

MEMORANDUM

To: Commission File No. S7-08-10
Commission File No. DF Title IX – Asset-Backed Securities

From: Rolaine S. Bancroft
Attorney-Advisor
Office of Rulemaking
Division of Corporation Finance
U.S. Securities and Exchange Commission

Date: December 15, 2010

Re: Meeting with members of the Financial Services Roundtable

On December 14, 2010, Paula Dubberly, Katherine Hsu, Rolaine Bancroft and Jay Knight of the Division of Corporation Finance; and Emre Carr and Stas Nikolova the Division of Risk, Strategy and Financial Innovation met with representatives of the Financial Services Roundtable. The topics discussed were the Commission's April 7, 2010 proposing release regarding asset-backed securities and Title IX, Subtitle D, Sections 941 and 942 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Agenda and handout are attached.

Attachment

Agenda

- 1) Intros
- 2) Anti-trust statement
- 3) General overview of farm equipment financing
- 4) Risk retention - concerns and discussion
- 5) Disclosures - concerns and discussion
- 6) Other

Representatives

- 1) Chad Volkert, Manager Funding, Deere & Company
- 2) Cynthia Sandherr, Director Washington Affairs, Deere & Company
- 3) Stacy Thomas, Senior Counsel, Securities & Finance, Deere & Company
- 4) Rob Kirby, General Counsel, CNH Capital
- 5) Rich Konrath, General Counsel, CNH North America
- 6) Julie Schlueter, Manager, Capital Markets
- 7) Michael Venet, Manager, Government Affairs
- 8) Scott Talbott, SVP, Financial Services Roundtable

December 13, 2010

Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: CCEQ Meeting December 14, 2010 to discuss Sections 941 and 942 of Dodd-Frank Act

Ladies and Gentlemen:

The undersigned companies are submitting this letter in advance of our December 14th meeting to discuss the Dodd-Frank legislation (the "legislation") as it relates to asset-backed securities. We represent captive finance companies that primarily securitize loans the proceeds of which were used to purchase large, commercial equipment manufactured by the captive's parent or affiliated company through the manufacturer's dealer network ("CCEQ" = captive commercial equipment). Some of us also securitize loans to our dealers the proceeds of which were used by dealers to purchase CCEQ ("dealer floorplans"). As a distinct subset of the broader ABS market, we believe we possess characteristics that are unique among ABS issuers.

The purpose of this letter is to highlight for the Commission the distinctive nature of the CCEQ ABS market and address the specific implications of the risk retention and disclosure requirements contained in sections 941 and 942 of the legislation, which we plan to discuss in more detail at our meeting.

The CCEQ ABS issuer group consists of the finance subsidiaries of CNH, Deere, Caterpillar, the Volvo Group, and Navistar. We believe we represent the majority of the issuers in the CCEQ ABS market. Some of us have previously submitted letters to the SEC (commenting on RegABII) in support of our specific company concerns. Our upcoming meeting will address the topics on behalf of the CCEQ ABS market as a whole, including the opinions of some of our CCEQ ABS investors.

We conclude that CCEQ ABS issuers are uniquely incentivized to maintain a strategy of underwriting high-quality loans without the need for additional risk retention, and that the current data disclosures are suitable for both issuers and investors. If additional disclosures are required, we propose group level data as further discussed below.

RISK RETENTION

Section 941 of the Dodd-Frank legislation requires risk retention to improve the securitization process and protect investors from losses associated with poorly underwritten loans. The requirement is designed to align incentives between originators, securitizers and servicers toward a common goal of better underwriting and servicing practices.

The legislation allows the Commission to exempt certain asset classes and issuers and to tailor the risk retention requirements by asset class, based on criteria such as the quality of underwriting standards, the existence of appropriate risk management practices, and the effect on the availability of credit on reasonable terms for the actual borrower. We believe our current practices and the loans we provide

already satisfy these criteria. We also believe CCEQ ABS issuers have unique incentives to maintain these standards associated with our manufacturing parent companies, our specific industries and borrower needs, and our ABS structures. As well, we believe our servicing practices directly support the objectives of all classes of investors, and that extensive historical performance data on equivalent assets through recessionary periods justify that CCEQ ABS be treated as a separate exempt class of ABS for these purposes. We agree that certain segments of the ABS market are in need of realignment; however, specific incentives already exist with respect to CCEQ ABS issuers that accomplish this goal.

