



October 3, 2025

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve  
20<sup>th</sup> Street and Constitution Avenue NW,  
Washington, DC 20551

Jennifer M. Jones, Deputy Executive Secretary  
Attention: Comments -- EGRPRA  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429

Chief Counsel's Office  
Attention: Comment Processing  
Office of the Comptroller of the Currency  
400 7th Street, SW  
Suite 3E-218  
Washington, DC 20219

**Re: Regulatory Publication and Review Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996, 90 Fed. Reg. 35241 (July 25, 2025)**  
Federal Reserve Docket No. OP-1828  
OCC Docket ID OCC-2023-0016  
FDIC RIN 3064-ZA39

Ladies and Gentlemen:

The Structured Finance Association (the "SFA") appreciates the opportunity to comment on the fourth joint notice of regulatory review and request for comment (the "Request for Comment") under Section 2222 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996, 12 U.S.C. 3311 ("EGRPRA"), issued by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (collectively, the "Agencies").

The SFA's mission is: *"To help its members and public policymakers grow credit availability and the real economy in a responsible manner."*

The SFA is a consensus-driven trade association with over 370 institutional members representing the entire value chain of the securitization market. By facilitating the responsible issuance and investing of loans and securities, the market provides trillions of dollars of capital to consumers and businesses in communities across the country. SFA members include issuers and investors, broker-dealers, rating agencies, data analytic firms, law firms, servicers, trustees, and accounting firms. As such, unlike many other trade associations, before we take any advocacy position our governance requires us to achieve consensus by agreement rather than majority vote, ensuring the perspectives of all our diverse membership are included. This diversity is our strength, as it builds healthy tension in arriving at our consensus position. Because of this, we are methodical and thoughtful as we analyze the pros and cons of regulatory proposals before we reach a mutually acceptable position.



## Introduction

In their Request for Comment, the Agencies request comment on “regulations in the Banking Operations, Capital, and the Community Reinvestment Act categories to identify outdated, unnecessary, or unduly burdensome requirements for insured depository institutions and their holding companies.”<sup>1</sup> The last EGRPRA review covering capital regulations commenced in 2015,<sup>2</sup> the same year the compliance period began for the current standardized approach for determining risk-weighted assets.<sup>3</sup>

Since that time, both the U.S. securitization market and the role of banks within it have evolved considerably, and a decade of industry experience with the securitization framework, and the Agencies’ implementation thereof, have revealed several aspects that are outdated, unnecessary, and unduly burdensome. In this letter, we focus on two particularly consequential opportunities for modernization and burden reduction and offer corresponding recommendations:

1. The capital rule should fully recognize the credit risk mitigation benefits of credit linked notes (“CLNs”) issued directly by banks; and
2. The Agencies should update the GFC-era calibration of the Simplified Supervisory Formula Approach (the “SSFA”).

We also urge the Agencies to consider other targeted reforms, many of which we raised in our Basel III Endgame comment letter (the “Basel III Endgame Comment Letter”).<sup>4</sup> Taken together, these two priority recommendations, along with the targeted reforms discussed below, would provide a much-needed update of the securitization framework.

The importance of updating the securitization framework is underscored by the distinct, but equally vital, functions banks perform in the securitization market, as noted in our Basel III Endgame Comment Letter. Outdated, unnecessary and burdensome capital requirements impede those functions.

- *Credit Risk Mitigation.* Banks manage the credit risk in their own loan portfolios through credit-risk transfer (“CRT”) securitizations, as contemplated by Regulation Q. Regulatory impediments to CRT transactions directly restrict banks’ capacity to extend new loans.
- *Liquidity Support.* Banks provide liquidity to the credit markets by acting as market-makers for asset-backed securities (“ABS”) issued by other banks and non-bank financial

---

<sup>1</sup> See Request for Comment, at 35243.

<sup>2</sup> See 80 Fed.Reg. 7980 (February 13, 2015). The prior EGRPRA review resulted in a report to Congress in March 2017. See Joint Report to Congress, Economic Growth and Regulatory Paperwork Reduction Act (March 2017), available at: <https://www.ffiec.gov/sites/default/files/data/publications/2017-ffiec-egrpra-joint-report-to-congress.pdf>.

