



October 4, 2011

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

**Re: File No. S7-08-10
Re-Proposed Rules on Shelf Eligibility Conditions for Asset-Backed Securities**

Ladies and Gentlemen:

IPFS Corporation ("IPFS"), an originator and servicer of insurance premium finance loans to small and medium-sized businesses, respectfully submits these comments in connection with the Commission's August, 2011 re-proposed shelf eligibility conditions for asset-backed securities (the "Re-Proposals").

As you know, IPFS submitted a July 30, 2010 comment letter on the Commission's May 3, 2010 Proposed Rules for Asset-Backed Securities (the "2010 ABS Proposals"). Please refer to that letter for more extensive background on our company, our industry, our transaction structure and insurance premium finance loans in general. While we don't intend to repeat our previous letter, we will highlight some background and analysis from that letter to help you understand our view of the main issue in the Re-Proposal that we'd like to discuss: the usefulness of asset-level disclosures in our asset class. Please note that we stand by our previous letter, and hope that the Commission will continue to refer to it in connection with its rulemaking decisions.

Background.

IPFS finances approximately \$7.5 billion of insurance premiums for approximately 550,000 customers annually. IPFS has been a regular issuer in the securitization market since the early 1990s, and continues to rely on bank conduit and privately-placed medium-term note facilities for its financing needs. IPFS operates a revolving master trust facility with a wholly-owned SPV subsidiary that issues variable funding notes ("VFNs", primarily issued to bank conduits) and medium-term notes (in the Rule 144A market) that are all secured by a common pool of amortizing, non-revolving, short-term premium finance loans. Our current master trust structure, which has been in place since 2001, has issued multiple series of highly-rated senior and subordinate notes over the years.

IPFS and its subsidiaries make loans primarily to small and medium-sized businesses to finance those businesses' property and casualty insurance premiums. We also acquire premium finance loans from other (typically smaller) premium finance companies and financial institutions, including companies that are exiting the business. For example, IPFS bought the

business of AIG's premium finance subsidiary, AI Credit, in 2010. The loans we purchase rather than originate are usually associated with our acquisition of whole businesses, or are part of our ongoing relationships with regular, repeat originators. Any such loans sold to our SPV issuer and included in our master trust must meet the same ongoing quality and concentration limits that apply to the loans we originate.

Property and casualty insurance policies for businesses typically require a full, one-year premium to be paid at or near the beginning of the policy period. Paying for large, up-front insurance premiums can be daunting, particularly for small and medium-sized businesses. Premium finance loans allow the customers to spread payments over the course of the policies rather than paying in full up front. If the policy is later cancelled by the lender for non-payment before the full coverage period has run, the insurance company issues a pro-rated refund (which we call the "return premium") of the "unused" up-front payment to the lender. IPFS uses those potential return premiums (typically payable by highly-rated insurance companies) as the primary collateral for its loans.

Under its premium finance agreements, which are similar to those of other companies in the industry, IPFS has two sources of recourse upon non-payment or other default: the insurance company and the customer. Premium finance loan customers are particularly reluctant to default, since most businesses need some type of property and casualty insurance to operate. Since a default can lead to the cancellation of the customer's coverage, a decision to default on a premium finance loan can be tantamount to a decision to liquidate the business.¹ If a customer defaults on a loan, IPFS is entitled to cancel the underlying insurance policy, to receive and apply any unearned premium that secures the loan, and to seek any remaining unpaid amount directly from the customer. Because there are two sources of recourse, and because default is relatively rare, premium finance loans are a particularly safe asset class.

IPFS's customers typically arrange for their loans at the same time that they are arranging insurance coverage with their independent insurance brokers. The loans are disbursed promptly, without the need for SBA support or for the customer to pledge other business assets as collateral. Typically, the customer will repay the premium finance loan in nine equal monthly payments to IPFS, although our loans may have terms that range from 6 to 34 months. The average loan size is small: approximately 83% of our customers finance premiums less than \$5,000, and over 90% of our customers finance premiums less than \$10,000. During the twelve months ending on July 31, 2011, IPFS made over 576,600 loans.

Our Commentary.

The Commission has asked for comments on asset-level disclosure issues relating both to "asset-backed securities" and to "structured finance products". As we explained in our earlier letter, we have not taken a definitive stance on which category we prefer our transaction to fall into, but our comments in this letter are equally applicable to both characterizations. We believe, to borrow the words of Section 7(c) of the Securities Act, that the disclosure of asset-level or

¹ The decision to cancel a customer's insurance coverage is a significant one, which is why IPFS, its originating subsidiaries, and other premium finance lenders are regulated in most states.

loan-level data is not *necessary for investors to independently perform due diligence* on pools of premium finance loans.

