

NATIONAL ASSOCIATION OF HOME BUILDERS, JESSICA R. LYNCH

Proposal and Comment Information

Title: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations, R-1887

Comment ID: FR-2026-0007-01-C109

Subject

Docket No. R-1888, RIN 7100-AH21 and Docket No. R-1887, RIN 7100-AH20

Submitter Information

Organization Name: National Association of Home Builders

Organization Type: Organization

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Please see attached comments on Docket No. R-1888, RIN 7100-AH21 and Docket No. R-1887, RIN 7100-AH20.

Thank you!

[NAHB Main Logo]<<http://www.nahb.org/>>

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Hot off the press! Discover the latest releases from NAHB BuilderBooks<<https://utm.io/uqyNq>>, including AI in Residential Construction and the Remodelers' Cost of Doing Business Study, 2026 Edition. Get the insights and strategies you need to stay ahead in today's housing industry.

NAHB will host Pro+Connect, July 13–15, at the National Housing Center. Pro+Connect brings builder executives together with national product manufacturers and suppliers for focused, one-on-one meetings and networking. Learn more at [proconnectmatch.com](https://www.proconnect-events.com/July2026)<<https://www.proconnect-events.com/July2026>>.

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Housing Finance & Regulatory Affairs
Jessica R. Lynch
Vice President, Housing Finance

June 18, 2026

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Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Re: Docket No. R-1888, RIN 7100-AH21 and Docket No. R-1887, RIN 7100-AH20

Jennifer M. Jones
Deputy Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
Re: RIN 3064-AG23 and RIN 3064-AF29

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219
Re: Docket ID OCC-2026-0034 and Docket ID OCC-2026-0265

Re: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets; Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.

Submitted via Electronic Delivery to:
publiccomments@frb.gov, comments@FDIC.gov, www.regulations.gov

Dear Sir/Madam:

Thank you for the opportunity to comment on the Notices of Proposed Rulemaking for Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted and Regulatory Capital Rule (standardized approach proposal): Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations (Basel III proposal).

NAHB is a Washington DC-based trade association representing more than 140,000 members involved in the development and construction of for-sale single-family homes, including homes for first-time and low- and moderate-income home buyers, as well as the construction, ownership and management of multifamily rental housing, including affordable rental housing. NAHB and its members have a strong interest in supporting a banking system that offers home builders and home buyers access to affordable financing in all geographic areas and economic conditions.

Banks play a key role in residential mortgage lending and financing for residential housing production, including affordable housing. NAHB supports recalibrating the capital framework to better reflect actual risk, reduce unnecessary complexity, and improve lending. The proposals represent a meaningful improvement over the 2023 proposal and if appropriately finalized, have the potential to increase bank participation in housing finance activities.

The current housing affordability crisis is a direct result of a lack of an adequate housing supply as NAHB estimates the housing shortage at 1.2 million units currently. Changes in regulations that expand the ability of banks to provide financing for acquisition, development, and construction (AD&C) activities, single-family and multifamily housing and/or permanent financing for home buyers and rental property owners will help to increase housing supply and thus help to address this nation's housing affordability crisis.

Background

Basel III was the response by the international banking regulators to the global banking crisis that led to the Great Recession beginning in 2007-2008. The initial text of Basel III was issued by the international Basel Committee on Banking Supervision (BCBS) in December 2010 and provided a framework of global regulatory standards for bank capital adequacy and liquidity. The framework adopted by the U.S. federal banking agencies generally was consistent with that issued by the BCBS and included relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which was enacted in July 2010 to protect consumers and taxpayers from another financial crisis. The federal banking agencies indicated that experience over the past decade has demonstrated that certain elements of the framework could be improved without reducing safety and soundness.

The years long effort to update Basel III included a proposal in 2023 that was denounced consistently by stakeholders in the U.S. who cited significant increases in banks' capital requirements that would have made it harder and more expensive for consumers, businesses and investors to obtain financing from banks. It was estimated even by the drafters of the proposal that it would require all banks to hold increased levels of capital, and it was probable it would reduce lending capacity and trading activities at all banks.

