
Issue Update

It is critically important that banks' capital levels be correctly calibrated to provide an adequate cushion against risk and losses, while also allowing banks to remain competitive sources of credit for their communities. Capital serves as a cushion to help banks absorb unanticipated losses of all kinds, protecting bank customers and allowing banks to provide ongoing services. However, excessive capital levels impose a cost. Increasing required capital will act as a constraint on credit growth and bank innovation and could hinder adjustment to changing business conditions, so proper calibration is essential.

In July 2023, the banking agencies proposed Basel III Endgame, which would have ushered in the most radical transformation of bank regulation in the last decade. This proposal is now defunct, but we anticipate a revised proposal during the first half of 2026. ABA commented that the 2023 proposal was unworkable, and many voices beyond the banking sector – users of credit and other banking services – also concluded that it was a mistake.

Why It Matters

Banks are highly capitalized and resilient, and additional capital is unwarranted. In recent years regulators have continually recognized that the banking industry is safe, resilient, and highly capitalized. It's worth recalling the negative aspects of the 2023 proposal:

It would have negatively affected borrowers, businesses, and the capital markets. The proposal would have raised capital requirements (in excess of 25% for some institutions), limiting the availability and increasing the costs of bank products and services including:

- **Negatively impacting housing finance and homeownership**, particularly for first-time or low-income home buyers who often have high loan-to-value ratios.
- **Negatively impacting farmers, ranchers, and other agricultural end-users** who hedge commodity price risks with banks.
- **Negatively impacting small businesses** because the proposal favored larger companies that have access to capital markets.

The proposal was developed without adequate economic analysis. The proposal failed to justify significant increases in capital or to assess the significant associated costs.

The proposal would have reversed regulatory tailoring by applying a one-size-fits-all standard to all banks above \$100 billion in assets.

Increasing capital requirements would have driven credit demand even further to the less regulated nonbank sector. These nonbanks are not subject to any robust capital requirements, and as economic conditions worsen over the course of a business cycle, they will not be able to absorb the shocks and continue providing credit to businesses and households. This would have adversely affected the economic resiliency of the U.S. economy.

Recommended Action Items

- **Ask your congressional delegation to exercise vital oversight regarding the costs and benefits of bank capital proposals when they are issued, which must be supported by deeper analysis of potential unintended consequences.** Regulatory capital promotes a safe and resilient banking system, but requiring too much capital comes at a cost to consumers, businesses, and the economy.

Basel III Endgame – Unintended and Unjustified Consequences

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2023 Proposed Changes That Would Have Hurt Customers and Communities

Issue	Proposed Change	Customers Negatively Impacted
Mortgage Treatment	Increases capital requirements based on a borrower's Loan-to-Value ratio	Mortgage borrowers, particularly lower-income and first-time home buyers
Equity Treatment	Raises capital requirements for certain legislatively mandated programs	Renewable energy infrastructure companies and future users
Mortgage Servicing	Increases regional bank capital requirements for mortgage servicing	Mortgage borrowers, as regional banks will likely reduce or exit the servicing business
Determination of Investment Grade	Lowers capital requirements for loans to investment grade entities – but only if publicly listed	Non publicly listed companies like small- and medium-sized businesses that are not public companies, mutual funds, and pension funds
Operational Risk	Introduces an operational risk framework	All banking activity is impacted but fee-based activities like custody, wealth management services, and securities underwriting, will be disproportionately impacted, areas where U.S. banks dominate
Credit Value Adjustment	Captures credit deterioration of derivative counterparties, but does not include end-user exemption	Any business using banks to hedge their risks: <ul style="list-style-type: none"> - Corporations, e.g. airlines, hedging business and operating risks - Pension plans hedging interest rate risk - Farmers hedging commodity risk
Securitization Treatment	Raises capital requirements on most securitizations, including credit linked notes	Companies, like smaller banks, that use credit linked notes or other securitizations to allocate risk Borrowers whose financing depends on securitization markets
Fundamental Review of the Trading Book	Rewrite of how market risks are calculated, resulting in higher capital requirements	Corporations, pension funds, municipalities, and insurance companies hedging risks and managing investment activities
Trade Finance	Significant implications for the bank-related provisions of trade financing for goods and services	US exporters, agriculture, commodities, US-based global contractors, small-and medium-sized enterprises engaged in international trade