

(3) If a bank either elects not to exclude consolidated asset-backed commercial paper program assets from its risk-weighted assets in accordance with section 4(j)(1) of this appendix A, or is not permitted to exclude consolidated asset-backed commercial paper program assets, the bank must assess a risk-based capital charge based on the appropriate risk weight of the consolidated asset-backed commercial paper program assets in accordance with section 3(a) of this appendix A. In such case, direct credit substitutes and recourse obligations (including residual interests), and loans that sponsoring banks provide to such asset-backed commercial paper programs are not subject to any capital charge under section 4 of this appendix A.

(k) *Other variable interest entities subject to consolidation.* If a bank is required to consolidate the assets of a variable interest entity under generally accepted accounting principles, the bank must assess a risk-based capital charge based on the appropriate risk weight of the consolidated assets in accordance with section 3(a) of this appendix A. In such case, direct credit substitutes and recourse obligations (including residual interests), and loans that sponsoring banks provide to such asset-backed commercial paper programs are not subject to any capital charge under section 4 of this appendix A.

(l) *Liquidity facility provided to an asset-backed commercial paper program.* (1) *Noneligible liquidity facilities treated as recourse or direct credit substitute.* Liquidity facilities extended to asset-backed commercial paper programs that do not meet the criteria for an eligible liquidity facility provided to an asset-backed commercial paper program in accordance with section 4(l)(2) of this appendix A must be treated as recourse or as a direct credit substitute, and assessed the appropriate risk-based capital charge in accordance to section 4 of this appendix A.

(2) *Eligible liquidity facility.* In order for a liquidity facility provided to an asset-backed commercial paper program to be eligible for either the 50 percent or 20 percent credit

conversion factors under section 3(b)(2) or 3(b)(3)(ii) of this appendix A, the liquidity facility must satisfy the following criteria:

(i) At the time of draw, the liquidity facility must be subject to a reasonable asset quality test that:

(A) Precludes funding of assets that are 60 days or more past due or in default; and

(B) If the assets that a liquidity facility is required to fund are externally rated securities (at the time they are transferred into the program), the facility must be used to fund only securities that are externally rated investment grade at the time of funding. If the assets are not externally rated at the time they are transferred into the program, then they are not subject to this investment grade requirement.

(ii) The liquidity facility must provide that, prior to any draws, the bank's funding obligation is reduced to cover only those assets that satisfy the funding criteria under the asset quality test of the liquidity facility.

(m) *Early amortization.* (1) *Additional capital charge for revolving retail securitization with early amortization trigger.* A bank that originates a securitization of revolving retail credits that contains early amortization triggers must risk weight the off-balance sheet portion of such a securitization (investors' interest) by multiplying the outstanding principal amount of the investors' interest by the appropriate credit conversion factor in accordance with Table F in section 4(m)(3) of this appendix A, and then assigning the resulting credit equivalent amount to the appropriate risk weight category pursuant to section 3(a) of this appendix A. In order to determine the appropriate credit conversion factor, the bank must compare the most recent three-month average excess spread level of the securitization to the excess spread ranges in Table F of section 4(m)(3) of this appendix A, and apply the corresponding credit conversion factor.

(2) *Excess spread differential.* Before the bank can apply Table F in section 4(m)(3) of this appendix A, the bank must calculate the

upper and lower bounds for each excess spread range. To calculate the upper and lower bounds, the bank must first determine the excess spread differential of the securitization. The excess spread differential is equal to the difference between the point at which the bank is required by the securitization to divert and trap excess spread (spread trapping point) in a spread or reserve account and the excess spread level at which early amortization of the securitization is triggered (early amortization trigger). If the securitization does not require excess spread to be diverted to a spread or reserve account at a certain excess spread level, the spread differential is equal to 4.5 percentage points. If the securitization does not use excess spread as an early amortization trigger, then a 10 percent credit conversion factor is applied to the outstanding principal balance of the investors' interest at the securitization's inception.

(3) *Excess spread differential segments.* Once the excess spread differential is determined, the standard excess spread differential value must be calculated by dividing the excess spread differential by 4. The upper and lower bounds for each of the excess spread differential segments is calculated using the spread trapping point and the standard excess spread differential value in accordance with the formulas provided in Table F of section 4(m)(3) of this appendix A. As provided in Table F of section 4(m)(3) of this appendix A, if the three-month excess spread level equals or exceeds the spread trapping point, the credit conversion factor is zero (resulting in no capital charge on the investors' interest). If the spread trapping point exceeds the three-month excess spread level, then the corresponding credit conversion factor applied to the investors' interest increases in steps from 5 percent to 100 percent as the three-month excess spread level approaches the early amortization trigger.

TABLE F.—CREDIT CONVERSION FACTORS FOR REVOLVING RETAIL SECURITIZATIONS WITH EARLY AMORTIZATION TRIGGERS

Excess Spread Ranges	Credit conversion factor (percent)
Excess spread equals or exceeds the spread trapping point	0
Upper Bound < Spread Trapping Point	5
Lower Bound = Spread Trapping Point—(1 × SESDV)	
Upper Bound < Spread Trapping Point—(1 × SESDV)	10
Lower Bound = Spread Trapping Point—(2 × SESDV)	
Upper Bound < Spread Trapping Point—(2 × SESDV)	50
Lower Bound = Spread Trapping Point—(3 × SESDV)	
Upper Bound < Spread Trapping Point—(3 × SESDV)	100
Lower Bound = None	

Note: SESDV is the standard excess spread differential value.

(5) *Limitations on risk-based capital requirements.* For a bank subject to the early amortization requirements in section 4(m) of this appendix A, the total risk-based capital requirement for all of the bank's exposures to a securitization of revolving retail credits is

limited to the greater of the risk-based capital requirement for residual interests, as defined in accordance with section 4(a)(14) of this appendix A, or the risk-based capital requirement for the underlying securitized

assets calculated as if the bank continued to hold the assets on its balance sheet.

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3. Appendix B to part 3 is amended by adding a new sentence at the end of