PHH Mortgage

PHH

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December 24, 2011

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

Re: Alternative Mortgage Servicing Compensation Discussion Paper

Dear Mr. DeMarco:

PHH Mortgage is pleased to comment on the Alternative Mortgage Servicing Compensation structures outlined in the Discussion Paper dated September 27, 2011. PHH believes its business model and long track record of quality originations and servicing with a culture of providing a high level of customer service makes it a valuable and credible resource for FHFA as changes to the mortgage servicing compensation structure are evaluated.

When FHFA announced the Joint Initiative on Mortgage Servicing Compensation, it stated as its primary goals :

- Improve service for borrowers;
- Reduce financial risk to servicers;
- Provide flexibility for guarantors to better manage non performing loans; and
- Promote continued liquidity in the To Be Announced (TBA) mortgage securities market.
- Additionally, FHFA stated a general goal of enhancing the competitive landscape for servicers.

Executive Summary

PHH believes a fee for service structure can accomplish these objectives. However, PHH has serious concerns with the proposed Fee for Service structure which must be addressed prior to any change associated with Mortgage Servicing Compensation. These concerns include, but are not limited to the following:

EQUAL HOUSING LENDER
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- Before agreement can be reached on an appropriate fee for service, we must first establish what services will be rendered and how they will be delivered. We are aware of initiatives by the GSEs to establish a standard for use by both GSEs. Additionally, numerous state attorney generals and regulators are calling for changes to standard servicing practices. We believe a national servicing standard should be adopted before meaningful changes to servicing compensation construct can be appropriately priced.
- Establishing the GSEs as Master Servicer, their current Conservancy status and their uncertain future status lowers mortgage servicers' priority of claims on the principal and interest cash flows arising from the mortgage notes and introduces additional counter party risk for servicers.
- The proposed fee structure of $10 per month for performing loans and limiting revenues related to non -performing loans to those collected as "incentive fees" from the GSEs are unlikely to be adequate revenue to offset servicing expenses and produce positive returns on servicing operations. Further, the fee structure must contain market-based provisions for cost escalations related to changes in servicing requirements and inflation.
- Bifurcation of seller and servicer representations and warranties are critical to ensuring liquidity in the market to transfer servicing. Required cash collateral posting, if any, for the bifurcation of seller and servicer representations and warranties must be clearly identified and disclosed.
- Servicers must understand any potential changes to collateral requirements resulting from a dimunation of MSR valuations which had been previously relied upon by the GSEs to secure counterparty risk.
- The details underlying the GSEs "enhanced rights to transfer servicing" must be clarified.
- Plans and policies to mitigate and address investors concerns about prepayment churn must be outlined.
- The potential loss of the tax "Safe Harbor" has important economic consequences for servicers that must be clearly understood by the industry. Loss of the Safe Harbor will reduce economics to the servicer and hence, likely result in an increase in costs passed on to mortgage obligors.
- All components of the fee for service structure should be made publicly available and managed as policy by the GSEs.

PHH believes a simple reduction of the minimum service fee to a level of 10-15 bps, coupled with a contractually separated excess IO, meets many of the objectives set forth by FHFA while eliminating some of the major concerns triggered by the structural changes embodied in the fee for service Option B proposal.

Below, we have described PHH and outlined the reasons why PHH is in a unique and credible position to provide its views on the proposed structures. We follow with our general comments on a change in the servicer compensation structure as well as more specific observations regarding the fee for service structure and what must be addressed to make it a viable proposal.

About PHH

PHH Corporation (NYSE: PHH) is a leading provider of mortgage and fleet management services, delivering world-class outsourcing solutions to clients through its subsidiaries, PHH Mortgage Corporation (PHH Mortgage) and PHH Arval.

PHH Mortgage has been originating and servicing residential mortgages since 1984. In addition, PHH Mortgage has been providing private label mortgage solutions to leading businesses nationwide since 1989. The company is licensed in all 50 states, offering a comprehensive range of mortgage solutions from loan origination through servicing.

