



PENNYMAC POLICY PULSE

APRIL 2026

THE MARCH RECALIBRATION: ANALYZING A MEANINGFUL MONTH FOR MORTGAGE POLICY

Over the past few weeks in Washington, certain regulatory and legislative pendulums started swinging. In a meaningful pivot, banking regulators swapped the punitive 2023 Basel III proposal for a framework that replaces capital hikes for haircuts. On the mortgage front, this proposal delivered a sensible shift toward risk-sensitivity for whole loan risk weights while removing the mortgage servicing asset (MSA) capital deduction “cliff.” Not to be outdone, the Senate delivered a 89-10 victory for the 21st Century ROAD to Housing Act, marking a supply-side “starting gun” that aims to dismantle production bottlenecks through technical wins in manufactured housing and NEPA streamlining.

This momentum was punctuated on March 13, 2026, by a pair of White House Executive Orders (EOs) designed to reduce regulatory costs and modernize the homebuying lifecycle. These orders

direct the CFPB to reconsider Ability-to-Repay (ATR) and Qualified Mortgage (QM) rules to encourage bank participation, while suggesting a shift toward “materiality-based” TRID rules that could eliminate mandatory three-day waiting periods before closing. Furthermore, the administration is pushing to expand appraisal waivers, modernize the closing process through digital e-notes, and leverage the Federal Home Loan Banks (FHLBs) to bolster market liquidity.

Yet, even in a month of significant victories, the devil remains in the operational details. From the “mixed bag” for warehouse line capital charges to the potential “bifurcation” of regulatory relief between community banks and the rest of the marketplace, our focus remains intently on ensuring that policy serves the consumer while maintaining the resilience of our entire mortgage ecosystem—depositories and IMBs alike.

KEY DEVELOPMENTS SHAPING THE MORTGAGE AND HOUSING LANDSCAPE



REGULATORY PIVOT

Basel III Reform (Proposed)

Regulators signaled a pivot from the 2023 Basel III proposal toward a framework that would **replace capital hikes with haircuts**.

- ✓ Proposed shift to more risk-sensitive capital treatment
- ✓ Removal of the MSA capital deduction “cliff”
- ✓ Movement away from broad capital increases



LEGISLATIVE MOVEMENT

21st Century ROAD to Housing Act

The Senate passed the bill **89-10**, launching a supply-side effort to reduce housing production bottlenecks.

- ✓ Supports manufactured housing growth
- ✓ Streamlines NEPA to help accelerate development



EXECUTIVE ACTION

White House EOs Signed March 13, 2026

Two Executive Orders direct agencies to **reduce regulatory costs** and **modernize** the homebuying lifecycle.

- ✓ Directs the CFPB to reconsider key mortgage rules
- ✓ Pursue steps to lower costs, reduce friction, and strengthen liquidity
- ✓ Encourage broader participation in mortgage markets
- ✓ Support innovation and efficiency across the housing finance system

Source: Federal Reserve, U.S. Senate, White House, CFPB, Pennymac

BASEL III ENDGAME: FROM CAPITAL HIKE TO CAPITAL HAIRCUT

In a major victory for the mortgage industry, U.S. federal banking regulators released a ~1,800-page re-proposal of the Basel III Endgame (B3E) rules on March 19, 2026. The original 2023 plan's 19% capital hike for G-SIBs has been scrapped in favor of a ~2.4% net reduction for the largest banks and up to ~8% relief for regional players.

Carrots for Residential Balance Sheet Lending

The proposal shifts from a flat 50% risk weight to an LTV-based spectrum (ranging from 20% to 75%), creating a more risk-sensitive framework for on-balance-sheet loans. This shift significantly reduces capital charges for high-equity loans, potentially unlocking over \$600 billion in additional bank lending capacity for residential real estate lending.

- **The LTV Carrots:** For non-cash flow dependent loans (typical primary residences), risk weights will range from as low as 20% to 70% for Basel III Proposal banks and 25% to 75% for Standardized Approach banks. Risk weights differ slightly between the two proposed tracks to account for separate operational risk charges at larger institutions.
- **The Stick for Rental Reliance:** Loans dependent on cash flow generated by the property (e.g., investment properties) will receive higher risk weights, reaching up to 110% for loans with LTVs exceeding 100%.
- **PMI Blindness:** Despite intense industry advocacy, the current text still does not recognize the risk-mitigating effect of Private Mortgage Insurance (PMI) when calculating LTV ratios.