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the “federal banking agencies”) issued proposals on March 19, 2026, to modernize the regulatory capital framework for banking organizations of all sizes. In the proposals, the federal banking agencies seek to modernize capital requirements by improving their risk sensitivity and reducing burden, while retaining robustness. The proposals would modify two of the four pillars of the regulatory capital framework for large banks: the Basel III framework and the GSIB surcharge. The proposals would also make changes to the risk-based capital framework that would be applicable to other banks (standardized approach), tailored to the simple structure of that approach.

Both the Basel III and the standardized approach proposals seek to increase banks’ incentive to engage in mortgage origination and servicing by increasing the risk sensitivity of requirements associated with residential mortgages, including by removing the capital deduction for certain mortgage servicing assets.

NAHB Comments

Adequate and appropriately calibrated capital requirements are essential to a safe and sound financial system. When capital requirements are aligned with actual risk, banks are better positioned to deploy capital efficiently, including through expanded lending to households, businesses, and communities. NAHB believes the proposals represent a significant improvement over the 2023 Basel III proposal because they create an opportunity to increase bank participation in home mortgage lending. Although lower capital requirements alone will not fully reverse the shift away from bank mortgage lending that followed the 2008 housing market crisis, increased incentives for bank participation can help improve credit availability and reduce borrowing costs for home buyers.

NAHB believes the proposals will be beneficial to the overall housing economy especially the reduction in risk weights of residential home mortgages and elimination of the deduction of mortgage servicing assets that exceed 25 percent of the banking organization's common equity tier 1 capital. However, some targeted modifications that remove unnecessary barriers to AD&C lending, appropriately calibrate LIHTC and multifamily exposures, improve the capital treatment of mortgage servicing assets, preserve warehouse lending capacity, and recognize the risk-reducing value of private mortgage insurance will allow for greater impact.

Mortgage Loans

The proposals would revise the risk weights for residential mortgage loans, generally reducing the amount of capital banks must hold against mortgages in their portfolios. Under the current framework, residential mortgage loans secured by both owner-occupied and investor properties receive a 50 percent risk weight. The proposals aim to improve risk sensitivity by applying a loan-to-value (LTV) approach and further differentiating risk weights based on whether repayment depends on cash flows generated by the real estate securing the loan. To qualify for the proposed LTV approach, a residential mortgage exposure would need to meet certain criteria, including prudent underwriting standards. Although private mortgage insurance is recognized as part of prudent underwriting criteria, the proposal would not adjust LTV calculations for credit loss provisions or private mortgage insurance (PMI).

Under the Basel III proposal, risk weights would range from 20 percent for loans with LTVs of 50 percent or less to 70 percent for loans with LTVs above 100 percent. For loans whose repayment depends on cash flows from the underlying real estate, risk weights would range from 30 percent to 105 percent across the same LTV categories. Under the standardized approach proposal, risk weights would range from 25 percent for loans with LTVs of 50 percent or less to 75 percent for loans with LTVs above 100 percent. Cash-flow-dependent loans would receive risk weights ranging from 35 percent to 110 percent. Under both proposals, loans with LTVs of 90 percent or less would generally remain at or below a 50 percent risk weight, while higher capital requirements would apply to loans with LTVs above 90 percent and to cash-flow-dependent loans with LTVs above 80 percent. The proposals also recognize the risk reduction that occurs through amortization by allowing risk weights for eligible residential mortgage exposures to decline as borrowers repay principal and build equity.

NAHB believes the proposed LTV-based mortgage risk weights would better align capital requirements with actual risk and encourage increased bank mortgage lending by requiring banks to hold less capital

for lower-LTV loans, and additionally allows capital requirements to decline as borrowers pay down principal and build equity. However, the proposal may disadvantage creditworthy borrowers with limited funds for a large down payment because banks are likely to charge more for high-LTV loans. This price increase will disproportionately impact first-time and low- and moderate-income home buyers who already face increased challenges due to the lack of affordable housing and limited supply. NAHB estimates that a quarter-point increase in the 30-year fixed-rate mortgage, from 6 percent to 6.25 percent can price 1.42 million U.S. households out of the market for the median-priced new home.¹ If interest rates increase for high LTV home buyers due to this change in capital requirements, first-time home buyers and low- and moderate-income home buyers may be priced out of the housing market.

