



December 3, 2012

Edward J. DeMarco
Acting Director
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, D.C. 20024

RE: Building a New Infrastructure for the Secondary Mortgage Market

Dear Director DeMarco:

Lender Processing Services, Inc. ("LPS") appreciates the opportunity to comment on the Federal Housing Finance Agency's ("FHFA") white paper: "Building a New Infrastructure for the Secondary Mortgage Market."¹ LPS applauds FHFA's leading role in addressing the structural technology issues prevalent in the current secondary mortgage market. As FHFA plans to develop significantly enhanced technology as part of this initiative, LPS' understanding and support of the leading financial institutions and partners in the mortgage industry can help inform FHFA in its efforts to improve the secondary mortgage market infrastructure.

LPS offers unique insight given its integrated position in the mortgage industry as technology providers and advisors to originators, lenders, servicers, and other third parties. LPS supports the mortgage process from end-to-end with technology solutions and services allowing clients to manage their loan portfolio and transactions in a secure, compliant, and efficient manner. From this vantage point, our comments focus on: (I) LPS' experience and role in the industry, (II) securitization platform concepts; (III) technology architecture principles in the FHFA white paper; and (IV) a general response related to questions posed by FHFA.

¹ FHFA, *Building a New Infrastructure for the Secondary Mortgage Market* (Oct. 4, 2012), available at <http://www.fhfa.gov/webfiles/24572/FHFASecuritizationWhitePaper100412FINAL.pdf> [hereinafter FHFA White Paper].

I. LPS Overview and Expertise

LPS is a Fortune 1000 company and a leading provider of innovative technology and value enhancing data, analytics, and other services that support most activities in the mortgage industry, including origination of new loans, servicing of existing loans, and specialized servicing needs. LPS' clients use our technology in the processes of servicing mortgage loans. Tasks associated with loan servicing include loan setup and maintenance, cashiering, customer service, escrow management, investor accounting, default management, and regulatory reporting across the life cycle of the loan. Our financial position and stability has afforded us the flexibility and resources to make a significant investment into our business and core competencies to ensure we are meeting compliance requirements for the future of the industry.

LPS technologies are the top mortgage loan servicing solutions in the industry. *MSP*, LPS' loan servicing platform, and *LPS Desktop*, a robust workflow tool and process management application, are used to process more mortgages in the United States by dollar volume than any other systems in the industry today.

As a leading data and analytics supplier, LPS Applied Analytics has more than 20 years of successful experience providing custom solutions for government agencies. We work closely with leading housing and finance organizations in the federal space offering reporting, data aggregation and benchmarking solutions to support activities related to loss mitigation, supervisory, market monitoring, and surveillance.

Loan Quality Gateway ("LQG") is an LPS technology used as an industry utility to ensure quality loans are manufactured meeting investor salability requirements. LQG has been a key enabler of the Government Sponsored Enterprises' ("GSEs") Uniform Mortgage Data Program ("UMDP"), providing lenders with the data aggregation, data validation, and transactional capabilities necessary to comply with GSE UMDP requirements. LPS has been identified as a key stakeholder by the GSEs in the ongoing development of the UMDP, as applied to Uniform Load Delivery Dataset ("ULDD") expansion and servicing data requirements.

LPS technology enables servicers to comply with other regulatory and investor requirements including consent orders, emerging national servicing standards, and the GSE's Servicing Alignment Initiative. Leveraging its strategic partnership with Fannie Mae and Freddie Mac, LPS serves the GSEs directly by providing innovative solutions such as servicer intelligence capabilities, that allow timely and comprehensive investor access to individual and aggregate loan servicing information. The LPS capabilities used by the GSEs to support their business needs regarding data models, valuations, and Servicer claim filing can be utilized as enhancements for a common securitization platform.

II. FHFA's Concept of a Securitization Platform

LPS recognizes the importance of several overarching principles for the future of the mortgage industry, as discussed in the FHFA white paper. These principles include standardization, transparency, and data integrity. They are critical to encourage private capital entering into the market and to assure both market participants and regulators of effective business practices.

- **Standardization** – The FHFA white paper states that there are “some core functionalities of a securitization infrastructure that can be standardized and serve a utility function.”² We agree. As an essential secondary benefit, standardization will support comprehensive and credible loan and securitization processes by providing assurance of established rules, regulations, and industry practices.

Based on LPS' experience, industry-wide standardization could result in substantial upfront capital investment across all industry participants. This could result in a challenge to an overall natural adoption of standardization. Because of the importance of standardization as detailed herein, we believe FHFA should consider the balance between cost and depth of the standards set as an additional input to help ensure adoption, growth, and success of the infrastructure and the secondary mortgage market.

- **Transparency** – The FHFA white paper asserts that existing infrastructures pose substantial challenges in their ability to, among other things, “create full transparency and aggregation of data, and to lower the barriers to entry for new issuers, guarantors or other market entrants.”³ Transparency of loan manufacturing, securitization, and servicing processes can give investors knowledge of what they buy, lenders assurance of what they sell, and borrower's confidence in what they own. For instance, the ability to appropriately utilize loan-level information together with reliable market analytics can bring clarity to the mortgage process while highlighting unseen risks.

In considering a new securitization platform, participants should ultimately be able to understand the underlying loan processes for the securities. LPS' experience with technologies that manage and automate long life-cycle processes indicates that FHFA should give specific special consideration to continuous data traceability and accountability.

