Summary of Proposed Standardized Approach to Risk-Weighted Assets[1]

Total Risk-Weighted Assets Calculation:[2]	**Row in Appendix A**
General credit risk assets, including:	
residential mortgages (category 1 and category 2), presold construction loans, statutory multifamily mortgages and high-volatility commercial real estate exposures	***See* Rows 1-6**
plus past due loans	***See* Row 7**
plus other general credit risk asset	***See* Rows 8-16**
plus cleared transactions through a central counterparty and default fund contributions a banking organization makes to a central counterparty, unsettled transactions	**Not included in this Appendix A**[3]
plus securitization exposures	***See* Row 17**
plus equity exposures	***See* Row 18, 19**
note (a) rather than be included in risk-weighted assets, a bank's investments in equity or other capital instruments issued by financial institutions may need to be deducted from the bank's Common Equity Tier 1 capital, Additional Tier 1 capital or Tier 2 capital as provided in the Basel NPR under §.22 of those proposed rules (*see* note 6 of the Basel NPR Chart), and (b) the amounts of certain Basel III threshold deduction items (i.e., investment in the common equity of a financial institution) that are not deducted from the bank's regulatory capital will be assigned a risk-weight of 250% (*see* note 9 of the Basel NPR Chart)	***See* Rows 12, 15, 16, 18**
note the Risk-Weight NPR also includes changes to the use of credit risk mitigation structures like using guarantees and collateralizing transactions	***See* Rows 20, 21**
less the banking organization's ALLL that is not included in Tier 2 capital.	

	Category	**Current Risk Weight**	**Proposed Risk Weight**
	General Credit Risk Exposures – Residential Mortgages, Presold Construction Loans, Statutory Multifamily Mortgages and High-Volatility Commercial Real Estate Exposures The proposed regulation introduces a more risk-sensitive treatment, which is different from both the general risk-based capital rules and the Basel capital framework. Current rules weight loans at 50% to 100%, but the proposed rules introduce risk weights for real estate loans from 35% up to 200%. This wider range of risk-weights is being proposed because of the unprecedented levels of mortgage loan defaults and home foreclosures during the recent market turmoil.		
1	1-4 Family Loans not guaranteed by the U.S. government or one of its agencies. *See* §__.32(g) of the Risk Weight NPR. —Category 1. Defined to include first-	50% if first lien, prudently underwritten, owner occupied or rented, current or less than 90 days past due.	Category 1: 35%, 50%, 75%, 100% risk-weight depending on the loan-to-value ratio (60%, 80%, 90%, >90%, respectively)

	Category	Current Risk Weight	Proposed Risk Weight
	lien mortgage products that meet certain underwriting characteristics as set forth in the proposed regulation (i.e., among other requirements, the loan term may not exceed 30 years and must not include balloon payments). —Category 2. Defined to include junior lines and mortgages that do not meet Category 1 criteria	100% otherwise.	calculated as provided in the proposed regulation. Category 2: 100%, 150%, 200% depending on the loan-to-value ratio (60%, 80%, 90%, >90%, respectively) calculated as provided in the proposed regulation.
2	Restructured or modified 1-4 Family Loans. *See* §__.32(g) of the Risk Weight NPR. —Under the proposed regulation, a banking organization would categorize a modified or restructured residential mortgage exposure as a Category 1 or Category 2 residential mortgage exposure in accordance with the terms and characteristics of the exposure after the modification or restructuring.	Under the current general risk-based capital rules, a residential mortgage may be assigned 50% only if it is performing in accordance with its original terms or not restructured.	100% to 200%, unless the conditions set forth below apply. —A banking organization could only apply (1) a risk-weight lower than 100% to a Category 1 residential mortgage exposure or (2) a risk-weight lower than 200% to a Category 2 residential mortgage exposure if the banking organization updated the loan-to-value ratio of the exposure at the time of the modification or restructuring.
3	1-4 Family Loans modified solely under the U.S. Treasury's Home Affordable Mortgage program (under the proposed regulation, these loans are not treated as restructured loans). *See* §__.32(g) of the Risk Weight NPR.	50% and 100%. —The banking organization must use the same risk-weight assigned to the loan prior to the modification so long as the loan continues to meet other applicable criteria.	35% to 200%. —The banking organization must determine whether the modified terms make the loan a Category 1 or a Category 2 mortgage.
4	Loans to builders secured by 1-4 family properties presold under firm contracts. *See* §__.32(h) of the Risk Weight NPR.	50% if the loan meets all the criteria in the regulation. 100% otherwise.	50% if the loan meets all criteria in the proposed regulation. 100% if the contract is cancelled. 100% for loans not meeting the criteria.
5	Loans on multifamily properties, including statutory multifamily mortgages. *See* §__.32(i) of the Risk Weight NPR.	50% if the loan meets all the criteria in the regulation. 100% otherwise.	50% if the loan meets all the criteria in the proposed regulation as a "statutory" multifamily mortgage. 100% otherwise.
6	High volatility commercial real estate loan. *See* §__.32(j) of the Risk Weight NPR. —Defined under the proposed regulation to be a facility that finances the acquisition, development or construction of real property other than 1-4 family residential property.	100%.	150%.
General Credit Risk Exposures – Past Due Loans Applies a 150% risk-weight to exposures that are not U.S. government exposures or residential mortgage exposures that are more than 90 days past due or on non-accrual.			
7	Past due loans that are 90 days or more	Generally the risk-weight does not	150% for the portion that is not

