LA11-1120

Congress of the United States
Washington, DC 20515

July 29, 2011

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

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

Honorable Mary Schapiro
Chairman
The Securities and Exchange Commission
100 F Street, NE, Room 10700
Washington, DC 20549

Honorable John Walsh
Acting Comptroller of the Currency
Administrator of National Banks
250 E Street, SE
Washington, DC 20219

Dear Sirs and Madams:

We are writing to voice our concerns with the application of the risk retention rules required under Section 941 of the Dodd Frank Act to open market collateralized loan obligations ("CLOs"), a securitization vehicle for syndicated commercial loans. For the reasons outlined below, we believe that the final risk retention rules should expressly recognize and exclude this important source of liquidity for large and mid-sized American companies. Failure to do so will prevent many of those companies from obtaining the financing they need to create jobs and help fuel an economic recovery.

Rather than being an originate-to-distribute structure targeted by Section 941, open market CLOs are investment vehicles run by regulated investment advisors, and purchase syndicated corporate loans on behalf of their investors. CLO managers are independent of and unaffiliated with the financial institutions originating corporate loans and are by charter and practice making investment decisions for the benefit of their CLO investors. The model is more akin to a corporate loan mutual fund than a static pool securitization into which "originate to distribute" assets are sold.

CLOs have a number of built-in safeguards that make them unique in the securitization market. First, the commercial loans purchased by CLOs are individually underwritten, highly transparent, liquid assets that are priced daily, rated and traded freely in a robust secondary market. Second, CLO managers independently select the assets for inclusion in the securitization vehicle. Third, the large majority of the CLO manager's compensation is tied directly to the performance of the portfolio hence the manager already has "skin in the game" and its interests are already aligned with those of its investors, independent of any risk retention mandate.

Importantly, CLOs performed very well through the recent financial crisis. Of the approximately 630 CLOs that existed at the onset of the crisis, only two suffered a payment default. No CLO investor that held a note rated A or better failed to receive payment in full.

Furthermore, open market CLOs simply don't fit within the language of the legislation. Dodd Frank requires risk retention in transactions in which a "securitizer" that owns or aggregates assets sells them into a securitization vehicle. In contrast, CLO managers do not own or originate any assets; instead, they select assets and purchase them in the open market on behalf of the CLO itself. Not surprisingly, therefore, the notice of proposed rulemaking is very problematic for CLOs.

The risk retention options in the proposed rulemaking would potentially damage this important market. CLOs hold 20% of all funded commercial loans in the United States. Without CLOs, many of these companies could not obtain the financing that they need to create jobs and contribute to economic growth.

In light of the issues enumerated above, we urge you to be mindful of the unique characteristics of this structure as you move forward, and fashion a final rule that permits CLOs, a critical source of business finance, to continue to operate.

Sincerely,

Jim Himes
Member of Congress

Bill Posey
Member of Congress

Gary Peters
Member of Congress

Robert Hurt
Member of Congress

Ed Perlmutter
Member of Congress

Leonard Lance
Member of Congress

John Carney
Member of Congress

Nan Hayworth
Member of Congress

Gregory Meeks
Member of Congress

Peter King
Member of Congress