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MORTGAGE BANKERS ASSOCIATION

June 18, 2026

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Docket No. R-1887, RIN 7100-AH20
Docket No. R-1888, RIN 7100-AH21

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
RIN 3064-AF29
RIN 3064-AG23

Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218
Washington, DC 20219
OCC-2026-0265
OCC-2026-0034

Re: Regulatory Capital Rule: Proposed Revisions to the Risk-Based Capital Framework for Category I and II Banking Organizations and Modifications to the Standardized Approach for Credit Risk

Dear Sir/Madam:

The Mortgage Bankers Association ("MBA")[1] appreciates the opportunity to comment on the notices of proposed rulemaking (the "NPRs") issued by the Board of Governors of the Federal Reserve System (the "Board"), the Federal Deposit Insurance Corporation (the "FDIC"), and the Office of the Comptroller of the Currency (the "OCC") (collectively, the "Agencies"). The NPRs consist of (i) proposed revisions to the risk-based capital framework for Category I and II banking organizations (the "Basel III Proposal") and (ii) proposed modifications to the standardized approach for credit risk applicable to other banking

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 275,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,000 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

organizations (the "Standardized Approach Proposal," and together with the Basel III Proposal, the "Proposals").

Previously, MBA submitted a detailed comment letter on the 2023 Notice of Proposed Rulemaking on the Capital Framework ("2023 Proposal") that emphasized the proposal's adverse consequences for residential and commercial mortgage markets, housing affordability, and access to credit for first-time and historically underserved borrowers. MBA appreciates that the Agencies have meaningfully revised the framework in response to industry input. The Proposals incorporate several improvements over the 2023 Proposal, including: (i) more granular, lower risk weights for residential real estate ("RRE") exposures driven by dynamic loan-to-value ("LTV") ratios, without the 20 percentage-point "gold-plating" surcharge; (ii) elimination of the threshold-based common equity tier 1 ("CET1") deduction for mortgage servicing assets ("MSAs"); (iii) retention of the 0.5 P-factor and a reduction of the senior, non-resecuritization risk-weight floor from 20% to 15%; (iv) abandonment of the punitive cross-default capital charge for defaulted real estate exposures; and (v) codification of "eligible prepaid credit protection arrangements" to recognize bank-issued credit-linked notes used in credit-risk transfer transactions. These changes reflect a meaningful response to MBA's prior recommendations and similar input from other industry participants.

Notwithstanding these positive developments, several aspects of the Proposals, as drafted, could be improved to support the shared goals of risk sensitivity, market stability, and access to mortgage credit that the Agencies and MBA share. These outstanding issues are particularly important for the residential mortgage market, where bank participation in origination and servicing has steadily declined over the past decade. In 2012, depository institutions held approximately 88% of all mortgage servicing rights; today, depositories hold less than 50%. Capital calibration influences where mortgage servicing is held. Maintaining the excessive 250% standardized risk weight would continue to dissuade most banks from seeking to grow their mortgage servicing assets. These are concerns that the final rules should seek to reverse, not exacerbate.

MBA greatly appreciates the efforts the Agencies have made to simplify the U.S. capital framework in the proposed rules. As the Agencies move toward a final rule, it is critically important to consider the unique economic and market framework of U.S. financial institutions. The Agencies have an obligation to deviate from the Basel framework when such deviation is necessary to ensure proper risk calibration for asset classes and exposures that are unique to the U.S. financial markets.

MBA's concerns and recommendations are set forth below. We focus principally on provisions that directly affect the residential and commercial mortgage market, while supporting the more general comments on the Proposals submitted by other industry stakeholders.

I. Summary of Key Mortgage Market Recommendations

MBA respectfully recommends that the Agencies make the following changes to the Proposals to better support the U.S. real estate finance system. Each recommendation is described in greater detail in Sections II and III.

A. Mortgage Servicing Assets: reduce the 250% risk weight to no more than 100% based on historical performance, valuation discipline, and realized-loss experience.

B. Warehouse Lines and Commitments: retain the current definition of "commitment"; preserve a 0% credit conversion factor ("CCF") for unconditionally cancelable, secured warehouse facilities; restore the maturity-based CCF approach for other commitments, so that short-term warehouse lines retain the current 20% CCF; decline to apply the 24-month peak-balance methodology to undrawn RRE and commercial real estate ("CRE") warehouse lines; and permit a look-through approach aligned with the underlying mortgage collateral for warehouse lending facilities structured as repo transactions that have had minimal historical loss experience, or alternatively reduce the risk weight on drawn warehouse advances to no more than 50%.

C. Residential Mortgage Risk Weights and Private Mortgage Insurance ("PMI"): finalize the proposed LTV-based grid for regulatory real estate exposures, more fully recognize the risk mitigation of PMI (and certain readily marketable collateral) by incorporating the depth of PMI coverage into the calculation of a mortgage's effective LTV for the purpose of assigning a risk weight in the LTV grid, after accounting for a reasonable haircut.

D. Commercial Mortgage Risk Weights and Definitions: extend an option to apply the Basel III Proposal's granular, LTV- and cash-flow-based regulatory CRE risk weights to Category III and IV banking organizations and smaller, non-Community Bank Leverage Ratio ("CBLR") organizations under the Standardized Approach Proposal without requiring adoption of the entire expanded approach; and reduce the maximum risk weight for high-LTV, cash-flow-dependent regulatory CRE from 110% to 100% so that secured real estate credit does not require higher capital than unsecured corporate credit.

E. Securitization: omit the term "solely" from the definitions of traditional securitization and synthetic securitization; apply the standard CCF framework to loan commitments to securitization special purpose entities ("SPEs") rather than an effective 100% CCF; and reduce the risk weight for senior, non-equity government-sponsored enterprise ("GSE") exposures from 20% to 10% as long as Fannie Mae and Freddie Mac remain in conservatorship or are otherwise backstopped by the U.S. Treasury, thereby eliminating competitive disparity with the 15% private-label floor.

II. Provisions Directly Impacting the Mortgage Market

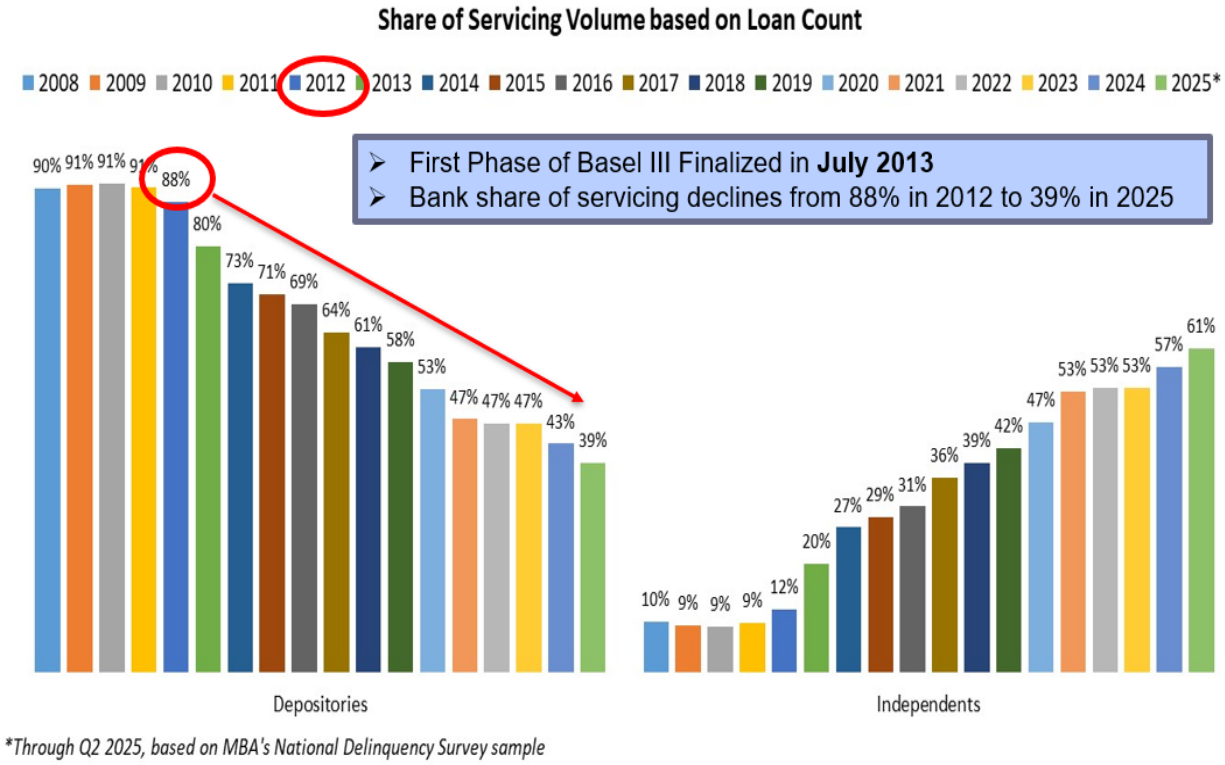
A. Mortgage Servicing Assets.[2]

