WELLS FARGO

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Docket ID: OCC-2012-0008, 0009 and 0010
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Re: Notice of Proposed Rulemakings on Regulatory Capital Rules:

- Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action (the "Basel III NPR")
- Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements (the "Standardized Approach NPR")
- Advanced Approaches Risk-based Capital Rule, Market Risk Capital Rule (the "Advanced Approaches NPR")

Ladies and Gentlemen:

This letter is submitted in response to the Basel III NPR, the Standardized Approach NPR, and the Advanced Approaches NPR (collectively, the "Proposed Rules"), which were jointly issued by the Office of the Comptroller of the Currency (the "OCC"), the Board of Governors of the Federal Reserve System (the "Board") and the Federal Deposit Insurance Corporation (the "FDIC", and together with the OCC and Board, the "Agencies") on June 7, 2012. The Proposed Rules require covered institutions to implement aspects of the "Basel III" rules published by the Basel Committee on Banking Supervision (the "BCBS") in a series of documents between 2009 and 2011 and address relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). On behalf of Wells Fargo & Company ("Wells Fargo" or "we") and its national banking association subsidiaries, including

Wells Fargo Bank, National Association, we appreciate the opportunity to provide comments on the Proposed Rules.

Wells Fargo is supportive of rules designed to strengthen the regulatory capital requirements of the banking system. We appreciate the significant efforts of the Agencies to implement the BCBS Basel III standards in the United States and their efforts to incorporate modifications to these standards that are necessary due to Dodd-Frank's prohibition on the use of credit ratings as a standard for credit worthiness. There are aspects of the Proposed Rules, however, that we believe could be improved or should be reconsidered. For instance, we recommend below a number of modifications to the Proposed Rules that we believe are necessary to align better the proposals with the BCBS Basel III standards, which will help to ensure that US banking organizations are not subject to higher capital requirements or more stringent standards when compared with their international peers. We also have sought to identify areas where we believe the proposals could be altered to reflect better the credit risk of various types of exposures, which is one of the primary goals of Basel III.

Although we are filing this comment letter to highlight areas of particular concern to us, we note that we have worked closely with The Clearing House Association L.L.C. ("TCH") and the American Securitization Forum ("ASF") in reviewing the Proposed Rules. We share the concerns raised by, and endorse the suggestions made by, TCH and ASF in their joint comment letter.

I. The Basel III NPR

With respect to the Basel III NPR, we recommend that the Agencies incorporate our suggested modifications to several of the proposed adjustments or deductions to capital and the eligibility standards for treatment as regulatory capital instruments. With respect to the proposed adjustments to common equity tier 1 capital ("CET1"), Wells Fargo is concerned with the Agencies' continued use of the 90% valuation limitation on mortgage servicing assets ("MSAs"), the complete elimination of the filter for accumulated other comprehensive income/loss ("AOCI"), and with the definition of "financial institution" with respect to the limitations on investments by banking organizations in capital instruments issued by unconsolidated financial institutions. With respect to our concerns around the proposed eligibility standards for regulatory capital instruments, we recommend the Agencies determine that subordinated debt and preferred securities issued by consolidated subsidiaries to third-parties are not subject to the minority interest limitations. We also ask that the Agencies confirm the eligibility of certain types of securities as additional tier 1 capital and tier 2 capital instruments.

The Proposed Rules also implement new capital conservation and countercyclical capital buffers and revise the Prompt Corrective Action ("PCA") framework. We request that the agencies conduct a quantitative impact study ("QIS") prior to implementing the countercyclical capital buffer and that the Agencies confirm the approach that advanced approaches banks should utilize in calculating their capital buffers. Finally, we request that the Agencies adopt a phase-in of the Well Capitalized thresholds for the PCA framework that provides greater consistency with implementation of the capital conservation buffer.

A. Several modifications to the proposed adjustments to CET1 are needed.

1. The continued use of the 90% fair value limitation of MSAs is unnecessary.

Under the BCBS Basel III standards, banking organizations are subject to increased capital requirements, including threshold limits on MSAs (along with deferred tax assets and significant investments in unconsolidated financial institutions) of 10% and 15% of CET1 as well as an increase in the risk-weight on the MSAs that are not deducted from 100% to 250%. In addition to the BCBS-established 10% and 15% threshold deductions and increased risk-weight requirements, the Proposed Rules go a step further to add that if the amount of MSAs a banking organization deducts after the application of the 10% and 15% threshold deductions is less than 10% of the fair value of its MSAs, then the banking organization must deduct an additional amount of MSAs so that the total amount deducted is, at a minimum, 10% of the fair value of the MSAs. The Agencies indicate that this provision reflects Section 475 of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), which provides that MSAs may not be valued at more than 90% of their fair value ("the FDICIA haircut") without joint agency action.

In order for the treatment of MSAs to conform to the BCBS Basel III standards but still meet U.S. regulatory objectives, Wells Fargo requests that the Agencies allow MSAs to be valued at 100% of fair value. The imposition of the 90% limit is not a mandatory ceiling, as Section 475 was amended to allow MSAs to be valued at above 90% of fair value if the agencies jointly determine that a higher valuation would not have an adverse effect on the deposit insurance fund and the safety or soundness of insured depository institutions. As reflected in our analysis below, allowing MSAs to be valued at 100% of fair value should not pose a threat to the deposit insurance fund or raise safety and soundness concerns.

If the Agencies conform the Basel III NPR to the BCBS Basel III standards, then the proposed risk-weighting of 250% on MSAs that are not deducted from capital would impose greater capital requirements on MSAs than is required under the current general risk-based rules (the 10% FDICIA haircut and 100% risk-weight). These greater minimum capital requirements should support a determination by the Agencies that permitting 100% valuation of MSAs would not have an adverse effect on the deposit insurance fund or the safety and soundness of depository institutions. If the Agencies continue to retain the 90% valuation limit, then minimum capital requirements for US banking organizations would be substantially higher than both current requirements and those under the BCBS Basel III standards.

Assuming an 8% minimum capital ratio is required to be adequately capitalized, under the current general risk-based capital rules, MSAs incur a constant regulatory capital requirement of 17.2% (consisting of the 10% FDICIA haircut plus 8% of the remaining 90% of MSA value). If the Proposed Rules were consistent with the BCBS Basel III standards (such that the Agencies eliminate the FDICIA haircut), MSAs would incur a minimum capital requirement of 20% (8% of 100% of MSA value times the 250% risk-weight). If, however, the FDICIA haircut is retained as has been proposed, MSAs would incur a minimum capital

requirement of 28% (the FDICIA haircut plus 8% times the 250% risk-weight on 90% of MSA value), representing a 62% increase over the current regulatory capital treatment of MSAs. It should be noted that this example does not consider the substantial additional capital that would be required if the BCBS Basel III standards 10% and 15% thresholds (which are also included in the Proposed Rules) are breached.

	8% Total Capital (Proposed Adeq. Capitalized Level)	**10% Total Capital** (Proposed Well-Capitalized Level)
Existing Treatment: (10% deduction / 100% Risk Weight)	17%	19%
250% Risk Weight Only:	20%	25%
10% Deduction & 250% Risk Weight:	28%	33%

Wells Fargo is not aware of any MSA-related weaknesses that have been identified as contributing to the financial crisis and that would support a determination that such a significant increase in minimum capital requirements for MSAs is necessary. Given the increased effect of the proposed rules on the treatment of MSAs that will result from application of the BCBS Basel III standards alone, Wells Fargo urges the Agencies to determine that 100% of the fair value of MSAs may be recognized for regulatory capital purposes. In the event the Agencies retain the FDICIA haircut, then the Agencies should limit its application to purchased MSAs. Although the proposed rule applies the FDICIA haircut to both purchased and retained MSAs, FDICIA section 475, however, only addresses purchased MSAs.

2. <u>The AOCI filter should be retained with respect to available-for-sale ("AFS") debt instruments whose valuations fluctuate largely as a result of changes in interest rates.</u>

Under the current general risk-based capital rules, unrealized gains and losses on AFS debt securities do not flow through to regulatory capital. Consistent with the BCBS Basel III standards, however, the Basel III NPR would require that unrealized gains and losses on all AFS securities flow through to CET1. The Agencies have requested comment on alternatives to this proposal. Because of the potential impact on banking organization's asset-liability management practices and the volatility this proposal will introduce to regulatory capital ratios, Wells Fargo strongly supports an approach that would retain the exclusion with respect to debt securities whose valuations primarily change as a result of fluctuations in interest rates.

Banking organizations frequently seek to hedge interest rate risk by holding US and agency debt securities, as well as mortgage-backed securities issued or guaranteed by a government sponsored entity ("GSE"), including Fannie Mae and Freddie Mac, which is more cost efficient compared to other hedging options, such as interest rate swaps. To reduce the potential volatility in their capital ratios posed by holding these securities, many organizations may instead elect to employ more costly hedging strategies. Even if banks seek to reduce their use of such debt securities as an effective risk management tool, the pending new liquidity requirements, such as the Board's recently proposed new liquidity requirements for large bank holding companies and Basel III's new liquidity coverage ratio, will result in banking organizations holding larger portfolios of highly-liquid government and agency debt securities.

These requirements will only amplify the challenges banking organizations will face as they seek to manage their capital ratios, a problem that will become even more acute in light of the Board's recently proposed early remediation regime, which would impose mandatory restrictions or prohibitions on growth on large banking organizations whose capital ratios fall below determined levels. Furthermore, as shown in Appendix A, actual realized gains and losses on AFS securities have been low relative to unrealized gains and losses. The introduction of this capital volatility is misleading and artificial not only because other aspects of the balance sheet are not "marked" through AOCI but more importantly because fluctuations in the value of these securities is driven almost exclusively as a result of changing interest rates rather than as a result of market perceptions of credit risk.

