October 22, 2012

Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
(R-1442, RIN AD87)

Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219
(RIN 1557-AD46)

Federal Deposit Insurance Corporation
550 17th St, NW
Washington, DC 20429
(RINs 3064-AD95, 3064-AD96, and 3064-AD 97

Re: Regulatory Capital Rules:

A. Regulatory Capital, Implementation of Basel III: Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions and Prompt Corrective Action (Regulatory Capital Rule)
B. Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements (Standardized Approach)
C. Advanced Approaches Risk-based Capital Rule; Market Risk Capital Rule (Advanced Approach)

To Whom It May Concern:

The undersigned organizations thank the Board of Governors of the Federal Reserve System (Federal Reserve), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC), (collectively, "the Regulators"), for the opportunity to comment on the above-referenced Joint Notice of Proposed Rulemaking (Proposed Rules) to implement Basel III regulatory capital standards in the United States. Each of the undersigned organizations is planning to submit detailed comment letters regarding the NPR. However, as representatives of industries whose members comprise a significant portion of the real estate and real estate finance industries, we are writing to express shared concerns with the NPR as proposed.

We believe mortgage lenders, mortgage insurers, Realtors®, and home builders as well as the home owners and home buyers they serve, will experience a negative impact if the proposed rules are implemented. Specifically, the risk weights that have been proposed for residential mortgage loans and the elimination of mortgage insurance as a risk mitigation option will reduce the availability and affordability of mortgages to consumers.

In proposing new regulatory capital rules, the Regulators must consider the significant importance of the banking system to the overall real estate finance market. If the banking system pulls back from making new loans or is forced to shrink assets as a result of onerous capital requirements, the mortgage market and borrowers of all types will be harmed.

We urge the Regulators to consider our comments below.

Consumer Impact
Increasing risk-weighting on residential mortgages would adversely impact consumer pricing. For example,

1. A category 1 mortgage loan with an 80 percent LTV would price approximately 16 basis points (bps) higher under the Proposal.
2. A category 1 loan with 95 percent LTV would price 85 basis points higher under the Proposal.

The undersigned organizations are concerned the Basel III proposal coupled with the Dodd-Frank Act ability to repay criteria, may shut out of the market many consumers who have low down payments, including many first-time homebuyers.

Specific Recommendations
The Proposal contains several changes to existing risk-based capital rules that will have a dramatic and negative impact on the residential mortgage market. Risk weights would move from the existing 50 percent for single family mortgages to a range of from 35 percent to 200 percent. In contrast, the European Union proposes to risk weight single family mortgage loans at 35 percent. Under the Proposal, private mortgage insurance would not be allowed to be used in calculating loan-to-value (LTVs) ratios even though it significantly reduces loss severity in the event of default.

The undersigned organizations believe that the Regulators should recognize that enhanced supervisory oversight coupled with new and proposed rules issued since the mortgage crisis have resulted in significant improvement in underwriting standards, and the credit quality of loans has vastly improved.

We recommend that existing risk-weights for first lien mortgages be retained in the final rule.

Excluding mortgage insurance from the calculation of LTVs under the Proposal would make it more difficult for first time home buyers to attain the dream of home ownership.

The undersigned organizations recommend that higher-LTV mortgage loans with private mortgage insurance provided by financially strong counterparties be assigned the same risk weights under the final rules as loans with lower LTVs, as in current regulation. Mortgage insurance clearly reduces loss severity, and the Regulators should recognize all mortgage insurers that demonstrate their ability to pay claims under stress.

We appreciate the opportunity to comment on the Proposal.

Sincerely,

Mortgage Bankers Association
Mortgage Insurance Companies of America
National Association of Home Builders
National Association of REALTORS®
National Housing Conference