

Congress of the United States
Washington, DC 20515

December 10, 2024

The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve
System
20th Street and Constitution Ave NW
Washington, DC 20551

The Honorable Martin Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Mr. Michael Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

Dear Chair Powell, Chairman Gruenberg, and Acting Comptroller Hsu,

We write regarding your agencies' Basel III Endgame proposal, the largest proposed rewrite of capital rules for financial institutions since the Dodd-Frank Act. As we have expressed previously, we have significant concerns regarding many aspects of the proposed rule. Recent developments have only heightened these concerns.

Federal Reserve Vice Chair for Supervision Michael Barr's September 10, 2024, speech and subsequent media reports have raised new questions about the direction and potential impact of this proposal. While some changes to credit risk calculations have been indicated, there are still significant concerns that these adjustments do not go far enough, particularly that the proposal may still fail to distinguish between unsecured loans and loans secured by highly liquid nonfinancial collateral. Furthermore, reports of disagreements among regulatory agencies underscore the complexity and far-reaching consequences of this proposal.

The rules need to be properly calibrated to support economic growth and proper regulation and should be amended when they don't meet those goals. Given the magnitude of the proposed changes and their potential impact on the financial system, it is crucial to take the time necessary to get this right, even if that means withdrawing the entire proposal. In light of these considerations, we want to highlight additional areas of concern, particularly regarding asset-based lending (ABL).

ABL lending plays a critical role for many U.S. businesses, particularly small and medium-sized enterprises that may not have access to other sources of credit. ABL provides these businesses with vital working capital to run daily operations and grow their businesses. This type of lending is also essential in times of economic stress, offering a solution at a time when some companies otherwise may not be able to obtain financing while still providing lenders with a way to manage risk. With a market size of over half a trillion dollars in outstanding loans, the importance of ABL cannot be overlooked.

ABL refers to working capital loans secured by highly liquid collateral, such as receivables and inventory, and to a lesser extent, other valuable collateral like equipment. These facilities are highly flexible and minimize the risk of loss given default, allowing borrowers to access capital as needed to match the demands of their businesses. The relative safety of asset-based loans is well-documented, with a long history of lower credit risks due to the high liquidity and reliability of the collateral involved.

However, the proposed rule poses significant challenges. The pre-Basel III regulatory framework permitted flexibility in capital calculations, recognizing the impact of nonfinancial collateral. The proposed rule eliminates this flexibility, failing to account for the risk mitigation provided by highly liquid nonfinancial collateral such as receivables and inventory. This oversight will likely increase the overall capital required for regulatory purposes, particularly for asset-based loans, and may discourage banks from extending such loans, limiting the options available to U.S. businesses and potentially forcing them to borrow from less regulated sources of credit.

The unintended consequences of the proposed rule are deeply concerning. Limiting the credit options available to companies will increase the cost of credit and will seriously harm U.S. small and medium-sized businesses that rely on ABL financing.

At a minimum, we urge your agencies to conduct a deeper analysis of data from this segment of the market to develop a nuanced understanding of the true risk of ABL and its long-standing history of minimal loss performance. Some commenters stand ready to provide any additional information required to properly conduct this evaluation.

Given the complexity of these issues and the potential for significant economic impact, we strongly recommend that your agencies consider withdrawing the current Basel III Endgame proposal and starting anew. This would allow for a fresh, comprehensive approach that fully accounts for the concerns raised by various stakeholders, including those related to ABL.

It is crucial that any potential regulatory changes be based on sound, objective analysis supported by data, not driven by artificial timelines or political pressures. Engaging thoroughly with Congress, industry stakeholders, and the talented pool of analysts within your agencies will allow you to arrive at justifiable regulatory changes that address real problems and adhere to your missions of promoting safety, soundness, and stability in the financial system.

We want to emphasize that we are not advocating for rushed implementation. On the contrary, we believe that careful, deliberate consideration is paramount, even if it means significantly extending the timeline or reconsidering the approach entirely. The stability and efficiency of our financial system are too important to be jeopardized by hastily implemented rules.

We look forward to your response and to continuing our dialogue on this critical issue. Please keep us informed of any developments or changes in your approach to this proposed rule.


Sincerely,



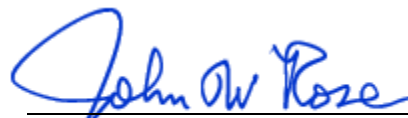
Young Kim
Member of Congress




Bill Huizenga
Member of Congress



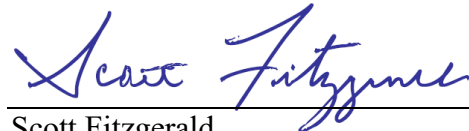
Roger Williams
Member of Congress



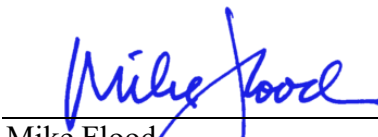
John Rose
Member of Congress



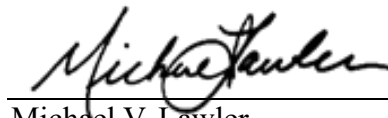
Dan Meuser
Member of Congress



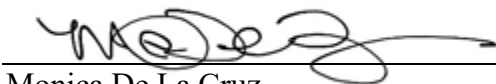
Scott Fitzgerald
Member of Congress



Mike Flood
Member of Congress



Michael V. Lawler
Member of Congress



Monica De La Cruz
Member of Congress

cc: Mark Van Der Weide (General Counsel, Board of Governors of the Federal Reserve System)
Harrel Pettway (General Counsel, Federal Deposit Insurance Corporation)
Benjamin McDonough (Chief Counsel, Office of the Comptroller of the Currency)