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MBNA Corporation

Wilmington, Delaware 19884-0151

Vernon H. C. Wright  
Chief Financial Officer

July 9, 2004

*By E-mail*

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal  
Reserve System  
20<sup>th</sup> Street & Constitution Ave., NW  
Washington, DC 20551  
*Attention:* Docket No. R-1193

Re: Response to the Notice of Proposed Rulemaking for Risk-Based Capital  
Standards: Trust Preferred Securities and the Definition of Capital

Ms. Johnson:

MBNA Corporation ("MBNA"), a bank holding company, would like to thank the Board of Governors of the Federal Reserve System (the "Board") for the opportunity to comment on the notice of proposed rulemaking for Risk-Based Capital Standards: Trust Preferred Securities and the Definition of Capital (the "Proposal") published on May 19, 2004.

MBNA is a bank holding company and the parent of MBNA America Bank, N.A. (the "Bank"). The Bank has two wholly owned foreign banking subsidiaries, MBNA Europe Bank Limited and MBNA Canada Bank. MBNA's primary business is retail lending, providing credit cards and other retail lending products to individuals. At March 31, 2004, MBNA reported assets net of securitization totaling \$61.1 billion.

We fully support the Board's decision to allow bank holding companies ("BHCs") to continue to include outstanding and prospective offerings of trust preferred securities in tier 1 capital. We agree with the Board's observations that trust preferred securities are useful sources of capital funding for BHCs and that these instruments have performed much as expected in troubled banking organizations. Although we are aware of the agreement reached with other G-10 banking supervisory agencies in October 1998 limiting trust preferred securities and other innovative (restricted) capital instruments to

15% of tier 1 capital, U.S. practice has gone beyond the 15% limitation in many cases. We do not believe that there are compelling economic reasons to impose the 15% limit as contemplated by this Proposal. We also note that paragraph 17 of the June 26, 2004 Basel Committee publication indicates that the Basel Committee plans additional work related to the definition of eligible capital. We encourage the Board to use that process to reconsider the **15%** limitation and sort out any perceived competitive disadvantages between countries.

In the Proposal, the Board requested specific comment on the proposed capital guidelines. Below are our thoughts with respect to a few of those questions.

***Should the capital guidelines contain an explicit expression of the Board's expectation for internationally active bank holding companies with respect to the use of restricted core capital elements?***

No. We are concerned with the Proposal's explicit distinction between internationally active and all other BHCs. Distinguishing capital guidelines based solely on the level of international activity will not create competitive equality among U.S. BHCs. In our November 3, 2003 comment letter responding to the Agencies' Invitation to Comment on the Advanced Notice of Proposed Rulemaking for a Proposed Framework Implementing the New Basel Capital Accord in the United States, we questioned the need for a bifurcated approach to capital calculations. We continue to disagree with a bifurcated approach for the New Basel Capital Accord ("New Accord") and we also do not think it is appropriate capital treatment for trust preferred securities.

In the interest of competitive fairness, we recommend the Board choose one limit and apply that limit to all BHCs.

***Should the Board impose an explicit 15 percent limit on the use by internationally active bank holding companies of restricted core capital elements?***

We agree with the Board that limitations are appropriate for certain types of core capital elements. We also support a consistent limit for all BHCs, and believe that a 15% limitation applied to U.S. institutions is too low. ~~Our~~ research shows that a substantial number of U.S. BHCs, including some that would likely be considered internationally active, utilize restricted capital instruments to provide between 15% and 25% of core capital. If the Board believes a **25%** limit is acceptable for non-internationally active BHCs, which represent the overwhelming majority of U.S. BHCs, we would propose that the same limit be applied consistently to all U.S. BHCs.

If, on the other hand, the Board retains the 15% limitation, we ask the Board to consider that the Proposal already imposes stricter limitations on trust preferred securities when compared to current practice. For example, the requirement to net goodwill against core capital is new, and we therefore request the Proposal be modified to eliminate the goodwill netting.

***Should the Board include a more explicit definition of internationally active bank holding companies?***

We do not advocate any distinction between internationally and non-internationally active BHCs for the reasons cited above.

**Other Comments on the Proposal**

*Effectiveness/Transition*

The Proposal targets a March 31, 2007 date for full effectiveness. We recommend the Board consider an implementation date that is consistent with the New Accord. Under the current guidance for the New Accord, the implementation date is year-end **2007**.

We are also concerned with the requirement that a BHC must consult with the Federal Reserve (normally through the BHC's District Reserve Bank) prior to issuing trust preferred securities. The required consultation process will likely lead to delays in the BHC's ability to access the market, which could be very costly. We recommend the Board amend the Proposal to require consultation only if either: 1) the issuance would cause the BHC's use of restricted capital elements to be greater than the limit imposed by the Board (**25%**); or 2) the BHC is not "well capitalized".

*5 Years Prior to Note Maturity*

In the **5** years prior to the maturity of the note, the proposal requires that the outstanding amount of trust preferred securities be: 1) excluded from tier 1 capital; **2)** included as tier **2** capital, subject to the tier **2** sub-limit (**50%** of tier 1 capital); and 3) phased out of tier 2 capital at a rate of 20% per year. We ask the Board to consider this limitation only for trust preferred securities issued after the final rule is published.

*Trust Preferred Securities Should not be Subject to the Tier 2 Sub-limit*

The Board proposes that qualifying trust preferred securities in excess of **25%** of core capital be included as tier **2** capital, but be further limited, together with subordinated debt and limited life preferred stock, to **50%** of tier 1 capital. We note that the Proposal also includes qualifying cumulative perpetual preferred stock as a restricted core capital element. However, qualifying cumulative perpetual preferred stock is not subject to the same tier **2** sub-limit as trust preferred securities. We believe the elements necessary for trust preferred securities to qualify for tier 1 capital treatment as enumerated in the Proposal, particularly the requirement for a minimum of 20 consecutive quarters of dividend deferral, are sufficient to warrant removal of the tier 2 sub-limit. As such, we request that the Board's treatment of qualifying trust preferred securities be consistent with qualifying cumulative perpetual preferred stock, with no tier 2 sub-limit.

**We appreciate the opportunity to provide these comments to the Board. If you have any questions regarding this submission or if we can provide further information, please contact me directly by telephone at 302-453-2074 or by e-mail at [vernon.wri&@mbna.com](mailto:vernon.wri&@mbna.com).**

**Yours truly,**

A handwritten signature in black ink, appearing to read 'Vernon H.C. Wright', written in a cursive style.

**Vernon H.C. Wright  
Chief Financial Officer  
MBNA Corporation**