<sup>3</sup> See 78 Fed.Reg. 62018 (Oct. 11, 2013) (the “Basel III Adopting Release”), at 62029 (specifying a January 1, 2015, compliance date for the standardized approach for determining risk-weighted assets).

<sup>4</sup> Available at: [https://www.federalreserve.gov/SECRS/2024/April/20240401/R-1813/R-1813\\_011624\\_156875\\_373587976022\\_1.pdf](https://www.federalreserve.gov/SECRS/2024/April/20240401/R-1813/R-1813_011624_156875_373587976022_1.pdf).

institutions. Harsh risk weights on securitization exposures in the trading book impair market-making activity and can dry up secondary-market liquidity for ABS, widen bid-ask spreads, and impair price discovery.

- *Funding Support.* Banks invest in ABS issued by a wide range of financial institutions and extend financing to special purpose entities that hold pools of consumer and business loans. Harsh risk weights on these securitization exposures shrink a critical source of funding for borrowers, driving up financing costs and constricting overall credit availability.

### **The Agencies Should Fully Recognize the Credit Risk Mitigation Provided by Directly-Issued CLNs**

On September 28, 2023, the Federal Reserve Board (“FRB”) posted FAQs on its website<sup>5</sup> confirming that bank directly-issued CLNs are valid capital and risk-management tools but nevertheless require banks to “request reservation of authority under the capital rule for directly issued credit-linked notes in order to assign a different risk-weighted-asset amount to the reference exposures.” When granted, the Agencies have qualified their approval by stating that “this action applies only to the subject CLN transaction and other substantially identical CLN transactions up to an aggregate outstanding reference portfolio principal amount of the lower of 100 percent of the bank’s total capital or \$20 billion.”

As we explained in Part IX of our Basel III Endgame Comment Letter, the Agencies should amend the capital rule to make clear that banks may recognize credit risk transfer from cash-funded, directly-issued CLNs. Such recognition should be automatic, not subject to a case-by-case reservation-of-authority process, and should not be subject to an arbitrary limitation on the amount of credit risk mitigation. Codifying this treatment would provide banks with a dependable means of reducing their exposure to credit risk and would ensure uniform application irrespective of which of the three Agencies is the bank’s primary federal regulator.

Reservation-of-authority reviews, the volume cap, and uncertain timing collectively undermine the usefulness and scalability of directly-issued CLNs for U.S. banks. The Federal Reserve Board (“FRB”) justifies these restrictions on two technical grounds:

1. Directly-issued CLNs frequently reference, but are not executed under, standard credit-derivative documentation.
2. The issuance proceeds are owned outright by the bank, rather than pledged as third-party collateral.

These technical concerns should not bar recognition. As we noted in our Basel III Endgame Comment Letter, although the capital rule currently defines “credit derivative” as one “executed under standard industry derivative documentation,” restricting recognition to instruments documented under a

---

<sup>5</sup> See Board of Governors of the Federal Reserve System, *Frequently Asked Questions about Regulation Q* (September 28, 2023), available at:

<https://www.federalreserve.gov/supervisionreg/legalinterpretations/reg-q-frequently-asked-questions.htm>.

stand-alone ISDA Master Agreement or similar form elevates form over substance. Indeed, a substantial portion of stand-alone ISDA documentation addresses counterparty risk,<sup>6</sup> which does not exist in directly-issued CLNs. What matters is that the documentation clearly transfers credit risk, specifies credit-event triggers, and provides for timely settlement. Directly-issued CLNs satisfy these functional standards even when the credit-derivative provisions are embedded in an indenture or other governing agreement.

