

June 18, 2026

Board of Governors of the Federal Reserve System
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Washington, DC 20551

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218
Washington, DC 20219

Re: Proposed Revisions to the Risk-Based Capital Framework: Amendments to the Expanded Risk-Based Approach for Large Banking Organizations and Modifications to the Standardized Approach for Credit Risk

I. Introduction

The undersigned organizations appreciate the opportunity to comment on the Federal Reserve, Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation's (FDIC) (together the Federal Regulators) proposed revisions to the risk-based capital framework for Category I and II banking organizations (the "Basel III Proposal") and modifications to the standardized approach for credit risk applicable to other banking organizations (the "Standardized Approach Proposal"; collectively the "Proposals").

The commercial and multifamily real estate (CRE) market is a roughly \$20 trillion sector spanning income-producing property types from office, retail, industrial, hotel, and multifamily to life science campuses, data centers, and self-storage, among others. Our organizations represent investors, borrowers, developers, owners, lenders, and service providers who participate in a vibrant commercial and multifamily real estate lending environment supporting housing and business across America.

This sector is financed by over \$6.4 trillion in CRE debt¹, with nearly half held by the banking sector. We write to recommend changes that would better calibrate capital requirements for CRE exposures and safeguard critical CRE financing channels.

II. Recommendations

We commend the improvements reflected in these Proposals relative to the 2023 Basel III proposal, particularly the tailoring of capital requirements to risk across different assets and activities. However, even with these improvements the changes recommended below are needed

¹ Federal Reserve as of 4Q 2025

to better reflect the risk profile of CRE exposures and ensure that the banking sector can continue to support a functioning CRE market:

- i. Permit Category III and IV banking organizations and similarly situated institutions to access granular CRE risk weights without adopting the entire expanded approach;
- ii. Broaden the “regulatory CRE” and “real estate exposure” definitions to avoid structural penalties for mezzanine and SPE-recourse structures, with measured add-ons for subsequent liens as warranted;
- iii. Treat multifamily loans underwritten to GSE standards and sold to the GSEs or guaranteed by FHA as statutory multifamily loans;
- iv. Revise the securitization eligibility criterion to recognize transactions that depend “primarily” on underlying assets and equalize the 15% floor for comparable GSE exposures during conservatorship;
- v. Tailor the expanded “commitment” scope, retain a 0% credit conversion factor (“CCF”) for unconditionally cancelable, secured CRE warehousing under the standardized approach, and avoid peak-balance imputations that overstate risk;
- vi. Reassess the mortgage servicing asset risk weight in light of empirical performance and the Federal Regulators’ own requests for comment;
- vii. Cap high-LTV, cash-flow-dependent regulatory CRE at 100% to avoid counterintuitive outcomes relative to unsecured corporates;
- viii. Treat qualifying LIHTC debt and equity investments as exposures to public sector entities; and
- ix. Treat qualifying Fannie Mae DUS loss-sharing exposures as exposures to public sector entities.

A. Risk-Sensitive CRE Risk Weights for All Banking Organizations.²

The Basel III Proposal would create granular loan-to-value (“LTV”) and cash-flow-based risk weights (70%–110%) for CRE exposures held by Category I and II banking organizations, which provide a more accurate evaluation of a loan’s risk. This approach reflects how loans are underwritten and does not simply apply a single risk weight. In contrast, the Standardized Approach Proposal applies a single CRE risk weight of 95%, which is a modest reduction from the existing 100%. This single risk weight approach would see a loan originated with a 60% LTV receive the same risk weight as a loan originated with an 80% LTV.

Both Proposals permit granular risk weights for residential real estate, although CRE and residential credit performance and loss severity are equally correlated with LTV and cash-flow dynamics. The undersigned organizations also recognize that effective risk-based capital frameworks depend on accurate measurement of collateral risk. Independent and credible real estate valuations remain an important component of determining loan-to-value ratios and ensuring that capital requirements appropriately reflect underlying risk.

² This section responds to Questions 11 and 12 of the Standardized Approach Proposal.

We request that the Federal Regulators permit Category III and IV and smaller qualifying community banks to use the Basel III CRE risk weights without having to adopt all other Category I and II requirements.³ This would allow Category III and IV banks with well-developed credit risk management systems to more accurately determine the capital charges for their loans.

B. Scope of “Regulatory Commercial Real Estate” Definition.⁴

The Basel III Proposal would define regulatory CRE as an exposure in which the bank holds a first-priority security interest. Exposures that fail to qualify would receive a 150% risk weight.

