From:
Sent:
To: Comments
Subject: Basel III Capital Standards for Residential Real Estate

Dear FDIC Federal Deposit Insurance Corp. Federal Deposit Insurance Corp.:

Fed: R 7100, RIN AD87
FDIC: RINs 3064-AD95, 3064-AD96, and 3064-AD 97
OCC: RIN 1557-AD46

A. Regulatory Capital, Implementation of Basel III: Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions and Prompt Corrective Action (Regulatory Capital Rule) B. Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements (Standardized Approach) C. Advanced Approaches Risk-based Capital Rule; Market Risk Capital Rule (Advanced Approach)

To Whom It May Concern:

I want to thank the Board of Governors of the Federal Reserve System (Fed), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) (collectively the Regulators) for the opportunity to comment on the three proposed regulatory capital rules (the Proposal). I urge the Regulators to consider our specific issues with the Proposal described below, make the appropriate changes and re-propose the rule.

In summary I believe: The Proposal will create an unlevel playing field for United States (U.S.) banks relative to their European counterparts. This is against the spirit and intent of the Basel Accords; The Proposal will adversely affect consumers by creating artificially tight credit conditions and higher pricing; The layering of Basel III on top of other new or proposed rules will stifle real estate finance; Improper risk-weighting will skew the marketplace by incentivizing irrational decisions concerning assets and liabilities; and, the proposed rule would be costly for community and regional banks who are not involved in international banking.

My specific issues with the Proposal will be addressed in turn below.

Mortgage Servicing Rights (MSRs)

At the outset, it is critical that the Regulators recognize that the structure of mortgage servicing is unique to the U.S., as is the importance of MSRs for banks. The existing treatment of MSRs is appropriate for the U.S. system and should be continued. If regulators insist upon raising the costs of mortgage servicing for banks, I would ask that the Proposal be changed to increase the allowable ratio of MSRs to Tier 1 capital to at least 50% for thrifts and 25% for commercial banks as opposed to the proposed 10%. In addition, the existing deduction of 10 percent of fair value of MSRs from capital should be eliminated.

Residential Mortgage Loans

Risk weights for properly underwritten mortgage loans are currently more than sufficient. I recommend eliminating the proposed new mortgage categories, and retaining the 50% risk weight, or at the worst harmonizing these new risk-weights with those of other Basel nations rather than putting U.S. banks at a disadvantage. As in current regulation, I

would recommend that higher Loan-to-Value (LTV) mortgages with mortgage insurance provided by financially strong counterparties, be assigned the same 50% risk weight, as mortgage insurance clearly reduces loss severity.

Securitization Exposures

The proposed risk-weight treatment of private-label securitizations held by banks is punitive along a number of dimensions. If a policy goal is to increase private capital's role in the market, this proposal will be counter to that goal. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) eliminates the ability of regulators to use nationally recognized statistical rating organization (NRSRO) credit ratings for establishing risk-weights. However, the alternative proposed here, the Simplified Supervisory Formula Approach, (SSFA), falls short and will constrict the availability of credit. Additionally, the Proposal's alternatives to the SSFA, the gross-up approach and the 1,250 percent risk-weight approach (100 percent capital requirement) both produce risk-weights that are even more punitive than the SSFA. I recommend that the Regulators recalibrate the SSFA in a manner that will allow it to more closely approximate the risk-weights of competing European Union (EU) financial institutions. Until the SSFA is recalibrated, the current ratings-based approach should remain in place for structured securities.

Other Issues to Note

Other Comprehensive Income: The Proposal should continue to exclude unrealized gains and losses in Other Comprehensive Income from the definition of regulatory capital.

Financing Independent Mortgage Companies:The Proposal should include conforming and/or Federal Housing Administration/Department of Veterans' Affairs (FHA/VA) residential mortgages in the definition of financial collateral. Moreover, the Regulators should allow reporting entities to "look through" a repo structure to the financial collateral held therein.

Off-Balance Sheet Exposures: The existing 120-day safe harbor for credit-enhancing reps and warranties should be continued.

Residential Mortgage Loans Sold With Recourse: The Proposal should allow for reserves for losses against the converted exposure to be added into Tier 2 capital as an Allowance for Loan and Lease Losses.

I appreciate the opportunity to share my comments with you.

Sincerely,