How the Basel Re-Proposal Will Impact the Mortgage Market

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The stated purpose of the Basel re-proposal is to recalibrate capital requirements to better reflect risk and attract banks to participate more fully across the financial system. In this paper, we discuss how the changes in the re-proposal would impact the mortgage market.[1] We conclude that it would have a moderate impact as drafted, primarily by incentivizing banks to originate and hold more lower-risk mortgages and encouraging nonbanks in the mortgage market to pursue bank charters or partnerships with banks to take advantage of the changes and remain competitive. Its impact would be more substantial if policymakers were to clarify the definition of "regulatory residential real estate exposure," expand the definition of "securitization," and give credit for the transfer of mortgage credit risk, attracting greater bank participation in the market and providing a larger reduction in mortgage rates for most borrowers.

Before discussing the analysis that led us to these conclusions, we offer a note of caution. Many banks treat mortgage lending not as a profit center in its own right, but as a means to support other business lines. So, when a bank receives capital relief for a certain mortgage risk, it will not simply increase its exposure accordingly. It will assess how that relief affects the value of the impacted business line within its broader business strategy and identify the most profitable place to allocate the freed capital across all its business lines. Moreover, the capital provisions in Basel are only one part of a much larger capital regime that includes stress-testing, liquidity ratios, and so forth. Teasing out the relative impact of the changes made in Basel will thus require some guesswork and oversimplification.

With that caveat in mind, we turn to the impacts that the changes in the Basel re-proposal are most likely to have on the mortgage market, focusing on banks, independent mortgage banks, Fannie Mae and Freddie Mac, and mortgage borrowers.

IMPACT ON BANKS

Bank participation in residential mortgage lending is varied and complex. Banks originate mortgages and purchase them from correspondents, sometimes holding the loans on their balance sheet, sometimes selling them, and sometimes securitizing them and selling the mortgage-backed securities. Banks sometimes sell the mortgage servicing rights on the loans they originate, sometimes hold them, and sometimes buy them from other originators. They also participate in the mortgage market less directly, financing independent mortgage banks through warehouse and MSR facilities or providing ancillary services such as custody and master servicing. As the Basel re-proposal affects these activities differently, the net effect on each bank will vary depending on its business model. It will also vary by bank size, given that the rules apply differently to banks of different sizes.

Loans held in portfolio

This is where the re-proposal most clearly benefits banks operating in the mortgage market. The risk weight for a conventional mortgage with a 75% loan-to-value ratio will fall from 50% to 30%-35%, and that for a loan below 60% LTV will fall from 50% to 20%-25%.[2] This invites banks to compete more aggressively for prime conventional originations, particularly low-LTV refinances and jumbo purchase mortgages.

1 In a first for each of the authors, we used artificial intelligence (Claude) to spot issues in the early stages of drafting this paper. While Claude's accuracy was uneven, the model meaningfully expanded the scope of our investigation, deepening our understanding of the topic and leading to a more comprehensive analysis.

2 Under the Basel III Proposal (applicable to Category I and II banks), a residential mortgage that is not cash-flow-dependent receives risk weights of 20% (LTV ≤ 50%), 25% (50% to 60%), 30% (60% to 80%), 40% (80% to 90%), 50% (90% to 100%), and 70% (>100%); under the Standardized Approach Proposal, the corresponding risk weights are 25%, 30%, 35%, 45%, 55%, and 75%. See Mayer Brown, U.S. Banking Regulators Propose Reforms to Capital Requirements (March 20, 2026), available at https://www.mayerbrown.com/en/insights/publications/2026/03/us-banking-regulators-propose-reforms-to-capital-requirements.

However, banks face a host of operational, legal, and reputational costs in standing up and maintaining a mortgage origination channel, and the business has thin, volatile margins. Most will thus be reticent to lean into originations as a profit center, even with the proposed capital relief. Those that have already invested in a conduit channel or origination infrastructure, or that use mortgage originations to support other business lines, are more likely to lean into portfolio lending more aggressively with the relief. And those that originate are apt to retain more of the low-LTV mortgages that would otherwise be securitized through Fannie Mae and Freddie Mac. Since there is little reduction in higher-LTV mortgages and banks account for only 5% of FHA originations, there would be little to no change in bank participation in Ginnie Mae securitizations.

Securitization

The re-proposal would reduce the RW floor for private-label securities from 20% to 15%, placing the RW for lower-risk AAA tranches below that for agency mortgage-backed securities (20%) but above that for Ginnie MBS (0%). This would provide a meaningful boost to the economics of holding low-credit-risk tranches of PLS (see Table 1). However, two other provisions in the re-proposal weaken that economic lift to some degree. One would impose on Category I and II banks an operational risk charge on non-interest income, which includes mortgage servicing fees and gains on mortgage sales and securitizations.[3] And another would change the treatment of accumulated other comprehensive income for Category III and IV banks, introducing new capital volatility for MBS holdings.[4] On net, the re-proposal would provide a modest, somewhat uncertain economic benefit to bank participation in the PLS market.

The long-standing reticence of all but a few banks to purchase PLS is not due to differences in capital requirements, however, but to the challenges of investing in PLS relative to agency MBS: lower liquidity and market size, greater liquidity requirements, and, following the Global Financial Crisis, reputational risks if losses are taken as a securitization sponsor. Compounding those challenges is the strong demand for PLS from larger insurers and traditional asset managers, which has driven pricing on investment-grade tranches above what banks find appealing, absent a larger shift in the economics. It would likely take a retreat of that capital and a resolution of the other impediments for banks to return to the PLS market in earnest.

Even so, a few larger banks are likely to explore securitization structures that take advantage of the various capital relief measures in the re-proposal, partnering with nonbanks on structures in which they retain the lowest-risk segment of a AAA tranche and distribute the rest to private capital.

Holding MSRs

The re-proposal removes the requirement that banks deduct from their regulatory capital all mortgage servicing assets above a certain percentage of their capital base.[5] Given the punitive treatment of mortgage servicing rights above the cap, banks are careful to stay well below their limit. By removing the cap, the re-proposal will give banks the flexibility to retain more of their servicing and buy more from others when the economics warrant. However, the re-proposal retains the 250% RW for MSRs, making it unlikely that the changes will create a meaningful tailwind for bank demand for MSRs. Indeed, some banks will choose to hold their low-LTV loans in portfolio rather than sell them with retained servicing, leaving them without MSRs from those originations. All told, we would expect that bank participation in the MSR market would increase at the margin.