Similarly, as noted in our Basel III Endgame Comment Letter, the capital rule should clarify that the proceeds of directly-issued CLNs constitute “financial collateral” for purposes of the operational criteria for synthetic securitizations. A bank should not be required to have only a security interest, rather than an outright ownership interest, in the proceeds of the directly-issued CLNs in order for those proceeds to qualify as financial collateral. In addition, such proceeds should be considered “cash on deposit” for purposes of the definition of financial collateral, regardless of whether the proceeds are (1) deposited in an account at the bank itself, (2) deposited at an account at another bank, or (3) otherwise held as an asset on the bank’s balance sheet.

The very features the FRB questions enhance—rather than diminish—the credit protection provided by directly-issued CLNs:

- *Immediate, unconditional funding.* Investors remit the full purchase price on the issue date, so credit protection is prefunded on day one.
- *No counterparty exposure.* Because the bank already holds the cash or other financial collateral, counterparty default risk is eliminated.
- *No enforcement delays.* Outright ownership of the proceeds avoids potential litigation or administrative delays associated with enforcing a security interest.

### The Agencies Should Update the GFC-Era Calibration of the SSFA

The SSFA uses four inputs to calculate the risk weight for a given securitization exposure.

1. The weighted average capital requirement for the securitized assets ( $K_G$ ).
2. The proportion of underlying exposures that are delinquent ( $W$ ).<sup>7</sup>
3. The attachment and detachment points of the securitization exposure ( $A, D$ ).

---

<sup>6</sup> As our Basel III Comment Letter points out, “The centerpiece form document, the ISDA Master Agreement, focuses primarily on (1) specifying events of default (most notably, failure to pay), early termination events and close-out provisions, (2) requiring assurances that the counterparty will comply with law, maintain required authorizations, and furnish specified information, (3) requiring representations and warranties as to the counterparty’s existence and ability to execute the trade, and (4) prescribing netting and setoff procedures. The ISDA Credit Support Annex addresses counterparty credit risk by setting forth the terms and conditions for posting collateral.” See p. 53.

<sup>7</sup> Delinquent exposures are those that are: (i) 90 or more past due, (ii) subject to bankruptcy or insolvency proceeding, (iii) in the process of foreclosure, (iv) held as real estate owned, (v) deferring payments for 90 days or more days; or (vi) in default.

4. A supervisory calibration parameter (the *p-factor*).

The values of  $K_G$  and  $W$  are used to calculate  $K_A$ , or the weighted average capital requirement for the underlying exposures adjusted to reflect any adverse performance:  $K_A = (1 - W)K_G + 0.5W$ .<sup>8</sup>

SSFA incorporates three supervisory parameters that are calibrated as follows:

1. The *p-factor*, which is set at 0.5 for securitizations and 1.5 for resecuritizations.
2. A 20% risk weight floor on any securitization exposure.
3. The 0.5 scalar applied to  $W$ , which effectively assigns a 50% capital requirement to delinquent underlying exposures.

As explained below, the values of these parameters are out of date. The SFA looks forward to engaging with the Agencies to strike an appropriate balance in updating them.

**The p-factor.** As we noted in our Basel III Endgame Comment Letter, the *p-factor* imposes a capital surcharge (effectively a penalty) on securitizations.<sup>9</sup> A *p-factor* that is set too high results in anomalous and arbitrarily high risk weights for securitization exposures. The effect is to constrain the ability of banks to provide liquidity and funding support to the credit markets, and to mitigate their own credit risks.

Appendix A demonstrates the *p-factor*'s effect on risk weight calculations. There we show the risk weights for two pools of underlying loans held by the bank in unsecuritized form and compares them with the risk weights that would apply under SSFA if the bank held every tranche of a securitization backed by those same loans. We present the result under the current *p-factor* of 0.5 as well as a hypothetical *p-factor* of 0.25, and under varying pool delinquency rates ( $W$ ).

