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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-qoe5-akwu)

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 published at 91 FR 15332. I submit these comments in my individual capacity, drawing on experience in housing finance, mortgage credit risk, interest-rate risk management, 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.

These comments principally address Question 9 of the proposal concerning alternative approaches to account for risks other than credit risk posed by residential mortgage lending activities. They also address Question 2 regarding accumulated other comprehensive income (AOCI) and Question 1 regarding mortgage servicing assets.

The agencies' proposal appropriately improves the alignment between regulatory capital requirements and residential mortgage credit risk. However, it does not provide a comparable framework for measuring and capitalizing material interest-rate risk. The Executive Summary that follows outlines the principal arguments and recommendations.

EXECUTIVE SUMMARY

The agencies' March 19 proposal appropriately improves the alignment between regulatory capital requirements and residential mortgage credit risk through more granular risk weights. However, the proposal does not provide a comparable framework for measuring and capitalizing material interest-rate risk, despite recent evidence demonstrating the magnitude of losses that such exposures can generate.

Several considerations support a more formal interest-rate-risk framework.

First, the proposal lowers capital requirements for mortgage assets that are among the most significant sources of duration exposure on bank balance sheets. As mortgage holdings increase in response to the proposal's incentives, the importance of a complementary interest-rate-risk framework will increase.

Second, recent experience demonstrates that interest-rate risk can generate losses comparable to, or larger than, many risks currently addressed through detailed Pillar 1 capital requirements. Recent research estimates that Federal Reserve rate increases reduced the market value of U.S. bank assets by approximately \$2 trillion. Treasury securities, agency mortgage-backed securities, and residential mortgage loans collectively represent approximately 25 percent of assets across large commercial banks, on average. However, this average masks substantial variation across institutions. At some large regional institutions reach approximately 30 to 40 percent of total assets. These concentrations remain substantial relative to Silicon Valley Bank's approximately 55 percent concentration prior to its failure.

Third, historical experience demonstrates that sophisticated risk management alone may not be sufficient to address concentrated duration exposure. Prior to 2008, Fannie Mae and Freddie Mac operated under formal interest-rate-risk capital requirements, yet policymakers ultimately concluded that concentrated retained portfolios posed broader systemic concerns. Similarly, the collapse of Silicon Valley Bank highlighted limitations in relying exclusively on supervisory and institution-specific approaches to constrain the accumulation of material interest-rate risk.

Fourth, international experience demonstrates that more structured approaches are feasible. Australia, the European Union, and other jurisdictions have adopted quantitative frameworks that supplement supervisory oversight with standardized measures of interest-rate risk.

Accordingly, these comments recommend that the agencies adopt a standardized interest-rate-risk capital framework that complements existing supervisory processes. Such a framework could initially focus on the largest banking organizations and institutions with material concentrations of duration-sensitive assets, incorporate standardized stress-testing methodologies, and be supported by enhanced reporting requirements. The agencies' estimate of approximately \$87.7 billion in aggregate capital relief provides a timely opportunity to improve the treatment of interest-rate risk while preserving meaningful net capital relief for the banking industry. Allocating a modest portion of this relief to an interest-rate-risk charge would preserve meaningful net capital relief while improving overall risk alignment.

I. THE EMERGENCE OF THE STRUCTURAL MATURITY MISMATCH

The revised capital framework released on March 19 introduces a more granular approach to loan-to-value (LTV) risk weights. While this more accurately reflects credit risk, it lacks a corresponding mechanism to address interest-rate risk (IRR). By assigning low risk weights to the expected increase in 30-year fixed-rate mortgages without a parallel capital treatment for the interest-rate risk they carry, the proposed framework may increase incentives for some institutions to retain larger long-duration mortgage exposures, potentially increasing maturity mismatch. The framework would be more internally consistent if a comparable structure were applied to interest-rate risk.

The March 19 proposal also reduces the capital requirement on Mortgage Servicing Rights (MSRs) by removing the cap on Tier 1 capital allowed for MSR. Since MSRs are subject to prepayment risk, an IRR capital charge would also capture the risk they present in bank portfolios.

