

# ? The Five Biggest Misunderstandings about Outsourcing Mortgage Loan Servicing

## Credit Unions Should Consider Potential Benefits Relating to Cost, Technology and Compliance

By Peter T. Sorce

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? Let's address the five biggest misunderstandings about outsourcing mortgage loan servicing and discuss what lenders and servicers need to consider and assess before opting to keep the servicing in-house.

### **Misunderstanding #1: Our credit union has the same per-loan cost to service in-house as an outsourcing company.**

**Clarification:** The real question here is what the credit union'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 one recent survey, financial institutions can expect to incur an average cost of \$312 a year per loan for in-house servicing. Now compare that to the average \$75 annual per-loan price point of a leading outsourcer. Comparisons of actual per-loan costs for in-house vs. out-of-house servicing reveal that substantial savings can be gained by moving to an outsourced servicing strategy.

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

“Look for a partner offering leading technology that gives you online compliance tools and accessibility to member data 24/7.”

**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 member 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 members. Is Private Label Subservicing available?

One other consideration is what occurs when a loan goes into default status. In most instances, the institution owns the loan, so make sure that all loss mitigation and loan modification work is presented to your credit union for review and approval.

Find a subservicing vendor who welcomes your institution's involvement, as opposed to deterring it.

**Misunderstanding #3: There's a risk that the outsourcing company will cross-sell to our mortgage servicing member 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 credit union's members, unless you request it.

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**Misunderstanding #4: Our credit union is the only one that really knows our members, and therefore, no one can serve them better than we can in-house.**

**Clarification:** Your relationship with your members 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 member base and, where applicable, builds those nuances into their servicing platform to meet your members' (and your credit union'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 credit union 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 members 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 members and provide a richer experience.

**Misunderstanding #5: Our credit union has a solid grasp on all state and federal compliance and other regulatory matters, so we don't need to outsource.**

**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 this single reason 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 GSEs? 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 member touchpoint?

This is a critical area and one where outsourcing pays off for servicers and lenders.

**Some 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 credit union'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 institution in maximizing the value of the mortgage servicing rights and offer an enhanced level of service to members.

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