
FEDERAL HOUSING FINANCE AGENCY



NEWS RELEASE

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FHFA Announces Joint Initiative to Consider Alternatives for a New Mortgage Servicing Compensation Structure

Washington, DC – The Federal Housing Finance Agency (FHFA) has directed Fannie Mae and Freddie Mac to work on a joint initiative, in coordination with FHFA and the Department of Housing and Urban Development (HUD), to consider alternatives for future mortgage servicing structures and servicing compensation for their single-family mortgage loans.

Currently, a servicer's compensation is generally based on a minimum servicing fee that is part of the mortgage rate, which decreases the flexibility necessary for optimal servicing of non-performing loans from both the borrowers' and guarantors' perspectives. The current servicing compensation structure also results in the creation of a mortgage servicing right asset, which is difficult to manage and separate from a servicer's core competency of servicing mortgage loans.

The joint initiative announced today will consider alternatives to the traditional servicing compensation structure. The goals are to improve service for borrowers, reduce financial risk to servicers, and provide flexibility for guarantors to better manage non-performing loans, while promoting continued liquidity in the To Be Announced mortgage securities market. Alternatives for consideration may include a fee for service compensation structure for non-performing loans as well as the possibility of reducing or eliminating the minimum mortgage servicing fee for performing loans, or other structures. Many of these issues have been the subject of discussion within the mortgage industry for years.

“As the recent problems in managing mortgage delinquencies suggest, the current servicing compensation model was not designed for current market conditions,” said FHFA Acting Director Edward J. DeMarco. “The goal of this joint initiative is to explore alternative models for single-family mortgage servicing compensation that better address the needs of borrowers, servicers, originators, investors and guarantors.”

FHFA will coordinate efforts of the initiative over the next several months to gather feedback from the industry, consumer groups and investors, and from other regulators and government agencies. FHFA expects that this effort will lead to a proposal for a new single-family mortgage servicing compensation model that will benefit from broad public input. Any implementation of a new servicing compensation structure would require a significant lead time to ensure that all participants in the mortgage finance process have sufficient time to adjust to any changes. Any such implementation would be prospective in nature and would not be expected to occur before Summer 2012.

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The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than \$5.9 trillion in funding for the U.S. mortgage markets and financial institutions.