PHH Mortgage

PHH

August 1, 2011

Proposed Credit Risk Retention Rules

Response from PHH Mortgage

Honorable Mary L. Schapiro
Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549
Release No. 34-64148; File No. S7-14-11
RIN 3235-AK96

Honorable Shaun L. S. Donovan
Secretary
United States Department of
Housing & Urban Development
451 7th Street, S.W.
Washington, DC 20410
Docket Number FR-5504-P-01

Mr. John G. Walsh
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
250 E Street, S.W.
Washington, DC 20219
Docket No. OCC-2011-0002
RIN 1557-AD40

Honorable Ben S. Bernanke
Chairman
The Federal Reserve System
20th & Constitution Avenue, N.W.
Washington, DC 20551
Docket No. R-1411
RIN 7100-AD70

Mr. Edward J. DeMarco
Acting Director
Federal Housing Finance Agency
1700 G Street, N.W.
Washington, DC 20552
RIN 2590-AA43

Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
Docket No. 2011
RIN 3064-AD74

Honorable Timothy F. Geithner
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Re: Proposed Credit Risk Retention Rule Dated 04/29/11

Ladies and Gentlemen:

PHH Mortgage is pleased to comment on the proposed Credit Risk Retention rules (“Rules”, “Proposed Rules” or “Proposed QRM Rules”) issued by the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, the U.S. Department of Housing and Urban Development and the Federal Housing Finance Agency ("Agencies"), to implement Section 941 of the Dodd-Frank Act ("Act").

Section 941 added Section 15G to the Securities Exchange Act of 1934[1], requiring the Sponsor of an asset-backed security to retain no less than five percent of the credit risk of the assets collateralizing the security. The Act excludes an asset-backed security from the retention requirement if and only if it is collateralized exclusively by "qualified residential mortgages." Furthermore, the Act requires the Agencies to define the term "qualified residential mortgage" taking into consideration underwriting and product features that result in a lower risk of default.

While we appreciate the complexities and challenges the Agencies faced in developing rules which attempt to ensure alignment of interests between issuers and investors without causing a detrimental impact to the liquidity and pricing of securitizations, we believe the Proposed Rules can be modified and reshaped in certain areas, enabling the Agencies to accomplish these dual goals.

PHH Mortgage's credentials as a credible lender and servicer with a track record of prudent lending puts us in a unique position to recommend changes to the Proposed Rules which fulfill the mandate of the Act without creating potentially damaging effects to our nation's economy and its citizens.

[1] 15 U.S.C.78o-11.

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(To simplify the Agencies' efforts in collating the responses, we have aligned the section and question numbers below to be consistent with those listed in the Proposed Rules.)

A. PHH Mortgage is a Leader in Responsible Lending and Servicing

About PHH

PHH Corporation (NYSE: PHH) is a leading provider of mortgage and fleet management services, delivering world-class outsourcing solutions to clients through its subsidiaries, PHH Mortgage Corporation (PHH Mortgage) and PHH Arval.

PHH Mortgage has been originating and servicing residential mortgages since 1984. In addition, PHH Mortgage has been providing private label mortgage solutions to leading businesses nationwide since 1989. The company is licensed in all 50 states, offering a comprehensive range of mortgage solutions from loan origination through servicing.

PHH Mortgage has built its success on a foundation of responsible lending and quality originations. Today, PHH Mortgage is the fourth largest Originator of retail residential mortgages,[2] the fifth largest Originator of residential mortgages overall (wholesale and retail)[3] and the seventh largest servicer in the United States.[4] In 2010, PHH Mortgage originated approximately $49 billion of residential mortgages. Our servicing portfolio of over $174 billion enjoys one of the lowest delinquency rates in the industry reflecting our unwavering commitment to quality .[5]

Our reputation as a responsible lender and our broad expertise attract top-tier clients who are leaders in their field of business, including:

- Financial institutions including Charles Schwab Bank, Merrill Lynch and others.
- Large regional banks such as UMB and First Tennessee Bank, as well as over 500 community banks.
- Nearly 900 credit unions across the country.
- Realogy Corporation, the world's largest real estate franchisor, which includes Century 21®, ERA®, Coldwell Banker® and Sotheby's International Realty.[6]
- Relocation companies, government agencies and over 40% of the *Fortune* 1,500, including Raytheon, Southern Company and Microsoft Corporation.

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[2] Based on 1Q2011 statistics from *Inside Mortgage Finance*, May 20, 2011.
[3] Based on 1Q2011 statistics from *Inside Mortgage Finance*, July 1, 2011.
[4] Based on 1Q2011 statistics from *Inside Mortgage Finance*, June 17, 2011.
[5] Total servicing portfolio as of March 31, 2011, based on 1Q2011 statistics from *Inside Mortgage Finance,* June 17, 2011.
[6] CENTURY 21®, Century 21 Mortgage® and the CENTURY 21 Logo are registered trademarks licensed to Century 21 Real Estate LLC and used with permission. ERA® and the ERA Logo are registered trademarks licensed to ERA Franchise Systems LLC and used with permission. **Coldwell Banker**® and the **Coldwell Banker** Logo are registered trademarks licensed to Coldwell Banker Real Estate LLC and used with permission.

We make it a priority to focus on the individual needs of our borrowers and we work hard to offer loan options which make financial sense for our borrowers. That's why over 92% of our customers said they were glad they called us and would recommend us to friends and family.[7]

PHH Mortgage is a Responsible Lender; Our Credibility is Strong

Because of our long-standing policies and ethical lending practices, PHH Mortgage has not only survived but also thrived during the financial crisis by providing reliable, responsible financing:

- Long before the collapse of the housing market, PHH Mortgage decided not to offer subprime loans or option adjustable rate mortgages (option ARMs) because we believed it was not in our customers' best interest to do so.
- PHH Mortgage also refrained from imposing prepayment penalties.
- PHH Mortgage followed this course because it made good business sense, not because of regulatory requirements.

During the run-up to the financial crisis, other lenders provided subprime ARMs to homebuyers who did not have the resources to meet the scheduled monthly mortgage payments. Unlike these lenders, PHH Mortgage maintained its integrity by focusing on the needs of our clients and their customers. PHH Mortgage offered mortgages that made financial sense for borrowers though we suffered financially as a result of not offering higher margin products such as subprime and payment option ARMs. Today, our clients and their customers are glad we did – and we are a stronger company because of it.

Those lenders which originated the riskier loans and ignored the dangers of irresponsible lending have not fared as well. Out of the 25 top mortgage lenders in 2006, only 8 remain today. In 2006, PHH Mortgage was ranked #17[8] in lending volume. Today we are ranked #5 in overall residential lending.[9]

We are the largest residential lender not affiliated with a bank. As such, we face a level of market discipline not encountered by our competitors. We must carefully execute every detail of our business plan to continue to enjoy the reputation we have earned with our investors and borrowers.

We survived and grew during the market meltdown because of our ethical lending philosophy. We followed this discipline not because it was regulated, but because it was, and still is, sound business practice. We take our responsibility to borrowers and mortgage investors seriously. We strive to continuously improve our mortgage origination and

[7] PHH Mortgage May 2011 "I Would Recommend" Customer Survey.
[8] Based on 2006 year-end statistics from *Inside Mortgage Finance*, February 2, 2007.
[9] Based on 1Q2011 statistics from *Inside Mortgage Finance*, July 1, 2011.

servicing processes to better serve our borrowers, mortgage investors and our debt and equity stakeholders.

PHH Mortgage also has extensive experience originating quality non-Agency loans. From 2000 through 2007, PHH Mortgage originated approximately $120 billion of non-Agency prime mortgages, either for sale into the secondary market or for investment by our private label clients. We have also been an active Sponsor and Originator of non-Agency securitizations. From 2000 through 2007, the last fully active year of non-Agency securitizations before the housing crisis, PHH Mortgage was the Sponsor of roughly $10.6 billion in prime non-Agency securitizations made up of its own originations.

PHH Mortgage's Status as a Top Servicer

With a servicing portfolio of over $174 billion, PHH Mortgage is the seventh largest servicer in the United States.[10] In 2010, PHH Mortgage maintained an average servicing portfolio of more than 1 million loans and currently maintains over 50 private labeled or co-branded subservicing relationships. We are highly rated by both Fitch and Standard & Poor's for the quality of our mortgage servicing:

- PHH Mortgage has received a Fitch Residential rating of RPS2+ for both Prime and HELOC loan types[11] – an above average performance rating.
- PHH Mortgage has also been affirmed by Standard & Poor's as having an Above Average rating as a residential prime and subordinate-lien servicer.[12]

At the end of the first quarter of 2011, our total mortgage servicing portfolio delinquencies stood at 3.45%.[13] Our delinquency rate continues to be one of the lowest among large mortgage servicers in the industry.[14] While PHH Mortgage does not hold mortgages for investment, our ability to maintain low delinquency rates results in contained servicing costs, lower repurchase volumes and a better customer experience.

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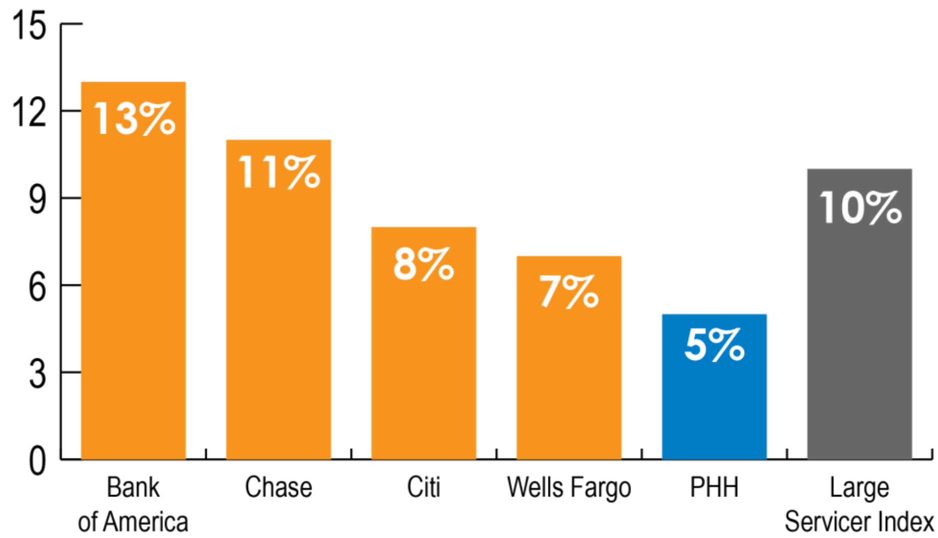
[10] Based on 1Q2011statistics from *Inside Mortgage Finance*, June 17, 2011.
[11] "U.S. Residential Mortgage Servicer Report," *Fitch Ratings*, November 9, 2010.
[12] "Global Credit Portal: PHH Mortgage Corporation," Standard & Poor's *RatingsDirect*®, September 29, 2010.
[13] Total delinquencies (30, 60, and 90 or more days, excluding foreclosures and real estate owned) as a percentage of the total number of loans. PHH Corporation 1st Quarter Form 10-Q.
[14] Based on 1Q2011 statistics from *Inside Mortgage Finance*, May 27, 2011.

Table 1. Net Delinquency Ratio of Major Servicers[15]



As reported in *Inside Mortgage Finance* and shown in Table 1, PHH Mortgage's net delinquency ratio is lower than the four largest residential mortgage servicers and approximately half of the Large Servicer Index for the first quarter 2011.

PHH Mortgage's net delinquency ratio is consistently below the MBA Average. On average, PHH Mortgage's delinquency rate is 66% of the MBA average delinquency rate for the last year and has averaged 73% of the MBA Average for the past five years.[16] In addition, for over seven years, PHH Mortgage has maintained an FHA Compare Ratio below the Nationwide HUD Average for FHA Defaults and Claims. As of April 30, 2011, PHH Mortgage's Compare Ratio for all loans insured from May 1, 2009 through April 30, 2011 is 79%.[17]

PHH Mortgage's Status as a Top Lender

PHH Mortgage is one of the top five Originators of residential mortgages in the United States.[18]

- In 2010, we originated approximately $49 billion in mortgage financing representing approximately 200,000 American homes.
- PHH Mortgage grew mortgage originations 30% in 2010, in an originations market that declined by 20%.

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[15] Based on 1Q2011 statistics from *Inside Mortgage Finance* "Large Servicer Delinquency Report," May 27, 2011. Net Delinquency Ratio defined as 30, 60 and 90 or more days, including foreclosures.

[16] *Mortgage Bankers Association and PHH,* Quarterly default rates net of subprime loans and foreclosures.

[17] HUD Neighborhood Watch/Early Warning System, 2 year Performance Period as of April 30 2011. https://entp.hud.gov/sfnw/public/ Early Warnings tab, Single Lender (PHH), Lender ID: 30275.

[18] Based on 1Q2011 statistics from *Inside Mortgage Finance*, July 1, 2011.

- PHH Mortgage was one of the few major Originators to increase volume in 2010 over 2009, recording the greatest year-over-year percentage increase of the top 20 Originators. As a result, we increased our market share of mortgage originations from 2% to over 3%.[19]
- In the first quarter of 2011, we continued this trend; our loan originations of $13.8 billion for the quarter resulted in a market share of 4.3%.[20]

Table 2 reflects a composite of information from *Inside Mortgage Finance,* April 29, 2011 and our first quarter 2011 earnings announcement.

Table 2. Top Overall Mortgage Originators

Top 20 Mortgage Orginators in 2011
(Dollars in Billions)

Rank	Lender	Volume 1Q11	4Q10	3Q10	2Q10	1Q10	Market Share	Change 4Q10-1Q11
1	Wells Fargo	$ 85.88	$129.57	$102.84	$ 83.00	$ 77.09	26.4%	-33.7%
2	Bank of America	$ 58.46	$ 86.81	$ 74.06	$ 74.08	$ 71.53	18.0%	-32.7%
3	Chase	$ 38.70	$ 53.45	$ 42.70	$ 33.70	$ 32.80	11.9%	-27.6%
4	Citi	$ 15.22	$ 23.26	$ 20.27	$ 12.17	$ 11.06	4.7%	-34.6%
5	PHH	$ 13.83	$ 18.43	$ 12.68	$ 10.06	$ 7.83	4.3%	-25.0%
6	US Bank	$ 12.13	$ 19.61	$ 16.58	$ 10.59	$ 8.98	3.7%	-38.1%
7	GMAC	$ 11.84	$ 23.24	$ 20.18	$ 13.16	$ 12.97	3.6%	-49.0%
8	SunTrust	$ 5.75	$ 8.65	$ 7.71	$ 6.99	$ 5.67	1.8%	-33.5%
9	Quicken	$ 5.30	$ 9.50	$ 8.74	$ 5.10	$ 5.10	1.6%	-44.2%
10	BB&T	$ 5.08	$ 8.40	$ 6.66	$ 5.01	$ 4.83	1.6%	-39.5%
11	Flagstar	$ 4.86	$ 9.16	$ 7.61	$ 5.45	$ 4.33	1.5%	-47.0%
12	MetLife	$ 4.38	$ 7.11	$ 5.54	$ 5.15	$ 4.41	1.3%	-38.4%
13	Fifth Third Bank	$ 3.90	$ 7.41	$ 5.57	$ 3.85	$ 3.47	1.2%	-47.3%
14	USAA	$ 3.40	$ 5.05	$ 5.05	$ 4.86	$ 3.83	1.0%	-32.7%
15	Provident Funding	$ 3.31	$ 9.45	$ 7.59	$ 4.50	$ 5.33	1.0%	-65.0%
16	Franklin America	$ 3.29	$ 5.94	$ 5.09	$ 4.28	$ 3.93	1.0%	-44.5%
17	Sovereign	$ 3.25	$ 4.77	$ 3.08	$ 3.00	$ 2.82	1.0%	-31.7%
18	PNC	$ 3.17	$ 3.47	$ 2.72	$ 2.28	$ 2.03	1.0%	-8.6%
19	ING	$ 2.20	$ 3.22	$ 1.98	$ 3.06	$ 2.67	0.7%	-31.7%
20	CCO Mortgage	$ 1.75	$ 2.20	$ 1.72	$ 1.35	$ 1.16	0.5%	-20.4%

PHH Mortgage Summary

PHH Mortgage maintains a disciplined, responsible lending philosophy which enabled us to weather the housing crisis. As a result, our servicing portfolio delinquency statistics are among the best in the industry. We are considered an industry leader in responsible mortgage lending. We believe our 26-year history of mortgage originations, spanning products from low-to-moderate income lending and high-net worth lending, and our robust servicing capabilities coupled with our stature as the largest non-depository provider of residential credit makes us a very credible provider of recommendations about the Proposed Rules for Credit Risk Retention.

