

October 25, 2010

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street & Constitution Ave., NW
Washington, DC 20551

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments FDIC
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: OTS-2010-0027

Re: Advance Notice of Proposed Rulemaking Regarding Alternatives to the Use of Credit Ratings in the Risk-Based Capital Guidelines of the Federal Banking Agencies **OCC:** Docket ID: OCC-2010-0016, RIN 1557-AD35; **FRB:** Docket No. R-1391; RIN 7100-AD53, **FDIC:** RIN 3064-AD62; **OTS:** Docket No. OTS-2010-0027, RIN 1550-AC43

Ladies and Gentlemen:

The Risk Management Association (RMA) is pleased to comment on the Advanced Notice of Proposed Rulemaking (ANPR) issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (together, the Agencies). The ANPR addresses regulations with various references to and requirements based on the use of credit ratings issued by nationally recognized statistical rating organizations (NRSROs). Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted on July 21, 2010, requires the agencies to review regulations that require the use of an assessment of creditworthiness of a security or money market instrument and make reference to, or have requirements regarding, credit ratings. The agencies are tasked to then modify their regulations to remove reference to, or requirements of reliance on, credit ratings in such regulations and substitute other standards of creditworthiness that the agencies determine to be appropriate for such regulations.

RMA believes that the ANPR's task, as required by Section 939A, to "remove any reference to, or requirements of reliance on, credit ratings in such regulations..." is misplaced. In our comment letter attached, we outline why NRSRO ratings still can be a most-cost-effective tool for helping regulators to specify appropriate risk-based capital requirements, so long as the ratings' uses are properly codified.

Thus, we urge the agencies to seek a technical amendment to Dodd-Frank that would continue to allow large, complex banking organizations to utilize NRSRO ratings as one of the inputs into the determination of internal credit ratings for ordinary credits (excluding certain securitization positions), such as for corporate loans, non-profit loans, and credit to PSEs. The external ratings would NOT be permitted as the sole determinant of credit-worthiness of these credit positions. Meanwhile, under the technical amendment, NRSRO ratings for ordinary (non-securitization) positions should be permitted for community and regional banks in their movement toward a Basel II Standardized approach.

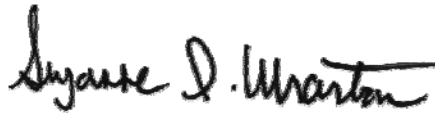
In our response, we agree that NRSRO ratings should not be used for capital purposes for certain securitization positions. We discuss options that do not rely on NRSRO ratings and that might be cost-effective and result in appropriate capital charges for certain types of securitization positions. We stand ready to assist the agencies in any way in order to design and implement one or more of these non-ratings-based options.

Please feel free to contact Ed DeMarco at 215-446-4052 or via email at edemarco@rmahq.org or Sue Wharton, at 215-446-4089 or via email at swharton@rmahq.org.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Edward J. DeMarco", with a long horizontal line extending to the right.

Edward J. DeMarco
General Counsel

A handwritten signature in black ink, appearing to read "Suzanne I. Wharton", with a long horizontal line extending to the right.

Suzanne I. Wharton
Associate Director, Enterprise Risk

Response of the RMA Capital Working Group to the Advance Notice of Proposed Rulemaking Regarding Alternatives to the Use of Credit Ratings in the Risk-Based Capital Guidelines of the Federal Banking Agencies dated August 25, 2010

I. Introduction and major concerns.

The RMA Capital Working Group (CWG) appreciates this opportunity to respond to the August 25, Advanced Notice of Proposed Rulemaking (ANPR) dealing with the U.S. banking agencies' implementation of Section 939A of the Dodd-Frank Act (Section 939A). The CWG consists of senior officers in the fields of risk measurement and the management of capital positions at major U.S. financial institutions.¹

Our group appreciates the concern with difficulties in the use of Nationally-Recognized Statistical Rating Organization (NRSRO) ratings. In particular, there is no doubt that the shortcomings in the rating process for certain securitizations were a driving factor behind the implosion of certain sections of that market and the economic crisis that followed. However, other sections of the securitization market performed well in relation to the ratings, including the markets for auto loan ABS and traditional credit card ABS. Moreover, there were no serious concerns regarding the appropriateness of NRSRO ratings for ordinary corporate bonds and loans, and issuances of sovereigns and public-sector entities (PSEs).

Thus, the ANPR's task, as apparently required by Section 939A, to "remove any reference to, or requirements of reliance on, credit ratings in such regulations..."² is misplaced. Below we will outline why NRSRO ratings, although flawed in some areas of securitization (including traditional mortgage securitizations, SIVs, and CDOs) still can be a most-cost-effective tool for helping regulators to specify appropriate risk-based capital requirements, so long as the ratings' uses are properly codified.

In this context, we are most concerned about the willingness of U.S. regulators to continue to move U.S. Large, Complex Banking Organizations (LCBOs) toward adoption of the Advance Basel II framework, as improved by the many changes known popularly as BIII. Similarly, community and regional U.S. banking institutions should be moved toward the more risk-based system of the Basel II Standardized approach (or, at a minimum, a U.S. version of such a risk-based approach).

The new Basel approaches – both A-IRB and Standardized -- employ NRSRO ratings within their complex processes and, with the exception of certain securitization positions, this makes good economic sense. Without a risk-based method for assigning minimum capital requirements, regulated banks are faced with the need to engage in regulatory capital arbitrage whenever a simple bucket-based system of capital standards results in the capital charge being significantly too high relative to best-practice risk measurement. The shortcomings of Basel I as employed within the U.S. still are with us today. Indeed, we must recognize that some of the blame for the

¹ An appendix lists the names of institutions and staff that assisted in the preparation of this response. Individual institutions may disagree with specific points made in this response and/or may be providing a separate response to the ANPR.

² P. 52283 of the Federal Register notice of the ANPR.

crisis rests with Basel I. As just one example, note that both small and large banks in the U.S. , unlike banks in the rest of the Basel community, still cannot receive regulatory capital relief for owning a AAA-rated position or participation in a corporate bond. This non-risk-based capital charge under Basel I (which is currently much too high for such a low risk position) was certainly one of the factors behind pushing U.S. banks to own inappropriately-rated and risky mezzanine tranches of securitizations, in attempts to achieve high-yield , in the years leading up to the crisis.

We agree that the Basel II treatment of securitization positions, as modified in 2009-2010, needs to be further modified. But a failure of the U.S. to improve the Basel II/III system, and then abide by this international agreement, would invite huge, international competitive equity problems, alongside of problems associated with substantially increased regulatory capital arbitrage needs of the regulated banking system.

