PHH Mortgage

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November 26, 2012

FHFA Office of Policy Analysis and Research
400 Seventh Street SW, Ninth Floor
Washington, DC 20024
gfeeinput@fhfa.gov

Re: State-Level Guarantee Fee Pricing

Ladies and Gentlemen:

PHH Mortgage Corporation ("PHH") is pleased to comment on the State-Level Guarantee Fee proposal ("G-Fee Proposal") published in the Federal Register by the Federal Housing Finance Agency ("FHFA") on September 25, 2012. PHH believes its business model and long track record of quality mortgage loan originations makes it a valuable and credible resource for the FHFA as changes to the guarantee fee structure are evaluated.

FHFA specifically asked for feedback on three questions in the G-Fee Proposal; FHFA's questions and PHH's feedback are set forth below. In addition, PHH has provided two other comments for FHFA's consideration when implementing the G-Fee Proposal.

1. **Is standard deviation a reasonable basis for identifying those states that are significantly more costly than the national average?**

   Yes. FHFA has proposed utilizing the standard deviation as the basis for evaluating a state's foreclosure cost. Sample sizes are sufficiently large to warrant the use of statistics to determine the high cost states. Please note, state foreclosure costs are not normally distributed. Foreclosure costs can't go negative which creates a skewed tail. However, even with this limitation, we believe the methodology is an acceptable approach to identify high cost states.

   PHH believes the methodology currently set forth in the G-Fee Proposal incorporates a natural bias with respect to identifying states that are very high cost outliers without allowing extremely low cost states to be identified. Since it is not possible for a state to have a negative total time to obtain a marketable title or for the indexed cost per day to be

less than 0, the $0 lower bound makes it very unlikely any state will be 2 or more deviations better (lower) than the mean without a smaller deviation. Using the data provided in the G-Fee Proposal and assuming equal weighting among states, the lowest cost states are barely 1 standard deviation less than the mean. Furthermore, states would need an index score of less than 0, which is not possible, in order to be 3.0 deviations from the mean. In an effort to reward the lowest cost states, PHH believes a 1.0 standard deviation threshold should be applied.

PHH believes there is a need to incorporate any future changes in state legislation regarding the foreclosure process into the future re-assessments of state-level guarantee fees. If legislation is enacted to reduce foreclosure costs in high cost states, the use of state-level guarantee fees may no longer be required.

2. Should finer distinctions be made between states than the approach described here?

Yes. PHH believes finer distinctions should be made between states. PHH urges the FHFA consider a state's projected default rate, in addition to holding costs, when determining state level guarantee fees.

PHH agrees with FHFA's suggestion to incorporate additional variables including the estimated impacts of recently enacted laws and their impact on per day carrying costs in future analysis.

3. Should an upfront fee or an upfront credit be assessed on every state based on its relationship to the national average total carrying cost, such that the net revenue effect on the Enterprise is zero?

No. PHH does not believe it is necessary to assess an upfront credit or fee for every state based on its relationship to the national average. PHH believes assessing fees or credits for every state likely creates a disproportionate amount of risks and administrative costs compared to the negligible costs or benefits to borrowers.

In the event a state's fees are significantly lower than the mean, PHH believes those states should receive an upfront credit. PHH believes the benefit and the cost should only be applied in cases of more than 1.0 standard deviation from the mean. The use of a 1.0 standard deviation threshold helps to mitigate the standard deviation bias discussed previously by rewarding the lowest cost states. Based on the data provided, PHH estimates four states would be eligible for a credit based on its relationship to the national average.

Additional Considerations

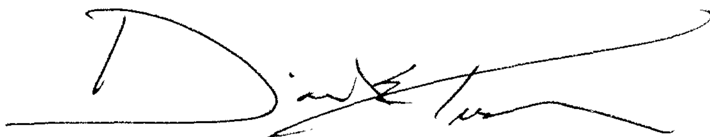
PHH would also like to propose that FHFA consider making any pricing adjustments in even $1/8^{th}$ point increments, rather than the specific basis point increments (15, 20, and 30 basis points) contained in the G-Fee Proposal. Setting the pricing adjustments in $1/8^{th}$ point increments would conform to current industry-wide retail origination pricing standards. Pricing in non-eighth increments may have unintended consequence of either lenders subsidizing the proposed state level fee across all borrowers or the lenders rounding the fee to the nearest eighth of a point. In either case, borrowers may not be impacted as intended.

In addition, PHH proposes that FHFA consider providing lenders at least 180 days advance notice of the required implementation date of the G-Fee Proposal (as finally adopted). Past changes to guarantee fees were modifications to existing rules; however, state-level guarantee fees require new rules and logic to be created in lenders' origination system. In order to facilitate sufficient design and testing time for the new guarantee fee rules, PHH believes at least 180 days is required.

Conclusion

PHH appreciates the opportunity to comment on the G-Fee Proposal. Overall, we believe the intent to remove subsidies provided to higher cost states through nationally based guarantee fees makes sense, but believe credits should be provided to states with costs more than 1 standard deviation less than the mean. PHH would be happy to engage in further dialogue if desired.

Respectfully submitted,



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