[19] Based on 2010 statistics from *Inside Mortgage Finance*, January 28, 2011.
[20] Based on 1Q 2011 statistics from *Inside Mortgage Finance*, July 1, 2011.

B. Executive Summary

PHH Mortgage is highly supportive of the legislative and regulatory efforts to ensure high quality underwriting standards for securitizers and Originators of mortgage loans. We agree with the mandate to promulgate a set of regulations encouraging appropriate risk management practices by securitizers and Originators of assets while improving consumers' access to credit on reasonable terms. We believe risk retention requirements for selective asset and securitization structures coupled with a clear set of enforceable representations and warranties from Originators and securitizers will go a long way in achieving these objectives.

We appreciate the Agencies' thoughtful approach and tremendous effort put into developing the proposed regulations. However, we believe the rules, as currently proposed, will have a detrimental impact upon the liquidity and pricing of securitizations and a deleterious effect on our nation's housing market. A robust securitization market for residential mortgage assets is a condition precedent for sustained recovery of our current housing market to drive economic growth and reduce the hardships encountered by millions of Americans as a result of the global financial crisis. We believe the Proposed Rules can be modified and reshaped in specific areas enabling the Agencies to achieve the intent of the Dodd-Frank Act.

Below is a summary of the major areas of concern with the Proposed Rules identified by PHH Mortgage. We are recommending an alternative approach to the Proposed Rules which is detailed in the comments that follow. Each area of concern and our proposed alternative solutions to those concerns are presented in greater detail in PHH Mortgage's responses to the specific questions put forth by the Agencies in the proposed rule-making.

Proposed QRM Rules Will be Unnecessarily Detrimental to the Housing Markets

The Proposed Rules are intentionally designed to minimize the population of Qualified Residential Mortgage (QRM) loans exempt from risk retention and maximize the population of non-QRM loans. The purpose is to ensure the existence of an adequate population of non-QRM loans to support the development of a liquid securitization market for these assets. However, the narrowly defined and difficult-to-implement restrictions required by the proposed rule create inconsistent treatment among credit worthy borrowers. By the Joint Regulators' own analysis, only 19.8% of loans acquired by the GSEs in the past 13 years through 2009 would have qualified as a QRM. In 2009, only 30.5% of all loans acquired by the GSEs would have met the definition of a QRM.

We estimate Investors will require yield premiums of 60-100 bps to cover the capital costs and loss content of the 5% retained risk assets. This yield premium does not include any costs related to liquidity or higher perceived regulatory risk associated with investing in non-QRM loans. Based on estimates by the National Association of Home Builders, a 100 bp increase in rates reduces the number of American families who can afford an average-priced new home of $202,100 by 4.4 million or approximately 8%.[21] Any further costs associated with non-QRM loans simply exacerbate this problem.

The highly-restrictive down payment requirements for purchase money and refinance mortgage transactions further restrict the ability of American consumers to acquire or refinance residential real estate. According to the Community Mortgage Banking Project, an estimated 52% of the U.S. home owners have less than 25% equity in their homes; the minimum equity required to obtain a QRM-eligible refinance.[22] Precluding these otherwise credit worthy borrowers from the pricing benefits associated with a QRM loan, thereby reducing their opportunity to lower their interest expense, is detrimental to both the housing markets and the economy. Further, the highly restrictive down payment requirements all but eliminate first-time home buyers from participating in the benefits of home ownership at a time when home ownership has become much more affordable.

In addition to these first order reductions in demand for U.S. housing brought about by the implementation of the Proposed Rules, there are a number of second order effects which relate to the significant constraints on the development of securitization markets to support non-QRM mortgages. These second order effects include problems with the premium capture rule, lack of clarity in the definition of a Qualified Mortgage (QM), a number of process issues and some significant accounting issues. All in, we believe implementation of the credit risk retention rules as currently proposed will meaningfully reduce demand for U.S. housing.

While it is beyond the scope of these comments to quantify the potential impact to housing values as a result of this reduced demand, we are compelled to point out lower demand always results in lower prices which, in turn, leads to higher defaults and foreclosures. This is a bad outcome for depository institutions currently exposed to $2.6 trillion of 1-4 family residential loans and at least another $1.3 trillion of 1-4 family secured mortgage backed securities (MBS). Similarly, individuals who are not directly impaired as a result of falling home equity may well be indirectly impaired through their holdings in 401(k) plans, investment funds and pension funds. Individuals and others currently hold approximately $820 billion of 1-4 family residential debt outstanding.[23]

It is also worth noting increases in residential fixed investment and the related impact on job formation and consumer spending has preceded economic recoveries in six out of the past nine recessions since 1947. Restricting the flow of credit to the housing markets, as we believe the Proposed Rules will, is detrimental to new construction and its desired impact on our economy.

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[21] National Association of Home Builders, "Houses Priced-Out by Higher House Prices and Interest Rates", http://www.nahb.org/generic.aspx?sectionID=125&genericContentID=40372.

[22] Community Mortgage Banking Project as quoted in "Proposed Qualified Residential Mortgage Definition Harms Creditworthy Borrowers While Frustrating Housing Recovery" published by the Coalition for Sensible Housing Policy, July 11, 2011.

[23] Federal Reserve Board Report on Mortgage Debt Outstanding, June, 2011.

PHH Mortgage is proposing an alternative definition for Qualified Residential Mortgage which we believe achieves the objective of significantly reducing the risk of a QRM relative to a QM, while meaningfully expanding the universe of eligible borrowers. We will discuss this in greater detail in our response to question 110 and other questions within the document. The PHH Mortgage proposal for an alternative set of criteria for QRM eligibility is summarized below.

- Maximum LTV/CLTV requirements depending on the type of transaction:
  - Purchases and Rate/Term Refinances: Maximum 95% LTV/CLTV
  - Cash-Out Refinances: Maximum 80% LTV/CLTV

(LTVs above 80% would be required to carry private credit enhancement, such as private mortgage insurance, reducing the LTV to less than 80% from the Investor's perspective)

- Replacement of the credit history requirements with an explicit minimum credit score depending on the type of transaction:
  - Purchases and Rate/Term Refinances: Minimum 660 credit score
  - Cash-Out Refinances: Minimum 690 credit score
- No debt-to-income (DTI) ratio limit
- Down payment rules are modified to allow seller to fund closing costs up to a maximum depending on LTV
- Subordinate liens are permitted for purchase transactions subject to certain terms
- Points and fees limits are no more restrictive than as defined for QMs contained in section 129C(b)(2)(A)(vii) of TILA
- No provision for servicing standards

By relaxing the LTV and FICO requirements selectively for purchases, rate-term refinance loans and cash-out refinance loans as defined above, approximately 80-90% of QM-eligible loans originated in 2010 and 2011 would have been QRM eligible. Since 2002, the amount of credit available to credit worthy borrowers would have increased by approximately 220% based on historical loan volumes (220% = 18.5 / 8.4), as seen on Exhibit 1. The corresponding default rate of the PHH Mortgage Alternative QRM definition would have been 2.5% compared to 6.2% for loans meeting the definition of QM and 1.1% for loans meeting the Proposed Rules' QRM definition. Please refer to our response to Question #110 and the related Milliman analysis for more detail.

We believe PHH Mortgage's alternative definition of QRM supports the recovery of the housing market, reduces systemic risk to our depository institutions, provides a more equitably priced continuum of mortgage offerings to credit worthy consumers and materially reduces risk to Investors relative to the QM standards. We believe the remaining 10-20% of QM loans not eligible for the QRM risk retention exemption will enjoy adequate liquidity, much as the prime jumbo market comprising 9-15% of annual mortgage originations did for decades, provided additional refinements are made to the Proposed Rules as discussed below.

Premium Capture Cash Reserve Account

The proposed Premium Capture Cash Reserve Account requirements and the narrow definition of "eligible horizontal residual interest" combine to effectively eviscerate the securitization markets for residential mortgages. The proposed exclusion of capitalized excess spread from the definition of "horizontal retained risk" has the net effect of significantly increasing the risk retention requirement well beyond the 5% threshold. This, by itself, makes the economics of securitization considerably less rewarding. Even worse, the inability to reflect the capitalization of excess spread in earnings discourages prudent interest rate risk hedging as changes in the value excess spread will not be reflected in earnings while the offsetting hedge gains and losses will. Absent the ability to recognize revenue associated with excess spread, lenders will be unlikely to offer consumers mortgage products with low or no discount points. The vast majority of consumers (84% of PHH Mortgage's refinance borrowers in 2010) prefer mortgage products not requiring discount points to be paid at origination. Requiring more cash from consumers at loan origination will further depress housing demand. We propose removing this section from the Proposed Rules.

Representative Sample

We recommend the Representative Sample risk retention option be eliminated from the list of risk retention options. There are numerous reasons why this risk retention option will not fulfill the objectives of aligning issuer and Investor interests or ensuring liquidity in the market for non-QRM securitizations. The Representative Sample option:

- heavily favors large financial institutions;
- enables the Sponsor / Originator to potentially "game" the process so the retained credit risk is not truly representative of the securitized pool;
- measures randomization based on different risk characteristics separately as opposed to the overall risk of a loan;
- leaves open the possibility that, even if the selection were compliant with the statistical tests, the Representative Sample could perform quite differently than the designated pool; and
- would require an immense amount of compliance infrastructure costs.

Resecuritization

Resecuritization of existing MBS assets provides an incremental source of liquidity for these products. Limiting resecuritization to a single tranche effectively eliminates this technique of sourcing incremental liquidity. Further, requiring risk retention of resecuritization transactions when the underlying securities have already been subject to risk retention creates no further incentive for Originators or securitizers to strengthen their underwriting standards. Additionally, the proposed restrictions on resecuritizations adds no incremental value to the alignment of interest between the resecuritizer and the Investor. We recommend the risk retention exemption be extended to all resecuritizations regardless of the number of classes and whether or not the original securitizations were Section 15G-compliant.

Servicing Standards

We believe the articulation of servicing standards in the Proposed Rules goes well beyond the mandate of the Dodd-Frank Bill. There is currently a separate interagency effort ongoing among certain regulators to develop a uniform national servicing standard. The consent orders recently executed with 14 lenders clearly indicates the evolving nature of these servicing standards. Additionally, articulating servicing standards in transaction level loan documents having contractual terms for up to 30 years may greatly interfere with the orderly development of those standards. In short, we believe a unilateral mandate of servicing standards for the highest credit quality loans is a bad idea and articulating those standards in the transaction loan level documents is an even worse idea.

Financing Restrictions

Absent a clarification of the Proposed Rules regarding the pledging of retained securities, lenders may be unwilling to provide secured financing, even on a full recourse basis, for ABS interests that are being retained by a Sponsor to satisfy the risk retention requirements. We propose a modification be made to the final rules which will clarify the lender’s rights and limitations on liability.

Process Issues

The Proposed Rules contain a number of granular underwriting restrictions whose cost to implement greatly exceed the value contribution. Chief among these is the debt-to-income limitations and the borrower credit history limitations. We believe the micromanagement of these details may result in lenders abdicating their responsibility for rendering thoughtful credit decisions in favor of a checklist approach to compliance issues. Notwithstanding the concern expressed on the use of credit scores, their use has been the industry standard for the past 15 years. We propose a broader rule which does not include a debt-to-income requirement but does include minimum credit scores and maximum LTVs. We believe this proposed rule is considerably more actionable by lenders, will result in a more consistent application of lending practices and will reduce the likelihood of illogical outcomes.

QM vs. QRM

The Proposed Rules require financial institutions issuing mortgage-backed securities to retain at least 5% of the credit risk of any security created. The Proposed Rules exempt from the risk-retention requirement securities backed exclusively by QRMs with underwriting and product features which historical loan performance data indicate result in a lower risk of default.

The Act provides an initial list of underwriting and product features which historical loan performance data indicate result in a lower risk of default, giving the regulators some guidance in determining the criteria for QRMs. The QRM provisions in the Proposed Rules share the same purpose of ensuring well underwritten mortgages as the Qualified Mortgage ("QM") proposal under Section 1412 of the Act which amends the Truth in Lending Act to require lenders not make a residential mortgage loan without first determining the borrower has the ability to repay the loan (the "Ability to Repay Rule"). The Act states the QRM provisions cannot include mortgages which do not meet the presumption of ability to pay ascribed to a QM. Neither the QRM nor the QM statutory lists of factors to be considered include the size of the down payment or its inverse, the loan-to-value ratio (the size of the mortgage compared to the appraised value of the property). The Proposed Rules, however, have provided more restrictive criteria for a loan to be considered as a QRM, including, but not limited to the following:

- First liens only
- Credit history criteria in lieu of FICO (e.g. no 60-day delinquencies in prior 2 years)
- No negative amortization, interest only or balloon loans (specifically excluded in the Act)
- Adjustable Rate Mortgage (ARM) permitted with: 2% annual period cap; 6% lifetime cap; underwriting at max rate during first 5 years (specifically authorized in the Act)
- Maximum Loan-to-Value Ratio: 80% purchase; 75% refi; 70% cash out refi
- DTI: 28% front end, 36% back end
- Maximum 3% points and fees

The QM provisions in the Ability to Repay Rule do not include any criteria relating to the following, which do figure prominently in the definition of QRM:

- Debt-to-income ratio (DTI)
- Loan-to-value ratio (LTV)
- Credit history or credit score

The exclusion of such specific parameters in the Ability to Repay Rule was deliberate. For example, a hard loan-to-value ratio would not be required because, for an otherwise well-underwritten, responsibly structured mortgage, low down payments would not be a significant driver of default.

It is unclear whether lenders originating loans meeting the definition of a Qualified Mortgage are the beneficiaries of a "Safe Harbor" from potential borrower claims that the lender failed to ascertain the borrower's Ability to Repay or whether the lender merely has a presumption of compliance that can be rebutted by the borrower. If the rebuttable presumption interpretation carries, then lenders will likely adopt the more stringent QRM definition as their minimum standards to reduce origination liability and strengthen their defense against claims that consumer's Ability To Repay was not adequately established. We believe this will result in further restricting the flow of credit to the housing market for Investors and other non-QRM eligible borrowers.

Many mortgage lenders do not have sufficient capital to maintain mortgage investment portfolios. If the rebuttable presumption interpretation is adopted, mortgage Investors will be less likely to acquire non-QRM loans from mortgage bankers given the assignee liability. Therefore, those mortgage lenders will become more dependent on the GSEs (whose future is unclear) and the FHA and VA programs. This is contrary to the goal of reducing the Government's role in the mortgage industry.

The uncertainty around QM's Safe Harbor or Rebuttable Presumption has serious consequences for the flow of credit to the mortgage markets. This issue needs to be resolved well in advance of finalizing the definition of QRM to avoid regrettable consequences.

Accounting Issues

We believe the Proposed Rules may unintentionally make it difficult or impossible to achieve sale treatment under GAAP. Retaining the credit risk while acting as Servicer may cause a Sponsor to be deemed to have a "controlling financial interest". This becomes more likely if the premium captures rules are not modified. Failure to recognize a securitization as an asset sale under GAAP may preclude Sponsors or Originators from using the securitization markets to provide liquidity for its mortgage lending activities. This would increase lender's dependence on Government backed programs and increase the consolidation of non-QRM lending among the largest financial institutions thereby increasing their systemic risk. Both outcomes are contrary to the intent of the Proposed Rules.

C. PHH Mortgage's Responses to Specific Questions and Recommendations

Below are our responses to a number of the questions posed in the Proposed Rules. To simplify the Agencies' efforts in collating the responses, we have aligned the section and question numbers below to be consistent with those listed in the Proposed Rules. Only those questions PHH Mortgage is responding to are listed.

II. General Definitions and Scope

A. Asset-backed Securities, Securitization Transaction and ABS Interests

5. Is it appropriate for the definition of credit risk to include risk of non-payment by the issuing entity unrelated to the assets, such as risk that the issuing entity is not bankruptcy remote?