	Category	Current Risk Weight	Proposed Risk Weight
	past due or on non-accrual. *See* §__.32(k) of the Risk Weight NPR.	change when the loan is past due. —However, 1-4 family residential loans that are past due 90 days or more are 100% risk-weight.	guaranteed or secured. —However, the 150% risk-weight does not apply to past due or non-accrual U.S. government exposures or 1-4 family residential mortgage exposures. For any portion of the loan that is collateralized or guaranteed, the banking organization may assign a risk-weight to that portion of the loan if the respective requirements described under Rows 24 and 25 below are met.
	Other General Credit Risk Exposures		
8	Cash. *See* §__.32(l) of the Risk Weight NPR. Direct and <u>unconditional</u> claims on the U.S. government or its agencies or the Federal Reserve. *See* §__.32(a) of the Risk Weight NPR. Any portion of an exposure that is <u>unconditionally</u> guaranteed by the U.S. government or its agencies. *See* §__.32(a) of the Risk Weight NPR.	0%.	UNCHANGED.
9	Cash items in the process of collection. *See* §__.32(l) of the Risk Weight NPR. Exposures <u>conditionally</u> guaranteed by the U.S. government or its agencies (i.e., FDIC loss-sharing arrangements or satisfaction of certain conditions like servicing requirements). *See* §__.32(a) of the Risk Weight NPR. General obligation claims on, and claims <u>guaranteed</u> by any state or local governments or any other U.S. governmental subsidiaries under the sovereign level.	20%.	UNCHANGED.
10	Claims on state or local governments or other U.S. governmental subsidiaries under the sovereign level. *See* §__.32(e) of the Risk Weight NPR.	20% for general obligations (i.e., a bond backed by the full faith and credit of any state or local government). 50% for revenue obligations (i.e., a bond that a state or local government is committed to repay with revenues from a specific project financed rather than general tax funds).	UNCHANGED.
11	Claims on government-sponsored	20%.	20% on exposures other than

	Category	Current Risk Weight	Proposed Risk Weight
	entities, such as Fannie Mae and Freddie Mac. *See* §__.32(c) of the Risk Weight NPR.	100% for preferred stock issued by government-sponsored entities (20% for national banks).	equity exposures.
12	Claims on U.S. depository institutions and credit unions insured by the National Credit Union Administration. *See* §__.32(d) of the Risk Weight NPR.	20%. 100% risk-weight for an instrument included in the depository institution's regulatory capital.	20%. 100% risk-weight for an instrument included in the depository institution's regulatory capital unless the instrument is deducted from regulatory capital as provided in the Basel NPR under §__.22 of those proposed rules or treated as an equity security. (*See* note 6 of the Basel NPR Chart.)
13	Industrial development bonds. *See* §__.32(l) of the Risk Weight NPR.	100%.	UNCHANGED.
14	Assets not assigned a specific risk-weight category (i.e., fixed assets, premises, other real estate owned and consumer loans). *See* §__.32(l) of the Risk Weight NPR.	100%.	UNCHANGED.
15	Corporate exposures. *See* §__.32(f) of the Risk Weight NPR.	100%.	100%. —However, if the exposure is an instrument included in the capital of the financial company, it may be deducted from regulatory capital as provided in the Basel NPR under §__.22 of those proposed rules. (*See* note 6 to the Basel NPR Chart.)
16	Claims on qualifying securities firms.	20%.	100%. —However, instruments included in the capital of the securities firm may be deducted from regulatory capital under §.22 of the proposed regulation or treated as an equity security. (*See* note 6 to the Basel NPR Chart.)
Securitization Exposures Maintains the gross-up approach for securitization exposures. Replaces the current ratings-based approach with a formula-based approach for determining the securitization exposure's risk weight. This proposal increases due diligence requirements for banks that invest in securitizations. Under the proposal, to demonstrate a comprehensive understanding of a securitization exposure, a banking organization would have to conduct and document an analysis of the risk characteristics of the exposure prior to acquisition and periodically thereafter.			
17	Mortgage-backed securities, asset-backed securities, and structured securities. *See* §§__.41-.44 of the Risk Weight NPR. —Under the proposed regulation, to	Ratings-based approach: 20% for AAA & AA, 50% A-rated, 100% BBB, 200% BB-rated.	Deduction for the after-tax gain on sale of a securitization. 1,250% risk weight for a credit-enhancing interest-only strip.

