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Lenders One® Urges FHFA to Adopt ‘Fee for Service’ Servicing Compensation Model

Cooperative sees FHFA’s fee-for-service proposal providing much needed ‘optionality’ to industry participants

ST. LOUIS, MO (December 23, 2011) – Lenders One® Mortgage Cooperative will soon submit its response to the Federal Housing Finance Agency’s (FHFA) Servicing Compensation Initiative. The comment letter will provide the cooperative’s perspective on the two FHFA proposals to overhaul the mortgage servicing compensation system, which have the potential to radically change residential servicing, the secondary market and origination operations. The FHFA options include:

Option 1 would reduce the servicing fee modestly, create a reserve account to meet the increase in cost of servicing non-performing loans and still result in a significant MSR capitalization.

Option 2 would replace the current compensation structure with a ‘Fee for Service’ structure while still allowing originators and issuers to retain the excess IO strip if they wish to do so.

After the FHFA released its ‘Alternative Mortgage Servicing Compensation Discussion Paper’ in late September, Lenders One formed a Member Servicing Compensation Committee to analyze this complex issue. After careful and thorough review and analysis, the Lenders One Servicing Compensation Committee voted unanimously to support the ‘Fee for Service’ model modified to include a 3 to 5 bps reserve account.

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Lenders One notes that Option 1 is simply a subset of Option 2. Under Option 2, the originator/servicer must retain at least the ten dollar per month minimum servicing fee. However, if it so chooses, the originator/servicer can retain up to the full 25 bps. Therefore, the 'Fee for Service' proposal doesn't require any lender to change unless they believe it is beneficial to their business model based on their view of the costs and risks to service loans. This provides valuable optionality that benefits a broader range of lenders. The Lenders One Servicing Compensation Committee took into account the objections to Option 2 due to how it handles servicing fees associated with managing non-performing loans and G-fees. While they agreed that these are major issues, the committee felt they were significant issues under both Option 1 and Option 2.

About Lenders One Mortgage Cooperative

Lenders One (www.LendersOne.com) was established in 2000 as a national alliance of mortgage bankers, correspondent lenders and suppliers of mortgage products and services. The St. Louis-based company expects to originate \$100 billion in mortgages in 2011.

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