No. Credit risk should be defined by the quality and performance of the underlying collateral in the transaction only. Post issuance, administration of the counterparty risk is provided by an independent trustee to ensure the collection and administration of the assets is independent of the issuing entity. Further, provisions in the Custodial Agreement typically address backup servicing options available to the Master Servicer. Finally, for rated securitization transactions, the rating agencies conduct a full Originator Review to assess the strength of the Originator as well as the policies and procedures of the origination process. The report of findings is published for Investors to review and provide assistance in their investment decision. Consequently, it is appropriate for the evaluation of credit risk to be focused solely on the underlying assets.

B. Securitizer, Sponsor, and Depositor – no comment

C. Originator – no comment

III. General Risk Retention Requirement

A. Minimum 5 Percent Risk Retention Required

10. The Agencies request comment on whether the minimum five percent risk retention requirement established by the Proposed Rules for non-exempt ABS transactions is appropriate, or whether a higher risk retention requirement should be established for all non-exempt ABS transactions or for any particular classes or types of non-exempt ABS.

Yes, we believe 5% is the appropriate minimum risk retention amount.

12(a). Would the minimum five percent risk retention requirement, as proposed to be implemented, have a significant adverse effect on liquidity or pricing in the securitization markets for certain types of assets (such as, for example, prudently underwritten residential mortgage loans that do not satisfy all of the requirements to be a QRM)? 12(b). If so, what markets would be adversely affected and how? What adjustments to the Proposed Rules (e.g., the minimum risk retention amount, the manner in which credit exposure is measured for purposes of applying the risk retention requirement, or the form of risk retention) could be made to the Proposed Rules to address these concerns in a manner consistent with the purposes of section 15G? Please provide details and supporting data.

As outlined in the relevant sections, we strongly believe components of the Proposed Rules, such as the premium capture cash reserve and Representative Sample, would have immense adverse impacts on the liquidity of the non-QRM securitization market. Additionally, we believe the emphasis on ensuring "the amount of non-QRM residential mortgages [is] sufficiently large, and includes enough prudently underwritten loans, so that ABS backed by non-QRM residential mortgage may be routinely issued and purchased…" is unnecessary and should not be a driver of the final Guidelines.

Prior to the shutdown of the securitization market in 2008, jumbo prime securitization liquidity was not an issue. Based on 2000–2007 origination and jumbo securitization data sourced from *Inside Mortgage Finance* and *Loan Performance*, jumbo prime securitizations were never more than 9% of total originations during any given year and made up only $64 billion of originations in 2000, which was the low point of originations during the time period measured. Given the observed liquidity of the jumbo market throughout this period and the relatively low amounts of issuance, it is clear market liquidity of a particular product segment was not dependent on representing a sizable portion of the total market.

This data supports the observation that absolute volume levels and/or the proportion of total originations is not the driver of market liquidity. Confidence in the securitization market itself, or lack thereof as has been the case for the last four years, is the driver of liquidity.

Table 3. Jumbo Securitizations vs. Total Market

	Jumbo Securitizations	Total Originations	Jumbo Securitizations as % of Total Originations
2000	$64	$1,048	6%
2001	$181	$2,215	8%
2002	$242	$2,885	8%
2003	$317	$3,945	8%
2004	$263	$2,920	9%
2005	$241	$3,120	8%
2006	$179	$2,980	6%
2007	$150	$2,430	6%

All dollar amounts in billions.

Source: *Inside Mortgage Finance*, *Loan Performance* and PHH Mortgage.

In subsequent sections, we elaborate on these recommended changes to the Proposed Rules to minimize the impact on liquidity of the QRM and non-QRM securitization markets and the price impact on credit worthy borrowers:

- Remove the Representative Sample risk retention option and the Premium Capture Cash Reserve Account from the Proposed Rules;

- Clarify the financing restriction language to facilitate retained risk asset transfer in certain cases;
- Modify the eligibility criteria within the QRM definition to allow for a greater percentage of credit worthy borrowers to be eligible;
- Remove the Servicing Standards requirements from the QRM definition and make other technical adjustments to the QRM definition which will increase transparency, make the Proposed Rules practical and allow for less costly implementation and compliance;

With regard to the impact of the risk retention rules on pricing in the securitization markets, we believe interest rates for non-QRM borrowers may be between 60-100 bps higher than rates for QRM borrowers. This estimate is based on our own calculations of the default rates of non-QRM pools and the returns required to fund the 5% retained risk. These estimates do not imply a liquidity premium will be charged for non-QRM securitizations as we strongly believe liquidity of the non-QRM market will not be a constraint if our proposal is adopted. In other words, the 60-100 bps in higher interest rates is what we expect a non-QRM borrower to pay regardless of the size of the non-QRM and QRM populations. By establishing the overly narrow criteria for QRM exemption, the Agencies have ensured a sizable non-QRM population but did so at a great cost to credit worthy borrowers who will be paying higher interest rates because they have been unfairly deemed to be a substantially higher default risk.

B. Permissible Forms of Risk Retention

13. Is the proposed menu of options approach to risk retention, which would allow a sponsor to choose the form of risk retention (subject to all applicable terms and conditions), appropriate?

Yes, the menu approach is appropriate though we do not necessarily agree with all of the proposed risk retention options. We prefer a menu of risk retention options versus a single option as this allows Sponsors flexibility in structuring the securities. Different asset classes may require different structures and the options would provide for broader liquidity. However, we believe there should be a limit on the term of the retained risk (either a contractually fixed term or a maximum average life assumption calculated at issuance) as opposed to a life of loan approach. This is particularly important with mortgage collateral due to the longer duration of the asset. In the absence of a shorter and more appropriate holding period, capital could be held disproportionate to the risk remaining over the 30 years.

14(a). Should the Agencies mandate that sponsors use a particular form of risk retention (e.g., a vertical slice or a horizontal slice) for all or specific types of asset classes or specific types of transactions? 14(b). If so, which forms should be required for with which asset classes and why?

No. This should be at the election of the Sponsor.

16. Is each of the proposed forms of risk retention appropriate? In particular, the Agencies seek comment on the potential effectiveness of the proposed forms of risk retention in achieving the purposes of section 15G, their potential effect on securitization markets, and any operational or other problems these forms may present.

All forms of risk retention will either add costs to a transaction, which will ultimately be passed on to the consumer, or will eliminate certain types of products from being originated. Generally, however, we believe greater flexibility in meeting the risk retention requirements enables Originators and Sponsors to minimize the cost increases to consumers. The Sponsor will determine the best structuring option within the boundaries of the requirements of the final rules for each asset class.

PHH Mortgage believes the Representative Sample should be removed as a risk retention option. As discussed in detail within our responses to Questions 47 - 58, we believe this option:

- heavily favors large financial institutions;
- enables the Sponsor / Originator to potentially "game" the process so the retained credit risk is not truly representative of the securitized pool;
- measures randomization based on different risk characteristics separately as opposed to the overall risk of a loan;
- leaves open the possibility that, even if the selection were compliant with the statistical tests, the Representative Sample could perform quite differently than the designated pool; and
- would require an immense amount of compliance infrastructure costs.

18. How effective would each of the proposed risk retention options be in creating incentives to monitor and control the quality of assets that are securitized and in aligning the interests among the parties in a securitization transaction?

We believe the Representative Sample option would not be an effective means of aligning the interests among the parties in a securitization transaction. As briefly explained above in our response to Question # 16 and more fully in our responses to Questions 47 – 58, there are a number of reasons why the Representative Sample option would not accomplish the objectives of ensuring the Sponsor would retain credit risk which is equivalent to the designated pool.

20. Should the Proposed Rules require disclosure as to why the sponsor chose a particular risk retention option?

No. This should be at the Sponsor's discretion. Disclosure would provide no incremental investor value and may involve the use of proprietary information and analytical methods, the disclosure of which would result in the loss of a competitive business advantage.

22. Are the methodologies proposed for calculating the required five percent exposure under each of the options appropriate?

We believe the proposed methodology for the horizontal risk retention option should be revised to allow for the par value or fair value of a horizontal class to qualify as eligible for retained risk purposes and contribute to the 5% retained risk requirement. As we discuss in further detail within our response to Question 29, the Act calls for the Sponsor to retain credit risk while the Proposed Rules quantify retained risk as a percentage of par (principal) value. A retained first loss excess spread tranche meets the requirement of retained credit risk even though it may have no principal amount.

We recommend the Representative Sample risk retention option be removed from the Proposed Rules in its entirety. As discussed in our responses to Questions 47-58, the proposed methodology does not adequately ensure the performance of the sample pool will be representative of the designated pool. Given the pool size necessary to achieve a truly random and Representative Sample, changes to the proposed methodology would still likely result in inconsistent performance between the Representative Sample pool and the designated pool while administration of the risk retention option would be costly due to a heavy reliance on third parties for monitoring and validation purposes.

1. **Vertical Risk Retention – no comment**

2. **Horizontal Risk Retention**

28(a). Is the restriction on certain payments to the sponsor with respect to the eligible horizontal residual interest appropriate and sufficient? 28(b). Why or why not?

No. The horizontal portion should be eligible to receive scheduled and unscheduled payments as long as the 5% risk support of the remaining bonds is maintained. At a maximum, regulators may wish to consider imposing a short duration "lock-out" period.

29(a). Is the proposed approach to measuring the size of horizontal risk retention (five percent of the par value of all ABS interests in the issuing entity that are issued as part of the securitization transaction) appropriate? 29(b). Would a different measurement be better? Please provide details and data supporting any alternative measurements.

We believe the Proposed Rules go further than the mandate set forth by the Act by requiring the retained risk to be 5% of par value (or principal amount) which, for securitizations including a first loss excess spread tranche, could result in retained credit risk of far greater than 5%.

Based on our own calculations of expected default rates for non-QRM pools and the returns required to fund the 5% retained risk, we estimate interest rates for non-QRM borrowers will be roughly 60-100 bps higher than QRM interest rates. The "excess spread" between these higher rates and the passthrough coupons of the securities issued is typically subordinated to the rest of the securitization structure in the form of a first loss class. The excess spread is earned on the entire pool of loans during the life of the pool and, after adjusting for default rates and loss severity assumptions over the life of the underlying pool, has a present value which could vary in terms of percentage of par value. It is important to note this present value is entirely made up of anticipated future interest cash flows; there is no par or principal amount attributed to a first loss class made up of excess spread. For illustrative purposes, we can assume the present value of the excess spread to be in the 4 – 6% range.

As we have pointed out, the Act calls for the Agencies to propose regulations which "require any securitizer to retain an economic interest in a portion of the credit risk" and later, requires "a securitizer to retain not less than 5 percent of the credit risk…" The first loss class of excess spread has economic value and is subordinate to all other classes of the securitization. Based on these facts, we believe the first loss class of excess spread can be interpreted to meet the Act's definition of credit risk.

Unfortunately, the Agencies have prescribed the retained risk to be 5% of par value. As a result, for a securitization with a first loss excess spread class, the Sponsor would have to hold 9 – 11% of retained risk based on our example (5% of par value plus the 4 – 6% of first loss excess spread class), far in excess of the 5% as mandated by the Agencies.

We suggest the Proposed Rules be revised to qualify first loss excess spread tranches as eligible for retained risk purposes and contribute to the 5% retained risk requirement.

30. Are the disclosures proposed sufficient to provide investors with all material information concerning the sponsor's retained interest in a securitization transaction, as well as enable investors and the Agencies to monitor whether the sponsor has complied with the rule? 31(a). Should additional disclosures be required? 31(b). If so, what should be required and why?

The proposed disclosures are sufficient and no additional disclosures should be required.

32. Are there any additional factors, such as accounting or cost considerations that the Agencies should consider with respect to horizontal risk retention?

Yes. The accounting implications of the horizontal risk retention requirements would be based on the specific facts and circumstances of each deal structure. Retained interests in a securitization would be recorded at fair value under GAAP. Changes in this fair value would result in earnings volatility for the Sponsor. A vertical slice risk retention would create lower earnings volatility as the various tranches may have lower exposure to credit losses.

To the extent a lender is both Servicer and securitization Sponsor, it is quite possible the lender would be deemed to have a 'controlling financial interest' in the transaction under ASC 810 which would require asset consolidation on the balance sheet. While we are not aware of any definitive published guidance, we understand consolidation may occur.

Accordingly, we recommend the Agencies discuss the accounting implications of any potential risk retention requirements with the FASB and the large accounting firms prior to finalizing the rules, as the impact of these rules could cause unintended accounting consequences for Originators and servicers of residential mortgage loans. This, in turn, would effectively nullify the ability for many, if not most, companies to participate as Sponsors in the securitization market, defeating the original intent of securitization as an efficient and stable source of financing for consumers. This could cause substantial harm to the nation's housing market and employment base.

33. Should a sponsor be prohibited from utilizing the horizontal risk retention option if the sponsor (or an affiliate) acts as servicer for the securitized assets?

We do not believe the Sponsor should be prohibited from acting as servicer. While we appreciate the concerns others have expressed regarding potential conflicts of interest which may arise as a result of the holder of the first loss tranche also being in a position to modify their servicing practices to prioritize protection of their own interests, there is a significant interagency effort under way to standardize and enhance servicing standards in an effort to minimize these types of conflicts as well as standardize loss and default mitigation procedures. Because of the significant effort being put into servicing standards, we do not believe it is appropriate for the Proposed Rules to include any prohibitions or requirements regarding servicing standards.

36(a). Should the eligible horizontal residual interest be required to be structured as a "Z bond" such that it pays no interest while principal is being paid down on more senior interests? 36(b). Why or why not?

No. All classes of the structure should receive interest allocations including the horizontal slice. Further, the amount of reserves retained at the most junior level should be more than enough protection for losses.

3. **L-shaped Risk Retention – no comment**

4. **Revolving Asset Master Trusts (seller's interest) – no comment**

5. **Representative Sample**

47. Should we include the representative sample alternative as a risk retention option?

No. We believe the Representative Sample option has several flaws. This option:

- heavily favors large financial institutions;
- enables the Sponsor / Originator to potentially "game" the process so the retained credit risk is not truly representative of the securitized pool;
- measures randomization based on different risk characteristics separately as opposed to the overall risk of a loan;
- leaves open the possibility that, even if the selection were compliant with the statistical tests, the Representative Sample could perform quite differently than the designated pool; and
- would require an immense amount of compliance infrastructure costs.

The Representative Sample option favors large financial institutions with the balance sheet capacity necessary to accumulate Hedge and finance substantial populations of loans and comply with the 1,000 unit minimum pool size requirement. Independent Mortgage Bankers may be at a significant disadvantage to large financial institutions as they could be challenged to accumulate the minimum 1,000 units necessary to derive the Representative Sample.

The most recent securitization of $296 million newly originated jumbo prime loans (SEMT 2011-1) was comprised of only 303 loans and an average balance of $978,000. Based on this average loan balance, the Sponsor would need to accumulate nearly $1 billion in loans to comply with the 1,000 unit minimum. Assuming non-QRM conforming and jumbo loans are combined together to form a securitization and a resulting average loan balance of $350,000, the Originator or Sponsor would still need to accumulate $350 million in loans to conduct a securitization, a sizable pool which must be funded until securitization can be completed. To the extent the Representative Sample becomes the most commonly used risk retention option, due to balance sheet consolidation requirements which could arise, (as discussed in our response Question #32), the competitive advantage held by large financial institutions may lead to increased consolidation of lending thereby increasing systemic risk.

While the Agencies have clearly attempted to minimize the risks of "gaming" when a Representative Sample is determined, the ability for a Sponsor or Originator to steer which loans are retained as the Representative Sample or continuing re-running the random process to derive the best possible pool remains. A standard dataset delivered to a rating agency or investor for evaluation of the pool contains between 75 and 100 data elements. There may be additional key loan characteristics, aspects or attributes of the loan known by the Originator and/or Sponsor and are not disclosed to Investors. Unless all data are deemed to be material characteristics for the purpose of determining if the representative pool is statistically similar to the designated pool and therefore disclosed to Investors, the non-disclosed data could be used to the Originator and/or Sponsor's advantage when reviewing the expected performance while remaining compliant with the requirements of the selection procedures. Even if all of the data elements were deemed to be material, which is not practical, the inability to confirm if the Originator and/or Sponsor truly used a random selection process still renders the method ineffective even if an unaffiliated third party performed the Representative Sample selection.