NAHB urges the federal banking agencies to consider the following when drafting final rules:

- Recognize the value of credit risk mitigation provided by private mortgage insurance in the calculation of a risk based LTV;
- Higher risk weights for loans with high LTVs could have a detrimental effect on banking organizations' willingness to originate and hold these mortgage loans, therefore curtailing lending or creating higher costs for first-time home buyers and low- and moderate-income borrowers.
- Complexity of calculating LTVs may discourage smaller banking institutions from voluntarily adopting the proposal unless an alternative calculation is provided.

Mortgage Servicing Assets

Under the current capital rule, covered banking organizations must deduct from common equity tier 1 capital any mortgage servicing assets (MSAs) that exceed 25 percent of the organization's common equity tier 1 capital. The proposal would eliminate this deduction requirement for MSAs. Instead, MSAs would receive a 250 percent risk weight, consistent with the current treatment of MSAs that fall below the deduction threshold.

Since taking effect, Basel III has been criticized for encouraging banks to reduce their holdings of MSAs, contributing to a shift in mortgage servicing activity toward nonbanks. NAHB believes the proposal would make MSAs more attractive to banks by eliminating the common equity tier 1 capital deduction for certain MSAs. However, the proposal's benefits will be limited unless the agencies also reduce the current risk weight assigned to MSAs. Addressing both the deduction and risk-weight treatment would increase demand for MSAs, improve their liquidity and value, and benefit banks and other market participants.

Mortgage interest rates reflect, in part, the value of servicing the loan. When demand for servicing assets increases, the underlying mortgages also become more attractive, raising the value of the servicing asset and reducing the interest rate charged to borrowers. If banks' demand for MSAs increases because of more favorable capital treatment, borrowers could benefit from lower mortgage interest rates.

¹ Households Being Priced Out of the Housing Market: <https://www.nahb.org/news-and-economics/housing-economics/housings-economic-impact/households-priced-out-by-higher-house-prices-and-interest-rates>

NAHB urges the federal banking agencies to consider the following when drafting final rules:

- Finalize the proposals to eliminate the requirement that banks deduct any amount of MSAs from common equity tier 1 capital; and
- Reduce the current 250 percent risk weight assigned to MSAs for all banks.

Warehouse Lines of Credit

The proposals' treatment of warehouse lines of credit raises concerns for mortgage lending because the unused portions of these lines would be subject to a higher credit conversion factor (CCF), potentially reducing credit availability. Bank-provided warehouse lending is the primary source of liquidity for nonbank mortgage lenders. If banks are required to hold more capital against these facilities, they may be discouraged from providing the funding nonbanks rely on to support mortgage origination.

Nonbanks' share of mortgage originations for Fannie Mae, Freddie Mac, and government mortgage programs has steadily increased since 2013, reaching 86.4 percent in December 2025². Because nonbanks do not have a deposit base, they rely on external funding to originate mortgage loans, typically borrowing from banks through warehouse lines of credit. These lines finance mortgage loans until the loans are sold to investors and the lines are repaid, usually within a very short period.

Under the current standardized approach, commitments that are not unconditionally cancelable receive a 20 percent CCF if their original maturity is one year or less and a 50 percent CCF if their original maturity exceeds one year. The proposal would simplify this treatment by applying a single 40 percent CCF to the unused portion of any credit or equity commitment that is not unconditionally cancelable, regardless of maturity. The agencies explain that eliminating the one-year maturity distinction would reduce incentives to structure transactions around that threshold and align the treatment with the expanded risk-based proposal.

Under the proposals, a warehouse line of credit is not considered unconditionally cancelable and therefore the CCF would be 40 percent, making it capital intensive and potentially driving banks away from this important line of business. The requirement would be particularly burdensome because banks would have to hold capital against the unused portion of the line, even though they generally do not earn interest or fee income on that amount.