	Category	Current Risk Weight	Proposed Risk Weight
	meet the definition of a standard securitization, the credit risk associated with the underlying exposures must have been separated into at least two tranches reflecting different levels of seniority. Mortgage-backed pass-through securities (for example, those guaranteed by Fannie and Freddie) do not meet the proposed definition of a securitization exposure because they do not involve a tranching of credit risk.	Securitizations with short-term ratings, 20%, 50%, 100%. For unrated positions where the banking organization determines the credit rating, 100% or 200%. Gross-Up Approach: The risk-weighted asset amount is calculated using the risk-weight of the underlying assets amount of the position and the full amount of the assets supported by the position (that is, all of the more senior positions). Dollar-for-dollar capital for residual interests. Deduction for credit-enhancing interest only strips over certain concentration limits. 100% for stripped mortgage backed securities (interest-only and principal-only) that are not credit-enhancing.	100% for interest-only mortgage-backed securities that are not credit-enhancing. Banking organizations may elect to follow a gross-up approach, similar to existing rules. Simplified supervisory formula approach: The risk-weight for a position is determined by a formula and is based on the risk-weight applicable to the underlying exposures, the relative position of the securitization position in the structure (subordination), and measures of delinquency and loss on the securitized assets. 1250% otherwise.
Equity Exposures Introduces more risk-sensitive treatment for equity exposures ranging from 0% to 600% risk weights.			
18	Equity exposures. *See* §__.52 of the Risk Weight NPR.	100% or incremental deduction approach for nonfinancial equity investments.	0% risk weight: Equity exposures to the U.S. government and other sovereigns, certain supranational entities, or a multilateral development banking organization whose debt exposures are eligible for 0% risk-weight. 20%: Equity exposures to a U.S. state or local government or any other or any other governmental subsidiaries under the sovereign level of the U.S. central government, a Federal Home Loan Bank, or Farmer Mac. 100%: Equity exposures to community development investments and small business investment companies and nonsignificant equity investments. 250%: Significant investments in

	Category	Current Risk Weight	Proposed Risk Weight
			the capital of unconsolidated financial institutions that are not deducted from regulatory capital as provided in the Basel NPR under §__.22 of those proposed rules. (*See* note 9 to the Basel NPR Chart.) 300%: Most publicly traded equity exposures. 400%: Equity exposures that are not publicly traded. 600%: Equity exposures to certain investment funds
19	Equity exposures to investment funds. *See* §__.53 of the Risk Weight NPR.	20% on mutual fund holdings. General rule: Risk-weight is the same as the highest risk-weight investment the fund is permitted to hold. Option: A banking organization may assign risk-weights pro rata according to the investment limits in the fund's prospectus.	Full look-through: Risk-weight of the assets of the fund (as if owned directly) <u>multiplied by</u> the banking organization's proportional ownership in the fund. Simple modified look-through: Multiply the banking organization's exposure by the risk-weight of the highest risk-weighted asset in the fund. Alternative modified look-through: Assign risk-weight on a pro rata basis based on the investment limits in the fund's prospectus. For community development exposures, risk-weighted asset amount = adjusted carrying value.
	Credit Risk Mitigation – Treatment of Guarantees Provides a more comprehensive definition of guarantees		
20	Guarantees. *See* §__.36 of the Risk Weight NPR.	Guarantors: Generally recognizes guarantees provided by sovereigns (i.e., central governments), government-sponsored entities (i.e., Fannie Mae and Freddie Mac), multilateral lending institutions, regional development banking organizations, U.S. depository institutions and foreign banks.	Guarantors: The proposed regulation recognizes a wider range of eligible guarantors, including the Bank for International Settlements, the International Monetary Fund, the European Central Bank, the European Commission, a Federal Home Loan Bank, Federal Agricultural Mortgage Corporation (Farmer Mac), a multilateral development banking organization, a depository