In addition, the US and international accounting standard setters have not yet agreed on a consistent classification and measurement standard for financial instruments, with one hurdle being different historical views as to the use of the "amortized cost" and "available-for-sale" (or mark to AOCI) categories for portfolios of debt securities. The failure of the accounting standard setters to develop a converged classification and measurement standard could result in similar portfolios of debt securities being treated as available-for-sale (with the corresponding capital volatility) in one jurisdiction but at amortized cost (and accordingly, with less capital volatility) in another jurisdiction.

In light of the foregoing, Wells Fargo urges the Agencies to retain the current AOCI filter for securities such as US Treasuries and agency debt obligations, as well as GSE debt obligations and mortgage-backed securities issued or guaranteed by a GSE, including Fannie Mae and Freddie Mac. In Appendix A, we provide historical data on yield correlations between agency MBS coupons and US Treasuries. This approach would still allow unrealized gains and losses driven in part by market perceptions of credit risk to impact CET1 but would exclude changes to unrealized gains and losses driven predominately by changes in interest rates. By retaining the AOCI filter for these specified instruments, the Agencies would significantly reduce our concerns relating to capital volatility and the interplay with liquidity requirements.

3. The definition of "financial institution" should conform to the BCBS Basel III standards.

The BCBS Basel III standards require banking organizations to apply limitations and deductions on their investments in capital instruments of unconsolidated financial institutions. The purpose of this BCBS Basel III requirement is to remove the double counting of regulatory capital within the financial industry. The Basel III NPR implements these requirements but defines the term "financial institution" more broadly than is intended by the BCBS Basel III standards by including many institutions that are not subject to regulatory capital requirements. As a result, Wells Fargo recommends that the final rules more narrowly define the term to include only institutions that are subject to regulatory capital requirements, such as banks, broker-dealers, insurance companies, and non-bank financial companies designated as a systemically important by the Financial Stability Oversight Council under Title I of Dodd-Frank.

Setting aside our general request to narrow the definition of "financial institution", we specifically urge the Agencies to exclude "covered funds" from the definition in the final rules. As an initial matter, rules implementing the Volcker Rule have not yet been finalized and banking organizations should not be required to deduct holdings in covered funds prior to implementation of those rules. The agencies' proposed rules to implement the Volcker Rule would subject investments in certain hedge funds and private equity funds to a deduction from tier 1 capital. Furthermore, the capital treatment of equity investments in covered funds is already sufficiently addressed through the Proposed Rules expansion of the look-through approaches to investment fund risk-weightings to all banking organizations. As a result, we do not expect that the inclusion of "covered funds" within the definition of "financial institution" would appreciably decrease any systemic risk considerations that may have driven the Agencies' decision to deviate from the BCBS Basel III standards in this respect.

The definition of "financial institution" also includes any company "predominantly engaged" in an enumerated listing of financial activities. The proposal provides that a company is predominantly engaged in an activity if 85% or more of its total consolidated annual gross revenues or consolidated assets in either of the two most recent calendar years were derived from or related to the designated financial activities. The inclusion of this general category of companies not only deviates from BCBS Basel III but also would impose a substantial, and in some cases impractical, diligence burden on banking organizations. If the Agencies elect to retain this category within the definition of "financial institution", then we recommend that an asset-size threshold be incorporated into the definition. Specifically, we suggest that the definition exclude any company with less than $50 billion of consolidated assets. To the extent the expansion of the definition of "financial institution" was driven by systemic risk considerations, the $50 billion consolidated asset threshold is consistent with other asset size thresholds utilized by the Agencies in other systemic risk-related regulatory proposals.

B. Subjecting bank subsidiary issued subordinated debt and real estate investment trust preferred capital instruments to the minority interest limitations should be reconsidered.

Capital instruments issued by a consolidated subsidiary of a parent holding company to a third-party are subject to minority interest limitations in the Basel III NPR. We request that the Agencies reconsider these limitations with respect to the treatment of subordinated debt instruments issued by bank subsidiaries and preferred shares issued by real estate investment trust ("REIT") subsidiaries.

With respect to subordinated debt issued by a bank subsidiary to a third-party, these instruments are optimally placed to absorb losses, protect depositors and the FDIC. The limitation is based on the excess of total capital over the regulatory minimum. This incentivizes bank holding companies with bank subsidiaries that have issued third party subordinated debt to hold the least amount of tier 1 common at the bank level to minimize the impact of the limitation. A bank subsidiary's subordinated debt issuance is normally a more cost effective way to obtain subordinated debt. The proposed rule, however, will make this an inefficient vehicle because of the disallowance at the consolidated level. If the Agencies continue to believe that bank issued subordinated debt should be subject to the minority interest limitations, then we

suggest the Agencies consider permitting amounts up to 2% of risk-weighted assets of the bank to be included in consolidated capital, which will allow a banking organization to maintain conservative tier 1 capital levels without the concern that this may have the effect of reducing total capital at the consolidated level.

Some banking organizations have REIT consolidated subsidiaries. Under the current general risk-based capital rules, capital instruments issued by consolidated REITs are included in the consolidated banking organization's regulatory capital as minority interests. The Basel III NPR, however, imposes significant limits on the amount of REIT preferred minority interests that are eligible for inclusion in the capital of a parent bank and bank holding company. The Agencies have noted, however, that existing REIT-issued preferred shares may contain a provision authorizing a primary federal supervisor to direct a banking organization to convert the REIT's preferred shares into noncumulative perpetual preferred stock of the banking organization. Due to this mandatory conversion ability and the fact that upon conversion the new noncumulative preferred shares of the banking organization would be considered loss absorbing at the consolidated level, we urge the Agencies to consider an exception in the final rules that would exempt preferred shares issued by REITs from the minority interest limitations.

C. Modifications to the required elements of additional tier 1 capital and to tier 2 capital are appropriate.

The Proposed Rules outline specific criteria for determining whether an instrument qualifies as tier 1 or tier 2 capital. We request that the Agencies consider (i) confirming that the existence of dividend stopper arrangements on pari-passu instruments does not preclude treatment of the instruments as additional tier 1 capital; (ii) allowing trust preferred securities with 5-year interest deferral provisions to qualify as tier 2 capital instruments; and (iii) eliminating the proposed amortization requirement for subordinated debt instruments.

With respect to additional tier 1 capital, the proposal requires that the banking organization must have full discretion to cancel dividends or other capital distributions on the instrument without triggering an event of default, a requirement to make a payment-in-kind, or the imposition of other restrictions, except in relation to any capital distributions to common stockholders. Many existing noncumulative perpetual preferred securities contain a requirement that dividends cannot be halted on one instrument unless they are halted proportionately on all similar pari-passu securities simultaneously. This requirement provides some comfort to investors by eliminating the ability of the banking organization to halt dividends on specific tier 1 instruments. The BCBS has previously addressed the permissibility of these provisions[1], and we request that the Agencies confirm in the final rules that existing dividend stopper arrangements on similar pari-passu instruments will not preclude noncumulative perpetual preferred stock from qualifying as additional tier 1 capital.

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[1] BCBS, *Basel III. Definition of Capital – Frequently Asked Questions* (question 3 under paragraphs 54-56, page 3).

With respect to treatment as tier 2 capital, the proposal requires that the holder of the instrument must have no contractual right to accelerate payment of principal or interest, except in the event of a receivership, insolvency, liquidation or similar proceeding of the banking organization. Prior to the Collins Amendment, trust preferred securities containing a clause permitting the banking organization to defer interest payments for 5 years without triggering default acceleration rights for the holder qualified as tier 1 capital. We request that the Agencies consider grandfathering existing instruments as tier 2 capital. Alternatively, we suggest that the Agencies amend criteria (vi) of the proposed tier 2 capital elements to provide an exception for acceleration rights if the banking organization may defer payments of interest for at least 5-years without triggering such rights.

Finally, we request that the Agencies consider eliminating the subordinated debt amortization requirement whereby the capital amount allowed for each subordinated debt instrument reduces by 20% of its original amount per year commencing 5-years from its maturity date. A subordinated debt instrument maintains the same amount of loss-absorbing capacity whether its maturity date is within 10-years or 3-months. In a resolution situation, any outstanding subordinated debt instruments would be available to repay debtors and creditor (as required in a gone-concern situation) regardless of their maturity date, and therefore, we believe subordinated debt should not be subject to the proposed discounting from regulatory capital. We can understand how the current amortization treatment may have given comfort to the Agencies in the past as to the availability of subordinated debt on a forward-looking basis. However, the recently introduced capital planning requirements along with pending enhanced prudential standards (particularly requirements around capital stress testing) offer a more direct and rigorous forward-looking evaluation, and make the inclusion of this amortization treatment now unnecessary. Its retention serves only to increase the effective cost of subordinated debt.

D. The Agencies should conduct a QIS prior to implementing a countercyclical buffer and should confirm that, for purposes of calculating buffers, advanced approaches banks should use advanced approaches risk-weightings.

Wells Fargo has several concerns with the proposed countercyclical capital buffer, such as the lack of transparency in terms of its design and implementation and the lack of analytics and other evidence to support a conclusion that implementation of the buffer would actually stabilize the industry as intended. As a result, we urge the Agencies to proceed with caution with respect to this buffer and delay implementation in order to conduct a QIS to confirm the effectiveness of the buffer. Conducting the study would also provide transparency with respect to the methodology utilized for sizing and activating the buffer. We would also recommend that as part of the QIS the Agencies consider alternative approaches that would be less complex and more transparent, such as increasing the risk-weight on particular asset classes or business lines that could drive a potential macroeconomic downturn. At a minimum, Wells Fargo requests that the Agencies reconsider the discretion the Agencies retained in the proposal to shorten the time between announcement and implementation of the buffer to less than 12-months. A minimum 12-month notice period is necessary to allow organizations to plan for and efficiently manage the higher capital requirements without excessive market disruption.

