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MetLife

May 7, 2012

By Electronic Submission

Department of the Treasury
Office of the Comptroller of the Currency
250 E Street, SW, Mail Stop 2-3
Washington, DC 20219
Docket Number OCC-2011-0002

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attn: Jennifer J. Johnson, Secretary
Docket No. R-1411

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attn: Comments, Robert E. Feldman, Executive Secretary
RIN 3064-AD74

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Attn: Elizabeth M. Murphy, Secretary
File Number S7-14-11

Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552
Attn.: Alfred M. Pollard, General Counsel
RIN 2590-AA43

Department of Housing and Urban Development
Regulations Division
Office of General Counsel
451 7th Street, SW
Room 10276
Washington, DC 20410-0500
Docket Number FR-5504-P-01

Re: Credit Risk Retention, Proposed Rule
OCC Docket Number OCC-2011-0002; Federal Reserve Docket Number R-1411; FDIC RIN 3064-AD74; SEC File Number S7-14-11; FHFA RIN 2590-AA43; HUD Docket Number FR-5504-P-01

Ladies and Gentlemen:

The purpose of this letter is to follow up on the March 28, 2012 meeting that representatives from MetLife participated in at the Securities and Exchange Commission in Washington, DC to discuss risk retention in securitizations. As we mentioned during our meeting, and indicated in our June 27, 2011 response to your request for comment on the proposed rule on credit risk retention in securitizations, we believe risk retention by the sponsor will help significantly to align long-term economic interests among sponsors and investors. We believe this better alignment will likely result in a resurgence of a

CMBS market that is sustainable and less prone to the excesses we saw in 2006 and 2007 that led to the collapse of this market.

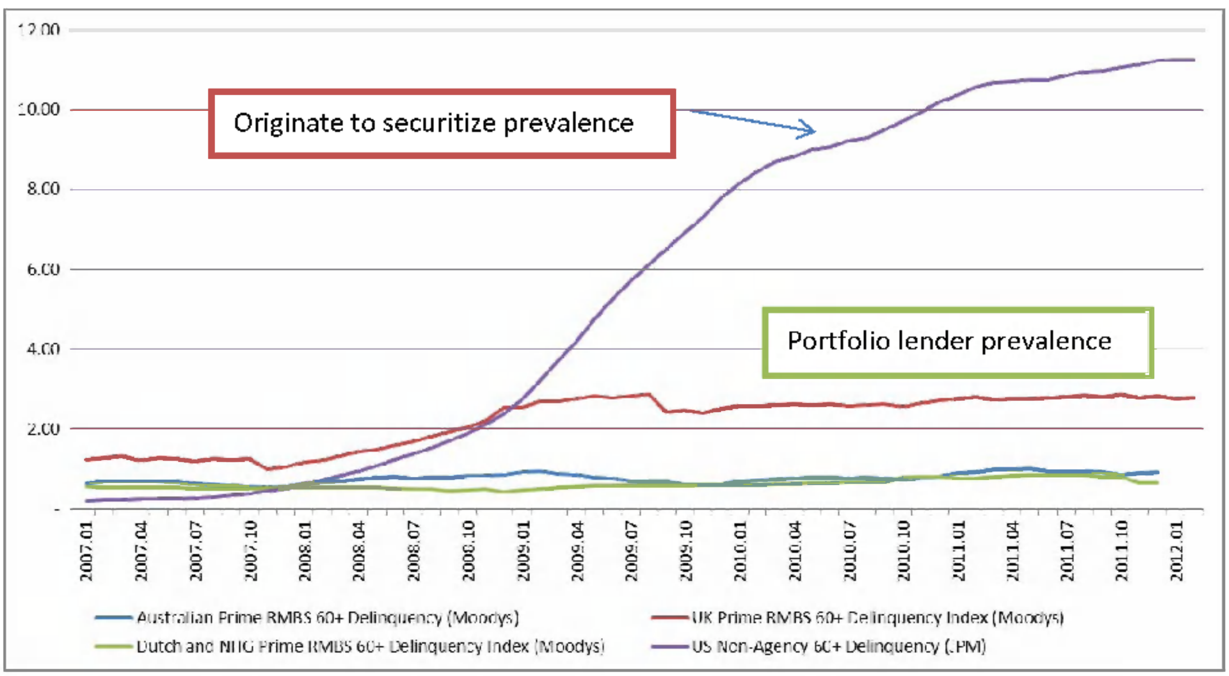
In this letter, we will focus on three main topics: 1) the benefits of risk retention by the sponsor, 2) the costs of risk retention, and 3) the need for mechanisms such as the premium capture cash reserve account to ensure the effectiveness of risk retention.

Benefits of risk retention by the issuer

Many of the problems that have occurred in CMBS and other securitization sectors in the US could have been prevented with a better alignment of long term economic interests among sponsors and investors. MetLife believes that a vertical slice risk retention by the sponsor would more effectively align these interests, without running afoul of accounting consolidation rules that may prove excessively burdensome to the retaining entities.