PHH Mortgage has built its success on a foundation of responsible lending and quality originations. Today, PHH Mortgage is the fourth largest originator of retail residential mortgages,[1] the sixth largest originator of residential mortgages overall (wholesale and retail)[2] and the seventh largest servicer in the United States.[3] Through the first nine months of 2011, PHH Mortgage originated approximately $36 billion of residential mortgages. Our servicing portfolio of over $178 billion enjoys one of the lowest delinquency rates in the industry reflecting our unwavering commitment to quality.[4]
Our reputation as a responsible lender and our broad expertise attract top-tier clients who are leaders in their field of business, including:

- Financial institutions including Merrill Lynch and others.
- Large regional banks such as UMB and First Tennessee Bank, as well as over 500 community banks.
- Nearly 900 credit unions across the country.
- Realogy Corporation, the world's largest real estate franchisor, which includes Century 21®, ERA®, Coldwell Banker® and Sotheby's International Realty.[5]
- Relocation companies, government agencies and over 40% of the *Fortune* 1,500, including Raytheon, Southern Company and Microsoft Corporation.

PHH Mortgage is a Responsible Lender and Servicer; Our Credibility is Strong

Because of our long-standing policies and ethical lending and servicing practices, PHH Mortgage has not only survived but also thrived during the financial crisis by providing reliable, responsible financing:

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[1] Based on 3Q2011 statistics from *Inside Mortgage Finance,* November 18, 2011.
[2] Based on 3Q2011 statistics from *Inside Mortgage Finance,* October 28, 2011.
[3] Based on 3Q2011 statistics from *Inside Mortgage Finance,* November 4, 2011.
[4] Total servicing portfolio as of September 30, 2011, based on 3Q2011 statistics from *Inside Mortgage Finance,* November 4, 2011.
[5] CENTURY 21®, Century 21 Mortgage® and the CENTURY 21 Logo are registered trademarks licensed to Century 21 Real Estate LLC and used with permission. ERA® and the ERA Logo are registered trademarks licensed to ERA Franchise Systems LLC and used with permission. **Coldwell Banker**® and the **Coldwell Banker** Logo are registered trademarks licensed to Coldwell Banker Real Estate LLC and used with permission.

- Long before the collapse of the housing market, PHH Mortgage decided not to offer subprime loans or option adjustable rate mortgages (option ARMs) because we believed it was not in our customers' best interest to do so.
- PHH Mortgage also refrained from imposing prepayment penalties.
- PHH Mortgage followed this course because it made good business sense, not because of regulatory requirements.

We are the largest residential lender not affiliated with a bank and the largest publicly traded independent residential mortgage lender. As such, we face a level of market discipline not encountered by our competitors. We must carefully execute every detail of our business plan to continue to enjoy the reputation we have earned with our investors and borrowers.

We survived and grew during the market meltdown because of our prudent and ethical lending philosophy. We followed this discipline not because it was regulated, but because it was, and still is, sound business practice. We take our responsibility to borrowers and mortgage investors seriously. We strive to continuously improve our mortgage origination and servicing processes to better serve our borrowers, mortgage investors and our debt and equity stakeholders.

PHH Mortgage's Status as a Top Servicer

With a servicing portfolio of over $178 billion, PHH Mortgage is the seventh largest servicer in the United States.[6] In the first nine months of 2011, PHH Mortgage maintained an average servicing portfolio of more than 1 million loans and currently maintains over 60 private labeled or co-branded subservicing relationships. We are highly rated by both Fitch and Standard & Poor's for the quality of our mortgage servicing operations:

- PHH Mortgage has received a Fitch Residential rating of RPS2+ for both Prime and HELOC loan types[7] – an above average performance rating.
- PHH Mortgage has also been affirmed by Standard & Poor's as having an Above Average rating as a residential prime and subordinate-lien servicer.[8]

At the end of the third quarter of 2011, our total mortgage servicing portfolio delinquencies stood at 3.67%.[9] Our delinquency rate continues to be one of the lowest among large mortgage servicers in the industry.[10] While PHH Mortgage does not hold mortgages for investment, our ability to maintain low delinquency rates results in contained servicing costs, lower repurchase volumes and a better customer experience.

