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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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Comment letter attached

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June 17, 2026

Mr. Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets (Docket No. R–1888; RIN 7100–AH21)

Board of Governors of the Federal Reserve System:

Thank you for the opportunity to comment on the proposed rule titled "Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets" (the "Proposal"), issued by the Board of Governors of the Federal Reserve System jointly with the other federal banking agencies (collectively, the "agencies").

Stifel, Nicolaus & Company, Incorporated is a full-service investment banking and broker-dealer firm. Our Fixed Income Capital Markets group works with depository institutions across the country on a range of matters, including fixed income portfolio management, interest rate risk management, balance sheet and capital strategy, and capital markets activities.

As we have evaluated the Proposal and its implications across the industry, we have gathered comments from our client base and incorporated them into this letter. Where appropriate, we offer suggested alternatives. Below is a summary of the items on which we provide comment:

- Risk-Weight Treatment of Acquisition, Development, and Construction (ADC) Loans
- Residential 1–4 Family Exposures: Incomplete LTV Data and Use of an Updated Appraisal
- Risk-Weight Treatment of Commercial Real Estate Exposures Based on Loan-to-Value Ratio
- Statutory Multifamily Mortgage Definition — Minimum Original Maturity Requirement
- Eligible Prepaid Credit Protection Arrangements (Credit-Linked Notes)
- Elimination of the Gross-Up Approach for Securitization Exposures
- Risk-Weight Treatment of Senior GSE Exposures and Consistency with the Reduced SEC-SA Securitization Floor
- Capital Treatment of Grandfathered Trust Preferred Securities Approaching Maturity
- Calculating the LTV Ratio for Participated (Non-Lead) Loan Interests

1. Risk-Weight Treatment of Acquisition, Development, and Construction (ADC) Loans

The Proposal does not speak directly to the risk-weight treatment of acquisition, development, and construction (ADC) loans. ADC exposures are referenced only by way of exclusion from the definition of residential mortgage exposure, and the Proposal does not otherwise assign ADC loans a specific risk weight. As a result, an ADC loan that is not a high-volatility commercial real estate (HVCRE) exposure, and that does not qualify for any other specific treatment (such as a pre-sold construction loan or statutory multifamily mortgage), appears to fall into the general corporate exposure category, which the Proposal would risk-weight at 95 percent under § __.32(f)(1).

This is a notable contrast with the expanded risk-based approach proposal, which addresses ADC exposures by name. The silence of the standardized proposal on ADC, combined with the express treatment of ADC in the companion proposal, creates avoidable uncertainty as to whether non-HVCRE ADC loans are intended to receive the 95 percent corporate risk weight or some other treatment.

We respectfully request that the agencies state explicitly in the final rule that an ADC loan that is not an HVCRE exposure, and that does not otherwise qualify for a specific risk weight, is to be assigned the 95 percent corporate risk weight as a corporate exposure under § __.32(f). Express confirmation would eliminate interpretive divergence among institutions and examiners and ensure consistent treatment of these exposures across the industry.

2. Residential 1–4 Family Exposures: Incomplete LTV Data and Use of an Updated Appraisal

Under the Proposal, a first-lien residential mortgage exposure that meets the prudential criteria of § __.32(g)(1) — including that it was made in accordance with prudent underwriting standards relating to the loan amount as a percentage of the appraised value of the property — is risk-weighted using the LTV-based tables (Tables 5 and 6). It is important to note how that LTV ratio is calculated under § __.5, a new section titled “Calculation of loan-to-value (LTV) ratio” that the Proposal would add to the capital rule. The numerator is the loan’s current outstanding balance — the total outstanding amount, including any undrawn committed amount, which declines as the loan amortizes — while the denominator is the value of the property at the time the loan was originated, rather than a current or updated property value. A first-lien exposure that does not meet the (g)(1) criteria, or for which the banking organization cannot calculate that LTV ratio in accordance with § __.5, is assigned a 100 percent risk weight.

While the Proposal therefore contains a catch-all for missing LTV data, it applies a uniform 100 percent risk weight without regard to whether the underlying loan was prudently underwritten. Because the prudent-underwriting criterion in § __.32(g)(1) is itself defined in part by reference to the loan-to-value ratio, an institution that lacks LTV data will generally be unable both to demonstrate prudent underwriting and to calculate the LTV (which requires the property’s value at origination), and the exposure will default to 100 percent. Our concern is therefore narrower, and arises principally for acquired or purchased portfolios and seasoned loans: a first lien may have been prudently underwritten at origination, with an appropriate LTV at that time, yet the acquiring institution may not have received the origination appraisal or valuation documentation necessary to evidence the (g)(1) criteria or to calculate the § __.5 LTV, even though the loan is performing.