The current *p-factor*, which was set in the aftermath of the global financial crisis, imposes a securitization capital surcharge that starts at 50% when the underlying exposures are fully performing and climbs rapidly if underlying exposures become delinquent.<sup>10</sup> When the Agencies adopted the SSFA and its 0.5 *p-factor* in 2013, they indicated that they would “monitor implementation of SSFA and, based on

---

<sup>8</sup> Under SSFA, the risk weight for any given securitization exposure is the average value of the function  $1,250\% * e^{\left(\frac{1}{pK_A}\right)\max(t-K_A,0)}$  over the interval  $t = [A, D]$ . SSFA assigns a 1,250% (dollar-for-dollar) marginal risk weight for tranche positions in the interval  $t = [0, K_A]$  and thereafter assigns marginal risk weights that decline exponentially as tranche positions become more senior. The rate of exponential decay is  $\frac{1}{pK_A}$ .

<sup>9</sup> As noted in our Basel III-Endgame Comment Letter, the “securitization capital surcharge” is the percentage amount by which a bank’s capital requirement would increase if the bank held every tranche of a securitization rather than holding the underlying exposures directly in its unsecuritized portfolio.

<sup>10</sup> The Basel III Adopting Release offered no empirical or statistical rationale for this value.

supervisory experience, consider what modifications, if any, may be necessary to improve SSFA in the future.”<sup>11</sup>

A reassessment of the *p*-factor is long overdue. As the U.S. Treasury report from October 2017 concluded:

Dodd-Frank and various rulemakings implemented to address pre-crisis structural weaknesses in the securitization market may have gone too far toward discouraging securitization. By imposing excessive capital ... requirements on securitizers, recent financial regulation has created significant disincentives to securitization.<sup>12</sup>

That same report cautioned that “[t]he *p* factor, already set at a punitive level that assesses a 50% surcharge on securitization exposures, should, at minimum, not be increased.”<sup>13</sup> European regulators have expressed similar concerns. In June 2025, the European Commission’s final proposal to amend the EU Securitisation Regulation echoed these concerns, stating:

The EU securitisation framework was put in place in the aftermath of the 2008 financial crisis and responded to concerns about risky US securitisations. At the time, strict requirements were considered necessary to restore the reputation of the securitisation market which had been suffering from inadequate protections and severe investor distrust. Now that appropriate safeguards have been firmly embedded in the market’s organisation and securitisation is gaining back investors’ trust, a better balance between safeguards and growth opportunities - both for investments and issuance- needs to be found.

The experience with the framework indicates that it is too conservative and limits the potential use of securitisations in the EU. High operational costs and overly conservative capital requirements keep many issuers and investors out of the securitisation market.<sup>14</sup>

The European Commission’s impact assessment finds that current *p*-factor levels are “excessively high and lead to unjustified levels of overcapitalization for some securitisation transactions.”<sup>15</sup> The same is true in the United States. We urge the Agencies to join their European counterparts in reducing the outdated value of the *p*-factor. Doing so will not only update a significantly out-of-date model, but it will also help U.S. banks remain competitive with their international peers in global securitization markets.

---

<sup>11</sup> See Basel III Adopting Release, at p. 62119.

<sup>12</sup> See U.S. Department of the Treasury, [A Financial System That Creates Economic Opportunities – Capital Markets \(October 2017\)](#) (“2017 Treasury Report”), at p. 8.

<sup>13</sup> See 2017 Treasury Report, at p. 100.

<sup>14</sup> See [Proposal for a Regulation of the European Parliament and of the Council](#) (June 17, 2025) (“EU Proposal”), at p. 1.

<sup>15</sup> See EU Proposal, at p. 9.



Finally, as we pointed out in our Basel III Endgame Comment Letter and as illustrated in Appendix B, setting the  $p$ -factor involves a tradeoff between conservatism and risk sensitivity. Lowering the  $p$ -factor results in a lower securitization capital surcharge but greater risk sensitivity.<sup>16</sup> A higher  $p$ -factor has the opposite effect.<sup>17</sup> Thus, lowering the  $p$ -factor would address not only the excessive capital requirements noted above, but would also improve SSFA's risk sensitivity.

