



MORTGAGE BANKERS ASSOCIATION

February 25, 2026

The Honorable Tim Scott
Chairman
Committee on Banking, Housing, and
Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Elizabeth Warren
Ranking Member
Committee on Banking, Housing, and
Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Scott and Ranking Member Warren:

On behalf of the Mortgage Bankers Association (MBA), I am writing to express support for improving housing affordability and investment in communities through bank capital modernization. As housing costs rise, the Committee's hearing entitled "Update from the Prudential Regulators: Rightsizing Regulation to Promote American Opportunity," provides an opportunity for critical dialogue on this topic.

MBA's members support regulatory capital requirements that are appropriately calibrated to the risk posed. While adequate capital reduces the likelihood of bank failures that threaten broader financial stability, excessive capital requirements can negatively affect the cost of and access to credit. Rules that negatively impact bank participation include excessive risk weights for residential and commercial mortgages held on balance sheets, as well as punitive capital treatment of mortgage servicing assets, warehouse lending, private mortgage insurance (credit enhancement), securitization, and credit risk transfer.

For years, MBA has called for changes to the capital rules that have discouraged bank participation in the origination, servicing, holding, and/or securitization of mortgages. This has reduced competition, consumer choice, and credit availability for both renters and aspiring homeowners. In short, MBA supports rules that ensure a mortgage marketplace where all lenders can readily choose to participate – e.g., depositories, non-bank independent mortgage bankers (IMBs), and other market participants alike. This holistic approach supports broad mortgage market liquidity and gives borrowers a robust choice of lenders when making the important decision to apply to own a home.

The current rules were developed in the immediate aftermath of the global financial crisis. Prudential standards for banks were adjusted to increase the resiliency of the banking and broader financial system in response to weaknesses exposed during the crisis. However, significant reforms to the mortgage markets have been made, including the Ability-to-Repay (ATR)/Qualified Mortgage (QM) regime. Institutions can no longer originate residential mortgages with risky features, such as negative-amortizing loans, option Adjustable Rate Mortgages (ARMs), interest-only loans, and no-documentation loans.

We suggest that other reforms that strengthen the residential mortgage market should also be considered, including:

- Improvements to loss mitigation and servicing protocols;
- Rigorous capital and liquidity standards for Fannie Mae and Freddie Mac under the Enterprise Regulatory Capital Framework (ERCF), IMB issuers and servicers, and private mortgage insurers under the enhanced Private Mortgage Insurer Eligibility Requirements (PMIERs); and
- Expanded investor participation in the credit risk transfer market, which deepens the pool of private capital available to absorb losses.

These needed reforms will make the market healthier and more resilient. Bank capital rules should be recalibrated for the current marketplace, rather than the pre-crisis market. As the banking regulators contemplate a rewrite of the Basel III “Endgame” proposal, it is important that the following considerations be specifically addressed to ensure liquidity and a more robust lender participation in the mortgage origination and servicing market:

- **Reducing the 250% risk weight for Mortgage Servicing Agreements (MSAs):** The current 250% risk weight assigned to MSAs has played a key role in banks’ retreat from the mortgage origination and servicing market, reducing competition for consumers and removing a bank bid for MSAs that has resulted in reduced liquidity and higher mortgage rates. 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, MBA strongly recommends that this punitive and unjustified risk weight be reduced to no more than 100%.
- **Raising the Common Equity Tier 1 (CET1) cap on MSAs:** The current capital framework also prescribes an unwarranted 25% cap on MSAs that can be included in CET1 capital. The dollar-for-dollar capital charge above the 25% cap forces banks that 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%. A 50% cap would ensure 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. Banks operating under the Community Bank Leverage Ratio should be exempt from the cap entirely. A stronger bank bid for MSAs 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.

- **Reducing the 100% risk weight on warehouse lines of credit:** The current capital framework assigns a 100% risk weight to warehouse lines of credit. Bank warehouse lines are a critical source of support for the U.S. mortgage market, providing funding to companies that originate more than 60% of single-family mortgages. When capital requirements are set too high, warehouse lenders are unable to supply the necessary liquidity to meet spikes in demand, thereby increasing the cost of lending to all borrower segments. 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 on a warehouse line should be reduced and assigned the same risk weight as the mortgages collateralizing the warehouse line.
- **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%. While this proposed calibration was a good start, we look forward to working with regulators and industry participants to ensure any new LTV calibration accurately reflects the underlying loan's risk. Other areas of potential recalibration include current risk weights related to construction exposures, so-called "high volatility CRE" exposures, and statutory multifamily housing exposures.

Thank you in advance for your consideration of the views expressed within this statement for the hearing record.

Sincerely,



Bill Killmer
Senior Vice President
Legislative & Political Affairs

cc: All Members, Senate Committee on Banking, Housing, and Urban Affairs
The Honorable John Thune, Senate Majority Leader
The Honorable Chuck Schumer, Senate Minority Leader