



December 23, 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

Dear Mr. DeMarco:

Thank you for the opportunity to communicate our comments and express our concerns relative to the "Alternative Mortgage Servicing Discussion Paper" released on September 27, 2011. The servicing component within the mortgage banking platform has experienced unprecedented challenges and change during this current economic crisis. We appreciate the interest of FHFA and other regulators in ensuring that we collectively work together to enhance service to our customers (borrowers), reduce financial risk to servicers, ensure flexibility for guarantors to better manage non-performing loans, promote market liquidity and enhance opportunities for broadening the base of servicing participants.

However, we strongly believe that a change to the current servicing compensation model is unnecessary to accomplish the aforementioned goals and perhaps could create significant unintended consequences. Even in these tumultuous times, the current system has served the market well and still remains a viable and preferred option. Furthermore, any consideration of fundamentally changing mortgage servicing compensation is premature in light of the ongoing process of developing national servicing standards, in addition to the constantly changing regulatory landscape due to the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

More specifically, one example of one of our concerns would be towards those who imply that non-performing loan (NPL) servicing must be profitable in order for servicers to invest the time, effort and resources to aggressively and efficiently assist delinquent borrowers. We have a contractual and fiduciary responsibility to investors to commit and focus our resources in providing assistance to our delinquent customers. Servicing NPL's is a cost of doing business. Like many of our peers, we have three distinct revenue areas: production, secondary marketing, and servicing. It is imperative that we focus on assisting our delinquent customers or be subject to forfeiting our seller/servicer status. This status enables us to originate, securitize, sell and service our customers' loans and recognize the synergistic revenue afforded by a full service mortgage platform. We are similar to many small-to-medium size servicers. We are a \$10 billion bank with \$4.5 billion of servicing representing 40,000

customers built one loan at a time over the past 25 years. The majority of our performing and NPL loans represent our bank deposit customers. Our customers desire for us to service their loans. With today's technology and with experienced mortgage associates, we can achieve certain economies of scale, be profitable, compete and provide exceptional customer service. We have been hedging our servicing for over five years, and hedging has been cost effective, and performance has been effective in meeting our objectives. We could mention many other benefits to the current servicing compensation model. In short, and to reiterate, we believe any fundamental change to this model is unnecessary.

As I am writing these comments, financially strong community banks are exiting the mortgage business due to rapidly changing, complicated, costly and sometimes ambiguous disclosure, appraisal, compensation, and numerous other compliance mandates. Compliance and lender liability is often difficult to understand and quantify. Regulatory change and speed of change is extremely challenging. With respect to servicing compensation, we are again concerned about the speed of change, about change itself, and if it needs to be changed. We do not believe the current servicing compensation model created this crisis. We believe several of the proposed changes in servicing compensation may create a significant disadvantage in our current servicing, secondary marketing, and production platforms. The end game of these proposed changes may be further consolidation in servicing and origination.

There appear to be many questions and concerns with respect to the proposed servicing compensation initiative. Several of these questions would include on-going servicer responsibilities, future cash flows and timing of cash flows, mortgage servicing fee, if any, current and future fee-for-service, seller reps and servicer reps (bifurcated?), buyback liability/implications, monetizing strip upfront and churning implications, future liquidity and marketability of servicing, potential impairment of existing MSR asset, modeling of MSR asset (if there is an MSR asset or perhaps liability), attractiveness of capital investment into the servicing industry, effect on TBA market, ability for smaller servicers to continue to securitize, sell and retain servicing and many other concerns not mentioned above. In addition to basic profitability concerns, in the end, will it simply be too complicated for the smaller player to play in this space?

As previously mentioned, we do not recommend a change to the current servicing model. However, we do recognize that there exists a belief with regulators that there is a need for change. If FHFA continues to feel strongly that making fundamental changes to the servicing fee structure is necessary, of the options presented in the September 27th discussion paper, we urge FHFA to adopt the cash reserve model. Of the two proposals presented, it is the only one which best accomplishes FHFA's stated objectives while ensuring minimal disruptions to the market.

The Cash Reserve Proposal, originally introduced by MBA and the Clearinghouse, establishes a minimum "normal servicing fee" and proposes the creation of a reserve account which servicers can use to conduct catastrophic NPL servicing. The reserve would be built up over time by placing a small portion of the mortgage cash flows into a custodial reserve account, tied to a specific group of loans. Any unused portions would eventually be refunded to the servicer subject to certain criteria.

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We believe that this approach is the best of the options presented. However, despite the current challenging issues in the mortgage servicing industry, we strongly recommend the current mortgage servicing compensation structure as appropriate and best meets the needs of the market.

The Servicing Compensation Proposal and eventual recommendation could be a “Game Changer” for our industry. The final recommendation of FHFA will have a profound impact on our industry, housing and the economic recovery. Thank you for your consideration of our comments. If you have any questions or comments, please contact me at (601) 540-4285, or via email at btyler@trustmark.com.

Sincerely,

Breck W. Tyler
Executive Vice President
Trustmark National Bank