² FHFA White Paper, *supra* note 1, at pp. 5, 13.

³ *Id.* at 15.

Data integrity – The FHFA white paper seeks to “improve data integrity and advance transparency and efficiency in the securitization market.”⁴ Along with the provision of comprehensive and credible processes when creating a loan, investors require insight to the overall quality of loans. The loan data itself should be verifiable and suitable for analysis and metrics reporting, such as income verification or appraisal quality. Enhanced accessibility to, and the integrity of, data will create more robust analyses in the decision-making process regarding mortgage loans and the subsequent issuance of related securities.

Consequently, the FHFA should consider the degree to which loan information can be stored and made available electronically. Additionally, FHFA should examine the relationship between data integrity and scalability given the multi-year end-to-end life cycle of Mortgage Backed Securities (“MBS”). As the secondary mortgage market expands, we expect to see an evolution of the tools, technologies, and participants. In such an expanded environment, scalability becomes an important factor to guarantee the sustainable integrity of the data, processes, and practices.

FHFA’s vision leads to an environment where critical and sensitive data will be increasingly used and shared by multiple participants for many years. In this setting, substantial effort should be put into creating a secure and controlled environment where encrypted data can be stored, managed, manipulated, and transmitted with confidence. Separation of duties and access will also be crucial to guarantee data availability, transparency, and integrity throughout the MBS life cycle.

III. General Architecture Outlined in the FHFA White Paper

LPS agrees with the overall design principles of the platform, as outlined by the FHFA white paper⁵. Based on LPS’ experience, we recommend that FHFA take into consideration the following recommendations:

- **Open Architecture** – To ensure that the introduction of any new platform does not create potential barriers to adoption in the industry, LPS recommends FHFA consider leveraging infrastructure that is already established.

⁴ *Id.* at p. 14.

⁵ See *id.* at pp. 22.

- **Functional Modularity** – A modular platform requires a comprehensive and seamless interaction of individual modules into a single financial model or process. This will help ensure that the modification, configuration, replacement, or addition of new functional modules can be accomplished with minimal impact across the infrastructure. Further definitions by FHFA of the platform requirements should provide better clarity regarding the logical architecture to deliver robust functional modularity.
- **Scalability** – While scalability is a concern in building a large platform, the reliability of the technology should also be considered as part of scale. In developing such a platform, the FHFA should give thought to collaborating with providers who are capable of managing and delivering large-scale projects and provide industry expertise.
- **Data Transparency and Security** – As previously addressed, data transparency and security should be considered foundational architecture features of this platform given the significance of the information available.
- **Straight-through Processing and Event Automation** – The FHFA should take into account the variation in processing MBS in the private market. To achieve the FHFA's goal of private market adoption, customizable workflow capabilities will be required as they provide business efficiencies and allow for accurate measurement and audit trails.

IV. Questions Outlined in the FHFA White Paper

LPS agrees that, initially, the four core functions listed in the white paper (issuance, disclosure, bond administration and master servicing) can provide an efficient and effective foundation to address the administrative functions of the secondary mortgage market process. However, FHFA should also take into account the existing uncertainty in the future state of the mortgage and secondary mortgage market, the regulatory environment and the role of the GSEs, and the reduced participation of the Federal Government in the industry. These factors highlight the need for clarification across these areas to allow a comprehensive definition of additional functions to be developed.

Additionally, FHFA should consider the practices and processes in the secondary mortgage market, specifically as it relates to functions and activities not currently performed by the GSEs. A proposed master servicing component should be tightly integrated with primary servicing platforms to ease adoption, seamless integration, and collaboration.

As the private market returns, it is plausible that future securities issued will require more complex features, such as additional credit enhancement mechanisms, deal-structuring tools, and other functionality. Currently, these additional features are supported by existing tools in the marketplace. To ensure

that the traceability and transparency of the new platform is not compromised, FHFA should consider tracking the use of these tools if they are not developed as part of the platform.

Further, LPS concurs that data validation is needed across all four core functions. In this regard, a proposed securitization platform should have a flexible, configurable, robust rules-based engine. As previously mentioned, given the number of participants, providers, and distinct activities in the MBS issuance and administration life cycle, data validation becomes a key component to ensure data transparency and integrity.

In order to ensure the broadest industry adoption, investors, issuers, lenders, and servicers will require a neutral third party to manage these capabilities. LPS sees the benefit in the assignment of an independent administrator of common securitization platform functions.

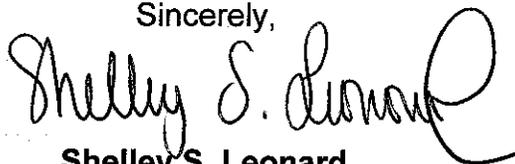
Finally, although LPS is not in a position to provide in-depth comments regarding the framework for a model PSA, we believe that LPS' solutions and other technologies could ease the adoption and facilitate compliance of any potential PSA model. As such, we are prepared to offer our expertise in any subsequent discussions regarding the role that technology could play in supporting future PSA models.

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Thank you for the opportunity to provide comments regarding FHFA's proposal for a securitization infrastructure. The industry would benefit from consistency and standards to encourage and foster rational business practices for the sake of the borrowers, industry providers, and the U.S. economy as a whole.

LPS looks forward to providing further input and assistance as the FHFA initiative moves forward. If you have any questions, please contact the undersigned at shelley.leonard@lpsvcs.com or (904) 854-3670.

Sincerely,



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