Financing IMBs through warehouse and MSR facilities

The impact of the re-proposal here is likely modestly negative. It would reduce by 5 percentage points the RW applied under the Standardized Approach to the on-balance-sheet portion of warehouse lines. That helpful move is more than offset, however, by a tightened securitization definition that creates problems for the special purpose vehicles used by most large warehouse and MSR facilities, and a significant increase in the capital to be held against the kinds of warehouse lines of credit that most IMBs rely on. Warehouse lines that are unconditionally cancelable will see a capital charge for the first time, and those that are a year or less and not unconditionally cancelable will see a doubling of the

3 This operational risk charge does not apply to Category III and IV banks.

4 Under current rules, Category III and IV banks may opt out of including most components of accumulated other comprehensive income in regulatory capital. Under the Standardized Approach Proposal, these banks would be required to include most AOCI elements in CET1 capital, subject to a five-year transition. The practical consequence is that unrealized gains and losses on available-for-sale securities—including MBS holdings—would flow through to regulatory capital ratios. As interest rates move, the market values of fixed-income holdings move with them, producing capital ratio volatility that did not previously exist for these institutions.

5 For Category I and II banks, the current rules require a dollar-for-dollar deduction from CET1 capital of MSRs exceeding 10% of CET1 individually, or 15% in combination with deferred tax assets and significant investments (other banks have a 25% of CET1 individual limit). The re-proposal eliminates this deduction requirement but keeps the risk-weight MSR exposures at 250%. See Mayer Brown, U.S. Banking Regulators Propose Reforms to Capital Requirements (March 20, 2026).

capital required.[6] Banks will likely adjust the structure of the lines they offer to minimize the increased cost, but it is not clear how, or how the new structures will affect pricing.

On net, the cost of bank financing of IMBs will likely rise modestly and specialist warehouse and MSR financing banks will face increased strategic pressure. These effects would be muted when warehouse capacity is ample—as it is today—as competition will keep pricing tight regardless of marginal capital costs. Capital costs will matter more when origination volumes recover and warehouse capacity tightens, particularly during periods of credit stress when banks become more selective about their non-investment-grade IMB exposures.

Net effect on bank participation

Taken together, the impact of these changes on overall bank participation in the mortgage market is complex, with crosscurrents that will affect each bank differently. The re-proposal makes it more appealing to hold low-LTV mortgages and low-risk tranches of PLS but complicates the economics of warehouse lending and securitization. It avoids the pressure to sell off MSRs but does not create a tailwind for significantly increased demand. And IMB financing remains a profitable but capital-intensive business.

Assessing the impact of Basel on bank behavior in isolation is inevitably a speculative exercise, but our analysis suggests that the re-proposal could increase the aggregate bank share of residential mortgage activity by up to 18 percentage points, with the increase concentrated in direct-origination prime conventional and jumbo lending.[7] The increase is likely to be larger during refinancing waves, as low-LTV loans constitute a larger share of total refinance lending than of purchase lending. The migration would be gradual and uneven, with the largest banks and those with existing mortgage capabilities capturing most of the gain.

IMPACT ON IMBs

Like banks, IMBs operate across many business lines in the mortgage market. They originate mortgages to sell and to securitize, sometimes retaining the servicing, sometimes selling it. They usually finance their activities through bank warehouse and MSR facilities, and almost all rely on banks in one form or another. IMBs would thus be impacted indirectly but meaningfully by the changes in the re-proposal.

ORIGINATIONS

The primary impact of the changes on IMB originations will be a more competitive landscape, with banks becoming more willing to originate low-LTV loans directly and reducing the share that flows through the IMB channel.

Servicing

The impact on IMB servicing is generally positive. Modestly higher MSR values benefit IMBs that hold servicing on their balance sheet. Improved liquidity in MSR markets from bank re-entry will reduce transaction costs and bid-ask spreads. MSR financing costs for some will rise modestly, but for most IMBs, this will be more than offset by underlying MSR appreciation.

For IMBs with models that emphasize servicing retention—PennyMac, Rocket, Lakeview, Freedom Mortgage—this is a meaningful net positive. For IMBs that originate and sell servicing-released—United Wholesale Mortgage—the benefit is smaller but still meaningful due to better MSR sale economics. The distinction reflects a stock-versus-flow dynamic. Servicing-retainers see MSR appreciation across their existing on-balance-sheet portfolios—an immediate stock effect—while servicing-released sellers capture the benefit only on new originations sold forward into a stronger MSR market, a flow effect that materializes gradually as new production is sold.

Capital structure and bank charter feasibility

This is the single biggest change for the IMB industry, though it has received the least attention. The elimination of the MSR threshold deduction makes it more feasible for nonbanks in the mortgage space to secure bank charters than it has been in years. Midsize IMBs with $1 billion to $10 billion in equity can now acquire small to midsize banks for deposit funding and charter access without becoming regulatory-capital insolvent, and the largest IMBs can contemplate building bank capabilities organically. This creates a strategic fork. Some IMBs will pursue the bank charter path, while others will double down on independence. The choice will be driven by scale (the largest IMBs have more options), MSR intensity (high-MSR IMBs benefit more from charter conversion), and competitive strategy.

Funding cost

The impact here is modestly negative. Warehouse and MSR financing capacity will contract moderately through the cycle, though the extent will depend on the alternative structures banks develop and vary by the

6 The Basel III Proposal and Standardized Approach Proposal would establish a single 40% credit conversion factor for all commitments that are not unconditionally cancelable, up from 20% for lines less than or equal to one year and down from 50% for lines over a year. In addition, the rule proposes a new 10% credit conversion factor for lines with Category I and II banks that are unconditionally cancelable. As most IMBs use unconditionally cancelable lines, this is a meaningful increase.

7 As we discuss further below, these estimates assume the broad reading of the residential exposure definition that we understand is intended. A narrower reading that restricts relief to bank-originated loans would cut these gains in about half.

negotiating leverage IMBs have with their warehouse lenders. Larger IMBs with multiple lines of business with their lender will be able to negotiate more favorable terms, but smaller IMBs will be vulnerable, with some finding it harder to maintain affordable warehouse capacity through the cycle.

Net effect on IMBs

The largest IMBs, such as Rocket, UWM, and PennyMac, will benefit the most, as they have the scale to manage the increase in funding costs, the strategic optionality to pursue a bank charter, and the operational sophistication to navigate the complex financing changes and possible bank partnerships. Midsize IMBs, on the other hand, are not large enough to pursue a bank charter strategy and will face higher funding costs, increased competitive pressure from banks on low-LTV lending, and integration pressures as larger IMBs and banks acquire midsize targets. The smallest IMBs will bear the brunt of the increase in funding costs but avoid the most disadvantageous provisions. Small IMBs rarely transact with Category I and II banks to which the operational risk charge on non-interest income applies, and rarely use the special purpose vehicle-based warehouse structures that are impeded by the tightened securitization definition.

These dynamics suggest that the re-proposal may accelerate consolidation in the space, with the increasing benefits of scale, the strength of larger IMBs, and the vulnerability of midsize IMBs combining to create a market dominated by a few large IMBs at one end and smaller niche players at the other.

IMPACT ON GSEs

The changes in the re-proposal will also affect the government-sponsored enterprises, Fannie Mae and Freddie Mac. Lower capital requirements for lower-LTV loans will incentivize banks to hold more of those loans in their portfolios rather than securitizing them through the GSEs. The GSEs price these loans to generate a modest subsidy, which they use to reduce pricing for higher-LTV loans. Thus, a drop in the volume of low-LTV loans would mean a loss of this cross-subsidy, forcing the GSEs to raise pricing on higher-LTV loans. Our analysis suggests that the impact will be modest, however.

