

May 12, 2014

The Honorable Blaine Luetkemeyer
U.S. House of Representatives
2440 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Ed Perlmutter
U.S. House of Representatives
1410 Longworth House Office Building
Washington, D.C. 20515

Dear Representatives Luetkemeyer and Perlmutter:

I am writing on behalf of the members of the American Bankers Association to express our support for H.R. 4042, the Community Bank Mortgage Servicing Asset Capital Requirements Study Act of 2014. This bipartisan legislation would delay the implementation of Basel III rules impacting Mortgage Servicing Assets (MSAs) until the impact of the new rules can be studied and better alternatives explored.

Many banks that make mortgage loans also engage in servicing, which primarily consists of collecting mortgage payments, forwarding them to the “owner” of the loan, collecting insurance and tax payments, and addressing problems such as late payments and defaults.

The Basel III capital rules called for large increases in bank capital. The U.S. regulators chose to apply these rules, in many cases, to all banks in this country, regardless of the size of institution or mortgage servicing portfolio. While the final U.S. capital rule made some adjustments for smaller banks with respect to mortgages themselves, the banking regulators simply applied the Basel III proposal on MSAs to all banks.

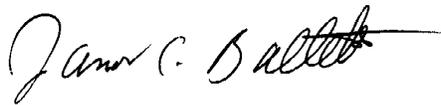
The Basel capital provisions on MSAs were suggested by regulators from foreign countries that have vastly different mortgage systems than our own; in fact, foreign nations do not even have MSAs. The Basel rules were designed primarily for large international banks, not for small and mid-size banks; applying these rules to smaller banks has a very different and more dramatic impact on an institution’s ability to conduct business.

The banking regulators conducted no study on the MSA issue. No consideration was given to what the onerous new rules would mean for the marketplace and for consumers. The new capital rules for MSAs are so onerous that it will make it extremely difficult for any community bank, even a large one, to stay in the mortgage servicing business. The marketplace is already reflecting this reality as we see banks of all sizes selling their MSA portfolios to non-bank entities. These buyers are often short term participants that have no interest in developing customer relationships over the long term. It does not make sense to drive the servicing business to entities that have no incentive to develop relationships with their customers and are outside the purview of federal banking regulators.

H.R. 4042 would require the regulators to study the risk of holding MSAs; the recent history of MSAs during the financial crisis; the impact of the new rules both on the ability of community and mid-size banks to compete and on the structure of the mortgage servicing business; and alternative regulatory approaches that could be implemented. The bill requires this analysis to be done within one year of the date of enactment and suspends the current MSA capital rule during that period.

ABA strongly supports this legislation and we thank you and your colleagues for introducing this important measure.

Sincerely,

A handwritten signature in black ink, appearing to read "James C. Ballentine", with a long horizontal flourish extending to the right.

James C. Ballentine