With respect to the calculation methodology for the capital buffers, Wells Fargo is supportive of provisions in the proposal that allow advanced approaches banking organizations to use their advanced approach risk-weighted assets to calculate their capital buffers (both the proposed capital conservation buffer and proposed countercyclical capital buffer) and which eliminate the need to compute the same ratios under the standardized approach. This reinforces the position to the market that capital buffers are not intended to act as minimums but rather are available to be drawn down in periods of stress. We also urge the Agencies to include similar provisions when implementing pending capital buffers for organizations designated as systemically important.

E. The Agencies should "phase-in" the differential between the Well Capitalized and Adequately Capitalized risk-based capital ("RBC") ratio thresholds in the PCA framework to better align those changes with the proposed timeline for implementation of the capital conservation buffer ("CCB").

In light of the changes to the regulatory capital framework, the Agencies have proposed revisions to the PCA framework that would revise the three RBC ratio thresholds for the Adequately Capitalized category and introduce the new CET1 capital measure into four of the PCA categories. We are supportive of these changes, and believe that the changes are well aligned with other changes indicated in the Proposed Rules. With respect to the Well Capitalized RBC ratio thresholds in the PCA framework, however, we recommend that the Agencies consider adopting a "phase-in" of the two percentage point differential in RBC ratios between the Well Capitalized and Adequately Capitalized categories while retaining the proposed Adequately Capitalized RBC ratio thresholds. This proposed change will allow depository institutions time to adjust to other changes in the Proposed Rules, particularly the disqualification of certain capital instruments and the generally higher risk-weighted asset calculations.

To accomplish this "phase-in", we recommend that the difference in RBC ratios between the Well Capitalized and Adequately Capitalized categories would grow each year, as reflected below, until reaching two percentage points on January 1, 2019. The adoption of this timeframe provides consistency with the proposed transition period for implementation of the CCB. Instead of commencing the phase-in in January 2016, as is proposed for the CCB, however, we recommend that the phase-in for the Well Capitalized PCA framework begin when the Proposed Rules are finalized and effective. For example, if the Proposed Rules were effective on January 1, 2013, the revisions to the Well Capitalized RBC ratios would be implemented as follows:

RBC Ratios for Well Capitalized Depository Institutions							
	Jan. 1, 2013	Jan. 1, 2014	Jan. 1, 2015	Jan. 1, 2016	Jan. 1, 2017	Jan. 1, 2018	Jan. 1, 2019
Total Capital	8.3%	8.6%	8.9%	9.1%	9.4%	9.7%	10.0%
Tier 1 Capital	4.3%	4.6%	6.9%	7.1%	7.4%	7.7%	8.0%
Common Equity Tier 1	n/a	n/a	5.4%	5.6%	5.9%	6.2%	6.5%
Difference between Well Capitalized & Adequately Capitalized RBC Ratios	0.3%	0.6%	0.9%	1.1%	1.4%	1.7%	2.0%

Although the PCA framework in the Proposed Rules does not explicitly incorporate the proposed CCB framework, there is nevertheless a significant correlation of preparation required for meeting the 250 basis points of CCB by 2019 and meeting the Well Capitalized RBC ratio thresholds. We believe that utilization of a proposed "phase-in" schedule for Well Capitalized RBC ratio thresholds provides better consistency between the PCA and CCB frameworks and also affords depository institutions time to adjust to other proposed changes to the regulatory capital framework.

II. Advanced Approaches NPR

As an institution subject to the Advanced Approaches NPR, we recommend below a number of changes to the provisions regarding credit value adjustments, the treatment of securitization exposures, the correlation factor for wholesale exposures to financial institutions, the definition of eligible guarantees, the scaling factor for the treatment of credit risk-weighted assets, the definition of eligible financial collateral, and the proposed 1250% risk-weight for certain transactions. We believe that these changes are either necessary to conform the proposal to the BCBS Basel III standards, to reflect risk more accurately, or to address possible unintended consequences that may result from the proposal.

A. Inconsistencies between the K_{CVA} formula and the definition of CVA Risk-Weighted Assets should be removed.

While the K_{CVA} formula proposed under the Simple CVA approach appears consistent with the BCBS Basel III standards in that it is summing CVA capital requirements for all OTC derivative counterparties to create an aggregate CVA capital requirement for the portfolio, the definition of "Total CVA Risk-Weighted Assets" seems inconsistent with the K_{CVA} formula proposed. The ambiguity arises because the definition of "Total CVA Risk-Weighted Assets" could be read as indicating that K_{CVA} is calculated for each counterparty and then summed. The K_{CVA} formula proposed, however, already represents the sum of the CVA requirements for each counterparty. We therefore recommend that the definition of "Total CVA Risk-Weighted Assets" be changed to "Total CVA risk-weighted assets is the total CVA capital requirement, K_{CVA}, multiplied by 12.5."

B. Several changes are needed to the proposed treatment of securitization exposures.

Due in large part to Dodd-Frank's requirement to remove references to credit ratings from capital requirements, the Advanced Approaches NPR outlines several changes to the definition and treatment of securitization exposures which appear not to conform to BCBS Basel III standards and are not sufficiently risk sensitive. As a preliminary matter, we recommend that the agencies conduct a condensed form QIS to assess the full impact of the simplified supervisory formula approach ("SSFA") on securitization exposures prior to its adoption. We believe that the universe of covered exposures is diverse enough to merit a study to determine whether the SSFA formulation can adequately distinguish among differing levels of risk in such structures. We describe several of our specific concerns with the proposed treatment of securitization exposures below. Not only is the SSFA expected to handle a variety of asset classes with differing underlying expected loss content, but it is also expected to rank order risk properly among loans characterized as securitizations where a variety of risk transfer structures are employed. We believe that sufficient testing should be conducted to ensure that this rule provides a truly risk-based ordering of capital requirements for assets encompassed in its definition.

At a minimum, we ask the Agencies to consider: (i) reviewing the re-securitization penalty; (ii) adopting a 7% risk-weight floor for securitizations; (iii) adjusting SSFA to remove the treatment of payment deferrals on student loans as a default; (iv) treating securitizations held at a discount as having additional credit enhancements within the supervisory formula approach ("SFA") and SSFA formulas; (v) reconsidering the 1250% risk-weight for due diligence failures; (vi) defining the calculation of an off-balance sheet exposure to a securitization special purpose entity ("SPE"); (vii) treating the excess spread in securitizations as additional credit enhancement, at least in instances where the excess spread exceeds a materiality threshold, such as credit card securitizations; and (viii) reviewing the conditions under which loans can be characterized as securitizations in order to ensure that banks are provided the proper incentives for risk transfer in loan structures. In addition, we also refer the Agencies to subsection (G) of this letter.

First, the proposed definition of "re-securitization" includes any "securitization in which one or more of the underlying exposures is a securitization exposure." We believe that such a broad definition will have a detrimental effect on business lending. Furthermore, the re-securitization penalty is not necessary because the SFA and SSFA take into account the quality of the underlying collateral. For the BCBS Basel III standards, a separate re-securitization penalty was desired for the ratings based approach given the lack of consistency and transparency in NRSRO ratings. By removing references to NRSRO ratings, however, the SSFA (like the SFA) directly captures the capital requirements and credit quality of the underlying loans (including that of securitizations underlying another securitization) within the Ka calculation. The additional penalty of p =1.5 is unnecessary and grossly overstates the required capital of the underlying exposures. The 1.5 multiplier is certainly inappropriate for the senior positions of a re-securitization and results in the capital required of the senior bondholder to be much higher than the capital required of the underlying loans. Under the calculation, the senior bondholder receives no credit for the credit enhancement included in the structures but rather is

penalized for the fact that the structure is a re-securitization. If the penalty must exist, it should not apply to senior positions in the capital structure.

We also believe that the definition of "re-securitization" should be amended to exclude a securitization with a *de minimis* level of underlying securitization exposures. Existing corporate loan securitizations, or collateralized loan obligations ("CLOs"), often include a *de minimis* amount of other corporate loan-backed securitizations to ensure an appropriate amount of risk diversification for investors. Between 2002 and 2008, originations often included a *de minimis* amount of securitization exposures. As of September 14, 2012, 46% of all outstanding CLO issuances (by current collateral balance) contain exposures to underlying securitization assets between 0% and 5%, as reflected in Appendix B. These and other securitizations with *de minimis* underlying securitization exposures should not be deemed re-securitizations, and we request that the Agencies amend the definition of "re-securitizations" as a securitization position in existence on the effective date of the final rules in which 5% or more of the underlying exposures are securitization exposures. This amendment would address the legacy CLO positions given that the current industry practice is to exclude securitization positions in CLO transactions, which is reflected in the origination trends since 2010 in Appendix B.

Second, the Advanced Approaches NPR imposes a minimum 20% risk-weight floor on securitization exposures. While we believe a risk-weight floor is appropriate for securitization exposures, the proposed 20% risk-weight floor is too high, significantly reducing the risk sensitivity that should prudently be applicable to higher quality assets. In addition, the proposed floor is inconsistent with the BCBS Basel III standards, which impose a risk-weight-floor of 7% for securitization exposures and 20% for re-securitization exposures under the SFA. As a result, US banking organizations will be subject to higher capital requirements compared to non-US banks and therefore will operate at a competitive disadvantage. To address this disparate impact, we request that in the final rule the Agencies conform to the BCBS Basel III standards by imposing a 7% risk-weight floor for securitization exposures.

Third, the proposed rule treats a deferral of payments under student loans as a delinquency for SSFA purposes. Deferral of payments for student loans is a well-established and standard practice and benefits the borrowers by providing repayment flexibility, which decreases the probability of default. We therefore request that the Agencies adjust the SSFA formula to allow for the deferral of student loan payments.

