

January 10, 2014

The Honorable Martin J. Gruenberg  
Chairman  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429-9990

Dear Mr. Chairman:

I am writing to comment on the Corporation's implementation of what is commonly known as the Volcker Rule of The Dodd-Frank Wall Street Reform and Consumer Protection Act. In part, the rule prohibits banks, among other things, from owning for their own account both Trust Preferred Securities and certain other Covered Funds.

There has been much focus on banks' ownership of TRUPs but seemingly little on a subset of Covered Funds known as re-REMICs. This latter security consists of pools of mortgages which took their initial form as REMICs and, thanks to poor performance characteristics, have lost value and likely have been rated sub-investment grade. The process of re-securitizing these securities, which consists of buying them at a steep discount from par and then using that discount to effectively reestablish their loss coverage ratios, has regularly resulted in creating investment grade securities out of sub-investment grade bonds. In their most common structure, nothing has changed with the underlying bonds or their mortgage collateral. The only effective result is that the pooled mortgages, because of the substantial purchase discount applied to them, now have significant levels of cash flow and price protection that didn't exist before.

These securities have been purchased by a variety of banks, small and large, with the intent of holding them to maturity since they have historically represented acceptable investments for banking institutions. Thanks to the re-REMIC process, these securities have created exceptional levels of strength for their underlying bonds and ultimately their mortgage loans. Such mortgage-backed bonds, of course, are acceptable holdings for commercial banks.

While we appreciate the need to reign in proprietary trading, we are concerned that this well-meaning legislation creates the unintended consequence of forcing banks like ourselves to divest our holdings of bonds that we would ordinarily be able to keep. These are bonds with strong coverage ratios, made up of underlying first mortgages, not part of proprietary trading schemes, and to the best of my knowledge universally rated investment grade. For these and other reasons explained below, I strongly urge the FDIC to modify its implementation of the law to specifically exempt re-REMICed mortgage-backed securities.

We are greatly concerned that the Volcker Rule's proposal threatens to eliminate an important source of bank net interest margin at a time when it is most needed. Penalizing financial institutions after the fact for their purchase of approved securities, forcing them to take losses by selling into a flooded and now thin marketplace, and effectively requiring write-downs of securities that are unfairly characterized as speculative strikes us as unreasonable and unnecessary. The net result of this rule is completely contrary to the recent efforts by the Treasury Department, Congress and the Federal Reserve to promote liquidity, encourage lending, bolster confidence and recapitalize the US banking system through improved earnings.

In our view, the requirement unfairly characterizes the potential risks of re-REMIC securities to their bank holders and ultimately the Deposit Insurance Fund. Since these are secured bonds, made up of properly – even generously – reserved mortgages, they pose little or no threat to the FDIC insurance fund. We therefore urge the FDIC to reconsider the implementation of the Volcker Rule to allow re-REMIC securities as acceptable investments.

With best regards,

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**From:** jward@firstambank.com  
**Sent:** Wednesday, January 15, 2014 10:20 AM  
**To:** Comments; VanVickle, David A.; Kulp, Charles J.  
**Cc:** twellsiv@firstambank.com; FSnow@firstambank.com; DRoubitchek@firstambank.com; GCoots@firstambank.com; rberg@performancetrust.com; ccarney@performancetrust.com; Kenny, Paul M. (Chicago); Smith, Bart; SRindfleish@firstambank.com  
**Subject:** RIN number 3064-AE11: Treatment of CDOs Backed by TruPS  
**Attachments:** FDIC - Volcker Rule.doc

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Ladies and Gentlemen:

You have invited comments on the Interim Final Rule known as:

***Treatment of Certain Collateralized Debt Obligations Backed Primarily By Trust Preferred Securities With Regard to Prohibitions and Restrictions on Certain Interests In, and Relationships With, Hedge Funds and Private Equity Funds***

We encourage you to consider including a specific type of CDO known as a ReREMIC in the Final Rule. A brief description of the ReREMIC security process is included in my comment letter to the Chairman dated January 10, 2014 and attached below as a pdf.

Much like TruPS, the ability to create additional reserves for REMICs and then own them at several institutions exists only through the creation of an investment vehicle, in this case known as a ReREMIC pool. As you've required with TruPS, the ReREMICed securities we're familiar with are pools of permitted, straightforward mortgage-backed securities issued prior to May 19, 2010 -- although that date has more significance for TruPS than for mortgage-backed securities -- and are comprised solely of investments that are today permitted as bank holdings. We believe the ReREMIC structure adds very significant security to the ownership of mortgage-backed instruments and should be allowed.

As is the case with the industry's TruPS holdings, were we to be required to sell these bonds by a date certain, and into a thin market, the results would likely be losses inconsistent with the value of their underlying MBS instruments. We believe this to be unnecessary and punitive, especially to community bank holders like ourselves who do not engage in proprietary trading activities.

Thank you for your consideration.

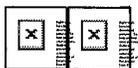
With best regards,

John B. Ward  
President

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