The bank share of GSE originations in the year ending in the first quarter of 2026 is approximately 23%, with slightly more of the lower-LTV buckets and slightly less of the higher-LTV buckets. But the distributional differences between the bank share of the market and the overall market are relatively small (see Table 2). We estimate that GSE volumes will decline by 5% to 10%, with a relatively small shift in the GSE distribution toward higher-LTV mortgages.

IMPACT ON BORROWERS

How the various impacts of the re-proposal flow through to borrowers depends heavily on the characteristics of their loans.

Conventional borrowers

The impact on conventional purchase borrowers will depend on their LTV. Those with LTVs from 60% to 80% could see a drop of 15 to 40 basis points in pricing as banks compete more aggressively with the GSEs for their business. Those with LTVs below 60% should see an even larger drop—up to 50 basis points—given the greater capital relief. And some borrowers with higher LTVs may see a modest increase, given that GSEs will need to raise pricing to cover the cross-subsidy loss that will accompany their loss of low-LTV business.

Government loan borrowers (FHA, VA, USDA)

While the FHA, VA, and USDA will become more competitive with the GSEs as the latter raise pricing, the impact on borrowers in the channel will be mixed. Government loans are originated almost entirely by IMBs, so the changes would affect these borrowers only through their impact on the IMB model. For instance, increases in warehouse and MSR financing costs may exert modest pricing pressure by compressing gain-on-sale margins.

Jumbo borrowers

The impact here will be largely positive. Jumbo loans are held primarily by banks, as they do not qualify for GSE securitization, and typically have low LTVs because of large down payments. The LTV-based framework is particularly favorable for low-LTV jumbos, with risk weights potentially dropping to 25% to 30% from the current 50% treatment. Some of this flows through to borrower rates, with jumbo-conforming spreads potentially compressing by 15 to 30 basis points.

Specialty borrowers (non-QM, non-prime, jumbo niche)

It is difficult to say with certainty what the impact will be here, given the minimal role banks play in these markets. Non-QM borrowers may see slight pricing increases as IMB capital costs rise. Reverse mortgage borrowers face limited direct impact but potential second-order effects from consolidation.

Aggregate borrower impact

Across the entire mortgage market, rates will likely be reduced modestly, perhaps by 10 to 20 basis points on average, with prime conventional and jumbo borrowers benefiting the most. First-time homebuyers will see smaller or potentially negative effects, and investor property borrowers will see modest increases. The distribution of benefits is regressive—more affluent

borrowers (lower LTVs, larger loans, refinancing existing equity) capture a larger share of the benefits than first-time and lower-income borrowers.

Access and stability

Beyond pricing, the bigger borrower impact may be on the stability of mortgage availability through rate cycles. The re-proposal pushes the industry toward more bank-affiliated structures and consolidation. Bank-affiliated IMBs have access to deposit funding, the Federal Reserve's discount window, and FHLB backstops, thereby substantially reducing the risk that origination and servicing capacity disappear during rate shocks. The 2022-2024 stress cycle showed how vulnerable the IMB industry is to rate volatility. If the re-proposal accelerates consolidation toward more durable structures, borrowers benefit through more reliable access to credit, even if the steady-state pricing impact is modest.

NET ASSESSMENT

As drafted, the re-proposal has a positive, if moderate, impact on the mortgage market. It favors direct bank participation in prime conventional and jumbo lending, creates more space for MSR demand, and supports bank-affiliated IMB structures. But it tightens the capital treatment of warehouse financing and complicates securitization. The warehouse-side effects may be muted in today's environment of ample capacity, but they will grow more pronounced as origination volumes recover and across credit cycles.

At an institutional level, banks with existing mortgage capabilities will benefit most, with the greatest pain falling on specialist warehouse and MSR financing banks. For nonbanks—IMBs, mortgage REITs, and other private capital structures—the impact depends on their scale: The largest and smallest do well, but midsize IMBs face consolidation pressure. Prices should fall for low-LTV borrowers and rise for high-LTV borrowers and investors. One underappreciated consequence is that by making bank charter combinations economically feasible for midsize nonbanks in the mortgage market, the re-proposal would move more mortgage activity within the perimeter of federal banking supervision, addressing financial stability concerns about nonbank mortgage activity that have built up since the post-crisis migration.

HOW TO IMPROVE THE RE-PROPOSAL

There are three ways in which the re-proposal can be meaningfully improved.

First, the definition of "regulatory residential real estate exposure" should be clarified. We assume the definition is intended to include loans originated by banks and by third parties, thereby applying the capital relief for low-LTV loans to both. As drafted, however, the definition could be misconstrued by a regulator or judge to apply only to loans originated by banks. This would create an unnecessary and unhelpful bifurcation in the market, cutting the re-proposal's impact on both bank participation and borrower savings in half (see Table 3).

Second, the definition of "securitization" should be expanded to include structures with bounded sponsor guarantees.[8] This would include operational guarantees that cover rep-and-warranty risk, fraud, document defects, and repurchase obligations that would not break securitization treatment, even though full or unconditional parent guarantees still would. This preserves the existing SPV-based architecture while addressing concerns about sham securitizations that fully recoup sponsor credit.

Finally, credit should be given to banks that transfer their credit risk through private mortgage insurance on an individual loan or transactions in which the bank holds the mortgages but transfers the credit risk on a pool of mortgages to another party.[9] Both of these measures reduce the bank's mortgage risk exposure and thus warrant some capital relief.

Why and how to give credit for the transfer of mortgage risk

The institutions that transfer mortgage credit risk most often are the GSEs, and their experience is instructive. Across loans originated from 1994 to 2024, the gross severity of GSE losses on PMI-insured loans was 53.7%, while net severity after MI claim payments was 31.2%—with MIs absorbing the difference.[10] The Enterprise Regulatory Capital Framework reduces the capital the GSEs must hold against loans with PMI to reflect that reduced risk. To account for the risk that an MI is unable or unwilling to pay, the framework modestly discounts the risk absorption to which the MI has committed, arriving at a level of capital relief for PMI that aligns required capital with actual risk.

8 The re-proposal would clarify that a banking organization may recognize an exposure as a traditional or synthetic securitization only if the performance of the securitization exposure is expected to depend solely upon the performance of the underlying exposures. The preambles expressly state that this criterion would not be satisfied where there is an expectation that any sources outside of the underlying exposures would fund interest or principal payments due. See Mayer Brown, U.S. Banking Regulators Propose Reforms to Capital Requirements (March 20, 2026).

9 The re-proposal expressly provides that "a banking organization would not be permitted to recognize private mortgage insurance when calculating the LTV ratio." However, the agencies have requested comment on whether the final rule should recognize the risk-mitigating effect of PMI. See Mayer Brown, U.S. Banking Regulators Propose Reforms to Capital Requirements (March 20, 2026). The re-proposal also asks about insurance-based CRT.

