

BAYCOAST BANK, CASEY BROUTHERS

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-C238

Submitter Information

Organization Name: BayCoast Bank

Organization Type: Company

Name: Casey Brouthers

Submitted Date: 06/18/2026

Dear Mr. McDonough:

On behalf of BayCoast Bank, please find attached our comment letter regarding the Notice of Proposed Rulemaking titled “Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets” (Docket No. R-1888; RIN 7100-AH21), published March 27, 2026.

We appreciate the opportunity to provide our perspective and would welcome the opportunity to discuss our comments further with Federal Reserve staff.

Please feel free to contact me with any questions.

Respectfully,
Casey N. Brouters
SVP/Chief Risk Officer & General Counsel



June 18, 2026

By Electronic Submission

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219
Docket ID OCC-2026-0034; RIN 1557-AF49

Benjamin W. McDonough, Secretary,
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket No. R-1888; RIN 7100-AH21

Jennifer M. Jones, Deputy Executive Secretary
Attention: Comments – RIN 3064 – AG23
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
RIN3064-AG23

RE: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets [91 Fed. Reg. 15,332, March 27, 2026]

Dear Chief Counsel's Office, Mr. Benjamin W. McDonough, and Ms. Jennifer M. Jones:

On behalf of BayCoast Bank (hereinafter "BayCoast"), we appreciate the opportunity to provide comments on the Joint Notice of Proposed Rulemaking, *Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets*, issued jointly by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the "Agencies"). We support the Agencies' objectives of promoting a resilient banking system, enhancing risk sensitivity, and improving consistency in capital requirements across financial institutions.

BayCoast Bank is a long-standing community bank headquartered in Swansea, Massachusetts with approximately \$2.9 billion in assets. We have twenty-five branch locations, soon to be twenty-six, throughout the Southcoast of Massachusetts and Rhode Island with approximately 550 employees and have been committed to serving our communities since 1851. BayCoast Bank and its mutual holding company, Narragansett Financial Corporation, truly understand the need for capital reform, especially for

mutual institutions across the country, and we strongly support the Agencies' objective to advance a consistent capital framework.

At BayCoast, it is our mission to provide exceptional service and solutions for our community, which includes offering residential and commercial lending opportunities. We believe that strengthening the resiliency within the risk-based capital framework is prudent, and as such, BayCoast petitions the Agencies to take the following actions in connection with the finalization of the Proposed Rule:

1. Finalize the LTV-based risk-weight framework for residential real estate exposures as proposed in the Standardized Approach, ensuring that these granular risk weights are available to all non-Category I/II banking organizations.
2. Reduce the Mortgage Servicing Assets ("MSA") risk weight from 250%.
3. Support recognition of private mortgage insurance ("PMI") in LTV calculations.

First, we would like to note that the LTV-based risk-weight framework in the Proposed Rule is a step in the right direction by offering equal treatment of equal credit risks regardless of an institution's asset size.

However, there are certain elements of the Proposed Rule that we believe will unintentionally disadvantage community-focused financial institutions and impede their ability to lend throughout their communities, which are purported in the above-mentioned petitions (#2 and #3).

#2: Reduce the Mortgage Servicing Assets ("MSA") risk weight from 250%

The Proposed Rule maintains the current 250% risk weight for MSAs. The Agencies specifically sought comments on whether this "appropriately reflects the risk of these assets throughout the economic cycle." Respectfully, but simply stated: **no, it does not** (emphasis added).

As a mutual institution focused on relationship banking and offering lending services to its communities, many of which are in low-to-moderate income areas, we recognize the critical role that residential mortgage lending and servicing plays in supporting sustainable and affordable homeownership. We recognize the risks associated with MSAs, however, a 250% risk weight does not appropriately measure the risks associated with MSAs when the risks associated with MSAs do not relate to credit risk, but rather prepayment risk, interest rate risk, and basis/valuation risk. If the 250% risk weight remains in effect, it results in MSAs carrying 2.5 times the risk weight compared to commercial and industrial loans that carry direct credit risk. This results in capital requirements that are disproportionately high relative to the underlying risk of the asset, particularly for community banking organizations.

Accordingly, these MSAs, or mortgage servicing rights as we commonly call them, are a lower risk to financial institutions like us, and as such, we believe that the 250% risk weighting is not well aligned with the underlying risk profile relative to other asset classes with elevated credit risk (such as HVCRE exposures). Overall, the current capital treatment for MSAs is inconsistent with the underlying residual risk profile of the asset when compared to other balance sheet exposures that receive materially more favorable capital treatment. Given the lower risk associated with MSAs, we therefore respectfully request that the Agencies consider reducing the MSA risk weight to 100%. Based on how we currently risk weight other assets, such as residential mortgages, we believe a 100% risk weighting is appropriate for MSAs. We would also like to emphasize that we historically have had low delinquency rates (below 0.50% for years) across our portfolios, so the impact on lowering the risk-weight for MSAs would largely benefit

financial institutions, like us, who have strong risk management frameworks and also perform regular reviews and ongoing monitoring of MSAs. Without reducing the 250% risk weighting to 100%, it disincentivizes financial institutions from engaging in mortgage servicing activities, which in turn negatively impacts the communities we set out to support.

