

WESTERN ALLIANCE BANK, KEN VECCHIONE

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

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Submitter Information

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Organization Type: Company

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Please see attached comment letter.

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Re: Regulatory Capital Rule: Regulatory Capital and Standardized Approach for Risk-Weighted Assets (Federal Reserve Docket No. R-1888, RIN 7100-AH21; FDIC RIN 3064-AG23; Docket ID OCC-2026-0034, RIN 1557-AF49) and Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations (Federal Reserve Docket No. 1887, RIN 7100-AH20; FDIC RIN 3064-AF29; Docket ID OCC-2026-0265, RIN 1557-AF52)

Ladies and Gentlemen:

Western Alliance Bancorporation (“WAL” or “Company”)¹ appreciates the opportunity to comment on the joint Notice of Proposed Rulemaking issued by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively, the “Agencies”) regarding Regulatory Capital and Standardized Approach for Risk-Weighted Assets (“Standardized Approach”) and Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations (“Basel III”; collectively with Standardized

¹ WAL is a diversified financial holding company with approximately \$99 billion in total assets as of March 31, 2026. Headquartered in Phoenix, Arizona, WAL provides a full spectrum of customized loan, deposit, and treasury management capabilities, including funds transfer and other digital payment offerings. The Company also serves business customers through a national platform of specialized financial services. See www.westernalliancebancorporation.com.

Approach, the “Proposal(s)”), both published on March 19, 2026. WAL supports the Agencies’ stated objectives of promoting safety and soundness, improving risk sensitivity, and maintaining an operationally workable framework that continues to support lending and other financial intermediation activities within the regulated banking sector.

This letter focuses on seven targeted recommendations that the Company believes are necessary to better align the final rule with the economic substance of the covered activities and their associated risk. Each recommendation aims to avoid a risk weight that is not appropriately linked to the risk profile of an exposure. Any such disconnect prevents the efficient use of a bank’s capital, constrains economic growth and stifles competition in the marketplace.

- 1. Reduce the risk weight for effectively hedged Mortgage Servicing Assets (“MSAs”).**
The Proposal would remove the current threshold-based requirement to deduct MSAs from regulatory capital and instead subject all MSAs to a 250% risk weight, consistent with the risk weight in the current capital rule for MSAs that do not exceed the deduction threshold. The Agencies should reduce the 250% risk weight to 100 for MSAs that are effectively hedged.
- 2. Preserve the current definitions of “Commitment” and “Unconditionally Cancellable Commitment.”** The proposed definitional changes would expand capital requirements to arrangements that do not involve legally enforceable funding obligations, including borrowing-base and warehouse-style facilities. Retaining the existing definitions would better align exposure measurement with actual credit risk.
- 3. Preserve the current definition of “Securitization.”** Introducing a requirement that a securitization depends “solely” on the performance of underlying exposures could exclude many common traditional securitizations from the securitization framework. The existing definition appropriately captures credit risk transfer and has proven workable across securitization structures.
- 4. Calibrate the mortgage warehouse risk weight to the secured, collateral-controlled nature of the exposure.** Mortgage warehouse lending is secured by first-lien residential mortgage collateral, is short duration, and provides lenders strong control over collateral and repayment mechanics. The capital framework should apply a risk weight to qualifying facilities based on the characteristics of the underlying mortgage collateral, subject to objective eligibility criteria and supervisory oversight.
- 5. Use an LTV-based framework for commercial real estate exposure risk weights under the Standardized Approach.** The proposed expanded risk-based approach (“ERBA”) appropriately recognizes loan-to-value (“LTV”) ratios as a key driver of credit risk for commercial real estate. Extending comparable LTV-based treatment to Standardized Approach institutions would improve risk sensitivity and promote competitive neutrality where LTV data is readily available.

6. **Align Standardized Approach corporate loan exposure risk weights with the proposed ERBA credit risk principles.** The Basel III proposal appropriately enhances risk sensitivity under ERBA by differentiating corporate credit risks based on the creditworthiness of the obligor. Incorporating similar credit-risk drivers into risk weights under the Standardized Approach would promote consistent risk measurement across frameworks without increasing operational burden.
7. **Provide a transition and phase-out framework for minority interests when electing into ERBA.** The current minority-interest treatment applicable to Category I and II institutions may produce an immediate and disruptive reduction in recognized capital for other institutions newly electing into ERBA. A transition or phase-out approach would align capital recognition with economic substance while preserving capital stability.

Recommendation 1 — Reduce the risk weight for MSAs to 100% for MSAs that are actively hedged and demonstrate sustained hedge effectiveness.

