16

-----Original Message-----
From: pmartin@RMAHQ.ORG [mailto:pmartin@RMAHQ.ORG]
Sent: Thursday, June 08, 2000 5:30 PM
To: reg.comments@occ.treas.gov; comments.fdic.gov@RMAHQ.ORG;
public.info@ots.treas.gov
Subject: Risk-Based Capital Standards; Recoverse and Direct Credit
Substitutes

Attached please find comments by RMA, the association of risk
management
professionals, on the Joint Notice of Proposed Rulemaking regarding
"Risk-Based
Capital Standards; Recourse and Direct Credit Substitutes" (February
17, 2000).

Thanks you.

(See attached file: rma_securitization_5 16 00 FINAL.doc)

RMA Securitization Subgroup –
A description of Key's internal capital allocation process

Capital Allocation process for Securitizations

For securitizations, baseline loss expectations are developed which drive the capital associated with each pool. The baseline loss forecast for each deal establishes the foundation for the Rating Agency presentation (the "gain-on-sale" calculation is the outcome of this process). Post issuance, the fair market value of each deal is adjusted on a quarterly basis based on any potential changes in the risk profile of that pool. Below is a more detailed description of the process by which the credit risk of each pool of loans is analyzed.

The evaluation of risk inherent in each pool entails a bottom-up assessment of loan characteristics. Loans are aggregated into pools based on buckets of similar characteristics. The following is a list of possible segmentation variables:

- Product type – fixed/variable/loan program.
- Credit grade/FICO score band.
- Loan to value.
- Lien position.
- Seasoning.

Assessments are then done after taking into account the following dynamics associated with each pool:

- Shape of the loss curve.
- Lifetime static pool losses.
- Defaults, recoveries, and delinquencies.
- Actual losses to date.

Why we allocate Capital as if the securitized loans were still on the books

In most of our deals, the first loss position is sufficiently large, and thus we do not shed any risk by securitizing. Even otherwise, we feel that we have to cover our reputational risk. The section below describes how capital is allocated to all Managed assets in the Consumer portfolio.

Capital Allocation process for the entire Consumer portfolio

For the entire Consumer portfolio, Capital is allocated to all Managed assets (both on-balance sheet, as well as off-balance sheet) for each product. This is because Key retains a 100% loss position for the off-balance sheet portion of the portfolio (i.e., any securitized pools). Capital rates are determined by first looking at a recent 12 month performance snapshot for each respective portfolio (e.g., Indirect Auto, Home Equity lines, etc.). For portfolios that utilize credit scoring, annual Loss rates are calculated for each Custom score and/or Generic Credit Bureau score segment. These actual Loss rates are then applied to the current distribution of Outstandings for each score range. We implicitly incorporate the seasoning of accounts (i.e., the mix of accounts across particular vintages) into this process.