This calibration may also discourage the retention of servicing assets on balance sheet, potentially shifting servicing activity away from regulated institutions and weakening alignment between loan origination and borrower servicing.

#3: Support recognition of private mortgage insurance (“PMI”) in LTV calculations

The Proposed Rule does not fully incorporate PMI as a mitigating factor in determining risk weights for residential real estate and commercial real estate (CRE) loans. BayCoast supports recognizing PMI coverage in an LTV ratio for purposes of risk weight determination, subject to appropriate eligibility standards for the mortgage insurer.

PMI has historically been recognized as an effective risk mitigant by transferring a meaningful portion of loss exposure to well-capitalized, highly regulated insurers. By excluding PMI as a mitigating factor in determining risk weights, it may result in capital requirements that overstate economic risk. In particular, the framework’s reliance on gross LTV without adjustment for PMI coverage may fail to capture the reduction in loss severity achieved through insurance protection. As a result, the Proposed Rule may weaken the economic incentive to originate loans supported by PMI—despite its demonstrated role in absorbing losses—and create a disconnect between regulatory capital requirements and the true risk profile of insured residential mortgage assets.

BayCoast strongly supports the Agencies’ effort in introducing a more granular, LTV-based approach to risk weighting residential real estate exposures. We believe this refinement represents a meaningful improvement over the existing framework and, if appropriately calibrated, will enhance risk sensitivity and better align capital outcomes with portfolio characteristics. For mutual institutions like us, which have limited access to external capital markets, improvements in the precision and stability of capital requirements are especially important.

With this said, while LTV can be a useful measure of risk, it is not, and should not be, on its own, the sole predictor of credit performance. The Proposed Rule seemingly lacks emphasis on other critical and empirically supported risk factors, such as borrower credit quality, debt-to-income ratios, and other underwriting metrics that serve as risk mitigants. While we appreciate the standardized framework, the lack of inclusion of these additional risk factors may result in risk weights that do not fully reflect the strength of prudently underwritten loans.

An approach that predominantly relies on LTV may result in unintended consequences, such as reducing incentives to originate responsibly structured, higher-LTV loans (such as those we currently offer to serve first-time homebuyers and low-to-moderate income borrowers who rely on PMI to obtain their housing). Financial institutions like us that operate under a mutual holding company face structural challenges that differ significantly from larger, public institutions, which typically have broader access to external capital markets. These structural challenges include more limited access to capital markets, which, under the Proposed Rule, could have an unintended impact on limiting credit availability within our local communities (such as first time homebuyers and low-to-moderate income communities who are more likely to utilize higher-LTV loans with PMI). Without the appropriate calibration, the Proposed Rule

paired with our structural challenges as a mutual institution and limited access to capital could disproportionately impact institutions like ours that have served our communities for 175 years.

While the Proposed Rule does not specifically address CRE exposures, we believe similar recognition should be considered for functionally comparable credit risk transfer structures in commercial real estate exposures.

In summary, we respectfully encourage the Agencies to consider the following modifications to the Proposed Rule:

1. Finalize the LTV-based risk-weight framework for residential real estate exposures as proposed in the Standardized Approach for all non-Category I/II banking organizations.
2. Reduce the MSA risk weight from 250% to 100% to better align with the risk of the asset.
3. Recognize PMI as an eligible credit risk mitigant within the Standardized Approach, reflecting its demonstrated capacity to absorb losses and reduce exposure severity on higher-LTV residential mortgage loans.
4. Incorporate a more comprehensive risk assessment framework that extends beyond LTV, including consideration of borrower credit characteristics and underwriting quality, to better align capital requirements with observed credit performance.
5. Conduct impact analysis on how the proposal may affect mortgage availability, particularly for low-to-moderate-income and first-time homebuyers.
6. Recalibrate the Proposed Rule to avoid disproportionate impacts on community and mutual banking organizations, taking into account their conservative underwriting practices, relationship-based lending models, and limited access to external sources of capital.

We commend the Agencies for their work to enhance the regulatory capital framework and promote financial stability, and we are broadly supportive of the proposed changes. We respectfully submit that the additional recommendations described herein are necessary to ensure the framework appropriately aligns capital requirements with actual credit risk and does not inadvertently limit the capacity of mutual holding companies and community banking organizations to meet the needs of the communities they serve.

BayCoast stands ready to engage with the Agencies throughout the Proposed Rulemaking process, and we welcome the opportunity to provide additional insight into the Proposed Rule and its impact on us and our communities.

Respectfully submitted,

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Casey N. Brouthers
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