

KEYCORP, TIMOTHY J. SCHMIDT

Proposal and Comment Information

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

Comment ID: FR-2026-0008-01-C245

Subject

Comments on Docket No. R-1888; RIN 7100-AH21

Submitter Information

Organization Name: KeyCorp

Organization Type: Organization

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Submitted Date: 06/18/2026

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On behalf of KeyCorp and KeyBank National Association, please find attached comments on the proposal titled Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets.

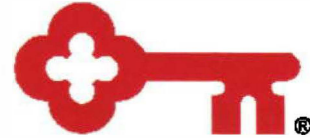
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June 18, 2026

VIA ELECTRONIC SUBMISSION

Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
Docket No. R-1888, RIN 7100-AH21

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Office of the Comptroller of the Currency
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Docket ID OCC—2026—0034; RIN 1557-
AF49

Jennifer M. Jones, Deputy Executive
Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429
RIN: 3064—AG23

Re: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets

Ladies and Gentlemen:

KeyCorp and its subsidiaries, including its national bank subsidiary, KeyBank, National Association (“KeyBank,” and together with KeyCorp and its subsidiaries, “Key”) appreciate the opportunity to comment on the Board of Governors of the Federal Reserve System (the “FRB”), the Federal Deposit Insurance Corporation (the “FDIC”), and the Office of the Comptroller of the Currency’s (the “OCC,” and collectively with the FRB and the FDIC, the “Agencies”) proposed rulemaking regarding amendments to the standardized approach regulatory capital rule (the “Proposed Rule”).¹

As a general matter, we believe the Proposed Rule represents a significant improvement compared to the Agencies’ 2023 proposed revisions to the capital framework, which would have made it more difficult for banking organizations like Key to meet community banking needs. We also appreciate that the Proposed Rule tailors the application of market risk and credit valuation adjustment risk requirements based on trading and derivatives activity, rather than based purely on asset size, and therefore is more faithful to the statutory requirement to tailor regulations based on a banking organization’s risk profile.²

This letter is intended to offer Key’s unique perspective with respect to low-income housing tax credit (“LIHTC”) transactions. Specifically, Key recommends that these transactions receive a

¹ Department of the Treasury, Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, 91 Fed. Reg. 15332 (Mar. 27, 2026).

² 12 U.S.C. § 5365(a)(2).

lower risk weight more consistent with their actual risk, so that the Proposed Rule when finalized does not inadvertently have a negative impact on the customers and communities that Key supports.

I. Background on Key

Key is a regional bank headquartered in Cleveland, Ohio, with a 15-state retail footprint. We provide deposit, lending, cash management and investment services to both individuals and businesses. In 2025, Key proudly celebrated two centuries of delivering on our purpose: to help our clients, colleagues, and communities thrive through various initiatives, including financial inclusion and other community-focused efforts.

For generations, Key has invested in the communities we proudly serve. KeyBank has earned eleven “Outstanding” ratings from the OCC on its Community Reinvestment Act’s (“CRA”) exams and is one of the only banks to achieve this level of consistency in outstanding performance since the CRA’s passage in 1977. In 2025 alone, Key and its employees delivered nearly \$5.6 billion to support community development and affordable housing projects, expanding access to safe, sustainable housing nationwide; provided approximately \$420 million of mortgage financing to low- and moderate-income (“LMI”) households; and deployed nearly \$40.7 million in philanthropic investments across our communities, including KeyBank Foundation grants, community sponsorships, and employee matching gift programs. In 2025, Key was the second largest affordable housing lender by volume as measured by Affordable Housing Finance,³ providing further recognition for the work done by KeyBank’s Community Development Lending and Investment business in connection with financing affordable housing and community development projects in urban and rural communities across the United States.

Key’s deep affordable housing expertise means it is uniquely positioned to comment on the Proposed Rule’s approach to LIHTC investments. We offer the following observations and suggestions for improving the treatment of LIHTC investments.

