



## **Issue of Concern: Substantial Increase in the Risk Weighted Asset Amount for Residential Mortgages**

Instead of the current 50% risk weight, the regulators proposed new methodologies for risk weighting mortgages could increase risk weights up to 200%. The proposed methodologies were complex and heavily dependent on LTV data. Balloons and second mortgages were particularly hard hit.

### **Why was this an issue:**

- The proposed mortgage categories did not exist at the time these mortgages were originated, and as such, the originator might not have recorded data or other information that would allow the current holders of such mortgages to assign the appropriate risk weight. Underwriting criteria will be particularly difficult—if not impossible—to obtain.
- Bank staff would be required to go through decades-old loan files to determine appraisal values and borrower characteristics to determine the appropriate risk weight.
- The steep increase in risk weights would have pushed lenders away from certain types of mortgages.

**Final Rule:** In response to commenter concerns about the burden of calculating the proposed risk weights for bank's existing residential mortgage portfolios, and the potential reduction in credit availability due to the interaction of the proposal with other mortgage-related rule makings, the final rule will retain the current risk weights for residential mortgage loans (*i.e.* 50% for prudently underwritten 1<sup>st</sup> mortgages and 100% risk weight for other mortgages). If a bank holds the first and junior lien(s) on a residential property and no other party holds an intervening lien, the bank must treat the combined exposures as a single loan secured by a first lien for the purposes of assigning a risk weight (*i.e.* the 2<sup>nd</sup> lien would be eligible for a 50% risk weight).