



# PENNYMAC POLICY PULSE

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## A MEANINGFUL RECALIBRATION FOR MORTGAGE MARKETS: BASEL CAPITAL RULES AND THE MORTGAGE LANDSCAPE

On March 19, 2026, the federal banking agencies released a roughly 1,800-page package of proposed capital rules. The package replaces the punitive 2023 Basel III Endgame (B3E) framework, which would have raised capital requirements for the largest banks by roughly 19%, with a re-proposal that the agencies estimate will produce a modest net reduction in capital for the largest institutions and more meaningful relief for regional banks.

For mortgage markets, the headline is straightforward: regulators are trying to make capital requirements more closely match actual risk, and they are explicitly trying to reduce disincentives that have pushed traditional mortgage activity out of the regulated banking sector over the past fifteen years.

The proposal touches nearly every corner of bank capital regulation. For mortgage professionals, three changes matter most:

- 1. Whole loans on bank balance sheets** would move from a flat 50% risk weight to a loan-to-value (LTV) scale, rewarding lower-LTV lending with lighter capital charges.
- 2. Mortgage servicing assets (MSAs)** would no longer face a punitive capital deduction above a threshold. Instead, all MSAs would carry a flat 250% risk weight, with regulators asking whether that figure should be lower.
- 3. Warehouse lines of credit**, the short-term funding that independent mortgage banks (IMBs) rely on to originate loans before sale to the GSEs or Ginnie Mae, would see a mixed and, in our view, insufficiently tailored treatment under both the corporate lending and securitization frameworks.

Pennymac views these proposals as **broadly positive** for the mortgage industry. The direction of travel is sensible: capital should reflect risk. That said, the text is not final, and we believe there is room for improvement and clarification, particularly around warehouse lending and recognition of private mortgage insurance (MI) in LTV-based risk weight calculations, an area where regulators have constructively solicited comment but have not yet incorporated MI into the proposed LTV buckets.

This piece walks through each of those topics in plain language. Our aim is to help mortgage and policy professionals understand what changed, why it matters for borrowers, and where the proposal can be improved.

## | Pennymac's View at a Glance

Topic	Our Assessment
Overall direction of the re-proposal	<b>Broadly positive.</b> Replacing blunt capital hikes with risk-sensitive treatment should support bank participation in mortgage origination, servicing, and funding.
LTV-based whole loan risk weights	<b>Positive, with a gap.</b> A more granular framework is sensible. Regulators have opened the door on crediting private MI in LTV calculations, but the current text does not yet do so.
MSA deduction cliff removal	<b>Strongly positive.</b> Eliminating the threshold-based deduction is a structural improvement.
250% MSA risk weight	<b>Directionally right, likely too high.</b> We believe lowering the risk weight is sensible; we do not have a view on how far it should fall, though industry voices have coalesced around 100%.
Warehouse line treatment	<b>Requires further refinement.</b> Several proposed calibrations could raise the cost of IMB funding and, ultimately, the cost of credit for consumers.

## RISK-SENSITIVE WHOLE LOAN RISK WEIGHTS

### | What Is Changing?

Under today's capital rules, most performing first-lien residential mortgages held on bank balance sheets carry a **flat 50% risk weight**, regardless of how much equity the borrower has in the property. The March 2026 re-proposal replaces that one-size-fits-all approach with **LTV-based risk weights** that rise as leverage increases.

The logic is intuitive. A borrower with substantial equity in a home presents less loss severity to a lender than a borrower with minimal equity. Capital requirements should reflect that difference.

The proposal creates two parallel tracks, depending on bank size and complexity:

- **Standardized Approach** (generally applicable to Category III and IV banks and smaller institutions): LTV-based risk weights ranging from **25% to 75%** for typical owner-occupied loans.
- **Basel III / Expanded Risk-Based Approach (ERBA)** (generally applicable to the largest Category I and II banks): LTV-based risk weights ranging from **20% to 70%** for the same category of loans.

The five-percentage-point difference between the two tracks exists because larger Basel III institutions also carry a separate operational risk charge. On a fully loaded basis, the agencies expect the effective impact to be broadly similar.

