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Proposal and Comment Information

Title: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets, R-1888

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Submitter Information

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Please find attached my comment letter regarding the March 19, 2026 proposed capital rule. This submission is duplicative of my comment submitted through Regulations.gov and is being provided solely to help ensure receipt by the agencies. (Regulations.gov tracking number: mqg-payo-u8cx)

June 16, 2026

Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation

Re: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets — OCC Docket ID OCC-2026-0034 (RIN 1557-AF49); Board Docket No. R-1888 (RIN 7100-AH21); FDIC RIN 3064-AG23; 91 FR 15332

Ladies and Gentlemen:

I write to comment on the proposed amendments to the regulatory capital rules for residential mortgage exposures published at 91 FR 15332. I submit these comments in my individual capacity, drawing on 20 years of experience in housing finance and banking supervision — including service as Director of Mortgage Credit Pricing at Fannie Mae, as a senior examiner at the Federal Housing Finance Agency, and as a Senior Project Manager at the former Office of Thrift Supervision. The views expressed are entirely my own. They are offered in support of the agencies' objective of a capital framework that more accurately measures residential mortgage credit risk.

My comments address a single, specific feature of the proposed rule. The rule appropriately treats a borrower's combined leverage across a first lien and a subordinate lien as the economically relevant measure of credit risk, and it requires a banking organization that holds both liens to capitalize the combined position. That combining requirement, however, only occurs when both liens sit on the same institution's books.

By contrast, when the first lien is held by one institution and the subordinate lien by another — an increasingly common structure as homeowners with low-rate first mortgages draw on accumulated equity through second liens rather than refinance — the rule as written does not capture the combined position. The first-lien institution continues to hold capital based on the loan's standalone original loan-to-value ratio, even as the borrower's true leverage rises. I refer to the resulting unrecognized exposure as the split-lien capital gap. As a result, split-lien structures are likely to become more prevalent rather than less prevalent under current interest-rate conditions.

This is not solely a measurement concern. Because a first-lien institution can preserve favorable capital treatment by ensuring that any subordinate lien is held elsewhere, the rule as written creates a direct and predictable incentive to route second liens away from the first-lien institution — the very fragmentation that hides combined leverage from individual lenders, supervisors, and the general public.

To address it, I propose two modifications that operate within the rule's existing structure: a blended risk-weight treatment, applied to the first-lien balance, where a subordinate lien held elsewhere lifts the borrower's combined loan-to-value across a band boundary; and a National Mortgage Lien and CLTV Clearinghouse to supply the combined-leverage data the modification

requires and that no first-lien institution can reliably observe today.

The analysis supporting these recommendations is set out in the body of this letter and in six appendices. The executive summary that follows states the problem, the recommendations, and their estimated magnitude in brief; the discussion and appendices that follow it provide the supporting detail.

This comment principally addresses Questions 7 and 9 of the proposal — respectively, the design and operational implementation of the LTV-based approach for residential mortgage exposures, and the proposed residential mortgage risk weights in Tables III.1 and III.2, including alternative risk weights the agencies should consider.

Executive Summary

The proposed rule's transition from a flat 50% residential mortgage risk weight to a six-band origination LTV framework is a sound reform that materially improves risk sensitivity in residential mortgage capital treatment. The framework appropriately recognizes that borrower leverage is a primary driver of mortgage credit risk and is intended to encourage banks to expand portfolio mortgage lending through approximately \$17 billion in aggregate capital relief to covered institutions.

These comments are intended to help strengthen the proposed framework by addressing an important issue involving split-lien mortgage structures before the rule is finalized. Specifically, the proposal may unintentionally permit materially different capital treatment for economically equivalent combined-leverage exposures depending solely on whether subordinate liens remain at the same institution or are held elsewhere in the financial system.

The Problem. When a bank holds a first-lien mortgage and a different institution holds a subordinate lien on the same property, the proposed rule's combining requirement no longer applies. The first-lien bank continues holding capital based on its standalone origination LTV even though the borrower's true combined leverage is materially higher. Combined CLTV — the economically relevant risk metric — becomes largely invisible to the first-lien bank and to the regulator. Federal law reinforces this limitation: the Garn-St. Germain Act prohibits first-lien lenders from calling loans when borrowers obtain subordinate liens, and no federal requirement exists for second-lien lenders to notify first-lien holders when additional leverage is originated.

The proposed framework may also create an unintended incentive for banking organizations to structure high-LTV mortgage credit as split-lien transactions — such as 80-10 structures — and distribute the subordinate lien externally in order to preserve lower capital treatment on the retained first lien exposure. As banks respond rationally to these incentives, split-lien exposures and hidden combined leverage may expand over time across the housing finance system.

The rule effectively penalizes banks that maintain full relationships with their customers — borrowers who want to keep both their first and second liens at the same bank. Because a relationship bank must hold capital against the combined CLTV of the two loans, while an institution that does not focus on relationship second-lien business holds capital only against the lower-LTV first lien, banks that keep both liens on their books face a materially higher capital requirement than competitors that move second liens elsewhere or have other institutions originate them for their borrowers. This creates a major competitive equity problem in the banking system: to remain capital-competitive, banks will be pushed to move second liens off their books to other entities.

The Fix. These comments propose two targeted modifications designed to operate entirely within the agencies' existing framework. First, a split-lien capital requirement calculated as a blended risk weight between the standalone first-lien and combined-lien risk weights, applied to the first-lien UPB. Second, an integrated mortgage lien clearinghouse — the National Mortgage Lien and CLTV Clearinghouse — that holds both first-lien and subordinate-lien data and computes the combined CLTV for each property, giving banks and their supervisors a single, verifiable measure of combined leverage on which the capital requirement operates.

For the current \$1.5 trillion book subject to the proposed regulation, the split-lien capital requirement is expected to offset the \$17 billion capital reduction from the reduced risk weighting scheme by approximately 12% on average — about \$2.0 billion — with banks at the 90th percentile of split-lien concentration facing offsets of more than 18%. Under more conservative behavioral assumptions reflecting a fully transitioned post-rule bank book, the average offset rises to approximately 17%, with banks at the 90th percentile reaching more than 25%. These estimates come from a reasoned, fully disclosed analysis that holds the current \$1.5 trillion book constant and combines two complementary channels — subordinate liens originated at institutions other than the first-lien bank, and simultaneous second liens sold outside the originating bank — measured so that no first-lien exposure is counted in both. On these restrained assumptions, the rule overstates the capital relief it actually delivers by 12 to 17 percent, and by materially more at the banks that rely most on split-lien structures. The Impact Analysis section below further discusses this analysis.

Benefits Beyond Bank Capital. A central lien reporting framework would also strengthen the broader housing finance system. It would provide the GSEs with more accurate combined CLTV data on guaranteed securities, reduce subordinate-lien uncertainty in CRT transactions, improve mortgage insurer reserve modeling, and enhance system-wide visibility into combined mortgage leverage. Most fundamentally, by reducing the uncertainty that lenders, guarantors, and investors must otherwise price for, a more complete view of combined leverage would create efficiencies across the mortgage finance market that ultimately would reach borrowers in the form of lower mortgage rates.

The proposed modifications are targeted, proportionate, and operationally feasible. They preserve the agencies' broader capital-relief objectives while helping ensure that the rule's combined-leverage framework functions consistently across institutional structures. Addressing these issues during the current rulemaking process is preferable to revisiting them later after unintended split-lien incentives and hidden leverage exposures become more deeply embedded in the market.

I. Introduction and Summary of Comments

The proposed rule's replacement of the flat 50% residential mortgage risk weight with a six-band loan-to-value schedule is a sound reform that ties capital more closely to borrower leverage and extends approximately \$17 billion in aggregate capital relief to covered institutions. These comments address a single structural issue within that framework: when a bank holds a first lien while a subordinate lien on the same property is held at a different institution, the rule's combining requirement does not apply, and the first-lien bank capitalizes only its standalone original loan-to-value even as the borrower's combined leverage rises. These comments refer to that unrecognized exposure as the split-lien capital gap.

The split-lien capital requirement that closes this gap is set out in Section III, the behavioral incentives that widen it in Section IV, the estimated impact on the rule's capital relief in Section V, the supporting clearinghouse infrastructure in Section VI, and the specific recommendations in Section VII.

In a separate comment letter, I address the case for incorporating an explicit interest rate risk capital framework into the final regulation. While this letter focuses on leverage risk arising from combined loan-to-value exposure across institutions, that proposal addresses the duration and earnings volatility risks associated with the expected increase in long-duration mortgage assets under the proposed rule's tiered LTV framework. The two are intended to be evaluated together, as part of the agencies' broader objective of aligning regulatory capital requirements more closely with underlying economic risk.

II. The Proposed Rule's Risk Weight Framework

The proposed rule establishes the following six-band risk weight schedule for regulatory residential real estate exposures based on origination loan-to-value ratio:

OLTV Band	Proposed RW	Current RW	Change
≤50%	25%	50%	–25pp
>50–60%	30%	50%	–20pp
>60–80%	35%	50%	–15pp
>80–90%	45%	50%	–5pp
>90–100%	55%	50%	+5pp
>100%	75%	50%	+25pp

The rule's combining requirement set forth in the proposed regulation provides that "when a banking organization holds the first-lien and junior-lien residential mortgage exposures on the same property and no other party holds an intervening lien, the banking organization must treat the exposures as a single regulatory residential real estate exposure." This requirement correctly captures combined CLTV credit risk when both liens are held at the same institution.

The combining requirement does not extend to subordinate liens held at unaffiliated institutions, including subordinate exposures originated externally or distributed to other institutions after origination. When a subordinate lien migrates to, or is originated at, an unaffiliated institution, the first-lien bank calculates capital on its standalone origination LTV — as if the subordinate lien did not exist. Subordinate liens that are not subject to the combining requirement — including a subordinate lien behind an intervening lien, or one held separately from the first lien — receive a flat 100% risk weight.

The split-lien capital gap — and the requirement necessary to close it — are the subject of these comments.

III. The Split-Lien Capital Requirement

A. The Core Problem

For purposes of these comments, the terms "identical" and "equivalent" describe mortgage risk exposures with materially similar combined borrower leverage and default incentives, even where minor structural differences may exist in amortization profile, subordinate-loss allocation, lien priority, or pricing. The central point is that combined CLTV remains the dominant driver of mortgage default risk regardless of whether the leverage resides within a single loan or across multiple coordinated lien positions.

The fundamental issue is straightforward. A bank that originates a 90% OLTV first lien — a \$540,000 loan on a \$600,000 property — while a different institution subsequently originates a \$30,000 subordinate lien is exposed to a combined CLTV of 95% — identical to that of an institution holding a single 95% LTV loan. The probability of default is identical. The first lien's loss severity, however, is somewhat lower, because the subordinate lien absorbs losses first — which is why the requirement proposed below is a blend rather than full combined-lien treatment. Yet under the proposed rule, the first-lien bank holds capital reflecting only the 90% OLTV band risk weight, as if the \$30,000 subordinate lien did not exist.

This is not a small calibration issue. It is a structural measurement problem that the proposed rule's own combining requirement implicitly acknowledges — by requiring combination when the same bank holds both liens — but fails to extend to the more common case where the liens are split across institutions.

B. The Proposed Split-Lien Capital Requirement

These comments propose a split-lien capital requirement for first-lien residential mortgage exposures where a subordinate lien exists at a different institution. The requirement is grounded in the basic principle of the proposed regulation that the borrower's combined leverage — the combined CLTV — when both liens are on a bank's balance sheet, should be used to determine the capital requirement for the combined liens. That same combined leverage drives the first lien's default risk regardless of how it is distributed across institutions. A borrower with 95% combined CLTV presents the same default risk to the first-lien bank whether the subordinate position is held at the same bank or a different one.

The first lien in a split structure does benefit from some protection — the subordinate lien absorbs first losses before the first lien is impaired. Although split-lien structures may differ from a single high-LTV first mortgage in amortization profile and loss allocation, the borrower's combined leverage and default incentives remain sufficiently similar that an intermediate supervisory treatment provides a reasonable and operationally practical approximation of the additional risk posed to the first-lien holder. The appropriate split-lien capital requirement therefore falls between two endpoints the rule itself establishes: the standalone first-lien capital and the full combined-lien capital. A complete capital comparison across all OLTV points — showing the three configurations side by side across the full LTV grid — is presented in

Appendix A. The appendix also includes an explanation of how the position between the two endpoints was determined.