Meanwhile, for community and regional U.S. banks, abolishing the use of NRSRO ratings (for positions other than securitization tranches) would greatly hamper their ability to manage their portfolios, properly assess the credit risk of these portfolios, and hold the amount of minimum regulatory capital that makes sense for individually differing portfolio constructions. If U.S. regulators cannot re-install the use of credit ratings for these institutions, through the successful introduction of a technical amendment to Dodd-Frank or through an appropriate regulatory interpretation of Section 939A, smaller banks in the U.S. would be irreparably damaged. At the same time, LCBOs in the U.S. would be harmed by not being able to use NRSRO ratings as simply one of the pieces of information utilized within the critical Internal Ratings process that is at the core of the Basel A-IRB approach.

II. The stated objectives of the regulators within the ANPR.

The ANPR states the objective of having the standard of creditworthiness (which replaces ratings) be “transparent, unbiased, replicable, and defined to allow banking organizations of varying size and complexity to arrive at the same assessment of creditworthiness....(emphasis ours)”. We certainly agree that the measure of creditworthiness should be transparent, unbiased, and replicable. But we strongly believe that the goal of sameness is neither desirable nor obtainable, and efforts aimed at sameness will have severe unintended consequences. We discuss the difficulties with this objective both with respect to LCBOs and community and regional institutions.

- A. LCBOs. Basel II and III require individual bank estimates of default probabilities (PDs) among other requirements. These PD estimates flow from internal rating systems on which major banks have spent more than a decade of time and many millions of dollars. These rating systems should *not* rely solely on external NRSRO ratings, and, in the main, they do not. The external rating should be only one of many factors taken into account by the internal rating system, and Section 939A should not have excluded any factor that may be available in arriving at a good estimate of PD. Note also that the process of arriving at an internal PD is only a single step of the BIII capital allocation process – the actual capital charge is determined not by the Advanced bank, but by a series of credit risk measurement models that are specified by regulators.

Most importantly, the rest of the world's regulators and the vast majority of risk practitioners believe that an internal assignment of PD (credit rating) for an individual obligor should indeed vary across LCBOs, for the following reasons:

1. There will be important differences across major banks in the information they have with regard to an individual obligor. For example, one bank may already have issued loans to the obligor and may have information not available to another bank that has not been privy to the most important confidential information on the obligor.
2. The Reference Databases of two LCBOs may vary and one of the banks may have uncovered statistical evidence that a particular explanatory variable related to the obligor, or the obligor's industry, is very important in determining likelihood of default.
3. Perhaps most importantly, human judgment is critical in deciding on the creditworthiness of an obligor. Any internal rating system that is based solely on quantifiable risk factors (such as the obligor's debt/equity ratio) will be less useful than a system that also takes into account non-quantifiable information such as the quality of management.
4. Finally, the Basel Committee and risk practitioners as a whole, believe that continual evolution in the measurement of PDs (i.e., the quality of the internal rating process) is an absolute necessity. Evidence of such evolution is found in differences across LCBOs in their internal rating systems and differences in their back-testing results with respect to PD measurements. It is the job of bank-by-bank supervision to make sure that all LCBOs utilize acceptable-practice internal rating systems.

It would be undesirable for the U.S. -- based on the language in Dodd-Frank -- to break from BIII and replace the internal ratings process for U.S. LCBOs with a government-designed rating process that involved the bucketing of obligors and credits into government-defined clusters based on various explanatory variables. This would represent a huge step backward from the work of the last decade with respect to BII/BIII and would lead to significant competitive equity issues between large U.S. banks and the rest of Basel. Additionally, any bucketing approach would be plagued with Basel I-type problems in which, even with many defined buckets, the one-size-fits-all capital requirement for a given bucket would preclude banks from allocating appropriately lower capital to the least risky credits in that bucket. Regulatory capital arbitrage would be increased, not decreased.

Nevertheless, we recognize that the external rating system failed with respect to some securitizations, even while it was performing well for other aspects of the market, including most of the ABCP market as well as some term securitizations. Plus, external ratings performed well for ordinary corporate credits, sovereign credits, and PSE credits. Therefore, we believe that the Basel community could be well served by further changes which would reduce the reliance on NRSRO ratings for purposes of capital allocations for certain classes of securitizations.. See discussion in Section III below.

- B. Community banks and smaller regional banks. One of the distinguishing credit-risk characteristics of community and regional banks versus LCBOs is that the community and regional bank, absent participation in larger credits or pools of credits, does not have the opportunities for portfolio diversification as does the large bank. Moreover, the community and regional bank does not have the resources necessary to fully analyze the creditworthiness of large corporate credits or complex securities. For these reasons, community and regional banks must be permitted to allocate regulatory capital based on NRSRO credit ratings for positions (other than securitizations).

Absent the use of external ratings, smaller banks will continue to be saddled with the problems of Basel I, which still requires them to allocate, for example, a full 8% total capital charge against a small participation in a AAA-rated corporate loan. As discussed above, it was this rigidity of Basel I, coupled with the inappropriately low ratings-based capital charges for securitization positions, that helped drive community and regional banks to invest in much-too-risky tranches of securitizations.

If the U.S. regulators, when they finally allow community and regional U.S. banks to participate in the Basel Standardized approach, are concerned that banks will shop for the highest external credit rating on a corporate or sovereign credit, they can require that at least 2 ratings are obtained and the bank must use the lower of the 2 ratings. But, with the current language of Section 939A, community and regional U.S. banks cannot evolve toward use of the BIII Standardized approach (or some U.S. version of the Standardized approach) that is now the standard for the rest of the world's smaller banking institutions.

In summary, the standard of creditworthiness must necessarily differ between community and regional banks and large banks, with the community and regional banks having a rating process based on external ratings. Then, for the large banks, the internal rating system must differ across large banks, as it will for all the Basel communities' large banks. It is the job of supervision to see to it that these differences across LCBOs flow from reasonable attempts at optimizing internal credit ratings.

III. External NRSRO ratings and securitizations.

Since we believe that NRSRO ratings can be extremely useful with regard to positions other than certain term securitization positions, the important question is what to do about these securitization tranches. We agree with those regulatory staff who may have been seeking a Section 939A that was aimed only at certain securitization problems.

In the U.S., the sponsors/originators of securitizations must now, under new accounting rules, consolidate the assets of the securitization trust onto their own balance sheets. U.S. regulators, in turn, have also ruled that, in cases where the accounting rules call for such balance sheet consolidation, the sponsoring bank must allocate capital to each individual asset in the pool, using the U.S. capital rules applicable for each such asset. Thus, under BII/BIII, when it is finally permitted in the U.S., the sponsoring bank typically would use A-IRB, not NRSRO ratings, for the majority of such positions.

In cases where the accounting rules call for the trust's assets NOT to be consolidated, the main issue is the capital treatment of credit enhancements provided by the sponsoring bank. With

the exception of ABCP, in which Basel II/III permits use of the Internal Assessment Approach (IAA), the regular ratings-based approach is used by Basel for these credit enhancements, or, when the position is not rated, the Supervisory Formula Approach is used (or deduction applied). Generally, in the term securitization market, the credit enhancements provided by sponsors are not externally rated, but there are some exceptions.