Fourth, the proposed SFA / SSFA formulas do not treat discounts to par held on securitizations as enhancements. When the carrying value of a securitization is less than its par value, the discount to par for a particular position provides additional protection to the banking organization in the event of future write downs on the pool of underlying assets. As such, the difference between the carrying value and par value is effectively a credit enhancement to the banking organization that reduces the risk of a securitization exposure. Failing to recognize the discount from par value in the SFA / SSFA formulas as a credit enhancement greatly overstates the potential exposure in the securitization. This failure is also inconsistent with the treatment of discounts in the corporate loan capital calculation, where the beneficial impact of discounted purchases is captured via lower estimates of loss given default for corporate loans. We therefore

request the Agencies treat discounts as credit enhancements within the SFA / SSFA formulas in the final rule.

Fifth, the agencies are proposing in both the Standardized Approach NPR and the Advanced Approaches NPR that if a banking organization is not able to demonstrate a comprehensive understanding of a securitization exposure to the satisfaction of its primary federal supervisor, then the banking organization must assign the exposure a risk-weight of 1250%. We propose that the agencies consider an approach consistent with CRD II (Article 122a) and the current draft of CRD IV, where the applicable authority is directed to impose a proportionate additional risk-weight to the securitization exposure of no less than 250%. The additional risk weight would progressively increase with each subsequent infringement of the due-diligence requirements up to a cap of 1250%. We suggest that the agencies adopt a formula consistent with what has been adopted in CRD II subject to a full deduction.

Sixth, in the wake of recent changes to generally accepted accounting principles and the treatment of asset-backed commercial paper conduits under existing regulatory capital rules, the amount of any off-balance sheet securitization exposure should be capped at the maximum potential amount that the banking organization could be required to fund given the securitization SPE's underlying assets (calculated without regard to the current credit quality of those assets).

Seventh, we have found the most inequitable treatment of securitized assets to pertain to credit card securitizations. This disparity is directly attributable to the impact of not allowing excess spread to be recognized as credit enhancement when dealing with securitizations where the excess spread is significant and central to the structuring of such transactions. In the case of credit cards, excess spread is significant and one of the main reasons why the transactions are rated investment grade by the rating agencies and traded as such by market participants. In Section III.C, we offer more specific details on credit card securitizations and a possible modification to the SSFA formulation that would rectify this disparity.

Finally, senior positions in a securitization, defined as securities with a detachment point equal to 100%, effectively own the underlying assets of a securitization with the additional benefit of credit enhancement. Loan structures may involve the tranching of the risks present in securitization tranches into senior and subordinate pieces simply by the originator buying additional credit protection in the form of an outside investor. It should not be possible to end up with a higher capital requirement by transferring some of the risk in a securitization structure if the senior-most piece is the only exposure retained by the originating entity. Such an outcome should be evidence that invoking the re-securitization flag in concert with the re-characterization of loans as securitizations can produce unexpected and illogical results. We believe that the SSFA rule, in concert with the re-characterization standards, must be re-engineered to prevent such an outcome.

C. The Agencies should specifically re-evaluate the Proposed Rules impact on bank-owned life insurance.

For our concerns with respect to the treatment of BOLI separate accounts, please refer to Section III of this letter.

D. A correction to the correlation factor for wholesale exposures to financial institutions and an expansion of the definition of eligible guarantees are needed to conform the Advanced Approaches NPR to the BCBS Basel III standards.

The Advanced Approaches NPR outlines several changes to the treatment of wholesale exposures. We request that the Agencies consider revising the proposed correlation factor for exposures to financial institutions and including guarantees issued by agencies of other OECD governments as eligible guarantees. With respect to the correlation factor for exposures to financial institutions, the formula in the Advanced Approaches NPR does not conform to the BCBS Basel III standard [1.25x(.12+.**12**xe^-50xPd)]. Instead, the formula reads as follows: [1.25x(.12+.**18**xe^-50xPd)]. The change from a 0.12 to 0.18 adjustment factor would have a material impact on exposures to covered financial institutions.

With respect to the scope of eligible guarantees, we urge the Agencies to conform to the BCBS Basel III standard in the final rule. The Proposed Rules put forward that guarantees of the US government and its agencies that require some action (e.g., loan servicing) by the bank or a third party be recognized as eligible guarantees. Among these guarantees are those of the US Export-Import Bank. Other OECD nations have similar government agencies that issue equivalent guarantees requiring that the beneficiary service the loans to claim the guarantee. We request that banking organizations be permitted to likewise treat the guarantees from agencies of other OECD governments as eligible guarantees.

E. The scaling factor for the treatment of credit risk-weights assets ("RWAs") is no longer necessary.

Credit RWAs are defined as 1.06 times the RWAs of retail exposures, wholesale exposures, counterparty credit exposures, securitization exposures, equity exposures, and other assets. When the BCBS proposed the Basel Accord in 2004, it sought to maintain the current overall level of minimum risk-based capital requirements within the banking system. The data from the Quantitative Impact Studies QIS3 (May 2003), QIS4 (March 2005), and QIS5 (February 2006) necessitated a scaling factor to avoid a precipitous drop in risk-based capital upon the adoption of Basel II. The BCBS proposed a scaling factor of 6%. In December 2007, the Agencies adopted final rules for Risk-Based Capital Standards: Advanced Capital Adequacy Framework – Basel II and agreed with the BCBS proposed scaling factor. In the adopting release, however, the Agencies also noted that as they gained more experience with the advanced approaches that they would revisit the scaling factor and make necessary changes.

The scaling factor has been retained in the Proposed Rule. We believe that the scaling factor should be removed with the implementation of Basel III. The recent downturn experienced by the retail and wholesale portfolios has resulted in increased probability of default and loss given default estimates while the resultant Basel II RWA estimates have increased greatly relative to when the scaling factor was first sized and introduced. The BCBS recently acknowledged this and noted in its Basel III regulatory assessment preliminary report for the United States that: "US regulatory agencies have informed the assessment team that for a number of core banks the amount of risk-weighted assets based on the *[Basel II]* advanced approaches would in fact be higher (by close to 20% on average) than the amount currently

calculated *[under Basel I]*, implying correspondingly higher capital requirements." In addition, Basel III imposes capital requirements for areas not currently covered by Basel II. Thus, the increased coverage provided by Basel III along with the higher Basel II RWA calculations seems to address the original concerns that drove the adoption of the scaling factor.

F. Conforming mortgages should be recognized as eligible financial collateral ("EFC").

Although the proposal permits banking organizations to recognize the credit risk mitigant benefits of eligible financial collateral ("EFC"), the Agencies have proposed significant changes to the definition of EFC. Specifically, the Agencies have indicated that conforming residential mortgages would no longer qualify as EFC for advanced approaches banks. This exclusion appears to be based on the Agencies' conclusion that there is insufficient liquidity in this market. At least with respect to warehouse lines of credit, we believe that this conclusion is unjustified.

Conforming residential mortgage loans are eligible for delivery into Ginnie Mae MBS, which are backed by the full faith and credit of the U.S. Government, or Fannie Mae or Freddie Mac MBS, which are guaranteed by the relevant GSE. As these securities are universally accepted as liquid securities by the market, the underlying mortgage loans enjoy the same liquidity.

Residential mortgage warehouse lending provides liquidity to independent mortgage banking companies to fund the closing of residential mortgages. These are short-term revolving facilities that fund a lender's inventory from the closing table to sale in the secondary market. The mortgage note is used as collateral or the negotiable instrument that supports the interim financing until the mortgage is sold and delivered to the permanent investor, at which time the initial advance of the funds from the warehouse provider is repaid. However, in these facilities, the mortgage has been pre-committed for sale to approved investors, or committed for delivery into Ginnie Mae, Fannie Mae or Freddie Mac MBS. Those commitments are part of the collateral pool for the warehouse line. Mortgage bankers draw upon the line of credit to fund a mortgage at closing or to purchase a closed loan from another originator. The line of credit is then paid down when the loan is sold to the permanent investor.

This proposed change would negatively affect the capital treatment of mortgage origination warehouse lines of credit where the underlying mortgages are, for all intents and purposes, very liquid and price certain and expected to be paid off by sale into the secondary market anywhere from 5 days to within 90 days. By removing conforming residential mortgages from the definition of EFC, warehouse provider banks would be required to treat theses warehouse facilities as commercial loan exposures and will not be able to look through to the underlying collateral in calculating the appropriate risk-weighting. We believe that conforming and/or FHA/VA residential mortgages should be included in the definition of EFC.

G. Application of the 1250% risk-weight to banking organizations with capital ratios in excess of 8% is inappropriate.

The Advanced Approaches Rule under Basel II requires banking organizations to deduct certain exposures from total capital, including certain securitization exposures such as credit-enhancing interest only strips, low-rated securitization exposures, and high-risk securitization exposures subject to SFA; eligible credit reserve shortfalls; and certain failed capital markets transactions. The Advanced Approaches NPR requires that these exposures be assigned a 1250% risk-weight, which results in a greater than dollar-for-dollar capital charge for banking organizations maintaining a capital ratio in excess of 8% while being less punitive for banking organizations operating with capital ratios below this level. These positions should receive a dollar-for-dollar capital charge for banking organizations operating with capital ratios above the 8% minimum.

III. Standardized Approach NPR

With respect to the Standardized Approach NPR, we believe the agencies should re-evaluate the proposed risk-weighting requirements for residential mortgages and securitization exposures and consider the impact of the SSFA or SFA look-through requirements on BOLI portfolios. As discussed more fully below, these changes are necessary to reflect better the risks associated with the exposures and to address unintended consequences that may result from the proposals.

A. The Agencies should consider revising several components of the proposed risk-weighting framework for residential mortgages to reflect credit risk more accurately.

The Standardized Approach NPR suggests a significantly modified and more granular approach to assessing the capital requirements of residential mortgages. Wells Fargo agrees with the Agencies that a more risk-sensitive approach is appropriate and necessary, particularly in light of the dislocation in the national housing market. We urge the Agencies, however, to incorporate the following suggestions in the final rules.

