Institutional Risk Analytics

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January 9, 2006

Office of the Comptroller of the Currency
250 E Street, SW., Mail Stop 1-5,
Washington, DC 20219.

Re: [Docket No. 05-16], RIN 1557-AC95, "Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Domestic Capital Modifications"

Dear Sirs:

Below please find our comments on the advance notice of proposed rulemaking ("ANPR") on possible modifications to the risk-based capital standards for all domestic banks, bank holding companies and savings associations in the US.

Yours truly,

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Cross Reference:

DEPARTMENT OF THE TREASURY, Office of the Comptroller of the Currency
12 CFR Part 3, [Docket No. 05–16], RIN 1557–AC95

FEDERAL RESERVE SYSTEM
12 CFR Parts 208 and 225, [Regulations H and Y; Docket No. R–1238]

FEDERAL DEPOSIT INSURANCE CORPORATION
12 CFR Part 325, RIN 3064–AC96

DEPARTMENT OF THE TREASURY, Office of Thrift Supervision
12 CFR Part 567, [No. 2005–40], RIN 1550–AB98

General Comments

Regarding "bifurcated regulatory frameworks"

Because of Basel II, bifurcated banking frameworks are proliferating worldwide. The reason behind this is common sense. The consequence of globalizing nations into an interconnected system reveals the existence of very real mismatches between domestic and global economics. In the United States, this issue manifests itself as a perceived inequity between large domestic and foreign banks that will take advantage of Basel II at the expense of community and regional banks. But similar fault lines are emerging elsewhere.

- In the Muslim world, Islamic Banking is the equivalent of community banking in the United States. Some of the core governance rules for Islamic banks may render them vulnerable to international predation under Basel II. So we see the rise of offshore banking centers on the periphery of Islamic nations. They will be the bridge between an Islamic, domestic ecosystem and the global economy.

- We see China struggling with the same issue. The Communist government working to steward the proud and insular culture that has always been China to simultaneously create both a domestic banking system and an international banking gateway without delivering the monetary key to their nation into the eager arms of colonials from the Old and New Worlds.

- Smaller nations with insufficient economic mass to bifurcate internally nevertheless find a path to a similar solution. New Zealand out sources central banking to its offshore international gateway Australia.

The bottom line is that banking market bifurcation is a "given" in the real world management of the global economy. National regulators cannot allow the domestic factions from any nation to prevent new global bank supervisory infrastructure from coming to life. That would be a grave error that would only place nations that dawdle at greater disadvantage.

Basel II is no longer a theory that can be kept in a genie bottle in Basle, Switzerland. The tide is already moving. The United States needs to find a formula for its own version of banking market bifurcation that will enable it to participate as improved risk based capital measures unfold over the next fifty years. Act I has already begun. The global coalition of international banks is on the move. Community and regional banks need to be told to stop thinking about stopping Basel II and start thinking about prospering within the new environment. U.S. regulators and all other centers of regulation around the world for that matter need to focus away from being driven by the restless natives and get back to performing their role as balancers of the financial gateways. Only in this manner will the tide flow smoothly.

Regarding "Competitive Inequities" under Basel II

We reject the notion that implementation of Basel II creates competitive inequities between large and small institutions. To the extent that the ANPR relies upon the assumption that such inequities could or would exist under Basel II, the rule-making process is likely to be badly flawed – even more so than it is already.

Some observers argue that by allowing larger banks to achieve high degrees of leverage in their operations by attaining the Advanced Internal Ratings Based ("IRB") status of Basel II, larger banks will take market share away from smaller institutions and/or make non-IRB banks more vulnerable to acquisition. Frankly, such arguments do not seem to be supported by available financial performance and M&A data. More important, these allegations ignore the fact that the large banks which do qualify for lower capital requirements under Basel II will first need to achieve and maintain Advanced IRB status, an effort that will be costly both in terms of time, money and management attention.

Basel II offers the largest banks an opportunity to reduce their capital requirements if - emphasis, if - they can demonstrate on an ongoing basis competency in managing their businesses so as to accurately track projections for credit metrics such as Probability of Default ("P(D)"), Loss Given Default ("LGD"), Exposure at Default ("EAD"), Maturity ("M"), as well as a host of operational risk factors. The largest banks have spent the past three years and tens of millions of dollars developing new ways to measure these factors, including developing ways to internally rate each commercial or retail customer much as an outside rating agency or credit reporting bureau does today.

