Press Release

Banking Department Publishes Survey of Potential Basel IA Impacts
Focus on State Chartered Institutions

May 1, 2006

New York, N.Y.: A survey published today by the New York State Banking Department assessed the proposed Basel IA modifications and their potential impacts on New York State-chartered banking institutions. The detailed results of the survey are available on the Banking Department’s Web site at:

www.banking.state.ny.us/rp0605.pdf

The Basel Committee, a group of banking supervisory agencies from thirteen countries formed in 1974, created Basel I, the first international standardized system for calculating the level of capital that banking institutions must maintain. The committee released a revised framework, Basel II, in 2004. Countries around the world are currently implementing Basel II and only the 20 largest U.S. banks are expected to adopt the advanced approaches of Basel II, which were developed as part of the Basel Committee’s revised capital requirements for internationally active banking institutions. Basel IA will, in its final form, be the set of calculations that most U.S. banks use to calculate their required capital levels.

The survey addressed the ways in which four main provisions of Basel IA could affect banks’ capital requirements or increase their regulatory burden.

Under the provisions, banks would:

- Consider external credit ratings when determining risk weights for wholesale loans;
- Use an expanded list of collateral types in determining loan risk weights;
- Use loan-to-value ratios to assign risk-weights for mortgages on one-to-four family homes; and
- Apply new risk-weights of more than 100% for certain commercial real estate exposures, specifically some acquisition, development, and construction (ADC loans).

New York State Banking Superintendent Diana L. Taylor said, “All but a handful of New York State-chartered banking institutions will be affected by the changes to the Basel framework as they are implemented over the next few years. This survey analyzes what these new procedures will mean for our banks when they are put into practice.”

The banks in the survey were chosen based on their asset size and business type; and ranged in asset size from under $50 million to more than $30 billion, and included both commercial and savings banks. Seventeen of the 23 state-chartered banks chosen to participate in the three-month survey responded.

The results suggest that most of the modifications proposed by Basel IA will have a minimal effect on the capital requirements of New York State-chartered banks. The one exception is the use of loan-to-value ratios to determine residential mortgage loan risk weights. Possible potential impacts of Basel IA, as determined by the survey, include:

- Minimum regulatory capital ratios may decline by an average of 9% per bank, with some banks experiencing reductions nearing 15%
Of the four Basel IA provisions surveyed, the use of loan-to-value ratios to assign risk weights to mortgage loans most substantially lowers minimum capital requirements.

Acquisition, development, and construction (ADC) loans are underwritten with more borrower equity than is generally assumed, suggesting industry concerns about stricter capital requirements for these types of loans may be unwarranted.

Banks may have minimal exposure to borrowers with publicly rated debt.

Most banks are still concerned Basel IA will impose an undue regulatory burden.

The Banking Department is continuing to study the potential effects of Basel IA regulations as new and more detailed proposals are issued by federal regulatory agencies.

The New York State Banking Department is the regulator for all state-chartered banking institutions, virtually all of the United States offices of international banking institutions, all of the State’s mortgage brokers, mortgage bankers, check cashers and budget planners. The aggregate assets of the depository institutions supervised by the Banking Department are more than $1.3 trillion.

In addition to regulating banking institutions, the Banking Department is active in informing and educating all New Yorkers on banking matters. To contact the Banking Department, please call 1-877-BANK-NYS or visit our Web site at www.banking.state.ny.us.

http://www.banking.state.ny.us/pr060501.htm 8/28/2006