Government-guaranteed FHA and VA loans would continue to receive favorable treatment, generally retaining a **20% risk weight**, consistent with the current rule.

### | How LTV Buckets Would Work

The table on the next page summarizes proposed risk weights for **non-cash-flow-dependent** residential real estate exposures. In plain terms, these are typical primary-residence mortgages where repayment depends primarily on the borrower's income, not rental income from the property. The agencies estimate that roughly **97% of bank-held residential mortgages** fall into this category.



## Residential Real Estate Risk Weights: Current vs. Proposed

Category	Current Rule	Standardized Approach (Proposed)	Basel III / ERBA (Proposed)
FHA/VA guaranteed mortgages	20%	20%	20%
Statutory multifamily mortgages	50%	50%	50%
Pre-sold construction loans	50% / 100%	50% / 100%	50% / 100%
LTV ≤ 50%	50% (flat for qualifying first liens)	25%	20%
50% < LTV ≤ 60%	50%	30%	25%
60% < LTV ≤ 80%	50%	35%	30%
80% < LTV ≤ 90%	50%	45%	40%
90% < LTV ≤ 100%	50%	55%	50%
LTV > 100%	50%	75%	70%
Other residential	100%	100%	100%
Past due	100%	100%	100%

Sources: Federal Reserve, MBA, Pennymac. Notes: (1) Table reflects loans not dependent on property cash flows; and (2) The five-point spread between tracks reflects separate operational risk charges at Basel III institutions.

## | The Carrot and the Stick

For **lower-LTV loans**, the proposal is clearly a capital improvement relative to today's flat 50% treatment. A bank holding a 60% LTV conventional mortgage could face a risk weight of 25% to 30% instead of 50%. Some market contacts believe this could make banks more interested in certain low-LTV products, including low-LTV adjustable-rate mortgages, though nothing is certain at this stage.

For **higher-LTV loans**, the picture is more mixed. A 95% LTV loan that today receives a 50% risk weight would move to **50% to 55%** under the proposal, depending on the track. That is not a dramatic change for most agency-eligible high-LTV lending, but it does remove the implicit subsidy of treating all performing first liens identically.

The proposal also draws a sharper line for **investment properties and other cash-flow-dependent loans**. Where repayment depends on rental income generated by the property, risk weights can rise as high as **110%** for loans with LTVs above 100%. That distinction reflects a genuine difference in credit risk, though it may influence which loans banks prefer to hold versus sell into the secondary market.

## | Private MI and LTV Risk Weights: A Constructive Opening for Comment

Critically, the bank capital framework should not structurally disadvantage borrowers without large cash down payments where risk is effectively mitigated. Borrowers of all prudently underwritten loans should be able to benefit from greater bank participation in the housing finance system. First-time buyers, LMI households, and families in high-cost markets often cannot bring 20% or even 10% to the closing table. Private

mortgage insurance (MI) exists precisely to make prudent high-LTV lending possible by placing a dedicated credit enhancement in the **first-loss position**, ahead of the lender.

The March re-proposal reflects part of that logic, even if it stops short of completing it.

Both the Standardized Approach and the Basel III / ERBA track **retain the existing recognition of private MI as a prudent underwriting criterion** when determining whether a high-LTV loan qualifies for a risk weight below 100%. That continuity matters. It signals that regulators understand MI is not an exotic add-on; it is a standard feature of well-underwritten conventional lending.

What is different this time from past proposals, and what we view as a **really constructive development**, is that the agencies have **explicitly solicited feedback** on whether private MI should be used to **calculate LTV for the purpose of assigning the proposed LTV-based risk weights**. That question was not always on the table in prior capital rulemakings. Its inclusion suggests regulators are genuinely weighing whether capital treatment should reflect the economic protection MI provides, not just whether MI is a permissible underwriting tool.