Thus, the main cases we are concerned about when discussing the use of NRSRO ratings are i) the cases in which, for the sponsor that has consolidated the trust's assets, one of the those assets is itself a securitization tranche of some other bank's trust; or ii) the case in which a bank is NOT a sponsor but simply owns a tranche of a securitization vehicle within the banking book or the trading account.

Under BIII, securitization positions in the banking book still may attract capital based solely on the NRSRO rating. In the trading account, however, the capital charge is the sum of i) a VaR measurement (times 3 or 4), plus ii) a stressed VaR measurement (times 3 or 4), plus iii) a specific risk charge based on the banking book capital charge if the position is rated, or if the position is unrated, a capital charge based on a concentration ratio times an 8% total capital charge. The concentration ratio, in turn, is equal to the sum of the nominal amounts of all tranches divided by the nominal amounts of all tranches junior to or *pari passu* with the tranche in question (including the tranche itself). If this concentration ratio is 12.5 or higher, the position would be deducted from capital.

Thus, the trading account capital charge will always be significantly higher than the banking book capital charge, even though trading account managers review their positions more frequently than banking book managers.

However, there still remain important questions regarding the use of NRSRO ratings for individual term securitization tranches. Such ratings have been based on stress-tests employed by the rating agency at the time of the origination of the securitization. Typically, these stresses involved looking at either the event of default (under the chosen stress) or the dollar amount of loss (under the chosen stress) for each tranche. Generally, prior to the crisis the NRSROs did not compute a formal estimate of risk of the underlying assets, such as the capital charge for the underlying pool of assets based on the applicable Basel II ASRF credit risk model or based on a typical Economic Capital credit risk model. Additionally, prior to the crisis, the stress tests were not, to our knowledge, updated more frequently than quarterly, as the pool's characteristics changed (i.e., as individual loans became past due or the FICO of the individual consumer changed, etc.).

Thus, it is not surprising that recent research suggests that a capital charge based on i) the capital charge under the BII ASRF model for the underlying assets, plus ii) the actual current legal waterfall of the securitization will produce capital allocations that a) change as often as

monthly as the pool characteristics change and as the waterfall characteristics change,³ and b) suggest very different levels of risk than implied by the NRSRO ratings.⁴

For these reasons and others, some U.S. regulators do not appear to want to continue with the use of NRSRO ratings in the setting of capital requirements for all securitization tranches. Furthermore, the ANPR provides several options that might be used by regulators and some of these options suggest that regulators are looking for a two-step process in arriving at a creditworthiness standard for a securitization tranche. First, the calculation should arrive at some estimate of capital that should be applied to the trust's underlying assets as if they were held on the bank's balance sheet. Second, this estimate of capital for the pool must be adjusted by the degree of prior credit protection available to the tranche in question via the waterfall structure of the securitization at any moment in time. While we agree that such an approach can be useful for certain term securitizations, we don't think it is necessary for traditional ABCP. Except for SIVs, we did not see a breakdown in the market for ABCP deals and we don't see a need for stopping the use of external ratings or the IAA for ABCP positions. Certain term securitizations are another matter; but we have significant concerns regarding the kind of two-step process described immediately above.

First, any requirement that a bank holding a securitization tranche must itself "look through" to the underlying assets would preclude any but a few of the LCBOs, and none of the smaller banks, from holding any securitization tranches.⁵ The costs of maintaining data on the underlying assets and conducting a proper analysis of capital for the underlying pool, on a continuing basis, is simply too high for many LCBOs and prohibitive for community and regional banks. This cost issue, for example, is the reason why no LCBO, so far as we know, had actually used the Supervisory Formula Approach (SFA) in assessing capital under either Basel II or, in the U.S., under Basel I.⁶ Furthermore, and most importantly, no matter how simple is the process of bucketing the underlying pool assets, this cost could not be reduced enough to permit each individual bank holding a specific tranche to engage in the exercise of assigning a risk-weight to the underlying pool, even if no more frequently than quarterly.

For example, look at the second option noted in the ANPR (in the section on securitization), immediately after the statement that one of the options could be to reinstate the rule in effect prior to the 2001 recourse rule.⁷ Under this second option, the grossed-up exposure (to include tranches senior to the tranche in question) would "be assigned to the risk weight appropriate to the underlying securitized exposures." In a Basel I world this would not be too costly an undertaking since all the underlying assets would usually attract the same 100% risk-weight (8% total capital charge). But in a Basel II/III world, each asset would attract a differing risk weight

³ When the pool is generating expected earnings, the first-dollar loss position increases while expected pay-offs reduce the amount of the mezzanine and senior tranches. Thus, when the pool is performing as expected, the risk of the mezzanine and senior tranches decreases over time. The opposite is true when the pool is not performing well.

⁴ See, for example, "Intrinsic Risk Measurement: A Model That Works," RMA Journal, June 2009.

⁵ This requirement is part of the Pillar 2 process for BIII and we believe it to be unworkable for the vast majority of banks for the reasons given in the text above.

⁶ Some U.S. LCBOs have begun to use the SFA now that they must consolidate assets in a sponsored trust and the consolidated assets include un-rated securitization tranches. In other cases, the LCBO may be using an SFA for internal capital allocation purposes.

⁷ Top left-hand column, p 52289, Federal Register notice.

that would require significant analysis on the part of the bank that was simply buying a tranche, however senior, of a securitization trust. Even if the risk-weights for the grossed-up amount of the tranche were based on only a few “financial and structural parameters of the underlying or reference pool of instruments”, the job of the individual bank holder of the tranche would be immense. For example, if the regulators chose only 2 parameters for the underlying – whether the loan was current or not, and which of 2 types of loans were involved (e.g., traditional fixed-rate mortgages or traditional ARMS) – the bank holding a tranche would have to bucket each of the underlying assets into one of the 4 resulting categories (current traditional fixed-rate; past-due traditional fixed-rate; current ARM; past-due ARM). Again, a typical investing bank could not afford to do this work on its own.

Second, any attempt to make things easier for the individual bank that must implement the new securitization rule would involve a trade-off between costs and the specificity of the risk-based rule. If a bucketing-approach is used for the underlying loans, the greater the number of buckets (i.e., the greater the number of identifying variables such as Days-past-Due, and the greater the number of ranges of these variables, such as current, 30-59 DPD, 60-89 DPD, etc.) the more accurate will be the assessment of risk for the underlying pool, before one even begins to discuss the nature of the legal waterfall for the securitization. Since the relevant research over the last few decades suggests that there are many statistically significant determinants of loan performance, a properly risk-based treatment of the underlying assets would be prohibitively expensive for all but a few of the largest LCBOs. If, on the other hand, regulators make the number of buckets for the underlying pool assets very small, costs of compliance might be reduced, but again some banks still could not afford to do the analysis on their own. And, without an appropriate degree of complexity for the bucketing process the need for regulatory capital arbitrage would, again, increase.

