

December 26, 2000

Docket No. 00-17  
Communications Division, Third Floor  
Office of the Comptroller of the Currency  
250 E Street, S.W.  
Washington, DC 20219

Mr. Robert Feldman  
Executive Secretary  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, DC 20429

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

Manger, Dissemination Branch  
Records Management and Information Policy  
Office of Thrift Supervision  
1700 G. Street, N.W.  
Washington, DC 20552  
Attn: Docket No. 2000-70

**Re: Residual Interests in Securitizations**

Ladies and Gentlemen:

MBNA America Bank, N.A. (“MBNA”), a national bank located in Wilmington, Delaware and the principal subsidiary of MBNA Corporation, welcomes the opportunity to provide comments to the members of the Federal Financial Institutions Examination Council (the “FFIEC”) on its September 27, 2000 Notice of Proposed Rulemaking related to residual interests in securitizations (the “Proposal”).<sup>1</sup>

MBNA is a major national bank issuer of credit cards with assets net of securitizations totaling approximately \$34.3 billion and total managed loans of approximately \$84.4 billion at September 30, 2000. In addition, MBNA is actively involved in the securitization of assets, principally credit card loans and would be directly impacted by the Proposal. Since 1986, MBNA has securitized over \$88 billion of credit card and other consumer loans through 134 separate transactions without loss or “write down” of any residual interest. MBNA has also played an integral role in developing innovative securitization structures and providing guidance to the FASB on securitization matters. Our securitization program has also received high ratings from the OCC and FRB Philadelphia. We firmly believe that our broad depth of securitization experience qualifies us to address the FFIEC’s concern related to residual interests.

---

<sup>1</sup> 65 Fed. Reg. 57993 (September 27, 2000).

The Proposal would amend the capital standards for federally regulated financial institutions (“banks”) in two ways:

1. It would require banks to hold dollar-for-dollar capital against the face amount of residual interests, even if the resulting capital charge exceeds the full on-balance-sheet risk-based capital charge typically held against the transferred assets.
2. It would include residual interests in two existing deductions of servicing assets in calculating Tier 1 capital for leverage and risk-based capital purposes. Specifically:
  - a deduction would be made to the extent that the sum of mortgage servicing assets, purchased credit card relationships (“PCCRs”), non-mortgage servicing assets and residual interests exceed 100% of Tier 1 capital; and
  - A second deduction would be made to the extent that the sum of PCCRs, non-mortgage servicing assets and residual interests exceed 25% of Tier 1 capital.

For convenience we refer to the change described in paragraph 1 above as the “*dollar-for-dollar capital requirement*” and the changes described in paragraph 2 as the “*Tier 1 deductions*.”

We understand the FFIEC’s concern that certain types of residual interests *could* create some uncertainty and volatility in a bank’s regulatory capital calculations. However, we are convinced this uncertainty and volatility in regulatory capital calculations is limited to a few isolated instances and is a direct function of inexperienced securitization management practices combined with “high risk” types of assets being securitized. As a result, this proposal would unfairly penalize banks, such as MBNA, that have developed and implemented a prudent securitization program. Over the past 15 years, MBNA has invested significantly in people, systems and management in order to properly control its securitization process. We believe these investments and management practices by banks should be encouraged, not overlooked or discounted. MBNA would also ask the FFIEC to consider the many benefits of asset securitization.

It is also important to recognize that securitization does not transform “good” loans into “high risk” assets. If there is regulatory concern related to specific loans, the FFIEC should address that issue on a bank by bank basis, regardless of whether the loans have been securitized. MBNA believes it is more appropriate to target specific banks with poorly managed, high-risk securitization programs and/or risky loans through the existing examination process.

MBNA firmly believes the existing regulatory capital rules combined with the Interagency Guidance on Asset Securitization (December 1999) provide the FFIEC with sufficient tools for overseeing banks. In the December 1999 Guidance, the FFIEC clearly specified their ability to increase capital requirements and/or frequency of review for institutions that fail to prudently manage securitization related risks. Consequently, MBNA is opposed to implementing the new Proposal and prefers enforcement of existing rules and guidelines.