II. Background on LIHTC Investments

a. The LIHTC Program

The LIHTC program was created by Congress in 1986 and for the past forty years has served as an important driver for the creation or rehabilitation of affordable housing. Under the program, developers receive tax credits in exchange for agreeing to reserve a certain fraction of units for lower-income households. Tax credits may be claimed over ten years once the property is completed and available to be rented. Developers typically sell this ten-year stream of tax credits to investors in exchange for equity financing. As the Congressional Research Service has explained:⁴

³ Affordable Housing Finance, AHF Top 25 Lenders, Lending Momentum Builds for 2026 (May 18, 2026), <https://www.housingfinance.com/finance/lending-momentum-builds-2026>.

⁴ Congressional Research Service, An Introduction to the Low-Income Housing Tax Credit (Updated July 11, 2025), https://www.congress.gov/crs_external_products/RS/PDF/RS22389/RS22389.72.pdf.

Upon receipt of an LIHTC award, developers typically exchange or “sell” the tax credits for equity investment in the real estate project. The “sale” of credits occurs within a partnership that legally binds the two parties to satisfy federal tax requirements that the tax credit claimant have an ownership interest in the underlying property. . . .

The sale is usually structured using a limited partnership between the developer and the investor, and sometimes administered by syndicators. As the general partner, the developer has a relatively small ownership percentage but maintains the authority to build and run the project on a day-to-day basis. The investor, as a limited partner, has a large ownership percentage with an otherwise passive role. . . .

Typically, investors do not expect their equity investment in a project to produce income. Instead, investors look to the credits, which will be used to offset their income tax liabilities, as their return on investment. . . . Investors also often receive tax benefits related to any tax losses generated through the project's operating costs, interest on its debt, and deductions such as depreciation.

In its most recent comprehensive report on LIHTC property performance, the advisory and accounting firm CohnReznick estimated that approximately \$29 billion of capital was committed to LIHTC investments in 2024, with approximately 80% of this financing coming from bank investors, such as KeyBank.⁵

b. Performance of LIHTC Investments

For the reasons described above, LIHTC investments generally have a risk profile much more similar to a debt security or other fixed-income investment, rather than an equity exposure. A tax credit investor can generally expect to receive a return on its investment in the form of a steady stream of tax credits, rather than appreciation in the value of the equity. The primary risk to a tax credit investor is a recapture event – i.e., an event in which the investor is required to forfeit any future tax credits in relation to a project and to repay a portion of the tax credits already received, plus certain interest and penalties. Recapture may be triggered in various circumstances, such as failure by the property to comply with affordability requirements, certain natural disasters that leave units unavailable for an extended period, or certain foreclosures on the property.

CohnReznick reports that the foreclosure rate on LIHTC properties – “the most easily tracked and measured negative outcome” for such properties⁶ – is extremely low. Through 2024, the cumulative foreclosure rate for LIHTC properties since the beginning of the LIHTC program, measured by property count, was 0.47%, with no new foreclosures since 2021.⁷ The cumulative foreclosure rate measured by net equity is even smaller: 0.19%.⁸

⁵ See CohnReznick, *Affordable Housing Credit Study: A Comprehensive LIHTC Property Performance Report* (Nov. 2025) [hereinafter, “2025 CohnReznick Study”] at 20, <https://creditstudy.cohnreznick.com/credit-study>.

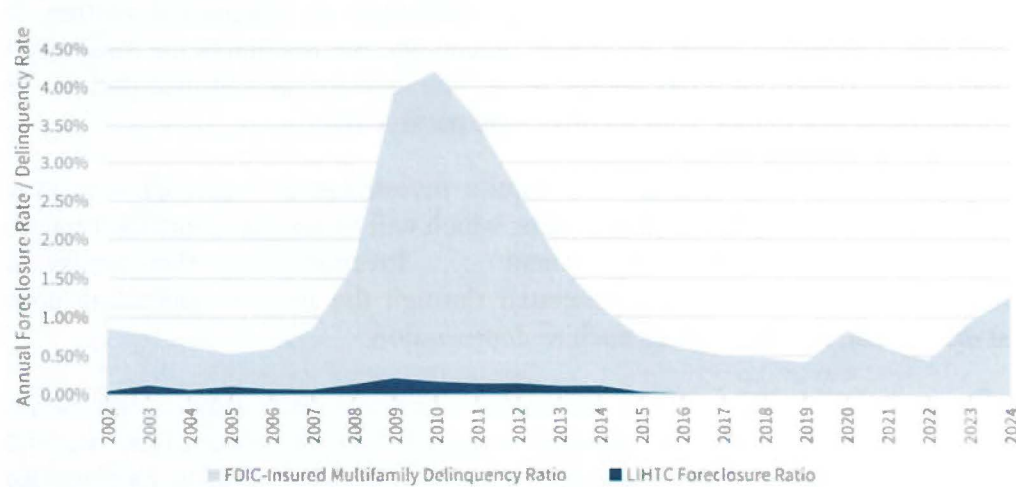
⁶ 2025 CohnReznick Study at 97. It is further worth noting that, if this negative outcome does occur, the consequence for the LIHTC investor is limited to losing out on future tax credits. The LIHTC investor will then write off the investment balance, which effectively equates to an accelerated amortization.