The blended risk-weight approach sets the split-lien capital requirement at a 60/40 weighted average of the risk weights of the two regulatory LTV endpoints already established by the proposed rule itself — the combined CLTV band risk weight and the standalone OLV band risk weight. This 60/40 weighting, which applies a 60% weight to the combined CLTV risk weight and a 40% weight to the standalone OLV risk weight, reflects the underlying economic risk of a first lien with a subordinate lien attached, as derived from probability of default and loss given default analysis. Adjusting the weighting changes the magnitude of the modification but not its direction; any reasonable weighting moves supervisory capital closer to economic risk.

Because the appropriate weighting varies by combined LTV level and subordinate lien size, the 60/40 weighting is presented as a volume-weighted average across the bank book — a practical single value suitable for this comment letter. The agencies may refine the weighting using supervisory loss data.

The proposal may also benefit from further review of subordinate residential mortgage risk weights across different combined LTV levels. Subordinate liens can have meaningfully different risk characteristics depending on combined leverage, subordinate lien size, borrower credit score, and borrower equity. As a result, subordinate mortgage exposures with materially different economic risk profiles may in some cases receive the same 100% risk weight under the proposal.

In formula terms:

$$\text{Split-Lien RW} = (0.60 \times \text{Combined CLTV Band RW}) + (0.40 \times \text{Standalone OLV Band RW})$$

$$\text{Split-Lien Capital Requirement} = \text{Split-Lien RW} \times \text{First Lien UPB} \times 8\%$$

Where the standalone OLV band and the combined CLTV band are identical — meaning the subordinate lien does not cause migration into a higher LTV category — the split-lien risk weight equals the standalone rate and no additional capital charge arises from the rate adjustment itself.

C. Per-Loan Illustration

The example on the following page illustrates the split-lien capital requirement for a 90% OLV first lien with a \$30,000 subordinate lien at a different institution. Parameters: \$600,000 property value; \$540,000 first lien (90% OLV); \$30,000 subordinate lien at unaffiliated institution; combined CLTV 95%, crossing into the >90-100% band; 8% capital ratio. Split-lien risk weight = $(0.60 \times 55\%) + (0.40 \times 45\%) = 51\%$. Risk weight is applied to first lien UPB only; no UPB blending. Split-lien capital requirement = $\$540,000 \times 51\% \times 8\% = \$22,032$.

Scenario	Risk Weight	Raw Capital	Adjusted for Size	Change from Proposed Rule
Proposed rule (no recognition)	45%	\$19,440	\$19,440	—
Split-lien modification (60/40)	51%	\$22,032	\$22,032	+\$2,592
Combining rule (if same bank, both liens)	55%	\$25,080	\$23,760	+\$4,320

The two capital columns separate the risk-weight effect from the size of the exposure. Raw Capital uses each scenario's actual base — \$540,000 (the first lien alone) under the proposed rule and the split-lien modification, and the \$570,000 combined balance under the combining rule, which capitalizes both liens. Because that larger base would otherwise inflate the combining rule's capital level, the Adjusted for Size column restates it on the same \$540,000 first-lien base, so the three scenarios differ only by risk weight. On that common base, the proposed rule holds only \$19,440, while full recognition of the borrower's 95% combined leverage would call for \$23,760 — a capital gap of \$4,320. The split-lien modification holds \$22,032, recovering \$2,592, or 60%, of that gap on the retained first lien. (The Change from Proposed Rule column is computed on this common base.)

The bank that refers the \$30,000 second lien to an unaffiliated institution under the proposed rule reduces system capital by \$3,240 per loan for economically combined-leverage exposure. At scale this is a systematic and predictable behavioral response to the proposed rule's incentive structure.

The direction of this incentive is not uniform across the LTV grid. Where the first and second liens together stay within a single risk-weight band, splitting them across institutions raises total system capital — the second lien picks up a flat 100% standalone weight in place of the low combined-band rate it would carry behind the first — so consolidation is the efficient system outcome and the rule produces no refer-out pull. Once combined leverage crosses into a higher band, the incentive reverses: by referring the second lien out, the first-lien bank avoids the band migration and retains its lower-band risk weight. The result is a threshold-driven incentive toward either consolidation or fragmentation, turning the regulatory treatment of economically equivalent leverage on institutional structure rather than borrower risk. Appendix B illustrates this threshold effect in detail.

IV. Behavioral Incentives Created by the Proposed Rule

The proposed rule's LTV-tiered risk weight structure creates distinct behavioral incentives that compound the split-lien capital gap over time. Each incentive is a rational institutional response to the rule's design — not a speculative concern — and each increases the dollar volume of first-lien exposures subject to fragmented combined leverage across institutions. The proposed framework recognizes combined leverage when both liens are held at the same institution, but materially different capital treatment may result once subordinate exposures are originated at, or

distributed to, unaffiliated institutions. The following sections describe several ways the proposed framework may encourage expansion of split-lien mortgage structures over time.

Incentive 1: Origination-Stage Split-Lien Structuring

The proposed rule may create a meaningful origination-stage incentive for banking organizations to structure high-LTV mortgage credit as split-lien transactions rather than as single higher-LTV first-lien exposures. A bank originating a 90% combined leverage mortgage can materially reduce the capital requirement applied to the retained first-lien exposure by structuring the transaction as an 80% first lien combined with a simultaneous 10% subordinate lien that is subsequently distributed to another institution or entity for securitization.

Specifically, under the proposed rule, a single 90% LTV first mortgage receives the higher risk weight associated with the >80-90% OLTV band. By contrast, an 80% first lien paired with a simultaneous second lien held outside the originating institution may allow the retained first lien to continue receiving the materially lower standalone 60-80% band treatment because the combining requirement no longer applies once the subordinate exposure resides at a different institution.

Although split-lien structures may differ from a single high-LTV first mortgage in amortization profile, subordinate-loss allocation, and pricing, the borrower's combined leverage and resulting default incentives remain materially similar. Yet the proposed rule assigns different capital treatment to these economically comparable combined-leverage exposures depending primarily on whether the subordinate exposure resides at the same institution or is distributed externally.

The proposed rule's treatment of mortgage insurance further amplifies this incentive. Because the risk weight is driven by the LTV band and MI does not change the LTV used to set it, insuring a 90% first lien leaves it in the >80–90% band, whereas an 80-10 split moves the retained first lien to the >60–80% band — so split-lien structuring can be preferable to traditional insured high-LTV lending. The retained first lien preserves lower standalone OLTV treatment through external distribution of the subordinate exposure.

For example, comparing the capital requirement for a 90% LTV loan with MI against an 80-10 structure where the bank sells the 10% subordinate slice, the bank's capital is reduced by about 30%. For a 100% LTV loan compared to an 80-20 structure following the same selling strategy, the bank's capital savings would be approximately 50%.

The split-lien capital requirement proposed in these comments directly addresses this structural incentive by recognizing combined leverage exposure regardless of whether the subordinate lien is retained by the originating institution or distributed externally after origination.

The origination-stage incentive's likely effect has direct historical precedent. Senior-subordinate mortgage structures reached approximately 40–50% of residential purchase originations during 2005–2007 — even without the regulatory capital incentive the agencies now propose. The proposed rule may create an ongoing capital incentive favoring externally distributed split-lien structures, an incentive the prior flat 50% framework did not create. Appendix C presents an

example comparing a 90% LTV structure to an 80-10 split-lien structure, and Appendix D presents the complete analysis.

Incentive 2: The Threshold-Driven Refer-Out Incentive

As described in Section III, the refer-out incentive operates differently depending on where the borrower's combined CLTV falls relative to the risk weight band boundaries: modest, even mildly negative, while combined leverage stays within a single band — where keeping both liens together is capital-efficient — but reversing sharply into a strong refer-out incentive once combined leverage crosses into a higher band.

The capital saving per loan is material, and at portfolio scale it creates a systematic incentive to route second-lien business away from the first-lien holder precisely where combined leverage is highest and capital accuracy matters most (see Appendix B).

Incentive 3: The Low-Rate Lock-In Effect and OLTV-MLTV Divergence

A large population of borrowers is locked into first mortgages originated prior to 2023 at rates of 3% to 4.5%. With current mortgage rates significantly higher, these borrowers cannot refinance without giving up their existing rate. The rational alternative is a second lien — a home equity loan or line of credit — to access accumulated equity while preserving the low-rate first mortgage.

This dynamic is amplified by the divergence between original LTV and current market LTV. Home prices have risen sharply since 2020. For example, a borrower with an 80% OLTV first lien originated in 2020 may now have a current market LTV of about 47% — reflecting roughly 50% appreciation since 2020 together with six years of scheduled amortization — a substantial equity cushion by any market measure. That borrower can support a large second lien well within standard underwriting guidelines based on current value. Under the capital rule, however, the combined exposure is measured against the original purchase price. A large second lien can push the combined OLTV well above 100% even when the combined current market LTV remains below 80%.

This creates a powerful incentive for the first-lien bank to originate and sell the second lien elsewhere, or just refer the lien elsewhere. The bank avoids the high capital penalty triggered by the high combined OLTV while the borrower still obtains the second lien — from a different institution. The proposed rule's OLTV anchor, intended as a conservative underwriting safeguard, may become a significant driver of split-lien structuring incentives in an appreciated market. Appendix E develops this dynamic through a detailed case study of a representative 2020-vintage borrower.

Incentive 4: Systematic Advantage for Independent Banks and Non-Banks in Subordinate-Lien Origination

The proposed rule creates a systematic advantage, in the subordinate-lien market, for independent banks and non-banks relative to the bank that holds the borrower's first lien. Non-bank originators of HELOCs and closed-end second liens — among the fastest-growing

segments of subordinate-lien origination — operate primarily through securitization and other wholesale capital channels, distributing loans to investors who hold them outside the regulated banking system. Under the proposed rule without modification, an independent bank or non-bank that originates a subordinate lien on a borrower whose first mortgage sits at another bank generates no capital consequence for the first-lien bank — because that bank has no visibility into the subordinate's existence, the combined leverage remains invisible to the regulatory framework, and its standalone treatment of the first lien continues unchanged. The bank that holds the borrower's first lien, by contrast, must apply the combining requirement and hold capital against the combined leverage if it originates the second itself. Independent banks and non-banks originating these subordinate liens are therefore systematically advantaged relative to the bank holding the first lien.

This advantage operates in two reinforcing ways. First, it accelerates the migration of subordinate-lien origination from first-lien banks to independent banks and non-banks, as banks holding the first lien rationally cede the business rather than absorb the capital penalty for retaining it. Second, as non-bank subordinate-lien origination grows, a rising share of combined-leverage exposure is created entirely outside the banking channel, where the rule's combining requirement never applies. The cumulative effect is that more borrowers carry combined leverage that the regulated banking system cannot observe and cannot capitalize against, increasing the proportion of housing finance activity that sits outside prudential oversight. By applying the split-lien risk weight wherever the second lien sits, the requirement also removes the capital advantage the rule otherwise hands independent banks and non-banks in subordinate-lien origination.

Incentive 5: Bank Book Expansion

The proposed rule is partially intended to encourage banks to increase their presence in the residential mortgage market by reducing the capital cost of holding first-lien mortgages on the balance sheet. Banks currently hold approximately 19% of outstanding residential mortgage debt, well below historical levels. The rule's capital relief creates a direct incentive to expand that share.

As the bank first-lien book expands in response, the dollar volume of split-lien exposure expands with it. The gap is a roughly constant share of first-lien lending, so its magnitude grows in proportion to the book even if the rate at which split-lien structures occur stays unchanged. The additional first-lien lending the relief is designed to encourage therefore enlarges the unaddressed split-lien capital gap in step with the lending it promotes — the more effective the rule is at expanding bank mortgage portfolios, the larger the blind spot it leaves behind.

V. Impact Analysis

This section estimates the magnitude of the split-lien capital gap — the capital relief the proposed rule would extend to first liens whose combined-lien risk it leaves unpriced, and equivalently the additional capital that pricing the gap would require. The analysis reports that magnitude not for the book as it stands today, but at the mature equilibrium the rule's own

incentives would produce if it were fully effective, after banks have adjusted their origination and retention behavior.