A. Effectively hedged MSAs exhibit lower risk than implied by a uniform 250% risk weight.

As a regional bank with a significant presence in residential mortgage lending, correspondent production, and mortgage servicing, WAL plays an integral role in supporting the U.S. housing finance system. The Company provides liquidity and operational stability to the mortgage market, including through the management of more than \$70 billion in mortgage servicing balances, making it particularly sensitive to the calibration of capital requirements applicable to mortgage-related activities under the Basel capital framework.

WAL appreciates the opportunity to comment on the Agencies' efforts to modernize the regulatory capital framework and recognizes the critical role that residential mortgage lending and servicing play in supporting sustainable and affordable homeownership. WAL supports the proposal to eliminate the Common Equity Tier 1 ("CET1") capital deduction threshold for MSAs and welcome the Agencies' willingness to reconsider MSA risk-weight calibration. While removal of the threshold deduction is an important step, retention of the uniform 250% risk weight remains the primary constraint on bank participation in the mortgage servicing market.

The Company recognizes the risk associated with MSAs due to changes in interest rates cannot be eliminated. However, a 250% risk weight does not appropriately distinguish between unhedged MSAs and MSAs supported by robust, demonstrably effective hedging programs as part of a bank's broader risk management framework. The risk framework includes independent validation of an MSA's fair value by qualified third-party valuation firms, subject to external audit review and ongoing monitoring by 2nd and 3rd line of defense that ensures valuation integrity, governance and risk transparency. This undifferentiated treatment materially overstates the residual risk of well-managed, hedged MSA portfolios and continues to create a structural disincentive for banks to engage in mortgage servicing activities under the bank capital framework.

Since the Global Financial Crisis (“GFC”), banks holding MSAs have developed robust market and model risk management frameworks, including well-defined hedging strategies and regularly monitored risk limits. Where these hedging programs are demonstrably effective, interest rate sensitivity and residual MSA risk are materially reduced. WAL acknowledges that unhedged MSAs can expose banks to meaningful interest rate risk. However, the residual risk inclusive of an effective hedging program is significantly lower than implied by the current treatment.

Chart 1 below demonstrates that active hedging reduces MSA valuation volatility significantly across interest rate cycles. WAL believes that treating all MSAs as if they were unhedged does not contemplate this evidence and results in capital requirements that are misaligned with actual risk. WAL, along with many larger depository institutions, has maintained a robust and well-governed MSA hedging program designed to actively manage interest rate, prepayment, and valuation risk of the asset. The effectiveness of this framework has been consistently demonstrated through stable MSA performance across multiple interest rate environments. These risk management practices materially mitigate the inherent risk associated with MSAs relative to unhedged exposures. While hedging produces both benefits and costs across different interest rate environments, these effects largely offset over the cycle and do not result in meaningful volatility in CET1 capital.

Chart 1

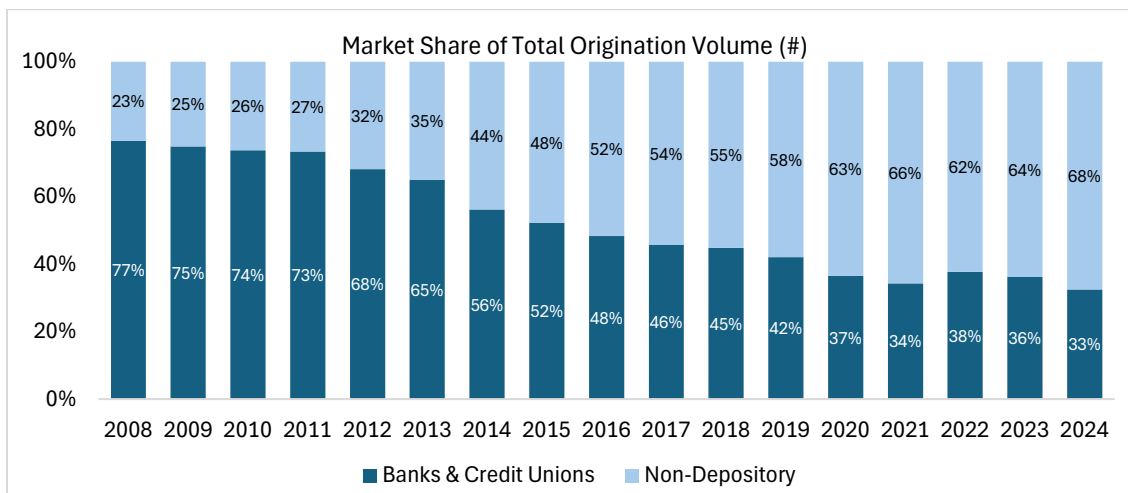
Depository Institution	2024			2025		
	Avg MSA FV (\$mm)	Net MSA Hedge Results (\$mm)	Cumulative Hedge Benefit/(Cost)	Avg MSA FV (\$mm)	Net MSA Hedge Results (\$mm)	Cumulative Hedge Benefit/(Cost)
JPM	8,682	67	0.8%	9,062	118	1.3%
WFC	7,081	16	0.2%	6,554	7	0.1%
USB	3,338	(76)	-2.3%	3,319	(28)	-0.8%
PNC	2,632	5	0.2%	2,557	11	0.4%
FITB	1,720	(14)	-0.8%	1,552	(77)	-5.0%
CFG	1,546	17	1.1%	1,436	52	3.6%
WAL	1,046	(17)	-1.6%	1,291	21	1.6%
RF	981	8	0.8%	988	19	1.9%
HBAN	536	(36)	-6.7%	570	1	0.2%
Total	27,560	(30)	-0.1%	27,328	124	0.5%

