

WEST GATE BANK, CARL J. SJULIN, SR.

Proposal and Comment Information

Title: Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations, R-1887

Comment ID: FR-2026-0007-01-C18

Submitter Information

Organization Name: West Gate Bank

Organization Type: Company

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Submitted Date: 06/11/2026

See attached letter.

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**WEST GATE BANK®***Our interest is you*

Carl J. Sjulín
President

June 11, 2026

Submitted Electronically

Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219
OCC-2026-0265

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
FRB Docket No. R-1887 and RIN 7100-AH20

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
FDIC RIN 3064-AF29

RE: Risk Weight Revisions to NPR on Regulatory Capital Rules

Dear Sir/Madam:

Thank you for the opportunity to comment on the above-referenced NPR. West Gate Bank is a small community bank with 10 branches in Nebraska and \$1.4B in assets. We service 25,000 mortgage loans (\$5B in UPB). West Gate Bank has elected fair value for our \$60 mil MSA which we mark utilizing an independent MSA valuation firm. West Gate Bank hedges our MSA to address interest rate, prepayment and other risks. Our customers value the bank's personal white glove servicing model—something that is rare in mortgage servicing these days.

West Gate Bank respectfully requests two changes to the NPR: 1) the 250% RW for MSAs should be returned to 100% for community banks; and 2) the 100% RW for mortgage warehouse lending should be reduced to 50%.



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SECTION 8 OF THE PRESIDENTIAL EO DIRECTS THE AGENCIES TO PROMOTE MORTGAGE SERVICING

- Section 8 of the President's Executive Order "Promoting Access to Mortgage Credit" dated March 13, 2026 (the "Presidential EO") directs bank regulatory agencies to promulgate rules to *"support portfolio mortgage servicing as a core community banking function . . . issue a proposed rule providing exemptions from complex mortgage services for smaller banks...."*
- The NPR's elimination of the 25% MSA cap is a positive first step in achieving this directive, but the retention of the Basel III 250% RW (which was never intended for community banks) is contrary to the Presidential EO
- Rather than promoting mortgage servicing, the 250% RW *discourages* community banks from retaining servicing on the mortgages they originate

THE MIGRATION OF SERVICING TO NON-BANKS DEMONSTRATES THE IMPACT OF THE 250% RW

- The 250% RW has been cited by Vice-Chairman for Supervision Bowman as recently as her June 4, 2026 testimony before the House Financial Services Committee ("Bowman's Testimony") as well as the Financial Stability Oversight Council ("FSOC") as a primary contributor to the migration of mortgage servicing from depository institutions to non-banks
- The share of home mortgages serviced by non-banks rose from 12% in 2012 to 61% by 2025 as a direct result of the 250% RW
- Mortgage servicing by community banks will continue to decline without a reduction of the RW to 100%

THE 250% RW 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 250% RW is **unreasonably high and discriminates** against community banks given their limited capital base
- 83% of banks hold no MSAs due to the 250% RW
- Community banks will never allocate material capital to a 250% RW asset when it can hold *five times* as many portfolio mortgages and *12 times* as many bonds with the same capital charge

MSAs CAN BE EFFECTIVELY REGULATED THROUGH EXAMINATIONS

- MSAs are subject to rigorous oversight through safety and soundness examination
- Examiners have the authority to require MSAs be hedged, charged down, or sold based on an institution's specific risk profile
- Banks engage in MSA hedging and utilize sophisticated interest rate and prepayment risk management that reduces volatility
- Third-party valuation firms provide fair value marks that flow through the income statement and are captured in capital thereby eliminating the need for a 250% RW that effectively double counts the same risk
- Utilizing granular, risk-based supervision is more effective than a “one size fits all” RW
- Per Bowman’s Testimony, risk weights should be *“calibrated using a bottom-up review of each capital element, not by reverse engineering capital requirements to reach a predetermined outcome.”*
- The 250% RW is an erroneous autopilot that is unnecessarily driving servicing out of community banks

MSAs DO NOT WARRANT A TOXIC 250% RW

- The agencies' own 2016 Joint Report to Congress on MSAs supports the removal of the 250% RW. The report’s analysis of the 518 bank failures between 2007 and 2015 revealed that only 66 held MSAs and only one instance when MSAs were a “significant factor”
- MSAs do not pose a material risk to the Deposit Insurance Fund (“DIF”), yet the 250% RW suggests servicing is the most toxic activity a bank can undertake
- MSAs had a RW of 100% for years under the original Basel I framework without any issues or DIF losses
- The increase to 250% in 2013 was intended to push servicing out of the SIFIs that caused the mortgage crisis. There was no data to support extending the RW to community banks
- Today’s MSA market is actively traded with deep market infrastructure that yields readily observable values and real time transparency for MSA marks
- The punitive 250% RW is disproportionate to the risk profile of the asset and inconsistent with MSA historical performance, valuation discipline, and realized loss experience
- The 250% RW fails the *“risk-based tailoring”* goal highlighted in Bowman’s Testimony

THE 250% RW IS BAD PUBLIC POLICY

- Per Bowman’s Testimony: *“Because mortgage origination and servicing are a critical part of the customer relationships that underpin the community bank business model, appropriately calibrating risk weighting for these activities will encourage community banks to return to providing these foundational services.”*

- An appropriate calibration of the RW for servicing must reflect the absence of credit risk and the tools banks utilize to mitigate the risk profile of MSAs including hedging and MTM valuations
- Forcing the sale/transfer of servicing **raises costs to consumers and reduces choice**
- Servicing provides an **excellent ALM hedge** against rising interest rates
- Servicing is an excellence source of **escrow deposits** that are best processed and reinvested by community banks back into their local economy
- Community banks need to retain mortgage servicing to **compete effectively** against non-banks
- The NPR elimination of the 25% MSA cap is an excellent first step towards correcting regulatory capital policy; lowering the RW to 100% is needed to complete the job for community banks

THE RW ON MORTGAGE WAREHOUSE LOANS SHOULD BE REDUCED TO 50%

- The NPR continues to assign a 100% RW to mortgage warehouse loans even though the same mortgage loan, if held directly on the bank's balance sheet, would have a 50% RW (or less under the new RRE LTV grid)
- A mortgage warehouse loan acts as a repurchase transaction where the bank provides funding for the IMB's mortgage origination and takes possession of the financial collateral until the loan is repaid when sold to the GSE
- During this short two week period, the mortgages are presold to the GSEs and awaiting settlement; the bank is assured of collectability because of its ability to take control of the collateral and deliver it to the investor
- Interest rate and credit risk are significantly lower in warehouse transactions than for loans held directly on a bank's balance sheet
- Credit losses have been minimal even in the wake of the mortgage crisis
- There is no reasonable basis for imposing a RW twice that of the underlying collateral
- To align capital requirements with actual credit risk the agencies should apply a "look-through" approach rather than treating a warehouse loan as a generic corporate exposure

Respectfully submitted,



Carl J. Sjulín, Sr.
President