MORTGAGE BANKERS ASSOCIATION

May 20, 2025

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

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

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

The Honorable Rodney Hood
Acting Comptroller
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

RE: Recommendations for the Federal Banking Agencies to Ensure Continued Bank Participation in Mortgage Origination and Servicing

Dear Chair Powell, Governor Bowman, Acting Chairman Hill, Acting Comptroller Hood:

The Mortgage Bankers Association[1] looks forward to our continued partnership with the federal banking agencies (the FDIC, OCC and Federal Reserve, jointly, the "Agencies") to

[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**.

strengthen banks' support for the mortgage market as lenders, servicers, and providers of credit facilities to mortgage bankers.

The banking sector's retreat from mortgage lending has been well documented. Banks' share of single-family mortgage originations has declined from more than 70% in 2008 to 31% in 2023. Similarly, their market share in mortgage servicing has declined from nearly 90% in 2008 to less than 50% in 2023. Despite their retreat from the primary origination and servicing activities, banks have continued to support the mortgage market by providing warehouse lending and mortgage servicing rights (MSR) financing to independent mortgage bankers. The strength of our mortgage market is the diversity of charter types and business models.

We appreciate the opportunity to share our key priorities to sustain and strengthen bank participation in the mortgage market. As we communicated in our Basel 3 Endgame comment letter,[2] there are two critical changes to current capital rules that are needed to attract banks back to primary market origination and servicing, and ensure they continue to provide critical liquidity support to nonbank mortgage lenders:

- Reduce punitive capital treatment of mortgage servicing assets (MSAs), and
- Reduce the risk weight on warehouse lines of credit.

Both asset classes are unique to the U.S. housing finance system. MBA has long advocated for these changes, making it clear that the Agencies should not be bound by international agreements that do not take into consideration the unique elements of the U.S. capital and liquidity framework. As Federal Reserve Governor Michelle Bowman emphasized at her nomination hearing for Vice Chair of Supervision, the banking agencies "need to take a fresh look at the last Basel agreement and see what's appropriate for U.S. banks and their ability to have a level playing field internationally." The capital rules for MSAs and warehouse lines of credit are two specific examples the Agencies should reassess to ensure that the Basel framework does not hinder the ability of U.S. banks to serve their customers and promote homeownership.

For larger banking institutions, we also note the importance of ensuring that the U.S. rules governing these banks do not discourage natural growth. We urge the agencies to consider indexing the asset thresholds for Category I, II, III, and IV banks.

1. Risk Weighting for Mortgage Servicing Rights (MSAs)

Reduce the Punitive 250 percent Risk Weight assigned to MSAs

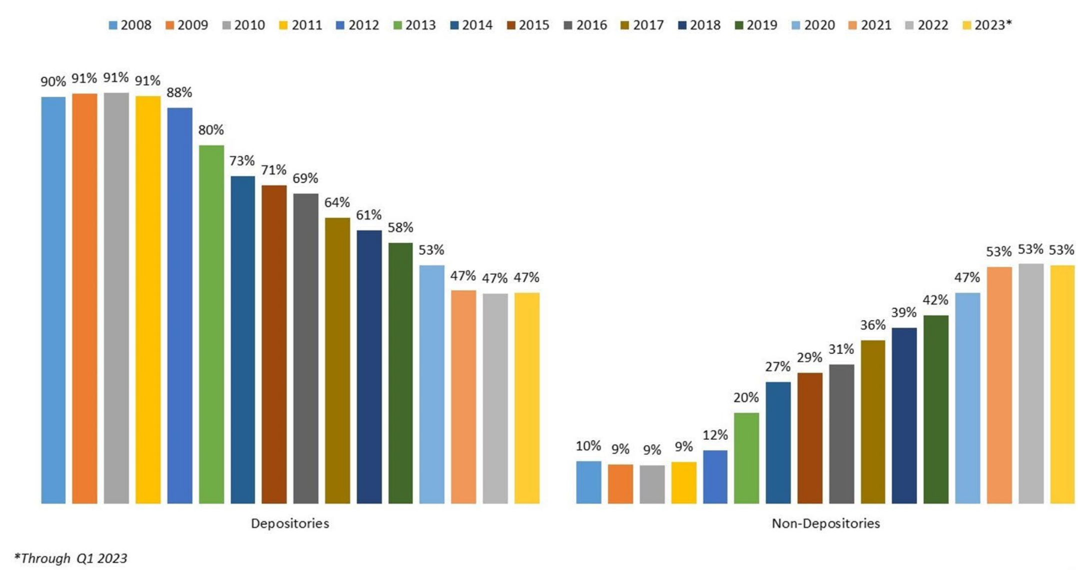
Issue: Mortgage origination and servicing play a key role in enabling banks to provide mortgage credit to their communities and establish and deepen relationships with borrowers. These relationships help banks strengthen their ties with the communities they serve and enable them to be a better resource for the local economy, especially in times of distress (such as during the recent pandemic). The current punitive 250 percent risk weight

