



January 16, 2024

Via Electronic Mail

Board of Governors of the Federal Reserve System
Attention: Ann E. Misback, Secretary
20th Street and Constitution Avenue NW
Washington, DC 20551

Office of the Comptroller of the Currency
Attention: Chief Counsel's Office, Comment Processing
400 7th Street SW, Suite 3E-218
Washington, DC 20219

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

Re: Notice of Proposed Rulemaking on Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity. OCC Docket ID OCC-2023-0008, RIN 7100-AG78; Federal Reserve Docket No. R-1813, RIN 7100-AG64; FDIC RIN 3064-AF29.

To Whom it May Concern:

Regions Financial Corporation ("Regions") appreciates the opportunity to comment on the federal banking agencies' ("agencies") regulatory capital rule for large banking organizations and banking organizations with significant trading activity (the "Proposal"). Regions, with \$154 billion in assets, is a full-service provider of consumer and commercial banking, wealth management, and mortgage products and services. Regions serves customers across the South, Midwest, and Texas, and through its subsidiary, Regions Bank, operates approximately 1,250 banking offices and more than 2,000 ATMs in fifteen states.

Regions prides itself on being a relationship bank first and foremost. We help our customers achieve their goals in times of prosperity and to successfully weather economic downturns. Regions maintains a well-diversified deposit base, with a majority of deposits in our over five million accounts fully covered by FDIC insurance. We have constructed a balance sheet

that is resilient, sustainable, and that will perform consistently over time. Never was this on display more than during the volatile times of 2023. Our strong capital and liquidity levels allowed us to support our customers through a year of rapidly changing conditions.

Regions is focused on domestic business activities and has a relatively simple operating model compared to Category I, II, and III banking organizations. The Proposal fails to account for the meaningful differences in complexity and systemic risk between Category IV banking organizations and larger banking organizations that engage in significant trading or international activities or have meaningful interconnections with other financial firms. We urge the agencies to acknowledge these important differences in business models by tailoring the Proposal's requirements and not impose the same capital requirements on all banking organizations with over \$100 billion in total consolidated assets.

Applying the same capital requirements to well run, less complex Category IV banking organizations as their larger counterparts would put regional banks at a competitive disadvantage not only against the largest globally systemically important banks covered by the Proposal but also against smaller banking organizations not covered by the Proposal and nonbanks. The heightened capital requirements in the Proposal will make it more difficult for regional banks to offer competitively priced traditional banking services relied upon by a wide range of consumers and communities.

Regions is supportive of the broader letter submitted by our trade associations, the American Bankers Association and Bank Policy Institute, as well as the letter we submitted with other Category IV banks. However, we would like to highlight areas of specific concern to us. Regions respectfully offers the following suggestions for enhancing and tailoring the rule in a manner that is consistent with the Basel Framework and the agencies' policy goals.

First, we believe the Proposal's dual-stack framework for calculating risk-weighted assets should be eliminated because it requires Category IV banking organizations with their more limited resources to undertake two materially burdensome calculations that will yield substantially similar results. Under the Proposal, banking organizations would have to calculate risk-weighted assets ("RWAs") with a burdensome dual-stack approach, which is even more onerous than the dual-stack approach that is currently applicable only to larger Category I and II banking organizations. The proposed dual-stack approach would require Category IV banking organizations to calculate RWAs with both a standardized approach (which prioritizes consistency across banking organizations by basing capital requirements on regulatory risk weights) and a new expanded risk-based approach (which would include market RWAs under the new market risk capital rule).

The Proposal would require Category IV banking organizations to undertake, regardless of complexity, a substantial operational and compliance buildup to conduct two different calculations that in many circumstances will yield results that are substantially similar. Further, under the Proposal's dual-stack approach, Category IV banking organizations will apply risk weights to exposures in divergent ways. For these reasons, we recommend that the agencies do not apply the dual-stack approach to Category IV banking organizations and instead identify a single method for calculating RWAs.

Though we believe that the expanded risk-based approach should not be applied to Category IV banking organizations in its current form, if the tailored version of the expanded risk-based approach remains applicable to Category IV banking organizations, we recommend revising six aspects of the expanded risk-based approach for all banking organizations, as they would better align the Proposal with the Basel Framework and the agencies' policy objectives:

- To reduce harm to low- and moderate-income (“LMI”) homebuyers, the Proposal’s risk weights for residential real estate exposures should be aligned with the Basel Framework.
- To limit disadvantages to small and medium enterprises (“SMEs”) relative to large publicly traded corporations, the Proposal’s risk weight framework should be adjusted to include the SME designation and remove the securities listing requirement for investment grade borrowers, aligned with the Basel Framework.
- The agencies should adopt risk weights consistent with the Basel Framework for bank exposures.
- The Proposal’s requirements for off-balance sheet exposures should be reflective of the credit conversion factor of 0%.
- The retail exposure risk weights should be adjusted to align with corresponding risk weights in the Basel Framework because they do not reflect actual risk.
- The current rule’s 25% deduction threshold for mortgage servicing assets and deferred tax assets should be retained.

