Congress of the United States
Washington, DC 20515

November 15, 2023

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

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Michael J. Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th St. SW
Washington, DC 20219

Chairman Powell, Chairman Gruenberg, and Acting Comptroller Hsu:

The interagency proposed rule for implementation of the Basel III Endgame international regulatory framework released by the Federal Reserve, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency raises serious concerns.

We recognize the importance strong bank capital standards play in promoting safety and soundness in our financial system. However, the proposed rule is unnecessary, not supported by economic conditions, and contradicts statements from yourselves and your colleagues that the banking system is already well-capitalized. We are particularly concerned with the proposal to assign higher risk-weights to certain residential mortgages and the potential negative effect that is likely to have on the housing market. The proposed approach differs both from the Basel standard's intentions and, in the case of mortgage loans with lower down payments, the current, long-standing U.S. standardized approach.

The proposal would add 20 percentage points to the internationally agreed upon Basel III risk weights for residential real estate exposures, leading to credit-risk capital requirements being up to twice as large as those intended under Basel III standards for certain loans. The banks subject to these risk weightings generally would face an increase in the capital requirement on mortgages with less than a 20 percent down payment. Moreover, the proposed approach removes the ability of banks to use private mortgage insurance (MI) to reduce risk weights for low down payment mortgages. This change fails to recognize important enhancements to the MI industry, including stronger capital requirements, updated terms of coverage, and rescission relief principles. It also stands in contrast to the Federal Housing Finance Agency's (FHFA) Enterprise Regulatory Capital Framework that gives capital relief to the Government-Sponsored Enterprises (GSEs) for MI. Additionally, the proposed new operational risk charge would require higher capitalization for interest income revenue and further increase capital requirements associated with mortgage loans.

The increased capital for residential mortgages will increase borrowing costs and reduce the availability of credit to families trying to achieve homeownership and build wealth. It is also likely to exacerbate the trend of larger banks retreating from providing financing for mortgages and mortgage servicing rights, while reducing innovative affordable housing products and programs. With the current housing affordability crisis, large racial homeownership and wealth gaps, near record-low delinquencies on single-family homes, and quality underwriting, this proposal is a solution in search of a problem.

While we encourage you to abandon this proposal in its entirety, we ask that you provide the following information related to the proposal's risk-weighting on mortgages:

1. All data used to justify any increased risk-weighting on residential mortgages;
2. Any cost-benefit analysis with respect to the proposal's effect on mortgage costs and availability;
3. Any analysis of the effects of using the international Basel III Endgame's credit-risk-capital risk weights for residential real estate exposures rather than those included in the proposal; and
4. Any communications with the FHFA on aligning Enterprise Regulatory Capital Framework for GSEs with the requirements of banks.

Thank you,

Scott Fitzgerald
Member of Congress

Andy Barr
Member of Congress

Blaine Luetkemeyer
Member of Congress

Bill Posey
Member of Congress

French Hill
Member of Congress

William Timmons
Member of Congress

Dan Meuser
Member of Congress

Young Kim
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Erin Houchin
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Monica De La Cruz
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Mike Lawler
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Andrew R. Garbarino
Member of Congress