From: Craig.Ahles@gbmail.com
To: #Servicing Compensation
Subject: Alternative Mortgage Servicing Compensation Discussion Paper
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December 26, 2011

Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
1700 G Street, NW, 4th Floor
Washington, DC 20552 edward.demarco@fhfa.gov

Submission to: Servicing_Comp_Public_Comments@FHFA.gov

Re: *Alternative Mortgage Servicing Compensation Discussion Paper*

Dear Mr. DeMarco:

Guaranty Bank appreciates the opportunity to comment on FHFA's Alternative Mortgage Servicing Compensation Discussion Paper.

Background and Current Environment

In an earlier letter to the FHFA dated 07/22/2011, Guaranty Bank agreed with the virtues of a lowered servicing fee, generally concentrating on the benefits that we felt would ultimately be passed on to the consumer - we felt that lower fees would significantly reduce the barriers to smaller servicers being involved in servicing retention resulting in more localized, high touch servicers available to consumers along with lower mortgage rates.

Recent changes in the marketplace have strengthened our concern that additional participation in servicing retention is necessary for the mortgage loan servicing market to regain health. The new servicing market is now dominated by several aggregators buying well over 50% of the U.S. correspondent loan originations. Due to this significant concentration of U.S. mortgage servicing, prices paid for new servicing have fallen resulting in higher mortgage rates charged to consumers. The seasoned servicing market has additionally followed the lead of the new servicing market. Therefore, current mortgage servicers cannot feel comfortable about selling retained servicing at anything other than fire sale prices which further increases their apprehension about holding originated servicing overall.

Guaranty Bank and our peers are also very concerned that should U.S. regulators adopt Basel III, current minimum servicing fees will result in greatly increased capital requirements should any significant OMSR be retained. This concern will also keep smaller bank servicers on the sidelines with regard to servicing retention.

Our Recommendation

Guaranty Bank favors minimum service fee change proposals that will most effectively eliminate barriers that new (or incremental) servicers face in managing MSR's. Therefore, we favor the fundamental changes associated with the "***Fee for Service***" proposal, with some additional recommendations for improving this proposal as stands. The strengths of the Fee for Service proposal are:

- The proposal is the most likely to get additional (smaller) servicers involved in holding servicing rights given the significantly reduced capital and value volatility concerns associated with the much lower, set fee.
- The flexibility of using agency buyup or buydown grids, with or without I/O creation associated or not associated with the servicing asset, gives the servicer ultimate flexibility in managing servicing in whatever manner is most advantageous to their situation. The plan would also likely cause a more liquid market for

servicing I/O to develop which would again drive better pricing to the consumer.

- The proposal most significantly reduces the specter of constraints due to Basel III, again reducing barriers for new entrants.
- Both current FHFA proposals include bifurcation and limited P&I advance on delinquent loans – both are crucial to implementing either proposal.

However, we recommend the following clarifications to the fee for service proposal:

- The current fee proposal allows for commentary considering a basis point fee structure in lieu of the presumed $10 fee. We would support a basis point structure (with similar income to the $10 fee), reducing both the potential positive or negative impact the agencies would have from varying loan sizes, and the enormous overall I/O risk the agencies would need to manage based upon a set dollar fee.
- The fee structure should have a defined, yearly review to ensure the fee for service is commensurate with the current servicing environment.
- The anticipated increases in Guaranty Fees and the overall payment structure for non-performing loans (and incentives for keeping a high performing book) needs to be better defined for servicers to completely understand the impact of the structure.

Last, we highly support an additional coordinated effort to modify Ginnie Mae servicing fees. The current base fee structure of as much as 44 basis points combined with the capital intensive nature of advances on non-performing loans also significantly prohibits involvement from bank and independent servicers alike.

In summary, we feel the best way to drive the lowest rates and the highest consumer service level is to increase competition among existing servicers by bringing in new buyers of MSR. While both proposals considered by the FHFA have merit, we feel the fee for service proposal would ultimately create more competition for the asset.

Sincerely,

Craig Ahles
Senior Vice President
Guaranty Bank

Doug Levy
President and CEO
Guaranty Bank