First, we recommend that Category 1 loan types include interest-only loans that convert to fully amortizing loans and standard variable rate products like 3/1, 5/1 and 7/1 adjustable rate mortgages.

Second, because of the potential long lives of mortgages, substantially seasoned and performing mortgages may receive punitive treatment merely because certain data was not collected at the time of origination. To recognize the benefit seasoning has on mortgage performance and the change in data collection/retention requirements proposed, mortgages originated prior to January 1, 2011 and that are currently performing should be grandfathered with the option to receive the risk-weighting under current rules (Basel I treatment). This grandfathering should extend to securitized mortgages for purposes of calculating risk-weights under the SSFA.

Third, Category 2 loans that have been appropriately seasoned and performing should be allowed to move to Category 1. For example, a Category 2 loan seasoned for five years with no late payments during the prior 18 months should be re-assigned the risk-weight from the Category 1 table. In our experience, historical loan performance outweighs origination characteristics and becomes progressively more significant as a risk metric as loans age.

Fourth, terms of a junior lien should not taint the risk-weighting assigned to a first lien made to the same borrower. At worst, the risk-weighting on the first lien should be no worse than if the junior lien were held by another bank. The Proposed Rules would result in uneven capital treatment of mortgage loans depending on whether a lender originated a first lien mortgage loan or a first- and second-lien mortgage loan, and will likely increase mortgage rates and encourage customers desiring subordinated mortgage financing to seek such financing from institutions other than the first mortgage lender to avoid what is, effectively, a first-lien penalty. This could result in many borrowers being forced to seek subordinate financing from other lenders, thereby depriving consumers of the convenience and cost-efficiencies of working with one lender while providing no appreciable improvement to bank risk management.

Fifth, modifications made outside of the Home Affordable Modification Program ("HAMP") should receive the same treatment afforded to those made under HAMP. In particular, the loan-to-value ("LTV") used to set risk-weights should be the original LTV as is proposed for HAMP modifications. Any other treatment has the unintended consequence of discouraging modifications made to assist borrowers to keep their homes and to reduce the risk profile of the bank.

B. Treatment of BOLI separate accounts

Wells Fargo has long used insurance investment products to offset the costs of providing highly competitive benefit plans to its work force. Included among these products is "separate account" bank-owned life insurance ("BOLI"). In this program, an insurance carrier establishes legally separate accounts. While the accounts are owned by the insurance carrier, they are outside the reach of the carrier's general creditors. These accounts thereby shield premium dollars invested by Wells Fargo in the policy. As discussed in greater detail below, Wells Fargo has historically used the Alternative Modified Look-Through Approach to risk-weight separate account BOLI, as recommended by the OCC. Using that approach under the Proposed Rules, however, would result in separate account BOLI being subject to a significantly more punitive capital requirement, which results primarily from the proposed treatment of private label securitizations. We believe this result is inconsistent with the Agencies' longstanding recognition of the benefits that BOLI provides to organizations. Given these considerations and in the event that organizations do not or cannot implement the full look-through approach, we propose that the Agencies adopt an optional modified look-through approach that incorporates a less punitive risk-weighting for private label securitizations.

The regulatory history of BOLI has evolved from 1991 when the first regulatory issuance was released to 2004 when the OCC, in conjunction with the Board, the FDIC, and the Office of Thrift Supervision issued Interagency Statement on the Purchase and Risk Management of Life Insurance ("OCC 2004-56"). In OCC 2004-56, the agencies recognized that "BOLI can be an

effective way for institutions to manage exposures arising from commitments to provide employee compensation and pre- and post-retirement plans." The importance of BOLI investments was also recently recognized in proposed regulations to implement the Volcker Rule. Section 13(d)(1)(J) of the Bank Holding Company Act of 1956, as amended, permits banking entities to engage in a covered fund activity or investment if the agencies determine such activity or investment promotes or protects the safety and soundness of the entities and the financial stability of the United States. In the proposed Volcker regulations, the agencies included acquiring or retaining an interest in BOLI separate accounts as one such investment.

Under both Basel I and Basel II rules, and consistent with OCC 2004-56, BOLI separate accounts use various "look through" approaches to determine the risk-weights of the underlying investments. First, the Simple Modified Look-Through Approach applies a risk-weight to the entire value of the policy equal to the highest risk-weight for any one asset permitted in the separate account based upon the carrier-established investment guidelines that govern the account. Second, the Alternative Modified Look-Through Approach applies a risk-weight to the entire value of the policy equal to the pro-rata risk-weight of the investments permitted in the separate account based upon the carrier-established investment guidelines that govern the account, while assuming the most onerous end of the parameter is held in the separate account. In both approaches, the reference point for calculating the risk-based capital is the carrier-established investment guidelines.

Applying either of the above approaches to the proposed Basel III standards would impose capital requirements that are not commensurate with the risk of the actual investments. Much of this discontinuity arises as a result of having to apply a 1250% risk-weight to the amount of the fund that could be invested in private label securitizations since the detailed data needed to calculate capital under SSFA is not available. Wells Fargo believes this result is inconsistent with the intent of the proposed standards "to ensure that banking organizations do not receive a punitive risk-based capital requirement for equity exposures to investment funds that hold only low-risk assets." In addition, the resulting risk-weight is inconsistent with existing policy recognizing the value of BOLI separate accounts in mitigating the cost of providing employee benefits and enhancing the safety and soundness of the banking industry.

In the absence of being able to complete the full look-through approach (an approach complicated by the BOLI policyholder not owning the investments supporting the policy and having to rely upon information provided by both insurance carriers and investment fund managers), Wells Faro therefore encourages the Agencies to reconsider the treatment of investments in equity funds and their impact to BOLI separate accounts.

First, we recommend adoption of a new modified look through approach which would allow the risk-weights of underlying investment categories to be determined based upon the actual percentage balance of the fund in those categories, as opposed to using the highest possible percentage indicated in the fund's investment guidelines. This proposed change would eliminate much of the current punitive treatment of BOLI separate accounts that simply allow for unlimited investments in private securitizations in the investment guidelines. Second, we recommend that funds whose investment guidelines specify that the fund invest only in bank eligible securities and that the fund invest no more than 30% of its total market value in private

securitizations should receive a risk-weight of 100% for the pro-rata share of the fund invested in private securitizations. If the fund does not meet these guidelines, the currently proposed securitization treatment would apply.

C. The proposed standardized approach for securitizations is not sufficiently risk-sensitive, and, therefore potentially both overstates and understates capital requirements.

We do not believe the proposed Kg input is sufficiently risk sensitive as it does not recognize the quality of the underlying assets. For instance, it has been our experience, as reflected at Appendix C, that the capital requirements for prime and non-prime auto securitizations vary substantially. Proposed Kg, however, would make no distinction with respect to the capital required for these transactions and, based on our experience, overstates the capital required for some transactions and understates the capital required for others. In addition, the proposed Kg input does not sufficiently recognize the recovery rate of auto loans, effectively assigning them the same treatment afforded to unsecured transactions with much lower rates. We request that the Agencies revise Kg to account for the distinctions between prime and non-prime loans and secured and unsecured exposures. At a minimum, consumer loans under the standardized approach should receive a risk-weight of no more than 75%. This treatment would be consistent with the Basel II standardized approach and CRD IV for European Union banking organizations. The 100% risk-weight places US banking organizations at a competitive disadvantage.

In support of our arguments, in Appendix D we have compiled a table of results for different collateral used in securitizations. We then employed the SSFA formulation to compute capital requirements assuming that the re-securitization flag was both active and inactive. The table displays the onerous capital afforded several granular and prime consumer assets, particularly when the re-securitization flag is active. In many cases, the capital for securitizing a pool of assets is over 150% of the capital for owning the assets outright. When the re-securitization flag is active, this disparity becomes even more pronounced and grows to in excess of 200%.

We have found that prime credit cards are afforded the most inequitable treatment. Appendix D illustrates the impact of excess spread not being recognized as credit enhancement when dealing with securitizations where the excess spread is significant and central to the structuring of such transactions. In some credit card securitizations, the annual express spread is between 10-15%, a significant amount of credit enhancement. Our proposed solution would be to modify Kg to allow it to be reduced by the last 3 month average excess spread in a securitization, perhaps subject to a cap. Interestingly, in the credit card example, we found that Kg would have to be reduced from 8% to roughly 2% in order to bring the capital for securitization almost in line with the capital for the underlying. A 6% excess spread is near the average for prime credit card securitizations and is one of the main reasons why the transactions are rated investment grade by the rating agencies. Alternatively, the excess spread could be added to the attachment and detachment points of each tranche to reflect, effectively, increased subordination that bondholders enjoy because of the excess spread. As Appendix D illustrates, proposed Kg is not sufficiently granular to recognize the differing risk profiles of the underlying

asset pools being securitized. The use of excess spread to distinguish the risk of different asset classes would align capital for securitizations more closely with the capital calculated for the underlying assets under AIRB. Either of these modifications makes the capital a more dynamic reflection of the underlying asset performance.

Finally, it should be noted that the impact of the re-securitization flag has the perverse incentive for investors/issuers to take on more risk in transactions (by not dividing transactions into A/B notes and retaining only the A piece) in order to avoid the more onerous capital treatment prescribed by activating the re-securitization flag. In other words, a bank could either own securitization tranches outright or offer partial financing to an outside entity that owns the securitization tranches in a manner that third party financing is introduced to assume a first loss position. The financing alternative clearly presents lower risk to the bank, and yet it will trigger the re-securitization flag and actually almost double the capital requirement as illustrated in Appendix D. This cannot be the intent of the re-securitization flag, but the results arise because of its confluence with the notion of loans being re-characterized as securitizations. We urge that the SSFA be re-formulated for this reason or at least studied more thoroughly via a QIS so that the full ramifications of the proposed rules are more transparent.