We ask the agencies to (i) clarify the documentation sufficient to establish the prudent-underwriting and LTV criteria of § __.32(g)(1), including the extent to which an institution may rely on the originating institution’s underwriting and valuation records, or on a current independent valuation, for purchased and seasoned loans; and (ii) provide a reasonable cure or transition period during which an institution may obtain or reconstruct a compliant valuation before a performing first-lien exposure is assigned a 100 percent risk weight.

Separately, we ask the agencies to expand the limited circumstances in which an updated property valuation may be used in calculating the LTV ratio. The Proposal requires the value of the property at the time of origination to be used, except where (1) the primary Federal supervisor requires a downward revision, (2) an extraordinary event (such as a natural disaster) permanently reduces the property value, or (3) modifications are made to the property that increase its market value and are supported by a new appraisal or independent evaluation. The only circumstance permitting an increase in value is a physical modification of the property; the Proposal does not permit an institution to reflect a current, independent appraisal obtained in the ordinary course of servicing the loan. Two common situations produce exactly such an independent, lender-acceptable appraisal and should be added to that list:

- **Removal of private mortgage insurance.** A borrower seeking removal of private mortgage insurance (PMI) is typically required to obtain a current appraisal demonstrating that the loan-to-value ratio has fallen to the level necessary for removal. That appraisal is an independent valuation that meets the appraisal rule, and it more accurately reflects the exposure's current LTV — and therefore its current credit risk — than the value at origination.
- **Cure or workout of a previously troubled loan.** A residential mortgage that was previously delinquent, modified, or restructured and has since re-performed is frequently re-appraised in connection with the workout. That updated valuation likewise reflects the collateral's current value and the exposure's improved risk profile.

We recognize the agencies' stated concern that using values other than the origination value could introduce short-term market price inflation. The exceptions we request are narrow and event-driven: each is triggered by a specific, documented event — a borrower's PMI-removal request or a formal modification or workout — and each requires a current independent appraisal that meets the appraisal rule or prudently conservative valuation criteria. So conditioned, these updates would improve the risk sensitivity of the LTV-based framework, generally by recognizing lower LTVs, without opening the door to the speculative revaluation the origination-value requirement is designed to prevent. We therefore request that § __.5 and the corresponding LTV calculation guidance permit use of a current independent appraisal obtained in connection with (i) a borrower's request to remove private mortgage insurance, or (ii) a modification, restructuring, or workout of a previously troubled exposure.

3. Risk-Weight Treatment of Commercial Real Estate Exposures Based on Loan-to-Value Ratio

The Proposal does not provide a loan-to-value (LTV)-based risk-weight schedule for commercial real estate (CRE) exposures. Instead, a CRE loan that constitutes a corporate exposure is assigned a flat 95 percent risk weight under § __.32(f)(1), without regard to the loan's LTV ratio or to whether the underlying property is owner-occupied. By contrast, the companion expanded risk-based approach proposal assigns CRE risk weights on a graduated, LTV-sensitive basis — see Table 4 (regulatory CRE exposures not dependent on the cash flows generated by the real estate) and Table 5 (exposures that are dependent on those cash flows) of that proposal — and distinguishes exposures according to whether repayment depends on the cash flows generated by the real estate. In response to Question 11, which invites comment on alternative risk weights for corporate exposures, we respectfully request that the agencies adopt a similar LTV-based risk-weight schedule for CRE exposures under the standardized approach.[1]

We recognize that the 95 percent corporate risk weight is not a pure credit-risk weight. As the agencies explain in the discussion of corporate exposures and certain other assets (see "2. Corporate Exposures and Certain Other Assets," 91 FR 15341), the standardized approach — unlike the expanded risk-based approach — does not impose a separate operational-risk capital requirement, and the standardized risk weights are therefore calibrated to reflect operational risk in addition to credit risk. The agencies derived a weighted-average credit risk weight of approximately 85 percent for corporate exposures and then applied

1 See Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations, 91 Fed. Reg. 14952, 14972 (Mar. 27, 2026) (proposed risk-weight tables for regulatory commercial real estate exposures), available at https://www.regulations.gov/docket/OCC-2026-0265.

a nominal add-on to account for operational risk: because risk-weighted assets for operational risk represent approximately 12 percent of credit risk-weighted assets for traditional lending, and assuming an approximately 85 percent credit risk weight, the agencies arrived at an operational-risk add-on of approximately 10 percentage points, producing the 95 percent corporate risk weight.[2] We do not object to embedding operational risk in the standardized risk weights through such a nominal add-on. It does not follow, however, that CRE must receive a single flat risk weight: the credit-risk component of a CRE exposure varies substantially with its LTV ratio, and an LTV-graduated schedule that carries the operational-risk add-on as a floor would preserve the agencies' calibration of operational risk while restoring the credit-risk sensitivity that a flat weight discards.

