



March 28, 2014

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

**Re: File Number S7-08-10**

Ladies and Gentlemen:

IPFS Corporation ("IPFS"), an originator and servicer of insurance premium finance loans, respectfully submits these comments relating to Commissioner Piwowar's February 25, 2014 request for information connected to the Securities and Exchange Commission staff's proposed approach to asset-level data disclosure.

We appreciate Commissioner Piwowar's awareness of non-mortgage-backed issuers, like us, who would be affected by the staff's proposal. Commissioner Piwowar notes that the Commission can limit privacy concerns if it were to "simply follow the statute and require disclosure of asset-level data only if such data is necessary for investors to independently perform due diligence". He goes on to ask whether asset-level data is necessary for investors to independently perform due diligence on assets other than mortgaged-backed securities. We think the Commissioner's observations and questions are right on the mark. Our experience has been that neither investors nor rating agencies have any use for asset-level data relating to our asset class. Indeed, we suspect that if we were to go to the trouble and expense of assembling and disclosing such data, it would be ignored. The reason for that is simple: unlike long-term, high-value assets like mortgages, our premium finance loans are numerous and very short-term, and substantially all are small. They also turn over very rapidly. Because the borrowers and the loan amounts in our pool are constantly changing<sup>1</sup>, the only sensible way to evaluate our loans' performance is on a pool-wide basis. Furthermore, the credit underwriting of premium finance loans is driven primarily by the credit quality of the **collateral** for the loans rather than by the borrowers' general creditworthiness. The value of that collateral, which is not subject to market price risk, is best monitored on a pool-wide basis since most of the loans are comparably structured.

Please permit us to clarify our points by explaining our business further. IPFS Corporation and our three premium finance subsidiaries originate and service insurance premium finance loans that are collateralized by property and casualty insurance policies (not life

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<sup>1</sup> Because our loans are originated at different times, and because most mature in nine months or less, our entire loan pool turns over more than twice per year.

insurance). We estimate that we have a 20% market share and are the only large premium finance company that is not bank-owned. We believe we are the only premium finance company that is currently using the ABS markets for its primary financing.

IPFS finances approximately \$7.5 billion of insurance premiums for approximately 570,000 customers annually, and for over twenty years has regularly issued privately placed securities in the securitization market through its special-purpose securitization subsidiary. As of February 28, 2014, IPFS's outstanding loans totaled over \$2.2 billion. Historically, approximately 83% of our loans have remaining balances of less than \$5,000, and 90% are for less than \$10,000. Approximately 96% of our loans have a remaining life of 9 months or less at any time. Our payment rate is over 20% per month measured by receipts in a month divided by the beginning loan balance. The average life of our loan portfolio is approximately 4 ½ months.

Because of the specialized nature of the origination and servicing for the loans, most commercial banks choose not to make premium finance loans. Rather, premium finance loans are typically made by licensed premium finance lenders to help customers to pay their premiums on property and casualty insurance policies. Such policies typically require companies to pay the entire premium at or near the beginning of the policy period. Coming up with a large, lump-sum premium payment can be challenging, particularly for small and medium-sized businesses. By borrowing part of the premium payment from a premium finance lender like IPFS, a business can effectively spread its premium payments over the life of the policy rather than paying the premium in full up front. If the underlying insurance policy is cancelled before the policy term ends, the insurance company typically is required to refund the unearned portion (*i.e.*, the "unearned premium") of the initial up front premium payment. IPFS makes loans that are secured by that "unearned premium". If a borrower doesn't make its loan payments, IPFS can cancel the related insurance policy and receive the unearned premium from the insurance company. IPFS then uses the unearned premium to repay the premium finance loan. For more than 90% of its loans, IPFS doesn't underwrite by considering the borrower's credit: it looks principally at the insurance company's credit, the type and amount of underlying insurance coverage, the borrower's relationship with the relevant insurance broker, the borrower's history with IPFS, and the amount of the borrower's policy premium down payment. Because IPFS primarily looks to insurance companies, not individual borrowers, as the ultimate repayment source, asset-level data relating to the borrowers isn't helpful to investors. By reviewing **pool-level data** about how many accounts are related to which insurance companies, and about aggregate exposure to those insurance companies, investors are able to see credit contours more clearly than they would be if given account-by-account loan detail.<sup>2</sup>

During the past 13 years, IPFS has issued securities through a revolving master trust facility with a wholly-owned SPV subsidiary that issues variable funding notes (primarily issued to commercial paper conduits) and medium-term notes (in the Rule 144A market). All of IPFS's issuances are secured by a common pool of amortizing, non-revolving premium finance loans. Although the loans aren't revolving, the pool is continuously refreshed as existing loans are repaid and IPFS and its operating subsidiaries continually sell new loans to the SPV.

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<sup>2</sup> Some of the pool-level measurements in our securitization subsidiary's note issues include concentrations of aggregate receivables by credit rating of underlying insurance company and by certain insurance brokers, aging of overdue receivables, charged-off receivables, average net portfolio yield, and payment rate.



Our securitization investors always request pooled, portfolio-wide information. They do not seek asset-level data because it wouldn't help them analyze the loans backing their notes. Revolving pools of securitized premium finance loans typically include hundreds of thousands of very short-term loans, the average size of which is small relative to the size of the total collateral pool. The small size and short average life of the approximate 570,000 loans in the pool at any given time make it unrealistic for an investor to investigate each individual premium finance loan's characteristics and performance. It also makes it unrealistic to expect continuous updates on asset-level information. Requiring updates each time the pool composition changes by only 1% would require nearly daily reporting without providing any meaningful information to investors. The costs of providing asset-level data can only harm IPFS and the small businesses it assists, without providing any material benefit to investors.

