

NATIONAL TAXPAYERS UNION, THOMAS AIELLO

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

Organization Name: National Taxpayers Union

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Attached.



Benjamin W. McDonough
Deputy Secretary
Federal Reserve Board of Governors
Constitution Ave NW & 20th St NW
Washington, DC 20551

RE: Regulatory Capital Proposed Rules: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations [OCC Docket ID OCC-2026-0265, RIN 1557-AF52; FRB Docket No. 1887, RIN 7100-AH20; FDIC RIN 3064-AF29];

Regulatory Capital and Standardized Approach for Risk-Weighted Assets [OCC Docket ID OCC-2026-0034; FRB Docket No. R-1888, RIN 7100-AH21; FDIC RIN 3064-AG23]; and

Proposed Agency Information Collection Activities; Comment Request [OMB Nos. 1557- 0318 (OCC), 7100-0313 (Board), 3064-0153 (FDIC), 1557-0247 (OCC), 7100-0314 (Board), 3064-0178 (FDIC)]

Introduction/About

On behalf of National Taxpayers Union (NTU), I write to express our views regarding the Board's proposed updates to capital requirements. We appreciate the opportunity to comment on this important proposal. The Board of Governors of the Federal Reserve System (Board) has proposed a valuable rule that addresses a significant issue in the regulation of banking.

NTU is the nation's oldest taxpayer advocacy organization, founded in 1969 to achieve favorable policy outcomes for taxpayers with Congress and the executive branch. Our experts and advocates engage federal policymakers on important matters affecting taxpayers in a variety of settings, including tax administration, trade, and health care, among many other important topics. Important to this issue, we have a long history of commenting on regulations proposed by the Federal Reserve, including on interchange (Durbin Amendment) and debanking due to their important economic impacts.

These updated capital requirements are a significant improvement to the 2023 rule that was flawed in many ways. These changes to the capital framework eliminate overlapping requirements, right-size calibrations to match actual risk, and comprehensively address long-standing gaps in our prudential framework. NTU believes that these requirements will support economic growth, preserve safety and soundness of the financial system, and keep taxpayers protected from future bailouts.

Problems with Last Basel Rule

At their core, Basel regulations govern how much capital banks must hold against potential losses. Capital serves as a buffer that protects depositors and the financial system during periods of stress. Importantly, U.S. banks remain exceptionally well capitalized, with roughly 99% of institutions

exceeding current requirements. As a result, there is little evidence that the proposed adjustments would undermine financial stability. In fact, they may help to buttress stability in the long run.

Ensuring banks can withstand economic shocks requires balance. Too little capital increases the risk of taxpayer-funded bailouts reminiscent of the 2008 financial crisis. Too much capital, however, can unnecessarily constrain lending and limit the investment businesses need to start, expand, and hire. The objective for policymakers should be straightforward: strong, risk-based capital standards that minimize systemic risk without suppressing economic activity.

As NTU noted in 2023:

Establishing capital requirements for banks can be complex, but properly balancing the task is important. Set them too low, and taxpayers could be on the hook for more failures from poorly managed banks; set them too high, and taxpayers suffer from a slow economy as the lending needed for worthy investments becomes scarcer.

. . . [P]ublic officials can look to policies that help to strengthen banks' financial positions without resorting to even more restrictive capital standards, when U.S. institutions already have some of the highest such standards in the world. Regulatory frameworks can be built to allow greater availability of private reinsurance products for banks, which provides risk transfer – a benefit for banks' soundness that regulators should, to the extent they are not already doing so, factor into the calculation of each bank's risk-based capital requirement. Simpler tax policies, especially at the state level, could allow banks to build long-term reserves.

Achieving that balance has not always been easy. Earlier versions of the Basel III “Endgame” proposal raised legitimate concerns that certain provisions would significantly increase capital requirements without clear gains in financial resilience. As we've previously warned, capital standards set too high can be as harmful as those set too low, restricting credit availability, slowing growth, and pushing financial activity into less regulated sectors. The result could be ambiguity and volatility, leading to more institutional failures that pressure policymakers to approve taxpayer bailouts.

In fact, the July 2023 proposal would have imposed a 16% average increase in capital requirements, or about \$160 billion.

Positive Reforms in this Rulemaking

Under the updated proposal, banks would be permitted to hold slightly fewer funds in regulatory capital and instead deploy those resources into productive activities such as business lending. Vice Chair for Supervision Michelle Bowman's revised approach represents a meaningful improvement in how regulators evaluate complex capital rules and underscores why disciplined calibration can advance both taxpayer interests and broader economic resilience.

Beyond the broader macroeconomic benefits, several specific improvements stand out.

In contrast to the Agencies' July 2023 proposal, the revised Basel III Proposal will feature a "single stack" approach for the "largest banks" in lieu of a "dual stack" approach to determine their minimum capital requirements. This change improves transparency and ensures capital standards focus on material risks rather than overlapping calculations that obscure true exposures. In the long run, this improved perspective could allow federal watchdogs to spot financial trouble at banks sooner.