RESIDENTIAL REAL ESTATE RISK WEIGHTS, CURRENT AND PROPOSED

CURRENT REQUIREMENTS

Mortgage Type	Risk Weight
FHA/VA guaranteed	20%
Qualifying first lien residential	50%
Statutory multifamily mortgages	50%
Pre-sold construction	50% / 100%
All other	100%
Past Due	100% / 150%

Source: Federal Reserve, MBA, Pennymac.

Notes: (1) This table reflects only loans not dependent on cashflows; and (2) The 5 percentage point difference in risk weights is due to Basel III institutions having a separate operational risk charge, which makes the effective impact the same.

STANDARDIZED APPROACH PROPOSAL

Mortgage Type	Risk Weight
FHA/VA guaranteed mortgages	20%
Statutory multifamily mortgages	50%
Pre-sold construction	50% / 100%
Non-HVCRE ADC	100%
LTV ≤ 50%	25%
50% < LTV ≤ 60%	30%
60% < LTV ≤ 80%	35%
80% < LTV ≤ 90%	45%
90% < LTV ≤ 100%	55%
LTV > 100%	75%
Other residential	100%
Past due	100% / 150%

BASEL III PROPOSAL

Mortgage Type	Risk Weight
FHA/VA guaranteed mortgages	20%
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LTV ≤ 50%	20%
50% < LTV ≤ 60%	25%
60% < LTV ≤ 80%	30%
80% < LTV ≤ 90%	40%
90% < LTV ≤ 100%	50%
LTV > 100%	70%
Other residential	100% / 150%
Past due	100% / 150%

No More MSA Sin Bin, but Expect A Risk Weight Debate

In a structural shift intended to “revitalize bank mortgage lending,” federal regulators have reclassified Mortgage Servicing Assets (MSAs) in the latest Basel III re-proposal. By removing the punitive capital deduction thresholds, often referred to as the “sin bin,” regulators aim to curb the migration of servicing to the nonbank sector and encourage banks to hold these assets on their balance sheets once again.

- **Cliff Removal:** Effectively, any dollar of MSA above a specific asset-based threshold required a dollar-for-dollar capital deduction, which is mathematically equivalent to a massive 1250% risk weight. This new proposal would eliminate the threshold-based deduction.
- **The 250% Risk Weight Debate:** Instead of taking a full capital deduction for concentrations, all MSAs will now be assigned a flat 250% risk weight. Fed Vice Chair Michelle Bowman noted that the change recognizes that while MSA valuations can be volatile during interest rate swings, the previous treatment was “disproportionate to risk” and made mortgage activities too costly for banks to engage in. To this end, regulators are explicitly soliciting feedback on whether to lower this risk weight further, with some industry voices signaling an inclination toward 100%.

Mixed Bag for Warehouse Lines

While balance sheet lending got a boost, the treatment of credit lines—the lifeblood of Independent Mortgage Banks (IMBs)—is relatively murkier.

- **Drawn Line Relief:** Risk weights for drawn warehouse lines that are treated as corporate exposures will decrease from 100% to 95% for standardized banks and as low as 65% for Basel III track banks.
- **Unconditional Penalty:** For the largest banks (Category I and II), the capital

charge for unconditionally cancelable commitments (UCC)—historically 0%—is rising to 10%. While higher, this appears better than the 2023 proposal.

- **Line Consolidation:** The proposal establishes a single 40% credit conversion factor (CCF) for all commitments that are not unconditionally cancelable. This replaces the current favorable 20% factor for lines maturing in under one year, effectively doubling the capital required for short-term unused warehouse commitments.

The Complementary Ecosystem: Moving Beyond “Bank vs. Nonbank”

A fair amount of the commentary around the bank capital release has framed it as a battle between banks and Independent Mortgage Banks (IMBs). We respectfully disagree with this framing as our focus remains intently on the consumer, market stability, and financial stability.