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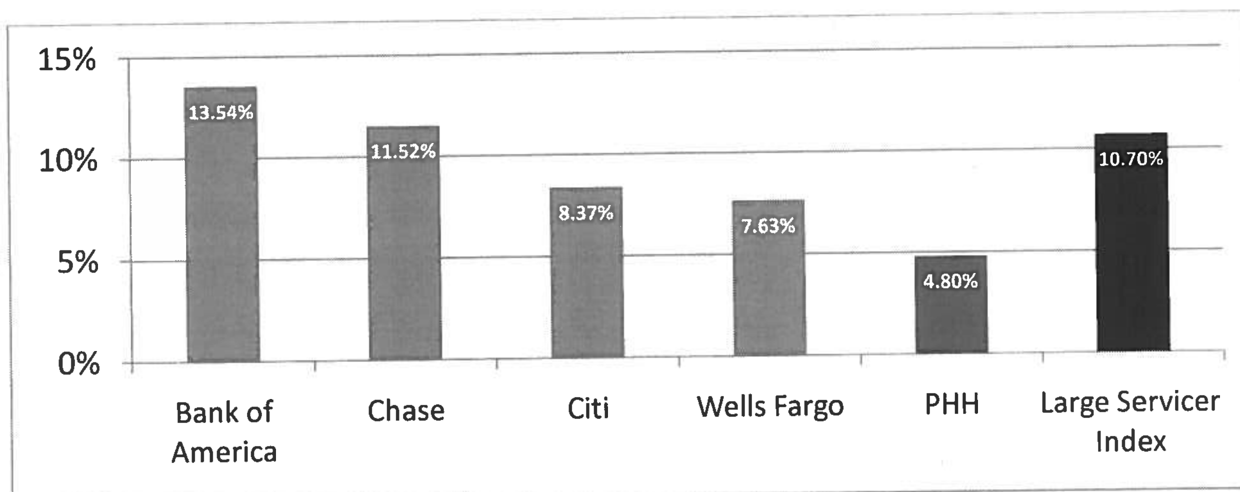
[6] Based on 3Q2011statistics from *Inside Mortgage Finance*, November 4, 2011.
[7] "U.S. Residential Mortgage Servicer Report," *Fitch Ratings*, November 9, 2010.
[8] Servicer Evaluation: PHH Mortgage Corp: StandardandPoors.com/ratings, November 22, 2010.
[9] Total delinquencies (30, 60, and 90 or more days, excluding foreclosures and real estate owned) as a percentage of the total number of loans. PHH Corporation 3rd Quarter Form 10-Q.
[10] Based on 3Q2011 statistics from *Inside Mortgage Finance*, November 22, 2011.

Table 1. Delinquency Rates of Major Servicers[11]



As reported in *Inside Mortgage Finance* and shown in Table 1, PHH Mortgage's delinquency ratio is lower than the four largest residential mortgage servicers and approximately half of the Large Servicer Index for the first quarter 2011.

PHH Mortgage's delinquency ratio is consistently below the MBA Average. On average, PHH Mortgage's delinquency rate is 50% of the MBA average delinquency rate for the last quarter and has averaged 73% of the MBA Average for the past five years.[12] Over the past seven years, PHH Mortgage has maintained an FHA Compare Ratio below the Nationwide HUD Average for FHA Defaults and Claims. As of October 31, 2011, PHH Mortgage's Compare Ratio for all loans insured from November 1, 2009 through October 31, 2011 is 85%.[13]

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[11] Based on 3Q2011 statistics from *Inside Mortgage Finance* "Large Servicer Delinquency Report," November 25, 2011. Net Delinquency Ratio defined as 30, 60 and 90 or more days, including foreclosures.
[12] Mortgage Bankers Association and PHH, *Delinquencies Decrease, Foreclosures Rise in Latest MBA Mortgage Delinquency Survey*, November 17, 2011.
[13] HUD Neighborhood Watch/Early Warning System, 2 year Performance Period as of October 31, 2011. https://entp.hud.gov/sfnw/public/ Early Warnings tab, Single Lender (PHH), Lender ID: 30275.