In support of our argument, the section below reviews MBNA’s experience with residual interests related to its securitization of credit card and consumer loans, including an analysis of the volatility risk associated with payment rates and excess spread. While this discussion focuses only on one issuer, we believe that in the overwhelming majority of cases, the results would be similar for all but the highest risk loans.

## *Volatility Analysis of Credit Card Residual Interests*

A credit card securitization transaction creates a variety of residual interests that may include spread accounts, retained subordinated classes and the interest-only strip. Valuation of spread accounts and retained subordinated classes is very straightforward. Spread accounts are supported by cash proceeds in a segregated trust account that can be verified on any day. Retained subordinated classes are supported directly by an interest in the trust. Cash collections allocated to the subordinated classes are available to cover shortfalls with respect to the more senior classes. If cash collections were re-allocated from a subordinate class to a senior class, any potential impairment of a retained subordinated class would be clearly identified within the normal monthly securitization reporting process. Monthly reports are distributed to the trustee, rating agencies and other transaction participants. Valuation of retained subordinate classes is readily available, without any ambiguity, to the issuer, investors and rating agencies.

As current regulatory guidance requires, MBNA accounts for spread accounts and retained subordinated classes, as well as the interest only strip discussed below using the existing low-level recourse rules. Again, MBNA has never experienced a loss or “write-down” related to spread accounts or retained subordinated classes. It is also important to note that the aggregate amount of MBNA’s residual interests in credit card securitizations, including the interest only strip discussed below, has been below the full on-balance-sheet risk-based capital charge (normally 8%). However, it would be inappropriate to assume that larger residual interests are necessarily the result of riskier loans.

For credit card securitizations, the interest-only strip that results from gain recognition is also relatively easy to value and subject to little volatility. The gain and resulting interest-only strip are calculated based on the present value of certain securitization cash flows over the life of a pool of credit card loans. Two important factors to recognize with respect to securitized credit card loans are:

- 1) the average life of a pool of credit card loans is very short – a pool of credit card loans with a 12.5% payment rate will amortize completely in 8 months (or an average life of 4 months), and
- 2) Securitization cash flows over this short time period are very predictable.

As the analysis below clearly demonstrates, the short average life combined with the predictable performance of a large homogeneous pool of credit card loans results in a very stable interest-only strip.

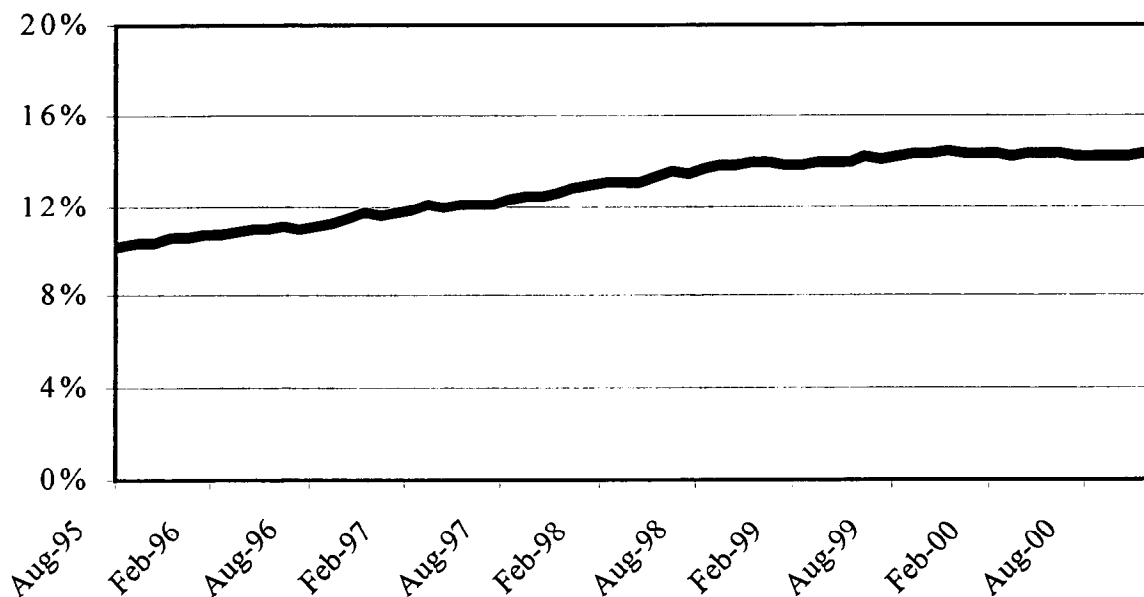
As a proxy to measure the potential volatility of a credit card interest only strip, historical payment rates and excess spread percentages (annualized) for the MBNA Master Credit Card Trust II, Series 1994-C were analyzed. The valuation of the interest only strip does not include every component of excess spread. However, excess spread numbers are publicly available on Bloomberg and provide a good benchmark for volatility of securitization cash flows. This analysis represents 71 data observations over almost a 6-year period. The detail is attached as Exhibit I.

