



June 16, 2026

The Honorable Travis Hill
Chair
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

The Honorable Michelle Bowman
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave. NW
Washington, D.C. 20551

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

Re: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations, OCC RIN 1557-AF52, Federal Reserve RIN 7100-AH20, FDIC RIN 3064-AF29

Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets, OCC RIN 1557-AF49, Federal Reserve RIN 7100-AH21, FDIC RIN 3064-AG23

Dear Chair Hill, Vice Chair Bowman, and Comptroller Gould:

The National Council of State Housing Agencies (NCSHA),¹ on behalf of the nation's state housing finance agencies (HFAs), welcomes the opportunity to comment on the aforementioned Notice of Proposed Rulemakings (NPRs) published by the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, and the Office of the Comptroller of the

¹ NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

Currency (hereafter “the agencies”) March 27 adjusting regulatory capital standards for the large and other banks under Basel III.

NCSHA commends the agencies for seeking to modify the Basel capital standards to better foster liquidity in the housing finance market. As the agencies have noted, depository banks’ mortgage lending and servicing activities have declined substantially since 2008, partly because the Basel capital standards mandating that banks hold notable amounts of capital for mortgage loan and mortgage serving rights (MSR) assets. Prudently amending capital standards to better reflect market risk will incentivize depository banks to increase their involvement in housing finance, spurring more home purchase and multifamily lending at a time when it is desperately needed.

In this spirit, we urge the agencies to enact two additional changes to the Basel standards that will increase liquidity for our nation’s two most important affordable housing financing tools: the Low-Income Housing Tax Credit (Housing Credit) and tax-exempt private activity Housing Bonds. Specifically, we ask that risk weighting for Housing Credit-financed properties be reduced from 100 percent to 20 percent, and that the disparity in risk weights between general obligation municipal bonds and municipal revenue obligation bonds (which includes Housing Bonds) be reduced.

Further, while we appreciate that the NPRs adopt more flexible right-weights for single-family mortgage loans, the proposal would base the risk weights entirely on a mortgage’s loan-to-value ratio (LTV) and establish burdensome risk weights on high LTV mortgages. This will lead to less mortgage lending to low- and moderate-income households and other underserved populations. We urge the agencies to reexamine this approach and consider a different risk weighting framework that measures mortgage risk more holistically.

Reduce Risk Weighting for Housing Credit Properties

The Housing Credit, which is administered by HFAs in all but a few states and territories, is our nation’s most effective tool for financing the development of rental housing affordable to low-income Americans. By providing an incentive for private sector investment, the Housing Credit has financed more than 4 million apartments for low-income households, adding between 100,000 to 150,000 units to the inventory each year.

President Trump and Congress have recognized the importance of the Housing Credit. The One Big Beautiful Bill Act, which the president signed into law July 4, 2025, increases each state’s annual allocation of 9 percent Housing Credit authority by 12 percent and reduces the bond-financing threshold for 4 percent Housing Credit deals to allow more such deals to move

forward. These changes are expected to finance the development of 1.22 million additional rental units over the next ten years.²

Large banks are among the most active Housing Credit investors. In addition to the potential tax savings, banks are attracted to Housing Credit investments because they often earn CRA credit. An analysis from accounting firm Cohn Reznick reported that roughly 80 percent of the equity for all LIHTC investments in 2024 came from banks subject to the CRA.³

Current Basel standards assign banks a 100 percent risk weighting for Housing Credit financed properties, in line with other community development investments. However, the strong performance of Housing Credit properties suggests a lower rating weighting is merited. Since 2002, the foreclosure rate on Housing Credit properties has generally remained below .1 percent. This includes during the Great Recession, when serious delinquencies in the multifamily market exceeded 4 percent.⁴

Similarly, an examination of the Housing Credit's cumulative foreclosure rate by net equity (total foreclosed net equity divided by total equity) found cumulative foreclosure rate for Housing Credit properties peaked at a very low level, below 0.5 percent, in the aftermath of the Great Recession and had decreased to 0.22 percent by 2022. No new foreclosures of Housing Credit properties were reported between 2021 and 2024.⁵

The Federal Reserve has consistently recognized the strong performance of Housing Credit properties when conducting bank stress tests. Under severe adverse scenarios Housing Credit investments are assigned a relative fair value shock level of negative 4.9 percent, far lower than the shock level assigned to real estate equity (-38 percent) and real estate debt (-27.5 percent).

Given the strong performance of Housing Credit properties, the critical role the program plays in financing affordable housing, and the acute shortage of affordable housing options our nation faces, a reduced risk weight is more than justified. We ask that regulators reduce the risk weigh for Housing Credit properties to 20 percent, which would put it in line with investor grade municipal debt. If the agencies are not prepared to lower the risk weighting for Housing Credit properties to 20 percent, we would respectively contend that there is no scenario in which it should be set at more than 50 percent.

² Wallace, Dirk, and Lawrence, Peter, "Senate Finance Committee Releases FY 2025 Budget Reconciliation Bill that Includes Permanent LIHTC Expansion, Novogradac Estimates 1.22 Million Additional Affordable Rental Homes over 2026-2035," Novogradac Blog, June 26, 2025.