PHH Mortgage's Status as a Top Lender

PHH Mortgage is the sixth largest originator of residential mortgages in the United States[14].

- For the first nine months of 2011, we originated over $36 billion in mortgage financing representing approximately 141,000 American homes.
- PHH Mortgage grew mortgage originations 18.7% in the first nine months of 2011 compared to the same time period in 2010, in an originations market that declined by 16.7%.
- PHH Mortgage was one of the few major originators to increase volume in 2010 over 2009, recording the greatest year-over-year percentage increase of the top 20 originators. As a result, we increased our market share of mortgage originations from 2% to over 3%.[15]
- In the third quarter of 2011, our loan originations of $12.7 billion for the quarter resulted in a market share of 3.9%.[16]

Table 2 reflects a composite of information from *Inside Mortgage Finance*, October 28, 2011 and our third quarter 2011 earnings announcement.

Table 2. Top Mortgage Lenders

Estimates in *italics*.

Top 20 Mortgage Lenders in 2011
(Dollars in Billions)

Rank	Lender	Volume 9M2011	Volume 3Q11	Volume 2Q11	Volume 1Q11	Market Share	Change 2Q11-3Q11
1	Wells Fargo	$ 241.66	$ 90.12	$ 65.66	$ 85.88	26.1%	37.3%
2	Bank of America	$ 133.76	$ 33.88	$ 41.42	$ 58.46	14.5%	-18.2%
3	Chase	$ 113.64	$ 38.94	$ 36.00	$ 38.70	12.3%	8.2%
4	Citi	$ 44.92	$ 17.47	$ 12.21	$ 15.23	4.9%	43.0%
5	GMAC	$ 39.71	$ 15.56	$ 12.31	$ 11.84	4.3%	26.3%
6	PHH	$ 36.28	$ 12.70	$ 9.75	$ 13.83	3.9%	18.0%
7	US Bank	$ 32.61	$ 12.41	$ 8.07	$ 12.13	3.5%	53.8%
8	Quicken	$ 19.20	$ 8.40	$ 5.50	$ 5.30	2.1%	52.7%
9	Flagstar	$ 16.43	$ 6.93	$ 4.64	$ 4.86	1.8%	49.2%
10	SunTrust	$ 16.24	$ 5.80	$ 4.69	$ 5.75	1.8%	23.7%
11	MetLife	$ 15.35	$ 6.41	$ 4.56	$ 4.38	1.7%	40.5%
12	BB&T	$ 15.24	$ 5.55	$ 3.89	$ 5.80	1.6%	42.7%
13	Provident Funding	$ 14.90	$ 6.26	$ 5.33	$ 3.31	1.6%	17.4%
14	Fifth Third Bank	$ 11.54	$ 4.47	$ 3.15	$ 3.92	1.2%	41.9%
15	USAA	*$ 10.37*	*$ 3.40*	$ 3.37	$ 3.60	1.1%	9.0%
16	Franklin America	$ 8.75	$ 2.83	$ 2.62	$ 3.29	0.9%	7.9%
17	PNC	$ 8.38	$ 2.62	$ 2.59	$ 3.17	0.9%	1.2%
18	Sovereign	$ 7.65	$ 2.40	$ 2.13	$ 3.12	0.8%	12.7%
19	ING	*$ 6.94*	*$ 2.20*	$ 1.95	$ 2.79	0.7%	12.8%
20	PrimeLending	$ 6.01	$ 2.49	$ 1.98	$ 1.54	0.6%	26.0%

[14] Based on 3Q2011 statistics from *Inside Mortgage Finance*, October 28, 2011.
[15] Based on 2010 statistics from *Inside Mortgage Finance*, January 28, 2011.
[16] Based on 3Q 2011 statistics from *Inside Mortgage Finance*, October 28, 2011.