If the scope is set too narrowly, low-risk CRE loans will receive a punitive risk weight because of their structure. This affects (i) preferred equity investments in and mezzanine loans secured by equity interests in property-owning SPEs, and (ii) B-note and junior participation interests in CRE, structures common in CRE finance, with credit risk profiles closer to first-lien CRE or corporate exposures than to 150% “other real estate.”

First-lien requirements suit single-family residential real estate but not CRE, where properties are routinely held in special-purpose entities (“SPEs”) for bankruptcy remoteness; mezzanine lenders and preferred equity holders take security in equity; and intercreditor agreements and covenants preserve collateral value. For an SPE with no material assets beyond CRE, the risk weight should reflect the creditworthiness of the CRE rather than being treated as worse than an unsecured corporate exposure.

We request that the Federal Regulators revise (i) “real estate exposure” to include direct recourse obligations of a borrower with no material assets beyond CRE, and (ii) “regulatory CRE exposure” to include exposures secured by a first or subordinate lien on CRE or recourse obligations of a borrower with no material assets beyond CRE. First-lien vs. subordinate-lien risk could be addressed via an add-on risk weight (e.g., 15 percentage points).

C. Classification of Multifamily Loans Underwritten to GSE Standards.

Multifamily is consistently viewed as low risk and has performed very well over many years. The multifamily portfolios of Fannie Mae and Freddie Mac are near-pristine today and have performed exceedingly well during periods of stress, including COVID, the Great Financial Crisis, and earlier market downturns. Multifamily benefits from demand stability (housing is non-discretionary since shelter is a basic need), short lease duration (positive for credit, allowing rents to reset annually), faster NOI recovery post-downturn, and a diversified tenant base.

³ While the Proposals would permit Category III and IV banking organizations and smaller, non-CBLR banking organizations to opt into the expanded risk-based approach, doing so would require those organizations to adopt all other requirements applicable to Category I and II banking organizations, including the standardized operational risk charge and the requirement to include accumulated other comprehensive income (“AOCI”) in common equity tier 1 capital. Many regional and community banks reasonably may not wish to assume these additional burdens merely to access more risk-sensitive CRE risk weights.

⁴ This section responds to Question 19 of the Basel III Proposal. For more detail, please see the letter submitted by the CRE Finance Council.

Congress recognized the important role of multifamily loans in 1991 when it established a special, lower risk weight for “statutory” multifamily loans under the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991. The Agencies further clarified the treatment of statutory multifamily loans in 2015 through their Frequently Asked Questions on the Regulatory Capital Rule.

We request that multifamily loans that are underwritten to GSE standards and sold to the GSEs or guaranteed by FHA be treated as statutory multifamily loans receiving the same risk weights at the time of origination. These government-backed loans have a strong credit history, and the appropriate treatment is important not only for the period during which such loans reside on a bank’s balance sheet but also after the sale, as a determinant of look-through treatment in an institution’s ongoing relationship with the loan for guarantee and other activities.

D. Securitization Eligibility, Calibration, and Competitive Neutrality.⁵

We commend the Federal Regulators for retaining the p factor of 0.5 and lowering the non-resecuritization risk weight floor from 20% to 15%, responding to industry concerns raised in 2023.

Both Proposals, however, state that a bank may recognize an exposure as a securitization only if its performance depends “solely” on the underlying exposures. This would affect mortgage warehouse facilities and loan-on-loan CRE financing structures, particularly those where sponsors or originators provide limited guarantees.

We request that the Federal Regulators replace “solely” with “primarily” or “predominantly” in the traditional and synthetic securitization definitions. This is consistent with the preambles to the Proposals⁶.

The Proposals also create a disparity: the new 15% floor would apply to senior tranches of private-label securitizations, but senior exposures to GSEs would retain a 20% risk weight. This could disincentivize investment in Agency RMBS and CMBS. This disparity fails to recognize the favorable attributes these securities derive from the Agency guaranty and the explicit and implicit government support the GSEs receive. As it relates to residential home loans in particular, the Proposals could limit bank participation as an important source of liquidity, funding, and hedging, which would negatively impact both the GSE and private-label securities (PLS) markets and, all else equal, raise mortgage rates for homeowners.

We request a reduced risk weight for senior GSE exposures of 10%–15%, at least during GSE conservatorships. The Agencies could later return the GSE risk weight to 20% for securities issued after the end of conservatorship and any continuing government control or ownership of the GSEs.

⁵ This section responds to Questions 12, 62, and 198 of the Basel III Proposal and Questions 36 and 58 of the Standardized Approach Proposal.