As outlined in the Proposed Rules, the objective of a Representative Sample would be to identify a subset of the designated pool of assets which "is equivalent, in all material respects, to the assets that are transferred to the issuing entity and securitized…" Even if guidelines pertaining to what constitutes materiality were provided and the ability to subvert the system completely eliminated, the eventual performance of the sample loans and the issuance could potentially vary greatly, defeating the objective of the Representative Sample option.

In an attempt to measure the variability, we began with two 1,000 loan populations, each from a different vintage, as shown in Tables 4 and 5 (below). From each 1,000 loan population, we created 20 sample risk retention pools that were equivalent with 95% confidence in respect to all of the following risk characteristics:

- Loan Amount
- Loan to Value ratio
- Credit Score
- Occupancy Type (owner occupied, second home, investment property)
- Property Type (condo, single family, etc)
- Loan Purpose (purchase, refinance, cash-out)
- Geographic Region
- Business Channel (retail vs. wholesale)
- Loan Type (adjustable rate vs. fixed rate)

Below is a high-level summary for each pool created which illustrates basic characteristics and cumulative default rates for the 20 Representative Sample pools for each of the two vintages in relation to the respective 1,000 loan designated pool of the same vintage.

The absolute differences listed in each table are the differences in the average metric for the Baseline Pool vs. the Representative Sample pool. In other words, Representative Sample Run 1 within Baseline Pool #1 exhibited an absolute cumulative default rate greater than the Baseline Pool by 1.3% (i.e. the Run 1 cumulative default rate was 14.0% while the Baseline Pool cumulative default rate was 12.7%), an average FICO score of 8 points greater than the baseline pool (i.e. the Run 1 average FICO score was 720 while the Baseline Pool average FICO score was 712) and an average LTV of 3% greater than the baseline pool (i.e. the Run 1 average LTV was 81% while the Baseline Pool average LTV was 78%).

The Relative Default Difference listed in each table is the amount by which the Representative Sample cumulative default rate is more or less than the Baseline Pool in percentage terms. In other words, the Representative Sample Run 1's cumulative default rate was 10.2% higher than the Baseline Pool cumulative default rate (14.0% vs 12.7%).

Table 4. Baseline Pool #1 – Q1 2007 Loans

Baseline Pool #1 – Q1 2007 Loans				
	Default Rate		**Average FICO Score**	**Average LTV**
Baseline	**12.7%**		**712**	**78**

	Default Rate	Absolute Default Difference*	Relative Default Difference*	Absolute FICO Difference*	Absolute LTV Difference*
Run 1	14.0%	1.3%	10.2%	8	3
Run 2	8.0%	-4.7%	-37.0%	13	-2
Run 3	12.0%	-0.7%	-5.5%	-3	-1
Run 4	14.0%	1.3%	10.2%	1	-1
Run 5	12.0%	-0.7%	-5.5%	1	-2
Run 6	12.0%	-0.7%	-5.5%	8	2
Run 7	16.0%	3.3%	26.0%	-9	-1
Run 8	12.0%	-0.7%	-5.5%	4	0
Run 9	16.0%	3.3%	26.0%	-6	-2
Run 10	8.0%	-4.7%	-37.0%	-1	1
Run 11	16.0%	3.3%	26.0%	-1	2
Run 12	10.0%	-2.7%	-21.3%	-3	1
Run 13	12.0%	-0.7%	-5.5%	1	-2
Run 14	16.0%	3.3%	26.0%	18	3
Run 15	20.0%	7.3%	57.5%	-7	5
Run 16	14.0%	1.3%	10.2%	-5	0
Run 17	16.0%	3.3%	26.0%	12	2
Run 18	14.0%	1.3%	10.2%	-7	2
Run 19	10.0%	-2.7%	-21.3%	11	2
Run 20	12.0%	-0.7%	-5.5%	-10	1

*Positive numbers indicate Run was greater than Baseline population

Table 5. Baseline Pool #2 – Q1 2005 Loans

Baseline Pool #2 – Q1 2005 Loans				
	Default Rate		Average FICO Score	Average LTV
Baseline	9.6%		706	78

	Default Rate	Absolute Default Difference*	Relative Default Difference*	Absolute FICO Difference*	Absolute LTV Difference*
Run 1	16.0%	6.4%	66.7%	2	-2
Run 2	10.0%	0.4%	4.2%	3	1
Run 3	12.0%	2.4%	25.0%	1	-4
Run 4	14.0%	4.4%	45.8%	-13	0
Run 5	4.0%	-5.6%	-58.3%	2	1
Run 6	16.0%	6.4%	66.7%	19	-4
Run 7	10.0%	0.4%	4.2%	2	-1
Run 8	6.0%	-3.6%	-37.5%	-3	2
Run 9	8.0%	-1.6%	-16.7%	20	-2
Run 10	8.0%	-1.6%	-16.7%	13	1
Run 11	14.0%	4.4%	45.8%	7	-1
Run 12	10.0%	0.4%	4.2%	21	0
Run 13	8.0%	-1.6%	-16.7%	-5	0
Run 14	4.0%	-5.6%	-58.3%	-7	0
Run 15	10.0%	0.4%	4.2%	-12	0
Run 16	6.0%	-3.6%	-37.5%	10	-2
Run 17	8.0%	-1.6%	-16.7%	-18	-3
Run 18	6.0%	-3.6%	-37.5%	0	-2
Run 19	12.0%	2.4%	25.0%	-5	1
Run 20	4.0%	-5.6%	-58.3%	7	2
*Positive numbers indicate Run was greater than Baseline population					

The difference in cumulative default rate between each sample risk retention pool and its respective Baseline Pool is material. Default rate differences ranged from 4.7% better to 7.3% worse in Vintage 1 and from 5.6% better to 6.4% worse in Vintage 2 on an absolute basis. Over the 20 sample pools created from each population, the average FICO score varied by 28 and 39 points while the Loan-to-Value ratio varied by 7% and 6%, respectively.

As compared to the other forms of risk retention, the Representative Sample option may require a significant and costly amount of oversight and infrastructure to comply with the processes necessary for the securitization as well as the reporting for subsequent periods. The enormous cost of compliance makes the Representative Sample option prohibitive to smaller financial institutions.

Lastly, it is unclear what the ramifications are if the Representative Sample pool performs better than the designated pool. Given the risks of gaming which could occur at the Sponsor or Originator level and the challenges of picking a truly Representative Sample of the designated pool while still appearing to meet the documented and certified random selection process, it would seem there is a good chance of an inconsistency in performance between the Representative Sample and designated pool with no practical implications to the Sponsor. The purpose of the risk retention rules is to ensure the Sponsor and/or Originator has "skin in the game" at the point of securitization that is transparent to all parties. The Representative Sample option is the only one which could favor the Sponsor and/or Originator in terms of performance of the retained risk vs. securitized pool. This possibility diminishes the effects of appropriate risk retention.

While PHH Mortgage strongly believes the Representative Sample option is not a viable one to meet the intent of the risk retention requirement, we have chosen to answer the other questions related to this option to provide recommendations in the event a Representative Sample option is included in the final Rule.

48. Are the mechanisms that we have proposed adequate to ensure monitoring of the randomization process if such an alternative were permitted?

No. The Proposed Rules require the independent public accountant to review only the Sponsor's procedures, including the randomization process, for the first securitization unless the Sponsor makes future changes to their process. There is no control in place to ensure the process is followed for every following securitization. In our view, while costly, a confirmation by an independent public accountant of the randomization process for every securitization which includes a Representative Sample is critical to the integrity and transparency of the securitization.

49. Is the requirement that the designated pool contain at least 1000 assets appropriate, or should a greater number of assets be required or a lesser number be permitted?

Requiring 1,000 assets or more would limit the utility of this option to only the largest financial institutions, creating another competitive imbalance between big banks and smaller financial institutions with limited capacity to warehouse a loan pool of this size until securitization. Reducing the minimum asset requirement to a number of loans less than 1,000 would alleviate some of the competitive imbalance but create an unreasonable expectation that a 5% sample of a smaller pool could realistically represent the risk of that smaller pool.

50. Are there material characteristics other than the average unpaid principal balance of all the assets that should be identified in the rule for purposes of the equivalent risk determination and disclosure requirements?

Rating agencies and Investors routinely require between 75 and 100 data elements to evaluate the risk of the pool. We would advocate a similar population of data elements be used in order to determine the representativeness of the sample.

51. Are there any better ways to ensure an adequate randomization process and the equivalence of the Representative Sample to the pool of securitized assets? For example, would it be appropriate and sufficient if the sponsor were required to use a third party to conduct the random selection with no subsequent testing to determine if the sample constructed has material characteristics equivalent to those of the securitized assets?

We believe the proper way to ensure an adequate randomization process is to have an independent public accountant conduct the random selection process and issue a procedures report for every securitization, prior to the sale of the securities. In addition to the minimum items outlined within the proposal, the procedures report should also include a certification from the independent public accountant which confirms they randomly selected the Representative Sample and the sample meets the randomization standards as outlined by the Agencies. Regardless, subsequent testing to confirm the sample constructed has material characteristics equivalent to those of the securitized assets should be mandatory in order to ensure the best transparency for Investors.

52(a). Alternatively, would it be adequate if the Sponsor was required to provide a third party opinion that the selection process was random and that retained exposures are equivalent (i.e., share a similar risk profile) to the securitized exposures? 52(b). Would this opinion resemble a credit rating, thereby raising concerns about undue reliance on credit ratings? 52(c). If this approach were adopted, should the Agencies impose any standards of performance to be followed by such a third party, or that such third party have certain characteristics?

As we proposed in our response to question #51, we believe an independent public accountant should be required to provide a certification confirming they randomly selected the Representative Sample and the sample meets the standards as outlined by the Agencies.

53. If the Agencies adopt a representative sample option, should the same disclosures be required regarding the securitized assets subject to risk retention that are required for the assets in the pool at the time of securitization and on an ongoing basis?

Yes. Consistent with our answers to other questions within this section, if the Representative Sample is adopted as a risk retention option, transparency and comparability between the Representative Sample and the designated pool is absolutely necessary to ensure the Sponsor has complied with the requirements of the risk retention option.

54. Should the retained exposures, as proposed, be subject to the same servicing standards as the securitized exposures?

Yes, the entire designated pool should be serviced in the same way to ensure consistency. While we do not believe the inclusion of servicing standards in the definition of a QRM is appropriate nor was it intended by the Act, we do believe the Proposed Guidelines should establish the requirement that all loans be serviced in the same manner to ensure consistency and remove any potential for conflicts of interest which could arise.

55. Are the disclosures proposed sufficient to provide investors with all material information concerning the sponsor's retained interest in a securitization transaction, as well as enable investors and the Agencies to monitor whether the sponsor has complied with the rule?

We believe the performance comparison proposed to be included within the distribution date disclosures should also include a statistically based indication of what the acceptable range of deviation in performance is between the Representative Sample and the designated pool to provide Investors with a transparent, objective means for comparing performance. This is not meant to replace any other comparison method the Investor would choose to employ but would, at a minimum, establish a standard for performance evaluation. The party reviewing the disclosures would be able to utilize this range to determine if the actual performance of the sample is representative of the designated pool.

56(a). Should additional disclosures be required? 56(b). If so, what should be required and why?

As we point out in question #55, the performance comparison proposed to be included in the distribution date disclosures should include a statistically based indication of what the acceptable range of deviation in performance is between the Representative Sample and the designated pool to provide Investors with a transparent, objective means for comparing performance.

57(a). Is the condition that a sponsor obtain an agreed upon procedures report from an independent, public accounting firm appropriate? 57(b). If not, is there another mechanism that should be included in the option that helps ensure that the sponsor has constructed the Representative Sample in conformance with the requirements of the rule?

Yes, we believe an agreed upon procedures report from an independent, public accounting firm is appropriate as an added control to the Representative Sample selection process.

58(a). Is the requirement that the sponsor determine equivalency with a 95 percent two tailed confidence appropriate? 58(b). If not, what measurement of equivalency do you recommend and why?

Statistically, the requirement is appropriate when evaluating each risk characteristic in isolation, however, the true incidence of default of a loan is dependent on the combination of all of the loan's risk characteristics.

6. **Asset-Backed Commercial Paper Conduits – no comment**

7. **Commercial Mortgage-Backed Securities – no comment**

8. **Treatment of Government-Sponsored Enterprises – no comment**

9. **Premium Capture Cash Reserve Account**

82. Do you believe the premium capture cash reserve account will be an effective mechanism at capturing the monetization of excess spread, promoting sponsor monitoring of credit quality, and promoting the sound underwriting of securitized assets?

We do not believe the premium capture cash reserve account will be an effective mechanism at capturing the monetization of excess spread because it would have the more impactful effect of rendering securitization, as a secondary market sale outlet, impractical as outlined in further detail in our response to Question #83.

We believe the premium cash reserve account section should be removed from the proposed rule given the adverse impacts it would have on the liquidity of the securitization market. In our view, the proposed 5% risk retention requirement alone provides for a sufficient retention of risk. Further, earning a premium over par should not be seen as an offset to the Sponsor or Originator having "skin in the game" in the form of risk retention. The value of the retained interests will be marked at fair value on the Sponsor's balance sheet and subject to decreases in value to the extent the performance of the related pool is worse than expected.

83. The Agencies seek input on alternative methods for removing incentives to monetize excess spread and whether the proposed premium capture reserve account would have any adverse effects on securitizations that are inconsistent with the purposes of section 15G. For example, is the method of calculating the premium capture cash reserve account appropriate or are there alternative methodologies that would better achieve the purpose of the account?

We believe the purpose of this provision as proposed by the Agencies is to ensure the credit risk a Sponsor has retained is not reduced by the cash profit generated from the sale of excess spread. The ability to monetize proceeds in excess of par is a critical component of the Originator's business model and conflicts with the requirements of the premium capture section. As a result, we believe the premium capture rule would render securitization impractical as an execution alternative for Originators and Sponsors.

First, the premium capture rule would not allow an Originator to earn enough revenue from the origination and sale of the loan into the secondary market to earn a reasonable profit after covering the costs of origination. Originators cover costs and earn a profit by pricing the note rate at a level high enough to generate proceeds in excess of par (the amount of the loan advanced on behalf of the borrower) and/or charging a combination of points and fees. As outlined in the example below, an Originator has established an interest rate and an accompanying set of fees and points in order to ensure 1.5 points, enough to cover the costs of origination and earn a reasonable profit.

Table 6. Origination Fees and Points Example

Interest Rate	5.250%	4.875%	4.625%
	Loan Value Above Par	Loan Value at Par	Loan Value Below Par
Secondary Market Value of Loan	101.50	100.00	99.00
+ Fees & Points	0.00	1.50	2.50
- Loan Amount (par)	-100.00	-100.00	-100.00
Net Revenue	1.50	1.50	1.50

It is most common for borrowers to choose a 0 point quote and accept a higher interest rate in order to minimize their cash outlay. For purchase transactions which PHH Mortgage closed in 2010, the borrower selected a 0 or near zero point quote approximately 73% of the time. After having made the down payment and paid for closing costs, the borrower is typically not inclined to pay or unable to pay for points to buy the interest rate down. With regard to refinance transactions, borrowers typically will roll all or nearly all closing costs into the loan amount financed and not pay any points in an effort to reduce out of pocket expenses (after ensuring adequate equity per the Originator's underwriting guidelines). For refinance transactions which PHH Mortgage closed in 2010, the borrower selected a 0 or near zero point quote approximately 84% of the time.

Because the premium capture rule would negate the ability for proceeds above par to be recognized as revenue, the Originator would be forced to charge increased fees, albeit accompanied by a lower interest rate, in order to recoup the necessary revenue dollars to cover the cost of origination and earn a reasonable profit. This would have the effect of limiting customer choice and is clearly at odds with the borrower's exhibited preference to minimize additional cash out of pocket after meeting the necessary equity requirements per the Originator's underwriting guidelines.

