

From: David Allison [mailto:allisod1@DMICorp.com]
Sent: Monday, October 31, 2011 2:24 PM
To: #Servicing Compensation
Cc: Dennis McGowan
Subject: Servicing Compensation Comments

We respectfully submit the following comments for your consideration:

1. We do not believe that servicing compensation for conventional or government loans needs to be changed.
2. We believe the recent industry trend during the past two years towards less concentration and greater distribution of servicing ownership is highly positive for the housing industry and economy in general.
3. Conversely, any changes that allow the larger banks to capture a greater concentration of servicing assets is negative for the economy in general and the housing industry in particular.
4. We do not believe that large banks should be enabled to use taxpayer-insured deposits to finance the aggregation and ownership of servicing rights. Concentration levels are already excessive making too many lenders vulnerable to pricing changes and other uncompetitive requirements from the large mortgage aggregators.
5. Borrower choice would also be constrained by any further concentration of servicing. Borrowers should have a viable, price competitive option to obtain their mortgage loans and maintain their ongoing servicing relationship with local mortgage lenders and depository institutions with whom they have other banking relationships if the borrower prefers this option. Given the importance of the mortgage loan within a borrower's overall financial situation, borrowers should have freedom of choice without having to pay excessively for local service.
6. Taxpayers should not be asked to bear the risk of greater concentration in servicing among the banks deemed "too big to fail".
7. We believe that the current economics of servicing are effective in motivating lenders to originate high quality loans and to maintain the quality of their portfolios through diligent servicing. By having to fund advances for delinquent payments and escrow obligations, combined with the loss of service fee income, lenders are strongly incented to originate and maintain high quality portfolios. In the case of government loans, lenders incur additional net losses after the reimbursement of insurance claims after each foreclosure even if the loan was originated and serviced in full compliance with all applicable requirements. We do not agree that "servicing incentives are misaligned" as widely reported.
8. We strongly oppose any fee for service arrangement as it will not leave adequate net income for the master servicer or owner of the servicing rights to cover advance funding obligations, prepayment risk including payoff interest expense, and the market risks associated with volatile servicing values.
9. Any "fee-for-service" structure will inherently favor the largest servicers with the greatest economies of scale and lowest costs, thereby contributing to further consolidation within the industry where the current level of asset concentration is already excessive.

Thank you for considering these comments.

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