CAPTIVE COMMERCIAL EQUIPMENT ABS ISSUER GROUP
Caterpillar Financial Services Corporation
CNH Capital LLC
Deere & Company
Navistar Financial Corporation
Volvo Financial Services, a division of VFS US LLC

March 18, 2011

The Honorable Mary L. Schapiro
Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Mr. John E. Bowman
Acting Director
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

The Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429-9990

The Honorable Timothy F. Geithner
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue
Washington, DC 20551

Mr. John G. Walsh
Acting Comptroller of the Currency
250 E Street, SW
Washington, DC 20219-0001

Re: Follow up to March 8, 2011 CCEQ Conference Call on discussion of Sections 941 of Dodd-Frank Act

Dear Ladies and Gentlemen:

As a follow up to our call on March 8, 2011 regarding risk retention, the undersigned companies are submitting the attached comments in support of the CCEQ proposal for exemption from risk retention requirements (see our letter dated March 8, 2011). The comments address each section of the Applicable Standards for Exemptions, Exceptions, and Adjustments as stated in the Dodd-Frank Act, Section 941(b) (establishing Section 15G(e)(2) of the Securities Exchange Act of 1934). As described in the attached, we believe our CCEQ proposed exemption would meet the applicable standards for exemption under this section.

We appreciate the continued opportunity to discuss these issues with the Commission and other regulatory agencies.

Sincerely,

The Captive Commercial Equipment ABS Issuer Group

Caterpillar Financial Services Corporation

CNH Capital LLC

Deere & Company

Navistar Financial Corporation

Volvo Financial Services, a division of VFS US LLC

CCEQ PROPOSED EXEMPTION TO DODD-FRANK SECTION 941 RISK RETENTION APPLICABLE STANDARDS FOR EXEMPTIONS, EXCEPTIONS, AND ADJUSTMENTS

BACKGROUND

Section 941 of the Dodd-Frank Act (the "Act") requires the Commission and the Federal banking agencies to prescribe regulations to require securitizers to retain an economic interest in a portion of the credit risk for any asset that the securitizer, through the issuance of an asset backed security, transfers, sells, or conveys to a third party. Section 941 also grants these regulators the authority to issue an exemption for certain classes of institutions from the risk retention requirements (Section 15G(e)(1)of the Securities Exchange Act of 1934). The Applicable Standards for Exemptions, Exceptions, and Adjustments as stated in Section 15G(e)(2) of the Securities Exchange Act of 1934 (implemented by Section 941(b) of the Act) provide that any exemption "shall (A) help ensure high quality underwriting standards for the securitizers and originators of assets that are securitized or available for securitization, and (B) encourage appropriate risk management practices by the securitizers and originators of assets, improve the access of consumers and businesses to credit on reasonable terms, or otherwise be in the public interest and for the protection of investors."

As further described below, we believe Captive Commercial Equipment Finance Company ("CCEQ" as defined in Exhibit A) securitizers have proper and unique incentive alignment mechanisms that function as an alternative to risk retention requirements and that imposing risk retention requirements on CCEQs could result in incremental cost and other detrimental effects, all of which taken as a whole provide sufficient justification for an exemption from the risk retention requirement in accordance with criteria specified in the applicable standards. After taking into consideration the comments and information received from issuers, corporations, professional and trade organizations, and investors, we propose to classify CCEQs as a distinct class of issuers and to exempt them from the risk retention requirements.

DISCUSSION

In formulating this proposal, we have analyzed each of the applicable standards for exemption as stated under the Act and how each applies to CCEQ securitizers and their respective asset backed securities.

APPLICABLE STANDARDS:

An exemption will satisfy clause (A) of the Applicable Standards by helping to ensure high quality underwriting standards for the securitizers and originators of assets that are securitized or available for securitization

