Nationstar Mortgage appreciates the opportunity to provide comments on the Federal Housing Finance Agency’s (FHFA) strategic plan for 2018 – 2022. As a long time, indirect stakeholder in FHFA, we are greatly invested in seeing the agency and those enterprises it regulates succeed. We believe our additional comments will help strengthen the success of the mortgage servicing industry and provide a more stable environment for homeownership.

**Strategic Goal 2.2 – Promote Stability in the Nation’s Housing Finance Markets**.

Please consider adding these areas of emphasis to your plan with the intent to ensure we have a reliable, sound housing eco-system:

1. **A broken servicing compensation model**

The current GSE compensation model[[1]](#footnote-1) for servicers who manage defaulted loans is broken and needs repair prior to the next downturn in the housing market. As our company has previously shared with you, servicing profitability on performing loans has decreased 31% while servicing costs have increased 237% for defaulted loans since 2009. We believe FHFA should tackle this challenging issue with a new default pricing construct that aligns the interests of the enterprises, homeowners and the servicers; all of which will benefit taxpayers with a stable housing finance system.

1. **The burden of servicing advances**

Non-depository servicers face the additional financial burden of financing their advances. The expense, which for our company exceeds $40M annually, creates another financial hardship in addition to the declining profitability outlined above. For example, a typical bank facility will charge LIBOR + 250 bps to finance about 90% of outstanding advances; the remainder requires capital outlay by the servicer. We have two suggestions to address this issue: 1) reimburse all advances daily using the existing Advance Solutions program or; 2) finance all advances at a 100% advance rate at zero cost. Over the next several years, we feel this issue must be addressed by FHFA to ensure the financial stability of the non-bank sector which is critical to the health and stability of the overall housing market.

1. **More financial support during litigation and in protection of lien position**

When unintentional errors are made by servicers those errors and all related costs are borne by the Servicer. However, if a borrower sues and makes *any* allegation of wrongdoing on the part of the Servicer, the Servicer is responsible for all legal fees even when a Court conclusively determines no Servicer error occurred. While litigation is a fact of life in mortgage servicing, the current standard is. simply unfair and not sustainable. We propose that enterprises share in this cost to servicing organizations. By our estimate, we spend approximately $10+ million annually on this type of non-routine litigation. This is one very important component in the servicing compensation model that is broken and must be fixed to insure stability in the system in times of stress.

1. **Disaster Preparedness**

When a natural disaster occurs, we want to offer homeowners consistent and adequate aid in a time of great stress for these borrowers. Today, due to different requirements of the enterprises, our response is inconsistent from borrower to borrower. The relief a homeowner receives regarding its mortgage should not vary on which enterprise carries or underwrote the credit risk. We encourage you to add a section to your goals to make a commitment to developing one disaster plan that encompasses all the enterprises overseen by the FHFA and this approach should be coordinated with CFPB.

**Strategic Goal 3 – Manage the Enterprises’ Ongoing Conservatorships**

1. **Common Securitization Platform/Common Underwriting Characteristics**

To enhance the common securitization platform, it seems logical that investors will seek commonality in underwriting characteristics. If underwriting requirements significantly vary, performance of the loans originated under each of the GSE’s guides will also differ. Investors will ultimately price for this variance, causing subsidization of one GSE by the other. That scenario could destabilize the common securitization platform. Additionally, originators are looking for consistency in guidelines to have fungible sales between the two entities.

1. **Credit Risk Transfer – Better for the marketplace**

We applaud the FHFA and the enterprises in the steps they have taken in Credit Risk Transfer transactions. We believe that these transactions are a very important step in getting private capital into the residential mortgage system. . By reporting on the credit quality and performance of loans, the prices paid by investors purchasing the credit risk, and the guarantee fees charged by the agencies, market participants can gain better insight into both performance and benefit of retention/securitization. Previously, the performance of loans was limited to generic vintage and geographic characteristics. With common data requirements and more granular reporting required when selling off credit risk, the market is better positioned to gauge credit performance across a broad variety of loan characteristics.

Thank you again for the opportunity to share our thoughts. We look forward to the next chapter in our partnership with FHFA.

1. The GSE servicing fee model is used extensively in the PLS sector of residential consumer finance as “market” pricing. Thus, the role of FHFA in regulating the Enterprises also has indirect effect on the PLS market as well, due to the size of the Enterprises in the residential mortgage market. [↑](#footnote-ref-1)