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MEMORANDUM

October 6, 2005

To Our Clients and Friends

Re: Banking Agencies Propose Revisions to Capital Guidelines

The Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency and the Federal Reserve Board today announced an advance notice of proposed rulemaking (“ANPR”) outlining proposed revisions to their current risk-based capital standards for banking organizations. The Office of Thrift Supervision is also expected to adopt the proposal.

The proposed modifications are designed to more closely align risk-based capital requirements with the risk inherent in various exposures as well as to mitigate competitive inequalities that may arise between larger institutions that will be adopting the Basel II capital rules and institutions that remain subject to the existing requirements.

The ANPR requests comment on the following:

- Increasing the number of risk-weight categories to which credit exposures may be assigned from five to nine
- Expanding the use of external credit ratings as indicators of credit risk
- Expanding the range of collateral and guarantors that may be recognized when assigning risk-weights
- Modifying the risk-weights associated with residential mortgages
- Applying credit conversion factors to certain types of commitments and appropriate risk-based capital treatment of certain securitizations with early amortization provisions
- Modifying risk-weights for loans 90 days or more past due or in non-accrual status, certain commercial real estate exposures and other retail, multifamily, small business and commercial exposures

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The proposal would not affect the banking agencies' current leverage ratio or prompt corrective action requirements. Comments on the ANPR will be due 90 days after publication in the Federal Register.

A copy of the ANPR can be found on our web site at http://www.schwartzandballen.com/whats_new.html.

If you have any questions, please call Gilbert Schwartz, Robert Ballen or Tom Fox at (202) 776-0700.