The Proposals would change the capital treatment of MSAs by removing the requirement to deduct from CET1 capital the amount of MSAs exceeding 10% (or 25% for Category III and IV banking organizations) of CET1 capital. Instead, all MSA exposures would be risk-weighted at 250% with no CET1 deduction. The Agencies' proposal to eliminate the threshold-based CET1 deduction for MSAs is a constructive structural improvement.[3] However, for many large banking organizations, the binding capital constraint has primarily been the standardized risk weight rather than the deduction cap. As a result, eliminating the cap without recalibrating the 250% risk weight leaves the primary economic disincentive to holding MSAs in the regulated banking sector largely unchanged.

Capital calibration determines where MSAs are held and, consequently, where they are supervised. The continued application of a 250% standardized risk weight discourages regulated banks from holding MSAs on capital efficiency grounds. Maintaining the 250% risk weight will make it very difficult for banks to justify growing their mortgage lines of business when other higher-yield asset classes have lower capital requirements.

Therefore, MBA continues to urge the Agencies to significantly reduce the punitive 250% risk weight on MSAs. The 250% risk weight has been cited by many analysts, including the Financial Stability Oversight Council,[4] as a primary driver of the migration of mortgage servicing from depository institutions to nonbanks. In 2012, depository institutions held approximately 88% of all mortgage servicing rights; today, depositories hold less than 50%. The scale of this migration cannot be understated: the first full year after the MSA risk weight was increased from 100% to 250%, banks sold more than $500 billion in unpaid principal balance of MSAs to nonbank servicers in bulk transactions.

[2] This section responds to Question 11 of the Basel III Proposal and Question 1 of the Standardized Approach Proposal.
[3] The removal of the threshold-based deduction for MSAs also would positively impact banking organizations that are subject to the CBLR framework, even though they are not subject to risk-based capital requirements.
[4] Minutes of the Financial Stability Oversight Council, April 21, 2023, page 7.



The MSA was risk-weighted at 100% under the original Basel I framework, and the 250% weight was established in 2013 without empirical justification. The Agencies' 2016 Report to Congress acknowledged industry concerns but did not provide a rigorous empirical basis for retaining the 250% weight. Notably, of the 518 banking institutions that failed between 2007 and year-end 2015, only 66 held MSAs at the time of failure. Material Loss Reviews identified MSAs as a "significant factor" in only one failure and "contributing" to only three others. MBA notes that returning to the Basel I approach, which caused no identified problems during the period it was in effect, would be appropriate and consistent with the Agencies' stated objective of better calibrating capital requirements to actual risk profiles.

The Proposals also request comment on whether the 250% standardized risk weight for MSAs appropriately reflects risk over the economic cycle. That question comes as the Agencies recently modernized their model risk management guidance, which explicitly reflects fifteen years of supervisory experience and industry feedback and sharpens the focus on risk-based application, materiality, and outcomes-based assessment. The timing matters. The 250% standardized risk weight was established during the same post-crisis period when modern model risk governance expectations were being put in place, including the prior, more restrictive guidance. Since then, valuation governance, monitoring, effective challenge, and risk management disciplines around servicing assets have matured materially within supervised institutions.

The crisis era and immediate post-crisis experience do not indicate that MSAs were a systemic driver of bank solvency outcomes. Applying that post-crisis lens to MSA risk, the record includes a severe real-world stress episode inside the period (COVID and post-COVID) that combined extreme interest rate volatility, a collapse in employment, unprecedented spikes in delinquency and forbearance, and operational strain from a novel pandemic. Mortgage rates declined to historic lows near 2.6% and later increased by more than 500 basis points trough to peak, while unemployment surged to approximately 14.7% at the peak. These conditions drove large, repeated repricing of servicing cash flows and tested servicing platforms at scale.

Across eight large U.S. banking organizations from 2020 through 2025, gross MSA fair values changed by more than $30 billion on an absolute basis, on average, relative to MSA balances of approximately $25 billion (see chart below). Yet cumulative net MSA and hedge performance was approximately a $97 million loss over that period, roughly 0.3% cumulatively, or only a few basis points per year. Net change can understate volatility because positive and negative quarters offset across multiple interest rate regimes. Using absolute valuation movement captures the full magnitude of repricing that risk limits, governance, and risk management programs had to absorb over time, regardless of the direction of interest rates and valuation.[5]

[5] This analysis is based on the aggregation of publicly available data from eight large U.S. banks on their hedge outcomes over the 24-quarter period from 1Q20 through 4Q25 derived from their SEC 10-Q, 10-K, or earnings materials for the relevant reporting period. Cumulative net results reflect reported MSA valuation changes and hedge performance and represent the residual economic outcome after active risk management.

MSR Exposure and Net Valuation Outcomes (1Q20–4Q25)

The table below summarizes average MSR balances and cumulative net MSR and hedge outcomes for the eight banking organizations over the 24-quarter period from 1Q20 through 4Q25. Cumulative net results reflect reported MSR valuation changes and hedge performance and represent the residual economic outcome after active risk management.

Bank	Average MSR Balance ($bn)	Cumulative Net MSR + Hedge Result ($mm)
Wells Fargo & Company	~7.4	–247
JPMorgan Chase & Co.	~7.0	–42
U.S. Bancorp	~3.1	–253
PNC Financial Services Group	~1.9	+279
Truist Financial Corporation	~2.8	–35
Fifth Third Bancorp	~1.4	+13
Citizens Financial Group	~1.2	+150
Regions Financial Corporation	~0.7	+38
Total (Eight Banks)	~25.0	~ –97

There is no question that hedging is a sound risk differentiator widely used in the industry, and its effectiveness can be observed and tested in various ways.[6]

The fact that banks have adopted clearly defined, senior management-approved hedging strategies for their MSA positions, which articulate the level of risk the institution is willing to accept and detail the instruments, techniques, and strategies the institution will use to hedge the portfolio risk, should help address concerns about potential value erosion relating to MSAs. Some banks also use other balance-sheet or portfolio-level risk management strategies – rather than instrument-specific hedging, particularly where MSA concentrations are modest relative to total assets – to manage volatility. Additionally, certain MSAs contain features that act as a hedge (e.g., embedded call protection or other features such as lock-out periods, defeasance, and yield maintenance). Regardless of the method used to manage the asset, the relevant supervisory question should be whether a bank's overall risk-management framework for MSAs is demonstrably effective, thereby justifying a significantly reduced risk weight on the asset.

[6] *E.g.*, Ronel Elul, et al., *Mortgage Servicing Right Valuations Under Stress* (June 4, 2026) ("In the higher prepayment case, banks generally recoup much of the MSR-valuation decline immediately through their hedges").