Under the proposal text as written, however, a banking organization **would not be permitted to recognize PMI when calculating LTV** for capital bucket purposes, even though PMI remains a factor in determining whether a loan meets prudent underwriting standards. The agencies have posed a detailed set of comment questions on alternative approaches, including whether partial MI recognition (such as 50% of coverage value) might address concerns about monoline insurer risk. Pennymac's view is that full recognition is warranted given the loss severity data, but the mere fact that regulators are asking is itself progress relative to prior rounds.

## The Numbers Tell the Story

Consider a straightforward example under the Standardized Approach.

A **95% LTV** conventional loan would receive a **55% risk weight** under the proposal's LTV buckets, up from today's flat 50% for performing first liens. That is not a dramatic move, but it is directionally wrong if the loan carries standard private MI coverage.

At typical coverage levels, private MI would reduce the **effective LTV from 95% to roughly 67%**. Under the proposed LTV scale, that effective exposure would map to a **35% risk weight**, not 55%. The difference reflects a simple credit fact: **MI absorbs loss ahead of the bank**. The lender's exposure is not to the full 95% LTV; it is to the residual risk after the insurer takes the first hit.

That is not a theoretical distinction. It is how the product works in practice.

### Illustrative Overview of Private Mortgage Insurance Issue

Illustrative Example (Standardized Approach)	Gross LTV (No MI Credit)	Effective LTV (With Standard MI Coverage)
Borrower down payment	5%	5%
LTV for capital bucket	95%	~67%
Proposed risk weight	55%	35%

*Source: Federal Reserve, USMI, Pennymac. Note: Effective LTV illustration assumes standard private MI coverage levels consistent with GSE execution. Actual risk weights would depend on final rule text and coverage specifics.*

## Why This Fits the Regulators' Own Framework

The agencies have said repeatedly that this re-proposal is about **improving risk sensitivity** and aligning capital with actual loss exposure. LTV is the primary lever they chose to get there.

If that is the goal, **it makes a lot of sense to recognize private MI when calculating LTV for capital purposes**. At its core, MI coverage is reducing the loss severity on high-LTV loans, which are inherently riskier, to levels that are **equal to or below those of loans with more equity**. A capital rule that ignores MI while claiming to be LTV-sensitive is only measuring half the picture.

The historical data supports that view. From **1994 to 2024**, GSE loans with private MI exhibited a **loss severity of 31%**, compared with **48%** for comparable loans without private MI. That is not a marginal difference. It is evidence that MI meaningfully changes the economics of high-LTV lending in exactly the way a risk-sensitive capital framework should capture.

Additionally, both private MI and Credit Risk Transfers (CRTs) act as vital mechanisms to distribute mortgage credit risk into the hands of private, well-capitalized counterparties. Yet, under the proposed framework, only certain CRTs are provided a pathway for meaningful regulatory capital relief, while the structurally similar risk-mitigating benefits of private MI are incongruously ignored.

## MI Is a Regulated, Capitalized Counterparty

Some skeptics treat MI as soft credit enhancement. The post-crisis record suggests otherwise. Private mortgage insurers operate under **robust capital**

**requirements** and have adopted significant enhancements since the global financial crisis, including **capital and operational standards directed by a federal regulator** and the ability to **forward-contract reinsurance coverage** through a variety of executions. These are not unregulated side arrangements. They are part of a supervised infrastructure designed to ensure MI performs through the cycle.

Pennymac believes the agencies should use the comment period to close this gap. Crediting private MI in LTV-based risk weight calculations would:

- Better align capital charges with **actual loss severity** on high-LTV loans;
- Remove an artificial disincentive against holding **prudently underwritten, insured** loans on bank balance sheets;
- Support **borrowers who rely on low down payment programs** without compromising safety and soundness; and
- Complete the risk-sensitive framework the regulators themselves have said they want to build.

The solicitation of comment on this point is welcome. The final rule should follow through on it.

## Why It Matters for the Broader Market

Category I and II banks currently hold approximately **\$1.1 trillion** in residential whole loans on balance sheet. Category III and IV banks hold roughly **\$500 billion** more. If lower-LTV loans become meaningfully cheaper to hold in capital terms, some portion of that balance sheet capacity could re-enter the mortgage market.

