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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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Organization Type: Company

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Please see attached.

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Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
Docket ID OCC-2026-0265 / RIN 1557-AF52
Docket ID OCC-2026-0034 / RIN 1557-AF49
via: regulations.gov

Mr. Benjamin W. McDonough
Secretary
Board of Governors of the Federal Reserve System
Docket No. R–1887 / RIN 7100-AH20
Docket No. R–1888 / RIN 7100-AH21
via: federalreserve.gov/apps/proposals/

Ms. Jennifer M. Jones
Deputy Executive Secretary
Federal Deposit Insurance Corporation
RIN 3064-AF29
RIN 3064-AG23
via: comments@FDIC.gov

Re: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets (OCC Docket ID OCC-2026-0034; Fed Docket No. R-1888, RIN 7100-AH21; FDIC RIN 3064-AG23)

To whom it may concern:

Euclid Mortgage submits these comments in response to the above-referenced notice of proposed rulemaking (the "Proposal") issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the "Agencies").

Euclid Mortgage is a managing general agency that underwrites, prices, and structures credit risk reinsurance on behalf of four highly rated reinsurance balance sheets. We have participated in Fannie Mae's and Freddie Mac's single and multi-family credit risk transfer programs, reinsured the US mortgage insurance industry and worked with other institutional holders of residential mortgage risk to develop innovative credit risk transfer solutions. Our principals, in their various roles prior to the creation of Euclid Mortgage, were instrumental in the creation of the mortgage reinsurance market following the Global Financial Crisis (GFC), executing more than 250 transactions, building a deep pool of participating reinsurance companies, and developing the legal and underwriting standards that govern the market today.

We believe the mortgage reinsurance market that developed post-GFC is a template for a broader insurance-based risk transfer market that would provide a source of financially secure and diversified credit risk transfer for US banks across many different types of assets that would reduce costs for borrowers, expand bank lending and result in a more resilient banking system.

There are two provisions in the Proposal that, taken together, impede the ability for banks to use insurance as a credit risk transfer and capital management tool. This is especially harmful to community and regional banks, whom we believe would benefit disproportionally from the structural and strategic benefits of credit risk transfer insurance.

We respectfully suggest two amendments that will unlock the benefits of insurance-based credit risk transfer enabling banks, especially community and regional banks, to access the large and diversified property and casualty insurance market:

- **Amendment #1:** slightly modify the definition of eligible guarantor to bring in highly secure insurance entities without changing the intent of the existing definition to make certain that an eligible guarantor is financially strong and able to meet the requirements of any eligible guarantee that they issue.[1]

- **Amendment #2** reduce the risk weight assigned to prudentially regulated eligible guarantors under the substitution approach, which is appropriate given the supervisory equivalency between insurers, depository institutions, foreign banks, and credit unions.[2]

Reinsurance is a Prudent and Structurally Beneficial Tool for Community and Regional Banks

The credit risk transfer market for bank-held credit obligations has grown substantially over the past several decades in the United States, Europe and Asia. In Europe and Asia, this coverage has supported a range of asset types including corporate and consumer credit as well as real estate. In the US, the insurance market has principally supported the residential single and multi-family sectors. These executions have often complemented fully funded risk transfer often in the form of credit-linked notes ("CLNs") and, in combination, have created a broad and deep set of market based risk transfer solutions.

Much of the policy discussion surrounding credit risk transfer for US banks has focused on the CLN market and with good reason. The capital markets are deep, efficient and a robust source of risk transfer. They are funded instruments requiring a bank to accumulate a large pool of loans that are held on balance sheet until the notional amount of unpaid principal balance is sufficiently large to sustain the minimum costs (e.g. rating agenc(ies), legal fees, etc) that

[1] Proposal #2 is in response to Question 51 in the ERBA Proposal and Question 22 in the Standardized Proposal.
[2] Proposal #3 is in response to Question 26 in the ERBA Proposal.

accompany a transaction. This might require at least $1 billion in unpaid principal balance to be economically viable, which is not a challenge for larger institutions, but which could be a meaningful hurdle for community, regional and small banks.

Credit insurance works differently. It is a commercial transaction between sophisticated parties and requires no rating agency, no capital markets execution, and no dedicated structured finance staff at the bank. Documentation is highly standardized, reflecting more than a decade of precedent developed in partnership with the Federal Housing Finance Agency, the GSEs, mortgage insurers and large institutional buyers of insurance and reinsurance. Execution typically takes six to twelve weeks, and smaller pool sizes are acceptable because the execution expenses are variable, not fixed.