**The risk-weight floor.** Like the  $p$ -factor value of 0.5, the 20% risk-weight floor is outdated and does not reflect the significant post-crisis market reforms for securitization and the mortgage markets, including, but not limited to, risk retention, enhanced underwriting standards, and enhanced due diligence standards, which have worked to significantly reduce the risks associated with holding financial assets in securitized form.<sup>18</sup>

When they adopted SSFA following the GFC, the Agencies stated that they “believe that a 20 percent floor is prudent given the performance of many securitization exposures during the recent crisis.”<sup>19</sup> In the years following the GFC, the 20% risk-weight floor has become misaligned with international standards, as the floor under the BCBS securitization standards has since been reduced and made somewhat more risk sensitive.<sup>20</sup> As the 2017 U.S. Treasury Report observed:

While this [20%] risk-weight floor, finalized in 2013, was consistent with the BCBS's recommended floor, the BCBS has since revised its securitization framework to lower the recommended floor to 15%. The European Banking Authority has similarly recommended that European regulatory bodies lower the minimum capital floor for qualifying senior tranches. For U.S. banks, the risk-weight floor remains 20% for structured securities. If this recommendation is adopted, U.S. banks may be placed at a competitive disadvantage to their European peers.<sup>21</sup>

---

<sup>16</sup> As explained in our Basel III Endgame Comment Letter, the partial elasticity of the marginal capital function with respect to  $t$  is  $-\frac{t}{pK_A}$  and with respect to  $K_A$  is  $+\frac{t}{pK_A}$ . Thus, cutting the  $p$ -factor in half would make the risk-weighting function twice as sensitive to changes in the underlying risk measurement parameters,  $t$  and  $K_A$ .

<sup>17</sup> Indeed, as shown in Appendix B, as the  $p$ -factor approaches infinity, SSFA becomes both maximally conservative and perfectly risk insensitive, as the risk weight for any securitization exposure would be 1,250% regardless of the exposure's seniority or the value of  $K_A$ .

<sup>18</sup> See pp. 14-15 of our Basel III Endgame Comment Letter for a summary of these reforms. We note that recent research supports a risk weight floor equal to between 10% and 11% of the risk weight of the underlying exposures (e.g., a 10% to 11% floor for a securitization of 100% risk-weighted assets).

<sup>19</sup> See the Basel III Adopting Release, at p. 62119.

<sup>20</sup> Under the current BCBS standardized approach, the risk weight floor has been reduced to 10% for senior tranches of securitizations assessed as simple, transparent and comparable (STC) and 15% for non-STC securitizations and junior tranches of STC securitizations. See CRE41 Securitisation: Standardised Approach (15 Dec. 2019), at 41.15 and 41.22. To qualify for STC treatment under the BCBS standards, a securitization must satisfy various criteria, including that the underlying assets are homogenous, reliance on refinancing or re-sale of underlying assets to pay investors is not substantial, standardized interest rates are used and no complex derivatives are used.

<sup>21</sup> See 2017 U.S. Treasury Report, at p. 98.

The EU Proposal seeks to go even farther in updating the floor to make it more risk-sensitive and reduce the disincentives securitizing low risk-weight assets.<sup>22</sup> The Agencies should also reassess the risk-weight floor and recalibrate it in a manner suitable for the U.S. securitization market.

**The 0.5 scalar applied to parameter  $W$ .** Under the standardized approach, past due exposures generally carry a 150% risk weight (equivalent to a 12% capital charge) when held in unsecuritized form.<sup>23</sup> By contrast, as noted above, the SSFA applies a 50% capital charge to delinquent assets through the  $0.5 \cdot W$  term in  $K_A$  – more than four times higher. As noted in our Basel III Endgame Proposal Comment letter, this 0.5 scalar is arbitrary and unreasonably punitive and should be reduced.

### Other Targeted Reforms

The following targeted reforms, drawn from our Basel III Endgame Comment Letter, would help modernize the securitization capital framework and remove unnecessary frictions.

