



January 31, 2014

Office of the Comptroller of the Currency  
Legislative and Regulatory Activities Division  
400 7th Street SW  
Suite 3E-218, Mail Stop 9A-11  
Washington, DC 20219  
Docket Number OCC-2013-0016

Federal Deposit Insurance Corporation  
550 17th Street NW  
Washington, DC 20429  
Attn.: Comments, Robert E. Feldman,  
Executive Secretary  
RIN 3064-AE04

Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551  
Attn.: Robert de V. Frierson  
Docket No. R-1466

Re: Proposed Liquidity Coverage Ratio Requirement

Dear Sir or Madam:

The Structured Finance Industry Group (“SFIG”)<sup>1</sup> and the Securities Industry and Financial Markets Association (“SIFMA”)<sup>2</sup> and, together with SFIG, the “Associations”) appreciate the opportunity to comment on the proposed liquidity coverage ratio (“LCR”) regulations issued by the Office of the Comptroller of the Currency (the “OCC”), the Board of Governors of the Federal Reserve System (the “Board”) and the Federal Deposit Insurance Corporation (the “FDIC”) and, together with the OCC and the Board, collectively, the “Agencies”) entitled

---

<sup>1</sup> SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFIG provides an inclusive network for securitization professionals to collaborate and, as industry leaders, drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitization market including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at [www.sfindustry.org](http://www.sfindustry.org).

<sup>2</sup> SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that strengthen markets and encourage capital availability, job creation and economic growth while building trust and confidence in the financial industry.

*“Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards and Monitoring”* (the “Proposed Rule”).<sup>3</sup>

The recent financial crisis exposed the need to improve short-term resilience in the liquidity risk profiles of banking organizations. To address this need, the Basel Committee on Banking Supervision (“BCBS”) published international liquidity coverage ratio standards in December 2010 as part of the Basel III reform package and revised those standards in January 2013 (as revised, the “Basel LCR”).<sup>4</sup> Consistent with the international liquidity standards of the Basel LCR, the Agencies are proposing to implement an LCR requirement under which banks will be required to maintain an amount of high quality liquid assets (the “numerator”) sufficient to meet their total net cash outflows over a prospective 30-day period (the “denominator”).

The Associations support the Agencies’ efforts to improve the banking sector’s ability to absorb shocks from financial and economic stress and the Agencies’ proposal to implement an LCR requirement that is generally consistent with the Basel LCR. However, the Associations believe that LCR regulations should recognize that traditional securitization activities are (i) an essential source of core funding to the real economy and (ii) an important part of a bank’s liquidity management strategy. With the adjustments we propose, the Agencies could sufficiently recognize these realities while still meeting their stated goals and objectives for enhanced liquidity standards.

First, with respect to the denominator, the Associations believe that the Agencies have not sufficiently distinguished among types of securitizations and, as a result, the Proposed Rule overstates the LCR requirement for certain securitization transactions. Some securitization facilities often act as substitutes for, or complements to, traditional revolving credit facilities provided by banks to bank customers seeking financing for financial assets. In the LCR calculation, the outflow amounts for undrawn credit commitments to bank customers’ special purpose entities (“SPEs”) in connection with such securitization transactions should match the outflow amounts for credit commitments made directly to these bank customers. In addition, some securitization facilities can help a bank reduce its outflow amounts during a period of liquidity stress. The Agencies should recognize this potential benefit and allow banks to use such securitization facilities to help achieve compliance with the LCR requirement. For example, some securitization facilities sponsored by a bank are “traditional securitizations” under the Agencies’ regulatory capital rules and should not be treated as an outflow amount provided that the bank does not provide credit or liquidity support to the transaction. We provide more detailed comments to the proposed denominator in Part I of this letter.

---

<sup>3</sup> See <http://www.gpo.gov/fdsys/pkg/FR-2013-11-29/pdf/2013-27082.pdf>.

<sup>4</sup> See BASEL COMMITTEE ON BANKING SUPERVISION, BASEL III: INTERNATIONAL FRAMEWORK FOR LIQUIDITY RISK MEASUREMENT, STANDARDS AND MONITORING (December 2010), <http://www.bis.org/publ/bcbs188.pdf>; BASEL COMMITTEE ON BANKING SUPERVISION, BASEL III: THE LIQUIDITY COVERAGE RATIO AND LIQUIDITY RISK MONITORING TOOLS (January 2013), <http://www.bis.org/publ/bcbs238.pdf>.

Second, with respect to the numerator, certain high credit-quality securitization exposures should qualify for treatment as high quality liquid assets (“HQLA”) under the Proposed Rule because they are sufficiently liquid such that a bank could convert them into cash readily and immediately to meet its outflow obligations. We provide more detailed comments to the proposed numerator in Part II of this letter.

## **I. The Denominator**

### **A. Look Through Approach for Credit Commitments**

Section \_\_.32(e)(vi) of the Proposed Rule provides that 100 percent of the undrawn amount of all committed credit and liquidity facilities extended to special purpose entities that could be drawn upon within 30 days of a calculation date should be treated as an outflow amount. Section \_\_.32(b) of the Proposed Rule similarly treats as an outflow amount the maximum contractual amount of funding that a bank may be required to provide the issuing entity in a sponsored structured finance transaction within 30 days or less of a calculation date “through a liquidity facility, a return or repurchase of assets from the issuing entity, or other funding agreement.”

In the Proposed Rule, the Agencies indicate that they have proposed this 100% outflow rate under Section \_\_.32(e)(vi) “given SPEs’ sensitivity to emergency cash and backstop needs in a short-term stress environment, such as those experienced with SPEs during the recent financial crisis.”<sup>5</sup> The Agencies continue on to indicate that “[d]uring that period, many SPEs experienced severe cash shortfalls, as they could not rollover debt and had to rely on borrowing and backstop lines.”<sup>6</sup>

The Agencies separately indicate that they have proposed the 100% outflow rate for bank sponsored structured financial transactions because “such transactions have caused severe liquidity demands at covered companies.” The Agencies’ uniform approach to all SPEs ignores fundamental differences between distinct types of transactions.

It is important to note at the outset that we agree that certain SPEs that issue short-term debt in the capital markets and related bank credit and liquidity facilities should continue to be subject to the terms of Section \_\_.32(b) and Section \_\_.32(e)(vi) of the Proposed Rule. In particular, we agree that the treatment set forth in the Proposed Rule should apply with respect to the short-term indebtedness of any sponsored SPE and the related portions of bank credit and liquidity commitments that mature or may be drawn, respectively, within a given 30-day measurement period.

However, while we agree that certain SPEs that were established to issue short-term indebtedness, such as structured investment vehicles (“SIVs”), did cause liquidity demands at

---

<sup>5</sup> Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring, 78 Fed. Reg. 230,71818, 230,71838 (proposed Nov. 29, 2013) (to be codified at 12 C.F.R. pt. 50, pt. 249, pt. 329).

<sup>6</sup> *Id.*

banks during the recent financial crisis, this was by no means the case with respect to all SPEs established in connection with securitization transactions. The distinction between structured finance transactions that experienced liquidity stress and those that did not does not originate from their use of an SPE. By applying a 100 percent outflow rate to credit and liquidity commitments to all SPEs, the Agencies do not recognize the substantive differences between (i) transactions in which an SPE acts as a borrower under a securitization credit facility to finance the receivables owned by a corporate entity (which we define as “bank customer securitization credit facilities” below), and (ii) the types of securitization transactions that raise the concerns that the Agencies have indicated they are attempting to address in the Proposed Rule.

Bank customer securitization credit facilities are established as substitutes for, or complements to, traditional secured and unsecured revolving credit facilities and are provided either directly by a bank or through an asset-backed commercial paper (“ABCP”) conduit to the bank’s customer. Unsurprisingly, therefore, such facilities are drawn on by bank customers or their SPEs in much the same manner and in the same or similar amounts as the facilities they are meant to complement or replace. In fact, in many cases, the drawn amount under a bank customer securitization credit facility has been and is likely to be less than the drawn amount under the traditional revolving credit facility that such securitization facility substitutes for because the amount that may be drawn under the securitization facility will be strictly limited by a borrowing base of eligible financial assets. In contrast, a traditional revolving credit facility may have less stringent limits (or, in the case of an unsecured facility, no limits) on the amount that may be drawn in the absence of the bank customer’s ability to post additional assets as collateral. Because funding requests under a securitization facility are limited by a borrowing base of eligible financial assets, a bank customer’s ability to make a funding request under such a facility is restricted and, as a result, bank customer funding requests are generally much less volatile under a securitization facility than under a traditional revolving credit facility. As a result, the Associations propose that, in the LCR calculation, the outflow amount for a bank customer securitization credit facility match the outflow amount that would apply to a credit facility extended directly to the bank customer. In other words, for these transactions, we propose that the outflow treatment under the final rule “look through” the SPE to the bank customer who formed it and that the outflow amount be the same as a credit commitment to the bank customer under the Proposed Rule as follows:

**Proposed Outflow Amounts for Unfunded Credit Commitments in  
Bank Customer Securitization Credit Facilities**

<b>Underlying Asset Originator (Bank Customer)</b>	<b>Outflow Percentage for the Unfunded Credit Commitment Amount</b>
Depository institutions, depository institution holding companies or foreign banks	50%
Regulated financial companies, investment companies, non-regulated funds, pension funds, investment advisers or identified companies	40%
Other wholesale customers	10%

**1. *Bank Customer Securitization Credit Facilities***

The Associations have carefully considered the characteristics of securitization credit facilities that should receive the “look through” treatment that we propose. We are proposing a definition of “bank customer securitization credit facility” that reflects these characteristics and excludes SPEs that have presented, and that we believe could present in the future, the risks that the Agencies indicate they intend to protect against by imposing a 100% outflow amount to credit and liquidity commitments to SPEs under Sections \_\_.32(b) and \_\_.32(e)(vi) of the Proposed Rule.

The Associations propose to define a “bank customer securitization credit facility” as a traditional securitization (as defined in the Agencies’ risk-based capital rules):

- (a) that is sponsored by a customer of one or more banks;
- (b) through which the customer obtains financing either (i) directly from one or more such banks, or (ii) through one or more asset-backed commercial paper conduits that are supported with liquidity facilities from one or more such banks with commitment amounts (together with commitment amounts from other financial institutions, governmental agencies and government-sponsored entities) that at least cover the face amount of the asset-backed commercial paper used to fund such financing;
- (c) where the customer is not one of such banks, or an affiliate of one of such banks, extending such financing or providing a liquidity or credit facility to an asset-backed commercial paper conduit that is extending such financing;
- (d) where one or more of such banks or asset-backed commercial paper conduits, or an agent on its or their behalf, negotiates and agrees to the terms of the financing

directly with the customer or the special purpose entity sponsored by the customer;

- (e) where the eligible primary underlying exposures have been originated or acquired by the customer to further a long-term business objective and proceeds of borrowings by the customer or the special purpose entity sponsored by the customer under the facility are used to finance such exposures;
- (f) where, for at least 95 percent of the eligible primary underlying exposures, the obligor is not a depository institution, depository institution holding company, foreign bank or consolidated subsidiary of any of the foregoing;
- (g) where the terms of the underlying transaction are not subject to triggers that require eligible primary underlying exposures to be sold if the market value of such exposures declines below a specified level;
- (h) that contains terms requiring compliance with any applicable laws and regulations governing credit risk retention by sponsors of traditional securitizations; and
- (i) where, after initial financing is extended, none of such banks or asset-backed commercial paper conduits are required to fund any commitment to such customer or its special purpose entity unless eligible primary underlying exposures exist and are available to secure such additional funding as required by the contractual terms of the financing.

As described in greater detail in Appendix A, each component of our proposed definition of bank customer securitization credit facility is crafted to ensure that such a credit facility is in fact a substitute for, or complement to, a traditional revolving credit facility that the bank would otherwise extend to the relevant customer and that it is not the type of structured transaction or SPE that presents the liquidity risks that concern the Agencies. Attached as Appendix B is an analysis of the types of facilities that would not qualify under our proposed definition. We look forward to further discussions with the Agencies regarding our analysis.

## ***2. “Unfunded Credit Commitments” in the Context of Bank Customer Securitization Credit Facilities***

Bank customer securitization credit facilities are normally funded in one of two ways: (1) directly by banks (a “direct bank facility”) or (2) through ABCP conduits (an “ABCP conduit facility”).<sup>7</sup> In either case, the bank customer accesses financing under the facility by selling financial assets to an SPE that it sponsors.<sup>8</sup> After the SPE purchases the financial assets, it then draws on the bank customer securitization credit facility provided by one or more banks.

---

<sup>7</sup> We note that some bank customer securitization credit facilities utilize a syndicate of creditors including both banks and ABCP conduits to provide funding.

<sup>8</sup> Because the sponsoring bank customer typically retains servicing obligations with respect to the transferred assets, the SPE is almost always consolidated back onto the bank customer’s balance sheet.

However, the source of funding under the bank customer securitization credit facility will vary depending on whether it is a direct bank facility or an ABCP conduit facility.

In the case of a direct bank facility, the bank customer's SPE will receive a funding commitment directly from the bank. Using funds it receives under the direct facility, the bank customer's SPE purchases financial assets from the bank customer. A more detailed illustration of a direct bank facility is included as Appendix C.

In the case of an ABCP conduit facility, the bank customer's SPE will receive a funding commitment from an ABCP conduit that agrees to provide funding to the bank customer's SPE through proceeds of the ABCP it issues and, in turn, the bank provides support to the ABCP through liquidity and credit facilities. The bank's liquidity facility is provided for and supports a specific bank customer transaction, and generally provides that the bank will loan funds to the ABCP conduit or purchase interests in customer transactions from the ABCP conduit when requested by the ABCP conduit. Funding under these liquidity facilities can occur in one of two general circumstances: (1) to pay maturing commercial paper notes or (2) to fund a customer incremental request for funds under the ABCP conduit facility when the ABCP conduit either cannot issue commercial paper notes or elects not to issue such notes. However, as is the case with a direct bank facility, the bank customer's SPE uses funds it receives under the ABCP conduit facility to purchase financial assets from the bank customer. A more detailed explanation of the operation of ABCP conduits that fund bank customer securitization credit facilities and the related liquidity facility draw mechanics is attached to this letter as Appendix D.

Our request to apply "look through" outflow amounts to bank customer securitization credit facilities only applies to the portion of the commitment from the bank or the ABCP conduit that is available to fund incremental borrowing requests from the customer or its SPE. Under a direct bank facility, this "unfunded commitment" amount is the difference between the bank's total stated commitment under the facility and outstanding extensions of credit by the bank under the facility.

However, under an ABCP conduit facility, this "unfunded commitment" amount is the difference between (x) the total stated commitment of the bank under its liquidity facility and (y) the sum of (A) outstanding extensions of credit made directly by the bank to the bank customer or its SPE under the liquidity facility and (B) the portion of the ABCP conduit's commercial paper notes that are issued to fund extensions of credit under the bank customer securitization credit facility that are supported by the bank's liquidity facility.