Further constraining the lender's ability to collect points are the restrictions regarding the maximum amount of points and fees which can be charged to the borrower. The Proposed

Ability To Repay rules proposed by the Federal Reserve on April 19, 2011 include a requirement for points and fees to not exceed 3% of the loan amount in order to qualify as a Qualified Mortgage. The eligibility criteria for QRM as outlined in the Proposed Rules goes even further by including bona fide discount points as well as third party fees in its 3% limit. As a result, the Originator would be unable to recognize gains over par from the sale of the loan and may be unable to charge the borrower points and fees to earn the necessary revenue to cover costs and a reasonable profit.

Second, the inability to recognize gains over par would prohibit the Originator from hedging the interest rate risk it assumes when allowing a borrower to lock in an interest rate prior to closing. Typically, borrowers lock in interest rates at the point of loan application. From that point until the loan is sold into the secondary market, the Originator must mitigate, or hedge, the interest rate risk in order to preserve the revenue it priced into the Loan Price (defined as the Secondary Market loan value plus points and fees) offered to the borrower. If rates go higher and the Originator did not hedge the interest rate risk, the loan proceeds earned upon sale into the Secondary Market would be less than what was expected when the Originator allowed the borrower to lock in an interest rate due to a reduction in the loan's value.

The Originator hedges its interest rate risk by selling forward a generic commitment to deliver the loan into the Secondary Market. Once the loan is closed and pooled with other loans for sale, the original generic forward commitment is bought back and the loan pool is sold either via securitization or whole loan sale. To the extent interest rates go lower during the time which elapses from borrower lock date to sale into the secondary market, the repurchase of the generic commitment by the Originator would be at a higher price than at which it was originally sold, generating a loss. The Originator counts on the increase in the loan value during this time to offset the loss. The inability of the Originator to recognize gains over par in a securitization effectively negates securitization as a source of liquidity for consumer credit.

If the Originator is unable to recognize gains over par in a securitization, it would either have to sell the loan in a whole loan sale or prohibit the borrower from locking in their interest rate at the point of initial loan application. Even if the Originator chose to delay the borrower's ability to lock the loan until the loan closes, there is still a window of time, which can be as long as weeks or months, during which the loan is closed but not yet sold via securitization. The Originator is still exposed to interest rate risk during this period but would be unable to recognize any increase in a loan's value which results in an above par price as an offset. Thus, any Originator wishing to prudently hedge its interest rate exposure would be precluded from using the securitization market as a source of credit for consumers.

Lastly, due to the combination of a retained interest and a premium capture cash reserve account, Sponsors who act as Servicers may be deemed to have a 'controlling financial interest' in the transaction under ASC 810 which would force asset consolidation on the balance sheet. For most financial institutions, but particularly smaller financial institutions and independent mortgage bankers, the capital which would be required as a result of consolidation would prohibit securitization from being a viable secondary market sale option.

C. Allocation to the Originator

86(a). Should the Proposed Rules permit allocation to originators where the sponsor is using other menu options, such as the L-shaped risk retention option in § __6. of the Proposed Rules, and if so, under what specific conditions and requirements? 86(b). In what cases is it likely that this alternative approach actually would be used? 86(c). What are the specific benefits of an alternative approach, and do they outweigh concerns regarding complexity?

In the interest of allowing the greatest amount of flexibility in terms of available risk retention options, we believe the Proposed Rules should permit allocation of any type of eligible risk retention option to the Originator. As directed by the Act, the Agencies will establish eligible forms of risk retention with the goal of alignment of interests between Sponsor and Investor regarding underwriting quality. Given the minimum 20 percent threshold, not to exceed its proportional share of the retained risk, the Originator should have adequate incentive to monitor the quality of all the assets being securitized by the Sponsor. As a result, there is no incremental risk exposure assumed by the Investors by permitting allocation of L-shaped retained risk, or any other form of risk for that matter, to the Originator. Because there is no incremental risk exposure to Investors, we do not believe it is necessary to limit the forms of risk retention which can be allocated to Originators.

87. Should the rule permit allocation to originators if the sponsor elects the horizontal cash reserve account option in proposed § __.5(b)?

Please refer to our response to Question #86.

90. Should the rules permit sponsors to allocate risk to a third party, and if so, how to ensure that incentives between the sponsor and investors are aligned in a manner that promotes quality underwriting standards?

The Act defines an Originator as the entity which "through the extension of credit or otherwise, creates a financial asset that collateralizes an asset-backed security; and sells an asset directly or indirectly to a securitizer." The Act defines a Securitizer as "(A) an issuer of an asset-backed security; or (B) a person who originates and initiates an asset-backed securities transaction by selling or transferring assets, either directly or indirectly, through an affiliate, to the issuer." Furthermore, the Act allows only Originators or Securitizers (or Sponsors) to hold the retained credit risk for a non-QRM securitization.

A correspondent loan can be defined as a loan which is originated by a lender ("the Correspondent Lender") and sold, nearly always on a servicing released basis, to another, unaffiliated lender (the "Aggregator"), which pools its purchased loans together and sells the pool of loans to end Investors on a servicing retained basis either via a securitization or a whole loan sale. In many cases, the Aggregator sells the pool of loans in whole loan form to a Sponsor which would then securitize the assets and sell all or some of the issued securities to other Investors.

According to Inside Mortgage Finance, approximately 39% of 2010 originations were originated by Correspondent Lenders. Correspondent Lenders play an important role in the housing finance industry because they extend the distribution networks of the Aggregators, reaching more borrowers and offering additional lending choices which have the net effect of driving down the interest rates borrowers pay. However, Correspondent Lenders may not have the liquidity or expertise necessary to manage the interest rate risk of loans as they move through the origination process nor retain mortgage servicing rights and service mortgage loans. Therefore, they are heavily reliant on Aggregators as an outlet to purchase the loans and handle certain origination and all servicing functions.

However, the Correspondent Lending segment may be adversely impacted by the limitations placed on which parties may retain risk as outlined in the Act and Proposed Rules. An Aggregator who has purchased a closed loan from a Correspondent Lender is not allowed to retain the required credit risk if it subsequently sells the loans to a Sponsor for securitization. This is because the Aggregator is neither the Originator nor the Sponsor. If the Sponsor is unwilling to retain the credit risk and the Correspondent Originator lacks the funding and long term capital to retain the risk, the securitization is no longer a viable source of consumer credit for the Correspondent Lending segment.

To resolve this problem, we propose the Rules be modified to allow for retention of risk by the Aggregator. Aggregators already have a strong interest in ensuring quality and sound underwriting standards when purchasing Correspondent Lender loans. Representations and warranties regarding underwriting quality, proper documentation, fraud and regulatory compliance are made by the Aggregators to the parties purchasing the loans. The Aggregator has invested in the mortgage servicing rights (MSRs) and has the responsibility to service the loans it purchases from the Correspondent Lenders. Allowing the Aggregator to participate in risk retention would not lessen the focus on ensuring quality underwriting standards while ensuring the important Correspondent Lending segment would not suffer from a lack of a securitization outlet for non-QRM loans.

D. Hedging, Transfer and Financing Restrictions

96(a). Under the proposal, a sponsor would not be permitted to sell or otherwise transfer any interest or assets that the sponsor is required to retain to any person other than an entity that is and remains a consolidated affiliated. Is the permitted transfer to consolidated affiliates appropriate? 96(b). Why or why not?

Yes, risk would continue to be maintained in the consolidated entity and therefore create and maintain a vested interest by the Sponsor in the performance of the collateral.

101. Are the proposed provisions concerning the pledging of retained assets appropriate? Should the rule instead prohibit the pledging of retained assets even where the financial transaction is recourse to the sponsor or consolidated affiliate?

The Proposed Rules permit financing of retained ABS interests, so long as the financing is on a full recourse basis to the Sponsor. This approach appropriately recognizes the goal of risk retention is to require the Sponsor to retain credit risk. Under normal corporate treasury practices, a Sponsor should be free to finance the holding of interests retained to satisfy the retention requirements, through any means not designed to offload the credit risk imbedded in those retained interests. Thus, funding should be permitted with any combination of capital, retained earnings, unsecured debt or secured financing on a full recourse basis.

The ability to finance retained interests is primarily relevant for vertical retention. In vertical retention, most of the retained interests will consist of senior interests, which have the benefit of enhancement provided within the issuing entity through subordination and are likely to have high credit ratings. Such securities are generally highly liquid and are deemed to be good collateral for secured financing at favorable advance rates and other terms, and it would be normal practice for a Sponsor to obtain secured financing to finance these interests. In contrast, with horizontal retention, the retained interests would consist of first loss classes, for which secured financing is generally not available because such interests are risky and illiquid.

However, we are concerned about the language in the proposed release stating "If the Sponsor… pledged the interest… to support recourse financing and subsequently allowed (whether by consent, pursuant to the exercise of remedies by the counterparty or otherwise) the interest… to be taken by the counterparty to the financing transaction, the Sponsor would have violated the prohibition on transfer." We are concerned the implications of this statement are uncertain, and may create a bar to obtaining financing even on a full recourse basis.

Financing of ABS interests typically is done either in the form of a secured loan or as a repurchase agreement. In a secured loan, the borrower would enter into a loan and security agreement, which would convey a security interest in the ABS interest to the lender as collateral. The security interest would entitle the lender to liquidate the collateral following a default by the borrower, including any failure to repay the loan as and when required or failure to comply with any collateral maintenance requirement (which could be triggered by a loss in value of the collateral including due to higher than anticipated credit losses). In the loan and security agreement, the borrower would typically represent that entering into and performing the agreement, including the pledge of the ABS interests, would not violate any applicable law, and also that it owned the collateral and there are no other liens on the collateral. A loan and security agreement may also contain a representation by the borrower that the enforceability of the agreement does not require the approval or consent of any governmental authority.

In a repurchase agreement, the borrower (acting as seller) sells the ABS interest to the lender (acting as purchaser), with a simultaneous agreement by the purchaser to sell the ABS interest back to the seller at a stated time and for a set price. A repurchase agreement would also contain margin maintenance requirements which could be triggered by a loss in value of the ABS interests including due to higher than anticipated credit losses. This arrangement keeps the borrower fully exposed to all risks of the ABS interest, including credit risk, and is also typically treated as a financing under GAAP. This arrangement may have the benefit of an exemption from the automatic stay in any bankruptcy of the borrower enabling the lender to exercise self help remedies in liquidating the ABS interests without prior approval of the bankruptcy court, which is an important legal benefit to the lender and which may not apply in the secured loan structure. In this structure, if there is any default by the borrower, the lender would desire to and would be entitled to immediately resell the collateral in order to fix its deficiency claim against the borrower. Again, the borrower would typically represent in the repurchase agreement that entering into and performing the agreement would not violate any applicable law, and also that it owns the ABS interest and is entitled to transfer it free of any liens. Similar to a loan and security agreement, a repurchase agreement may also contain a representation by the borrower that the enforceability of the agreement does not require the approval or consent of any governmental authority.

An essential element of secured financing (however structured) is the lender must be legally able to foreclose on, take title to, and sell the collateral following a default by the borrower, in order to recover all or at least part of the amount owed, all without any consent or other action required of the borrower or any other person or governmental authority. The collateral must be liquid, and it must be capable of being transferred free and clear of any other interest, and without any cloud on the title or on the legality of the transfer. Where secured financing is being made on a full recourse basis, the lender would typically liquidate the collateral and apply the proceeds against the amount owed, and would then assert a claim against the borrower for any deficiency. In this context “full recourse” means this deficiency can be recovered from the borrower.

However, the Proposed Rules are very unclear about the consequences of any breach of the prohibition on transfer that might result if the lender foreclosed on, took title to, or liquidated the ABS interests following a default by the borrower. We envision lenders would be concerned whether the foreclosure on, or sale of, the ABS interests pledged as collateral could somehow be undone in an enforcement proceeding, potentially exposing the lender to further loss or liability. Alternatively, there could be a concern the applicable regulator could seek an injunction against any foreclosure on, or liquidation of, the collateral by the lender following a default. There could also be a concern the applicable regulator accuses the lender of violating the regulations in connection with the lender’s enforcement of its contractual remedial provisions. These concerns would likely be aggravated as a result of efforts by the borrower to revise its contractual representations regarding legality to take into account the Proposed Rules. We believe the rules, as proposed, will inevitably result in lenders being simply unwilling to provide financing for retained ABS interests, in light of concerns such as the ones discussed above.

Absent a clarification in the final rule, we believe lenders will most likely no longer be willing to provide secured financing, even on a full recourse basis, for ABS interests which are being retained by a Sponsor to satisfy the risk retention requirements. Thus, the purpose for allowing recourse secured financing in the rules would be frustrated. This will result in the need for Originators to maintain higher levels of capital in order to carry the retained ABS interests, resulting in higher costs which will be passed on to borrowers in the form of higher rates or fees. Even if secured financing continues to be provided by some lenders, we expect the cost of such financing would be significantly higher, again resulting in higher rates or fees being imposed on borrowers.

Accordingly, we propose the final rules contain language in Section ___.14(e) to the following effect:

> Where the Sponsor has obtained secured financing on a full recourse basis (including in the form of a repurchase agreement) of an ABS interest required to be retained pursuant to subpart B, the lender's rights to foreclose on, take title to, sell or otherwise transfer or liquidate the ABS interests pursuant to applicable law and contractual provisions, following any default by the Sponsor as borrower in the financing transaction, shall not in any way be limited, curtailed, or obstructed as a result of any violation or potential violation of the prohibition on transfer by the Sponsor, and no claim, penalty or liability may be asserted against the Sponsor, the lender or any transferee of such ABS interests in respect of any such violation.

102(a). Under the proposal, a sponsor (or a consolidated affiliate) would be prohibited from transferring the retained interest or assets until the retained interest or assets were fully repaid or extinguished. Is this appropriate, or should a sponsor be permitted to freely transfer or hedge its retained exposure after a specified period of time? 102(b). If so, should a period of time be established for different types of securitizations?

We believe the duration of the risk requirement can be limited while still accomplishing the goal of ensuring the Sponsor / Originator has some "skin in the game." Depending upon the type of securitization and the underlying assets, a majority of defaults would likely occur within a specified time after the origination of the underlying assets. The duration of the retained risk requirement should be consistent with the collateral it is supporting (either through accelerated amortization or a fixed period of time).

IV. Qualified Residential Mortgages

A. Overall Approach to Defining Qualifying Residential Mortgages

106. Is the overall approach taken by the Agencies in defining a QRM appropriate?

While we appreciate the difficulty the Agencies faced in proposing parameters of a QRM exemption, the evaluation of material credit characteristics such as LTV and credit score in isolation and not in combination with each other was overly simplistic and unnecessarily excluded a significant population of credit worthy borrowers from being able to obtain lower cost financing as a result of an overly narrow QRM exemption. Making a credit decision on an individual loan is a complex process and the true credit risk of the loan can only be established by evaluating the loan's characteristics in connection with each other. We believe a more expansive QRM definition can be established which includes more credit worthy borrowers without sacrificing transparency or introducing additional complexity or cost that would "undermine any incentives for Sponsors to securitize and Originators to originate, QRMs."

107. What impact might the Proposed Rules have on the market for securitizations backed by QRM and non-QRM residential mortgage loans?

We strongly believe other sections of the Proposed Rules, such as the premium capture cash reserve and Representative Sample, would have immense adverse impacts on the liquidity of the non-QRM securitization market. We believe the emphasis on ensuring "the amount of non-QRM residential mortgages [is] sufficiently large, and include enough prudently underwritten loans, so that ABS backed by non-QRM residential mortgage may be routinely issued and purchased…" is inappropriate and should not be a driver of the final Guidelines. By establishing very narrow criteria for QRM exemption, the Agencies have ensured a sizable non-QRM population but did so at a great cost to credit worthy borrowers who will be paying higher interest rates because they have been unfairly deemed to be a substantially higher default risk.

Prior to the shutdown of the securitization market in 2008, jumbo prime securitization liquidity was not an issue. Based on 2000–2007 origination and jumbo securitization data sourced from Inside Mortgage Finance and Loan Performance, jumbo prime securitizations were never more than 9% of total originations during any given year and made up only $64 billion of originations in 2000, which was the low point of originations during the time period measured. Given the liquidity of the jumbo market throughout this period and the relatively low amounts of issuance, it is clear market liquidity of a particular product segment is not dependent on representing a sizable portion of the total market.

While it is true supply can and does have an impact on market liquidity, this data supports the observation that absolute volume levels and/or proportion of total originations is not a driver of market liquidity. Confidence in the securitization market itself, or lack thereof as has been the case for the past four years, is the driver of liquidity.