From our seat, that is directionally positive. More bank appetite for certain loan types can deepen liquidity, improve MSR bids, and add competition that benefits borrowers. But capital treatment alone will not reverse a decade of banks retreating from mortgage origination. Legal liability, operational cost, earnings volatility, and simple organizational focus all still matter.

### Who Is Impacted?



**Expanded Risk-Based Approach (ERBA)** applies to Category I and II banking organizations. These are the largest, most internationally active U.S. banks, including the G-SIBs and large regionals. ERBA is a single comprehensive framework covering credit risk, operational risk, market risk, and CVA risk. Category I and II banks would no longer run a separate Advanced Approaches credit risk calculation.



**Standardized Approach** applies to Category III and IV banks and smaller non-CBLR institutions that do not use the community bank leverage ratio (CBLR) simplified framework. This includes large regionals and super-regionals plus a long tail of smaller depositories above the CBLR threshold. These banks continue to use a standardized, lookup-table method for credit risk, with the new LTV-based residential mortgage buckets in the table.



**Community banks on CBLR** are largely outside the risk-weight changes. The main mortgage-related change that still reaches them is MSR treatment (replacing the deduction cliff with a 250% risk weight).

## NO MORE MSR “SIN BIN”

### | What Was the Problem?

Mortgage servicing assets represent the contractual right to collect servicing fees on pools of loans. For banks that originate and retain servicing, MSAs are a core part of the mortgage business model.

Under the current capital rule, however, the nation’s largest banks **must deduct MSAs dollar-for-dollar** from regulatory capital once they **exceed a 25% threshold** of CET1 capital. A full capital deduction is economically equivalent to assigning those assets a **1,250% risk weight**. Industry participants often refer to this as the MSA “**sin bin**” or “**cliff**”: crossing the threshold triggers a disproportionate capital hit that makes large MSR positions prohibitively expensive for many banks.

That treatment was one of several factors pushing mortgage servicing out of the regulated banking sector and into IMB hands over the past fifteen years.

### | What the Proposal Would Do

The re-proposal **eliminates the threshold-based deduction entirely**. All MSAs, regardless of concentration, would instead be assigned a **flat 250% risk weight**.

That is a structural improvement. A 250% risk weight is still a meaningful capital charge, but it is not the cliff-like penalty of a full deduction. Fed Vice Chair Michelle Bowman has noted that while MSA valuations can be volatile during interest rate cycles, the previous deduction treatment was “**disproportionate to risk**” and made mortgage activities too costly for many banks to engage in.

The agencies are also explicitly soliciting comment on whether 250% is the right

number, including questions about whether the risk weight should vary by bank size or capital framework.

### | The 250% Debate: Where Pennymac Stands

We view the removal of the deduction cliff as unequivocally positive. We also believe **250% is likely too punitive** as a permanent calibration, though it is a reasonable starting point for comment.

Industry comment letters, including from trade groups and large bank servicers, have increasingly coalesced around a 100% risk weight as the appropriate long-run treatment. Our channel checks suggest regulators may be open to moving lower than 250%, though nothing is confirmed.

**Pennymac does not have a firm view on how low the MSA risk weight should ultimately be set.** We do believe that **lowering it to some degree is sensible**, given the secured, fee-based nature of servicing cash flows, the ability to transfer servicing rights, and the historical performance of agency MSRs through multiple credit cycles. The right number should be grounded in loss data and through-the-cycle volatility, not in a binary choice between punishment and permissiveness.

What we can say with confidence is that the old cliff was broken, and the new framework is worth building on.



## Why It Matters Beyond Bank Balance Sheets

MSR capital treatment affects more than which banks hold servicing on their balance sheets. It influences **MSR pricing, merger and acquisition activity, retained servicing decisions at origination,** and the **depth of bids** in the bulk MSR market. A more rational capital treatment should support a healthier, more liquid MSR market, which in turn supports origination economics across bank and nonbank channels. Furthermore, regulatory alignment on MSR risk weighting should not be limited solely to the federal banking agencies. If the Basel III Endgame framework is ultimately finalized with a lower risk weight for MSRs, Ginnie Mae should mirror this adjustment by lowering its own 250% risk weight for gross MSRs. Synchronizing these capital standards across agencies would ensure regulatory consistency and promote a more stable and liquid servicing ecosystem across both bank and nonbank execution channels.