Source: Situs AMC Valuation Advisory and Risk Solutions, LLC / Western Alliance Bank

B. Uniform MSA risk weights shift market share away from regulated depository institutions.

WAL believes the current capital treatment for regulated depository institutions creates a financial barrier that will continue to incentivize migration of MSAs and mortgage origination activity to less regulated nonbank entities, potentially increasing systemic risk. Since the GFC, the share of origination volume at depository institutions has declined from 77% to 33% in 2024 (see Chart 2 below). This shift in market share away from depository institutions over the past 15 years was driven in part by the current capital treatment on MSAs. WAL believes that capital requirements that more appropriately differentiate risk would better align with financial stability objectives and mitigate unintended consequences.

Chart 2



Source: Mortgage Bankers Association

Additionally, the current capital treatment for MSAs is inconsistent with the underlying residual risk profile of the asset when compared to other balance sheet exposures that receive materially more favorable capital treatment. As noted earlier, MSAs are primarily exposed to interest rate – driven by duration and prepayment risks that are actively measured, modeled, and hedged by banks with established market risk, model risk, and governance frameworks. By contrast, assets such as home equity loans and commercial loans—subject to a risk weight of 100% or lower—carry meaningful credit and liquidity risk, including loss severity uncertainty and tail risk during economic stress, while agency mortgage-backed securities (“MBS”) expose banks to similar duration and convexity risk without punitive capital treatment (see Chart 3 on the following page). The materially higher capital charge applied to MSAs therefore overstates their risk relative to other assets, creating an uneven treatment of risk within the framework and discouraging prudent, well-hedged bank participation in mortgage origination and servicing activities that support the stability and efficiency of the housing finance system.

Chart 3

Product	Price Risk	Credit Risk	Prepay Risk	Risk Weight
GNMA MBS	Yes	No	Yes	0%
FNMA / FHMCMB	Yes	No	Yes	20%
Mortgage Loans (Performing)	Yes	Yes	Yes	50%
Home Equity Loans	Yes	Yes	Yes	100%
Commercial Loans	Yes	Yes	Yes	100%
Mortgage Servicing Assets	Yes	No	Yes	250%

Source: Mortgage Bankers Association

C. Requested change.

WAL recommends a 100% risk weight for MSAs that are actively hedged and demonstrate sustained hedge effectiveness.

Recommendation 2 — Preserve the current definitions of “Commitment” and “Unconditionally Cancellable Commitment.”

A. The proposed revisions to the definitions of “Commitment” and “Unconditionally Cancellable Commitment” would materially expand the scope of exposure subject to capital requirements in ways that would overstate actual credit exposure.

The current definitions of “commitment” and “unconditionally cancellable commitment” are foundational to the capital framework because they drive exposure measurement and determine the applicable credit conversion factor (“CCF”). Under the current rule, a commitment exists only where a banking organization is legally obligated to extend credit or purchase assets. An unconditionally cancellable commitment, in turn, is a subset of commitments under which the institution may cancel the commitment without cause at any time. Under the Standardized Approach, off-balance-sheet arrangements are converted into exposure amounts through the application of CCFs and the resulting exposures are then risk weighted. This framework relies on clear, legally grounded distinctions regarding whether a banking organization is obligated to extend credit and, if so, whether that obligation may be cancelled unconditionally. Accordingly, the definitions of commitment and unconditionally cancellable commitment serve as interpretive anchors within the capital framework. Where these definitions depart from legally enforceable funding obligations, capital requirements may become disconnected from actual exposure and risk. The existing structure provides a clear and objective legal basis for determining when exposure exists, how unused amounts should be treated, and when a 0% CCF is appropriate.