PHH Can Provide a Unique, Credible Perspective on FHFA's Stated Goals Related to the Proposed Servicer Compensation Changes

Improved Service for Borrowers

PHH's success in attracting new clients and enhancing our standing in the industry is built upon our commitment to a high standard of customer service. Our clients must have a high degree of confidence in PHH's ability to exceed the client's own service standards before allowing PHH to service their customers. We make it a priority to focus on the individual needs of our borrowers by offering sensible loan options and servicing tools and allowing our borrowers to manage their homeownership obligations in the easiest manner possible. That's why over 91% of our customers said they were glad they called us and would recommend us to friends and family.[17]

Reduced Financial Risk To Servicers

PHH is the largest residential mortgage lender not affiliated with a bank. We have a track record of retaining nearly all of the Mortgage Servicing Rights for loans sold or securitized. As a result, PHH has a significant amount of experience in and appreciation for the challenges an MSR portfolio can pose without the benefits afforded a financial institution including lower cost of funds and a diversified balance sheet to minimize the earnings volatility. This perspective and experience can be of value to FHFA as it contemplates the best alternative for reducing the earnings volatility and capital requirements associated with retaining MSR's.

Provide flexibility for guarantors to better manage non performing loans

PHH's status as the largest residential lender not affiliated with a bank means it is heavily reliant on the GSEs to remain competitive with financial institutions capable of relying on their balance sheet advantages to support their lending business. As a result, PHH has considerable incentive to maintain a strong and mutually beneficial relationship with the GSEs. As FHFA evaluates a servicing compensation structure allowing the GSEs to mitigate losses related to non-performing loans, PHH can provide the servicer perspective from an entity used to collaborating with the GSEs in a productive manner for all.

Promoting continued liquidity in the To Be Announced (TBA) mortgage securities market

PHH's status as the largest independent mortgage banker gives rise to our keen interest in continued liquidity in the secondary market for both GSE TBAs and the specified mortgage securities markets. PHH faces a level of market discipline and reliance on the secondary market not encountered by our competitors due to our lack of portfolio capability. As a result, we offer a view on the potential impacts

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[17] PHH Mortgage October 2011 "I Would Recommend" Customer Survey.

of proposed servicer compensation changes from the perspective of an entity who is highly dependent on the volatility of the mortgage securities market.

Enhancing the competitive landscape for servicers

PHH's business model is built on creating advantages which allow us to compete with financial institutions. As a result, we have a great interest in sharing our views of the proposed servicing compensation alternatives and have a unique perspective on how the competitive landscape will be impacted if any changes are implemented.

PHH Mortgage Summary

In summary, PHH feels it is in a position to provide valuable feedback and a unique perspective to FHFA as changes to the servicer compensation structure are contemplated. A change to the servicer compensation structure will likely have a significant impact on the industry for years to come. We believe our 27-year history as a lender and servicer, built on a strong foundation of customer service and robust operational capabilities, coupled with our stature as the largest non-depository provider of residential credit makes us a very credible provider of recommendations and views for consideration.

General Comments

Servicer Standards must be established before Servicer Compensation can be changed

While PHH agrees a change to the servicer compensation structure makes sense, we believe there is too much industry uncertainty at the moment for a servicer compensation structure change to be properly made. Numerous initiatives likely to result in more rigorous servicing standards are underway. These standards need to be established so servicers can understand their operating responsibilities and associated costs prior to agreeing to changes in the compensation amount and structure. A change to the structure will have a significant impact on the financial management of the business. This has downstream implications for strategy, operating management and return objectives for servicers. These standards must be established prior to determining the structure and adequacy of servicing compensation.

Contractual Separation of Excess IO from MSR

PHH strongly believes a contractual separation of Excess IO from MSR makes sense regardless of the outcome of the servicer compensation initiative. It immediately helps to accomplish FHFA's goals of reducing financial risk to servicers and enhancing competition among servicers by creating liquidity for an asset which is currently illiquid. In today's environment, excess transactions are very costly and time consuming to complete, rendering a secondary market for Excess IO transactions limited at best. By separating the Excess IO from the MSR and detaching it from the servicing contract, the owner can more easily sell or even finance the excess servicing retained.