- **The Consumer Lens:** These capital rules should be viewed exclusively through a single lens: what is best for the consumer. A healthy market leverages the unique strengths of both depository institutions and IMBs to ensure credit reaches every corner of the country.
- **The “All-Weather” Role of IMBs:** While we view the revitalization of bank lending as a complementary force, it is the IMB sector that remains the all-weather lender. IMBs have navigated the most volatile interest rate cycles in a generation without a taxpayer backstop. They stay in the market and serve borrowers even when banks choose to pull back.
- **Diversified Risk:** The shift toward nonbanks has diversified risk across the ecosystem. IMBs are nimble and laser-focused on the mortgage borrower, providing a stable source of credit that is not subject to the broader balance sheet volatility of G-SIBs.

THE 21ST CENTURY ROAD TO HOUSING ACT: A SUPPLY-SIDE STARTING GUN?

On March 12, the U.S. Senate passed the 21st Century ROAD to Housing Act by a overwhelming 89-10 vote. This follows the House’s 390-9 passage of the Housing for the 21st Century Act in February, marking the most significant bipartisan movement on housing policy in over a decade. While the Senate’s bill is directionally positive for supply, we encourage lawmakers to revisit certain sections in the hope that it will not produce unintended consequences.

Core Convergences: Where the Market Should Expect Action

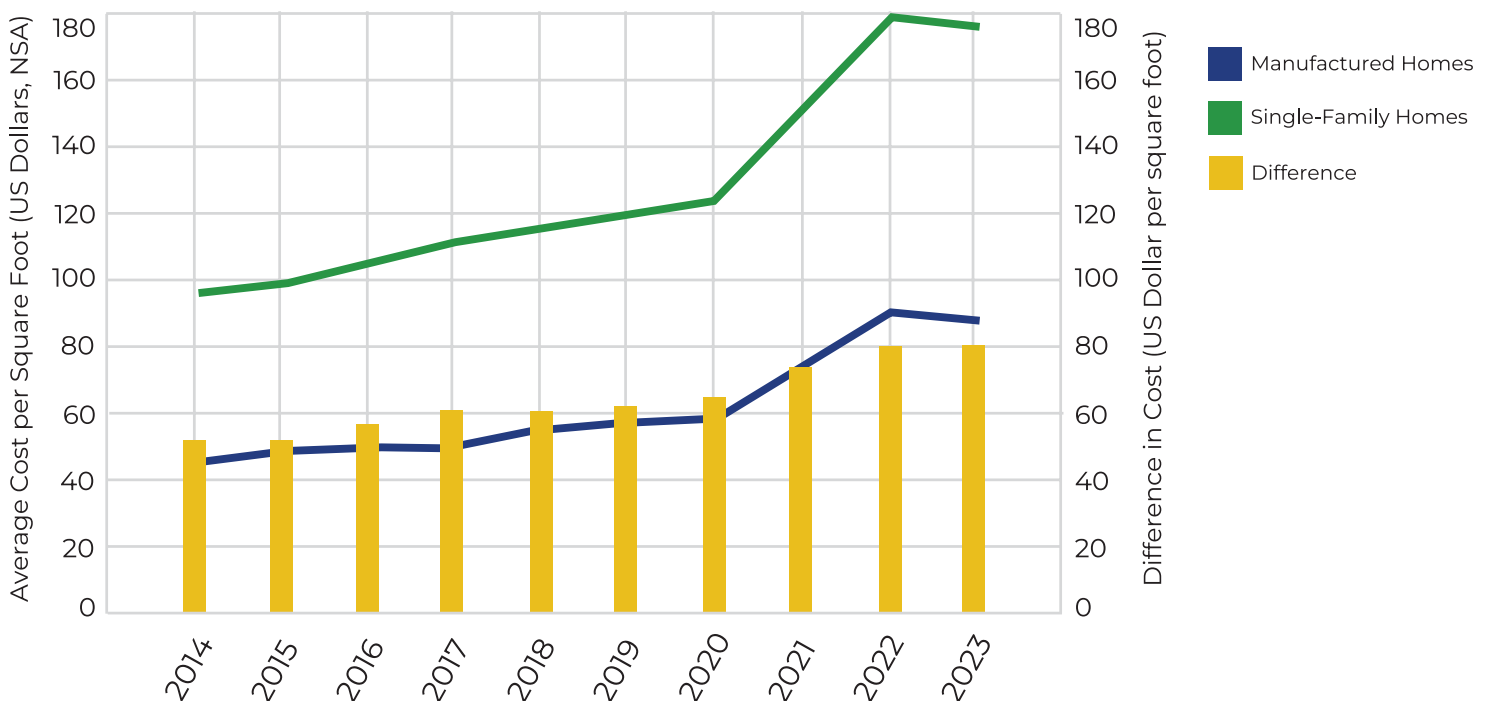
Despite the usual D.C. friction, both chambers have aligned on several technical “wins” that Pennymac has long advocated for:

- **Unlocking Manufactured Housing:** Both bills eliminate the 1974-era “permanent

chassis” requirement. This enables real-property titling and standard 30-year GSE/ FHA financing, normalizing factory-built collateral for the secondary market.

- **NEPA Streamlining:** The bills expand “categorical exclusions” for environmental reviews on infill and small-scale projects. Reducing these administrative “soft costs” could save over \$10,000 per door.
- **Small-Dollar Mortgage Liquidity:** Both bills target the \$100,000 loan threshold. The House relies on an FHA pilot program, while the Senate directs the CFPB to remove structural disincentives in loan originator compensation.

DIFFERENCE IN COST BETWEEN MANUFACTURED HOMES & SINGLE-FAMILY HOMES



Sources: Manufactured Housing Survey (HUD and Census Bureau), and NAHB analysis

Areas for Improvement

It is important to never let the perfect be the enemy of the good, but there is always room for improvement in legislating. To this end, we recommend the following changes to the effort before any final package makes it to the president's desk.

House VA Notification Structure Preferable to Senate's Proposal

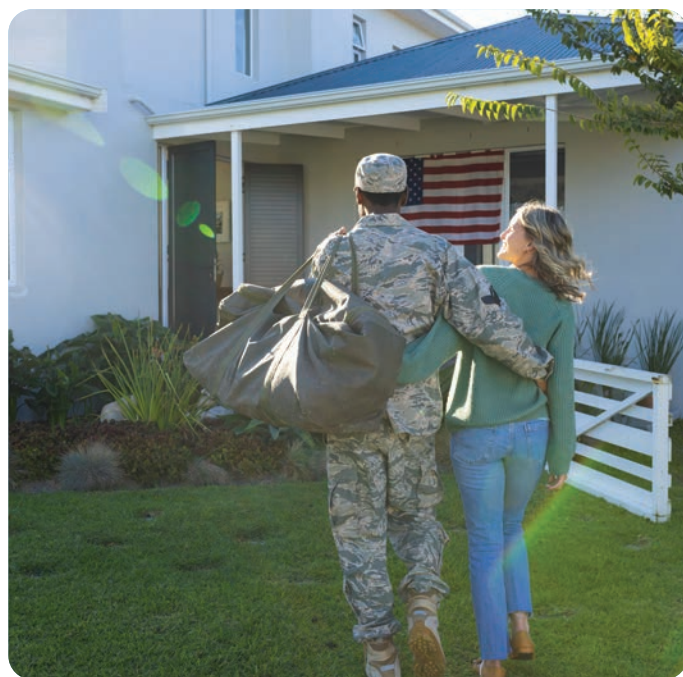
As one of the nation's largest lenders to the veteran community, Pennymac firmly believes that every eligible servicemember should know about the significant benefits of the VA Home Loan program. We are fully aligned with the intent behind recent legislative proposals to increase utilization: veterans earned these benefits, and they offer some of the most affordable paths to homeownership in the current market. However, as we evaluate the path forward, the distinction between a "helpful" policy and a "prescriptive" bottleneck lies in the operational details.

We view the House's approach in Section 402 of the Housing for the 21st Century Act as the superior vehicle for achieving this goal. This section takes a straightforward approach by mandating a clear disclosure on the Uniform Residential Loan Application (URLA) regarding VA eligibility. It ensures the question is asked without layering on excessive compliance mandates that do not materially help the borrower at the point of application.

