



February 20, 2026

The Honorable Michelle Bowman  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

The Honorable Jonathan Gould  
Office of the Comptroller of the Currency  
400 7th Street SW  
Washington, DC 20219

The Honorable Travis Hill  
Federal Deposit Insurance Corporation  
550 17th Street NW  
Washington, DC 20429

**Re: Improving Housing Affordability Through Bank Capital Modernization**

Dear Madam and Sirs:

On behalf of the undersigned associations, we write to express our support for the continued work to reexamine and repropose a revised Basel III Endgame rule. The renewed effort provides an opportunity to improve mortgage market stability and housing affordability, while encouraging greater bank participation in the mortgage market.

Our members support regulatory capital requirements that are appropriately calibrated to the risk posed. Adequate capital reduces the likelihood of bank failures that threaten broader financial stability, which can prove costly for households, financial institutions, and

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taxpayers. However, excessive capital requirements that are misaligned with empirically derived risk assessments can negatively affect the cost of and access to credit.

We appreciate that these broad policy concerns have been reflected in public comments from your agencies, most recently and clearly in Vice Chair Bowman's remarks this week about the need to address the regulatory capital barriers that continue to discourage U.S. banks from participating more robustly in the single-family mortgage market. That commentary is also important in the context of current efforts to address housing affordability challenges, as consumers will benefit from greater competition and deeper mortgage market liquidity. As we prepare to review and comment on the forthcoming proposed rule, the undersigned associations offer our aligned perspectives on the capital rule changes that will best support our housing finance markets and urge the agencies to move expeditiously to notice and comment.

### **Background**

The existing capital rules have discouraged bank participation in the origination, servicing, holding, and/or securitization of mortgages. This has reduced competition, consumer choice, and credit availability for aspiring homeowners. Current rules that negatively impact bank participation include: excessive risk weights for single-family residential mortgages held on balance sheets, as well as punitive capital treatment of mortgage servicing assets, warehouse lending, private mortgage insurance (credit enhancement), securitization, and credit risk transfer, among others.

The current rules were developed in the immediate aftermath of the global financial crisis. Bank prudential standards were adjusted to increase the resiliency of the banking and broader financial system in response to weaknesses exposed during the crisis. However, significant reforms to the mortgage markets have been instituted, including the Ability-to-Repay (ATR)/Qualified Mortgage (QM) regime. Institutions can no longer originate mortgages with risky features, such as negative-amortizing loans, option Adjustable Rate Mortgages (ARMs), interest-only loans, and no-documentation loans.

Other reforms that strengthen the mortgage market include:

- improvements to loss mitigation and servicing protocols;
- rigorous capital and liquidity standards for Fannie Mae and Freddie Mac under the Enterprise Regulatory Capital Framework (ERCF), independent mortgage bank (IMB) issuers and servicers, and private mortgage insurers under the enhanced Private Mortgage Insurer Eligibility Requirements (PMIERS); and
- expanded investor participation in the credit risk transfer market, which deepens the pool of private capital available to absorb losses.

These and other reforms make the market healthier and more resilient. Bank capital rules should be recalibrated for this marketplace, rather than the pre-crisis market.

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Many of our organizations offered detailed responses to the Basel III Endgame proposal in 2023. Those comments focused on the changes being proposed at that time, many of which would have further discouraged bank participation in mortgage credit markets. As you take a fresh, holistic approach to regulatory modernization, we wanted to take this opportunity to highlight several aspects of current regulations that warrant revision. In doing so, any recalibration resulting from the agencies' rulemaking should promote competition by making more favorable treatment of mortgage exposures available to banking organizations of all sizes.

### **Residential Mortgage Risk Weights**

Risk weights for mortgage loans can and should more accurately reflect real-world credit performance and avoid unnecessary “gold-plating” or other measures that might make homeownership less attainable for first-time or low- to moderate-wealth borrowers. We recommend adopting more granular risk weights by LTV that provide appropriate credit for private mortgage insurance commensurate with the coverage of risk protection provided on the loan. Regardless of how the agencies determine which institutions are covered by the forthcoming rule revisions, all banking organizations should be able to elect the more granular credit risk framework with LTV-based risk weights and recognition of credit enhancement with sound counterparties.

### **Mortgage Servicing Rights (MSRs)**

Capital charges and limits or deductions from capital tied to MSRs should be empirically justified and appropriately calibrated. The current punitive 250% risk weight and 25% cap (10% for Category I and II banks) on MSRs that can be included in CET1 are not correlated with the asset's actual risk.<sup>1</sup> The impact of the restrictive treatment of MSRs over the years has made the asset less attractive and discouraged bank participation in mortgage origination and servicing (see attached charts). The result is reduced competition and demand for mortgage servicing assets and constrained market liquidity, which affects not just banks but also independent mortgage banks (IMBs), credit unions, and their borrowers.

