



THE FINANCIAL
SERVICES
ROUNDTABLE

September 12, 2012

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

Re: Capital Assessments and Stress Testing information collection (OMB control number 7100 0341)

Dear Ms. Johnson:

The following questions were inadvertently omitted from the Appendix to our September 4 letter (attached) and should be treated as having been included in that submission.

If you have any questions or are in need of any further information, please contact me at (212) 613-9883 (email: david.wagner@theclearinghouse.org), Michelle Hubertus at (212) 613-9804 (email: michelle.hubertus@theclearinghouse.org) or Hugh Carney at (202) 663-5324 (email: hcarney@aba.com).

Respectfully submitted,

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Appendix –Requests for Clarification

A. General Question

- 1) For all of the FR Y-14 M and FR Y-14 Q submissions, what is the record retention requirement? How long should the data be stored after submission?

B. Questions Regarding FR Y-14Q MSR Schedule

- 1) Is it possible to clarify if the Jumbo category is specifically meant for private investor securities with loan sizes >417K or any investor with loan sizes >417K?
- 2) In Valuation Information (#3), should default/foreclosure servicing cost for VA loans include expected write down (no-bid) losses?
- 3) In MSR valuation sensitivity metrics (#4), USDA guaranteed loans are not a product group. Is it possible to add an “other bucket” or clarify if USDA should be included within another category like FHA?
- 4) In MSR valuation sensitivity metrics (#4), are the CDR and CPR shocks for every period over the life or is there a specific duration to the shock, like next 12 months?
- 5) In MSR valuation sensitivity metrics (#4), specific CDR and CPR shocks of a fixed basis point are difficult to perform in some banks’ valuation process. A multiplier to the current assumption is something that could be accomplished easily. Would the FRB consider a multiplier of say 10% higher, 100% higher or something like that instead of a fixed basis point change over some duration?
- 6) For some banks, in MSR valuation sensitivity metrics (#4), Independent HPI and UER shocks are not currently possible in their valuation as their assumptions have a mutual dependence (there is embedded correlation that cannot be removed). In such cases, can they use their model to define the change in HPI or EUR to pair with the specific HPI and UER shocks provided?
- 7) In MSR valuation sensitivity metrics (#4), do the HPI shocks have a specific duration like an instantaneous drop or is this a shift in the forecast HPI at every period for life?
- 8) In MSR valuation sensitivity metrics (#4), is it possible to have additional guidance as to the purpose of the 3m increase in foreclosure time frame (i.e. higher cost to service)?
- 9) In Detailed Valuation Information (#5), is it possible to specify if time dependent assumptions (i.e. CPR, CDR, Discount Rate, etc.) should be front period or lifetime?
- 10) In general, Sections #2 and #5 are very similar to the quarterly survey of information banks are required to provide to the OCC. Is it possible for the two Agencies to align their formats?

C. Questions Regarding FR Y-14Q Student Loan Schedule

- 1) Borrowers who have suffered a disability and/or death may have their debt forgiven and charged off. Per the FR Y-14 requirement, charge-offs are reported as either contractual (due to delinquency) or as a bankruptcy. How should forgiven loans be treated, since the loan was never delinquent and there is not a bankruptcy associated with the loan?
- 2) Average Original FICO of Borrowers: Is this a required Summary Variable? The field is currently not included in the scheduled instructions, but it was previously included on the Example Raw Data file. If the field is required, please confirm the following: definition of what information is required,

Variable Name, Data Type, and Format requirements. If this is required, please confirm how acquired loans should be reported- is the requirement to provide the Average Original FICO of Borrowers on acquired loans at the date of origination or as of the date of acquisition?

- 3) For loans that are acquired at a discount and thus treated as purchase credit impaired (PCI) loans, should the unpaid principal balance reported reflect the actual borrower unpaid principal loan balance or the discounted amount which would tie to our general ledger?
- 4) Additionally there are not any charge-offs or recoveries recorded on the general ledger for PCI loans. Any charge-offs on the acquired loans will be written off against the non-accretable difference. For FR Y-14 Q reporting should the total unpaid principal balance that was charged-off reflect the amount recorded on the general ledger or the amount actually charged-off as related to the PCI loans?

D. FR Y-14A Summary Schedule - ASC 310-30 Worksheet

- 1) The Retail ASC 310-30 worksheet includes a section (lines 4 – 10) for rolling forward any allowance associated with post acquisition impairments of PCI loans. Lines 4-10 appear to pertain to the difference between the original acquisition date projection and the current projection of **gross principal and interest cash flows**, but the allowance balance is measured and recorded based on the difference between the **net present value** of future cash flows and the carrying value of the PCI loans. Is it possible to clarify whether this section should include gross cash flow information (in which case, the “provision to allowance” section on lines 4 and 5 will not agree to the impairments recognized), or net present value information (in which case the “interest and other” cash flow information requested on lines 4 and 9 would include the impact of discounting to net present value)?