	Category	Current Risk Weight	Proposed Risk Weight
		Substitution approach that allows the banking organization to substitute the risk-weight of the protection provider for the risk-weight ordinarily assigned to the exposure.	institution, a bank holding company, a savings and loan holding company, a credit union, a foreign bank, or an entity (other than a special purpose entity) that has investment grade debt, whose creditworthiness is not positively correlated with the credit risk of the exposures for which it provides guarantees and is not a monoline insurer or reinsurer. Substitution treatment allows the banking organization to substitute the risk weight of the protection provider for the risk weight ordinarily assigned to the exposure. Applies only to eligible guarantees and eligible credit derivatives, and adjusts for maturity mismatches, currency mismatches, and where restructuring is not treated as a credit event.
	Credit Risk Mitigation – Collateralized Transactions Provides a more comprehensive definition of collateral.		
21	Collateralized Transactions. *See* §__.37 of the Risk Weight NPR. —Financial collateral is defined as cash on deposit at the banking organization (or 3rd-party custodian); gold; investment grade securities (excluding resecuritizations); publicly traded equity securities; publicly traded convertible bonds; money market mutual fund shares; and other mutual fund shares if a price is quoted daily. —In all cases the banking organization must have a perfected, 1st-priority interest.	Recognize only cash on deposit, securities issued or guaranteed by the U.S. government or a U.S. government agency, and securities issued by certain multilateral development banks. Substitute risk-weight of collateral for risk-weight of exposure, sometimes with a 20% risk-weight floor.	For financial collateral only, the proposed regulation allows a banking organization to recognize the risk-mitigating effects of financial collateral using two approaches: 1. Simple approach: A banking organization may apply a risk-weight to the portion of an exposure that is secured by the market value of collateral by using the risk-weight of the collateral – with a general risk-weight floor of 20%. —For the simple approach, there must be a collateral agreement for at least the life of the exposure; collateral must be revalued at least every six months; collateral other than gold must be in the same currency. 2. Collateral haircut approach: A banking organization may use standard supervisory haircuts or management estimates of haircuts

	Category	Current Risk Weight	Proposed Risk Weight
			for eligible margin loans, repo-style transactions and collateralized derivative contracts.

Notes To Risk Weight NPR Appendix

[1] This Appendix A is a summary of the second notice of proposed rulemaking (the “Risk Weight NPR”), which standardizes the approach for determining a banking organization’s total risk-weighted assets and revises the risk-weighting of certain assets. Overall, the changes proposed by the Risk Weight NPR are intended to enhance the risk sensitivity of risk-based capital ratios for financial institutions.

The Risk Weight NPR (as now proposed) would apply to all banking organizations subject to minimum capital requirements, including national banks, state member and non-member banks, state and federal savings associations, all top-tier savings and loan holding companies and all bank holding companies (other than small bank holding companies with $500 million or less in total assets). The new rules are proposed to become effective on January 1, 2015, although banks have the option to adopt them earlier.

This summary excludes the effects on small bank holding companies of less than $500 million (but not their subsidiary banks), thrifts and savings and loan holding companies, and large complex banking organizations.

[2] The total risk-weighted asset calculation is simply a measure of the amount of a bank’s assets, adjusted for risk. By adjusting the value of each asset for an element of how risky it is, it gives an idea of the financial stability of a bank. Once the value of a banking organization’s total risk-weighted assets is determined, that number is used as the denominator to calculate the banking organization’s risk-based capital ratios. At its simplest, risk-weighting adjusts the value of the asset for risk by multiplying the asset’s value by a factor that reflects its risk. Low-risk assets are multiplied by a low number, high-risk assets by a high number (i.e. 100% or higher).

[3] As most community banks do not carry certain types of exposures, those items have been excluded them from this Appendix A. This Appendix A does not therefore include a description of the following assets: (1) cleared transactions through a central counterparty, (2) default fund contributions a banking organization makes to a central counterparty, (3) claims on or exposures guaranteed by foreign governments, their central banks or other entities below the sovereign level of the foreign government, (4) off-balance sheet items (the Risk-Weight NPR generally revises the credit conversion factor for most short-term commitments from 0% to 20% and removes the 50% risk-weight cap for derivative contracts), and (5) unsettled transactions (the Risk-Weight NPR proposes that unsettled transactions involving securities, foreign exchange instruments and commodities would be weighted from 100% up to 1,250%).