We also refer the Agencies to our concerns with respect to the treatment of securitizations that are set out in our discussion of the Advanced Approaches.

D. Commitments to Extend Credit

The Standardized Approach NPR specifies credit conversion factors of 20% for commitments with an original maturity of one year or less that are not unconditionally cancelable by the banking organization, 50% for similar commitments with an original maturity of more than one year, 50% for contingent items such as performance letters of credit ("LCs"), and 100% for financial standby LCs. Wells Fargo believes that the plain language of this proposal means that a 20% or 50% risk-weight should be applied to all commitments to extend credit, including those that permit those credit extensions to be in the form of LCs. The Board's instructions to the FR Y9-C under the current general risk-based capital rules interpret the rules to mean that commitments to issues LCs should be risk-weighted as if those LCs are already issued. Commitments to extend LCs are no more risky than commitments to extend a loan. In both cases, credit may, but will not necessarily, be extended. Loan commitments are risk weighted at 20% or 50% until loans are drawn. In the same way, commitments for LCs should be risk-weighted at 20% or 50% until LCs are issued. Wells Fargo urges the Agencies to clearly state that commitments to extend LCs are to be treated as all other commitments to extend credit in the rule.

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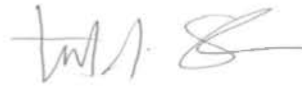
We appreciate the opportunity to provide comments on the Proposed Rules. If you have any questions regarding our comments, please feel free to contact us.

Very Truly Yours,

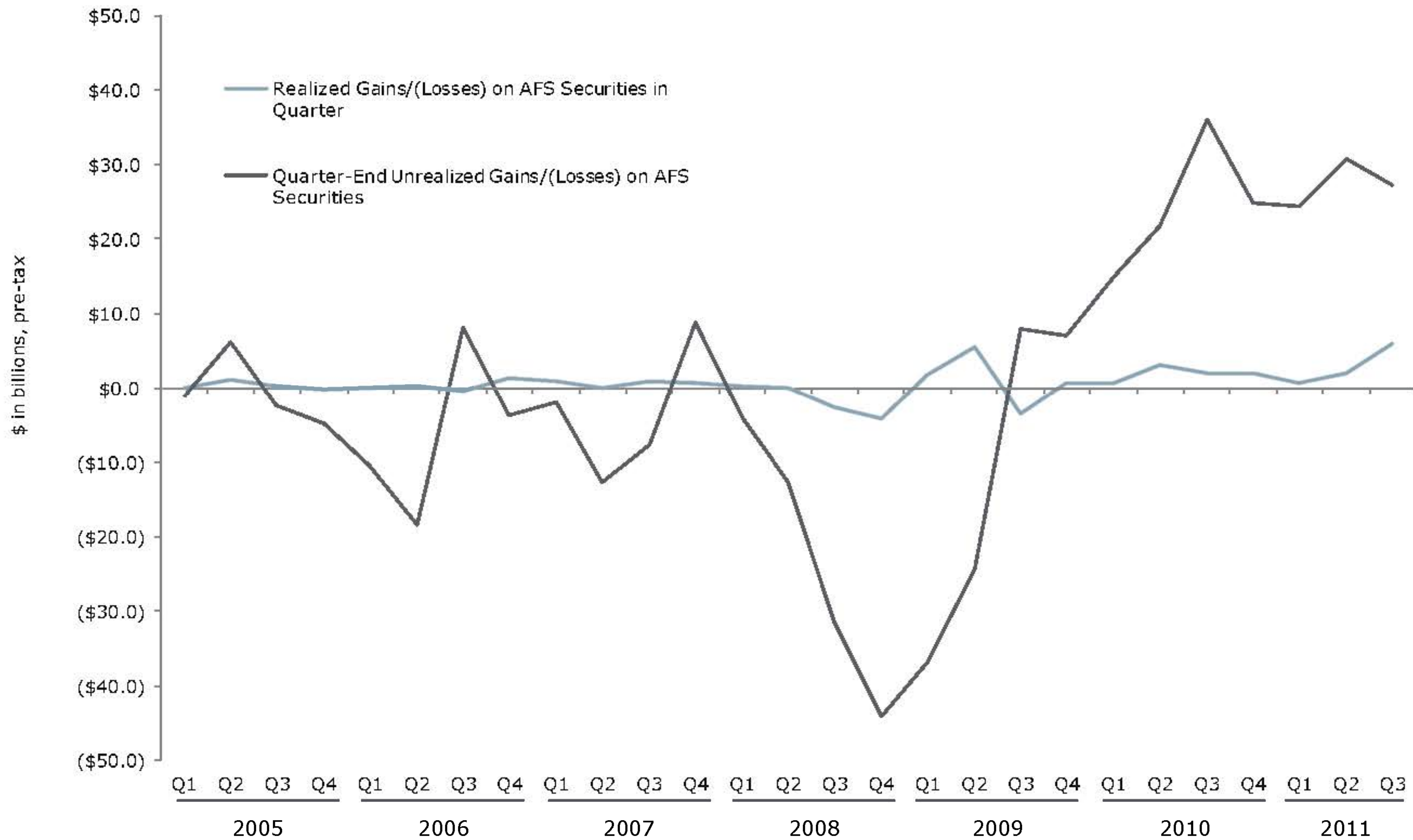


Timothy J. Sloan, Senior Executive Vice President and
Chief Financial Officer

Michael J. Loughlin, Senior Executive Vice President and
Chief Risk Officer

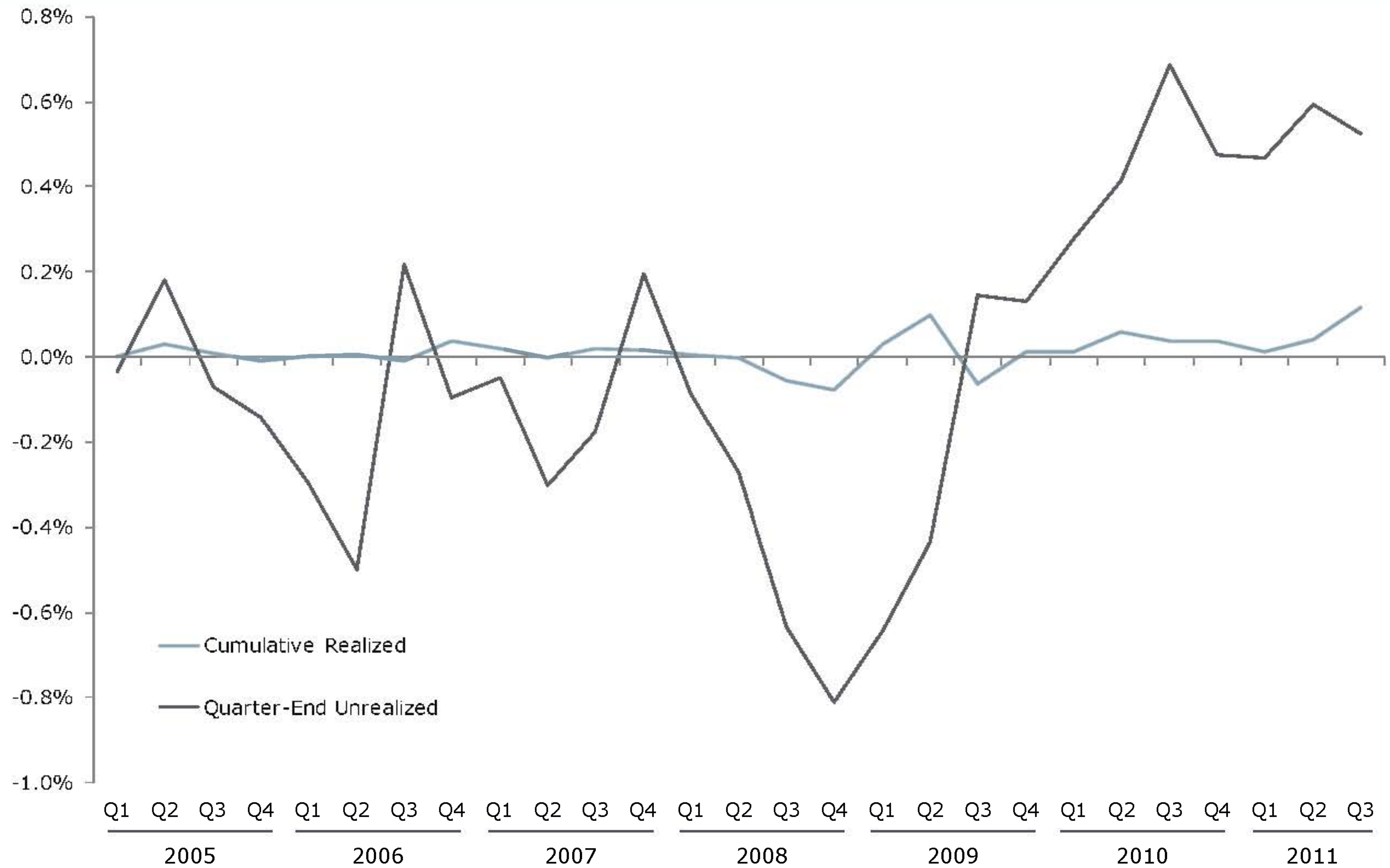
Paul R. Ackerman, Executive Vice President and Treasurer

