



MORTGAGE BANKERS ASSOCIATION

**Statement for the Record
House Financial Services Committee
Subcommittee on Financial Institutions**

**Hearing Entitled: “*Right-Sizing the U.S. Bank
Capital Framework: A Return to Tailoring,
Economic Growth, and Competitiveness*”**

Thursday, December 11, 2025

The Mortgage Bankers Association (MBA)¹ appreciates the opportunity to comment for the record on the issues raised by the Subcommittee on Financial Institutions’ December 11, 2025, hearing entitled, “*Right-Sizing the U.S. Bank Capital Framework: A Return to Tailoring, Economic Growth, and Competitiveness.*”

In recent years, as risk-based capital rules have been evaluated and adjusted, depository institutions have often been put at a disadvantage in certain business lines due to excessive capital requirements on certain mortgage-related assets that are misaligned with the underlying risk of the assets. As the MBA noted in our [May 20, 2025, letter to the banking agencies](#) and in our [January 2024 comments](#) on the previous, misguided Basel 3 Endgame proposal, key reforms are needed to the risk-based capital rules to support more robust participation in real estate financing by U.S. banks.

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 275,000 people in virtually every community in the country. Headquartered in Washington, D.C., 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 more than 2,000 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

The following statement outlines a series of tangible steps policymakers should undertake to reduce regulatory impediments and benefit all market participants in the real estate industry.

Background

In 2023, the FDIC, Federal Reserve Board, and OCC (“Banking Agencies”) requested comment on the Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity.² This proposal is also commonly referred to as the Basel III “Endgame.” On September 10, 2024, then Vice Chair for Supervision Michael Barr announced his recommendation that the Basel III Endgame rules be re-proposed.³ As of today, the banking industry is currently awaiting a Basel III Endgame re-proposal from the Banking Agencies.

MBA Recommendations

1. Reduce the Punitive Capital Charges on Mortgage Servicing Assets (MSAs)

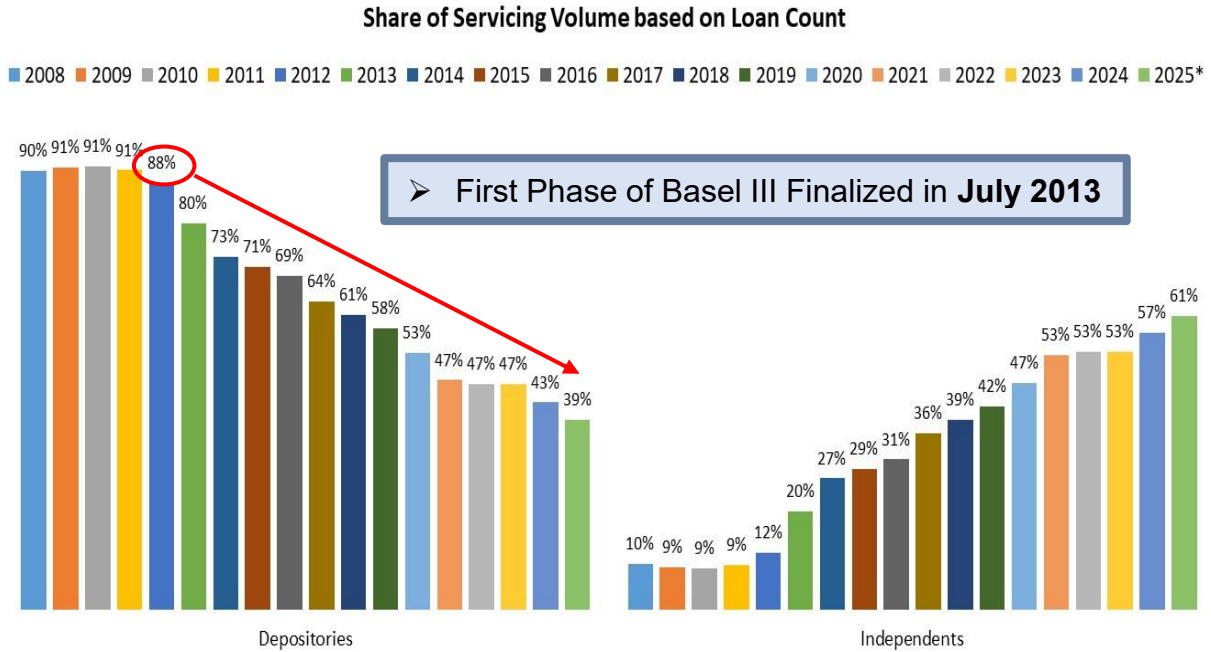
The current punitive 250% risk weight on MSAs has been cited by many analysts – including the Financial Stability Oversight Council – as a primary contributor to banks’ exodus from the mortgage servicing market.⁴ In 2012, the year before the current bank regulatory rules were put in place, banks held 88% of all servicing assets; by 2025 they hold just 39%. The decline has been consistent since the 250% risk weight was put in place and began to plateau only after the agencies raised the Tier 1 cap on MSAs to 25%. However, the decline has resumed in the past two years, likely in anticipation of a rollback in the cap to 10% as proposed in the initial release of the Basel III Endgame rule.