Under the Associations' proposal, the undrawn portion of the bank's liquidity facility (and any related credit facility provided by that bank) that supports outstanding ABCP would continue to be treated under Section \_\_.32(b) and Section \_\_.32(e)(2) like other liquidity facilities issued by the bank to SPEs. Thus, the "unfunded commitment" amount that the Associations ask be subject to the "look through" approach would only be the portion of the bank's undrawn commitment that is available to support customer funding requests. If a customer draw request is funded by an ABCP conduit through the issuance of ABCP, the unused portion of the bank liquidity facility that supports that ABCP would not be an "unfunded commitment" for these purposes, as it would no longer be available to support new customer requests for funding under

the facility. Importantly, our proposed “look through” treatment would not apply to the portion of a bank commitment that supports issued and outstanding debt. We agree that a 100% outflow amount is appropriate for that portion of the bank customer securitization credit facility supporting debt maturing within the 30-day calculation period.

In its treatment of outflow amounts for credit and liquidity facilities in CRD IV, the European Union adopted, in part, an approach consistent with our requested “look through” approach for unfunded commitments.<sup>9</sup> CRD IV recognizes the distinction between the portion of liquidity facilities that support customer credit commitments and the portion of liquidity facilities that support outstanding ABCP. More specifically, Section 4 of Article 424 provides that “[t]he committed amount of a liquidity facility that has been provided to an SSPE *for the purpose of enabling such an SSPE to purchase assets other than securities* from clients that are not financial customers shall be multiplied by 10% to the extent that it exceeds the amount of assets currently purchased from clients and where the maximum amount that can be drawn is limited to the amount of assets currently purchased” (emphasis added).

BCBS also recognizes in Paragraph 128 of the Basel LCR that a portion of a dual use facility, such as a liquidity facility extended to an ABCP conduit by a sponsoring bank, is appropriately categorized as a credit commitment. Paragraph 128 provides that “the amount of a commitment to be treated as a liquidity facility is the amount of the currently outstanding debt issued by the customer (or proportionate share, if a syndicated facility) maturing within a 30-day period that is backstopped by the facility.” The portion of such a facility supporting debt maturing later than the 30-day calculation period is not included in the amount of the facility. Any remaining available amount (i.e., the facility commitment amount in excess of the outstanding debt backstopped by such facility maturing within or beyond the 30-day calculation period) is treated as a credit commitment.

**3. *The Outflow Amount Asymmetry Between Bank Customer Securitization Credit Facilities and Traditional Revolving Credit Facilities is Not Justified by Any Differences in the Structure or Potential for Draws Under Unfunded Commitments for such Facilities***

Incremental funding requests under bank customer securitization credit facilities are driven by the bank customer’s borrowing needs in much the same manner as incremental funding requests under traditional revolving credit facilities. In order to achieve the structural protections of securitization, the bank customer sells assets in a legal “true sale” to an SPE that, in many cases, is owned by the bank customer or one of its affiliates. Loan proceeds generated under a bank customer securitization credit facility are transferred by such SPE to the bank customer as payment of all or a portion of the purchase price of the financed receivables. Thus, while the bank customer securitization credit facility is provided to the SPE, the SPE’s borrowing decisions are driven by the bank customer’s borrowing needs.

---

<sup>9</sup> See Council Directive 2013/36, On Access to the Activity of Credit Institutions and the Prudential Supervision of Credit Institutions and Investment Firms, 2013 O.J. (L 176), 338–436, *available at* <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32013L0036:EN:NOT>.

Traditional revolving credit facilities can be secured or unsecured, and only some secured revolving credit facilities have borrowing base requirements that would restrict draws to a percentage of qualifying assets. In contrast, *all* bank customer securitization credit facilities are subject to borrowing base requirements that restrict the amount of draws of unfunded commitments to a percentage of the eligible asset base. Further, like traditional revolving credit facilities, bank customer securitization credit facilities provide financing that allows bank customers to in turn provide financing to their customer base. Therefore, decisions to draw on bank customer securitization credit facilities are, like decisions to draw on traditional bank revolving credit facilities, largely dependent on the business needs of the bank's customers. In either case, the decision is initiated by the bank customer. In the case of a traditional revolving credit facility, the bank customer initiates a borrowing by making a funding request to the bank. In the case of a bank customer securitization credit facility, the bank customer initiates funding by transferring assets to its sponsored SPE. The SPE then borrows under the bank customer securitization credit facility to obtain amounts necessary to pay the cash acquisition price of the transferred assets. A comparison of bank customer securitization credit facilities to traditional revolving credit facilities for two different types of bank customers is attached to this letter as Appendix E.

During times of financial stress, the financing needs of bank customers would generally decline as their need for working capital or receivables financing decreases. The amount of receivables available to finance would also be likely to decline. As such, it is logical to expect that usage of bank customer securitization credit facilities, like the usage of traditional bank revolving credit facilities, would decline during times of economic duress. This is precisely what occurred during the recent financial crisis.

Nine of our North American and European bank members have submitted data regarding the draw experience of bank customer securitization credit facilities over the period of 2005 to 2010 that includes the recent financial crisis. When analyzed in comparison to data regarding commercial and industrial lending, we note that neither bank customer securitization credit facilities nor traditional revolving credit facilities experienced a spike in outstanding loan balances during the financial crisis. Therefore, the Associations believe that the proposed 100% outflow amount for SPEs is overly conservative when applied to unfunded credit commitments under a bank customer securitization credit facility. The data that forms the basis of an analysis of this draw experience is attached to this letter as Appendix F.

**4. *Imposition of the Proposed 100% Outflow Rate Will Unnecessarily Increase the Cost to Banks of Providing Bank Customer Securitization Credit Facilities and Will Likely Adversely Affect the Pricing and Availability to Bank Customers that Procure Working Capital Through Bank Customer Securitization Credit Facilities***

Banks, through direct commitments or through the credit and liquidity commitments they make to the ABCP conduits they sponsor, supply a significant amount of funding (and commitments to provide funding) to businesses through bank customer securitization credit facilities. The cost to banks of providing bank customer securitization credit facilities will increase due in large part to: (a) the negative carry and regulatory capital requirement incurred when purchasing the required

amount of unencumbered HQLAs, and (b) the intersection of the LCR and other BCBS requirements, including the proposed supplementary leverage ratio.<sup>10</sup> As currently proposed, the 100% outflow rate is excessive in the context of bank customer securitization credit facilities. As described above and as detailed further in the appendices, it is the bank customer, and not the bank customer's SPE, that initiates incremental borrowings under these facilities. As a result, a 100 percent outflow amount substantially overstates any reasonably estimated amount of required contingent funding during a 30-day calculation period. This excessive outflow amount will then, by definition, translate into higher costs to banks in providing these important customer facilities.

As a result of these higher incremental costs, banks may be incentivized to decrease the amount and increase the cost of any bank customer securitization credit facilities they continue to provide. A list of selected companies that have publicly disclosed that they are users of bank customer securitization credit facilities that could be affected by these higher costs and decreased funding availability is set forth on Appendix G to this letter.

Bank customer securitization credit facilities are an important part of bank customers' financing of extensions of credit to their own customers that are made as a core part of the bank customers' businesses. Bank customers value securitization credit facilities because these facilities (i) are often their least expensive source of funding, (ii) allow them to secure funding based upon the credit quality of the assets that they originate, thereby diversifying their funding sources, and (iii) allow banks to diversify what would otherwise be their direct credit exposure to bank customers by providing funding based upon asset credit quality, which may in turn allow banks to extend larger total amounts of credit for the benefit of these bank customers. The Associations are concerned that applying a 100% outflow amount to unfunded credit commitments under bank customer securitization credit facilities could impact the availability or pricing of these facilities, thus curtailing the ability of bank customers to provide cost effective financing to their customers and negatively impacting their ability to diversify the funding of the bank customers' daily business, invest in new growth initiatives and create jobs.

In contrast to unsecured traditional revolving credit facilities - the primary alternative means of financing for a significant percentage of bank customers currently sponsoring securitization facilities - bank customer securitization credit facilities are secured by receivables meeting strict eligibility requirements and concentration limits that substantially over-collateralize these facilities. Obligations under bank customer securitization credit facilities are repaid by the cash collections on these receivables and the amount of unfunded commitments that may be drawn under these facilities is contractually limited by borrowing base tests in the transaction documents. Transaction documents governing bank customer securitization credit facilities restrict the amount that can be drawn to some percentage (the "advance rate") of the eligible asset base contractually agreed to by the bank and its customer that takes into account both qualitative and quantitative performance characteristics of the available financial asset pool. Most bank customer securitization credit facilities establish advance rates based upon the

---

<sup>10</sup> The proposed supplementary leverage ratio requires banks to hold capital against all assets on a bank's balance sheet, including HQLAs, held to comply with the LCR, plus a percentage of the off-balance sheet commitments that banks extend directly to their customers or indirectly through bank customers' SPEs.

ongoing performance of the asset pool and therefore are highly sensitive to deteriorations in the credit quality of the asset pool that may occur in times of liquidity stress. An example of the eligibility criteria and an advance rate calculation from a bank customer securitization credit facility that finances accounts receivable of a manufacturing company is set forth on Appendix H to this letter.

Recent studies estimate that the current LCR shortfall in the U.S financial system is approximately \$700 billion and in the European financial system is approximately \$1.4 trillion.<sup>11</sup> The International Monetary Fund has estimated the impact of the LCR on lending rates, with United States and European borrowers suffering a marked increase in pre-tax funding costs as set forth on the following chart:

Estimated Effects of Liquidity Changes on Lending Rate <sup>12</sup>			
Effect	Region		
	Europe	Japan	U.S.
Liquid assets needed for a 100% LCR (in US\$ billion)	1,434.66	54.21	700.00
Reduction in liquidity assets from capital increases (in US\$ billion)	128.23	27.93	92.20
Net liquid assets needed (in US\$ billion)	1,306.43	26.27	607.80
Increase in pre-tax funding cost or reduction in investment income (in percent)	2.00	1.25	2.00
Reduction in pre-tax interest margin (in US\$ billion)	26.13	0.33	12.16
Reduction in pre-tax interest margin (in percentage of total assets)	0.08	0.01	0.11

The Proposed Rule's 100 percent outflow amount for bank customer securitization credit facilities exacerbates the LCR shortfall and the related increase in lending costs by applying (a) a 900 percent outflow amount increase for unfunded commitments under these facilities as compared to credit commitments under traditional revolving credit facilities to wholesale customers that are not (i) depository institutions, depository institution holding companies or foreign banks, or (ii) regulated financial companies, investment companies, non-regulated funds, pension funds, investment advisers or identified companies, (b) a 100 percent outflow amount

<sup>11</sup> Note that calculations used to derive these estimates are based upon the Basel LCR. Given that the LCR proposed by the Agencies is more conservative in many respects than the Basel LCR, this shortfall is likely to be even larger and perhaps even dramatically larger based on the different timing of outflows and inflows proposed by the Agencies in combination with the special requirement to determine daily cumulative net outflows.

<sup>12</sup> André Oliveira Santos & Douglas Elliott, *Estimating the Costs of Financial Regulation*, IMF STAFF DISCUSSION NOTES NO. 12/11, September 11, 2012, available at <http://www.imf.org/external/pubs/ft/sdn/2012/sdn1211.pdf>.

increase for unfunded commitments under these facilities as compared to commitments under traditional revolving credit facilities to wholesale customers that are depository institutions, depository institution holding companies or foreign banks, and (c) a 150 percent outflow amount increase for unfunded commitments under these facilities as compared to commitments under traditional revolving credit facilities to regulated financial companies, investment companies, non-regulated funds, pension funds, investment advisers or identified companies.

For the reasons described above, the Associations respectfully request that “look through” treatment be provided for unfunded credit commitments under bank customer securitization credit facilities.

### **5. *Changes Necessary to the Proposed Rule***

In order to effect the changes that we are proposing above, revisions must be made to both Section \_\_.32(b) and Section \_\_.32(e) of the Proposed Rule. In addition to reflecting the look-through approach that we are proposing, these sections must be modified so that they work together properly. As drafted, Section \_\_.32(e)(vi) of the Proposed Rule only excludes commitments to SPEs consolidated with the bank from its liquidity coverage requirements. Section \_\_.32(b)(2) of the Proposed Rule, however, would include commitments to consolidated SPEs to the extent that the bank “sponsors” an SPE issuing entity. To avoid double counting of commitment amounts as outflow amounts, Section \_\_.32(e)(vi) should exclude commitment amounts captured under Section \_\_.32(b)(2) and in so doing should exclude commitments under both credit and liquidity facilities. We have attached as Appendix I to this letter suggested language changes to the Proposed Rule text necessary to effect these changes.

### **B. *Additional Modifications to Structured Transaction Outflow Amount***

Under Section \_\_.32(b) of the Proposed Rule, the Agencies set forth a structured transaction outflow amount that would capture obligations and exposures associated with structured transactions sponsored by a bank, without regard to whether the structured transaction vehicle that is the issuing entity is consolidated on the bank’s balance sheet or whether any credit or liquidity support is provided by the bank to the issuing entity. However, the Associations believe that a sponsored structured transaction pursuant to which a bank securitizes its own assets that meets the definition of “traditional securitization” under the Agencies’ regulatory capital rules<sup>13</sup> should not be treated as an outflow amount so long as the bank does not provide credit or liquidity support to the transaction in the manner described in Section \_\_.32(b)(2) of the Proposed Rule.

Securitization transactions are structured such that the issued securities have maturities that are entirely (or almost entirely) dependent on the receipt of cash flows from underlying assets. If the issuing entity has no legal obligation to make a payment on a security due to the lack of sufficient cash flows from underlying assets, then the sponsoring bank should not be required to

---

<sup>13</sup> For the Agencies’ definition of “traditional securitization,” see 12 C.F.R. Pt. 324, 55484 (September 10, 2013) and Appendix J.

assume that it will make such payments when calculating its LCR. This is true irrespective of whether the sponsoring bank is required to consolidate the issuing entity onto its balance sheet.

One factor to consider in evaluating a sponsoring bank's obligation to repay a securitization exposure is whether the transaction meets the definition of "traditional securitization" under the Agencies' regulatory capital rules. The fact that a transaction does not meet the definition of "traditional securitization" does not, in and of itself, necessitate the conclusion that the bank is responsible for repayment of the security. However, when the sponsoring bank has satisfied the criteria for a given transaction to be a "traditional securitization," it is clear that the sponsoring bank is not obliged to repay the security provided that the bank does not provide credit or liquidity support to the transaction in the manner described in Section \_\_.32(b)(2) of the Proposed Rule.

### **C. Timing of Section \_\_.32(b) and (e)(vi) Outflows for Commitments Supporting Outstanding Debt**

Section \_\_.30(a) of the Proposed Rule appears to require all outflows under Section \_\_.32(b) and Section \_\_.32(e)(vi) for commitments supporting outstanding debt maturing within a 30-day calculation period to be reported as occurring on the first day of each such 30-day period under the LCR. Nothing in the Proposed Rule explains this treatment, but the words of Section \_\_.30(a) and the explanation of the Table 1 sample computation appearing on pages 71833-34 of the Federal Register notice of the Proposed Rule indicate all outflows computed under Section \_\_.32(a)-(g)(2) would be recorded as occurring on the first day of each 30-day calculation period. This would create a very large computation of net cash outflow for the first day of each 30-day calculation period, which would only slowly be offset by scheduled inflows that would be reported for days later in such period.