Conversely, we view the Senate's version as an overly prescriptive framework that introduces significant operational hurdles. Specifically, the Senate package couples the URLA disclosure with additional mandates (such as the VALID Act provisions in Section 602) that require complex pricing comparisons between FHA, Conventional, and VA products. Accurate pricing comparisons require a

Certificate of Eligibility (COE) and disability status, which are data points lenders often do not have at the initial inquiry stage. Hard-coding these procedural requirements into statute risks confusing consumers and increasing liability for lenders, rather than simply raising awareness.

We urge policymakers to adopt the House's streamlined language, which effectively signals availability without creating operational friction that could inadvertently slow down the lending process for our veterans.



Improving Section 901: Saving Build-to-Rent (BTR) from Regulatory Friendly Fire

While the 21st Century ROAD to Housing Act is billed as a pro-supply vehicle, its current treatment of Single-Family Rentals (SFR) in Section 901 is a textbook case of "good intentions, bad mechanics." By failing to explicitly exempt Build-to-Rent (BTR) housing, the Senate-passed bill inadvertently threatens the production of tens of thousands of new units annually.

THE PROBLEM: A SUPPLY SQUEEZE IN DISGUISE

- **Production at Risk:** In 2025 alone, nearly 47,000 BTR units were delivered to the market. Section 901 as written could take hundreds of thousands of such units off the table over the next decade.
- **The Displacement Trap:** The current language forces divestment after seven years, which industry leaders warn will lead to the forced displacement of thousands of renters each year as their housing providers are legally mandated to sell.
- **Affordability Oversights:** The section currently lacks exemptions for the Low-Income Housing Tax Credit (LIHTC) or other rent-restricted assistance programs. This oversight risks strangling the same affordable housing programs the broader bill aims to support.

THE FIX: STRATEGIC TWEAKS RATHER THAN ROLLBACKS

There are numerous legislative tweaks that could address the concerns with this section, including:

- **Repeal Forced Divestment:** Strike the divestment mandates that create operational uncertainty and threaten to shut down BTR development entirely.

- **Protect Affordable Housing:** Explicitly exempt projects supported by Section 42 (LIHTC) or other restricted-rent programs to ensure that the production and preservation of affordable units remains viable.

Potential Reform of Capital Gains Treatment for Primary Residences

While we recognize this housing package is highly unlikely to include tax provisions given jurisdictional realities, we continue to believe that the capital gains issue should be part of any broader housing supply conversation. The current federal tax code may be inadvertently contributing to the national housing shortage by disincentivizing long-term homeowners from selling their primary residences. Under regulations established in 1997, the capital gains exclusion remains capped at \$250,000 for single filers and \$500,000 for married couples. Because housing appreciation has significantly outpaced these static caps over the last three decades, many homeowners now face a capital gains lock-in effect, where they choose to stay in homes that no longer suit their needs simply to avoid substantial tax liabilities.