⁷ 2025 CohnReznick Study at 15. See also CohnReznick Study at 89-90.

⁸ 2025 CohnReznick Study at 90.

This very low rate of foreclosure on LIHTC properties compares favorably to delinquency and foreclosure rates on conventional multifamily loans made by banks, as CohnReznick’s data demonstrate.⁹

Annual LIHTC Foreclosure Rate vs. Conventional Multifamily Delinquency Rate



The performance of Key’s portfolio of LIHTC investments is consistent with CohnReznick’s industry-wide data. It is extremely rare for Key to fail to receive the anticipated value of its LIHTC investments, with an estimated loss rate on such investments well below one percent.

III. Treatment of LIHTC Investments Under the Capital Rules

a. Current and Proposed Rules

Under the Simple Risk Weight Approach to equity exposures under both the current Standardized Approach and the current Advanced Approaches, equity exposures that qualify as community development investments under 12 U.S.C. § 24 (Eleventh), including LIHTC investments, must be risk weighted at 100 percent.¹⁰ The Proposed Rule does not include any proposed changes to this aspect of the Standardized Approach, and the Expanded Risk-Based Approach Proposal would also retain the same treatment for this type of equity exposure.¹¹

⁹ 2025 CohnReznick Study at 91. As defined in the CohnReznick Study, the FDIC-Insured Multifamily Delinquency Rate includes loans that “were seriously delinquent by more than 90 days or in foreclosure, as reported by FDIC-insured institutions.”

¹⁰ 12 C.F.R. § 3.52(b)(3)(i); 12 C.F.R. § 3.152(b)(3)(i); 12 C.F.R. § 217.52(b)(3)(i)(A); 12 C.F.R. § 217.152(b)(3)(i)(A); 12 C.F.R. § 324.52(b)(3)(i); 12 C.F.R. § 324.152(b)(3)(i).

¹¹ 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 (Mar. 27, 2026) at proposed Section ___.141(b)(3)(i).

b. The Agencies Should Lower the Risk Weight Applied to LIHTC Investments

Key believes that, rather than continuing to assign LIHTC investments the same general 100% risk weight that applies to other 12 U.S.C. § 24 (Eleventh) investments, it would be more appropriate for performing LIHTC investments to receive a risk weight no higher than 50%.

First, a lower risk weight for LIHTC investments would be consistent with the underlying goal of the Proposed Rule – that the capital rules should be based on “data and analysis” and should be “appropriately calibrated on their consequences for real-world activity.”¹² Here, the data clearly demonstrate that LIHTC investments do not bear the same risks as other equity investments, including other public welfare equity investments that may receive a 100% risk weight. The capital rules should reflect this difference in risk.

Second, a lower risk weight would be consistent with what the FRB already recognizes in the context of its stress testing framework, under which LIHTC investments and other investments generating tax credits are assumed to be “subject to low loss rates.”¹³ When justified by the data, the FRB’s stress testing models have been modified to avoid discouraging investment in affordable housing and to appropriately reflect the lower level of risk of certain investments.¹⁴ The Agencies should similarly be willing to make data-based adjustments to their approach to LIHTC investments under the risk-based capital rules.