Because Section \_\_.30 of the Proposed Rule would require banks to report as their "total net cash outflow amount" the highest "net cumulative cash outflow" for any day in the 30-day calculation period, the net cumulative cash outflow reported for the first day of each 30-day calculation period would almost certainly be the effective requirement for coverage by an HQLA amount. This day would include all outflows under Section \_\_.32(a)-(g)(2) and outflows under the rest of Section \_\_.32 that either have no maturity date or that mature on such first day.

The Associations submit that there is no justification for requiring all Section \_\_.32(b) and Section \_\_.32(e)(vi) outflows for commitments supporting outstanding debt to be reported as occurring on the first day of each 30-day period. Both Section \_\_.32 (b) and Section \_\_.32(e)(vi) include outflows for commitments that support outstanding debt that matures within the 30-day calculation period but *after the first day* of that period. The basis on which such a commitment creates an outflow is that the supported debt will mature in the 30-day period. The maturity date of the debt, however (and not the first day of the 30-day period), is the basis for the outflow. The outflow should therefore be reported on the scheduled maturity date for the supported debt.

## II. The Numerator

Under the Proposed Rule, the Agencies have prescribed a small universe of assets that qualify as high quality liquid assets (“HQLA”) eligible for inclusion by a bank in calculating the numerator of its LCR requirement. In evaluating HQLA standards, it is important that the Agencies strike the right balance between ensuring that, to the extent practical, prudential liquidity requirements are harmonized across different regions and jurisdictions and ensuring that the specific characteristics of the U.S. markets are addressed.

Upon review of the Proposed Rule, the Associations are concerned that the Agencies have not provided appropriate HQLA treatment for high credit quality securitization exposures. For example, the Proposed Rules would treat GSE securities as Level 2A liquid assets rather than Level 1 liquid assets. Further, unlike the Basel LCR, the Proposed Rule would exclude from HQLA assets that promote investment of private capital in the residential mortgage market, including private-label residential mortgage-backed securities and covered bonds. Finally, the Proposed Rule would exclude high credit quality asset-backed securities from treatment as HQLA regardless of the liquidity characteristics of these securities.

In December 2013, BCBS set forth international LCR standards in the Basel LCR and, in January 2014, BCBS released guidance expanding upon the general HQLA qualification guidelines set forth in the Basel LCR (“Basel LCR Guidance”).<sup>14</sup> In both the Basel LCR and the Basel LCR Guidance, BCBS recognizes that national authorities in each jurisdiction must make their own determination as to what categories of assets qualify as HQLA based on the market liquidity characteristics of asset classes and individual assets in their jurisdiction. Certain securitization exposures within the United States have (or may develop in the future) market liquidity characteristics that meet the standards for HQLA treatment described by the Agencies in the Proposed Rule and by BCBS in the Basel LCR and the Basel LCR Guidance. The Associations request that the Agencies make more favorable provision for those securitization exposures in the HQLA standards. More specifically, we recommend that the Agencies expand the numerator to provide more favorable treatment for (1) mortgage-backed securities (“MBS”) issued by Federal Home Loan Mortgage Corporation (“Freddie Mac”) or the Federal National Mortgage Association (“Fannie Mae”), (2) certain private label residential mortgage-backed securities (“RMBS”), (3) certain high quality covered bonds and (4) certain asset-backed securities (“ABS”).

In considering what types of assets should qualify as HQLA, the Agencies should not unnecessarily discriminate amongst various types of corporate assets that meet objective standards of creditworthiness and market liquidity. Given the importance of banks as investors in corporate securities, whether a liquid market will exist for corporate securities will depend, in some respects, upon whether the Agencies permit such securities to be treated as HQLA. The Agencies should also recognize these high quality securitization products as important long-term financing instruments that support the real economy. Banks are significant investors in these securities and any decrease in the willingness of banks to invest in these securities could have a

---

<sup>14</sup> BASEL COMMITTEE ON BANKING SUPERVISION, GUIDANCE FOR SUPERVISORS ON MARKET-BASED INDICATORS OF LIQUIDITY (January 2014), <http://www.bis.org/publ/bcbs273.pdf>.

significant adverse affect on the amount and cost of securitization financing. Research demonstrates that robust securitization markets contribute significantly to economic growth and recovery<sup>15</sup> and banks are among the largest investors in RMBS and ABS globally.<sup>16</sup> Given the importance of securitization as a source for financing consumer and commercial assets and the important role that banks play in the securitization markets, the Agencies should encourage prudent investment by banks in high quality securitizations.

We have attached, as Appendix K to this letter, suggested language changes to the Proposed Rule text necessary to effect the changes we propose to the numerator.

#### **A. More Favorable Treatment for GSE MBS**

Section \_\_.20(b)(1) of the Proposed Rule provides treatment as Level 2A liquid assets for securities issued by, or guaranteed as to the timely payment of principal and interest by, a U.S. government-sponsored enterprise (“GSE”)<sup>17</sup> that is (1) investment grade consistent with the OCC’s investment regulation as of the calculation date and (2) senior to preferred stock (“GSE Securities”). As Level 2A liquid assets, GSE Securities are subject to a 15% haircut and, coupled with other Level 2A and Level 2B liquid assets, a 40% cap of total stock of HQLA.

In the Proposed Rule, the Agencies indicate that “...some securities issued and guaranteed by the U.S. GSEs consistently trade in very large volumes and generally have been highly liquid, including during times of stress.” We think this is an understatement. In fact, mortgage-backed securities issued by Fannie Mae and Freddie Mac (“GSE MBS”) are among the highest quality and most liquid assets and they are one of the world’s largest debt markets. Over \$4 trillion of GSE MBS are currently outstanding<sup>18</sup> and the average trading volume of GSE MBS in 2013 was almost \$230 billion per day in 2013 with pricing nearly perfectly correlated to U.S. Treasury securities.<sup>19</sup> Because GSE MBS are among the highest quality and most liquid assets, the Associations believe that they should be included in a bank’s HQLA without any limitations of a cap or haircut.

---

<sup>15</sup> According to Deutsche Bank, over the last ten years, the amount of cars sold in the U.S. has exhibited nearly a perfect correlation to the balance of related ABS issuance. *See* Deutsche Bank, *The Outlook, CRE and Consumer ABS: Tougher Basel III Proposal Puts CMBS and ABS at Risk* (February 27, 2013).

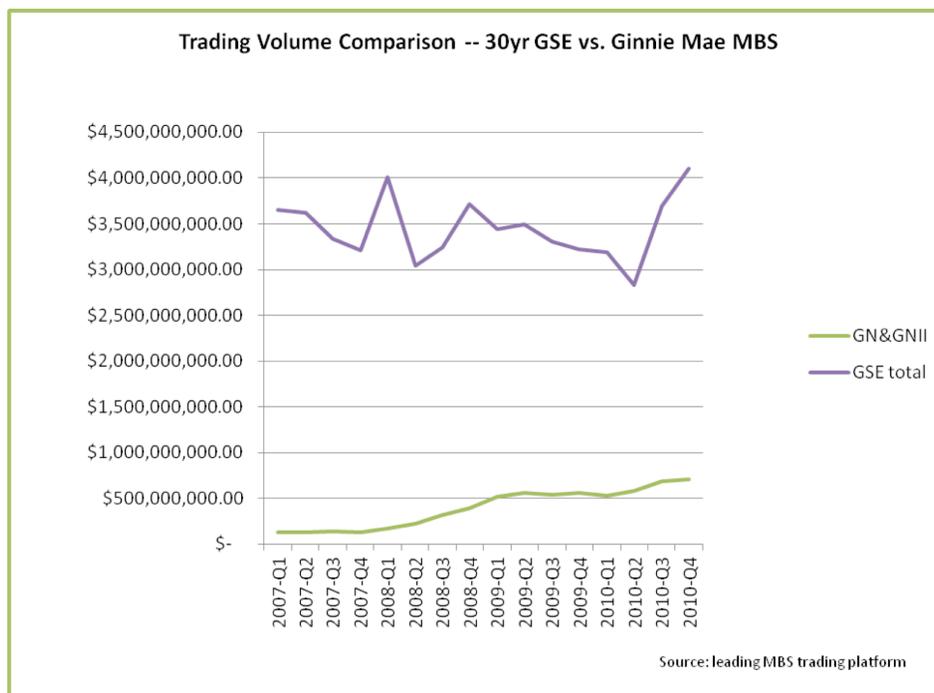
<sup>16</sup> According to SIFMA, banks comprise 17% of holders of non-agency RMBS, for example.

<sup>17</sup> As indicated in the Proposed Rule, GSEs include the Freddie Mac, Fannie Mae and the Federal Home Loan Bank System.

<sup>18</sup> Source: <http://www.sifma.org/uploadedFiles/Research/Statistics/StatisticsFiles/SF-US-Agency-MBS-SIFMA.xls?n=44617>.

<sup>19</sup> Source: <http://www.sifma.org/uploadedFiles/Research/Statistics/StatisticsFiles/SF-US-SF-Trading-Volume-SIFMA.xls?n=28157>.

GSE MBS are far more liquid than Ginnie Mae MBS, which are afforded Level 1 treatment under the Proposed Rule. In fact, liquidity in GSE MBS was multiples of Ginnie Mae MBS during the most stressful times of the 2007-2009 period. For example, according to the chart below demonstrating trading volume data provided by a major MBS trading platform, GSE MBS trading volumes were 9.75 times higher than that of Ginnie Mae MBS in the second half of 2008.



Failure to allow banks to more fully include GSE MBS as HQLA could have negative consequences for both American homeowners and the broader U.S. economy. GSE MBS are a primary tool for liquidity and asset liquidity risk management in the United States and GSE MBS currently comprise a significant portion of the liquid asset portfolios of U.S. banks. Imposing a limit on the amount of GSE MBS that banks can include as HQLA will discourage them from purchasing GSE MBS at the same volumes as they have in the past. This could cause an increase in the interest rates on such securities which, in turn, could result in an increase in mortgage interest rates charged to American homeowners.

Despite the demonstrated superior liquidity of GSE MBS and the negative impact of dis-incenting banks to own GSE MBS, the Agencies have subjected GSE MBS to a 40% cap and a 15% haircut. United States government guaranteed assets are Level 1 liquid assets under the Proposed Rule<sup>20</sup> and the Agencies argue that GSEs remain privately owned companies and their obligations do not have the explicit guarantee of the full faith and credit of the United States.

<sup>20</sup> Permitting Level 1 treatment for GSE MBS for so long as Fannie Mae and Freddie Mac are in conservatorship would be consistent with the approach taken by the agencies in the re-proposal of the Credit Risk Retention rules published in August 2013, which recognized, from a practical, as well as a public policy, perspective, the inherent value in the Federal Housing Finance Agency's role as conservator and the benefits of the capital support being provided by the United States.

However, the Associations encourage the Agencies to permit Level 1 treatment for GSE MBS at least for so long as Fannie Mae and Freddie Mac are operating under the conservatorship or receivership of the Federal Housing Finance Agency pursuant to section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992<sup>21</sup> or are otherwise effectively guaranteed by the U.S. Government. If the Agencies are unwilling to afford Level 1 treatment, we urge the Agencies to exclude GSE MBS from the 40% cap applied to other Level 2A assets.

## **2. Level 2B Treatment for RMBS**

Under the Proposed Rule, private-label residential mortgage-backed securities (“RMBS”) do not expressly qualify as HQLA. In contrast, the Basel LCR includes RMBS rated AA or better as a Level 2B liquid asset with a 25% haircut.

The Associations believe that, consistent with the Basel LCR, certain high credit quality RMBS should be afforded Level 2B liquid asset treatment under the Proposed Rule. More specifically, we propose that the Agencies provide Level 2B treatment to an RMBS that meets the following criteria:

- (1) is a security registered for offer and sale under the Securities Act of 1933 (“Act”) or, if exempt from such registration, is eligible for resale in reliance on Rule 144A under the Act;
- (2) is a senior security that has a risk-weight of 20 percent or less under the Agencies’ standardized approach risk-based capital rules;
- (3) the eligible primary underlying exposures consist solely of one-to-four family residential mortgage loans that are not higher-risk consumer loans or non traditional mortgage loans (as such terms are defined in Appendix C to Subpart A of 12 C.F.R. pt. 357);
- (4) constitutes a “traditional securitization” exposure under the Agencies’ regulatory capital rules; and
- (5) is sponsored by an entity whose obligations have a proven track record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by (A) the market price of the RMBS or equivalent securities of the sponsor declining by no more than 20 percent during a 30 calendar-day period of significant stress, or (B) the market haircut demanded by counterparties to secured lending and secured funding transactions that are collateralized by the RMBS or equivalent securities of the sponsor declining no more than 20 percentage points during a 30 calendar-day period of significant stress.

---

<sup>21</sup> 12 U.S.C. 4617(a).

Recognizing the superior quality of mortgages that meet the definition of “Qualified Mortgage” under the federal Truth in Lending Act (“TILA”) and regulations adopted thereunder,<sup>22</sup> the Associations propose that RMBS backed exclusively by Qualified Mortgages would qualify as Level 2B liquid assets subject to a 25% haircut. All other RMBS that securitizes higher credit quality mortgage loans would qualify as Level 2B liquid assets subject to the 50% haircut applicable to other corporate debt securities that qualify as Level 2B liquid assets.

The Associations believe that RMBS that meet the criteria set forth above should be afforded the Level 2B treatment we propose for five reasons.

First, under our proposal, RMBS would only qualify for Level 2B treatment to the extent they meet specified liquidity criteria. In other words, before any RMBS would qualify for Level 2B treatment under our proposal, the U.S. RMBS market would have to develop in a manner sufficient for any RMBS qualifying for Level 2B treatment to have a proven track record as a reliable source of liquidity during stressed market conditions.

Second, the credit quality of Qualified Mortgages underlying RMBS that would qualify for Level 2B treatment with a 25% haircut under our proposal, is comparable to the credit quality of mortgages that underlie RMBS that qualify for Level 2B treatment with a 25% haircut under the Basel LCR. We note that, under the current Basel LCR, private-label RMBS will only be eligible as HQLA if all of the underlying mortgage loans have full recourse back to the obligor’s assets. However, in the United States, twelve States prohibit mortgage loans with recourse to the obligor.<sup>23</sup> As a result, most U.S. RMBS would not be backed solely by mortgage loans with full recourse to the underlying obligor’s assets. However, in implementing TILA regulations under the Dodd-Frank Act, the Consumer Financial Protection Bureau has provided a definition of “Qualified Mortgage” designed to help ensure that borrowers are offered and receive residential loans on terms that reasonably reflect their financial capacity to meet the payment obligations associated with such loans.<sup>24</sup> As a result, the definition is being increasingly relied upon by regulators and market participants in identifying mortgages with high credit quality.<sup>25</sup>

---

<sup>22</sup> Section 129(C)(a) of TILA, as implemented by 12 C.F.R. Pt. 1026.43(c), requires lenders to make a “reasonable and good faith determination that a borrower has the ability to repay a residential mortgage loan. The Qualified Mortgage definition and regulations provide lenders with a presumption of compliance with TILA’s ability-to-repay rules.

