Veterans United
Home Loans

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NMLS 1907

June 22, 2015

Mortgage Servicing Rights Task Force
Conference of State Bank Supervisors
1129 20th St, NW, 9th Floor
Washington, DC 20036

Re: **COMMENTS ON PROPOSED REGULATORY BASELINE AND ENHANCED PRUDENTIAL STANDARDS FOR NON-BANK MORTGAGE SERVICERS**

Members of the Mortgage Servicing Rights Task Force:

Veterans United Home Loans appreciates the opportunity to comment on the proposed regulatory baseline and enhanced prudential standards for non-bank mortgage servicers. As one of the nation's largest VA purchase lenders, we take pride in our servicing of GNMA backed loans as an extension of our customer service and service to our nation's military Veterans. The company's comments are divided between the baseline and enhanced standards.

You will find our comments to be based on the strong concern the standards set forth by the Task Force to be repetitive of standards put forth by federal regulators with jurisdiction and therefore unnecessarily duplicative. This duplication will inevitably increase cost to the mortgage process. Additionally, the burden of a state regulator having to increase FTE to monitor and enforce new standards may cause an increase in state budgets. Therefore the duplicative regulation would be increase costs to taxpayers.

As a servicer, Veterans United services loans in GNMA portfolios. Loans with GNMA maintain an explicit U.S. government guaranty to bond holders. GNMA is ultimately liable for any defaults and, accordingly, should be responsible for regulating the health of its non-bank servicers. In any failure or default event, GNMA simply takes over the entire portfolio, and the servicer no longer has any rights to the portfolio, so state regulations do not add any meaningful protection against systemic risk in these portfolios. This is a similar scenario for the GSEs, Fannie Mae and Freddie Mac.

It is Veterans United's position that loans in GNMA, FNMA and FHLMC portfolios should be entirely exempted from the prudential standards such that they, alone, will not cause any company to be subject to the baseline standards and also do not count toward qualifying a company as subject to the enhanced standards. Ultimately, these standards do not appear to improve customer service, and are focused only on investors. This responsibility should rest with the agency or GSE.

Specifically in regards to VA Loans, the safety and soundness of the product is well documented, along with the servicing efforts the Department of Veterans Affairs Loan Guaranty Service employs.

Following are additional comments on specific proposed standards proposed by the task force.

Comments on Baseline Set of Prudential Standards for Non-Bank Mortgage Servicers

Capital and Liquidity

While Veterans United sees the standard as reasonable, it also sees it as duplicative and unnecessary given that it is already set forth by FHFA. GNMA, FNMA and FHLMC should each set its own standard.

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Risk Management
Requiring a formal risk management program may not be the most practical or best approach to establishing that firms are addressing risk. Companies can address risk effectively without establishing a formal program. As long as a company is able to demonstrate the ability to monitor, measure and mitigate or address risk, a formal program should not be a necessity. ERM programs have not always been found to be effective in their implementation, so reliance on the existence of a program should not give the impression or assurance that risk is being adequately addressed.

Data Standards and Protection
The standard set for each is a duplicative regulation because, as recognized by the Task Force, CFPB has this requirement in place and provides an exemption as Congress intended. The Task Force included proposed standards from FHFA for Capital and Liquidity. It should in turn consider legislation being considered in Congress as direction.

If this standard moves forward, the Task Force should specifically consider subservicers and responsibilities they maintain. Dissuading the use of a subservicer can have a negative impact on consumers because subservicers are often times looked upon for expertise.

Corporate Governance
Veterans United follows this proposed standard as required by regulation and GSEs. This may be duplicative.

Servicing Transfer Requirements
The proposal references existing requirements by the CFPB and FHFA, which creates unnecessary redundancies. Veterans United is concerned the proposed standards will be worded in such a way that additional requirements will be placed on servicers or creating unnecessary conflicts among regulators.

Change of Control Requirements
The company sees 10 percent ownership change as being reasonable for notification only. As a mortgage lender it is required by many states to already provide notification only.

<u>Veterans United's comments on the Enhanced Set of Prudential Standards for Non-Bank Mortgage Servicers</u>
In general Veterans United is concerned with how the enhanced standards will be applied, and varying laws that will set them forth.

Capital and Liquidity
The company sees cause for concern in how the uncertainty with how "more complex" entities will have different capital and liquidity requirements than those outlined in baseline standards. Confusion in the proposal, along with conflicting requirements among regulators will increase risk unnecessarily.