### *Payment Rates*

Monthly payment rates were averaged based on rolling 8-month periods. The 8-month average was selected because it approximates the length of time needed to amortize a pool of credit card loans with a 12.5% payment rate ( $8 * 12.5\% = 100\%$ ). From the data, we can draw the following conclusions:

- The average payment rate during the period was 12.79%, with a maximum of 14.36%. The difference in the average life of the loan pool, based on the differential between average and maximum payment rates would only be 0.4 months ( $100/12.79/2$  less  $100/14.36/2$ ). This minor change to the average life of the loan pool would be valid if the payment rates occurred on a purely random basis.
- The graph below clearly demonstrates that payment rates do not randomly occur, but there is a trend in payment rates. This trend would indicate that recent experience should be a better predictor of future payment rates and reduce the already low level of volatility to the average life of the loan pool.
- If the average actual payment rate for a prior 8-month period is used to predict the average payment rate for an ensuing 8-month period, we see a very high correlation (r-square) of 94.93%. The average of the differences between the predicted payment rates and actual payment rates over the entire period was 0.52%. Applying the 0.52% variance to the average payment rate of 12.79% results in an extremely small, 0.15-month change to the average life of the asset ( $100/12.79/2$  less  $100/13.31/2$ ).
- This evidence supports the conclusion that payment rates for MBNA's credit card loans are very predictable and therefore create little to no volatility in the interest only strip.

**MBNA Master Trust II Series 1994-C**  
8-M onth Rolling M ean Pay ment Rates

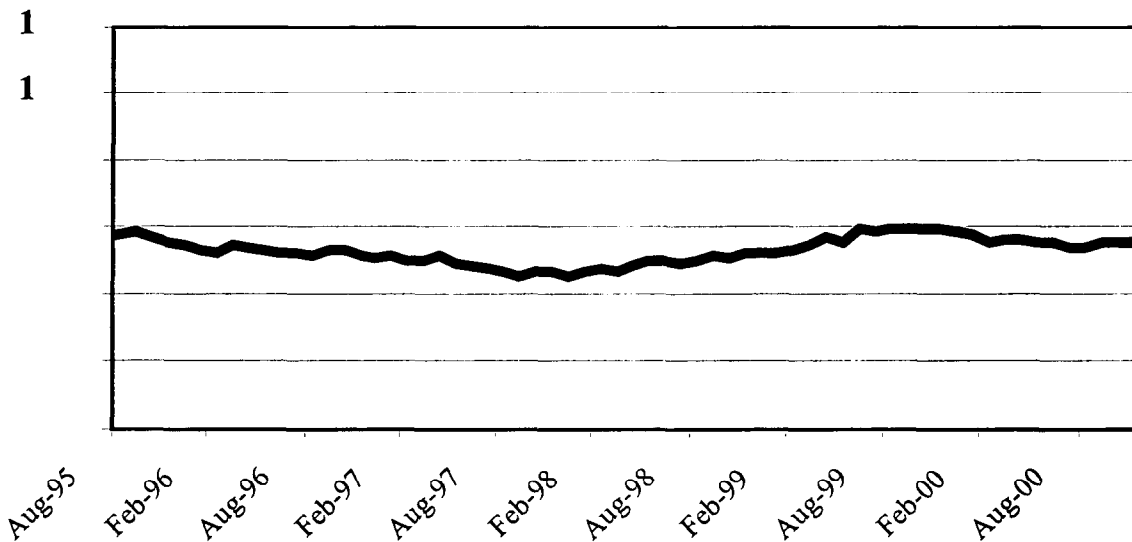


### *Excess Spread*

Similar to payment rates, monthly excess spread percentages (expressed on an annualized basis) were averaged based on rolling 8-month periods. From the data, we can draw the following conclusions:

- As the graph below demonstrates, excess spread observations are tightly grouped. The attached analysis shows an average excess spread of 5.32% and a standard deviation of 0.39%. In addition, the minimum 8-month average excess spread observed was 4.57%. Consistent with the payment rate analysis, there is an assumption that excess spread occurs on a random basis.
- Excess spreads for MBNA's credit card loans do not occur on a random basis but are very predictable based on yield performance and current delinquency levels with respect to the loans. The stable and predictable nature of excess spread supports the conclusion that there is little to no volatility in the interest only strip.

### **MBNA Master Trust II Series 1994-C**



Additionally, each quarter, MBNA completes a sensitivity analysis of its interest only strip. Both payment rates and securitization cash flows applicable to the interest only strip are stressed to multiple levels, including +/- 10%. The +/- 10% stress is well beyond the expected performance variances discussed above.

A similar analysis was also performed with MBNA's consumer loan securitization. Due to the relative newness of the transaction, 38 monthly data points were reviewed compared to the 71 observations for the credit card analysis. While the payment rates were lower (approximately 6.34% vs. 12.79% for card), indicating a longer average life, the conclusions are consistent with the credit card analysis. The pool of consumer loans has a short average life and exhibits stable payment rates and yields.

As previously indicated, MBNA employs existing low-level recourse rules for residual interests. MBNA's interest only strip analysis clearly demonstrates that the low level of volatility does not support establishment of either:

- 1) The Tier 1 deductions. The Tier 1 deductions would impact MBNA. We believe these additional requirements are both additive and duplicative of existing capital requirements. Or
- 2) Elimination of the full on-balance-sheet risk-based capital cap included in the dollar-for-dollar capital requirement.

Again, MBNA believes that the Proposal, and in particular the Tier 1 deductions, imposes unfair capital penalties for well-managed securitization programs and puts banks at a competitive disadvantage relative to non-banks. We strongly encourage the FFIEC to rely on existing rules and guidelines when establishing capital requirements for banks. MBNA also recommends the FFIEC allow retained residual interests to qualify for more favorable risk-based capital treatment under the ratings based criteria now being considered by domestic and international bank supervisors.

#### *Potential Option*

The FFIEC could establish specific criteria as a way to identify higher risk banks. For banks that fail to meet the appropriate criteria, the dollar for dollar capital requirement for residual interests in the Proposal should apply. However, we would recommend the dollar for dollar capital requirement be capped at the sum of: 1) the full on-balance-sheet capital charge typically held for such transferred assets (normally 8%) plus 2) the value of the interest only strip. Residual interests will be net of tax where appropriate.

There are a variety of criteria that could be employed by the FFIEC. One alternative could be based on the size and/or securitization history of the bank. A second alternative could be based on the existing CAMEL rating system. For example, banks with a CAMEL rating less than 3 would fail to meet the appropriate criteria and therefore be required to meet the higher capital standards. A third alternative could be based on the December 1999 Interagency Guidance on Securitization which was issued to "...ensure that the board of directors and senior management are complying with the risk management expectations." We believe that establishing specific criteria would provide an objective methodology that avoids the blanket/punitive nature of the Proposal.

#### *Net of Tax Calculation*

MBNA supports the agencies' initial decision to continue to apply the capital requirements for residual interests on a net of tax basis.

#### *Additional Call Report Disclosures*

The recently adopted SFAS No. 140 requires new disclosures about securitization transactions. These new annual disclosures (effective December 31, 2000) provide detailed information related to the nature of residual interests, valuation assumptions, sensitivities and the cash flows in securitizations. We believe this disclosure will meet the FFIEC's needs and should be used as an alternative information source in order to avoid increased reporting burdens.