E. FRY-14Q Trading Worksheet Supporting Documentation Requirements

- 1) Documentation should provide a complete and technical definition of second and higher order risk factors (cross gamma, vanna, etc.) and describe the methods undertaken by the firm to estimate the cross gamma and higher order effects. Describe the degree to which these second and higher order risks (as defined above) explain losses.

We note that describing the degree to which second and higher order risks explain losses will be difficult as all cross terms captured in full revaluation cannot be easily attributed separately, and will not be comparable to a sensitivity based approach.

- 2) Describe the evolution of risk per each risk area two weeks before and after the submission date, i.e. make note of positions that may expire or terminate within this time frame that significantly alters a risk profile.

We note that given the time period allocated for CCAR, and the expectation that the stress would be run at two weeks before and after the as-of date (or weekly, or daily during that period), the documentation requirement would not be operationally possible because:

- Re-running the stress three (five, or 28) times during the CCAR period would not be possible from a systems capacity or human resource standpoint.
- As the as-of date is given in the past, it would not be possible to retro-actively capture the position information at the level of detail required to complete the exposure templates.

As an alternative, is it possible for each BHC to submit their already reported (BAU) stress testing results for the as-of date, and the two weeks before and after, so that the FRB can review any position trends/changes? Can the FRB provide more specific information on the level of detail required, and define a materiality threshold that indicates a significant alteration in the risk profile?

- 3) A detailed and technical description of modeling methods (including pricing models) used,
- Documentation should clearly make note of instances where different methodologies were used across different business lines with like assets.
 - Document approach (full revaluation vs. grid based approach, e.g.) and asset coverage under these approaches,
 - Please identify those products or exposures where the firm used models or systems that were outside of the normal routine stress testing framework for the FRB stress scenario and indicate if they were reviewed or validated by an independent Model Review function.
- This requirement would be extremely onerous. Is it acceptable instead to provide a link to a model database which includes all model technical documentation? In addition, in the cases where banks have had to change models or run the stress outside of the normal routine stress framework to successfully run the FRB scenario, the time period given for CCAR is too short to allow for independent Model Review approval. Can this be removed from the documentation requirements?

F. Questions Regarding the FR Y-14M

- 1) FR Y-14M schedules – FAQ #RTL125 states that the account- and loan-level data schedules should sum up to the portfolio level data. For the FR Y-14M Credit Card account level submission, the definitions state to report balances as of cycle-end, but for the portfolio level submission, the requirement is to report month-end balances. Cycle-end balances vary from the month end balances, therefore the account level will not sum to the portfolio level. Is this acceptable?
- 2) FR Y-14M Credit Card submission – field #42 Behavior Score: In the Data Dictionary, the required format for this field is shown to be 'N4'. Certain issuer behavior scores range from a negative value to a positive value and sometimes contain decimal points. How should these issuers report these values?
- 3) FR Y-14M Credit Card submission – fields #64 (Purchase Amount), #65 (Cash Advance Amount), and #66 (Balance Transfer Amount): The Data Dictionary instructions request to report the volume during the current month's cycle. How should these amounts be reported for accounts that do not cycle in the current month? Accounts may skip cycle if their cycle data changes to a date in the following month. Should issuers report the volume during the reported month, or report as blank/null?
- 4) FR Y-14M Credit Card submission – fields #48 (Minimum Payment Due) and #49 (Total Payment Due): Please clarify the difference between the two fields.
- 5) FR Y-14M First Lien Portfolio Level Reporting - Should the portfolio level dataset always report all four loan types, or should only the rows that are applicable for the current reporting period be reported?
- 6) FR Y-14M First Lien Loan Level submission - Field 15 (Credit Class) - How should FHA loans be classified? Should they be considered Government- Owned (option 4)? Also, can you please define what is meant by Prime?
- 7) FR Y-14M First Lien Loan Level submission - Field 22 (Mortgage Insurance coverage percent at origination) - Should FHA loans be included in this field?

- 8) FR Y-14M First Lien Loan Level submission - Field 39 (ARM Periodic Pay Cap) - How should the report be completed if there are no payment caps? Should it be report as Null?
- 9) FR Y-14M First Lien Loan Level submission - Field 40 (ARM Periodic Pay Floor) How should the report be completed if there are no payment floors. Should it be reported as Null?
- 10) FR Y-14M First Lien Loan Level submission - Field 66 (Repurchase Type) - Can you please further clarify what is meant by the Loan Repurchase Type options: (0) None, (1) In Process, (2) Complete & Repurchased, or (3) Complete and NO repurchase?