## WAREHOUSE LINES — WHERE THE PROPOSAL NEEDS WORK

### Why Warehouse Lending Deserves Its Own Section

If whole loan risk weights and MSR treatment are the visible headline wins in this re-proposal, **warehouse line capital treatment is the operational detail that could most directly affect whether borrowers feel the benefit.**

Warehouse lines are short-term credit facilities that fund mortgage loans after closing and before sale to Fannie Mae, Freddie Mac, or Ginnie Mae. For standard agency-eligible loans, the typical stay

on a warehouse line is roughly **15 to 18 days**. The loans are pre-sold or pre-committed to agency take-out investors. The bank funding the line holds a senior, collateralized position in high-quality financial assets with defined advance rates and haircuts.

Independent mortgage banks originate the **vast majority** of U.S. residential mortgages. According to the Community Home Lenders of America, IMBs accounted for **84% of single-family mortgage originations** as of late 2025. The Mortgage Bankers Association reports that in 2024, IMBs originated **70% of all home purchase loans to low- and moderate-income (LMI) borrowers**. Warehouse lines are the funding backbone of that production machine.

When warehouse funding becomes more expensive, IMBs do not simply absorb the cost indefinitely. Higher funding costs flow into **origination economics, margin requirements,** and, over time, **the price of credit for consumers**. That is why we believe warehouse calibration should be evaluated through the same consumer lens as every other provision in this rulemaking, not as a secondary technical footnote.

### What the Proposal Gets Right

It would be unfair to describe the warehouse treatment as all stick and no carrot. The re-proposal includes several positive adjustments:

**Drawn warehouse lines** treated as corporate exposures would see risk weights decline modestly, from **100% to 95%** under the standardized approach and as low as 65% for investment-grade counterparties under ERBA.

The securitization framework retains the **supervisory calibration parameter (p-factor) at 0.5** for standard securitizations, avoiding a more punitive recalibration that had been feared.

The **securitization risk-weight floor** would fall from **20% to 15%**, a change we support as better aligned with international standards.

These are meaningful improvements relative to the 2023 proposal. They are not, in our view, sufficient to reflect the economic substance of mortgage warehouse lending.

Industry participants have been clear about where the proposal still misses the mark. At the recent MBA Secondary & Capital Markets Conference, Mayer Brown's bank regulatory team summarized the record this way: regulators delivered on several long-standing industry asks, including **LTV-based risk weights without the prior "gold plating,"** elimination of the MSR capital cap for Category III and IV banks, and retention of the **p-factor at 0.5** in the securitization framework. But the same presentation ranked among the top unresolved priorities **preserving current warehouse line CCF treatment, reducing the 100% risk weight on drawn warehouse advances, crediting PMI in LTV calculations, and lowering the 250% MSA risk weight.** That split verdict captures our view as well: meaningful progress on balance sheet lending and MSRs, but unfinished business on the funding infrastructure that actually moves loans from closing to the secondary market.

## Enhancement 1: Review Unused Commitment Treatment

Warehouse lines are partly **undrawn commitments**. Capital rules require banks to hold capital against the portion of a line that could be drawn even if it has not been drawn yet. That conversion is captured through a **credit conversion factor (CCF)**, which translates an unused commitment into a risk-weighted exposure for capital purposes.

The table below summarizes how CCF treatment would change for the commitment types most relevant to warehouse lending.

### Off-Balance Sheet Commitment CCFs: Current vs. Proposed

Exposure Type	Current Rule	Standardized Approach (Proposed)	Expanded Risk-Based Approach (Proposed)
Uncommitted	0%	0%	0%
Unconditionally cancelable	0%	0%	10%
Not unconditionally cancelable, ≤ 1 year maturity	20%	—	—
Not unconditionally cancelable, > 1 year maturity	50%	—	—
Not unconditionally cancelable (all maturities)	—	40%	40%

Sources: Federal Reserve, Mayer Brown, Pennymac. Note: The proposal also would impose capital requirements on undrawn commitments with no express contractual maximum based on prior activity, and would expand the definition of a "commitment" to capture arrangements that obligate future extensions of credit even when unconditionally cancelable.

