



For Immediate Release
September 24, 2009

ILMA Draws Clear Distinction between Life Settlement Securitizations and the Sub-Prime Mortgage Crisis

Washington, DC

The Institutional Life Markets Association outlined today the major differences between life settlement securitizations and the securitization of mortgages during testimony before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises.

It is critical to draw a distinction between the securitization of life settlements and the securitization of subprime mortgages, Jack Kelly, ILMA director of government affairs, explained to the subcommittee of the House Committee on Financial Services. Kelly also cited the need for uniform laws and regulations of life settlements.

When mortgages are securitized, or bundled and then cut up like a pie and sold to investors, there are two main parties at risk: the homeowner and the investor who purchased securities or pieces of the pie. This occurs because the homeowner or borrower may not be able to meet mortgage payments, said Kelly. Consequently, there is not enough cash flow to pass along to investors. The homeowner runs the risk of losing his or her home and the investor, the loss of cash flows, Kelly explained to lawmakers.

A life settlement securitization is different. The owner of the insurance policy who sells it receives payment right away. If the life settlement securitization fails, the only loser is the investor, Kelly told the subcommittee. Also, the source of payment here are high quality insurance companies. The major risk for the investor is the uncertainty associated with predicting longevity. Investors in life settlements are required to pay premiums to keep life insurance policies in the pool in force. Kelly also stated that because of the risk of loss, such investments are only suitable for institutional investors who can analyze and understand the risk in a life settlement securitization, as they should with any investment.

Due to this risk, ILMA believes that there needs to be strong, uniform laws and regulations and transparency, Kelly said during testimony. ILMA's position is that strong regulation ensures that the consumer is protected and informed about the impact of such a transaction. Such uniformity would include uniform disclosure requirements, licensure of participants and enforcement procedures.

Toward that end, ILMA believes that both a life settlement broker representing the policy owner and the life settlement provider purchasing the policy should be licensed and regulated, Kelly said.

ILMA believes that transactional transparency in documents associated with a life settlement transaction should inform the participants of exactly how much money they will receive for their policies and how much money is being paid to the brokers representing the seller from the sale of the policy. In fact, ILMA created a Life Settlement Transaction Disclosure Statement to further transparency, Kelly noted during testimony.

Kelly emphasized throughout his testimony that life settlement securitizations are no different than other life insurance securitizations including natural catastrophe bonds, surplus notes and Regulation XXX transactions, none of which have had the problems that plagued the mortgage market. Further, the limited size of the life settlement market materially limits any systemic risk concerns. However, all securitizations should have strong regulatory safeguards and transparency in place, Kelly told lawmakers during the hearing.

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About the Institutional Life Markets Association, Inc. (ILMA)

The Institutional Life Markets Association, Inc. (ILMA) is a not-for-profit trade association comprised of a number of the world's leading institutional investors and intermediaries in the longevity marketplace, formed to encourage the prudent and competitive development of a suite of evolving longevity related financial businesses, including the businesses of life settlements and premium finance. ILMA's members include: Credit Suisse; EFG Bank; Goldman, Sachs & Co.; JP Morgan Chase & Co.; Mizuho International plc; and WestLB AG.

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