We are particularly concerned about the potential impact of the Proposal on the mortgage market. Bank origination of residential mortgages and holdings of mortgage servicing rights have been rapidly declining in recent years. In fact, according to the Mortgage Bankers Association, the share of bank originated single family mortgages has fallen from 67.9% in 2010 to 31.1% in 2022, while the share of nonbank mortgage servicing has increased from 9% in 2010 to 53% in 2022. Increased capital requirements resulting from the current Proposal could further shift the mortgage market to the nonbank sector. The proposed higher risk weight on high loan-to-value (“LTV”) mortgages penalizes large banks for serving LMI borrowers by holding CRA-eligible loans. Additionally, the Proposal does not give credit for private mortgage insurance (“PMI”) in assigning risk weights to high-LTV loans. The failure to give credit for PMI effectively defeats the purpose of that insurance and significantly increases costs for homebuyers. The agencies can resolve this issue by adopting the risk weighting recommended pursuant to the Basel III agreement, while also allowing the assigned risk weights to reflect credit for PMI on high-LTV loans.

The impact on the mortgage market is of particular concern to Regions because we have made significant investments in our mortgage servicing capabilities. These efforts have produced an efficient and effective platform that enables us to better serve our customers and communities through all economic environments while deepening customer relationships.

The proposed adjustments to the 25% mortgage servicing threshold will unnecessarily limit the capacity of Regions, and other banks, to provide this critical service to our communities. The inclusion of accumulated other comprehensive income (“AOCI”) in regulatory capital, along with recent accounting changes, further diminishes capacity for banks to meaningfully participate in the mortgage servicing market. As a result, the proposed adjustments will push mortgage servicing outside of the regulated banking system where providers may lack the risk management and diversified funding necessary to ensure consistent delivery of this critical service, especially in periods of stress. It is for these reasons that Regions recommends maintaining the current 25% thresholds.

Regions commercial banking activities are heavily focused on serving the needs of middle market clients that are often too small to be banked by Category I–III banking organizations but nonetheless represent a critical segment of the economy. The Proposal does not include the designation for SMEs that was included in the Basel Framework which will often result in elevated risk weights for these small- and medium-sized businesses relative to their larger counterparts. Moreover, the Proposal does include a requirement that commercial entities have publicly listed securities outstanding in order to qualify as investment grade and receive advantageous risk weights. This public listing requirement was not included in the Basel Framework and will further disadvantage SMEs in the United States who may not be able to access public capital markets in a cost-effective manner due to their size and infrequent activity. In combination, these two elements will unfairly diminish availability of credit and increase costs for SMEs relative to larger entities on the basis of size rather than credit fundamentals and true risk characteristics. Regions recommends that the Proposal be adjusted to include the Basel Framework’s SME designation and remove the securities listing requirement from the investment grade classification.

Second, we believe that the standardized operational risk capital framework outlined in the Proposal overstates capital requirements for Category IV banking organizations relative to actual risks. We find this lack of calibration concerning because the new standardized operational risk framework would scale up capital requirements, imposing material costs and burdens on Category IV banking organizations without any identified benefits. The new standardized operational risk framework would increase capital requirements based on an organization’s historical losses, which has an outsized impact on Category III and IV banking organizations that have significant fee-based income. Indeed, the Proposal’s operational framework would drive up capital requirements more than any other proposed change, accounting for 137.5% of the total RWA increase for banking organizations in Categories III and IV. In particular, Category IV banking organizations that generate significant revenue from fees associated with providing critical liquidity management and capital markets services are likely to be most impacted by the Proposal’s standardized operational risk framework.

The agencies’ impact analysis suggests that the Proposal’s operational risk framework would, if finalized, represent the largest driver of increased RWA under the expanded risk-based approach. We believe that Category IV banking organizations should not be subject to the Proposal’s dual-risk framework.

Third, we also urge the agencies to lengthen the proposed transition and implementation periods to five years to provide banking organizations with adequate time to comply with the Proposal's regulatory requirements. Notably, we think this is appropriate given implications of the proposed inclusion of AOCI in Regulatory Capital on optimal balance sheet construction and the time it will take to efficiently reposition to an optimized structure.

Finally, we encourage the agencies to review the cumulative impact and interconnectedness of the capital rules and other regulatory initiatives, including the proposal related to long-term debt requirements, to ensure there are not overlapping requirements or unaccounted-for costs.

We appreciate the opportunity to share our comments on this rule. Again, we encourage the agencies to calibrate enhanced prudential standards and requirements according to the risk of the relevant banking organizations. Thank you for your consideration and please do not hesitate to contact Jeff Swartz, Head of Regulatory Affairs, at Jeffrey.Swartz@Regions.com, if you would like to discuss these comments further.

Sincerely,

A handwritten signature in cursive script that reads "Deron Smithy".

Deron Smithy
Treasurer
Regions Financial Corporation