

July 18, 2017

Honorable Janet Yellen
Chair
Board of Governors of the Federal Reserve
System
20th and Constitution Avenue, NW
Washington, DC 20551

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

Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Request for Meeting on Basel III Standards for Mortgage Servicing Assets

Dear Madam and Sirs:

Our organizations are writing to express our deep concerns about the coming regulatory requirement for full (100%) implementation of the Basel III capital standards and risk weighting requirements for mortgage servicing assets (MSAs) in 2018. As we have previously expressed to your respective organizations, we believe that these standards are unduly punitive and, if fully implemented, will both increase costs to consumers and reduce MSA liquidity in the market. We ask that your agencies pause the implementation of the Basel III treatment of MSAs at its current 80% phase-in and allow our organizations to meet with you to discuss the need to revise the Basel III treatment of MSAs.

Our organizations continue to believe that Basel III sets a punitively high capital requirement that is excessive relative to the risk of the asset. This capital treatment will drive some good bank servicers that want to service out of the business. This is bad for those banks, bad for investors, and bad for consumers who ultimately bear the cost of a less liquid secondary market.

Our organizations note with approval the Department of Treasury's recent call to "improve the calculation of capital requirements for MSAs¹" as part of its thorough review of laws, treaties, regulations or other requirements consistent with the core principles outlined in Executive Order 13772 on February 3, 2017. We support this recommendation in the Treasury report. We also believe that the Basel III treatment of MSAs is a particularly good example of the type of regulation identified in the Executive Order asking agencies for reevaluation with a view to "enable American companies to be competitive with foreign firms in domestic and foreign markets" and "advance American interests in international financial regulatory negotiations and meetings."

¹ U.S. Department of Treasury. *A Financial System That Creates Economic Opportunities, Banks and Credit Unions*, at p. 127. Issued June 2017. Available at: <https://www.treasury.gov/press-center/press-releases/Documents/A%20Financial%20System.pdf>

It is important to consider the impact identified by Treasury and the uniquely American nature of the MSA — which is not widely utilized in other Basel signatories (nor are 30 year fixed rate mortgages). The phased implementation requirements for Basel III will require our members to come into full compliance with new risk weights and capital deductions by January 1, 2018. This implementation process, once completed, will make it very expensive and unduly burdensome for banks to hold MSAs. The resulting harms and MSR divestments that will follow from full implementation cannot be easily reversed even if your respective organizations make needed changes to the treatment of MSAs in the future. Even now banks are shedding MSAs in advance of full implementation, or not investing in MSAs to the extent they had been. We believe it is imperative that all efforts be made now to avoid or avert the foreseeable damage that the new Basel III rules will cause for companies that hold MSAs.

In light of the Treasury report and the upcoming deadline for full implementation, we request a meeting at your earliest convenience to discuss the treatment of MSAs and possible approaches that will ensure both appropriate safeguards and a liquid, diverse market for these vital assets.

Thank you for your attention to this matter. Please feel free to reach out to Justin Wiseman at the Mortgage Bankers Association at 202-557-2854 or JWiseman@mba.org to discuss this letter or scheduling of the meeting.

Sincerely,

Independent Community Bankers of America
Mortgage Bankers Association