In short, gaining access to lower capital requirements under Basel II is not free nor easy, nor is it permanent. Under the Basel II proposal, the largest banks are given a reduction in the capital required under the Basel I floor if they demonstrate continuing competency in internally modeling the credit and operations risks. The capital reductions possible under the Advanced IRB approach will be tested each quarter and subject to adjustment if the bank fails to accurately model its financial results. (That said, indications from the Congress and the regulatory agencies that a minimum leverage ratio will be maintained for US banks may, in practical terms, eliminate any advantage large banks might obtain in terms of capital requirements.)

The proposed Basel Ia is the poor man's version of the same exercise, a politically-driven compromise that may do more harm than actual good. Basel Ia seeks to increase the risk-sensitivity of the capital measures which apply to smaller banks, using the same public data from the FDIC and Federal Reserve Board that IRA uses to generate the proxy Basel II indicators. The Basel Ia rule seeks to give smaller banks some additional leeway in terms of capital weightings by using external ratings and existing bank data to optimize risk sensitivity. An example of such public data proxies for Basel Ia is attached to this comment as Appendix A.

Institutions which are able to accurately model their financial and credit performance, including maintaining internal ratings for institutional and retail customers, will be few in number and entirely deserving of additional leeway in terms of capital needs. But we reject the notion that simply attaining Advanced IRB status will necessarily give larger banks an advantage over small and medium sized institutions in the US.

Even as the largest banks have, in fact, manifest increased leverage, geographic reach, the use of technology and new products such as derivatives, and other apparent business advantages over small and mid-sized US banks, the latter group has flourished. There is a steady flow of de novo banks entering the US market. Rising premiums are being paid to acquire relatively smaller banks.

It is the relatively smaller banks in the US which have the highest rates of asset and equity returns, and the best credit performance, suggesting that there are, after all, no economies of scale in banking. Whatever risk-based capital advantage larger banks may gain via Basel II will be more than offset by the competitive disadvantages they face due to their obese size and relatively poor financial performance.

The specific allegation that large, foreign-based Advanced IRB institutions would enter the US market and gobble up smaller non-Basel compliant banks seems equally at odds with the history to date, where few foreign purchases of US banks have been successful, either strategically or as investments, and those transactions which have occurred usually involve under-performing institutions.

The FDIC's Research Information Service ("RIS") well documents the fact that virtually all of the smaller US banks which have been acquired by foreign institutions over the past decade have been relatively modest performers. Smaller US banks that are well managed have little to fear from large predators, foreign or domestic. Participation in Basel II could only advantage smaller, well-run institutions even more that they are now. Or to put it another way, allowing smaller banks in the US to avoid making improvements in their risk management practices as envisioned under the original Basel II proposal may ultimately harm these institutions, their shareholders and the communities which they serve.

Since only a handful of the largest non-US banks seem willing or able, either operationally or technically, to attain Advanced IRB status under Basel II, we are at a loss to identify just which large foreign banks opponents of the Basel II proposal had in mind when they leveled complaints against the new capital accord several months ago.

The apparent lack of preparation of the OCC, Fed and other regulators has allowed the opponents of Basel II to get away with specious, nonsensical arguments in lobbying members of Congress – this even as the largest EU and Asian banks, for example, make regular public statements to the effect that they did not intend to pursue Advanced IRB status under Basel II in the foreseeable future.

Additional Basel II Questions

As part of the U.S. Basel II review process, we believe that the US bank regulators and members of Congress should consider the following issues, which we pose in the form of questions:

1. Do you believe Basel II should reduce the overall level of capital in the international banking system, reallocate the existing level among banks according to risk, or pursue come other macro capital objective?

2. If adopted into regulation, both Basel II and Basel Ia anticipate a reduction in the overall capital levels of banks, large and small. Isn't it true that tangible capital levels in banks, large and small, already have fallen in recent years and are near the floor of Basel I today?