The first applicable standard is to help ensure high quality underwriting standards for the securitizers and originators of assets that are securitized or available for securitization**.** While current CCEQ ABS transactions include various forms and amounts of risk retention, CCEQ issuers have an innate and superseding incentive to exercise due care in making underwriting decisions. This incentive is independent of risk retention and stems from the long-term role of CCEQ issuers, which is to strengthen the bond between their equipment manufacturing affiliates and their respective customers. Each of the CCEQ issuer's affiliated manufacturing companies operate in markets in which the number of potential customers is static and practically every customer already has the product; and thus, it is primarily a replacement market with few new customers entering the market. As the types of equipment manufactured by these companies have long useful lives and replacement cycles, the companies must rely heavily on repeat customers to maintain their base of business. These companies have dedicated many years, some in excess of a century, to building this loyal customer base which is evidenced by the high brand loyalty and repeat customer purchases of the affiliate companies' equipment. CCEQs were established, in part, for the purpose of solidifying this bond with the customer. Many of these CCEQs have operated for over half a century and have securitized for close to two decades. If CCEQs lower their underwriting standards, higher repossessions would result, thereby breaking the important link between the company and their customers. This would contradict the CCEQs' purpose of maintaining and supporting this vital customer base and ultimately, would be detrimental to the manufacturing company's future sales and its reputation. As such, CCEQ securitizers have a distinctive attribute derived from the relationship with their affiliated manufacturer and the characteristics of their specific industries that ensure high quality underwriting and servicing standards, and no additional risk retention requirements are needed to create incentives to maintain these standards.

The predominant influence of this innate incentive has been further demonstrated by the performance of the sector during the recent financial crisis. As discussed in the "Report to the Congress on Risk Retention, October 2010" issued by the Board of Governors of the Federal Reserve System (the "Fed Study")," performance during the crisis varied among asset classes, providing useful evidence on the relative impact of risk retention practices and incentive alignment mechanisms that were in place before the crisis." (page 2) Of all the sectors that the Fed Study analyzed, the equipment sector was one of the best ABS performers, as measured in terms of changes in credit ratings before and after the crisis, and was described as having displayed "strong performance throughout the financial crisis." (page 63) According to the Fed Study, captive finance companies of equipment manufacturers represent at least 75% of annual equipment issuance in each of last 5 years. (page 36) The Fed Study recognized that factors other than risk retention may explain better performance, including "differences in market practices and conventions, which in many instances exist for sound reasons related to the inherent nature of the type of asset being securitized." (page 83) The Fed Study also recommends implementing asset-specific requirements to directly address the fundamental incentive problems of each asset type, and further states that additional incentives to promote the quality of the assets being securitized may not be necessary in some circumstances. (page 83-84)

One of the primary aims of the risk retention requirement of the Act is to reduce the potential incentive of an originator or securitizer to securitize poor quality assets that it has underwritten. Based on our analysis of the CCEQ market, we reasonably conclude that no fundamental incentive problems exist for CCEQ securitizers, that there are unique, intrinsic incentives to promote quality that exist in the absence of any risk retention requirement, and that the proposed exemption would meet the applicable standards for exemption under Section (A).

An exemption will satisfy clause (B) of the Applicable Standards because it will meet each of the following criteria:

(1) An exemption will encourage appropriate risk management practices by the securitizers and originators of assets

Given Section (A)’s focus on high quality underwriting standards, we interpret Section (B)'s risk management focus to refer to the loan servicing and collections practices that issuers employ following the origination of a loan, and in particular any incentives that securitizers or servicers may have which are misaligned with the interests of investors, such as favoring a specific class of investor.

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 underwriting and servicing (collections) operations of CCEQ issuers function on the same basis. CCEQs do not operate on an "originate to sell" basis. Because not all assets will be securitized and the selection of ABS pools is completed weeks or months after they are originated, CCEQ underwriters do not know the final ownership at the time of approval or while performing ongoing loan servicing. Likewise, CCEQ collectors do not have easy access to the ownership designation on each loan, so they have no knowledge whether a particular loan is part of an ABS issuance. Therefore, these collectors treat all loans the same and process each loan according to standardized policies.

In addition, to date no CCEQ ABS issuer has experienced an investor or trustee demand for repurchase due to breach of representations or warranty, and CCEQ securitization structures (including non-adverse selection criteria) have proven to be sound. The Fed Study states that equipment ABS "emerged from financial crisis largely intact." (page 47) We conclude that existing risk management practices for CCEQ are appropriate and the risk retention exemption proposal would meet this applicable standard.

(2) An exemption will improve the access of consumers and businesses to credit on reasonable terms

CCEQs provide important sources of funding to particular markets, industries, and small businesses for the purchase of vital pieces of income-producing equipment. Ongoing access to the ABS market for CCEQ securitizers is important to their funding strategies and their ability to offer reasonable financing to these commercial enterprises.

The potential additional cost of a risk retention requirement for CCEQ securitizers could negatively impact customers and dealers by causing decreased availability or increased cost of credit. Risk retention requirements would affect CCEQ securitizers' funding cost differently depending primarily on the credit rating and securitization program size of each respective company. Lower-rated companies would face higher risk retention funding costs, which could negatively affect their competitive position relative to higher-rated companies or government sponsored entities (in the case of agricultural equipment loans, see risk retention exemption for Farm Credit System Institutions in Section 15(e)(3) of the Act).

