

July 28, 2014

To: Members of the House Financial Services Committee

From: James Ballentine, Executive Vice President, Congressional Relations & Political Affairs

Re: Full Committee Mark Up – Tuesday, July 29

On behalf of the members of the American Bankers Association, I am writing to express our support for several bills scheduled for consideration before the Committee on Financial Services on Tuesday, July 29, 2014.

H.R. 4042, the Community Bank Mortgage Servicing Asset Capital Requirements Study Act introduced by Representatives Blaine Luetkemeyer (R-MO) and Ed Perlmutter (D-CO), would delay the implementation of the Basel III rules on 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 and forwarding them to the “owner” of the loan; collecting insurance and tax payments; and addressing problems such as late payments, delinquencies, and defaults. Banks commonly sell mortgage loans into the secondary market but retain the right to service the loan (called “servicing retained”). This strategy is an important way for banks to maintain valuable connections with their customers, while managing interest rate risk by selling long-term credit assets.

Banks are retaining less mortgage servicing due to Basel III’s unfavorable capital treatment of MSAs. As a result, Basel III is unintentionally increasing the concentration of servicing held by less regulated, non-bank firms such as mortgage companies, REITs, hedge funds, and private equity firms that are not subject to the new capital restrictions. The long-term relationships that banks and their customers have established should not be penalized by Basel III’s punitive capital treatment of MSAs.

Banks should be encouraged to service the loans that they make to their customers. The Basel III rules should not create an environment that drives servicing out of banks by making it more difficult for banks to hold servicing assets.

H.R. 4042 stops the negative effects until the impact can be fully examined. The bill requires 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. The bill does not apply to the large international banks that Basel III was meant to address. **We urge the Committee to support H.R. 4042.**

H.R. 5148, the Access to Affordable Mortgages Act also introduced by Representative Luetkemeyer, would ease standards applied to some mortgages of \$250,000 or less. The properties collateralizing these mortgages are often in rural areas where appraisal services are limited. Easing the appraisal requirements on these properties reduces the cost and complexity of making the loan, making the transaction more affordable for impacted borrowers.

We note that the bill requires the lender to hold such loans in portfolio for a period of not less than three years. We believe the bill can be improved by reconsidering this requirement. Secondary market purchasers of loans have their own appraisal requirements. In order for any loan to be sold to these investors, the loan must meet these requirements. Loans not meeting these requirements will be ineligible for sale and will be required to be held on a lender's portfolio in any event. The additional requirement imposed by this language may create confusion among primary lenders that they no longer have to meet secondary market appraisal requirements.

Overall, we believe that reducing these appraisal requirements will reduce the cost of a loan, making credit more accessible to qualified borrowers. **ABA supports passage of H.R. 5148.**

H.R. 3240, the Regulation D Study Act introduced by Representatives Robert Pittenger (R-NC) and Carolyn Maloney (D-NY) would direct the Government Accountability Office to study the impact of the Federal Reserve Board reserve requirements implemented through Reg. D on depository institutions and consumers. Regulation D impacts consumers by limiting the number of withdrawals from a savings account to six transactions. If six transactions are exceeded financial institutions must reclassify the account to a transaction account. Under this regulation, such transaction accounts are subjected to higher reserve requirements. This rule is both confusing to financial institutions and consumers. A study of this regulation is long overdue and is the reason that **ABA supports passage of H.R. 3240.**

We appreciate the opportunity to comment on measures that directly impact the banking industry. We look forward to working with the Members of the Committee as these measures move to the House floor.