Applying that logic, we suggest that the standardized approach follow the same path as the expanded risk-based approach, but with risk weights set approximately 10 percentage points higher to carry the operational-risk add-on described above. Where the expanded risk-based approach would assign a 60 percent floor to owner-occupied CRE with an LTV ratio at or below 60 percent, the standardized approach would instead apply a 70 percent floor — the 60 percent credit-risk weight plus the approximately 10 percentage-point operational-risk add-on. Separating owner-occupied from non-owner-occupied CRE and using the same LTV bands as the expanded risk-based proposal, we propose the following schedules:

Owner-Occupied Commercial Real Estate (repayment not dependent on the cash flows generated by the real estate)

Loan-to-Value (LTV) Ratio	Proposed Risk Weight
LTV ≤ 60%	70%
60% < LTV ≤ 80%	85%
LTV > 80%	95%

Non-Owner-Occupied Commercial Real Estate (repayment dependent on the cash flows generated by the real estate)

Loan-to-Value (LTV) Ratio	Proposed Risk Weight
LTV ≤ 60%	80%
60% < LTV ≤ 80%	100%
LTV > 80%	120%

Under this approach, owner-occupied CRE would be capped at the 95 percent risk weight the Proposal already assigns, so that no owner-occupied exposure would be treated less favorably than under the flat approach, while conservatively underwritten, lower-LTV loans would receive meaningful and appropriate relief. Non-owner-occupied CRE — which the agencies and the supervisory literature recognize generally carries higher credit risk — would be floored at 80 percent and would rise to 120 percent for exposures with LTV ratios above 80 percent, above the current flat 95 percent weight. The schedule is therefore risk-sensitive in both directions and is intended to be broadly capital-neutral in the aggregate rather than a one-way reduction in capital requirements.

2 See Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15332, 15341 (Mar. 27, 2026) (discussing calibration of corporate-exposure risk weights and the approximately 10 percentage-point operational-risk add-on), available at https://www.regulations.gov/docket/OCC-2026-0034.

The schedule we propose would apply to completed, stabilized commercial real estate — both income-producing (non-owner-occupied) and owner-occupied properties — and would not apply to acquisition, development, and construction (ADC) loans or to high-volatility commercial real estate (HVCRE) exposures, which lack a stabilized property value and would remain subject to their existing treatment. Consistent with the methodology proposed for 1–4 family residential exposures, the LTV ratio for these exposures would be determined using the value of the property at origination, with the loan's current outstanding principal balance as the numerator. Because the standardized approach does not currently define the line between owner-occupied and non-owner-occupied commercial real estate, we further request that the agencies adopt a definition consistent with the existing Call Report (Schedule RC-C) instructions — under which a loan is treated as owner-occupied where the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or an affiliate of the party, that owns the property, and as non-owner-occupied where 50 percent or more of the source of repayment is derived from third-party, nonaffiliated rental income or from the proceeds of the sale or refinancing of the property — the same standard we address in our comment on the companion expanded risk-based approach proposal.

CRE is among the most significant asset classes on bank balance sheets, and community and regional banks are disproportionately active in it. Outstanding CRE mortgage debt totaled approximately $6 trillion at the end of 2024, of which banks hold roughly half;[3] the amount of CRE loans held by banks doubled from about $1.4 trillion to about $3 trillion between January 2012 and January 2024.[4] Community banks, which hold only about 15 percent of the banking industry's total loans, hold approximately 30 percent of its CRE loans, and as of year-end 2019 held nearly one-third — about $690 billion — of the $2.3 trillion in CRE loans held by banks, despite accounting for only about 12 percent of industry assets.[5] Regional and small banks (those with less than $100 billion in assets) collectively account for a larger share of CRE lending than the largest banks, and provide the majority of CRE credit in rural and smaller markets. These are precisely the banking organizations that would remain on, or newly elect, the standardized approach.

Community-bank CRE lending has also demonstrated strong historical credit quality. Community banks' CRE delinquency rates declined for nine consecutive years from 2010 through 2018 and stood at roughly 1 percent entering 2020, compared with a peak of more than 7 percent in early 2010.[6] Even at the recent cyclical peak, the industry-wide bank CRE delinquency rate reached only about 1.2 percent in December 2023 — the highest since 2015, but far below the approximately 9 percent peak of 2009 — and that recent increase was driven predominantly by the largest banks (those with $100 billion or more in assets) rather than by community banks.[7] Rewarding this conservative, low-LTV underwriting with lower risk weights

3 Dulce Lopez Cruz, Teodora Paligorova & Toshihide Yorozu, Monitoring High Credit Growth: The Link Between Local Deposits and CRE Lending, FEDS Notes (Bd. of Governors of the Fed. Rsrv. Sys., May 1, 2026), https://www.federalreserve.gov/econres/notes/feds-notes/monitoring-high-credit-growth-the-link-between-local-deposits-and-cre-lending-20260501.html.