[2] See attached MBA Basel 3 Endgame comment letter submitted January 16, 2024.

assigned to MSAs has played a key role in banks exiting the servicing market, resulting in a significantly harmful downstream impact on the mortgage market and consumers.

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 work with industry to address the implications of such punitive treatment. In 2012, the year before the current rules were put in place, banks held 88% of all servicing assets; today they hold only 47%.

Who Are the Mortgage Servicers?



Source: NDS: MBA's National Delinquency Survey, www.mba.org/nds

This has implications for the entire mortgage market. The mortgage origination business involves the production of an MSR asset with every loan that is manufactured and sold. The value of the MSR is embedded as an interest rate "strip" – a portion of a borrower's note rate. When servicing assets are attractive and in high demand, the price of the mortgage is bid up, and the note rate to the borrower is reduced. Today, the punitive capital treatment discourages a bank bid for MSRs, leaving rates higher for borrowers.

MBA is concerned that the Agencies continue to take the erroneous and outdated position that MSAs are extremely risky and difficult to value. The Agencies themselves acknowledged in the June 2016 "Report to the Congress on the Effect of Capital Rules on Mortgage Servicing Assets" that of the 518 banking institutions that failed between 2007 and 2015, 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 a contributing factor in three others.

More than 15 years after the Great Financial Crisis, the mortgage servicing market has changed significantly. Today, the MSR asset is a well-managed and controlled asset, and holders of MSRs engage in various activities – including hedging and regular marking-to-market – to better manage volatility and greatly reduce any asserted riskiness of the asset.

Great strides have been made over the last several years to better understand, control, and manage MSRs. This has not only reduced the risk of the asset class but has also improved the ability of banks to value the assets, resulting in a well-functioning and actively traded market for MSRs.

MBA continues to stress that the current 250 percent risk weight assigned to MSRs does not in any way reflect the actual risk experience associated with the asset based on any demonstrated evidence, but rather, is the result of Basel discussions and agreements between the U.S. and foreign countries that do not have or understand MSRs.

<u>Action Needed</u>: To ensure that the U.S. capital framework does not continue to drive banks out of the mortgage servicing industry, which would result in a further shrinking of the mortgage servicing relationships banks have with their borrowers and communities, we urge the Agencies to reduce the punitive and unjustified 250 percent risk weight on MSAs.

In fact, at a speech to a group of community banks in Washington on April 9, 2025, Treasury Secretary Scott Bessent specifically called out the decline in mortgage activity by banks due to "outdated capital requirements on some exposures that are well in excess of the latest evidence on the actual risk of those exposures." Secretary Bessent further noted that these outdated rules, which have led to a significant shift in mortgage lending from banks to nonbanks, thereby undercutting an important line of business for community banks, have largely ignored their detrimental effects on economic growth, which translates into "less lending, slower wage growth, more inflation, and fewer opportunities for American families".

MBA supports Secretary Bessent's comments and continues to strongly urge the Agencies to reduce the risk weighting on MSAs to no more than 130 percent, which would be more reflective of the risk associated with the asset.

2. **Risk Weighting for Warehouse Lines of Credit**

<u>Reduce the Risk Weight for Warehouse Lines of Credit to Reflect the Underlying Financial Collateral Backing the Line</u>

<u>Issue</u>: The current capital framework assigns a 100 percent risk weight to warehouse lines of credit – a change that occurred in 2014 from previous interpretations that assigned a 50 percent risk weight to warehouse lines structured as repurchase facilities. With bank warehouse lines providing funding to independent mortgage banks (IMBs) that originate more than 60% of single-family mortgage originations, it is important that capital requirements accurately reflect the underlying risk. If capital requirements are set too high, warehouse lenders may not be able to supply the necessary liquidity to meet spikes in demand, thereby increasing the cost of lending to all borrower segments, but especially low- to moderate-income borrowers and first-time homeowners (since IMBs originate about 90% of FHA, VA and Rural Housing Administration loans). The excessive risk weight exacerbates the volatility of mortgage market liquidity.

