



OHIO CREDIT
UNION LEAGUE

December 23, 2011

Submission to: Servicing_Comp_Public_Comments@FHFA.gov
Edward DeMarco, Acting Director
Federal Housing Finance Agency
1700 G Street, NW, 4th Floor
Washington, DC 20552

Re: Ohio Credit Union League Comments to FHFA's Alternative Mortgage Servicing Compensation Discussion Paper

Dear Mr. DeMarco:

The Ohio Credit Union League (OCUL) is the trade association for credit unions in Ohio that advocates on behalf of Ohio's 379 federal- and state-chartered credit unions serving their 2.7 million members. OCUL appreciates this opportunity to provide comments on the Federal Housing Finance Agency's (FHFA) Alternative Mortgage Servicing Compensation Discussion Paper (Discussion Paper).

Background Information

In February 2011, pursuant to the FHFA's Servicing Compensation Initiative in coordination with the U.S. Department of Housing and Urban Development (HUD) (the "Joint Initiative"), FHFA released a "Background and Issues" paper seeking to explore alternatives to the current mortgage servicing compensation structure. Based on input received from the public, regulatory agencies, and other interested parties during a series of FHFA sponsored listening sessions, in September 2011, the Joint Initiative subsequently released a Discussion Paper seeking comment on the implications of the two alternative mortgage servicing compensation proposals which remain under consideration. The comments below reflect the position of the OCUL.

National Servicing Standards Should Exempt Credit Unions

Mortgage servicing compensation has been the topic of industry debate for the last few years. However, recent headlines about the pervasively widespread and systemic failures by our nation's largest banks and mortgage servicing companies, most of which are bank subsidiaries, in failing to adequately provide services to borrowers during this severe economic and foreclosure crisis, have reignited the call for reform. The Department of the Treasury and HUD, in its February 2011 "Reforming America's Housing Finance Market – A Report to Congress" noted that the "*servicing industry was ill-equipped to serve the needs of borrowers...*" and that "*servicers' flat fee compensation structure also failed to provide appropriate incentives*" for firms to service troubled loans. As a result, FHFA has undertaken the development of uniform mortgage servicing compensation standards and solutions designed to (i) improve service for borrowers; (ii) reduce financial risk to servicers; and (iii) provide flexibility for guarantors to better manage non-performing loans, while promoting continued liquidity in the To Be Announced (TBA) mortgage securities market.



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Although OCUL is strongly and firmly in support of FHFA's efforts, it would like to note that the nation's credit unions, incited by their strong dedication to its 'people helping people' philosophy, can once again be touted as a shining example of success within the banking industry. As a result of this foundational tenet, the nation's credit unions have been protecting their member owners' neighborhoods "one house at a time" by being heroically proactive in their efforts to prevent "at risk" performing loans from becoming non-performing loans.

As the Joint Initiative undertakes the development of national mortgage servicing standards, OCUL would encourage FHFA to give heavy weight and credence to the fact that the nation's credit unions have been successfully servicing their mortgage portfolios and have not contributed to the negligent and faulty servicing problems which have been plaguing the too-big-to-fail banking institutions. Millions of borrowers and consumers have come to rely on credit unions to help maintain their dignity and way of life in the face of widespread economic uncertainty. Removing this critical safety net from the servicing industry will only increase the concentration in those institutions which have been shown a disregard for working with consumers, thereby causing even more harm to the very individuals which the Joint Initiative is seeking to help. Credit unions are deeply rooted in their communities, and know their members by name. The credit unions' operating standards and practices are reflective elements of this mutually beneficial partnership.

Credit unions have always acted prudently and conservatively in representing the best interests of their member owners by underwriting loans based on the credit unions' personal knowledge of their members and their individual circumstances, and their personalized approach to servicing those loans is a natural extension of the value placed on credit unions' relationships with their members. The vast majority of consumer complaints have been lobbied against the nation's top five mortgage servicing companies, which collectively control more than 65 percent of mortgage servicing rights (MSRs), and OCUL believes that it is egregiously unfair to ask credit unions, which are built on the philosophy of people helping people, to once again be subject to a continuing overreaching regulatory burden that inhibits credit unions from serving their members. Therefore, OCUL believes that credit unions should not be penalized for having such an unparalleled record of success either directly or indirectly as a result of unintended consequences.

The Potential for Negative Impact and Unintended Consequences of Moving Ahead

The current servicer compensation model has served the market well for decades and OCUL believes that the adoption of any alternatives for mortgage servicing are premature, as FHFA itself acknowledges in Section III – Current Servicing Compensation Model – of its Discussion Paper. As stated in this Discussion Paper, the current servicing fee structure, "a servicer is incited to keep loans current, or to restore loans to a performing status, in order to maintain their servicing fee cash flows."

Moreover, the Discussion Paper states that the feasibility of the proposal as it relates to accounting and tax treatment, trust considerations, risk management, treatment of the reserve account, origination economics, and other impacts are not yet determined and warrant further analysis from the industry, as the analysis of such issues is "beyond the scope" of the Discussion Paper. The Joint Initiative has requested, and presumably still awaits, comments from the housing finance experts in the industry regarding these and other issues proposed therein. Furthermore, both Fannie Mae and Freddie Mac are currently in the process of developing a standardized servicer guide which could significantly impact and alter any proposal that may be adopted. The dearth of information regarding the legal and financial

complexities that will be required by the Joint Initiative's mortgage servicing overhaul, as well as the scarcity of information regarding Fannie Mae's & Freddie Mac's development of standardized servicing, create a handicap that significantly impedes the ability of OCUL and others to perform adequate due diligence in evaluating the potential impact of the two remaining alternative compensation models under consideration.

Due to economies of scale, OCUL is of the opinion that instituting a fee-for-service payment structure which is volume-based rather than risk-based will have the unintended consequence of increasing concentration in the already heavily concentrated mortgage servicing arena. Instituting such a fee-for-service payment structure will provide an unfair advantage to the nation's largest "banking institutions," thereby making it even more difficult for credit unions to continue to provide the high level of personal and professional servicing operations which its members have come to expect.

If the Joint Initiative has decided that it must proceed in choosing and implementing an alternative, then OCUL believes, in its attempt to see clearly through muddy water the merits of the two alternatives under consideration, that the Joint Initiative's "Reserve Account" model would best enable it to meet its intended objectives by preserving those features that work extremely well while addressing some of the more troubling aspects of the current structure.

Conclusion

The Ohio Credit Union League would like to thank the Federal Housing Finance Agency for its consideration on these matters regarding alternative mortgage servicing compensation and its potential impact on credit unions. The Ohio Credit Union League appreciates the opportunity to present comments on behalf of Ohio's credit unions to FHFA regarding the same. OCUL is available to provide additional comments or information if so requested. Again, thank you for your consideration on this matter. If you have any questions, please contact me at (614) 923-9766 or jkozlowski@ohiocul.org.

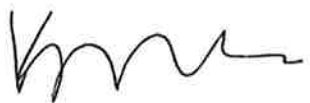
Sincerely,



John F. Kozlowski
General Counsel



David J. Shoup
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Valerie Edgington, CUCE, BSACS
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cc: Mary Dunn, SVP and Deputy General Counsel, CUNA
Paul Mercer, President, Ohio Credit Union League
Tim Boellner, Chair, Ohio Credit Union League
Jennifer Ferguson, Chair, OCUL Government Affairs Committee