4 U.S. Gov't Accountability Off., GAO-24-107282, Commercial Real Estate: Trends, Risks, and Federal Monitoring Efforts (2024), https://www.gao.gov/products/gao-24-107282.

5 Fed. Deposit Ins. Corp., FDIC Community Banking Study, ch. 4 (Notable Lending Strengths of Community Banks) (Dec. 2020), https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-4.pdf.

6 Fed. Deposit Ins. Corp., FDIC Community Banking Study, ch. 4 (Dec. 2020), https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-4.pdf.

7 U.S. Gov't Accountability Off., GAO-24-107282, Commercial Real Estate: Trends, Risks, and Federal Monitoring Efforts, at 8–9 (2024), https://www.gao.gov/products/gao-24-107282.

would (i) promote internal consistency with the standardized approach's own LTV-based treatment of 1–4 family residential exposures (Tables 5 and 6), since there is no principled basis to credit LTV discipline on a home loan while ignoring it entirely on a CRE loan secured by measurable property value; and (ii) allow community and regional banks to compete for high-quality CRE credit with the largest banks, which — as expanded-risk-based-approach adopters — will be able to assign risk weights as low as 60 to 70 percent to low-LTV CRE under that proposal's graduated tables, even as standardized-approach banks face a flat 95 percent on the same conservatively underwritten loan. This outcome is consistent with the agencies' longstanding recognition, in the Interagency Guidance on Concentrations in Commercial Real Estate Lending, that different types of CRE lending present different levels of risk and that capital should be commensurate with the level and nature of the exposure.[8]

These conclusions are reinforced by the most recent supervisory data. In its 2025 Risk Review, the Federal Deposit Insurance Corporation reported that, at year-end 2024, the median commercial real estate past-due-and-nonaccrual (PDNA) ratio at community banks was just 0.31 percent — far below the 1.93 percent median at banks with more than $100 billion in assets — and that the deterioration in CRE performance was most pronounced at those larger banks, even though community banks held 29 percent of the industry's CRE loans while holding only 15 percent of total loans. The industry-wide CRE PDNA ratio of 1.42 percent at year-end 2024 remained far below the roughly 8.90 percent peak reached after the Great Recession, and acquisition, development, and construction loans had fallen to just 15 percent of the CRE portfolio, compared with more than 33 percent leading into that downturn.[9] The Office of the Comptroller of the Currency similarly found, in its Fall 2025 Semiannual Risk Perspective, that community-bank noncurrent rates "remained below historical averages across all loan categories," even as multifamily commercial real estate "saw the most weakening in credit performance" across the broader banking system.[10] This evidence confirms that the institutions most affected by the flat 95 percent treatment also exhibit the strongest and most stable CRE credit performance, reinforcing the case for an LTV-sensitive schedule that rewards conservative underwriting.

We have considered the principal objections to a graduated CRE schedule and do not believe they outweigh its benefits. First, as to simplicity — the stated rationale for a flat weight — an LTV-based CRE schedule is no more complex than the residential LTV tables the standardized approach proposal would require, and standardized-approach banks already report the distinction between owner-occupancy and non-owner occupancy for these exposures (for example, on Schedule RC-C of the Call Report), so the necessary data and operational capacity already exist. Second, as to the CRE-related financial-stability concerns the agencies and others have raised — the recent stress has been concentrated in the office sector and at the largest banks rather than in community-bank CRE; the schedule we propose does not weaken capital against the riskiest exposures, because high-LTV, non-owner-occupied CRE would be risk-weighted as high as 120 percent, above the current flat weight; and concentration risk is more precisely addressed through existing supervisory tools — the Interagency Guidance on Concentrations in Commercial Real Estate Lending and enhanced supervisory monitoring — than through a blunt, LTV-insensitive risk weight. We accordingly request that the agencies adopt an LTV-based risk-weight

8 Interagency Guidance on Concentrations in Commercial Real Estate Lending; Sound Risk-Management Practices, 71 Fed. Reg. 74580 (Dec. 12, 2006), https://www.federalreserve.gov/frrs/guidance/interagency-guidance-on-concentrations-in-commercial-real-estate-lending-sound-risk-management-practices.htm.

9 Fed. Deposit Ins. Corp., 2025 Risk Review § 4 (Commercial Real Estate) (data through year-end 2024), available at https://www.fdic.gov/analysis/2025-risk-review.pdf.

10 Off. of the Comptroller of the Currency, Semiannual Risk Perspective, Fall 2025, at 2 (data as of June 30, 2025), available at https://www.occ.gov/publications-and-resources/publications/semiannual-risk-perspective/files/pub-semiannual-risk-perspective-fall-2025.pdf.

schedule for CRE exposures under the standardized approach, separately calibrated for owner-occupied and non-owner-occupied CRE as set forth above.