The Proposal would depart from this legally grounded framework by broadening the definition of commitment to include contractual arrangements that set forth terms under which future extensions of credit, purchases of assets, or issuances of credit substitutes could occur, regardless of whether the institution is legally obligated to fund. This expansion risks sweeping in arrangements that function as discretionary lending frameworks rather than enforceable funding commitments, thereby disconnecting regulatory capital requirements from actual exposure.

B. The proposed revisions further conflate “unconditionally cancellable commitments” with arrangements that lack a legally enforceable obligation to fund.

The Proposal’s treatment of unconditionally cancellable commitments compounds these concerns by extending that classification to arrangements that lack any underlying legal obligation to fund. Under the existing framework, an unconditionally cancellable commitment presupposes the existence of a commitment: the institution must fund unless it affirmatively cancels. The defining feature is not discretionary lending, but rather the requirement that the institution take an affirmative step *not* to lend.

By contrast, many borrowing-base and discretionary facilities require the institution to take an affirmative step *in order* to lend. In each instance, the institution must independently determine whether an advance will be made. These arrangements are legally and economically distinct from unconditionally cancellable commitments and present materially different risk.

Reclassifying such non-binding arrangements as unconditionally cancellable commitments would, under ERBA, improperly assign positive CCFs to exposures that the institution is never obligated to fund, resulting in capital requirements that assume a funding obligation that does not exist. In addition, off-balance sheet securitization exposures are not subject to the CCFs and would therefore be risk-weighted at 100% of the undrawn commitment amount. The impact of the revised definitions would therefore be even more significant for off-balance sheet securitization exposures.

C. Changes to the definitions would increase capital requirements for borrowing-base and warehouse-style facilities.

Borrowing-base and warehouse-style facilities are intentionally structured so that WAL's funding obligation is limited to the value of eligible collateral that meets defined criteria. Amounts in excess of the borrowing base are not "available" to the borrower as a matter of legal right and cannot be drawn without further action by WAL.

For example, in a typical mortgage warehouse facility with a stated maximum facility limit of \$500 million, the borrower may be permitted to draw only up to a dynamically calculated borrowing base, for example \$325 million, based on the value, eligibility, and documentation status of funded mortgage loans pledged as collateral. The remaining \$175 million is expressly unavailable until additional qualifying collateral is added and verified. The bank is therefore not legally obligated to fund that portion of the facility under any circumstances. The proposed revised definition of a commitment would ultimately cause the \$175 million to be reported as an unconditionally cancellable unfunded commitment, subjecting it to a 10% CCF under ERBA. This fact pattern does not reflect that the bank is not legally obligated to fund \$175 million, and therefore is not representative of the risk associated with the underlying economics.

Similarly, in commercial borrowing-base facilities secured by receivables or inventory, availability fluctuates daily based on reporting, advance rates, and eligibility tests. The nominal facility size functions as an outer boundary for the arrangement, not as an enforceable obligation to extend credit in full.

For facilities governed by borrowing bases, the unavailable portion (*i.e.*, the difference between the facility limit and the borrowing-base cap) does not constitute a commitment because the bank is not obligated to advance those funds. Capturing the full nominal amount as a commitment would require institutions to hold capital against exposures that cannot legally be drawn and that are specifically excluded by contract.

Such treatment would misalign capital with risk by penalizing collateral-controlled structures that are intentionally designed to limit exposure and reduce loss severity.

D. The Proposals would deviate from U.S. GAAP.

Under U.S. GAAP, the definition of commitments is aligned with regulatory capital treatment in that commitments are recognized only when there is a legally enforceable obligation, which promotes consistency and operational efficiency. Departing from the GAAP definition of a commitment would require firms to maintain parallel, non-aligned regulatory and accounting records, increase operational complexity and compliance burden, and raise the risk of inconsistent interpretation across users of financial statements.

E. Requested change.

WAL respectfully requests that the Agencies retain the current definitions of both “commitment” and “unconditionally cancellable commitment,” each grounded in the existence of a legally enforceable obligation to fund. The absence of an objective delineation in the Proposal would create significant ambiguity and invites inconsistent application across the industry and supervisory examination processes. An arrangement under which a banking organization retains full discretion as to whether credit will be extended and must take an affirmative step in order to lend, should not be treated as either a commitment or an unconditionally cancellable commitment for purposes of the capital rule.

Recommendation 3 — Preserve the current definition of “Traditional Securitization.”

A. The current rule is workable and aligned with securitization economics.

The current definition of “traditional securitization” in the Agencies’ capital rules provide that the performance of securitization exposures *depends upon the performance of the underlying exposures* [emphasis added]. This standard has proven workable in practice, is well understood by supervised institutions and examiners, and appropriately captures the essential economic feature of securitization: investors’ exposure to credit risk is fundamentally derived from the performance of the underlying asset pool, with losses allocated through contractual tranches.