³CohnReznick, 2024 LIHTC Equity Market Volume Survey, <https://www.cohnreznick.com/insights/2024-lihtc-equity-market-volume-survey>

⁴ CohnReznick, Affordable Housing Credit Study: A Comprehensive LIHTC Property Performance Report, November 2025

⁵ Ibid

Lower the Risk Weight Standard for Housing Bonds

Tax-exempt private activity Housing Bonds have historically been HFAs' primary means of financing their affordable housing lending, and HFAs have utilized them to serve many of the borrowers and markets the CRA is intended to assist. HFAs utilize single-family Mortgage Revenue Bonds (MRBs) to help working families purchase their first homes. Through 2024, state HFAs have used MRBs to enable more than 3.6 million low-and moderate-income households to realize the dream of homeownership. The MRB program is well-targeted to assist those borrowers most in need. 71 percent of all MRB home loans in 2024 went to households earning at or below area median income (AMI), including nearly half that went to households at or below 80 percent AMI.

Through Multifamily Bonds, HFAs finance the development of affordable rental housing that would otherwise not have been built in the private market. In total, state HFAs have financed more than 13,500 properties across the country using Multifamily Bonds, providing affordable rental housing to nearly 2 million families. Multifamily Bonds also help to support the construction of properties financed by Housing Credits, many of which would not be built without the bonds.

Housing bonds are classified under Basel as municipal revenue obligation bonds because the payments to investors come from the activities the bonds finance instead of a jurisdiction's general funds. MRB investors get paid through the principal and interest paid on mortgages funded by the MRB, and multifamily bond investors are paid through payments made from the property's owner. Current Basel guidelines require that Housing Bonds and municipal revenue obligation bonds be assigned a 50 percent risk weight compared to a 20 percent risk weight for municipal general obligation bonds.

The agencies have said in the past that the reason for this disparity is that revenue obligation bonds are inherently riskier because their repayment depends on the performance of a specific project and pose more relative risk than general obligation bonds. However, state HFA bonds, along with other investment grade municipal bonds, have demonstrated strong performance. A recent Moody's analysis found that, over a period of more than 50 years, only one state HFA bond it rated defaulted, and that occurred more than 30 years ago.⁶

There appears to be no compelling reason to differentiate between municipal bonds and assign them different risk weights solely based on whether they are investment-grade general revenue or investment-grade obligation bonds. Therefore, we urge you to rescind the provision that would assign a 50 percent risk weight to all municipal revenue obligation securities and

⁶ Moody's Investors Service, *US municipal bond defaults and recoveries, 1970-2022*, July 19, 2023, https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/fixcd-income/moodys-investors-service-data-report-us-municipal-bond.pdf.

instead adopt a system that would assign a 20 percent risk weight on all investment-grade municipal securities. This would reduce HFA borrowing costs and free up more money to support affordable housing options.

Reject Punitive Risk Weights for High LTV Loans

Current regulations assign prudently underwritten mortgage loans a risk weight of 50 percent and all other primary mortgage loans a weight of 100 percent. The proposed rule would establish a tiered system in which the risk weighting for loans would increase for mortgages with higher loan-to-value ratios (LTV). The risk weighting for mortgage loans would range from 25 percent for loans with an LTV of 50 percent or lower, to 75 percent for loans with an LTV at or above 100 percent.

The proposed new risk weighting would make it substantially more costly for banks to originate high-LTV loans, resulting in fewer home purchase options for low- and moderate-income families. This cuts directly against recent steps taken by the Trump Administration to make homeownership more affordable to working families. The proposed risk weighting would likely have a disproportionate impact on borrowers living in rural and other disadvantaged communities.

In addition to having a chilling effect on affordable home lending, requiring higher risk weights for loans with higher LTV ratios may not even achieve the rule's stated goal of protecting banks against increased risk. Generally, the size of a loan's down payment is of minimal predictive value regarding the loan's future performance. Overall, the best predictor of a loan's future performance is whether it is carefully underwritten, considering multiple factors.

The impact of higher risk weights is compounded by the fact that the NPRs do not take private mortgage insurance (PMI) coverage fully into account when considering a loan's risk weighting. PMI is a valuable tool that has allowed responsible borrowers who cannot afford a large down payment to acquire an affordable home loan. It also protects lenders against losses. While it is true that some PMI providers experienced severe stress during the housing crisis, the industry has since rebounded and significantly improved its financial health. All private mortgage insurers are subject to strict capital standards through the Federal Housing Finance Agency's Private Mortgage Insurer Eligibility Requirements ("PMIERS"). According to a recent analysis, private mortgage insurers held 69 percent more capital than required under PMIERS as of the third quarter of 2023.

Despite this, the agencies do not permit banks to consider a borrower's PMI coverage when calculating the LTV ratio of mortgage loan. This will have the effect of assigning higher risk weights to high LTV loans that do not accurately reflect the actual risk posed to the banks.

Given these concerns, we ask that the agencies scrap the proposed risk-weighting framework for single-family mortgages and look to replace it with a more holistic model that takes other factors, including a borrower's payment record, credit score, reserves, and insurance coverage, into account.

Thank you for your consideration. We would be happy to discuss these issues with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Garth Rieman". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Garth Rieman
Director of Housing Advocacy and Strategic Initiatives