October 25, 2010

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Docket ID 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,

The PNC Financial Services Group, Inc. ("PNC"), Pittsburgh, Pennsylvania, and its subsidiary bank, PNC Bank, National Association ("PNC Bank"), Wilmington, Delaware, appreciate the opportunity to comment on the advance notice of proposed rulemaking ("ANPR") of the federal banking agencies ("Agencies") to modify their risk-based capital regulations to remove references to credit ratings and substitute other standards of creditworthiness.

PNC is one of the largest diversified financial services companies in the United States, with $260.1 billion in assets as of September 30, 2010. PNC has businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking. PNC provides many of its products and services nationally and others in PNC's primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Maryland, Illinois, Indiana, Kentucky, Florida, Virginia, Missouri, Delaware, Washington, D.C., and Wisconsin. PNC also provides certain products and services internationally.

Introduction

Banks routinely invest in securitization exposures as a means of deploying excess cash and as a tool for managing interest rate risk. Historically, banks have used a ratings based approach ("RBA") to calculate regulatory capital needed to support their securitization portfolios. The RBA has several advantages as a means of calculating regulatory capital, including the simplicity, transparency and consistency of application across different banks. However, a purely ratings based approach has several limitations. As a result, an alternative approach that addresses these limitations and leads to more accurate and dynamic regulatory capital calculation is necessary.

In our view, any alternative regulatory capital methodology should:

1. Promote bank understanding of the underlying risks of securitization exposures;

2. Link regulatory capital to the expected loss of a given securitization exposure based on collateral performance and structural credit support available to the securitization exposure; and,

3. Directionally and proportionately reflect changes in the expected performance of the securitization exposure in a timely manner.

The RBA has several limitations that do not meet the above principles:

1. The RBA may not promote bank understanding of risk, as banks are able to rely solely on ratings and are not required to perform their own credit analysis;

2. Under the RBA, regulatory capital is not explicitly linked to the expected loss of a securitization exposure as ratings may estimate the probability of loss without taking into account the severity of loss. For example, two securitization exposures, one with an expected loss of 2% and the other with an expected loss of 80% may both have the same rating from a given Nationally Reognized Statistical Rating Organization ("NRSRO"). Despite the variation in expected performance, the required regulatory capital may be the same for both securitization exposures; and,

3. The RBA relies on NRSROs to dictate the frequency of review of securitization exposure assumptions and the resulting ratings. This may lead to divergence between the banks and NRSRO's view of the risk of the securitization exposure.

PNC Proposal

PNC believes that any new framework should tie regulatory capital to an objective, internal, systematic approach for calculating the expected loss on the securitization exposure. We believe that a new framework could be constructed that adheres to the requirements listed above by allowing banks to utilize internal credit analytics (subject to approval by the appropriate regulatory agencies), supplemented with third-party inputs, to determine regulatory capital for securitization exposures.

Internal credit analysis is already common practice for banks. Banks utilize internal analysis in the calculation of loan loss reserves for their loan portfolios and losses on their securities portfolios. Indeed, PNC has been using detailed internal credit analytics on its securities portfolio for the purposes of the Supervisory Capital Assessment Program ("SCAP") and quarterly Other Than Temporary Impairment ("OTTI") projections. A regulatory capital framework based on a risk-sensitive internal methodology will help to promote prudent risk management practices while also generating more accurate and timely capital requirements.

PNC's proposed methodology would rely upon two primary variables to measure the risk of each securitization exposure:

1. Cumulative Collateral Loss ("CCL") Expectations: frequently-reviewed, third-party-verifiable and transparent loss expectations on the underlying collateral of a securitization.

2. Credit Enhancement: amount of credit enhancement available to absorb losses for a given securitization exposure in the securitization capital structure.

These two variables would be utilized to calculate a Loss Coverage Multiple ("LCM") for each securitization exposure. In order to calculate the LCM, a banking organization would generate collateral cash flows based upon CCL expectations. The collateral cash flows would be applied to the securitization structure in order to calculate the expected loss on the securitization exposure held by the bank. The LCM measures the structural credit enhancement available to a securitization exposure as a multiple of CCL expectations. The LCM relating to a specific ABS structure would then be used to determine the regulatory capital required for that securitization exposure held by the bank. The higher the LCM the lower the regulatory capital required. Conversely, the lower the LCM the higher the regulatory capital required.

This methodology promotes several of the Agencies' policy objectives stated in the ANPR:

1. Transparent and unbiased: CCL expectations would be generated using internal and third-party inputs. There should be detailed documentation of the models/methodologies, model assumptions and systems used to calculate the CCL expectation. The resulting regulatory capital calculation would be transparent as a result of regulatory review and oversight of inputs, CCL expectation methodology and cash flow calculations.

2. Distinguish credit risk within an asset class, and timely and accurately measure changes in creditworthiness: CCL expectations would be frequently reviewed and updated by banks to reflect changes in asset performance and expectations over time. Methodologies for deriving CCL expectations would vary to reflect unique risk characteristics of each asset class.

3. Foster prudent risk management: Banks would be required to evaluate the quality of the assets and the structural support available to their securitization exposures. Likewise, banks would conduct ongoing surveillance to update their expectations over time.

Thank you for the opportunity to comment on the ANPR. If you have any questions about this comment letter, please contact E. William Parsley III at (212) 527-3003 or at bill.parsley@pnc.com.

Sincerely,

E. William Parsley III
Treasurer and Chief Investment Officer
The PNC Financial Services Group