

the Alternative RBA.<sup>47</sup> Under the Alternative RBA, a risk weight of 20 percent is applied to exposures rated AAA to AA-, 50 percent to exposures rated A+ to A-, and 100 percent to exposures rated BBB+ to BBB-. Securitization exposures having ratings below investment grade, or that are non-rated, would be deducted from risk-based capital on a dollar-for-dollar basis.

Should the A-IRB capital treatment for securitization exposures that do not have a specific A-IRB treatment be the same for investors and originators? If so, which treatment should be applied—that used for investors (the RBA) or originators (the Alternative RBA)? The rationale for the response would be helpful.

#### Structures With Early Amortization Provisions

Many securitizations of revolving credit facilities (for example, credit card accounts) contain provisions that call for the securitization to be wound down if the excess spread falls below a certain threshold.<sup>48</sup> This decrease in excess spread can, in some cases, be caused by deterioration in the credit quality of the underlying exposures. An early amortization event can increase a banking organization's capital needs if any new draws on the revolving facilities would need to be financed by the banking organization itself using on-balance-sheet sources of funding. The payment allocations used to distribute principal and finance charge collections during the amortization phase of these structures also can expose a banking organization to greater risk of loss than in other securitization structures. To account for the risks that early amortization structures pose to originating banking organizations, the capital treatment described below would apply to securitizations of revolving credit facilities containing such features.

In addition to the A-IRB capital charge an originating banking organization would incur on the securitization exposures it retains, an originator would be required to hold capital against all or a portion of the

investors' interest in a securitization when (i) the organization sells exposures into a securitization that contains an early amortization feature, and (ii) the underlying exposures sold are of a revolving nature. The A-IRB capital charge attributed to the originator that is associated with the investors' interest is calculated as the product of (a) the A-IRB capital charge that would be imposed on the entire investors' interest if it were held by the originating banking organization, and (b) an applicable CCF.

In general, the CCF would depend on whether the early amortization feature repays investors through a controlled or non-controlled mechanism, and whether the underlying exposures represent uncommitted revolving retail facilities that are unconditionally cancellable without prior notice (for example, credit card receivables) or other credit lines (for example, revolving corporate facilities).

An early amortization provision would be considered controlled if, throughout the duration of the securitization transaction, including the amortization period, there is a pro rata sharing of interest, principal, expenses, losses, and recoveries based on the balances of receivables outstanding at the beginning of each month. Further, the pace of repayment may not be any more rapid than would be allowed through straight-line amortization over a period sufficient for 90 percent of the total debt outstanding at the beginning of the early amortization period to have been repaid or recognized as in default. In addition to these criteria, banking organizations with structures containing controlled early amortization features would also have to have appropriate plans in place to ensure that there is sufficient capital and liquidity available in the event of an early amortization. When these conditions are not met, the early amortization provision would be treated as non-controlled.

#### Determination of CCFs for Controlled Early Amortization Structures

The following method for determining CCFs applies to a securitization of revolving credit facilities containing a controlled early amortization mechanism. When the pool of underlying exposures includes uncommitted retail credit lines (for example, credit card receivables), an originator would first compare the securitization's three-month average excess spread against the following two reference levels:

A. The point at which the banking organization would be required to trap

excess spread under the terms of the securitization; and

B. The excess spread level at which an early amortization would be triggered.

In cases where a transaction does not require excess spread to be trapped, the first trapping point would be deemed to be 4.5 percentage points greater than the excess spread level at which an early amortization is triggered.

The banking organization would divide the distance between the two points described above into four equal segments. For example if the spread trapping point is 4.5 percent and the early amortization trigger is zero percent, then 4.5 percent would be divided into four equal segments of 112.5 basis points each. The following conversion factors, based on illustrative segments, would apply to the investors' interest.

#### CONTROLLED EARLY AMORTIZATION OF UNCOMMITTED RETAIL CREDIT LINES

3-month average excess spread	Credit Conversion Factor (CCF) (percent)
450 basis points (bp) or more ..	0
Less than 450 bp to 337.5 bp ..	1
Less than 337.5 bp to 225 bp ..	2
Less than 225 bp to 112.5 bp ..	20
Less than 112.5 bp .....	40

All other securitizations of revolving facilities (that is, those containing underlying exposures that are committed or non-retail) having controlled early amortization features would be subject to a CCF of 90 percent.

#### Determination of CCFs for Non-Controlled Early Amortization Structures

The process for determining CCFs when a securitization of revolving credit facilities contains a non-controlled early amortization mechanism would be the same as that described above for controlled early amortization structures, except that different CCFs would apply to the various excess spread segments. For non-controlled structures, the following conversion factors, based on illustrative segments, would apply:

#### NON-CONTROLLED EARLY AMORTIZATION OF UNCOMMITTED RETAIL CREDIT LINES

3-month average excess spread	Credit Conversion Factor (CCF) (percent)
450 basis points (bp) or more ..	0
Less than 450 bp to 337.5 bp ..	5

<sup>47</sup> Through Approach as described above.

Additionally, the securitization exposures subject to the Alternative RBA are not limited by the maximum capital requirement discussed above.

<sup>48</sup> Excess spread is defined as gross finance charge collections and other income received by the trust or special purpose entity (SPE) minus certificate interest, servicing fees, charge-offs, and other senior trust or SPE expenses.

<sup>49</sup> A banking organization is generally considered a sponsor of an ABCP conduit or similar program if, in fact or in substance, it manages or advises the conduit program, places securities into the market for the program, or provides liquidity support or credit enhancements to the program.