PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC Board Approves Start of Rulemaking Process on Basel 1-A

Initiative Will Address Competitive Issues Posed by Basel II

The Board of Directors of the Federal Deposit Insurance Corporation (FDIC) today approved an interagency advance notice of proposed rulemaking (ANPR) to solicit comments on the way that the vast majority of banks and thrifts in the U.S. calculate their minimum capital requirements. This framework is sometimes referred to as Basel I-A because it is anticipated to apply to banks that do not adopt the international Basel II Capital Accord. That standard, which is expected to only cover the largest and most complex banks and thrifts in the U.S., is moving through a separate rulemaking process, with a proposed rule targeted to become available the 1st quarter of 2006.

The Basel II standard is intended to strengthen the regulation of large, complex banking companies by making their capital requirements more sensitive to changes in risk. The prospect of reductions in risk-based capital requirements under the Basel II standard has given rise to competitive equity concerns among smaller banks and thrifts. The ANPR that the Board approved today is intended, in part, to provide these institutions an opportunity to comment formally about these competitive issues, and what the federal banking regulators should do about them.

"Working Basel II and 1-A through the system on parallel tracks gives us a great opportunity to modernize the way all banks and savings associations calculate their minimum capital requirements -- not just for the largest ones," said FDIC Chairman Don Powell. "We do not want to create a competitive advantage for one group over another, and by considering changes to capital standards for all U.S. banks and thrifts at the same time, we can best monitor the impact that the new systems will have on the entire banking industry. Good, solid capital is near and dear to the FDIC since it is the cushion that banks fall back on when facing the unexpected or weathering financial storms."

In considering revisions to the risk-based capital rules, the federal banking and thrift regulatory agencies were guided by five principles: promote safe and sound banking practices and a prudent level of regulatory capital; maintain a balance between risk sensitivity and operational feasibility; avoid undue regulatory burden; create appropriate incentives for banking organizations; and mitigate material distortions in the amount of regulatory risk-based capital requirements for large and small institutions that may arise from the pending Basel II rulemaking.

The agencies are seeking comments on modifications that include revisions to the treatment of residential mortgages and a greater recognition of credit risk mitigants and external credit ratings. Also under consideration are revisions to the existing treatment of unused commitments, defaulted assets, and securitizations backed by revolving retail exposures with early amortization provisions.

Comments will be accepted for 90 days after publication in the *Federal Register*. The ANPR is available on the FDIC's Web site at www.fdic.gov.

Advance Notice of Proposed Rulemaking Regarding Risk-Based Capital Guidelines; *Capital Maintenance: Domestic Capital Modifications*