CCEQ ABS issuers are both the originators and servicers of the assets, a combination that creates incentives which support strong underwriting and servicing practices. As a retail originator, we typically provide lending to our customers who have purchased a piece of equipment manufactured by our parent companies. Our retail customers are generally commercial entities, farmers or small businesses that are purchasing a large-ticket piece of capital equipment that is vital to producing income and that has a long useful life with significant resale value. Each CCEQ captive has developed specific underwriting standards, including proprietary credit scoring systems, to underwrite these "prime" loans. The CCEQ ABS issuers also service the loans. As further explained below, this combination of origination and servicing linked to the parent company's products creates a natural incentive toward sound underwriting and servicing which differs significantly from incentives experienced by originators, securitizers and servicers in the sub-prime mortgage market.

The simplified structure of CCEQ ABS issuances ensures that the incentives of the issuer and investor are aligned. CCEQ ABS issuers already retain a significant economic interest in the pool of assets and in the continued strong performance of their ABS issuances. All CCEQ ABS issuers retain the value of any conditional cash and accounts in the transactions, which includes a combination of spread account, reserve account, excess cash flow, and overcollateralization. On average, we believe that the current structures already provide approximately 4.7% of risk retention for recent retail transactions, and 8.6% if the issuer retains the subordinate class of issued notes. Because CCEQ issuers are "paid last", we have a vested interest in the strong performance of our assets. These first loss credit supports will come back to issuers only if the assets perform well and therefore provide incentives that are aligned with investors. Moreover, due to the limited size of the CCEQ ABS market and the various asset types within the sector, resecuritized structures like collateralized debt obligations (CDOs) could not exist. The absence of resecuritization structures eliminates the risk-transfer techniques commonly used in the RMBS market and ensures that in the CCEQ ABS market, CCEQ ABS issuers will naturally retain an economic stake in the performance of the securitization.

In the CCEQ ABS market, an incentive for the servicer to favor one class of investors over another does not normally exist. Regardless of the asset ownership, both our underwriting and servicing (collections) operations function in the same manner. Because not all assets will be securitized and the selection of ABS pools are made weeks or months after they are originated, our underwriters do not know the final ownership at the time of approval. Likewise, our collectors do not have easy access to the ownership designation on each loan, so they typically have no knowledge of whether a particular loan is part of an ABS issuance or not. Therefore, these collectors treat all loans the same and process each loan according to standardized policies. Because this type of equipment is vital to the income of the borrower, extensions and modifications are not uncommon in cases of temporary delays in payment,

such as a late harvest for weather-related reasons. We monitor the performance of these loans and have found their overall performance to be no worse (and in some cases, better) than non-extended loans. Consequently, the servicing strategy conflicts seen in the RMBS market and the need for "vertical" risk retention do not exist in the CCEQ ABS market. In addition, no CCEQ ABS issuer has experienced an investor or trustee demand for repurchase due to breach of representations or warranty.

A unique feature of CCEQ customers is that these customers exhibit a high level of brand loyalty, which results in a large number of repeat purchasers of the parent companies' equipment. Each of the CCEQ issuer's affiliated manufacturing companies has dedicated decades to building this loyal customer base. Each captive finance subsidiary was created with the primary purpose of assisting the manufacturing company in selling its equipment. Thus, the CCEQ ABS issuers are already incentivized not to lower underwriting standards, which would lead to more loan defaults, and would almost certainly lead to the defaulted customers switching brands. Hence, to avoid this possibility and maintain the bond between the customer and the manufacturer, we have a strong incentive to only originate loans which we believe will pay on time and in full. Lowering our underwriting standards would contradict the captive's purpose and ultimately, would be detrimental to the manufacturing company and its reputation.

We also offer financing to our affiliate companies' dealer networks, and in certain cases securitize these receivables as well. Again, lowering our underwriting standards with respect to dealer floorplans would produce higher dealer defaults and would impair the vital link that our dealers provide between our customers and the manufacturing companies. Given the small number of CCEQ dealers, compared to the extensive consumer dealer network for autos, and given the CCEQ dealers' close bond with the customer, the CCEQ dealer's viability is essential to strengthening the customer loyalty to the manufacturer. These dealerships are heavily scrutinized not only by the captive, but by the manufacturing company as well, and the results of this multi-layered analysis can be seen in the extremely low historical default rates.

