FORD CREDIT

May 18, 2012

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW.
Washington, DC 20429
Attention: Comments RIN: 3064-AD70

Office of the Comptroller of the Currency
250 E St. SW., Mail Stop 2-3
Washington, DC 20219
Docket ID OCC-2010-0003
RIN: 1557-AC99

Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW.
Washington, DC 20551
Docket No. R-1401
RIN: 7100 AD61

Re: Risk Based Capital Guidelines: Market Risk; Alternatives to Credit Ratings for Debt and Securitization Positions/File numbers RIN: 1557-AC99; RIN: 7100 AD61; RIN: 3064-AD70

Ford Motor Credit Company LLC ("Ford Credit") is pleased to offer comments as requested by the Office of Comptroller of the Currency, the Board of Governors of the Federal Reserve and the Federal Deposit Insurance Corporation (the "agencies") regarding their amendment to the January 2011 notice of proposed rulemaking ("NPR") to modify the agencies' market risk capital rules. The January 2011 NPR did not include methodologies adopted by the Basel Committee on Banking Supervision ("BCBS"), and the amendment (the "December 2011 NPR") proposes to incorporate certain alternative methodologies for calculating risk capital requirements for debt and securitization positions that do not rely on credit ratings.

Ford Credit supports the purposes and goals of Section 939A of the Dodd-Frank Act. Over reliance on credit ratings by banks and investors was a contributing factor to the financial crisis. With certain important exceptions, we also support the proposed Simplified Supervisory Formula Approach ("NPR SSFA"). The NPR SSFA is a workable solution for sub-prime retail auto loan, auto lease and auto floorplan asset-backed securitization ("ABS") transactions. For prime retail auto loan ABS, however, the proposal is problematic.

In this comment letter we will discuss:

1. The importance of auto ABS to the industry and to Ford Credit and the role of banks in auto ABS,
2. Our major concern with the NPR SSFA: How it disadvantages prime retail auto loan ABS relative to other auto ABS asset classes,
3. Morgan Stanley's alternative formulas, which provide partial relief for our concerns on prime auto loan ABS,
4. Our own proposal to fully address the concerns on prime auto loan ABS, and
5. A request for clarification on some specific technical issues within the NPR.

Auto ABS Market Is Important to Ford Credit

Auto ABS is an important source of funding diversification for captive auto finance companies and for Ford Credit. Funding from securitization is one of the ways we provide financing to our 3,100+ dealers for their inventory, and to our many retail customers to finance their purchase or lease of new and used automobiles.

Securitization is fundamental to our business. As the financial markets entered into a period of significant distress and credit tightened and unsecured debt became extraordinarily expensive, securitization became increasingly important. Even now as the financial markets have improved, securitization as a percentage of our managed receivables will remain significant in the coming years.

U.S. Banks' Critical Role in Auto ABS

U.S. banks and their affiliates play a central role in the securitization markets and in Ford Credit's securitization programs. They support our term ABS transactions in several ways, including:

- Underwriting our public transactions,
- Providing liquidity in the secondary markets for our investors,
- Investing in our public transactions, and
- Serving as an alternative source of securitization funding through private transactions.

Banks also play the critical role of providing liquidity facilities through their commitments to purchase ABS notes and interests. These committed ABS facilities total about $32 billion globally for Ford Credit, representing about 98% of our commitments. U.S. banks provide a significant portion of this total commitment amount, and the risk based capital guidelines within this NPR may influence the forthcoming rules governing capital requirement for these types of commitments.

Our Concern with the Proposal

The proposal places a wide range of assets – many with very different loss profiles – into the same category. The proposed formula does not sufficiently take into consideration the quality of the underlying loans. The primary factor in determining the performance of an ABS – which is losses on the assets – is not sufficiently reflected in the NPR SSFA. We believe that the amount of capital required on an ABS should be linked to losses on the underlying assets.

As a result of this shortcoming, prime retail auto loan ABS, a security with an underlying asset class that experiences very low losses, would be subject to unnecessarily high regulatory capital requirements. In some cases, the proposal would result in a 30 fold increase over present requirements. On the other hand, sub-prime retail auto loan ABS, whose underlying assets experience relatively high losses, would be little affected by the proposal. This would significantly incentivize banks to purchase sub-prime retail auto loan ABS over prime retail auto loan ABS. We do not believe it is the intent of the NPR SSFA to favor sub-prime over prime retail auto loan ABS.

As an issuer of prime retail auto loan ABS, this disadvantage for prime auto would hinder U.S. banks' support of our committed retail loan ABS facilities. Other prime retail auto loan ABS issuers would be similarly affected. Furthermore, this disadvantage could potentially, but significantly, reduce the demand for our publicly offered prime retail auto loan ABS by asset managers owned by U.S. banks.