- Replace the accounting derecognition requirement in the operational criteria for traditional securitizations with a legal-isolation standard, as in the Basel framework. (Part V, p. 44.)
- Cap capital requirements across risk-weighted assets and CCAR so that the total capital requirement for a securitization exposure does not exceed the bank’s potential maximum economic loss. (Introduction, p. 16.)
- Fix core parameters to avoid double counting and arbitrariness: revise the definitions of  $K_G$  and  $K_A$  so delinquent underlying exposures captured in parameter  $W$  are not also included in  $K_G$ ; remove delinquent underlying exposures that serve as excess collateral from the calculation of  $K_G$  and  $K_A$ . (Part III, pp. 36–41.)
- Apply standard credit conversion factors (CCFs) to the unused portions of loan commitments to securitization SPEs (rather than a de facto 100% CCF), then risk-weight the converted amount under the SSFA. (Part VII, pp. 47–48.)
- To the extent that the Agencies utilize a “two stack” approach (standardized and enhanced risk-based) in their reproposal of Basel III Endgame and retain a version of the SEC-SA in the enhanced risk-based approach as set forth in their initial Basel III Endgame proposal (the “Initial Proposal”):<sup>24</sup>

---

<sup>22</sup> The EU Proposal “introduces the new concept of a risk-sensitive risk weight floor, where the risk weight floors for senior securitisation positions are proportionate to the riskiness (i.e. average risk weights) of the underlying pool of exposures. This significantly increases the risk sensitiveness of the securitisation capital framework and decreases existing disincentives for the securitisation of portfolios with low risk weights.” See EU Proposal, at p. 9.

<sup>23</sup> See 12 C.F.R. 217.32(k)(1).

<sup>24</sup> See Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and to Banking Organizations with Significant Trading Activity, 88 Fed. Reg. 64028 (Sept. 18, 2023).



- The Agencies should apply the look-through approach to the SSFA, as set forth in the Agencies' Initial Proposal with respect to the SEC-SA, but that look-through approach should not be subject to any risk-weight floor. (Part XI, pp. 59-60.)
- The Agencies should not include a higher risk-weight floor for resecuritizations, particularly with respect to senior/senior resecuritizations, such as the securitization of servicer cash advances. (Part XI, pp. 59-60.)
- The Agencies should make inputs and calculations consistent across the SSFA and the SEC-SA to avoid unnecessary inconsistency and complication with respect to the two approaches. (Part XI, p. 61.)

In addition, consistent with their Initial Proposal, the Agencies should clarify that any nonrefundable purchase price discount may be included in the numerator and the denominator of attachment and detachment points of a securitization exposure. As the Agencies correctly explained, the nonrefundable purchase price discount is a form of credit enhancement and thus should shift the attachment and detachment points up.<sup>25</sup>

## Conclusion

The SFA appreciates your consideration of the views set forth in this letter and looks forward to continuing our dialogue with the Agencies on all aspects of the securitization framework. If you have any questions, please contact me at [REDACTED] (email: [REDACTED]), or our counsel, Christopher B. Horn, Cadwalader, Wickersham & Taft LLP, at [REDACTED] ([REDACTED]).

Regards,

Michael Bright  
Chief Executive Officer  
Structured Finance Association

---

<sup>25</sup> See Initial Proposal, at p. 64073.

**Comparing Risk Weights for a Pool of Underlying Loans**

**Pool Held Directly by Bank in Unsecuritized Form  
vs.  
Bank Holds Every Tranche of Securitization Backed by Same Pool**

| Underlying Loans                         | Portion of Underlying<br>Loans that are<br>Delinquent | Unsecuritized Pool<br>Risk Weight | p = 0.5 (current)<br>Securitized Pool<br>Risk Weight | p = 0.25<br>Securitized Pool<br>Risk Weight |
|------------------------------------------|-------------------------------------------------------|-----------------------------------|------------------------------------------------------|---------------------------------------------|
| First Lien Residential<br>Mortgage Loans | 0%                                                    | 50%                               | 75.00%                                               | 62.50%                                      |
|                                          | 2%                                                    | 51%                               | 93.72%                                               | 78.10%                                      |
|                                          | 4%                                                    | 52%                               | 112.38%                                              | 93.65%                                      |
|                                          | 6%                                                    | 53%                               | 130.98%                                              | 109.15%                                     |
|                                          | 8%                                                    | 54%                               | 149.52%                                              | 124.60%                                     |
|                                          | 10%                                                   | 55%                               | 168.00%                                              | 140.00%                                     |
| Auto Loans<br>Business Loans             | 0%                                                    | 100%                              | 150.00%                                              | 125.00%                                     |
|                                          | 2%                                                    | 101%                              | 167.22%                                              | 139.35%                                     |
|                                          | 4%                                                    | 102%                              | 184.38%                                              | 153.65%                                     |
|                                          | 6%                                                    | 103%                              | 201.48%                                              | 167.90%                                     |
|                                          | 8%                                                    | 104%                              | 218.52%                                              | 182.10%                                     |
|                                          | 10%                                                   | 105%                              | 235.50%                                              | 196.25%                                     |

