THE 5 BIGGEST MISUNDERSTANDINGS ABOUT OUTSOURCING MORTGAGE LOAN SERVICING

The mortgage loan has been originated. Now comes the hard part – beginning the long and arduous task of carrying out all the functions required to service the loan. Although the majority of lenders and servicers elect to perform servicing functions in house, huge benefits are to be gained by outsourcing the responsibilities to a trusted subservicer. These benefits include lower costs, more robust servicing technology and assistance with regulatory compliance (this help alone is often worth the move). Why, then, is there hesitation? This paper addresses the 5 biggest misunderstandings about outsourcing mortgage loan servicing and what lenders and servicers need to consider and assess before opting to keep the servicing in house.

Misunderstanding #1 – Our community bank has the same per-loan cost to service in house as an outsourcing company.

Clarification – The real question here is what the bank's per-loan cost includes. More often than not, in-house servicers fail to calculate a comprehensive, fully loaded per-loan cost to service and therefore are not making like comparisons. For example, they exclude many fixed and variable costs (such as staff salaries, benefits and training, licensing fees, office supplies, postage, etc.) that are standard and customary when servicing a mortgage. Default costs and costs that stem from servicing mistakes – compensatory fees, etc. – are also typically excluded from their calculation. Let's consider an industry perspective. Annually, trade organizations publish survey results of the typical cost to service based on loan portfolio sizes. According to the latest mortgage industry survey, community banks can expect to incur an average cost of $312 a year per loan for in-house servicing. Now compare the $312 in-house average to the average $78 annual per-loan price point of a leading outsourcer. True comparisons of actual per-loan costs for in-house versus out-of-house servicing reveal that substantial savings are gained by moving to an outsourced servicing strategy.

Compare the $312 in-house average servicing cost to the $78 annual per-loan price point of a leading subservicer.

Misunderstanding #2 – We would lose total control over our servicing portfolio, which is something we would never allow.

Clarification – The right outsourcing partner will encourage your participation, not discourage it. While you'll no longer have to handle the grueling day-to-day physical "blocking and tackling", you'll want to remain very involved with your loan servicing portfolio. It's important to take advantage of the up-front due diligence screening phase to clearly identify all the services you want an outsourcing partner to perform on your behalf – and where you don't require their involvement. Look for a partner offering leading technology that gives you online compliance tools and accessibility to customer data 24/7. This is critical for keeping you informed and in control. Also consider how the vendor approaches the issue of reinforcing your brand with customers. Is Private Label Subservicing available? One other consideration is what occurs when a loan goes into default status. In most instances, the community bank owns the loan, so make sure that all loss mitigation and/or loan modification work is presented to your institution for review and approval. Find a subservicing vendor who welcomes your bank's involvement, as opposed to deterring it.

Misunderstanding #3 – There's a risk that the outsourcing company will cross-sell to our mortgage servicing customer base and compete with us.

Clarification – This is definitely a point you should cover with a potential outsourcing partner. What is their philosophy on or attitude towards cross-selling? What commitment are they willing to make to you? Ask for customer references and learn how the outsourcer upholds that commitment. Select a subservicing vendor who understands this concern and communicates a firm policy of never competing by cross-selling anything to your bank's customer base, unless you request it.

The reality is that servicing fees decline over the life of the loan while servicing costs increase.

Misunderstanding #4 – Our community bank is the only one that really knows our customers and, therefore, no one can serve them better than we can in house.

Clarification – Your relationship with your customers is vital to your business and a certain level of expected service must be met. The right subservicing partner anticipates this expectation, works to understand the special nuances of your client base and, where applicable, builds those nuances into their servicing platform to meet your customers' (and your bank's) expectations. You'll also need to look beyond the service you provide today to assess how a subservicing vendor could improve on it. Is your community bank able to cover a variety of payment channels? And what about escrow administration? An enhanced menu of options will make the servicing experience a positive one for the lender/servicer and the borrower. That's not to say an in-house servicing solution could not provide the same. However, many small- to mid-size in-house servicers cannot offer their customers all of the technological functionality found in a larger subservicer simply because the costs and investment associated are prohibitive. In addition, the level of expertise associated with regulatory compliance is challenging because of the necessary investment in resources – human and financial. A reliable subservicing partner can help you better serve customers and provide a richer experience.

Misunderstanding #5 – Our community bank has a solid grasp on all state and federal compliance and other regulatory matters, so we don't need to outsource.

Why outsource servicing? The ability to remain nimble, flexible and compliant in this ever-changing mortgage lending environment.

Clarification – The mortgage origination and servicing industry is one of the more highly regulated industries today, subject to the Consumer Financial Protection Bureau (CFPB) servicing guidance, other Federal and State laws, plus State, Federal and industry regulators – including the FDIC and OCC. Ensuring compliance with all of these rules, regulations and regulators is an ominous task. Many times we find that this single reason alone is driving decision makers to reach out for assistance. The cost for mistakes, mostly innocent errors, is real and the fines can be steep. An outsourced servicing strategy can offer substantial relief for lenders and servicers. When evaluating subservicing vendors, ensure that compliance to all applicable state and federal laws lies at the core of every one of their processes. How do they measure their performance against the standards provided by the CFPB and GSE's? Do they measure it daily, weekly and monthly? Have they implemented their own strict standards to ensure the company performs all work with a keen eye toward delivering comprehensive compliance and superior service at every customer touchpoint? This is a critical area and one where outsourcing pays off for servicers and lenders.

Final Thoughts

The goal in owning the servicing rights to a residential mortgage loan should be to ensure that you deliver superior value to your borrowers while simultaneously delivering a solid ROI to your community bank's bottom line. Today's market can make this quite a challenging proposition for in-house servicers and lenders. As the preceding clarifications outlined, partnering with the right qualified subservicing partner can greatly assist your bank in maximizing the value of the mortgage servicing rights and offer an enhanced level of service to customers.

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To learn more about Midwest Loan Services and our private-label mortgage subservicing for community banks, please visit **midwestloanservices.com** or call **800.229.5417**.