Warehouse lines of credit are collateralized by the mortgage loans funded by the line and the bank providing the line of credit is holding the loans on its balance sheet for the period of time the credit is outstanding. However, the proposals would continue to risk-weight the entire line at 100 percent rather than applying the risk weight of the underlying mortgage collateral. This is another deterrent to warehouse lending.

If warehouse lines become too costly for banks to maintain, the market liquidity and stability they provide could be jeopardized.

² Ginnie Mae's Office of Capital Markets January 2026 : [Global Markets Analysis Report](#)

NAHB urges the federal banking agencies to consider the following when drafting a final rule:

- Preserve the current 20 percent CCF on any unused portion of a warehouse line; and
- Reduce the current 100 percent risk weighting on warehouse lines to align with the risk weight of the underlying mortgage collateral.

Multifamily Housing

At a time when millions of Americans struggle to find affordable and available housing, capital requirements for multifamily lending must remain reasonable and competitive. Multifamily borrowers need access to a range of viable financing options to construct, recapitalize, preserve, and renovate apartment properties. Increased bank participation in multifamily lending could expand financing options and support the production and preservation of affordable rental housing for residents at all income levels. For these reasons, NAHB joined an industry coalition comment letter that recommends changes to better calibrate capital requirements for commercial and multifamily real estate (CRE) exposures and preserve critical CRE financing channels.

The coalition urged the federal banking agencies to consider actions including, but not limited to:

- Permitting Category III and IV banking organizations and similarly situated institutions, such as smaller qualifying community banks, to access granular CRE risk weights without adopting the entire expanded approach;
- Broadening the “regulatory CRE” and “real estate exposure” definitions to avoid structural penalties for mezzanine and special-purpose entities recourse structures, with measured additions for subsequent liens as warranted;
- Treating multifamily loans that are underwritten to Fannie Mae and Freddie Mac standards and sold to them or guaranteed by the Federal Housing Administration (FHA) as statutory multifamily loans receiving the same 50 percent risk weights at the time of origination;
- Revising the securitization eligibility criterion to recognize transactions that depend “primarily” on underlying assets and equalize the 15 percent floor for comparable Fannie Mae and Freddie Mac exposures during conservatorship;
- Reducing the MSA risk weight to no more than 100 percent;
- Reclassifying Fannie Mae’s Delegated Underwriting and Servicing (DUS) loss-sharing exposures and assigning the same 20 percent risk weight applied to public sector entities’ (PSE) exposures; and

The Low Income Housing Tax Credit (LIHTC) is the most successful affordable rental housing production program in U.S. history. The LIHTC is a source of equity financing for the development of affordable housing that serves households earning 60 percent or less of the area median income with rents restricted to keep the units affordable. Through construction of new apartments, preservation of existing affordable housing, and rehabilitation of older multifamily buildings, the LIHTC adds to the nation’s supply of affordable housing. Since its inception, the program has financed over 4.1 million affordable homes,³ which have provided 9.61 million low-income families, seniors, veterans, and people

³ National Council of State Housing Agencies, State HFA Factbook: NCSHA Annual Survey Results 2024, October 2025.

with disabilities homes they can afford. As of 2024, the program has generated approximately \$773 billion in cumulative wages and business income, \$278 billion in cumulative tax revenues, and supports 6.83 million jobs per year.⁴

Commercial banks subject to the proposed rules are the dominant source of this LIHTC investment. Banks provided about 80 percent of all LIHTC equity investments in 2024.⁵

LIHTCs equity investments generally qualify as a community development investment under 12 U.S.C. 24(Eleventh) which both the current rule and proposals assign a 100 percent risk weight. This treatment is inconsistent with LIHTC's unique characteristics and documented performance over the program's nearly 40-year history. LIHTC have outperformed multifamily mortgages, which currently receive a 50 percent risk weight.

NAHB urges the federal banking agencies to consider the following when drafting a final rule:

- Reduce the risk weight for LIHTC equity investment and their associated loans to no more than 50 percent and consider 20 percent risk weight.

Lending to Home Builders

While NAHB supports the proposals' goal of encouraging banks to increase residential mortgage activity, meaningful improvements in housing affordability also require policies that support increased housing supply.

