CENTRAL MORTGAGE COMPANY

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Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
1700 G Street, N.W., 4th Floor
Washington, D.C. 20552

RE: Comment Letter regarding Servicing Compensation

Dear Mr. DeMarco,

After extensive review and analysis, we have concluded the existing service fee structure is the proper compensation model. Without question, it was strained during the "Great Recession" over the last four years, but remains viable today.

In consideration of the alternative compensation plans recently identified and for which the comment period is open for public feedback, we offer the following response accordingly. Our parent company and subsidiaries is an active market participant in both originating approximately $1.5 billion in new loans annually and servicing in excess of $36 billion of Fannie Mae, Freddie Mac, GNMA and Private MBS Securities. We are an active daily buyer of Mortgage Servicing Rights whereby we provide liquidity through Co-issue, Flow and Bulk Servicing acquisitions of approximately $1 Billion monthly.

The FHFA White Paper offers two compensation alternatives under consideration; a reduced service fee or a pay for service. These compensation alternatives are offered in conjunction with the current existing structure whereas the service fee is negotiated at the point the loan is sold into the secondary market.

In consideration of the fee for service model, it is by far the highest risk while appealing only to those sellers looking to avoid the impact of capitalizing MSRs on their balance sheets. The suggestion of a flat fee, of say $10.00 per month, and higher fee when loans are past due, requires a known "cost to service" not just at the time of sale, but over the lifetime of the loan. As we are all aware, the future costs to service at this time are anything but known. Even the most recent MBA Cost to Service survey showed the average cost for a current loan is $19.38 per month, or nearly twice the proposed fee. New agencies like the CFPB are still in their development phase, and compliance and servicing standards are still being introduced by investors and regulators. Additionally, various new state regulations are still being enacted which will add additional costs over time.

When we analyzed the two alternatives, compared to the existing model, we were able to determine the well intended alternative plans under review would disrupt the servicing

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industry and cause the same type of impact as deregulation on the airline industry a decade ago. We believe our analysis of substituting the lower fee and lower capitalization, which directly affects amortization of the asset, to be an effective representation of the results to the bottom line. In the current low interest rate environment, using the lower fee of 20 basis points would result in a breakeven situation at the current volumes.

In review of the fee for service, while it would change the capitalization impact on the balance sheet, the results create such a loss that questions the viability to remain in the servicing business especially considering the uncertainty of future costs to service.

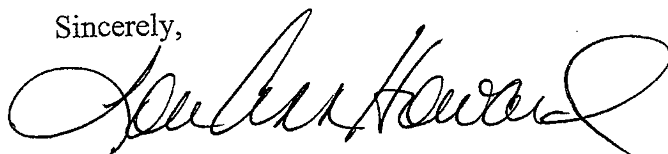
The MSR's impact on the servicer's balance sheet with the Basel III limitations on the percentages that can be counted toward risk based capital requirements (if adopted by the United States) provides reasonable concern. However, we are already seeing a shift in servicing valuations that suggest adjustments are being made pre-Basel III. Additionally, once short-term interest rates move back up, cash flows should also improve which have been stifled by the current Fed monetary policy.

Our conclusion is that the existing servicing fee compensation structure, with all the enhancements already identified, has positioned the industry to be much more viable than to reduce the revenue, which will cause market participants to exit the servicing business in pursuit of other investment alternatives, for return on its precious capital.

The other major risk of making either of the changes being considered is to the investors who will have their servicing concentrated in perhaps only a handful of supersized servicers with worldwide access to less efficient labor costs to handle their MBS investment. The housing industry as we know it would no doubt suffer as well as causing there to be fewer servicers to carry the load during the next potential market disruption.

We would urge that the compensation model in use today remain unchanged as it is working appropriately even with all the new changes ahead of us.

Sincerely,



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