THE GOLDMAN SACHS GROUP, INC., SHEARA FREDMAN

Proposal and Comment Information

Title: Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL, R-1873

Comment ID: FR-2025-0063-01-C18

Subject

GS Comment Letter on Docket No. R-1873, RIN 7100-AH05

Submitter Information

Organization Name: The Goldman Sachs Group, Inc.

Organization Type: Company

Name: Sheara Fredman

Submitted Date: 02/20/2026

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The Goldman Sachs Group, Inc. | 200 West Street | New York, New York 10282

February 20, 2026

Via Federal eRulemaking Portal

Benjamin W. McDonough
Deputy Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket No. R-1873, RIN 7100-AH05

Re: Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL (Federal Reserve Docket No. R-1873, RIN 7100-AH05)

Ladies and Gentlemen:

The Goldman Sachs Group, Inc. ("Goldman Sachs" or "we") appreciates the opportunity to comment on the notice of proposed rulemaking ("NPR")[1] issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve") to enhance the transparency and public accountability of the Federal Reserve's stress testing framework. The NPR would codify an enhanced disclosure process in which the Federal Reserve would annually publish documentation on Supervisory stress test models and seek comment on material changes and stress test scenarios. In addition to this letter, we have participated in and support the issues raised in the industry joint response to this NPR.[2]

Comprehensive Capital Analysis and Review ("CCAR") and Capital Planning

We acknowledge the critical role of the Federal Reserve's stress testing framework in promoting the safety and soundness of individual banks and the stability of the broader financial system. We support the important steps taken in the NPR to enhance the Supervisory stress testing framework, which has long been hampered by volatile outcomes that are often unintuitive. This volatility has been driven by opaque Supervisory models with little transparency provided on the underlying assumptions. The models translate stress scenarios into projected losses and directly determine a bank's Stress Capital Buffer ("SCB"), often the largest and most

[1] Federal Reserve, *Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL*, 90 Fed. Reg. 51856 (Nov. 18, 2025).

[2] *See* BPI, ABA, FSF, SIFMA, ISDA, U.S. Chamber of Commerce Stress Testing NPR Comment Letter (Feb. 20, 2026).

volatile component of a bank's capital requirements. This combination of model opacity and outcome volatility creates substantial uncertainty in capital planning and business selection, which, in turn, affects banks' ability to serve clients and drive economic growth. Inappropriately calibrated Supervisory models can meaningfully inhibit the facilitation of key financial services, including options for retirement, retail investing, corporate hedging and mortgage financing, which adversely impacts business and household operations.

For Goldman Sachs, SCB volatility has created significant and unpredictable swings in our binding capital requirements, at times changing our SCB by over 40% year over year ("YoY"). For instance, in 2023, our SCB decreased by 80 basis points, followed by a 60-basis point increase in 2024, despite no material shift in our balance sheet, corporate strategy or overall performance. As illustrated in Exhibit 1, this historical SCB volatility has created significant YoY changes in required capital across U.S. Global Systemically Important Banks ("G-SIBs").

Exhibit 1: YoY Aggregate Required Capital Change ($bn)

Year	G-SIB Est. Aggregate Change in Required Capital
2020[3]	(11)
2021	11
2022	41
2023	(41)
2024	34
2025	(77)

This volatility forces banks to maintain additional precautionary capital buffers, which undermines their ability to effectively capital plan, accurately assess profitability in business selection decisions and efficiently deploy capital and liquidity to clients and the wider economy. While improvements to the Supervisory models proposed in the NPR mitigate some of this volatility, we believe further steps should be taken to improve calibration, stability and transparency.

In addition to improving the stress testing framework, it is critical for the Federal Reserve to adopt a holistic approach that anticipates the finalization of the Basel Standards to prevent the overcapitalization of risks across all capital requirements. The July 2023 Basel III Finalization NPR[4] introduced new capital requirements for operational, market and Credit Valuation Adjustment ("CVA") risk, and combined those requirements with the SCB, even though those risks are already conservatively captured by stress testing.

[3] Based on implied SCB deltas from 2019 to 2020.

[4] Federal Reserve, OCC, FDIC, *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity*, 88 Fed. Reg. 62028 (Sept. 18, 2023).

I. Key Concerns with Supervisory Models

Outlined below are our key concerns with Supervisory models. Adopting our recommendations would better align the framework with the NPR's goals of enhancing transparency, reducing volatility and improving risk sensitivity, while remaining appropriately conservative and practical. The Appendix contains additional details and further recommendations.

1. Fair Value Option ("FVO") loan models should better align with post-crisis reforms through updated loan durations and spread shocks, differentiation of exposures by creditworthiness and recognition of performance in recovery

The current FVO loan models are overly simplistic and do not reflect improvements to safety and soundness from post-crisis reforms, particularly for residential mortgage loans. This approach results in outcomes that overstate risk and artificially inflate attributed capital requirements for these loans, increasing borrowing costs for consumers. Most notably, the assumed duration and spread shocks ignore the introduction of stricter loan underwriting and disclosure requirements under the Dodd-Frank Act, which have led to improvements in loan quality as exhibited by lower loan-to-value ("LTV") ratios, higher FICO scores and lower credit losses (see Appendix C for additional details).

Despite these market enhancements and legal developments, Supervisory models assume loan durations are consistently higher than various loan vintages that have been observed since 2010. Similarly, spread shocks for residential mortgage loans, even if intended to be calibrated to a stress scenario as severe as the global financial crisis ("GFC"), should be markedly lower than those inferred from recent Supervisory stress results.

Further, the residential mortgage model lacks the granularity necessary to account for credit differentiation as measured through FICO scores or LTVs, resulting in identical loss estimates for both sub-prime and super-prime portfolios. Just like the "marginal effects" of a leverage ratio that is not risk sensitive,[5] this outcome discourages prudent lending practices, as higher-yield, riskier loans receive the same capital treatment as lower-risk loans.

Finally, the model for wholesale lending does not distinguish losses based on the quality of the underlying collateral, nor does it set a floor on projected price declines relative to expected recovery values. This approach overlooks the economic reality that price declines are floored by recovery, which reflects stressed collateral values that are specifically designed to mitigate losses and lower the cost of borrowing.

Recommendation: The Federal Reserve should implement three key adjustments to its FVO lending models. First, residential mortgage lending assumptions should be updated to reflect loan durations and spread shocks that better align with empirical post-crisis performance as detailed in Appendix C. Second, the residential mortgage model should differentiate based

[5] *See* Federal Reserve, OCC, FDIC, *Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies*, 90 Fed. Reg. 55248, 55262 (Dec. 1, 2025) ("[T]he marginal effect of a binding leverage ratio requirement makes the banking organization prefer higher-risk activities to low-risk activities because both activities need to be financed by the same amount of tier 1 capital under the supplementary leverage ratio requirement, while higher-risk activities typically have higher expected returns.").

on creditworthiness, consistent with the approach for held-for-investment ("HFI") loans. Lastly, the wholesale model should factor in recovery, inclusive of collateral where applicable, to reflect the economic reality that loan prices should not be lower than the stress recovery value. Otherwise, stress capital requirements will fail to reflect prudent risk management practices.

In addition, the Federal Reserve should provide transparency into the auxiliary variables utilized in Supervisory models for FVO loans as these are necessary to calculate the spread widening that would be applied to each of the asset classes modeled. Additional information on the regression coefficients is required for the public to provide meaningful feedback and should be included as part of the annual scenario comment process.

2. Deferred tax assets ("DTAs") from temporary differences should be subject only to the current Basel III threshold deduction approach

The Federal Reserve's modeling of DTAs resulting from temporary differences is inconsistent with the current Basel III capital rules, which capitalize for DTAs via a combination of threshold deductions and risk weighting. It is also inconsistent with the treatment of DTAs under U.S. Generally Accepted Accounting Principles ("GAAP"), which require the recognition of DTAs from temporary differences if realization is "more likely than not" based on both positive and negative indicators, including anticipated taxable income.[6] The Federal Reserve's current approach is based on the Federal Reserve's Basel I rules, which have since been replaced by Basel III. Basel I rules required the write-off of these DTAs as an expense at the beginning of the nine-quarter projection horizon as they did not consider positive net income beyond a four-quarter horizon, significantly overstating losses.

