

## CASTLE PROPOSES POLICY FOR STRUCTURED FINANCE INVESTMENTS -- July 14, 2008

Castle hopes legislation will help restore investor confidence

Washington, DC -- In the wake of the current economic slowdown, U.S. Representatives Mike Castle (R-DE) and Gary Ackerman (D-NY), Members of the House Financial Services Committee, today introduced legislation that would restore confidence to the U.S. financial markets.

The measure directs the Securities and Exchange Commission (SEC) to promulgate rules that would determine the types of structured finance investments that are eligible to receive NRSRO ratings from credit rating agencies that have been designated as Nationally Recognized Statistical Rating Organizations and defines the criteria to which NRSRO-rated structured finance products must adhere.

Under the bill, eligible structured finance investments would include securities whose future performances can be reasonably predicted, such as those with established track records and proven default rates, and securitizations that are comprised of homogeneous securities.

The current economic slow down developed as a result of many factors, including the relative ease with which underwriters could package and sell subprime loans into the capital markets through securitization. The investment grade ratings on those securitizations, which have since been downgraded, provided by Nationally Recognized Statistical Rating Organizations, helped make most of these transactions possible. These ratings on investments, whose structures and products were untested, proved to be deeply flawed.

"The credit rating agencies need to slow down and take the time necessary to thoroughly understand what they are rating. This debate is worth having because investors make decisions in part based upon these ratings" said Rep. Castle. "If we create a process where tried and true investment vehicles are rated accurately, it has the possibility of lending confidence back to a market that's been badly battered," said Rep. Castle.

"Uncertainty is the biggest enemy of our markets," said Rep. Ackerman. "This legislation will ensure that in the future, investors can rely on the ratings of the NRSRO securities they purchase. This bill provides a common-sense approach for stabilizing our markets by restoring confidence and increasing liquidity."

The legislation does permit Nationally Recognized Statistical Rating Organizations to continue to provide ratings for securities that do not meet the proposed NRSRO criteria as long as they are not designated as NRSRO ratings.

The measure also provides the SEC with the authority to strip Nationally Recognized Statistical Rating Organizations of their NRSRO designation if the rating agency fails to comply with the provisions set forth in the legislation.

This legislation is the result of several House hearings held by the Financial Services Committee and its Capital Markets Subcommittee which probed the role of NRSRO's in the U.S. financial markets.

"A sound, reliable and consistent NRSRO rating system is critical to the confidence required by pension fund managers and other fiduciaries," said Sean Mathis, of Mathis & Company, a New York-based advisor to pension funds and corporations. "It is this confidence that will again stimulate investment in structured finance and begin the process of providing the much needed liquidity to the mortgage market."

A Nationally Recognized Statistical Rating Organization is a credit rating agency which is so designated by the SEC, allowing its ratings to be used by financial institutions, pension funds, and other investors whose regulations or investment mandates rely on NRSRO ratings.

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