Appendix A



Source: Federal Reserve Y-9 filings via SNL Financial, Wells Fargo Securities

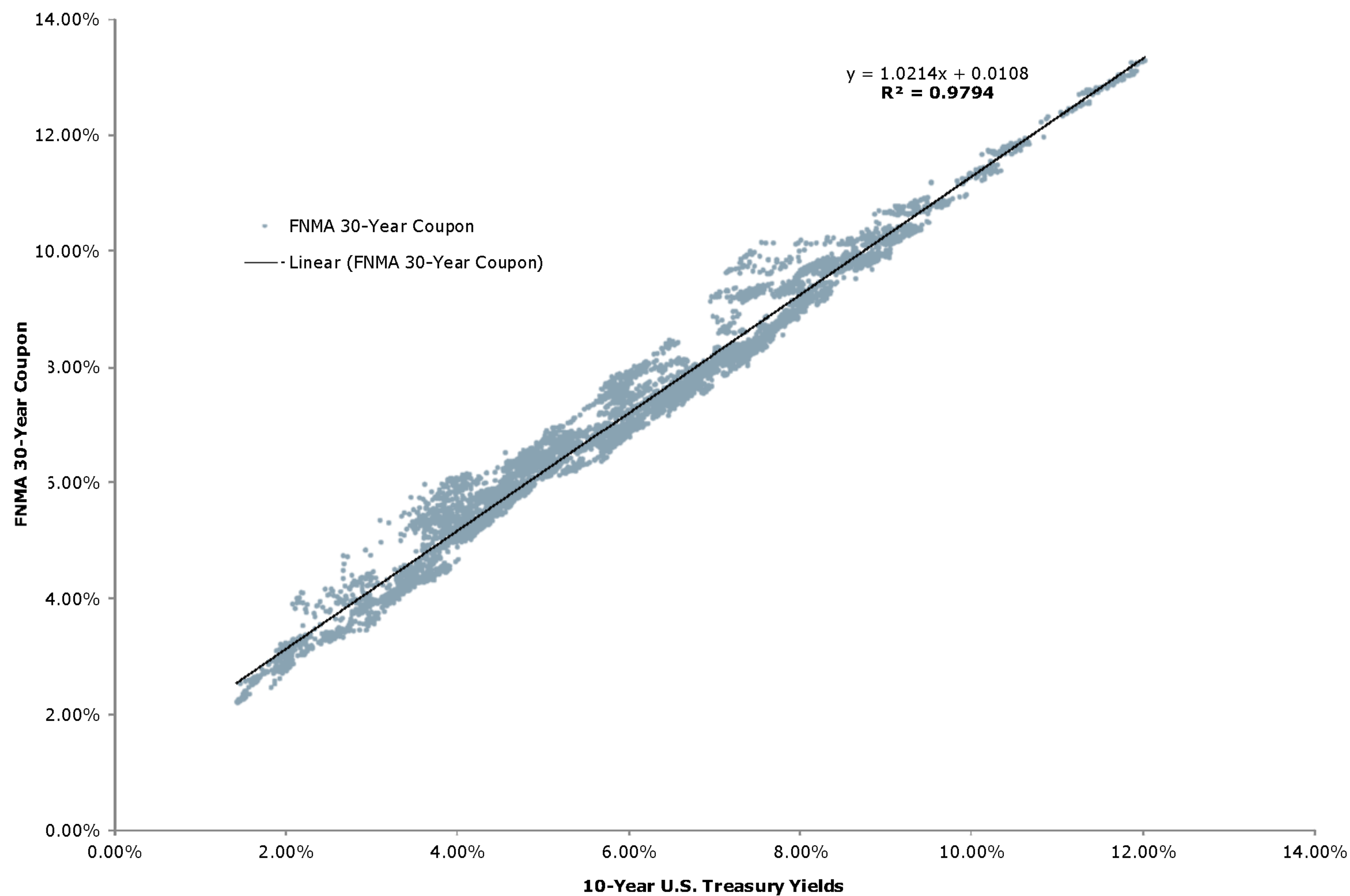
Appendix A



Source: Federal Reserve Y-9 filings via SNL Financial, Wells Fargo Securities

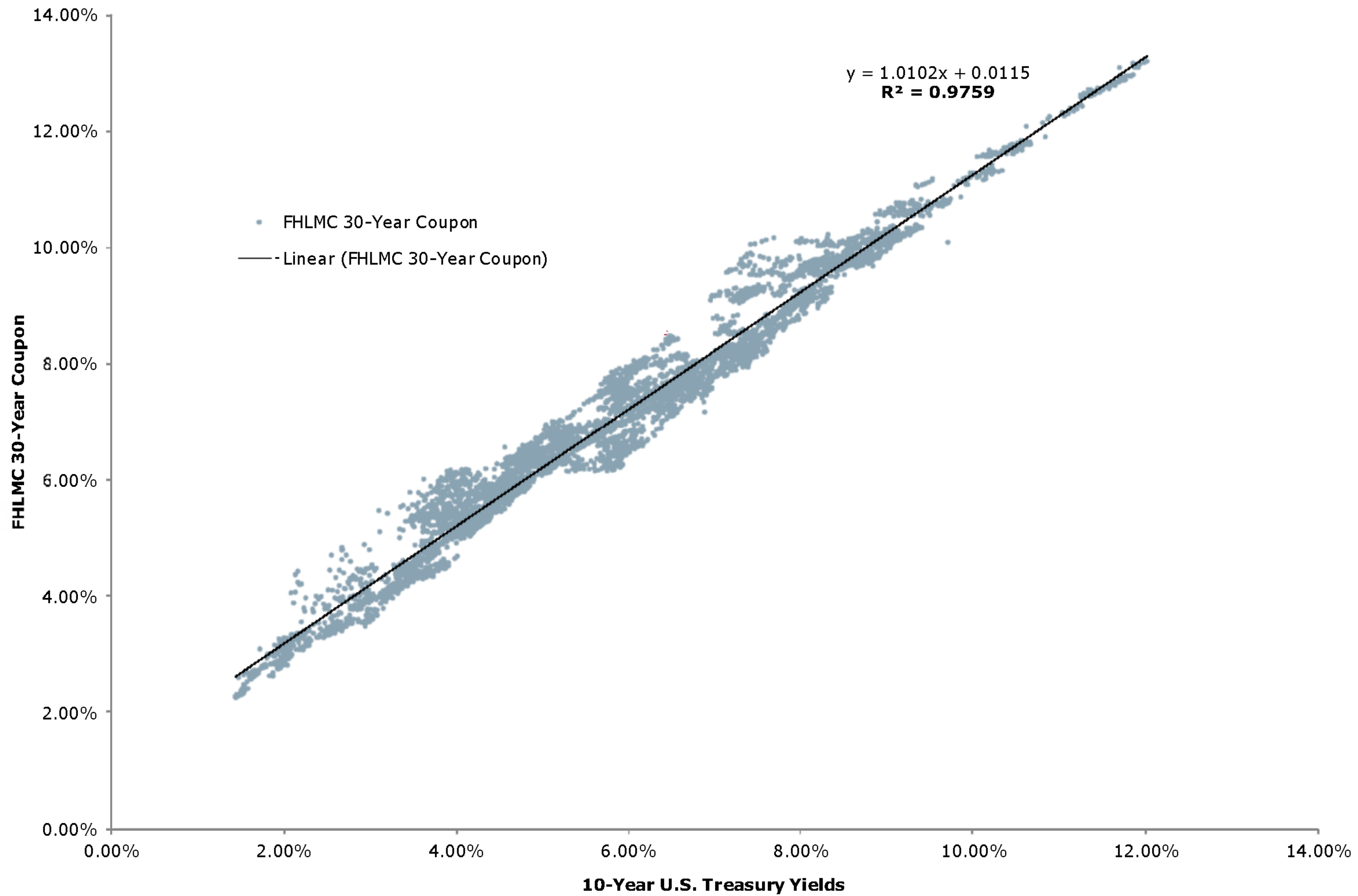
Appendix A

Scatterplot of FNMA MBS 30-Year Coupons vs. 10-Year U.S. Treasury Yields



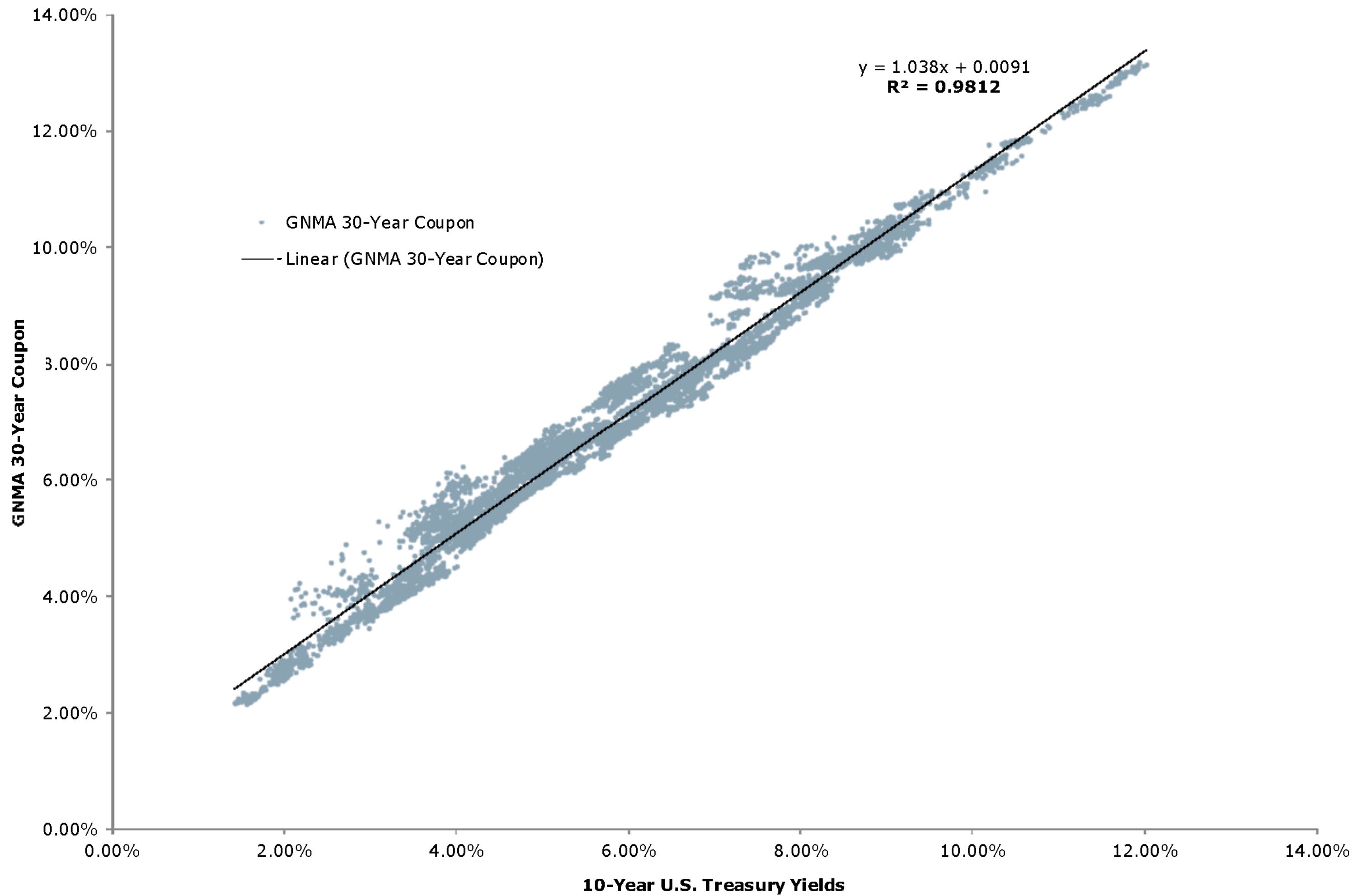
Source: Bloomberg
FNMA MBS yield is represented by MTGEFNCL Index (FNMA 30-Year Coupons) and 10-Year UST is represented by H15T10Y Index

