Company	**SunTrust Banks, Inc.**	**Name**	**Kenneth J. Ferrara**
Mail Code	GA-ATL-614	Title	Group Vice President
Address	303 Peachtree Street		
Address	9th Floor		
City, State Zip	Atlanta, GA 30308		
Tel	404.658.4178		
Fax	404.230.5278		

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SUNTRUST

July 31, 2003

Basel Committee on Banking Supervision
Bank for International Settlements (BIS)
CH-4002, Basel, Switzerland

Dear Sir:

SunTrust welcomes the opportunity to submit a response to the April 2003 Consultative Document from the Basel Committee on Banking Supervision. We look forward to discussing these issues.

CAPITAL SENSITIVITY (409, 423-433)

SunTrust notes the need for additional clarity in the approach to development of PD, LGD and EAD estimates. Margins of conservatism directives (ratings assignment with adverse market conditions backdrop, stress testing, model errors), which overlay core required capital estimates, are addressed elsewhere where we also note the resulting lack of capital sensitivity. Additional concerns relate to capital sensitivity and what is described in the common understanding as point-in-time and through the cycle measures. Our understanding of the rationale for the new Accord is to promulgate increased capital sensitivity to risky conditions. The Committee, in addition to the above mentioned margins of conservatism, requires the construction of PD, LGD and EAD estimates through the cycle, thereby implying an average estimate that is clearly less capital sensitive than a point-in-time estimate. The latter is more dynamic, fluctuating in step with the ebb and flow of macroeconomic conditions, liquidity concerns and obligor specific circumstances. Point-in-time adjusts as conditions change, reflecting a real time, market based view. This market sensitivity, in our view, indicates more accurately the risk profile and required capital levels. Utilizing a through the cycle measure with the margins of conservatism cited above leads to capital insensitivity.

EXPECTED LOSSES

SunTrust expresses its concern over the treatment of the expected losses component for required regulatory capital. As pointed out elsewhere, there is potential for excess required capital to support risk taking activities due to other parts of the proposal that suggest conservative treatments be applied for several categories. The draft rules appear to be an attempt to preserve remnants of the 1988 Accord at the expense of implementing capital in line with accepted best industry practices and thinking. Expected losses are built into the pricing and provisioning processes. Our view is they are derived from the mean calculation, with volatility around this calculation at a prescribed confidence interval defining the required capital. The proposed regulatory capital rules lack sensitivity when different national standards and accounting treatments preclude appropriate recognition of prudent capital levels. Additionally, banking institutions in the United States would be placed in a position of competitive inequity where these national standards and accounting treatments offer more favorable approaches to calculating regulatory capital.

DEFAULT (414-415)

SunTrust engages in business activities where it normally provides terms of repayment extending to 90 days. In certain sectors, business practices are such that repayment in the normal course of business, i.e., the acceptable trade cycle practice, is made beyond the stipulated terms of trade of 90 days. This practice is accepted as the cost of doing business in these sectors, is considered the norm for trade cycle extension of credit and is offered only to investment grade customers. SunTrust's customer base for extended terms has been assessed by credit personnel as creditworthy. The elements described as indications of unlikeliness to pay do not apply to these transactions, nor do we view the amounts in question as material in nature.

DATA

As a general observation, SunTrust supports the requirements to broaden efforts industry wide to capture and analyze internal data. We also note that no bank has sufficient internal data to accurately model default, recovery and exposure parameters. We emphasize the criticality of acceptable data sets for use in estimating various parameters, including PD, LGD and EAD. Our own data will provide a powerful engine to ascertain our performance. It will not, however, tell us what market capital requirements are for acceptable risk levels, i.e., akin to the concept of the market's required rate of return on capital for given risk levels. Since SunTrust is not of a scale in size to mirror the market, as a market index fund would, we must look to additional data sources to determine the appropriate levels of PD, LGD and EAD calculations for our defined risk ratings. The ratings are a continuum where risk levels are assigned based on risk and represent a best to worst scale. Against this best to worst continuum, which defines all risks, we need to define the appropriate PD, LGD and EAD levels. As noted above, our data can tell us how we perform for each risk rating, but they cannot tell us what is required at each point on the continuum. We do know whether or not we have a competitive advantage through analyzing our performance against the risk ratings. For example, if we have superior performance with low quality transactions, we would not want to lower expected loss and capital levels for determination of expected loss, capital, pricing and performance measurement. We would, however, be able to utilize this information for pricing strategy.

We recognize the Committee's request for conservative construction of parameters overcomes certain issues noted. We do, however, note the problems that data limitations create. While we recognize external data sources are acceptable for PD estimates, this is not the case with LGD and EAD.

DIVERSIFICATION

SunTrust takes this opportunity to emphasize the overriding importance of diversification in examining an institution's prudent management of risk and capital. Lack of proper diversification, in whatever obvious or opaque guises it presents itself, is the most dangerous risk an institution faces. While the combination of IRB models, supervisory oversight and market discipline can partially mitigate concentration risk, proactive portfolio management is the arch stone connecting the three pillars. Extensive and significant investments have been and are being made to comply with Basle II directives and standards. Regulators and industry participants need not leave the most valuable piece on the table. Encouragement of active diversification strategies and corollary tactical actions can be the compelling legacy of Basle II efforts.