Basel III capital rules utilize threshold deductions pursuant to which banks deduct from capital DTAs from temporary differences that exceed 10% (for Category I and II banks) or 25% (for Category III and IV banks) of common equity tier 1 ("CET1") capital. This treatment was designed to specifically capitalize for the risk that these DTAs may not be realized. As a result, the potential for a capital deduction increases in periods of stress when a bank's CET1 capital declines. Simultaneously applying both Basel I and Basel III is overly conservative and inconsistent with U.S. GAAP.[7]

Recommendation: The Federal Reserve should revise its approach to DTAs from temporary differences by applying only the current capital rule-based deduction approach.

3. Operational risk losses should better reflect historical losses, while recognizing the timing delay in loss realization

The NPR acknowledges that operational risk losses are not directly associated with macroeconomic shocks and that certain operational risk losses accrue with a time lag. The proposed approach for calculating these losses utilizes a 93rd percentile tail, calibrated based on the historical experience of four severe recessions over the past 60 years. A significant

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[6] *See* Accounting Standards Codification (ASC) ¶ 740-10-30-5 (Fin. Acct. Standards Bd. 2026), which states that a deferred tax asset for deductible temporary differences should be recognized if, based on available evidence, realization is "more likely than not" (a likelihood greater than 50%).

[7] *See* Federal Reserve, *Supervisory Stress Test Model Documentation: Aggregation Model Documentation* 35, 57-59 (Oct. 2025). https://www.federalreserve.gov/supervisionreg/files/aggregation-models.pdf.

deficiency in the proposed approach is the application of this annual calibration over a nine-quarter horizon. Assuming a severe recession lasts nine quarters does not align with the Federal Reserve's scenario narrative, which envisages a four-quarter severe stress followed by five quarters of recovery.

Using the 93rd percentile would result in an aggregate loss that is disconnected from historical experience. For instance, the proposed model projects about $100bn in operational risk losses for the U.S. G-SIBs in just nine quarters.[8] This is nearly 50% more than their disclosed legal expenses, which represent the majority of operational risk losses over the past 10 full years.

Compounding this effect is the straight-line recognition of the losses over the nine quarters. Although simple, straight-line recognition ignores the acknowledged time lag effect of operational risk losses as well as the recovery described in the later quarters of the scenario. Major operational risk losses are mostly associated with legal reserves, the recognition of which is delayed – typically well beyond nine quarters – due to discovery, litigation, remediation and an eventual settlement.

Recommendation: The Federal Reserve should refine the application of the operational risk loss percentile to a more appropriate tail percentile, calibrated based on the observed frequency of recessions within nine-quarter periods, rather than annually. For instance, the current use of the 93rd percentile is derived from four recession observations over a span of 60 years (60/4 = 93rd percentile). These same four occurrences are in fact distributed across only twenty-seven nine-quarter intervals, which corresponds more closely to the 85th percentile (27/4 = 85th percentile).

Further, the Federal Reserve should adjust the recognition of losses in each quarter to more accurately reflect the time lag in operational risk loss realization. That could be achieved by, for example, applying a more standard 50th percentile during the early downturn phase (projection quarter ("PQ") 1 – PQ4) and utilizing a stressed 85th percentile for the following four quarters (PQ5 – PQ8). This recommended approach would yield more statistically accurate and risk-sensitive results that better align with historical outcomes while maintaining appropriate conservatism.

4. The Large Counterparty Default ("LCD") should align exclusions with the U.S. Standardized risk weight framework under Basel III and incorporate differentiated loss given default ("LGD") assumptions by counterparty type

a. Counterparties receiving a 0% risk weight under the Standardized Approach should be excluded from the LCD; U.S. states and certain municipalities should also be considered for exclusion

The NPR proposes to modify the exclusion of G7 sovereigns from the LCD framework to instead exclude sovereigns with an internal credit rating of AA- or above. Although we agree in

[8] Of the $140bn in operational risk losses attributed to CCAR banks under the models disclosed in the Federal Reserve's proposed Supervisory Stress Test Model Documentation, ~$100bn is attributed to U.S. G-SIBs, calculated based on the Federal Reserve's methodology to allocate operational risk losses to banks based on total assets.

principle with greater risk-sensitivity, using internal credit ratings would introduce subjectivity and may result in inconsistent outcomes across banks.

Recommendation: The Federal Reserve should utilize a more objective approach that references the current U.S. Standardized risk weight framework under Basel III. Specifically, any counterparty receiving a 0% risk weight under the U.S. Standardized Approach should be excluded from the LCD. This recommended approach is transparent, objective and would be consistent with other components of the capital framework.

We also recommend extending the exclusion to U.S. public sector entities ("PSEs"), such as states and municipalities. The LCD exclusion for sovereigns is designed, in part, to ensure that banks are not disincentivized from providing credit to low-risk entities that serve a public policy function. Many U.S. states and municipalities similarly exist to provide public services and, in many cases, are backed by taxing authorities. Therefore, excluding U.S. PSEs from the LCD would be consistent with the public policy motivation behind the sovereign exclusion and reduce disincentives for banks to support essential public infrastructure and services.

b. LGDs for LCD counterparties should differentiate by counterparty

The LCD framework currently assumes a static 90% LGD for all counterparties and the NPR would not modify this approach. However, recovery rates vary meaningfully by counterparty, exposure type and collateralization. The current "one size fits all" 90% LGD assumes the recovery on a sovereign, an insurance company and a technology company are identical. We believe this assumption should be revisited as a single, static LGD assumption does not reflect post-crisis regulatory reforms, which greatly reduced risk by introducing mandatory daily margining for many derivatives transactions thereby limiting the amount of uncollateralized exposure to a given counterparty.

Recommendation: The Federal Reserve should incorporate differentiated, yet transparent LGD assumptions by grouping counterparties into: 1) sovereigns, 2) regulated financial institutions, 3) commercial end-users, each of which is already defined within the U.S. Standardized approach, and 4) all others. These categories should be further differentiated based on whether a counterparty is subject to agreements requiring daily margin, which should reduce LGDs for these margined counterparties. This approach would significantly improve the risk sensitivity of the LCD framework.

5. Pre-Provision Net Revenue ("PPNR") models should be revised to improve risk-sensitivity and ensure results are empirically grounded

PPNR represents the most significant and varied source of revenues and expenses that the Federal Reserve projects. For years, the Federal Reserve has used a collection of models focused on actual performance and its relationship to macroeconomic scenarios. The NPR would completely overhaul these models, acknowledging the shortcomings of the previous approach, namely excessive volatility, insufficient granularity and a weak correlation between a bank's projected revenues and expenses. Transitioning to models that depend on banks' projections raises new concerns regarding consistency and excessive conservatism in model inputs.