The MSA market has changed significantly over the past fifteen years. As noted above, MSAs are well-managed and well-controlled assets, and holders of MSAs engage in disciplined practices, including regular hedging and quarterly mark-to-market valuation, to manage volatility and reduce risk. The asset class is concentrated among a small number of sophisticated servicers with mature valuation, governance, and risk-management practices, and the MSA market is actively traded with deep, established market infrastructure. Indeed, MSAs represent a very small share of banking sector assets: as of year-end 2025, MSAs were only 0.17% of total bank assets and 2.7% of CET1 capital industry-wide, and approximately 76% of U.S. banks held no MSAs at all.

Notably, MSAs have structural features that demonstrate their low volatility and high stability across market cycles. First, because servicing fees from MSAs do not change with external rate movements, the payments that bank servicers receive are stable and highly predictable. Second, MSAs are intangible assets that amortize in value over the estimated life of the related loan and are periodically evaluated for impairment and marked to market on a fair value basis. This valuation discipline is similar to the ongoing valuation of loans and other exposures subject to a 100% risk weight. Given these structural protections, the 250% risk weight substantially overstates the actual credit risk of MSA exposures relative to other asset classes.

Furthermore, the unique structure of the U.S. mortgage market supports a U.S.-specific calibration for MSAs. Approximately 65% of first-lien mortgages in the United States are held in securities guaranteed by a GSE or Ginnie Mae. These guarantors do not service mortgages directly, creating a need for a robust third-party servicing industry. By contrast, most other developed countries use covered bonds rather than securitizations, where the pool of assets remains on the issuer's balance sheet and does not create a separate MSA. Supervisory authorities in other countries have noted that their supervised firms have negligible MSA-to-CET1 ratios, typically attributable only to U.S. operations or legacy acquisitions. Because the Basel III MSA treatment was designed for an international framework where MSAs are negligible, the U.S. mortgage market's unique reliance on third-party servicing warrants a U.S.-specific calibration that better reflects the economic reality of MSA risk.

Recommendations:

MBA recommends that the Agencies finalize the elimination of the threshold-based CET1 deduction for MSAs, including for banking organizations subject to the CBLR framework.

MBA recommends that the Agencies reduce the risk weight assigned to MSAs to no more than 100% based on historical performance data, valuation discipline, stress-testing results, and realized loss experience during periods of market stress, including the 2008 financial crisis. The Agencies' 2016 Report to Congress provides extensive stress-testing data demonstrating that only extreme, unrealistic tail-risk scenarios justify risk weights approaching 250%, while more probable stress scenarios produce implied risk weights

consistent with a 100% calibration. Supervisory expectations also now emphasize materiality and outcomes-based assessment; accordingly, standardized capital treatment should be calibrated to demonstrated risk behavior in supervised institutions rather than to legacy uncertainty-based assumptions.

Moreover, the fact that banks already manage their MSA risks either by explicitly hedging or by engaging in other balance-sheet or portfolio-level risk management strategies that help manage the asset's valuation volatility, which is visible to and can be tested or directly supervised by the Agencies, provides the necessary support for a 100% risk weight.

We appreciate that the Proposals expressly request comment on the appropriate MSA risk weight. Therefore, MBA strongly encourages the Agencies to take an analytical approach informed by current market data, demonstrated effective hedging or risk management strategies by banks, and the Agencies' prior stress-testing analysis rather than perpetuating a calibration set in 2013 without empirical support. A 100% risk weight would better align capital requirements for MSAs with observed risk, reduce unnecessary disincentives to bank participation in mortgage servicing, and support a more robust mortgage finance framework that includes banks and nonbanks, while preserving the supervisory authority to address institution-specific risk concentrations or deficient risk-management strategies or practices.

B. Warehouse Lines and Commitments: Definition, Credit Conversion Factors, and Risk Weighting.[7]

Bank warehouse lending is critical to the U.S. real estate finance market. Independent mortgage bankers ("IMBs") depend on warehouse lines of credit to fund their mortgage origination, and bank warehouse facilities support more than 60% of single-family mortgage originations. Warehouse lending has become one of the most important sources of liquidity for the U.S. housing market, particularly during periods of demand volatility, and a parallel role exists in CRE finance through CRE warehouse and loan-on-loan structures. MBA urges the Agencies to carefully examine the impact of certain provisions of the Proposals that could impair the supply of warehouse credit and liquidity to the mortgage market.

(i) Undrawn Warehouse Lines.

The Proposals would significantly broaden the definition of "commitment" from "any legally binding arrangement that obligates a banking organization to extend credit or to purchase assets" to a contractual arrangement under which the banking organization and an obligor agree to terms applicable to one or more future extensions of credit, purchases of assets, or issuances of credit substitutes, whether or not the arrangement is unconditionally cancelable. This expanded definition would capture advised lines and uncommitted facilities that previously were not subject to a capital charge, representing a significant expansion

[7] This section responds to Questions 30, 31, 32, 33, and 34 of the Basel III Proposal and Questions 14, 15, 16, 17, 18, and 21 of the Standardized Approach Proposal.

(and higher capital charges) beyond the current framework. The Proposals would also replace the existing 20% and 50% maturity-based CCFs for non-cancelable commitments with a single 40% CCF. For undrawn commitments with no pre-set limit, the Standardized Approach Proposal would assign an exposure amount based on the highest drawn amount over the previous 24 months. This methodology, if applied to RRE and CRE warehouse lines, would substantially overstate the risk of these collateralized facilities.

These changes would significantly affect both residential mortgage warehouse facilities provided to IMBs and CRE warehouse facilities provided to commercial mortgage originators. Warehouse facilities are typically secured by mortgage collateral, have short durations, and require substantial underwriting and lender approval for each advance. MBA members report that draws on warehouse facilities are far from automatic or electronically processed. Rather, draws on warehouse facilities require substantial engagement among human stakeholders and assessment by bank personnel through due diligence processes, with some loans being rejected from placement.

The proposals to double the CCF on the unused portion of warehouse facilities from 20% to 40% (the portion that is not earning any income for the bank) and impose a 10% CCF for unconditionally cancelable commitments also would result in rules that make it unattractive for banks to continue to offer this product, thus undermining the liquidity that supports the majority of single-family mortgage originations.

Because mortgage markets can experience significant demand volatility, IMBs secure funding facilities from multiple warehouse lenders and pre-position additional liquidity to support potential spikes in application volume. Similarly, banks offer lines of credit to finance MSAs[8] and mortgage servicing advances to support critical servicing loss mitigation activities. The proposed doubling of the CCF, combined with the existing disproportionate 100% risk weight on drawn advances, could make this additional liquidity prohibitively expensive for banks to offer and for their IMB customers to maintain. These provisions would make the U.S. housing finance market less resilient, not more.

Warehouse lending facilities are essential to securitization because they allow lenders to accumulate loans that can be efficiently transformed into asset-backed securities. Without warehouse lending facilities, there would be fewer financing opportunities available to lenders and borrowers, and securitizations would become more expensive to execute. Applying punitive capital charges to secured warehouse facilities could cause more banking organizations to exit this essential product, decreasing mortgage lending capacity. This outcome is contrary to the Agencies' stated policy objectives.

Recommendations:

MBA recommends that the Agencies retain the current definition of "commitment."

[8] Also referred to as mortgage servicing rights.

MBA recommends that the Agencies preserve a 0% CCF for unconditionally cancelable, secured warehouse facilities, including both RRE and CRE warehouse lines, while exempting warehouse facilities secured by underlying mortgage loan collateral that are short in duration and subject to per-loan draw approvals.

MBA recommends that the Agencies restore the maturity-based CCF approach for short-term lines that are not unconditionally cancelable, so that short-term warehouse lines (typically 12 months or less) retain the current 20% CCF rather than being subjected to the proposed 40% CCF.

MBA recommends that the Agencies decline to apply the 24-month peak-balance methodology to undrawn RRE or CRE warehouse lines without pre-set limits.

(ii) Drawn Warehouse Lines.

Just as importantly, the Proposals would continue to assign drawn warehouse advances a corporate-style risk weight (100% under the Basel III Proposal and 95% under the Standardized Approach Proposal), even though the same mortgage loan, if held directly on the bank's balance sheet, would be risk-weighted at only 50% under the current standardized approach and at substantially lower percentages under the proposed RRE LTV grid.