⁶ The preambles note that when a sponsor provides a program-wide credit enhancement that covers “all credit losses,” the investors in the securitization are “primarily exposed to the default risk of the sponsor.” Under that logic, a credit enhancement that covers less than all credit losses will at some point result in the investors being primarily exposed to the credit risk of the underlying assets.

E. Commitments: Definition, Credit Conversion, and Warehouse Facilities.⁷

Both Proposals would broaden the “commitment” definition to include advised lines and uncommitted facilities not previously subject to capital charges, even if unconditionally cancelable.

The Proposals would also replace the existing 20%/50% maturity-based credit conversion factors (CCFs) with a flat 40% CCF, raise the CCF for unconditionally cancelable commitments from 0% to 10%, and base no-preset-limit exposures on the highest drawn amount over the previous 24 months.

These changes would significantly affect CRE warehouse facilities, which are typically uncommitted and secured, require underwriting and lender approval for each advance, and currently fall outside the commitment definition.

Warehouse facilities, which are typically secured, are essential to securitization, allowing lenders to aggregate loans that can be transformed into asset-backed securities. Punitive capital charges could cause more banks to exit this product, decreasing CRE lending and shifting volume to nonbanks.

We request that the Federal Regulators retain the current commitment definition and limit the 10% CCF for unconditionally cancelable commitments to consumer and non-real estate exposures, given the substantial underwriting involved in each CRE warehouse advance. The Federal Regulators should preserve a 0% CCF for unconditionally cancelable secured CRE warehouse facilities and avoid imputed exposure methodologies that overstate undrawn risk for collateralized CRE lines.

F. Mortgage Servicing Rights.⁸

The Proposals would remove the CET1 deduction for mortgage servicing rights (“MSRs”) above 10% or 25% of CET1, risk-weighting all MSRs at 250%.⁹

While we support eliminating the CET1 deduction, the 250% risk weight overstates MSR risk relative to comparable assets. MSRs were risk-weighted at 100% under Basel I, and the 250% figure was set in 2013 without empirical justification.

MSRs for CRE loans show particularly low volatility and high stability. CRE loans and CMBS include prepayment restrictions, limiting early-payment losses, and servicing fee payments are stable and predictable. They are also evaluated quarterly for impairment and marked to fair value, consistent with the 100% risk weight historically applied.

⁷ This section responds to Questions 30, 31, and 32 of the Basel III Proposal and Questions 14, 15, 18, and 21 of the Standardized Approach Proposal.

⁸ This section responds to Question 11 of the Basel III Proposal and Question 1 of the Standardized Approach Proposal.

⁹ The removal of the threshold-based deduction for MSRs also would positively impact banking organizations that are subject to the CBLR framework, even though they are not subject to risk-based capital requirements.

We therefore request that the Federal Regulators reduce the MSR risk weight to no more than 100%.

G. Risk Weighting of High-LTV CRE Exposures Relative to Corporate Loans.¹⁰

Under the Basel III Proposal, CRE exposures dependent on property cash flows, not including multifamily residential real exposures, receive a 110% risk weight when LTV exceeds 80%. Unsecured corporate exposures, by contrast, receive a maximum of 100%, or 65% for investment-grade obligors. An unsecured corporate loan can thus receive a lower risk weight than a loan fully secured by CRE.

This inverts risk: a bank is better off on capital grounds making an unsecured corporate loan than a secured CRE loan with a substantial equity cushion, even when the collateralized exposure has lower expected loss. We request that the Federal Regulators reduce the maximum risk weight for cash-flow-dependent CRE exposures to 100%, so that collateralized real estate credit does not attract higher capital than unsecured corporate credit while still differentiating by LTV.¹¹

H. Risk Weighting of LIHTC Investments.¹²

Bank investments in Low-Income Housing Tax Credit (“LIHTC”) developments are booked as community development investments and receive a 100% risk weight. Equity exposures to public sector entities (“PSEs”), by contrast, are assigned 20%, reflecting their public purpose, governmental involvement, and historical credit performance.

The current 100% risk weight treats LIHTC investments as ordinary private equity exposures, despite their economics being linked to federal tax credits. This raises the cost of capital, reducing financing for affordable housing supply.

