**From:** Ken Wells [mailto:Ken.Wells@MascomaBank.com]
**Sent:** Friday, November 25, 2011 10:51 AM
**To:** #Servicing Compensation
**Subject:** Comments

**Below are my comments.  Thank you for the opportunity.**

Here’s some background to understand our perspective.  We are a $1 billion mutual savings bank and service in excess of $100 million for Freddie Mac.  The portfolio would be larger but we also sell loans servicing-released to Freddie Mac approved servicers.  We may sell $25-125 million in production (cash basis) annually based on various factors, and that may represent 40-60% of our overall production.  Also, we just sold our first loan into the FHLB’s MPF program.

We don’t support any changes to the servicing compensation structure.  First, we’ve seen no objective, statistically-driven analysis that identifies compensation as the root cause of the servicing deficiencies identified by FHFA and others.  There are many good servicers receiving 25 basis points, many bad ones, and many in between.  Therefore, it’s likely that other variables have a stronger correlation to servicer performance.  Size, experience, portfolio complexity (50 states versus two) and location of serviced loans come to mind as more likely variables.  It is dangerous to play hunches with such an important segment of mortgage financing.  Instead of hoping compensation changes will achieve desired results, we recommend servicers simply be held accountable to reasonable performance standards with financial disincentives for noncompliance.

For brevity, I’ll limit our remarks to the questions relevant to our business model.

1)       $10 per loan monthly is a non-starter for a community bank, even a larger one like us.  Our servicing revenue declines nearly 200% under that scenario.  We’d stop servicing sold loans.  With our delinquency rate less than 1% despite a weak market; fee-for-service is unattractive.  Our choices will be to sell all loans servicing-released, creating further consolidation, raise rates and become less competitive with larger players, sell to the FHLB, hold more loans in portfolio, or exit the fixed-rate mortgage business.  None of these options improves borrower service or servicing competition.

The less-draconian of the two proposals may be tolerable, but we need more financial specificity to fully evaluate it.

2)      The capitalization of MSR assets is accounting nonsense.  It only creates opportunities for the manipulation of servicer financial condition and low-ball pricing by ethically-challenged lenders hoping to hit their quarterly numbers.  If there is to be capitalization of the asset it should be uniform across the industry.

3)      NA

4)      We invest sufficient resources during good times and bad.  Community Banks almost always have multiple relationships with borrowers and have found handling these situations well is best for all parties.  Large servicers may be apt to divest themselves of resources as the mortgage market recovers and be less equipped for the next down cycle.  Despite technological improvements, delinquent borrowers require human intervention and those skills can’t be ramped up overnight.

5)      NA

6)      We wouldn’t oppose a reasonable and simple net benefits test for streamlined refinances.

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