Community National Bank
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December 27, 2011 "Proudly serving Vermont communities since 1851"

Mr. Edward DeMarco
Acting Director
Federal Housing Finance Agency
1700 G Street, NW, 4th Floor
Washington, DC 20552

Submission to: Servicing_Comp_Public_Comments@FHFA.gov

Re: Alternative Mortgage Servicing Compensation Discussion Paper

Dear Acting Director DeMarco:

Community National Bank ("CNB" or the "Bank") appreciates the opportunity to comment on the Federal Housing Financing Agency's ("FHFA") Alternative Mortgage Servicing Compensation Discussion Paper ("Discussion Paper") of September 27, 2011.

CNB supports the FHFA's overall goals of improving service to borrowers, reducing financial risk to mortgage servicers, providing for greater flexibility to guarantors in managing nonperforming loans ("NPLs") and ensuring liquidity in the mortgage securities market. However, we believe strongly that rather than addressing any actual or perceived weaknesses in the performance of mortgage servicing, both proposals for change to mortgage servicing compensation are likely to exacerbate, not ameliorate, those weaknesses. We note that in its Discussion Paper the FHFA itself has not drawn a causal connection between the servicing difficulties experienced primarily by larger servicers during the mortgage market downturn and the structure of servicing compensation. In fact, the Discussion Paper expressly recognizes that the current mortgage servicing compensation model properly aligns the servicer's financial incentives with the interests of the borrower and the investor, all of whom benefit when the loan is kept current, or restored to performing status.

The operational problems experienced by many large mortgage services in recent years can be traced to the significant breakdown in the loan origination process, including lax underwriting standards, which preceded the mortgage market meltdown. When the mortgage bubble inevitably burst, many servicers, particularly those managing large portfolios of non-prime, non-traditional mortgages, experienced significant difficulties managing NPLs. These difficulties were further amplified by the significant concentration in the mortgage servicing market, particularly in the servicing of GSE-guaranteed loans.

CNB, like most other community banks, did not dilute its mortgage underwriting standards during the boom years, and hence, has not experienced the severe, adverse operational effects on the servicing end that has plagued many large services. Nevertheless, the FHFA's compensation proposals do not make any distinction for community banks.

CNB currently services a $204 million portfolio of 1,941 loans originated by the Bank and sold into the secondary market on a servicing retained basis. As a locally-owned community bank, CNB thrives on relationship banking. We know our customers, are able to monitor their financial situations closely and intervene at an early stage to keep mortgages out of foreclosure should problems develop. In addition, our relatively small mortgage portfolio permits us to have better control over mortgage loan documentation. Our customers value local, personalized servicing, which helps us compete with larger institutions. However, we simply do not have the economies of scale to withstand the significant reduction in servicing fee income that would result if either of the FHFA servicing compensation proposals is implemented. We believe that, should either compensation model be adopted, there will be many unintended consequences, some of which are predictable. Among these will be the exiting of many small community banks from the mortgage servicing business, followed inevitably by increasing concentration of mortgage servicing into a handful of too-big-to-fail (or reform) mega-servicers. Customer service will almost certainly suffer, as will the overall performance of mortgage portfolios. In addition, community banks will lose a fairly predictable source of steady revenue, with negative consequences for their capital position. Similarly, for community banks remaining in the servicing business, changes to the structure of their servicing compensation will likely result in a significant change to the valuation of mortgage servicing rights, which may adversely affect their capital position.

The law of unintended consequences has not been repealed. We urge the FHFA to refrain from making any fundamental changes in the structure of mortgage servicing compensation without further study of the likely effects of such changes on all players in the mortgage market, including community banks and their mortgage customers.

Thank you for the opportunity to provide our views for your consideration. Any questions about CNB's comments should be directed to Senior Vice President and Chief Credit Officer Terrie L. McQuillen at (802) 487-3528, tmcquillen@communitynationalbank.com.

Sincerely,

Stephen P. Marsh

Stephen P. Marsh,
President

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