



CALIFORNIA ASSOCIATION OF REALTORS®

January 14, 2024

Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E – 218
Washington, DC 20219

Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington, DC 20551

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

2024 OFFICERS

MELANIE BARKER
President

HEATHER OZUR
President-Elect

MARK PETERSON
Treasurer

JOHN M. SEBREE
Chief Executive Officer
& State Secretary

Re: Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity

Dear OCC, Board, and FDIC;

On behalf of the more than 200,000 members of the California Association of REALTORS® (C.A.R.), I am writing to comment on the notice of proposed rulemaking (NPR), *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity*, from the Office of the Comptroller (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC). C.A.R. is opposed to the rule as proposed as it is concerned about the negative impact the rule will have on mortgage lending throughout California. Changes to the risk-weight assets (RWA) calculations for mortgages will negatively impact homebuyers throughout California, but even more so for underserved and historically discriminated against communities who typically lack the generational wealth necessary for high downpayments.

The new rule, if adopted, would significantly increase the capital requirements for loans with downpayments less than 20%. This changes current regulations which require banks to maintain a fixed percentage of capital reserves for mortgage loans, irrespective of the downpayment. The NPR goes above the Basel III credit-risk-capital requirements for residential real estate exposure by adding 20 percentage points to each loan-to-value (LTV) risk category. The NPR provides no sound rationale for this arbitrary higher number.



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The negative impact on homebuyers will be real and immediate. For instance, the proposed rule may force a lender holding a \$1 million portfolio mortgage to maintain a higher percentage of capital, depending on the loan-to-value (LTV) ratio. This change will result in increased capital requirements for lenders and, subsequently, impact borrowers with lower down payments, subjecting them to higher interest rates and tighter underwriting standards. The ability to have a significant downpayment given the high prices in California is often tied to generational wealth and the ability of parents to lend or gift money to new homebuyers. Many members of historically discriminated against groups or who come from backgrounds whose parents do not have much wealth will now face more difficult securing a loan or have to pay more for it. According to the C.A.R. 2023 Annual Housing Market Survey, the average downpayment in California for Black homebuyers was 5 percent, Hispanic homebuyers 10%, Caucasian homebuyers 26 percent and Asian homebuyers 29 percent.

Furthermore, if the rule is adopted, it could result in a reduction in the availability of capital for mortgage loans, leading to increased servicing costs for portfolio loans. Lenders may be compelled to limit the size and number of portfolio loan mortgages, making it more challenging for buyers, especially those with lower down payments, to secure financing opportunities for real property transactions.

In conclusion, C.A.R. urges the regulatory agencies to reconsider the proposed changes in capital requirements for large banks. The imposition of the additional capital requirement will have unintended consequences, negatively impacting both lenders and borrowers alike. I appreciate your attention to this matter and trust that the regulatory agencies will carefully evaluate the potential implications before finalizing any changes. If you would like to discuss the comments in this letter further, please contact C.A.R. Federal and Local Governmental Affairs Director, Matt Roberts, at matthewr@car.org or 310-963-3054.

Thank you for considering C.A.R.'s comments on this important issue.

Sincerely

A handwritten signature in black ink, appearing to read 'Melanie Barker', written in a cursive style.

Melanie Barker
2024 President, California Association of REALTORS®