We strongly urge you to revisit the capital treatment for MSRs to include removing the capital deduction or significantly raising the current CET1 cap, while reducing the punitive 250% risk weight assigned to MSRs to 100% for all banks. We also recommend that small banks that opt in to the Community Bank Leverage Ratio be exempt from any CET 1 cap.

### **Warehouse Financing and Liquidity Support**

Given the important role of independent mortgage banks in the U.S. mortgage market, the capital framework should promote the continued availability of warehouse lines of credit and

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<sup>1</sup> According to Banking Agencies' June 2016 “Report to the Congress on the Effect of Capital Rules on Mortgage Servicing Assets,” of the 518 banking institutions that failed between 2007 and 2015, only 66 had MSRs on their books at the date of failure, and “problems with MSRs” was identified as a significant factor leading to the failure of only one institution, and as contributing factor to the failures of three others.

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other short-term funding that support mortgage origination, servicing, and liquidity for MSRs. Bank warehouse lines are a critical source of support for the U.S. mortgage market, providing interim warehouse financing for two-thirds of all single-family mortgage originations.

Current capital rules impose a 100% risk weight for a warehouse line, which is twice the risk weight of the single-family mortgage collateral that secures the line. The warehouse lending business is an extremely low-risk credit exposure for banks, given the high quality of the collateral and the fact that the warehouse banker effectively controls the collateral and its release (i.e., only after the loan is sold and the proceeds are received). Moreover, in the event of an IMB customer's failure, the bank can either deliver the loans to the investor to repay the advances, or take the collateral on its balance sheet, at which point it is assigned a lower 50% risk weight. We recommend reducing warehouse line risk weights to 50%, which would better align with the risk weights of the collateral securing them.

### **Recognition of Credit Risk Mitigation**

Private mortgage insurance and proven CRT mechanisms, including both cash-market and insurance-based executions, can play a critical role in reducing the risk and severity of losses for regulated entities in instances of default, while preserving and enhancing credit options for homeowners, as they do routinely in the conforming market. These tools can also foster and enhance a through-the-cycle approach to prudent capital and credit risk management for regulated entities.

Moving to a more granular treatment of mortgage credit risk exposures, which our organizations generally support as noted above, may come with the unfortunate but inherent side effect of increasing capital charges for mortgages made to first-time and other low-wealth borrowers with higher LTVs at origination, thereby discouraging banks from serving these customers. However, the banking agencies can effectively protect the safety and soundness of banks while dampening adverse impacts on mortgage credit options for aspiring homeowners by:

- recognizing the value of private mortgage insurance in the assignment of risk weights for loans held on balance sheet by providing capital relief commensurate with the level of coverage in recognition of post-GFC capital and risk management enhancements and transparent, standardized policy terms,
- providing banks with predictable capital relief for the loss absorption value of credit risk transfers, and
- by adjusting the Eligible Guarantor definition to include strong insurance counterparties, including prudentially regulated monoline insurers that appropriately mitigate their risk exposures.

### **Coordination Across Housing and Bank Regulators**

Finally, we encourage continued coordination between the banking agencies, the Federal

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Housing Finance Agency, and other federal housing regulators to take a comprehensive view of the mortgage credit ecosystem, align capital frameworks, and avoid regulatory inconsistencies that could distort the market, reduce competition, or inappropriately migrate risks, particularly from private capital to taxpayers.

### **Conclusion**

We believe the agencies have an important opportunity to modernize bank capital standards to strengthen both financial stability and housing affordability. Properly calibrated rules can support a diverse, competitive mortgage market – one that sustains consumer access to credit, promotes liquidity in mortgage servicing and origination, and maintains appropriate prudential safeguards.

The undersigned stand ready to provide data, analysis, and market insights to assist in these efforts. We appreciate your consideration and your continued focus on maintaining healthy and resilient banking and housing finance systems.

Sincerely,

**American Bankers Association  
Consumer Bankers Association  
Housing Policy Council  
Independent Community Bankers of America  
Mid-Sized Bank Coalition of America  
Mortgage Bankers Association  
U.S. Chamber of Commerce  
U.S. Mortgage Insurers**

CC: Jonathan McKernan  
Under Secretary for Domestic Finance, United States Treasury Department

