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First Hawaiian Bank
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VIA FAX: 202-414-3823

Federal Housing Finance Agency
1700 G Street, NW, 4th floor
Washington, DC 20552

Dear Ladies and Gentlemen:

RE: Mortgage Servicing Fee Compensation Proposal

First Hawaiian Bank (FHB) appreciates the opportunity to review the proposed changes to MSF compensation and submit to you the following comments.

FHB opposes the proposed reduction to the minimum servicing fee. We do not believe it will achieve the desired result and worry that it may have the opposite effect. As a medium sized servicer ourselves we have to seriously consider getting out of the servicing business in regards to GSE loans. We think other medium and small servicers will do the same.

The following outlines our specific concerns:

Further Industry Consolidation - We believe that reducing the MSF will cause even more servicing consolidation with the big national mega-servicers. While small to medium size servicers struggle to survive on the lower revenues, the Mega servicers will turn a small profit on huge volume. They have the economies of scale required to service at a profit even at a tiny fraction of the current MSF. Small and medium size servicers with higher per loan servicing costs may choose to sell or transfer their servicing. Or they may pay to have the loans sub-serviced.

Erosion of Fee Revenue – We are concerned about how this may affect how lenders price their loans and capture this reallocated revenue. With higher gain on sale proceeds, many banks may use these funds to further subsidize their rates, offering lower rates to borrowers. Also some of the less sophisticated lenders set their rates by simply adding their servicing fee to the GSEs published pass thru rates. If they do not change their methodology much of their revenue stream will be lost and they may not even realize it. This puts pressure on other lenders who will be forced to follow suit or lose market share. If we do not capture the lost MSR income via gain on sale, the net effect will be lower profitability on the product.

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The GSEs have acknowledged that "reducing the MSF could result in a weighted average coupon reduction due to originator securitization of tighter range of note rates." This is only possible if lenders pass on the reduction of MSF as lower rate to borrowers rather than selling it and capturing gain on sale.

Faster Prepayments and Churning - Another concern with the lower MSF models are increased prepayment speeds. The healthy 25 bps servicing fee and fear of possible MSR impairment results in servicers trying to keep those loans in their servicing portfolio for as long as possible. However, under the new models, without the fear of losing a valuable servicing asset or impairment, servicers may be incented to cannibalize their own portfolios. It may become commonplace to churn their portfolios by refinancing the same borrowers over and over thereby collecting the inflated gain on sale each time.

Duplication of Effort - Since the existing portfolio must be grandfathered at the 25 basis points servicing, servicers must continue to value the servicing asset, amortizing it down monthly. Servicers will be subject to possible impairment as long as the asset is on their books. Servicers will essentially have to manage two sets of books. It will likely be many years, possibly decades, until the asset amortizes down to the point where it can be written off.

Similarly, servicers will have to develop two sets of policies and procedures to properly service the populations of loans under the old and new models. The double work could last up to 30 years, until the last of the old portfolio has paid off. It could add significant operational headaches and costs.

Unintended consequences – A change to the industry of this magnitude is certain to cause some unintended consequences. There is no telling how many new problems will occur due to these changes.

Alternative Changes

Although FHB opposes the proposed servicing compensation changes, we would support the following alternative changes that may better achieve the stated goals:

> FHB supports a model that incents sellers that service their own loans rather than selling servicing usually to the Mega servicers. It has been documented that loans perform better when serviced by the originating lender. We also believe that borrowers receive better customer service and prefer to deal with their original lender. The GSEs could incent sellers to retain servicing with better buy prices or guarantee fees.

Similarly, FHB supports a model that incents local servicing which keeps servicing functions in the communities where customers live and work. Banks are part of their communities, and trust and confidence of their customers are important to their success.

FHB supports a model that incents better loan performance. The models being discussed pay a higher service fee for non-performing loans. Although it may compensate servicers for their increased servicing cost for non-performing loans, it may also incent weakened collection efforts by non-originating servicers to achieve these premium servicing fees.

If FHFA insists on lowering the MSF, we strongly suggest that it not go to zero as some have speculated. We would hope the MSF stay at least as high as 10 basis points, so that the mega-servicers couldn't completely undercut those shops with higher costs to service. Further, if the MSF must be reduced, it might be worth considering a gradual phase-in to 20 bps at first to see how that effects the market before further cuts are implemented.

We appreciate your consideration of the above comments. If you have any questions please do not hesitate to contact me at (808) 525-5697 or email wchow@fhb.com.

Sincerely,

FIRST HAWAIIAN BANK

Winston K. H. Chow
Executive Vice President
Consumer Banking Group

cc: Fannie Mae, Freddie Mac