Reducing the risk weight would encourage banks to increase their participation in LIHTC investments, directly advancing public policy objectives related to affordable housing and community development. This aligns with the goals of the Community Reinvestment Act (CRA) and supports broader financial inclusion efforts. Recent legislative and administrative efforts to expand housing supply (*e.g.*, reducing the 50% test to 25% in the One Big Beautiful Bill Act and the proposed Public Welfare Investment cap increase in the 21st Century ROAD to Housing Act) are undermined by capital requirements that continue to be the binding constraint for banks that want to finance more affordable housing. The Novogradac LIHTC Equity Pricing Trends Reports shows that on average the dollar price per LIHTC has fallen from \$0.85 in July 2025 to \$0.83 as of March 2026. Reducing the risk weight could increase overall participation in the market and lift LIHTC pricing, helping offset construction costs and reducing reliance on federal and local subsidies, without cost to the federal government or changes to the tax code.

¹⁰ This section responds to Question 19 of the Basel III Proposal.

¹¹ If the more granular risk weights for CRE exposures are added to the Standardized Approach Proposal, then the ceiling for regulatory CRE exposures of Category III and IV banking organizations and smaller, non-CBLR banking organizations should be set at 95% to align with the proposed general corporate risk weight.

¹² This section responds to Questions 82, 83, and 198 of the Basel III Proposal and Question 58 of the Standardized Approach Proposal.

Additionally, LIHTC-associated debt exposures exhibit a lower risk profile than LIHTC equity investments due to their senior position in the capital structure, contractual repayment protections, and insulation from tax credit recapture risk—the primary loss driver for equity investors. While LIHTC equity returns depend on ongoing program compliance and are subject to potential credit recapture, debt exposures are supported by predictable cash flows, collateralized by stabilized multifamily assets, and governed by standard underwriting, servicing, and enforcement mechanisms. In many instances, the debt is supported by contracted rent (Section 8, for example) or have other government support (vouchers, subsidies, *etc.*) which drive low default rates in the debt that finances these projects. Moreover, the consistently strong performance of LIHTC-financed properties suggests that senior debt in these structures benefits from both underlying asset strength and a substantial equity cushion. Accordingly, LIHTC debt exposures should be recognized as presenting equal or lower risk than LIHTC equity and calibrated appropriately within the capital framework.

We respectfully request that the Federal Regulators permit banking organizations to treat qualifying debt and equity investments in LIHTC housing developments as exposures to a PSE for purposes of risk-weighting under the Basel-based capital framework. Specifically, qualifying LIHTC debt equity exposures should receive the same 20% risk weight that the SRWA assigns to equity exposures to PSEs, reflecting the public purpose and government-backed nature of the return stream. This change could be implemented by amending the definition of PSE to clarify that an obligor that satisfies the LIHTC program criteria is a PSE.

I. Risk Weighting of DUS Exposures.¹³

The Delegated Underwriting and Servicing (“DUS”) program is Fannie Mae’s multifamily financing platform, under which approved lenders originate, underwrite, close, and service multifamily mortgage loans on Fannie Mae’s behalf while retaining a portion of the credit risk through loss-sharing arrangements. Under current capital rules, banks assign a 100% credit conversion factor and a 50–100% risk weight to these exposures, treating them like ordinary private counterparty exposures, even though the counterparty is a GSE operating under federal oversight and affordable housing mandates. By contrast, exposures to public sector entities (PSEs) receive a much lower 20% risk weight. This miscalibration overstates the actual risk of DUS loss-sharing. Fannie Mae’s multifamily serious delinquency rate stood at 0.78% as of March 31, 2026, and realized credit losses have remained a small fraction of the guaranty book through multiple cycles, reflecting the careful underwriting incentivized by the loss-sharing structure itself, under which DUS lenders share credit losses with Fannie Mae.

DUS loss-sharing exposures should be reclassified and assigned the same 20% risk weight applied to PSE exposures, reflecting the quasi-governmental nature of the GSEs and their role in federal housing policy. The current elevated capital charges unnecessarily increase the cost of participation in DUS lending, dampening bank involvement in a program critical to financing affordable multifamily rental housing nationwide. The proposed fix would either amend the PSE definition to explicitly include qualifying DUS arrangements, or at minimum

¹³ This section responds to Questions 23 and 198 of the Basel III Proposal and Questions 9, 12, and 58 of the Standardized Approach Proposal.

apply the reduced risk weight for the duration of the GSEs' conservatorships pending further review.

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We support a safe, sound, and resilient banking framework with capital rules that withstand periods of stress. The Proposals significantly improve on the 2023 proposal, and the targeted refinements above would better calibrate CRE capital requirements without unduly constraining the financial system or burdening housing providers. We welcome the opportunity to discuss these comments further.

Sincerely,

CRE Finance Council

American Land Title Association

Appraisal Institute

BOMA International

ICSC

Nareit

National Apartment Association

National Association of Home Builders of the United States

National Multifamily Housing Council

The Real Estate Board of New York

The Real Estate Roundtable