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Proposal and Comment Information

Title: Request for Comment on Model Changes for the Board's 2027 Supervisory Stress Test, OP-1882

Comment ID: FR-2026-0037-01-C03

Submitter Information

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Please see the attached comment letter on the Request for Comment on Model Changes for the Board's 2027 Supervisory Stress Test (Docket No. OP-1882; 91 FR 62729). It responds to Questions 2 and 3 on the proposed Facility Internal Risk Rating field in FR Y-14Q, Schedule H.1. I submit this comment as an individual.

October 12, 2026

Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

**Re: Request for Comment on Model Changes for the Board's 2027 Supervisory Stress Test,
Docket No. OP-1882, 91 FR 62729 (October 2, 2026)**

Dear Mr. McDonough:

Summary of comment

I am a quantitative finance professional with experience in regulatory capital forecasting, risk model development, and independent model validation. I am writing as an individual. These views are mine alone and are not offered on behalf of any employer or organization.

This comment addresses Questions 2 and 3 of the Notice, which concern the proposed Facility Internal Risk Rating field on FR Y-14Q, Schedule H.1.¹ I make three suggestions:

1. On Question 2, define the field as a loss severity rating, and add a short indicator of the rating's basis for firms whose facility ratings are built on expected loss.
2. On Question 3, collect each firm's facility rating scale with the loss severity range attached to each grade, in place of a mapping to an external equivalent.
3. State whether the rating should be reported before or after the effect of the guarantee reported in proposed item 124.

What the Notice proposes

Firms already report an obligor internal risk rating in Schedule H.1, item 10, and the Notice leaves that item unchanged. It proposes a new item 126, Facility Internal Risk Rating, together with item 124, Guarantee Amount, and item 125, Securitization Flag.² The Board explains that commenters on the 2026 models asked that reporting allow obligor or facility level ratings, and that it is adding the items so it can evaluate those suggestions.³

The Board's published documentation shows how the two kinds of information are used today. The Corporate Model maps each firm's obligor ratings to a common rating scale and projects probability of default by rating.⁴ It estimates loss given default separately, and the documentation states that "collateral type, lien position, loan type and the BBB spread are the primary determinants of LGD."⁵ Firm-assigned facility ratings play no part in that estimate.

Question 2: loss severity or blended expected loss

I recommend that item 126 capture loss severity in the event of default.

A severity rating adds information the schedule does not already hold. Default likelihood is reported in item 10. A blended rating would combine that same information with severity in a single grade, so part of what the new field reports would repeat item 10. A severity rating is new information about the facility itself.

A blended rating cannot be separated afterwards. Two facilities with the same expected-loss grade can combine a low default likelihood with high severity, or the reverse. The Corporate Model projects default and severity with separate equations, so it needs the two components individually.^{4, 5} Recovering severity from a blended grade would require an assumption about the default component, and that assumption would differ by firm.

The concept is already defined in the Board’s capital rule. For firms subject to it, the current rule at 12 CFR 217.122(b)(2) describes an obligor rating that reflects likelihood of default and, separately, a loss severity rating that reflects loss given default, unless the firm assigns loss given default estimates directly. It also requires that severity grades avoid “grouping together exposures with widely ranging LGDs.”⁶ The agencies’ March 2026 capital proposal would replace these advanced approaches,⁷ but the distinction would still give the new field a definition already established in the Board’s own rules.

The case for a blended rating is practical. Some firms may rate facilities on an expected-loss basis and have no separate severity grade, and a blended grade is a convenient single summary of a facility’s risk. A severity-only definition could leave those firms with nothing to report, or lead them to derive a severity grade solely for this report.

To address that, I suggest a short companion indicator showing the basis of the reported rating: loss severity, expected loss, or not available. Firms would report the rating they maintain and identify what it measures. The Board would then know which values are comparable and could decide how to use the rest.

Question 3: external equivalent or the firm’s rating scale

I recommend collecting each firm’s facility rating scale, in a manner similar to Schedule H.4, and asking for the range that corresponds to each grade: the loss severity range, or the expected-loss range for firms that report on that basis.

A numeric range is a common unit that needs no mapping. For obligor ratings, the Board maps each firm’s scale to a common scale using firm mappings where available, Schedule H.4 data, and judgment.⁴ The Board has described finer mapping as “complicated by firms’ disparate risk rating systems.”⁸ A facility scale reported with the loss severity range for each grade would let the Board compare firms directly in percentage terms.

An external equivalent is less settled for facilities than for obligors. External ratings are a familiar reference for an obligor’s likelihood of default. A facility’s loss severity depends on its collateral, lien position, and structure. Rating agencies that publish recovery or loss severity assessments each use their own scale, so an item mapping the rating to an external equivalent would leave each firm to choose a reference, and the Board would then have a second mapping to reconcile across firms.

The reporting effort is smaller. A rating scale is reported once per firm and updated when the scale changes. A mapping item would be reported for every facility in every quarter.

The advantage of an external equivalent is that it would sit on each facility record and could be used without reference to a second schedule. That advantage depends on firms choosing the same reference, which the item alone would not ensure.

A related point on guarantees

The Notice proposes item 124, Guarantee Amount, alongside item 126.² A facility’s severity rating may already reflect a guarantee. If the Board later uses both items, the benefit of the guarantee could be

counted twice. I suggest the instructions state whether item 126 should be reported before or after the effect of any guarantee reported in item 124.

Closing

The Corporate Model documentation states that the model “assumes that internal risk ratings assigned by firms accurately and consistently summarize salient credit risk factors.”⁹ The new field will be most useful if what it measures is equally clear. Defining it as loss severity, collecting each firm’s scale with the severity range for each grade, and stating how guarantees are treated would give the Board a field it can compare across firms and evaluate against its own estimates.

I appreciate the opportunity to comment.

Sincerely,

Yetunde F. Adekoya
Tampa, Florida

Notes

1. Board of Governors of the Federal Reserve System, Request for Comment on Model Changes for the Board’s 2027 Supervisory Stress Test, 91 FR 62729, 62731 (Oct. 2, 2026) (“Notice”), Questions 2 and 3.
2. Notice, 91 FR at 62731.
3. Board, Review of Comments and Summary of Changes to the Proposed Stress Test Models (Fall 2026), pp. 14–15, 22.
4. Board, Supervisory Stress Test Model Documentation: Credit Risk Models (Fall 2026), Section A, Corporate Model, pp. 13, 19–21.
5. Credit Risk Models (Fall 2026), pp. 24–28; quotation at p. 26.
6. 12 CFR 217.122(b)(2)(i)–(ii).
7. OCC, Board and FDIC, Regulatory Capital Rule: Category I and II Banking Organizations, 91 FR 14952 (Mar. 27, 2026).
8. Review of Comments (Fall 2026), p. 10.
9. Credit Risk Models (Fall 2026), p. 23.