10 https://www.urban.org/research/publication/mortgage-insurance-data-glance-2025. See pages 27-30.

If Basel took this course with banks that use PMI, it would better calibrate the capital requirements to mortgage risk and allow banks to reduce pricing for higher-LTV loans, a move that will be important to offset the increase in pricing that the GSEs will impose to make up for the lost cross-subsidy.

Fannie Mae and Freddie Mac also transfer credit risk at the pool level. Since 2013, Fannie Mae and Freddie Mac have transferred credit risk on approximately $6.7 trillion of unpaid mortgage balance through their CRT programs, for which the ERCF currently provides them approximately $43 billion in capital relief—approximately a 22% reduction in their required capital.[11] Here, too, if Basel followed the FHFA's approach for banks that pursue pool-level risk transfer, it would reduce the capital required to better calibrate it to the risk banks actually hold.

While Basel currently provides capital relief for the transfer of credit risk through so-called eligible guarantors, it defines these guarantors in a way that excludes insurance companies, thereby excluding the version of pool-level credit risk transfer available in the mortgage market. As in prior versions of the rule, under the re-proposal an eligible guarantor must meet three conditions: (1) It must have issued and have outstanding an investment-grade unsecured debt security; (2) its creditworthiness must not be positively correlated with the credit risk of the exposures for which it has provided guarantees; and (3) it may not be an insurance company engaged predominantly in the business of providing credit protection.

To include insurance companies among eligible guarantors, (1) must be amended to allow an eligible guarantor to be controlled by a direct or indirect parent company that meets this test; and (2) and (3) must be amended to allow insurance companies that can demonstrate that they can make good on their guarantees. As with providing capital relief for loan-level PMI, this would better align the capital requirements with risk and lower mortgage rates for the borrowers whose loans are in the pools.

Bank participation improves

Clarifying the residential exposure definition would ensure that the capital relief to low-LTV loans applies to loans in the correspondent channel, allowing banks to continue using that channel to scale more quickly and at lower cost. As several of the largest banks have had significant correspondent infrastructure operating in suboptimal capital conditions for more than a decade, restoring favorable treatment could trigger meaningful expansion.

Expanding the definition of securitization would preserve the existing operating model. Banks would not be forced to choose between dropping guarantees or accepting corporate exposure treatment, and specialist warehouse and MSR financing banks can continue their current franchises without disruption. This would avoid a contraction of warehouse capacity under the current re-proposal.

Borrower impact improves

The changes also produce better outcomes for most borrowers. Prime conventional and jumbo borrowers benefit from assured competition through the correspondence channel, and recognition of PMI would help offset the increase in GSE pricing for high-LTV borrowers. The distribution remains regressive, but overall, the changes would lead to an approximately 50% greater reduction in aggregate pricing than would be seen under the re-proposal as drafted. It would also avoid a loss of half the benefit in pricing that would come from a bank-only reading of the definition of regulatory residential real estate exposure.

CONCLUSION

As drafted, the re-proposal would have a moderately positive impact on the mortgage market, drawing banks somewhat deeper into lower-risk parts of the market and pushing some larger nonbanks into creative relationships with depositories to remain competitive. The re-proposal could be strengthened with a few modest changes, however, leading to considerably greater bank involvement and greater borrower benefit.

11 Federal Housing Finance Agency, Credit Risk Transfer Progress Report (Q4 2023); Milliman, GSE Credit Risk Capital Monitor — Q4 2025.

Table 1: The Impact of a Lower Risk-Weight Floor for Private-Label Securities

Bank economics of holding AAA tranches: current 20% RW vs. proposed 15% RW, vs. agency MBS

	AAA PT 20% RWA	AAA PT 15% RWA	CC Agency MBS 20% RWA
Coupon	5.50%	5.50%	5.40%
Premium amortization	0.19%	0.19%	0.00%
Option cost	0.75%	0.75%	0.75%
Credit cost	0.00%	0.00%	0.00%
Net income	**4.56%**	**4.56%**	**4.65%**
CET1 capital	12.00%	12.00%	12.00%
AAA risk weight	20.00%	15.00%	20.00%
Capital	2.4%	1.8%	2.4%
Funding cost*	3.80%	3.80%	3.80%
Pretax ROE	**35%**	**46%**	**39%**
Tax rate	21.00%	21.00%	21.00%
ROE	**28%**	**36%**	**31%**

*5-yr SOFR

Blue = hard-coded input; black = formula. Pretax ROE = (Net income − Funding cost × (1 − Capital)) / Capital; ROE = Pretax ROE × (1 − Tax rate).

Source: Moody's Analytics

Table 2: Impact of the Re-Proposal on GSE Originations

Retention scaled to capital relief at each LTV bucket (relief-weighted, linear mapping)

Assumptions

Bank share of GSE originations (current)	23%
Bank share (broad, lower-end)	27%
Bank share (broad, upper-end)	30%
Peak retention (lower-end)	40%
Peak retention (upper-end)	70%
Current flat risk weight	50%

LTV bucket	Overall orig. dist.	Bank orig. dist.	Bank share of bucket	New RW (midpoint)	Relief (pp)	Retention (low)	Retention (high)
≤50	9.4%	11.7%	28.6%	20.0%	30	40%	70%
50-60	8.6%	8.9%	23.8%	25.0%	25	33%	58%
60-80	45.0%	45.3%	23.2%	32.5%	17.5	23%	41%
80-90	15.2%	13.2%	20.0%	42.5%	7.5	10%	18%
90-100	21.9%	20.8%	21.8%	52.5%	0	0%	0%

GSE volume decline	
Lower-end (peak 40%, share 27%)	5.3%
Upper-end (peak 70%, share 30%)	10.3%

Resulting GSE distribution

LTV bucket	Lower-end scenario	Upper-end scenario
≤50	8.6%	7.7%
50-60	8.2%	7.8%
60-80	44.5%	44.0%
80-90	15.7%	16.2%
90-100	23.1%	24.4%

Sources: Urban Institute calculations from ICE eMBS data (2025Q2-2026Q1), Moody's Analytics. Retention scaled to capital relief at each LTV bucket; peak retention 40% (lower-end) to 70% (upper-end).

The table below summarizes the analysis' quantitative estimates of the re-proposal's impact on the mortgage market under three scenarios: (1) the re-proposal as drafted, but the definition of regulatory residential real estate exposure interpreted to apply only to banks (2) the re-proposal as drafted, with the definition of residential mortgage exposure interpreted to apply only to banks and third parties; and (3) the re-proposal with all three recommended changes adopted (the residential exposure clarification, plus revising the securitization definition to permit bounded sponsor guarantees, plus recognizing private mortgage insurance using the mechanism proposed by U.S. Mortgage Insurers). The estimates reflect a five-year adjustment period. The methodology is described below and in the analysis.