Third, the history of the crisis strongly suggests that underlying pool quality can deteriorate quite quickly. This suggests that relying on individual banks to assess the risk of a given underlying pool only once a quarter, when the bank’s capital requirements must be calculated, is insufficient to the task of assigning capital for securitization positions, at least with regard to underlying assets for which origination problems may still exist (such as for non-traditional residential mortgage loans).

Finally, any system of implementation cannot work unless the banking regulators are comfortable with the process being used and can examine on-site the details of the process on an ongoing basis. This requirement suggests that the securitization rule ultimately chosen by the regulators, if it involves a look-through approach applicable to all bank holders of a tranche, would involve a problematic degree of supervision.

Our analysis above suggests that one or more of the best options for securitizations – options that do not involve NRSRO ratings – would involve either the investing bank itself or an approved 3rd-party conducting a risk analysis on an asset-by-asset basis of the underlying pool, then taking into account the changing nature of the tranche in question. One such option would be to require use of the Supervisory Formula Approach as proposed in the ANPR. The SFA involves calculating the capital for the underlying (K_{IRB}) asset pool, then applying information on the structure of the legal waterfall. Some LCBOs would be in the position to utilize the SFA and are now doing so. But other LCBOs would need to use 3rd party services to comply with an SFA because of the expense of examining each asset in the pool on a continuing

basis. Meanwhile, the vast bulk of community banks and regional firms would also need to use 3rd party services to comply with an SFA. The firms that are in the best position to make these calculations are the originators/sponsors/servicers of the securitization. Still other firms could conduct the proper analysis, if provided with all the relevant data on a continuing basis by the sponsor/servicer. Thus, if banks were allowed, at their option, to use 3rd party measurements of an SFA, this would accomplish the following:

- The process could completely replace the ratings-based approach for securitizations for BIII in the banking book both for LCBOs *and for community and regional banks*. That is, if the regulators were satisfied with a specific SFA capital charge for a specific tranche of a specific deal (a specific CUSIP), this capital allocation could be used by all banks, including non-systemically-important banks.
- It would allow for a more rational trading account treatment for securitization tranches, rather than the *ad hoc* treatment put in place by the Basel committee in 2009. For example, the trading account capital charge could be the higher of stressed VaR (times 3 or 4), or the banking book charge under the SFA, without regard to any external NRSRO rating for the tranche.
- The process could give the securitization market a boost by allowing ordinary investors access to the capital allocations for each CUSIP. These capital charges are, in effect, risk measurements, and these measurements would be government approved.

The specific manner in which this 3rd-party capital calculation method would be implemented needs more discussion which is beyond the scope of this response. For example, just one issue is the process of the supervisor evaluating the methods of the capital-calculation-provider. Several possibilities include:

1. Allowing multiple 3rd parties to compete to produce the capital charges for each CUSIP, while requiring each LCBO to evaluate the process being used by the external capital-calculation firm. The regulatory agencies would then examine the LCBO's independent evaluation. Community and regional banks would not be in a position to conduct their own independent evaluation and thus might not be permitted to hold a securitization position except through a capital-deduction.
2. Allowing multiple 3rd parties to produce the capital charges for each CUSIP, while requiring that the banking agencies themselves examine frequently the capital-allocation-providers and approve the processes being used. Presumably, the firms in the best position to make the frequent capital calculations would be the originators/sponsors/servicers of the securitization deals. Since many of these firms are regulated banks, the examination/supervision process would require no additional specific legal authority for the banking agencies. Or, the new rules could specify that only those capital-allocations produced by firms that are regulated by the banking agencies could be accepted in lieu of a 100% capital charge (or some other extremely conservative capital charge process).
3. Have the banking agencies choose a single firm to undertake the continual capital calculation process for each CUSIP, with close supervision by the banking agencies. This

would follow the process used by the NAIC, except that the capital allocation calculations would employ the SFA, or the process would employ the SFA plus alternative models for comparison purposes.

4. Have the banking agencies themselves provide the capital calculations individually for each CUSIP on a continuing basis.

We think that political considerations argue against the banking agencies themselves making the capital calculations for each CUSIP. In similar fashion, the banking agencies using only a single firm could harm the evolution of the SFA. That is, any process of measuring risk should improve overtime. For this reason, the Basel III capital regulations are an evergreen process, just as Basel I has been in the past. Therefore, it seems to us that option 2 above – allowing multiple capital-calculation-providers to compete – makes the most sense if the regulators implement an SFA. Of course, the quality of the supervisory process that examines and possibly constrains the actions of these capital-calculation firms is critical. As well, U.S. regulators might wish to require any bank investor in a securitization tranche to obtain at least 2 capital calculations from the providers and use the higher of the two for regulatory capital purposes.

This issue of shopping for a low capital allocation has also been raised in the context of the use of external ratings – the ratings were being paid for by the issuers/sponsors of the securitization deals, who had a vested interest in achieving high ratings. Under a proposal for use of the SFA, however, there would be several major differences from that of the NRSRO ratings (while assuming that the securitization sponsors continue to fund the risk measurement process):

- for the first time the external risk measurements would employ specific risk analysis of the underlying assets, one asset at a time;
- the analysis would be conducted on a regular basis, more frequently than had been done by the rating agencies;
- the analysis would be using a measure of risk for the underlying pool that is based algebraically on the Basel II/III ASRF credit risk model(s) for the particular types of assets in the pool, and thus would engender less regulatory capital arbitrage than would other options being considered under the ANPR; and
- the analysis would be closely supervised by a banking agency staff that is experienced in the arena of credit risk measurement.⁸

⁸ Note that the absence of qualified supervision still exists with regard to the Dodd-Frank requirement that the SEC oversee the NRSRO credit rating process. That is, until the SEC builds up an experienced credit risk staff and develops and effective supervision process, NRSRO ratings for other than securitization will be suspected by some to be too lenient. We do not agree with such an assessment since the credit rating process for non-structured credits is quite mature, having evolved over many decades. The process typically employs multiple modeling processes as checks against each other and, especially for larger corporations, sovereigns, and PSEs, substantial financial data are readily available on the obligors. Further, extremely experienced senior staff at each of the rating agencies sign off on each rating, taking into consideration non-quantifiable factors such as management quality of the obligor.

Thus, given the potential trade-offs involved, especially as related to the quality of the credit risk measurement for the underlying pool of credits, the SFA approach, under this least-cost condition (in which each bank owner of a securitization tranche is permitted to out-source the capital calculation), appears to us to be workable.

Besides use of the SFA, this type of underlying-pool analysis could also be carried out by the bank or a 3rd-party by estimating one or two risk parameters for the tranche in question, then using a regulator-supplied conversion table to translate the resulting risk metrics into a capital charge. For example, in what we might call a “PD-LGD approach”, the investing bank or an approved 3rd-party would calculate the tranche’s through-the-cycle PD, then, using the current legal waterfall information, estimate the tranche’s LGD and place the tranche into one of several LGD buckets supplied by the regulators. The resulting bucket (combination of PD and LGD) would have a risk-weight assigned to it that also depends on the granularity of the underlying assets – similar to the current NRSRO-ratings-based table for securitizations under Basel III. To show how this might work, we constructed a set of 4 tables in Appendix 1, in which each table corresponds to a particular range of LGDs. The tables also suggest how a PD-range, estimated by the LCBO or by a 3rd-party, corresponds to an NRSRO rating, even though the LCBO or 3rd-party would be using a regulatory-approved methodology for arriving at the PD and LGD of the tranche for the period in question.

