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By Email Attachment to rule-comments@sec.gov

Office of the Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Administrative Proceeding File No. 3-15982

Dear Sir or Madame:

We represent Financial Guaranty Insurance Company ("FGIC") and write to comment on the Proposed Plan of Distribution (the "Plan") for *In re Morgan Stanley, et al.*, File No. 3-15982 (the "Action"), as it relates to the MSAC 2007-NC4 trust ("MSAC 2007-NC4" or the "NC4 Trust"). Terms not otherwise defined herein shall have the meaning ascribed in the Plan.

The Plan, while purporting to establish a fair and reasonable allocation of the Fair Fund, fails to do so in three ways: (1) it does not account for the involvement of FGIC as financial guarantor of the Class A Certificates issued by the NC4 Trust (the "Insured Certificates"); (2) it provides holders of Insured Certificates a double recovery at FGIC's expense; and (3) it incorrectly calculates the amount of losses incurred by the NC4 Trust as a result of Respondents' misrepresentations.

FGIC is the primary victim of the Respondents' misrepresentations. As the financial guarantor of the Transaction, FGIC accepted liability for the payment of principal and interest on the Insured Certificates in reliance on the representations and warranties made by Morgan Stanley and its affiliates. FGIC has made millions of dollars in claims payments to the NC4 Trust (and indirectly to the holders of the Insured Certificates) under the terms of its certificate guaranty insurance policy (the "Policy"), and expects to pay hundreds of millions of dollars in claims payments in the future. Those claims payments cover shortfalls in the amounts due to the Insured Certificate holders, and are attributable in significant part to Respondents' malfeasance, including the securities law violations that are the subject of the Action.

The operative documents for the NC4 Trust reflect the primacy of FGIC's position. The pooling and servicing agreement that established the NC4 Trust (the "PSA") provides that FGIC "shall

have the right to exercise all rights, including Voting Rights, which the Holders of the Class A Certificates are entitled to exercise under this Agreement," (PSA § 5.07), and the Policy issued by FGIC provides that it will be subrogated to the rights of the Insured Certificate holders[1] upon making any claims payments under the Policy. FGIC therefore owns the claims of Insured Certificate holders. Insured Certificate holders, however, have the right to receive payments pursuant to the PSA, including from funds provided by claims payments under the Policy.

FGIC, then, more than any other person, relied on the representations of Morgan Stanley, to its great detriment. FGIC, more than any other person, was the victim of Morgan Stanley's malfeasance, which the disgorgement and penalties embodied in the Plan are meant to punish. Yet the Plan takes no account of FGIC's status, and states that settlement amounts will be distributed only to "purchasers" of the Certificates prior to July 2007, ignoring entirely[2] FGIC's contemporaneous acceptance of risk with respect to the Insured Certificates, and its beneficial interest in the Insured Certificates. The Plan's failure to account for FGIC's interest, acquired at the closing for the NC4 Trust, results in an unfair and unreasonable allocation of the Plan's funds. Consequently, the Plan should be amended to state expressly that guarantors of Eligible Certificates (including a financial guarantor such as FGIC) shall be considered Eligible Claimants, and the successors in interest to the initial purchasers of those Eligible Certificates.

The Plan also takes no account of the debt-like nature of the Certificates issued by the two trusts, nor of the involvement of a trustee for each of the trusts, which is charged with calculating the outstanding balances of the Certificates by deducting amounts distributed to investors. But the Plan does not specify (as it should) that amounts paid to current holders will reduce the stated balances of their Certificates; rather, it provides that distributions under the Plan are not "intended to be a release of an Eligible Claimant's rights and claims against any party." (Plan ¶ 79.) By doing so, the Plan creates the possibility of a windfall to investors because they still have claims to payment – with funds provided by FGIC in the case of the Insured Certificates – of the entire stated balance of their Certificates. Such overpayments would be inconsistent with the intention and the proper application of the Fair Fund Statute. Accordingly, the Plan should be amended to provide that any amounts paid to Eligible Claimants who are still holders of Eligible Certificates will reduce dollar-for-dollar any Stated Amount (as defined in the PSA) of those Eligible Certificates.

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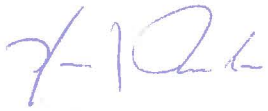
[1] Though not relevant here, FGIC is also entitled to equitable subrogation with respect to the rights and claims of the trustee for the NC4 Trust, by virtue of having paid claims on the Policy.

[2] The Plan does make provision for Eligible Claimants who are "recipients" of Certificates by "operation of law" where the "donee or decedent as the actual purchaser of Eligible Certificates would have been eligible." (Plan ¶ 41.) It further provides that "If both the donor and the donee make such a claim, only the claim filed by the donee will be honored." (*Id.*) This provision should be viewed as including a financial guarantor such as FGIC in the class of Eligible Claimants, while excluding the Insured Certificate holders. For purposes of this objection, however, we assume that the Plan Administrator will construe this language to exclude FGIC, rather than the Insured Certificate holders.

Finally, the Plan does not accurately calculate the loss amounts attributable to misrepresented loans in the NC4 Trust. Morgan Stanley currently reports on its institutional investor website (https://www.morganstanley.com/institutional/abs_spi/index.html) that the total collateral loss in the NC4 Trust is equal to 51.67% of the original collateral amount, amounting to $542.4 million in losses; the comparable figures for the HE7 trust are 47.57% and $742.1 million. Were the Fund allocated according to those figures, approximately $116.1 million would be allocated to the NC4 Trust. In what appears to be reliance on inaccurate loss amounts (described as being derived from the amount of bankruptcies, foreclosures and REO properties) stated in the Order, the Plan allocates only $38 million to NC4; even at the time of the Order, however, the loss figures for the two trusts were comparable, and would have resulted in an allocation of at least $105 million to the NC4 Trust. This arithmetical error should be corrected.

The defects in the Plan, however, are easily remedied. The Plan should state expressly that guarantors of Eligible Certificates (including a financial guarantor such as FGIC) shall be considered Eligible Claimants, and the successors in interest to the initial purchaser of those Eligible Certificates. The Plan should provide that any amounts paid to Eligible Claimants who are still holders of Eligible Certificates will reduce dollar-for-dollar the outstanding Stated Amount (as defined in the PSA) of those Eligible Certificates. And the Plan's allocation of funds to the NC4 Trust should be corrected to reflect the actual amount of losses incurred by the NC4 Trust due to Respondents' misrepresentations, as detailed above. Without those changes, however, the Plan is and will be unfair and unreasonable, and should not be adopted in its current form.

Respectfully submitted,



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