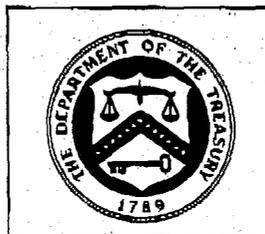


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DEPARTMENT OF THE TREASURY
Office of Financial Institutions
1500 Pennsylvania Avenue, NW
Washington, DC 20220

TO: Peter Fisher - 622-0265
Brian Conklin - 456-1806
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FROM: SHEILA C. BAIR
Assistant Secretary for Financial Institutions

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DATE: January 24, 2002

Number of pages to follow: 2

FYI

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Deborah H. McAneny
Senior Vice President

January 23, 2002

Ms. Sheila C. Bair
Assistant Secretary for Financial Institutions
Department of Treasury
1500 Pennsylvania Avenue, N.W.
Washington DC 20220

Dear Ms. Bair:

As head of the commercial mortgage lending group at John Hancock Financial Services, Inc., I am writing to strongly support passage of legislation that will provide a Federal Government reinsurance backstop program to cover acts of terrorism. As you are probably aware, since the tragic events of September 11, 2001, the availability of insurance coverage for acts of terrorism to owners of commercial real estate has been severely curtailed. In addition, we understand that even if such is available, the cost of the insurance has increased in some instances 300% to 500%.

This is a critical problem for owners of commercial property. It is also a critical problem for the lending industry, particularly for lenders, such as John Hancock, who traditionally lend money to such owners on a *non-recourse* basis. As you may know, a non-recourse loan is a loan secured solely by the mortgaged property, and the borrower is not personally liable for the repayment of the loan. In other words, if a borrower defaults under a non-recourse loan, the lender's sole remedy is to take back the property through a foreclosure sale.

Non-recourse lending is the most common form of lending structure for life insurance companies. Through the third quarter of 2001, life insurance companies invested approximately \$220 billion in commercial mortgage loans; and conduit lenders, which in many instances also fund on a non-recourse basis, invested approximately \$294 billion. (I should also note that Fannie Mae and Freddie Mac's multifamily mortgage originations are also typically on a non-recourse basis.) Non-recourse borrowing is particularly appealing to individuals or entities that may not have the financial wherewithal to personally "stand behind" the loan obligations -- they pledge their property as security, but not their personal assets.

So why is the lack of insurance coverage for terrorist acts an issue for lenders like John Hancock? The answer is simple -- if the insurance coverage is not carried by a borrower and

Ms. Sheila C. Bair
January 23, 2002
Page 2

there is a casualty at the property caused by an act of terrorism, a non-recourse lender will potentially lose its entire investment -- its sole security for the loan will be partially or wholly lost, there will be no insurance proceeds available to rebuild the improvements or repay the loan, and the borrower will not be personally liable for the repayment of the investment. Accordingly, without coverage for acts of terrorism, the non-recourse lender would bear the risk of an act of terrorism. This risk cannot be, nor should it be, allocated to the non-recourse lender or, in the case of a public company like John Hancock, its shareholders.

One alternative is to shift this terrorism risk to the borrower and require the borrower to be personally liable for the loan; but many borrowers will not accept this risk or will not possess the financial wherewithal to support that risk. Another alternative is to stop lending on properties reasonably susceptible to acts of terrorism.

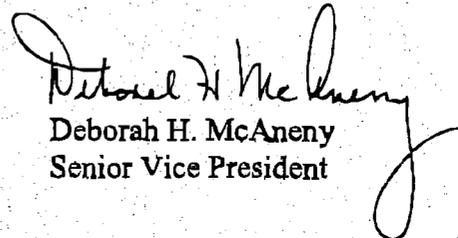
Terrorism risk is not, and should not be, a lender's risk. Terrorism risk is not, and should not be, a borrower's risk. Property and casualty insurance companies obviously do not believe it to be an insurance industry risk. The risk of terrorism is, unfortunately, now a national risk which requires a federal solution.

Although sympathetic to the goal of allowing the marketplace to resolve this issue, I believe that this crisis -- and it is indeed a borrowing and lending crisis -- must be resolved with federal intervention (much like the programs developed covering flood insurance). Without federal involvement, I fear commercial non-recourse lending will be severely curtailed and that only the most wealthy individuals and entities will be able to borrow needed capital.

It is critical that Congress and the Administration act quickly to address this most important issue.

Thank you for your consideration.

Sincerely,



Deborah H. McAneny
Senior Vice President