Projecting a behavioral response invites the objection that the analysis assumes its own conclusion. It does not. Capital requirements are set precisely because they shape behavior; the proposed rule is itself justified by the origination and pricing responses that lower capital is expected to produce. Estimating how the split-lien differential shapes lien-formation behavior applies the same logic to the same lever. The alternative — holding today's book fixed and setting the behavioral response to zero — would not be a neutral choice; it would understate the capital gap by construction, omitting exactly the behavior the differential is structured to induce. Projecting the response is ordinary regulatory impact analysis, not a thumb on the scale.

The projection is disciplined in two ways. First, each behavioral input begins from an observed current value — the attachment rate, split share, lien-origination mix, and OLTV distribution of the present bank book, all documented in Appendix D — so the equilibrium represents movement from a measured baseline rather than a figure asserted in the abstract. Second, where a behavior has a historical precedent, the projected response is benchmarked against it rather than extrapolated without limit.

Simultaneous second-lien issuance is the clearest illustration. It runs at less than 10% of high-LTV originations today, while the base case projects that at equilibrium roughly 30% of newly originated loans above 80% LTV carry a simultaneous second, and the conservative case roughly 40%. Even the conservative figure sits at or below the level the market reached in 2005–2007, when simultaneous seconds exceeded 40% of over-80% LTV originations (MGIC; Federal Reserve Bank of New York) — a peak attained with no split-lien capital incentive in place. The analysis does not assume a return to the underwriting conditions of that period; it assumes only that an explicit capital incentive, which did not then exist, can move simultaneous-second usage back toward a level the market has already demonstrated it can reach. A rule that introduces such an incentive should be expected to move usage in that direction.

The analysis is structured to answer one question: what would the split-lien proposal's impact be on the current \$1.5 trillion bank book if the rule's expected behavioral effects had been in effect for an extended period? For post-origination seconds, the analysis adds the current stock of split-lien seconds to the additional stock the rule's incentives are projected to produce, and estimates the capital shortfall across that combined population. For simultaneous seconds, a separate calculation estimates what share of a mature over-80% LTV origination pool would be structured as split-liens, and adds it to the post-origination figure. Holding the book constant at \$1.5 trillion yields an apples-to-apples comparison between the current book and the projected split-lien book, isolating the behavioral effect from any change in book size.

Appendix D presents the complete quantitative analysis. The case that matters most is a first lien held by one bank while the subordinate lien sits at a different institution. The analysis treats it in two parts: second liens originated after the first lien and held elsewhere (post-origination seconds), and simultaneous second liens originated alongside the first and sold into the market (simultaneous seconds).

Because detailed data on the current book is limited, each part is estimated under two scenarios — a base case and a more conservative case — with the full set of assumptions in Appendix D.

A. Impact of Split-Lien Proposal on First Liens Where Subsequently Issued Second Lien is Held By Another Institution

Base Case Scenario

The key assumptions for the base case include:

- **First-lien LTV assumptions:** The bank-book OLTV distribution is adapted from the Fannie Mae 2025 Annual Report on Form 10-K, Single-Family Conventional Guaranty Book of Business. It is adjusted downward toward lower LTVs to reflect bank residential mortgage balance sheets, which differ from the GSE guaranty book in holding a higher share of jumbo loans, which tend to carry lower OLTVs than conforming loans. FRED data corroborate the central tendency, with a median outstanding OLTV of approximately 72%.
- **Second-lien attachment rate:** approximately 30%, representing a projection of the share of first liens with a second lien behind them, based on a slightly faster trend of growth in subordinate liens from the current level of approximately 25%. The 30% is distributed across LTV bands, with higher attachment behind lower-LTV, higher-equity first liens, since lower-OLTV borrowers are more likely to take out a second.
- **Share of seconds that are split-lien:** approximately 75% of the seconds sitting behind banks' first liens are assumed to be held by outside entities — the split-lien share that drives this section. HELOCs remain concentrated at depository institutions, but independent and non-bank lenders have grown to roughly 15% of the HELOC market and are expected to keep gaining share under the incentives the proposed rule creates. For this analysis, 30% of HELOCs are assumed to be originated by the bank that holds the first lien and 70% by outside entities. Closed-end seconds (CES) are originated primarily by independent banks and entities outside the first-lien holder, consistent with non-banks originating the majority of CES and large banks only a small share. 85% of CES are assumed to be held by outside entities.

Based on the National Mortgage News article 65% HELOC / 35% CES mix, the outside-entity shares weight to $0.65 \times 70\% + 0.35 \times 85\% = 75\%$; 75% is adopted as the base split-lien share. Three-quarters of the seconds behind originating banks' first liens are therefore assumed to be held by outside entities — the split-lien population for this section.

- **Second-lien sizings:** two second-lien sizes are used, 10% and 20% of property value, to determine when the combined CLTV moves the first lien into a new risk-weight band. These track the two products: a typical HELOC (~\$45,000) is about 10% of a median ~\$500,000 home, and a typical closed-end second (~\$90,000) is about 20%. The population is modeled as 60% at the 10% size and 40% at the 20% size — a split that follows from the product composition rather than a separate assumption (Appendix D shows the derivation). Sizes are

expressed as a percent of property value rather than a dollar amount so the assumption scales to larger first liens, including jumbos.

Applying the blended split-lien rule to only post-origination subordinate liens at other institutions would require banks to hold approximately \$1.64 billion in additional capital against this exposure, reducing the rule's \$17 billion in headline relief by about 10%.

B. Scenario Reflecting More Conservative Set of Behavioral Assumptions

The second scenario reflects a more conservative set of behavioral assumptions about split-lien seconds' incentives. A more detailed set of assumptions appears in Appendix D. The key changes from the base case are:

- **Second-lien share behind first liens:** The assumption changes from approximately 30% to approximately 35% from the base case to the conservative scenario based on an assumed increase in second liens.
- **Split-lien share of seconds:** The assumption changes from 75% to 85% based on more aggressive use of split-liens.

For the more conservative scenario, applying the blended split-lien rule to only post-origination subordinate liens at other institutions would require banks to hold approximately \$2.19 billion in additional capital against this exposure, reducing the rule's \$17 billion in headline relief by about 13%.

C. Simultaneous Second Liens: First Liens Originated with a Second That Is Sold into the Market

Base Case Scenario

As noted earlier, the proposed rule requires a bank that holds both the first and second lien to treat them as a single position and risk-weight them on their combined CLTV. For simultaneous-second originations, this creates an incentive to sell the second lien into the market to preserve the lower standalone risk weight on the retained first lien.

Selling the second piece moves the retained first lien down one or two risk-weight bands: against a 90% LTV loan with mortgage insurance, an 80-10 structure with the second sold cuts the bank's capital by about 30%; against a 100% LTV loan, an 80-20 structure cuts it by about 50% (see Section IV and Appendix C).

To size this channel, the analysis estimates what share of the current book of high-LTV first liens would have been originated as simultaneous-second structures had the rule's incentive been in place. Holding the \$1.5 trillion book constant, the analysis applies that share to the over-80% population and measures the additional capital the split-lien treatment would require.

The key assumptions include:

- **Sim-eligible share of the current book:** approximately 27% of the current book is assumed to be above 80% LTV — the over-80% portion of the same original-LTV distribution used in the post-origination analysis. To avoid double-counting first liens already captured as post-origination seconds, that overlap is removed — about 30% of the over-80% pool, or roughly 8% of the book — leaving a sim-eligible pool of about 19% of the book (≈\$285 billion).
- **Percent of the sim-eligible pool structured as piggybacks:** approximately 30% of the sim-eligible over-80% pool is assumed to have been structured as simultaneous-second piggybacks, split between 80-10 structures (which produce 90% CLTV) and 80-15 or 80-20 structures (which produce 95–100% CLTV). Piggybacks reached 40–50% of high-LTV originations at the 2005–07 peak even without a capital incentive in place; the 30% base assumption sits well below that level.
- **Percent of piggyback loans sold to other institutions:** 60% of the simultaneous seconds are assumed to be sold to other institutions or securitized — the population on which the split-lien capital gap arises.

Applying the blended split-lien treatment to these structures would require banks to hold approximately \$0.4 billion in additional capital, reducing the rule's \$17 billion in headline relief by about 2%.

Conservative Scenario

The conservative case raises the piggyback share to 40% of sim-eligible pool above 80% LTV — still at or below the 2005–07 peak — reflecting a fuller behavioral response to the new incentive, and assumes 75% of those seconds are sold or securitized.

Applying the blended split-lien treatment under these assumptions would require banks to hold approximately \$0.6 billion in additional capital, reducing the rule's \$17 billion in headline relief by about 4%.

D. Combined Impact and Cross-Bank Distribution

Combining the post-origination and simultaneous second-lien components, the split-lien proposal reduces the \$17 billion headline relief by approximately 12% — about \$2.0 billion — under the base case, and by approximately 17% — about \$2.8 billion — under the conservative case.

Because both components are measured on the same \$1.5 trillion first-lien book and against the same \$17 billion in relief, they are constructed so that no first-lien exposure is counted in both. In the over-80% bands, where a first lien could in principle be reached by either channel, the share already reflected in the post-origination estimate is reserved to that channel and removed from the simultaneous-second pool before the simultaneous figure is computed. The two

components therefore measure mutually exclusive populations, are additive, and combine on a single, consistent basis. Appendix D sets out the partition and the resulting pool sizes.

These figures are weighted averages across the \$1.5 trillion first-lien book, and split-lien concentration is uneven: banks with the deepest HELOC and CES referral relationships and the heaviest simultaneous-second origination carry impacts well above the average. As shown in Appendix D, which models each bank's split-lien capital impact as a lognormal distribution, banks at the 90th percentile face offsets of more than 18% of headline relief under the base case and more than 25% under the conservative case.

Separately, the estimates apply the 10% and 20% second-lien slices that produce the one- and two-band migrations typical of moderate seconds; they do not model the larger, roughly 30% equity-extraction draws that locked-in, low-MLTV borrowers can take (see Incentive 3 and Appendix E), which push the combined position into the >100% band at a 75% risk weight. Were about one-quarter of the thick-slice draws that large (10% of total seconds), the estimated offset would rise by approximately one percentage point, which increases the split-lien capital recovery by approximately 7%. A higher incidence of thicker second liens would raise the offset further.

This analysis represents one reasonable way to size the proposal's impact. It deliberately does not project prepayment or growth of the bank book, each of which lies beyond the scope of this comment. Book growth would only increase the figures: if the current book grew by 50%, the relief would rise by roughly \$8.5 billion to about \$25.5 billion, with the split-lien capital gap scaling proportionally.

VI. The Need for a Central Mortgage Lien Data Repository

The proposed split-lien capital requirement cannot function without a supporting data infrastructure. As discussed above, no federal law requires a second-lien lender to notify the first-lien holder when a subordinate lien is originated, and the Garn-St. Germain Depository Institutions Act of 1982 bars the first-lien holder from calling the loan upon a junior encumbrance, 12 U.S.C. 1701j-3(d)(1) — so even a lender that learned of the new lien would have no remedy. A borrower can materially increase leverage on a mortgaged property — through a HELOC or closed-end second at any institution — and the first-lien holder has no systematic way of knowing. The combined leverage the requirement is meant to capture is, in effect, unobservable to the institution that must hold capital against it. The financial crisis demonstrated the dangers of incomplete visibility into combined mortgage leverage, particularly where subordinate liens accumulated outside centralized risk-monitoring systems.

This second-lien blind spot extends beyond individual banks to the heart of the American housing finance system. Fannie Mae and Freddie Mac collectively guarantee trillions of dollars in residential mortgage obligations. While simultaneous second liens disclosed at origination are generally captured through existing GSE delivery and underwriting processes, my understanding, based on publicly available information, is that neither GSE has a reliable mechanism to track subordinate liens originated or distributed across unaffiliated institutions after the first mortgage closes. The combined CLTV on their guaranteed books — one of the major determinants of

default risk — therefore becomes increasingly difficult to observe over time as additional leverage accumulates outside the original underwriting structure. Without a central repository that holds both first and subordinate liens and computes their combined CLTV, the GSEs may have difficulty reliably measuring true leverage on their guaranteed portfolios in real time.