Table 7. Jumbo Securitizations vs. the Total Market

	Jumbo Securitizations	Total Originations	Jumbo Securitizations as % of Total Originations
2000	$64	$1,048	6%
2001	$181	$2,215	8%
2002	$242	$2,885	8%
2003	$317	$3,945	8%
2004	$263	$2,920	9%
2005	$241	$3,120	8%
2006	$179	$2,980	6%
2007	$150	$2,430	6%

All dollar amounts in billions.
Source: *Inside Mortgage Finance*, *Loan Performance* and PHH Mortgage.

108. What impact, if any, might the proposed QRM standards have on pricing, terms and availability of non-QRM residential mortgages, including to low and moderate income borrowers?

The narrowness of the QRM eligibility criteria will force a significant number of credit worthy borrowers to qualify only for non-QRM loans. Interestingly, the Agencies' efforts to ensure "the amount of non-QRM residential mortgages [is] sufficiently large, and include enough prudently underwritten loans so that ABS backed by non-QRM residential mortgages may be routinely issued" may ultimately and unintentionally limit qualified borrowers from obtaining non-QRM loans. Simply put, the amount of capital available to fund the retained risk of non-QRM securitizations is not unlimited, especially if there is no ability to secure financing to fund all or even a portion of the retained risk due to the lack of clarity in the Proposed Rules regarding transference of retained risk to Lenders [which may be warranted due to Borrower (the Sponsor) default under a full recourse obligation (see our response to Question #101).] Lenders may be forced to limit their non-QRM eligibility criteria and thus their amounts of non-QRM originations not because of default risk concerns but because of limited capital availability.

While the investor base of securitizations is very broad, being made up of a variety of different types of Investors with varying risk appetites and yield requirements and therefore contributing to the great success of a liquid securitizations market before the housing meltdown, the number of entities who are Originators or Sponsors willing or able to retain risk is far more limited. Unless there is a very significant increase in entities which have the necessary network of buyers and sellers as well as the operational and risk management capabilities to act as Sponsors in a securitization, the amount of credit extended to non-QRM borrowers may not be as great as the demand. This creates the very real possibility for a segment of borrowers, possibly including low and moderate income borrowers, to be unable to obtain home financing even if the extension of credit to them can be substantiated, albeit at higher non-QRM interest rates.

Our proposal outlined within this response supports the expansion of the QRM eligibility criteria, which would have the effect of making lower cost QRM loans available to a broader group of credit worthy borrowers. The expanded QRM eligibility criteria could simultaneously have the effect of creating more liquidity for a broader group of non-QRM borrowers because valuable capital would not be consumed funding retained risk of credit worthy borrower's loans.

With regard to the impact of the risk retention rules on pricing in the securitization markets, we estimate interest rates for non-QRM borrowers may be between 60-100 bps higher than rates for QRM borrowers. This estimate is based on our own calculations of the default rates of non-QRM pools and the returns required to fund the 5% retained risk. These estimates do not imply a liquidity premium will be charged for non-QRM securitizations as we believe liquidity of the non-QRM market will not be an issue if our proposal is adopted and the anticipated percentage of non-QRM loans is significantly less than expected under the Proposed Rules. In other words, the 60-100 bps in higher interest rates is what we expect a non-QRM borrower to pay regardless of the size of the non-QRM and QRM populations.

110. The Agencies seek comment on all aspects of the proposed definition of a QRM, including the specific terms and conditions discussed in the following section.

The Proposed QRM Rules may be detrimental to borrowers in multiple ways:

- Higher non-QRM interest rates for credit worthy borrowers
- Reduced competition among lenders due to the capital requirements of retained credit risk, further increasing borrower costs
- Lack of credit available to borrowers with less than prime credit histories

The Proposed QRM Rules are unnecessarily restrictive and will force far too many credit worthy borrowers into higher cost non-QRM loans. The Act calls for the Agencies to define a qualified residential mortgage by "taking into consideration underwriting and product features that historical loan performance indicate result in a lower risk of default…" While the definition of "lower risk of default" is not clear, we believe a broader definition of a QRM can be established which, even in years of extreme economic stress such as 2006-2008, provides for a materially lower rate of default than the total population originated during the respective period, justifying exemption from the risk retention rules while giving more borrowers access to lower QRM interest rates.

Retaining 5% of the credit risk for non-QRM loans may require a substantial amount of additional capital to be deployed in the home finance industry. These capital requirements would most easily be achieved by financial institutions, especially the larger ones.

According to a Federal Reserve analysis of 2009 HMDA data[24], roughly 24% of the loans originated in 2010 were produced by independent mortgage bankers, a group which generally originates to sell loans and does not have a capital structure suited to funding loans for investment. The narrowness of the Proposed QRM Rules and resulting large proportion of non-QRM loans requiring capital for risk retention purposes may have the net effect of shifting origination volume from independent mortgage bankers to the largest financial institutions, decreasing competition for mortgage origination business and increasing costs to borrowers. It is also important to note this shift is seemingly contrary to the government's desire to reduce the systemic risks caused by an excessive concentration of retained credit risk among the largest banks. By decreasing the competition, the biggest financial institutions will only get bigger, increasing the "Too Big To Fail" risk.

Notwithstanding the shift in originations and reduced competitiveness which would be caused by a narrow QRM definition, there is also a question of how much industry capital will be available to fund retained credit risk, regardless of the source. It is quite likely even the largest financial institutions will limit the amount of capital they are willing to allocate to non-QRM loans. The purpose of the credit risk requirements is to ensure the Sponsor of the securitization (or Originator) has "skin in the game", which is perfectly reasonable when the loans in question are of lesser credit quality and higher risk of default. However, if the finite amount of industry capital is "used up" funding retained risk for loans which are higher quality loans as a result of a narrow QRM definition, it is possible borrowers of lesser credit quality, whose loans would be prudently underwritten and whose interest rates would appropriately reflect the level of credit risk, will be shut out from obtaining financing.

We believe the government also has a desire to increase private sector involvement in housing finance. Because of the capital requirements associated with non-QRM financing, lenders will look to government subsidized programs such as FHA, VA and USDA in order to sustain their origination businesses. As a result, government subsidized originations, as a percentage of total originations, will only increase as credit worthy borrowers ineligible for QRM financing are placed into FHA, VA and USDA products.

[24] Federal Reserve Bulletin published on February 15, 2011;http://www.federalreserve.gov/pubs/bulletin/2010/articles/2009HMDA/default.htm#DistributionOfReportedHigher-priced-EFC6519A.

In an effort to minimize the detrimental effects of an overly narrow QRM rule, PHH Mortgage proposes an alternative set of criteria for QRM eligibility ("PHH Mortgage QRM Rules"):

• Maximum LTV/CLTV requirements depending on the type of transaction: - Purchases and Rate/Term Refinances: Maximum 95% LTV/CLTV - Cash-Out Refinances: Maximum 80% LTV/CLTV (LTVs above 80% would be required to carry private credit enhancement, such as private mortgage insurance, reducing the LTV to less than 80% from the Investor's perspective)
• Replacement of the credit history requirements with an explicit minimum credit score depending on the type of transaction: - Purchases and Rate/Term Refinances: Minimum 660 credit score - Cash-Out Refinances: Minimum 690 credit score
• No debt-to-income (DTI) ratio limit
• Down payment rules are modified to allow seller to fund closing costs up to a maximum depending on LTV
• Subordinate liens are permitted for purchase transactions subject to certain terms
• Points and fees limits are no more restrictive than as defined for QM's contained in section 129C(b)(2)(A)(vii) of TILA
• No provision for servicing standards

In order to support PHH Mortgage's recommendation, PHH Mortgage retained Milliman, Inc., one of the world's largest independent actuarial and consulting firms, to analyze available mortgage industry data and determine the impact of restricting select product and underwriting criteria on historical mortgage originations and loan default performance. Milliman's Mortgage Credit practice has extensive experience providing actuarial consulting services regarding credit risks to mortgage lenders, private mortgage guaranty insurers, several financial guaranty insurers, institutional investors and government agencies.

Specifically, Milliman was asked to analyze:

- The origination and default performance impact of conventional single-family mortgages that would have met the proposed QM and QRM requirements.
- The origination and default performance impact of proposed QRM mortgages when small adjustments are made to the qualification standards such as Fair Isaacs Corporation Credit Score (FICO Score), loan-to-value (LTV) and debt-to-income ratios (DTI's) as parameterized by PHH.

Below is an abstract from Milliman's Report.

Abstract from Milliman Report[25]:

Milliman analyzed loan-level data from Corelogic's LoanPerformance Loan Level Servicing Database with product and underwriting criteria defined as closely as possible to the QM and QRM definitions outlined by the Agencies. Mortgage originations in the analysis were restricted to first lien, non-commercial or construction loans. Loans that had ever been 90 days delinquent, in foreclosure or real estate owned were classified as a default for the purposes of the analysis.

Milliman filtered the LPS Data for mortgage loans meeting the proposed definition of a QM and QRM while retaining the investor identifier and select underwriting criteria such as LTV, FICO Score and DTI; however, DTI was ultimately ignored for the purposes of this analysis due to the large portion of loans missing a DTI ratio (on a technical note, Milliman also cautions the use of calculated DTI ratios in underwriting criteria in the absence of verifying and validating borrower income and debt obligations).

Due to the volume of mortgage loan records available in the LPS data, Milliman restricted its analysis to originations years 2002 and subsequent. It is well documented that mortgage loan product and underwriting criteria were materially relaxed between 2005 and 2007. For example, these origination years are associated with an increased amount of payment optional or interest only loans, eliminated or limited required borrower documentation, and a large amount of investor or cash-out refinance loans. By beginning the analysis with 2002 originations, Milliman was able to highlight the change in product and underwriting criteria and its subsequent default performance over time. It is important to note that Milliman did not forecast the default performance to a constant state of loan aging (e.g. the 2002 origination year has roughly eight years of mortgage payment development where as the 2007 origination year has only roughly three years). Milliman's analysis was performed in this manner to highlight the relative magnitude in default performance in product and underwriting criteria within a given origination year and the relativity in performance to other origination years.

[25] Full Milliman report will be provided upon request and written consent of Milliman, Inc.

Milliman applied three filters to the data to assess the relative default performance of all loans in the data compared to loans meeting the QM and QRM definitions (See Exhibit 1 in Appendix). First, Milliman removed the Ginnie Mae securitized loans (7.2 million or 13.3% of the total loan population) due to their automatic inclusion under the proposed QRM definition. GSE securitized loans were retained in the analysis because of the potential absence of future capital support from the United States. Loans not meeting the QM definition[26] were then removed (17.0 million or 36% of the remaining population) resulted in an analysis database of 30.1 million loans subject to proposed further QRM product and underwriting criteria. The ever-to-date default rate for loans meeting the QM definition and excluding Ginnie Mae loans in the LPS database varied from a high of 15.0% in 2007 compared to 3.3% in 2003. Using available matching QRM criteria for the LPS Data, the database was further reduced by 72% to 8.4 million loans (a net difference of 21.7 million loans from the prior set of loans) by eliminating loans with:

- For purchase only loans:
  - Loans with a combined loan-to-value ratio at origination greater than 80%; and
  - Loans with a borrower FICO Score less than 690;

- For rate-term refinance loans:
  - Loans with a combined loan-to-value ratio at origination greater than 75%; and
  - Loans with a borrower FICO Score less than 690;

- For cash-out refinance loans:
  - Loans with a combined loan-to-value ratio at origination greater than 70%; and
  - Loans with a borrower FICO Score less than 690;

[26] Excluded were loans without full documentation, loans with an amortization period greater than 360 months; loans with an Interest only and/or negative amortization feature, loans associated with prepayment penalties and loans with more than a 2% annual rate increase or a 6% lifetime rate increase.

Correspondingly, the absolute change in default rates was reduced (-5.1%) to 1.1% for QRM eligible loans compared to 6.2% for QM eligible loans. The ever-to-date default rate for loans meeting the QRM definition and excluding Ginnie Mae loans in the LPS database varied from a high of 3.8% in 2006 compared to 0.7% in 2002 excluding the two most recent vintage years due to lack of seasoning.

In order to responsibly expand the QRM requirements and resulting amount of credit available to credit worthy borrowers, PHH Mortgage provided an updated proposed definition of QRM consisting of relaxed LTV and FICO Score criteria for purchase only and cash out refinance mortgages as defined by:

- For purchase only loans:
  - Loans with a combined loan-to-value ratio at origination less than or equal to 95%; and
  - Loans with a borrower FICO Score greater than or equal to 660;

- For rate-term refinance loans:
  - Loans with a combined loan-to-value ratio at origination less than or equal to 95%; and
  - Loans with a borrower FICO Score greater than or equal to 660;

- For cash-out refinance loans:
  - Loans with a combined loan-to-value ratio at origination less than or equal to 80%; and
  - Loans with a borrower FICO Score greater than or equal to 690;

By relaxing the LTV and FICO requirements selectively for purchases, rate-term refinance loans and cash-out refinance loans as defined above, the amount of credit available to credit worthy borrowers would increase by approximately 220% based on historical loan volumes (220% = 18.5 / 8.4), as seen on Table 8. The corresponding default rate of the expanded QRM definition would have been 2.5% compared to 6.2% for loans meeting the current definition of QM and 1.1% for loans meeting the QRM definition.

Table 8. Qualified Residential Loans vs. Non Qualified Residential Mortgage Loans

PHH Mortgage Corporation
Qualified Residential Loans Vs. Non Qualified Residential Mortgage Loans
Originated Loans and Defaults (Units in 000's)

QM Eligible Loans Only, Excluding Ginnie Mae Loans

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Number of Loans	3,867	7,349	3,333	3,043	2,561	2,630	2,169	2,653	2,101	378	30,084
Number of Defaults	155	242	183	270	326	394	210	58	30	2	1,871
Default Rate	4.0%	3.3%	5.5%	8.9%	12.7%	15.0%	9.7%	2.2%	1.4%	0.6%	6.2%

QM and QRM Eligible Loans Only, Excluding Ginnie Mae Loans

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Number of Loans	1,104	2,211	855	667	485	500	468	1,064	859	143	8,356
Number of Defaults	7	17	11	18	19	16	5	1	0	0	96
Default Rate	0.7%	0.8%	1.3%	2.7%	3.8%	3.3%	1.2%	0.1%	0.0%	0.0%	1.1%
% of QM Eligible for QRM	29%	30%	26%	22%	19%	19%	22%	40%	41%	38%	28%
Absolute Default Rate Delta	-3.3%	-2.5%	-4.2%	-6.1%	-8.9%	-11.7%	-8.5%	-2.1%	-1.4%	-0.6%	-5.1%

All Loans excluding Ginnie Mae Loans - QM and QRM expanded to PHH goals Loans Only

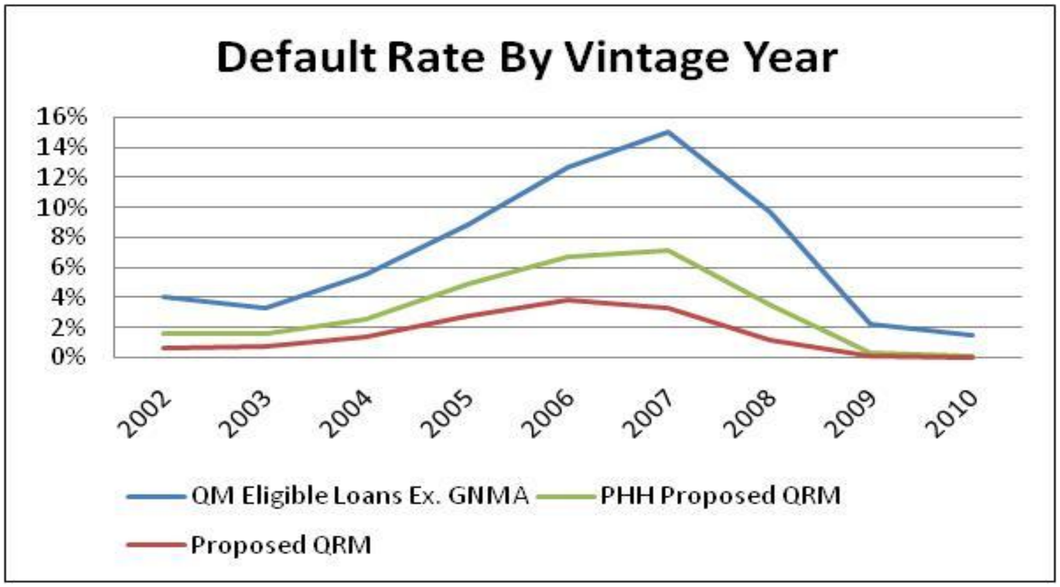
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Number of Loans	2,191	4,342	1,874	1,570	1,234	1,388	1,390	2,318	1,862	304	18,472
Number of Defaults	34	67	49	77	83	98	49	7	1	0	466
Default Rate	1.5%	1.5%	2.6%	4.9%	6.7%	7.1%	3.5%	0.3%	0.1%	0.0%	2.5%
% of QM Eligible for QRM	57%	59%	56%	52%	48%	53%	64%	87%	89%	80%	61%
Absolute Default Rate Delta	-2.5%	-1.8%	-2.9%	-4.0%	-6.0%	-7.9%	-6.1%	-1.9%	-1.4%	-0.6%	-3.7%

Source: Corelogic's LoanPerformance Loan Level Servicing Database as processed by Milliman, Inc.