The framework appears to also disadvantage institutions that actively manage interest-rate risk. Such firms hedge exposure, maintain more conservative balance sheets, and limit maturity mismatch by committing capital to those disciplines. Institutions assuming larger IRR exposures can avoid those costs and appear more profitable. A well-designed IRR charge would help level that playing field.

Interest-rate risk is not confined to a handful of outlier institutions. Federal Reserve H.8 data indicate that Treasury securities, mortgage-backed securities, and 1–4 family residential mortgage loans collectively represent approximately 25 percent of assets across large commercial banks, on average. However, this average masks substantial variation across institutions. At some large regional banks, concentrations reach approximately 30 to 40 percent of total assets. These concentrations are noteworthy because Silicon Valley Bank's comparable concentration reached approximately 55 percent prior to its collapse. As a result, interest-rate risk represents one of the largest identifiable risk exposures on bank balance sheets.

The March 19 proposal appropriately lowers capital requirements for many mortgage exposures by improving the alignment between capital requirements and credit risk. These refined requirements begin to create the appropriate economic incentives to manage a portfolio of mortgage loans. However, these same assets contribute significantly to duration exposure. To the extent the proposal encourages additional mortgage holdings, the importance of a complementary framework for IRR increases. Like the credit risk framework, an IRR capital charge would create similar economic incentives for banks to self-regulate their portfolio. Had such a charge been in place at the beginning of this decade, it is possible some of the major problems at SVB would have been ameliorated.

Future policy developments may further increase the importance of interest-rate risk management. Several policymakers have advocated reducing or eliminating the Federal Reserve's holdings of agency mortgage-backed securities. To the extent mortgage duration risk migrates from public-sector balance sheets to private financial institutions, banks and other

investors may assume a larger share of that exposure. This possibility reinforces the importance of establishing a more systematic framework for measuring and capitalizing material interest-rate risk.

II. THE GSE EXPERIENCE

Prior to 2008, Fannie Mae and Freddie Mac were two of the most sophisticated interest-rate-risk managers in the world, operating under risk-based capital requirements that explicitly incorporated interest-rate risk. Yet, even with that expertise, Congress and the FHFA ultimately required a wind-down of their retained portfolios because concentrated duration exposure was viewed as a systemic concern. Today, the GSEs transfer that 30-year interest-rate risk to a global market of investors who price it daily through yield spreads, effectively imposing an implicit capital charge. If policymakers were willing to impose such limits even where interest-rate risk was modeled, capitalized, and actively managed, a more modest step—an explicit capital charge for banks—is warranted.

The GSE experience also highlights a broader economic inconsistency. Markets routinely assign a cost to duration exposure, and policymakers have long recognized that concentrated interest-rate risk can create systemic concerns. There is therefore little economic justification for allowing banks to hold substantial long-duration exposures without a comparable explicit capital charge. Nor does it make sense to maintain a highly developed capital framework for mortgage credit risk while relying primarily on less standardized supervisory processes for interest-rate risk. At a minimum, banks should face a capital requirement aligned with material duration exposure.

III. THE SVB LESSON: THE LIMITS OF REACTIVE AOCI

The inclusion of AOCI in the March 19 proposal is an important but limited step. By requiring recognition of unrealized losses on available-for-sale securities, it addresses a reporting gap exposed during the 2023 banking crisis. However, AOCI is inherently backward-looking, capturing losses only after rate movements occur, and it excludes most of the banking book.

A hard-wired interest-rate risk capital charge would provide stronger incentives to hedge, transfer, or pre-fund these exposures when assets are originated, and would complement supervisory tools by establishing a more consistent forward-looking baseline.

The continued existence of substantial unrealized losses in held-to-maturity portfolios illustrates the limitations of relying solely on AOCI. Public disclosures indicate that some large banking organizations continue to carry significant unrealized losses in HTM securities that are largely excluded from regulatory capital measures. Were the losses associated with the HTM securities realized, the current well-capitalized status for some banks could be put in jeopardy. The issue exposed by SVB has therefore not been fully resolved.

