Proposal: 1813 (AG64) Reg H, Q, LL & YY-Regulatory Capital Rule: Amendments to LBOs and Banking Organizations

Description:

Comment ID: 156170

From: Phileas Fogg

Proposal: 1813 (AG64) Reg H, Q, LL & YY-Regulatory Capital Rule: Amendments to LBOs and Banking Organizations

Subject: R-1813 Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and to Banking

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Comments:

Date: Nov 10, 2023

Proposal: Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and to Banking Organizations with Significant Trading Activity [R-1813]

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First name: Phileas

Middle initial:

Last name: Fogg

Affiliation (if any):

Affiliation Type: ()

Address line 1:

Address line 2:

City:

State:

Zip:

Country: UNITED STATES

Postal (if outside the U.S.):

Your comment: Comments on the residential real estate and retail risk weights: The agencies included in their "Basel III endgame" rulemaking proposal risk-weights for residential real estate that are 20 percentage points higher than those under the Basel III standards and risk-weights for real estate that are 10 percentage points higher than those under the Basel III standards. The only justification provided for this choice comes in the following paragraph in the "Impact and economic analysis" section of the proposal: "In addition, the proposal attempts to mitigate potential competitive effects between U.S. banking organizations by adjusting the U.S. implementation of the Basel III reforms, specifically by raising the risk weights for residential real estate and retail credit exposures. Without the adjustment relative to Basel III risk weights in this proposal, marginal funding costs on residential real estate and retail credit exposures for many large banking organizations could have been substantially lower than for smaller organizations not subject to the proposal. Though the larger organizations would have still been subject to higher overall capital requirements, the lower marginal funding costs could have created a competitive disadvantage for smaller firms." The agencies do not clarify how the absence of increased risk weights for residential real estate and retail exposures for large banks would create a disadvantage for smaller banks. As the agencies note, large banks would have higher overall capital requirements than smaller banks under the proposal. Large banks would continue to be subject to the existing standardized approach, which is the only requirement that is applicable to smaller banks. In addition, large banks would become subject to the expanded risk-based approach. Therefore, the binding capital requirements applicable to large banks are necessarily higher or equal than those applicable to a smaller bank. If a larger bank was to focus on one of the activities that has lower requirements under the expanded risk-based approach than under the standardized approach, it would eventually become bound by the standardized approach. The proposal does not provide a funding cost advantage to large banks. Given the overall impact of the proposal, and particularly the problematic impacts the proposal may have on mortgage lending, it would seem obvious to remove these residential real estate and retail add-ons, which the agencies did not justify convincingly.