The International Association of Small Broker Dealers and Advisors

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The International Association of Small Broker-Dealers and Advisers,www.iasbda.com submits the following comments on the above referenced amendments. We wish to focus on the sole issue of how to treat debt incurred on a home and assets purchased with that debt or as the release calls it proceeds of debt secured by primary residence incurred to invest in securities. Borrowing on one's house has become an American tradition and needs to be rationalized in this proposal. The release notes the uncertainty over the use of such borrowings to purchase other assets and whether those assets need to be included in the calculation .A person with a home valued for tax purposes at $1,000,000 may have borrowed as much as $750,000 of net equity and its logical to exclude the other 25% from their net worth. But the release seems to allow the assets purchased by that $750,000 to be included for net worth purposes because of the complexity of tracing the assets.. This arguably seems to encourage the owner to borrow and diversify and thus defeat the intent of the legislation. A more logical reasoning would suggest that the amount of borrowings must also be excluded from net worth to offset their purchases, thereby excluding the entire value of the house as presumably intended. But that may be an excessive restraint . It seems logical that if other assets are to be counted, the loan against the house, must be deducted from net worth to avoid doing indirectly what cannot be done directly.

The release notes and agrees with NASAA'S concern that investors should not be encouraged to borrow on their house to invest in private placements. Such reasoning would seem however to deny the existence of the housing crunch that has occurred in the last two years. It would be perfectly suitable to draw down home equity to diversify into for example a high dividend energy offering. The question therefore is how to treat home equity debt . Congress was correctly concerned about the sensitive nature of home equity and the potential for abuse of it .It seems therefore that the rule must consider it more specifically then the proposal does. If the proceeds were used wisely then deducting the amount of the loan would not create a barrier. If they were used unwisely then the underlying home equity should not offset the entire loan. The question is whether equity underlying a home loan should completely offset the loan in the calculation. To do so seems to defy the intent of Congress and encourage liquefying home equity. Perhaps therefore a haircut can be wisely used to insure that the intent of Congress is fulfilled. A "25% of the loan' deduction" might serve that purpose. Private placements are very important to small business and should be encouraged. But Congress has spoken and the Commission should try to arrive at a proposal that fully considers home equity debt without discouraging this vital capital raising regulation. Small business does not gain by encouraging the unwise use of home equity.

An explanatory example might be the use of the above referenced home equity loan to buy a vacation house or a limited partnership. How much of those assets should be added to net worth without deducting the home equity loan that facilitated them? Finally as we have previously noted this exercise reveals the weakness of not having an alternative sophistication test. A finance professor who has a home worth 2 million dollars as a result of wise real estate investments but only $900,000 in other assets is not sophisticated enough to buy a private placement. But a blue collar worker or elderly widow who inherits a significant portfolio or wins the lottery qualifies. This test must be re-examined.

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