



Our interest is **you**

Carl J. Sjulín
President

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Submitted Electronically

Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219
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Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
FRB Docket No. R-1876 and RIN 7100-AH08

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
FDIC RIN 3064-AG17

***RE: Revisions to the Community Bank Leverage Ratio
Eliminating the 25% Cap on MSAs***

Ladies and Gentlemen:

We are writing to provide comments on the NPR regarding the CBLR framework. We strongly support the proposal to lower the CBLR threshold from 9% to 8% and extend the grace period to four quarters. **In addition, we urge the agencies to utilize this rulemaking to eliminate the current 25% Mortgage Servicing Asset (MSA) cap from CBLR.**

MSAs Are Effectively Regulated Through the Examination Process

MSAs are already subject to rigorous oversight through the safety and soundness examination process. Examiners have the authority to require that MSAs be hedged, charged down, or sold in whole or in part based on an institution's specific risk profile. Furthermore, banks often utilize

third-party MSA advisory firms to ensure accurate valuations and sophisticated risk management. Utilizing granular, risk-based supervision is more effective than the current “one size fits all” formula that regulates via autopilot.

Mortgage Servicing Is NOT Risky

The agencies' own 2016 Joint Report to Congress on MSAs supports the removal of the punitive MSA cap. The report's analysis of banking institution failures indicated that MSAs were not a significant risk factor to the Deposit Insurance Fund (DIF). The agencies previously determined that the MSA cap could be removed without any adverse effect on the DIF. This admission underscores that mortgage servicing is a safe activity that does not warrant a punitive cap.

Migration of Servicing to Non-Bank Entities

Basel III's punitive treatment of MSAs has caused a massive migration of mortgage servicing from highly regulated banks to non-banks that are effectively unregulated. The share of home mortgages serviced by non-banks rose from approximately 12% in 2012 to 61% by 2025, more than a **500%** increase. These non-bank entities operate under different capital standards, lack the enterprise-wide liquidity requirements inherent in banks, and are increasingly located offshore. Consumers lose when mortgage servicing is forced out of the banking system.

Benefits of Bank-Retained Servicing

Retaining servicing rights allows community banks to maintain long-term relationships with their customers where they provide personal service and streamlined assistance for modifications and refinancing. Additionally, community banks benefit from the stable annuity of fee income and the float on escrow deposits which support their ability to provide credit and reinvest back into their local communities.

The Cap Prevents the Scale Required for Servicing

Mortgage servicing is a scale business. The MSA cap discriminates against small community banks by preventing them from reaching the critical mass of customers needed to invest in servicing technology and specialized staff. Forcing community banks to operate at small scale harms their competency, profitability and ultimately kills the viability of servicing mortgages.

Eliminating the Cap Is Consistent With Regulatory and Congressional Intent

The MSA cap dates back to Basel III which was intended to apply *only* to the world's largest banks. For whatever reason, U.S. regulators decided to apply Basel III to *all* banks. Years later regulators inexplicably extended the MSA cap to CBLR. This cut and paste exercise is the

ultimate example of “one size fits all” regulation that makes no sense for CBLR given the limited risks of small, strong and non-complex community banks.

More fundamentally, the Congressional mandate in EGRRCPA is for CBLR is to be a capital simplification rule for small community banks, yet CBLR incorporates a foreign Basel III concept designed for SIFIs that caused the mortgage crisis. ***The proposed rule should correct the missed opportunity to cut the cord on the Basel III cap that is wholly inapplicable to CBLR banks and contrary to Congressional intent.***

Conclusion

The MSA cap poses a significant impediment for small community banks to competitively finance the purchase of their customers’ home—the most important financial transaction most people ever undertake. Home ownership is the American Dream, and CBLR banks are a perfect partner for servicing those mortgages. It is bad public policy to forcibly disconnect customers from their local community bank. Regulators should correct this mistake. Thank you.

Respectfully submitted,



Carl J. Sjulín, Sr.
President