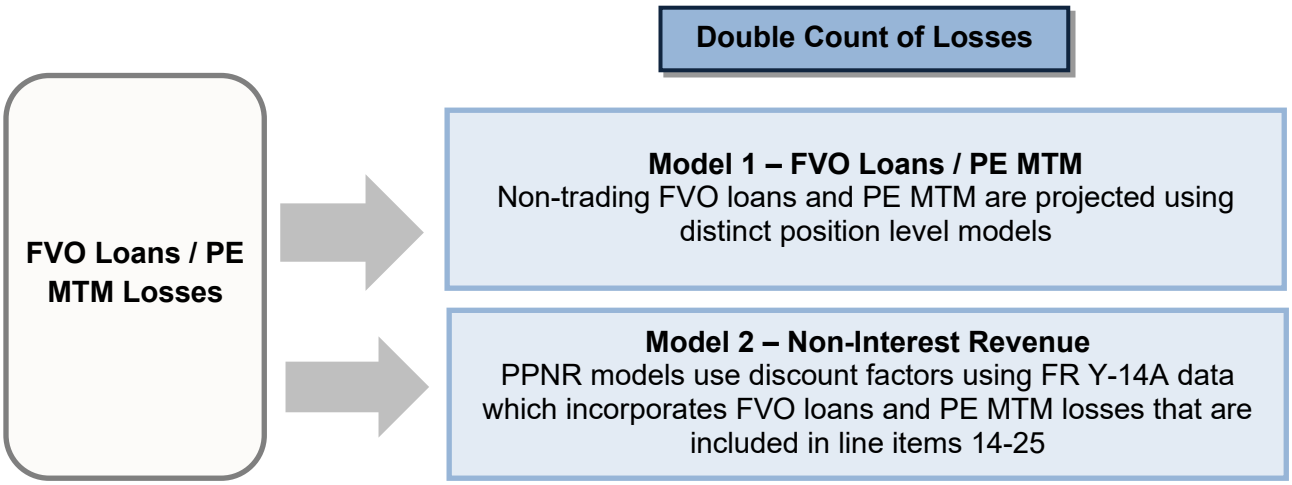
The practice of layering a conservative Supervisory model design on top of bank-provided inputs that are already conservative per regulatory guidance[9] would lead to outcomes that, while potentially more stable, are ultimately unrealistic. Compounding excessively conservative assumptions produces stress test results that are overly severe and detached from a bank's actual risk profile. We believe further refinements to the proposed models are necessary to ensure results remain risk-sensitive, transparent and empirically grounded.

a. The non-interest income calculation should remove the double count of FVO loans and private equity ("PE") mark-to-market ("MTM") losses

MTM losses associated with FVO loans and PE would be modeled and accounted for in stress results using a series of specific repricing models. However, these losses are also reported in line items on the FR Y-14A templates, where the proposed PPNR models would source bank-specific non-interest revenue. Failure to refine the FR Y-14A data used for non-interest revenue projections would lead to a double count of these losses.

Recommendation: The Federal Reserve should adjust its PPNR model inputs by either requesting a one-time special data submission from banks that separates FVO loans and PE MTM impacts by PPNR line item historically, or otherwise ensure the double count is mitigated by adding back FVO loans and PE MTM losses to the non-interest revenue projections.

Exhibit 2: FVO and PE Double Count



b. The non-interest expense calculation should project expenses and the efficiency ratio based on all revenue streams, not only PPNR

The implementation of the efficiency ratio as a model for non-interest expense would improve the current practice as it aligns expenses with revenues and makes projections consistent with how banks manage expenses on a business-as-usual basis. Historically, banks have managed expenses in proportion to revenue. As revenues rise, associated expenses, such as compensation, typically increase. Conversely, during periods of stress when revenues

[9] *See* Federal Reserve, *Federal Reserve Supervisory Assessment of Capital Planning and Positions for Firms Subject to Category I Standards*, SR 15-18 Attachment, at 28 (rev. Jan. 15, 2021) ("A firm should generally use conservative assumptions, particularly in areas of high uncertainty").

decline, banks exercise discretion with respect to compensation, serving as a countercyclical offset. Employing historical projections from the FR Y-14A raises concerns, including instances of extreme efficiency ratios that may skew results and compromise reliability.

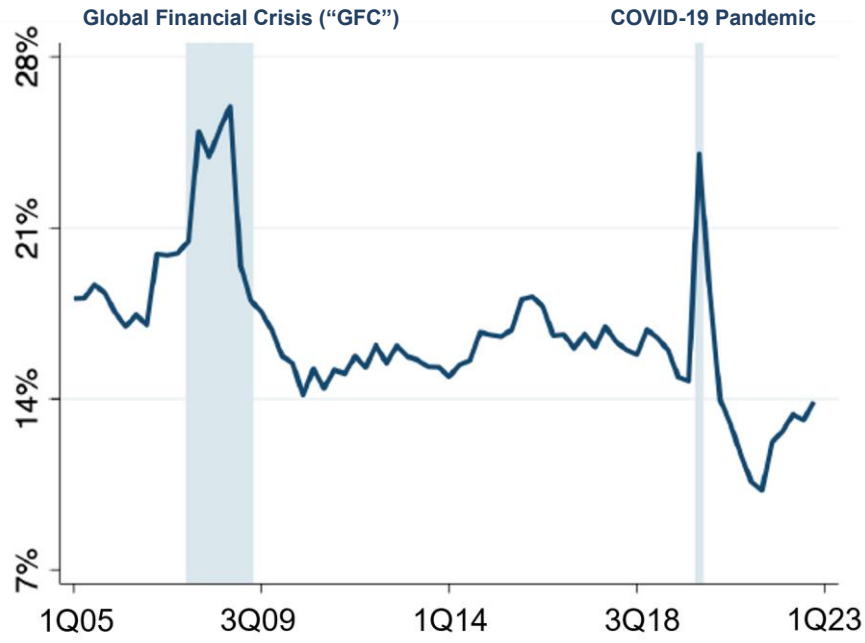
Separately, we believe that the projection of expenses should be sensitive to all revenue, not just PPNR. Banks will curtail expenses in response to losses from provisions or a Global Market Shock ("GMS") in the same way they would in response to reductions in PPNR. Finally, the efficiency ratio proposal assumes two banks with the same revenue mix would have the same efficiency ratio. This simplifying assumption lacks specificity in how individual banks may manage expenses.

Recommendation: The Federal Reserve should refine its input data to ensure FR Y-14A outliers are excluded from regressions. Separately, the efficiency ratios should accurately reflect all pertinent revenue components, including losses projected outside of PPNR, such as the GMS, FVO loans, PE and provisions. The Federal Reserve should also ensure that if steps are taken to correct FR Y-14A data for the double-counting of FVO loans and PE losses as mentioned in the prior section, appropriate steps are also taken to capture those losses in the efficiency ratios. Finally, the Federal Reserve should enhance the model with bank-specific fixed effects in the regression to more explicitly tailor outcomes to individual bank performance and account for individual banks' profitability.

c. The net interest income calculation should assume a suitable draw rate and duration for unfunded commitments under stressed conditions

Proposed revisions to the net interest income models better reflect macroeconomic sensitivities and bank-level dynamics. However, the Federal Reserve's models fail to consider interest income from incremental draws during stress scenarios on the basis that such draws are typically short-term and the related income is immaterial. This does not align with historical experience, as borrowers are most inclined to utilize their lines of credit in times of market uncertainty, as evidenced by the shaded areas in Exhibit 3. During the GFC, credit line utilization rates of non-financial corporations remained elevated for almost two years.

Exhibit 3: Credit Line Utilization Rates of Non-financial Corporations in Stress[10]



Ignoring incremental draws in periods of stress also diverges from a foundational objective of CCAR, which is to ensure that banks retain sufficient capital to withstand a severe stress while continuing to lend. The Bank for International Settlements ("BIS") concluded that banks have repeatedly demonstrated their ability to continue lending in stressed environments, acting as a stabilizing force for consumers, businesses and the broader economy,[11] which is not reflected in the Federal Reserve's interest income models.