3. Why do regulators believe that enacting rules that would reduce the amount of tangible capital required to support the business of all banks is advisable at this point in the economic cycle? Isn't it true that in 2005, executives of some the largest US banks have indicated a desire to "manage up" the level of tangible capital in their respective institutions? (A table showing the levels of reported and tangible Tier One equity of the largest US banks is attached to this letter as Appendix B.)

4. Is it really possible for smaller US banks not participating in Basel II to achieve the kinds of improvement in risk management and financial results via Basel Ia that would justify a reduction in minimum capital levels? Is Basel Ia merely a political sop created by the regulators to placate the community bankers or is it really an effective way to improve bank risk management techniques?

5. Since the outside rating agencies generally only rate P(D) for public companies and then only to a 20% P(D), how as a practical matter do regulators expect the smaller banks to improve in areas such as P(D), LGD and EAD via Basel Ia given that most of their customers are not covered by third-party rating agencies?

6. Are the concerns voiced by some of the smaller banks really valid when it comes to the regulatory burden of Basel II? What is the effective difference between a bank electing to adopt the foundation layer of Basel II and the Basel Ia proposal?

7. Isn't it the case that all banks in the EU and Asia are going to be required to adopt the Foundation layer of Basel II? Why is it so difficult for smaller US banks to do the same?

8. How do regulators assess the long-term competitive impact on smaller US banks of allowing these institutions to opt-out of the Basel II process entirely?

9. How long do regulators expect that it will take for a Basel II institution to qualify for this Advanced IRB Approach? What are the criteria which will be used to gauge initial and continuing compliance with the Advanced IRB Approach?

10. Is it possible that a bank qualifying for the Advanced IRB Approach could subsequently lose that rating if it does not accurately predict the P(D), LGD, EAD and operational risk factors affecting the bank's capital?

We note that there's more than a little bit of semantics at work in the debate over Basel II in the US. Europeans call the external ratings based version of Basel II Foundation IRB (FIRB). The level of compliance the EU is aiming for in 2007 and for global alignment is not a bad model for a U.S. under Basel Ia given the fact that most of the smaller EU institutions will never graduate to Advanced IRB either.

One way or another, the largest global banks are all on track to arrive at Advanced IRB at about the same time, just before the end of the decade. If one wants to assume, falsely but for the sake of argument, that the larger Advanced IRB institutions worldwide will have an equal and global advantage over their lesser foes, then we would respond that no amount of regulatory gerrymandering changes this fact.

Indeed, if the opponents of Basel II really believe that smaller, community-based depository institutions are at risk under Basel II, then it is the solemn moral responsibility of the bank regulators to convince them that at least adopting the FIRB level of Basel II is a necessary condition for the survival of America’s rich and diverse banking market.

Specific ANPR Line Item Comments

A. Increased Number of Risk Weight Categories

We do not recommend increasing the number of risk weight buckets for existing factoring structures. The proposal does little more than arranging deck chairs on the Titanic. Creating additional risk weighting slots merely opens up the opportunity for financial engineers to construct new forms of derivative structures that serve only to hide but not remove moral hazard risks from the system.

Regulators will wind up having to chase ever more clever obfuscations making it harder, not easier, to oversee and align capital requirements. We respectfully suggest that mathematics is not a substitute for common sense safety and soundness. We recommend that regulators instead continue to pursue other risk factoring approaches that improve the clarity of illustrating the underlying risks for both lender and obligor.

B. Use of External Credit Ratings

Our recommendation on NRSRO reliance is bifurcated.

For domestic banking, increasing the use of rating agency input for risk-based capital computation effectively creates a basis for foundation class participation in Basel II by community and regional banks. This shifts the U.S. system into a mode that makes it at least as resistant to foreign intrusion as the European Union's initiative to place all of the domestic banks within its bifurcated sphere under foundation class compliance.

Such an increase in business volume for the NRSRO's bring up a most important policy consequence. There are too few NRSRO's to support either good cost competition or to ensure that sufficient checks and balances are in place to guarantee the accuracy of these ratings. If U.S. regulators are to follow this path three things must occur.

- The number of certified NRSRO's needs to be increased. We suggest a target of triple the current number split evenly between increasing the population of service firms that use traditional methods and opening the door to newer technology leveraged participants that can scale the volume and affordability of the initiative.