Table 3: Quantitative Impact of the Basel Re-Proposal

Three scenarios: as drafted (narrow reading), as drafted (broad reading), and with all recommended changes

Impact	As drafted (narrow reading)	As drafted (broad reading)	With all recommended changes
Bank participation in the mortgage market			
Bank market share gain (overall residential mortgage)	+5 to 10 pp	+9 to 18 pp	+10 to 20 pp
From direct origination	+3 to 5 pp	+3 to 5 pp	+3 to 5 pp
From correspondent channel	Minimal	+4 to 8 pp	+4 to 8 pp
From IMB-to-bank reclassification	+3 to 5 pp	+3 to 7 pp	+5 to 10 pp
IMB sector			
IMB-to-bank-charter transactions (5-yr)	3 to 5	4 to 8	8 to 15
Warehouse and MSR financing market contraction	10 to 15%	15 to 25%	30 to 40%
Warehouse pricing change	+25 to 75 bps	+25 to 75 bps	Similar magnitude
GSEs			
GSE origination volume change	−4 to −8%	−5 to −10%	−5 to −15%
Borrowers			
Conventional borrower rate change (60%-80% LTV)	Up to −25 bps	−15 to −40 bps	−15 to −40 bps
Conventional borrower rate change (<60% LTV)	Slightly more than −25 bps	−25 to −50 bps	−25 to −50 bps
High-LTV insured borrower rate change (80%-97% LTV)	Modest increase	Modest increase	−15 to −35 bps
Jumbo-conforming spread compression	10 to 20 bps	15 to 30 bps	20 to 40 bps
Aggregate borrower rate change	−5 to −15 bps	−10 to −20 bps	−15 to −30 bps

Notes: pp = percentage points; bps = basis points of borrower mortgage rate.
The GSE volume range uses the relief-weighted methodology (retention scaled to capital relief by LTV bucket).

Warehouse/MSR contraction reflects voluntary migration of IMB activity onto bank balance sheets via charter combinations, not capital-driven distress.

Aggregate borrower estimates are weighted across all segments; conventional, jumbo, government-loan, and high-LTV insured borrowers differ within these averages.

Source: Moody's Analytics

Notes on reading the table
The use of ranges rather than point estimates reflects the underlying uncertainty in the analysis. Estimates marked "pp" are percentage points; estimates marked "bps" are basis points of borrower mortgage rate.

The middle scenario—as drafted, with the broad reading of residential exposure—captures our understanding of the drafters' intent. The clarification that bank purchases of correspondent loans qualify for the favorable LTV-based risk weights is largely a technical fix that addresses an apparent unintended ambiguity in the proposal's drafting; the securitization definition revision and PMI recognition are more contested. This scenario isolates the effect of the correspondent channel fix from the other two recommended changes.

The warehouse and MSR financing market contraction figure is counterintuitive: A larger contraction in the more favorable scenarios reflects voluntary migration of independent mortgage bank activity onto bank balance sheets through charter combinations, not capital-driven distress. Under the re-proposal as drafted, fewer charter combinations occur, so less activity migrates. The contraction in all three scenarios should be understood as a structural shift in how IMB activity is funded rather than a contraction in lending capacity.

Aggregate borrower rate estimates are weighted across all mortgage segments; conventional, jumbo, government-loan, and high-LTV insured borrowers experience different outcomes within these averages.

As drafted, with broad reading of residential exposure
The middle column assumes the agencies clarify, in the final rule, that the favorable LTV-based risk weights for "regulatory residential real estate exposures" apply to loans that a bank acquires through the correspondent channel from third-party originators (typically IMBs), provided the loans meet equivalent underwriting and documentation standards. Under the current drafting, the definition could be read to apply only to loans the bank itself originated, creating an asymmetry between direct and correspondent acquisition that discourages banks from using the correspondent channel to scale mortgage holdings.

The estimates in this column treat the other two recommended changes—the securitization definition revision and PMI recognition—as they are drafted in the re-proposal. Specifically, this means the tightened securitization definition still creates problems for the SPV-based structures used by large warehouse and MSR financing facilities, and PMI cannot be recognized in the LTV calculation for high-LTV insured mortgages.

The correspondent channel fix accounts for the largest share of the difference between the "as drafted" and "with all recommended changes" borrower pricing estimates for the 60%-80% LTV and sub-60% LTV segments. Under the as-drafted scenario, competition flows through direct origination only; under the residential exposure fix, competition flows through both direct origination and the correspondent channel, roughly doubling the rate reduction available to these borrowers. This is why the borrower estimates for these segments are essentially the same in the middle and right columns.

The middle scenario does not improve outcomes for high-LTV insured borrowers, because the PMI exclusion remains in effect. Nor does it materially reduce warehouse pricing pressure, because the tightened securitization definition still affects the SPV-based facility structures. The IMB-to-bank-charter transaction count is modestly higher than under a narrow reading of the residential exposure language but well below the full-recommendations case, reflecting that the MSR threshold elimination (already in the re-proposal) still creates capital feasibility for conversions, while the preserved correspondent channel reduces the strategic urgency to convert.

PMI recognition methodology
The "PMI recognition" recommendation in the right column is operationalized following the mechanism proposed by U.S. Mortgage Insurers in its June 2026 submission. Under this mechanism, the bank applies a 14.2% counterparty haircut to the standard PMI coverage level (which varies by LTV per GSE requirements), subtracts the haircut-adjusted coverage from the original LTV to derive an "effective LTV," and applies the standard LTV-based risk weight to that effective LTV. The 14.2% haircut corresponds to the FHFA Enterprise Regulatory Capital Framework's Counterparty Rating 4 treatment for approved insurers with high mortgage concentration risk.

Under this approach, 80%-97% LTV conventional mortgages with PMI receive effective LTVs in the 68%-76% range, placing them in the 60%-80% LTV bucket for risk-weighting purposes—a 35% risk weight under the Standardized Approach Proposal and 30% under the Basel III Proposal for Category I and II banks. This is more substantial than alternative PMI recognition approaches that apply a marginal adjustment to the risk weight and reduces the risk weight for an 80%-97% LTV insured mortgage by 10 to 20 percentage points compared with the rule as drafted.

The empirical basis is Milliman's analysis of GSE mortgage losses across 90 million loans originated from 2000 to 2025. The analysis finds that net loss severity on 80%-100% LTV loans with high PMI coverage during the GFC crisis vintage (2005-2009) was at or below the gross loss severity observed on 60%-80% LTV loans without insurance—supporting the regulatory treatment USMI proposes.

The high-LTV insured borrower rate change estimate of -15 to -35 basis points combines three effects: (a) direct capital cost reduction from the lower risk weight (5-9 basis points using the standard 10% effective capital ratio × 12% cost of equity × 30%-50% pass-through framework), (b) mitigation of the GSE cross-subsidy pricing increase that would otherwise occur as low-LTV business migrates to banks (avoiding 10-20 basis points of cross-subsidy loss), and (c) competitive entry effects as banks become viable competitors in a segment they currently barely participate in (an additional 5-10 basis points of downward pricing pressure).