Under a risk retention framework, the incentives of an issuer should lead to higher quality underwriting given the vested interest in the long term performance of the underlying loans. In this sense, risk retention would require issuers to take a similar perspective as a portfolio lender. As we have seen throughout the financial crisis, securitizations from markets with a prevailing portfolio lender model have dramatically outperformed those markets with an "originate to securitize" conduit model:

Exhibit 1: Delinquency comparison across markets



Source: Moody's UK Prime and Dutch Prime and NHG RMBS Indices, Australian RMBS Performance Review, and JPMorgan MBS Credit Monthly

For CMBS in the US, it is critical to understand that the alignment outlined above will not occur if B-piece buyers are allowed to satisfy the risk retention rule in lieu of the issuer, without substantive additional requirements. In fact, allowing B-piece buyers to fully satisfy this requirement will simply perpetuate the current model, which as we now know is fraught with a fundamental misalignment of interests (please refer to our June 27, 2011 comment letter on the risk retention rule for a more detailed discussion on this point).

If the forthcoming regulation will permit investments made by B-piece investors to count toward the risk retention requirement, we strongly encourage regulators to consider the following minimum additional requirements:

- Additional risk retention from sponsors, including some form of premium capture
- Risk retention holding period through the life of a transaction
- Restructuring of governance provisions to ensure alignment of incentives between B-piece buyers and all other investors

As we have indicated before, we sincerely believe that a new model is needed in CMBS (and in other securitization sectors). Encouraging a migration towards a portfolio lender model or mindset will likely result in a sounder and more sustainable CMBS market.

Cost of risk retention by the issuer

Requiring issuers to retain a vertical slice will possibly carry some costs which issuers would want to ensure they are properly compensated for. On the other hand, regaining investor confidence will likely result in a dramatic reduction of spreads in CMBS transactions.

To put these counterbalancing factors into perspective, we believe that returns on CMBS bonds that sponsors may hold under a vertical slice risk retention framework will likely meet sponsors' cost of capital hurdles. There will likely be some overhead costs associated with managing retained risk positions, but we believe these costs will be marginal given the infrastructure issuers have available to them. On the other hand, the most recent CMBS transaction priced its super senior tranche at 120 basis points over swaps versus the prevailing spread of around 25 basis points before the crisis. If CMBS spreads go back to pre-crisis levels, issuers could pass on at least 95 basis points in savings to borrowers, which would more than offset any incremental cost due to risk retention.

In the exhibit below we first show a table that estimates the cost of equity for some of the major US CMBS issuers to be around 13%. We then estimate that, based on the most recent CMBS transaction in the market, the weighted average yield of a vertical slice would be about 4.3%, while requiring around a 9% capital charge under proposed bank capital rules. Finally, we show that the net investment income after taxes, assuming that 91% of the assets are financed with debt, will result in a return of approximately 18% on the capital required, which is well in excess of the average cost of equity for the sample banks.

Exhibit 2: Risk retention cost estimate

SAMPLE EQUITY COSTS[1]		
Bank Ticker	Market Cap ($ bln)	Equity Cost
C	95.0	15.4%
JPM	163.9	12.4%
GS	58.9	11.3%
MS	32.7	14.9%
WFC	177.1	12.5%
W. Avg.		13.0%

TRANSACTION ECONOMICS			
Tranche[2]	Par ($ mln)[2]	Yield[2]	Capital Charge[3]
A-1	72.8	1.0%	1.6%
A-2	105.7	1.8%	1.6%
A-3	657.2	3.2%	1.6%
A-AB	96.0	2.8%	1.6%
A-S	113.1	4.0%	1.6%
B	66.5	4.7%	2.0%
C	49.9	6.0%	2.8%
D	74.9	8.5%	8.0%
B-Piece[3]	94.8	15.0%	100.0%
Total	1,330.9	4.3%	9.0%

RISK RETENTION INCOME ANALYSIS		
	%	$ mln
Retained	5.0%	66.5
Equity Financed	9.0%	6.0
Debt Financed	91.0%	60.5
Yield	4.3%	2.9
Debt Cost[3]	2.0%	1.2
Taxes[3]	35.0%	0.6
After tax income		1.1
ROE	18%	

[1] *Source: Bloomberg estimate as of 5/3/12*
[2] *Source: 4/27/12 Commercial Mortgage Alert report on UBS Commercial Mortgage Trust, 2012-C1 initial pricing (except for B-Piece)*
[3] *MetLife estimate*

Finally, we note that risk retention has been widely adopted either by regulation or voluntarily in jurisdictions such as the EU and Australia. During the last year and a half, we have seen well in excess of $100 billion of issuance come out of these markets, while meeting issuer risk retention requirements. We would argue that this is the clearest evidence that issuer risk retention costs do not make securitization uneconomical.

<u>Need for premium capture</u>

As we have commented in the past, it is key that regulation ensures that the spirit of the risk retention rules cannot be circumvented through creative transaction structuring. The premium capture cash reserve concept set forth in the proposed risk retention rule aims to address this issue. We would encourage that this or other mechanisms be pursued to ensure the integrity of the risk retention rule's spirit. We would only caution against mechanisms that are either too complex to practically regulate, or that would cause accounting consolidation or other material problems for sponsors.

* * *

Thank you in advance for providing MetLife with the opportunity to further comment on the risk retention rule. If you have any questions concerning the views or recommendations that MetLife has expressed in this letter, please feel free to contact either Jonathan Rosenthal of our Investments Department (at 973.355.4777; jrosenthal@metlife.com) or James Donnellan of our Government and Industry Relations Department (at 212.578.3968; jfdonnellan@metlife.com).

Respectfully submitted,

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Metropolitan Life Insurance Company