<sup>23</sup> U.S. states with non-recourse mortgage loan laws include: (1) Alaska; (2) Arizona; (3) California; (4) Connecticut; (5) Idaho; (6) Minnesota; (7) North Carolina; (8) North Dakota; (9) Oregon; (10) Texas; (11) Utah; and (12) Washington.

<sup>24</sup> In order to fall within the Qualified Mortgage definition, loans must not have a negative amortization feature, an interest only period, a term longer than 30 years or, in most cases, a balloon payment. Additionally, loans are not eligible for purchase, guarantee or insurance by one of the GSEs, FHA, VA or USA and generally require a borrower debt-to-income ratio of 43% or less.

<sup>25</sup> For example, in May 2013, the FHFA announced that it was directing Fannie Mae and Freddie Mac to limit their future mortgage acquisitions to loans that meet the Qualified Mortgage standard and that are exempt from the “ability to repay” requirements under the Dodd-Frank Act. In addition, in re-proposing rules implementing the risk retention rules under the Dodd-Frank Act, the Agencies explicitly recognized the high quality of Qualified Mortgages when they proposed an exemption for RMBS backed by Qualified Mortgages.

Therefore, the Associations believe that a portfolio of Qualified Mortgages has far greater intrinsic value than a portfolio of mortgages which do not meet the Qualified Mortgage standard but do include the potential for an additional unsecured claim against the underlying obligor. Therefore, the Associations believe that granting Level 2B liquid asset treatment to RMBS backed exclusively by Qualified Mortgages with a 25% haircut would be consistent with granting full recourse RMBS the same status under the Basel LCR.

Third, the 50% haircut that we propose apply to RMBS that is not backed exclusively by Qualified Mortgages compensates for any potential difference in credit quality to the recourse mortgages that qualify for Level 2B liquid asset treatment with a 25% haircut under the Basel LCR. In this regard, we would propose to restrict eligibility for Level 2B liquid asset treatment to RMBS that is backed exclusively by “prime” quality residential mortgage loans. To promote consistency across regulations with respect to mortgage loans, we are proposing to impose this limitation by excluding mortgage loans that would be treated as “higher-risk consumer loans” or “nontraditional mortgage loans” under the FDIC’s assessment regulations.

Fourth, to qualify as HQLA under our proposal, an RMBS must be a “traditional securitization” exposure under the Agencies’ regulatory capital rules. To constitute a traditional securitization under the Agencies’ rules, (i) all or a portion of the credit risk of the exposures underlying the RMBS must be transferred to a third party and (ii) performance of the RMBS must depend on the performance of the exposures underlying the RMBS. As a result, neither a regulated financial company nor its affiliates that originate the securitized assets or act as depositors or issuers in the relevant securitization transaction should be treated as being obligated with respect to such securities for purposes of the LCR requirement.

Fifth, failing to afford Level 2B treatment to RMBS could have negative consequences for the U.S. economy and for American homeowners. A liquid and efficient residential mortgage market benefits consumers. Specifically, as mortgage originators find the best execution for the sale of the mortgage loans they originate, they are able to offer mortgage loans to consumers at better prices. Historically, the RMBS market has provided the best execution for sale of mortgage loans by customizing investments for a wide base of investors.<sup>26</sup> However, failure to give banks “liquidity credit” in the LCR calculation for their purchases of RMBS could further impede the return of private capital to the residential mortgage market.<sup>27</sup>

---

<sup>26</sup> Securitization can fulfill the customized needs of different investors with different profiles with respect to credit risk and market risk. For example, mutual funds may prefer to invest in securities with a much shorter duration than what would be provided by a pool of whole mortgage loans and public employee retirement funds and pension funds may prefer to invest in securities that will mature years in the future, when the pension obligations are owed to retirees.

<sup>27</sup> On August 6, 2013, President Obama announced a renewed effort to reform the housing finance system. The President stated that “private capital should take a bigger role in the mortgage market” and that this core principle should drive housing finance reform. In addition, the President espoused three other driving principles: ending the Fannie Mae and Freddie Mac business model as we know it, ensuring access to the 30-year fixed rate mortgage in all economic climates and preserving affordable homeownership for all. For additional information regarding the importance of the RMBS market for residential mortgage finance, see *Residential Mortgage Finance: An Introductory Framework* (September 11, 2013).

### **3. Level 2B Treatment for Covered Bonds**

Under the Proposed Rule, covered bonds do not qualify as HQLA. In contrast, the Basel LCR includes covered bonds rated AA- or better as Level 2A liquid assets with a 15% haircut.

The Associations believe that, consistent with the Basel LCR, certain high credit quality covered bonds should be afforded Level 2B liquid asset treatment under the Proposed Rule. More specifically, we propose that the Agencies provide Level 2B treatment to a covered bond that meets the following criteria:

- (1) is a security registered for offer and sale under the Act or, if exempt from such registration, is eligible for resale in reliance on Rule 144A of the Act;
- (2) is a senior debt security issued by a regulated unaffiliated financial institution located in an OECD country;
- (3) is investment grade under the OCC's investment regulation;
- (4) the transaction documents with respect to which grant debtholders (or a trustee on their behalf) the right to sell the covered asset pool upon a payment default and such sale could not be stayed or otherwise delayed due to the insolvency of the issuing entity under applicable law; and
- (5) is sponsored by an entity whose obligations have a proven track record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by (A) the market price of the covered bond or equivalent securities of the sponsor declining by no more than 20 percent during a 30 calendar-day period of significant stress, or (B) the market haircut demanded by counterparties to secured lending and secured funding transactions that are collateralized by the covered bond or equivalent securities of the sponsor declining no more than 20 percentage points during a 30 calendar-day period of significant stress.

We believe that covered bonds that meet the criteria set forth above should be afforded Level 2B treatment under the Proposed Rule for two reasons.

First, these types of covered bonds are afforded Level 2B treatment under the Basel LCR. In the Proposed Rule, the Agencies argue that the U.S. covered bond market is not sufficiently developed to warrant HQLA assets. However, we think that this concern is alleviated by our proposal that covered bonds would only qualify for Level 2B treatment to the extent they meet liquidity criteria consistent with those set forth by the Agencies for publicly traded corporate debt securities. In other words, before any covered bond would qualify for Level 2B treatment under our proposal, the U.S. covered bond market would have to develop in a manner sufficient for the covered bonds to have a proven track record as a reliable source of liquidity during stressed market conditions. Therefore, we see no reason why there should not be a level international playing field with respect to these types of assets.

Second, failing to afford Level 2B treatment to covered bonds could have negative consequences for the U.S. economy and for American homeowners. As discussed in Part II.C. above, a liquid and efficient residential mortgage market benefits consumers. However, failure to give banks “liquidity credit” in the LCR calculation for their purchases of covered bonds could further impede the return of private capital to the residential mortgage market.

#### **D. Level 2B Treatment for ABS**

Under the Proposed Rule, asset-backed securities (“ABS”) are not afforded HQLA status. ABS consists of securitization transactions backed by financial assets other than residential mortgage loans. However, the Associations believe that certain high quality ABS should be included as Level 2B liquid assets so long as their liquidity characteristics mirror those of publicly traded corporate debt securities. More specifically, we propose that the Agencies afford Level 2B treatment to ABS that meet the following criteria:

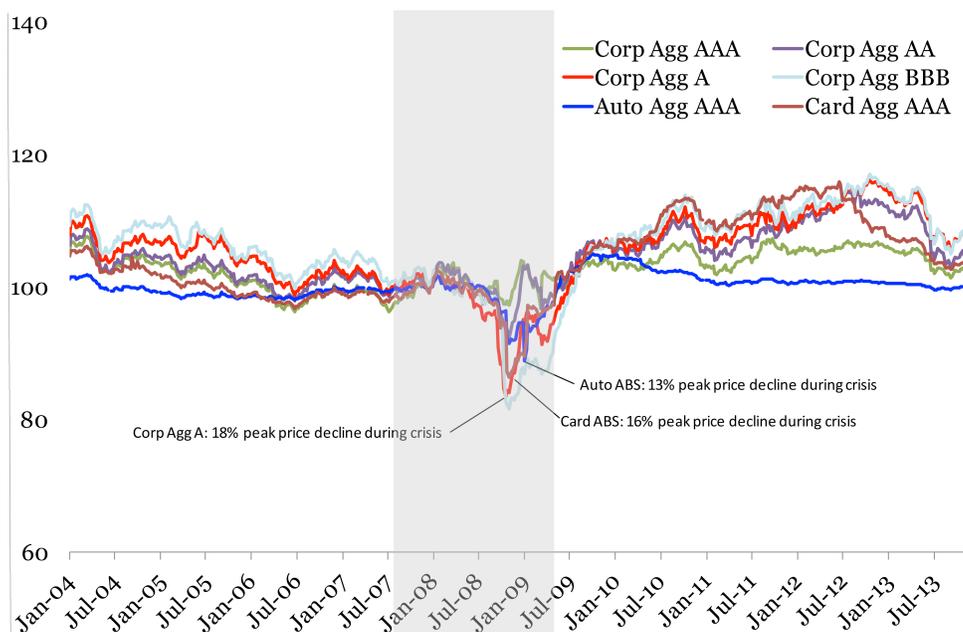
- (1) is a security registered for offer and sale under the Act or, if exempt from such registration, is eligible for resale in reliance on Rule 144A under the Act;
- (2) is a senior security that has a risk-weight of 20 percent or less under the Agencies’ standardized approach risk-based capital rules;
- (3) constitutes a “traditional securitization” exposure under the Agencies’ regulatory capital rules;
- (4) is backed by an asset pool that was not originated or otherwise owned by the bank or any of its affiliates prior to the relevant securitization transaction; and
- (5) is sponsored by an entity whose obligations have a proven track record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by (A) the market price of the ABS or equivalent securities of the sponsor declining by no more than 20 percent during a 30 calendar-day period of significant stress, or (B) the market haircut demanded by counterparties to secured lending and secured funding transactions that are collateralized by the ABS or equivalent securities of the sponsor declining no more than 20 percentage points during a 30 calendar-day period of significant stress.

We believe that certain types of ABS should be afforded Level 2B treatment under the Proposed Rule for three reasons.

First, these types of ABS demonstrate a high degree of liquidity consistent with the liquidity characteristics described by the Agencies in the Proposed Rule and by BCBS in the Basel LCR and the Basel LCR Guidance as characteristics supporting HQLA treatment. Further, these types of ABS demonstrate liquidity characteristics consistent with the market for publicly traded corporate debt securities. In fact, as demonstrated by price movements illustrated in the table below, publicly traded ABS rated “AAA” in select asset classes has historically performed on par with (or better than) investment grade publicly traded corporate debt securities. Further,

Appendix L illustrates ABS spread performance as compared to investment grade publicly traded corporate debt securities.

### Historical Bond Prices<sup>28</sup>



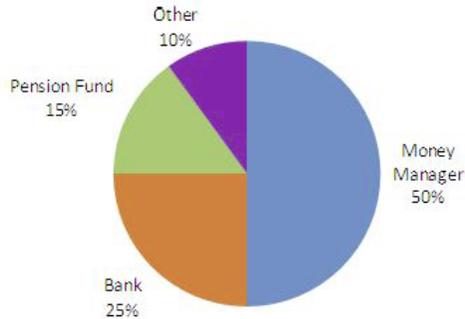
Second, to qualify as HQLA under our proposal, an ABS must be a “traditional securitization” exposure under the Agencies’ regulatory capital rules. To constitute a traditional securitization under the Agencies’ rules, (i) all or a portion of the credit risk of the exposures underlying the ABS must be transferred to a third party and (ii) performance of the ABS must depend on the performance of the exposures underlying the ABS. As a result, neither a regulated financial company nor its affiliates that originate the securitized assets or act as depositors or issuers in the relevant securitization transaction should be treated as being obligated with respect to such securities for purposes of the LCR requirement.

Third, affording Level 2B treatment to these types of ABS will promote the financing of financial asset pools that are essential to the economy and, as a result, will promote economic activity and job creation. As demonstrated in the chart below, the ABS market is supported by a broad base of investors and banks play a significant role. Any increase in the willingness of banks to invest in these securities could increase the amount and decrease the cost of securitization financing available to bank customers. Conversely, failure to give banks “liquidity credit” in the LCR calculation for their purchases of ABS could reduce the appetite of banks for

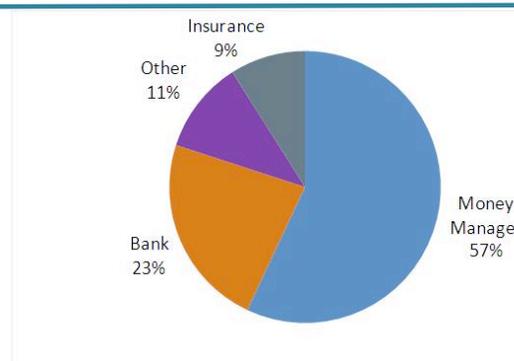
<sup>28</sup> Source: Barclays’ Indices.

investment in the ABS market. In developing the U.S. LCR, the Agencies should be careful not to undermine existing markets or to preclude new markets for high quality liquid assets from developing.

**Auto ABS Investor Composition by Type –  
U.S. Transactions<sup>29</sup>**



**Credit Card ABS Investor Composition by Type –  
U.S. Transactions<sup>30</sup>**



\*\*\*\*\*

---

<sup>29</sup> Source: Credit Suisse proprietary investor database.

<sup>30</sup> Source: Credit Suisse proprietary investor database.

We are grateful for the opportunity to provide these comments on the Proposed Rule. Please do not hesitate to contact us if there are questions arising from our comments or any other aspect of the Proposed Rule. Please contact either Richard Johns, Executive Director of the Structured Finance Industry Group at (202) 524-6301 or via e-mail at Richard.Johns@SFIndustry.org or Chris Killian, Managing Director - Head of Securitization of the Securities Industry and Financial Markets Association at (212) 313-1126 or via e-mail at ckillian@sifma.org.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "R. Johns", written over a horizontal line.

Richard Johns  
Executive Director  
Structured Finance Industry Group

A handwritten signature in blue ink, appearing to read "Chris Killian", written over a horizontal line.

