

Memorandum

To: Basel II Standardized Framework NPR Public File (RIN 3064-AD29)

From: FDIC Staff

Date: November 3, 2008

Subject: Meeting with American Bankers Association on Basel II Standardized Framework NPR

On September 24, 2008, FDIC staff (Nancy Hunt, Ryan Sheller, Michael Phillips, and Mark Handzlik), together with staff of the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, participated in a conference call with the American Banks Association (ABA) Basel II Standardized Framework Working Group. Participants in the call also included staff of the ABA and representatives of ABA member-banks.

A list of questions that were discussed during this call is attached to this memorandum.

ABA Standardized Approach Working Group

Issues from Working Group Discussions for the September 24 Conversation with Regulators

1. What is the timeline for implementation of the Standardized Approach?
2. What characteristics of a banking firm would lead supervisors to require it to use the Standardized Approach? What level of discussion will there be between supervisors and a banking firm in determining whether it will be required to use the Standardized Approach?
3. Why does the proposal not provide more granularity in risk-weighting the major categories of corporate exposures, such as multi-family residential mortgages and commercial real estate?
4. Would the regulators consider the Alternative Standardized Approach for operational risk from the international Basel II Framework? If so, what would be required for a bank to use it?
5. What additional supervisory standards do supervisors anticipate for banks using the Standardized Approach? Will an ICAAP be required?
6. In the case where a bank does not hold the first lien, why should the risk-weighting be higher for second home mortgages after all liens are aggregated?
7. Other than fully-insured deposits in depositories, are there any other exposures backed by the full faith and credit of the U.S. that receive a non-zero risk-weight?
8. Could a de *minimis* exposure be defined, such that a banking firm using the Standardized Approach would be allowed to use Basel I for this insignificant an exposure?
9. As proposed in the unsettled transactions section, when deliverables owed are over five days delinquent, the current market value would be deducted from capital (half from Tier 1, half from Tier 2). Why such a conservative approach? In other words, why does the proposal subtract delinquent “non-DvP” and “non-PvP” transactions from tier 1 and tier 2 capital?
10. How would the proposed elevated risk weighting for past-due loans interplay with higher reserving along with supervisory demands for such exposures?
11. The proposal would recognize only specific reserving. However, some banks believe that supervisors would require write-downs when there is a specific reserve. How can these banks avoid being caught in a “Catch 22”?
12. Please clarify how supervisors will determine whether a portfolio is “well-diversified” for purposes of qualifying for the regulatory retail treatment.
13. Please clarify whether loan-level PMI serves only to reduce LTV for purposes of identifying the appropriate risk-weight, or whether it also reduces the exposure amount to which that risk-weight applies.
14. Will exposures to the GSE's (or at least Fannie and Freddie) now drop from the 20 percent risk-weight bucket back to zero percent?
15. How will revision of FASB Statement 140 affect the securitization provisions of the final rule?