- Promoting greater reliance on external ratings implies taking on the responsibility of assuring accuracy. The regulatory community is effectively subcontracting a critical risk-based capital factoring function. Therefore a means to continuously oversee, calibrate and certify the accuracy of all NRSRO's needs to be put in place. We suggest considering a model accuracy testing function that requires NRSRO's to perform ongoing tests as part of retaining certification.

- We note that every NRSRO will fail certification from time to time. This is the very nature of modeling. The system must have a way of detecting, mitigating and putting anomalies back on track. As a prudent safeguard against any individual NRSRO's models and methods failing, US Foundation Class banks should be directed to use a minimum two source rule. This further amplifies the need to promote a broad competitive base of NRSRO's.

The other half of our response concerns the Basel II Advanced IRB banks. We believe that these entities should not be allowed to substitute Foundation Class tools and still receive the benefits of Advanced IRB status. We suggest that each Advanced IRB institution should be required to maintain an internal SRO function that computes its primary risk factoring estimate. Furthermore the internal SRO function should be subject to the same ongoing oversight and certification requirements as commercial NRSRO's. This approach should provide regulators with full oversight over this aspect of risk factoring.

Some additional notes:

- Because the Advanced IRB international institutions will likely operate in multiple domestic as well as a superset global environment, regulators need to make special provisions for the surveillance and testing of data coming from internal SRO's. A global testing function may be needed to augment the domestic test batteries for such entities. This may be mitigated by some of the larger NRSRO's also being multi-market participants.

- Extra Note: We believe that the above bifurcated strategy should apply equally well to large exposure pools that qualify as Shared National Credits (SNC).

C. Expanding Recognized Financial Collateral and Guarantors

Guarantors represent specific lumps of risk requiring elevated due diligence. The ANPR comment language is,

"The Agencies seek comment on expanding the scope of recognized guarantors to include any entity whose long-term senior debt has been assigned an external credit rating of at least investment grade by an NRSRO."

We suggest that the Agencies consider expanding the scope of recognized guarantors to include any entity whose long-term senior debt has been assigned an external credit rating of at least investment grade by at least two certified NRSRO sources and having no below investment grade ratings by any certified NRSRO. For purposes of this rule, the internal rating by a Basel II Advanced IRB institution's certified SRO shall be considered as one qualifying rating.

D. One-to-Four Family Mortgages: First and Second Liens

The US individual mortgage market is the most advanced in the world. Its continued health is paramount "public good" and ensuring it's ability to be flexible and responsive to evolving need is crucial. Mortgage banking is also a cyclic industry prone to swings that can easily hurt as it helps meet its "public good" function.

The concept of increasing the flexibility of risk-based capital factoring to encompass a two axis LTV and obligor credit quality matrix does indeed increase the flexibility of the mortgage banking industry. It extends the leverage that be extracted from a shelf by offering more favorable treatment of medium to low risk loans.

The public policy issue at hand, however, is that the mortgage industry has increasingly demonstrates a tendency to channel leverage opportunities into riskier lending strategies thereby creating new moral hazards and potentially threatening the solvency of individual institutions and the Bank Insurance Fund (BIF).

U.S. regulators have a responsibility to ensure that the law of unintended consequences does not unduly harm the system by ensuring that any lending shelf leverage released by converting to an LTV x Credit Quality risk factoring approach enables predominantly safe and sound industry innovation.

E. Multifamily Residential Mortgages

Our comments on converting to matrix factoring for mortgages apply equally to multifamily mortgages with the added aspect that the third dimension of business cash flow analysis needs to be added to the matrix in cases where the obligor's credit quality is unable to act as a bankruptcy remote guarantor of the loan.

F. Other Retail Exposures

The business scenario of unsecured retail lending differs dramatically from commercial or business lending. Retail lending is about accumulating assets under management, in this case accounts with balances that generate fee and interest income. It is also about accumulating large bases of unused commitments thus converting available market share to addressable market share. An active consumer account lowers the barrier to entry to access to consumer disposable income.

Ultimately the available market of good quality unsecured loans is capped and a zero sum game behavior model applies to the industry. Unlike other forms of lending, customer retention is the major factor in the operating risk equation. Competitive behavior particularly in credit cards is to search for lumps of obligations using consumer credit bureau searches and barraging consumers with incentive laden low switching cost advertisements.