Almost all warehouse facilities are structured as master repurchase transactions: the bank provides funding for the IMB's mortgage origination, takes possession and control of the financial collateral until the funding is repaid by the IMB, and is repaid (typically within 15 to 18 days) when the loan is sold to a GSE, Ginnie Mae, or other investor. During this very short period, the loans are presold to the GSEs or to a Ginnie Mae security and awaiting settlement; the bank is assured of collectability because of its ability to control of the collateral and either deliver it to the investor or hold it in portfolio at the lower risk weight. Interest rate and credit risk are significantly lower in these warehouse transactions than for loans held directly on a bank's balance sheet because of the short duration, the presale structure, and the bank's ability to mitigate loss by selling the collateral.

MBA further emphasizes that losses to banks due to defaults in warehouse facilities over the years have been extremely minimal, even in the wake of the Global Financial Crisis. A survey conducted by MBA (results below) demonstrated that aggregate losses on warehouse lines for residential first mortgages held-for-sale from 2009 to 2025 were less than 0.01% of total lending. Further, the number of defaulting borrowers for which a bank recognized a loss never exceeded two in a given year, with most years having no defaulted borrowers.

MBA

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MBA WAREHOUSE LOSS SURVEY

Warehouse Lines for Residential First Mortgages Held for Sale:	2015	2016	2017	2018	2019**	2020	2021	2022***	2023	2024	2025
Total Fundings ($000s)	207,377,702	260,814,828	269,124,558	281,272,180	381,059,175	882,403,703	761,664,896	323,062,663	243,115,296	314,772,280	411,938,742
Average Fundings per Warehouse Lender ($000s)	10,368,885	13,040,741	12,815,455	12,229,225	16,567,790	36,766,821	38,083,245	16,153,133	12,155,765	15,738,614	19,616,131
Sample Size	20	20	21	23	23	24	20	20	20	20	21
Losses of Principal ($000s)	0	0	0	0	7,541	0	0	28,000	0	0	0
Loss Rate (% of $) - Simple Average	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Loss Rate (% of $) - Weighted Average	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%
Sample Size	0	0	0	0	3	0	0	1	0	0	0
Total # of Active Clients	730	806	900	1,002	1,013	1,317	980	766	704	705	731
# of Clients Responsible for Losses of Principal	0	0	0	0	2	0	0	1	0	0	0
% of Clients Responsible for Losses of Principal - Simple Average	0.00%	0.00%	0.00%	0.00%	0.26%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
% of Clients Responsible for Losses of Principal - Weighted Average	0.00%	0.00%	0.00%	0.00%	0.20%	0.00%	0.00%	0.13%	0.00%	0.00%	0.00%
Sample Size	15	15	16	18	18	19	16	15	15	15	16

***$7.5 million of losses incurred in 2019 were due to reverse mortgage exposures.*

****Losses for 2022 were sourced from: https://www.wsj.com/articles/texas-capital-bank-sues-ginnie-mae-over-28-million-bankruptcy-loan-3abb5ba2?gaa_at=eafs&gaa_n=AWEtsqfy9iP_RMa6IDmXUQCXKP4sQs1KRBjyl4SYlXa8FB-kg7ZvFod6VE2gGHHYQXM%3D&gaa_ts=69a4ab20&gaa_sig=ZyygQxkp3K-ySdwyAgtYQUl0KibBJ6MlmDKhlorbuj8aEegahM-1CMrBiU8aZhuDbKq2ceQHNkowTBG1HB12cw%3D%3D*

There is a low loss history, attributable to the structural features of warehouse lending: the short duration (typically 15 to 18 days), the presale of loans to GSEs or Ginnie Mae, the bank's possession and control of the collateral, material advance-rate haircuts that provide a cushion against any shortfall, and the bank's ability to take excess proceeds from other loans in the facility to make up any difference on a given loan. These multiple sources of repayment and loss-mitigation features demonstrate that there is little justification for imposing a risk weighting that is twice that of the underlying collateral. In effect, a warehouse facility backed by mortgage loans does not carry any more risk factors than the same mortgage loans held directly on the bank's balance sheet. In fact, the opposite is the case due to the short duration, presale structure, and collateral control features.

A reduction in the risk weight assigned to drawn warehouse advances would permit banking organizations to reduce the cost of warehouse credit for IMBs, which in turn would reduce interest rates and closing costs for mortgage borrowers. Bank warehouse credit facilities provide liquidity for more than 60% of single-family mortgage originations, and the cost of warehouse financing is a significant component of primary market lenders' overall operating costs. Capital charges directly affect the pricing of warehouse facilities: higher risk weights increase the amount of capital a bank must hold against the facility, raising the bank's cost of funds and the interest rate it must charge to the IMB borrower. These costs are ultimately passed through to consumers in the form of higher mortgage rates and fees. Reducing the risk weight on drawn warehouse advances would lower the cost of warehouse credit, allowing IMBs to offer more competitive mortgage rates to borrowers, particularly first-time

homebuyers and low-to-moderate-income households who are most sensitive to small changes in mortgage pricing. This outcome would advance the Agencies' stated objective of supporting access to affordable mortgage credit without compromising safety and soundness, given the exceptional loss performance of warehouse facilities.

Additionally, reducing the risk weight assigned to warehouse facilities structured as master repurchase agreements would level the playing field for community banks and smaller IMBs. Currently, some larger banks optimize the capital impact of warehouse lending by requiring IMBs to establish securitization structures to access funding. This imposes significant financial and operational burdens that community banks and smaller IMBs cannot bear. Master repurchase agreement-based facilities present the same credit risk to banks and are far less expensive to establish.

Recommendation:

MBA recommends that the Agencies permit banking organizations to apply a look-through approach aligned with the underlying mortgage collateral, recognizing that warehouse lending facilities generally are structured as repurchase transactions. There is no reasonable basis to assign a warehouse line a risk weight materially higher than the financial collateral securing the line. If that approach is too complex to implement based on current data, then we recommend that the Agencies reduce the risk weight assigned to drawn warehouse advances to a mortgage warehouse-specific risk weight of no more than 50%. These changes would preserve a critical source of liquidity for the U.S. mortgage markets without compromising safety and soundness.

C. Revised Risk Weights for Regulatory Real Estate Exposures.[9]

MBA supports the rule's framework for providing granular LTV-based risk weightings for real estate secured loans originated or purchased and held on balance sheet.[10]

(i) 1-4 Family Residential.

The Proposals would assign granular, LTV-based risk weights to RRE exposures held by all banking organizations, ranging from 25% to 90% for loans not dependent on cash flows

[9] This section responds to Questions 21 and 23 of the Basel III Proposal and Questions 6, 8, 9, 11, and 12 of the Standardized Approach Proposal.

[10] The preambles to the Proposals clearly contemplate that the new risk weights apply both to loans originated or purchased by a bank. *E.g.*, 91 Fed. Reg. 15,332, 15,385 (Mar. 26, 2026) ("reductions in risk weights for loans secured by residential real estate, whether originated by the covered institution or purchased from another lender"); 91 Fed. Reg. 14,952, 15,132 (Mar. 27, 2026) ("enhance risk sensitivity in the treatment of residential mortgage loans, whether originated by the banking organization or purchased from another lender"). However, the definitions of regulatory real estate exposures could be erroneously interpreted to apply only to bank-originated loans. MBA recommends the Agencies remove doubt and align the rule text with the language in the preambles that clearly applies to both purchased and originated loans.

from the underlying real estate, and 35% to 110% for loans that are dependent on such cash flows. Importantly, the Proposals abandon the 20 percentage-point "gold-plating" surcharge that was a central feature of the 2023 Proposal and that MBA strongly opposed. MBA appreciates this change, which is expected to reduce risk-weighted assets for residential mortgages by approximately 30% for covered banking organizations.