IV. RECENT EXPERIENCE DEMONSTRATES THE MAGNITUDE OF INTEREST-RATE RISK

Recent research by Jiang, Matvos, Piskorski, and Seru estimates that Federal Reserve rate increases reduced the market value of U.S. bank assets by approximately \$2 trillion. Average asset values declined by roughly 10 percent, with substantially larger declines at the most exposed institutions. The authors further estimate that approximately ten percent of banks experienced unrealized losses larger than those reported by Silicon Valley Bank prior to its failure.

The significance of these findings extends beyond the magnitude of the losses themselves. A decline of approximately \$2 trillion in bank asset values suggests that interest-rate risk was not confined to a small number of poorly managed institutions. Rather, it was embedded across substantial portions of the banking system. Bank of America alone reported unrealized losses approaching \$100 billion on Treasury securities and agency mortgage-backed securities. These losses arose primarily from duration exposure rather than credit deterioration. Together, these findings demonstrate that interest-rate risk can generate losses comparable to, or larger than, many risks currently addressed through detailed Pillar 1 capital requirements.

The broader lesson of the recent rate cycle is not that a single institution failed. Rather, it is that substantial concentrations of duration-sensitive assets remain embedded throughout the banking system. Treasury securities, agency mortgage-backed securities, and residential mortgage loans collectively represent approximately 25 percent of assets across large commercial banks, on average. However, this average masks substantial variation across institutions. Some large regional banks maintain materially higher concentrations, with long-duration assets representing approximately 30 to 40 percent of total assets.

These concentrations are particularly significant because increasing mortgage lending and mortgage asset holdings is one of the principal objectives of the March 19 proposal. Mortgage assets are among the largest duration-sensitive assets held by banks. Because the proposal is intended to increase mortgage lending and mortgage asset holdings, concentrations of duration-sensitive assets will increase.

This observation is especially important because Silicon Valley Bank's duration-sensitive assets reached approximately 55 percent of total assets prior to its collapse. Accordingly, the gap between current concentrations at some institutions and the concentrations present at SVB is considerably smaller than commonly recognized. SVB's duration concentration was unusual in degree, but not in kind. Several institutions continue to maintain concentrations of duration-sensitive assets that are materially closer to SVB than commonly recognized.

The agencies' proposal appropriately improves the alignment between capital requirements and mortgage credit risk. However, by lowering capital requirements for mortgage assets without a comparable framework for interest-rate risk, the proposal will increase concentrations in the same broad asset categories that generated approximately \$2 trillion of market-value losses during the recent rate cycle. Given the scale of those losses, the existing concentration of duration-sensitive assets throughout the banking system, and the likelihood that the proposal will

further increase such concentrations, a more formal framework for measuring and capitalizing material interest-rate-risk exposure is warranted.

V. HISTORICAL CONTEXT: THE EVOLUTION OF TECHNICAL RIGOR

The omission of a standardized IRR capital charge reflects a broader evolution in regulatory approach. During the 1990s, the OTS utilized a quantitative model that acted as a standardized early-warning system. However, when the OTS was merged into the OCC in 2011, this quantitative standardization was eliminated as supervisory approaches evolved toward more institution-specific review frameworks. The collapse of SVB in 2023 highlighted that examiner judgment alone, while essential, is not a consistent substitute for standardized quantitative measures. This rulemaking presents a timely opportunity to strengthen quantitative disciplines that were more prominent in earlier frameworks.

VI. ENHANCING SUPERVISORY CONSISTENCY AND TRANSPARENCY

The agencies' March 2026 proposal continues a longstanding pattern in which the regulatory treatment of interest-rate risk remains less standardized than that of credit risk. For decades, the agencies have relied on supervisory and institution-specific approaches rather than a standardized IRR capital framework. The collapse of Silicon Valley Bank in 2023 highlighted the challenges of relying primarily on supervisory review to identify and address concentrations in long-duration assets, particularly when such risks accumulate gradually.

