MBNA AMERICA®

www.MBNA.com

MBNA America Bank, N.A.
Wilmington, Delaware 19884-0151
(302) 453-2074
(302) 456-8348 Fax

Vernon H.C. Wright
Executive Vice Chairman
Chief Corporate Finance Officer

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November 14, 2003

Public Information Room
Office of the Comptroller of the Currency
Mailstop 1-5
Attention: Docket No. 03-22
250 E Street, SW
Washington, DC 20219

Robert E. Feldman
Executive Secretary
Attention: Comments/OES
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Ms. Jennifer J. Johnson
Secretary, Board of Governors of
the Federal Reserve System
Docket No. R-1162
20th and Constitution Avenue, N.W.
Washington, DC 20551

Regulation Comments,
Chief Counsel's Office
Attention: No. 2003-47
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

Re: Joint Notice of Proposed Rulemaking, Early Amortization Provisions

Ladies & Gentlemen:

MBNA America Bank, N.A., welcomes the opportunity to provide comment on the recently published joint notice of proposed rulemaking for the Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Asset Backed Commercial Paper Programs and Early Amortization Provisions (the "NPR"). MBNA America Bank, N.A. ("MBNA") is the principal subsidiary of MBNA Corporation and focuses primarily on unsecured retail lending. At September 30, 2003, MBNA Corporation reported assets net of securitizations totaling $58.7 billion.

Since 1986, MBNA has had a major role in the development of innovative securitization structures. Moreover, we have been an active originator, securitizing over $135 billion of credit card and other consumer loans through more than 227 separate transactions. These transactions have been structured with loans originated in the United States, United Kingdom, and Canada. Our securitization transactions are largely comprised of revolving assets and include early amortization provisions. We have also provided guidance to the Financial Accounting Standards Board and bank regulatory agencies on securitization matters. We believe the depth of our securitization experience uniquely positions us to recommend needed changes to the proposed rule.

MBNA understands that the U.S. banking regulatory agencies (the "Agencies") have concerns related to securitization transactions containing early amortization provisions. We also recognize the Agencies have previously proposed regulatory capital requirements for early amortization risk, and believe this version of the proposed rule represents an improvement over those earlier proposals. We do not believe, however, that the proposed rule achieves an appropriate balance between the risks of early amortization and capital required to cover sufficiently those risks.

Listed below are our specific comments. We also include recommended technical changes designed to simplify the implementation process without jeopardizing the Agencies' overall goal of ensuring that financial institutions hold sufficient capital to cover the risks associated with the early amortization of securitized loans.

I. Address Early Amortization Risk Through Basel II

We note that the provisions of the NPR are broadly consistent with many of the provisions proposed in the new Basel Capital Accord ("Basel II"). Basel II, however, more fully addresses the risks associated with early amortization. As an example, the NPR does not recognize the need for different treatment of controlled versus non-controlled early amortization provisions. We note that there has been substantial commentary and development of securitization related issues in the development of the Basel II. We believe that this work and the thinking in that effort should be reflected in the development of any rule that might apply to U.S. institutions regarding securitizations. We further believe that it is imperative that the development of any regulatory capital requirements for early amortization risk are addressed through a single process, specifically the Basel II process, and not through a separate U.S. initiative that may or may not diverge from any final approach under Basel II. By working along side the development of Basel II, the Agencies can ensure that both the final Basel accord and U.S. regulatory requirements are consistent with each other and uniformly applied.

II. Specific Comments on the NPR

If the Agencies reject our recommendation to address early amortization risk through the Basel II process and determine instead to move forward with the NPR, there are a number of areas where we believe changes to the proposed capital requirements are in order.

A. Include a Controlled Early Amortization Option

At the outset, we believe that the Agencies must recognize and establish an alternative approach for controlled early amortization similar to the approach specified in Basel II. Unlike Basel II's Consultative Paper 3, however, banks should be able to utilize this approach so long as they can demonstrate they can meet certain objective, principles-based, criteria. To meet the necessary conditions for "controlled early amortization" an originator must simply show that:

1. The period for amortization is sufficient for 90% of the total debt outstanding at the beginning of the amortization period to be repaid or recognized as in default and

2. The amortization occurs at a pace no more rapid than a straight-line amortization.

This principles-based test for determining whether the securitization structure meets the requirements of controlled amortization should only apply to economic early amortization events, *not scheduled amortization* events. There is a major difference between an amortization caused by credit deterioration triggering an early and rapid paydown ("when things go bad") and scheduled amortization, which is envisioned by and specified within the underlying securitization documents. Scheduled amortization events are known and planned for and the assets are performing - circumstances very different from an economic early amortization event. Because of these differences, originators must not be required to meet the requirements of controlled amortization during scheduled amortization periods.

