Webster
Financial Corporation

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January 13, 2014

The Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Thomas Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

The Honorable Mark Wetjen
Acting Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

The Honorable Mary Jo White
Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

RE: Inclusion of Certain CLO Debt Securities as "Covered Funds" under the Volcker Rule

Dear Chairmans Bernanke, Gruenberg, and White, Comptroller Curry, and Acting Chairman Wetjen:

Webster Financial Corporation, a bank holding company and the parent of Webster Bank, N.A., is writing to ask for further consideration of the provisions of the Volcker Rule that convert permissible bank investments in Collateralized Loan Obligations (CLOs) into impermissible bank investments. Specifically, we urge you to allow banks to continue to invest in the debt tranches of CLOs structured such that no more than 5% of allowable collateral can be non-loan collateral, and further, that you clarify that the investors' right to remove a manager "for cause" or to nominate or vote on a nominated replacement manager is not included in the definition of an 'ownership interest' for purposes of permissible ownership under Volcker.

Webster is a $20 billion community bank which has $360 million of "AAA" and "AA" rated CLOs in its investment portfolio. These high quality, 20% risk weighted, floating

rate investments were purchased to reduce interest rate risk, provide a competitive return and efficiently use risk based capital. We have made considerable investments in our infrastructure to effectively manage the credit risk inherent in these securities.

We do not believe that Congress intended to prohibit banks from investing in the debt tranches of these types of loan securitizations. The CLO market is a mature market and an important source of low risk financing for companies all across this country. Banks are significant investors in the highest rated debt tranches of CLOs. This asset class has performed extraordinarily well over the entire duration of its existence, which includes the "Great Recession." Our research indicates that no losses have ever been recognized on any security in any tranche rated "A" or higher. Since the Great Recession, the structuring of these securitizations has improved even further and all of Webster's CLO holdings are in securities issued in 2011 or later. We strongly believe that investing in the debt tranches of CLOs can enhance safety and soundness in banks while at the same time supporting economic growth in the country.

The loan securitization exemption provided by the Volcker Rule as currently interpreted would permit the holding of these securities provided that all of the collateral is comprised solely of loans. Such requirement does not take into account the reality of how virtually all of these securities are actually structured. For example, the nineteen CLOs in which Webster has investments average less than 1.50% of non-loan collateral but only four of these CLOs are comprised solely of loans. However, since all the security indentures permit small amounts of non-loan collateral, even those CLOs that currently have no non-loan collateral present risks of future violations of the Volcker Rule.

We believe it is unlikely that banks can convince deal managers and investors to expend the time and expense required to amend indentures to prohibit the holding by CLOs of any collateral other than loans. We also believe that allowing CLOs to retain a 5% de minimus amount of non-loan collateral satisfies the intent of the loan securitization exemption.

With regard to "ownership interests" we support the recommendations in the letter to you dated January 10, 2014 from the Loan Syndication and Trading Association (LSTA), the Securities Industry and Financial Markets Association (SIFMA), the Structured Finance Industry Group (SFIG) and the Financial Services Roundtable (FSR) that urge you to recognize that the rights granted to the investors in the debt tranches of CLOs represent traditional creditors' rights rather than equity-like "ownership interests". Our investment in the debt tranches of CLOs, like investments in other debt securities, provides only a fixed spread to a market index (three month LIBOR); we have no influence over the management of the CLO except in extraordinary circumstances; and we do not participate in any gains or losses on the underlying collateral.

Should most CLO investments no longer qualify as permissible, community banks like Webster would be unable to replace the lost spread with similar yielding, high quality floating rate securities. Banks instead would have to accept lower yields for similar duration investments or take on increased credit risk and/or interest rate risk to maintain

their existing level of net interest income. If not modified, the Volcker Rule could end up increasing risk contrary to its intent.

We respectfully ask you to consider the following possible solutions:

1. Permit a de minimus 5% non-loan collateral allowance in CLO structures; and

2. Clarify that "ownership interests" does not include having the right to remove a manager "for cause" or to nominate or vote on a nominated replacement upon a manager's removal "for cause" or resignation, but contains no other attribute that constitutes an "ownership interest" as defined in the Rule

Should neither of these alternatives be acceptable to you, we would ask that banks be granted the following:

> Grandfather banks' holdings of existing CLO debt tranches, provided that non-loan collateral does not exceed 5% or, at a minimum, extend the conformance period for CLOs by granting a five year "illiquid funds" extension to July 21, 2020 which should minimize market disruption created by forced sales and allow time for most banks' existing CLO holdings to mature.

We ask that our views and proposed solutions to the unanticipated consequences of the Volcker Rule be given serious consideration prior to your reaching a conclusion that would require banks to sell these securities prior to July 2015. Forced sales are likely to result in capital losses for banks at the time of sale due to market pressures, lost spread income to banks going forward, and a reduced supply of bank loans available to finance the U.S. economy.

We request and look forward to the opportunity to discuss our thoughts on this matter further at your convenience in person or over the phone. Please feel free to contact Glenn MacInnes at 203-578-2327, or me at 203-578-2214. Thank you for your consideration of our perspective on this critically important issue.

Sincerely,

James C. Smith
Chairman and CEO
Webster Financial Corporation

Glenn I. MacInnes
EVP, Chief Financial Officer
Webster Financial Corporation

cc: R. Bram Smith
Elliot Ganz
(Loan Syndications and Trading Association)

Christopher Killian
(Securities Industry and Financial Markets Association)

Richard Johns
(Structured Finance Group)

Cecelia A. Calaby
(American Bankers Association)

Richard Foster
(Financial Services Roundtable)