PRESS RELEASE
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FDIC Board Proposes Basel 1-A Capital Standard For Most Banks; Extends Comment Period on Basel II for the Largest Banks

The Board of Directors of the Federal Deposit Insurance Corporation (FDIC) today approved an interagency proposed rule that would provide a new option for how most banks and thrifts in the U.S. calculate their minimum risk-based capital requirements. The capital framework is commonly referred to as Basel 1-A, and would be available to all banks except the largest and most complex. Those banks will be covered by the international capital accord known as Basel II, which was issued for comment by U.S. regulators in September.

Within the Basel 1-A proposal, the agencies are seeking comment on alternatives to the Advanced Approaches for determining risk-based capital requirements for those banks that are proposed to be subject to the Basel II requirements. The agencies seek comments on whether to allow Basel II banks to adopt the standardized approach that foreign regulators permit, or the Basel 1-A standard once it is adopted.

"Basel 1-A is an important improvement to the risk sensitivity of our capital requirements," said FDIC Chairman Sheila C. Bair. "I am particularly interested in comments on whether this approach or a variation of it should be available to any U.S. bank."

Banks not subject to the Basel II standards will have the option to adopt Basel 1-A requirements or remain subject to the existing risk-based capital rules. Under the proposal, capital standards for institutions that adopt the new requirements would:

- Add three new risk weights to the existing framework, 35%, 75% and 150%;
- Expand the use of external credit ratings for certain exposures;

- Expand the range of eligible collateral and guarantors used to mitigate credit risk;
- Use loan-to-value ratios to determine risk weights for most residential mortgages;
- Increase the credit conversion factors for certain commitments with an original maturity of less than one year;
- Assess a risk-based capital charge to reflect the risks in securitizations with early amortization provisions that are backed by revolving exposures; and
- Remove the 50 percent limit on the risk weight that applies to certain derivative contracts.

Comments will be accepted for 90 days from the date of publication in the *Federal Register* once all of the agencies have approved the interagency Notice of Proposed Rulemaking (NPR).

The Board also approved an extension of the comment period for Basel II to coincide with the Basel 1-A comment period. This will provide meaningful overlap that will aid both banks and regulators during the review process.

For more information, go to http://www.fdic.gov/news/board/notice5dec2006.html.