A central lien reporting mandate is a prerequisite for the split-lien capital requirement proposed in this letter to function as intended. Without it, that requirement is unenforceable, the GSEs cannot accurately price guarantee fees and determine capital requirements, and regulators cannot assess true system-wide mortgage leverage. The principal challenge associated with such a framework is not technological feasibility, but rather the establishment of standardized participation requirements, reporting obligations, and governance protocols necessary to ensure comprehensive market coverage.

The National Mortgage Lien and CLTV Clearinghouse proposed in these comments addresses all three with a single reporting infrastructure that holds both first-lien and subordinate-lien data and computes their combined CLTV directly, drawing on data already maintained across the housing finance system. Because both liens reside in one utility, a banking organization and its supervisor draw combined-leverage data from the same source, so the capital requirement can be verified in examination rather than resting on each institution's self-reported leverage. A complete operational description of the NMLCC is presented in Appendix F.

Beyond enabling the split-lien capital requirement, the clearinghouse would accomplish several things. First, it would give banks, the GSEs, CRT conduits, mortgage insurers, and regulators and other government entities access to actual total-mortgage-leverage data, allowing total credit risk to be measured both at the individual-borrower level and across the system as a whole. Second, it would establish a more information-rich framework that creates efficiencies throughout the mortgage finance market: more complete leverage information reduces the uncertainty that lenders, guarantors, and investors must otherwise price for, and those efficiencies would ultimately reach borrowers in the form of lower mortgage rates.

VII. Recommendations

For the reasons set forth in these comments and the accompanying Six Appendices, I respectfully request the agencies to review the following recommendations:

Recommendation #1: Adopt a split-lien capital requirement providing that, where a first lien and one or more subordinate liens secured by the same property are held at different institutions, and the combined CLTV would place the first-lien exposure in a higher risk-weight band than its standalone OLTV, the banking organization must apply to the first-lien UPB a blended risk weight — either the 60/40 weighting proposed in these comments or a regulator-derived weighting — of the combined CLTV band risk weight and the standalone OLTV band risk weight.

The banking organization determines the combined CLTV from the National Mortgage Lien and CLTV Clearinghouse, which holds both first-lien and subordinate-lien data and computes the combined CLTV directly. Supervisors verify the resulting capital calculation against the same

clearinghouse data; because the institution and its supervisor draw on identical data, the requirement is verifiable in examination without imposing a separate per-loan documentation burden on banks. The 60/40 blended weighting is proposed as a tractable first approximation pending precise calibration using supervisory loss data, and may be refined to vary by LTV band and subordinate-lien size.

Because the requirement depends on combined-lien data that does not yet reside in a single source, the agencies should adopt it concurrently with the final rule but provide that it becomes operative when the National Mortgage Lien and CLTV Clearinghouse described in Recommendation #2 becomes operational. Until then, the standalone OLTV risk weight applies by default under the safe harbor in Recommendation #3, so that no institution bears a capital consequence for infrastructure not yet in place. To keep the gap from remaining open in the interim, the agencies should commit to standing up the clearinghouse on an expedited basis. Once it is operational, the requirement applies to all institutions subject to the rule's standardized approach, with the safe harbor continuing to protect first-lien banks wherever the clearinghouse returns no subordinate lien for a property.

Recommendation #2: Initiate a rulemaking or an advance notice of proposed rulemaking to establish the National Mortgage Lien and CLTV Clearinghouse as an integrated registry of first-lien and subordinate-lien data. The reporting framework should allocate responsibility to a single party: the servicer of each residential mortgage lien, first or subordinate. Each servicer reports the loan's origination data — received at origination or at servicing transfer — and the loan-level data it generates thereafter, and the clearinghouse links records by property and computes the combined CLTV. This single-party structure reflects what servicers already do: receive the complete loan file at servicing inception and maintain current loan-level data over the life of the loan as part of their ordinary obligations.

A large share of residential mortgage servicing runs on a small number of common servicing platforms, so a framework applying to all servicers would capture the bulk of mortgage volume quickly and could draw much of the required data from systems that already hold it. The agencies may, in their judgment, exempt small servicers based on operational burden; this comment letter does not propose a specific threshold. Where existing statutory authority does not reach non-bank servicers — which service a large and growing share of U.S. residential mortgages — the banking agencies should coordinate with the CFPB, state regulators, and Congress as needed to establish mandatory reporting requirements for them. A complete operational description of the NMLCC framework is presented in Appendix F.

Recommendation #3: Adopt a safe harbor for first-lien banks. Where the National Mortgage Lien and CLTV Clearinghouse shows no subordinate lien on the property securing a banking organization's first lien, and the organization has no independent knowledge of subordinate financing, the standalone OLTV risk weight applies and the split-lien capital requirement does not. The safe harbor recognizes that registry coverage may be incomplete in cases where the agencies have established exemptions for small servicers, where servicing is in transition between institutions, or in other circumstances the agencies may define. First-lien banks should not bear capital consequences for the registry's coverage gaps.

Recommendation #4: Direct supervisory staff to use loan-level supervisory data — including probability of default (PD) and loss given default (LGD) estimates across combined CLTV bands — to calculate a more precise blended weight for the split-lien capital requirement, and to publish that analysis in the final rule's preamble. The 60/40 weighting proposed here is a starting point. If supervisory loss data show that the presence of a subordinate lien at a different institution does not materially reduce first-lien loss severity relative to a single combined-LTV loan — as LGD analysis would likely confirm — the appropriate blended weight may tilt toward the combined CLTV rate, which would increase the split-lien capital requirement above the estimates presented in these comments. The agencies should also consider, drawing on the same PD and LGD data, to determine whether the flat 100% risk weight applied to junior positions held at institutions other than the first-lien institution is itself appropriately calibrated.

VIII. Conclusion

The proposed rule's LTV-based risk weight framework for residential mortgage exposures is a sound and significant reform. The capital relief it provides — approximately \$17 billion on the current covered bank first-lien book — will encourage banks to expand portfolio mortgage lending and improve risk sensitivity in the regulatory capital framework.

The split-lien capital requirement proposed in these comments does not require the agencies to restructure the proposed framework. It is a targeted refinement, operating within that framework, to help ensure the rule's combined-leverage treatment applies consistently across institutional structures. Combined borrower leverage remains an important determinant of mortgage credit risk regardless of whether that leverage sits at one institution or is distributed across several. The blended risk weight — a weighted combination of the standalone and combined risk weights applied to the first-lien UPB — positions the capital charge between ignoring the subordinate lien entirely and treating the institution as if it held both liens. It is intended as a neutral, operationally practical starting point that the agencies may refine over time using supervisory loss data.

The two modifications proposed here — the split-lien capital requirement and the NMLCC — work together. The capital requirement establishes the obligation; the registry provides the ongoing visibility needed to enforce it over the life of the loan. Each depends on the other: the capital requirement is unenforceable without the registry, and the registry's full prudential value depends on the capital requirement that gives institutions a direct reason to query it.

Without these refinements, the proposed rule will systematically understate combined leverage risk, and that understatement is likely to grow as institutions respond to the incentives the rule creates. On the bank book, the split-lien capital gap is estimated at approximately \$2.0 billion — offsetting roughly 12% of the capital relief on average — and the offset may rise toward 17% as banks create more split-lien structures in response to the framework.

The rule may also tilt the playing field among banks: an institution that keeps both the first and second lien on its book faces materially higher capital requirements than one that holds only the first. That disadvantage could grow large enough to push banks to move seconds off their books systematically — accelerating exactly the fragmentation these comments seek to address.

The registry's value extends well beyond bank capital. The same combined-CLTV visibility would let the GSEs price guarantee fees and determine capital requirements more accurately, compress the yield premiums that Credit Risk Transfer investors charge for subordinate-lien uncertainty, and let mortgage insurers manage reserves in real time — benefits set out earlier in this letter. More fundamentally, treating a borrower's full combined indebtedness as the economically relevant risk metric points toward dynamic leverage measurement across the housing finance system. The registry would also create efficiencies in the mortgage finance market that ultimately reach borrowers in the form of lower mortgage rates.

The agencies have already undertaken the difficult and important task of modernizing residential mortgage capital treatment. Addressing the split-lien issue in this rulemaking would help ensure that the final framework more fully captures the combined leverage risks it is intended to measure, while preserving the proposal's broader capital-relief objectives. The proposed refinements are targeted and operationally feasible, drawing on data already maintained across the housing finance system.

I appreciate the opportunity to comment on this important rulemaking.

Respectfully submitted,

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The views expressed are my own and are submitted in my individual capacity; they do not represent any current or former employer.

Appendices

Appendix A: Capital Requirement Comparison — Proposed Rule vs. Split-Lien Modification
Appendix B: The Band Migration Effect — A Simple Two-Loan Comparison
Appendix C: Capital Difference Migrating from 90% LTV to 80%-10% Piggyback Loan
Appendix D: Split-Lien Capital Gap Analysis — Complete Analytical Record
Appendix E: A Case Study in Split-Lien Capital Distortion
Appendix F: National Mortgage Lien and CLTV Clearinghouse — Proposed Operational Framework

Appendix A: Split-Lien Risk Weight Formula

Formula and Basis | 91 FR 15332 | Robert Kazdin | June 2026

1. The Split-Lien Formula

The split-lien formula proposed in the main comment letter applies a blended risk weight to a first-lien bank's exposure when a subordinate lien is held at a different institution. The formula recognizes that the borrower's combined leverage creates credit risk for the first-lien bank, even when the subordinate lien is not visible on the first-lien bank's books.

$$\text{Split-Lien RW} = (0.60 \times \text{Combined CLTV Band RW}) + (0.40 \times \text{Standalone OLTV Band RW})$$

Applied uniformly across the bank book. The blended risk weight is applied to the first lien UPB only; no UPB blending. Required capital is calculated as:

$$\text{Capital} = \text{First Lien UPB} \times \text{Split-Lien RW} \times 8\%$$

2. Basis for the 60/40 Weighting

The 60/40 weighting is grounded in estimated PD/LGD analysis of the relative economic risk of the two positions. Using stressed probability-of-default and loss-given-default estimates, the analysis compares the economic risk of a first-lien position exposed to the borrower's combined leverage against the same position evaluated on its standalone OLTV alone. Because the borrower defaults at the combined leverage level while the subordinate lien absorbs the first dollars of loss, the combined position carries materially higher economic risk than the standalone position, and the first-lien bank bears most of the residual risk once the subordinate's first-loss layer is exhausted. A majority weight on the combined-CLTV risk weight reflects that allocation; the 40% weight on the standalone OLTV reflects the protection the subordinate's first-loss layer provides. The default and loss-severity relationships underlying this analysis draw on the public single-family loan-level credit performance datasets published by the government-sponsored enterprises: the Fannie Mae Single-Family Loan Performance Data and the Freddie Mac Single-Family Loan-Level Dataset.

The 60/40 split is a single, round, administrable weight applied uniformly across the book — a volume-weighted average across the LTV distribution rather than a band-specific value. Lower-LTV split-lien first liens behave more like their standalone position, and higher-LTV first liens behave more like the combined position; the 60/40 is the weighted average of these lower and higher weightings across the book. The agencies are best positioned to refine it using their supervisory loss and income data; this submission applies the uniform 60/40 value as a reasonable and transparent basis on which the formula operates.

3. Risk Weight Bands

The proposed rule (91 FR 15332) establishes the following risk weight bands for residential mortgage exposures by OLTV (or CLTV under the combining rule):

OLTV / CLTV Band	Risk Weight
≤50%	25%
>50–60%	30%
>60–80%	35%
>80–90%	45%
>90–100%	55%
>100%	75%

4. Worked Example: A 75-10 Split-Lien Under the Regulatory Bands

Applying the 60/40 weighting to the regulatory risk weight bands, consider a split-lien structure in which a borrower holds a 75% first-lien mortgage and a 10-point subordinate lien on the same property at a different, unaffiliated institution. Because the two liens sit at different institutions, the combining requirement does not apply, and absent the modification the first-lien bank would capitalize only its standalone 75% OLTV. This 75-10 split-lien produces the following result under the proposed rule's band structure:

Component	Value
Standalone OLTV	75% → >60–80 band
Standalone RW	35%
Combined CLTV	85% → >80–90 band
Combined RW	45%
Split-Lien RW	$(0.60 \times 45\%) + (0.40 \times 35\%) = 41\%$

The split-lien formula at 60/40 produces a 41% risk weight applied to the first lien UPB. The resulting risk weight sits between the standalone risk weight (35%) and the combined risk weight (45%), with the 60% weighting on the combined RW reflecting the larger share of credit risk borne by the first-lien bank. The formula is mechanically self-calibrating: where no band migration occurs (Combined RW = Standalone RW), the Split-Lien RW equals the Standalone RW and no additional capital is required.