Notwithstanding this improvement, the Proposals continue to deny full capital recognition for the risk-mitigating effect of PMI or equivalent credit enhancement, such as readily marketable collateral,[11] when calculating the LTV ratio of an RRE exposure. Under the Proposals, a high LTV loan would be assigned an elevated risk weight even if a substantial portion of the credit risk is transferred to a private mortgage insurer through PMI. The borrower thereby effectively pays for the same risk twice: once in PMI premiums and again through the higher cost of capital passed through by the bank.

The Agencies have requested comment on whether the rule should recognize the risk-mitigating effect of PMI for RRE exposures, and MBA strongly recommends that they do so. The post-Great Financial Crisis capital and regulatory regime governing the private mortgage insurance industry supports recognition of PMI.[12] Recognizing PMI or equivalent credit enhancement such as readily marketable collateral provides depository institutions with appropriate incentives to reach first-time and underserved homebuyers who cannot make a 20% down payment. It is also consistent with the Agencies' Interagency Guidelines for Real Estate Lending, which expressly recognizes appropriate credit enhancement for high-LTV loans.[13]

Recommendations:

MBA recommends that the Agencies provide explicit capital credit for PMI and readily marketable collateral by incorporating the depth of coverage into the calculation of a loan's effective LTV for the purpose of assigning a risk weight, after accounting for a reasonable haircut. We appreciate that the Proposals continue to recognize that high-LTV loans with PMI or readily marketable collateral satisfy the "prudently underwritten" standard and receive a preferential risk weight that reflects the credit risk transferred to the mortgage insurer. Using PMI and readily marketable collateral to calculate a mortgage's effective LTV for the purpose of risk weighting would better calibrate capital requirements to actual economic risk and support access to mortgage credit for first-time and low-to-moderate-income homebuyers who commonly rely on low-down-payment loan products.

[11] As outlined in the Agencies' Interagency Real Estate Lending Guidelines.
[12] Milliman, "Calculating the historical benefit of private mortgage insurance," May 2026. This analysis of 90 million loans over the 2020-2025 origination period finds that PMI reduced the net realized loss severity on insured high LTV mortgages to below the gross loss severity observed in the 60.01-80% LTV benchmark cohort.
[13] The Proposals call for a 100% risk weight for non-prudently underwritten mortgages, even as these loans amortize. For performing loans that are not prudently underwritten at origination, the Agencies should also consider providing a range of lower risk weights as these loans amortize into lower LTV bands.

(ii) Commercial.

Banks are an essential part of commercial real estate markets. Depository institutions account for 38% of the $5 trillion commercial mortgage debt outstanding, the largest share of any capital source. The diversity of banking institutions means that loans are made to borrowers and in communities that other sources of capital may not reach. In 2024, the average size of a multifamily loan in the commercial mortgage-backed securities ("CMBS") market was $93 million; the average size made by life insurance companies was $35.6 million; and the average size made by Fannie Mae, Freddie Mac, and the Federal Housing Administration ("FHA") was $21.5 million, while the average size of a multifamily loan made by a bank was $3.0 million. Those other sources collectively made 6,886 loans while banks made 28,257.

Commercial real estate lending remains vital to banks and continues to be a large, consistent asset base with both established income to support repayment and well-understood, accessible collateral. Since the Global Financial Crisis, the maximum quarterly net charge-off rates for loans backed by multifamily and other income-producing properties have been 1.70% and 1.69%, respectively. For comparison, the rate across all real estate loans has been 2.67%, the rate for commercial and industrial loans has been 2.72%, and the rate for all loans and leases has been 3.00%. The capital framework needs to reflect both the important role that banks play in CRE and the important role CRE plays for banks.

The Basel III Proposal would create more granular, LTV- and cash-flow-based risk weights for regulatory CRE exposures held by Category I and II banking organizations, ranging from 70% to 110%. By contrast, the Standardized Approach Proposal would retain a single risk weight for CRE exposures, lowering it modestly from 100% to 95%. While the Standardized Approach Proposal's modest reduction is welcome, CRE credit performance and loss severity are equally correlated with LTV and cash-flow dynamics regardless of whether the lender is a Category I, II, III, or IV banking organization.

The Agencies should allow Category III and IV banking organizations and other non-CBLR banking organizations to apply the more granular, LTV- and cash-flow-based risk weights for regulatory CRE exposures to their CRE lending portfolios. Allowing calibration for CRE loans originated by smaller banking organizations is consistent with what is proposed in the standardized approach pertaining to residential mortgages. Lowering the risk weight and offering calibration would better reflect the underlying performance of commercial mortgages.

Recommendation:

MBA recommends that the Agencies extend an option to apply the granular, LTV- and cash-flow-based regulatory CRE risk weights from the Basel III Proposal to Category III and IV banking organizations and to smaller, non-CBLR organizations under the Standardized Approach Proposal, without conditioning access on adoption of the entire expanded risk-

based approach (including the operational risk charge and Accumulated Other Comprehensive Income inclusion).

D. Securitization Eligibility, Calibration, and Competitive Neutrality.[14]

(i) Private Securitization.

MBA appreciates that the Agencies have retained the 0.5 P-factor in the securitization risk-weight formula and reduced the senior, non-resecuritization risk-weight floor from 20% to 15%. These changes are consistent with international Basel standards, better reflect the risk-mitigating effect of well-structured securitizations, and respond directly to concerns that MBA and other industry participants raised in 2023.

However, the Proposals would clarify that a banking organization may treat an exposure as a traditional or synthetic securitization only if the performance of the securitization exposure is expected to depend "solely" upon the performance of the underlying exposures. The preambles expressly state that a transaction would not satisfy this criterion if any sources outside the underlying exposures, including a limited guarantee from a sponsor or originator, are expected to fund interest or principal payments.

This clarification is likely to disqualify mortgage warehouse facilities and loan-on-loan structures that previously qualified for securitization treatment. Many of these facilities include limited guarantees from sponsors or originators that address narrow, short-term risks rather than substituting for asset performance. This result is disproportionate where the banking organization's underwriting and cash-flow analysis are asset-based and any external support is ancillary.

Mortgage warehouse facilities and similar structures typically rely on asset cash flows, pool eligibility criteria, overcollateralization, and advance-rate haircuts as the primary determinants of performance. Where limited sponsor or originator guarantees exist, they generally address narrowly defined risks (such as fraud or breach of representation) rather than serving as a substitute for asset performance.

MBA notes that the securitization framework also applies a 100% credit conversion factor to the unused portion of loan commitments to securitization SPE borrowers, effectively treating the undrawn portion as if fully funded. This treatment does not distinguish between the credit risk associated with loans made to an SPE and that of loans that may be made in the future if conditions precedent are satisfied. This result is particularly anomalous given that loans to SPEs are typically senior securitization exposures with the benefit of credit enhancement from subordinated exposures and/or overcollateralization. By contrast, an unsecured lending commitment to a sub-investment-grade corporate borrower would receive only a 20% or 40% CCF under the current or proposed rules.

[14] This section responds to Questions 12, 62, and 198 of the Basel III Proposal and Questions 36 and 58 of the Standardized Approach Proposal.

Recommendations:

MBA recommends that the Agencies omit the term "solely" from the definitions of traditional securitization and synthetic securitization.

MBA recommends that the Agencies apply the same CCF framework as recommended in this letter to commitments to securitization SPEs as applies to other commercial commitments, with the securitization framework used to determine the risk weight of the exposure then applied to risk-weight the converted amount.

(ii) Agency MBS.

MBA notes an unintended disparity that the new 15% senior risk-weight floor would create between private-label and Agency MBS. Under the Proposals, a senior private-label securitization tranche could receive a 15% risk weight, while a senior, non-equity exposure to a GSE would remain at 20%. This creates an anomaly: senior tranches of private-label mortgage-backed securities could achieve a risk weight lower than Agency MBS issued or guaranteed by GSEs, which carry the explicit or implicit backing of the U.S. government. While the GSEs are in conservatorship, or otherwise supported by the U.S. Treasury, this disparity is difficult to justify on credit-risk grounds and may disincentivize banking organizations from investing in Agency MBS relative to comparable private-label securitizations, despite the stronger credit profile of Agency securities.