Warehouse lending programs present less risk than holding one- to four-family residential mortgage loans on the balance sheet. With residential mortgage loans held on the balance sheet, banks assume the risk of consumer delinquency and default over the life of the loan. Warehouse programs assume the role of an interim financier and the average time that a residential mortgage loan dwells on a warehouse facility is approximately 15-18 days—a very short term. The bank is then repaid by the investor, typically before the first payment is made by the consumer.

One of the keys to the low risk of warehouse lending is the multiple repayment sources that exist if a mortgage bank customer runs into difficulties, including:

- the sale of the loans on the warehouse line to the GSEs or into Ginnie Mae MBS,
- the IMB and its financial capability/capacity,
- the underlying borrowers on the mortgages, if the loans are taken into portfolio, and
- the underlying collateral (including FHA insurance or VA guarantee, if applicable) if the borrower defaults.

Moreover, the bank has actual possession of the collateral in the “warehouse,” which further mitigates the risk and facilitates rapid recoveries against the security interests. Given the short duration and the control over the collateral, 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, which are assigned a 50% risk weighting. Ironically, under current rules, the only time a well-underwritten single-family loan has a 100% risk weight is the two-week period it sits on the warehouse line.

Action Needed: In the current economic environment, maintaining the stability of the housing finance market is critical. Reducing the risk weight assigned to mortgage warehouse facilities will help increase liquidity for the residential mortgage market, which will in turn help maintain the stability of the housing market, without negatively impacting the safety and soundness of the banking system. Even with harsher capital rules over the last few years that continue to drive banks away from mortgage origination and servicing activities, banks have provided billions of dollars in liquidity to IMBs, which has been vital to facilitate home ownership for consumers, including LMI borrowers. As part of “re-visiting” the capital framework (i.e., Basel 3 Endgame), the Agencies should modify the current risk weight on warehouse lines so that it aligns with the risk of the underlying asset collateralizing the line.

3. Thresholds for Establishing Capital Standards for Banks

Index the Category I, II, III, and IV Thresholds

Issue: Under the current capital framework, the Agencies have established asset thresholds for categorizing banks for purposes of capital and liquidity requirements. While there is justification for thresholds, which allow the Agencies to impose more stringent supervisory and regulatory requirements as banks grow, the fact that the thresholds are static acts as a hinderance to economic growth and flexibility. For instance, the lack of indexing has created a situation that penalizes even the most modest (and necessary) bank growth, which discourages activities that could be beneficial for banks and the economy in general.

Action Needed: The Federal Reserve should revisit the 2019 Tailoring Rule, as set out in the preamble, and index the regulatory thresholds to GDP growth to better reflect the current market environment. A bank's size was never intended to be the dispositive factor for determining the appropriate level of supervision, but if size is to be used as a metric for changes in regulatory requirements, it should reflect the current market environment, to be adjusted on an ongoing basis, such as every five years. In fact, all the federal banking agencies should index regulatory thresholds, ensuring appropriate supervision that is tailored with growth in mind, promoting economic growth and opportunity. Additionally, mergers, consolidations, activities, and services (such as new product offerings that would increase a bank's asset size) should be encouraged and supported through every cycle to encourage economic growth. Lack of indexing impedes these types of activities and instead has forced institutions to avoid organic growth at times so that they do not cross regulatory categories, or merge just for the sake of ensuring compliance costs with heightened regulatory requirements make economic sense. In fact, Governor Bowman rightfully noted that while she supports the tailoring of the capital rules based on bank size and business model, the Agencies need to "prioritize the identification and remediation of issues that may pose long-term structural problems to the banking system and the critical markets it supports…"

Conclusion

MBA appreciates your consideration of these issues and looks forward to collaborating with you in the years ahead. As you plan the next steps for the future of your agency, we would welcome the chance to meet and discuss our recommendations and concerns. Please feel free to contact me at bob@mba.org or at (202) 557-2701 if you have any questions or would like to discuss further.

Sincerely,

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

CC/

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