PAUL E. KANJORSKI
11TH DISTRICT, PENNSYLVANIA

COMMITTEE ON
FINANCIAL SERVICES

CHAIRMAN:
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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TOLL FREE HELP-LINE
(800) 222-2346

January 23, 2008

The Honorable Ben S. Bernanke
Chairman, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW, Room 2046
Washington, DC 20551

Dear Mr. Chairman:

In recent weeks, many participants in our financial services sector have raised concerns about the ongoing viability of a number of bond insurers and the implications of their actual or potential ratings downgrades for all participants in the financial marketplace. The House Financial Services Capital Markets Subcommittee has therefore started an examination of these important matters, and I write to request your assistance in these efforts.

Specifically, an article in the *Washington Post* on January 18 noted that "[i]nvestors are growing especially concerned about the fate of bond insurers, which have guaranteed $2 trillion of debt securities in portfolios around the world. With these securities now increasingly at risk, the bond insurers are coming under pressure and their own [credit] ratings could suffer. That in turn could trigger a downgrade in the insured securities, sparking a new round of sell-offs and write-downs." I, too, am very concerned about these developments for insured depositories, pension funds, and municipal governments, among others.

Participants in the financial services industry, including commercial and investment banks, have relied on the financial guarantees issued by entities like Ambac Assurance Corporation, MBIA Insurance Corporation, and ACA Financial Guaranty Corporation to reduce exposure to subprime mortgage debt and other complex securities products tied to these loans. Each of the aforementioned insurers, however, has also recently experienced a cut or the threat of a cut in the ratings that they receive from entities like Fitch, Standard and Poor's, and/or Moody's.

The decisions of these credit rating agencies have already begun to affect the bottom lines of several participants in the financial services marketplace. Merrill Lynch, for example, recently took a $3.1 billion charge on its exposure to a downgraded bond insurer. Citigroup has also reserved $935 million to help protect itself against further turmoil in this sector. Other financial corporations seem likely to face similar situations in the coming weeks and months.

The uncertainty in the bond insurance marketplace resulting from exposure to subprime housing products seems likely to spread. Pension funds that must hold investment-grade paper may need to sell holdings backed by downgraded bond insurers. Moreover, I am especially concerned about the implications for state and local governments that rely on bond insurance when putting together deals to pay for roads, schools, and other construction projects. Any increase in the perceived risks in bond insurers or decrease in competition seems likely to raise borrowing costs and slow spending on public infrastructure needs.

The Capital Markets Subcommittee will convene a hearing on these matters in the near future. In order to assist in the preparations for the hearing and consistent with all applicable law and regulation, I would appreciate receiving responses to the following:

- Outline any concerns you may perceive facing the bond insurance industry.
- Examine the implications of these problems for the entities that you regulate, as well as the broader economy.
- Detail the steps you are taking to monitor developments in the bond insurance marketplace and ensure the continued safety and soundness of banks and/or financial holding companies.
- Discuss the adequacy of existing statutory and regulatory tools to address these problems and the need for further reforms.

Because of the urgency of these matters, I would also ask that you respond no later than February 1, 2008.

In sum, thank you for your attention to this important oversight request. If you should have any questions, please contact me directly or have your staff contact the staff of the Capital Markets Subcommittee. I look forward to your timely response.

Sincerely,

Paul E. Kanjorski

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Chairman, Subcommittee on Capital Markets,
Insurance and Government Sponsored Enterprises

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January 23, 2008

The Honorable Timothy F. Geithner
President and CEO
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Dear Mr. Geithner:

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The Honorable John C. Dugan
Comptroller of the Currency
Office of the Comptroller of the Currency
250 E Street, SW, Mail Stop 9-1
Washington, DC 20219-0001

Dear Mr. Comptroller:

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Sincerely,

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Chairman, Subcommittee on Capital Markets,
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January 23, 2008

The Honorable Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE, Room 10700
Washington, DC 20549

Dear Mr. Chairman:

In recent weeks, many participants in our financial services sector have raised concerns about the ongoing viability of a number of bond insurers and the implications of their actual or potential ratings downgrades for all participants in the financial marketplace. The House Financial Services Capital Markets Subcommittee has therefore started an examination of these important matters, and I write to request your assistance in these efforts.