We do not intend the specific risk weights and loan-to-value bands set forth above to be the only acceptable calibration. Our central request is that the agencies adopt some form of LTV-based risk-weight schedule for CRE exposures under the standardized approach — whether or not it mirrors the particular bands and risk weights we suggest — so that the framework rewards conservative, lower-LTV underwriting rather than applying a single flat risk weight without regard to loan-to-value. We would welcome the opportunity to work with the agencies to develop an appropriately calibrated schedule.

4. Statutory Multifamily Mortgage Definition — Minimum Original Maturity Requirement

Under the capital rule, a loan that satisfies the definition of a “statutory multifamily mortgage” in § __.2 receives a 50 percent risk weight, while an otherwise-comparable multifamily loan that fails any single element of that definition is risk-weighted at 100 percent. The Proposal carries this definition forward unchanged.[11] We ask the agencies to use this rulemaking to revisit one element of that legacy definition — the minimum-original-maturity requirement — which excludes many conservatively underwritten community-bank multifamily loans from the 50 percent category for reasons unrelated to credit risk.

For reference, the § __.2 definition requires, among other things, that the loan (i) be made in accordance with prudent underwriting standards; (ii) have a principal amount at origination of no more than 80 percent of value (75 percent for an adjustable-rate loan); (iii) have a timely payment history for at least the preceding year; (iv) amortize over no more than 30 years, with a minimum original maturity for repayment of principal of not less than 7 years; (v) have generated annual net operating income of at least 120 percent of annual debt service (115 percent for an adjustable-rate loan) in its most recent fiscal year; and (vi) be no more than 90 days past due. A loan meeting all of these criteria receives a 50 percent risk weight; a loan failing any one of them is risk-weighted at 100 percent.[12]

We recognize the purpose of the 7-year minimum-maturity criterion. It is intended to limit reliance on short-term lending structures in which a borrower could be disadvantaged if interest rates move adversely at the loan’s refinancing or maturity. That is a legitimate supervisory concern. The criterion as drafted, however, is a blunt instrument: it disqualifies prudently underwritten loans without regard to the credit protection afforded by their LTV and debt-service-coverage profiles, and it effectively penalizes the very interest-rate-risk management that a shorter final maturity is designed to achieve at the institution level.

We are also mindful that this treatment originates in statute. The “statutory multifamily mortgage” category derives from section 618(b)(1) of the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 (Pub. L. 102-233), in which Congress directed the agencies to assign a 50 percent risk weight to qualifying multifamily housing loans and prescribed the criteria summarized above; the agencies implemented that mandate by regulation in 1994. Those criteria — including the seven-year minimum-maturity requirement — have remained largely unchanged for more than three decades, even as multifamily underwriting practices, interest-rate-risk management, and the capital framework itself have continued to evolve. We would therefore welcome the agencies’ use of this rulemaking as an occasion to

11 See Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15332, 15338 (Mar. 27, 2026) (excluding statutory multifamily mortgages from the definition of residential mortgage exposure), available at https://www.regulations.gov/docket/OCC-2026-0034.

12 12 C.F.R. § 324.2 (definition of “statutory multifamily mortgage”; parallel definitions appear at 12 C.F.R. §§ 3.2 (OCC) and 217.2 (Board)), https://www.ecfr.gov/current/title-12/part-324#p-324.2(Statutory%20multifamily%20mortgage).

review and, where appropriate, modernize the statutory multifamily framework to reflect the current banking environment — drawing on their own interpretive and implementing authority where available and, to the extent any criterion is fixed by the 1991 statute and lies beyond the scope of this rulemaking, supporting a corresponding legislative update over time. We would expect that any such modernization effort would preserve, and where warranted extend, the favorable treatment that conservatively underwritten multifamily lending merits.

In our experience, many community banks originate multifamily loans — an increasingly important component of their commercial real estate portfolios, having grown from roughly 11 percent of community-bank CRE loans in 2011 to about 15 percent in 2019[13] — with strong, and often superior, underwriting on every dimension the definition measures: conservative loan-to-value ratios, robust debt-service coverage, clean payment histories, and amortization well inside 30 years. Yet these banks frequently structure such loans with a 5-year final or balloon maturity — that is, the date on which the loan's remaining principal becomes due, which is distinct from the loan's amortization period — rather than a 7-year or longer final maturity. They do so for sound interest-rate-risk-management, loan-pricing, and competitive reasons: a 5-year final allows the institution to reprice the credit and to avoid warehousing the interest-rate risk it would otherwise carry on a longer-dated, fixed-rate loan funded with shorter-duration deposits. Under the current definition, that same loan — which may meet or exceed every other statutory-multifamily criterion — nonetheless falls to a 100 percent risk weight solely because its original maturity is less than 7 years: double the 50 percent weight it would receive with a 7-year final.

