Lisa Madigan  
ATTORNEY GENERAL  

January 26, 2011  

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

The Honorable Sheila Bair  
Chairman  
Federal Deposit Insurance Corporation  
550 17th Street N.W.  
Washington, DC 20006  

The Honorable Mary L. Schapiro  
Chairman  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549  

The Honorable Edward DeMarco  
Director (Acting)  
Federal Housing Finance Agency (FHFA) 1700 G Street, N.W., 4th Floor  
Washington, DC 20552  

The Honorable Ben S. Bernanke  
Chairman  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue N.W.  
Washington, DC 20551  

The Honorable John Walsh  
Comptroller of the Currency (Acting)  
Administrator of National Banks  
250 E Street, S.W.  
Washington, DC 20219  

Re: Mortgage Servicing Standards  

Dear Ladies and Gentlemen:  

We the undersigned state Attorneys General are writing to urge that standards for servicing securitized mortgages be included as an essential component of the Qualified Residential Mortgage (QRM) exception to the risk retention requirements of the Dodd-Frank Act.  

Recent events have brought to light significant and widespread problems in the servicing of securitized mortgages. These problems are especially pronounced in the servicing of delinquent loans, which demand a high level of care that the industry is either unable or unwilling to implement on its own.  

Dodd-Frank's requirement that securitizers retain a five percent interest in the underlying security is key to curbing the excessive risk-taking that led to the current foreclosure crisis. Accordingly, in developing the QRM exception to this requirement, the agencies must take
pains to ensure that lenders seeking the benefits of the exception are held to rigorous standards for both underwriting and servicing loans.

The lending industry already recognizes the nexus between servicing and loan performance — a servicer’s rating has long been taken into consideration in evaluating the risk of mortgage-backed securities. It is only logical to take servicing into consideration when establishing a gold standard for exempting qualifying loans from the risk retention rule.

Even as we call for the establishment of national servicing standards as part of the QRM exception to the risk retention rule, we recognize that such standards alone are inadequate to address all of the systemic problems in the mortgage servicing industry. National standards must operate hand-in-hand with state servicing laws and rules — many of which have been or are in the process of being strengthened — to effect fundamental change in the servicing industry, and to facilitate the recovery of our housing and financial markets.

Sincerely,

Lisa Madigan
Attorney General of Illinois

Kamala D. Harris
Attorney General of California

George Jepsen
Attorney General of Connecticut

Tom Miller
Attorney General of Iowa

Tom Horne
Attorney General of Arizona

John W. Suthers
Attorney General of Colorado

Joseph R. Biden, III
Attorney General of Delaware

Douglas F. Gansler
Attorney General of Maryland
Roy Cooper  
Attorney General of North Carolina

Robert E. Cooper, Jr.  
Attorney General of Tennessee

William H. Sorrell  
Attorney General of Vermont