But the largest benefit, especially for smaller banks, is that insurance is commonly structured on a forward commitment. The bank and insurers agree on eligibility criteria, pricing, and coverage terms in advance covering all eligible loans that a bank originates over a defined period into the future, typically a 12-month period. For example, a bank might negotiate a credit insurance policy in the 4th Quarter of 2026 that covers all the commercial real estate loans it makes in 2027, subject to pre-agreed eligibility guidelines and restrictions. The loans are automatically covered when issued and the bank. This enables banks to service their customers knowing they have certainty of coverage and regulatory capital treatment.

Furthermore, the bank supervisory agencies[3] have identified as a concern the migration of credit risk from regulated bank balance sheets into private credit markets, where consolidated oversight is limited and systemic exposures are difficult to assess. Capital inefficiency drives that migration. A community bank that cannot achieve adequate capital relief on a portfolio of sound loans has a practical incentive to originate less or to sell the exposure. In either case, supervised lending capacity contracts.

The GSE credit risk transfer programs operated by Fannie Mae and Freddie Mac have used reinsurance as a primary risk distribution channel for nearly fifteen years. More than seventy global reinsurers have participated. The structural provisions governing those programs were developed in close consultation with FHFA and reflect the same counterparty quality, documentation, and risk transfer requirements found in the Proposal's prepaid credit protection agreement conditions.

By providing capital relief to smaller institutions, insurance gives banks a reason to keep credit risk on their balance sheets. The Proposal, as written, should be modified to allow meaningful capital relief to banks that use reinsurance from highly rated companies, as well as that derived from funded structures.

[3] In this case, The Federal Reserve Board and Office of the Comptroller of the Currency.

Eligible Guarantor Definition Should Be Amended to Include Prudentially Regulated, Financially Strong Insurance Companies

The Proposal retains the eligible guarantor definition from the current capital rule, which requires, among other criteria, that the entity have "issued and outstanding an unsecured debt security without credit enhancement that is investment grade at the time the guarantee is issued or anytime thereafter." When applied to insurance holding structures, this requirement excludes the wrong entity.

In a standard insurance holding company structure, the operating company that bears risk, hold statutory reserves, and pays claims is a subsidiary of a holding company that issues the group's rated, investment-grade debt at the parent level. State insurance regulators favor this by design: placing debt at the holding company preserves the policyholders' priority claim on the operating company's assets in any insolvency. The operating subsidiary, which is the actual insurance counterparty and the entity obligated to pay claims, does not typically issue unsecured public debt. The group's investment-grade credit quality is evidenced by the holding company's obligations, not by any debt issued at the operating level. This separation is visible in the ratings themselves: the operating company's Insurer Financial Strength (IFS) rating typically sits 1-2 notches above the holding company's senior credit rating from the same agency because the holdco's debt is structurally subordinated to policyholder obligations and dependent on upstreamed dividends that regulators can restrict.

A literal reading of the current definition would exclude these operating companies from eligible guarantor status even where the broader group is unambiguously investment grade, is treated as such by capital markets participants, and is subject to meaningful regulatory oversight at the state level and, in many cases, by international supervisory authorities. This result is inconsistent with the purpose of the eligible guarantor requirement, which is to ensure that the guarantor can be expected to perform on its obligations.

This treatment would be consistent with the International Basel Accord that requires an eligible guarantor to have investment grade debt issuance at *either* the holding company or the operating company level.[4] In addition, we would recommend that the bank must make a determination that, on a consolidated basis, the guarantor will have adequate capacity to meet its financial commitments in a timely manner, irrespective of the economic cycle and business conditions.

[4] Basel Committee on Banking Supervision, *The Basel Framework*, Credit Risk: Standardised Approach – Individual Exposures (CRE22.76).

Recommended Amendment to Eligible Guarantor Definition:

The Agencies should amend the eligible guarantor definition to provide that a regulated insurance operating company satisfies the investment-grade debt issuance requirement when its parent holding company has investment-grade unsecured debt issued and outstanding, the operating company is subject to consolidated supervision, and the group-level credit quality is reflected in publicly available financial strength assessments or equivalent supervisory information.

We recommend the rule be edited to state the following:

Eligible guarantor means:
…
(2) An entity (other than a special purpose entity):
(i) That at the time the guarantee is issued or anytime thereafter, has **(or, if the entity is investment grade, is directly or indirectly controlled by an entity that has)** issued and outstanding an unsecured debt security without credit enhancement that is investment grade;
(ii) Whose creditworthiness is not positively correlated with the credit risk of the exposures for which it has provided guarantees; and
(iii) That is not an insurance company engaged predominately in the business of providing credit protection (such as a monoline bond insurer or re-insurer).

This change does not introduce a new ratings standard into the rule. It recognizes that debt issued at the parent level is a publicly verifiable indicator of group-level credit quality that extends to the operating subsidiaries. It is consistent with the Basel Accord and how bank examiners, capital markets counterparties, and insurance buyers assess creditworthiness in practice.