Critically, the existing definition does not turn on formalistic distinctions but instead reflects how securitizations function economically. Senior and subordinated tranches may differ in loss timing and severity, but the ultimate driver of performance across the structure is the behavior of the underlying exposures—whether mortgage loans, consumer receivables, or other asset classes. This “depends upon” standard has been workable.

The current framework is further reinforced by the operational requirements in Section 41 of the Agencies’ capital rules, which imposes detailed conditions governing risk transfer, clean-up calls, retained interests, and other structural features that determine whether and to what extent a banking organization may recognize the risk-mitigation benefits of tranching. These provisions ensure that securitization treatment is available only where credit risk is meaningfully transferred, irrespective of minor structural or contractual differences.

B. The Proposal’s definition is too narrow and risks excluding economically ordinary securitizations.

The Company understands and supports the Agencies’ objective of preventing securitization treatment where repayment is substantively supported by guarantees or non-asset-based credit support that undermine true risk transfer. While the Agencies may intend to prevent arrangements from receiving securitization treatment where repayment is effectively supported by broad guarantees or other non-asset-based sources of repayment that are independent of asset performance, the proposed insertion of the word “*solely*” is a textual change that sweeps more broadly than necessary. As drafted, requiring that performance depend *solely* on underlying exposures could be read to exclude commonplace securitization features that do not alter the fundamental allocation of credit risk.

For example, many traditional securitizations include various forms of credit enhancement that represent contractual obligations that protect investors who have purchased the securities generated by the asset securitization from incurring some level of credit losses. These may include any credit enhancement tied to the performance of the asset designed to ensure that the asset-backed securities will pay in accordance with their terms, including bond insurance, letters of credit, or guarantees. In addition, many traditional securitizations include originator guarantees, ensuring that originators retain economic exposure to the quality of loans they originate and sell (*i.e.*, the originators have “skin in the game”). These various features are designed to preserve cash-flow continuity and address operational risk; they do not provide investors with an independent, ongoing source of pre-default repayment detached from asset performance. Nevertheless, a strict reading of “*solely*” could call into question whether such customary provisions disqualify an otherwise straightforward securitization. This uncertainty could also create an incentive to remove originator accountability from securitization structures in order to satisfy the definitional requirements.

C. Supervisory calibration of the P-factor should be considered.

The proposed definitional narrowing combined with unchanged p-factor conservatism compounds over-calibration. The current p-factor of 0.5, originating in the post-GFC period, imposes a de facto 50% securitization capital surcharge and has been widely criticized, including in the 2017 U.S. Department of the Treasury report on capital markets reform, as well as in more recent reform initiatives underway in the EU and UK. The p-factor can be recalibrated based directly on the statistical properties of the exponential probability distribution that underlies the SSFA and proposed SEC-SA, rather than on an ad-hoc supervisory assumption. A lower p-factor preserves the model’s conservative structure by fully allocating capital to the high-loss-probability region while assigning proportionately less capital to the lower-probability tail, resulting in a still-meaningful securitization capital surcharge compared to the current 50%. This adjustment would improve risk sensitivity, reduce pro-cyclicality relative to the existing framework, and enhance the economic viability of sound credit risk transfer transactions (particularly for senior tranches) without undermining prudential safeguards, which are further reinforced by existing capital floors applicable to senior securitization exposures. Any supervisory recalibration of the p-factor could be implemented conservatively and would continue to operate within existing capital floors and tranche-level constraints to ensure that senior securitization exposures remain subject to meaningful loss-absorbing capital requirements.

D. Requested change.

WAL respectfully requests that the final rule strike the word “solely” and retain the existing “depends upon the performance of the underlying exposures” standard. Furthermore, the Company requests a reduction to the p-factor aligned with the initiatives underway in the EU and UK.

Recommendation 4 — Calibrate the mortgage warehouse risk weight to the secured, collateral-controlled nature of the exposure.

A. Warehouse lending is a low-risk, short-duration, collateral-controlled liquidity function supporting mortgage origination.

Warehouse lending is a longstanding mechanism through which depository institutions provide short-term funding to non-depository independent mortgage lenders to facilitate residential mortgage origination and the sale of those loans to investors in the secondary market. These facilities serve as a core intermediation function by bridging the period between loan origination and loan sale, thereby supporting the continuous flow of mortgage credit to households. Warehouse lending supports a significant portion of single-family mortgage originations and contributes to the liquidity and stability of the housing finance system. These facilities are structured as temporary, self-liquidating financing arrangements: advances are generally outstanding for weeks (not years) and are expected to be repaid promptly from loan sale proceeds.