Notes:

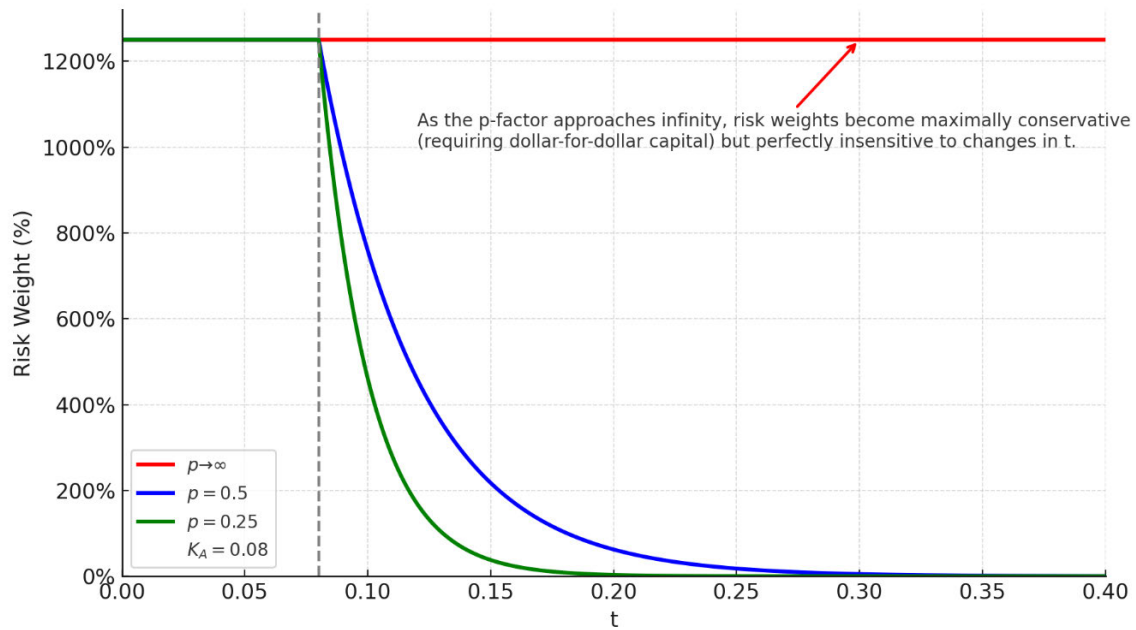
1. First lien residential mortgage loans have a 50% risk weight if held by the bank directly in unsecuritized form. *See* 12 C.F.R. 217.32(g)(1). This risk weight increases to 100% for any such loan that becomes delinquent. *See* 12 C.F.R. 217.32(g)(2).
2. Auto loans and business loans have a 100% risk weight if held by the bank directly in unsecuritized form. *See* 12 C.F.R. 217.32(l)(5). This risk weight increases to 150% for any such loan that becomes delinquent. *See* 12 C.F.R. 217.32(k)(1).
3. “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.
4. “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.

### p-Factor Tradeoff

Higher p-factor: More conservative but less risk-sensitive.

Lower p-factor: Less conservative but more risk sensitive.

**Figure 1. Holding  $K_A$  constant and allowing  $t$  (tranche position) to vary.**



**Figure 2: Holding  $t$  constant and allowing  $K_A$  to vary.**