General Risk Weight Provision Should Be Amended to Include Prudentially Regulated Insurance Companies

Under the capital rule as carried forward in the Proposal, a bank that purchases insurance protection on a mortgage or CRE portfolio must treat the transaction as a securitization and apply the Simplified Supervisory Formula Approach ("SSFA"). The result is as follows:

- The first-loss piece retained by the bank receives a 1,250 percent risk weight.
- The mezzanine tranche covered by the insurance contract receives a risk weight based on the counterparty's creditworthiness. Under the standardized approach applicable to Category III and IV institutions, all corporate exposures receive a flat 95 percent risk weight regardless of the credit quality of the specific counterparty.
- The senior tranche retained by the bank receives a 20 percent risk weight, with a potential floor of 15 percent depending on the asset class.

A bank that executes the same risk transfer through a CLN receives a 0 percent risk weight on the mezzanine tranche, because the protection is funded and collateralized. The Proposal preserves this gap. Correcting it would allow community and regional banks to use the same tested risk management tools available to larger institutions and GSE counterparties.

Recommended Amendment to General Risk Weight Provision:

Euclid respectfully proposes that the Agencies add prudentially regulated eligible guarantors to the general risk weight provision applicable to depository institutions, foreign banks and credit unions to the extent that the eligible guarantee meets applicable recognition requirements for substitution or synthetic securitization treatment.

Prudentially regulated eligible guarantors should be assigned the same risk weight as an exposure to a U.S. depository institution or credit union (in the case of a U.S. insurance company) or a foreign bank (in the case of a foreign insurance company).

§ ___.111 General risk weights.

1. Sovereign exposures …
2. Certain supranational entities and multilateral development banks (MDBs) …
3. Exposures to GSEs …
4. Exposures to a depository institution, a foreign bank, ~~or~~ a credit union**, or a U.S.**[1] **or foreign**[2] **prudentially regulated eligible guarantor**[3] …
5. Exposures to public sector entities (PSEs) …
6. Real estate exposures …
7. Retail exposures …
8. Corporate exposures …
9. Defaulted exposures …
10. Other assets …

[1] In the case of a U.S. prudentially regulated insurance company, that is an "insurance company" under 12 CFR 217.2.

[2] In the case of a foreign prudentially regulated insurance company, that is domiciled and licensed in a foreign country that (A) is (or is a member state of) a jurisdiction subject to a covered agreement, or (B) is a reciprocal jurisdiction. Covered agreement has the meaning given that term in Section 502 of the Dodd-Frank Act (31 U.S.C. 313(r)(2)). Currently, the U.S. has covered agreements in effect with the European Union (entered into force on April 4, 2018) and the United Kingdom (entered into force on December 31, 2020). Reciprocal jurisdiction means a non-U.S. jurisdiction that is included on the National Association of Insurance Commissioners (NAIC) List of Reciprocal Jurisdictions pursuant to the NAIC Credit for Reinsurance Model Law and Regulation.

[3] A [BANKING ORGANIZATION] must assign a risk weight to the portion of any exposure that is covered by an eligible guarantee provided by a qualifying eligible guarantor (to the extent that the eligible guarantee meets the requirements of § ___.120)

Adding prudentially regulated eligible guarantors to the general risk weight provision will reduce the risk weight from 100% to 20%, which is appropriate given the supervisory equivalency between insurers, depository institutions, foreign banks, and credit unions. Prudentially regulated insurers are not the same as general corporate exposures. Eligible guarantors are dependable counterparties, and the applicable risk weight should recognize the benefit of prudential regulation.

Final Considerations

The two issues addressed in this letter are separate in their regulatory mechanics but point to the same underlying problem: the Proposal's securitization and credit risk mitigation framework was not calibrated with the reinsurance market in mind. CLNs were the reference instrument, and the treatment of unfunded protection was carried forward from a prior rule without adjusting for the growth and demonstrated reliability of the reinsurance market over the past fifteen years.

The GSE CRT programs show that reinsurance can transfer meaningful credit risk to well-regulated, well-capitalized counterparties under rigorous supervisory standards. The Fannie Mae and Freddie Mac programs have run through multiple credit cycles without significant counterparty performance issues. Community and regional banks should have access to the same tools on comparable terms.

If the Proposal is finalized without modification, banks seeking capital relief on credit exposures may face a practical choice between CLNs, which are inaccessible to many but the largest institutions, and no CRT at all. That outcome is not in the interest of the banks, their borrowers, or the supervisory system.

We are prepared to supplement these comments with additional technical information, including sample transaction documentation from comparable GSE programs, counterparty capital and rating data, or model capital calculations comparing current and revised treatment. We welcome further discussion with Agency staff.

Respectfully submitted,

Joe Monaghan
Co-Founder and Chief Executive Officer
Euclid Mortgage