Similar switching cost lowering methods are being used in auto lending as this industry seeks to capture consumer interest income streams. Such practices are likely increase particularly if automakers begin to shed their lending arms into independent financial entities.

Thus retail credit models are optimized for an interest only (IO) junk bond where the collateral base is less important than income stream. And it is an income stream that can evaporate quickly. The collateral itself is inherently unreliable due to the true nature of the business model environment, regardless of the credit quality of the obligor. It seems very clear that client retention capability of the lender that is the core issue. Measuring account base turnover rates may be a more appropriate factoring proxy for the quality of these assets but we would have to study this in greater detail for the Agencies before we can provide you with a more structured factoring model hypothesis.

We are not sure that classic risk weighting measures such as LTV or obligor credit quality will prove useful for regulators in calculating capital requirements. Consider that in auto lending the lower of cost or market LTV of a loan is based on an asset that loses value below the original loan amount as soon at the front bumper exits the dealer's parking lot.

G. Short Term Commitments

No comment at this time.

H. Loans 90 Days of More Past Due or in Nonaccrual

We support the notion that the Agencies should begin to assign elevated risk weights to overdue and nonaccrual loans for both on balance sheet and potentially to off balance sheet items where an institution remains the beneficiary or residual claimant of a non-performing asset. This is probably the most effective means to curtail growing moral hazard risks stemming from sub-prime business practices by institutions.

We do caution that regulators would do well to use such power gingerly so as not to trigger unintended collapses by the most aggressive participants engaged in hazardous business practices. A policy of bringing things back into line using a combination of risk weighting and selective PCA's may be best. We further suggest that each step be carefully analyzed internally by a strategy unit within the Agencies.

I. Commercial Real Estate (CRE) Exposures

The benefits of transitioning to the LTV x Credit Quality matrix approach to risk weighting for CRE's seems justified for the same reasons as 1-to-4 and Multifamily mortgages. Furthermore, putting all forms or real estate lending into the same risk computation paradigm simplifies the ability of the economy to adapt to the change in the rules.

J. Small Business Loans

It is very clear that the ANPR section on small business lending is less about risk modeling than it is about commenting on public policy. Pondering the issue of whether the regulatory agencies should create incentives for banks to increase lending to small businesses is an important recognition that a sea change is occurring in the U.S. economy. The era of large companies delivering benefits, job security and retirement support to the population is in transition. The United States must restructure or face a catastrophic retrenchment of previous gains. Powering this change will take great effort by the finance and banking community. And it is the responsibility of the regulatory agencies to design the guidelines that will enable or stifle our success.

The basic reason for establishing lines of credit with any business, large or small, is to provide buffering so that the business can weather the ups and downs of its internal business model cycles. The "public good" effect is that the survival rate of small businesses in the Unites States increases and the economy flourishes.

The danger with loosening the strings is that banks may begin to lend too much to extreme risk obligors thus compromising the lender's own safety and soundness. If such lending behavior scales up a systemic hazard to the BIF may manifest.

We recommend that work be put into developing a Small Business Risk-Based Capital Weighting Model that takes the following into account:

1. Financing Leverage – The size of the loan as a percentage of the underlying business revenue may serve as a good measurement to assess how much of the obligor's operational risk is being buffered by the lender. There may also be a need to tier this factor if the incoming lender is subordinate and it taking on incremental risk over and above existing financial leverage.

2. Use of Funds – The purpose of the loan may serve as a useful factor in risk weighting. Buffering seasonal or billing cycle cash flows is a different form of risk from investing the proceeds of a loan into R&D or exploratory sales initiatives.

3. Loss Modeling – Understanding small business default and recovery behavior under an "encouraged lending" regime will be critical to setting risk-weighting policy. The figures will likely be a hybrid of Consumer and C&I lending. The behavior patterns may have one or more discontinuities at break points determined by the overall quality profile of the small business obligor.

4. Lending Shelf and Securitization – It is logical to assume that a policy initiative to encourage small business loans will create portfolios that will eventually pool into new forms of Asset Backed Securities. Rules and criteria for seasoning and stratifying loans for such pools will be needed.

K. Early Amortization

Our observations on early amortization lead us to view the issue as more of a business cycle phenomenon than a permanent systemic risk issue.

