LINCOLN
Highway 2 & Old Cheney Road
1204 West O
27th & Old Cheney Road
17th & South
84th & Holdrege
27th & Cornhusker Highway
50th & O

OMAHA
180th & Pacific
97th & Q
10th & Cornhusker Road

WEST GATE BANK®

Our interest is ***you***

Carl J. Sjulin
President

January 24, 2020

Via Electronic Submission: comments@fdic.gov

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: **RIN 3064-ZA13 (FDIC)**
Effect of 25% MSA Cap in CBLR

Dear FDIC:

Thank you for requesting information on CBLR. We appreciate the opportunity to tell the story of the impact of the 25% mortgage servicing asset ("MSA") cap in CBLR on small community banks like West Gate Bank that service their customers' mortgages. The 25% cap is a holdover from Basel III that has nothing to do with the risk presented at small community banks in the United States. CBLR was a missed opportunity for regulators to cut the cord on Basel III concepts (such as a low MSA cap) that are inapplicable to well-capitalized community banks.

Here is a 12-31-19 snapshot of West Gate Bank and our mortgage servicing metrics:

- $734 mil assets
- 10 branches in Lincoln and Omaha, Nebraska
- Traditional community bank/family owned for 52 years/active mortgage division
- $80 mil in capital
- $19 mil MSA
- Service 15,000 mortgage loans/$2.3 bil UPB
- $153,000 average mortgage balance reflecting Midwest non-urban market
- Retaining servicing is important to our customers and key to our mortgage model
- All organic growth through mortgages originated by West Gate Bank (no PMSRs)
- Only 28 mortgage loans more than 90 days past due/high grade portfolio
- Outstanding ratings from prudential regulators, auditors and Fannie for mortgage servicing

Large mortgage servicing companies do not want to service small mortgages in rural areas. Without a local servicer like West Gate Bank, the cost of mortgage credit to consumers will increase. Consumers would also lose the personal customer service that is best provided by the originating bank—including handling their escrows for taxes, insurance and storm damages.

THE 25% CAP PREVENTS THE SCALE REQUIRED FOR MORTGAGE SERVICING

- Mortgage servicing is a scale business that requires a critical mass to perform properly
- Servicing requires significant up-front investments in specialized software, compliance, IT and training to satisfy the multitude of compliance, regulatory and investor requirements
- The CBLR 25% cap is **unreasonably low and discriminates** against small community banks given their limited capital base
- No small community bank can service mortgages to the scale required to do the job correctly with the 25% cap in CBLR. West Gate Bank can only service 16,000 mortgage loans before reaching the 25% cap
- Community banks that service **larger** mortgages will reach the 25% cap even faster further limiting the number of mortgages they can service

THE 25% CAP SHOULD BE INCREASED TO AT LEAST 50%

- In light of their relatively small capital base, community banks need the ability to include MSAs up to **at least 50% of capital**. This is still a substantial reduction from the 100% cap in Basel II which caused no material losses for the FDIC insurance fund based on the 2016 Joint Regulatory Report to Congress on MSAs (*see* page 13 citing only one bank failure since 2007 due to mortgage servicing and only 3 failures where MSAs were a "factor")
- Based on the CBLR requirements of 9% Tier One Leverage capital, any losses to the fund from MSAs at community banks would be *infinitesimal*
- **Basel III uses the same 25% cap** for large/complex banks; it only makes sense to increase the MSA cap in CBLR to at least 50%

THE 25% CAP IS BAD PUBLIC POLICY

- Isolating mortgage servicing with punitive capital rules is bad public policy that **disconnects customers from their local community bank**
- The cap is inconsistent with our **CRA mandate**
- Forcing the sale/transfer of servicing **raises costs to consumers and reduces choice**
- MSA values can be effectively **regulated through the exam process**. There are metrics to evaluate the quality and value of MSRs just like a loan. The MSA value can be charged down like any other bank asset
- **Servicing is not a risky business activity**. Processing payments is the easiest and safest thing we do, and we have a natural hedge against prepayments through repeat business from the same customers
- There is no need for such arbitrary macro limitations that attempt to manage an entire banking activity via autopilot. This leads to unfair and discriminatory results that are contrary to the purpose and spirit of the enabling legislation S. 2155
- Mortgage servicing provides an **excellent ALM hedge** against rising interest rates. The 25% cap prevents WGB from fully utilizing the best natural hedge tool available
- Servicing also is an excellence source of **escrow deposits** that are best processed and reinvested by community banks back into their local economy

- Small community banks need to retain mortgage servicing to **compete effectively** against large national non-banks. Offering local servicing is a differentiator for community banks that is valued by our customers
- By Congressional mandate, CBLR is supposed to be a **simplification** rule for **small community** banks, yet CBLR incorporates a foreign Basel III concept intended for the systemically important mega banks that caused the mortgage crisis

An MSA cap of less than 50% poses a significant impediment for community banks to competitively finance the purchase of their customers' home—the most important financial transaction most customers ever undertake. Home ownership is the American Dream, and local community banks are a perfect partner for servicing those mortgages. The 25% MSR cap in CBLR needs to be raised in order to foster this partnership.

Sincerely,

Carl J. Sjulin
Chairman, President and CEO

Fdic letter on CBLR 2020/cjs/H