Recommendation: The Federal Reserve should implement a suitable draw rate and duration for the purpose of computing interest income on unfunded commitments under stressed conditions. The credit models for HFI lending consider stressed draws for loss projections. A similar approach should be developed for interest income projections, which would enable the interest income model to more accurately reflect revenues in stress.

d. Non-interest income should reflect the positive correlation between volatility and trading revenue

The model for sales and trading revenue yields a negative correlation between revenue and volatility despite Federal Reserve staff acknowledging that post-crisis reforms, particularly the Volcker Rule, have resulted in market volatility being a positive driver of trading revenue during stress.[12] Banks can no longer take the unhedged, directional risks that resulted in significant MTM losses during the GFC. As a result, MTM losses have been curtailed during subsequent stressed market conditions. Additionally, profit and loss ("P&L") due to new

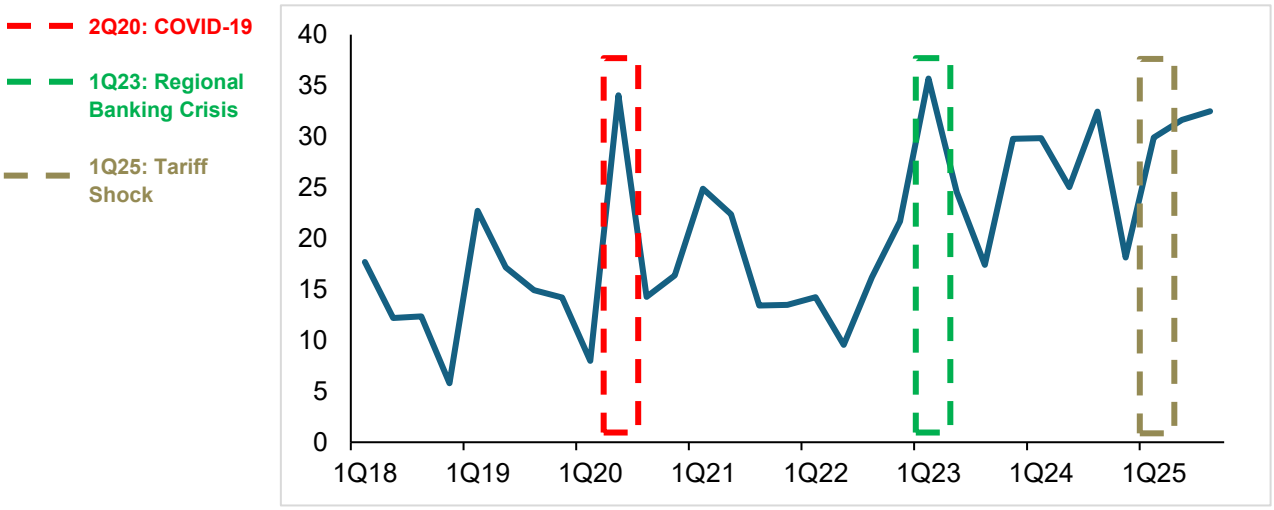
[10] *See* Viral V. Acharya, Maximilian Jager & Sascha Steffen, *Contingent Credit Under Stress.* Nat'l Bureau of Econ. Rsch., Working Paper No. 31909, 2023), https://www.nber.org/papers/w31909.

[11] *See* Iñaki Aldasoro, Sebastian Doerr & Haonan Zhou, *Non-bank Lending During Crises* (BIS, Working Paper No. 1074, 2023, rev. 2025), https://www.bis.org/publ/work1074.pdf.

[12] *See* Zach Modig, Hulusi Inanoglu & David Lynch, *Impact of the Volcker Rule on the Trading Revenue of Largest U.S. Trading Firms During the COVID-19 Crisis Period* (Federal Reserve, Fin. & Econ. Discussion Series No. 2025-005, 2025), https://www.federalreserve.gov/econres/feds/files/2025005pap.pdf.

positions (fees and commission) increases in periods of stress as clients seek to hedge and rebalance portfolios,[13] serving as a countercyclical source of strength. This was evident during the COVID-19 pandemic when heightened market volatility drove increased trading volumes, wider bid-offer spreads and, consequently, higher trading revenues (see Exhibit 4 below).

Exhibit 4: Trading Revenue for G-SIBs ($bn)[14]



Recommendation: To better reflect the positive correlation between market volatility and trading revenue, the Federal Reserve should review its sales and trading models to distinguish between MTM losses and P&L due to new positions. Specifically, P&L due to new positions should incorporate the U.S. market volatility index ("VIX") as a driver of revenue. In line with the previously mentioned study, the Federal Reserve can utilize Volcker data which separates P&L due to new positions from MTM revenues to project sales and trading results more accurately.

6. The December 31st as-of date and the current GMS window should be maintained

a. Maintain the December 31st as-of date as it is the most suitable reference point for the stress testing exercise and undergoes a comprehensive external audit

While we understand the rationale for considering a shift to September 30th, namely reducing potential balance sheet adjustments in response to the scenario disclosure, we believe this change would diminish both the effectiveness and reliability of stress test results. Year-end balances serve as the most suitable reference point as they undergo comprehensive external audits, coincide with the proposed SCB implementation timeline, underpin banks' capital planning and internal governance and budgeting processes and are aligned with other regulatory timeline changes such as the G-SIB surcharge.

[13] "Profit and loss due to new positions" terminology taken from Volcker Rule *Technical Specifications Guidance.*

[14] FR Y-9C data for U.S. G-SIBs. 1Q18 through 3Q25.

Banking book positions are, by definition, intended for long-term holding and represent the majority of assets on bank balance sheets. As macro scenario variables have been and are expected to remain generally consistent YoY, according to the Federal Reserve's proposed approach to scenario design, it is not practical to expect meaningful adjustments to balance sheets solely based on the release of scenarios.

Recommendation: The Federal Reserve should retain the December 31st as-of date for the annual Supervisory stress testing exercise.

b. Maintain the current GMS window as a longer time period would reduce the relevance of the data

Currently, the GMS as-of date occurs between October 1st of the previous year and March 1st of the year of the current stress test. The NPR would significantly expand this window and shift it earlier such that the GMS as-of date would occur between October 1st two years prior and October 1st one year prior to the current stress test.

The significant lag between the GMS as-of date and the as-of date for the annual Supervisory stress test would introduce staleness concerns, which would be compounded by the potential finalization of an SCB averaging framework. If adopted, a bank's SCB could be influenced by GMS results from an as-of date four years prior. For example, an averaged SCB that is effective in 2029 (based on the averaged stress test results from the 2028 and 2027 stress tests) could be affected by GMS results from as early as October 1, 2025.

Recommendation: The Federal Reserve should maintain the current GMS window, which is more closely aligned with the as-of date for the annual Supervisory stress test. In addition, to better capture the risk of a bank's trading book portfolio, which is dynamic and constantly evolving based on market conditions and client demands, we also recommend the Federal Reserve conduct the GMS based on the numeric average of two separate GMS scenarios. This recommendation would mitigate the volatility that results from a single scenario applied to a single day's positions and address concerns around banks window-dressing their trading book exposures.

II. Reconsideration Process

The Federal Reserve's current SCB reconsideration process undermines the ability of banks to effectively identify and challenge deficient modeling practices in Supervisory stress test results. To date, very few requests for reconsideration have resulted in the Federal Reserve amending preliminary SCBs, suggesting that the reconsideration process is not a meaningful avenue to challenge Supervisory results. The Federal Reserve's current efforts to improve the transparency of stress testing should include key revisions to the reconsideration process to ensure appropriate accountability and the continual evolution of stress testing models.

1. Consider appeals beyond specific modeling errors

The scope of appealable issues is too narrow. Banks are limited to raising appeals based only on specific modeling errors identified in Supervisory results, importantly excluding instances in which results are unreasonably volatile or in conflict with empirical data. A more expansive approach would ensure that models and results continue to align with the Federal Reserve's goal of conservative but realistic outcomes.

Recommendation: The reconsideration process should be expanded to allow banks to appeal modeling outcomes that are unrealistic, overly conservative or inconsistent with empirical performance, even if there are no arithmetic modeling errors identified.

2. Extend the 15-day appeals window to 30 days, consistent with SR 20-28[15]

The 15-day time frame, in which banks must submit a request for reconsideration, is overly restrictive as banks must review results, identify errors, develop a well-reasoned response and take the necessary governance steps in a short time frame.