*Grandfathering*

Finally, we ask that all residual interests created from transactions executed prior to the adoption of the final rules be grandfathered. Existing securitizations were structured pursuant to then current regulatory capital rules and the ability to amend existing structures is very limited.

***Conclusion***

MBNA appreciates the opportunity to comment on the Proposal and the FFIEC's efforts to modify capital requirements to truly reflect the relative risk associated with various types of assets.

Yours truly,

Vernon H.C. Wright  
Vice Chairman and Chief Corporate Finance Officer  
MBNA America Bank, N.A.

## EXHIBIT 1

## Analysis of MBNA Master Trust II Series 1994-C

Month	Spread	8-month rolling mean	Pymt. Rate	8-month rolling mean	mean pymt rate 8 mo. Prior	mean pymt rate 8 mo. After	Difference
Jan-95	5.42%		10.37%				
Feb-95	5.69%		9.99%				
Mar-95	6.74%		9.63%				
Apr-95	6.07%		10.73%				
May-95	5.56%		9.75%				
Jun-95	5.69%		10.12%				
Jul-95	4.77%		9.84%				
Aug-95	6.50%	5.81%	11.80%	10.28%	10.28%	11.03%	0.75%
Sep-95	5.91%	5.87%	10.74%	10.33%	10.33%	11.02%	0.70%
Oct-95	4.85%	5.76%	10.21%	10.35%	10.35%	11.11%	0.76%
Nov-95	5.35%	5.59%	12.02%	10.65%	10.65%	10.96%	0.30%
Dec-95	5.40%	5.50%	10.48%	10.62%	10.62%	11.09%	0.47%
Jan-96	4.41%	5.36%	10.54%	10.72%	10.72%	11.22%	0.50%
Feb-96	5.13%	5.29%	10.48%	10.76%	10.76%	11.50%	0.74%
Mar-96	6.34%	5.49%	10.86%	10.89%	10.89%	11.70%	0.81%
Apr-96	5.91%	5.41%	12.89%	11.03%	11.03%	11.56%	0.53%
May-96	4.98%	5.30%	10.71%	11.02%	11.02%	11.70%	0.67%
Jun-96	4.73%	5.28%	10.90%	11.11%	11.11%	11.86%	0.75%
Jul-96	5.33%	5.28%	10.78%	10.96%	10.96%	12.10%	1.14%
Aug-96	4.49%	5.17%	11.54%	11.09%	11.09%	11.99%	0.90%
Sep-96	5.59%	5.31%	11.58%	11.22%	11.22%	12.07%	0.85%
Oct-96	5.24%	5.33%	12.77%	11.50%	11.50%	12.07%	0.56%
Nov-96	5.15%	5.18%	12.45%	11.70%	11.70%	12.03%	0.33%
Dec-96	5.35%	5.11%	11.72%	11.56%	11.56%	12.34%	0.78%
Jan-97	5.41%	5.16%	11.85%	11.70%	11.70%	12.41%	0.71%
Feb-97	3.71%	5.03%	12.21%	11.86%	11.86%	12.44%	0.58%
Mar-97	5.31%	5.03%	12.64%	12.10%	12.10%	12.61%	0.51%
Apr-97	5.74%	5.19%	10.71%	11.99%	11.99%	12.82%	0.83%
May-97	3.70%	4.95%	12.21%	12.07%	12.07%	12.96%	0.89%
Jun-97	4.37%	4.84%	12.75%	12.07%	12.07%	13.05%	0.98%
Jul-97	4.79%	4.80%	12.14%	12.03%	12.03%	13.10%	1.07%
Aug-97	4.43%	4.68%	14.22%	12.34%	12.34%	13.05%	0.71%
Sep-97	4.51%	4.57%	12.37%	12.41%	12.41%	13.33%	0.92%
Oct-97	4.69%	4.69%	12.46%	12.44%	12.44%	13.48%	1.04%
Nov-97	5.25%	4.69%	14.00%	12.61%	12.61%	13.40%	0.79%
Dec-97	4.78%	4.57%	12.41%	12.82%	12.82%	13.66%	0.84%
Jan-98	4.99%	4.73%	13.29%	12.96%	12.96%	13.78%	0.82%
Feb-98	4.63%	4.76%	13.52%	13.05%	13.05%	13.73%	0.68%
Mar-98	4.53%	4.73%	12.54%	13.10%	13.10%	13.94%	0.84%
Apr-98	5.65%	4.88%	13.80%	13.05%	13.05%	13.91%	0.86%
May-98	5.73%	5.03%	14.61%	13.33%	13.33%	13.78%	0.46%
Jun-98	4.75%	5.04%	13.68%	13.48%	13.48%	13.84%	0.36%
Jul-98	4.58%	4.96%	13.35%	13.40%	13.40%	13.88%	0.48%
Aug-98	5.03%	4.99%	14.52%	13.66%	13.66%	13.91%	0.25%
Sep-98	6.21%	5.14%	14.21%	13.78%	13.78%	13.91%	0.13%
Oct-98	4.20%	5.09%	13.10%	13.73%	13.73%	14.10%	0.38%
Nov-98	5.78%	5.24%	14.28%	13.94%	13.94%	14.03%	0.09%
Dec-98	5.59%	5.23%	13.51%	13.91%	13.91%	14.14%	0.24%
Jan-99	5.69%	5.23%	13.62%	13.78%	13.78%	14.24%	0.45%
Feb-99	5.55%	5.33%	14.12%	13.84%	13.84%	14.24%	0.40%
Mar-99	5.99%	5.51%	13.67%	13.88%	13.88%	14.36%	0.48%
Apr-99	6.65%	5.71%	14.77%	13.91%	13.91%	14.28%	0.37%
May-99	5.02%	5.56%	14.17%	13.91%	13.91%	14.30%	0.40%
Jun-99	7.57%	5.98%	14.69%	14.10%	14.10%	14.24%	0.14%
Jul-99	5.08%	5.89%	13.71%	14.03%	14.03%	14.19%	0.16%
Aug-99	5.88%	5.93%	14.40%	14.14%	14.14%	14.29%	0.15%
Sep-99	5.88%	5.95%	14.37%	14.24%	14.24%	14.22%	-0.02%