Furthermore, if additional risk retention is required, any resulting increase in lending costs would necessarily have to be passed on to our customers and could negatively impact their various industries, such as construction, agriculture and transportation. For example, unlike many auto purchases, farmers would not consider the acquisition of a harvester a "discretionary purchase" as this equipment is vital to their agriculture production. Drops in agriculture production would not only affect particular farmers, but the agricultural sector as a whole. The reduced access to reasonably priced credit would flow through to many vital sectors of the US economy. The sectors that are represented by the CCEQ ABS issuers comprise an important base for economic growth in the US and international exports.

For these reasons and given the strong past performance of the CCEQ ABS sector through multiple economic cycles, we propose that no additional risk retention measures are needed to protect our investors. Specifically, we recommend that the CCEQ asset class be granted an exemption from the credit risk retention requirements of Section 941 of the legislation. If such an exemption is not available, we recommend that the regulations applicable to CCEQ ABS be drafted in a way that validates the existing practices and structures used in the CCEQ ABS market.

DATA DISCLOSURE

Section 942 of the Dodd-Frank legislation directs the Commission to adopt regulations with respect to the types of information about the underlying assets that is disclosed by ABS issuers. The desired outcome of these regulations is to facilitate the comparison of transactions and to provide data for investors to independently perform due diligence. The legislation does not set forth specific data to be disclosed, but does imply that the data would be at an asset-level or loan-level if deemed necessary.

The captive CCEQ ABS issuers understand the Commission's desire to help investors make more informed decisions, especially on asset types that have harmed investors during the recent financial crisis. However, based on the superior performance of the CCEQ ABS sector (as stated by the Board of Governors of the Federal Reserve System in its *Report to the Congress on Risk Retention*, dated October 2010, "Equipment loan and lease ABS...[has] displayed strong performance throughout the financial crisis.") and feedback from investors, no additional data beyond that which is currently being provided is necessary in the CCEQ ABS market.

Currently, investors compare CCEQ ABS transactions using stratifications of the pool data disclosed in the offering materials, including items such as industry type, APR, geographic location, and loan size. This stratified data provides investors and rating agencies with sufficient information to compare various pools of the CCEQ ABS issuer. Comparisons across the entire CCEQ sector are uncommon, for the most part, due to non-homogeneous equipment and borrower profiles, and the specialized, proprietary underwriting guidelines utilized by each company.

Investors in CCEQ ABS are typically large, sophisticated corporations who recognize the unique aspects of analyzing the risks of CCEQ assets. In addition to regular onsite reviews of CCEQ operations and management by the rating agencies and CCEQ investors, many CCEQ investors perform a due diligence review prior to an actual issuance in order to pre-approve the issuer or asset class. These due diligence reviews typically focus on the core issuer characteristics such as quality and experience of the underwriting and collection operations, the fundamentals of the particular industry, any backup servicing arrangements, the equipment remarketing process, and the strength of the management team. Investors and rating agencies view the due diligence of these qualitative factors as being just as (or in some cases, more) important than the quantitative pool factors. Conversely, an analysis of only the loan-by-loan data would be inadequate and possibly misleading in determining the risks of a CCEQ ABS transaction.

We have had discussions with several investors who are active buyers of CCEQ ABS about their views on the need for additional information. These investors recognize the unique characteristics of our asset class and while a few investors expressed their desire to receive loan-by-loan data on other asset-classes, all stated that the current level of disclosure by CCEQ ABS issuers was sufficient to perform their analysis of CCEQ ABS.

If CCEQ ABS issuers were ultimately required to disclose loan level data, we would have significant concerns about disclosing such detailed information, which could reveal private information about customers and dealers and would expose proprietary data to competitors. Unlike other ABS issuers, we have a relatively small number of borrowers or dealers in each pool and, given their location in rural

areas, it would be possible to identify a specific customer or dealer based on even limited loan-level detail. For example, in some zip codes there may be one large farmer and several smaller ones. Based on the loan size or type of equipment, it would be easy for others, including our competitors, to identify the borrower and their respective loan terms. Even in certain larger geographic groupings, borrowers or dealers could be easily identified. Revealing such information would not only breach the trust we have established and erode relationships that have been forged over many years, but, in some cases, could also violate our legal commitments.