Public supervisory and industry experience suggests that realized credit losses in mortgage warehouse lending have historically been extremely limited, and that adverse outcomes, where observed, have often reflected idiosyncratic operational or control failures that are driven by institution-specific events, rather than broad deterioration in the underlying mortgage collateral. These isolated outcomes do not call into question the effectiveness of mortgage collateral as a credit risk mitigant, which has demonstrated consistently strong performance across the broader market.

B. Because mortgage warehouse lines contain structurally less risk than corporate exposures, they should receive preferential risk weight treatment.

Mortgage warehouse lines differ in fundamental respects from generic corporate exposures to which a 95% risk weight is typically applied under the proposed standardized approach. Advances under a warehouse facility are secured by funded residential mortgage loans that have closed, have defined contractual cash flows, and are generally intended for near-term sale into established secondary markets. The relevant source of repayment is therefore the orderly sale or delivery of discrete mortgage assets, rather than the borrower’s ongoing enterprise cash flow. At the same time, these facilities are structured as credit exposures to operating companies, rather than as securitization exposures to special purpose vehicles or tranching asset pools and, therefore, fall outside the scope of the securitization framework.

This structure materially alters the risk profile of the exposure. Unlike a traditional unsecured corporate revolving facility where draws may remain outstanding for extended periods and repayment depends on the borrower's continuing solvency, warehouse advances are tied to identifiable collateral and are repaid through specific asset-level transactions. As a result, impacts to both probability of default and loss given default are meaningfully constrained. Treating mortgage warehouse facilities as equivalent to unsecured, long-dated corporate credit therefore overstates the true economic risk embedded in these exposures and fails to reflect the secured, asset-based nature of the financing.

C. Collateral control and repayment mechanisms materially limit loss exposure.

A defining feature of mortgage warehouse lending is the degree of control exercised by the lender over collateral release and repayment mechanics. Mortgage loans financed under a warehouse line are pledged to the lender, and collateral is released only upon satisfaction of agreed conditions, typically including receipt of sale proceeds sufficient to repay the associated advance.

For example, when a warehouse borrower sells a funded mortgage loan to an investor or delivers it into a securitization program, the warehouse lender receives the transaction proceeds directly or through controlled settlement mechanics and applies those proceeds to repay the warehouse advance before any residual funds are released to the borrower. The lender is therefore insulated from reliance on the warehouse borrower's general liquidity or solvency at the point of repayment.

In the event of borrower stress, the lender's exposure remains tied to the underlying mortgage loans rather than the borrower's enterprise credit. The bank can facilitate the sale or delivery of the loans, or, consistent with contractual rights, take the loans onto its own balance sheet if necessary. In each case, the exposure behaves like a mortgage-secured asset rather than an unsecured corporate claim. We are not suggesting that warehouse lending is identical to holding mortgage loans on balance sheet for accounting or liquidity purposes, but that the loss-driving characteristics relevant for capital calibration more closely resemble secured, short-duration asset-based exposure than unsecured corporate credit.

In addition, warehouse facilities are typically documented as master repurchase agreements ("MRAs") and, as such, may benefit from the Bankruptcy Code safe-harbor provisions applicable to certain repurchase agreements. To the extent a warehouse facility is structured and documented to qualify for applicable repurchase-agreement safe harbors, the bank may have enhanced rights to liquidate or net pledged collateral in an insolvency scenario relative to ordinary unsecured corporate lending, further limiting loss exposure. These structural features materially reduce credit exposure relative to a general corporate loan.

These features sharply differentiate warehouse lending from ordinary corporate credit and warrant differentiated capital treatment.

D. Short duration and self-liquidation further distinguish warehouse lending from corporate exposures.

Mortgage warehouse facilities are designed to be short-tenor and self-liquidating. Individual advances typically turn rapidly as loans are sold, and outstanding balances fluctuate continuously as collateral enters and exits the facility. WAL executes loan agreements that typically set maximum “dwell” times of 90 days, but in no case longer than 364 days. This short duration limits credit migration risk, reduces the period over which adverse performance can accumulate, and constrains overall loss potential.

A 95% risk weight effectively assumes an exposure profile characterized by extended duration and persistent utilization—assumptions that do not reflect mortgage warehouse lending in practice. By contrast, a risk weight based directly on the underlying mortgage loans more appropriately reflects both the secured nature of the exposure and its limited temporal risk horizon.

