

# FIRST FEDERAL BANK, G. DAVID BREWER

## Proposal and Comment Information

**Title:** Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets, R-1888

**Comment ID:** FR-2026-0008-01-C170

## Submitter Information

**Organization Name:** First Federal Bank

**Organization Type:** Company

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see attachment

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**Via Electronic Submission**

Board of Governors of the Federal Reserve System  
Office of the Comptroller of the Currency  
Federal Deposit Insurance Corporation

**Re: Agencies request comment on proposals to modernize the regulatory capital framework and maintain the strength of the banking system “The Proposal”**

While we believe the Basell III “re-proposal” is a step in the right direction we feel the treatment of 250% of risk weight towards Mortgage Servicing Asset (MSA’s or MSR) is still overly punitive to Banks that have effective hedging programs to mitigate the risk.

The Agencies are well aware of the concentration shift of MSAs away from regulated depository institutions to unregulated Independent Mortgage Bankers. Federal Reserve vice chair for supervision Michelle Bowman is quoted

“a significant migration of mortgage origination and servicing out of the banking sector” since the financial crisis. In 2008, banks originated around 60% of mortgages and held the servicing rights on about 95% of mortgage balances; by 2023 those shares fell to 35% and 45% respectively”

This shift over 15 years was caused by several factors, which include the 25% Common equity tier 1 (CET1) capital ratio cap and the risk weighting of 250% of MSA. The current Basel III proposal only addresses one of these factors and leaves the risk weighting to still stand in the way of holding regulated banks from holding MSA’s even if they have programs to hedge the interest rate risk.

MSRs do carry real risk. The Federal reserve consolidated these risks into Valuation Risk (Interest rate, Credit/Default, and Economic Forecast) or Business Risks (Compliance, Reputational). Given the obvious interest rate risk, many Banks opt to Hedge their MSA’s and incorporate Fair Market Value accounting to effectively mitigate the interest rate risk. We believe the 250% risk weighting is overly punitive and treats hedged MSA’s the same way as unhedged MSA’s. This is a critical misstep that ignores the opportunity to align financial stability with the amount of risk being taken.

The current framework still disincentives banks from holding MSA's and will not have much effect unless Hedged MSA's are treated with less risk weighting than non-hedged MSA's. We encourage the reduction in hedged MSA's down from 250% using similar framework to APM-24-12 Where GNMA provides a framework which gives capital credit to non-banks for demonstrating effective MSR hedging. The GNMA framework is not perfect, but it would provide a baseline to start. We would suggest taking the GNMA framework and excluding credit for fair value change due to assumption changes to focus the standard on changes due to interest rates. In addition, make the consistency requirements (4 of 12 of last quarters with at least 1 in last 4) more stringent to prove commitment to an effective hedging program.

In summary, we wish that the proposal was more nuanced to accommodate those who choose to mitigate interest rate risk in MSA's. Banks will be able to better serve the customers and their needs when they are able to retain servicing rather than be forced to part with those relationships in their respective communities. The shift from MSA's moving to unregulated IMB's creates systemic risk for the entire mortgage banking system and goes against the initial intentions of creating a safer Mortgage Banking environment. We fully encourage separate treatment in risk weighting for Hedged and Unhedged MSA's.

Respectfully submitted,

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**FIRST FEDERAL BANK**