Chris Killian  
Managing Director, Head of Securitization  
Securities Industry and Financial Markets  
Association

**APPENDIX A**

**ANALYSIS OF PROPOSED DEFINITION OF  
BANK CUSTOMER SECURITIZATION CREDIT FACILITY**

<b>Definition</b>	<b>Rationale</b>
A traditional securitization:	
(a) that is sponsored by a customer of one or more banks;	<i>Ensures that the credit facility arises out of a bank customer relationship and not a market transaction.</i>
(b) through which the customer obtains financing either (i) directly from one or more such banks, or (ii) through one or more asset-backed commercial paper conduits that are supported with liquidity facilities from one or more such banks with commitment amounts (together with commitment amounts from other financial institutions, governmental agencies and government-sponsored entities) that at least cover the face amount of the asset-backed commercial paper;	<i>Limits the sources of funding for bank customer securitization credit facilities to banks and ABCP conduits. This helps ensure that the transaction is the functional equivalent of a privately negotiated bank loan to the bank's customer.</i>
(c) where the customer is not one of such banks, or an affiliate of one of such banks, extending such financing or providing a liquidity or credit facility to an asset-backed commercial paper conduit that is extending such financing;	<i>Ensures that the credit facility is truly a customer funding and not a source of funding to the bank that would otherwise be treated as an outflow amount under the Proposed Rule.</i>
(d) where one or more of such banks or asset-backed commercial paper conduits, or an agent on its or their behalf, negotiates and agrees to the terms of the financing directly with the customer or the special purpose entity sponsored by the customer;	<i>Ensures that the transaction is not a market purchase of a credit exposure. Bank customer securitization credit facilities, like the traditional revolving credit facilities they substitute for, must be privately negotiated loan transactions.</i>
(e) where the eligible primary underlying exposures have been originated or acquired by the customer to further a long-term business objective and proceeds of borrowings by the customer or the special purpose entity sponsored by the customer under the facility	<i>Ensures that the financed exposures are extensions of credit that the bank customer is making on its own customer base that is part of its core business. Proceeds of bank customer securitization credit facilities could not be used to purchase assets generated in the capital markets</i>

Definition	Rationale
are used to finance such exposures;	<i>or that would otherwise be speculative ventures on the part of the bank customer, which could create volatility in commitment draws that would not exist for traditional bank revolving credit facilities.</i>
(f) where, for at least 95 percent of the eligible primary underlying exposures, the obligor is not a depository institution, depository institution holding company, foreign bank or consolidated subsidiary of any of the foregoing;	<i>Ensures that the securitization transaction is for a corporate customer of the bank rather than a transaction sponsored by the bank or an inter-bank transaction.</i>
(g) where the terms of the underlying transaction are not subject to triggers that require eligible primary underlying exposures to be sold if the market value of such exposures declines below a specified level;	<i>Traditional secured bank revolving credit facilities do not contain market triggers requiring asset sales. Bank customer securitization credit facilities would be similarly restricted.</i>
(h) that contains terms requiring compliance with any applicable laws and regulations governing credit risk retention by sponsors of traditional securitizations; and	<i>Ensures that a borrowing base of eligible assets exists to support any customer draw request. During times of financial stress, the financing needs of bank customers would generally decline as their needs for working capital or to otherwise finance these receivables decrease. The amount of receivables available to finance would also be likely to decline. As such, it is logical to expect that usage of bank customer securitization credit facilities, like the usage of traditional bank revolving credit facilities, would decline during times of economic stress.</i>
(i) where, after its initial financing is extended, none of such banks or asset-backed commercial paper conduits is required to fund any commitment to such customer or its special purpose entity unless eligible primary underlying exposures exist and are available to secure such additional funding as required by the contractual terms of the financing.	<i>See explanation regarding clause (h) above.</i>

## APPENDIX B

### ANALYSIS OF FACILITIES THAT WOULD NOT QUALIFY UNDER PROPOSED BCSCF DEFINITION

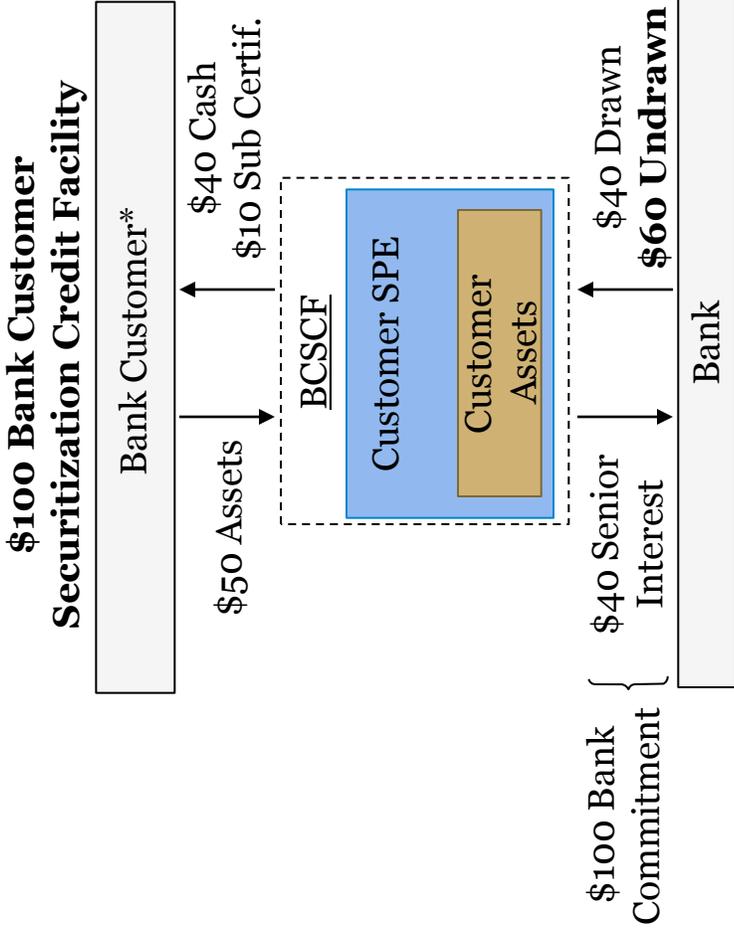
Proposed Bank Customer Securitization Credit Facility Criteria	Bank Customer Securitization Credit Facility		Securities Arbitrage	Cash Flow ABS CDO	Market Value ABS CDO	SIV	SIV-lite
	Bank Sponsored Multi-Seller Conduit Facility	Direct Bank Funded					
Does it have unfunded exposure?	YES	YES	DEPENDS	NO	YES	NO	NO
(A) Sponsored by a Bank Customer	PASS	PASS	FAIL	FAIL - Not Bank	FAIL	FAIL	FAIL
(B) Financed directly through bank or ABCP conduit(s) supported with liquidity facility covering face amount of ABCP	PASS	PASS	PASS	FAIL	FAIL	FAIL	FAIL
(C) Not financing bank's own assets	PASS	PASS	DEPENDS	PASS	PASS	PASS	PASS
(D) Individually negotiated customer transactions	PASS	PASS	FAIL	FAIL	FAIL	FAIL	FAIL
(E) Underlying exposures acquired by customer for long term business objective, not market arbitrage	PASS	PASS	FAIL	FAIL	FAIL	FAIL	FAIL
(F) Obligor not a regulated financial company, investment company, non-regulated fund, pension fund, investment advisor or identified company for at least 95 % of underlying exposures	PASS	PASS	PASS	PASS	PASS	PASS	PASS
(G) No market value triggers forcing liquidation	PASS	PASS	PASS	PASS	FAIL	FAIL	FAIL
(H) Requires compliance with applicable credit risk retention laws	PASS	PASS	PASS	PASS	PASS	PASS	PASS
(I) Available borrowing base required for additional funding against unused commitment	PASS	PASS	DEPENDS	FAIL	PASS	FAIL	FAIL
<b>Passes all categories?</b>	<b>PASS</b>	<b>PASS</b>	<b>FAIL</b>	<b>FAIL</b>	<b>FAIL</b>	<b>FAIL</b>	<b>FAIL</b>

APPENDIX C

BCSCF STRUCTURE – DIRECT BANK FACILITY

Fundamental BCSCF Structure – Direct Bank Funding to Customer SPE

- Bank provides a \$100 commitment to customer’s SPE to fund assets as they are delivered, subject to a borrowing base
- Bank customer sells assets (\$50) to an SPE (“**Customer SPE**”) that it sponsors
  - Decision to borrow undrawn amounts starts with the customer, since the customer originates and holds the assets to be transferred to and financed by the SPE
  - SPE cannot unilaterally borrow funds from the bank until the customer has made the decision to sell assets to the SPE
  - Due to eligibility criteria and credit enhancement requirements, the customer receives \$40 in cash and a \$10 subordinated certificate
- Customer SPE transfers a \$40 senior interest in the \$50 portfolio of assets to the Bank
- **Undrawn amount is \$60, attracting 100% LCR outflow under the Proposed Rule**

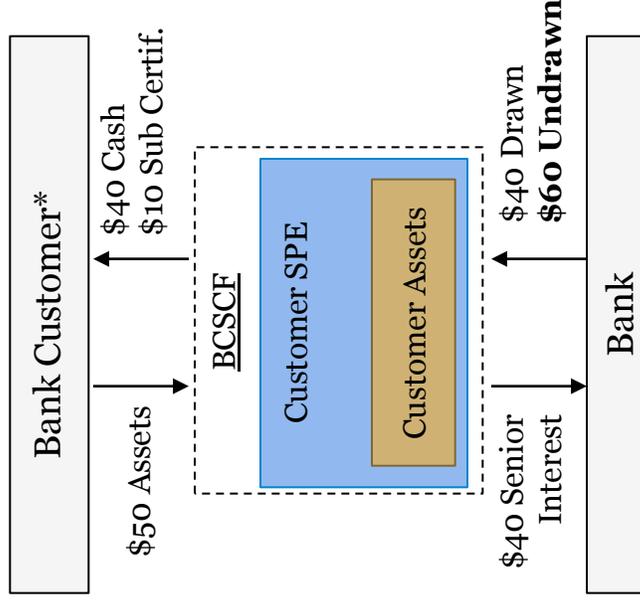


\* See Appendix G for examples of bank customers that use this form of financing.

## Comparison – BCSCF vs. Traditional Revolving Credit Facility

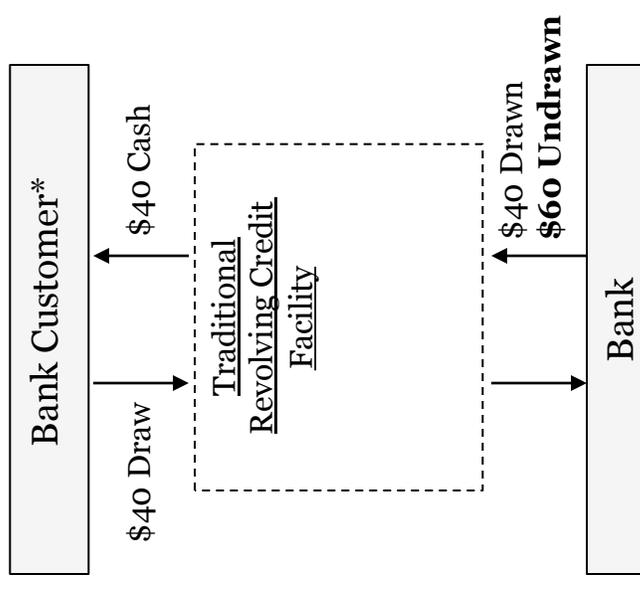
- Despite identical decision making and similar historical draw behavior, the LCR implications of the two facilities are very different
  - Undrawn credit commitments to wholesale customers attract a 10% LCR outflow, versus a 100% LCR outflow for BCSCFs
- See Appendix A for more detailed customer examples, including a BCSCF to a financial entity

### \$100 Bank Customer Securitization Credit Facility



▪ **LCR Outflow \$60**

### \$100 Traditional Revolving Credit Facility



▪ **LCR Outflow \$6**

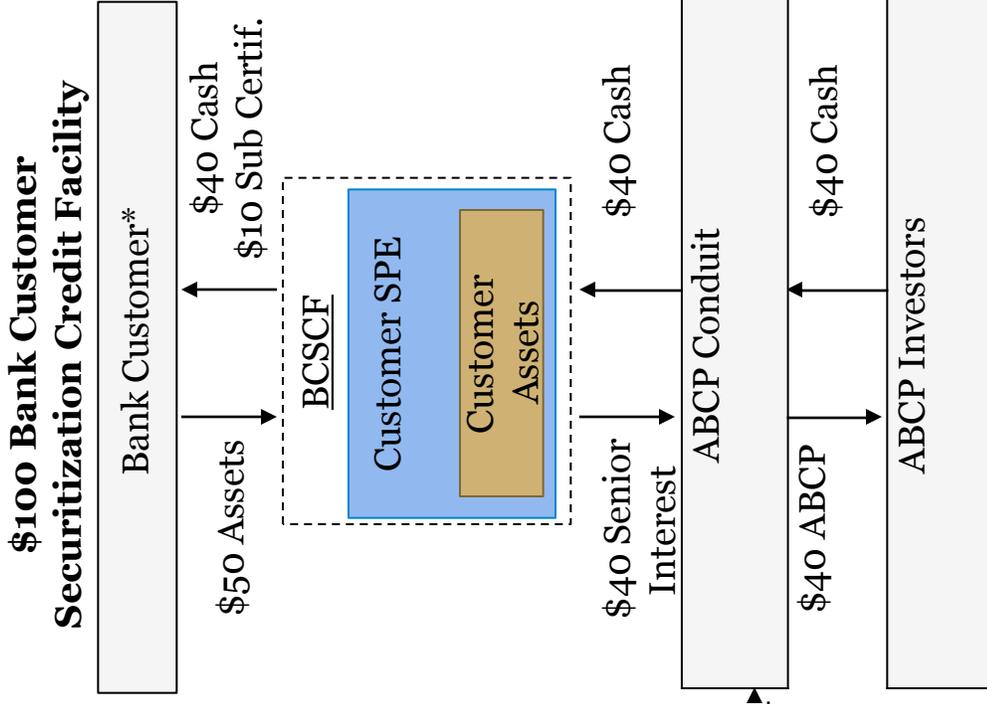
\* See Appendix G for examples of bank customers that use these forms of financing.

APPENDIX D

BCSCF STRUCTURE – ABCP CONDUIT FACILITY

Fundamental BCSCF Structure – ABCP Conduit

- Bank customer sells assets (\$50) to a Customer SPE that it sponsors
  - Decision to borrow undrawn amounts starts with the customer, since the customer originates and holds the assets to be transferred to and financed by the SPE
  - SPE cannot unilaterally borrow funds from the conduit until the customer has made the decision to sell assets to the SPE
  - Due to eligibility criteria and credit enhancement requirements, the customer receives \$40 in cash and a \$10 subordinated certificate
- Customer SPE transfers a \$40 senior interest in the \$50 portfolio of assets to the ABCP conduit
- ABCP conduit issues \$40 of ABCP to finance the purchase of a \$40 senior interest in assets
- Bank provides a \$100 committed liquidity facility to the ABCP conduit to serve as an alternative source of funding
- **Undrawn amount is \$60, attracting 100% LCR outflow under the Proposed Rule**



\* See Appendix G for examples of bank customers that use this form of financing.