For **non-cancelable** commitments, the re-proposal consolidates the current maturity-based tiers into a **single 40% CCF**, regardless of whether the facility matures in 30 days or three years. For the short-term, frequently renewed warehouse commitments that dominate agency production, that change **effectively doubles** the capital charge on the unused portion of the line compared to today's **20%** treatment for facilities of one year or less.

## Enhancement 2: 10% Charge on Cancelable Lines Should Be Reviewed

The treatment of **unconditionally cancelable** commitments is, in our view, the most **concerning** piece of the warehouse package for Category I and II banks under the Expanded Risk-Based Approach.

An unconditionally cancelable commitment is exactly what it sounds like: a credit line the bank may cancel at any time, for any reason, without preconditions. Today, those commitments carry a **0% CCF** because there is no binding obligation until the bank chooses to fund. That is not a loophole. It reflects the economic reality that the bank has retained full discretion over whether any exposure ever materializes.

The ERBA track would raise that CCF from **0% to 10%**. The Standardized Approach would leave cancelable commitments at 0%, creating a bifurcated treatment across bank tiers. But for the largest warehouse providers, the message is clear: hold capital against capacity you may never use and are free to revoke tomorrow.

We find that difficult to square with both the economics of warehouse lending and the regulators' own logic elsewhere in the proposal.



**The draw already gets capitalized.** When a bank funds a loan on a warehouse line, the advance moves onto the balance sheet and receives a risk weight at that moment. Imposing an additional charge on the undrawn, cancelable commitment layer means capital is being assessed twice against the same pipeline: once on the hypothetical capacity, and again on the actual funded loans moving through it. If the concern is the credit being extended, the drawn exposure is where that risk lives.

**Cancelability is a feature, not a bug.** Warehouse lines are relationship facilities built around short-term, collateralized, agency-eligible production. Banks and IMBs structure these commitments as cancelable precisely because the underlying exposure turns over in weeks, not years. Taxing cancelable capacity penalizes the legal form that most closely matches the risk profile.

**The agencies know this hits warehouse lending.** The preamble to the Expanded Risk-Based Approach explicitly acknowledges that the 10% CCF on unconditionally cancelable commitments is expected to have a negative impact on mortgage warehousing facilities,

alongside consumer credit card lines. That is not an incidental side effect. It is a predicted consequence of a rule that, elsewhere in the same package, claims to reduce disincentives for bank participation in mortgage markets.

**The commitment definition is expanding at the same time.** The proposal would broaden what counts as a “commitment” from any legally binding arrangement to any contractual arrangement setting terms for **future** extensions of credit, **whether or not unconditionally cancelable**. More arrangements get swept into the capital framework at the same moment the framework becomes less favorable. For warehouse providers, that is a double squeeze.

From our seat, a 10% CCF on unconditionally cancelable warehouse commitments is disconnected from the risk being underwritten. These are secured, self-liquidating, short-duration facilities backed by agency take-out commitments. Charging capital against revocable, undrawn capacity on those terms does not make the banking system safer. It makes warehouse lending more expensive, pushes activity toward less favorable legal structures, and passes costs downstream to the IMBs and borrowers who depend on this funding.

The fix is straightforward: **retain the 0% CCF for unconditionally cancelable commitments**, consistent with the current rule and the Standardized Approach track.

We do not object to simplifying maturity-based CCF tiers for non-cancelable commitments in principle. Longer-dated commitments can support funding stability. But the combination of a **40% flat CCF** on non-cancelable lines and a **new 10% charge** on cancelable ones lands as a net tax on the warehouse market, not a risk-sensitive calibration.

### Enhancement 3: Consider A More Harmonized Approach

Here is the inconsistency that most clearly illustrates why warehouse treatment needs a second look.