This disparity creates an unjustified, unlevel playing field that could have broader implications for the mortgage market and GSE access to bank funding. If banks exit or reduce their market-making activities in GSE credit-risk transfer ("CRT") securities due to elevated capital requirements, market liquidity for GSE CRT bonds would be substantially reduced and spreads would widen, thus increasing the cost to GSEs of reducing their credit risks. This would frustrate the Federal Housing Finance Agency's ("FHFA") objective of sharing mortgage credit risk with private investors and lead to greater concentration of mortgage credit risks in the GSEs, impairing the GSEs' ability to provide liquidity and stability to the mortgage markets.

A reduction in the risk weight of certain GSE exposures would be consistent with the lower Securitization Standardized Approach ("SEC-SA") securitization risk-weight floor for private-label securitizations, eliminate any competitive disparity between GSE and private-label securitizations, and ensure that Agency MBS do not receive harsher treatment than comparable private-label securities despite the stronger credit profile of Agency exposures. Should there be a fundamental change in the GSEs' conservatorship that removes government support, the Agencies can revisit the recommended 10% risk weight.

Recommendation:

MBA recommends that the Agencies reduce the risk weight assigned to senior, non-equity exposures to GSEs from 20% to 10%, during conservatorship and for as long as the U.S. Treasury provides significant support to the GSEs, reflecting the lower credit risk of GSE exposures and the backing of the U.S. government.

III. Other Provisions

A. Risk Weighting of High-LTV CRE Exposures Relative to Corporate Loans.[15]

Under the Basel III Proposal, regulatory CRE exposures dependent on cash flows generated by the property would receive a 110% risk weight when LTV exceeds 80%. By contrast, unsecured corporate exposures receive a maximum risk weight of 100% and as low as 65% for investment-grade obligors. The result is the counterintuitive outcome that an unsecured corporate loan could receive a lower risk weight than a CRE loan fully secured by income-producing real estate.

While LTV and cash-flow dependence are appropriate risk drivers, the 110% risk weight for high-LTV, cash-flow-dependent CRE implies harsher treatment than general unsecured corporate lending and could discourage prudent CRE restructuring and refinancing. The 110% risk weight is higher than the current 100% and unnecessary, as other guardrails exist to ensure banks do not pursue riskier loans and that they reflect risk on their balance sheets.

To be considered for LTV-based risk weighting, loans must meet the Agencies' guidance as prudently underwritten. In addition, signs of weakness in a loan's performance, such as being 90 days or more delinquent, would trigger elevated risk weights through other means. As a result, the Agencies should set the top-tier risk weight for these loans at 100% to match current practice. Doing so will ensure that banks are not deterred from making important loans to their communities.

Recommendation:

MBA recommends that the Agencies reduce the maximum risk weight for cash-flow-dependent regulatory CRE exposures from 110% to 100%, so that collateralized real estate credit does not require higher capital than unsecured corporate credit while still differentiating risk weights based on LTV.[16]

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[15] This section responds to Question 19 of the Basel III Proposal.
[16] If the more granular risk weights for CRE exposures are added to the Standardized Approach Proposal, then the ceiling for regulatory CRE exposures of Category III and IV banking organizations and smaller, non-CBLR banking organizations should be set at 95% to align with the proposed general corporate risk weight.

B. Risk Weighting of LIHTC and Other Affordable Housing Investments.[17]

Under the Basel-based capital framework, equity exposures generally are risk-weighted under the simple risk-weight approach ("SRWA"). An equity exposure qualifying as a community development investment under Section 24(Eleventh) of the National Bank Act receives a 100% risk weight. Bank investments in Low-Income Housing Tax Credit ("LIHTC") housing developments are typically booked and supervised as community development investments and therefore receive this 100% risk weight. By contrast, the SRWA assigns only a 20% risk weight to equity exposures to public sector entities ("PSEs"), reflecting the public purpose, governmental involvement, and historically observed credit performance of those exposures.

MBA strongly supports bank participation in LIHTC investments, which are critical to affordable housing production. LIHTC remains the U.S. federal government's largest tool for expanding the supply of affordable housing. The current 100% risk weight treats tax-credit-driven, public-purpose investments as if they were ordinary private equity exposures, even though their economics and risk drivers are fundamentally linked to federal tax credits and statutory compliance.

LIHTC properties continue to show consistently strong performance and extremely low rates of recapture, which is the way LIHTC investors incur losses. According to an affordable housing credit study by CohnReznick,[18] the cumulative foreclosure rate peaked at a very low level, below 0.5%, in the aftermath of the Great Recession and had decreased to 0.22% by 2022, as more properties have come online, and no foreclosures were reported in 2021 and 2024. Additionally, IRS data illustrates that the LIHTC recapture rate averaged only 0.08% for tax years 2008-2021, peaking at 0.17% in 2009.[19] This strong performance is due to the layered structure of public and private financial support and oversight, the program's rigorous underwriting standards, and persistent high demand for affordable housing relative to limited supply in almost every market nationwide.

Given this, it is reasonable to conclude that LIHTC equity investments' risk profile is more closely aligned with a government exposure than a traditional equity investment. In Question 83 of the Basel III Proposal, the Agencies expressly identified "certain tax equity financing transactions" as a distinct category that could warrant specific risk-weight treatment, acknowledging that tax equity exposures do not fit neatly within the general equity buckets.

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[17] This section responds to Questions 82, 83, and 198 of the Basel III Proposal and Question 58 of the Standardized Approach Proposal.
[18] CohnReznick, *Affordable Housing Credit Study: A Comprehensive LIHTC Property Performance Report*, p. 90 (Nov. 2025).
[19] Calculations by Novogradac using IRS Corporation income tax returns line item estimates (Publication 5108). Calculations include tax years 2008 through 2021 but omit data from 2020 and 2022 (the latest year for which data is available) because the IRS suppressed LIHTC recapture data in those two years to avoid disclosure of information for specific corporations.

This miscalibration has practical consequences for housing affordability. Unnecessarily high risk weights discourage banks from participating in LIHTC investments, which directly advance public policy objectives related to affordable housing and community development. These investments align with the goals of the Community Reinvestment Act and support broader financial inclusion efforts. Recent legislative and administrative efforts to expand housing supply (e.g., reducing the 50% test to 25% in the One Big Beautiful Bill Act and the proposed Public Welfare Investment cap increase in the 21st Century ROAD to Housing Act) are undermined by capital requirements that continue to be the binding constraint for banks that want to finance more affordable housing. Recent Novogradac LIHTC Equity Pricing Trends Reports indicate that, on average, the dollar price per LIHTC has fallen from $0.85 in July 2025 to $0.83 in March 2026. Reducing the risk weight to a more appropriate level could increase LIHTC pricing and help offset increased construction costs, thereby decreasing required federal and local subsidies and increasing overall production in the market.

LIHTC debt exposures are supported by the same public structures that deliver LIHTC projects' predictable cash flows, collateralized by stabilized multifamily assets, and governed by standard underwriting, servicing, and enforcement mechanisms. In many instances, the debt is supported by contracted rent (Section 8, for example) or has other government support (vouchers, subsidies, etc.) which drives low default rates in the debt that finances these projects. The consistently strong performance of LIHTC-financed properties suggests that senior debt in these structures benefits from both underlying asset strength and a substantial equity cushion. LIHTC debt exposures should also be calibrated appropriately within the capital framework.

The strong performance history, government compliance, and public benefit of the LIHTC program warrant a risk weight of 20%, but not higher than 50%, in line with that of statutory multifamily. Clarifying risk weights that more appropriately fit the nature of LIHTC investments – both equity and debt – will ensure that banks can play their appropriate role in supporting this community-building activity.

Recommendation:

MBA recommends that the Agencies permit banking organizations to treat qualifying equity and debt investments in LIHTC housing developments as exposures to a PSE for purposes of risk-weighting under the Basel-based capital framework, with a corresponding 20% risk weight under the SRWA, reflecting the public-purpose, government-backed nature of the LIHTC return stream. This change can be implemented by amending the definition of PSE to clarify that an obligor satisfying the LIHTC program criteria is a PSE.

