March 23, 2006

Via Email

American Express
General Counsel's Office
200 Vesey Street
New York, NY 10285

Office of the Comptroller of the Currency
Public Information Room, Mail Stop 1-5
250 E Street, S.W.
Washington, D.C. 20219
Attention: Docket Number 06-15

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
Attention: Docket No. R-1238

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552
Attention: No. 2006-49

Robert M. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
Attention: comments/Legal ESS
550 17th Street, N.W.
Washington, D.C. 20429

Re: Response to Agencies Invitation to Comment Regarding Basel 1A Risk-Based Capital Requirements

Ladies and Gentlemen:

American Express Company ("American Express") and its FDIC-insured subsidiary banks, American Express Centurion Bank, and American Express Bank, FSB, welcome the opportunity to comment on the Notice of Proposed Rulemaking (the "NPR") issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, and the Federal Deposit Insurance Corporation (collectively "the Agencies") regarding an alternative risk-based capital framework known as "Basel 1A" that, once adopted by the Agencies, will be available to U.S. banking organizations in addition to the Basel I and Basel II risk-based capital frameworks.

American Express Travel Related
Services Company, Inc.

American Express is a leading global payments, network and travel company. At year-end 2006, American Express had net income of $3.7 billion based on revenues of $27 billion, and a return on average equity of 34.7 percent. A significant portion of American Express' business involves the issuance of proprietary charge and credit card products and other consumer lending products to individuals and small businesses in the United States. The principal issuers of these proprietary American Express consumer financial products are American Express Centurion Bank, an industrial loan bank, and American Express Bank, FSB, a federal savings bank, both of which are headquartered in Salt Lake City, Utah. (American Express-branded products are also issued in the United States by non-affiliated financial institutions that have partnered with our Global Network Services division.)

I. Revolving Retail Credit Exposures

American Express supports the Agencies' intention to increase the risk sensitivity of capital requirement by:

- Increasing the number of capital weights, and
- Linking capital weights to such key risk indicators as credit ratings for corporate loans and bonds and Loan-To-Value ratios for mortgages

American Express proposes to expand this principle to retail exposures such as credit and charge cards by using borrower's FICO credit scores to assign capital weights. While national issuers of credit products, including American Express, rely on proprietary credit models that take into account a diverse array of information, FICO scores are a common benchmark for assessing consumer credit risk among retail borrowers. FICO is truly an industry standard measure of consumer credit risk, just as credit ratings by National Recognized Statistical Organizations ("NRSOs") are widely used for the evaluation of credit risk among corporate borrowers. Furthermore, financial institutions routinely collect FICO information and therefore use of FICO scores for calculating risk rates would not be unduly burdensome.

The development of a FICO-based segmentation framework should be guided by the same principles governing other elements of the Basel 1A framework. Accordingly, the allocation of risk weights among FICO ranges should reflect actual distinctions in risk characteristics among the universe of the users of consumer credit. Such FICO ranges should also be consistent with the standard industry view on different risk levels in consumer credit. Correspondingly, the allocation should strike a reasonable balance between risk sensitivity and ease of implementation. Based on these guiding principles, American Express believes that unique Basel 1A risk weights attributable to consumer credit card and lending exposures should be assigned to the following four different FICO bands:

Superprime:	FICO score above 720
Prime:	FICO between 661 and 720
Near Prime:	FICO between 600 and 660
Subprime:	FICO less than 600 or not available

We believe this level of segmentation is generally consistent with industry credit risk monitoring and underwriting practices among the broad group of banks offering consumer credit products.

We based our proposed assignment of capital weights to these FICO bands on the principle that it should be:

- Consistent with risk weights proposed for corporate exposures;
- Capital-neutral, i.e., result in no changes to the capital level at the aggregate industry level for the credit card industry,
- Supported by American Express' own internal estimates of potential losses.

The table below provides the results of our analysis and the recommended risk weights to be assigned to four FICO-based categories of consumer lending exposures.

Segment	**FICO Band**	**Risk Weight for Revolving Consumer Credit**
Superprime	Above 720	50 %
Prime	661 - 719	100%
Near Prime	600 - 660	150%
Subprime	Less than 600 or not available	200%

Based on our internal analysis, which reviewed industry wide accounts receivable distribution by FICO scores, the allocation of the risk weights provided above to the corresponding FICO segments would result in an industry wide capitalization at 98 % of the current level, provided the entire industry adopted the Basel 1A framework.

Analysis of American Express' own internal estimates of potential losses in retail portfolios suggests even greater differential in capital weights across the proposed FICO bands. However, if the selection of capital weights is limited to the set used in the NPR with the highest weight being 200%, then the table above offers the best fit to internal loss estimates, subject to the constraint of an industry-wide capital neutral impact.

II. <u>Short Term Retail Credit Exposures</u>

The risk profile of short-term (90 days or less) retail exposures is much more benign than that of revolving retail credit exposures because they allow much more active and effective risk management. It is exemplified by the long history of American Express' very low loss rates in its Charge card business.

Charge cards have a uniquely lower credit risk profile because they are payable in full upon receipt of the monthly bill to the Cardmember. In addition, American Express Charge cards issued by American Express Centurion Bank and American Express Bank, FSB, do not have fixed credit lines and they are subject to credit exposure management on a real time basis. Based on the analysis of internal loss data for Charge and Lending Products, the ratio of expected annual loss for Charge and Lending Products for the four FICO bands defined above varies from 35 percent to 70 percent, with the average ratio of approximately 50 percent. Therefore, we propose that the risk weights for charges be set at 50 percent of the risk weights for the revolving credit products provided in the table above.

Segment	FICO Band	Risk Weight for Short Term Credit
Superprime	Above 720	25%
Prime	661-720	50%
Near Prime	600-660	75%
Subprime	Below 660	100%

III. Small Business Exposures

American Express, through American Express Bank, FSB, is a leading provider of financial services to small business (firms that generally have less than 100 employees and/or sales of $10 million or less), a key growth area in the United States. OPEN from American Express ("OPEN") offers small business owners a wide range of tools, services, and savings designed to meet their evolving needs, including charge and credit cards, access to lines of credit up to $100, 000.

We believe that small business credit and card exposures should be aligned with the risk weighting scheme described above for consumer credit and charge card exposures. This approach is consistent with the overall Basel framework. Moreover, the credit underwriting procedures applicable to these small business offerings are comparable to that for individuals. Importantly, the principals for enterprises that choose OPEN small business cards are jointly and severally liable on a personal basis for any amounts owed on OPEN cards. Based on these factors, we believe that Basel 1A should assign the same risk weights to accounts receivable arising from the use of small business cards.