Most importantly, the shift towards a single stack framework replaces a complex structure that risked duplicative requirements. Financial institutions currently devote significant resources to managing and complying with multiple capital regimes that frequently produce redundant outcomes. In short, they are spending twice as much time as needed to determine their capital risk, which ultimately means an inefficient use of their own resources. Simplifying these requirements would allow banks to focus more resources on serving customers, supporting economic growth, and investing in risk management rather than navigating regulatory complexity.

U.S. banks compete globally with institutions operating under different regulatory structures. Layering multiple capital requirements on top of Basel standards risks placing American institutions at a disadvantage without delivering commensurate safety benefits. A single-stack approach can preserve resilience while ensuring U.S. financial institutions remain capable of supporting economic growth and competing effectively in global markets.

This is exactly the argument that former FDIC Director Jonathan McKernan made, highlighting the inefficiencies of the current dual-stack capital requirement framework and proposing a compelling alternative: a streamlined, single-stack system. This approach not only addresses the duplicative nature of the existing regulations but also aligns with international standards, encouraging more risk sensitivity and efficiency.

Second, the framework enhances risk sensitivity across key lending categories. Mortgage requirements would incorporate loan-to-value ratios, while retail lending standards would better reflect borrower repayment history. Just as important, the proposal avoids imposing new capital penalties on mortgages and consumer lending. Earlier iterations risked raising borrowing costs without clear evidence of additional systemic risk—an outcome that could have distorted housing markets and limited access to credit.

For taxpayers, this distinction matters. Housing remains central to household financial stability, and regulatory frameworks should not unnecessarily restrict responsible lending or access to homeownership.

Third, the proposal refines operational and market risk requirements to better reflect how U.S. banks actually operate. Operational risk standards would allow tailored adjustments and netting of certain fee-based activities, such as credit card operations, preventing inflated risk estimates. Market risk rules incorporate standardized measures, recognize diversification benefits, and permit the use of internal models where appropriate—bringing regulation closer to measuring real economic risk rather than relying on blunt assumptions.

The new capital requirements also rightly take a u-turn when weighting a banking organization's exposure to securitization for credit-risk capital. Credit risk transfers play a pivotal role in risk management, allowing financial institutions to transfer and mitigate credit risk exposure while reducing risk to taxpayers.

Taken together, these changes modestly reduce capital requirements compared to earlier drafts while preserving resilience well above historical norms. These are not merely technical revisions. Capital rules shape how credit flows throughout the economy. When misaligned, they can increase borrowing costs, restrict financing, and slow economic activity. When properly calibrated, they promote both financial stability and sustained growth.

Proposed Improvements

1. *Risk Weighting of Mortgages.* The Proposal would remove the current threshold-based requirement to deduct MSAs from regulatory capital and instead subject mortgage assets to a 250% risk weight. This is still significantly higher than where it was during the Obama Administration and should be reduced further. Reliance on short term funding
2. *Ensure Method 2 Assesses Reliance on Short-Term Wholesale Funding.* These banking activities are an important part of the financial system's plumbing and should be treated appropriately. The risk weighting previously took into account the size of the funding amount compared to the size of the bank but that is not reflected in this updated rule and slightly undermines its goals. Further, the proposal does not accurately take into account reliance on this funding as part of the risk assessment, which must be corrected.
3. *Private Mortgage Insurance.* The current Basel III capital proposal does not explicitly include mortgage insurance as a factor in determining a loan's risk weight. PMI is an incredibly important part of the housing financing system and rules should preserve banks' ability to consider it when determining risk-based capital.

Conclusion

The revised proposal reflects a more careful, policy-driven approach. Rather than layering new requirements onto an already robust U.S. capital regime, the Federal Reserve is pursuing what Bowman has described as a "sensible recalibration." The framework maintains capital levels above pre-2020 standards while refining how requirements are measured and applied to better reflect actual risk exposure.

According to an [analysis](#) by the consulting firm EY, "the Agencies estimate that the combined impact of B3P and the GSIB Proposal will reduce common equity tier 1 (CET1) capital requirements by an average of 2.4% for the eight GSIBs and singular Category II banks. Combining this with the recently proposed stress test changes would result in a cumulative decrease of 4.8% for these banks." That will mean tens of billions of dollars freed up to support the economy. Midsize banks will see even greater reductions in capital requirements by an average of 5.2% when accounting for stress-test revisions, and smaller banks by approximately 7.8%.

In our view, we believe that, in its current form, this updated rule is a major improvement to where it previously was and will protect both the competitiveness and resilience of our banking sector. With

some of the potential areas of improvement we and others have highlighted, it can be strengthened further and improved.

Sincerely,

Thomas Aiello
Vice President of Federal Affairs