Chart 1: Share of Annual Single-Family Originations by Type of Lender

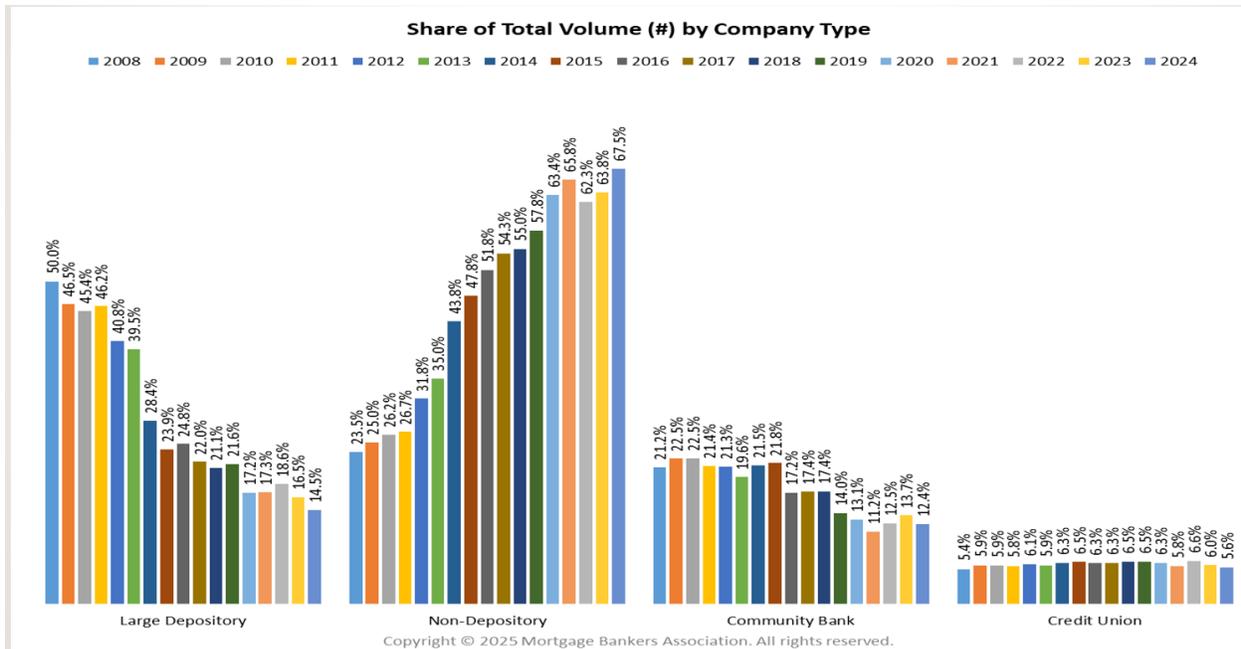
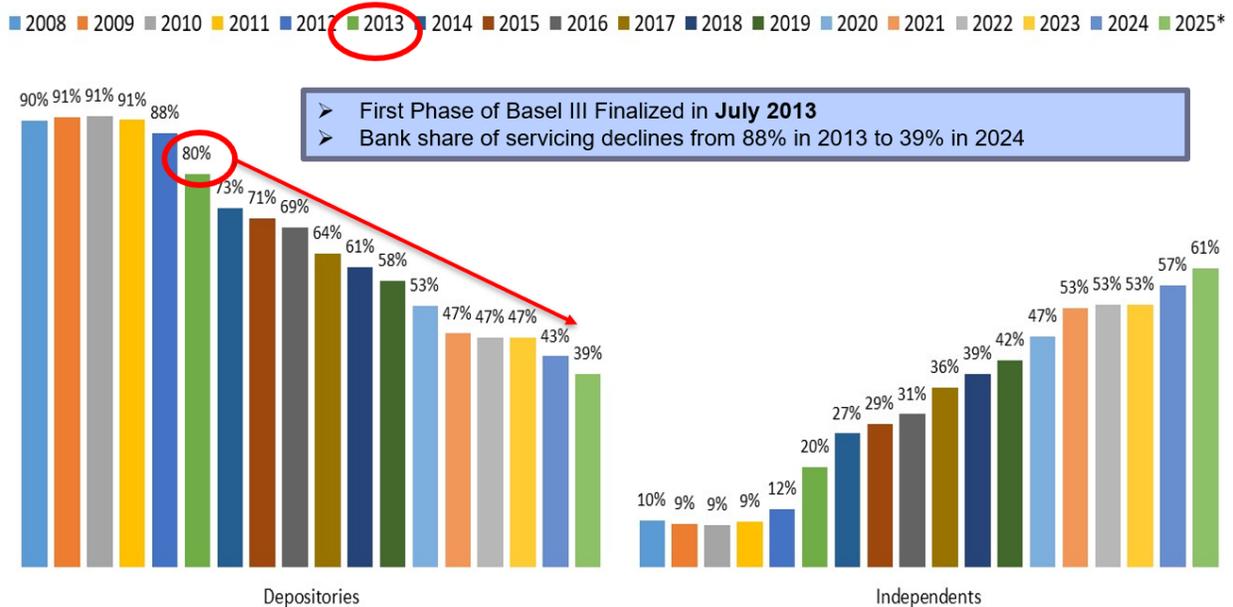


Chart 2: Share of Single-Family Mortgage Servicing Volume

Share of Servicing Volume based on Loan Count



Through Q2 2025, based on MBA's National Delinquency Survey sample