The home building industry depends heavily on the banking system for the financing needed to meet housing demand, including the need for affordable housing. NAHB's Quarterly Survey on AD&C Financing consistently shows that home builders rely on commercial banks and thrifts as a primary source of credit for land acquisition, land development, and single-family construction. In the first quarter of 2026, commercial banks and thrift institutions were the primary source of credit for land acquisition (90 percent), land development (94 percent), speculative single-family construction (86 percent), and pre-sold single-family construction (92 percent). These results are consistent with NAHB's survey data dating back to 2005 and demonstrate the central role depository institutions play in financing home building.

Obtaining financing for the acquisition of land and development of lots for one-to-four family homes is a challenge for many of NAHB's home builders and developer members. Two-thirds of single-family builders report that the supply of buildable lots is low or very low, which is a barrier to constructing new one-to-four family homes.

Although land developers may also build homes, they typically do not obtain construction financing through the same entity or through a combined land development and construction loan. Instead,

⁴ ACTION Campaign, National Fact Sheet, Feb. 2026.

⁵ CohnReznick, Affordable Housing Credit Study: A Comprehensive LIHTC Property Performance Report, November 2025

industry practice often involves separate entities developing lots and selling them to related or unrelated home building entities that construct the homes. As a result, under current rules—and this treatment would remain unchanged under the proposals—most land development loans are classified as High Volatility Commercial Real Estate (HVCRE) and assigned a 150 percent risk weight. Loans used solely to acquire undeveloped land receive the same treatment, even when the land is zoned for one-to-four family residential properties.

This capital treatment discourages banks from making and holding land acquisition and land development loans in their portfolios. Banks are likely to charge more for these loans to offset the cost of holding additional capital, increasing financing costs for builders and developers.

Loans that solely finance land acquisition and loans that only finance land development for one-to-four family residential properties should not be considered HVCRE.

NAHB urges the federal banking agencies to consider the following when drafting a final rule:

- Eliminate the requirement that a land development or a land acquisition loan must have a capital risk weight of 150 percent unless it is combined with a construction loan for a one-to-four family residential structure;⁶
- Consider opportunities to incentivize safe and sound lending for AD&C activities;
- Increases to capital on unused credit commitments and lines may constrain the amount of credit banks extend to businesses and impact the availability and cost of financing for home builders.

Conclusion

NAHB appreciates the federal banking agencies' efforts to modernize the regulatory capital framework and better align capital requirements with actual risk. Appropriately calibrated capital standards are essential to maintaining a safe and sound banking system while ensuring that banks can continue to support mortgage lending, mortgage servicing, multifamily housing, affordable housing investment, warehouse lending, and the AD&C financing needed to expand the nation's housing supply.

NAHB supports the proposals' direction that would improve risk sensitivity and encourage greater bank participation in housing finance. At the same time, the final rules should avoid unintended consequences that could increase borrowing costs, constrain credit availability, or discourage banks from providing financing that is critical to home buyers, renters, builders, developers, and affordable housing providers.

For these reasons, NAHB urges the agencies to finalize the proposals with targeted modifications that remove unnecessary barriers to AD&C lending, appropriately calibrate LIHTC and multifamily exposures, improve the capital treatment of mortgage servicing assets, preserve warehouse lending capacity, and recognize the risk-reducing value of private mortgage insurance. These changes would strengthen the

⁶ 84 Federal Register 68019 (December 13, 2019) 12 CFR Parts 3, 217 and 324 Regulatory Capital Treatment for High Volatility Commercial Real Estate (HVCRE) Exposures.

NAHB Comments

Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets;
Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant
Trading Activity, and Optional Adoption for Other Banking Organizations

June 18, 2026

Page 9

effectiveness of the capital framework while supporting broader access to affordable homeownership and rental housing opportunities.

Thank you for your consideration of NAHB's comments and recommendations. If you have questions, please contact Allison Karakis, Director, Financial Institutions and Capital Markets, at 202-266-8529 or email Akrakis@nahb.org.

Sincerely,

Jessica R. Lynch