Recommendation: The Federal Reserve should extend the appeal deadline to 30 days past receipt of the enhanced firm-specific disclosure, aligning with SR 20-28, which governs the appeals process for Supervisory issues. A 30-day timeframe would provide banks with adequate time to structure clear and complete arguments, and have those arguments undergo sufficient internal review and governance. This 30-day timeline can be accommodated to the extent that the effective date of the SCB, as proposed, changes from October 1st to January 1st.

3. Commit to address appeals through a transparent process

In response to reconsideration requests that have been made to date, the Federal Reserve has instructed staff to "explore potential improvements" or "investigate and address" specific issues that warrant further review.[16] However, it is unclear what actions, if any, have been undertaken and how those actions have impacted Supervisory models and results. For example, in response to our reconsideration request in 2020, the Federal Reserve directed its staff to "explore potential improvements with regard to the granularity of the approach to estimating trading revenues for firms subject to the GMS."[17] More than five years later, it is unclear whether the Federal Reserve has taken concrete steps to act on this direction. In contrast to SR 20-28, no formal mechanism currently appears to exist to ensure Federal Reserve staff follow through on instructions from the Board to investigate or otherwise address the issues raised in SCB reconsideration requests.

Recommendation: The Federal Reserve should clearly respond to each reconsideration request. Each decision should be transparent, including the rationale for why a request was approved or declined. Furthermore, the Federal Reserve should demonstrate how it has

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[15] Federal Reserve*: Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System*, SR 20-28, CA 20/14 (Dec. 4, 2020).

[16] Letter from Margaret McCloskey Shanks, Deputy Secretary of the Federal Reserve, to David M. Solomon, Chairman and Chief Exec. Officer, Goldman Sachs re: Response to Request for Reconsideration of the Stress Capital Buffer Requirement, Pursuant to the Board's Capital Plan Rule 9 (Sept. 4, 2020), https://www.federalreserve.gov/supervisionreg/files/goldman-sachs-group-inc-20200904.pdf.

[17] *Id.*

addressed bank appeals and create a transparent framework to track, implement and disclose the outcomes of all reconsideration requests. An accountable reconsideration process is critical for the Federal Reserve's efforts to improve transparency and the overall Supervisory stress testing framework.

III. Remove duplicative risk capture between stress testing and the forthcoming Basel III Finalization

Vice Chair for Supervision Michelle Bowman has acknowledged the concern of duplicative risk capture in the capital framework, stating that the Basel III Finalization NPR "introduces new regulatory redundancies, as with changes to the market risk capital rule, Credit Valuation Adjustments, and operational risk that overlap with stress testing requirements and the Stress Capital Buffer."[18] More specifically, the GMS and the proposed Fundamental Review of the Trading Book ("FRTB") both capture market risk losses based on extreme tail events that are calibrated to similar historical loss data. In some of the most acute examples, exposures may be capitalized at a rate higher than their actual carrying value, which represents the maximum potential loss they can suffer.[19]

The SCB is a unique capital requirement in the United States, therefore the risk weight calibrations agreed upon at the international level within the context of the Basel Committee on Banking Supervision do not reflect the potential for these unrealistic, counterfactual outcomes. U.S. banks, especially G-SIBs, that are subject to both the SCB and the eventual Basel III finalization, will be at a competitive disadvantage relative to international peers, which could result in further migration of core banking activities to the non-bank sector.

Recommendation: The Federal Reserve should consider eliminating operational risk losses and eliminating the GMS from the SCB requirement to remove overlapping risk capture that could harm certain economic activity. The Federal Reserve could retain these components for exploratory purposes as part of the annual stress testing exercise. Alternatively, to address the redundancy between GMS, CVA and FRTB, the Federal Reserve could allow risk weights under the eventual Basel III finalization to apply to a post-stress exposure amount already reduced by losses incurred in the Supervisory stress scenario. These enhancements would better align capital to risk and improve the overall conceptual soundness of the capital framework.

[18] Federal Reserve, *Statement by Governor Michelle W. Bowman* (July 27, 2023), https://www.federalreserve.gov/newsevents/pressreleases/bowman-statement-20230727.htm.

[19] Based on issuance in 2025, capital exceeds maximum loss on approximately 10% of newly issued U.S. commercial mortgage-backed securities ("MBS") and collateralized loan obligation securitizations due to the combined effect of securitization framework risk-weighted assets capital requirements together with CCAR 2025 GMS shocks.

Exhibit 5: Overlap with Basel III Finalization

	FRTB	CVA	Operational Risk
Basel III Finalization Framework Objective	➢ Ensure a bank's resilience to a severe market distress	➢ Ensure a bank's resilience to changes in counterparty credit risk of derivatives	➢ Ensure a bank's resilience to operational failures or external events
Loss Estimate	➢ Extreme tail loss	➢ Extreme tail loss	➢ Measure of business performance and loss history
Overlapping Risk Capture with CCAR	➢ **Market Risk captured in CCAR via GMS** ➢ Both capitalize for trading losses under severe stress conditions	➢ **CVA captured in CCAR via the GMS** ➢ The LCD and instantaneous credit spread widening in CCAR simulate credit deterioration similar to Basel III Finalization CVA	➢ **Operational Risk captured in CCAR via PPNR** ➢ Both capture losses due to operational / one-time events

Conclusion

We appreciate the Federal Reserve's commitment to enhancing the calibration, transparency, stability and effectiveness of the stress testing framework. The NPR represents a meaningful step in addressing longstanding concerns with transparency and SCB volatility through the alignment of model assumptions with historical experience and post-crisis reforms.

Our comments highlight that several components of the proposed framework need improvement to achieve the NPR's stated goals. Key areas such as FVO lending, DTAs, operational risk, LCD and PPNR require enhancements to avoid duplicative risk capture, mitigate volatility and align projections with empirical evidence. Similarly, the reconsideration process should be improved to ensure a deliberative and transparent assessment of banks' appeals. Finally, a thorough review of the overall capital framework, which includes consideration of the eventual Basel III finalization, is necessary to ensure requirements are not duplicative and accurately reflect economic risk.

We respectfully urge the Federal Reserve to consider the recommendations outlined in this letter as it finalizes the enhanced framework. These recommendations, in turn, will support prudent capital planning, enable more efficient allocation of capital to the broader economy and preserve the resilience of U.S. financial markets.

We look forward to continued engagement as the Federal Reserve works to refine and finalize these critical reforms.

Sincerely,

Sheara Fredman

Chief Accounting Officer

Appendix A - Other Supervisory Modeling-Related Issues

1. GMS and Trading Issuer Default Loss ("IDL") Calibration

    a. Securitized Products

The GMS model in the NPR determines losses on securitized products through market value haircuts based on asset class, external credit ratings and vintage. In contrast, the GMS model for most other asset classes utilizes spread shocks. This overly simplistic approach for securitizations is less risk sensitive as it does not consider key idiosyncratic features, such as LTVs and durations of the underlying collateral pool. For instance, two securitizations with materially different structural characteristics, risk profile and price sensitivities but with the same asset classes, ratings and vintage receive identical haircuts.

Recommendation: The NPR requests comment regarding whether these risks should instead be measured by applying spread shocks.[20] We support this alternative approach as it would allow the GMS to capture the actual spread and price dynamics of securitized positions, including the effects of duration, LTVs and idiosyncratic structural features. This approach also would improve consistency with other asset classes under the GMS.

In order to effectuate this change, we recommend uplifting the FR Y-14Q Schedule F: Trading Securitized Products template to include spread widening grids, similar to the Corporate Credit templates.

    b. Other Fair Value Assets ("OFVA")

Losses on OFVA continue to be subject to GMS shocks. The GMS is designed to capture the market risks of short-term trading positions. The conceptual underpinnings of the GMS are not aligned with the economic and risk characteristics of OFVA, which are generally managed as long-term banking book positions. The most notable example is investments in renewable energy projects, which are long-term in nature.