Table 9 provides a graphical depiction of the default rates presented in Exhibit 1 for three loan groups:

1. Loans eligible for Proposed QRM Rules;
2. Loans eligible for PHH Mortgage QRM Rules; and
3. All QM loans

Table 9. Default Rate By Vintage Year[27]



Source: Corelogic's LoanPerformance Loan Level Servicing Database as processed by Milliman, Inc.

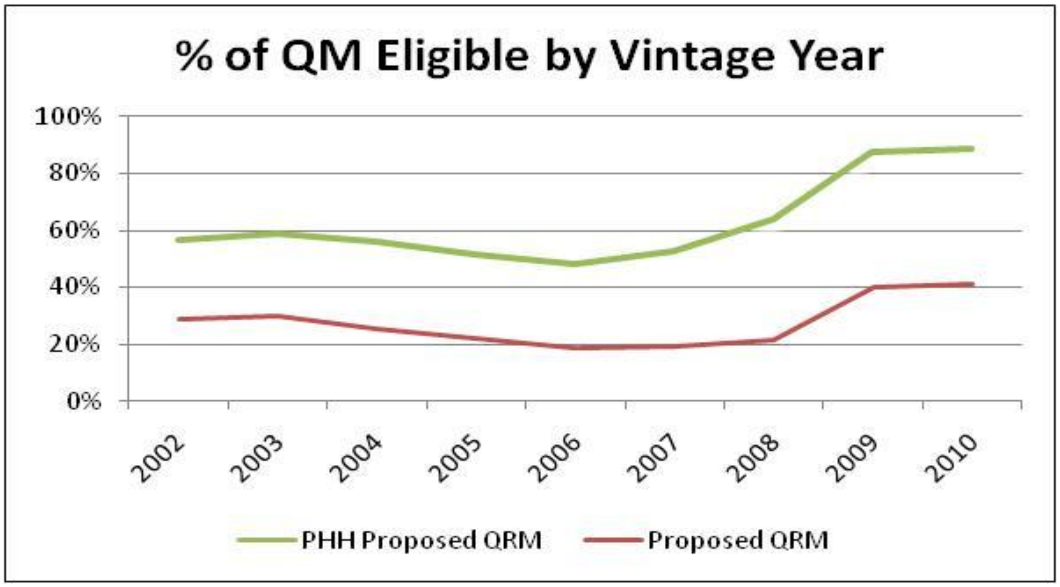
As illustrated in Table 9, the default rate for loans originated in 2006 and eligible for exemption from risk retention as defined by the Proposed QRM Rules, excluding Ginnie Mae securitized loans, was 3.8%. For loans meeting the PHH Mortgage QRM Rules definition, excluding Ginnie Mae securitized loans, the default rate was 6.7%, or equivalently 2.9% greater in absolute terms than the Proposed QRM Rules default rate. The default rate for all QM loans, excluding Ginnie Mae securitized loans, was 12.7%, or equivalently 6.0% greater than the default rate for loans meeting the PHH Mortgage QRM Rules, excluding Ginnie Mae securitized loans.

Table 10 provides a graphical depiction of the proportion of QM loans eligible for two different sets of QRM criteria:

1. Loans eligible per the Proposed QRM Rules
2. Loans eligible per the PHH Mortgage QRM Rules

[27] As indicated in Exhibit 1 and in Milliman's Abstract, all Ginnie Mae securitized loans are excluded and all GSE securitized loans are included in the population.

Table 10. % of QM Eligible by Vintage Year[28]



Source: Corelogic's LoanPerformance Loan Level Servicing Database as processed by Milliman, Inc.

For example, 19% of QM eligible loans originated in 2006 were eligible for exemption from risk retention as defined by the Proposed QRM Rules, excluding Ginnie Mae securitized loans. If the QRM definition were expanded to the PHH Mortgage QRM Rules, 48% of QM eligible loans originated in 2006 would be eligible for exemption from risk retention, 250% more than would be eligible under the Proposed QRM Rules (250% = 48% / 19%).

PHH Mortgage believes the PHH Mortgage QRM Rules strike an appropriate balance between the Act's mandate to identify an exemption for loans which exhibit a reduced rate of default and appropriate policy which does not unfairly prohibit credit worthy borrowers from obtaining less costly QRM eligible mortgage loans. Default rates for the loan group eligible for the PHH Mortgage QRM Rules are significantly lower than the overall QM population. Borrowers eligible for PHH Mortgage QRM loans would not be forced to borrow at interest rates far greater than necessary given the associated credit risk.

B. Exemption for QRMs – no comment

C. Eligibility Criteria

1. Eligible Loans, First Lien, No Subordinate Liens, Original Maturity and Written Application Requirements

[28] As indicated in Exhibit 1 and in the Milliman's Abstract, all Ginnie Mae securitized loans are excluded and all GSE securitized loans are included in the population.

114(a). The Agencies request comment on each of these conditions for QRM eligibility. In addition, should a loan be disqualified from being a QRM if the creditor has "reason to know" 114(b). If so, what would constitute a "reason to know" by the creditor?

While junior liens may have been used to reduce down payments in the past, leading to an increased risk of default, there is no reason to prohibit the use of a junior lien if the maximum total LTV for a QRM eligible loan is the same whether a junior lien is used or not. In other words, the risk of default for a purchase transaction with an 80% LTV and no junior liens should be no less than a purchase transaction with an 80% Combined LTV (for example, a 70% LTV and an 80% CLTV after including the junior lien) assuming all other key risk characteristics are equal.

The ability to use a junior lien as a component of purchase transaction financing increases the flexibility for the borrower in addressing their financial situation. For example, the borrower may be buying a new home before another property owned is sold or another source of funds is available. As a result, a portion of their financing may only be temporary and the financing terms of the junior lien may be more appealing.

To minimize the risk of abuse which could occur due to the availability of junior liens in a purchase transaction, the CLTV should be calculated at the fully drawn amount or maximum balance of the junior lien loan and the borrower should be qualified based on the fully indexed, amortizing payment.

2. Borrower Credit History

115. Are the proposed credit history standards useful and appropriate indicators of the likelihood that a borrower might default on a new residential mortgage loan?

While we agree a borrower's prior payment history is an important consideration when evaluating a borrower's propensity to repay, we believe the Proposed Rules as written are far too restrictive and do not adequately take the borrower's entire credit history into consideration. First, all debt is treated as equal according to the Proposed Rules. While a credit card is an important debt obligation, the borrower who may have inadvertently missed a payment two months in a row, for whatever reason, is treated the same as a borrower who missed their mortgage obligation two months in a row. Second, the Proposed Rules don't allow any ability to take into consideration the breadth and characteristics of a borrower's full credit history. Credit worthiness is driven by multiple factors including payment history, credit utilization (the ratio of current revolving debt such as credit card balances to the total available revolving credit or credit limit), length of credit history, history of managing different types of credit (mortgage, revolving, installment) and recent credit inquiries. According to the Proposed Rules, a borrower with an extensive history of revolving and installment debt, including one or multiple mortgages, is viewed the same way as a borrower who might have only one revolving debt account. In summary, the rule as written is far too prescriptive and does not allow for any judgment to be used given the facts surrounding the borrower's credit history.

We advocate replacing the proposed credit history standards with a standard which relies on a minimum credit score threshold, as discussed in our response to Question #117 below.

117(a). Should the Agencies include minimum credit score thresholds as an additional or alternative QRM standard? 117(b). If so, how might the rules incorporate privately developed credit scoring models in a manner that (i) ensures that borrowers, originators, and investors have adequate notice, and an opportunity to comment on, changes to scoring methodologies that may affect a borrower's eligibility for a QRM, (ii) maintains a level competitive playing field for providers and developers of credit scores, and (iii) ensures that any credit scoring methodology used for QRM purposes is and remains predictive of a borrower's default risk?

In lieu of the proposed credit standard, minimum credit score thresholds should be established. The Agencies should take into consideration pre-approved scoring models, such as FICO, as the QRM standard to allow for consistency and simplicity. The use of credit scores is a standard part of underwriting policies and procedures and is accepted by all parties involved in the residential lending process. While the models themselves, including the algorithms which determine the credit score, are proprietary and thus not available for public review, requirements regarding notification and notice periods of model updates can be introduced via updates to the applicable FCRA regulations.

The residential mortgage lending community relies <u>primarily</u> on credit scores provided by three Consumer Credit Reporting Agencies ("CCRAs") aka 'bureaus' (Equifax, TransUnion and Experian) which are consolidated, along with the underlying credit details, by Aggregators such as CBC and Credco, also considered CCRAs. The bureaus utilize the Fair Isaac scoring model known as BEACON® at Equifax; FICO® Risk Score, Classic at TransUnion; and Experian / Fair Isaac Risk Model at Experian. The scoring models take into consideration the borrower's entire credit worthiness picture. Credit worthiness, expressed via the credit score, is driven by multiple factors including payment history, credit utilization (the ratio of current revolving debt such as credit card balances to the total available revolving credit or credit limit), length of credit history, history of managing different types of credit (mortgage, revolving, installment) and recent credit inquiries. Including credit score thresholds as a QRM standard would be a preferred alternative as the output is a more comprehensive depiction of the borrower's credit worthiness as outlined above.

PHH Mortgage advocates the following minimum credit score thresholds:

- Purchases and Rate/Term Refinances: Minimum 660 credit score
- Cash-Out Refinances: Minimum 690 credit score

In conjunction with our other recommended changes to the Proposed Rules, these limits would avoid shutting credit worthy borrowers out of lower QRM-eligible interest rates while accomplishing the goal of establishing an appropriate QRM exemption per the Act's mandate.

3. **Payment Terms – no comment**

4. **Loan-to-Value Ratio**

120. The Agencies seek comment on the appropriateness of the proposed LTV and combined LTV ratios for the different types of mortgage transactions.

The Proposed QRM Rules are too restrictive and will require a majority of borrowers to pay higher rates than necessary. The LTV rule also causes inconsistencies for the same borrower undertaking different transactions which unfairly limits the borrower's ability to continue obtaining QRM interest rates. For example, a borrower who makes a 20% down payment on the purchase of a home will enjoy affordable financing rates due to their loan qualifying as a QRM. As rates tend to be cyclical, there would likely be a chance for the borrower to refinance the outstanding debt on his property and reduce his debt load due to lower market rates. However, the borrower may not be able to take advantage of QRM interest rates because of the lower LTV limits available for rate/term refinances. Unless the home appreciated in value or the borrower chose to put more money down, the borrower would not be eligible to receive QRM interest rates on a rate/term refinance for about 50-55 months based on normal amortization of the loan balance down to a 75% LTV (assuming the property value remains unchanged). We propose the LTV limits be the same for purchases and rate / term refinances to eliminate this inconsistency.

We propose the maximum LTV/CLTV thresholds be increased based on the type of transaction:

- Purchases and Rate/Term Refinances: Maximum 95% LTV/CLTV
- Cash-Out Refinances: Maximum 80% LTV/CLTV

In all cases where the LTV exceeds 80%, private credit enhancement such as private mortgage insurance would be required, effectively reducing the LTV to 75% or less from the investor's perspective.

In conjunction with our other recommended changes to the Proposed Rules, these limits would avoid shutting credit worthy borrowers out of lower QRM-eligible interest rates while accomplishing the goal of establishing an appropriate QRM exemption per the Act's mandate.

In addition, the Proposed Rules do not address certain structures that may bring the risk of the loan equal to that of an 80% or less LTV without the borrower investment being applied directly to the home purchase or refinance. Specifically, there is no consideration for the concept of an "Effective" LTV which is applicable to certain types of loans such as "Pledged Asset Loans." For a Pledged Asset Loan, the borrower deposits the funds, in the form of securities or bonds, into a Pledged Asset Account in lieu of directly making a down payment against a purchase or having the requisite equity in the home for a refinance. The Pledged Asset Account is over collateralized by as much as 30% to protect against loss of value and is continuously monitored to ensure the adequate balances are maintained much like a margin account for equity holdings. The Servicer has legal rights to the Pledged Asset Account in the event of a borrower default, resulting in the same "skin in the game" from the borrower's perspective. While the Actual LTV is often at or near 100%, the Effective LTV is generally 80% or, more often, lower. A numerical example is provided below. The borrowers who tend to have enough net worth in the form of securities or bonds to pledge the necessary amount for the required equity in the home purchase or refinance tend to be high net worth individuals and, as a result, have a significantly better credit performance history than borrowers with an actual LTV comparable to the Pledged Asset Loan's Effective LTV. We recommend allowances be made to the LTV as well as the down payment rules to allow for such high quality loans.

Table 11. Effective LTV Example

	Standard Loan	Pledged Asset Loan
Purchase Price:	$300,000	$300,000
"Normal" Down Payment @ 20%:	$60,000	-
Loan Amount	$240,000	$300,000
Pledged Assets	-	$60,000
LTV	80%	100%
Effective LTV	80%	80%
Initial Balance of Pledge Account Due to Overcollateralization		$78,000

Finally, footnote 145 of the Proposed Rules acknowledges the fact that many credit worthy homebuyers seeking to purchase a home will likely not have the 20 percent down payment required for a QRM. The reason noted for not incorporating those loans >80% LTV in the QRM qualification is the fact it would introduce substantial complexity and cost. Residential mortgage lending is a very complex business. The Act directed the agencies to define the term "Qualified Residential Mortgage" by "taking into consideration underwriting and product features that historical loan performance data indicate result in a lower risk of default." Inflexible standards and mechanical or simplistic rules simply are not adequate as they unfairly prohibit credit worthy borrowers from having access to the most affordable interest rates. We strongly encourage the Agencies to revisit their Proposed Rules and develop a new proposal which simultaneously considers all of the loan attributes and compensating factors in an effort to capture as much of the credit worthy population as possible. A review of the GSE's current eligibility rules and their corresponding expected default rates would be beneficial to this process.

5. Down Payment

121. The Agencies request comment on the proposed amount and acceptable sources of funds for the borrower's down payment.

While we agree the amount of equity a borrower invests into the transaction does result in a decreasing risk of default, the Proposed QRM Rules will require the borrower, in addition to the 20% down payment, to pay all closing costs associated with the transaction. This effectively bars the seller from paying all or some of the borrower's closing costs. No data supports the notion that if the borrower pays all closing costs in addition to making a 20% down payment, there will be a material positive impact on the risk of default. The default chart on page 123 of the Proposed Rules released on the FDIC website indicates very minimal default rate variations between 75% and 80%, indicating minimal difference in performance based on the additional equity investment required by the borrower paying all closing costs in all cases. Requiring all closing costs to be provided from the borrower's own funds (absent any gifts) effectively makes the total borrower contributions somewhere between 25-30% of the purchase price in some cases. Today, prudent underwriting allows the seller to contribute towards these costs with limits of the lesser of 6% of the sales price or actual closing costs. Very often this will allow the borrower to negotiate a lower interest rate by using some portion of these proceeds to buy down the interest rate in the form of payment of bona fide discount points. Removing the ability of the seller to pay closing costs could have a negative impact on the recovery of the purchase housing market, which will already be strained by the down payment requirement of 20%.