Suppose a bank funds a prudently underwritten, agency-eligible, 70% LTV conventional mortgage on a warehouse line. Under the proposal, the **drawn warehouse advance** is treated as a **corporate exposure** and generally receives a **95% risk weight** (or 65% if the IMB counterparty qualifies as investment grade under the bank’s internal rating system).

Now suppose the bank instead **originates and holds that identical mortgage on its balance sheet**. Under the same proposal, the loan receives an LTV-based risk weight of 30% to 35%.

Same collateral. Same borrower credit. Same agency take-out. Radically different capital treatment.

The economic duration of a warehouse advance is measured in **days**, not decades (in contrast to portfolio mortgage exposures). The bank maintains control over the collateral, the advance rate provides a first-loss buffer, and the loan is destined for agency securitization. Applying a generic corporate risk weight ignores all of that.

We believe the capital treatment for drawn warehouse advances should **look through to the underlying mortgage collateral**, mirroring the LTV-based risk weights applied to whole loans. The agencies already embrace a look-through concept for certain senior securitization exposures in this same proposal. Extending that principle to corporate warehouse facilities would harmonize the framework and reflect negligible economic risk.

Importantly, this still does not address the risk mismatch. That mismatch is not academic. A bank that funds the same agency-eligible collateral on a warehouse line for eighteen days should not face a capital charge three times higher than if it held that loan on balance sheet for thirty years.



### Enhancement 4: SPE Structures

Many warehouse facilities are extended not directly to the IMB, but to a **bankruptcy-remote special purpose entity (SPE)** that holds a pool of loans transferred by the originator. The structure is common, well understood, and designed to isolate collateral.

When a warehouse line is structured through an SPE, the exposure can fall under the **securitization framework** rather than the corporate lending framework. That triggers a different, and in several respects more punitive, set of calibrations. Under the securitization treatment, two mechanics stand out as worthy of further consideration:



#### Effective 100% CCF on undrawn SPE commitments.

For off-balance-sheet securitization exposures, the proposal defines exposure amount as the **full notional** of the commitment. That implies a **100% CCF** on the unused portion of a warehouse line to an SPE, compared with **40%** for a comparable corporate commitment. A bank could hold two-and-a-half times more capital against an undrawn SPE commitment backed by prime agency collateral than against an undrawn corporate commitment to the same economic exposure.



#### Elevated treatment of defaulted assets in the SEC-SA formula.

Under the new Securitization Standardized Approach (SEC-SA), the capital formula applies a scaling factor to the proportion of underlying loans that are 90 or more days past due. In effect, defaulted assets inside an SPE pool can attract an effective risk weight of roughly **625%**, compared with a **100% risk weight** for the same defaulted loan on the bank's balance sheet. That is over six times the capital charge for the identical credit, based solely on legal form rather than economics.

## | The Consumer Case

We want to be direct about why this matters.

This rulemaking is sometimes framed as a contest between banks and IMBs, or between regulators and industry.

### **We think that framing misses the point.**

The relevant question is whether capital rules support or impede the delivery of mortgage credit to American households at competitive prices.

If warehouse funding costs rise because capital rules treat short-term, collateralized, agency-eligible pipelines like long-term corporate debt or distressed securitizations, the pressure does not stay inside bank treasury departments. It moves down the chain.

Higher warehouse costs can mean **tighter margins, fewer active warehouse providers, reduced capacity for smaller IMBs, and ultimately higher borrower costs or reduced access** in the channels that already serve the borrowers policymakers say they want to reach.

There is also a systemic dimension. Pushing warehouse finance out of regulated banks and into less supervised corners of the market may reduce capital charges on paper while **concentrating risk** in entities without deposit funding, lender-of-last-resort access, or the same supervisory oversight. That is not a consumer-friendly trade.

