



James S. Broucek
Executive Vice President
Treasurer

October 27, 2008

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 1-5
Washington, DC 20219
Attention Docket No. OCC-2008-0006

Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
20th Street & Constitution Ave., N.W.
Washington, DC 20551
Attention: Docket No. R-1318

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
Attention: Comments /Legal ESS
(RIN 3064-AD29)

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: OTS-2008-0002

Re: Response to the U.S. Notice of Proposed Rulemaking
Capital Adequacy Guidelines: Standardized Framework

Dear Sir or Madam:

TCF National Bank ("TCF") appreciates the opportunity to submit this response to the July 29, 2008 publication of the Notice of Proposed Rulemaking ("NPR") regarding the U.S. banking agencies' implementation of the Standardized Basel II capital adequacy guidelines ("Standardized"). TCF wishes to express its support for the implementation of the Standardized capital rules. We are committed to working with all of the federal banking agencies to ensure that the NPR combines the objectives of safety and soundness. TCF would like to provide responses associated with the following questions contained in the NPR:

1. *Question 1a: The agencies seek comments on all aspects of this proposal, including risk sensitivity, regulatory burden, and competitive impact.*

The risk-weighting of regulatory retail exposures in the NPR results in retail exposures such as unsecured credit card debt having a lower risk weighting than fully secured 1-4 family first residential loans with LTV's greater than 95%. In our opinion this does not properly reflect the differences in the inherent risks contained in the two asset categories based on TCF's historical loss ratio for fully secured loans. In 2008, TCF's charge-off ratio on fully secured 1-4 family first residential loans with LTV's greater than 95% was significantly below the national average loss ratio on credit card debt.

2. Question 1b: The agencies seek comment on the advantages and disadvantages of the use of external credit ratings in risk-based capital requirements for banking organizations and whether identified weakness in the credit rating process suggests the need to change or enhance any of the proposals in this NPR. The agencies also seek comment on whether additional refinements to the proposals in the NPR should be considered to address more broadly the prudent use of credit ratings by banking organizations. For example, should there be operational conditions for banking organizations to make use of credit ratings in determining risk-based capital requirements, enhancements to minimum capital requirements, or modifications to the supervisory review process?

The majority of the TCF counterparties with credit ratings are Fannie Mae and Freddie Mac mortgage-backed securities. Despite recent, well-publicized default and devaluation of highly-rated exposures, public ratings still usefully differentiate risk. The default likelihood of recent AAA-rated MBS issues might exceed the historically-implied 0.01 percent default likelihood, but they are still significantly less risky than BBB- or BB- rated exposures and should be treated as such in the regulatory capital rules. Given the alternatives, requiring bank-by-bank underwriting or ignoring risk altogether, the proposed use of public ratings seem the most prudent approach.

TCF presumes, however, that the recent events with Fannie Mae and Freddie Mac, whereby the Government Sponsored Entities (GSE) are now financially supported by the U.S. Treasury, will change their risk-weighting to 10%, as proposed by the Agencies on October 8, 2008.

3. Question 10: The agencies seek comment on the use of financial strength ratings to determine risk weights for exposures to GSEs, and seek comment on how such ratings might be applied. The agencies also seek input on how subordination and maturity of exposures could be embodied in such an approach, and what requirements should be developed for recognizing ratings assigned to GSEs.

TCF presumes that the proposed NPR treatment for Fannie Mae and Freddie Mac has been superseded or will be superseded by the 10% risk weighting proposed by the Agencies on October 8, 2008, based on the financial support provided by the U.S. Treasury.

4. Question 11: The agencies seek comment on whether a specific numerical limit on concentration should be incorporated into the provisions for regulatory retail exposures. For example, the New Accord suggests a 0.2 percent limit on an aggregate exposure to one obligor as a measure of concentration within the regulatory retail portfolio. The agencies solicit comment on the appropriateness of a 0.2 percent limit as well as on other types of measures of portfolio concentration that may be appropriate.

TCF suggests that the Agencies issue concise but robust guidance for examining diversification. This guidance could cover the span of diversification measures

and support more meaningful assessment of diversification. TCF also suggests that examiners adhere to a high burden of proof before concluding that a portfolio does not meet the definition of "well-diversified". The lack of direction on diversification provided in the NPR is of little help to banks and examiners trying to build balance sheets that are both well-diversified and appropriately risk-weighted. TCF strongly argues that the Agencies should clarify this issue prior to finalizing the rule.

5. Question 12: The agencies request comment on all aspects of the proposed treatment of PMI under this framework (recognizing loan-level PMI but not pool-level PMI in determining LTVs and risk-weights)

TCF requests clarification whether loan-level PMI shall be used in deriving LTV ratios and risk-weights for the entire balance, or whether the PMI reduces the effective size of the exposure. It would seem that the exposure, net of PMI, more accurately represents the banks' economic exposure and should be used as the basis for risk-weight calculations.

6. Question 19: The agencies solicit comment on this proposed treatment of operational risk, and, in particular, on the appropriateness of the proposed average positive gross income calculation.

The new operational risk component of risk-weighted assets is calculated as the average of the last three years of average positive gross income x 15% x 12.5. The 12.5 multiplier (inverse of 8% minimum capital requirement), which converts the operational risk capital requirement to a risk-weighted assets level, seems disjointed with the 10% well-capitalized requirement. That is, a multiplier of 10.0 (inverse of 10% well-capitalized requirement) seems more appropriate.

The choice to use the last three years of average positive gross income is questionable. Is there truly a correlation between gross income and operational risk? Is a well-run institution with high gross income more likely to have operational losses than a small, less-profitable, poorly managed bank? It seems reasonable to include some component for operational risk, but one that does not punish banks for their profitability. It does not make sense, however, to rewrite the proposal to include negative gross income, as that would provide a competitive advantage to those institutions that made bad decisions and took losses. As drafted, there is no incentive for reducing operational risk if the only way to reduce operational risk is by reducing profits.

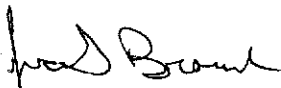
7. Other:

The NPR appears to leave the decision whether to adopt the Standardized capital rules to the individual non-core banks while providing the regulators the ability to require the utilization of the Standardized. TCF recommends that regulators issue

additional guidance identifying characteristics of banks that regulators believe should adopt the Standardized capital rules. Such guidelines would promote capital consistency in the banking industry and provide better comparability in analyzing the health of financial institutions by ensuring comparable banks are calculating and reporting capital using equivalent rules, similar to the Basel II Advanced Approach, which requires adoption for core banks.

Thank you for the opportunity to comment on the proposed rulemaking. Should you wish to discuss this material further, please contact me directly at (952) 249-7130.

Sincerely,



James S. Broucek
Executive Vice President, Treasurer
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cc: Thomas F. Jasper, Executive Vice President and CFO, TCF Financial Corporation