Third, lowering the risk weight for LIHTC investments would be consistent with the Administration’s policy goals of removing regulatory barriers to affordable home construction, as well as with the views expressed by Agency principals relating to improving the risk-sensitivity of the capital framework,¹⁵ resetting the risk tolerance of the banking system, and restoring banks to their proper role as financial intermediaries.¹⁶ A risk-sensitive capital framework and an overall system of banking regulation embracing an appropriate level of risk tolerance must, necessarily, be based on actual levels of risk, and Key respectfully submits that the Proposed Rule overstates the risk of LIHTC investments.

Key recognizes that a desire for greater risk sensitivity in the capital rules must be balanced against the compliance burdens that may be required to produce such risk sensitivity. In this regard, we

¹² Statements on Bank Capital Proposals by Vice Chair for Supervision Michelle W. Bowman (Mar. 19, 2026), <https://www.federalreserve.gov/newsevents/pressreleases/bowman-statement-20260319.htm>

¹³ See Supervisory Stress Test Documentation, Final 2026 Global Market Shock Component (Feb. 2026), <https://www.federalreserve.gov/supervisionreg/files/2026-final-gms-model.pdf> at 54 (“Some examples for OFVA are public welfare investments covering housing credit, tax credits, and energy investments. Due to government guarantees, these investments are subject to low loss rates. Shocks to housing credit and tax credit are set at -4.9 percent and shocks to energy investments are set at -13.9 percent.”).

¹⁴ Remarks by Randal K. Quarles, Vice Chair for Supervision, Feb. 25, 2021, <https://www.federalreserve.gov/newsevents/speech/quarles20210225a.htm> (“For example, in recent years, representatives from an affordable housing group noted that the global market shock for real estate investments also affected certain lower-risk public welfare investments, thereby discouraging investment in affordable housing. We deliberately studied the issue, concluded that the public welfare investments indeed posed a lower risk to bank capital than the other real estate investments, and adjusted downward the shock we apply to those investments...”).

¹⁵ Statement by Chairman Travis Hill on Risk-Based Capital Proposals (Mar. 19, 2026), <https://www.fdic.gov/news/speeches/2026/statement-chairman-travis-hill-risk-based-capital-proposals>

¹⁶ Comptroller Gould Statement on Notice of Proposed Rulemakings to Modernize Regulatory Capital Framework (Mar. 19, 2026), <https://www.occ.treas.gov/news-issuances/news-releases/2026/nr-occ-2026-17.html>

understand that a virtue of the Standardized Approach for smaller banks is the relatively reduced level of compliance demands, particularly with respect to the inclusion of fewer granular data collection obligations. In this case, however, a lower risk weight for LIHTC investments would not result in any increase in compliance burden for smaller Standardized Approach banks, nor would it raise any difficult interpretive questions for the Agencies. The revised rule would merely need to specify that an investment under 12 U.S.C. § 24 (Eleventh) that qualifies for tax credits under Section 42 of the Internal Revenue Code would receive the risk weight specified by the Agencies, which we believe should be no higher than 50%. Banking organizations will already know which of their investments qualify for tax credits under Section 42, and therefore no further data collection or interpretive considerations should be required.

Finally, a reduced risk weight for LIHTC investments is necessary to avoid unintended distortions. Under the current Standardized Approach, the 100% risk weight assigned to LIHTC investments is equal to the 100% risk weight generally applicable to a corporate exposure or to an exposure whose risk weight is not otherwise specified under the rules. The Proposed Rule lowers to 95% the generally applicable risk weight for corporate exposures and it lowers to 90% the applicable risk weight for exposures without risk weights otherwise specified. Key fully supports the recognition that the current 100% risk weight for these exposures overstates their level of risk, but Key is concerned that if the risk weight applicable to LIHTC investments is not also lowered then this may result in an implicit regulatory preference for other types of financing of affordable housing over LIHTC investing. Given that, as noted above, around 80% of LIHTC investments are currently provided by banking organizations, this could create significant disruptions in the market for affordable housing finance.

Key appreciates the opportunity to comment on the Proposed Rule and respectfully asks for the Agencies' consideration of the recommendations and suggestions in this letter. If you have any questions regarding the content of this letter or would like more information on the subject, please do not hesitate to contact the undersigned.

Respectfully submitted,

KeyCorp

By: _____

Timothy J. Schmidt
Corporate Treasurer