



OCC 2000-7

**Subject: Risk-Based Capital—Recourse and  
Direct Credit Substitutes  
Date: March 10, 2000**

**To: Chief Executive Officers of National Banks,  
Department and Division Heads, Examining  
Personnel and Other Interested Parties**

### Description: Proposed Rule

#### Purpose

This bulletin transmits a proposed rule on recourse and direct credit substitutes published in the *Federal Register* on March 8, 2000. Comments on the proposed rule are due June 7, 2000.

#### Summary

The proposed rule refines an earlier proposal published by the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision in 1997 (62 FR 59944, November 5, 1997). Similar to the 1997 proposal, the current proposal would amend the OCC's risk-based capital regulations to treat direct credit substitutes and recourse obligations consistently and would incorporate the use of credit ratings as an indicator of a bank's risk of loss. The risk-based capital requirement would be adjusted to reflect the relative riskiness of the bank's position in an asset securitization. In addition, the proposal would require a capital allocation for assets under management in securitization structures that contain an early amortization clause.

#### Consistent Definitions

The proposal defines recourse to mean any arrangement in which an institution retains risk of credit loss in connection with an asset transfer, when the risk of credit loss exceeds the pro rata share of the institution's claim on the assets. Similarly, the proposed definition of direct credit substitute mirrors the definition of recourse. A direct credit substitute would be any arrangement in which a bank assumes risk of credit-related losses from assets or other claims that it has not transferred, when the risk of credit loss exceeds the institution's pro rata share of the assets or other claims.

#### External and Internal Ratings Used to Assign Risk Weights

The proposal would assign risk weights to bank holdings of positions in securitized pools of assets based on the rating assigned by one of the nationally recognized rating agencies to that position, so long as it receives a rating of one grade below investment grade or better.

This is called the ratings-based approach and would assign RBC weights as follows:

External Rating	Risk Weight
AAA or AA	20%
A	50%
BBB	100%
BB	200%

This proposal contains an important difference from the 1997 proposal in that the current proposal would also permit an institution that has a qualifying internal risk rating system to use that system to assign ratings to its unrated direct credit substitutes in asset-backed commercial paper programs. Internal risk ratings would be used to qualify a bank's credit enhancement (other than a retained recourse position) for a risk weight of 100% or 200% under the ratings-based approach for positions rated one grade below investment grade or better. However, internal ratings would not be used to assign weights lower than 100%.

#### Managed Assets Capital Requirement

The agencies are proposing to add a 20% risk weight to the off-balance sheet exposure created by securitizations that have early amortization provisions.

#### Implementation Date

The agencies propose that any final rules adopted in connection with this approach resulting in an increased risk-based capital requirement would apply only to transactions completed after the effective date of the final rules.

#### Comments on the Proposal

The OCC encourages all interested parties to review and comment on the attached proposal. Please forward all comments to Communication Division, 250 E Street, SW—MS 3-2, Washington, DC 20219, Attention: Docket No. 00-06.

For Further Information Contact:

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- [Proposed Rule 65 FR 12319](#)