By incorporating an interest-rate-risk charge into regulatory capital requirements, the agencies can reinforce existing supervisory processes while creating clearer and more consistent incentives for institutions to manage duration exposure. Capital requirements and supervision serve complementary functions. Supervision provides institution-specific oversight and judgment, while capital requirements establish transparent and consistent minimum standards across institutions.

This distinction is particularly important because the Government Accountability Office and Congressional oversight committees have, at various times, raised concerns regarding supervisory responsiveness and escalation processes, noting that risks may be identified well before formal corrective actions occur. A standardized IRR framework would therefore strengthen the overall regulatory framework by supplementing, rather than replacing, supervisory processes and by providing a transparent baseline that operates consistently across institutions.

VII. RESTORING TECHNICAL RIGOR AND PUBLIC TRANSPARENCY

A practical approach would initially apply standardized IRR capital requirements to the largest and most complex banking organizations and to other institutions with material concentrations of duration-sensitive assets. Interest-rate risk is driven by balance-sheet composition as much as institution size. Some mortgage-focused institutions maintain substantially greater duration concentrations than diversified money-center banks. A concentration-based trigger would therefore better align the framework with underlying risk.

To more consistently capture material interest-rate-risk exposure, the agencies should use a mandatory stress-test framework for the largest and most complex banking organizations, drawing in part on the structure of the original OTS Net Portfolio Value (NPV) model. These tests would simulate severe parallel and non-parallel rate shocks to help inform the calibration of capital buffers associated with significant interest-rate-risk exposure. As regulators gain experience with the framework and assess its effectiveness, they could consider whether elements of the approach should be extended to additional banking organizations over time.

To determine the specific application of these charges and supplement supervisory oversight, the agencies could draw on established models, including:

- **The OTS Model:** The agencies could revive the 1991 Office of Thrift Supervision (OTS) proposal, which required banks to hold capital equal to a specified portion of the estimated decline in economic value resulting from a 200-basis-point interest rate shock.
- **The 15 Percent Standard (SOT):** Following international Basel and EBA standards, the agencies could implement a standardized Supervisory Outlier Test (SOT), where a bank's capital charge would be based on the extent to which a standardized interest rate shock causes its Economic Value of Equity (EVE) to decline by more than 15 percent of Tier 1 capital.

Whatever methodology regulators choose, they could calibrate any new IRR charge to a portion of the capital relief created by lower mortgage risk weights. The timing is favorable, as the agencies' proposal is estimated to provide roughly \$87.7 billion in aggregate capital relief. Redirecting a modest share of that benefit into an interest-rate-risk capital charge would preserve net relief for banks while better aligning capital with total risk.

This framework is intended to complement, not replace, existing supervisory oversight. It is designed to support supervisory effectiveness by providing a consistent and transparent baseline for assessing interest-rate risk.

The agencies should also establish a standardized reporting framework, informed by prior OTS practice, to collect IRR exposure data from institutions above an appropriate size threshold. Covered firms would report key characteristics of assets, deposits, and off-balance-sheet exposures, enabling consistent measurement across institutions. This would provide regulators, Congress, and the public with a common basis for comparing interest-rate risk. It would also place IRR transparency on a footing comparable to credit risk.

Some critics may argue that interest-rate risk is too complex for standardized capital treatment. But if interest-rate risk is genuinely difficult to model and manage, regulators should arguably be more concerned — not less — about maintaining at least a modest standardized framework to help protect the banking system from concentrated duration exposure. Complexity is not a reason to avoid prudential safeguards; it is one reason they may be necessary.

VIII. INTERNATIONAL EXPERIENCE DEMONSTRATES THE FEASIBILITY OF IRR CAPITAL FRAMEWORKS

The United States is not the only jurisdiction that has grappled with the challenge of incorporating interest-rate risk into prudential regulation. Several major banking systems have adopted structured approaches that supplement supervisory oversight with standardized quantitative measures.

