**From:** David Akre [mailto:dakre@wholeloans.com]
**Sent:** Wednesday, December 14, 2011 8:06 PM
**To:** #Servicing Compensation
**Cc:** dakre@wholeloans.com
**Subject:** Servicing fee comment

To Whom It May Concern:

Changing the current servicing compensation structure would be a mistake for two simple reasons, alignment of interests, and attracting private capital.

Currently a servicer earns significantly more if a loan is current than if delinquent.  In fact delinquent loans can actually cost servicers money.  The value of MSRs on delinquent loans frequently being negative proves this out.  Thus there is an economic incentive for the servicer to do what they can to keep a loan current.  Under a flat fee plan the servicer would actually get paid more if the loan does delinquent.  That is in direct conflict with the loan owner’s position and therefore far worse than the current model.

The other consideration to take into account is industry capacity.  Currently industry capacity is somewhat in-line with available MSR assets.  Going to a flat fee will greatly diminish industry capacity for the simple reason that MSR returns will be far below what private capital needs to participate.   In my model current returns in a flat fee plan won’t even attract the most conservative low-return capital.   Only servicers with massive economies of scale will even remain in the space.  That portends that the three or four huge servicers in the market today will get bigger, directly against all ‘too big to fail’ concepts found in Dodd-Frank.

The current system, while not perfect, aligns the servicer and loan owner.  The problems of today, the sheer number of delinquent loans and the servicer’s ability to keep up, has been addressed by other legislation/regulation and is therefore unlikely to recur.  Trying to fix what essentially the same problem with overlapping regulators will result in over-regulation, less competition in the servicing space, and a worse environment than is found today.

Sincerely,

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