## APPENDIX E

### COMPARING A BCSCF TO A TRADITIONAL REVOLVING CREDIT FACILITY

#### Drawdown Rate Asymmetry – Customer Example 1

- The inclusion of an SPE to isolate credit risk does not change the true nature of the BCSCF, and does not impact customers’ borrowing needs
  - Working capital and other general corporate purposes dictate activity
  - Proposed look-through approach ensures that facilities to the same customer are treated the same in the LCR calculation

Wholesale Customer	Unsecured Revolving Credit Facility	BCSCF	Comments
Borrower	Wholesale Bank Customer	Wholesale Bank Customer's SPE	Borrowing decisions are driven by customer borrowing needs
Commitment	\$100MM	\$100MM	
Borrowed Amount	\$40MM	\$40MM	
Undrawn Amount	\$60MM	\$60MM	
Borrowing Base	N/A	\$45MM	Required to borrow under a securitization
Available Borrowing Capacity	\$60MM	\$5MM	Available capacity is constrained to the borrowing base
Current LCR Draw	10% = \$6MM	<b>100% = \$60MM</b>	Current drawdown included in the LCR calculation for a wholesale customer increases by \$54MM when funded through a BCSCF
Proposed LCR Look-Through Approach	10% = \$6MM	<b>10% = \$6MM</b>	Proposed LCR definition modification to avoid disparate treatment for similar facility types

The current LCR outflow calculation is **\$54MM** greater than a standard corporate exposure, while the substance of the transaction remains unchanged

## Drawdown Rate Asymmetry – Customer Example 2

- The asymmetry is still present in the case of a financial entity

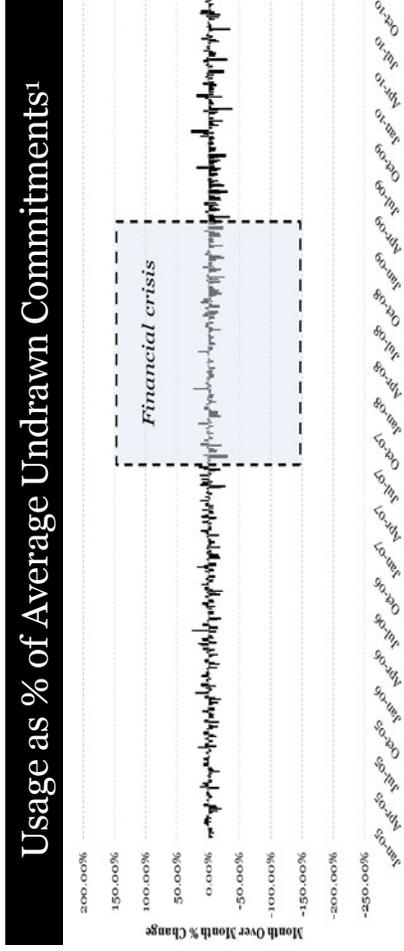
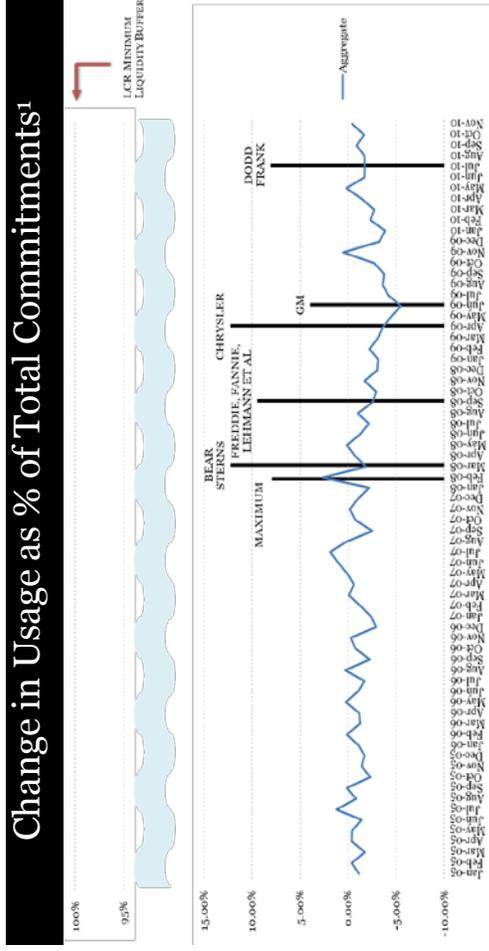
Financial Entity	Unsecured Revolving Credit Facility	BCSCF	Comments
Borrower	Financial Entity Bank Client	Financial Entity Bank Client's SPE	Borrowing decisions are driven by customer borrowing needs
Commitment	\$100MM	\$100MM	
Borrowed Amount	\$40MM	\$40MM	
Undrawn Amount	\$60MM	\$60MM	
Borrowing Base	N/A	\$45MM	Required to borrow under a securitization
Available Borrowing Capacity	\$60MM	\$5MM	Available capacity is constrained to the borrowing base
Current LCR Draw	40% = \$24MM	<b>100% = \$60MM</b>	Current drawdown included in the LCR calculation for a financial entity increases by \$36MM when funded through a BCSCF
Proposed LCR Look-Through Approach	40% = \$24MM	<b>40% = \$24MM</b>	Proposed LCR definition modification to avoid disparate treatment for similar facility types

The current LCR outflow calculation is **\$36MM** greater than a standard corporate exposure, while the substance of the transaction remains unchanged

## APPENDIX F

### DATA SUPPORTING ANALYSIS OF DRAW EXPERIENCE

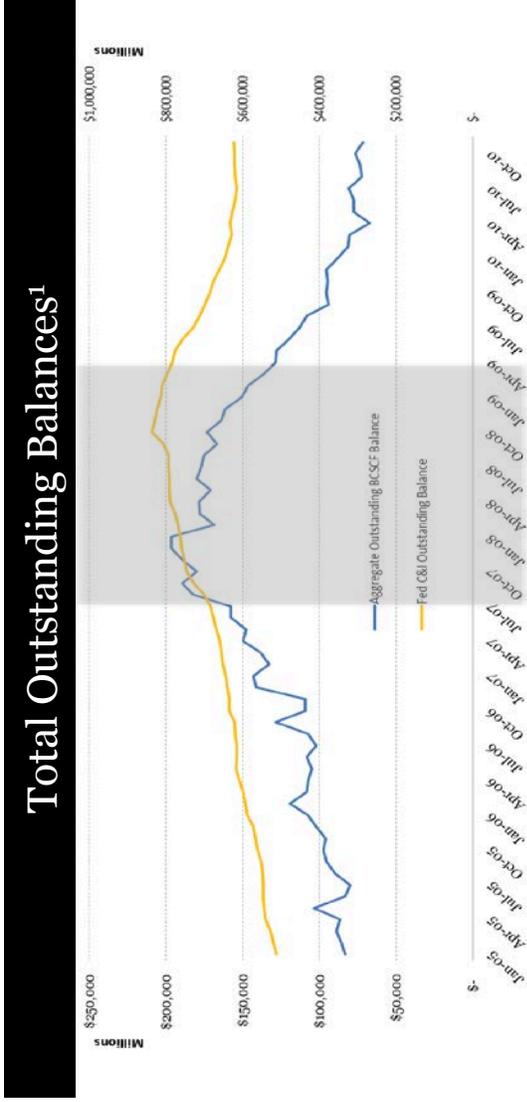
- 100% utilization assumption for BCSCFs is overly conservative, as these facilities did not experience a spike in usage during the financial crisis
- Peak usage in each case occurred at a time outside of the financial crisis, providing further evidence that the decision to draw is not tied to market liquidity events



<sup>1</sup>Source: Survey of 9 major banking organizations

## Loan Balance Trends Demonstrate Reduced Bank Customer Borrowing Needs During Economic Downturn

- Decision to draw on BCSCFs driven by the same factors as under general C&I loans
  - Utilization dependent on the working capital needs of the bank customer
- Neither BCSCFs nor traditional corporate revolvers experienced a spike in outstandings during the financial crisis
  - Historical draw experience for BCSCFs demonstrates their similarity to traditional revolving credit facilities, supporting the Associations' recommendation for the look-through approach
  - Experience shows that 100% outflow rate for SPEs used in BCSCFs is overly conservative



<sup>1</sup>Source: Federal Reserve for outstanding C&I balance data and survey of 9 major banking organizations for BCSCF data

## APPENDIX G

### SELECTED COMPANIES USING BCSCFs

Sample Bank Client Securitization Listing<sup>1,2</sup>

Bank Client	Bank Client Industry	Year Established	Facility Size	Bank Client	Bank Client Industry	Year Established	Facility Size
Valero Energy Corporation	Oil & Gas Refining & Marketing	1999	\$1,500,000,000	Eastman Chemical Company	Chemicals - Major Diversified	2008	\$250,000,000
McKesson Corporation	Drugs Wholesale	1999	\$1,350,000,000	Transdigm Group Inc.	Aerospace and Defense	2013	\$225,000,000
Marathon Petroleum Corporation	Oil & Gas Refining & Marketing	2011	\$1,300,000,000	Hanesbrands, Inc.	Textile - Apparel Clothing	2007	\$225,000,000
LyondellBasell Industries NV	Specialty Chemicals	2007	\$1,000,000,000	Exelon Corporation	Diversified Utilities	2001	\$210,000,000
AmerisourceBergen Corporation	Drugs Wholesale	2003	\$950,000,000	Ball Corporation	Packaging & Containers	2003	\$210,000,000
Avnet, Inc.	Electronics Wholesale	2001	\$800,000,000	NiSource Inc.	Diversified Utilities	2009	\$200,000,000
Freemius Medical Care Holdings	Healthcare Facilities	1997	\$800,000,000	United Stationers Inc.	Wholesale, Other	1998	\$200,000,000
Arrow Electronics, Inc.	Electronics Wholesale	2001	\$775,000,000	Consol Energy Inc.	Industry Metals & Minerals	2003	\$200,000,000
American Electric Power Company	Electric Utilities	2000	\$700,000,000	Vdt Information Sciences, Inc.	Business Services	2002	\$200,000,000
Cardinal Health, Inc.	Drugs Wholesale	2000	\$700,000,000	Insight Enterprises, Inc.	Application Software	2008	\$200,000,000
Rock-Tenn Company	Packaging & Containers	2000	\$700,000,000	Ferrigo Company	Pharmaceutical Manufacturing	2009	\$200,000,000
Phillips 66	Oil & Gas Refining & Marketing	2012	\$696,000,000	Commercial Metals Company	Metal Products Manufacturing	2011	\$200,000,000
Ingram Micro Inc.	Computers Wholesale	1993	\$675,000,000	VWR International, LLC	Medical Equipment & Supplies	2011	\$175,000,000
United States Steel	Iron & Steel Mills	2001	\$625,000,000	Cooper Tire & Rubber Company	Rubber & Plastics	2006	\$175,000,000
United Pacific Corporation	Railroads	1993	\$600,000,000	Triumph Group Inc	Aerospace/Defense Products & Services	2008	\$170,000,000
Ferguson Enterprises, Inc.	Plumbing & Heating Supplies Wholesale	2013	\$600,000,000	H.J. Heinz Company	Food and Beverage	2009	\$175,000,000
Dean Foods Company	Dairy Products	2000	\$550,000,000	Greif Inc.	Packaging & Containers	2008	\$170,000,000
United Rentals Inc.	Rental & Leasing Services	2001	\$550,000,000	Lennox International, Inc.	Diversified Machinery	2000	\$160,000,000
Quest Diagnostics Inc.	Medical Laboratories & Research	2000	\$525,000,000	The Manitowoc Company, Inc.	Construction of Machinery & Equipment	2000	\$150,000,000
WESCO International, Inc.	Industrial Equipment Wholesale	2003	\$500,000,000	Convergys Corporation	Business Software & Services	2009	\$150,000,000
Jarden Corporation	Housewares & Accessories	2006	\$500,000,000	Flowers Foods	Consumer Products	2013	\$150,000,000
Synnex Corporation	Computer and Computer Peripheral Equipment	2003	\$500,000,000	Kelly Services, Inc.	Staffing & Outsourcing Services	2009	\$150,000,000
Fleetcor Technologies	Credit Card Processing	2004	\$500,000,000	UGI Energy Services, LLC	Energy Marketing and Distribution	2001	\$150,000,000
Community Health Systems, Inc.	Hospitals	2012	\$500,000,000	Martin Marietta Materials, Inc.	Non-Metallic Minerals Mining	2013	\$150,000,000
Mylan Inc.	Drugs - Generic	2012	\$400,000,000	Celanese Corporation	Basic Chemical Manufacturing	2013	\$135,000,000
Duke Energy Corporation	Electric Utilities	2008	\$400,000,000	SPX Corporation	Diversified Machinery	2000	\$130,000,000
Tech Data Corporation	Computers Wholesale	1995	\$400,000,000	Lexmark International Inc.	Computer Peripheral Equipment	2004	\$125,000,000
Newell Rubbermaid Inc.	Housewares & Accessories	2001	\$350,000,000	Cincinnati Bell Inc.	Telecom Services - Domestic	2006	\$120,000,000
Norfolk Southern Corporation	Railroads	2000	\$350,000,000	Great Plains Energy Inc.	Electric Utilities	1999	\$110,000,000
Sungard Data Systems Inc.	Data Processing	2009	\$350,000,000	TriMas Corporation	Industrial Equipment & Components	2002	\$105,000,000
Ashland Inc.	Chemicals - Major Diversified	2008	\$350,000,000	Armstrong World Industries, Inc.	General Building Materials	2010	\$100,000,000
Swift Transportation Company	Trucking	1999	\$325,000,000	Meritor, Inc.	Auto Parts	2001	\$100,000,000
Boston Scientific Corporation	Medical Appliances & Equipment	2002	\$300,000,000	Moog Inc.	Aerospace/Defense Products & Services	2012	\$100,000,000
Anixter Inc.	Industrial Equipment Wholesale	2000	\$300,000,000	Worthington Industries, Inc.	Steel Processing	2000	\$100,000,000
Targa Resources Partners LP	Oil & Gas Pipelines	2012	\$300,000,000	LKQ Corporation	Motor Vehicle Parts	2012	\$80,000,000
Peabody Energy Corporation	Industry Metals & Minerals	2002	\$275,000,000	Arkansas Best Corporation	General Freight Trucking	2009	\$75,000,000
Universal Health Services	Hospitals and Behavioral Health Centers	1993	\$275,000,000	Cloud Peak Energy Inc.	Coal Mining	2013	\$75,000,000
CSX Corporation	Railroads	2009	\$250,000,000	American Greetings Corporation	Printing and Publishing	2001	\$50,000,000
Huntsman Corporation	Chemicals - Major Diversified	2000	\$250,000,000	Teleflex Inc.	Medical Instruments & Supplies	2001	\$50,000,000
Arch Coal Inc.	Industry Metals & Minerals	2006	\$250,000,000	Ferro Corporation	Specialty Chemicals	2000	\$50,000,000
Owens Corning Corporation	Building Products Manufacturing	2011	\$250,000,000	G&K Services, Inc.	Personal Services	2010	\$50,000,000

<sup>1</sup> Represents a sample list of companies that maintain trade receivables securitization and, therefore, is not a complete list of companies that utilize this form of financing

