

Meeting Between Staff of the Federal Deposit Insurance Corporation, Federal Reserve System, Office of the Comptroller of the Currency, and Representatives from the International Association of Credit Portfolio Managers (“IACPM”), Clifford Chance, Citibank, and Cadwalader, Wickersham & Taft

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Participants:

Joanne Rose, Kevin Zhao, Benedetto Bosco, Iris Li, Catherine Wood, Anjoly David, Merritt Pardini, and Olga Lionakis, (Federal Deposit Insurance Corporation)

Sarah Dunning, Andrew Willis, Anna Lee Hewko, David Alexander, David Imhoff, Lesley Chao, Mark Buresh, and Robin Oh (Federal Reserve Board)

Andrew Tschirhart, Diana Wei, Kevin Korzeniewski, Christopher Rafferty, Benjamin Pegg, and Venus Fan (Office of the Comptroller of the Currency)

Jennifer Bearden and Som-lok Leung (IACPM); Michael Cooney and Peter Jerauld (Citibank); Gareth Old and Young Kim (Clifford Chance); Chris Horn (Cadwalader, Wickersham & Taft)

Summary: Staffs of the Federal Deposit Insurance Corporation, Federal Reserve System, and Office of the Comptroller of the Currency (collectively, the “agencies”) met with representatives from IACPM, Clifford Chance, Citibank, and Cadwalader, Wickersham & Taft (collectively, the “credit portfolio manager representatives”) regarding the agencies’ Notice of Proposed Rulemaking on Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity (FDIC RIN 3064–AF29) (the “NPR”), which was published in the Federal Register on September 18, 2023 (88 FR 64028). The credit portfolio manager representatives discussed their concerns with, and the impact of, the NPR’s proposed p-factor for securitizations. They provided the attached presentation.

Increasing the p-Factor: Effects on the Securitization Capital Surcharge

	EXISTING RULES p-factor = 0.5		PROPOSED RULES p-factor = 1.0	
<u>Underlying Loans</u>	<u>Unsecuritized Pool Risk Weight</u>	<u>Securitized Pool Risk Weight</u>	<u>Unsecuritized Pool Risk Weight</u>	<u>Securitized Pool Risk Weight</u>
FIRST LIEN RESIDENTIAL MORTGAGE LOAN (80%<LTV≤90%)	50%	75%	60%	120%
--Underlying risk weight is being increased under the proposed rules (from 50% to 60%).		50% greater than unsecuritized.		100% greater than unsecuritized.
			20% greater than existing rules.	60% greater than existing rules.
AUTO LOANS	100%	150%	85%	170%
--Underlying risk weight is being decreased under the proposed rules (from 100% to 85%).		50% greater than unsecuritized.		100% greater than unsecuritized.
			15% less than existing rules.	13% greater than existing rules.
LARGE BUSINESS: LOAN TO INVESTMENT GRADE RATED/PUBLICLY-TRADED CORPORATE	100%	150%	65%	130%
--Underlying risk weight is being decreased under the proposed rules (from 100% to 65%).		50% greater than unsecuritized.		100% greater than unsecuritized.
			35% less than existing rules.	13% less than existing rules.
SMALL BUSINESS: LOAN TO SME	100%	150%	85%	170%
--Underlying risk weight is being decreased under the proposed rules (from 100% to 85%).		50% greater than unsecuritized.		100% greater than unsecuritized.
			15% less than existing rules.	13% greater than existing rules.
CAPITAL CALL FACILITIES	100%	150%	100%	200%
--Underlying risk weight is staying the same under the proposed rules (100%).		50% greater than unsecuritized.		100% greater than unsecuritized.
			Same as existing rules.	33% greater than existing rules.

Notes:

- “Unsecuritized Pool Risk Weight” means the risk weight that would apply if the Bank holds all of the loans on its balance sheet in unsecuritized form.
- “Securitized Pool Risk Weight” means the risk weight that would apply if the Bank holds all tranches of a securitization backed by the same pool of loans.

Increasing the p-Factor: Effects on CRT Tranche Sizes

	EXISTING RULES p-factor = 0.5		PROPOSED RULES p-factor = 1.0	
<u>Underlying Loans</u>	<i>Size of Retained Senior Credit Tranche</i>	<i>Size of Hedged Junior Credit Tranche</i>	<i>Size of Retained Senior Credit Tranche</i>	<i>Size of Hedged Junior Credit Tranche</i>
FIRST LIEN RESIDENTIAL MORTGAGE LOAN (80%<LTV≤90%)	95.5%	4.5%	89.4%	10.6%
--Underlying risk weight is being increased under the proposed rules (from 50% to 60%).			6.4% thinner than existing rules.	135.6% thicker than existing rules.
AUTO LOANS	87.8%	12.2%	82.1%	17.9%
--Underlying risk weight is being decreased under the proposed rules (from 100% to 85%).			6.5% thinner than existing rules.	46.7% thicker than existing rules.
LARGE BUSINESS: LOAN TO INVESTMENT GRADE RATED/PUBLICLY-TRADED CORPORATE	87.8%	12.2%	88.0%	12.0%
--Underlying risk weight is being decreased under the proposed rules (from 100% to 65%).			0.2% thicker than existing rules.	1.6% thinner than existing rules.
SMALL BUSINESS: LOAN TO SME	87.8%	12.2%	82.1%	17.9%
--Underlying risk weight is being decreased under the proposed rules (from 100% to 85%).			6.5% thinner than existing rules.	46.7% thicker than existing rules.
CAPITAL CALL FACILITIES	87.8%	12.2%	77.0%	23.0%
--Underlying risk weight is staying the same under the proposed rules (100%).			12.3% thinner than existing rules.	89% thicker than existing rules.