The regulators would need to calibrate risk-weights for the PD-LGD combinations to reflect the regulators’ views of what amount to asset-value-correlations for each type of tranche. These AVCs, and in turn the risk-weights for the regulatory conversion table, may in turn depend on the type of underlying asset. For example, the risk-weight for a tranche of a given PD-LGD for residential mortgages might be higher than that for another tranche with the same PD-LGD but supported by mid-size commercial loans. In Table A in Appendix 1 we show (for illustration purposes only) specific risk-weights for tranches that have estimated LGDs are between 0% and 25%. In the tables that follow Table A, each of the risk-weights would be higher than for the corresponding bucket in Table A, because the LGDs are higher.

Note that we give the tables as examples of a matrix-based approach for PD and LGD estimation for LCBOs, but the same tables (i.e., the same risk-weights) could be used for smaller institutions or smaller LCBOs that use a 3rd-party to estimate the PDs and LGDs of a tranche. Thus, we are assuming that large banks would have to hold the same capital for a given CUSIP as would a smaller bank, even though the larger bank’s better diversification situation associated with its size would argue for a lower risk-weight.

Also, as in the case of the SFA, the regulators would have to develop methods for evaluating either the work of those LCBOs who would do the analysis themselves for their own positions, or the work of 3rd-parties who would be used by some banks, including some LCBOs, for cost reasons. In the final analysis, regulators might only be fully comfortable with a tranche-PD and tranche-LGD estimated via a full simulation analysis (i.e., the process of estimating a loss distribution for the underlying assets, then simulating a loss distribution for the specific tranche for the specific point in time and specific legal waterfall at which the analysis is conducted). The PD and LGD estimates for the tranche would then derive from this simulation process for the tranche loss distribution. Such a complex process is the idea on which the SFA is based, but with simplifying assumptions. If this degree of complexity via the full-simulation approach were required by supervisors for LCBOs and 3rd-party firms making the PD-LGD calculations, then the

SFA would likely make more sense from a cost-effectiveness point of view. On the other hand, such a PD-LGD approach might allow for greater evolution over time in developing the crucial risk metric estimates, leading to long run solutions that surpass that of the SFA in terms of accuracy versus cost.

There is also the issue of how such an SFA-based, or tranche-specific, risk parameter-based, capital allocation process could be implemented in the other Basel countries. Our understanding is that the Basel Committee is studying further changes to the 2009 capital charges for securitizations and re-securitizations. If an SFA (or the somewhat more truncated PD-LGD approach) were proposed and backed by the U.S. regulators – one based on the ASRF model the large banks already use for individual credits within the banking book --the cross-border differences might be resolved. Specifically, the Basel committee might allow each country's regulators to decide i) which 3rd party firms would be eligible for making the capital calculations for that country's banks; ii) which modeling and capital-calculation process(es) must be used by a 3rd party provider; iii) whether the bank using a provider's calculations would be required to obtain at least 2 or more calculations and use the highest of these capital calculations; iv) how the evaluation/certifying process would be carried out by each country's supervisors; and v) what changes/improvements would be needed in the collection of data on the underlying pool assets and the legal waterfall, depending on the country involved and the type of underlying credit.

Certainly, U.S. regulators would not likely agree to use an SFA approach for securitization based on loans in some Basel countries whose originators/servicers do not keep acceptable records on the performance of the loans and the economic qualities of the obligors and the credits. For the same data reasons, external ratings of tranches of these securitizations would not likely be acceptable to U.S. regulators for setting capital requirements for U.S. banks.

However, we do not think that a pool-specific, individual asset-specific process, which is inherently complicated and expensive, needs to be introduced in the case of traditional ABCP or auto loan trusts and credit card trusts. For these positions, external ratings have worked well. Still other term securitizations might be exempted from the SFA and retain the use of an external/internal ratings-based approach, if the underlying assets can be subjected to simple credit-risk standards and if the complexity of the legal waterfall is simple. SIVs, CDOs, and other re-securitizations in general would not be permitted to use external ratings.

IV. Responses to the other questions within the ANPR.

A. Question 1: (dealing with the agencies proposed principles on p. 52286 of the Federal Register text). The agencies seek comment on the principles that should guide the formulation of creditworthiness standards. Do the principles provided above capture the appropriate elements of sound creditworthiness standards? How could the principles be strengthened?

As we have discussed above, consistency of treatment between community and regional banks and LCBOs is neither desirable nor obtainable. Rather, the agencies should focus on consistency of treatment for non-systemically-important banks, as a group, versus consistency across systemically important banks.

In the case of the community and regional banks, the U.S. banking agencies should move expeditiously toward something approaching the Basel Standardized approach. Absent this ratings-based approach, these banks will continue to be harmed by Basel I in which no capital relief is given for the bank holding a very low credit-risk position. The current NRSRO ratings for participations in rated credits is quite evolved, conservative, and appropriate. Moreover, the rating agencies publish and update detailed descriptions of their procedures for each asset class. Any attempt by U.S. regulators to supplant the external ratings would involve a long process that would not result in better measurements of credit risk and therefore would not result in better capital allocations for community and regional banks.

Meanwhile, for LCBOs, we have discussed at length above why there should be differences across LCBOs in their internal ratings and why these internal ratings, for other than certain securitization positions, have been performing well. It is of course the job of supervision to make sure that, no matter these differences across LCBOs; banks still always maintain acceptable processes for internal ratings.

The banking agencies might indeed develop their own methodologies for estimating PDs and LGDs, as tools for the bank-by-bank supervision process for LCBOs. The agency tools could be applied to a wide array of commonly held credit positions and could be quite valuable in furthering discussion of continually evolving best-practices. If a bank has a different methodology that can be demonstrated to be superior to the agencies' methodology, this methodology should be permitted (no matter the result with respect to generating higher or lower risk parameter estimates).

However, we cannot see a case in which a banking agency rating process, in and of itself, should replace the processes used by the LCBOs, or the processes used by the NRSROs, certainly not given the decades of head start by these entities. More importantly, a banking agency rating system would be inherently sub-optimal given that the agencies could not make the qualitative judgments regarding individual obligors as can the LCBOs and NRSROs. Meanwhile, for community and regional banks there is no need for bank-agency methods to supplant the highly evolved external rating process for corporate bonds and loans, as well as credits for sovereigns and PSEs. In the interests of costs, competitive equity, and the quality of risk measurement and management for community and regional banks, Section 939A must be subjected to a technical amendment.