Proposal Needs to Be Further Detailed for a Comprehensive Response

PHH appreciates the scope of a servicer compensation change and the myriad associated issues which must be evaluated prior to implementation. FHFA's Discussion Paper is a good start to a proposal which must contemplate and address all of the various elements of servicer compensation as well as related aspects of a GSE / servicer relationship. With that being said, we feel the proposal lacks the necessary detail to allow for a comprehensive response. For example, better clarity is required around controlling portfolio churning, setting collateral posting requirements, establishing seller rep and warranty bifurcation costs, and how the GSEs will have "enhanced rights for the guarantor to transfer servicing". In the following section, we go into more detail on this point.

PHH Is supportive of a Reduced Fee or a Fee For Service Compensation Structure but With Certain Caveats

PHH believes a Reduced Fee or a Fee for Service compensation model can accomplish FHFA's stated goals but a number of key points of FHFA's Discussion Paper must be clarified and, in general, there needs to be increased transparency of the GSE's policies in order for this model to be properly evaluated. Key points which need to be addressed:

- Legal implications of an entity in conservatorship acting as Master Servicer in a Fee for Service relationship could create more financial risk for servicers.
- The details underlying the GSEs' "enhanced rights to transfer servicing" must be clarified.
- Servicer standards must first be established before agreement can be reached on an appropriate fee for service.
- $10 fee for performing loan servicing may not be adequate.
- Required cash collateral posting, if any, for bifurcation of seller and servicer representations and warranties.
- Plans and policies to mitigate and address prepayment churn must be outlined.
- The impact of a fee for service compensation structure on the tax safe harbor provided for by the IRS in relation to retained mortgage servicing rights must be addressed in order to impact the financial implications to servicers.
- All components of the fee for service structure must be made publicly available and managed as policy by the GSEs.

These points are addressed in detail below.

Our interpretation of the Discussion Paper concludes there will be a change in the priority of cashflows due to the servicer resulting from the introduction of the GSE as Master Servicer. While financial risk

related to the capitalization of MSR's is reduced via a fee for service structure, PHH believes a change in the cashflow priority creates a new and potentially more problematic financial risk for servicers. Specifically, the servicer will now remit to the GSE the Guarantee fee as well as the master servicing fee and, in turn, receive a servicing fee from the GSE. This creates a change in the cashflows, forcing the servicer to rely on a remittance from the GSE. Currently, the servicer retains its base and excess strip upon receipt from the borrower and remits the remainder to the GSEs. Many servicers will be concerned about relying on the GSE for receipt of their servicing fee. These servicers would prefer to retain their servicing fee upon payment receipt from borrower and remit the remainder to the GSE as they do today.

Servicers are highly concerned about being a subservicer to an entity (a GSE) which is in conservatorship. It is unclear what protection servicers may have from losing servicing rights if the GSEs are ultimately put into receivership. Many servicers build their business on retaining the servicing rights of their borrowers. Having limited control over an unwanted transfer of those servicing rights, not arising from an event of default, is problematic for those servicers. More generally, any firm who has invested the infrastructure and resources into a servicing operation needs to be assured the servicing cannot be transferred away from them due to the legal status of the GSEs.

The Discussion Paper references obstacles the GSEs face "in moving servicing to protect its credit exposure in the case of at-risk loans" and points out the fee for servicer model would include "enhanced rights for the guarantor to transfer servicing based on loan performance". These are particularly ambiguous terms which need to be clarified. PHH is unclear what the enhanced rights will be and is concerned the GSEs will not be governed by a clear set of policies and procedures as it relates to imposing performance levels and operational requirements on servicers. Without understanding what the "enhanced rights" are, the stability of the servicing industry will be suspect and the number of servicers willing to invest in the infrastructure and human resources necessary in exchange for acceptable, consistent returns will be limited. Therefore, FHFA and the GSEs must outline and explain the enhanced rights to transfer servicing.

