December 12, 2011

Mr. Edward DeMarco

Acting Director

Federal Housing Finance Agency

1700 G Street, NW, 4th Floor

Washington, DC 20552

Dear Director DeMarco:

I want to thank you for the opportunity to voice my opinion concerning the *Alternative Mortgage Servicing Discussion Paper* (Discussion Paper), released on September 27, 2011. In light of the recent financial crises, it is certainly understandable any interest the Federal Housing and Finance Agency (FHFA) might have in the insuring of acceptable servicing standards for borrowers, reduced financial risks to all parties involved in the servicing and guaranteeing of mortgages, provide investors more control over non-performing loan management and to maintain a competitive market for the origination and servicing of mortgages.

My company, Central Mortgage Company (CMC), is a service subsidiary of a bank holding company. CMC does not originate mortgages instead we service the mortgages made by our affiliated banks. Our affiliated banks enjoy extremely low delinquencies while operating under a community banking model. We know our customers well through other business and community relationships. We pride ourselves on service at all levels. Our customers are serviced through their local bank, bank account manager and servicing representative.

I have grave concerns over the consequences of the proposals outlined in the Discussion Paper. First and foremost is that the existing servicing fee structure has worked well for decades in the vast majority of cases. I am certain that such a radical deviation from the present structure as suggested in the Discussion Paper will have irreparable consequences for the following reasons:

* A dramatic service fee reduction will likely impair the value of the existing mortgage servicing rights now capitalized on servicers’ financial statements. I can only speak for my company and we would not be willing to pay current multiples for servicing rights that as a result of possible refinancing of the mortgage the servicing compensation would be dramatically curtailed. This will lead to impairment concerns for every servicer and even possibly solvency issues as they mark their servicing rights to market.
* With capital requirements being diminished, if not eliminated, under these proposals I would expect to see further consolidation in the servicing arena. With what this great nation has had to endure as a result of taxpayer bailouts of companies “too big to fail” this will only exacerbate this type of risk in the servicing area.
* The Discussion Paper proposals are counterproductive and diminish the incentive of using best practices when collecting accounts in the early stages of delinquency as servicers of performing loans will be forced to reduce collection staffs for earnings reasons or reallocate them to non-performing loans. Over time this will only lead to high delinquencies.
* Under the reserve methods the value of the interest only strip will be compressed in value by illiquidity associated with odd lot sizes and initially a non-existent market.
* The fee for service proposal will for certain reduce borrower contact to automated, non-human means for the sheer economy of scale. This seems to be contrary to what is needed after borrowers had difficulties getting meaningful information from some large servicers regarding their mortgages and loss mitigation options during the financial crisis.
* Borrowers will experience a greater cost of financing as lenders profit margins are curtailed as a result of increasing costs and reduced servicing fees. This also seems counterproductive to all the measures government has employed in an attempt to reinvigorate the economy.
* Finally, it is impossible for servicers to know their ultimate cost to service with pending Fannie Mae, Freddie Mac, attorney generals, regulators and consumer groups calling for a more robust national servicing standard. In light of this one fact, it is impossible to properly opine on any proposal. In addition, the proposal does not properly address accounting and tax issues that must to be factored into any proposal.

I strongly urge the FHFA to leave the existing servicing fee structure in place or at a minimum to postpone any changes to the existing structure until all of the abovementioned issues have been properly addressed.

Very Respectfully,

Rick W. Hollenberg

President

Central Mortgage Company

Cc: Senator Roy Blunt

 Senator Claire McCaskill

 Congressman Todd Akin