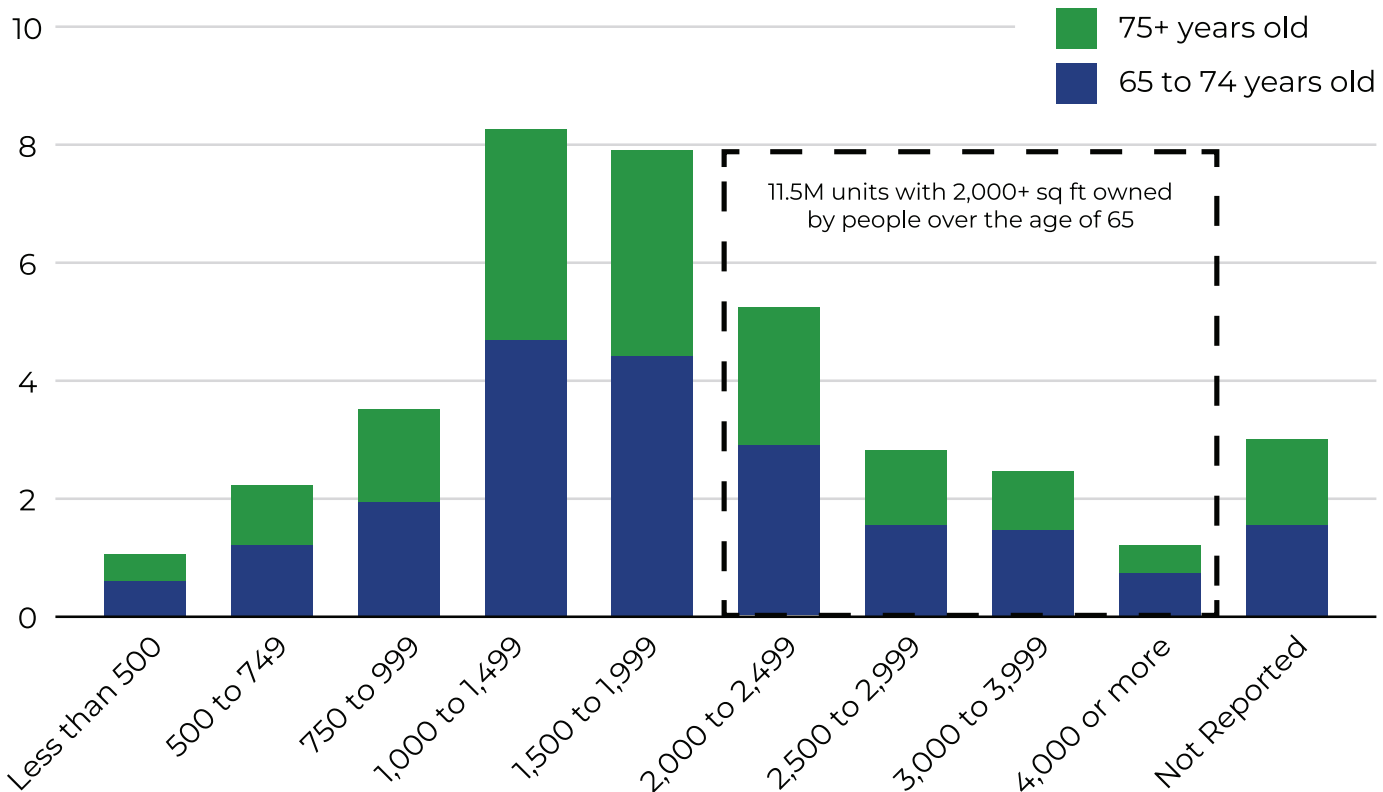
This “lock-in” is particularly prevalent among empty-nest seniors, many of whom reside in homes roughly three times larger than necessary. Data indicates there are approximately 11.5 million homeowners over age 65 living in properties larger than 2,000 square feet. By choosing to hold these assets, often to secure a stepped-up basis for heirs, these owners prevent large, established homes from entering the market. This structural misallocation leaves growing families stuck in inadequate spaces and severely suppresses overall housing turnover.

Proponents of reform argue that adjusting these caps is essential for restoring market mobility. If the 1997 exclusion limits had been indexed to house price growth, they would currently stand at approximately \$885,000 for individuals and \$1,775,000 for married couples. While such modifications could reduce federal

tax revenue by an estimated \$6B to \$10B annually, these costs would almost certainly be offset by increased economic activity. Unlocking this stagnant housing stock would likely generate significant state and federal revenue through increased sales, remodeling projects, and furniture purchases.

The scale of the issue is projected to grow; by 2030, an estimated 56% of all homeowners may exceed the \$250,000 exclusion threshold. To address this, various policy solutions are being discussed, ranging from a one-time tax “holiday” to allowing sale proceeds to be deposited into tax-advantaged retirement accounts. Regardless of the specific mechanism, we feel strongly that any serious effort to improve housing affordability must address these tax-driven constraints on supply.