Stress Testing
The company is supportive of stress testing, and believes expectations must be put forward clearly.

Living Will and Recovery Resolution Plans
The company has no comments on this section.

Questions for Public Comment

1. *Should all non-bank mortgage servicers be required to have a full financial statement audit conducted by an independent certified public accountant?*
   The company sees no issues, but it is duplicative to what is already expected of it by GNMA.

2. *Should there be a 6 percent net worth requirement in addition to the minimum capital requirement plus add-on?*
   The company does not see the 6 percent net worth requirement as a reasonable requirement as an addition to the already proposed minimum capital requirement plus add-on. Alternatively, companies should be able to demonstrate how adequate capital levels are computed internally in regards to contingency planning and for maintaining adequate capital reserves, and to show how these levels are met.

   The company also sees this as unnecessary given the FHFA and the GSEs finalizing eligibility standards changes.

3. *Is the Fannie Mae and Freddie Mac proposal to require more liquidity when delinquencies rates rise reflective of increased risk? What operational challenges does the standard create?*
   Yes, the proposal by Fannie and Freddie is reflective of increased risk, and this will create the need to plan for increased liquidity when assuming more risk in the servicing portfolio.

4. *How should state regulators approach formulating a prudential standard for liquidity, considering a firm's potential cash outlays for both private label and GSE backed paper?*
   The company's view is that regulated entities should be able to demonstrate planning for potential cash outlays and how those will be met rather than to have rigid levels of required liquidity.

5. *What is a reasonable ownership percentage threshold to trigger a change in control event?*
   The company sees 10 percent as reasonable for notification only.

6. *Which criteria should be used to determine the firms that are subject to enhanced prudential standards?*
   Annual servicing volume, overall servicing UPB and total net worth should be viewed. Most importantly, the type of servicing being performed is the top indicator. Agency and GSE portfolios should specifically be monitored and regulated by the respective entities as duplication will only lead to potential confusion.

7. *Do any of the Baseline Standards threaten the viability of a servicer?*
   The amount of duplication and increased cost certainly threaten viability. Removing Congressional exemptions for small servicers are an additional threat. Conflicting regulations, already at play nationally among state and federal regulators, also create threats to servicers.

   The likelihood these standards will be implemented uniquely and independently in 51 different versions throughout the country certainly will threaten viability and customer options.

8. *What is a reasonable transition period to implement the Baseline Standards? Are there specific standards that would require additional time to implement?*

Full implementation would take one to two years. If ERM is required in the baseline standards then two to three years would be needed. Additionally, other regulators should be given time to adequately address regulations in conflict.

Implementation will also be governed by how standards are codified. Administrative rules and new legislation have no guarantee of approval or passage. This will have significant cost and uncertainty to the industry.

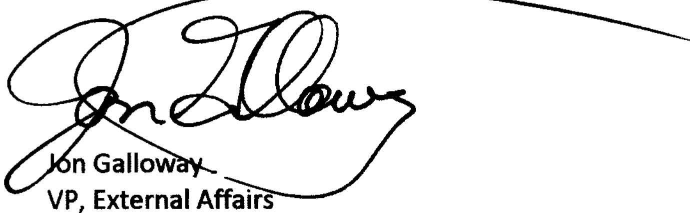
9. *What timeframes would be appropriate to implement each of the enhanced standards?*
   Two years would be appropriate though with no guarantee for implementation by rule or statute.

10. *What effect will the enhanced standards have on the warehouse and advance facility borrowing contracts/capacity of large servicers?*
    The standards will cause due diligence to be more extensive. Standards could increase market liquidity for some while others might be pushed out of the market due to failure to comply to enhanced standards.

11. *Is a prescribed risk-weighted capital adequacy measure more appropriate than a company established capital adequacy methodology for complex firms subject to enhanced prudential standards?*
    It may make some sense to have prescribed measures, but larger, more complex firms should have internal methodologies for establishing capital adequacy in place. If a complex company does not embrace this philosophy and concept internally, it will likely not last which could have a negative impact on borrowers, investors, and other stakeholders.

Again, the company appreciates the opportunity to provide comments and looks forward to the next round of discussion. The company will also update comments as more clarity is brought to the conversation.

Sincerely,



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