Appendix B

The Band Migration Effect: A Simple Two-Loan Comparison

91 FR 15332 | Comment Deadline: June 18, 2026 | Submitted by: Robert Kazdin

Purpose: This appendix illustrates the critical role of band migration in the split-lien capital gap using the simplest possible example — two loans with identical first-lien structures but different second-lien sizes. One second lien is large enough to push the combined CLTV into a higher risk weight band; the other is not. The difference in regulatory treatment is stark, and the split-lien modification applies precisely where band migration occurs.

1. The Two Loan Structures

Both loans have an identical first lien: \$450,000 on a \$600,000 property, representing a 75% original LTV. The first lien falls in the >60–80% risk weight band at 35% under the proposed rule. The only difference between the loans is the size of the second lien.

Loan A's second lien is large enough to push the combined CLTV from 75% into the 85% range — crossing the >80–90% band boundary. Loan B's second lien is small and the combined CLTV of 78% stays comfortably within the same >60–80% band as the standalone first lien.

	Loan A	Loan B
Property value	\$600,000	\$600,000
First lien	\$450,000	\$450,000
First lien OLTV	75%	75%
First lien OLTV band	>60–80%	>60–80%
Second lien	\$60,000	\$18,000
Second lien as % of property	10%	3%
Combined balance	\$510,000	\$468,000
Combined CLTV	85%	78%
Combined CLTV band	>80–90%	>60–80%
Band migration?	YES	No

2. Capital Comparison: Three Scenarios

The capital comparison for each loan is shown below under three scenarios: the proposed rule with no recognition of the subordinate lien, the proposed split-lien modification at 60/40 weighting, and the combining rule that would apply if the same bank held both liens.

Two capital columns separate the risk-weight effect from the size of the exposure. The **Raw Capital** column uses each scenario's actual base — \$450,000 (the first lien alone) under the proposed rule and the split-lien modification, and the combined balance under the combining rule, which capitalizes both liens. Because that larger base would otherwise inflate the combining rule's capital, the **Adjusted for Size** column restates it on the same \$450,000 first-lien base, so the three scenarios differ only by risk weight. The Adjusted figure for the combining rule is therefore a like-for-like benchmark — what full recognition of the borrower's combined leverage would cost on the same first-lien base — not the capital the combining rule literally holds.

The **Change from Proposed Rule** column shows the additional capital each alternative would require relative to the proposed rule's standalone treatment, using the Adjusted for Size figures.

Loan A: 75% OLV First Lien + \$60,000 Second (CLTV 85%, Band Migration)

Scenario	Risk Weight	Raw Capital	Adjusted for Size	Change from Proposed Rule
Proposed rule (no 2nd recognized)	35%	\$12,600	\$12,600	—
Split-lien modification at 60/40	41%	\$14,760	\$14,760	+\$2,160
Combining rule (if same bank, both liens)	45%	\$18,360	\$16,200	+\$3,600

Footnote: Raw Capital = Risk Weight × Exposure Base × 8% capital ratio. Exposure base is \$450,000 (first lien) under the proposed rule and split-lien modification; \$510,000 (combined balance) under the combining rule. Adjusted for Size = Risk Weight × \$450,000 × 8% for all three scenarios, scaling the combining rule capital to the same exposure base used in the other scenarios.

Loan B: 75% OLV First Lien + \$18,000 Second (CLTV 78%, No Migration)

Scenario	Risk Weight	Raw Capital	Adjusted for Size	Change from Proposed Rule
Proposed rule (no 2nd recognized)	35%	\$12,600	\$12,600	—
Split-lien modification at 60/40	35%	\$12,600	\$12,600	\$0
Combining rule (if same bank, both liens)	35%	\$13,104	\$12,600	\$0

Footnote: Raw Capital = Risk Weight × Exposure Base × 8% capital ratio. Exposure base is \$450,000 (first lien) under the proposed rule and split-lien modification; \$468,000 (combined balance) under the combining rule. Adjusted for Size = Risk Weight × \$450,000 × 8% for all three scenarios. Because no band migration occurs, the risk weight is identical (35%) across all three scenarios, and the Adjusted figures collapse to a single value.

3. Side-by-Side Comparison

The two loans placed together show the band migration effect clearly. Loan A triggers migration; Loan B does not. The split-lien modification applies to Loan A and not to Loan B.

	Loan A (migration)	Loan B (no migration)
First lien OLV	75%	75%
Second lien	\$60,000	\$18,000
Combined CLTV	85%	78%
Band migration?	YES	No
Capital under proposed rule	\$12,600	\$12,600
Capital under split-lien modification	\$14,760	\$12,600
Change from proposed rule	+\$2,160	\$0
Capital under combining rule (adjusted)	\$16,200	\$12,600

4. Key Takeaways

Band migration is the critical variable.

The capital impact of the proposed rule on these two loans depends entirely on whether the subordinate lien is large enough to push the combined CLTV across a risk weight band boundary. Loan A's \$60,000 subordinate pushes the combined CLTV from 75% into the 85% band, triggering

migration from the >60–80% risk weight (35%) to the >80–90% risk weight (45%). Loan B's \$18,000 subordinate produces a combined CLTV of 78% — still within the >60–80% band, so no migration occurs. The first lien is structurally identical in both cases, but the regulatory outcome differs by an order of magnitude because of the migration question alone.

The split-lien modification targets band migration specifically.

For Loan A, where migration occurs, the modification at 60/40 weighting raises the risk weight from 35% to 41% and adds \$2,160 of capital per loan. On a size-adjusted basis, this recovers 60% of the gap between the standalone treatment and the combining rule benchmark — matching the 60% weighting in the modification formula. For Loan B, where no migration occurs, the modification is mechanically zero because the risk weight is unchanged. The modification does not impose capital on subordinate liens that do not shift the borrower's effective risk classification; it has no false positives.

The refer-out incentive is concentrated where it matters most.

A bank holding Loan A's first lien can save \$3,600 in capital (size-adjusted) by ensuring the \$60,000 subordinate lien resides at an unaffiliated institution — a strong incentive at the loan level that scales to billions of dollars across the portfolio. A bank holding Loan B's first lien saves nothing by routing the \$18,000 subordinate elsewhere. The proposed rule's structural distortion is concentrated precisely where combined leverage is highest and capital accuracy matters most.

These two loans illustrate why the split-lien capital gap is not uniform across the mortgage portfolio. It is concentrated in loans where the second lien is large enough to trigger band migration — and it is in exactly those loans that the refer-out incentive is strongest and the safety and soundness concern is greatest. The split-lien modification addresses the problem with surgical precision: it applies a meaningful adjustment where the gap is large and no adjustment where the gap is zero.

Data Notes: Property value: \$600,000. First lien: \$450,000 (75% OLTV). Capital ratio: 8%. Loan A second lien: \$60,000 (10% of property value), producing 85% combined CLTV. Loan B second lien: \$18,000 (3% of property value), producing 78% combined CLTV. Risk weight table: 91 FR 15332. Split-Lien RW formula: $(0.60 \times \text{Combined CLTV Band RW}) + (0.40 \times \text{Standalone OLTV Band RW})$, applied to the first lien UPB only.

Appendix C: Origination-Stage Split-Lien Structuring Incentive

Comment on Proposed Rule 91 FR 15332 | Robert Kazdin | June 2026

1. Overview

This appendix illustrates the capital incentive created by the proposed rule when a banking organization structures a high-LTV mortgage as a split-lien transaction rather than as a single higher-LTV first-mortgage exposure. The example compares two economically equivalent structures — each producing 90% combined borrower leverage on a \$1,000,000 property — and shows that the proposed rule’s capital requirement on the retained first-lien exposure differs materially depending on whether the additional leverage is embedded in a single first mortgage or distributed externally through a subordinate lien at an unaffiliated institution. The appendix then shows how the split-lien modification proposed in the main comment letter addresses this incentive.

The capital difference arises from a single feature of the proposed rule: the combining requirement applies only when both the first lien and the subordinate lien are held at the same institution. When the subordinate lien resides at a different institution, the first-lien bank applies its standalone origination OLTV band risk weight as if the subordinate lien did not exist. The origination-stage structuring incentive is a direct and predictable consequence of this feature.

2. Assumptions

Parameter	Value
Property value	\$1,000,000
Total borrower financing	\$900,000 (90% combined leverage)
Capital ratio (standardized minimum)	8%
Risk weight — 90% LTV first lien (>80–90% band)	45%
Risk weight — 80% LTV first lien (>60–80% band)	35%
Split-lien modification weighting (W)	0.60 (60/40 combined/standalone)

3. Structure 1: Traditional Single 90% First-Lien Mortgage

A bank retains a \$900,000 first-lien mortgage at 90% LTV on its balance sheet. The proposed rule assigns the >80–90% OLTV band risk weight of 45%.

$$\text{RWA} = \$900,000 \times 45\% = \mathbf{\$405,000}$$

$$\text{Required Capital} = \$405,000 \times 8\% = \mathbf{\$32,400}$$

4. Structure 2: 80/10 Split-Lien (Retained First Lien Only)

The bank originates the same \$900,000 in total borrower financing but structures the transaction as an 80% first lien (\$800,000) and a simultaneous 10% subordinate lien (\$100,000). The subordinate lien is distributed to an unaffiliated institution at or shortly after closing. The bank retains only the \$800,000 first lien.

Because the subordinate lien resides at a different institution, the combining requirement does not apply. The retained first lien receives the standalone >60–80% OLTV band risk weight of 35%.

$$\text{RWA (retained first lien)} = \$800,000 \times 35\% = \mathbf{\$280,000}$$

$$\text{Required Capital} = \$280,000 \times 8\% = \mathbf{\$22,400}$$

5. Structure 3: The Split-Lien Modification at 60/40

Under the split-lien modification proposed in the main comment letter, the retained first lien receives a blended risk weight reflecting the combined leverage:

$$\text{Split-Lien RW} = (0.60 \times \text{Combined CLTV RW}) + (0.40 \times \text{Standalone OLTV RW})$$

$$\text{Applied to this loan: Split-Lien RW} = (0.60 \times 45\%) + (0.40 \times 35\%) = 27\% + 14\% = \mathbf{41\%}$$

The first lien remains in the bank's portfolio with the corrected risk weight:

$$\text{RWA (retained first lien)} = \$800,000 \times 41\% = \mathbf{\$328,000}$$

$$\text{Required Capital} = \$328,000 \times 8\% = \mathbf{\$26,240}$$

6. Summary Comparison

The three structures are compared below, with two capital columns that separate the risk-weight effect from the size of the exposure. The **Raw Capital** column uses each structure's actual base — \$900,000 for the single 90% first lien (Structure 1) and \$800,000 for the retained first lien in the 80/10 split (Structures 2 and 3), which holds \$100,000 less because the subordinate slice has been moved off the bank's book. Because that larger base would otherwise inflate Structure 1's capital, the **Adjusted for Size** column restates it on the same \$800,000 retained-first-lien base, so the structures differ only by risk weight and not by UPB. The Adjusted figure for Structure 1 is therefore a like-for-like benchmark — what a 90% first lien would cost on the same retained base — not the capital a \$900,000 first lien literally holds. The **Change from Proposed Rule** column shows the additional capital each alternative would require relative to the proposed rule's standalone treatment of the 80/10 structure, using the Adjusted for Size figures.

