From: Mardi Maher [mailto:mmaher@aba.com]
Sent: Monday, December 19, 2011 5:06 PM
To: #Servicing Compensation
Cc: Bob Davis; Joseph Pigg; Rod Alba; Vincent Barnes; Ryan Zagone
Subject: ABA Comments on Alternative Mortgage Servicing Compensation Discussion Paper

The American Bankers Association appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Alternative Mortgage Servicing Compensation Discussion Paper (Discussion Paper) of September 27, 2011.

If you have any questions or comments, please do not hesitate to contact:

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December 20, 2011

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

Submission to: Servicing_Comp_Public_Comments@FHFA.gov

Re: Alternative Mortgage Servicing Compensation Discussion Paper

Dear Acting Director DeMarco:

The American Bankers Association appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Alternative Mortgage Servicing Compensation Discussion Paper (Discussion Paper) of September 27, 2011.

While ABA's members appreciate the undertaking by FHFA to explore ways in which servicing compensation can be improved, we are concerned that the timing is not right to proceed with significant changes to the servicing compensations methodology as contemplated by either option set forth in the discussion paper.

FHFA itself acknowledges in the paper that under the current servicing fee structure "a servicer is incented to keep loans current, or to restore loans to a performing status, in order to maintain their servicing fee cash flows." (Discussion Paper, p. 7).

Additionally, with the entire mortgage market still in a fragile state as a result of the financial crisis, and with Fannie Mae and Freddie Mac still in federal conservatorship, the market should not be subjected to additional disruptions which would surely flow from significant changes to the servicing compensation structure. The Obama Administration and Congress have begun what is likely to be a multi-year process for restructuring the housing finance system. It is our strong belief that changing the servicing compensation structure outside of that reform, particularly without demonstrating a compelling need for change, will only exacerbate instability in the market.

While both the minimum servicing fee coupled with a reserve account and a "fee for service" approach may hold appeal for certain individual institutions based upon their current and expected business models, neither approach brings sufficient improvements for all market participants, and both bring significant risks, so that neither can be considered preferable to the current system at this time.

Servicing compensation will be an important factor as the Congress and Administration consider the future of the housing finance system in the United States, and particularly the government's appropriate role in such a system. Absent a compelling and immediate need, we strongly encourage the FHFA to defer any further action to alter servicing compensation until it can be addressed as part of a holistic reconsideration of the entire mortgage finance system.

Thank you for allowing us to share our views. If you have questions or wish to discuss any these details further, please do not hesitate to contact the undersigned.

Sincerely,

Robert R. Davis

Robert R. Davis