EXHIBIT 1

## Analysis of MBNA Master Trust II Series 1994-C

Month	Spread	8-month rolling mean	Pymt. Rate	8-month rolling mean	mean pymt rate 8 mo. Prior	mean pymt rate 8 mo. After	Difference
Oct-99	5.73%	5.98%	14.16%	14.24%	14.24%	14.25%	0.01%
Nov-99	6.07%	5.99%	14.64%	14.36%	14.36%	14.17%	-0.19%
Dec-99	5.77%	5.88%	14.09%	14.28%	14.28%	14.18%	-0.10%
Jan-00	4.47%	5.81%	14.35%	14.30%	14.30%	14.17%	-0.13%
Feb-00	5.37%	5.53%	14.21%	14.24%	14.24%	14.13%	-0.11%
Mar-00	6.08%	5.66%	13.30%	14.19%	14.19%	14.23%	0.04%
Apr-00	5.78%	5.64%	15.20%	14.29%			
May-00	5.39%	5.58%	13.82%	14.22%			
Jun-00	5.61%	5.57%	14.38%	14.25%			
Jul-00	4.81%	5.41%	14.03%	14.17%			
Aug-00	5.96%	5.43%	14.13%	14.18%			
Sep-00	5.45%	5.56%	14.32%	14.17%			
Oct-00	5.61%	5.59%	13.85%	14.13%			
Nov-00	6.19%	5.60%	14.07%	14.23%			
<b>Mean</b>		<b>5.32%</b>		<b>12.79%</b>			<b>0.52%</b>
<b>Min</b>		<b>4.57%</b>		<b>10.28%</b>			
<b>Max</b>		<b>5.99%</b>		<b>14.36%</b>			
<b>Standard Deviation</b>		<b>0.39%</b>		<b>1.35%</b>			
					<b>R squared&gt;</b>	<b>94.93%</b>	