Recent supervisory data confirm that conservatively underwritten multifamily lending remains a comparatively sound asset class. The FDIC reports that bank multifamily loan portfolios totaled approximately $628.8 billion at year-end 2024 and expanded from a year earlier. Where multifamily conditions softened in 2024, the FDIC points principally to elevated new supply rather than to a broad deterioration in credit: multifamily vacancy rates rose to 8.1 percent in the fourth quarter of 2024 from 7.7 percent a year earlier, driven largely by historically high levels of newly delivered space, even as industry-wide commercial real estate past-due, nonaccrual, and net charge-off ratios remained far below the levels reached during the Great Recession.[14] Delinquencies on the loans community banks typically originate remain low: commercial and multifamily mortgages held by banks and thrifts were 1.27 percent delinquent (90 or more days past due or in nonaccrual) as of the third quarter of 2025, and agency multifamily delinquencies were lower still — 0.68 percent for Fannie Mae and 0.51 percent for Freddie Mac.[15] These figures underscore that prudently underwritten, lower-leverage multifamily loans present limited credit risk, reinforcing the case for extending the 50 percent treatment to such loans even where they carry a shorter final maturity.

We therefore request that the agencies review the minimum-original-maturity criterion in the statutory-multifamily-mortgage definition and consider amending it to accommodate conservatively underwritten loans with shorter (for example, 5-year) final or balloon maturities. We would support an approach that preserves the agencies' underlying concern while restoring risk sensitivity, such as:

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13 Fed. Deposit Ins. Corp., FDIC Community Banking Study, ch. 4 (Dec. 2020) (multifamily lending as a share of community-bank commercial real estate portfolios), https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-4.pdf.

14 Fed. Deposit Ins. Corp., 2025 Risk Review § 4 (Commercial Real Estate) (data through year-end 2024), available at https://www.fdic.gov/analysis/2025-risk-review.pdf.

15 Mortgage Bankers Ass'n, Commercial/Multifamily Mortgage Delinquency Rates, Third Quarter 2025 (Dec. 4, 2025), available at https://www.mba.org/news-and-research/newsroom/news/2025/12/04/commercial-and-multifamily-mortgage-delinquency-rates-mixed-in-third-quarter-2025.

- **An alternative qualification path for shorter-maturity loans.** Permit a loan with a minimum original maturity of at least 5 years to qualify for the 50 percent risk weight where it satisfies heightened credit criteria relative to the standard statutory-multifamily thresholds — for example, a lower maximum LTV (such as 70 percent) and/or a higher minimum debt-service-coverage ratio (such as 1.25x) — so that stronger credit protection offsets the shorter term.
- **An intermediate risk-weight category.** Alternatively, establish an intermediate risk weight (for example, 75 percent) for a loan that satisfies every statutory-multifamily criterion other than the 7-year minimum maturity, provided it carries a minimum original maturity of at least 5 years — a calibration that recognizes the loan's conservative credit profile without granting the full 50 percent benefit.

We offer these proposed amendments in the alternative. Our primary recommendation remains the adoption of an LTV-based risk-weight schedule for commercial real estate exposures, as set forth in the preceding comment; if the agencies adopt that approach, multifamily exposures would be risk-weighted on an LTV-sensitive basis, and the specific maturity-related relief requested here would be largely unnecessary. We therefore request the changes to the statutory-multifamily-mortgage definition described above only in the event that the agencies do not adopt an LTV-based schedule for commercial real estate exposures. In either case, however, we urge the agencies to retain the existing statutory multifamily mortgage definition and its 50 percent risk weight. Many institutions rely on that treatment and have originated, priced, and managed their multifamily portfolios to the standards it prescribes; eliminating the statutory multifamily category — whether or not commercial real estate moves to an LTV-based framework — would disrupt settled underwriting practices and the capital planning of the community and regional banks that are most active in multifamily lending.

As with our comment on the LTV-based treatment of commercial real estate, our central request is that the framework reward demonstrably conservative underwriting rather than disqualify it on the basis of a single structural feature that itself reflects prudent interest-rate-risk management. We would welcome the opportunity to work with the agencies on an appropriate calibration.

