**Comment on Alternative Mortgage Servicing Compensation**

**After carefully weighing the proposed Servicing Fee Compensation structures, we submit the following in response to Federal Housing Finance Agency (FHFA) request for comments**:

**Preferred Servicing Compensation Structure for GSE Loans**

 Fee for Service

 Bifurcation of Selling Reps and Warrants

 Issuer/seller option of Retaining Excess IO

**Rationale**

Servicing fees derived from an interest rate strip based on loan amount are not correlated to the cost of servicing a loan whereas a flat dollar amount per loan could be established to reflect actual costs.

Fannie Mae and Freddie Mac have already made a significant move towards the Fee for Service model with the introduction of servicer incentive fees for delinquent loan servicing.

Bifurcation of selling and servicing representations is key to the liquidity of mortgage servicing rights. It is a flaw in the current structure that a servicer take unlimited selling representations insofar as the servicer did not originate the loan or sell it to Fannie Mae or Freddie Mac.

Ability to retain an excess IO strip allows, but does not require, originators/servicers to retain a future cash flow if doing so is consistent with their capital investment objectives.

**Considerations**

Establish a Servicing Fee framework, perhaps overseen by an independent accounting firm, to determine appropriate servicing fee levels based on industry servicing costs.

With respect to MBS/PC investor concerns about prepayment speeds on the Fee for Service structure, we strongly disagree that servicing compensation will change the originator/servicer’s incentives to accommodate refinance loans. The issue is better addressed by the GSEs establishing net borrower benefit standards for refinance loans.