E. A lower risk weight would support mortgage market liquidity and functioning.

Mortgage warehouse lines of credit play a critical role in the functioning of the U.S. housing finance system by providing short-term liquidity to independent mortgage companies during the period between loan origination and sale or securitization in the secondary market. These non-bank originators account for a majority of single-family mortgage originations nationwide and rely on bank-provided warehouse facilities to operate continuously, particularly during periods of elevated origination volume or market volatility. Capital requirements that materially overstate the risk of warehouse lending may constrain banks’ willingness or capacity to supply this contingent liquidity at scale, which can, in turn, affect the efficiency and resilience of mortgage market intermediation. While the precise effects will vary with market conditions, reduced liquidity provision has the potential to increase funding frictions for mortgage originators, amplify market stress during demand surges, and contribute to higher transaction costs that may ultimately be borne across the mortgage market. Given the short duration, self-liquidating nature, and collateral-controlled structure of warehouse exposures — and the lender’s ability to take possession and monetize the underlying residential mortgage collateral where necessary — calibrating capital requirements to better reflect these characteristics would support more stable liquidity provision and more consistent market functioning, without diminishing safety and soundness objectives.

F. Requested change.

For the reasons described above, WAL respectfully requests that the Agencies permit mortgage warehouse credit facilities to receive capital treatment calibrated using an LTV-based approach, consistent with the treatment applied to residential mortgage exposures and with the risk-sensitive principles reflected elsewhere in the proposal. An LTV-based framework would appropriately capture the secured and collateral-controlled nature of warehouse lending while providing a transparent and objective measure of loss-given-default risk, without the need for prescriptive facility-level criteria.

Adopting an LTV-based approach would enhance risk sensitivity within the standardized approach framework, promote consistent application across institutions, and avoid over-capitalizing exposures that are short-duration, self-liquidating, and secured by residential mortgage collateral. Such an approach would also preserve full supervisory discretion to address idiosyncratic risk, operational weaknesses, or deficient underwriting practices, while ensuring that capital requirements more closely reflect the actual risk characteristics of mortgage warehouse lending rather than treating these facilities as unsecured, long-dated corporate credit.

Recommendation 5 — Use an LTV-based framework for commercial real estate risk weights under the Standardized Approach with an LTV-based framework.

The Basel III proposal allows for an LTV based approach that promotes prudent lending practices and appropriately adjusts risk weights based on risks of the loan. However, when compared to the Standardized Approach proposal that applies to smaller institutions, ERBA will bring significant and material capital advantages to Category I and II institutions, as well as larger financial intuitions ready to implement ERBA. Observing LTVs for commercial real estate portfolios would not be an operational burden for smaller institutions, yet Basel III would deprive the smaller institutions of capturing the risk benefits of maintaining lower LTVs into the risk weights. This would also bring a significant competitive disadvantage to Standardized Approach institutions, as larger institutions would be able to offer loans at lower capital costs for the lower risk portfolios, and disproportionately allocate higher risk LTVs to the smaller institutions at a higher cost for the communities not served by GSIBs.

Both Proposals allow for a similar LTV approach for residential mortgages, and the same justifications would apply to the commercial portfolios for the same similarities among the two proposals.

Recommendation 6 — Align Standardized Approach corporate loan exposure risk weight with the proposed ERBA credit risk principles.

While WAL appreciates the Standardized Approach proposal to lower the standard risk weight assigned from 100% to 95%, similarly to commercial real estate, the Proposal substantially favors larger institutions with risk-sensitive approaches to attribute a significantly lower risk-weight of 65% to investment grade rated loans. This will promote the concentration of higher credit quality loans to only be served by the larger institutions at advantageous cost, leaving smaller businesses and communities underserved with limited access to competitive lending and higher cost. To promote sound underwriting and credit monitoring practices, and to promote more competitive lending practices of regional and smaller institutions to broader communities not served by GSIBs, a similar risk weight methodology option should be available under the finalized Standardized Approach, even if like the residential model that includes a nominal operational risk add-on. The full-look through (internal credit rating based) risk weighting scale should be available to all banks that can demonstrate credit governance and discipline to assign investor versus non-investor grade, adequately tailored in complexity for the institution size

level. Understanding that not all banks may be able to initially demonstrate satisfactorily effective internal credit ratings to properly attribute the loan grades, and similarly to other existing practices of opting in to a risk weight prescription methodology, a standardized risk weight option (*i.e.*, the 95% as proposed for Standardized Approach) should be maintained to all institutions that qualify for the Standardized Approach.

Recommendation 7 — Provide a transition and phase-out framework and grandfathering for minority interests when electing into ERBA.

WAL appreciates the importance of the minority interest in consolidated subsidiary requirements under the ERBA election. Larger Category I and Category II, and even larger Category III institutions are already structured to support the required treatment of the minority interest in consolidated subsidiaries. The election into ERBA will require institutions to follow the same prescription, and this includes regional and smaller banks that have recently issued new capital instruments, which will take years before being eligible for redemption.