Notes:

- Tranche sizes calibrated to achieve a 20% risk weight for the retained senior tranche.
- Market convention is to round 87.8%/12.2% to 87.5%/12.5%, and to round 95.5%/4.5% to 95%/5%.

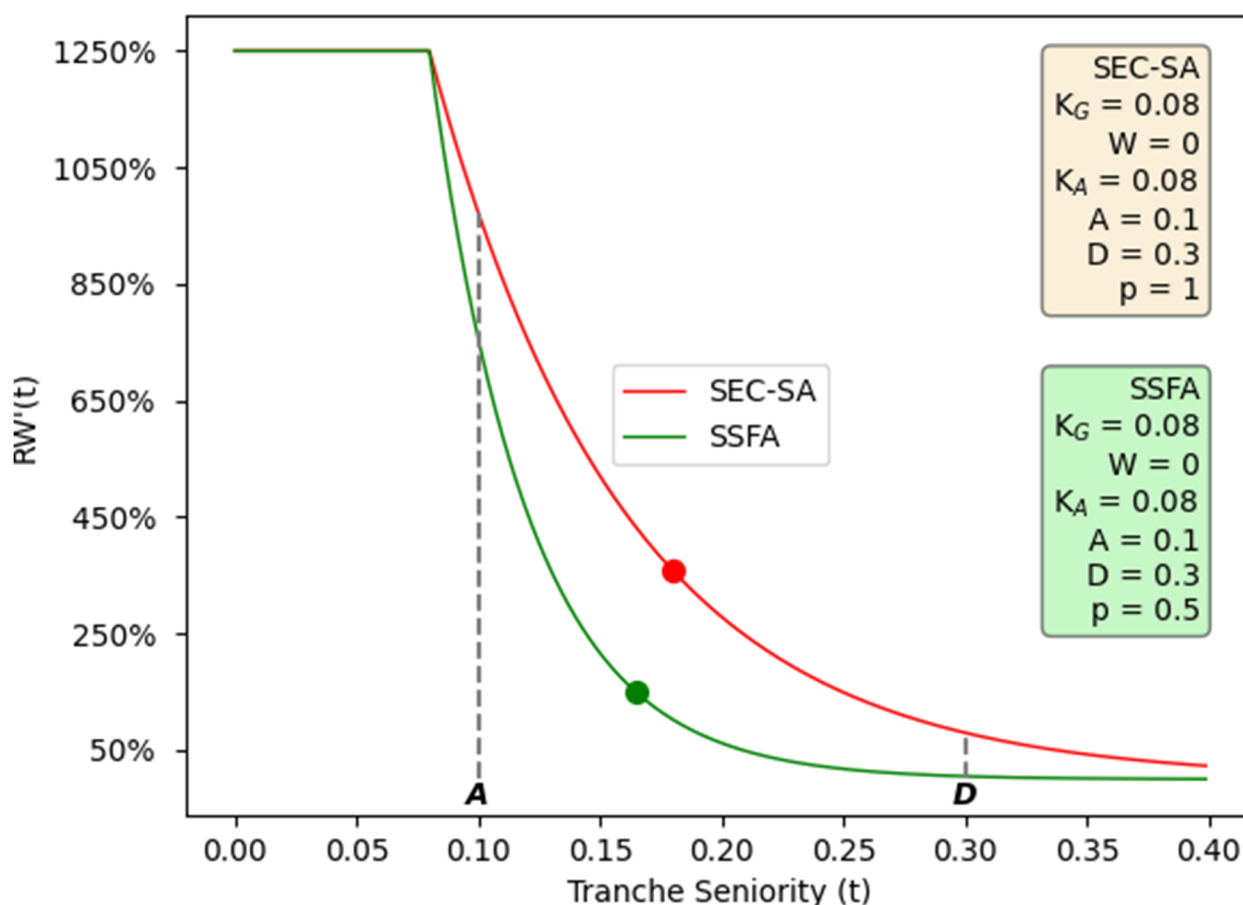
Risk Weights for Securitization Exposures

Under SSFA and SEC-SA, the risk weight for a securitization exposure is the average value of the marginal risk weighting function, $RW'(t)$, for that securitization exposure, measured over the interval $t = A$ to $t = D$, where **A** and **D** are the attachment and detachment points, respectively, of the securitization exposure.

$$RW'(t) = 1250\% * e^{-\left(\frac{1}{p * K_A}\right)(\max t - K_A, 0)}$$

p is the supervisory calibration parameter (the p-factor), K_A is the capital requirement of the underlying exposures, adjusted for defaults, and t is a given point of seniority, ranging from 0 to 1.

Increasing the p-factor from 0.5 (under SSFA) to 1.0 (under SEC-SA) is very material. Below is an example of a securitization exposure with an attachment point of 0.1 and detachment point of 0.3.¹ Under SSFA, the risk weight (marked by the green dot) is 150.6%. Under SEC-SA, the risk weight (marked by the red dot) is 357.4%.



¹ This example was first presented by the Structured Finance Association in a meeting with the banking regulators on March 14, 2024.