OF HOUSING SUPPLY UNITS BY SQUARE FOOTAGE AND SIZE OF HOUSEHOLD (M)



Source: AHS, Moody's Analytics, Pennymac

WHITE HOUSE EXECUTIVE ORDERS: A DOUBLE FEATURE ON MORTGAGE CREDIT AND HOMEBUILDING

On March 13, 2026, President Trump issued two Executive Orders (EOs) designed to tackle the structural and regulatory frictions currently impeding the U.S. housing market. By directing the CFPB and other federal agencies to overhaul costly Dodd-Frank era mandates, the administration aims to lower closing costs, compress timelines, and revitalize bank participation in residential lending. We broadly applaud the intent of these EOs, but we believe the greatest good for consumers would be applying the regulatory relief broadly to maximize the impact on affordability.

Expanding Access to Mortgage Credit

This EO targets the regulatory wedge that has increased per-loan origination costs and restricted credit for first-time and moderate-income borrowers.

- **ATR/QM Reform:** The CFPB is directed to reconsider Ability-to-Repay (ATR) and Qualified Mortgage (QM) rules. The goal is to broaden “safe harbor” protections for loans held on bank balance sheets, incentivizing banks to move back into the mortgage space after years of ceding ground to nonbanks.
- **TRID Streamlining:** The administration suggests replacing rigid TILA-RESPA Integrated Disclosure (TRID) timing rules with a “materiality-based” standard. Most notably, this could eliminate the mandatory three-day waiting period between final disclosure and closing, significantly shortening the homebuying lifecycle.
- **Loan Originator (LO) Compensation:** The industry is advocating for revisions to Regulation Z to allow originators to lower compensation to compete on price and vary compensation for specific products like downpayment assistance loans or construction loans.



- **TRID Tolerances:** Proposals include removing the 10% cap on fee increases for services lenders do not control and extending the “cure” period for errors to six months or a year to reduce high compliance costs associated with minor technical failures.

Removing Barriers to Homebuilding and Modernizing Processes

This EO focuses on the “supply side” of the crisis, aiming to accelerate production through technological adoption and funding innovation.

- **Appraisal Modernization:** To speed up approvals and lower borrower costs, the EO encourages the use of AI and Automated Valuation Models (AVMs). It also seeks to expand appraisal waivers for low-risk, low-LTV loans.

- **Digital Adoption:** A formal push for wider use of e-notes and Remote Online Notarization (RON) aims to modernize closing processes across HUD and the FHFA, moving the industry closer to a fully paperless transaction.
- **Liquidity Support:** The administration is exploring letting Federal Home Loan Banks (FHLBs) act as intermediaries for the Fed’s discount window, providing lenders with easier access to emergency funding and bolstering market liquidity.
- **Streamlined Refinancing:** Unlike current FHA programs, Fannie Mae and Freddie Mac currently lack a “true” streamlined refinance option. The EO seeks to remove the documentation and appraisal barriers that make conventional refinancing complex and costly when interest rates fall.

Bifurcating the White House’s Mortgage EO Proposals

Applies to Community / Smaller Banks Only	Applies to All Lenders / Servicers
<ul style="list-style-type: none"> • Tailoring on QM / ATR • Tailored TILA, RESPA, and TRID Disclosures • Updates to ATR / QM Underwriting requirements • Bigger asset threshold on HMDA exemptions • Capital relief • Expanded benefits from FHLBs • Portfolio servicing requirements relief • Duplicative or unnecessary MLO licensing relief 	<ul style="list-style-type: none"> • New TRID timing Rules • Small loans QM Points and fees exemptions • Modernized right of rescission • Streamlines rate and term refinances • No rescission for rate / term, cash-out refinances • No reporting inquiries in HMDA • Protect privacy and reduce burdens in HMDA • Appraisal modernization, AVM usage • More digital mortgage modernization

Source: White House, MBA, Pennymac

Regulatory Shifts Should Be Marketwide To Ensure Greatest Good

While the EOs are clearly positive for the mortgage space, we firmly believe that the scope of regulatory relief should be sufficiently broad to ensure the greatest impact on affordability. Several sections suggest that relief on TILA/RESPA and QM rules may be limited to “smaller banks” with less than \$100 billion in assets.

Banks under this \$100 billion threshold accounted for less than 20% of mortgage originations in 2024. For these reforms to truly move the needle on national affordability, they must apply to all lenders, including large banks, IMBs, and credit unions.





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