Discussion of Proposed NPR SSFA

First, some background: Although there is not a universally accepted definition, prime auto loan pools with a minimum weighted average FICO score of 680 was the definition used for the Fed's own TALF program. For over six years Ford Credit's public auto loan ABS transactions have had a weighted average FICO score ranging from 704 to 727. The prime auto ABS market has fully recovered from the crisis and is now about 20% of overall new issue ABS market ($28 billion out of a total $136 billion in 2011). This rebound in prime auto ABS is due in large part to the strong performance of this asset class – even during the crisis. As reported by Standard &Poor's, no defaults have occurred on any prime retail auto loan ABS since they began rating auto ABS in 1985.

The underlying collateral in Ford Credit's prime retail auto loan ABS has experienced considerably lower losses than that of sub-prime ABS, which is the main driver of how much credit enhancement is required for a given deal (i.e., the lower the expected loss, the less credit enhancement is required). Since collateral quality and performance drive transaction structure, our prime retail auto loan ABS require less initial credit enhancement to achieve a specific credit rating. Due to the lower initial credit enhancement and under a uniform K_G of 8%, the attachment and detachment points calculated under the NPR SSFA are also lower, resulting in a K_{SSFA} that is *20 times* that of a sub-prime ABS for the last senior (Class A) tranche, and more than *60 times* for certain subordinate tranches, putting prime retail auto loan ABS at a disadvantage. Ford Credit does not believe this was the intent of the agencies.

NPR SSFA -- FORDO 2012-B vs. 2012 Sub-prime Deal

K_{ssfa} at Issuance by Tranche	Senior Tranches (Class A)				Subordinate Tranches		
	A-1	A-2	A-3	A-4	B	C	D
FORDO 2012-B							
A = Attachment Point*	78.6%	49.0%	17.5%	9.1%	6.2%	4.3%	2.4%
D = Detachment Point*	100.0%	78.6%	49.0%	17.5%	9.1%	6.2%	4.3%
K_G = WA Capital Requirement	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
K_{ssfa}	0.0%	0.0%	1.2%	31.8%	100.0%	100.0%	100.0%
$K_{ssfa\ with\ Floor}$	1.6%	1.6%	1.6%	31.8%	100.0%	100.0%	100.0%
2012 Sample Sub-prime**							
A = Attachment Point*	79.7%	48.4%	34.5%	34.5%	27.4%	18.6%	9.9%
D = Detachment Point*	100.0%	79.7%	48.4%	48.4%	34.5%	27.4%	18.6%
K_G = WA Capital Requirement	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
K_{SSFA}	0.0%	0.0%	0.0%	0.0%	0.4%	2.9%	25.4%
$K_{SSFA\ with\ Floor}$	1.6%	1.6%	1.6%	1.6%	1.6%	2.9%	25.4%
Memo:							
Capital Requirement (FORDO vs. Subprime)				20 x's	63 x's	35x's	4 x's

* Fully funded reserve accounts were included as assets when calculating the attachment and detachment points

** 2012 Sample Sub-prime did not structure an A-4 tranche, so the A-3 tranch was used for illustrative purposes as it is the last AAA cashflow

Ford Credit's Assessment of Morgan Stanley's Proposals

Since the NPR SSFA disadvantages prime retail auto loan ABS at the time of issuance, we have reviewed comments and alternate proposals to the NPR SSFA that were posted to the agencies' websites. One of the comments we reviewed was that of Morgan Stanley[1].

We agree with the direction that Morgan Stanley is taking and support the reduction of K_G from 8% to 4% for prime retail auto loans so that they are assigned the same 50% risk weighting that is applied to prudently underwritten residential mortgages as described in the agencies' general risk-based capital requirements. However, since our major concern is with the capital requirements at the time of issuance (when losses are zero), even with the reduction of K_G and other formula assumptions[2], their proposals fail to address all of our concerns.

Morgan Stanley's proposed formulas align the K_{SSFA} of prime retail auto loan ABS with those of sub-prime for senior tranches (e.g., Class A), however they do not address the significant disconnect in K_{SSFA}

[1] Morgan Stanley provided two alternative formulas to K_G. Their initial comments proposed *K_G = Max(initial K_G, alpha*cumulative losses on transaction structure)*. Their addendum proposed *K_G = initial K_G + alpha*max(cumulative losses on transaction structure minus (initial K_G / Beta),0)*.

[2] We assumed "alpha" is equal to 1, "beta" is equal to 2 and that fully funded reserve accounts are included as available assets when calculating the attachment and detachment points.

between prime and sub-prime for the subordinate tranches (e.g., Class B, C and D) at the time of issuance.