Structure	Risk Weight	Raw Capital	Adjusted for Size	Change from Proposed Rule
(1) Single 90% first lien	45%	\$32,400	\$28,800	+\$6,400
(2) Split-lien — proposed rule (no modification)	35%	\$22,400	\$22,400	—
(3) Split-lien modification at 60/40	41%	\$26,240	\$26,240	+\$3,840

Footnote: Raw Capital = Risk Weight × Exposure Base × 8% capital ratio. Exposure base is \$900,000 (first lien) for Structure 1; \$800,000 (retained first lien) for Structure 2. Adjusted for Size = Risk Weight × \$800,000 × 8% for all three structures, scaling the single 90% structure down to the retained first-lien base. The Adjusted column allows direct comparison of risk weights on the retained first-lien exposure.

7. Implications

1. The incentive is immediate and at origination. Unlike the post-origination subordinate lien incentive described in the main comment letter — where the capital gap arises only when a borrower subsequently takes out a second lien — the origination-stage structuring incentive is available at the moment of loan origination. A bank can price the capital saving into its origination economics from day one. Under the proposed rule without modification, a bank originating the 80/10 structure holds \$6,400 less capital (on a size-adjusted basis) than a bank originating a single 90% first lien for the same borrower.

2. The split-lien modification substantially reduces the structuring incentive. The modification at 60/40 raises the risk weight on the retained 80/10 first lien from 35% to 41%, requiring approximately \$3,840 of additional capital per loan (on a size-adjusted basis). This closes most of the \$6,400 gap between the proposed rule's standalone treatment and the single 90% first lien benchmark. For deliberately structured high-CLTV piggybacks, the case for a somewhat higher weighting is stronger, which would close more of the remaining gap (see the note below).

3. The modification substantially restores neutrality with insured first-lien origination. Under the proposed rule without modification, a bank originating a traditional 90% LTV first mortgage supported by private mortgage insurance retains the full exposure at the 45% risk weight, while a bank that instead originates an 80/10 split and distributes the subordinate lien externally retains the first lien at only 35% — creating a systematic capital preference for split-lien origination over traditional insured high-LTV lending. The split-lien modification brings the retained first lien risk weight up to 41%, substantially restoring neutrality between the two structures. This is consequential for the private mortgage insurance market and for the GSEs' ability to price combined leverage accurately on guaranteed loans.

The split-lien capital requirement and reporting obligation proposed in the main comment letter would close this origination-stage incentive by requiring the originating bank to apply the split-lien risk weight to the retained first lien whenever a subordinate lien is originated simultaneously and resides at a different institution.

8. Sensitivity Note: Sim Second Structures May Warrant a Higher Weighting

The 60/40 weighting applied throughout the main comment letter is a uniform, book-wide value. Sim second structures — deliberately structured piggyback originations at high combined leverage, such as the 80/10 case shown in this appendix — are a distinct, concentrated category in which combined leverage is highest and the case for a somewhat higher weighting is correspondingly stronger.

These structures are concentrated at large banks with the capital markets infrastructure and broker channels needed to distribute subordinate lien interests externally. The uniform 60/40 remains the appropriate value for the bank book as a whole; for this specific category, the agencies may reasonably consider a higher weighting when implementing the final rule, calibrated using their supervisory loss and income data.

Note: Risk weights reflect the proposed rule's six-band OLV framework (91 FR 15332). The >60–80% band risk weight of 35% and the >80–90% band risk weight of 45% are used as stated in the proposal. The size-adjustment multiplier (8/9) reflects the ratio of retained first-lien exposure (\$800,000) to total borrower leverage (\$900,000) and is specific to the 80/10 structure illustrated. Different split ratios produce different adjustment factors and different capital comparisons.

Appendix D — Derivation of Split-Lien Capital Requirement

Split-Lien Weighting Factor (60/40) Applied to the Current Bank First-Lien Book

1. What this appendix shows

This appendix derives the headline split-lien capital figures cited in the main letter — approximately \$2.0 billion (about 12% of the proposed rule's \$17 billion in headline relief) in the base case, and approximately \$2.8 billion (about 17%) in the conservative case. Every figure is sized on the current \$1.5 trillion bank first-lien book and measured against the same \$17 billion in relief, so the two components combine on a single, consistent basis.

The first component — post-origination subordinate liens — measures capital understated on loans already on the book that carry a second lien held at a different institution. The second — simultaneous seconds — is sized as a current-book estimate: what the same gap would be worth if the over-80% portion of the current book had been split-originated. Both are expressed as a share of the same \$17 billion, so the post-origination figure stands on its own as the empirical floor and the simultaneous figure is additive and clearly identified as a current-book estimate. Every figure is reproducible from the assumptions in Section 2; sources appear in Section 8.

2. The locked assumptions

Assumption	Value	Source / Rationale
Bank first-lien book	\$1.5 trillion	FR Y-14M aggregate (RCMFLBBALTOT).
OLTV distribution	6 bands (Section 3)	Fannie Mae 2025 10-K guaranty book, adjusted toward lower LTVs for bank balance sheets; FRED median ~72%.
Attachment rates (base / cons.)	~30% / ~35%	Tiered by OLTV: 35/35/30/30/25/25 (base), 40/40/35/35/30/30 (conservative).
Split rate (base / cons.)	75% / 85%	Share of attached seconds referred to a different institution: 70% of HELOCs and 85% of CES; at a 65% HELOC / 35% CES mix this weights to 75% (base), with 85% as the conservative bound.
Subordinate-lien slice mix	60% at a 10% slice / 40% at a 20% slice	Derived from the 65/35 HELOC/CES mix and the 70%/85% per-product split shares; see Methodology notes. Underlying volume mix: National Mortgage News (June 5, 2025).
≤50% representative OLTV	40%	A thin (10%) slice leaves a 40% loan within the band; only the thick slice migrates it.
Sim count rate (base / cons.)	30% / 40%	Share of the sim-eligible over-80 pool treated as split-originated piggybacks.
Sold-to-others share (base / cons.)	60% / 75%	Simultaneous seconds held at a different institution; the gap arises only on these.
Split-lien weighting factor	60/40	Split-lien RW = 0.60 × Combined CLTV RW + 0.40 × Standalone OLTV RW.

3. Bank first-lien book population

The proposed rule reduces capital on the \$1.5 trillion bank first-lien mortgage book from approximately \$56 billion (existing flat 50% risk weight) to approximately \$39 billion (proposed LTV-band framework), producing \$17 billion in headline relief. The book's OLTV distribution — adapted from the Fannie Mae 2025 10-K guaranty book and adjusted toward lower LTVs to reflect bank balance sheets — determines how the requirement falls across bands:

OLTV Band	Share of Bank Book	Dollar Amount
≤ 50%	14.6%	\$219B
> 50-60%	11.2%	\$168B
> 60-70%	17.8%	\$267B
> 70-80%	28.8%	\$432B
> 80-90%	13.2%	\$198B
> 90-100%	14.4%	\$216B
Total	100%	\$1,500B

Source: Fannie Mae 2025 Form 10-K (Single-Family Conventional Guaranty Book), adjusted; FRED median OLTV ~72%.

4. Post-origination subordinate lien calculation

For each OLTV band, the affected population is the bank book in that band × the attachment rate (the share of loans that carry a subordinate lien) × the split rate (the share of those seconds held at a different institution). A subordinate lien comes in one of two sizes — a thin slice of about 10% of property value, or a thick slice of about 20% — so the calculation is run once for each size and then combined.

Each slice lifts the borrower's combined CLTV by that many points, which can carry the loan into a higher risk-weight band. The split-lien risk weight is then the 60/40 blend of the two endpoints the rule itself sets — the standalone OLTV risk weight (the first lien on its own) and the combined CLTV risk weight (the band the combined position reaches):

$$\text{Split-Lien RW} = 0.60 \times \text{Combined CLTV RW} + 0.40 \times \text{Standalone OLTV RW}$$

Tables D-2 and D-3 apply this to every band — first treating the subordinate lien as a 10% slice, then as a 20% slice. Each band's split-lien risk weight is a clean 60/40 of its own two endpoints; no risk weight is ever averaged across slice sizes. Table D-4 then combines the two by weighting the dollar results 60/40 (the share of thin to thick slices) and applying the split rate, the share of those seconds held at a different institution. The per-band capital difference is (Split-Lien RW – Standalone RW) × 8% × affected UPB.

Scenario 1 (Base Case) — attachment ~30%, split 75%:

Table D-2 — subordinate lien treated as a thin (10%) slice:

OLTV Band	Affected (\$B)	Combined CLTV	Standalone RW	Combined RW	Split-Lien RW	Capital Diff (\$B)
≤ 50%	76.7	50%	25%	25%	25%	0.00
> 50-60%	58.8	65%	30%	35%	33%	0.14
> 60-70%	80.1	75%	35%	35%	35%	0.00
> 70-80%	129.6	85%	35%	45%	41%	0.62
> 80-90%	49.5	95%	45%	55%	51%	0.24
> 90-100%	54.0	105%	55%	75%	67%	0.52
Total	448.7					1.52

Table D-3 — subordinate lien treated as a thick (20%) slice:

OLTV Band	Affected (\$B)	Combined CLTV	Standalone RW	Combined RW	Split-Lien RW	Capital Diff (\$B)
≤ 50%	76.7	60%	25%	30%	28%	0.18
> 50-60%	58.8	75%	30%	35%	33%	0.14
> 60-70%	80.1	85%	35%	45%	41%	0.38
> 70-80%	129.6	95%	35%	55%	47%	1.24
> 80-90%	49.5	105%	45%	75%	63%	0.71
> 90-100%	54.0	115%	55%	75%	67%	0.52
Total	448.7					3.18

Table D-4 — combined: weight the two slices 60/40, then apply the 75% split rate:

OLTV Band	10% slice (\$B)	20% slice (\$B)	Weighted 60/40 (\$B)	× Split 75% (\$B)	% of \$17B Relief
≤ 50%	0.00	0.18	0.07	0.06	0.3%
> 50-60%	0.14	0.14	0.14	0.11	0.6%
> 60-70%	0.00	0.38	0.15	0.12	0.7%
> 70-80%	0.62	1.24	0.87	0.65	3.8%
> 80-90%	0.24	0.71	0.43	0.32	1.9%
> 90-100%	0.52	0.52	0.52	0.39	2.3%
Total			2.19	1.64	9.6%

Scenario 1 post-origination recovery: approximately \$1.64 billion — about 9.6% of the \$17 billion in headline relief.

Scenario 2 (Conservative Case) — attachment ~35%, split 85%:

Scenario 2 raises attachment to a weighted average of ~35% (40/40/35/35/30/30) and the split rate from 75% to 85%, enlarging the affected population to \$445 billion. The per-band split-lien weights are unchanged; only the affected balances scale.

Band	Affected (\$B)	Recovery (\$M)
≤ 50%	74	71
> 50-60%	57	137
> 60-70%	79	153
> 70-80%	129	864
> 80-90%	50	436
> 90-100%	55	529
Total	445	2,190

Scenario 2 post-origination recovery: approximately \$2.19 billion — about 12.9% of the headline relief.

5. Simultaneous second lien (current-book estimate)

This component sizes the simultaneous-second channel — first liens deliberately capped at 80% with a coordinated second held at a different institution from origination — on today's book rather than on a projected origination flow, so that it shares the same \$17 billion denominator as the post-origination leg. The relevant population is the over-80% portion of the current book (about 27%). To avoid double-counting loans already captured in the post-origination leg, roughly 30% of that pool (about 8% of the book) is reserved to the post-origination channel, leaving a sim-eligible pool of about 19% of the book — approximately \$285 billion.

In a split-originated 80-X structure the first lien sits at 80% OLV (a 35% standalone weight) while the combined position lands in the over-80 bands. The recovery is therefore weighted across those two bands:

Band	Book Share	First-Lien RW	Combined RW	Charge (0.6 × gap × 8%)
> 80-90%	13.2%	35%	45%	0.48%
> 90-100%	14.4%	35%	55%	0.96%
Weighted recovery				0.73%

Applied to the sim-eligible pool at the count and sold-to-others rates for each scenario:

Scenario	Count Rate	Sold	Recovery
Base	30%	60%	\$0.38B (2.2%)
Conservative	40%	75%	\$0.62B (3.7%)

6. Combined headline figures

Adding the post-origination and simultaneous-second components — each sized on the current book and measured against the same \$17 billion in relief — produces the headline split-lien capital figure under each scenario:

Component	Base	Conservative
Post-origination subordinate liens	\$1.64B (9.6%)	\$2.19B (12.9%)
Simultaneous seconds (current-book estimate)	\$0.38B (2.2%)	\$0.62B (3.7%)
Total	\$2.01B (11.8%)	\$2.81B (16.6%)

Base case: approximately \$2.0 billion, offsetting about 12% of the proposed rule's \$17 billion in headline relief. Conservative case: approximately \$2.8 billion, about 17%. Because both components are sized on the current book and measured against the same relief, they combine on a single apples-to-apples basis. The post-origination figure stands on its own as the empirical floor; the simultaneous figure is additive and clearly identified as a current-book estimate.