Underlying methodology

The methodology underlying these estimates—including the framework linking risk-weight changes to capital costs to borrower pricing, the IMB-to-bank-charter transaction analysis, and the GSE volume calculations—is described in the methodology appendix. The estimates fall into three categories: those derived from explicit calculations using cited data, those drawn from public industry data and the re-proposal's specific provisions, and those that reflect analytical judgment informed by industry knowledge and historical patterns.

APPENDIX: PROVISIONS MOST RELEVANT TO THE MORTGAGE ANALYSIS

The provisions below are those that most directly drive the analysis. Each is briefly described and linked to the analytical implication it entails.

LTV-based residential mortgage risk weights
Replacing the flat 50% risk weight with LTV-based bands materially lowers the capital cost of holding low-LTV mortgages in portfolio. A 75% LTV mortgage moves from 50% RW to 30% to 35% RW; a sub-60% LTV mortgage moves to 20% to 25% RW.

Implication: Banks have meaningfully stronger economic incentive to originate and hold prime conventional and jumbo mortgages, particularly low-LTV loans. Some of this capital relief flows through to borrower pricing in the form of rate reductions of 10 to 35 basis points, depending on LTV.

MSR threshold deduction elimination
For Category I and II banks, the current rules require a dollar-for-dollar deduction from CET1 capital of MSRs exceeding 10% of CET1 individually, or 15% in combination with deferred tax assets and significant investments (other banks have a 25% of CET1 individual limit). This imposes a 1,250% RW on those amounts. The re-proposal eliminates the threshold and risk-weights MSRs at 250% instead.

Implication: This is the change with the largest structural impact. It averts the forced contraction of bank MSR holdings triggered by current requirements, giving banks more flexibility and making nonbank-to-bank-charter combinations economically feasible.

250% MSR risk weight retained
While the threshold deduction is eliminated, the 250% RW on MSRs is retained from the current rules.

Implication: Retaining 250% means bank demand for MSRs will not increase dramatically. Banks will avoid the forced selloff that the prior proposal would have caused but will not become aggressive MSR buyers.

PMI not recognized in LTV calculation
The re-proposal bars recognition of private mortgage insurance when calculating LTV ratios.

Implication: High-LTV borrowers face higher risk weights than their economic risk warrants, given the loss-mitigating effect of PMI. This particularly disadvantages first-time homebuyers and is highly regressive. Changing the re-proposal to provide capital relief for the transfer of credit risk, at both the loan and pool levels, would materially improve the rule's effects on borrowers.

Ambiguous definition of "regulatory residential real estate exposure"
The re-proposal's favorable LTV-based risk weights apply to residential mortgages that qualify as "regulatory residential real estate exposures." While we understand that this is intended to include loans originated by third parties, it could be interpreted by regulators or courts to require that the bank itself originate the loan and apply its own underwriting policies.

Implication: This could create a perverse asymmetry in which banks can scale mortgage holdings cheaply by originating directly but face a capital penalty when purchasing through the correspondent channel. It is important to clarify that this definition covers third-party originations to avoid this outcome over time.

Tightened "securitization" definition
The re-proposal would clarify that an exposure may be recognized as a securitization only if its performance is expected to depend solely upon the performance of the underlying exposures, with the preamble stating that any expectation of payments funded from outside sources would disqualify the structure.

Implication: This creates problems for the SPV-based structures most large warehouse and MSR financing facilities use, which often involve sponsor guarantees covering rep-and-warranty risk, fraud, document defects, and repurchase obligations. Revising the definition to preserve treatment for bounded sponsor guarantees would materially improve the rule.

5-percentage point standardized RW reduction for warehouse loans
Warehouse loan risk weights under the Standardized Approach decline by 5 percentage points (effectively from 100% to 95% for the relevant commercial exposure category).

Implication: This is the principal favorable change in the warehouse space, but it is largely offset by two moves in the other direction, including the tightened securitization definition and the 40% credit conversion factor for non-unconditionally-cancelable commitments. The net effect on warehouse pricing and capacity is modestly negative.

Changes in the treatment of undrawn warehouse lines
The re-proposal establishes a single 40% credit conversion factor for all commitments that are not unconditionally cancelable, an increase from 20% for lines of one year or less, and a decrease from 50% for lines over a year. It also introduces a new credit conversion factor of 10% for unconditionally cancelable lines. Most IMBs rely heavily on lines that are either a year or less or unconditionally cancelable, both of which would see a meaningful increase under the re-proposal.

Implication: The changes in the treatment of undrawn commitments are one of two moves that will work

against IMBs in the warehouse market (the other being the tightened securitization definition, which affects SPV-based facility structures). Combined, they more than offset the 5-percentage point reduction in the standardized risk weight for warehouse loans.

Operational risk charge on non-interest income (Category I and II only)
The non-modeled operational risk framework applies a capital charge to non-interest income, which includes mortgage servicing fees and gains on mortgage sales and securitizations.

Implication: This nudges large-bank economics further toward holding originations rather than selling them. Combined with LTV-based risk-weight relief on portfolio holdings, it points large banks toward an originate-to-hold model for prime conventional and jumbo mortgages.

AOCI inclusion for Category III and IV banks
The Standardized Approach requires Category III and IV banks to include most elements of AOCI in CET1 capital, subject to a five-year transition.

Implication: Banks holding large available-for-sale MBS portfolios will see their regulatory capital ratios fluctuate more with rates, which may modestly discourage MBS holdings at affected banks (Category III and IV regional banks).

Private-label MBS risk-weight floor reduction
The risk weight floor for exposure to securitizations other than re-securitizations drops from 20% to 15%.

Implication: This places the RW for lower-risk AAA tranches of private-label MBS below that for agency MBS (20%) but above Ginnie MBS (0%). However, this is unlikely to drive a meaningful shift in overall bank PLS demand, since bank reticence toward PLS is primarily driven by non-capital factors (liquidity, market size, hedging difficulty, post-GFC reputational risk) rather than capital differentials.

APPENDIX: METHODOLOGY FOR KEY ESTIMATES

This appendix describes how the quantitative estimates in this analysis were derived. The estimates fall into three broad categories: those derived from explicit calculations using cited data, those drawn from public industry data and the re-proposal's specific provisions, and those that reflect analytical judgment informed by industry knowledge and historical patterns. Where estimates are judgmental, we describe the reasoning and identify the key sensitivities.

Aggregate IMB capital position

The estimate of $78 billion in MSR carrying value across the IMB industry is based on public data for the major public IMBs and an estimate for large private IMBs. Total nonbank servicing unpaid principal balance is approximately $7.5 trillion based on data from Inside Mortgage Finance and FHFA reports; of this, we estimate about $6 trillion sits at IMBs proper, excluding pure servicers and mortgage REIT-affiliated holders. Applying a blended carrying value of 130 basis points of UPB—based on observed ratios at public IMBs ranging from approximately 95 basis points (PennyMac, Ginnie-weighted) to 165 basis points (UWM, conventional-weighted)—produces the $78 billion estimate.