STRESS TESTING (413, 376-378, 396-399)

SunTrust recognizes prudent credit risk assessment and monitoring, and related management of scarce capital, calls for thorough and conservative evaluations of planned assumptions for expected performance of transactions, industries and general macroeconomic events. The directives cite the need for stress testing in addition to accounting for model errors and ratings assessments under adverse market conditions. SunTrust interprets the comments to mean conservatism should be the guiding principle in construction of PD, LGD and EAD estimates. We believe expected loss and capital levels would be overstated if ratings must be assigned with adverse market conditions as backdrop, with overlays for model error and stress testing impacts. These appendages would lead to potential double counting while confusing market participants as to the real level of risks underwritten.

COMMERCIAL REAL ESTATE (472)

SunTrust concurs with the recommendations of the recent June 2003 white paper concerning treatment of CRE. We agree the empirical evidence suggests the need for further research. In this vein, SunTrust is soliciting proposals from outside data and model purveyors (e.g., PPR, Torto-Wheaton) to determine their potential applicability in conducting further analysis around CRE volatilities and losses. We are also considering the addition of an outside vendor as a core input to our credit risk assessment methodology (PRISM) for CRE.

SunTrust carefully monitors the properties in its CRE/RRE portfolios. The use of market data to construct benchmarks will provides a mechanism to assess values of collateral on a regular and prudent basis. We feel monitoring of the market data provides reasonable and necessary inputs to judge the fair market values of collateral. Alternatively, the costs associated with assessing at the individual property levels would be excessive and, in our view, yield little, if any, benefits. Each property is considered in light of its "beta" to the relevant market index. The index, therefore, provides the appropriate benchmark to determine deleterious changes in value beyond acceptable and agreed thresholds. This would result in the same conclusion if each property were individually examined, and is done so in a clear, consistent and effective manner.

COLLATERAL (95)

We concur with the draft proposal requiring ineligibility of collateral where a material positive correlation exists between the counterparty and the value of the collateral (i.e., securities issued by the counterparty). However, in some situations this principle may be incorrectly applied. Examples would include transactions with radio and television entities where the bank is prohibited by regulation from taking the subject licenses as collateral. In these transactions, we ascertain the value of the collateral under adverse market conditions and assign a conservative loan to value. The licenses are transferred to wholly owned operating subsidiaries where they comprise the only asset, and the offsetting equity is taken as security, and properly perfected, to collateralize the transaction. While on the surface appearing to fit the draft prescriptive, in actuality the licenses have value independent of the subsidiary, and therefore the value can be determined and ultimately realized in the marketplace. Legal precedent also supports this treatment wherein courts have upheld the rights of banks to liquidate the equity holding, thereby realizing repayment of the underlying obligation.

WORKOUT DATA CAPTURE (393, 442, 430, 411)

SunTrust recognizes the importance of data to perform appropriate analyses for PD, LGD and EAD estimates. We are concerned with the level of detail mandated for capturing of detailed costs associated with the workout process. We believe estimates of costs that are prudently applied will provide fair and reasonable results. Exacting tracking systems for all workout costs at the deal level will be prohibitively expensive in time and money, and yield no real value to the overarching analysis. Activity based costing at the transaction level versus proper allocation at the aggregate level with sound allocation techniques will not yield materially different findings. The pool (i.e., asset or class type) will be a LGD category reflecting the behavior of the underlying deals. Since by definition this is the sum of all the transactions, it provides the necessary information to perform proper calculations.

SunTrust aspires to apply best practices in its management philosophy. Good business practices evolve through continuous improvement. Improved lending practices have always been a key objective. Clearly, if a significant overhaul of workout practices were to be made, this would be material and of itself merit commentary. However, where practices are of an evolutionary nature we believe there would be little, if anything, to be gained by significant commentary and restating of prior information. We request the Committee be more specific in its definition of changed practices.

THIRD PILLAR (775)

SunTrust estimates its costs to date to comply with requirements for Advanced IRB treatment are approximately $10,000,000. Our expectation is that additional investments will be required, and on an annual basis thereafter in the post development phase range up to $5,000,000 annually.

We believe deliverables mandated by Third Pillar directives, particularly those noted in Part 4, would result in significant costs in terms of resources and time. These directives raise several issues:

- - - disclosure of information may erode competitive advantage gained through development and implementation of Advanced IRB efforts;

- - - different banks will likely report at varied levels of sophistication, and in multiple formats, thereby obfuscating clarity, leading to market misunderstanding rather than the sought for transparency;

- - - the market incorrectly penalizes those banks with lower PD, LGD and EAD estimates for comparable ratings despite justifiable rationales due to the second point raised above, and the growing pains associated with making available this information.

Sincerely,

Kenneth J. Ferrara