7. Cross-bank distribution of the capital gap

The headline figures of about 12% (base) and 17% (conservative) are book-weighted averages across the \$1.5 trillion book. Individual banks vary materially in split-lien concentration. Modeling the cross-bank distribution as lognormal with a coefficient of variation of approximately 40%:

Percentile	Base	Conservative
50th (median)	~11%	~15%
75 th	~14%	~20%
90 th	~18%	~25%
95 th	~21%	~29%

Banks at the upper end of split-lien concentration — those with the deepest HELOC and CES referral relationships and the most simultaneous-second origination — face capital impacts well above the book-weighted average, in the range of 18% or more of the headline relief under the base case.

8. Methodology notes and sources

Why 60/40. The 60% weight on the combined CLTV recognizes that the first-lien bank is exposed to the borrower's combined leverage; the 40% weight on the standalone OLTV recognizes that the subordinate lien absorbs first losses up to its UPB. By construction, the modification recovers 60% of the standalone-to-combined risk-weight gap.

Slice mix. The 60/40 split of thin (10%) to thick (20%) slices is not an independent assumption; it follows from the product mix and the per-product split shares. Mapping HELOCs to the thin slice (a typical balance near \$45,000, about 10% of a median home value) and closed-end seconds to the thick slice (near \$90,000, about 20%), and applying the 70% HELOC and 85% CES split shares to a representative 1,000 second liens (650 HELOCs, 350 CES), the split-lien population is $0.70 \times 650 = 455$ thin slices and $0.85 \times 350 = 298$ thick slices, or about 60% thin and 40% thick. Because closed-end seconds are referred to other institutions more often than HELOCs, the split-lien pool is slightly more CES-weighted than the 65/35 product mix, which is what moves the slice mix from 65/35 to 60/40. The underlying HELOC/CES volume mix is from National Mortgage News (June 5, 2025).

Single-book basis. Both components are sized on the current \$1.5 trillion book and measured against the same \$17 billion in relief; the simultaneous leg is a current-book estimate, not a projection of future originations, and is partitioned from the post-origination pool so that no loan is counted twice.

Data sources. Bank book size: FR Y-14M (RCMFLBBALTOT). OLTV distribution: Fannie Mae 2025 Form 10-K (guaranty book), adjusted toward lower LTVs for bank balance sheets; FRED median OLTV ~72%. Subordinate-lien thin/thick split: National Mortgage News (June 5, 2025), adjusted volume. Subordinate-lien balances: New York Fed Consumer Credit Panel and Urban Institute Housing Finance at a Glance.

Appendix E - Alternative: A Case Study in Split-Lien Capital Distortion

Comment on Proposed Rule 91 FR 15332 | Robert Kazdin | June 2026

Purpose: This appendix illustrates, through a single real-world borrower example, how the proposed risk-weight rule creates an unintended incentive for banks to route second liens to other institutions, and how the split-lien modification at 60/40 weighting addresses it. No prior knowledge of bank capital regulation is required.

1. Background: Two Ways Banks Measure Mortgage Risk

When a bank makes a mortgage loan, regulators require it to hold capital as a cushion against potential losses. The amount depends on how risky the loan is judged to be.

The proposed rule uses **original loan-to-value ratio (OLTV)** to assign risk — the loan amount divided by the home’s value at the time of purchase. A lower OLTV means more equity cushion and a lower risk weight; a higher OLTV means less cushion and more required capital.

Banks and borrowers also track **current market loan-to-value ratio (MLTV)**, which uses the home’s present market value. In a rising housing market, MLTV falls as appreciation builds equity, even though the original purchase price — and therefore OLTV — stays fixed. This gap between OLTV and MLTV is the source of the distortion this appendix documents.

2. The Borrower: A Typical 2020 Homebuyer

Consider a borrower who purchased a home in 2020 for \$500,000 with a \$400,000 mortgage (80% OLTV), near the start of the pandemic-era housing boom. All assumptions are grounded in observed market data.

Borrower profile at origination (2020):

Item	Value
Year of purchase	2020
Home purchase price	\$500,000
First lien amount	\$400,000
Original LTV (OLTV)	80% (\$400,000 / \$500,000)
Mortgage interest rate	3.5% (30-year fixed, Freddie Mac survey average early 2020)
Monthly payment	\$1,796
Risk weight band at origination	35% (>60–80% OLTV band)

3. Six Years Later: What the Numbers Look Like in 2026

By 2026 the borrower has made six years of payments, reducing the first lien balance from \$400,000 to \$350,000. Home prices have appreciated approximately 50% — about 7% annualized over the 2020 to 2026 period — creating a large gap between the original purchase price (the OLTV denominator) and current market value (the MLTV denominator).

The borrower's position in 2026:

Item	Value
Current home value	\$750,000 (50% appreciation since 2020)
Remaining first lien balance	\$350,000 (six years of payments at 3.5%)
Current market LTV (MLTV)	47% (\$350,000 / \$750,000)
Equity at current market value	\$400,000 (\$750,000 minus \$350,000)
Original LTV (OLTV) on first lien	70% (\$350,000 / \$500,000)
Risk weight on first lien (standalone)	35% (>60–80% OLTV band)

From a market value perspective this borrower is in excellent shape: \$400,000 in equity and a first lien at only 47% of current market value. From the capital rule's perspective, however, the OLTV on the first lien is still 70% — because the denominator is the original \$500,000 purchase price, not the current \$750,000 market value.

4. The Borrower Takes a Second Lien

This borrower is locked into a 3.5% first mortgage. With rates now significantly higher, a cash-out refinance would mean giving up that rate. The rational choice is a second lien to access accumulated equity.

The borrower takes a \$175,000 second lien. A lender evaluating this on current market value sees a combined balance of \$525,000 against a \$750,000 home — a combined MLTV of 70%, within standard underwriting guidelines. Under the capital rule, however, the combined balance is measured against the original purchase price.

The capital rule's view of the combined lien:

Item	Value
Second lien amount	\$175,000
Combined balance (first + second)	\$525,000
Combined MLTV	70% (\$525,000 / \$750,000) — within normal limits
Combined OLTV (capital rule denominator)	105% (\$525,000 / \$500,000)
Risk weight band triggered (combined)	75% (above 100% OLTV band)

The combined OLTV of 105% places the loan in the highest risk weight band at 75%, even though by any current market measure the loan is well-collateralized. The risk weight on the first-lien bank's position would jump from 35% to 75% under the combining rule, solely because the borrower accessed equity through a second lien.

5. The Split-Lien Modification and Capital Arithmetic

Rather than choosing between two extremes — ignoring the second lien entirely, or treating the bank as if it held both liens — the split-lien modification blends the standalone and combined risk weights, applied to the first lien UPB only. The modification weights the combined risk weight at 60% and the standalone at 40%, reflecting credit risk allocation between the first-lien bank and the subordinate lien holder under PD/LGD analysis: $(0.60 \times 75\%) + (0.40 \times 35\%) = 59\%$, applied to the \$350,000 first lien UPB only — no UPB blending.

Two capital columns separate the risk-weight effect from the size of the exposure. The Raw Capital column uses each scenario's actual base — \$350,000, the retained first lien, under the proposed rule and the modification, and the \$525,000 combined balance under the combining rule, which capitalizes both liens. Because that larger base would otherwise inflate the combining-rule capital, the Adjusted for Size column restates it on the same \$350,000 first-lien base, so the scenarios differ only by risk weight, not UPB. The Adjusted figure for the combining rule is therefore a like-for-like benchmark — what the combined-leverage risk weight would cost on the retained first-lien base — not the capital the combining rule literally holds on the \$525,000 balance. The Change from Proposed Rule column is computed on this common base, relative to the proposed rule's standalone treatment.

Scenario	Risk Weight	Raw Capital	Adjusted for Size	Change from Proposed Rule
Proposed rule (no 2nd recognized)	35%	\$9,800	\$9,800	—
Split-lien modification (60/40)	59%	\$16,520	\$16,520	+\$6,720
Combining rule (if same bank, both liens)	75%	\$31,500	\$21,000	+\$11,200

Raw Capital = Risk Weight $\times$ Exposure Base $\times$ 8% capital ratio. Exposure base is \$350,000 (first lien) under the proposed rule and split-lien modification; \$525,000 (combined balance) under the combining rule. Adjusted for Size = Risk Weight $\times$ \$350,000 $\times$ 8% for all three scenarios, scaling the combining rule capital down to the retained first-lien base.

6. What This Means

The capital drain from the proposed rule as written.

Without any modification, the proposed rule assigns the first-lien bank a risk weight based only on its standalone 70% OLTV. Capital on the first lien is \$9,800 — as if the \$175,000 second lien did not exist. The bank has a direct financial incentive to ensure the second lien resides at another institution, preserving the \$9,800 capital charge rather than facing the size-adjusted \$21,000 combining rule benchmark. This is not speculative — it is a mathematically predictable response to the rule's incentive structure. The modification at 60/40 charges the first-lien bank \$16,520 — an increase of \$6,720 over the standalone treatment and \$4,480 below the size-adjusted level.

The 60/40 weighting is calibratable.

The 60/40 weighting reflects PD/LGD analysis of credit risk allocation between the first-lien and subordinate-lien holders applied across the bank book. The agencies possess supervisory loss and income data to calibrate the weighting further. The direction of the modification is unambiguous under any plausible calibration; the 60/40 split is a defensible starting point that recovers most of the capital gap.

Why this example is not unusual.

This borrower profile, prior to obtaining new financing, describes millions of current homeowners — not an unusual case. The overwhelming majority of 2020 and 2021 vintage borrowers are locked into first mortgages at 3% to 4% rates. With current mortgage rates significantly higher, a cash-out refinance would mean surrendering that rate permanently — an economically irrational choice for most borrowers. The far more attractive alternative is a second lien: the borrower taps accumulated equity while keeping the low-rate first mortgage intact. Covid-era borrowers are already doing exactly this in large and growing numbers, creating split-lien structures in the process. The incentive is straightforward and durable — as long as current rates remain above 2020–2021 origination rates, which could persist for many years, the rational choice for millions of borrowers is a second lien rather than a refinance. There is no reason to believe this trend will reverse. The OLTV/MLTV divergence grows as appreciation accumulates, making the capital distortion larger over time, not smaller.

Summary: The proposed rule, as written, creates a rational incentive for banks to route second liens to other institutions, keeping first-lien capital at \$9,800 rather than the \$21,000 size-adjusted combining rule benchmark. The split-lien modification at 60/40 — applying a blended risk weight to first-lien UPB — charges \$16,520 on the first lien. This approach is conceptually principled, administrable, and calibratable using supervisory data.

Data sources and assumptions

Item	Value / Source
Home price appreciation (50%)	FHFA House Price Index 2020–2026
Mortgage rate (3.5%)	Freddie Mac Primary Mortgage Market Survey, early 2020
Amortization (\$400K to \$350K, 6 yrs at 3.5%)	Verified by calculation; actual balance \$349,646
Risk weight table	91 FR 15332, standardized risk weights for residential mortgage exposures
Capital ratio (8%)	Proposed rule minimum Tier 1 plus Tier 2 capital requirement
Second lien underwriting (70% MLTV)	Consistent with standard home equity lending guidelines
60/40 weighting	Applied uniformly across the bank book; derived from PD/LGD analysis of senior first-lien positions

Appendix F

National Mortgage Lien and CLTV Clearinghouse (NM LCC)

Note on the Author and Purpose of this Appendix: The purpose of this appendix is to demonstrate that a national mortgage lien data registry covering both first and subordinate liens is plausible and could be implemented within existing housing finance infrastructure. The author is not a systems architect, and this appendix is not a fully specified operational design document. The framework described below identifies the minimum reporting architecture necessary to support the split-lien capital recognition requirement and shows that the data, the reporting parties, and the operational pathways already exist in usable form. Where appropriate, the appendix defers specific implementation parameters to the agencies, who are better positioned to determine the details based on supervisory experience and operational considerations.