We have already discussed the zero-sum competition properties of credit card business in section F of this submittal. Balance transfers now represent a constant churn of the account base as consumers chase favorable terms "ON SALE" by a competitor. The phenomenon is driven by the economics of scale as unsecured credit industry participants go about their business. Note that in IRA's examinations of CRCD participants using our IRA Bank Monitor we have observed that some institutions emphasize the accumulation of fee generating balances whereas others emphasize the accumulation of unused commitments and still others seek active accounts that are paid down monthly. The portfolio strategies clearly vary.

Mortgage prepayments for reasons other than population mobility have been a business cycle effect. Owner refinancing in a declining interest rate environment is a predictable phenomenon and mortgage bankers have been enthusiastic about taking advantage of it. The trickle down effect of leveraging real estate into disposable income clearly fuels consumerism and the manufacturing of gigantic SUV's.

The interest rate curve has since reversed and the mortgage banking industry is already reacting to a crisis of declining issuance productivity. People have begun holding the loans they have to maturity. The next crisis will not be about early amortization. It will be about refinancing marginal obligors as their short-term "easy entry" lending packages mature. In this regard, the one thing that is sure is that the mortgage banking industry is not about to disappoint when it comes to creating yet another instrument that will enable them to maintain production and keep their lending shelves flowing. It may be tumultuous but they will come up with something.

What is critical to observe about the above is that these are competitive market forces in action. They are complex amalgams of business actions and intents. We do not recommend that regulators impede or constrain these "market forces" lest the law of unintended consequences wreak even greater havoc.

Appendix A

Basel II By the Numbers – Q3 2005 – Large US Bank Holding Companies

This report presents public data Basel II credit benchmarks from the IRA Bank Monitor for US bank holding companies with assets greater than $10 billion. The metrics presented are based on as filed data from the FDIC and aggregate all loan portfolios of the subsidiary banks, rolled-up into a "bank only" view of the respective bank holding company, and include:

- **Basel II Rating** = Actual default rate for current quarter expressed as bond rating equivalent using industry break points.
- **Probability of Default** ("P(D)") = Observed loan and lease defaults in basis points..
- **Loss Given Default** ("LGD") = Percent loss after default per dollar lent.
- **WAM** = Weighed average maturity in years.
- **Exposure at Default** ("EAD") = Amount in aggregate which obligors could borrow immediately prior to default expressed as % of existing credit available.

The IRA Bank Monitor computes similar benchmarks for all individual bank units reporting to U.S. regulators. Historical computations are available going back to 1990.

Questions? Comments? Please contact us: info@institutionalriskanalytics.com

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The calculations presented in this report come from The IRA Bank Monitor, which is available for license separately. More information detailing benchmarks by individual operating unit and type of loan are available via the IRA Bank Monitor. The product is designed to support business performance surveillance, counterparty analysis, safety and soundness testing and acquisition analytics of banks.

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THE IRA BANK MONITOR -- BASEL II BY THE NUMBERS -- Q3 2005

Bank Only View	Assets (000)	Basel II Rating	P(D) bp	LGD %	WAM yrs	EAD %
BANK OF AMERICA CORPORATION	$1,144,932,698	BB	62.7	76.3	6.77	90.3
JPMORGAN CHASE & CO.	$1,085,930,140	BB	70.8	78.2	3.13	185.2
CITIGROUP INC.	$967,419,148	BB	140.7	75.9	1.56	234.9
WACHOVIA CORPORATION	$481,257,403	BBB	14.6	54.6	5.78	77.4
WELLS FARGO & COMPANY	$405,625,372	BBB	33.3	72.6	2.71	56.4
U.S. BANCORP	$211,427,868	BBB	49.4	69.3	3.7	90.6
SUNTRUST BANKS, INC.	$171,869,087	BBB	19	63.3	4.73	72.6
ROYAL BANK OF SCOTLAND GROUP PLC	$152,888,774	BBB	30.4	76.5	6.47	41
NATIONAL CITY CORPORATION	$151,683,125	BBB	34	58.8	4.23	47.1
HSBC HOLDINGS PLC	$148,033,103	BB	68.1	67.9	3.59	243.6
ABN AMRO HOLDING N.V.	$113,952,347	BBB	13.9	60.7	4.08	55.3
BB&T CORPORATION	$107,065,454	BBB	20.9	71.6	4.33	38.2
FIFTH THIRD BANCORP	$106,918,009	BBB	33.6	77.6	3.73	56.6
STATE STREET CORPORATION	$91,449,451	AAA	0	n/a	5.23	457.1
PNC FINANCIAL SERVICES GROUP, INC., THE	$87,811,025	BBB	15.1	10	4.46	67.6
KEYCORP	$87,586,856	BBB	32.4	68.3	3.27	56.7
BANK OF NEW YORK COMPANY, INC., THE	$86,720,385	A	9.7	83.7	4.39	104.8
REGIONS FINANCIAL CORPORATION	$81,274,525	BBB	20.2	65.6	2.12	30.5
COUNTRYWIDE FINANCIAL CORPORATION	$71,087,045	AAA	0.7	93.4	2.74	15.3
MBNA CORPORATION	$64,211,998	BB	267.4	89.2	1.76	1,650.20
NORTH FORK BANCORPORATION, INC.	$57,811,711	A	8.1	58.4	6.97	16.9
MITSUBISHI TOKYO FINANCIAL GROUP,	$55,643,747	A	10.4	5	3.49	71.3