5. Eligible Prepaid Credit Protection Arrangements (Credit-Linked Notes)

We support the Proposal's recognition of the risk-mitigation benefits of eligible prepaid credit protection arrangements, including fully funded credit-linked notes (CLNs), which would permit a zero percent risk weight on the protected portion of a reference exposure where the eligibility criteria are met. To improve clarity and operational certainty, we offer the following suggestions:

- **Fair-value CLNs and the protection amount.** The Proposal defines the protection amount as the effective notional amount of the prepaid credit protection, but Question 32 acknowledges that certain CLNs are accounted for on a fair-value basis and that their fair value may move for reasons unrelated to credit (such as changes in interest rates), so that the set-off available when a credit loss is realized could be less than notional. We request that the final rule confirm that, for capital purposes, the recognized protection amount remains the effective contractual notional, provided the structural set-off mechanics are intact, rather than being marked to a fluctuating accounting fair value. This would prevent interest-rate-driven volatility in capital relief on instruments whose credit-protection economics are unchanged.
- **The "prompt reduction" criterion.** Eligibility requires that, upon a credit event, the protection purchaser be able to promptly reduce the outstanding balance due to the protection provider without input from the provider. Consistent with Question 31, we ask the agencies to clarify that customary

operational settlement timing does not cause an arrangement to fail this criterion, and to provide examples of structures the agencies regard as satisfying it.

6. Elimination of the Gross-Up Approach for Securitization Exposures

The Proposal would eliminate the gross-up approach for securitization exposures, which under the current capital rule is generally available only to banking organizations that are not subject to the market risk rule. Question 35 expressly invites comment on the advantages and disadvantages of retaining the gross-up approach for certain banking organizations.

We are concerned that eliminating the gross-up approach would have a meaningful and disproportionate impact on smaller and regional institutions that are not subject to the market risk rule and that currently rely on it. In our experience, the gross-up approach frequently produces lower risk weights than the SSFA or the proposed SEC-SA, particularly for junior (subordinate) securitization tranches. This is because the SSFA and SEC-SA assign steeply escalating risk weights — up to 1,250 percent — to subordinate and first-loss positions, whereas the gross-up approach effectively limits the risk weight of a position by reference to the risk weight of the underlying collateral. As a result, institutions that hold junior tranches in senior/subordinate (A/B) structures — including Freddie Mac structured ("Q-deal") securitizations backed by agency-guaranteed or otherwise low-risk-weight collateral — often achieve materially lower and more stable risk weights under the gross-up approach than they would under SEC-SA. Migrating these positions to SEC-SA would significantly increase risk-weighted assets for such holdings, notwithstanding their conservative credit profile.

The institutions that rely on the gross-up approach are predominantly community and regional banks. Based on bank-level regulatory data as of December 31, 2025, 133 depository institutions reported securitization exposures risk-weighted under the gross-up approach. The substantial majority are smaller institutions — more than 90 percent held less than $10 billion in total assets, and the median reporting institution held approximately $853 million — although a small number of larger institutions also rely on the approach, raising the average to approximately $5.8 billion.[16] For these institutions, eliminating the gross-up approach would compel them to adopt the SEC-SA, which is operationally more complex than the gross-up approach. Whereas the gross-up approach derives a position's risk weight from the risk weight of the underlying collateral through a relatively simple subordination calculation, the SEC-SA requires institutions to determine and maintain a series of additional inputs for each securitization tranche — including the attachment and detachment points (parameters A and D), the capital requirement of the underlying pool adjusted for delinquencies (KA), the supervisory parameter p, and the pool's delinquency ratio (W). Requiring these institutions to implement and maintain that more involved methodology would add operational burden relative to the comparatively simple gross-up calculation they apply today.

In response to Question 35, we encourage the agencies to retain the gross-up approach for banking organizations that are not subject to the market risk rule, consistent with the current capital rule. At a minimum, we request that the agencies grandfather securitization positions held as of the effective date of any final rule — including junior tranches in Freddie Mac Q-deal senior/subordinate (A/B) structures — under the gross-up approach, so that institutions are not subjected to a punitive recalculation of capital on legacy holdings acquired in reliance on the existing treatment.

16 Source: S&P Global Market Intelligence; unconsolidated bank-level regulatory data as of December 31, 2025. The figures reflect depository institutions reporting securitization exposures risk-weighted under the gross-up method, aggregated across the gross-up reporting line items — available-for-sale (AFS) securities, held-to-maturity (HTM) securities, trading assets, other on-balance-sheet securitization exposures, and off-balance-sheet securitization exposures.

7. Risk-Weight Treatment of Senior GSE Exposures and Consistency with the Reduced SEC-SA Securitization Floor

This proposal does not pose a question on the risk weight applied to exposures to the government-sponsored enterprises (GSEs). It does, however, reduce the risk-weight floor for securitization exposures, and the companion expanded risk-based approach proposal raises the GSE issue directly in its Question 12. Because the two proposals are intended to operate as a consistent, integrated framework — and because a banking organization's GSE exposures should not be risk-weighted differently depending on which rule set applies — we raise the point here as well and ask the agencies to address it consistently across both proposals.

Under the current capital rule, the Simplified Supervisory Formula Approach (SSFA) imposes a 20 percent risk-weight floor on securitization exposures that are not resecuritizations. The agencies adopted that 20 percent floor to ensure a minimum, conservative level of capital for securitization positions — reflecting risks the formula might not otherwise fully capture, such as model risk and the correlation of losses within a securitization. This proposal would reduce that floor from 20 percent to 15 percent under the SEC-SA, which the agencies describe as the minimum appropriate to capture modeling risk and correlation and as most relevant to more senior positions.

