Angel Oak
COMPANIES

January 16, 2024

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Ann E. Misback, Secretary
Docket No. R-1813
RIN 7100-AG64

Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218
Washington, DC 20219
Attention: Chief Counsel's Office, Comment Processing
Docket ID OCC-2023-0008
RIN 1557-AE78

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attention: Comments /Legal OES, James P. Sheesley, Asst. Executive Secretary
RIN 3064-AF29

Re: Capital Rule Proposal – Basel III Endgame (the "Proposed Rule")

Ladies and Gentlemen:

Angel Oak Mortgage Solutions LLC, Angel Oak Capital Advisors, LLC and its affiliates ("Angel Oak") originate and manage mortgage loans. Angel Oak Mortgage Solutions LLC is licensed to make loans throughout 45 states and the District of Columbia. Angel Oak is a member of the Structured Finance Association ("SFA").

We are writing to express our concern about the Proposed Rule, particularly as it affects the role of banks in financing and securitization transactions. We regularly work with several banks to help us efficiently finance our mortgage lending activities, including through the use of lending facilities provided by banks. Our banks' support is critical to our ability to provide homeowners with affordable mortgage loans.

As we have become more familiar with the Proposed Rule, we have grown increasingly concerned about its treatment of securitization exposures. We are convinced that if the Proposed Rule is implemented, it will directly and significantly increase our cost of funds, and thus the cost of loans we provide to homeowners. We also believe that many

other mortgage lenders, and their borrowers, will be similarly affected. Homeowners are already burdened by the ongoing shift toward a higher interest rate environment, and the Proposed Rule would make this burden even heavier.

We agree with the SFA's findings and recommendations in its comprehensive comment letter on the Proposed Rule. In this letter, we would like to emphasize three points that are particularly important to us and our customers.

First, like most other mortgage finance companies, we obtain warehouse financing from banks. Our warehouse facilities are often structured as a securitization exposure, which result from the transfer of the applicable loans to a securitization special purpose entity that borrows the funds from one or more banks to purchase those loans. For the applicable banks where the financing is a securitization exposure, we understand that the proposed SEC-SA calculation method would require our banks to hold significantly more capital against their warehouse securitization exposures than they do now because of its higher p-factor. This is generally true even when the risk weight of the underlying exposures under the Proposed Rule is *lower* than the risk weight under the current capital rule. If the Proposed Rule is implemented, our warehouse financing interest rates will likely be materially higher than they are now.

Second, banks act as market makers and investors in our term asset-backed securities program. We understand that the Proposed Rule, including SEC-SA, would apply regardless of whether a bank holds our term RMBS in its trading book or in its banking book. We are concerned that the Proposed Rule's significantly higher capital charge for these positions will compel banks to demand a higher return on the term RMBS that they hold and/or reduce their participation in our securitization program.[1] Higher interest rates, decreased liquidity, and a smaller investor base for our term RMBS will likely result in more expensive and less available mortgage loans for our borrowers.

Third, as described in the SFA comment letter, the Proposed Rule would increase the Basel III risk weights for residential real estate exposures by 20 percentage points. We understand that according to research conducted by the Urban Institute, mortgage loans with loan-to-value (LTV) ratios from 80% to 90% would require borrowers to pay about 12.5 basis points more per year for their mortgage loans.[2] For mortgage loans with LTV ratios from 90% to 100%, borrowers would pay about 25 basis points more per year.[3]In

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[1] Our banks also earn fee and commission income when they act as underwriters of our term RMBS. We understand that the proposed operational risk capital requirement would impose a new capital requirement on such fees and commissions, which could lead our banks to charge higher fees and commissions, thus increasing our issuance costs. As the SFA's comment letter points out, the resulting costs are not outweighed by any benefit. We further understand that the Federal Reserve's own study shows that such fee and commission income does not bear a statistically significant relationship to a bank's operational risks.

[2] *See* Laurie Goodman and Jun Zhu, "Bank Capital Notice of Proposed Rulemaking—A Look at the Provisions Affecting Mortgage Loans in Bank Portfolios," URBAN INSTITUTE (Sept. 2023), available at: https://www.urban.org/sites/default/files/2023-09/Bank percent20Capital percent20Notice percent20of percent20Proposed percent20Rulemaking.pdf.

[3] *Id*.

addition, as discussed in the SFA comment letter, the impact of higher risk weights for residential mortgage loans would be magnified when those loans are financed via securitization. This, in turn, would make it much more expensive for banks to finance their own mortgage loans through the securitizations they sponsor, and to provide financing as investors or market makers in securitizations sponsored by non-bank mortgage lenders.

We are aware of no public policy objective that justifies the Proposed Rule's costs and burdens. Indeed, as many of the comment letters point out, statements from the Banking Regulators consistently point to the success of current regulatory capital rules, stress tests, and enhanced supervisory programs in ensuring that U.S. banks are well-capitalized.

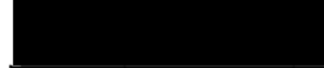
As active participants in the securitization market, we see no economic evidence suggesting that securitization has become more risky or volatile since the current regulatory capital rules were implemented. Indeed, many securitization-related regulatory changes have gone into effect in recent years, including risk retention, extensive rating agency reform, loan-level asset disclosure, and stringent requirements for underlying asset review. The rulemaking process is still ongoing, for example, the SEC's rulemaking on conflicts of interest in securitization.

Unfortunately, the NPR lacks any data or sufficient explanation supporting the proposed significant increases in risk weights for securitization exposures. However, the negative implications of the Proposed Rule are clear to us, and we hope that this letter will prompt the Banking Regulators to reconsider their approach.

We urge the Banking Regulators to either withdraw the Proposed Rule or implement the changes recommended by the SFA in its comment letter.

Thank you for the opportunity to provide these comments on the Proposed Rule. Please feel free to contact Timothy Saunders at tim.saunders@angeloakcapital.com if you have any questions or if you would like to discuss our comments further.

Sincerely yours,



Timothy K. Saunders, Jr.
Chief Legal Officer
Angel Oak Companies LP