October 28, 2008

Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Development of a Guarantee Program for Troubled Assets

The American Financial Services Association (“AFSA”) is grateful for the opportunity to comment on the insurance program for troubled assets which is required by the Emergency Economic Stabilization Act of 2008 (“EESA”). Based in Washington, D.C., AFSA is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. Its 350 members include consumer and commercial finance companies, auto finance/leasing companies, mortgage lenders, credit card issuers, industrial banks and industry suppliers. AFSA strongly supports the Department of the Treasury’s (“Treasury”) goal to restore liquidity and stability to the financial system, while minimizing any potential long term negative impact on taxpayers.

In order to restore liquidity and stability to the financial system, captive finance subsidiaries of automobile manufacturers, financial institutions and independent finance companies should be eligible to participate in this program. Auto asset-backed securities should be guaranteed under this program. According to Experian, as of the second quarter of 2008, there were 64.4 million active auto loans totaling $795.4 billion in outstanding balances. AFSA appreciates the reports from Treasury that financial services companies and auto asset-backed securities would be eligible. Limiting the program to banks or mortgage related assets would severely hamper the recovery of the financial system.

Additionally, under the statutory language of EESA, captive finance subsidiaries of automobile manufacturers, financial institutions and independent finance companies are eligible for participation in the Troubled Asset Recovery Program (“TARP”) program, subject to the
Secretary of the Treasury’s (“Secretary”) designation as such. AFSA respectfully requests that
the Secretary designate as eligible as many of these companies and their assets as possible.

Currently the auto industry is faced with significant declines in sales volume. According
to the National Automobile Dealers Association (“NADA”), new car sales are expected to be
approximately 12.5 million units in CY2008 down from over 16 million units in CY2007. Used
car sales have also declined, by more than 20%. This decrease is key because auto sales account
for 20% of total retail sales volume, which means they generate 20% of sales tax revenues for
states. In this crucial time, when many states face severe budget shortages, a significant decrease
in state sales tax revenues would be devastating.

The auto finance industry is stuck in a credit crunch that it did not create. Auto
receivables (defined as loans, leases, retail installment contracts and commercial purpose loans to
dealers including inventory financing) continue to perform within normal levels reflective of an
economic downturn and well within tolerances. The majority of auto finance paper (prime and
non-prime) is funded through asset-backed securitization transactions (“ABS”). Over the past
year, access to the auto ABS market has become extremely limited due to, amongst other things,
the exodus of bond insurance providers from the market (primarily due to the insurance
providers’ losses in other business lines, such as mortgages) which made it increasingly more
expensive and, in some cases virtually impossible, for auto finance companies to issue new auto
ABS.

In addition to including finance companies in TARP, AFSA recommends that the federal
government develop a program to act as a bond insurer providing guarantees of qualifying asset-
backed securities sold by eligible issuers. Using its authority under the $700 billion financial
rescue, the Treasury can implement this type of program without upfront costs. Eligible issuers
(“Issuers”) will include captive finance subsidiaries of automobile manufacturers, financial
institutions and independent finance companies which originate or are the original servicers of
auto receivables and their respective affiliated special purpose entities established to structure
ABS transactions and have management with a proven track record of successful auto
securitization activity.
Under this program, the federal government would provide a guarantee of timely payment of interest and ultimate payment of principal on newly issued auto asset-backed securities. The guarantee will be provided for an auto ABS structure, with the Issuer putting in cash and over collateralization in the form of auto receivables upfront to provide cushion for variance in performance. All auto receivables must be originated by or assigned to the Issuer.

The Treasury should price insurance based not only on estimated losses, but also liquidity, balance sheets, and risk premiums. Assets insured under EESA should be able 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.

Alternatively, the Treasury could use the guarantee program to provide re-insurance for bonds issued by insurance companies backing bonds for structured products. This would improve the stability of the insurance industry. If the Treasury provided re-insurance, the ratings downgrades would end and the bonds would likely be upgraded. Thus, the financial stability of the original issues would improve.

These two programs, one insuring assets already on the books and the other guaranteeing future auto asset-backed securities, will go far in restoring liquidity and stability to the financial system.

AFSA appreciates the opportunity to comment on the Proposal. Please feel free to contact me with any questions at 202-296-5544, ext. 616 or bhimpler@afsamail.org.

Respectfully submitted,

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