C. Multifamily Loan Classification.

Multifamily mortgage loans have a strong history and were among the best-performing bank loans during the Global Financial Crisis. Congress recognized the important role of multifamily loans in 1991 by establishing a special, lower risk weight for "statutory"

multifamily loans under the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991. The Agencies further clarified the treatment of statutory multifamily loans in 2015 through their Frequently Asked Questions on the Regulatory Capital Rule.

MBA encourages the Agencies to continue streamlining the process for banks to classify additional multifamily loans under the statutory multifamily risk weight, ensuring banks can receive the 50% risk weight as efficiently as possible. One such step would be to clarify that exposures to multifamily loans that are underwritten to GSE standards and sold to the enterprises are treated as analogous to statutory multifamily loans and receive the same risk weights at the time of origination. These government-backed loans have a strong credit history and the appropriate treatment is important for the period during which such loans reside on a bank's balance sheet, and after the sale, as a determinant of look-through treatment in an institution's ongoing relationship with the loan for guarantee and other activities.

Recommendation:

MBA recommends that the Agencies clarify that exposures to multifamily mortgages purchased by Fannie Mae or Freddie Mac be immediately treated as equivalent to statutory multifamily loans and subject to a 50% risk weight.

D. Treatment of Modified CRE Loans.

The Proposals provide that a modified or restructured loan receives higher risk weights regardless of its current conditions. In their 2023 Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts, the Agencies reiterated that "prudent CRE loan accommodations and workouts are often in the best interest of the financial institution and the borrower." The 2023 Policy Statement further notes that, while some borrowers may experience deterioration in their financial condition, "many borrowers will continue to be creditworthy and have the willingness and ability to repay their debts. In such cases, financial institutions may find it beneficial to work constructively with borrowers."

Recognizing that loan modifications and restructurings often benefit both borrowers and financial institutions, MBA asks the Agencies to clarify that modified or restructured loans that have demonstrated 12 consecutive months of performance are eligible for calibration based on their LTV ratios. The 12-month performance recommendation is consistent with existing guidance on classifying certain multifamily loans at lower risk weights. Making this adjustment will ensure that banks can continue to follow the Agencies' guidance and make prudent modifications to improve loan performance.

Recommendation:

MBA recommends that the Agencies modify the definition of "regulatory commercial real estate exposure" to permit re-qualification following 12 consecutive months of performance.

* * *

MBA is concerned that, without further targeted refinements, the final rules could continue to discourage depository institution participation in residential and commercial mortgage origination and servicing and further reduce housing affordability for first-time homebuyers and underserved communities. The Proposals represent a significant improvement over the 2023 Proposal, and MBA appreciates the Agencies' responsiveness to industry input. The targeted refinements described in this letter would build on that progress, better calibrate capital requirements to the actual risks of residential and commercial mortgage assets, preserve essential financing and risk-transfer channels, and support, rather than impair, the U.S. real estate finance system. We strongly urge the Agencies to consider these recommendations and conduct a thoughtful impact analysis before finalizing the new capital framework.

MBA appreciates the opportunity to comment on the Proposals and would like to ensure ongoing dialogue with the Agencies on the efforts to better calibrate capital with risk and reduce the current barriers to bank participation in mortgage origination and servicing. Please feel free to contact Fran Mordi (fmordi@mba.org) or John Lammle (jlammle@mba.org) if you require additional information or would like to meet to discuss.

Sincerely,

Robert D. Broeksmit, CMB
President and Chief Executive Officer
Mortgage Bankers Association

Recommended Changes to Proposal Text

I. Basel III Proposal

A. Mortgage Servicing Assets.

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(4) A [BANKING ORGANIZATION] must assign a 250 percent risk weight to~~:~~

~~(i) MSAs; and~~

~~(ii) T~~ the portion of DTAs arising from temporary differences that the [BANKING ORGANIZATION] could not realize through net operating loss carrybacks to the extent such DTAs are not deducted from common equity tier 1 capital pursuant to § __.22(d).

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B. Warehouse Lines and Commitments: Definition, Credit Conversion Factors, and Risk Weighting.

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Commitment means any legally binding arrangement that obligates a [BANKING ORGANIZATION] to extend credit or to purchase assets ~~a contractual arrangement, under which a [BANKING ORGANIZATION] and an obligor agree to terms applicable to one or more future extensions of credit, purchases of assets, or issuances of credit substitutes by the [BANKING ORGANIZATION], whether or not such arrangement is unconditionally cancelable. A commitment is unconditionally cancelable if, by its terms, it either: (a) provides that a [BANKING ORGANIZATION] is not obligated to extend credit, purchase assets, or issue credit substitutes; or (b) permits a [BANKING ORGANIZATION], at any time, with or without cause, to refuse to extend credit, purchase assets, or issue credit substitutes under the arrangement (to the extent permitted under applicable law)~~.

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Unconditionally cancelable means with respect to a commitment, that a [BANKING ORGANIZATION] may, at any time, with or without cause, refuse to extend credit under the commitment (to the extent permitted under applicable law).

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(b) *Credit conversion factors* —

(1) *10 percent CCF.* A [BANKING ORGANIZATION] must apply a 10 percent CCF to the unused portion of a commitment that is unconditionally cancelable by the [BANKING ORGANIZATION].

(2) *20 percent CCF.* A [BANKING ORGANIZATION] must apply a 20 percent CCF to the amount of:

(i) Commitments with an original maturity of one year or less that are not unconditionally cancelable by the [BANKING ORGANIZATION]; and

(ii) S ~~s~~elf-liquidating trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less.

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~~(3) *40 percent CCF.* A [BANKING ORGANIZATION] must apply a 40 percent CCF to commitments, regardless of the maturity of the facility, unless they qualify for a lower or higher CCF.~~

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(3 4) *50 percent CCF.* A [BANKING ORGANIZATION] must apply a 50 percent CCF to the amount of:

(i) Commitments with an original maturity of more than one year that are not unconditionally cancelable by the [BANKING ORGANIZATION]; and

(ii) T ~~t~~he following off-balance-sheet items and other similar transactions, regardless of whether a lower CCF would otherwise apply under paragraphs (b)(1) through (3) of this section:

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(4 ~~5~~) *100 percent CCF.*

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C. Revised Risk Weights for Regulatory Real Estate Exposures.

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(b) *Extension of credit.* For purposes of a LTV ratio calculated under this § 3.5, the extension of credit is equal to the total outstanding amount of the loan including any undrawn committed amount of the loan, but not including [X]% of the amount of the loan that is covered by private mortgage insurance or secured by readily marketable collateral.

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(j) *Other assets*.

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(7) A [BANKING ORGANIZATION] may assign a 50 percent risk weight to an exposure that otherwise would be subject to paragraph (h) or (j)(5) if the exposure is fully secured by exposures that are described in paragraphs (f)(1), (f)(2), or (f)(5).

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D. Securitization Eligibility, Calibration, and Competitive Neutrality.

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Synthetic securitization means a transaction in which:

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(3) Performance of the securitization exposures depends ~~solely~~ upon the performance of the underlying exposures; and

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Traditional securitization means a transaction in which:

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(3) Performance of the securitization exposures depends ~~solely~~ upon the performance of the underlying exposures;

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(c) *Exposures to GSEs.* (1) A [BANKING ORGANIZATION] must assign a 10 ~~20~~ percent risk weight to an exposure to a GSE that is not:

(i) An equity exposure; or

(ii) A subordinated exposure.

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(b) *Off-balance sheet securitization exposure.* Except as provided in § __.132(h), the exposure amount of an off-balance sheet securitization exposure that is not a repo-style transaction, eligible margin loan, OTC derivative contract (other than a credit derivative), or cleared transaction (other than a credit derivative) is the notional amount of the exposure adjusted by the applicable credit conversion factor in § __.112. For an off-balance sheet securitization exposure to an ABCP program, such as an eligible ABCP liquidity facility, the notional amount may be reduced to the maximum potential amount that the [BANKING ORGANIZATION] could be required to fund given the ABCP program's current underlying assets (calculated without regard to the current credit quality of those assets).

