From: Stephen Lange Ranzini
To: #Servicing Compensation
Subject: Servicing Comp Public Comment
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December 27, 2011

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

Dear Mr. DeMarco:

As President & CEO of a community bank that specializes in mortgage banking, I strongly agree that mortgage servicing fee compensation must be handled for in a new manner. The working paper "Alternative Mortgage Servicing Compensation Discussion Paper" presents a reasonable approach in the "Fee for Service" model.

1) What are the impacts of these proposals on the competitive landscape in origination and servicing markets, service to borrowers, and efficiency in secondary markets?

Fee for Service will give small institutions that are concerned by the volatility of MSR valuations the opportunity to eliminate this substantial risk. Fee for Service is the reasonable choice as it gives each servicer the opportunity to service mortgage loans without adding the risks associated with the MSR asset or to elect to retain excess in the form of I/O value should they choose.

In the case of community bank, credit union and small mortgage bank servicers, Fee for Service will give the ability to retain servicing with much less risk and at the same time keep the relationship with the borrower. Often the MSR is sold to the "Mega-bank" servicers because of the risk of holding MSR and the fees the "Mega-banks" are paying for the MSR.

Fee for Service should be the structure for agency servicing going forward.

We would like the MINIMUM service fee required to be retained to be as low as possible, and be a fixed dollar amount, say $10 per loan per month. Other institutions may opt to retain higher amounts and that is fine that they opt for "excess servicing fee income".

One other consideration is the level of Net Worth Required to be a Fannie Mae Seller/Servicer. Today, in order to be a Seller under the Fannie Bifurcated (separating Origination and Servicing Reps and Warrants) Co-Issue program, an entity must have a Tangible Net Worth of $15 Million—up considerably from the standard capital requirement. The Fee for Service model entails bifurcation of Origination Reps and Warrants as well. PRESUMABLY, (because the proposal is silent on this point) the net worth requirement will be going up to that level if the FFS model is adopted by FHFA. However, since our capital is $10 million, we and many other community banks would be prevented from participating in this program and would lose the competitive advantages outlined above. We strongly believe that ALL Fannie Mae, Freddie Mac, GNMA and FHA Seller/Servicers should be able to access this program on a non-discriminatory basis.

2) What are the benefits and/or the impediments to your business model of having a capitalized MSR asset?

We will be able to compete on a more level playing field for mortgage origination business.

a) Does a capitalized MSR impede competition in the servicing and origination market?

Yes. We cannot hold a large amount of servicing rights since they are volatile and Wall Street hates volatility. Volatility in earnings makes our bank an unattractive investment. Since we have to sell most of the servicing rights we generate, these tend to accumulate at mega bank servicing

b) Does the impact vary across various business and interest rate cycles?

No. The volatility of earnings caused by the ongoing mark to market of MSRs is bad, whether its income or loss volatility is bad.

c) Does the impact vary across size of servicers and originators?

Large organizations are less immune to this problem, because MSRs can be a very small part of a huge organization and because a huge organization has greater ability to time the triggering of gains and losses or are able to hoodwink their auditors and regulators by not marking to marking these assets appropriately (we have seen evidence of this occurring in the past).

d) Would greater transparency in MSR valuation improve the competitive landscape?

No. Valuing MSRs is itself the problem that we need to fix.

e) What is the impact of a potential reduction in tax Safe Harbor?

This has no important to us.

f) Should the servicer be required to hold a capitalized MSR asset (effectively be an IO investor) as a condition of performing servicing activities?

No, as mentioned the IO is a bad investment and a toxic asset. No entity should hold them. Reps and warranties are sufficient as a condition to performing servicing activities. If there are many violations of reps and warranties, there will be a large liability booked by that institution which is a sufficient penalty to combat moral hazard since poorly performing originators and servicers will suffer quarterly and immediately great losses.

<u>3) Should a lender's excess IO remain contractually attached to the MSR, or would seller/servicers prefer to have the excess IO be a separate stand alone asset (unencumbered by the Enterprises)?</u>

We feel that the excess IO could remain contractually attached to the MSR or be sold at any time. Maximum flexibility is best.

a) Does the impact from market-based pricing of the excess IO vary across size of servicers and originators?

Servicers who are inefficient will have some competitive disadvantage because they will have to hold additional excess IO and therefore will have less upfront profit from each mortgage originated. That is however the case today in reality, however some entities game the system by using phony accounting to mask the effect. Allowing a very low minimum servicing fee will prevent these mega bank entities that use accounting fudges now to generate fake earnings, and solve this problem.

b) Does contractually separating the excess IO from the MSR create more liquidity and price transparency?

No I don't see why that would.

c) Is the flexibility to separate the operational activities (servicing) from the financial management activities (investing in and managing MSR/IO exposure), as outlined in the Fee for Service proposal, beneficial or harmful to the industry?

This would greatly benefit smaller institutions and over time greatly degrade the market share of the mega banks, which is a very good thing and a social good.

<u>4) Would these proposals encourage greater investment in non-performing loan operations or abilities in a benign market cycle?</u>

Separating routine servicing compensation from default management compensation is a good idea. The agencies should pay

for whatever loss mitigation activities that they want to occur. That might change at different points in the economic cycle. They might want to have many expensive programs during depressionary conditions (like now) and few programs during boom times.

a) How does this impact the alignment between guarantor and servicer interests?

It helped a lot to align interests.

b) Would this improve service to borrowers?

During depressionary environments, the fees for service would be available to handle the required work. The current model doesn't enable that at all. The incentive is to cut corners as much as possible based on the ethics of the managers involved. As we've seen the temptation is too great for some not to cut a lot of corners.

5) What would be the impact of the proposals on the TBA market if there were no MSR capitalization?

I believe that many more loans would be securitized by smaller and midsized institutions and the TBA market would therefore become much more liquid and tradeable.

a) To what degree might the net tangible benefit test and other suggested provisions help mitigate any potential negative impact on the TBA market? No opinion.

b) What additional steps can we take to assure continued liquidity in the TBA market? No opinion.

6) Should any of the following provisions that were proposed in the fee for service proposal be considered independent of any other changes to servicing compensation structure?

a) Bifurcation of selling and servicing representations and warranties No. Imposing subservicers with additional reps and warranties would tend to decrease competition in that line of business which would not be good as you would again end up with a few mega subservicers.

b) A net tangible benefit test for streamlined refinances Yes. Anything that helps people struggling to refi to lower rates is a good thing.

c) Restriction of the amount of excess IO in a given pool No, maximum flexibility is good.

d) Limitation of P&I advance requirements Yes, this would help smaller players reduce risk in a blow out depressionary environment.

e) Flexibility for excess IO execution Yes, it would be really good to be able to sell all EXISTING excess IO to the GSEs that bought the loans as this would allow the agencies to earn some good fee income while eliminating a volatile, toxic asset from the books of the banking industry.

Sincerely,
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magazine, the recipient of the American Bankers Association's 2009 "Community Bankers of the Year" Award and as the second fastest growing business of any type in the Greater Detroit Region by Crain's Detroit Business in 2009. As of 9/30/2011, University Bank was managing $10.0 billion in financial assets for its customers.

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