

Strategic Implications of New U.S. Financial-Regulatory Initiatives

September 14, 2007



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This environmental scan assesses the probability of federal legislative, regulatory and policy changes in light of the market turmoil precipitating and following Federal Reserve discount-window intervention on August 9. Policy actions are assessed in terms of credit, market, operational, strategic, legal and reputational implications. In tabular form, it notes an array of strategic issues for wholesale and retail financial institutions, projecting final action and briefly identifying resulting risks or opportunities. This scan is redacted from those provided in-depth to client boards of directors on a quarterly basis focusing on specific concerns and identifying board/management decision-points.

CEO ISSUES: STRATEGIC/M&A OPTIONS

<i>Issue</i>	<i>Action</i>	<i>Impact</i>
PE/Other BHC Acquirers	New FRB opinions	Opportunities for new M&A participants, structures
ILCs	FDIC/Congressional constraints	New holding-company supervision, capital
BHCs	New FRB examination standards	More FRB governance of non-bank subsidiaries
CSEs	SEC rewrite of prudential standards	Major capital, regulatory impact
S&L HCs	OTS review	More enforcement per AIG case
Treasury “Blueprint”	Major review of U. S. regulation	Not immediate

CFO ISSUES: FUNDING, CAPITAL COSTS

<i>Issue</i>	<i>Action</i>	<i>Impact</i>
Risk-based capital	U.S. Basel II rules	Overhaul of regulatory capital for largest banks
	Basel “standardized” option	Delayed options for all other banks
	Product RBC revisions	Short-term flexibility for complex products
ABCP Conduits	New capital standards	Adverse profit, capital impact
Valuation Reserves	New U.S./international standards	Adverse profit, capital impact
Liquidity Standards	New U.S./international standards	Adverse profit, capital impact
Mark to Market	Enforcement actions/possible rules	Legal, earnings risk
FDIC Premiums	New assessments	Increased NIM pressure

CAPITAL MARKET ISSUES: RETURN TO INTERMEDIATION

<i>Issue</i>	<i>Action</i>	<i>Impact</i>
Credit Ratings Agencies	New regulation, limited use	Reliance on traditional underwriting, new methods
Assignee Liability	House legislation	Due diligence requirements, enhanced primary-market role
401(k) Fees	House legislation	Profit constraints, index-fund advantage
Fiduciary Obligations	DOL rule	Legal risk
	Treasury review	Best practices leading to regulation
Mutual Funds	CDO-related losses	SEC regulation
Hedge Funds	House legislation	New transparency
	Investor Restrictions	Reduced fund flows
	Bank regulation	More capital for counterparty credit, new infrastructure-improvement demands, other risks
Municipal Finance	Congressional/SEC action	Market restructuring
SLLR	Renewed Treasury action	Competition vs. securities lending

MORTGAGE ISSUES: WORLD OF HURT

<i>Issue</i>	<i>Action</i>	<i>Impact</i>
GSE Reform	Congressional action	Altered GSE primary/secondary market role
FHA reform	Congressional action	Expanded mortgage products, competition vs. private-label jumbos
Assignee Liability	House action	New due-diligence standards, legal risk
Mortgage-Lending Standards	Congressional/FRB action	Barriers to current products, return to traditional portfolio/GSE product
Discrimination	Post-HMDA data legislation, rules	Legal, reputational risk

KEY BUSINESS LINES

<i>Issue</i>	<i>Action</i>	<i>Impact</i>
Credit-Card Standards	Congressional action FRB Disclosures	New suitability, product standards Marketing constraints
Student Loans	Congressional action	Profit pressures on private loans, reputational risk
Sanctions	DOJ, regulatory enforcement actions	Legal, reputational risk