It is important to note both Fannie Mae and Freddie Mac allow for Seller paid closing costs up to varying percentages of the sales price depending upon Occupancy and LTV / CLTV as outlined below.

Table 12. Seller Paid Closing Cost Limits

Occupancy	LTV/CLTV	Maximum Contribution
Owner Occupied and Second Homes	Greater than 90%	3%
	75.01 - 90%	6%
	75% or less	9%
Investor	Regardless of LTV/CLTV	2%

Additionally, the HUD Handbook indicates "the seller and/or third party may contribute up to six percent of the *lesser of* the property's sales price or the appraised value toward the buyer's closing costs, prepaid expenses, discount points and other financing concessions".

We believe prudent standards such as these which are in place today for the GSE's as well as the HUD guidelines should permit seller-paid closing costs on the borrower's behalf. Specifically, we believe the Seller should be able to contribute up to the lesser of 6% of the sales price or actual closing costs for a loan with a CLTV of <=90% and up to the lesser of 3% of the sales price or actual closing costs for a loan with a CLTV of > 90%.

With regard to other acceptable sources of down payment, PHH Mortgage believes pledged assets are a suitable alternative to a down payment as we discuss in our response to Question #120.

6. **Qualifying Appraisal – no comment**

7. **Ability to Repay**

123. The Agencies seek comment on the appropriateness of the proposed front-end ratio limit of 28 percent and the proposed back-end ratio limit of 36 percent.

We propose the debt-to-income ratios be removed from the QRM eligibility criteria. The limits of 28 and 36 percent as absolute maximums for front- and back-end ratios are conservative measures, do not allow for underwriter discretion and do not take into account potential mitigating factors. Underwriting should allow for an informed review of all risk factors, resulting in a balance of risk. QRM as proposed, including the front- and back-end ratios, takes an approach of looking at each risk element independent of each other and does not take into account the holistic risk picture for the borrower and the transaction.

Under the right circumstances, a borrower may exceed these ratios and pose no more increased risk than a borrower at or below 28/36% with other, higher risk characteristics. Factors such as equity in the property, a robust credit history with a demonstrated ability to carry debt effectively, and reserves, are important factors that should allow for discretion in cases where these ratios are moderately exceeded. A borrower with very strong reserves and slightly higher ratios is not necessarily more risky than a borrower with no reserves and ratios right below the proposed limits. In addition, a borrower may be more heavily leveraged on their home loan, exceeding the 28%, but largely avoid or limit usage of other credit, resulting in a total DTI below the requirements. This borrower may present a lower risk than a borrower with a front ratio below 28% but who routinely makes use of multiple credit sources, keeping their debt coverage at a maximum.

The borrower's situation and the transaction itself should also be taken into account. Rather than absolute ratio limits, it may be appropriate to allow consideration of other factors, such as whether the borrower has been successfully carrying higher payments for a sustained period of time, and whether the proposed transaction improves that situation for the borrower. For example, a borrower may qualify for a QRM in all other respects, be refinancing their property in order to reduce their monthly obligation and improve their financial situation, but still exceed the 28/36% ratios. As a result, the benefit of the refinance to the borrower may well be negated by the increased cost of a non-QRM mortgage financing, creating a disincentive for the borrower to proceed with a transaction that should otherwise reduce their monthly payments and the amount of interest they would pay over the life of the loan.

8. Points and Fees

124(a). Comment on all aspects of the proposed definition of "points and fees" for QRM purposes.

The inclusion of indirect compensation to the mortgage broker or employee loan Originator severely restricts the creditor's ability to charge necessary fees and to stay within the points and fees cap in order for a loan to be a QRM. This is especially true when combined with the inclusion of fees to affiliates as points and fees under the threshold. The creditor will have to increase interest rates in order to make up for the loss of fees that are allowed to be collected.

124 (b) (c). Should the exclusion for "bona fide discount points" and certain bona fide third party charges be included in the final rule? If so, in what manner?

The inclusion in the final rules of any fees paid to an affiliate, regardless of whether the charge is reasonable or bona fide, would severely constrain, or exclude the use of affiliated settlement service providers. In order to keep costs low and to improve customer service, which in turn provides a benefit to the consumers in the ability to charge reduced interest rates, lenders commonly have affiliated service provider relationships. The Proposed Rule requires any charges by them to be included as part of the points and fees calculation. Since the services have to be provided regardless of whether the service provider is affiliated or not, there is no legitimate basis to exclude bona fide, reasonable fees charged by affiliates.

Unlike the points and fees cap for QMs, the QRM proposal does not exclude any bona fide discount points. The inclusion of any bona fide discount points in the QRM points and fees criteria restricts a borrower's option to buy down a rate, which could restrict credit when rates go up. If a borrower has the funds available to reduce the borrower's interest rate, and the borrower would otherwise be approved under the QRM underwriting guidelines, there is no basis to deny the borrower the ability to reduce his/her interest rate.

There is no benefit in having a more restrictive points and fees cap as part of the underwriting standards of the QRM rule than what is being proposed for the new "Ability To Repay" rule for QMs under TILA. We see no difference in default risk and therefore believe the points and fee cap should remain consistent.

124(d). Would an adjustment to the limitation on points and fees for smaller loans, if implemented under the QM rule under TILA be appropriate for QRMs?

Unlike the points and fees cap for QMs, the QRM proposal does not offer a higher points and fees cap for loans less than $75,000. While the Fed understood in proposing the QM rule there needs to be some flexibility for smaller loan amounts, the QRM rule proposes no such flexibility. This could have the effect of restricting credit in certain geographical areas, and to certain borrowers, and would create significant fair lending concerns. We believe the

QRM rule should be consistent with the QM rule, including the adjustment to the limitation on points and fees for smaller loans.

9. **Assumability Prohibition – no comment**

10. **Default Mitigation**

125. The Agencies solicit comment on whether the definition of QRM should include servicing requirements.

While we agree servicing standards are important to ensure consistency and clarity regarding the treatment of defaulted or soon-to-be defaulted borrowers as well as remove the conflicts of interest which may be inherent in the servicing process, we do not believe servicing requirements should be included in the definition of QRM.

No mention is made of servicing standards in the Act. Section 15G (e) (4) (B) of the Securities Exchange Act of 1934 as amended by Section 941 of the Act calls for a Qualified Residential Mortgage to be defined, "taking into consideration underwriting and product features that historical loan performance data indicate result in a lower risk of default…" We believe servicing standards are not an underwriting or product feature but are rather an obligation of the servicer that evolves as regulatory requirements, systems capabilities, and infrastructure advances are made and thus, should not be contemplated as a component of the QRM definition.

Servicing standards including default mitigation are being evaluated for implementation under a separate interagency effort. We believe servicing standards should be applied for all residential mortgage loans, and specific servicing standards for loans which meet the QRM definition should not be necessary as they may create conflict in terms of servicing standards among different types of loans which are operationally and economically difficult to administer on a broad scale across all classes of servicers.

138(a). Should the Agencies require servicing standards for a broader class of securitized residential mortgages? 138(b). If so, how?

The separate interagency initiative to institute servicing standards is an appropriate means to establishing consistent policies and procedures across all residential mortgages, regardless of whether the loans are securitized or not. As such, including servicing standards in the QRM eligibility criteria or on a broader basis within these Proposed Rules is unnecessary and a potential source of conflict and confusion.

139. For commenters responding to any of the foregoing questions or with recommendations for different or additional approaches to servicing standards, are such approaches consistent with the statutory factors the Agencies are directed to take into account under the QRM exemption?

Section 15G (e) (4) (B) of the Securities Exchange Act of 1934 as amended by Section 941 of the Act calls for a Qualified Residential Mortgage to be defined, "taking into consideration underwriting and product features that historical loan performance data indicate result in a lower risk of default…" Policies regarding loss or default mitigation are not features of the loan. We believe servicing standards are not an underwriting or product feature but are rather an obligation of the servicer and should thus not be contemplated as a component of the QRM definition.

Attempting to articulate servicing standards in transaction loan documents lasting 30 years as proposed, might seriously impede the appropriate evolution of those servicing standards. Upgrades to the standards reflecting improved systems and infrastructure capabilities could not be applied to existing loans. Inadvertent failure to meet all of the obligations articulated in the loan documents could be seized upon by defaulted borrowers to assert defenses to foreclosures, whether or not the service failure has any impact on the default. This would clearly increase risk to mortgage investors.

140. The Agencies are in the process of developing national mortgage servicing standards, which would cover all residential mortgage loans, including QRMs. In light of this, the Agencies seek comment on whether the establishment of national mortgage servicing standards is a more effective means to address the problems associated with servicing of all loans.

Yes. The establishment of national mortgage servicing standards is the more effective and appropriate means to ensure consistent and clear servicing treatment of residential mortgage loans.

D. Repurchase of Loans Subsequently Determined to be Non-Qualified after Closing – no comment

E. Request for Comment on Possible Alternative Approach

143. The Agencies seek comment on the potential benefits and costs of the alternative approach, with a broader QRM exemption combined with a stricter set of risk retention requirements for non-QRM mortgages.

The QRM exemption as initially proposed is unnecessarily restrictive and likely damaging to the stability and accessibility of funding for credit worthy borrowers. The alternative approach to the QRM exemption is a step in the right direction but it still falls far short of where we think the QRM exemption can safely be expanded while still representing good public policy. We believe our proposal as outlined throughout our responses to Section IV of the Proposed Rules appropriately balance the goals of the Act without adversely impacting credit worthy borrowers.

146. Would this approach have the practical effect of exempting the securitization of most residential loans from the risk retention requirement?

The alternative QRM approach as well as PHH's Proposed QRM Rule, outlined in our response to Question #110, does result in a majority of loans being exempt from the risk retention requirement. However, these loans are high quality assets and should have default frequencies considerably less than the population of non-QRM loans. We believe the mandate of the Act is fulfilled by following PHH's Proposed QRM Rule without unfairly excluding credit worthy borrowers from lower QRM interest rates.

147. What impact might a broader QRM definition have on the pricing, liquidity, and availability of loans that might fall outside the broader QRM boundary?

We believe the concerns about liquidity of the non-QRM securitization market if the QRM exemption is broadened are unwarranted. A broader QRM exemption will provide more affordable financing to credit worthy borrowers while not impairing the pricing, liquidity or availability of non-QRM loans. Prior to the shutdown of the securitization market in 2008, jumbo prime securitization liquidity was not an issue. Based on 2000–2007 origination and jumbo securitization data sourced from Inside Mortgage Finance and Loan Performance, jumbo prime securitizations were never more than 9% of total originations during any given year and made up only $64 billion of originations in 2000, which was the low point of originations during the time period measured. Given the liquidity of the jumbo market throughout this period and the relatively low amounts of issuance, it is clear market liquidity of a particular product segment was not dependent on representing a sizable portion of the market.

Please refer to our response to question 12(a) and the data presented in Table 3 for more details.

149. How could this type of alternative approach be designed to limit the likelihood that loans with significant credit risk are included in the pool and thus not subject to risk retention?

Given the performance of the loan population eligible for the QRM exemption under this alternative approach, we believe no additional restrictions need to be placed on the alternative approach; the risk of default is significantly reduced and only marginally higher than the original QRM exemption proposal as is. Regardless, we recommend a more expansive set of eligibility criteria as discussed within our responses throughout Section IV.

V. Reduced Risk Retention Requirements for ABS Backed by Qualifying Commercial Real Estate, Commercial or Automobile Loans – no comment

VI. General Exemptions

168(a). Are there other types of resecuritization transactions backed solely by 15G compliant ABS that should be exempt from the risk retention requirements? 168(b). If so, what principles and factors should the Agencies use in considering whether other types of resecuritizations backed by 15G-compliant ABS should be exempted from the risk retention requirements of section 15G? 168(c). Should the Agencies consider granting an exemption only if it is clear that the resecuritization transaction does not expose investors in the resecuritization to different levels or types of credit risk in the securitized assets than the underlying 15G compliant ABS?

PHH Mortgage believes the risk retention exemption related to resecuritization transactions is too narrow and should apply to all resecuritizations, regardless of whether or not the underlying collateral was initially securitized before or after implementation of Section 15G and whether or not the resecuritization has one or multiple classes.

Within the Proposed Rules, the Agencies plan to adopt the resecuritization exemption under the general exemption provisions of section 15G(e)(1) of the Act. This provision allows for the Agencies to issue an exemption if the exemption would help ensure high quality underwriting standards for the securitizers and Originators of assets that are securitized or available for securitization and encourage appropriate risk management practices by the securitizers and Originators of assets, improve the access of consumers and businesses to credit on reasonable terms, or otherwise be in the public interest and for the protection of Investors. Quite often, a resecuritization occurs a significant amount of time after the origination and initial securitization of the loans. In no way would a risk retention requirement for a resecuritization encourage the Originator / Sponsor to ensure quality underwriting standards. Resecuritizations are often conducted by subsequent owners of some or all of the tranches to create higher rated securities which may be more marketable and/or achieve better financing terms. The Originator / Sponsor very likely is not involved in the resecuritization and the resecuritization is therefore completely unrelated to the origination of the underlying pools of loans.

Additionally, the resecuritization exemption should not only apply to resecuritizations made up of Section 15G-compliant securities. While the original securitizations may not have been subject to the risk retention requirements of the Proposed Rules, the securitizations and the underlying loans have the benefit of being aged which may actually provide more transparency of the assets performance for the benefit of the resecuritization Sponsor and Investors. As a result, original securitizations of seasoned loans should be eligible for an exemption from the risk retention rules.

The Proposed Rules call for a risk retention exemption to be applicable only to single class resecuritizations. Non-agency resecuritizations very commonly result in multiple classes being issued. It is the ability for resecuritizations to occur in a multiple class form which can potentially lead to improve access of consumers and businesses to credit on reasonable terms. By requiring rescuritizations which contain multiple classes to be subject to the risk retention requirements, this transaction form would very likely be rendered impractical or, at best, very seldomly used. This will likely have the effect of adversely impacting market liquidity without having any positive effect in ensuring quality underwriting and risk management practices on the part of Originators and Sponsors.

PHH Mortgage proposes the risk retention exemption be applied to all resecuritizations, regardless of the number of classes within the resecuritization and the underlying securitizations' Section 15G-compliance.

171. As noted above, the proposed exemptions require the underlying ABS be 15Gcompliant ABS. In practice, initially this may mean that only resecuritizations based on ABS guaranteed by Fannie Mae and Freddie Mac will qualify for this exemption. Does this raise any competitive or other issues and if so, how can they be mitigated without eliminating the requirement there be risk retention on the underlying ABS?

As we point out in our response to Question #168, we believe the risk retention exemption should be applied to all resecuritizations, include those where the underlying ABS were issued prior to implementation of the Proposed Rules and thus not subject to Section 15G. These ABS have the benefit of being seasoned and, as a result, may actually offer more performance information for a resecuritization Sponsor or Investor to develop an opinion regarding future credit performance of the resecuritization classes.

172(a). Is the proposed language for this exemption appropriate? 172(b). Does any portion of the exemption cause an ambiguity that should be addressed?

As we point out in Section 168, we believe language of the resecuritization risk retention exemption be modified to include all resecuritizations.

VII. Solicitation of Comments on Use of Plain Language – no comment

VIII. Administrative Law Matters – no comment

D. Conclusion

PHH Mortgage appreciates the opportunity to comment on the Proposed Credit Risk Retention Rules. We believe the following modifications to the Proposed Rules will better align the interests of issuers and investors without causing a detrimental impact to the liquidity and pricing of the residential mortgage loans:

- Adopt PHH Mortgage's Proposed QRM Rule as outlined in the Executive Summary and further elaborated in response to question 110.
- Remove premium capture cash reserve account requirements.

- Remove the Representative Sample as a risk retention option.
- Permit financing of retained interests on a full recourse basis.
- Conform permissible points and fees to those in the definition of a qualified mortgage.
- Coordinate with the Consumer Financial Protection Bureau to establish a safe harbor of qualified mortgages.
- Permit resecuritizations with no incremental risk retention requirement.

We urge the regulators to adopt these modifications as part of the final credit risk retention rules. We are happy to discuss any aspect of these comments in greater detail.

If you have any questions, or need further information, please contact Luke Hayden, President, PHH Mortgage Corporation at 856.917.0184 or (email: luke.hayden@phh.com).

Respectfully submitted,

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