THE SURETY & FIDELITY ASSOCIATION OF AMERICA
SERVING THE INDUSTRY SINCE 1908

October 12, 2016

Via Electronic Mail

Ms. Sara Rietcheck
Department of Financial Institutions
150 Israel Road, S.W.
PO Box 41200
Olympia, WA 98504-1200

Re: Proposed rules
WAC 208-620
Requirements for residential mortgage loan servicers

Dear Ms. Rietcheck:

The Surety & Fidelity Association of America ("SFAA") is a non-profit corporation whose member companies collectively write the majority of surety and fidelity bonds in the United States. SFAA is a licensed rating or advisory organization in all states and is designated by state insurance departments as a statistical agent for the reporting of fidelity and surety experience. The vast majority of bonds that secure licensing and regulatory obligations are provided by SFAA members. We have had an opportunity to review the proposed amendments to WAC 208-620. Among the proposed revisions, the mandatory bond requirement for mortgage servicers that currently is set forth in WAC 208-620-320(2)(b) is deleted. It appears that the proposed capital requirements set forth in proposed WAC 208-620-322 would replace the mandatory bond requirement. Although we do not object to the establishment of minimum capital requirements, we submit that the mandatory bond requirement should be retained as well.

A surety bond is an instrument by which an obligation owed by one party to another is secured by a third party, the surety. Such a guarantee is essential when a governmental agency confers a benefit upon an individual, such as a license to act as a servicer. As part of its oversight activities, the governmental entity needs the certainty that the entity is qualified to perform or conduct its activities properly. Bonds are valuable products used in a variety of ways to provide consumer protection and protect the public treasury.

Surety bonds provide two valuable services. The better-known service of the surety is to perform its stated bond obligation and provide financial protection in the event the bond principal defaults in its performance. In such an event, the surety steps in to handle the claims on the bond and perform pursuant to the conditions of the bond and the applicable statutory or regulatory language.

While claims handling is a critical function of the surety, another equally critical function is the surety's prequalification of a principal before the surety will write a bond. Through its underwriting and evaluation of the qualifications and financial strength of the applicant, a surety seeks to avoid a loss by providing bonds only to those entities that, in the surety's estimation, are

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qualified to perform the obligation to be bonded. This service of the surety is a valuable and necessary service and important in helping to eliminate poorly capitalized, fraudulent or unqualified entities from a business. This function of the surety supports states' efforts to regulate businesses, and it clearly is recognized by knowledgeable legislators and regulators who implement new bond requirements every year.

We ask that the Department of Financial Institutions retain the bond requirement. Thank you for your consideration.

Sincerely,

Robert J. Duke