Morgan Stanley Proposed SSFA -- FORDO 2012-B vs. 2012 Sub-prime Deal

K_{ssfa} at Issuance by Tranche	Senior Tranches (Class A)				Subordinate Tranches		
	A-1	A-2	A-3	A-4	B	C	D
FORDO 2012-B							
A = Attachment Point*	78.6%	49.0%	17.5%	9.1%	6.2%	4.3%	2.4%
D = Detachment Point*	100.0%	78.6%	49.0%	17.5%	9.1%	6.2%	4.3%
K_G = WA Capital Requirement	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
K_{ssfa}	0.0%	0.0%	0.0%	1.8%	17.7%	55.9%	100.0%
$K_{ssfa\ with\ Floor}$	1.6%	1.6%	1.6%	1.8%	17.7%	55.9%	100.0%
2012 Sample Sub-prime**							
A = Attachment Point*	79.7%	48.4%	34.5%	34.5%	27.4%	18.6%	9.9%
D = Detachment Point*	100.0%	79.7%	48.4%	48.4%	34.5%	27.4%	18.6%
K_G = WA Capital Requirement	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
K_{SSFA}	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%
$K_{SSFA\ with\ Floor}$	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Memo:							
Capital Requirement (FORDO vs. Subprime)				1 x's	11 x's	35x's	63x's

* Fully funded reserve accounts w ere included as assets w hen calculating the attachment and detachment points

** 2012 Sample Sub-prime did not structure an A-4 tranche, so the A-3 tranch w as used for illustrative purposes as it is the last AAA cashflow

Ford Credit's Proposal

Ford Credit understands the agencies' preference to draft rules that are simple, understandable and that can be applied to all asset classes while ensuring the safety and soundness of the banking system. We support the increase in the capital floor to 1.6% from 0.56%. We also support an alternate to the NPR SSFA that is risk sensitive, but one that does not result in a higher K_{SSFA} at issuance for prime retail auto loan ABS when compared to that of sub-prime. This would avoid putting prime retail auto loan ABS at a disadvantage by deterring U.S. banks and their affiliates from investing in our prime retail auto loan ABS due to higher capital requirements.

As previously stated, we agree with the direction of the proposals put forth by Morgan Stanley with regard to K_G; however their proposals only address our concerns in relation to the senior tranches of our prime retail auto loan ABS transactions. We believe that with slight modifications to the NPR SSFA, it would be appropriately calibrated for all tranches of all auto asset classes, and potentially all asset classes.

We propose that K_G be dynamic, only for purposes of calculating K_{SSFA} ("Dynamic K_G"), so that it is calculated as a given multiple of cumulative net losses on assets throughout the life of the transaction. The K_G for purposes of calculating the capital floor ("Floor K_G") would remain unchanged at 8%.

For example, if Dynamic K_G = two times cumulative net loss, K_G would be calculated as 0% at issuance since no losses would have yet occurred, resulting in a K_{SSFA} of 1.6% (current floor) for all tranches. The Dynamic K_G would continue to increase throughout the life of a transaction at two times the amount of cumulative net losses the transaction experiences. Additionally, cumulative net losses would need to exceed 4% before the first step of the floor is breached (cumulative net losses of 4% / Floor K_G of 8% = 50%).

We believe our proposal would remedy the disconnect between prime and sub-prime retail auto loan ABS at the time of issuance by setting the capital requirement at the 1.6% floor for all tranches for both prime and sub-prime retail auto loan ABS. As cumulative net losses are incurred, Dynamic K_G would increase accordingly, thereby increasing the capital required at a time when cumulative net losses are increasing. As a transaction continues to season, the increase in Dynamic K_G would be partially offset by the build-up in enhancement, which is similar to what occurs under the NPR SSFA.

Summary and Ford Credit's Request for Clarification

- We support the increase in the capital floor to 1.6% from 0.56%.
- We support Morgan Stanley's proposal of reducing K_G to 4% from 8%, however this does not address the higher capital requirement for subordinate tranches of prime retail auto loan ABS at issuance when compared to that of sub-prime.
- Our primary concern is that under the NPR SSFA prime retail auto loan ABS is disadvantaged at the time of issuance when compared to sub-prime retail loan ABS.
- We proposed a slight modification to the NPR SSFA that is a risk-based approach to allocating capital requirements, and that would work for all tranches of all auto asset classes (potentially all asset classes).
- In addition to our main concerns addressed in this letter, we request clarification for the following:
    - That fully funded reserve accounts are included as assets when calculating the attachment and detachment points. We have used this assumption in all our calculations and feel that fully funded reserve accounts should be included as assets for the following reasons: (1) reserve accounts are in a first loss position after the overcollateralization before any losses are applied to subordinated notes; (2) there is no better enhancement for investors than a fully funded cash account.
    - It seems clear that U.S. regulated banks fall within the scope of the NPR SSFA; however there appears to be confusion as to whether asset managers owned by U.S. banks are also impacted. It would be helpful to receive clarification on this point.
    - We have concerns that our single seller conduit ABCP program, FCAR, might be inappropriately classified as a "re-securitization" and thus require a capital charge similar to a complex CDO. Our FCAR program is a "plain vanilla" structure with retail auto loan ABS notes – which are very similar to our public retail auto loan ABS offerings – supporting the issuance of CP (and backed 100% by bank lines). We believe FCAR should receive similar capital treatment as banks' multi-seller conduit ABCP programs, which are not classified as a "re-securitization". Your clarification on this point would be appreciated.

Sincerely,

MBHarris

Marion B. Harris
Vice President and Assistant Treasurer
Ford Motor Credit Company
One American Road, Suite 807-A4
Dearborn, MI 48126
mharri46@ford.com
(313) 323-2110