If more specific disclosure is required, the risks to customer and dealer privacy as well as to competitive intelligence would lead some CCEQ ABS issuers to discontinue their securitization programs. In addition, CCEQ ABS issuers would experience significant operational costs to process, compile and distribute this new loan-level data. This, in turn, could negatively impact customers and dealers by causing higher financing costs or decreased availability of credit. Furthermore, a decrease in the level of CCEQ ABS issuance would negatively impact investors by reducing the supply of an investment alternative that has performed well for several years. Therefore, we recommend that the Commission prescribe requirements for CCEQ ABS issuers under Section 942 of the legislation that are limited to the current disclosure requirements.

Further, CCEQ ABS issuers suggest that if required to make additional disclosures, we provide a new set of detailed grouped data, which would preserve customer and dealer privacy and protect proprietary underwriting and marketing information from third parties. We would propose providing something similar to the following data at the time of a new transaction, as well as on a monthly basis concurrent with, but separate from any related 10-D filings.

RETAIL GROUPED DATA

Grouped combinations of:

- 1) Industry or Equipment Type
- 2) New/Used
- 3) Original Term
- 4) APR

For each grouping provide the following:

- 1) # of Contracts
- 2) Original Balance
- 3) Current Balance
- 4) Wtd Avg Remaining Term
- 5) Wtd Avg APR

WHOLESALE GROUPED DATA

Grouped combinations of:

- 1) Product Line (equipment, rental, parts, etc.)
- 2) New/Used

For each Grouping provide the following:

- 1) # of Dealers
- 2) Current Balance

As transactions age and the number of loans in any of these groupings decreases to a point that the issuer reasonably determines that continued disclosure could threaten a customer's or dealer's privacy, the grouping would be combined with an adjacent grouping.

Should the Commission implement any new data disclosure requirements, it is vitally important that issuers are given adequate time to implement the procedural and systems capabilities necessary to

comply. For this reason, we would propose that any new data disclosure requirements become effective on the later of six (6) months after being issued in their final form and January 1, 2012, and that they only apply to new issuances. In addition, any new requirement shall not necessitate the re-creation of any historical (before the effective date) data.

CONCLUSION

In summary, because CCEQ issuers have a sizeable economic stake in the performance of the assets, do not change underwriting or servicing strategies according to asset ownership, and have additional unique incentives based on links to our parent companies, our incentives are already aligned with CCEQ ABS investors. Therefore, we propose that the CCEQ asset class be exempt from the risk retention requirements. We further propose that no additional data disclosures be required for CCEQ ABS issuances due to the superior performance of our asset class and the corresponding investor comfort with current disclosure, as well as due to our privacy concerns and additional costs involved in providing such information.

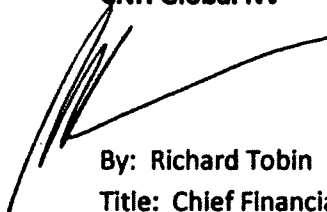
Specifically, we recommend that the CCEQ asset class be granted an exemption from the Credit Risk Retention requirements of Section 941 of the legislation, and that the Commission prescribe requirements for CCEQ ABS issuers under Section 942 of the legislation that are limited to the current disclosure requirements.

We look forward to our meeting to discuss in more detail our recommendations and to answer your questions.

SEC Letter, December 13, 2010

Sincerely,

CNH Global NV



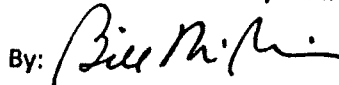
By: Richard Tobin
Title: Chief Financial Officer


Deere & Company



By: Chad M. Volkert
Title: Manager, Funding

Navistar Financial Corporation



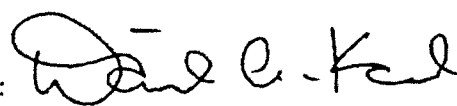
By: 
Title: WILLIAM V. MCMENAMIN
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Volvo Financial Services, a division of VFS US LLC



By: Teresa D. Davidson
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By: 
Title: Treasurer