NATIONAL ASSOCIATION of REALTORS®

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The Honorable Tim Johnson
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate
136 Hart Senate Office Building
Washington, DC 20510

The Honorable Richard Shelby
Ranking Member, Committee on Banking, Housing and Urban Affairs
United States Senate
304 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Shelby:

On behalf of the one million members of the National Association of REALTORS® (NAR), and its commercial affiliates[1], I am writing to you regarding tomorrow's Banking Committee hearing on "Oversight of Basel III: Impact of Proposed Capital Rules". NAR is concerned that the proposed Basel III capital rules, with its disproportionate risk treatment of mortgages, will have a detrimental effect on the accessibility and affordability of residential and commercial mortgage credit.

Though NAR supports strong capital requirements for the global banking system, under the current proposal, the regulatory capital charge on well underwritten, fixed rate, 30-year, first mortgages with a loan-to-value (LTV) between 80 percent and 90 percent will increase by 50 percent; if the LTV is over 90 percent, the capital charge will double. NAR is most concerned that the risk weights assigned to residential mortgage loans, and the elimination of mortgage insurance as a risk mitigation option, will reduce the availability of mortgage capital to consumers, including many first-time homebuyers.

We also have substantial concerns regarding the high proposed risk weights for certain commercial asset classes. The proposal creates a new risk-based capital category – High Volatility Commercial Real Estate Exposures (HVCRE) for commercial acquisition, development, and construction (ADC) loans. Specifically, the proposed changes raise the risk-weight for an ADC loan from 100 percent to 150 percent. In response to the potential changes, it is highly likely that banks would substantially change their current lending practices and reduce the amount of available commercial real estate credit in order to avoid the higher capital charges associated with ADC loans.

NAR believes that regulators should fully consider the evidence and adverse economic consequences that could well ensue by dramatically increasing the cost of residential and commercial mortgage lending. We recommend that the proposed regulations be modified so they more accurately correlate the actual risk characteristic of mortgages with the proposed risk weights.

Sincerely,

Gary Thomas
2013 President, National Association of REALTORS®

cc: Members of the Committee on Banking, Housing, and Urban Affairs

[1] CCIM Institute, Institute of Real Estate Management, REALTORS® Land Institute, and Society of Industrial and Office REALTORS®