Aggregate IMB tangible equity of $35 billion combines public IMB equity (Rocket post-Mr. Cooper acquisition at approximately $10 billion to $12 billion, PennyMac at $4.3 billion, UWM at $2.2 billion, Loan Depot at $500 million, totaling approximately $20 billion to $22 billion from SEC filings) with an estimate for large private IMBs (Freedom Mortgage, CrossCountry, NewAmerican, Movement, Lakeview, Planet Home, AmeriHome, and others, collectively approximately $12 billion to $18 billion based on portfolio sizes and typical IMB capital ratios of 8% to 12%). The resulting industrywide MSR-to-equity ratio of approximately 2.2-to-1 is consistent with the ratios observed at major individual public IMBs.

Bank capital deployed against nonbank mortgage activity

The estimate of $10 billion to $13 billion in bank capital tied up financing nonbank mortgage activity has two components. For warehouse lending, industry warehouse capacity is approximately $120 billion to $130 billion, per Inside Mortgage Finance, with average utilization around 65% to 75%, yielding approximately $80 billion to $95 billion in drawn exposures. At 100% risk weight under current rules, this requires approximately $7 billion to $8 billion in bank capital at typical effective ratios. For MSR financing facilities, aggregate facility size is harder to measure approximately, but industrywide, it is approximately $40 billion to $60 billion based on disclosures from major IMBs; at similar risk weights, this implies $3 billion to $5 billion in supporting bank capital. The combined $10 billion to $13 billion estimate has meaningful uncertainty given the heterogeneity of MSR financing structures.

LTV-based risk-weight figures

The 30% to 35% risk weight for a 75% LTV mortgage, 20% to 25% for sub-60% LTV, and 25% to 30% for low-LTV jumbo loans come from the LTV bands in the re-proposal's revised Standardized Approach. These bands range from approximately 25% to 75% across LTV gradations, with specific weights depending on the exact LTV calculation. The estimates in this analysis use the midpoints of the bands for typical loans in each LTV range.

Bank share of GSE and Ginnie originations

The approximately 23% bank share of GSE originations and the 5% bank share of Ginnie originations are based on Intercontinental Exchange eMBS data. Bank shares have been declining in recent years, reflecting the post-crisis migration of mortgage activity from banks to IMBs that began in earnest after 2010.

GSE volume impact

The estimated 5% to 10% decline in GSE origination volume reflects two related effects: banks retaining in portfolio more of the low-LTV mortgages they would otherwise sell to the GSEs, and banks expanding their share of low-LTV originations through the correspondent channel, which the broad reading enables by clarifying that correspondent-acquired loans qualify for the favorable LTV-based risk weights.

The starting point is the current 23% bank share of GSE originations, distributed across LTV buckets as shown in Table 2. Of the bank-originated portion, approximately 21% is in the ≤60% LTV range and 45% is in the 60% to 80% LTV range. We assume that the more favorable treatment for lower LTV loans will lead banks to increase the mortgages they hold in portfolio, consistent with the improvement in their treatment. That is, they retain a larger share of low-LTV loans because of the greater relief provided for those loans (from 50% to 20% at ≤50% LTV) and a smaller share of higher-LTV loans because of the smaller relief provided (from 50% to about 32.5% at 60% to 80% LTV).

To assess the impact on the GSEs, we scale the peak bank retention rate for each LTV bucket by the capital relief for that bucket. At the lower bound, we assume that banks retain 40% of their most-relieved (lowest-LTV) loans and 10% of their least-relieved (highest-LTV) loans; and at the upper bound, we assume they

retain 70% of their most-relieved loans and 18% of their least-relieved loans.

Finally, we estimate the additional increase of the bank's share due to its expansion through the correspondent channel. We estimate banks can grow their share of low-LTV originations by 4 to 7 percentage points over a five-year horizon—roughly tracking the correspondent channel gain estimated in the bank market share analysis below.

Combining the two effects, we estimate that the GSEs will lose 5% to 10% of their market share to banks. Table 2 shows the results of this analysis.

Note that there is also some modest change in the distribution of GSE loans. The percentage of GSE loans with an LTV of 50% or less decreases from 9.4% to 8.6% in the lower-end scenario and to 7.7% in the upper-end scenario. The percent of loans with LTVs of 90% or more expands from 21.9% in the base case to 23.1% in the lower-end scenario and 24.4% in the upper-end scenario.

The estimate includes a modest impact on bank retention of loans in the 80% to ≤90% LTV range (as the capital relief is modest), and no impact on bank retention of mortgages >90% LTV, since the re-proposal does not provide favorable capital treatment for these loans without PMI recognition. Adopting the third recommended change—recognizing PMI in the LTV calculation—would push the GSE volume decline higher, perhaps to 5% to 15%, as banks become viable competitors for the high-LTV insured conventional segment, which currently flows almost entirely through IMBs to the GSEs.

The cross-subsidy implications follow mechanically from the volume changes and the LTV distribution shown in the table.

Borrower rate pass-through

Our estimate of the impact on mortgage rates reflects analytical judgment based on how bank capital cost changes typically transmit to retail mortgage pricing. The framework: A reduction in risk weight from 50% to 30%-35% on a 75% LTV mortgage reduces required capital by approximately 30% to 40%. At a 10% effective capital ratio and a 12% cost of equity, that translates to approximately 18 to 24 basis points of direct capital cost reduction. Pass-through to borrower rates in competitive mortgage markets typically runs 30% to 50% based on historical studies of how regulatory capital changes have flowed through to lending rates. Applying that pass-through range to the direct capital cost reduction yields 5 to 12 basis points of borrower rate reduction from this mechanism alone.

The larger borrower estimates in our analysis incorporate additional effects—competitive intensity as banks expand their share of the segment (including through the correspondent channel under the broad reading of the residential exposure definition) and mitigation of GSE cross-subsidy dynamics—that compound the direct effect, bringing the total to approximately 15 to 40 basis points for the 60% to 80% LTV segment under the broad reading (up to 25 basis points under a narrow reading).

The rate impact is larger for sub-60% LTV loans because the capital relief is larger (RW drops from 50% to 20%-25%, approximately halving capital costs) and the segment is more competitive given its prime borrower profile. For high-LTV loans without PMI recognition, there is little change, as there is little change in the risk weights. The risk weights move from 50% to 40%-55% for 80% to 100% LTV exposures. Within this segment, 80% to 90% LTV loans see modest risk weight relief (from 50% to 40%-45%), while 90% to 100% LTV loans see roughly neutral or slightly higher risk weights (from 50% to 50%-55%), so the impact on borrower pricing is mixed even within the high-LTV bucket.

For jumbo borrowers, the 20- to 40-basis point estimate for spread compression reflects three factors: Low-LTV jumbo loans face the most favorable capital treatment (25% to 30% RW), banks are the dominant holder of jumbo product, and the jumbo-conforming spread has historically narrowed in periods of strong bank balance sheet capacity. The narrower estimate for the re-proposal as drafted (10 to 20 basis points) reflects continued constraints on the correspondent channel through which much jumbo origination flows.