THE IRA BANK MONITOR -- BASEL II BY THE NUMBERS -- Q3 2005

Bank Only View	Assets (000)	Basel II Rating	P(D) bp	LGD %	WAM yrs	EAD %
INC., THE						
BNP PARIBAS SA	$55,030,391	BBB	19.4	60.7	7.18	30.4
ALLIED IRISH BANKS, P.L.C.	$54,747,174	BBB	19.2	69.6	5.91	36.6
COMERICA INCORPORATED	$54,538,318	BBB	32	64.8	2.51	60.3
AMSOUTH BANCORPORATION	$51,046,105	BBB	24	66.1	3.97	61.5
NORTHERN TRUST CORPORATION	$49,907,292	AA	3.7	79.1	3.33	89.7
CAPITAL ONE FINANCIAL CORPORATION	$44,272,507	B	480.9	72.7	1.15	590.9
TORONTO-DOMINION BANK, THE	$42,668,596	A	10.6	51.5	3.46	39.4
MARSHALL & ILSLEY CORPORATION	$42,327,323	BBB	12.3	70.5	1.99	48.2
MELLON FINANCIAL CORPORATION	$39,744,193	A	7	54.6	1.46	174.2
POPULAR, INC.	$37,595,579	BB	56.9	65.6	6.13	35
BANK OF MONTREAL	$36,776,844	BBB	14.7	46.5	3.21	57.2
FIRST HORIZON NATIONAL CORPORATION	$36,763,943	BBB	15.4	70.6	1.75	66.5
COMMERCE BANCORP, INC.	$36,413,975	BBB	12.1	75.9	5.56	43.1
ZIONS BANCORPORATION	$33,955,316	BBB	12.8	54.9	4.11	70
DEUTSCHE BANK AKTIENGESELLSCHAFT	$32,789,772	BBB	34	58.5	0.74	77.6
HUNTINGTON BANCSHARES INCORPORATED	$32,389,308	BBB	35.6	70.5	3.11	30.1
COMPASS BANCSHARES, INC.	$30,149,363	BBB	43.2	75.5	3.23	42.4
SYNOVUS FINANCIAL CORP.	$27,609,901	BBB	23.7	88	1.46	32.7
NEW YORK COMMUNITY BANCORP, INC.	$24,971,627	AAA	0	100	4.93	10.7
HIBERNIA CORPORATION	$23,141,498	BBB	39.3	80.1	3.85	27.4
COLONIAL	$21,089,743	BBB	14.6	70.6	2.2	39.3