That reduction matters for GSE exposures. The standardized approach assigns senior exposures to the GSEs — which include the GSEs' own issued senior debt as well as exposures that the GSEs guarantee — a 20 percent risk weight, the same level as the legacy SSFA securitization floor with which they were historically aligned, and this proposal would leave that 20 percent weight unchanged. Lowering the securitization floor to 15 percent while holding GSE exposures at 20 percent would, in effect, treat a senior securitization position more favorably than an exposure to a GSE of comparable seniority and credit quality. That disparity would favor one form of holding essentially similar credit over another — securitized form over direct form — and could distort banking organizations' choices among ownership structures and business practices, without any corresponding difference in underlying risk.

To preserve consistency and to avoid favoring one form of GSE exposure, or one GSE, over another, we request that the agencies review all legacy GSE exposures that are currently risk-weighted at 20 percent in the context of the reduced 15 percent securitization floor, and consider reducing those risk weights to 15 percent so that they align with the floor the agencies have determined is appropriate for senior securitization exposures. Just as the 20 percent GSE risk weight historically tracked the 20 percent SSFA floor, the GSE risk weight should track the new 15 percent floor. Although this proposal does not pose a question on GSE risk weights while the expanded risk-based approach proposal does, the same considerations apply with equal force here; we ask the agencies to adopt a consistent outcome in both final rules, so that the risk weight assigned to the same GSE exposure does not differ based solely on which capital framework a banking organization applies.

8. Capital Treatment of Grandfathered Trust Preferred Securities Approaching Maturity

We request that the agencies use this rulemaking as an opportunity to clarify the regulatory capital treatment of grandfathered trust preferred securities (TruPS) as they approach their final five years before maturity. There appears to be an unresolved inconsistency between two sources of agency guidance:

- **March 1, 2005 rule.** Under the agencies' March 1, 2005 rule governing trust preferred securities, the outstanding amount of TruPS is excluded from tier 1 capital and included in tier 2 capital during the last five years before maturity, subject to amortization of the amount includable in tier 2 at a rate of 20 percent per year.

- **2013 grandfathering provisions.** Under the grandfathering provisions of the 2013 capital rule (Regulation Q; see the rule's § __.300 transition provisions and accompanying preamble), a depository institution holding company with less than $15 billion in total assets may continue to include non-qualifying capital instruments issued before May 19, 2010 in tier 1 capital — subject to the limit of 25 percent of tier 1 capital elements (excluding non-qualifying instruments) — until the instruments are redeemed or mature, without a five-year phase-out.

These provisions point to materially different outcomes for the same instruments as they approach maturity, and institutions have encountered differing interpretations of which governs. We respectfully request that the agencies confirm, in connection with this rulemaking, whether the March 1, 2005 rule or the 2013 grandfathering provisions control the capital treatment of grandfathered TruPS in the final five years before maturity. Clarity on this point is important for capital planning by the many community and regional institutions that continue to hold these legacy instruments.

9. Calculating the LTV Ratio for Participated (Non-Lead) Loan Interests

The Proposal calculates the LTV ratio by dividing the "extension of credit" — defined as the total outstanding amount of the loan, including any undrawn committed amount — by the value of the property. The Proposal does not, however, address how a banking organization that holds only a participation interest in a loan, and is not the lead (originating) institution, should determine the numerator of that ratio.

Because the property secures the entire loan, a participant's credit risk depends on the LTV of the whole credit, not on the size of its own participated balance. We therefore read the "total outstanding amount of the loan" to mean the aggregate balance across the lead institution and all participants (plus any undrawn committed amount). For example, a $1 million participation in a $10 million loan secured by a $12 million property reflects an LTV of approximately 83 percent — not the materially understated ratio that would result from dividing only the participant's $1 million interest by the property value. We request that the agencies confirm that the LTV ratio for a participated interest is determined using the total extension of credit secured by the property, aggregating the lead and participating balances, rather than the participant's share alone.

We further ask the agencies to address the practical reality that a non-lead participant may not have ready or ongoing access to the lead institution's current outstanding balance, draws on undrawn commitments, or amortization. Guidance permitting a participant to rely in good faith on balance and valuation information provided by the lead institution under the participation or servicing agreement — and clarifying the expected frequency of updates — would allow participants to calculate a proper LTV without imposing data demands they cannot independently satisfy.

Conclusion

We appreciate the opportunity to comment on the Proposal and look forward to working with the agencies and the industry to reach a balanced outcome. Should you have any questions or require additional information, please do not hesitate to contact us.

Respectfully submitted,

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