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**U.S. House of Representatives**  
**Committee on Energy and Commerce**  
 Room 2125, Rayburn House Office Building  
 Washington, DC 20515

December 11, 1986

WM. MICHAEL KITZMILLER, STAFF DIRECTOR  
 THOMAS M. RYAN, CHIEF COUNSEL

Honorable John S. R. Shad  
 Chairman  
 Securities and Exchange Commission  
 450 Fifth Street, N. W.  
 Washington, D. C. 20549

Dear Chairman Shad:

This is with reference to investor inquiries and news and credit reports about guaranteed investment contracts (GICs) and in particular certain GIC-backed taxable municipal bonds.

As we understand it, a GIC is a life insurance company obligation that guarantees to pay a fixed interest rate and to repay principal on money deposited by a contract holder. Deposit payments can be in a single sum or, as in a window contract, in a series over a stated period, usually one year or less. Principal can be repaid in a series of payments or in a lump sum at the contract's end. Interest can be paid annually, semiannually, or compounded over the contract's life and paid with a lump sum principal repayment in what is known as a bullet contract.

We further understand that a life insurance company issues GICs out of its general account or out of a separate account guaranteed by the general account. Life insurance companies commonly segment their general account assets into pools supporting different types of insurance contracts. Segmentation is done for accounting purposes only, to more effectively match policyholder liabilities with the cash flows and interest sensitivity of assets in which the company invests. GICs supported by a segmented pool of assets in the general account still have full recourse to all other general account assets for repayment of principal and interest.

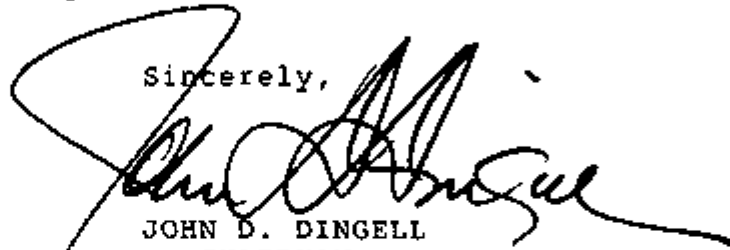
Please advise the Committee by the close of business on Friday, January 30, 1987, of the status of GICs under the Securities Act of 1933 and whether GICs are, and, if not, should be regulated as mutual funds under the Investment Company Act of 1940. Explain how GICs are marketed and with whom the investment

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risk lies. It further is requested that you look into the structure and indenture language of the \$150 million Louisiana Housing Finance Agency securitized multifamily revenue bonds offering underwritten by Drexel Burnham Lambert, the relationship between Mike Milken and Executive Life Insurance or its parent First Executive Corp. with respect to this and any other deals underwritten by Drexel, the financial condition of Executive Life, how much of Executive Life's assets are invested in junk bonds and whether and to what degree any of these GICs are backed by the junk bond market. We are informed that Drexel issued buy-back guarantees to Executive Life in connection with the securities. Advise whether this arrangement was disclosed and, if not, why not and why the guarantees were not registered as separate securities as required by the applicable law.

Thank you for your cooperation and attention to this request.

Sincerely,



JOHN D. DINGELL  
CHAIRMAN

cc: ✓ Honorable Norman F. Lent  
Subcommittee on Oversight and Investigations  
Subcommittee on Telecommunications, Consumer  
Protection, and Finance