If the technical amendment cannot be achieved, the problem of implementation relates mainly to smaller banks. These institutions cannot hope themselves to develop adequate internal rating systems any time soon. Yet, saddling these banks with the old Basel I is not only unfair but not in the best interests of soundness, as we have discussed earlier. A non-risk-based capital allocation system will lead to attempts at regulatory capital arbitrage that will likely backfire in the hands of these smaller institutions – as was the case leading up to the current crisis. Under no circumstances should the banking agencies simply try to build a new Basel I with more buckets based on simple descriptors such as the type of loan. Again, regulatory capital arbitrage would be increased.

If the technical amendment is not forthcoming, one solution to the community and regional bank problem might be to allow these banks to use external credit risk assessment processes that are not ratings and that are not specifically prohibited by Section 939A. For example,

vendors could make capital calculations for a bank based on the A-IRB credit risk models using PD and LGD estimates flowing from such risk measurement processes as RiskCalc™ and LossCalc™ for mid-market credits and large-credit participations. The small banks could not hope individually to validate these models and methods, however; only the banking agencies themselves could do so.

B. Question 2: (dealing with the differences between risk weights based on exposure categories versus risk weights based on specific exposure). What are the advantages and disadvantages for each of these general approaches? What, if any, combination of the approaches would appropriately reflect exposure categories and the sophistication of individual banking organizations? What other approaches do commenters believe would meet the agencies' suggested criteria for a creditworthiness standard? If increasing reliance is placed on banking organizations to assign risk weights for credit exposures using the types of approaches described above, how would the agencies ensure consistency of capital treatment for similar exposures? How could the use of third-party providers be implemented to ensure quality, transparency, and consistency?

We think that exposure-specific risk weights should continue to be a necessity for the LCBOs. This is because any simple exposure-categorization of credits (e.g., exposures to countries in the Basel group versus exposures to non-Basel countries) can encompass a very wide range of best-practice risk weights. Nothing that occurred in the crisis changes this view as it was held in the late-1990's when the decade-long Basel II effort began. Categorization of risks into a greater number of "buckets" than existed under Basel I might be marginally acceptable for smaller banks, but is clearly inappropriate for LCBOs. But even for community or regional banks, the use of external ratings or 3rd party calculations of capital allocations are preferable to categorizations. Perhaps the agencies could dispel the concerns of Congress by indicating that ratings may be used by smaller banks (as embodied in the Standardized Approach) so long as the smaller bank obtains at least 2 ratings from different NRSROs (and uses the lower of the two).

C. Question 3: (dealing with exposure-specific methods for Sovereigns). What are the advantages and disadvantages of these alternative methods? How can the agencies ensure consistent and transparent implementation? Should the agencies consider other international organizations? Which financial and economic indicators should the agencies consider? What are the implications or potential unintended consequences? Are there other methods for assessing risk-based capital requirements for sovereign exposures that would meet the principles described in section III? Commenters are asked to provide quantitative as well as qualitative support and/or analysis for proposed alternative methods.

Our answers to all of the questions remaining (dealing with sovereigns versus corporates versus PSEs. and dealing with guarantees and collateral) reflect the general views expressed above. Not only is government unlikely to devote the necessary resources to what would amount to government-defined ratings, but also there are often multiple, sound methods for arriving at risk estimates. Rating agencies themselves use multiple methods for arriving at PD, for example, but ultimately there is significant human judgment involved. The government's judgment on the risk of an individual instrument cannot replace the market's multiple views of such risk. A better way would be to rely (again, except for certain securitizations) on the use of 2 or more

NRSRO ratings when setting capital requirements for sovereign debt, corporate debt, and PSE debt.

The ANPR asks for specific recommendations for financial and economic indicators to arrive at what would amount to a government rating. If the banking agencies are not successful in achieving a technical amendment, and do not agree to using 3rd party estimates of the inputs into a regulatory capital allocation, they do not need our advice on what these financial and economic indicators should be. That is, the rating agencies are quite transparent with regard to their ratings on sovereigns, PSEs, and corporates. Each rating agency publishes and updates, for each type of credit, background documents describing procedures, data availability on which procedures are based, human judgment factors, etc. We don't think that a government rating system would be as transparent and, worse, a government system would be subject to political persuasion that might, for example, produce higher than free-market ratings for certain sovereigns, in order to bolster political objectives with specific countries. This same argument applies to a government rating for PSEs or corporates. For example, how might the U.S. banking agencies have treated their rating of General Motors during the crisis that resulted in the government owning a majority interest in that company?

D. Question 4: (dealing with exposure-specific methods for PSE exposures). What are the advantages and disadvantages of these alternative methods for calculating risk-based capital requirements for PSE exposures? How can the agencies ensure consistent and transparent implementation? Which services and businesses, or financial and economic measures, should the agencies consider? What are the implications or potential for unintended consequences? Are there other methods for assessing risk-based capital for PSE exposures in a relatively risk sensitive manner that would meet the principles described in section III. Commenters are asked to provide quantitative as well as qualitative support and/or analysis for proposed alternative methods.

[see discussion on Question 3 above.]

E. Question 5: (dealing with exposure-specific methods for bank exposures). What are the advantages and disadvantages of these alternative methods for calculating risk-based capital requirements for bank exposures? How can the agencies ensure consistent and transparent implementation? Which financial and market indicators should the agencies consider? What are the implications or potential for unintended consequences? Are there other methods for assessing risk-based capital for bank exposures in a relatively risk sensitive manner that would meet the principles described in section III? Commenters are asked to provide quantitative as well as qualitative support and/or analysis for proposed alternative methods.

[see discussion on Question 3 above.]

F. Question 6: (dealing with exposure-specific methods for corporate exposures) What are the advantages and disadvantages of these alternative methods? What are the implications or potential for unintended consequences? If all banking organizations are allowed to calculate their own capital requirements for corporate exposures, how can the agencies ensure consistent and transparent implementation (for example, where there may be material differences in how financial statements are typically presented or differences in chosen financial ratios)? What different approaches or other financial or market criteria would commenters recommend? Are

there other methods for assessing risk-based capital for corporate exposures in a relatively risk sensitive manner that would meet the principles described in section III? Commenters are asked to provide quantitative, as well as qualitative, support and/or analysis for proposed alternative methods.

[see discussion on Question 3 above.]

G. *Question 7: (dealing with exposure-specific methods for securitization exposures). What are the advantages and disadvantages of these approaches for calculating risk-based capital requirements for securitization exposures? How can the agencies ensure consistent and transparent implementation? Which parameters or measures of subordination and structure should the agencies consider? What are the implications or potential for unintended consequences? How can the agencies ensure that an alternative approach meets the criteria for a creditworthiness standard? What other approaches or specific financial and structural parameters that would be appropriate standards of creditworthiness for securitization exposures? Commenters are asked to provide quantitative as well as qualitative support and/or analysis for proposed alternative methods.*

Please see our discussion in Section III above, dealing with securitizations. We suggest that an SFA process, or the type of PD-LGD approach discussed above, while complex and expensive, may be preferable to simple bucketing schemes. However, we caution against requiring each bank to conduct a look-through analysis on its own. Also, we don't think that an external rating or internal rating-based approach needs to be abandoned for certain trouble-free classes of securitizations such as traditional ABCP and certain term securitizations. For these trouble-free types of securitizations, the external rating might be used simply as one of the factors employed by the bank in arriving at an internal rating for the position.

