AMERICAN ACADEMY
of ACTUARIES

Attn: Letters to the Editor
The New York Times
229 W. 43rd St.
New York, NY 10036
letters@nytimes.com

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To the Editor:

Mr. Sorkin raises a critically valid point in his article, "FDIC's Novel View of Risk" (B1/DealBook, April 7). To assume that guaranteeing billions of dollars in risky loans represents zero risk is extremely risky itself. Though the FDIC solicited advice from attorneys and accountants, it apparently did not consult an actuary. Had they done so, an actuary would have asked: How will the FDIC fund this loss if it occurs?

If the assumption is that there is no cost for these loans, then there is no need for the guarantee. But there are costs and risks associated with these loans that need to be recognized. Hindsight may show that there were indeed no losses, but to prospectively assume that there is no risk is irresponsible. A pay-as-you-go system will not adequately cover the risk unless Congress also mandates a government-sponsored program that offers full financial support if the loans do default before sufficient funds have accumulated.

Sincerely,

James Rech
Vice President of the Risk Management and Financial Reporting Council
American Academy of Actuaries