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E. Risk Weighting of High-LTV CRE Exposures Relative to Corporate Loans.

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Table 8 to §__.111—Risk Weights for Regulatory Commercial Real Estate Exposures Dependent on Real Estate Cash Flows

	LTV ratio ≤ 60%	60% < LTV ratio ≤ 80%	LTV ratio > 80%
Risk weight	70%	90%	100 ~~110~~%

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F. Risk Weighting of LIHTC Investments.

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Public sector entity (PSE) means:

(1) a state, local authority, or other governmental subdivision below the sovereign level; or

(2) an entity that directly or indirectly owns or will own a material interest in one or more qualified low income buildings for purposes of 26 U.S.C. § 42 that constitute or will constitute substantially all of its assets.

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G. Definition of Statutory Multifamily Mortgage.

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(f) Real estate exposures —(1) ~~Statutory m~~ Multifamily mortgages. A [BANKING ORGANIZATION] must assign a 50 percent risk weight to (1) a statutory multifamily mortgage; or (2) an exposure to a person to whom the [BANKING ORGANIZATION] has a loss-sharing obligation imposed pursuant to the Delegated Underwriting and Servicing program operated by the Federal National Mortgage Association pursuant to 12 U.S.C. § 1717(b)(2) or the Optigo program operated by the Federal Home Loan Mortgage Corporation pursuant to 12 U.S.C. § 1454(a)(1).

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H. Requalification as Regulatory Commercial Real Estate Exposure.

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Regulatory commercial real estate exposure means a real estate exposure that is not a regulatory residential real estate exposure, an ADC exposure, a pre-sold construction loan, a statutory multifamily mortgage, or an HVCRE exposure, and that meets the following criteria:

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(6) Involves a loan that has not been restructured or modified, unless all principal and interest payments on the exposure have been made on a timely basis in accordance with the terms of the loan for at least one year following the restructuring or modification.

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II. Standardized Approach Proposal

A. Mortgage Servicing Assets.

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(4) A [BANKING ORGANIZATION] must assign a 250 percent risk weight to~~:~~

~~(i) MSAs; and~~

~~(ii) T~~ the portion of DTAs arising from temporary differences that the [BANKING ORGANIZATION] could not realize through net operating loss carrybacks to the extent such DTAs are not deducted from common equity tier 1 capital pursuant to § __.22(d).

***

B. Warehouse Lines and Commitments: Definition, Credit Conversion Factors, and Risk Weighting.

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***

Commitment means any legally binding arrangement that obligates a [BANKING ORGANIZATION] to extend credit or to purchase assets ~~a contractual arrangement, under which a [BANKING ORGANIZATION] and an obligor agree to terms applicable to one or more future extensions of credit, purchases of assets, or issuances of credit substitutes by the [BANKING ORGANIZATION], whether or not such arrangement is unconditionally cancelable. A commitment is unconditionally cancelable if, by its terms, it either: (a) provides that a [BANKING ORGANIZATION] is not obligated to extend credit, purchase assets, or issue credit substitutes; or (b) permits a [BANKING ORGANIZATION], at any time, with or without cause, to refuse to extend credit, purchase assets, or issue credit substitutes under the arrangement (to the extent permitted under applicable law)~~.

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Unconditionally cancelable means with respect to a commitment, that a [BANKING ORGANIZATION] may, at any time, with or without cause, refuse to extend credit under the commitment (to the extent permitted under applicable law).

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(l) *Other assets*.

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(7) A [BANKING ORGANIZATION] may assign a 50 percent risk weight to an exposure that otherwise would be subject to paragraph (f)(1) or (l)(5) if the exposure is fully secured by exposures that are described in paragraphs (g), (h), and (i).

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(a) *General.*

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(5) For purposes of this section if a commitment to make an exposure subject to __.32(f)(1), __.32(l)(5), or __.32(l)(7) does not have an express contractual maximum amount that can be drawn, the committed but undrawn amount of the commitment is equal to the highest total drawn amount over the period since the commitment was created or the prior 24 months, whichever period is shorter, minus the current drawn amount.

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(b) *Credit conversion factors*—

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(2) *20 percent CCF.* A [BANKING ORGANIZATION] must apply a 20 percent CCF to the amount of:

(i) Commitments with an original maturity of one year or less that are not unconditionally cancelable by the [BANKING ORGANIZATION]; and

(ii) S ~~s~~elf-liquidating, trade-related contingent items that arise from the movement of goods, with an original maturity of one year or less.

~~(3) *40 percent CCF.* A [BANKING ORGANIZATION] must apply a 40 percent CCF to commitments, regardless of the maturity of the facility, unless they qualify for a lower or higher CCF.~~

(3 4) 50 *percent CCF.* A [BANKING ORGANIZATION] must apply a 50 percent CCF to the amount of:

(i) Commitments with an original maturity of more than one year that are not unconditionally cancelable by the [BANKING ORGANIZATION];

(ii) Transaction-related contingent items, including performance bonds, bid bonds, warranties, and performance standby letters of credit; and

(iii) Note issuance facilities and revolving underwriting facilities.

(4 ~~5~~) *100 percent CCF.*

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C. Revised Risk Weights for Regulatory Real Estate Exposures.

We recommend that the Agencies adopt the same risk weights for regulatory commercial real estate exposures and recognition of private mortgage insurance as in the Basel III Proposal, subject to the change we recommend below.

D. Securitization Eligibility, Calibration, and Competitive Neutrality.

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Synthetic securitization means a transaction in which:

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(3) Performance of the securitization exposures depends ~~solely~~ upon the performance of the underlying exposures; and

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Traditional securitization means a transaction in which:

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(3) Performance of the securitization exposures depends ~~solely~~ upon the performance of the underlying exposures;

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(c) *Exposures to GSEs.*

(1) A [BANKING ORGANIZATION] must assign a 10 ~~20~~ percent risk weight to an exposure to a GSE other than an equity exposure or preferred stock.

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(b) *Off-balance sheet securitization exposure.* Except as provided in § __.43(h), the exposure amount of an off-balance sheet securitization exposure that is not a repo-style transaction, eligible margin loan, OTC derivative contract (other than a credit derivative), or cleared transaction (other than a credit derivative) is the notional amount of the exposure adjusted by the applicable credit conversion factor in § __.33. For an off-balance sheet securitization exposure to an ABCP program, such as an eligible ABCP liquidity facility, the notional amount may be reduced to the maximum potential amount that the [BANKING ORGANIZATION] could be required to fund given the ABCP program's current underlying assets (calculated without regard to the current credit quality of those assets).

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E. Risk Weighting of High-LTV CRE Exposures Relative to Corporate Loans.

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Table __ to §__.33—Risk Weights for Regulatory Commercial Real Estate Exposures Dependent on Real Estate Cash Flows

	LTV ratio ≤ 60%	60% < LTV ratio ≤ 80%	LTV ratio > 80%
Risk weight	70%	90%	95 ~~110~~%

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F. Risk Weighting of LIHTC Investments.

We recommend that the Agencies adopt the same definition as in the Basel III Proposal, subject to the changes we recommend above.

G. Definition of Statutory Multifamily Mortgage.

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(i) ~~*Statutory m*~~ *Multifamily mortgages.* A Board-regulated institution must assign a 50 percent risk weight to (1) a statutory multifamily mortgage; or (2) an exposure to a person to whom the [BANKING ORGANIZATION] has a loss-sharing obligation imposed pursuant to the Delegated Underwriting and Servicing program operated by the Federal National Mortgage Association pursuant to 12 U.S.C. § 1717(b)(2) or the Optigo program operated by the Federal Home Loan Mortgage Corporation pursuant to 12 U.S.C. § 1454(a)(1).

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H. Requalification as Regulatory Commercial Real Estate Exposure.

We recommend that the Agencies adopt the same definition as in the Basel III Proposal, subject to the changes we recommend above.