Congress of the United States
Washington, DC 20515

October 20, 2014

The Honorable Gene L. Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Mr. Dodaro:

We are writing to request a study of the vulnerability of non-bank mortgage servicers to economic downturns given the lack of capital requirements applicable to these servicers and of the risks posed to consumers by continued growth in non-bank specialty mortgage servicing.

The mortgage market is the single largest market for consumer financial products and services in the United States, with approximately $13.27 trillion in mortgage debt outstanding in 2013.[1] Although mortgages have commonly been serviced by banks subject to the regulation of the prudential banking regulators, including the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, non-bank entities are now playing an expanded role in servicing home loans. By one estimate, non-bank entities' share of the mortgage servicing market increased by 300% from 2011 to 2013.[2]

According to a report recently issued by the Office of Inspector General of the Federal Housing Finance Agency (FHFA), non-bank specialty servicers specializing in delinquent or defaulted loans now hold $1.4 trillion in servicing rights.[3] The report also found that the rise in non-bank mortgage servicers "has been accompanied by consumer complaints, lawsuits, and other regulatory actions as the servicers' workload outstrips their processing capacity." On December 19, 2013, for example, the Consumer Financial Protection Bureau announced a $2 billion settlement with the largest non-bank mortgage servicer in the United States, Ocwen

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[1] Board of Governors of the Federal Reserve System, *Mortgage Debt Outstanding* (June 2014).

[2] *Mortgage Market Gets Reshuffled*, Wall Street Journal (Mar. 9, 2014).

[3] Office of Inspector General, Federal Housing Finance Agency, *FHFA Actions to Manage Enterprise Risks from Nonbank Servicers Specializing in Troubled Mortgages* (July 1, 2014).

Financial Corporation, due to widespread misconduct in the management of its servicing process.[4]

The FHFA Inspector General report also noted that the lack of capital requirements for non-bank servicers increases the likelihood that economic downturns may impact their performance, while their lack of servicing capacity could hinder the timely provision of loss mitigation and other services to borrowers.[5] Analysts have noted that the extreme volatility in the value of mortgage servicing rights (MSRs), the only assets in the portfolios of non-bank specialty servicers, "makes it difficult to understand how existing assets are affected by market shifts, and how much capital is needed for [non-bank servicers'] financial stability and to protect borrowers, lenders, and investors."[6]

Given these concerns, we request that GAO study the risks posed to consumers by the unprecedented growth in non-bank mortgage servicing. In particular, we would like GAO to address the following areas:

1. the risks posed to consumers by the growth in non-bank specialty servicers generally;

2. the vulnerability of non-bank specialty servicers to volatility in the MSR market given the lack of requirements compelling these servicers to maintain capital cushions;

3. the likely effect on consumers should a major non-bank specialty servicer fail as a result of this vulnerability; and

4. the effect on the non-bank specialty servicing industry generally should a major non-bank servicer fail.

Thank you for your attention to this request. Please direct any questions to Brandon Reavis at (202) 225-4741.

Sincerely,

Elijah E. Cummings
Elijah E. Cummings
Member of Congress

Elizabeth Warren
Elizabeth Warren
Senator

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[4] Consumer Financial Protection Bureau, *CFPB, State Authorities Order Ocwen to Provide $2 Billion in Relief to Homeowners for Servicing Wrongs* (Dec. 19, 2013).

[5] Office of Inspector General, Federal Housing Finance Agency, *FHFA Actions to Manage Enterprise Risks from Nonbank Servicers Specializing in Troubled Mortgages* (July 1, 2014).

[6] The Urban Institute, *Nonbank Specialty Servicers: What's the Big Deal?* (Aug. 4, 2014).

cc: The Honorable Darrell E. Issa, Chairman, House Committee on Oversight and Government Reform

The Honorable Tim Johnson, Chairman, Senate Committee on Banking, Housing and Urban Affairs

The Honorable Mike Crapo, Ranking Member, Senate Committee on Banking, Housing and Urban Affairs

The Honorable Jeb Hensarling, Chairman, House Committee on Financial Services

The Honorable Maxine Waters, Ranking Member, Housing Committee on Financial Services