



**National Association  
of Federal Credit Unions**  
3138 10th Street North  
Arlington, VA 22201-2149

NAFCU | Your Direct Connection to Education, Advocacy & Advancement

December 22, 2011

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

Re: Alternative Mortgage Servicing Compensation Structures

Dear Director DeMarco:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions (FCU), I am writing to you regarding the discussion paper on alternative mortgage servicing rights (MSR) compensation structures, issued by the Federal Housing Finance Agency (FHFA) on September 27, 2011. The discussion paper is a result of a collaborative effort between FHFA, Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA).

The discussion paper outlines two alternative MSR compensation models. Under the first alternative, Fannie Mae and Freddie Mac (collectively, the GSEs) would pay 12-20 basis points, much lower than the 25 basis points they currently pay in servicing fees. In addition, mortgage servicers would be required to maintain a reserve account for nonperforming loans. The second alternative, far more radical, would replace the current structure with a “fee for service” model, under which servicing fees would be established at set amount per loan per month. The set amount would, effectively, be \$10 per loan per month. Due to the structure, the volume of loans in a lender’s portfolio, not the size of the loans, would be favored.

#### General Comments

NAFCU is gravely concerned about the course of action that the FHFA appears to be taking with respect to MSR compensation structures for mortgage loans guaranteed by the GSEs. For the reasons outlined below, we oppose both alternative structures and urge the FHFA, the GSEs, and the FHA to keep the status quo until congress completes its work on the reform of the secondary mortgage market. Should changes be deemed necessary, we strongly urge you to institute small changes rather than radical departures from the current structure. Radical changes, such as the proposed “fee for service”

structure, would have great negative impact on mortgage servicing and inevitably harm credit union mortgage lending.

As you know, NAFCU has long been concerned about the ramifications of changes to the secondary mortgage market that do not adequately and fairly take into consideration the interest of our nation's credit unions and their 93 million members. NAFCU believes that equitable access for credit unions to the secondary market must be at the heart of policy making decisions on GSE reform or policy changes on any aspect of the GSEs' practices. Access to the secondary market can be facilitated or hindered not only through congressional action, but also through the FHFA and the GSEs' own policies.

The ability to service their members' mortgages is very important for credit unions because as member-owners, credit union borrowers expect and receive competent and personal services from their credit unions. Receiving reasonable compensation for servicing their members' mortgages has been crucial for credit unions to provide this important service to their members.

NAFCU believes that the current servicing compensation structure is generally working, although we understand that some changes (mostly technical) could benefit all parties to mortgage servicing contracts. We strongly oppose the "fee for structure" alternative because it would be harmful for credit unions. A flat fee of \$10 dollars per loan per month will simply not be adequate to maintain servicing facilities of acceptable quality. We are also not convinced that the alternative structure that would compensate servicers 12-20 basis points and also require the maintenance of a reserve account for nonperforming loans is advisable at this time.

#### Potential Effect on Member-borrowers

One of the stated reasons for considering alternative compensation models is to improve the quality of service to borrowers. NAFCU strongly believes this objective would not be accomplished by either alternative model, although it is clear to us that the potential harm to the quality of service to member-borrowers would be far greater under the proposed fee for service structure.

As in other aspects of their business, the fees that credit unions receive from servicing are used to cover the costs of doing business. The current MSR fee structure has allowed credit unions to maintain necessary systems, train their employees, and investing in technology. Should either alternative be adopted, the quality of servicing may suffer.

Edward DeMarco  
FHFA  
December 22, 2011  
Page 3 of 3

### Increasing the Competitive Disadvantage

NAFCU believes that both alternatives would unfairly favor large volume mortgage lenders at the expense of small lenders such as credit unions. Should either alternative be adopted, larger lenders may seek to increase the number of loans they originate and sell in the secondary market in order to offset losses from lower compensation. By doing so, they would increase their already large market share and make it more difficult than it already is for smaller lenders to compete in the mortgage market.

### Timing of Proposal

Finally, NAFCU does not believe that the time is ripe for the FHFA to consider alternative mortgage servicing models. The FHFA is well aware that a number of bills have been proposed in both chambers of congress and it is becoming increasingly clear that Congress will be taking action in the not-so-distant future. We strongly urge the agency to wait for congress to fully debate and act on GSE reform before the agency considers restructuring mortgage servicing compensation.

NAFCU appreciates the opportunity to provide comments. Should you have any questions or would like to discuss these issues further, please contact me at [chunt@nafcu.org](mailto:chunt@nafcu.org) or (703) 842-2234 or Tessema Tefferi, NAFCU's Regulatory Affairs Counsel, at [ttefferi@nafcu.org](mailto:ttefferi@nafcu.org) or by telephone at (703) 842-2268.

Sincerely,



Carrie Hunt  
General Counsel and Vice President of Regulatory Affairs