

# Christopher Whalen: Basel III Tweaks Won't Bring Banks Back to Mortgages as Risks Shift Outside the System

*Christopher Whalen warns Basel III tweaks won't bring banks back to mortgages as Fed policy and regulation push risk into nonbank lenders.*

ESTERO, FL, UNITED STATES, May 15, 2026 /EINPresswire.com/ -- Regulators may be rewriting the capital rulebook, but the structure of the U.S. mortgage market has already moved on.

In new comments submitted to the Federal Reserve, veteran bank analyst Christopher Whalen warns that proposed Basel III changes are unlikely to reverse a decade-long retreat by banks from residential lending, leaving the system increasingly dependent on nonbank players.

"Banks didn't exit mortgages because of one rule," says Whalen, Chairman of Whalen Global Advisors and publisher of [The Institutional Risk Analyst](#). "They left because returns fell, costs rose, and the risk environment became far more complex."

Since the financial crisis, banks have steadily pulled back from holding residential loans, mortgage-backed securities, and servicing assets. In their place, independent mortgage banks (IMBs) have surged to dominate the market, now controlling roughly two-thirds of mortgage origination and servicing.

That shift was not accidental.

Years of Federal Reserve intervention, especially quantitative easing, suppressed mortgage yields and flooded the system with low-coupon, long-duration assets that are unattractive for banks to hold. At the same time, government-backed housing finance lowered returns even further, while regulatory and legal risks made the business more expensive and operationally complex.

The result is a market that looks stable on the surface, but is structurally very different underneath.



Christopher Whalen

“Once QE ended, the economics for nonbank lenders deteriorated sharply,” Whalen notes, pointing to declining profitability across the IMB sector and a shrinking pool of viable participants.

In a higher-rate, lower-volume environment, Whalen warns that policymakers may be facing a slow consolidation of mortgage activity into a handful of large nonbank firms, raising questions about resilience in a future downturn.

Against this backdrop, regulators are proposing changes to how banks hold capital against mortgage assets, including mortgage servicing rights (MSAs). But Whalen argues these adjustments risk missing the bigger picture.

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The letter also flags inconsistencies in how regulators treat similar mortgage exposures. Certain off-balance-sheet structures can receive more favorable capital treatment than comparable on-balance-sheet loans, potentially encouraging financial engineering rather than improving safety.

At the same time, the proposal leans heavily on loan-to-value ratios as a measure of risk. But Whalen cautions that rising home prices over the past decade have artificially lowered LTVs, potentially masking underlying credit risk

rather than reducing it.

In other words, the system may look safer on paper, even as underlying dynamics grow more complex.

Whalen calls for a more fundamental rethink of mortgage regulation, including aligning capital rules with actual collateral risk, revisiting the treatment of servicing assets, and addressing the growing disconnect between bank regulation and the realities of modern housing finance. More broadly, the letter underscores a larger shift already underway.

Banks are no longer the center of the U.S. mortgage market. Nonbanks are. And unless the economics change, that reality is unlikely to reverse.

Whalen Global Advisors’ full comment letter is available upon request.

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Whalen Global Advisors LLC (WGA) is a Florida-based consulting, risk analytics and publishing company focused on the intersection of financial institutions, credit markets, and global macro

risk. WGA publishes The Institutional Risk Analyst, the IRA Bank Book quarterly review, and the widely followed [WGA Top Bank](#) and Top Precious Metals rankings. For additional information, please contact us at: [info@rcwhalen.com](mailto:info@rcwhalen.com)

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