UNIONHOME MORTGAGE

December 8, 2020

VIA EMAIL

John Ryan
President & Chief Executive Officer
Conference of State Bank Supervisors
1129 20th Street, NW, 9th Floor
Washington, D.C. 20036
PS.Publiccomment@csbs.org

RE: Proposed Regulatory Prudential Standards for Nonbank Mortgage Servicers

Dear Mr. Ryan:

Union Home Mortgage Corp (i.e. "UHM") appreciates the opportunity to provide feedback on the Proposed Regulatory Prudential Standards for Nonbank Mortgage Servicers (i.e. "the Proposal"). As stated in the Proposal's Executive Summary, nonbank mortgage servicers perform an important role within the financial services industry, and that role is controlled by consumer protection laws established to protect borrowers and investor protections for those who own the mortgage-backed security. State regulators believe that a sound financial condition and safe management practices are essential to compliance and consumer protections, and UHM agrees with this position. In striking a balance between consumer and investor protections and safety and soundness guidelines, regulatory requirements (i.e. new standards) should not hinder a nonbank servicer from serving a broad consumer base and should not unnecessarily increase the cost and availability of credit for consumers.

While generally in support of the Proposal, UHM is concerned about consistent adoption of these standards across all states and believes that the success of implementing these standards lies in all states uniformly adopting the standards. Lack of uniform adoption defeats the purpose of such standards and will lead to a patchwork of standards by which servicers would have to comply. UHM encourages CSBS to do what it can to ensure all states uniformly adopt the standards, including perfecting the multistate exam process in its execution, follow up on exam findings and corrective action, and indicating when exam responses are acceptable and the exam is complete.

In addition to these comments, UHM offers the following feedback and considerations in response to the specific questions posed on pages 29 – 31 in the Proposal.

General

UHM supports the alignment between Federal and state standards. There are already a plethora of rules governing mortgage servicing activity; additional, duplicative requirements would make complying unduly burdensome and would increase costs to consumers. UHM encourages CSBS to work closely with Fannie Mae, Freddie Mac and Ginnie Mae to ensure all parties are in alignment regarding the servicing standards.

Also of significant importance, and as stated above, is the adoption of these new standards by all of the states. Uniform adoption and application will result in more standardized exam experiences and output that can be compared uniformly among all nonbank servicers. And uniform adoption and application will result in lower costs to the servicers which would be passed on to the consumer. Or another way of saying it, consumer costs will not rise because there is one set of standards that nonbank servicers will be held to and the servicers will not have to implement requirements unique to a particular state.

Regarding an implementation timeline, UHM supports a 12-18-month transition period. UHM is also in favor of giving a servicer transitioning to the definition of Complex Servicer a period of 12-months to comply with those new-to-them standards.

Coverage

UHM agrees with the scaled approach where all servicers are subject to Baseline Standards and only Complex Servicers are subject to Enhanced Standards. Baseline Standards, as defined in the Proposal, represent a minimum starting point for safety and soundness standards which can be adapted by a servicer of any size and therefore should apply to all servicers.

UHM does not believe that there should be a de minimis threshold for applying Baseline Standards. State regulators should apply a risk-based approach in selecting which servicers to examine, but the standards should apply to every servicer. Smaller servicers can adapt the standards and implement programs suitable for its size and business model.

It is UHM's understanding that requirements would be applied differently to institutions that only subservice versus those institutions that both service and sub-service. For servicers who do both, the requirements treat sub-serviced portfolios differently than serviced portfolios in terms of net worth and liquidity. UHM agrees that the Baseline Standards should apply to servicers who only sub-service and those who service and/or do both and understands, and agrees with, why the sub-serviced portfolios would be treated differently regarding net worth and liquidity.

UHM believes that the proposed threshold defining a Complex Servicer is appropriate (i.e. servicers owning whole loans plus mortgage servicing rights totaling $100B or representing at least a 2.5% total market share). The proposal gives some leeway to state regulators to identify servicers or sub-servicers as meeting the definition of Complex Servicer based on a "unique risk profile, growth, market importance or financial condition." These characteristics, as stated, are vague and could result in 50 states having different definitions which would result in servicers inconsistently identified as Complex Servicers. UHM encourages CSBS to better define what is meant by "unique risk profile, growth, market importance or financial condition" so that the guidance can be uniformly applied.

Capital and Liquidity

UHM supports the alignment of the Proposal's capital and liquidity components with existing and future FHFA Seller/Servicer requirements for conforming and non-conforming loans. This leverages existing guidance without adding new layers of complexity with which to comply. GNMA MSR capital and liquidity requirements should align with GNMA requirements.

UHM concurs with the components included in the calculation of net worth.

UHM agrees with the definitions for the two types of liquidity needs (i.e. Servicing Liquidity for the direct performance of servicing and Operating Liquidity for general operations) and does not propose alternative definitions.

UHM agrees with the alignment of Allowable Assets for Liquidity with FHFA's 2019 Servicer Eligibility 2.0 Proposal, however UHM objects to not being able to include some portion of the unused committed capacity on servicing advance lines and asks CSBS to consider this especially given the recent experience with COVID-19 and non-bank servicers' demonstrated ability to secure expanded access to warehouse financing in order to meet unprecedented consumer demand.

The requirement to incrementally increase liquidity by 200 bps for non-performing loans (i.e. "NPL") UPB dollars greater than or equal to 6% is pro-cyclical meaning that there is a higher liquidity requirement when times are stressed which means actual liquidity declines. UHM believes the Proposal's goal is to ensure that servicers have cash on hand to make it through tough times. Sufficient evidence of prudential risk management should be a servicer that maintains the stipulated liquidity requirement with the NPL add-on during periods of stress, therefore, UHM requests CSBS consider removing the NPL add-on.

Corporate Controls

UHM concurs that the Risk Management standards appropriately capture risks faced by non-bank mortgage servicers but cautions that not all non-banks have a board of directors. UHM requests CSBS to consider additional language that board of directors can also mean the CEO, senior management, senior officers or individuals with similar titles and job responsibilities as appropriate for the corporate structure and size of the institution.

The Data Protection standards are reasonable and represent standard industry requirements. It makes sense to align these standards with the existing CFPB's Mortgage Servicing Rules.

UHM feels it is appropriate to rely on the Ginnie Mae audit standards for Corporate Governance.

The proposed change of control requirements aligns with existing Ginnie Mae requirements regarding notification timeline and threshold for determining control. UHM encourages the

CSBS to consider adding language that all state regulators should use the Nationwide Multistate Licensing System & Registry (NMLS) process for change in control notifications.

In conclusion, non-bank servicers are already subject to robust supervision by the Consumer Financial Protection Bureau, its warehouse lenders, and Fannie Mae, Freddie Mac and Ginnie Mae. UHM understands the need and desire to create uniform servicing standards by which the states would uniformly apply those standards. UHM supports that effort so long as the Proposal leverages supervision already in place and does not hinder a non-bank servicer from serving a broad consumer base and does not increase costs. Key to this is the states uniform adoption of the rules once finalized.

Thank you for considering UHM's feedback. Please direct questions to Bill Cosgrove, President and CEO at Union Home Mortgage, at 440-297-2477 or bcosgrove@unionhomemortgage.com.

Sincerely,

C. William Cosgrove
President and Chief Executive Officer
Union Home Mortgage Corp.