<sup>2</sup> All BCSCFs presented herein are publicly disclosed

## APPENDIX H

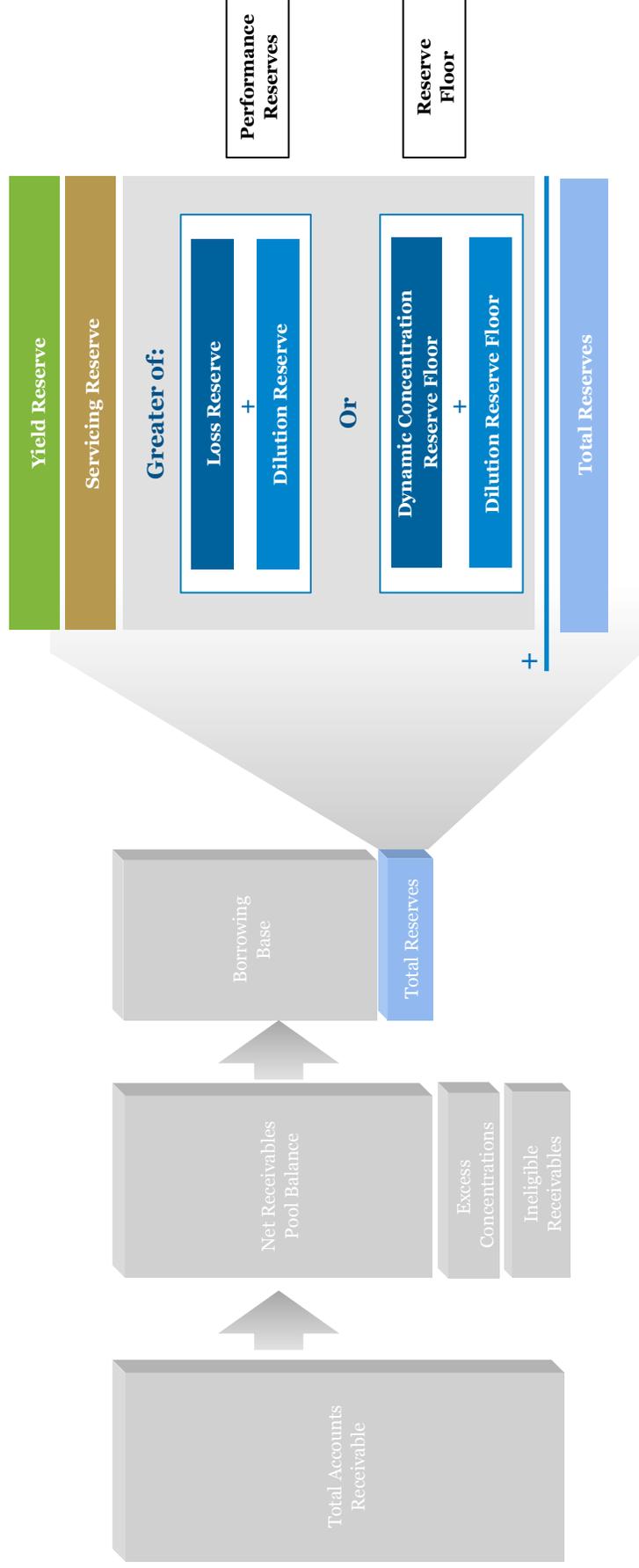
### SAMPLE ELIGIBILITY CRITERIA – BCSCF FINANCING TRADE RECEIVABLES

- “Eligible Receivable” means, at any time, a Pool Receivable:
  - a) the Obligor of which is (i) a resident of the United States or is an Eligible Foreign Obligor, (ii) not an Affiliate of the Servicer, any Originator or the Seller and (iii) not a Sanctioned Obligor;
  - b) that is denominated and payable in U.S. dollars, and the Obligor with respect to which has been instructed to remit Collections in respect thereof to a Lock-Box Account in the United States;
  - c) that does not have an original due date which is 60 days or more after the date such Receivable was created;
  - d) that arises under a duly authorized Contract for the sale and delivery of goods or performance of services in the ordinary course of an Originator’s business;
  - e) that arises under a duly authorized Contract that is in full force and effect and that is a legal, valid and binding obligation of the related Obligor, enforceable against such Obligor in accordance with its terms;
  - f) that conforms in all material respects with all material applicable Laws, rulings and regulations in effect;
  - g) that is not (i) the subject of any asserted dispute, offset, hold back, defense, Adverse Claim or other claim;
  - h) that satisfies in all material respects all applicable requirements of the Credit and Collection Policy;
  - i) that has not been modified, waived or restructured since its creation, except in accordance with the applicable Credit and Collection Policy or as otherwise permitted under this Agreement;
  - j) in which the Seller has good and marketable title, free and clear of any Adverse Claims, and that is freely assignable by the Seller (including without any consent of the related Obligor unless such consent has already been obtained);
  - k) for which the Administrator (for the benefit of each Purchaser) shall have a valid and enforceable ownership or security interest, to the extent of the Purchased Interest, and a valid and enforceable first priority perfected security interest therein and in the Related Security and Collections with respect thereto, in each case free and clear of any Adverse Claim;
  - l) that constitutes an “account” or “general intangible” (each, as defined in the UCC), and that is not evidenced by an “instrument” or “chattel paper” (each, defined in the UCC);
  - m) that is not a Defaulted Receivable or a Delinquent Receivable;
  - n) for which Delinquent Receivables of the related Obligor do not exceed 50% of the Outstanding Balance of all of such Obligor’s Receivables;
  - o) that represents amounts fully earned and payable by the Obligor and is not subject to the performance of any additional services by the Originator thereof or any other Person; and
  - p) that, if such Receivable is an Unbilled Receivable, no more than 60 days have expired since the date that such Receivable was created.

## Reserve Mechanics

### Total Reserves

- Total Reserves are recalculated monthly based on the composition of the receivables pool (eligible receivables and obligor concentrations) and the pool's performance metrics (dilution and defaults)
- The Total Reserve Percentage is calculated as follows:



## Sample Advance Rate Calculation

**Borrowing Base** =  $(1 - TRP) \times NRPB$

- **NRPB** = Net Receivables Pool Balance = Eligible Receivables – Excess Concentrations
- **TRP** = Total Reserve Percentage = the greater of (i) or (ii), plus (iii), plus (iv)
  - i. Performance Reserves (a) + (b)
    - a) Loss Reserve Percentage =  $SF \times DR \times LH$ 
      - SF = Stress Factor = 2.00x to 2.50x
      - DR = Default Ratio = the highest 3-month rolling average Default Ratio over the LTM
        - Default Ratio = an objectively assigned default proxy divided by sales originating those defaults
        - LH = Loss Horizon = cumulative credit sales over the last several months divided by NRPB in the current month
    - b) Dilution Reserve Percentage =  $[(SF \times ED) + ((DS - ED) \times DS/ED)] \times DH$ 
      - SF = Stress Factor = 2.00x to 2.50x
      - ED = Expected Dilution = 12-month rolling average of the monthly dilution ratio
      - DS = Dilution Spike = highest dilution ratio over the preceding 12 months
      - DH = Dilution Horizon = credit sales for the most recent several months divided by the NRPB in the current month
  - ii. Reserve Floor (a) + (b)
    - a) Dynamic Concentration Reserve Floor = the greatest of:
      - 4-5 largest non-investment grade or non-rated obligors
      - 2-3 largest A-3/P-3 (or BBB-/Baa3) obligors
      - 1-2 largest A-2/P-2 (or BBB+/Baa1) obligors
      - 0-1 obligors rated A-1/P-1 (or A+/A1) or better
    - b) Dilution Reserve Floor =  $ED \times DH$ 
      - ED = Expected Dilution = 12-month rolling average of the monthly dilution ratio
      - DH = Dilution Horizon = credit sales for the most recent several months divided by the NRPB in the current month
  - iii. Yield Reserve Percentage =  $(BR/360) \times SF \times DSO$ 
    - BR = Base Rate (currently 3-25%)
    - SF = Stress Factor (1.5x)
    - DSO = Days Sales Outstanding
  - iv. Servicing Fee Reserve Percentage =  $(SFR/360) \times SF \times DSO$ 
    - SFR = Servicing Fee Rate (typically 1.00%)
    - SF = Stress Factor (1.5x)
    - DSO = Days Sales Outstanding

## APPENDIX I

### PROPOSED REVISIONS RELATING TO THE DENOMINATOR

#### Additional Definitions

*Bank customer securitization credit facility* means a traditional securitization (as defined in the [AGENCY'S RISK-BASED CAPITAL RULES]:

- (a) that is sponsored by a customer of one or more banks;
- (b) through which the customer obtains financing either (i) directly from one or more such banks, or (ii) through one or more asset-backed commercial paper conduits that are supported with liquidity facilities from one or more such banks with commitment amounts (together with commitment amounts from other financial institutions, governmental agencies and government-sponsored entities) that at least cover the face amount of the asset-backed commercial paper used to fund such financing;
- (c) where the customer is not one of such banks, or an affiliate of one of such banks, extending such financing or providing a liquidity or credit facility to an asset-backed commercial paper conduit that is extending such financing;
- (d) where one or more of such banks or asset-backed commercial paper conduits, or an agent on its or their behalf, negotiates and agrees to the terms of the financing directly with the customer or the bank customer special purpose entity;
- (e) where the eligible primary underlying exposures have been originated or acquired by the customer to further a long-term business objective and proceeds of borrowings by the customer or the bank customer special purpose entity under the facility are used to finance such exposures;
- (f) where, for at least 95 percent of the eligible primary underlying exposures, the obligor is not a depository institution, depository institution holding company, foreign bank, or a consolidated subsidiary of any of the foregoing;
- (g) where the terms of the underlying transaction are not subject to market value triggers that require eligible primary underlying exposures to be sold;
- (h) that contains terms requiring compliance with any applicable laws and regulations governing credit risk retention by sponsors of traditional securitizations; and
- (i) where, after initial financing is extended, none of such banks or asset-backed commercial paper conduits are required to fund any commitment to such customer or its special purpose entity unless eligible primary underlying

exposures exist and are available to secure such additional funding as required by the terms of the financing.

*Bank customer special purpose entity* means a special purpose entity established by a bank customer in connection with a bank customer securitization credit facility.

*Undrawn bank customer securitization credit commitment* means the portion of the undrawn amount under a bank customer securitization credit facility that is available to provide funding to the bank customer special purpose entity to acquire the exposures underlying the relevant securitization transaction. An undrawn bank customer securitization credit commitment does not include any portion of any undrawn amount under any liquidity or credit facility provided by the bank to an asset-backed commercial paper conduit in a bank customer securitization credit facility that supports outstanding asset-backed commercial paper issued by such asset-backed commercial paper conduit.

#### **Changes to Section \_\_.32(b) of the Proposed Rule**

- (b) Structured transaction outflow amount. If a [BANK] is a sponsor of a structured transaction, without regard to whether the issuing entity is consolidated on the [BANK]'s balance sheet under GAAP, the structured transaction outflow amount for each structured transaction as of the calculation date is the greater of:
  - (1) 100 percent of the amount of all debt obligations of the issuing entity that are not exposures issued as part of a traditional securitization (as defined in the [AGENCY'S RISK-BASED CAPITAL RULES]) of the bank's assets that mature 30 calendar days or less from such calculation date and all commitments made by the issuing entity to purchase assets within 30 calendar days or less from such calculation date in such a transaction that is not a traditional securitization of the bank's assets; and
  - (2) The maximum contractual amount of funding that is not assigned a commitment outflow amount under § \_\_.32(e)(vi) that the [BANK] may be required to provide to the issuing entity 30 calendar days or less from such calculation date through a liquidity facility, a return or repurchase of assets from the issuing entity, or other funding agreement.

#### **Changes to Section \_\_.32(e)(1) of the Proposed Rule**

- (e) Commitment outflow amount. (1) A [BANK]'s commitment outflow amount as of the calculation date includes:
  - (i) 0 percent of the undrawn amount of all committed credit and liquidity facilities extended by a [BANK] that is a depository institution to an affiliated depository institution that is subject to a minimum liquidity standard under this part;

- (ii) 5 percent of the undrawn amount of all committed credit and liquidity facilities extended by the [BANK] to retail customers or counterparties;
- (iii)(A) 10 percent of the undrawn amount of all committed credit facilities; and (B) 30 percent of the undrawn amount of all committed liquidity facilities extended by the [BANK] to a wholesale customer or counterparty that is not a regulated financial company, investment company, non-regulated fund, pension fund, investment adviser, or identified company, or to a consolidated subsidiary of any of the foregoing;
- (iv) 50 percent of the undrawn amount of all committed credit and liquidity facilities extended by the [BANK] to depository institutions, depository institution holding companies, and foreign banks, excluding commitments described in paragraph (e)(1)(i) of this section;
- (v)(A) 40 percent of the undrawn amount of all committed credit facilities; and (B) 100 percent of the undrawn amount of all committed liquidity facilities extended by the [BANK] to a regulated financial company, investment company, non-regulated fund, pension fund, investment adviser, or identified company, or to a consolidated subsidiary of any of the foregoing, excluding other commitments described in paragraph (e)(1)(i) or (e)(1)(iv) of this section;
- (vi) (A) 10 percent of the all undrawn bank customer securitization credit commitments extended to bank customer special purpose entities that acquire assets exclusively from, or originate assets exclusively on behalf of, one or more wholesale customers or counterparties that are not regulated financial companies, investment companies, non-regulated funds, pension funds, investment advisers, or identified companies, or a consolidated subsidiary of any of the foregoing; (B) 50 percent of all undrawn bank customer securitization credit commitments extended to bank customer special purpose entities that acquire assets exclusively from, or originate assets exclusively on behalf of, depository institutions, depository institution holding companies, and foreign banks; (C) 40 percent of all undrawn bank customer securitization credit commitments extended to bank customer special purpose entities that acquire assets exclusively from, or originate assets exclusively on behalf of, regulated financial companies, investment companies, non-regulated funds, pension funds, investment advisers, or identified companies, or a consolidated subsidiary of any of the foregoing; and (D) 100 percent of the undrawn amount of all committed credit and liquidity facilities extended to special purpose entities, excluding credit and liquidity facilities included in § \_\_.32(b)(2) or in clauses (A)-(C) of this paragraph (e)(vi); and
- (vii) 100 percent of the undrawn amount of all other committed credit or liquidity facilities extended by the [BANK].

## APPENDIX J<sup>1</sup>

### AGENCIES' DEFINITION OF "TRADITIONAL SECURITIZATION"

*Traditional securitization* means a transaction in which:

- (1) All or a portion of the credit risk of one or more underlying exposures is transferred to one or more underlying exposures is transferred to one or more third parties other than through the use of credit derivatives or guarantees;
- (2) The credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority;
- (3) Performance of the securitization exposures depends upon the performance of the underlying exposures;
- (4) All or substantially all of the underlying exposures are financial exposures (such as loans, commitments, credit derivatives, guarantees, receivables, asset-backed securities, mortgage-backed securities, other debt securities or equity securities);
- (5) The underlying exposures are not owned by an operating company;
- (6) The underlying exposures are not owned by a small business investment company defined in section 302 of the Small Business Investment Act;
- (7) The underlying exposures are not owned by a firm an investment in which qualifies as a community development investment under section 24 (Eleventh) of the National Bank Act;
- (8) The FDIC may determine that a transaction in which the underlying exposures are owned by an investment firm that exercises substantially unfettered control over the size and composition of its assets, liabilities, and off-balance sheet credit exposures is not a traditional securitization based on the transaction's leverage, risk profile or economic substance;
- (9) The FDIC may deem a transaction that meets the definition of a traditional securitization, notwithstanding paragraph (5), (6), or (7) of this definition, to be a traditional securitization based on the transaction's leverage, risk profile, or economic substance; and
- (10) The transaction is not:
  - (i) An investment fund;
  - (ii) A collective investment fund (as defined in 12 C.F.R. pt. 344.3 (state nonmember bank) and 12 C.F.R. pt. 390.203 (state savings association));

---

<sup>1</sup> 12 C.F.R. pt. 208, app. F; 12 C.F.R. pt. 225, app. G.