Australia provides perhaps the clearest example. Under Prudential Standard APS 117, larger banking organizations are required to hold capital against Interest Rate Risk in the Banking Book (IRRBB) through a framework that directly affects regulatory capital requirements. By assigning an explicit capital cost to material duration mismatches, the Australian approach creates incentives for banks to hedge, transfer, or otherwise manage interest-rate risk before losses emerge. Australia's experience demonstrates that a more structured IRR framework can operate successfully in practice.

The European Union has adopted a different but equally instructive model. European regulators require banks to measure both Economic Value of Equity (EVE) and Net Interest Income (NII) under standardized interest-rate shock scenarios. Institutions experiencing significant declines in economic value may be subject to additional supervisory actions or capital requirements. Although the European framework relies more heavily on supervisory processes than Australia's approach, it nevertheless establishes clear quantitative thresholds that promote transparency and comparability. Together, the Australian and European approaches demonstrate that standardized interest-rate-risk frameworks are both feasible and consistent with modern bank supervision.

IX. CAPITAL RE-BALANCING: A TIMELY OPPORTUNITY

The banking agencies estimate that the March 19 proposal will provide approximately \$87.7 billion in capital relief. Allocating a modest portion of this relief to an interest-rate-risk charge would preserve meaningful net capital relief while improving overall risk alignment.

X. CONCLUSION

Historically, the agencies have relied primarily on supervisory and institution-specific approaches rather than a standardized interest-rate-risk capital framework. Recent experience suggests that this approach deserves reconsideration. Research indicates that Federal Reserve rate increases reduced the market value of U.S. bank assets by approximately \$2 trillion, with losses concentrated in many of the same asset categories receiving favorable treatment under the proposed framework, including Treasury securities, agency mortgage-backed securities, and residential mortgage loans. The significance of the recent rate cycle is not merely that interest-rate risk generated approximately \$2 trillion of losses. It is that substantial concentrations of the same duration-sensitive assets remain embedded throughout the banking system today.

The continued concentration of long-duration assets across the banking system demonstrates that interest-rate risk remains an important prudential issue. Treasury securities, agency mortgage-backed securities, and residential mortgage loans collectively represent approximately 25 percent

of large commercial bank assets, on average. However, some large regional banks maintain materially higher concentrations, with long-duration assets representing approximately 30 to 40 percent of total assets. These concentrations remain substantial relative to the approximately 55 percent duration concentration reported by Silicon Valley Bank prior to its failure.

The March 19 proposal is specifically intended to increase mortgage lending and mortgage asset holdings through lower capital requirements. Consequently, concentrations of duration-sensitive assets will increase, further strengthening the case for a formal framework that measures and capitalizes material interest-rate-risk exposure.

The broader lesson of Silicon Valley Bank is not simply that one institution failed. It is that material duration exposure remained embedded across significant portions of the banking system. The scale of recent losses raises legitimate questions regarding whether interest-rate risk should continue to remain largely outside the Pillar 1 capital framework.

A standardized IRR framework would complement existing supervisory processes by creating transparent and consistent incentives for institutions to manage duration exposure. Such a framework could initially focus on the largest banking organizations and institutions with material concentrations of duration-sensitive assets while preserving supervisory flexibility.

The March 19 proposal correctly recognizes that mortgage credit risk should be reflected in capital requirements. The same principle should apply to material interest-rate-risk exposure.

Capital requirements are designed to address risks capable of generating material losses to the banking system. A risk that recently reduced the market value of bank assets by approximately \$2 trillion would appear to meet that threshold.

We should not wait for the next Silicon Valley Bank-type crisis to act on a problem that is already well understood.¹

Respectfully submitted,

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

¹ This letter addresses interest-rate risk; a separate submission addresses residential mortgage credit risk, including split-lien structures and combined loan-to-value exposures. Both seek to better align capital requirements with the economic risks of mortgage assets.