Premium finance loans are quite different from residential or commercial mortgage loans and other asset classes for which there are asset-level reporting requirements in Regulation AB. The outlook and performance of premium finance loans is not driven by objectively measurable criteria that can be easily monitored or recognized by investors at the loan level, such as a FICO score or an NRSRO rating. Rather, premium finance loan performance is driven by a mix of factors, including the customer's relationship with the broker, its history with the lender, the type and amount of underlying insurance coverage, the number of different insurance premiums being financed by the same loan, the customer's overall creditworthiness, the amount of down payment on the policy premium, and the rating and payment history of the underlying insurance company. Except for those data points that can be easily measured at the pool level, such as the amount of the down payments, no single factor relating to the underwriting of a particular loan correlates with a particular credit outcome.

The small size and short average life of the hundreds of thousands of loans in the pool at any given time make it unrealistic for an investor to investigate the characteristics and performance of individual premium finance loans. Interestingly, the strong credit performance of insurance premium finance loans itself makes it uneconomic for investors to allocate time to look at individual loans. Our underlying loan portfolio's normal, historical net loss experience has been approximately 25 basis points per year and even during the 2008-2009 recession and liquidity crisis, our loan portfolio's net loss experience has never exceeded 50 basis points per year. During those same periods, our required reserves (i.e., our SPV subsidiary's retained interest) have always been at least 500 basis points, representing several times coverage of our highest annual net loss experience. Under these circumstances, as would be the case with a credit card portfolio, an investor's time is much better allocated to other endeavors.

By contrast, disclosure of *pool-level* data is particularly useful and appropriate for premium finance loan ABS investors. We have negotiated transactions in the private placement markets for many years and believe, based on what investors have asked us to provide, that investors in premium finance loan securitizations prefer to review pooled, portfolio-wide information. For example, our recent disclosure documents have included the following types of pool-level disclosures:

- Concentration of loans in the pool by related insurance carrier, in particular ratings categories;
- The size of loans in the pool grouped by outstanding balance ranges;
- The remaining installment term of the loans in the pool grouped by remaining term ranges;
- Concentration of loans by percentage of down payment;

- The geographic concentration of loans in the pool by states in which the concentration exceeds a specified threshold; and
- The concentration of loans by related insurance agents for whom the concentration exceeds a specified threshold.

We remain concerned that complying with a loan-level disclosure requirement will force us to incur high costs and reveal confidential information without offering any added benefit to our investors, who already request the information they need. Premium finance loan securitizations, in particular, have caused no investor losses so far as we know, and have maintained their originally-assigned ratings throughout the recession and liquidity crisis. Furthermore, investors haven't questioned rating agency methodology or made any generalized demands for additional disclosure or transparency relating to premium finance loans. The need for added loan-level disclosure should be evaluated in that light.

We also remain concerned about the competitive aspects of disclosing asset-level data that has not previously been requested by investors and that has not previously been available to our competitors, particularly if the method of disclosure could permit an investor to determine the identity of a particular borrower or insurance broker. Our competitors (or their affiliates) could easily become secondary purchasers of our securitization subsidiary's notes, or present themselves as potential purchasers to gain access to previously undisclosed information. Our concern is heightened by the structure of our industry, in which many of our competitors are owned by banks. Since those competitors have access to funds from their owner banks, they might not need to incur the costs of maintaining access to the Rule 144A market after giving effect to the 2010 ABS Proposals. Further, the Form S-1-type information for those competitors probably wouldn't be separately disclosed in the banks' own securities filings because the banks' premium finance subsidiaries' performance won't be material to the banks' consolidated financial position. In that scenario, IPFS could easily be one of the few major players in the premium finance industry required to disclose the information, foiling any goal of increased industry transparency while exposing IPFS to unfair competition.

Conclusion.

We urge the Commission to adopt our view that asset-level disclosure is unnecessary for investors in insurance premium finance loan ABS to independently perform due diligence, irrespective of whether such ABS is considered an "asset-backed security" or "structured finance product." We thank you for providing a second opportunity to comment on certain aspects of the 2010 ABS Proposals. We especially appreciate the Commission's willingness to re-examine certain aspects of the 2010 ABS Proposals after receiving responses from several commentators.

We again respectfully request that the Commission retain the successful aspects of the existing regulatory regime and avoid imposing potentially oppressive costs on well-functioning securitization structures. We look forward to commenting on any future proposals that the Commission may release in light of these and other comments.

Please contact us with any questions that you might have, or if you wish to discuss this matter further.

Sincerely,

IPFS CORPORATION

By: 
Bryan J. Andres
Executive Vice President
and Chief Financial Officer