These estimates have meaningful uncertainty. Pass-through rates vary substantially by market segment, lender type, and competitive dynamics. They could be materially lower if banks use capital relief primarily to expand other balance sheet activities rather than to compete on mortgage pricing, or materially higher in highly competitive segments where capital savings flow through rapidly.

Warehouse and MSR financing market contraction

The estimated 10% to 15% contraction in the warehouse and MSR financing markets under the re-proposal as drafted, widening to 30% to 40% with the recommended changes, follows from the IMB-to-bank-charter transaction estimates below. As IMB activity migrates onto bank balance sheets through charter combinations, those entities shift from external warehouse and MSR financing to internal deposit funding. The contraction estimates assume that converted IMBs replace approximately 80% to 90% of their previous external financing with deposit funding within three years of conversion. The 25- to 75-basis point pricing increase

estimate for warehouse facilities reflects the combined effects of capacity contraction, the corporate-exposure capital treatment of non-investment-grade IMB lines, and the higher CCFs on most undrawn lines of credit.

Bank market share gain

The estimated 10- to 18-percentage point gain in bank residential mortgage market share under the broad reading of the residential exposure definition (5 to 10 percentage points under a narrow reading), widening to 10 to 20 percentage points with all recommended changes, reflects three components. First, increased bank direct origination of low-LTV and jumbo mortgages adds approximately 3 to 5 percentage points under all scenarios since the LTV-based risk weight changes apply regardless of the definitional reading. Second, correspondent channel scaling under the broad reading (or with the recommended changes) adds an additional 4 to 8 percentage points; under a narrow reading restricting the relief to bank-originated loans, this contribution would be minimal. Third, IMB-bank charter combinations reclassify activity from "IMB" to "bank" share even when origination economics are largely unchanged, adding 3 to 5 percentage points under the broad reading scenario and 5 to 10 percentage points with all recommended changes. The estimates assume a five-year adjustment period; full adjustment could take longer.

IMB-to-bank-charter transaction counts

The estimates of four to eight IMB-to-bank-charter transactions reflect a judgment about how many midsize IMBs would find conversion economics compelling. There are approximately 15 to 20 IMBs in the midsize tier ($50 billion to $300 billion in servicing portfolios) for which bank charter combinations would be capital-feasible under the re-proposal. Of these, the fraction likely to pursue conversion depends on the magnitude of the strategic advantage from deposit funding access, the cost and complexity of executing a bank acquisition, the management and board appetite for transformation, and the alternative strategic options available, including remaining independent or pursuing partnerships short of full bank acquisition. We estimate that approximately 25% to 40% of capital-feasible midsize IMBs will pursue conversion over the next five years, resulting in four to eight transactions.

APPENDIX: GLOSSARY OF ACRONYMS

AFS	Available for sale—a classification for securities that a bank may sell before maturity; unrealized gains and losses flow through AOCI.
AOCI	Accumulated other comprehensive income—unrealized gains and losses on available-for-sale securities and certain other items that flow through equity rather than earnings.
CBLR	Community bank leverage ratio—a simplified capital framework available to qualifying smaller community banks in lieu of the risk-based capital rules.
CCF	Credit conversion factor—the percentage applied to undrawn commitment amounts when calculating risk-weighted assets.
CET1	Common Equity Tier 1—the highest-quality form of regulatory capital, consisting primarily of common shares and retained earnings.
CF dependent	Cash-flow dependent—a real estate exposure where repayment materially depends on cash flows generated by the property (for example, rental income) rather than the borrower's broader income.
CVA	Credit valuation adjustment—a capital charge for counterparty credit risk in derivative transactions.
DTA	Deferred tax asset—a balance sheet item representing future tax benefits; subject to capital deduction rules.
ERBA	Expanded Risk-Based Approach—the new credit risk framework proposed for Category I and II banks, replacing the existing "advanced approaches."
FDIC	Federal Deposit Insurance Corp.—one of three federal banking regulators issuing the re-proposal.
FHA	Federal Housing Administration—a federal agency that insures mortgages, primarily for low-down-payment and first-time homebuyers.
FHFA	Federal Housing Finance Agency—the regulator of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.
FHLB	Federal Home Loan Bank—one of 11 regional wholesale banks providing liquidity to member financial institutions.
FRB	Federal Reserve Board—the Board of Governors of the Federal Reserve System.
G-SIB	Globally Systemically Important Bank—a bank designated as posing potential systemic risk to the global financial system; subject to enhanced capital requirements.
GSE	Government-sponsored enterprise—in mortgage context, Fannie Mae and Freddie Mac.
IG	Investment grade—a credit rating of BBB- (S&P) / Baa3 (Moody's) or higher.
IMB	Independent mortgage bank—a nonbank mortgage lender that originates and often services mortgages without a depository institution charter.
LTV	Loan-to-value—the ratio of loan balance to property value, used to assess mortgage credit risk.
MBA	Mortgage Bankers Association—the principal trade association for the residential and commercial mortgage industry.
MBS	Mortgage-backed securities—bonds collateralized by pools of residential or commercial mortgages.
MSR	Mortgage servicing right—an intangible asset representing the right to collect servicing fees on a portfolio of mortgages.
NPR	Notice of Proposed Rulemaking—the formal vehicle through which federal agencies propose new regulations.
OCC	Office of the Comptroller of the Currency—the federal regulator of national banks and one of three agencies issuing the re-proposal.

PLS	Private-label securities—mortgage-backed securities issued by private institutions rather than the GSEs or Ginnie Mae.
PMI	Private mortgage insurance—insurance that protects lenders against loss on high-LTV mortgages.
PV	Present value—the current value of future cash flows discounted at an appropriate rate.
QM	Qualified mortgage—a category of mortgage that meets specific underwriting standards under the Dodd-Frank Act, providing legal protection against ability-to-repay claims.
RW	Risk weight—the percentage applied to an exposure amount to calculate risk-weighted assets for capital purposes.
RWA	Risk-weighted assets—the denominator of risk-based capital ratios; assets weighted according to their riskiness.
SA	Standardized Approach—the credit risk framework applicable to banks not using the advanced/expanded approaches.
SLR	Supplementary leverage ratio—a non-risk-based capital ratio applicable to the largest banking organizations.
SPV	Special purpose vehicle—a legal entity created to isolate financial risk, commonly used in securitization structures.
UPB	Unpaid principal balance—the outstanding principal amount of a mortgage or mortgage portfolio.
USDA	U.S. Department of Agriculture—administers rural housing loan programs.
VA	Department of Veterans Affairs—guarantees mortgages for eligible veterans and service members.

ABOUT THE AUTHORS

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Dr. Zandi is the author of *Paying the Price: Ending the Great Recession and Beginning a New American Century*, which provides an assessment of the monetary and fiscal policy response to the Great Recession. The New York Times describes his other book, *Financial Shock: A 360° Look at the Subprime Mortgage Implosion, and How to Avoid the Next Financial Crisis*, as the "clearest guide" to the financial crisis.

Dr. Zandi hosts the Inside Economics podcast. Dr. Zandi earned his BS from the Wharton School at the University of Pennsylvania.

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