² 88 FR 64028

³ <https://www.federalreserve.gov/newsevents/speech/barr20240910a.htm>

⁴ [FSOC_20230421_Minutes.pdf \(treasury.gov\)](#); page 7.

Bank Share of Mortgage Servicing Assets: 2008-2025



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

MBA has long advocated for a reduction in the punitive risk weight assigned to MSAs under Basel III, and we continue to urge the Agencies to address the market implications of such punitive treatment⁵ that has led to the significant reduction in banks' direct participation in the mortgage origination and servicing market. At many banks, residential mortgage lending is no longer treated as a core strategic focus but rather, reduced to a secondary product line.

MSAs play a key role in enabling all lenders – both banks and independent mortgage bankers (IMBs) alike – to provide mortgage credit to their community. The servicing business is not just about collecting and advancing payments but also establishing and deepening relationships with borrowers and managing forbearance and loss mitigation. These relationships help banking institutions strengthen their ties with the communities in which they are located and enable them to be a better resource to the local economy. By making the capital treatment for servicing assets unattractive, the current rules continue to

⁵ For many years now, MBA has been urging the Agencies to amend Basel III rules for all banks and increase the cap to 50%, eliminate the 15% aggregate cap for threshold items, and reduce the risk weighting of MSA.

reduce banks' appetite for mortgage origination and servicing, resulting in declines in MSA values and higher interest rates for borrowers.

For the past decade, even after the adverse impact of the 2013 Basel rule on bank mortgage lending became evident, the Agencies continued to take the erroneous and outdated position that MSAs are extremely risky and difficult to value. More than 15 years after the Great Financial Crisis, the mortgage servicing market has changed significantly. Today, the servicing asset is well-managed and well-controlled, with holders of MSAs engaging in various activities – including hedging and regular marking-to-market – to better manage volatility risk. MBA urges the FDIC, OCC, and Fed to finally recognize these beneficial changes and reduce the punitive treatment of MSAs by:

Reducing 250% risk weight for MSAs: The current 250% risk weight assigned to MSAs has played a key role in compelling banks to exit the servicing market, reducing competition for consumers and removing a bank bid for MSAs that reduces liquidity and raises mortgage rates. To ensure that the U.S. capital framework does not continue to drive banks out of the mortgage servicing industry we strongly recommend that this punitive and unjustified risk weight be reduced to no more than 100%.

Raising the CET1 cap on MSAs: The current capital framework also prescribes an unjustified 25% cap on MSAs that can be included in Common Equity Tier 1 (CET1) capital. The dollar-for-dollar capital charge for any MSAs held above the 25% cap forces banks that want to maintain large mortgage operations to incur extraordinarily punitive capital charges or sell off MSAs, thereby eliminating valuable customer relationships.. MBA recommends that the cap be increased to 50%.⁶ A 50% cap would ensure that banks that view the mortgage market as a core strategy, and not just a product, can continue to hold MSAs and maintain the vital customer relationships that play a significant role in strengthening ties with the communities they serve. A stronger bank bid for MSAs also helps ensure a more orderly and liquid MSA market for all participants – both banks and nonbanks -- and contributes to overall financial stability in the single-family mortgage market.

2. Reduce the 100% Risk Weight on Warehouse Lines of Credit

Banks serve the real estate finance market through direct lending to borrowers and also — and just as critically — by providing short-term revolving funding to IMBs to facilitate origination activity through warehouse lines of credit. Today, the warehouse lending supplied by U.S. banks supports more than 60% of all single-family mortgage origination – a share of the market that has grown substantially over the past decade.⁷

Under a warehouse facility, a bank advances funds (typically at a 95-98% advance rate) to an IMB that originates the loan to the borrower. Those funds are collateralized by the closed loan, and the warehouse bank is repaid when the IMB sells the loan to the investor (e.g.,

⁶ The agencies should also consider eliminating the cap for community banks operating under the CBLR.

⁷ See MBA's [Warehouse Lending Fact Sheet](#) for more detail.

the GSEs or into a Ginnie Mae security). These are short-term advances, fully collateralized, and the warehouse banker controls all aspects of the collateral during the transaction.

