



MORTGAGE BANKERS ASSOCIATION

April 1, 2020

The Honorable Jelena McWilliams
Chair
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

The Honorable Joseph Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Support Bank Efforts to Help Real Estate Finance Activities Through Reduced Risk Weighting on Warehouse Loans

Dear Chairman McWilliams, Comptroller Otting and Chairman Powell:

The Mortgage Bankers Association¹ applauds the many actions that the OCC, FDIC and FRB (collectively, the Agencies) have taken so far to support financial institutions in their efforts to help households and businesses. We all agree that these are unprecedented times, and understand that the Agencies and all other branches of the government have been working hard over the past several weeks to enact rules and provide guidance that will support bank efforts to help businesses and households.

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, DC, 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 over 2,300 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, credit unions, thrifts, REITs, Wall Street conduits, life insurance companies, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

MBA greatly appreciates all these efforts and will continue to work with the Agencies on developing additional helpful rules and guidance as we all attempt to navigate through the uncharted waters created by the novel COVID-19.

This letter is a follow up to a prior request MBA had made to the Agencies last week recommending specific actions to support the ability of the banking industry to provide needed liquidity to the single-family, multifamily and commercial real estate lending markets, which would in turn provide vital economic stimulus and hardship support for households and small businesses that need it.

As we noted in the request, banks serve the real estate finance market through direct lending to borrowers and also — just as critically — through warehouse lending facilities to non-depository mortgage lenders. Bank warehouse lending operations support more than half of single-family mortgage origination, representing an important and growing share of the market over the past decade.

Warehouse loans made to non-depository mortgage lenders are currently subject to a 100% risk weighting under the applicable capital framework for banks. Reducing this risk weighting to 50% would increase the capacity of warehouse lenders to fund more loans, thereby providing much-needed support to the real estate finance market and ensuring the continued flow of mortgage credit for home purchases and refinances during this very challenging period. We therefore strongly urge the Agencies to issue guidance immediately modifying their FFIEC Call Report Supplemental Instruction to provide for risk-weighting of all warehouse loans to non-depository institutions at 50% rather than the current 100%. This change would be structured as a temporary modification – in effect through at least December 31, 2020, and possibly longer should current stressed market conditions persist.

In addition to supporting bank warehouse lending activities, this change would align the treatment of warehouse lines of credit to that of the underlying mortgage collateral backing the line – the same asset that the bank would liquidate in the event of default. The vast majority of loans in today's mortgage pipelines can be sold quickly to the Government Sponsored Enterprises, into Ginnie Mae securities, or held in bank portfolios at the same 50% risk weight. Moreover, the bank has possession of the collateral in the "warehouse," which further mitigates the risk and facilitates rapid recovery.

Reducing the risk weighting to 50% now will help boost mortgage market liquidity at a critical time, providing stability and much needed economic stimulus by lowering consumers' monthly debt burdens. The continued and smooth functioning of the real estate finance market will help mitigate much of the negative impact of the COVID-19-related economic effects on individuals and businesses.

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Again, we applaud all the important steps already taken by the Agencies to support financial institutions as they work to help businesses and households in these very difficult circumstances, and the requested guidance will supplement these actions and place appropriate focus on the critically important role of the real estate finance market.

If you have any questions, please contact me (bob@mba.org or 202-365-3054) or Pete Mills (pmills@mba.org, 571-241-1098). We have a very active and robust Warehouse Lender Executive Forum that we could assemble (virtually) for you and your staffs to discuss how this important niche can better support the housing finance market through these challenging times.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Broeksmit". The signature is fluid and cursive, with a long horizontal stroke at the end.

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