THE IRA BANK MONITOR -- BASEL II BY THE NUMBERS -- Q3 2005

Bank Only View	Assets (000)	Basel II Rating	P(D) bp	LGD %	WAM yrs	EAD %
BANCGROUP, INC., THE						
ASSOCIATED BANC-CORP	$20,516,155	A	10.8	54.4	2.42	34.5
ROYAL BANK OF CANADA	$20,139,311	BBB	26	80.4	3.21	39
FIRST BANCORP	$19,166,851	BBB	31.5	81.3	4.82	28
BOK FINANCIAL CORPORATION	$18,610,091	BBB	18.2	54.4	2.53	43.5
UBS AG	$18,063,924	AAA	0	n/a	0.48	0.1
WEBSTER FINANCIAL CORPORATION	$17,606,961	A	5.6	36.6	7.88	39.5
CHARLES SCHWAB CORPORATION, THE	$16,890,478	AA	1.3	98.6	1.59	35.1
MERCANTILE BANKSHARES CORPORATION	$16,592,947	A	4.2	10.1	3.84	39.7
W HOLDING COMPANY, INC.	$15,649,336	BBB	16.6	84.1	2.67	13.3
SOUTH FINANCIAL GROUP, THE	$15,203,121	BBB	30.2	80.9	2.48	28.1
SKY FINANCIAL GROUP, INC.	$15,151,073	BBB	48.7	85.6	2.33	31.2
FIRST CITIZENS BANCSHARES, INC.	$14,570,189	BBB	25.6	77.9	2.41	56
CITY NATIONAL CORPORATION	$14,237,651	A	8.3	-0.1	5.62	47.6
LAURITZEN CORPORATION	$14,090,221	BB	76.1	77.4	2.14	360.9
COMMERCE BANCSHARES, INC.	$13,752,539	BBB	35.4	64.3	2.13	75.9
INVESTORS FINANCIAL SERVICES CORP.	$13,228,441	AAA	0	n/a	0.25	254.6
FBOP CORPORATION	$13,187,313	AA	2.8	76.4	3.35	20.6
TCF FINANCIAL CORPORATION	$12,852,422	BBB	26.6	81.9	6.87	31.3
FULTON FINANCIAL CORPORATION	$12,843,005	A	5.8	22.4	3.19	42.7
VALLEY NATIONAL BANCORP	$12,449,225	A	6.4	49.9	7.27	33.1
NEW YORK PRIVATE BANK & TRUST CORPORATION	$12,121,659	AAA	0.7	77.7	5.75	13.4
DORAL FINANCIAL	$11,785,463	BBB	22.9	91.2	10.45	16.5

THE IRA BANK MONITOR -- BASEL II BY THE NUMBERS -- Q3 2005

Bank Only View	Assets (000)	Basel II Rating	P(D) bp	LGD %	WAM yrs	EAD %
CORPORATION						
BANCORPSOUTH, INC.	$11,056,009	BBB	23.4	78.2	1.1	25.7
PEOPLE'S MUTUAL HOLDINGS	$10,897,353	A	6	55.3	2.38	34.2
R&G FINANCIAL CORPORATION	$10,711,040	BBB	16.4	78.6	10.69	20.3
WILMINGTON TRUST CORPORATION	$10,384,031	BBB	12.6	65.5	1.84	38.5
CULLEN/FROST BANKERS, INC.	$10,334,036	BBB	18.1	57.8	1.98	54
INTERNATIONAL BANCSHARES CORPORATION	$10,289,783	A	10.7	63	2.43	26.4
FIRSTMERIT CORPORATION	$10,266,524	BB	68.6	69.4	3.88	41.8
BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	$10,166,073	BB	75.2	48.8	2.49	15.8
BANK OF HAWAII CORPORATION	$10,134,801	BBB	43	76.4	7.76	41.7

Questions? Comments? Please contact us: info@institutionalriskanalytics.com

The calculations presented in this report come from The IRA Bank Monitor, which is available for license separately. More information detailing benchmarks by individual operating unit and type of loan are available via the IRA's Bank Monitor. The product uses data from the FDIC and is designed to support business performance surveillance, counterparty analysis, safety and soundness testing and acquisition analytics of banks.

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Appendix B

Q2 2005

NAME	TIER ONE EQUITY (%)	TANGIBLE TIER ONE EQUITY (%)
Bank of America	9.7	4.7
JP Morgan Chase	8.5	4.2
Citibank	7.8	4.3
Wachovia	10.4	4.7
Wells Fargo	9.4	3.5
WaMu	7.8	3.1
US Bancorp	9.7	3.7
SunTrust	10.8	5.4
HSBC	8.6	6.5
WorldSavings	6.9	6.5

SOURCE: FDIC/IRA BANK MONITOR