The ERBA minority interest framework materially impacts the capital instruments recognition and hinders smaller institutions under the Capital Simplification rule that are considering the election into ERBA. ERBA adoption will cause immediate shock to minority interest recognition and capital, and in some circumstances, eliminate recognition of the capital instrument in full. This immediate shock will hinder smaller banks into opting into ERBA while deferring for the correct opportunity or eligibility, either economically or contractually, to redeem and replace existing instruments issued at subsidiaries, with instruments at the holding company level, and maintain current capital strength at the onset of election.

To facilitate ERBA opt-in elections, the Agencies should provide a transition period for minority interest. Our recommendation is to allow all capital instruments issued at subsidiary levels to receive a phase-out approach for the excluded amount. At the finalization of the Basel III rule in 2013, the Agencies have permitted to phase-out of Tier 1 capital into Tier 2 for certain preferred instruments deemed ineligible for Tier 1. Separately and additionally, the Agencies have also permitted the phase-out for exclusion and grandfathering for inclusion of certain non-qualifying capital instruments. Therefore, a grandfathering, or at a minimum, a phase-out of capital instruments issued at REIT entities would also be appropriate for institutions electing into ERBA. Capital instruments issued at subsidiaries of banks, such as preferred stock at REITs, which received prior regulatory approval for inclusion into Tier 1 capital, would be eliminated under the ERBA’s minority interest prescription, as these entities do not have a minimum required capital, thus treating all its capital as surplus. This treatment does not properly reflect that those instruments should still be accretive to capital at the consolidated bank entity level, and that these instruments have a “Conditional Exchange” clause, that would prompt for a Tier 1 eligible preferred instrument to convert into the consolidated bank entity preferred stock receiving Tier 1 capital recognition.

Conclusion

For the reasons discussed above, WAL respectfully requests the Agencies to adopt targeted revisions in the final rule that preserve risk sensitivity, align capital requirements with economic substance, and avoid unintended distortions to well-functioning, prudently structured banking activities. Specifically, WAL requests that the Agencies:

1. **Reduce the risk weight for effectively hedged MSAs.** Recalibrating the MSA risk weight would better align capital requirements with the materially lower residual risk of well-hedged MSAs, improve risk sensitivity within the framework, and reduce incentives for mortgage servicing activity to migrate outside the regulated banking sector while preserving safety and soundness.
2. **Preserve the current definitions of “Commitment,” and “Unconditionally Cancellable Commitment,”** so that unused exposure reflects only legally enforceable funding obligations and banks are not required to hold capital against amounts they are not obligated to advance.
3. **Preserve the current definition of “Traditional Securitization”** and the longstanding “depends upon” standard, which appropriately captures the measured and managed risk of credit risk transfer.
4. **Calibrate the mortgage warehouse risk weight to the secured, collateral-controlled nature of the exposure** to better align capital treatment with mortgage collateral economics and the lender’s control over collateral release and sale proceeds.
5. **Use an LTV-based framework for commercial real estate exposure risk weights under the Standardized Approach.** Absent a comparable LTV-based framework under the Standardized Approach, smaller institutions may face a competitive disadvantage despite similar underlying risk. Allowing Standardized Approach banks to reflect lower-LTV underwriting would enhance risk sensitivity, reduce competitive distortions, and support credit availability in markets less served by GSIBs.
6. **Align Standardized Approach corporate loan exposure risk weight with the proposed ERBA credit risk principles.** Aligning Standardized Approach corporate loan risk weights with the credit-risk principles embedded in the ERBA proposal would enhance risk sensitivity, promote competitive neutrality, and avoid penalizing prudent underwriting solely based on institutional size.
7. **Provide a transition and phase-out framework for minority interests when electing into ERBA.** Refining the treatment of minority interests to better reflect their true loss-absorbing value would improve capital accuracy, reduce unnecessary capital friction, and maintain the integrity of consolidated capital requirements without weakening safety and soundness.

Taken together, these changes would enhance the standardized approach by ensuring that capital requirements more closely track actual exposure and risk. They would avoid penalizing prudently structured, low-loss banking activities; support safe and sound participation by regulated institutions in core credit and liquidity functions; and reinforce the principle that regulatory capital should reflect economic substance rather than contractual form.

WAL appreciates the Agencies' consideration of these comments and their continued engagement with the industry to achieve a capital framework that is both resilient and appropriately risk-sensitive. The Company believes the Agencies' efforts will strengthen the resilience of the U.S. banking system while supporting a competitive and effective market. WAL respectfully urges reconsideration of the provisions outlined above to ensure capital requirements remain risk-sensitive and policy-consistent.

Sincerely,

Ken Vecchione
Chairman, Chief Executive Officer & President
Western Alliance Bancorporation