Recommendation: We recommend that OFVA positions be removed from the GMS framework and instead be subject to the nine-quarter macroeconomic scenario, consistent with their long-term investment horizon and management as banking book positions. This approach would be analogous to changes made for PE exposures where the Federal Reserve modified the approach beginning in 2025 to "better align with the characteristics [of private equity exposures]…which are principally long-term investments that are managed as banking book positions."[21]

    c. Trading IDL

The Trading IDL model segments exposures by issuer industry categories of corporate, sovereign and municipal or agency, but applies the same probability of default ("PD")

[20] *See* Federal Reserve, *Supervisory Stress Test Model Documentation: Global Market Shock Component* 64 (Oct. 2025). https://www.federalreserve.gov/supervisionreg/files/gms-model.pdf (Question C6).

[21] NPR, 90 Fed. Reg. at 51935.

assumption across all issuers regardless of industry. Assuming the same PDs across all issuers is inconsistent with the more granular methodology applied elsewhere in the GMS.

Historical default data demonstrates that PDs differ materially between sovereign and corporate issuers,[22] as shown in Exhibit 6 below. The PDs for sovereign issuers are consistently lower than for corporate issuers across all time horizons. Applying a uniform PD ignores the difference in credit profiles between sovereigns and corporates and overstates the default risk for highly-rated sovereign and government-related bonds.

Exhibit 6: 2024 Moody's Sovereign versus Corporate Issuer PDs

Sovereign Issuers

Rating	Average Count	Year 1 (%)	Year 2 (%)	Year 3 (%)
Aaa	14	0.000	0.000	0.000
Aa	12	0.000	0.000	0.129
A	12	0.000	0.052	0.352
Baa	14	0.175	0.650	1.019
Ba	13	0.393	1.135	2.214
B	17	2.563	5.904	9.243
Caa-C	5	15.013	25.008	31.937
Investment Grade	52	0.047	0.187	0.384
Speculative Grade	35	3.351	6.518	9.386

Corporate Issuers

Rating	Average Count	Year 1 (%)	Year 2 (%)	Year 3 (%)
Aaa	112	0.000	0.012	0.012
Aa	497	0.020	0.057	0.104
A	1106	0.052	0.153	0.317
Baa	1128	0.166	0.415	0.711
Ba	574	0.875	2.404	4.196
B	766	3.104	7.433	11.937
Caa-C	582	8.962	16.131	22.367
Investment Grade	2843	0.090	0.234	0.421
Speculative Grade	1922	4.175	8.423	12.469

Recommendation: We recommend enhancing the Trading IDL model by differentiating PD assumptions by sovereign and corporate issuers. This would improve risk sensitivity by

[22] Moody's Ratings, *Sovereign Default and Recovery Rates, 1983-2024*, at exhibit 16 (Apr. 17, 2025), https://www.moodys.com/research/Sovereigns-Global-Sovereign-default-and-recovery-rates-1983-2024-Sector-In-Depth--PBC_1439019.

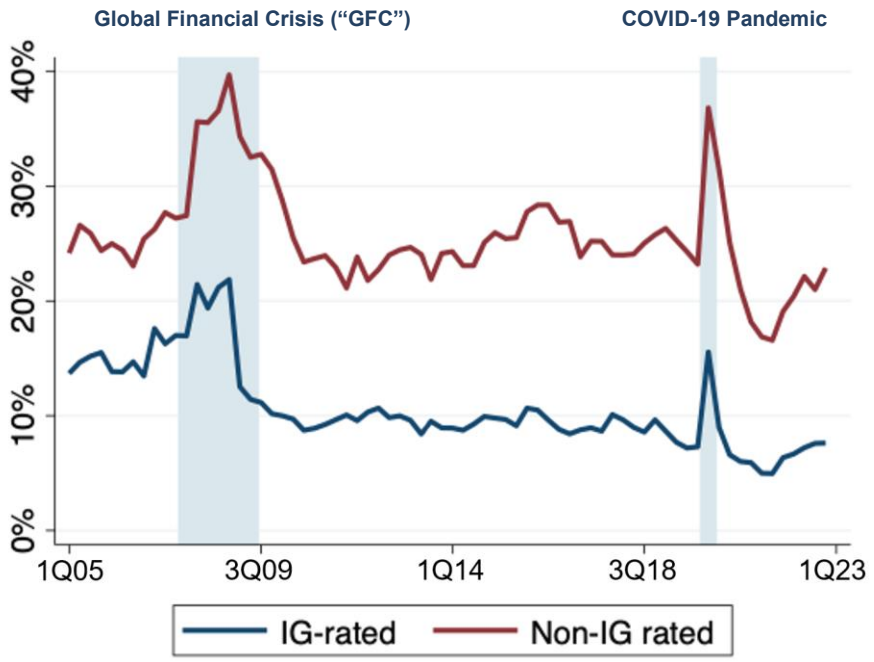
better aligning the IDL model with observed default experience. It would also improve internal consistency with the GMS, which differentiates issuer types by corporates, locally denominated sovereigns and foreign-denominated sovereigns.

2. Improvements to Wholesale Credit Models for Provisions on HFI Lending

a. Exposure at Default ("EAD")

The EAD methodology assigns a constant 50% loan equivalent draw rate ("LEQ") for unfunded corporate loan commitments at default, regardless of borrower credit quality.[23] This uniform assumption is inconsistent with observed behavior, particularly for investment grade ("IG") borrowers, which historically exhibit lower draw rates, even under stress. The NPR acknowledges this distinction and references studies concluding that IG borrowers are less likely to draw in stress than non-IG borrowers.[24] Therefore, applying a single 50% LEQ across all credit qualities overstates EAD and loss estimates for IG exposures and diminishes risk differentiation within the corporate portfolio. A recent study by the NBER illustrates that the draws on loans to IG borrowers are less than 25% in stressed periods as shown in Exhibit 7.[25]

Exhibit 7: Credit Line Utilization Rates of Non-financial Corporations



Recommendation: We recommend refining the EAD framework by applying lower LEQ for IG commitments relative to non-IG, consistent with empirical evidence on draw behavior under stress from the NBER study.

[23] *Federal Reserve, Supervisory Stress Test Model Documentation: Credit Risk Model 35-36 (rev. Jan. 2026), https://www.federalreserve.gov/supervisionreg/files/credit-risk-models.pdf [hereinafter Credit Risk Model Documentation].*

[24] *Credit Risk Model Documentation* at 39 - 40.

[25] Acharya et al., *Contingent Credit Under Stress*, at 15 fig. 5.

b. LGD

LGDs for corporate loans are estimated as a function of collateral type, lien position and loan type and then a single BBB spread shock in stress is applied. This approach does not consider the amount of collateral that secures the loan. As a result, LGDs are overstated for highly collateralized loans, where the value of collateral exceeds the amount of the loan.

Furthermore, applying a single shock across all loans does not appropriately recognize the variability in credit risk profiles and spread sensitivities, particularly across different rating categories. For example, Private Equity Capital Call ("PECC") loans are underpinned by diversified high-credit-quality limited partners and possess a fundamentally distinct risk profile compared to traditional wholesale loans. Their robust collateralization and strong legal enforceability significantly mitigate credit risk, rendering them similar to other low-risk loans like those intended to purchase or carry securities. Consequently, these structural and risk-mitigating characteristics warrant their isolation and differential treatment within the stress testing framework. Under the proposed approach, PECC are captured alongside all other wholesale loans to financial institutions and receive similar loss rate treatment.

