

Congress of the United States
Washington, DC 20515

February 5, 2026

The Honorable Michelle Bowman
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th & C Street, NW
Washington, DC 20551

The Honorable Jonathan V. Gould
Comptroller
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

The Honorable Travis Hill
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Vice Chair Bowman, Comptroller Gould and Chairman Hill:

We write to raise concerns regarding the current capital treatment of mortgage servicing assets (MSA) for small community banks.

In 2010, the Basel Committee on Banking Supervision proposed the Basel III regulatory framework, which included a recommendation to limit mortgage servicing rights when calculating the numerator of Common Equity Tier 1 (CET1).¹ In successive years, U.S. prudential regulators adopted this approach in domestic regulation of financial institutions. In the implementation of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2017, the prudential regulators increased the aggregate cap applied to CET1 for non-advanced approaches banking organizations from 15% to 25%—at the time a proposal that gave some flexibility to these institutions.²

While we feel that measure was a good first step towards tailoring capital requirements, we feel more can be done. The 25% effective CET1 cap on MSA currently applies to a wide range of institutions from large regionals to institutions that qualify for the Community Bank Leverage

¹ Basel Committee on Banking Supervision, *Basel III: A global framework for more resilient banks and banking systems*, (December 2010) https://www.bis.org/publ/bcbs189_dec2010.pdf

² Department of the Treasury, Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, *Regulatory Capital Rule: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996*, 84 Fed. Reg. 140 (Jul. 22, 2019) <https://www.govinfo.gov/content/pkg/FR-2019-07-22/pdf/2019-15131.pdf>

Ratio (CBLR). We feel there is an opportunity to further tailor this proposal by exempting CBLR institutions from the MSA component of the cap.

We believe strongly in the benefits of mortgage servicing from the local community banks that originated the mortgage. Consumers are better served when they have an opportunity to get a mortgage, often representing the largest and most significant financial transaction of a consumer's life, with the local service that comes from a community institution.

Unfortunately, community banks—with their limited capital base—are at a severe disadvantage relative to larger institutions and nonbank lenders with the current capital rules as it relates to mortgage servicing. In order for smaller institutions to be able to meaningfully participate in the mortgage market, they must be allowed to build up the expertise and loan book needed to both originate and service the mortgages they offer.

Furthermore, we fear that the migration of mortgage servicing from financial institutions to nonbank lenders has been in part due to the prohibitive capital treatment of mortgage servicing. Nonbank mortgage originations have increased significantly since the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The nonbank share of mortgage originations surpassed bank originations for the first time in 2017.³ We hope that right-sizing capital requirements can help reconnect consumers with local, community institutions that can provide high-levels of service.

As you work on the re-proposal of Basel III Endgame, we respectfully request that you consider further tailoring capital requirements by exempting CBLR institutions from the 25% CET1 aggregate MSA cap. We welcome an opportunity to continue discussing this issue with our teams. Please reach out to Curt Bliamptis (curt.bliamptis@mail.house.gov) and Andrew Nam (Andrew_nam@ricketts.senate.gov) to schedule a follow-up discussion.

Sincerely,


Mike Flood
Member of Congress


Pete Ricketts
United States Senator

³ Federal Deposit Insurance Corporation, Quarterly Banking Profile: Third Quarter 2019, Volume 13, Number 4, (Nov. 14, 2019) <https://www.fdic.gov/bank/analytical/quarterly/2019-vol13-4/fdic-v13n4-3q2019-article1.pdf>