We conclude that the proposed CCEQ risk retention exemption would prevent harm to businesses' access to credit on reasonable terms by avoiding the potential funding cost impacts discussed above.

(3) An exemption otherwise will be in the public interest

If additional risk retention is required, any resulting increase in lending costs could negatively impact the CCEQ manufacturer industries, such as construction, agriculture and transportation. To the extent that the increased funding costs are passed on to dealers and customers in the form of higher prices or loan rates, additional downstream economic effects would result that cannot be reliably estimated, but could be sizable. The reduced access to reasonably priced credit would flow through vital sectors of the US economy. The sectors that are represented by the CCEQ ABS securitizers comprise an important base for economic growth in the US and international exports.

CCEQ companies would have fewer diversified sources of market-rate funding to support future originations, thereby increasing exposure to disruptions in other funding markets. Because the diversification of funding sources is one of the factors in determining credit ratings, the CCEQs or their affiliated manufacturers would also be exposed to any corollary potential rating agency scrutiny or negative rating actions that could affect investors in non-ABS sectors of the market.

As a disruption in the financing system of the industries and small businesses represented by CCEQs could result in sizable downstream economic effects, we conclude that the proposed exemption would be in the public interest.

(4) An exemption will achieve protection of investors

The additional cost of a risk retention requirement for CCEQ securitizers could result in a decrease in the level of CCEQ ABS issuances. This could negatively impact investors by reducing the supply of an investment alternative that has performed well for several years and has provided a source of diversification away from consumer assets. The inherent nature of the CCEQ relationship with the manufacturer and borrowers, as well as the first loss credit supports available in the transactions, historically have provided investors with protection from losses as demonstrated by the strong performance of the equipment ABS sector during the recent financial crisis. As CCEQ ABS transactions are backed by receivables from commercial borrowers, they provide a level of protection to investors by reducing their exposure to more volatile consumer related risks. If the level of CCEQ ABS issuances is reduced, this diversification protection strategy may not be available to investors.

Further, the CCEQ disclosure proposal (see letter dated March 8, 2011) would provide investors with additional transparency through periodic public reporting. This supplemental transparency would be achieved through the publishing of quarterly stratification tables, publicly detailing changes in the pool characteristics or risk concentrations. In the past, this data was only available through offering documents prepared when a transaction was initially sold, limiting investors' ability to monitor changes in the underlying pools. Risk concentrations would be made public each quarter with regards to pool characteristics such as geography (distribution by state), new vs. used equipment, and yield as measured by APR, along with other factors.

We therefore conclude that an exemption from risk retention would be for the protection of investors and would qualify under the applicable standards.

EXHIBIT A

The following is the proposed definition of Captive Commercial Equipment Finance Companies ("CCEQ").

"**Captive Commercial Equipment Finance Company"** shall mean any entity in which at least 90% of such entity's financing and leasing portfolio (including, without limitation, loans, notes, installment sales contracts, and operating and finance leases) at the end of the immediately preceding fiscal year arose from "Qualifying Commercial Financings."

"**Qualifying Commercial Financing"** shall include (a) any financing or lease that includes a "Product," or (b) any financing or lease to or for the benefit of an "Affiliate" or a "Distribution Entity" or any customer or Affiliate of such Distribution Entity.

"Product" is (a) any "Commercial Good" that is manufactured or sold by any Affiliate of the entity, or (b) any service that is provided by the entity, any Affiliate of the entity or a Distribution Entity .

"Distribution Entity" is a Person that sells, leases, or services Products.

"Commercial Good" is (a) commercial trucking and transportation equipment, including but not limited to day-cab and sleeper-cab tractors and any accompanying component attachment (*e.g.* trailers, dumps, garbage); (b) motor coaches and buses; (c) commercial construction and mining equipment and any accompanying component attachment (e.g. backhoes, buckets, hammers); (d) commercial agricultural equipment; (e) commercial landscape equipment; (f) engines and engine systems and the commercial projects with which they are integrated; and (g) recreational vehicles and other transportation equipment used for commercial purposes.

“Affiliate” means, with respect to a specified “Person,” another Person that directly, or indirectly through one or more intermediaries, “Controls” or is “Controlled” by or is under common Control with the Person specified.

“Control” or “Controlled” means (a) the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to

exercise voting power, by contract or otherwise, or (b) the ownership of more than fifty percent (50%) of the equity interests of a Person.

“Person” means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.