Recommendation: We recommend collecting additional data on the amount of collateral securing a loan. This recommendation would allow the Federal Reserve to compute collateral shortfall for each loan and enhance the LGD model for highly collateralized loans. We also recommend re-visiting the calibration of the shock to take credit quality and asset type into consideration, rather than assuming a single BBB shock is appropriate for all loans. PECC facilities should be reported alongside loans for purchasing and carrying securities and receive the same low and constant loss rate attached to that population. Similarly, the Federal Reserve should revise the instructions for reporting internal credit ratings on the H.1 Wholesale template to be either the obligor rating or the facility level rating ("FLR"). Perfected liens and other structural enhancements have a measurable effect on the FLR when compared to the general obligor and should be accounted for when calculating related credit losses.

c. Commercial Real Estate ("CRE")

The CRE model distinguishes only between construction loans and income-producing loans and applies significantly higher losses to loans with a debt service coverage ratio ("DSCR") below 1.2. This framework is not sufficiently granular and creates binary outcomes that do not adequately capture the risk profiles of transitional phase CRE projects.

Many CRE loans are secured by properties that are substantially complete but not yet fully stabilized, for example, projects in lease-up or transitional phases. These projects may not have a stabilized DSCR and therefore often fall below the 1.2 threshold but exhibit materially lower risk than true construction loans.

Recommendation: We recommend enhancing the CRE model by introducing a third category for transitional CRE lending that reflects leasing status and the degree of project completion. This can be done using historical loss data available from FR Y-9C submissions to develop the model granularity. Allowing more granular risk differentiation would materially improve the accuracy and risk sensitivity of CRE loss estimates.

d. Exclusion of Fronting Commitments

Fronting commitments represent a bank's commitment to advance funds on behalf of an entire lending syndicate, rather than a direct, unilateral credit exposure to a corporate client. The realization of loss on such obligations is contingent upon a dual default: the underlying corporate client and enough members of the syndicate that the commitment to the corporate client cannot be met. This layered contingency fundamentally differentiates the risk profile of a fronting commitment from a typical direct wholesale exposures that is subject to mark-to-market or accrual accounting. Therefore, isolating fronting obligations from general wholesale exposure would more accurately reflect their indirect, highly conditional risk, preventing an overstatement of potential loss.

Recommendation: We recommend enhancing both the market risk fair value and credit risk wholesale models by utilizing the existing identification of fronting commitments. Schedule H.1, field 20 Credit Facility Type includes an option to identify these commitments as “Fronting Exposure”. These commitments, in turn, should not be treated in the same way as general wholesale commitments given their unique dual default structure.

3. Loan Hedge Model and Recognition of Securitization Hedges

The current loan hedge model assumes a static spread duration by product group. While this approach may be reasonable for non-tranched hedges, it significantly understates the credit protection of tranched hedges, as it does not capture key structural features such as attachment and exhaustion points.

Recommendation: The loan hedge model should be enhanced to recognize the risk mitigation benefits of tranched securitization hedges by collecting and incorporating tranche-level information, particularly attachment and exhaustion points. This would improve the loss and spread sensitivity of the actual risk position retained by banks and better align with the actual economic risk.

4. Threshold Deductions for Investments in Unconsolidated Financial Institutions (“UFI”)

Under the existing framework, banks are required to reflect the impact of the GMS on the 10% of CET1 threshold for potential deductions of significant and non-significant investments in UFIs reported on lines 37a, 37b, 64a, and 64b of Schedule A.1.d of the FR Y-14A. However, banks may not adjust the starting point carrying values of these investments if they are not subject to the GMS. PE exposures are no longer subject to the GMS and instead projected MTM losses flow through the nine-quarter projection horizon. Without adjusting the carrying value for these losses, the determination for whether a threshold deduction is applicable in stress compares pre-stress carrying values against post-stress CET1 capital.

Recommendation: We recommend adjusting the carrying value of PE investments in UFIs when computing threshold deductions to reflect modeled MTM losses under stress. This recommended approach would prevent duplicative capital impacts and align the threshold deduction calculations with stressed valuations.

Exhibit 8: Illustrative Calculation of Capital Impact from UFI Threshold Application

Step	Description	Calculation	Resulting CET1 Capital
1	Starting CET1 Capital	Initial projected capital before stress impacts the investment	$100bn
2	P&L Impact	A 50% MTM loss on the $10bn investment is recognized in PPNR, reducing retained earnings	$100bn - $5bn = $95bn
3	Deduction Threshold	Threshold for a "significant investment" is calculated based on the new, post-loss CET1 capital	10% of $95bn = $9.5bn
4	Deduction Calculation	Pre-stress carrying value of the investment ($10bn) is compared to the threshold ($9.5bn). The excess is deducted	$10bn - $9.5bn = $0.5bn
5	Final CET1 Capital	Regulatory deduction is subtracted from the capital after the loss was incurred	$95bn - $0.5bn = $94.5bn
Total	**Total Capital Reduction**	**Total impact is the sum of the P&L loss and the regulatory deduction**	**$5bn (P&L) + $0.5bn (deduction) = $5.5bn**

5. Available-for-Sale ("AFS") Securities Modeling and Reinvestment

The proposed securities model would assume that AFS securities that mature or are paid down are reinvested in hypothetical one-year Treasuries. However, each bank's duration profile is unique based on its portfolio of assets and liabilities. Therefore, the one-year reinvestment assumption may not be aligned with the duration profile that a bank targets. Additionally, the securities model reflects changes in the fair value of agency MBS using a third-party vendor model, but the documentation provides limited information on the underlying methodology, which impedes meaningful feedback.

Recommendation: The reinvestment assumption should be modified so that maturing securities are reinvested in a manner that holds constant the overall duration of the portfolio for each bank. In the same way the Federal Reserve reflects the specific bank's accounting treatment, the model should also reflect the specific bank's duration targets. Furthermore, the Federal Reserve should release additional information on the methodology of the third-party vendor model to improve transparency.

Appendix B - Other Stress Testing Framework Considerations

1. Eliminate the Dividend Add-on

As noted in prior comment letters,[26] the dividend add-on component of the SCB is duplicative with the capital conservation buffer ("CCB") and should therefore be removed. The current SCB requires banks to hold capital representing one year of common dividends, which assumes that a bank will continue to pay common dividends for one year notwithstanding stressed conditions. At the same time, the CCB essentially restricts banks from continuing to distribute capital during stress.

Recommendation: The dividend add-on requires banks to pre-capitalize dividends that they may not actually be permitted to pay out in stress, and may not in any event be paid out in stress. This approach is conceptually inconsistent and should therefore be eliminated.

2. Extend the Two-Business Day Mulligan Timeline

The current Capital Plan Rule includes a "mulligan" process by which a bank may, and in some circumstances must, adjust its planned capital distributions for the fourth through seventh quarters of the planning horizon within two business days after receiving initial notice from the Federal Reserve of its SCB requirement.[27] This practice remains from the pre-SCB framework in which the Federal Reserve would approve specific capital return amounts (in dollars) and did not assign an SCB. The mulligan process introduces unnecessary complexity, operational risk and management urgency.

Recommendation: The timeline for resubmission should be expanded to 10 business days to relieve the need for banks to make unnecessarily rushed decisions. This approach would reduce excessive administrative burden for banks, their boards and the Federal Reserve.

[26] *See* Goldman Sachs's SCB Averaging NPR Comment Letter 6 (June 23, 2025); BPI, U.S. Chamber of Commerce SCB Averaging NPR Comment Letter 10-11 (June 23, 2025).

[27] 12 C.F.R. § 225.8(h)(2)(ii).