Appendix A



Source: Bloomberg
FNLMC MBS yield is represented by MTGEFHLM Index (FHLMC 30-Year Coupons) and 10-Year UST is represented by H15T10Y Index

Scatterplot of GNMA MBS 30-Year Coupons vs. 10-Year U.S. Treasury Yields



Source: Bloomberg
GNMA MBS yield is represented by MTGEGNSF Index (GNMA 30-Year Coupons) and 10-Year UST is represented by H15T10Y Index

Appendix B

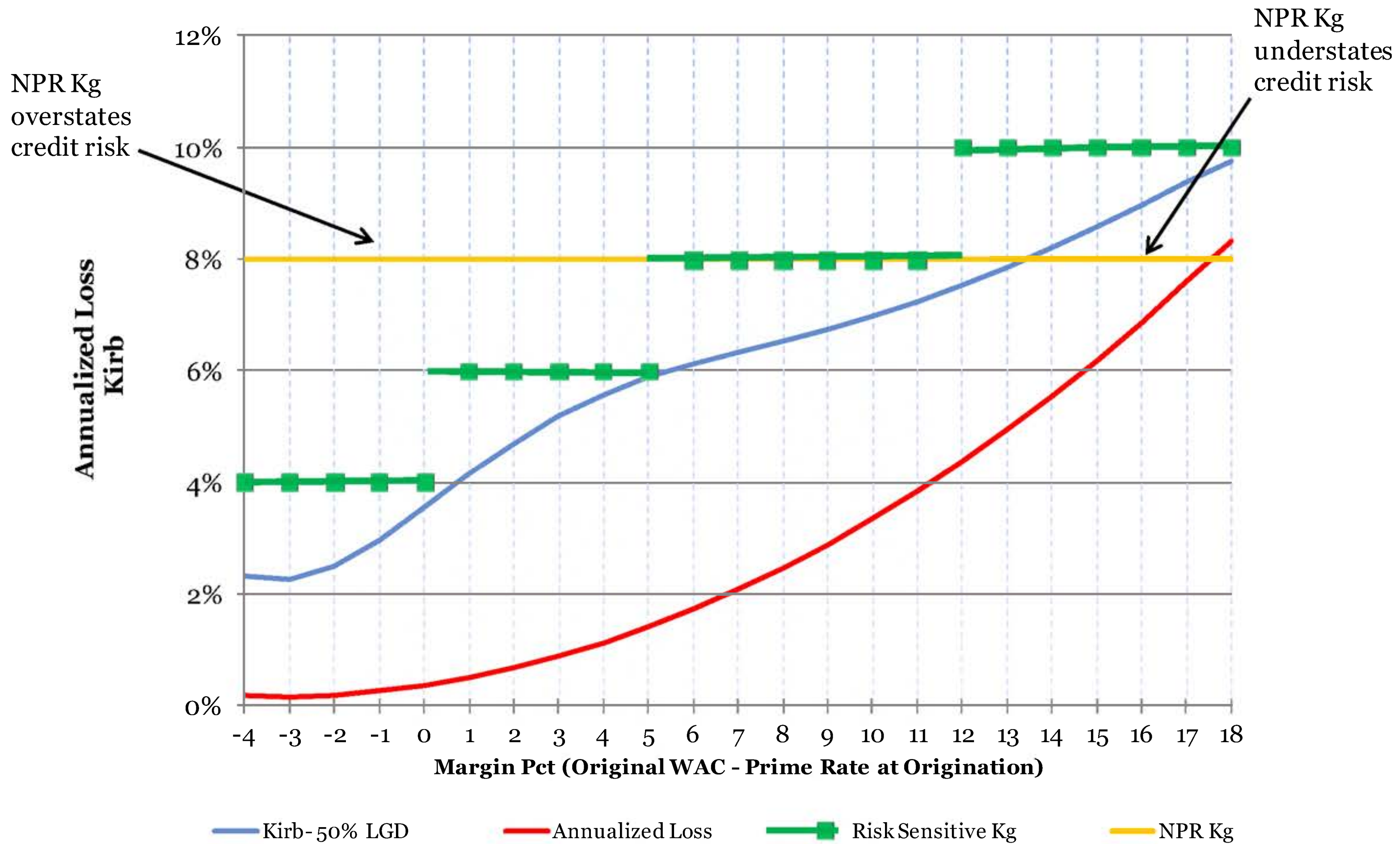
CLOs with Resecuritization Assets (1997-Current)

	Total Collateral Balance of CLOs with Resecuritization (Structured Products)				Percentage Collateral Balance of CLOs with Resecuritization (Structured Products)			
Year	0	>0 and <5%	>5%	Total	0	>0 and <5%	>5%	Total
1997	74,506,052			74,506,052	100%	0%	0%	100%
1998	132,044,516			132,044,516	100%	0%	0%	100%
1999	30,840,083		29,281,431	60,121,514	51%	0%	49%	100%
2000	55,218,663			55,218,663	100%	0%	0%	100%
2001	431,648,899		4,612,555	436,261,454	99%	0%	1%	100%
2002	596,992,937	501,448,550		1,098,441,487	54%	46%	0%	100%
2003	1,782,503,606	518,212,406	100,493,669	2,401,209,682	74%	22%	4%	100%
2004	5,347,681,506	3,932,695,654	289,783,704	9,570,160,864	56%	41%	3%	100%
2005	15,083,178,871	16,063,071,796	2,855,954,453	34,002,205,119	44%	47%	8%	100%
2006	27,571,782,155	39,343,951,483	5,401,211,459	72,316,945,097	38%	54%	7%	100%
2007	29,453,886,154	46,638,680,991	6,886,310,740	82,978,877,885	35%	56%	8%	100%
2008	5,928,324,728	1,714,022,377	310,088,743	7,952,435,847	75%	22%	4%	100%
2010	2,435,797,187			2,435,797,187	100%	0%	0%	100%
2011	13,082,176,177			13,082,176,177	100%	0%	0%	100%
2012	8,422,444,953			8,422,444,953	100%	0%	0%	100%
Grand Total	110,429,026,488	108,712,083,257	15,877,736,753	235,018,846,498	47%	46%	7%	100%

Source: Intex

Appendix C

Proposed Kg Based on Actual Performance



- Supporting data and analysis available upon request.

Comparison of Capital for Securitization vs. Capital for Underlying Assets
(table is for illustrative purposes only)

		Credit Card ABS*	Prime Auto ABS	Subprime Auto ABS	Private Student Loan ABS
Assumptions for Underlying					
	PD (annual)	2.0%	1.0%	9.0%	1.3%
	LGD	100.0%	40.0%	50.0%	95.0%
	Maturity	nm	nm	nm	nm
	Model	QRE	OthRet	OthRet	OthRet
	AVC	4.00%	12.46%	4.51%	11.74%
Capital for Underlying		5.1%	3.3%	7.6%	6.3%
Assumptions for SSFA					
	Kg	8.0%	8.0%	8.0%	8.0%
	W (Delq %)	3.0%	0.0%	0.0%	3.0%
Capital for Securitization					
	AAA	6.8%	6.5%	1.6%	1.6%
	AA		100.0%	1.6%	
	A	55.8%	100.0%	2.7%	
	BBB	100.0%		24.5%	
	BB and below	100.0%	100.0%	94.7%	46.7%
	Total	14.3%	12.9%	11.3%	13.9%
	% of Underlying	**279.0%**	**387.6%**	**148.4%**	**219.5%**
Capital for Re-securitization					
	AAA	9.6%	15.3%	1.9%	4.5%
	AA		100.0%	14.2%	
	A	79.9%	100.0%	28.2%	
	BBB	100.0%		59.4%	
	BB and below	100.0%	100.0%	97.9%	67.3%
	Total	23.1%	21.1%	18.0%	21.6%
	% of Underlying	**449.8%**	**634.2%**	**237.4%**	**342.1%**

*Capital for Underlying assumes ratio of 3:1 EAD to balances outstanding.
**8% capital factor assumed to equate to 100% risk weight.

Conclusions

1) Kg of 8% is inconsistent with AIRB approach for underlying assets.
2) Capital for securitization, and especially resecuritization, is multiples of the capital assessed for owning the assets outright.