Servicing compensation of $10 per month for a performing loan is may not be adequate compensation after considering of all of the pending changes in servicing standards such as those articulated in the Consent Orders executed by 14 servicers and service providers . A servicer has operating costs for both performing and non-performing loans. Limiting the revenues for non performing loans to potential incentive compensation (as well as compensatory fees), falls far short of what is needed to properly manage loans throughout the payment cycle, particularly those which are 30 days delinquent through pre-foreclosure. The servicer needs to have a revenue-generating monetary incentive to manage loans in these stages to make the servicing operation economically feasible. Properly incenting servicers to manage delinquent loans is consistent with the GSEs goals of minimizing credit risk to the ABS investors. While the costs to hedge and fund MSR's will be significantly reduced, if not eliminated under a fee for service model, the fee plus residual cashflows paid for servicing performing may be inadequate to cover a servicer's operating costs for its performing and non performing loan portfolio plus a reasonable

return. PHH suggests a more clearly defined fee schedule which reflects an increased cost to service as the loan's delinquency worsens.

When necessary, the GSEs rely on cash collateral posting requirements to satisfy counterparty concerns. PHH believes the cash collateral posting is evaluated in tandem with the amount of retained servicing. In other words, retained MSR's act as a form of collateral which the GSEs consider when evaluating what cash collateral may need to be posted by a servicer to satisfy counterparty exposure concerns. To the extent the strip is eliminated, this alternative form of collateral will be eliminated. PHH assumes this will impact the GSEs' view of counterparty risk and, subsequently, the cash collateral posting requirements. Any changes to the cash collateral posting guidelines should be outlined and clear rules should be put in place which, to the best of the GSEs' ability, govern cash collateral posting requirements related to Counter Party Risk going forward.

PHH appreciates the perceived concerns with prepayment churn but is concerned about the lack of clarity regarding how the GSEs will evaluate prepayment speeds and determine when speeds are excessive. A framework for monitoring and tracking prepayment speeds and the parameters of the "scorecard" used to determine prepayment speeds should be established and made available publicly prior to implementation of a FFS servicer compensation structure. The framework should be dependent on a comparison to industry speeds and, possibly, peer group speeds to ensure an objective view of speeds is used when assessing servicer performance. Additionally, PHH advocates the GSEs publicly release the prepayment metrics by servicer.

PHH believes all aspects of a fee for service compensation structure should be made publicly available. For example:

- The 8 bps Master Servicer fee should be a fixed figure or, if future adjustment is necessary due to necessary changes in servicer compensation, a market-based and transparent framework for adjustment to the Master Servicer fee should be established prior to implementation of a new servicer compensation structure. This framework should also be used to provide support for the 8 bps fee in connection with the initial $10 servicer fee.
- In order to avoid any new misalignment between servicer and guarantor, the factors which determine the annual reassessment of servicer compensation need to be clearly prescribed and transparent.
- The costs to bifurcate seller / servicer representations and warranties should be transparent and established at the time a new servicer compensation structure is implemented. Any future changes to the bifurcation costs should be based on a set of publicly available guidelines which are as prescriptive as possible to avoid any misalignment between GSEs and servicer.
- The fee schedule for servicing loans should be standard for the industry and publicly available for review.

In summary, PHH is cautiously in favor of a fee for service compensation structure such as FHFA's "Fee for Service Option B". There are a number of important elements of the proposal which need to be addressed and/or clarified before PHH can fully evaluate and support such a change. Generally, we

believe it is critical for the GSEs to be fully transparent with regard to the servicing fees and consistent with methodologies used to modify them.

PHH is supportive of a reduced minimum service fee requirement of 10-15 basis points coupled with the ability to contractually separate and sell Excess IO. We believe such a structure meets many of the ojectives set forth FHFA while eliminating the increased counter party risk associated with naming a GSE as Master Servicer. We also believe the Safe Harbor Tax implications may be more easily resolved under such a construct. Finally, we believe such a change is more easily implemented than the Fee for Service Option B proposal.

Conclusion

PHH appreciates the opportunity to comment on FHFA's Servicing Compensation Discussion Paper and looks forward to working with FHFA as it continues to vet the various challenges inherent in making such a change. PHH believes its capital structure and non-depository status enable us to provide FHFA a unique perspective on this topic which we believe is vitally important to the future of the home finance industry. We would be happy to engage in further dialogue on this matter.

Sincerely,

Luke S. Hayden
President
PHH Mortgage Corporation

Richard J. Bradfield
Senior Vice President, Capital Markets
PHH Mortgage Corporation