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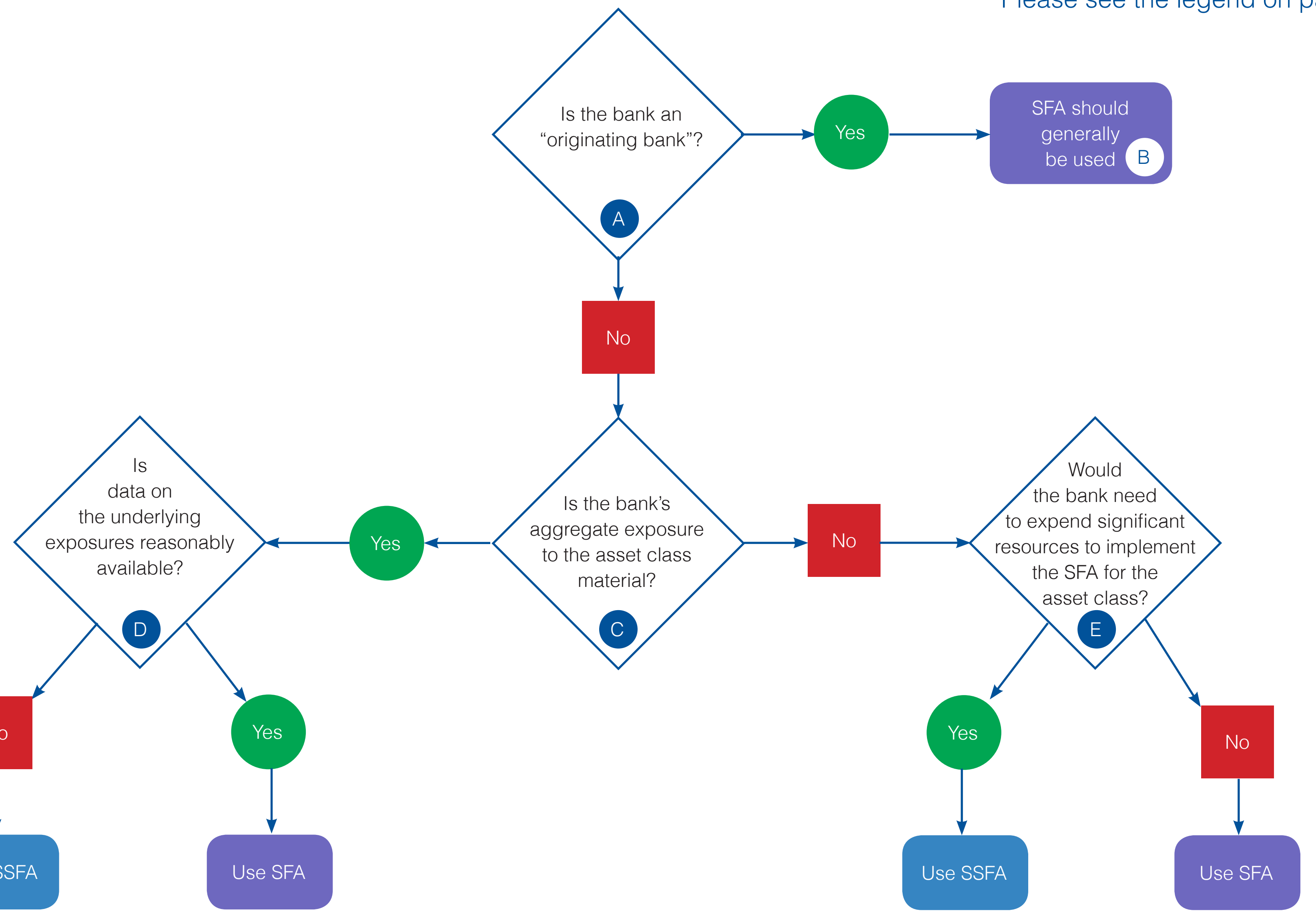
Federal Reserve Guidance — Use of Supervisory Formula Approach (SFA) v. Simplified Supervisory Formula Approach (SSFA) to Determine Risk Weights for Securitization Exposures

Please see the legend on page 2.



Federal Reserve Guidance — Use of Supervisory Formula Approach (SFA) v. Simplified Supervisory Formula Approach (SSFA) to Determine Risk Weights for Securitization Exposures

Legend

A Under the risk-based capital rules a banking organization can be an originating banking organization or an investing banking organization with respect to a securitization exposure.

An originating banking organization is a banking organization that: (1) directly or indirectly originated or securitized the underlying exposures included in the securitization; or (2) Serves as an ABCP program sponsor to the securitization.

An investing banking organization is a banking organization that assumes the credit risk of a securitization exposure (other than an originating banking organization) of the securitization.

B The new guidance indicates that the FRB will require an originating banking organization to provide a "detailed and robust justification" for not applying the SFA.

C The FRB does not provide a specific definition of "material." Instead banking organizations are to assess materiality with respect to an asset class based on a variety of factors, including the complexity, risk profile, trend and the size of the aggregate securitization exposures of the bank with respect to the asset class in relation to the overall regulatory capital of the organization. By way of example, a growing portfolio of securitization exposures that is 4% of a bank's regulatory capital may be material, while a run-off portfolio representing 5% of the bank's regulatory capital may not. Banking organizations are to determine materiality based on a "careful and well-documented analysis" that should be independently verified where appropriate.

D This is consistent with the 2013 guidance. The information may be available directly to the bank or through third party vendors. The FRB observes in the new guidance that data for applying the SFA is typically available with respect to RMBS and that investing banking organizations have successfully used the SFA for other types of receivables, such as credit card and auto loan receivables. A banking organization must provide justification that it has made "reasonable efforts" to collect the appropriate data to apply the SFA.

E There is no specific guidance as to what it means to expend "significant resources" to be able to apply the SFA in this context. Presumably the test is not as stringent as the test applied to determine whether "reasonable efforts" have been made to obtain SFA inputs with respect to material exposures.