There are several reasons for suggesting use of an SFA, or tranche-specific PD-LGD approach, in the case of certain term securitizations and re-securitizations. In this discussion below we refer only to the SFA, even though the PD-LGD approach would have the same benefits

First, the SFA is based on the A-IRB methods for allocating capital to a pool's individual assets. This first step is then followed by specific consideration of the legal waterfall at any moment in time. Because the SFA is based on the Basel III credit risk models (in which regulators have set some of the key parameters), there is less need for regulatory capital arbitrage under this system than under any of the other options. Moreover, the A-IRB credit risk models have been determined, over the course of more than a decade, to be calibrated in similar fashion to best-practice Economic Capital models, although the A-IRB models are generally thought to be somewhat more conservative. These A-IRB credit risk models, and their calibrations, have not come into question during the crisis. The only model that has been widely criticized under Basel II is the use of VaR models in the trading account with respect to securitization positions.

Second, despite its attractiveness from an analytical point of view, the cost of implementation of the SFA is enormous – as is the cost of any look-through method that is other than trivial. This cost is reduced to an acceptable level by permitting each LCBO that wishes to use the SFA to do so, but allowing other banks to use a 3rd-party provider to conduct the analysis for each tranche of each securitization (i.e., each CUSIP). Government oversight of these processes provides the necessary protection against banks shopping for the lowest capital allocation among the 3rd-

party providers. Requiring that each investing bank receive at least two such calculations also would protect against misuse of the SFA.

Third, we assume that industry risk-measurement experts would have an input into the banking agencies' determination of the final form of the SFA and into the process of the agencies validating the 3rd-party process used to implement the SFA. In this fashion, regulators could be assured that the need for regulatory capital arbitrage – which arises whenever there is a significant difference between a regulatory capital charge and a best-practice risk measurement assessment of necessary capital – would be minimized.

Fourth, the capital allocation for each tranche, because it would be updated for every securitization tranche (each CUSIP) every month, could become the *de facto* best-practice risk metric for such instruments. Potential investors in these instruments would be more likely to come back into the securitization market by using these best-practice measures of risk than if, somehow, the NRSRO ratings for certain securitizations were made respectable again.

Fifth, if the banking agencies become comfortable with a new SFA approach accomplished in the cost-minimizing fashion described above, the agencies might also allow use of the resulting capital allocations for community and regional banks as well as LCBOs. Smaller banks, after all, had been a major investor in securitizations, including with regard to ABCP transactions. These banks would be able to hold such positions again, without having to hold arbitrarily high capital against the instruments -- unless high capital were called for under the SFA.

Sixth, the capital allocations for each CUSIP under the SFA could be calculated, say, every month, thus eliminating the concerns that NRSRO ratings were not updated sufficiently frequently to catch the rapid deterioration in the quality of the underlying asset pools that led to the crisis.

H. *Question 8: (dealing with guarantees and collateral). What are the advantages and disadvantages of the alternative approaches? What are the implications or potential for unintended consequences? Are there other approaches that would more appropriately capture the risk-mitigating effects of collateral and/or guarantees without adding undue cost or burden? Commenters are asked to provide quantitative as well as qualitative supporting data and/or analysis for proposed alternative methods.*

See our response to Question 3, above. Community and regional banks especially should be given incentive to use guarantees and appropriate collateral. They cannot be expected to do this if, as under Basel I, the capital charge for a fully collateralized loan or fully guaranteed loan is the same as a loan with no guarantor or no collateral. The Basel Standardized Approach recognizes this shortcoming of Basel I, and the U.S. agencies -- either by achieving the technical amendment to Dodd-Frank or by permitting banks to use 3rd-party risk-capital metrics -- should do the same.

I. *Question 9: (dealing with the burdens of differential methods for determining creditworthiness). What burden might arise from the implementation of alternative methods of measuring creditworthiness at banking organizations of varying size and complexity? Commenters are asked to provide quantitative as well as qualitative support for their burden*

estimates. In addition to the cost burden, the agencies seek comment on the feasibility of implementing various alternatives, particularly for community and mid-sized banks.

Pursuing a technical amendment to Dodd-Frank appears to be the only thing that would save the smaller banks from a much more complicated system in which credits are highly categorized (sliced and diced), involving higher administrative costs and possibly no significantly greater improvement in risk measurement accuracy.

The LCBOs, meanwhile, have spent many millions of dollars each over the last decade to develop A-IRB approaches. Some of these expenses have topped \$100 million at some institutions. These expenses include very significant historical reference database costs and costs of developing statistically sound estimating models for PDs, LGDs, and exposure levels. For the LCBOs, the NRSRO ratings are not a strict necessity, but such external ratings are useful for comparison purposes. For the community and regional banks, we don't see a good alternative to continuing to use the external ratings, especially for credits other than certain term securitizations and re-securitizations. We are most concerned, in the context of all credit positions other than securitizations, about a massive government effort to supplant the rating agencies in a fashion that would result in all banks of all sizes using the same government-supplied estimates of risk and capital for many categories of loans or for specific exposures.

LGD 0-25%

Table A1: Advanced Banks- Long Term Credit Risk Weights

	<i>Illustrative</i>	Column 1	Column 2	Column 3
Applicable Indicator of Credit Worthiness	PD Equivalent Range	Risk weights for senior securitization exposures backed by granular pools (percent)	Risk weights for non-senior securitization exposures backed by granular pools (percent)	Risk weights for securitization exposures backed by non- granular pools (percent)
Highest investment category	0.03%	7	12	20
Second-highest investment category	0.031% - 0.070%	8	15	25
Third- highest investment category-positive indication	0.071% - 0.085%	10	18	35
Third- highest investment category	0.086% - 0.100%	12	20	
Third- highest investment category-negative indication	0.101% - 0.115%	20	35	
Lowest investment category- positive indication	0.116% - 0.135%	35	50	
Lowest investment category	0.136% - 0.150%	60	75	
Lowest investment category- negative indication	0.151% - 0.200%	100		
One category below investment category- positive indication	0.201% - 0.400%	250		
One category below investment category	0.401% - 0.650%	425		
One category below investment category- negative indication	0.651% - 0.780%	650		
More than one category below investment category	0.781% -	Deduction from tier 1 and tier 2 capital		

Table A2: Advanced Banks- Short Term Credit Risk Weights

	<i>Illustrative</i>	Column 1	Column 2	Column 3
Applicable Indicator of Credit Worthiness	PD Equivalent Range	Risk weights for senior securitization exposures backed by granular pools (percent)	Risk weights for non-senior securitization exposures backed by granular pools (percent)	Risk weights for securitization exposures backed by non- granular pools (percent)
Highest investment category	0.03%	7	12	20
Second-highest investment category	0.031% - 0.070%	12	20	35
Third- highest investment category	0.071% - 0.100%	60	75	75
All other categories	0.101% -	Deduction from tier 1 and tier 2 capital		

