



Financial Security Assurance Inc.

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General Counsel  
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Laura Goldman, Esq.  
Senior Attorney  
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Office of the Comptroller of the Currency  
250 E Street, SW  
Washington, DC 20219

**Re: Risk-Based Capital Standards; Recourse and Direct Credit Substitutes  
Office of the Comptroller of the Currency  
12 CFR Part 3, Docket No. 00-06, RIN 1557-AB14**

Dear Ms. Goldman:

This comment letter is being submitted on behalf of the Association of Financial Guaranty Insurers ("AFGI") as a follow-up to our March 30, 2000 telephone conversation regarding the above-referenced matter.

AFGI is comprised of the following monoline financial guaranty insurers and reinsurers which have been issued the indicated claims-paying ability or insurer/insurance financial strength ratings by Fitch IBCA Inc. ("Fitch"), Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Services ("S&P"), respectively:

Primary Insurers:

- ACA Financial Guaranty Corporation (A/A/NR)
- AMBAC Assurance Corporation (AAA/Aaa/AAA)
- Financial Guaranty Insurance Company (AAA/Aaa/AAA)
- Financial Security Assurance Inc. (AAA/Aaa/AAA)
- MBIA Insurance Corporation (AAA/Aaa/AAA)
- XL Capital Assurance, Inc. (NR/NR/NR)

Reinsurers:

- ACE Guaranty Re Inc. (AAA/Aa2/AAA)
- Enhance Reinsurance Company (NR/Aa2/AAA)
- RAM Reinsurance Company Ltd. (NR/Aa3/AAA)
- AXA Re Finance S.A. (AAA/NR/AAA)

AFGI members write virtually all of the financial guaranty insurance and most of the financial guaranty reinsurance business in the U.S., as well as a large part of such business throughout the world.

The financial guaranty insurance provided by AFGI members guarantees the timely payment of scheduled debt service (e.g., principal and interest) under municipal bonds, asset-backed securities and other financial payment obligations. In general, financial guaranty insurance is a promise to pay principal and interest on a financial obligation when due, if the obligor fails to make payments under the original terms of the transaction. In assuming this risk, financial guaranty insurers effectively lend their credit ratings to the obligor, because the guaranteed issue takes on the investment ratings of the financial guaranty insurer.

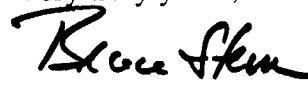
This comment letter addresses the risk-weighting percentages based on rating categories of a recourse obligation, direct credit substitute or asset-backed security (an "Obligation") retained or held by a regulated financial institution as set forth in the Table B of Section 3(d)(4) of Appendix A to 12 CFR Part 3. In Table B, a 20% risk weighting is allowed for an Obligation rated in the highest or second highest investment grade category (e.g., AAA, AA), and a 50% risk weighting is allowed for an Obligation in the third highest investment grade category (e.g., A).

As we discussed, this is to confirm that the ratings in Table B refer to the rating of an Obligation retained or held by a regulated financial institution, taking into account third-party credit enhancement of the Obligation for the benefit of such regulated financial institution. Thus, for example, an insured Obligation that is rated in the AAA or AA rating category by virtue of third-party financial guaranty insurance comes within the 20% risk-weighting category, rather than the 100% risk-weighting category, even though, in the absence of such financial guaranty insurance, the Obligation would be rated in the A rating category. AFGI supports this interpretation because financial guaranty insurance is merely one of the various forms of credit enhancement that together result in the assigned rating of the Obligation. Other forms of credit enhancement include overcollateralization, excess spread, primary mortgage insurance and various collateral accounts. All of these forms of credit enhancement are in fact used to bring the underlying asset-backed transaction to the investment grade rating before the guaranty is applied.

During our conversation, you indicated that the Office of the Comptroller of the Currency may be prepared to include a comment confirming the foregoing in the supplementary information accompanying the final rule, which we would greatly appreciate to avoid the potential for future misinterpretation. We also respectfully request that this letter be included in the rulemaking record.

Please do not hesitate to contact me (tel: 212-339-3482; fax: 212-339-0848 or e-mail: bstern@fsa.com) if you have any questions or would like any further information regarding these matters.

Very truly yours,



Bruce E. Stern,  
General Counsel &  
Managing Director

cc: Docket No. 00-06  
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