§615.5212 Credit conversion factors—off-balance sheet items.

(a) The face amount of an off-balance sheet item is generally incorporated into risk-weighted assets in two steps. For most off-balance sheet items, the face amount is first multiplied by a credit conversion factor. (In the case of direct credit substitutes and recourse obligations the full amount of the assets enhanced are multiplied by a credit conversion factor). The resultant credit equivalent amount is assigned to the appropriate risk-weight category described in §615.5211 according to the obligor or, if relevant, the guarantor or the collateral.

(b) Conversion factors for various types of off-balance sheet items are as follows:

(1) 0 Percent. (i) Unused commitments with an original maturity of 14 months or less; (ii) Unused commitments with an original maturity greater than 14 months if:

(A) They are unconditionally cancelable by the institution; and 

(B) The institution has the contractual right to, and in fact does, make a separate credit decision based upon the borrower’s current financial condition before each drawing under the lending arrangement.

(2) 20 Percent. Short-term, self-liquidating, trade-related contingencies, including but not limited to commercial letters of credit.
(3) **50 Percent.** (i) Transaction-related contingencies (e.g., bid bonds, performance bonds, warranties, and performance-based standby letters of credit related to a particular transaction).

(ii) Unused loan commitments with an original maturity greater than 14 months, including underwriting commitments and commercial credit lines.

(iii) Revolving underwriting facilities (RUFs), note issuance facilities (NIFs) and other similar arrangements pursuant to which the institution’s customer can issue short-term debt obligations in its own name, but for which the institution has a legally binding commitment to either:

(A) Purchase the obligations its customer is unable to sell by a stated date; or

(B) Advance funds to its customer if the obligations cannot be sold.

(4) **100 Percent.** (i) The full amount of the assets supported by direct credit substitutes and recourse obligations for which an institution directly or indirectly retains or assumes credit risk. For risk participations in such arrangements acquired by the institution, the full amount of assets supported by the main obligation multiplied by the acquiring institution’s percentage share of the risk participation. The capital requirement under this paragraph is limited to the institution’s maximum contractual exposure, less any recourse liability account established under generally accepted accounting principles.

(ii) Acquisitions of risk participations in bankers acceptances.

(iii) Sale and repurchase agreements, if not already included on the balance sheet.

(iv) Forward agreements (i.e., contractual obligations) to purchase assets, including financing facilities with certain drawdown.

(c) **Credit equivalents of interest rate contracts and foreign exchange contracts.**

(i) Credit equivalents of interest rate contracts and foreign exchange contracts (except single-currency floating/floating interest rate swaps) are determined by adding the replacement cost (mark-to-market value, if positive) to the potential future credit exposure, determined by multiplying the notional principal amount by the following credit conversion factors as appropriate.

<table>
<thead>
<tr>
<th>Remaining maturity</th>
<th>Interest rate</th>
<th>Exchange rate</th>
<th>Commodity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year or less</td>
<td>0.0</td>
<td>1.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Over 1 to 5 years</td>
<td>0.5</td>
<td>5.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>1.5</td>
<td>7.5</td>
<td>15.0</td>
</tr>
</tbody>
</table>

(2) For any derivative contract that does not fall within one of the categories in the above table, the potential future credit exposure is to be calculated using the commodity conversion factors. The net current exposure for multiple derivative contracts with a single counterparty and subject to a qualifying bilateral netting contract is the net sum of all positive and negative mark-to-market values for each derivative contract. The positive sum of the net current exposure is added to the adjusted potential future credit exposure for the same multiple contracts with a single counterparty. The adjusted potential future credit exposure is computed as $A_{\text{adj}} = (0.4 \times A_{\text{gross}}) + 0.6 (\text{NGR} \times A_{\text{gross}})$, where:

(i) $A_{\text{adj}}$ is the adjusted potential future credit exposure;

(ii) $A_{\text{gross}}$ is the sum of potential future credit exposures determined by multiplying the notional principal amount by the appropriate credit conversion factor; and

(iii) NGR is the ratio of the net current credit exposure divided by the gross current credit exposure determined as the sum of only the positive mark-to-markets for each derivative contract with the single counterparty.

(3) Credit equivalents of single-currency floating/floating interest rate swaps are determined by their replacement cost (mark-to-market).

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