LGD 26-50%

Table B1: Advanced Banks- Long Term Credit Risk Weights

	<i>Illustrative</i>	Column 1	Column 2	Column 3
Applicable Indicator of Credit Worthiness	PD Equivalent Range	Risk weights for senior securitization exposures backed by granular pools (percent)	Risk weights for non-senior securitization exposures backed by granular pools (percent)	Risk weights for securitization exposures backed by non- granular pools (percent)
Highest investment category	0.03%			
Second-highest investment category	0.031% - 0.070%			
Third- highest investment category-positive indication	0.071% - 0.085%			
Third- highest investment category	0.086% - 0.100%			
Third- highest investment category-negative indication	0.101% - 0.115%			
Lowest investment category- positive indication	0.116% - 0.135%			
Lowest investment category	0.136% - 0.150%			
Lowest investment category- negative indication	0.151% - 0.200%			
One category below investment category- positive indication	0.201% - 0.400%			
One category below investment category	0.401% - 0.650%			
One category below investment category- negative indication	0.651% - 0.780%			
More than one category below investment category	0.781% -	Deduction from tier 1 and tier 2 capital		

Table B2: Advanced Banks- Short Term Credit Risk Weights

	<i>Illustrative</i>	Column 1	Column 2	Column 3
Applicable Indicator of Credit Worthiness	PD Equivalent Range	Risk weights for senior securitization exposures backed by granular pools (percent)	Risk weights for non-senior securitization exposures backed by granular pools (percent)	Risk weights for securitization exposures backed by non- granular pools (percent)
Highest investment category	0.03%			
Second-highest investment category	0.031% - 0.070%			
Third- highest investment category	0.071% - 0.100%			
All other categories	0.101% -	Deduction from tier 1 and tier 2 capital		

LGD 51-75%

Table C1: Advanced Banks- Long Term Credit Risk Weights

	<i>Illustrative</i>	Column 1	Column 2	Column 3
Applicable Indicator of Credit Worthiness	PD Equivalent Range	Risk weights for senior securitization exposures backed by granular pools (percent)	Risk weights for non-senior securitization exposures backed by granular pools (percent)	Risk weights for securitization exposures backed by non- granular pools (percent)
Highest investment category	0.03%			
Second-highest investment category	0.031% - 0.070%			
Third- highest investment category-positive indication	0.071% - 0.085%			
Third- highest investment category	0.086% - 0.100%			
Third- highest investment category-negative indication	0.101% - 0.115%			
Lowest investment category- positive indication	0.116% - 0.135%			
Lowest investment category	0.136% - 0.150%			
Lowest investment category- negative indication	0.151% - 0.200%			
One category below investment category- positive indication	0.201% - 0.400%			
One category below investment category	0.401% - 0.650%			
One category below investment category- negative indication	0.651% - 0.780%			
More than one category below investment category	0.781% -	Deduction from tier 1 and tier 2 capital		

Table C2: Advanced Banks- Short Term Credit Risk Weights

	<i>Illustrative</i>	Column 1	Column 2	Column 3
Applicable Indicator of Credit Worthiness	PD Equivalent Range	Risk weights for senior securitization exposures backed by granular pools (percent)	Risk weights for non-senior securitization exposures backed by granular pools (percent)	Risk weights for securitization exposures backed by non- granular pools (percent)
Highest investment category	0.03%			
Second-highest investment category	0.031% - 0.070%			
Third- highest investment category	0.071% - 0.100%			
All other categories	0.101% -	Deduction from tier 1 and tier 2 capital		

LGD >75%

Table D1: Advanced Banks- Long Term Credit Risk Weights

	<i>Illustrative</i>	Column 1	Column 2	Column 3
Applicable Indicator of Credit Worthiness	PD Equivalent Range	Risk weights for senior securitization exposures backed by granular pools (percent)	Risk weights for non-senior securitization exposures backed by granular pools (percent)	Risk weights for securitization exposures backed by non- granular pools (percent)
Highest investment category	0.03%			
Second-highest investment category	0.031% - 0.070%			
Third- highest investment category-positive indication	0.071% - 0.085%			
Third- highest investment category	0.086% - 0.100%			
Third- highest investment category-negative indication	0.101% - 0.115%			
Lowest investment category- positive indication	0.116% - 0.135%			
Lowest investment category	0.136% - 0.150%			
Lowest investment category- negative indication	0.151% - 0.200%			
One category below investment category- positive indication	0.201% - 0.400%			
One category below investment category	0.401% - 0.650%			
One category below investment category- negative indication	0.651% - 0.780%			
More than one category below investment category	0.781% -	Deduction from tier 1 and tier 2 capital		

Table D2: Advanced Banks- Short Term Credit Risk Weights

	<i>Illustrative</i>	Column 1	Column 2	Column 3
Applicable Indicator of Credit Worthiness	PD Equivalent Range	Risk weights for senior securitization exposures backed by granular pools (percent)	Risk weights for non-senior securitization exposures backed by granular pools (percent)	Risk weights for securitization exposures backed by non- granular pools (percent)
Highest investment category	0.03%			
Second-highest investment category	0.031% - 0.070%			
Third- highest investment category	0.071% - 0.100%			
All other categories	0.101% -	Deduction from tier 1 and tier 2 capital		

Appendix 2:

RMA Capital Working Group institutions participating in the preparation and/or review of this response:

Bank of America: John S. Walter, Senior Vice President, Risk Capital & Portfolio Analysis.

Bank of New York Mellon: Gary Gegick, Senior Vice President.

Capital One: Jonathan Horowitch, Vice President, Capital Management; James Weatherly, Managing Vice President.

HSBC North American Holdings: Mary Ann Hageman, First Vice President, Credit Risk Management.

JPMorganChase: Joseph P. Lyons, Vice President, Regulatory Policy; Michel Araten, Managing Director.

KeyCorp: Robert Kula, Executive Vice President; Tom Boltja, Senior Vice President - Director Economic Capital Management; Robert Levy, Vice President.

PNC Financial Services Group: Janis L. Tucker, Vice President.

State Street Corporation: William H Schomburg III, Senior Vice President, Director of Economic Capital.

SunTrust: James Stocker, Capital Manager, Treasury.

Union Bank of California: Hans Helbekkmo, Senior Vice President, Enterprise Wide Risk; Desta Gebre-Medhin-Huff, Vice President, Basel II Commercial Credit and Basel II Program Support.

US Bancorp: Jacob J. Seljan, Senior Vice President, Credit Administration.

Risk Management Association: Edward DeMarco, General Counsel; Suzanne I. Wharton, Associate Director, Enterprise Risk.

Mingo & Co: John Mingo, Managing Director.