I. Purpose and Scope

This appendix describes the minimum operational architecture necessary to implement the split-lien capital recognition requirement proposed in the main comment letter. The architecture rests on a single utility — the National Mortgage Lien and CLTV Clearinghouse, or NMLCC — that collects loan-level data on first liens and subordinate liens secured by residential real property and computes the combined leverage that the proposed capital rule requires.

The NMLCC is proposed as a prudential mortgage-risk and capital-monitoring utility. It is not a consumer-credit surveillance system or a replacement for any existing mortgage recording or registration infrastructure. Its purpose is to enable accurate combined-leverage measurement so that the split-lien capital framework operates as intended.

II. Connection to the Proposed Capital Rule

The NMLCC framework is designed to support the split-lien capital recognition requirement proposed in the main comment letter. The proposed banking rule produces a structural mismatch when a borrower holds first and subordinate liens at different institutions: combined leverage rises but neither institution's books reflect the full risk position. The main comment letter proposes a blended risk weight (60% combined CLTV band, 40% standalone OLTV band, applied to the first lien UPB) to address this mismatch.

Two pieces of information are required to compute this blended risk weight for any specific first-lien position: the standalone OLTV of the first lien, and the combined CLTV across all liens secured by the same property. The NMLCC provides both pieces of information from a single utility. A banking organization computing capital for a first-lien position queries the NMLCC, receives the combined leverage data, and applies the appropriate risk weight. Supervisors examining the institution's capital adequacy query the same utility and verify the calculation against the same data.

The architecture establishes a single source for combined leverage. The bank's capital calculation and the supervisor's verification draw on identical data. This eliminates reconciliation friction between the institution's reporting and the supervisor's examination, which is the operational benefit of holding both lien types in a single utility rather than maintaining separate first-lien and subordinate-lien data systems.

III. Core Supervisory Objective

Under the agencies' proposed mortgage capital framework, combined borrower leverage is the economically relevant risk metric for determining first-lien capital adequacy. Yet three specific information gaps prevent the framework from operating accurately:

- Combined borrower leverage may increase materially after origination without the first-lien institution's knowledge.
- First-lien institutions may continue receiving favorable capital treatment based on origination metrics that no longer reflect true combined exposure, with no operational mechanism to detect or correct the mismatch.
- Prudential supervisors may have limited visibility into evolving leverage structures across institutions — the same blind spot that affects individual lenders also affects supervisory monitoring.

The operational objective of the NMLCC is to create a centralized reporting and matching utility capable of providing accurate, current combined-leverage data for any first-lien residential mortgage exposure subject to the capital rule. The utility serves two functions simultaneously: it enables banking organizations to compute capital accurately at the time of calculation, and it enables supervisors to verify those calculations against the same underlying data.

IV. Data Architecture

The NMLCC collects loan-level data on both first liens and subordinate liens secured by residential real property. Each lien type has a distinct reporting pathway, and the utility links the records by property identifier to produce a complete picture of leverage on each property.

A. First-Lien Data

For each first-lien residential mortgage loan, the servicer reports the following fields at origination (or at servicing inception if the loan transfers in), with periodic updates as described below:

Field	Purpose
First-lien origination amount and current balance	Combined CLTV numerator (first-lien portion)
Property value at origination	OLTV denominator for the standalone risk weight calculation
Origination date	Establishes timing for combined leverage calculation
Property identifier	Standardized address or APN; enables matching with subordinate liens
Loan identifier	ULI or equivalent
Originating institution identifier	Enables institution-level supervisory reporting
Account status (current, delinquent, modified, etc.)	Supports supervisory analysis

At each reporting interval, the first-lien servicer also reports the current first-lien balance, reflecting scheduled amortization and any curtailments or partial prepayments, together with account status and any payoff or modification. Updating the first-lien balance is necessary because the combined CLTV numerator is the sum of the current first-lien and current subordinate-lien balances; first-lien paydown lowers combined leverage over time, just as subordinate-lien draws raise it, so both balances must be current for the combined CLTV to be accurate.

First-lien data is already collected through existing regulatory reporting infrastructure. Large banks report comparable fields through FR Y-14M. GSE-backed loans are tracked through Fannie Mae and Freddie Mac servicing systems. Smaller institutions report through call reports and other supervisory channels. The framework routes this existing data to the NMLCC as a single, integrated source of truth. The mandate is not to create new data but to route data already produced to a central utility.

B. Subordinate-Lien Data

For each subordinate-lien residential mortgage loan, the servicer reports the following fields at origination (or at servicing inception if the loan transfers in) and updates periodically thereafter:

Field	Purpose
Subordinate-lien origination amount	Closed-end second origination balance; HELOC maximum approved draw limit and any HELOC drawn amount at origination
Origination date	Establishes timing relative to first lien
Lien position	Second, third, or other – enables proper CLTV ordering
Property identifier	Standardized address or APN consistent with first-lien record
Loan identifier	ULI or equivalent
Originating institution identifier	Enables institution-level supervisory reporting

At each reporting interval, the subordinate-lien servicer also reports: current amortized second-lien balance or current drawn HELOC balance; maximum HELOC exposure limit; HELOC account status; payoff or prepayment status; and charge-off status. The HELOC maximum exposure limit is reported separately from the drawn balance to support both current CLTV calculation and maximum potential exposure CLTV calculation.

C. Combined CLTV Computation

For each property identifier, the NMLCC links the first-lien record and any subordinate-lien records and computes the combined CLTV. This is a mechanical calculation from the data the utility holds: combined balance divided by property value at first-lien origination. The combined CLTV is available to authorized queriers (banking organizations holding the first lien, prudential supervisors examining the institution, and other authorized parties as defined by the agencies).

Holding both lien types in a single utility eliminates the need for cross-system reconciliation between the bank's first-lien data and a separate subordinate-lien registry. The bank's capital calculation, the supervisor's verification, and any third-party use (such as GSE risk pricing) all draw on identical data. This is the operational benefit of a comprehensive registry over a subordinate-lien-only registry: a single source of truth for combined leverage.

V. NMLCC Operational Structure — Five-Step Flow

The NMLCC operates as a closed-loop reporting system. Institutions submit loan-level data through their servicers, the utility aggregates and computes combined leverage by property, and authorized queriers access the data to support capital calculation and supervisory oversight. The five operational steps are:

Step	Name	Description
1	Origination Reporting	When a residential mortgage lien is originated (first lien or subordinate lien) and the loan begins servicing, the servicer reports the loan-level fields described in Section IV to the NMLCC.
2	Periodic Updates	At each reporting interval (proposed quarterly), servicers report current balances, status changes, and any new originations since the prior interval.
3	Property-Level Aggregation	The NMLCC links records by property identifier and computes the combined CLTV for each property holding multiple liens.
4	Authorized Queries	Banking organizations, prudential supervisors, and other authorized parties query the utility to obtain combined leverage data for capital calculation, supervision, or risk management purposes.
5	Discrepancy Resolution	Where the utility identifies inconsistencies (overlapping records, missing data, conflicting property identifiers), defined resolution procedures ensure data integrity. The agencies define the resolution protocol.

VI. Legal, Regulatory, Technical, and Operational Considerations

Implementation of the NMLCC framework would require resolution of legal, privacy, technical, operational, and supervisory coordination issues, which is the agencies' role. These include: statutory authority for collecting comprehensive first-lien and subordinate-lien data; privacy and data protection requirements; technical infrastructure (whether the utility is built within an existing federal entity such as FHFA, hosted by a private sector contractor, or operated as a joint utility); operational governance; and coordination with the CFPB, state regulators, and the GSEs.

These issues are tractable, but they require specific policy and operational decisions that are outside the scope of this comment letter. The agencies are better positioned to determine the appropriate institutional location, governance structure, and authority basis for the utility.

VII. Why the NMLCC Is Operationally Feasible

The purpose of this appendix is not to propose a fully specified operational implementation model, but rather to demonstrate that the data and reporting infrastructure necessary to support the split-lien capital recognition requirement already exist in usable form.

The framework appears operationally feasible because the data it requires is not new. Servicers maintain current loan-level data on both first liens and subordinate liens throughout the loan's life as part of their ongoing operations. First-lien data is already produced for FR Y-14M reporting, GSE reporting, call reports, and securitization trustee reporting. Subordinate-lien data is maintained by servicers for similar regulatory and operational purposes. The NMLCC routes this existing data to a central utility; it does not require institutions to generate information they do not already have.

The operational burden is bounded because the data is already produced. Servicers are already issuing multiple parallel data feeds. Adding the NMLCC as one additional recipient feed is incremental, not foundational. Banking organizations querying the utility consume data from a single source rather than reconciling across multiple internal and external systems.

VIII. Reporting Scope and Applicability

The reporting framework allocates responsibility to a single party: the servicer of each residential mortgage lien (first or subordinate). The servicer is the institution that handles the loan day-to-day — collecting payments, tracking balances, handling delinquencies. Servicers are the appropriate reporting party because they have the data: they receive a complete loan file at servicing inception and maintain current loan-level information throughout the loan's life.

The servicer reports loan-level data to the NMLCC, including origination data received from the originator at loan transfer and ongoing data generated during the loan's life. There is no separate reporting obligation on the originator, the loan owner, or any other party in the chain. Where an institution originates a loan and self-serves in-house, that institution is its own servicer and reports under the same obligation. This per-lien obligation applies even when a single institution holds both the first and subordinate liens: the servicer reports each lien separately, so that registry coverage stays complete, supervisors can verify the combined treatment against the same data, and reporting continues without interruption if either lien is later sold or its servicing transferred.

The framework will need to address how reporting responsibility transfers when servicing transfers between institutions. The agencies should determine the appropriate transition mechanism, including the timing and format of the data handoff to ensure continuity in the NMLCC's records.

Most residential mortgage servicing volume in the United States flows through consolidated servicing platforms — major bank servicers, major non-bank servicers, and specialized HELOC servicing operations. Servicing is a scale business, and the market has consolidated accordingly. A comprehensive reporting framework that applies to all servicers therefore captures the vast majority of mortgage volume from day one. The agencies may exempt small servicers from the reporting requirement if they choose to, based on operational burden considerations, supervisory data on servicing market structure, and other factors within their judgment. This comment letter does not propose either an exemption decision or specific size parameters; both questions are matters for agency determination.

Where existing statutory authority does not extend to non-depository servicers, the banking agencies should coordinate with the CFPB, state regulators, and Congress as needed to establish the

necessary reporting authority for non-bank servicers. This is the same kind of cross-agency coordination that has been used for other non-bank regulatory requirements.

A first-lien bank that queries the NMLCC in good faith and receives no subordinate-lien match is not subject to the split-lien capital recognition requirement for that loan, unless the bank has independent knowledge of subordinate financing. The safe harbor recognizes that registry coverage may be incomplete in cases where the agencies have established exemptions for small servicers, where servicing is in transition between institutions, or in other implementation-defined circumstances. First-lien banks should not bear capital consequences for the registry's coverage gaps.

Acknowledgment of reporting slippage: The reporting framework will produce data that lags true real-time combined leverage by some bounded amount. Quarterly reporting cycles, servicing transitions, and any small-servicer exemptions the agencies establish all contribute to bounded slippage. The framework is designed to produce the data necessary for the proposed capital rule to operate as intended; it is not designed to produce instantaneous, perfect leverage data. Some lag is acceptable and expected. The safe harbor described above protects first-lien banks from capital consequences for slippage-related coverage gaps.

IX. Summary: Reporting Party by Data Type

The reporting framework can be summarized in a single table showing which party reports each data type:

Data Type	Reporting Party	Cycle
First-lien origination data	Servicer of the first lien	At servicing inception
First-lien periodic updates	Servicer of the first lien	Quarterly
Subordinate-lien origination data	Servicer of the subordinate lien	At servicing inception
Subordinate-lien periodic updates	Servicer of the subordinate lien	Quarterly
Small-servicer exemptions	Agency discretion	The framework applies to all servicers. The agencies may exempt small servicers if they choose, based on operational burden considerations.