Citizens Financial Group, Inc.™

Citizens Financial Group response to the Interagency Proposal on the Classification of Commercial Credit Exposures (Docket # 05-08)

For institutions that use or plan to use PD, LGD and EL, the Interagency proposal has merit. However, a number of questions remain before the benefit or cost can be determined. The proposal clearly attempts to deal with more of the complex scenarios of commercial lending which are not adequately addressed under the current rating system.

It is important that any such changes to the regulatory rating system be consistent with the Basel II rating methodologies and capital/reserve calculations that a number of institutions are close to implementing. As an example, it is difficult to determine if the Facility Rating bands will coincide with the LGD ratings that are being developed. Should there be discrepancies, the proposal could become overly complex to implement.

The clear beneficiaries of this proposal would be ABL operations and other lending structures that are well secured and controlled. What is not clear from the proposal is how banks would be expected to reserve or hold capital against loans classified as "Remote Risk of Loss".

There is also a need for additional clarity around guarantees. In the case of US Government or GSE s, the benefit is on the Facility Rating, while it appears that for other unconditional corporate guarantees, the Borrower Rating is impacted. The concept of highly liquid personal guarantees is not addressed.

Moving the rating system toward an Expected Loss methodology is appropriate and consistent with ALLL approaches and Basel II. However, if such a change is made, it has to be done so that it does not add another calculation and justification burden outside of Basel II processes.

Answers to specific interagency questions

1) Q: Could your institution implement the approach?
2) A: Yes, CFG could implement this approach, given time to implement the changes. However, two issues would arise: (1) what impact, if any, might there be to reserves and capital? (2) how should this be incorporated alongside our own rating framework, with particular regard to Basel 2 Use test… why not just use EL and be done?
3) Q: If not please provide the reasons
   A: N/A
4) Q: What types of implementation expenses would financial institutions likely incur?
   A: Unknown. This would depend on compatibility with other rating processes.
5) Q: Which provisions of this proposal, if any are likely to generate significant training and systems programming costs?
   A: The challenges would be on the facility rating side. Performing a mapping between our facility rating scale and these grades would need to be undertaken, alongside consideration of other loss metrics (high, medium, low) and update them over time.
   More robust monitoring and controls would need to be developed on the back of this, particularly for ABL, given the particular treatment outlined in the document.
6) Q: Are the examples clear and the resultant ratings reasonable?
   A: Yes
7) Q: Would additional parts of the framework benefit from illustrative examples?
   A: Additional explanation is needed relative to reserve, capital, and Use Test
   Q: Is the proposed treatment of guarantors reasonable?
   A: No, as described above. An example or two should be provided.

Optimal implementation date - At least 1 year from announcement