feel free to contact us at 202-289-4322.

Sincerely,

A handwritten signature in black ink that reads "Richard M. Whiting". The signature is written in a cursive, slightly slanted style.

Richard M. Whiting
Executive Director and General Counsel