March 27, 2014

Legislative and Regulatory Activities Division
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Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

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

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve
20th Street and Constitution Ave., NW
Washington, DC 20551

Mr. Alfred M. Pollard, Esq.
General Counsel
Federal Housing Finance Agency
Constitution Center
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Washington, DC 20024

Regulations Division
Office of the General Counsel
Department of Housing and Urban Development
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Re: Credit Risk Retention; Joint Further Notice of Proposed Rulemaking SEC (File No. S7-1411); FDIC (RIN 3064-AD74); OCC (Docket Number OCC-2013-0010); FRB (Docket Number R-1411); FHFA (RIN 2590-AA43); HUD (RIN 2501-AD53)

Dear Mr. de v. Frierson, Mr. Feldman, Mr. Pollard, Ms. Murphy, and to Whom It May Concern:

The undersigned companies and organizations, representing a diverse range of industries and a broad sector of the economy, believe that currently proposed Dodd-Frank mandated risk retention rules will severely impede the availability of collateralized loan obligations (CLOs) in the future and therefore significantly decrease access to a safe, affordable, and important source of credit for non-investment grade companies. To ensure American businesses do not face an increase in financing costs, a decrease in available credit, or both, we urge regulators to reconsider the proposed rule and work with the industry to develop a form of risk retention that would work for CLOs.

Risk retention rules set forth in the recent re-proposal were formulated to implement the Dodd-Frank provisions to ward against the excesses of "originate to distribute" securitizations (particularly mortgage securitizations) prior to and during the financial crisis. However, as written, the risk retention rules will encompass an expansive set of financial products and securitizations, including open market CLOs. This one size fits all approach to regulation currently penalizes and effectively endangers an asset class – open market CLOs – that are not originate to distribute securitizations and that played no role in the financial crisis.

CLOs Are a Safe and Reliable Source of Commercial Funding

Collateralized loan obligations are an important source of credit for mid-size businesses that often do not have access to traditional bond markets. Currently, CLOs are responsible for almost $300 billion in funding to American businesses and comprise nearly half of all non-bank loans. CLOs are most akin to mutual funds; they are actively managed investment vehicles that purchase commercial loans from the open market.

Unlike the financial products that contributed to the financial crisis, CLOs have proven to be incredibly safe, suffering an impairment rate of less than 1.5 percent over the past ten years. In addition, due to the structure of CLOs, even the negligible amount of impairments that occurred resulted in practically no loss to note holders, a better record than many investment grade bonds. CLOs are subject to robust underwriting and virtually all CLO managers are registered investment advisers subject to strict federal securities law.

Risk Retention Will Needlessly Cripple the CLO Market

The proposed risk retention rules would require CLO managers to purchase and retain 5 percent of the value of the securitization for its life. CLO managers are fee-for-service agents who work on behalf of investors and simply do not possess the resources necessary to purchase and retain such assets. According to a survey of CLO managers conducted by the Loan Syndications and Trading Association (LSTA), the proposed risk retention rules could cause all but the largest CLO managers to stop issuing future CLOs and would likely cause this robust and safe market to contract by over 70 percent.

Risk Retention Will Increase Costs and Endanger Financing

According to a recent Oliver Wyman study commissioned by the LSTA, the current risk retention proposal would likely reduce CLO formation by $170 to $250 billion. This reduction would result in companies seeking other, more expensive financing to replace CLOs, if such replacements could be found at all. As a result, companies could see an increase in financing margins by more than one-third and see annual interest costs increase by an equivalent of $3.2 billion in today's market.

This staggering increase in credit costs would impede the ability of a broad range of name-brand, mid-size companies to develop and innovate. Threatening a reliable and cost-effective source of financing for American companies would slow job creation and stifle economic growth and expansion.

For the reasons detailed in this letter, we entreat regulators to reevaluate the proposed risk retention rules and encourage them to work with the industry to find a solution that works, as they have with many other industries and asset classes, including mortgages. Failure to do so will unnecessarily harm not only the CLO market, but the many American businesses that rely on CLOs for credit.

The negative consequences of endangering a heavily relied upon source of credit cannot and should not be ignored by regulators. Together, the undersigned companies respectfully request that you reconsider the current regulatory approach to risk retention in order to prevent undue harm to an important and affordable source of financing.

Sincerely,

American HomePatient, Inc.
BJC HealthCare
CCAE, LLC
CENTER SPORTS, INC
Central State Resources, LLC
Community Health Systems, Inc.
Cornerstone Healthcare Group Holding, Inc.
Financial Services Roundtable
Goodin Company
Gramlich Insurance Agency, Inc.
HCA
Home Seal Services Inc.
Jeffrey Franks Photography, Inc.
Johnstone Supply
Kugler Oil Company
Machine Repair & Design Inc.
Management Advisory Services
Marietta Corporation
Mars Plbg & Htg Inc
Multico, Inc
National Black Chamber of Commerce

NCI Building Systems, Inc.
Nuss Truck & Equipment
Nuveen Investments
Private Equity Growth Capital Council
ShowValue, Inc.
Towne East
Tucson Metro Chamber
U.S. Chamber of Commerce
W. N. Van Alstine & Sons, Inc.
West Corporation