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Participants in the financial services industry, including investment and commercial banks, have relied on the financial guarantees issued by entities like Ambac Assurance Corporation, MBIA Insurance Corporation, and ACA Financial Guaranty Corporation to reduce exposure to subprime mortgage debt and other complex securities products tied to these loans. Each of the aforementioned insurers, however, has also recently experienced a cut or the threat of a cut in the ratings that they receive from entities like Fitch, Standard and Poor's, and/or Moody's.

The decisions of these credit rating agencies have already begun to affect the bottom lines of several participants in the financial services marketplace. Merrill Lynch, for example, recently took a $3.1 billion charge on its exposure to a downgraded bond insurer. Citigroup has also reserved $935 million to help protect itself against further turmoil in this sector. Other financial corporations seem likely to face similar situations in the coming weeks and months.

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The Capital Markets Subcommittee will convene a hearing on these matters in the near future. In order to assist in the preparations for the hearing and consistent with all applicable law and regulation, I would appreciate receiving responses to the following:

- Outline the problems you perceive facing the bond insurance industry.
- Examine the implications of these problems for the entities and products that you regulate, including publicly traded bond insurers, rating agencies, and consolidated supervisory entities, as well as the broader markets and economy.
- Detail the steps you are taking to monitor developments in the bond insurance marketplace and protect investors.
- Discuss the adequacy of existing statutory and regulatory tools to address these problems and the need for further reforms.

Because of the urgency of these matters, I would also ask that you respond no later than February 1, 2008.

In sum, thank you for your attention to this important oversight request. If you should have any questions, please contact me directly or have your staff contact the staff of the Capital Markets Subcommittee. I look forward to your timely response.

Sincerely,

Paul E. Kanjorski

Paul E. Kanjorski
Chairman, Subcommittee on Capital Markets,
Insurance and Government Sponsored Enterprises

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January 23, 2008

The Honorable Sandy Praeger
President, National Association of Insurance Commissioners
c/o Kansas Insurance Department
420 SW 9th Street
Topeka, KS 66612-1678

Dear Ms. Praeger:

In recent weeks, many participants in our financial services sector have raised concerns about the ongoing viability of a number of bond insurers and the implications of their actual or potential ratings downgrades for all participants in the financial marketplace. The House Financial Services Capital Markets Subcommittee has therefore started an examination of these important matters, and I write to request your assistance in these efforts.

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- Describe how bond insurers are regulated, especially with regard to solvency and capital requirements and how such regulation differs from other lines of insurance.
- Outline the problems you presently perceive facing the bond insurance industry.
- Examine the implications of these problems for the entities and products that you regulate, as well as the broader economy.
- Detail the steps you are taking to monitor developments in the bond insurance marketplace and protect the solvency of insurers.
- Discuss the adequacy of existing statutory and regulatory tools, at the State or Federal level, to address these problems and the need for further reforms.
- Comment on the advisability of creating a guarantee fund, like those State funds for life and health insurers and property and casualty insurers, for the bond insurance industry.

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January 23, 2008

The Honorable Eric Dinallo
Superintendent of Insurance
State of New York Department of Insurance
25 Beaver Street
New York, NY 10004-2319

Dear Mr. Dinallo:

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January 23, 2008

The Honorable Sean Dilweg
Wisconsin Commissioner of Insurance
Office of the Commissioner of Insurance
GEF-III, Second Floor
125 South Webster Street
Madison, WI 53702

Dear Mr. Dilweg:

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- Discuss the adequacy of existing statutory and regulatory tools, at the State or Federal level, to address these problems and the need for further reforms.
- Comment on the advisability of creating a guarantee fund, like those State funds for life and health insurers and property and casualty insurers, for the bond insurance industry.