The current capital framework assigns a 100% risk weight to warehouse lines – a change that occurred in 2014 from previous interpretations that assigned a 50 percent risk weight to warehouse lines structured as repurchase facilities. The 2014 capital guidance was led by the OCC pursuant to an accounting policy change that we believe ignores the economic substance of the transaction. Instead, the OCC guidance focuses on the form over substance to arrive at the higher risk weight because the bank does not “own” for GAAP accounting purposes the collateral backing the line. As a result, the OCC concluded that the warehouse line cannot be assigned the same 50% risk weight as the collateral, even though the warehouse bank has direct control over the collateral.

Although the warehouse bank does not “own” the collateral for accounting purposes, for all other purposes the bank controls and is in possession of the collateral. If the IMB borrower fails, the bank is able to claim the collateral and turn it into cash by delivering it to the committed investors to avoid losses on the warehouse line. Alternatively, the bank can retain the mortgages on balance sheet – at the lower 50% risk weight. Therefore, while the bank does not own the collateral for accounting purposes, the bank *controls* the collateral for the most important purpose – to mitigate any loss on the warehouse line.

With the capital requirements misaligned with the underlying risk, warehouse lenders are unable to supply the necessary liquidity to meet spikes in demand, thereby increasing the cost of lending to all borrower segments. Similarly, if the market is contracting, the excessive capital charge relative to risk incents banks to exit the warehouse market to boost bank returns. As a result, the current capital treatment for bank warehouse lines is procyclical, exacerbating the volatility of mortgage market liquidity.

Given the short duration of warehouse credit exposures and the banks’ ability to take possession of the underlying collateral if needed, the capital treatment of residential mortgage loans held in the warehouse facility should be no worse than the treatment of residential mortgage loans held on the balance sheet.

Consequently, MBA recommends that the risk weight on warehouse lines of credit be reduced and aligned with the risk weight assigned to the mortgages collateralizing the warehouse line.

3. Community Bank Leverage Ratio (CBLR)

In 2017, the CBLR framework was established as an important tool for providing meaningful regulatory relief for qualifying community banks by removing the requirement for calculating and reporting risk-based capital ratios for banks that opt in. To be eligible to opt in, a community bank must be at or above the established capital ratio (determined by calculating the ratio of tangible equity capital to average total consolidated assets). Congress directed the Agencies to develop a capital ratio of not less than 8% and not more than 10% for qualifying community banks to correspond to the well-capitalized category under the capital framework. The Agencies at that time established a ratio of 9%, despite industry recommendation of 8%.

On November 25, 2025, the Banking Agencies announced a proposal to lower the CBLR to 8%.⁸ MBA supports this proposal, as this would allow more community banks qualify for the CBLR framework – without impacting the safety and soundness of the banking system.

4. Recalibrate CRE risk-weights to better align the capital charges with the loan-specific risks

Better aligning risk weights of CRE loans with a loan’s specific characteristics promotes appropriate and much-needed lending while ensuring adequate capital reserves. A positive element of the 2023 proposal was to use LTV ratios to determine the risk weights of loans backed by income-producing properties – with weights for CRE exposures dependent on cash flow ranging from 70% for loans with LTVs less than or equal to 60% to 110% for loans with LTVs greater than 80%. Other areas of potential recalibration include current risk weights related to construction exposures, so-called “high volatility CRE” exposures, and statutory multifamily housing exposures.

5. Avoid Introducing Burdensome Definitions

Since the Great Financial Crisis, the Agencies have spent considerable time and paid careful attention to commercial real estate lending⁹. Given this, we urge the Agencies to refrain from amending or expanding definitions that will impose burdensome new requirements on the commercial real estate finance industry. For example, a previous proposal expanded the definition of “defaulted real estate exposures” and would have required a bank to automatically default all loans made to a borrower when any loan (to any creditor) goes into default. While the intent is understandable, the proposal does not fit the commercial real estate business model, would be unduly burdensome, and would be essentially unworkable. We would be happy to work with the Agencies to explore other options that could address the intent.

Conclusion

Chairman Barr, Ranking Member Foster, and all members of this Subcommittee, thank you in advance for your consideration of the views expressed within this statement for the record.

As always, MBA stands ready to collaborate with the Agencies and Congress on bank capital proposals designed to ensure a robust real estate market that is accessible, affordable, and sustainable – and works to the benefit of all stakeholders.

⁸ <https://www.occ.gov/news-issuances/bulletins/2025/bulletin-2025-40.html>

⁹ 12 CFR Part 217; 12 CFR 217.101; OCC Comptroller’s Handbook Commercial Real Estate Lending Version 2.0; [Managing Commercial Real Estate Concentrations](#)