

from a third party, except that purchased credit-enhancing I/Os are residual interests.

(16) *Revolving retail credit facility* means an exposure to an individual where the borrower is permitted to vary both the drawn amount and the amount of repayment within an agreed limit under a line of credit (such as credit card accounts). Revolving retail credits include business credit card accounts.

(17) *Risk participation* means a participation in which the originating party remains liable to the beneficiary for the full amount of an obligation (e.g., a direct credit substitute) notwithstanding that another party has acquired a participation in that obligation.

(18) *Securitization* means the pooling and repackaging by a special purpose entity of assets or other credit exposures into securities that can be sold to investors. Securitization includes transactions that generally create stratified credit risk positions whose performance is dependent upon an underlying pool of credit exposures, including loans and commitments.

(19) *Sponsor* means a bank that establishes an asset-backed commercial paper program; approves the sellers permitted to participate in the program; approves the asset pools to be purchased by the program; or administers the asset-backed commercial paper program by monitoring the assets, arranging for debt placement, compiling monthly reports, or ensuring compliance with the program documents and with the program's credit and investment policy.

(20) *Structured finance program* means a program where receivable interests and asset-backed securities issued by multiple participants are purchased by a special purpose entity that repackages those exposures into securities that can be sold to investors. Structured finance programs allocate credit risks, generally, between the participants and credit enhancement provided to the program.

(21) *Traded position* means a position or asset-backed security that is retained, assumed or issued in connection with a securitization that is externally rated, where there is a reasonable expectation that, in the near future, the rating will be relied upon by

(i) Unaffiliated investors to purchase the position; or

(ii) An unaffiliated third party to enter into a transaction involving the position, such as a purchase, loan, or repurchase agreement.

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(h) *Early Amortization Triggers*. i. A bank that originates securitizations of revolving retail credit facilities that contain early amortization triggers must incorporate the off-balance sheet portion of such a securitization (that is, the investors' interest) into the bank's risk-weighted assets by multiplying the outstanding principal amount of the investors' interest by the appropriate credit conversion factor and then assigning the resultant credit equivalent amount to the appropriate risk weight category. The credit conversion factor to be applied to such a securitization generally is a function of the securitizations' most recent three-month average excess spread level, the point at which excess spread in the securitization must be trapped in a spread or

reserve account, and the excess spread level at which an early amortization of the securitization is triggered.

ii. In order to determine the appropriate credit conversion factor to be applied to the outstanding principal balance of the investors' interest, the originating bank must compare the securitization's most recent three-month average excess spread level against the difference between the point at which the bank is required by the securitization documents 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). The difference between the spread trapping point and the early amortization trigger is referred to as the excess spread differential (ESD). In a securitization of revolving retail credit facilities that employs the concept of excess spread to determine when an early amortization is triggered but where the securitization's transaction documents do not require excess spread to be diverted to a spread or reserve account at a certain level, the ESD is deemed to be 4.5 percentage points.

iii. If a securitization of revolving retail credit facilities does not employ the concept of excess spread as the transaction's determining factor of when an early amortization is triggered, then a 10 percent credit conversion factor is applied to the outstanding principal balance of the investors' interest at the securitization's inception.

iv. The ESD must then be divided to create four equal ESD segments. For example, when the ESD is 4.5 percent, this amount is divided into 4 equal ESD segments of 112.5 basis points. A credit conversion factor of zero percent would be applied to the outstanding principal balance of the investors' interest if the securitization's three-month average excess spread equaled or exceeded a securitization's spread trapping point (4.5 percent in the example). Credit conversion factors of 5 percent, 10 percent, 50 percent, and 100 percent are then assigned to each of the four equal ESD segments in descending order beginning at the spread trapping point as the securitization approaches early amortization. For instance, when the ESD is 4.5 percent, the credit conversion factors would be applied to the outstanding balance of the investors' interest as follows:

EXAMPLE OF CREDIT CONVERSION FACTOR ASSIGNMENT BY SEGMENT OF EXCESS SPREAD DIFFERENTIAL

Segment of excess spread differential	Credit conversion factor (percent)
450 bp or more	0
Less than 450 bp to 337.5 bp ..	5
Less than 337.5 bp to 225 bp ..	10
Less than 225 bp to 112.5 bp ..	50
Less than 112.5 bp	100

i. *Limitations on risk-based capital requirements*. * * *

(4) For a bank subject to the early amortization treatment in section III.B.3.g. of this appendix, the total risk-based capital requirement for all of the bank's exposures to a securitization of revolving retail credit facilities is limited to the greater of the risk-based capital requirement for residual interests, as defined in section III.B.3.a. of this appendix, 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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6. *Asset-backed commercial paper programs*. a. An asset-backed commercial paper (ABCP) program typically is a program through which a bank provides funding to its corporate customers by sponsoring and administering a bankruptcy-remote special purpose entity that purchases asset pools from, or extends loans to, the bank's customers. The ABCP program raises the cash to provide the funding through the issuance of commercial paper in the market.

b. A bank that qualifies as a primary beneficiary and must consolidate an ABCP program that is defined as a variable interest entity under GAAP may exclude the consolidated ABCP program assets from risk-weighted assets provided that the bank is the sponsor of the consolidated ABCP program. If a bank excludes such consolidated ABCP program assets, the bank must assess the appropriate risk-based capital charge against any risk exposures of the bank arising in connection with such ABCP programs, including direct credit substitutes, recourse obligations, residual interests, liquidity facilities, and loans, in accordance with sections II.B.5, II.C. and II.D. of this appendix.

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II. * * *

D. * * *

2. *Items With a 50 Percent Conversion Factor*. * * *

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c. Commitments, for risk-based capital purposes, are defined as any legally binding arrangements that obligate a bank to extend credit in the form of loans or lease financing receivables; to purchase loans, securities, or other assets; or to participate in loans and leases. Commitments also include overdraft facilities, revolving credit, home equity and mortgage lines of credit, eligible liquidity facilities to asset-backed commercial paper programs (in form and in substance), and similar transactions. Normally, commitments involve a written contract or agreement and a commitment fee, or some other form of consideration. Commitments are included in weighted-risk assets regardless of whether they contain *material adverse change* clauses or other provisions that are intended to relieve the issuer of its funding obligation under certain conditions. Banks that are subject to the market risk rules are required to convert the notional amount of long-term covered positions carried in the trading account that act as eligible liquidity facilities to ABCP programs, in form or in substance, at 50 percent to determine the appropriate