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April 11, 2011

Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission - Sent via email to: rule-comments@sec.gov
100 F Street NE
Washington, D.C. 20549 -1090

Subject: Proposed Risk Retention Requirements (File Number S7-14-11)

Dear Ms. Murphy, SEC Chairperson and Commissioners:

I appreciate the opportunity to make a public comment on the portion of the Dodd-Frank Act which deals with mandated risk retention requirements for entities which securitize mortgage investment products. I am submitting this public comment well before the closing date for comments, so that others may file comments critical of my observations or file comments agreeing with my observations.

It seems the proposed regulation mandating retention of a portion of securitized mortgage instruments begs a question. The question: **Was the lack of investment banking entities' investment in their own mortgage products a major cause of the housing bubble and the subsequent financial meltdown?**

It seems the proposal to require investment bankers to retain some percentage of their collateralized mortgage products (risk retention) has a regulatory priority which far exceeds the role of the supposed problem as a contributing factor in the financial meltdown. It seems there were other influences and other policies which contributed far more, and far more directly, to the housing bubble and the subsequent financial crisis.[1] And, these other influences and policies don't seem to be receiving a level of attention near the level of attention presently being given to regulatory mandated investment banker risk retention requirements.[2]

For example, buyers of mortgage investment products might have more accurately assessed the moral hazard (risk) of their investment decisions if rating agencies were not anointed with the imprimatur "Nationally Recognized Statistical Rating Organizations" (NRSO's) creating the impression they had some kind of superior knowledge and a government sponsored anointed status. The belief in the NRSO's superior status gave them oligopoly power and implied objectivity – which, it seems, wasn't actually there. If the rating agencies didn't enjoy this anointed status, institutional mortgage investors might have looked more carefully at the quality

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[1] **Why I Dissented.** The Financial Crises Inquiry Commission - Opinion Journal: Peter Wallison: (video interview) published 1/28/2011. http://online.wsj.com/video/opinion-journal-wallison-why-i-dissented/AF6220AF-4A4E-43E8-A393-1700F613CEF8.html

[2] **What Caused The Crises?** ***Mission Accomplished: Phil Angelides Succeeds In Not Upsetting the Politicians*** By Holman W. Jenkins Jr. Wall Street Journal January 29, 2011 http://online.wsj.com/article_email/SB10001424052748704268104576108000415603970-lMyQjAxMTAxMDAwODEwNDgyWj.html

of the collateral and the credit risks bundled into CMOs - which they blithely bought while depending on the rating agencies' biased and conflicted quality ratings. [3]

And, mortgage investment buyers might have been more cautious, more analytical and taken more personal investment quality screening responsibility if the proportion of loans insured by taxpayer backed insurance programs (Fannie Mae, Freddie Mac, VA, FHA, and HUD) was a smaller proportion of the whole. If this was the case mortgage investors might have avoided buying 'the paper' of borrowers who had little or no collateral; borrowers who would have been considered high credit risks (in an uninsured world). As it was, investors felt comfortable investing because of the high proportion of government (taxpayer funded) insurance guarantees.[4]

Also, The U.S. Congress and several administrations, for several decades, progressively gave the Government Sponsored Enterprises (GSE's), Fannie Mae and Freddie Mac, a significant competitive advantage over the private mortgage entities trying to compete with Fannie Mae and Freddie Mac. This competitive advantage, and the decreasing loan qualification standards of the GSE's, served to reduce (overall) mortgage loan qualification standards. When privately owned mortgage entities began to become cautious about trying to compete with entities with such assumed guarantees, subsidized cost structures, and other competitive advantages, it was too late in the game to backtrack.[5] [6]

Along with the assumption that the Government Sponsored Enterprises (GSE's) enjoyed some higher level of security and government backed guarantees than the private enterprises which were trying to compete with the GSE's, it seems government housing policy, the structure, and the conflicts in the rating agency business and the idea of government (taxpayer) funded insurance for such a significant proportion of what became the majority of mortgages is as important, or perhaps, an even more important cause of the financial crises, than was any lack of investment bankers' "skin in the game" (or 'risk retention').

Of course, the long-term U.S. Federal Reserve policy of artificially low interest rates could also be cited as a factor which stimulated housing prices well above what they might have been in a less subsidized market. And, more attention to the risks associated with derivatives and an effort to regulate derivatives might have helped decrease the risk of systemic melt down.[7]

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[3] Testimony of the Honorable Alfonse M. D'Amato before U.S. House Committee on Oversight and Government Reform submitted September 30, 2009 for a hearing titled, **Credit Rating Agencies and The Next Financial Crises.** http://democrats.oversight.house.gov/images/stories/documents/20090930100906.pdf

[4] **Fannie Mae and the Vast Bipartisan Conspiracy: A List of Villains in Boldface** By Jack Schafer published in Slate Magazine – September 16, 2008 http://www.slate.com/id/2200160/

[5] **Wall Street Shrinks From Competing with Fannie Mae, Freddie Mac** By Kathleen Howley and Bryan Keogh - published in Bloomberg News - July 24, 2008 http://www.bloomberg.com/apps/news?pid=newsarchive&sid=acz2pOLvm6Oo&refer=home

[6] **The Reckoning: Pressured to Take More Risk Fannie Reached Tipping Point** By Charles Duhigg – published in the New York Times - October 4, 2008. http://www.nytimes.com/2008/10/05/business/05fannie.html

[7] **The Warning** PBS Frontline feature posted October 20, 2009. http://www.pbs.org/wgbh/pages/frontline/warning/

In my opinion, the above mentioned policies, mechanisms, and government (taxpayer sponsored) insurance seem to have played a much larger role in obscuring risk, and fueling the housing bubble to unsustainable heights, than the lack of risk retention on the part of entities engaged in collateralized mortgage investment securitization. [8]

In a market less manipulated by government interference and political motivations "natural buyers" might have more accurately assessed the risks in the investment products being packaged by mortgage investment bankers. And, in a market less manipulated by government interference and political motivation "natural buyers" might have begun to resist buying the riskiest 'paper' presented. This resistance would have curbed investment bankers' appetite for packaging the riskiest loans in their offerings.

Thank you again for this opportunity to submit my comment on the multi-agency proposal for mandated risk retention requirements.

Sincerely,

Bill George

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[8] More evidence: A transcript of the Financial Crises Inquiry Commission(FCIC) interview with Warren Buffett May 26, 2010: http://www.scribd.com/doc/50676366/Transcript-of-Warren-Buffett-Interview-With-FCIC and a June 2, 2010 C-SPAN video of the FCIC examination of Warren Buffett and Moody's CEO Raymond McDaniel: http://www.c-span.org/Events/Financial-Crisis-Inquiry-Commission/18103-2/ (session #2) and transcript of the FCIC interview with David Einhorn of Greenlight Capital November 9, 2010: http://www.scribd.com/doc/49666813/Transcription-of-David-Einhorn-s-Interview-with-the-Financial-Crisis-Inquiry-Commission