Because of the urgency of these matters, I would also ask that you respond no later than February 1, 2008.

In sum, thank you for your attention to this important oversight request. If you should have any questions, please contact me directly or have your staff contact the staff of the Capital Markets Subcommittee. I look forward to your timely response.

Sincerely,

Paul E. Kanjorski

Paul E. Kanjorski
Chairman, Subcommittee on Capital Markets,
Insurance and Government Sponsored Enterprises

PAUL E. KANJORSKI
11TH DISTRICT, PENNSYLVANIA

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January 23, 2008

The Honorable Ralph S. Tyler
Maryland Insurance Commissioner
Maryland Insurance Administration
525 Saint Paul Place
Baltimore, MD 21202-2272

Dear Mr. Tyler:

In recent weeks, many participants in our financial services sector have raised concerns about the ongoing viability of a number of bond insurers and the implications of their actual or potential ratings downgrades for all participants in the financial marketplace. The House Financial Services Capital Markets Subcommittee has therefore started an examination of these important matters, and I write to request your assistance in these efforts.

Specifically, an article in the *Washington Post* on January 18 noted that "[i]nvestors are growing especially concerned about the fate of bond insurers, which have guaranteed $2 trillion of debt securities in portfolios around the world. With these securities now increasingly at risk, the bond insurers are coming under pressure and their own [credit] ratings could suffer. That in turn could trigger a downgrade in the insured securities, sparking a new round of sell-offs and write-downs." I, too, am very concerned about these developments for pension funds, insured depositories, and municipal governments, among others.

Participants in the financial services industry, including commercial and investment banks, have relied on the financial guarantees issued by entities like Ambac Assurance Corporation, MBIA Insurance Corporation, and ACA Financial Guaranty Corporation to reduce exposure to subprime mortgage debt and other complex securities products tied to these loans. Each of the aforementioned insurers, however, has also recently experienced a cut or the threat of a cut in the ratings that they receive from entities like Fitch, Standard and Poor's, and/or Moody's.

The decisions of these credit rating agencies have already begun to affect the bottom lines of several participants in the financial services marketplace. Merrill Lynch, for example, recently took a $3.1 billion charge on its exposure to a downgraded bond insurer. Citigroup has also reserved $935 million to help protect itself against further turmoil in this sector. Other financial corporations seem likely to face similar situations in the coming weeks and months.

The uncertainty in the bond insurance marketplace resulting from exposure to subprime housing products seems likely to spread. Pension funds that must hold investment-grade paper may need to sell holdings backed by downgraded bond insurers. Moreover, I am especially concerned about the implications for state and local governments that rely on bond insurance when putting together deals to pay for roads, schools, and other construction projects. Any increase in the perceived risks in bond insurers or decrease in competition seems likely to raise borrowing costs and slow spending on public infrastructure needs.

The Capital Markets Subcommittee will convene a hearing on these matters in the near future. In order to assist in the preparations for the hearing and consistent with all applicable law and regulation, I would appreciate receiving responses to the following:

- Describe how bond insurers are regulated, especially with regard to solvency and capital requirements and how such regulation differs from other lines of insurance.
- Outline the problems you presently perceive facing the bond insurance industry.
- Examine the implications of these problems for the entities and products that you regulate, as well as the broader economy.
- Detail the steps you are taking to monitor developments in the bond insurance marketplace and protect the solvency of insurers.
- Discuss the adequacy of existing statutory and regulatory tools, at the State or Federal level, to address these problems and the need for further reforms.
- Comment on the advisability of creating a guarantee fund, like those State funds for life and health insurers and property and casualty insurers, for the bond insurance industry.

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In sum, thank you for your attention to this important oversight request. If you should have any questions, please contact me directly or have your staff contact the staff of the Capital Markets Subcommittee. I look forward to your timely response.

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