## | What Pennymac Recommends for the Warehouse Lending Section

Pennymac supports targeted refinements in the final rule, including:

1. **Retain a 0% CCF for unconditionally cancelable commitments**, rather than increasing it to 10%.
2. **Apply look-through treatment** so drawn warehouse advances reflect the risk weight of the underlying mortgage collateral, not a default 100% corporate weight.
3. **Harmonize SPE undrawn commitment CCFs** with corporate commitment treatment, rather than applying an effective 100% notional conversion.
4. **Recalibrate SEC-SA default treatment** so defaulted loans inside warehouse SPE pools are not penalized far beyond the 150% risk weight applied to the same credits outside securitization structures, and ensure defaulted assets are not double-counted in the formula.

## A COMPLEMENTARY ECOSYSTEM, NOT A ZERO-SUM GAME

A fair amount of commentary on the March capital release has framed it as a win for banks and a loss for IMBs, or vice versa. **We respectfully disagree with that framing.**

A healthy U.S. mortgage market needs both depository institutions and IMBs. Banks bring balance sheet capacity, deposit funding, and community banking relationships. IMBs bring specialization, operational focus, and an all-weather willingness to originate through rate cycles without a taxpayer backstop. Together, they deliver credit across geographies, product types, and borrower profiles that neither channel serves optimally on its own.

The goal of this rulemaking should not be to pick winners. It should be to **ensure that capital rules do not artificially drive mortgage activity away from regulated institutions**, while also **not imposing hidden taxes on the warehouse and origination infrastructure that actually puts loans in borrowers' hands.**

If the final rule gets that balance right, consumers win. If it gets it wrong, the cost shows up in rate sheets, not in congressional hearing rooms.



## GLOSSARY

Term	Definition
<b>Basel III Endgame (B3E)</b>	The final set of post-crisis international bank capital reforms agreed by the Basel Committee on Banking Supervision in 2017. U.S. implementation has been debated since 2023.
<b>Capital risk weight</b>	A percentage applied to an asset's value to determine how much regulatory capital a bank must hold against it. A higher risk weight means more capital required.
<b>CCF (Credit Conversion Factor)</b>	The percentage of an undrawn loan commitment counted as an exposure for capital purposes. A 40% CCF on a \$100 million unused line creates a \$40 million exposure for capital calculations.
<b>CET1 (Common Equity Tier 1)</b>	The highest-quality form of bank regulatory capital, primarily common stock and retained earnings.
<b>ERBA (Expanded Risk-Based Approach)</b>	The new comprehensive capital framework proposed for the largest Category I and II banking organizations under the Basel III track.
<b>IMB (Independent Mortgage Bank)</b>	A non-depository institution that originates, closes, and often services residential mortgage loans. IMBs rely on warehouse lines and secondary market sales rather than deposits for funding.
<b>LTV (Loan-to-Value ratio)</b>	The loan amount divided by the property value. An 80% LTV means the borrower has 20% equity.
<b>LMI (Low- and Moderate-Income)</b>	Borrowers and communities below certain income thresholds, often defined relative to area median income.
<b>MSA (Mortgage Servicing Asset)</b>	The contractual right to service a pool of mortgage loans and collect servicing fees. MSAs are intangible assets that appear on a servicer's balance sheet.
<b>PMI (Private Mortgage Insurance)</b>	Insurance that protects the lender against borrower default on high-LTV loans. Borrowers typically pay PMI when putting less than 20% down on conventional loans.
<b>Risk-weighted assets (RWA)</b>	A bank's assets and off-balance-sheet exposures, each multiplied by their applicable risk weights, summed to determine total capital requirements.
<b>SEC-SA (Securitization Standardized Approach)</b>	The proposed standardized method for calculating capital against securitization exposures, replacing the current SSFA framework.
<b>SPE (Special Purpose Entity)</b>	A bankruptcy-remote legal entity created to hold a specific pool of assets, commonly used in warehouse lending structures.
<b>Standardized Approach</b>	The simpler risk-based capital framework that applies to most U.S. banks outside the largest Basel III tier.
<b>UCC (Unconditionally Cancelable Commitment)</b>	A credit commitment the bank can cancel at any time without conditions.
<b>Warehouse line</b>	A short-term revolving credit facility used to fund mortgage loans from closing until sale to a secondary market investor.

Sources: Federal Reserve, FDIC, OCC, MBA, Mayer Brown, Pennymac



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