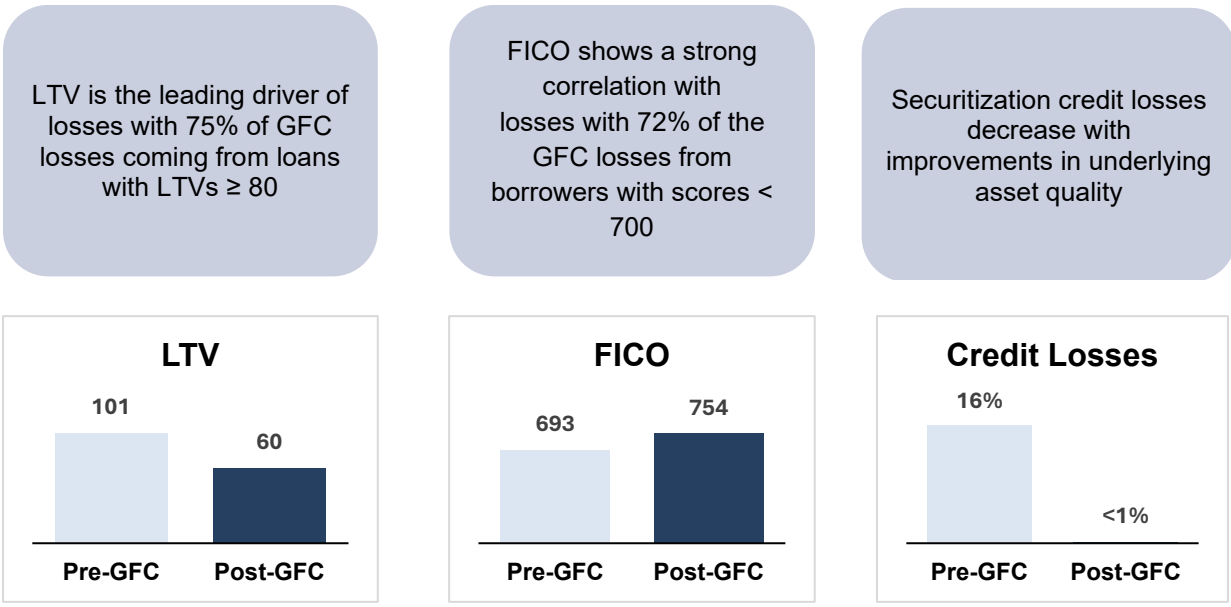
Appendix C - FVO Loan Modeling for Residential Mortgage Loans and the Impact of Post-Crisis Reforms

Supervisory modeling assumptions for duration and spread shocks on FVO residential mortgage loans do not appropriately reflect the positive effects of post-crisis reforms. Since the GFC, significant regulatory reforms have materially improved the quality, underwriting and transparency of residential mortgage lending markets. These reforms include:

- Dodd-Frank Act Ability to Repay ("ATR") and Qualified Mortgage ("QM") rules, which have strengthened residential mortgage underwriting standards, and
- TILA-RESPA Integrated Disclosures ("TRID"), which have enhanced disclosures and transparency for residential mortgages

As a result, post-crisis residential mortgage loans have exhibited improved FICO scores, lower LTV ratios and better credit loss performance, as shown in Exhibit 9 below.

Exhibit 9: Impact of Post-Crisis Reforms on Residential Mortgage Loans[28]



These improvements are currently ignored in the FVO loan models for residential mortgages. In particular, the calibration of duration and spread shocks appears to be anchored to pre-crisis levels, overstating the risk and corresponding losses in Supervisory results.

Based on publicly available data from Intex for all residential mortgage securitizations, average loan durations since the GFC have been consistently lower than those used in Supervisory models. Duration assumptions are therefore already conservative, but become

[28] LTV and FICO for Pre-GFC as of Jan. 1, 2009, for all outstanding loans from 2003-2008 and Post-GFC is as of Feb. 1, 2026, for all loans outstanding from 2018-2025 based on Intex and Cotality data; LTV capped at 200. Credit Losses are lifetime credit losses as of Feb. 1, 2026, where Pre-GFC are for all loans issued from 2003-2008 and Post-GFC all loans issued from 2018-2025 based on Intex and Cotality data.

even more so in a period of stress when interest rates fall. In a reduced rates environment, conditional prepayment rates ("CPRs") have historically increased as borrowers refinance, which has the effect of narrowing losses directly attributed to duration in stress.

Exhibit 10: Residential Mortgage Loan Durations[29]

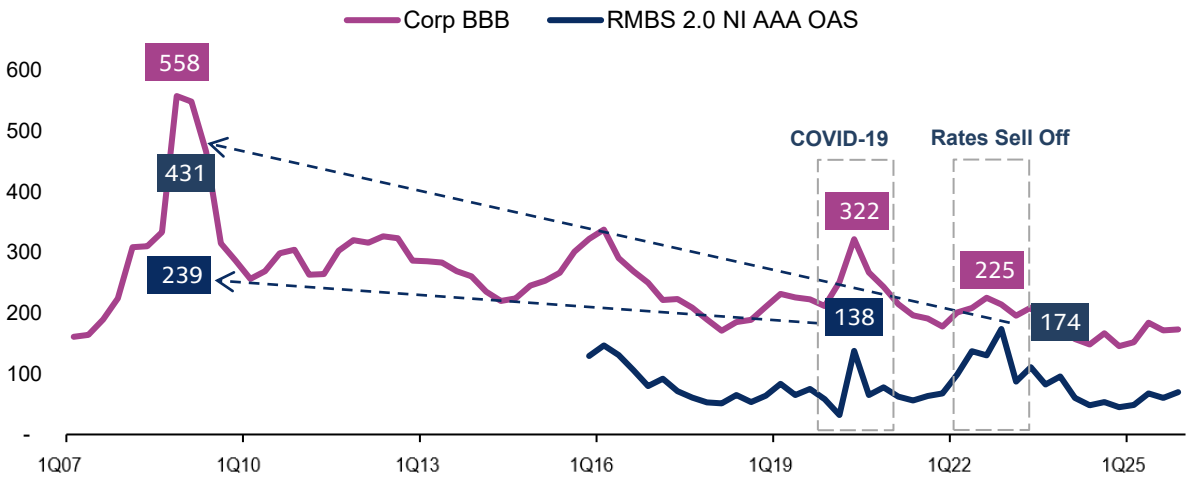
	% of Market	Fed Assumed Duration	Empirical Duration	% Reduction
Overall	**100%**	**4.9**	**3.9**	**(20%)**
<2010	36%	3.9	3.5	(11%)
2010-2014	2%	4.8	3.6	(25%)
2015-2019	4%	5.7	3.3	(43%)
2020-2024	45%	5.7	4.4	(23%)
2025	14%	NA	3.9	NA

While the spread shocks used by the Federal Reserve remain unknown absent disclosure of auxiliary variables, we estimate that the shocks used for FVO residential mortgages are overly conservative and in excess of historical BBB corporate bond spreads. This is misaligned with empirical evidence that AAA residential mortgage spreads that were issued subsequent to the finalization of post-crisis reforms are consistently lower than BBB corporate bond spreads and fails to account for significant benefits in loan quality from post-crisis reforms (see Exhibit 11 below).

[29] Data for the durations from Intex and Cotality; data for spread moves from Finsight.

Exhibit 11: Residential Mortgage Spread Shocks (bps)[30,31]

Recommendation: Align spread shock to an implied RMBS 2.0 NI AAA OAS GFC peak of 240 - 430



Recommendation: The Federal Reserve should reduce loan durations by 20% in Supervisory models to be consistent with empirical loan durations observed since the GFC. Similarly, the Federal Reserve should recalibrate residential mortgage spread shocks to align with an implied GFC peak of between 240 and 430bps to more closely align shocks with actual historical performance. Finally, the lack of transparency into the auxiliary variables utilized for FVO lending does not provide the information necessary to compute the spread widening that would be applied to each of the asset classes modeled. Additional information on the regression coefficients is required for the public to meaningfully comment.

[30] Corporate BBB bond spread based on quarterly average spread.

[31] Residential Mortgage-Backed Securities ("RMBS") 2.0 NI AAA Option Adjusted Spreads ("OAS") is the RMBS 2.0 NI AAA spread minus FNMA CC option cost. RMBS 2.0 NI AAA calculated using notional weighted average of deal priced in a given quarter based on Finsight data. Current coupon option cost calculated using OAS and ZVO time series from Bloomberg tickers MOASFNCL and MOAZFNCL, respectively.