(iii) An employee benefit plan (as defined in paragraphs (4) and (32) of section 3 of ERISA), a “governmental plan” (as defined in 29 U.S.C. §1002(32)) that complies with the tax deferral qualification requirements provided in the Internal Revenue Code, or any similar employee benefit plan established under the laws of a foreign jurisdiction;

(iv) A synthetic exposure to the capital of a financial institution to the extent deducted from capital under § 324.22; or

(v) Registered with the SEC under the Investment Company Act or foreign equivalents thereof.

## APPENDIX K

### PROPOSED REVISIONS RELATING TO THE NUMERATOR

#### Additional Definitions

*Qualified Mortgage* is defined in 12 C.F.R. § 1026.43(e)(2) (Regulation Z), pursuant to the Truth in Lending Act (15 U.S.C. § 1601 *et seq.*).

*Securities Act* means the Securities Act of 1933 (15 U.S.C. § 77a-77aa).

#### Revisions to Subpart C - High Quality Liquid Assets

##### §\_\_20 High Quality Liquid Asset Criteria.

(a) Level 1 liquid assets. An asset is a level 1 liquid asset if it meets all of the criteria set forth in paragraphs (d) and (e) of this section and is one of the following types of assets:

(a)(1) Reserve Bank balances;

(a)(2) Foreign withdrawable reserves;

(a)(3) A security that is issued by, or unconditionally guaranteed as to the timely payment of principal and interest by, the U.S. Department of the Treasury;

(a)(4) A security that is issued by, or unconditionally guaranteed as to the timely payment of principal and interest by, a U.S. government agency (other than the U.S. Department of the Treasury) whose obligations are fully and explicitly guaranteed by the full faith and credit of the United States government, provided that the security is liquid and readily-marketable;

(a)(5) A security that is issued by, or unconditionally guaranteed as to the timely payment of principal and interest by, a sovereign entity, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Community, or a multilateral development bank, that is:

(i) Assigned a 0 percent risk weight under subpart D of [AGENCY CAPITAL REGULATION] as of the calculation date;

(ii) Liquid and readily-marketable;

(iii) Issued by an entity whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions;

(iv) Not an obligation of a regulated financial company, investment company, non-regulated fund, pension fund, investment adviser, or identified company, and not an obligation of a consolidated subsidiary of any of the foregoing; and

(a)(6) A security issued by, or unconditionally guaranteed as to the timely payment of principal and interest by, a sovereign entity that is not assigned a 0 percent risk weight under subpart D of [AGENCY CAPITAL REGULATION], where the sovereign entity issues the security in its own currency, the security is liquid and readily-marketable, and the [BANK] holds the security in order to meet its net cash outflows in the jurisdiction of the sovereign entity, as calculated under subpart D of [AGENCY CAPITAL REGULATION].

(a)(7) A mortgage-backed security that is (i) issued by a U.S. government-sponsored enterprise that is (A) operating under the conservatorship or receivership of the Federal Housing Finance Agency pursuant to section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (15 U.S.C. § 4617(a)) or (B) otherwise effectively guaranteed by the full faith and credit of the United States government and (ii) investment grade under 12 CFR part 1 as of the calculation date, provided that the claim is senior to preferred stock.

(b) ...

(c) Level 2B liquid assets. An asset is a level 2B liquid asset if the asset is liquid and readily-marketable, meets all of the criteria set forth in paragraphs (d) and (e) of this section, and is one of the following types of assets:

(c)(1) A publicly traded corporate debt security that is:

(i) Investment grade under 12 CFR part 1 as of the calculation date;

(ii) Issued by an entity whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by:

(A) The market price of the publicly traded corporate debt security or equivalent securities of the issuer declining by no more than 20 percent during a 30 calendar-day period of significant stress, or

(B) The market haircut demanded by counterparties to secured lending and secured funding transactions that are collateralized by the publicly traded corporate debt security or equivalent securities of the issuer increasing by no more than 20 percentage points during a 30 calendar-day period of significant stress; and

(c)(2) A publicly traded common equity share that is:

(i) Included in:

(A) The Standard & Poor's 500 Index;

(B) An index that a [BANK]'s supervisor in a foreign jurisdiction recognizes for purposes of including equity shares in level 2B liquid assets under applicable regulatory policy, if the share is held in that foreign jurisdiction; or

(C) Any other index for which the [BANK] can demonstrate to the satisfaction of the [AGENCY] that the equities represented in the index are as liquid and readily marketable as equities included in the Standard & Poor's 500 Index;

(ii) Issued in:

(A) U.S. dollars; or

(B) In the currency of a jurisdiction where the [BANK] operates and the [BANK] holds the common equity share in order to cover its net cash outflows in that jurisdiction, as calculated under subpart D of this part;

(iii) Issued by an entity whose publicly traded common equity shares have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by:

(A) The market price of the security or equivalent securities of the issuer declining by no more than 40 percent during a 30 calendar-day period of significant stress, or

(B) The market haircut demanded by counterparties to securities borrowing and lending transactions that are collateralized by the publicly traded common equity shares or equivalent securities of the issuer increasing by no more than 40 percentage points, during a 30 calendar day period of significant stress;

(iv) Not issued by a regulated financial company, investment company, non-regulated fund, pension fund, investment adviser, or identified company, and not issued by a consolidated subsidiary of any of the foregoing;

(v) If held by a depository institution, is not acquired in satisfaction of a debt previously contracted (DPC); and

(vi) If held by a consolidated subsidiary of a depository institution, the depository institution can include the publicly traded common equity share in its level 2B liquid assets only if the share is held to cover net cash outflows of the depository institution's consolidated subsidiary, as calculated by the [BANK] under this part.

(c)(3) A residential mortgage-backed security that:

(i) Is a security registered for offer and sale under the Securities Act or, if exempt from such registration, is eligible for resale in reliance on Rule 144A under the Securities Act;

(ii) Is a senior security that has a risk-weight of 20 percent or less under subpart D of [AGENCY CAPITAL REGULATION];

(iii) The eligible primary underlying exposures consist solely of one-to-four family residential mortgage loans that are not higher-risk consumer loans or non traditional mortgage loans (as such terms are defined in appendix C to subpart A of 12 C.F.R. pt. 357);

(iv) Constitutes a “traditional securitization” exposure under subpart D of [AGENCY CAPITAL REGULATION];

(v) Is sponsored by an entity whose obligations have a proven track record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by (A) the market price of the RMBS or equivalent securities of the sponsor declining by no more than 20 percent during a 30 calendar-day period of significant stress, or (B) the market haircut demanded by counterparties to secured lending and securities funding transactions that are collateralized by the RMBS or equivalent securities of the sponsor declining no more than 20 percentage points during a 30 calendar-day period. Of significant stress; and

(vi) The underlying asset pool is restricted to residential mortgages and does not contain structured products.

(c)(4) A Qualified Mortgage residential mortgage-backed security that:

(i) Is a security registered for offer and sale under the Securities Act or, if exempt from such registration, is eligible for resale in reliance on Rule 144A under the Securities Act;

(ii) Is a senior security that has a risk-weight of 20 percent or less under subpart D of [AGENCY CAPITAL REGULATION];

(iii) Constitutes a “traditional securitization” exposure under subpart D of [AGENCY CAPITAL REGULATION];

(iv) Is sponsored by an entity whose obligations have a proven track record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by (A) the market price of the residential mortgage-backed security or equivalent securities of the sponsor declining by no more than

20 percent during a 30 calendar-day period of significant stress, or (B) the market haircut demanded by counterparties to secured lending and securities funding transactions that are collateralized by the residential mortgage-backed security or equivalent securities of the sponsor declining no more than 20 percentage points during a 30 calendar-day period of significant stress; and

(v) The underlying asset pool is restricted to Qualified Mortgages and does not contain structured products.

(c)(5) A covered bond that:

(i) Is a security registered for offer and sale under the Securities Act or, if exempt from such registration, is eligible for resale in reliance on Rule 144A of the Securities Act;

(ii) Is a senior debt security issued by a regulated unaffiliated financial institution located in an OECD country;

(iii) Is investment grade under 12 CFR part 1 as of the calculation date;

(iv) The transaction documents with respect to which grant debtholders (or a trustee on their behalf) the right to sell the covered asset pool upon a payment default and such sale could not be stayed or otherwise delayed due to insolvency of the issuing entity under applicable law; and

(v) Is sponsored by an entity whose obligations have a proven track record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by (A) the market price of the covered bond or equivalent securities of the sponsor declining by no more than 20 percent during a 30 calendar-day period of significant stress, or (B) the market haircut demanded by counterparties to secured lending and securities funding transactions that are collateralized by the covered bond or equivalent securities of the sponsor declining by no more than 20 percentage points during a 30 calendar-day period of significant stress.

(c)(6) An asset-backed security that:

(i) Is a security registered for offer and sale under the Securities Act or, if exempt from such registration, is eligible for resale in reliance on Rule 144A under the Securities Act;

(ii) Is a senior security that has a risk-weight of 20 percent or less under subpart D of [AGENCY CAPITAL REGULATION];

(iii) Constitutes a “traditional securitization” exposure under subpart D of [AGENCY CAPITAL REGULATION];

(iv) Is backed by an asset pool that was not originated or otherwise owned by the [BANK] or any of its affiliates prior to the relevant securitization transaction; and

(v) Is sponsored by an entity whose obligations have a proven track record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by (A) the market price of the asset-backed security or equivalent securities of the sponsor declining by no more than 20 percent during a 30 calendar-day period of significant stress or (B) the market haircut demanded by counterparties to secured lending and secured funding transactions that are collateralized by the asset-backed securities or equivalent securities of the sponsor declining no more than 20 percentage points during a 30 calendar-day period of significant stress.

**§\_\_21 High-Quality Liquid Asset Amount.**

(a) ...

(b) Calculation of liquid asset amounts.

(b)(1) *Level 1 liquid asset amount.* The level 1 liquid asset amount equals the fair value (as determined under GAAP) of all level 1 liquid assets held by the [BANK] as of the calculation date, less required reserves under section 204.4 of Regulation D (12 CFR 204.4).

(b)(2) *Level 2A liquid asset amount.* The level 2A liquid asset amount equals 85 percent of the fair value (as determined under GAAP) of all level 2A liquid assets held by the [BANK] as of the calculation date.

(b)(3) *Level 2B liquid asset amount.* The level 2B liquid asset amount equals (1) 75 percent of the fair value (as determined under GAAP) of all QM RMBS that qualify as Level 2B liquid assets held by the [BANK] as of the calculation date and (2) 50 percent of the fair value (as determined under GAAP) of all other level 2B liquid assets held by the [BANK] as of the calculation date.

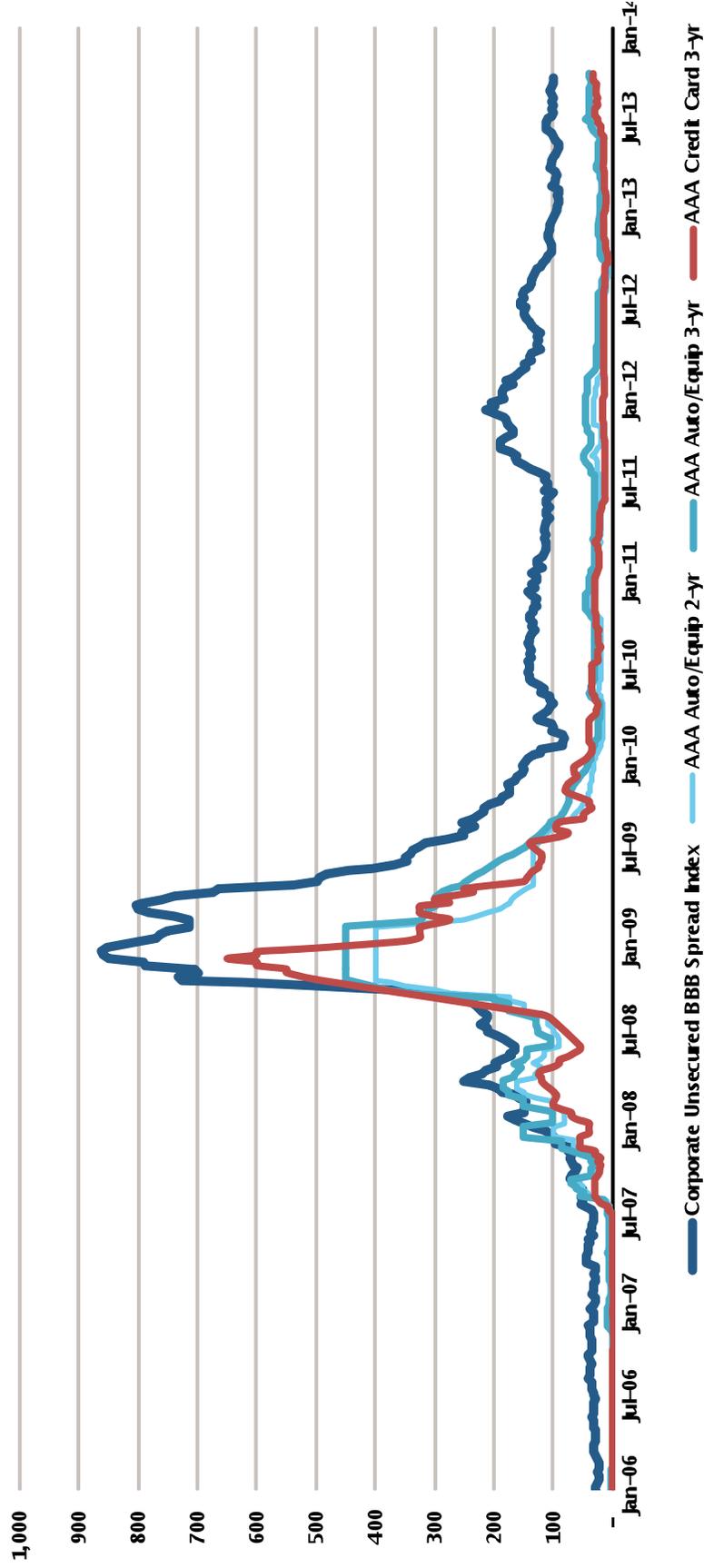
(c) ...

APPENDIX L

LIQUIDITY CHARACTERISTICS OF ABS

ABS Spreads Demonstrating Resilience to Market / Event Risk

ABS Spreads vs. Credit Suisse Liquid U.S. Corporate Unsecured (LUCI) Index BBB (1-4 year)



Certain types of ABS performed better than certain investment grade corporate debt securities throughout the crisis.