WELLS FARGO

To:

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Docket Number OCC-2010-0016
RIN 1557-AD35

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
RIN 3064-AD62

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Docket No. R-1391
RIN 7100-AD53

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: OTS-2010-0027
RIN 1550-AC43

Re: Advance Notice of Proposed Rulemaking Regarding Alternatives to the Use of Credit Ratings in the Risk-Based Capital Guidelines of the Federal Banking Agencies

Ladies and Gentlemen:

Wells Fargo proposes that two alternatives be considered for determining capital levels for securitization exposures. These alternatives would replace references to credit ratings which must be removed from bank regulations. Banks should be required to use either a standard approach which utilizes publicly available data or an advanced approach which also incorporates more robust internal analysis. Under both approaches, a loss coverage multiple would be calculated by dividing the level of credit enhancement available to absorb losses by expected losses. This ratio could then be mapped to appropriate levels of capital based on supervisory guidance and analysis.

An illustrative example of such a matrix is as follows:

Loss Coverage Multiple	Capital as % of Exposure
5.00 or greater	0.8%
4.00 – 4.99	2.0%
3.00 – 3.99	4.0%
2.00 – 2.99	8.0%
1.75 – 1.99	20.0%
1.50 – 1.74	50.0%
0 – 1.49	100.0%

Using this matrix, a securitization exposure with 10% credit enhancement and 3% expected loss would have a loss coverage multiple of 3.33 (10% divided by 3%). As a result, this exposure would attract a capital rate of 4%.

Loss estimates, which are an integral part of this calculation, could be derived in one of two ways:

Standard Approach For Loss Estimates:

Banks could be permitted to use expected loss estimates which are produced by the ratings agencies or other approved third parties. This information is becoming more readily available as the Dodd-Frank Act requires that ratings agencies make extensive disclosures regarding their ratings methodologies and data used in the ratings process. In addition, there are several credit analytics firms that specialize in providing data and analysis on securitized assets and structures.

Since these loss metrics are calculated at the security level, they should already incorporate seniority and granularity into the calculated values. The level of credit enhancement for a security should be readily available through public data sources. While credit spreads could be used as an alternative input, we do not support this approach as spreads may reflect factors which are not directly related to the credit-worthiness of a security and could introduce excessive volatility to capital calculations.

Advanced Approach For Loss Estimates:

We believe that a more robust approach which applies internal analysis is appropriate for banks engaging in broader and more complex securitization activities. Banks applying an advanced approach could leverage publicly available inputs, while also incorporating internal analysis to more accurately measure risk factors. This approach could be applied to publicly rated securitization exposures currently under the Ratings Based Approach as well as unrated exposures.

Any approach should properly consider the performance characteristics of the underlying exposures, the level of credit enhancement and other structural features. Banks would need to obtain approval from their supervisors to use an advanced approached to ensure that the appropriate methodology, infrastructure and controls have been implemented.

ADDITIONAL CONSIDERATIONS FOR DETERMINING CAPITAL REQUIREMENTS

Definition of Credit Enhancement: The level of credit enhancement should be based on structural subordination as well as the value that securities were purchased at or marked to. Purchasing securities at a discount or taking charge-offs should result in additional credit enhancement available to absorb losses, resulting in lower capital requirements.

Use of Third Party Inputs: To promote operationally viable solutions, banks must be permitted to use approved third party analytics for determining loss estimates on the underlying exposures. In some cases, there may be suitable data sources which are currently being used in supervised valuation and impairment analysis processes which could be utilized.

Accounting Treatment Considerations: The selected approach should be applicable to both banking book and trading book assets. Recent enhancements to the Market Risk framework support the objective of consistent capital standards across accounting regimes, resulting in fewer arbitrage opportunities. A consistent approach, compliant with requirements related to the separation of public and private activities, would also promote operational efficiencies.

Consistency: Supervisors will need to balance the objectives of developing consistent and transparent solutions with allowing banks to leverage their internal analytical capabilities for determining credit-worthiness. Banks may have differing assessments of capital requirements for comparable assets in their investment portfolios. To promote the concept of similar assessments for similar assets, supervisors will need to carefully review the input parameters, processes and results generated by internally modeled solutions. One potential way to address this is to implement a process where supervisors aggregate capital estimates from a group of banks, rationalize the results and then apply the results in setting industry-wide capital levels. Similar mechanisms are currently applied in some markets for pricing derivatives. This technique could also promote consistency for banks that do not have the robust analytical capabilities required to implement an advanced approach, while reducing the oversight burden on supervisors.

ASSESSMENT OF THE ANPR ALTERNATIVES

Any approach for determining capital requirements for securitization exposures should properly consider the performance characteristics of the underlying exposures, the level of credit enhancement and other structural features. In addition, the approach must not create significant operational burden for banks and supervisors.

Several alternatives to the use of credit ratings are proposed in the ANPR for determining capital requirements for securitization exposures. These include assigning the same risk weight to all exposures, simple and more complex gross up treatments, a special rule for the more senior exposure, and the use of a concentration ratio to set capital charges. Although these approaches may, to varying degrees, consider some structural provisions, we do not believe that they adequately reflect the collateral, subordination and structural features of a securitization transaction.

A simplified Supervisory Formula Approach was also proposed. Although specifics were not provided, the level of rigor required under the current version of this approach creates significant operational burden for banks who have attempted to implement it. One key challenge will be sourcing collateral level data based on current requirements for granularity, segmentation and historical time series. Banks might also need to comply with requirements for model validation and documentation associated with calculating expected loss metrics on the underlying exposures. As a result, this approach would be difficult, if not impossible, for investors to implement. In addition, a simplified formula would need to be calibrated to result in an appropriate level of capital based on the risk parameters which were input.

While we recognize the thought that went into presenting these alternatives, we do not believe that any of these approaches result in appropriate levels of risk-sensitivity or operational efficiency.

Wells Fargo appreciates your consideration of the views expressed in this letter. We will gladly make ourselves available for any further consultations and/or questions you have.

Sincerely,

Paul R. Ackerman
Executive Vice President & Treasurer