We also recommend that the credit conversion factors ("CCF") for the four segments should be the same as proposed in the Basel II ANPR (1%, 2%, 20%, and 40%).

We note that MBNA's newest European securitization program meets the Financial Services Authority's ("FSA") requirements for controlled amortization and is consistent with the approach we recommend here. The NPR does not make the distinction between controlled and non-controlled early amortization – and it should.

B. Change the Starting Point to the Lesser of 4% or the First Spread Account Trigger Point

We also strongly recommend that the Agencies adopt a simplification of the early amortization capital requirement, which would make implementation much easier. The initial reference point under the CCF methodology should use the lesser of 4% or the point at which the organization would be required to begin trapping excess spread. Because originators have different spread triggers for transactions from the same asset pools, this approach would allow for broad consistency across the industry, with most transactions using four, simple 1% quadrants. This small change would help the new capital requirement be more operational for originators and verifiable for examiners. Many existing securitizations have slight variances in the starting point for trapping excess spread that are not necessarily indicative of risk differentiation in the underlying assets. In fact, you will find that originators may even have different spread triggers for transactions from the same asset pool. This standard starting reference point will make implementation much easier for originators without sacrificing much from a risk perspective.

C. Lower Credit Conversion Factors for Non-Controlled Early Amortization

We also recommend a reduction to the CCFs for non-controlled early amortization risk. Approximately two years ago, MBNA completed an analysis of our U.K. credit card portfolio to help quantify the difference between controlled and non-controlled amortization events. The results of that analysis demonstrated that a controlled amortization structure would have 90% of loans repaid within a ten-month period. At the time, the underlying payment rate on the same portfolio was approximately 15%, indicating a non-controlled amortization period of between six and seven months. This would imply that a controlled early amortization would take about 1.5 times as long as a non-controlled early amortization. This analysis is based on observed pool characteristics during the covered time period. In the event of early amortization, payment rates on the underlying assets usually deteriorate, which would extend the time period for non-controlled amortization, narrowing the differential between controlled and non-controlled amortization. Based on the foregoing, we recommend the following conservative CCFs for non-controlled early amortization structures: 0, 2%, 4%, 40%, and 80% or twice as large as the factors used for controlled early amortization.

D. Provide Banks the Option to Use a Fixed 10% Credit Conversion Factor

The benefits of the more risk-sensitive approach are certainly understandable. We also note, however, that the NPR requires banks to use a fixed 10% CCF approach when the excess spread is not the determining factor for early amortization. For simplicity, ease of management, and operational certainty, some banks may prefer to adopt the fixed 10% CCF approach, rather than the more risk-sensitive approach. We believe that banks should be able to choose the approach that meets their operational needs, with appropriate regulatory safeguards. Safeguards should include that banks must choose the preferred approach at the time the securitization closes and not be permitted to change during the life of the transaction. Banks should also not be permitted to choose the fixed approach if, at closing, the more risk-sensitive approach would suggest a credit conversion factor of greater than 10%. For all existing securitizations, banks should be required to make their election at the time the new rule becomes effective.

E. The New Rule Must Apply to all revolving Credit Exposures

We also note that the early amortization capital requirement in the proposed rule does not apply to the securitization of revolving corporate exposures. We firmly believe that any final rule must apply equally to all transactions that securitize revolving credit exposures. We can no reason for to treat these exposures any differently.

III. Conclusion

We urge the Agencies to consider fully our recommendations for changes to the proposed rule. We believe these changes are entirely consistent with the Agencies' objectives in developing this new rule, but will help simplify the implementation and adoption of the rule by affected financial institutions.

Please feel free to call either Tom Dunn (302) 453-2107 or myself (302) 453-2074 with any questions or comments.

Respectfully submitted,

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

Chief Financial Officer
MBNA Corporation

C:
Amrit Sekhon (The Office of the Comptroller of the Currency)
Thomas R. Boemio (Board of Governors of the Federal Reserve System)
Jason Cave (Federal Deposit Insurance Corporation)
Michael Solomon (Office of Thrift Supervision)