Premium finance loans are similar to credit card receivables in this respect. If the Commission ends up requiring disclosure of asset-level data for non-MBS securitizations, we respectfully request an exclusion like the one envisioned for credit card securitizations.

As Commissioner Piwowar suggests, it would be wrong to say that the Rule 144A market in general, or the securitization market across all asset classes, failed during the financial crisis. No investor has suffered any loss of expected principal or interest in connection with any of our securitizations. To the best of our knowledge, that's also true of securitizations of other issuers of rated asset-backed securities in the premium finance industry. Furthermore, the normal, historical net loss experience on our underlying loan portfolio has been approximately 25 basis points per year. Even during the downturn, 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 securitization subsidiary's retained interest) have always represented several times coverage of our highest annual net loss experience. Unlike some other asset classes, especially those related to mortgages, investors haven't questioned rating agency methodology or made any generalized demands for additional disclosure or transparency relating to premium finance loans.<sup>3</sup> We believe those excellent results, when combined with our specific observations about why only pool-level data is useful to our investors, should permit the Commission to conclude that asset-level data is **not necessary** for investors to independently perform due diligence on notes backed by premium finance loans.

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<sup>3</sup> The President of the Federal Reserve Bank of New York commented in 2009 that "although some of the rating agency models have not held up well in the crisis, the consumer ABS models have proven to be reasonably robust. In other words, a AAA-rating still means quite a bit in this market. This is in contrast to the collateralized debt obligation or CDO market, where AAA-rated securities often used subprime and Alt-A mortgage loans as their raw ingredient." William C. Dudley, President and Chief Executive Officer, Fed. Reserve Bank of N.Y., Remarks at the Securities Industry and Financial Market Association and Pension Real Estate Association's Public-Private Investment Program Summit: A Preliminary Assessment of TALF (June 4, 2009), available at <http://www.newyorkfed.org/newsevents/speeches/2009/dud090604.html>. Most of our securitization subsidiary's notes over the years have received AAA-ratings using criteria that have remained effective for two decades. (The other notes were "shadow-rated" for use with commercial paper conduits or were intentionally rated "A" as a subordinate class.) In March, 2010, our securitization subsidiary's term notes were rated by a rating agency new to our transactions, DBRS. They, too, issued AAA-ratings for our securitization subsidiary's senior notes and A-ratings for our securitization subsidiary's subordinate notes using criteria comparable to the criteria used effectively by Standard & Poor's and Moody's for many years.



We have another reason to be deeply concerned about the prospect of asset-level disclosure. In a premium finance loan pool like ours, disclosing asset-level data would be likely to reveal confidential information that only a competitor would want<sup>4</sup>. All of our principal competitors are owned by banks, so they 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. Indeed, a very large bank that owns a premium finance lending subsidiary has been a regular investor in our securitization subsidiary's notes over the years. Since those competitors have access to funds from their owner banks, they might not need to incur the costs of accessing the Rule 144A market if asset-level disclosures become required. Further, the Form S-1-type information for those competitors probably won'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 the only player in the premium finance industry required to disclose asset-level information, foiling any goal of increased industry transparency while exposing IPFS to unfair competition.

Commissioner Piwowar is correct to suspect that asset-level disclosures won't help investors in all types of securitizations. We believe asset-level disclosures for premium finance loans would harm IPFS and comparable sponsors and issuers without any corresponding benefit to investors. Asset-level disclosure requirements, if applied to all securitizations, would fail to adequately "recognize the differences in securitization practices for various asset classes" while potentially decreasing businesses' access to well-priced insurance premium financing. Further, requiring asset-level disclosures in premium finance loan-backed securitizations would needlessly favor our large bank competitors that don't rely on securitization for their financing, because they could get access to our competitive data without having to make comparable disclosures themselves.

We invite all the Commissioners and the staff to review our July 30, 2010 and October 4, 2011 comment letters for additional detail on the points raised in this letter. While the Commissioners and the staff consider this letter, we urge everyone to keep the thrust of Commissioner Piwowar's observations and questions in mind while deciding upon the total scope of the so-called "Regulation AB II". In particular, we continue to believe that forcing all private placement issuers to supply the same information in the same ways as 1934 Act reporting companies, irrespective of how well their asset class has performed, would be very bad policy. We think the passage of time since the first rounds of comments on the proposed rulemaking has only emphasized our main request from 2010 and 2011: "Don't fix what ain't broke". The markets have clearly signaled what investors want and need post-crisis, and any rulemaking should reflect that to the greatest extent possible. In the case of the premium finance loan asset class, the investors and the rating agencies get the disclosure and due diligence assistance, and the resulting safe investments, that they want and need well within the boundaries of the existing private placement market.

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<sup>4</sup> Even though loan-level data is not useful for potential investors' due diligence, it could well be useful in helping our competitors learn about where and with whom, and under what terms, we do business with particular customers, insurance brokers and/or insurance companies.

We remain grateful for the chance to comment on the Commission's further developed proposals. In light of the significant scope of the proposed rulemaking in this area, we urge the Commission to issue a re-proposal (as was done with the proposed risk retention rules) rather than proceeding directly to final rules. We believe that would be prudent in light of the enormous potential costs and other economic consequences involved.

Please contact us with any questions that you might have, or if you wish to have a meeting to discuss these matters further.

Sincerely,

IPFS CORPORATION

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