66 FEDERAL CREDIT UNION
A Better Way to Bank

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December 22, 2011

Federal Housing Finance Agency (FHFA)
1700 G Street, NW
4th Floor
Washington, DC 20552

Re: Comments regarding "Alternative Mortgage Servicing Compensation Discussion Paper"

Dear Sir or Madam,

66 Federal Credit Union (66FCU) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) "Alternative Mortgage Servicing Compensation Discussion Paper". This letter represents 66 FCU's views on the alternative servicing compensation proposals. By way of background, 66 FCU has balance sheet assets of approximately $600 million dollars and 53,000 members. We have branch locations in Oklahoma, Kansas, Arkansas and Texas. We service $400 million dollars made up of 3,600 loans for Freddie Mac in addition to our on balance sheet assets.

The Discussion Paper outlines two possible alternative servicing compensation proposals for public consideration and comment:

1. "Reserve account": Establish a reserve account within the current servicing compensation structure, in which case the minimum servicing fee would be reduced from today's 25 basis point minimum to a minimum of between 12.5 and 20 basis points, with an additional reserve amount of between 3 and 5 basis points set aside in a reserve account; or

2. "Fee for Service": Create a new compensation structure, where the guarantor would pay a set dollar fee per loan for servicing (effectively tying the compensation to the number of loans being serviced rather than the size of the loans). This would be funded by a master servicing strip collected by the guarantor from interest payments paid by the borrowers.

While the objectives outlined in the proposal are to:
- Improve service for borrowers.
- Reduce financial risk to servicers.
- Provide flexibility for guarantors to better manage non-performing loans.
- Promote liquidity in the mortgage securities market.

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66 Federal Credit Union has significant concerns with the proposals because 66 FCU does not believe that the Discussion Paper adequately describes the proposals in sufficient detail; 66FCU believes that any change in the mortgage servicing compensation structure is unnecessary and inappropriate at this time; and the proposed changes will have the effect of consolidating the servicing industry even further eliminating more smaller servicers.

Before any servicing compensation proposal can be viewed as a realistic alternative to today's model, 66FCU and its members urge FHFA to release further details on each proposal. 66 FCU and other industry participants need to fully understand the specifics of each proposal – for example, how would each model be implemented, would current loans be grandfathered, what are the accounting effects of the proposals (e.g., the effect of each on originator/seller compensation and on the value of the securities sold to the GSEs), and what are the potential impacts on these proposals of Congress's proposed guarantee fee increases? 66 FCU also urges FHFA to release further details on any servicing standards that would be tied to these compensation proposals, prior to altering the current compensation model.

66 FCU prefers no change in the servicing compensation structure, unless the proposals and their likely effects are properly laid out in detail in advance – and industry participants are given a sufficient amount of time to comment on the details of the proposals. Given the uncertain future of the GSEs (both of which remain in conservatorship) as well efforts by various agencies, legislators, and Attorneys General to create national servicing standards, any change in mortgage servicing compensation would be inappropriate at this time.

66 FCU believes the standards imposed by any new FHFA servicing compensation structure are likely to be short-lived pending the outcome of the GSE conservatorships. 66FCU believes it is therefore premature for FHFA to introduce any change to the servicing compensation structure before (1) the future of the GSEs is determined and (2) national servicing standards are successfully developed and implemented. To do so may well have a disruptive effect on the already fragile housing market across the country. Additionally, due to the lack of substantive detail surrounding the accounting and cash flow impacts of the proposals, as discussed above, there could conceivably be many unintended consequences attached to implementing either of the proposed approaches prior to the creation of any national servicing standards for the industry.

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66 FCU is also concerned that FHFA's servicing compensation proposals could have the effect of significantly reducing competition in the servicing market. Lowering servicing compensation below the current 25 bps level could reduce the number of players in the servicing market to a select few large servicers with significant economies of scale. It is these very large servicers that have contributed many of the problems created over the past few years.

Regardless of whether credit unions sell the mortgages they originate or keep them on portfolio, many credit unions retain the mortgage servicing rights (MSRs). Retaining MSRs is vital to maintaining a strong relationship with a credit union's members, as its members are its owners. Unlike a for-profit bank or servicer, a credit union's relationship with its member-owners forms the core of its existence.

Additionally, for small servicers acting only in the servicing business, reducing the servicing fee below 25 bps could threaten their existence and/or act as a barrier to entry in the servicing market. It will be difficult for small servicers to break even under either of FHFA's proposed models. Only large servicers with significant economies of scale will be able to profitably service loans, which will likely lead to consolidation in the industry, thereby substantially reducing competition in the market for servicing. If fewer servicers are responsible for servicing a larger number of loans, it will likely diminish service to borrowers – precisely the opposite result from the FHFA's goal.

With delinquency rates at a fraction of those of the major banks, in part because of their excellent servicing levels, credit unions have not experienced the same servicing issues that plagued the large banks and servicers during the financial crisis. Therefore, even though the compensation models set forth in the Discussion Paper are not aimed directly at credit unions or small servicers, they could have an unjustifiably negative impact on their hard-earned servicing revenues.

Sincerely,

Mark Wilburn

Mark Wilburn
Senior Vice President
Chief Lending Officer
66 Federal Credit Union