SECONDARY MARKETING EXECUTIVE

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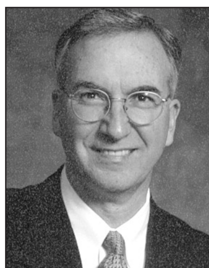
Understand Subservicing Fees To Find The Company Offering The Best Value

Proposals for subservicing fees may be difficult to comprehend. These explanations can help you learn how much subservicing will cost.

BY GREGORY F. HARNEY

A lender's or servicer's decision to outsource servicing of its loan portfolio to a subservicer should create a tremendous sense of relief: The high cost and compliance risks associated with servicing can be transferred to a subservicer.

Choosing the right subservicer, however, can create an anxious time. Much due diligence is required. Some of the most important questions are: How advanced is the subservicer's technology? How will the subservicer enhance customer/member services? What is the subservicer's reputation in the industry for quality of service delivery? Last, but certainly not least, what fees will the subservicer charge for its services?



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The key to this last question is usually set forth in a fee proposal the subservicer presents to the lender/servicer. Typical proposals contain fees that are often confusing and not easily understood. Sometimes fees are buried within the text of a proposal contract and difficult to decipher. It is quite understandable then that some lender/servicers end up scratching their heads, wondering what the myriad of subservicing fees means and precisely how much subservicing will really cost.

This is not to say that fees presented in a pricing proposal are not fair. To the contrary, the subservicing business is complex, and a subservicer should be compensated for services rendered. In order to take the mystery out of analyzing the cost of subservicing, lender/servicers could use a better understanding of subservicing fees commonly charged in the industry today.

These explanations of fees may prove helpful in identifying the subservicer who offers the best financial value. A lender/servicer seeking a subservicing relationship is referred to as the "client."

Investor and client set-up fee.

What is it? The fee to set up the client's account and to set up investors for whom the client will service.

What to look for: Some subservicers do not charge investor and client set up, while others may charge as much as $100 for the client and for each investor.

Set-up fee per loan.

What is it? The fee to load loans into the subservicer's system.

What to look for: Fees may vary for electronic or manual set up. Expect manual to be higher. There may be a difference in one-time bulk acquisition set-up fee versus flow program set-up fee. Depending on loan type and number of units to be transferred, set-up fees can range from $5 to $25 per loan.

For a large bulk acquisition, clients may be offered a volume break and the set-up fee will be offered as a "direct cost to transfer." Look for additional fees to set up MERS information. The client must pay for any subservicer "out of pocket" costs.

Set-up of paid-in-full loans (optional).

What is it? The fee to load loans that have paid off prior to transfer date for year-end reporting purposes.

Expect to pay a one-time fee of between $1 and $5 per loan.

Subservice fee.

What is it? The fee due for each loan that appears on the subservicer's trial balance at the end of the month.

What to look for: Typically a subservicing fee is expressed as a flat fee per loan per month, but sometimes it may appear as a percent of the unpaid balance (basis points). Fees vary by loan type. ARMS, balloons, HELOCs, and subprime loans are typically priced higher than agency loan subservicing. Some subservicers offer "unbundled" subservicing, whereby clients select and pay for only the services that are needed.

Subservicing prices are driven by volume, so the more loans, the better the pricing. Clients expecting significant growth should look for "tiered" pricing reflecting lower fees as certain volume thresholds are met.

The subservicing fee for plain vanilla agency loans, with all functions provided, ranges from $5 to $8 per loan per month.

Minimum subservicing fee (MSF).

What is it? A minimum amount to be paid each month to the subservicer for maintaining a client's account.

What to look for: Large subservicers will impose a substantial minimum month-

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ly fee to discourage small- to mid-size clients. For this reason, a MSF of $3,000 per month is not uncommon. Small- to mid-size clients typically pay less than $1,000 per month. Some subservicers charge a MSF based upon the number of loans serviced.

One-year adjustment.

What is it? After each year of service, subservicers will pass on the higher costs-to-service onto the clients.

What to look for: Fee increases are usually tied to a commonly used cost-of-living index such as the Consumer Price Index. Expect prices to increase each year based upon the annual percent change in the index used.

Ancillary income sharing.

What is it? Ancillary income is derived from fees charged to borrowers through the normal course of loan servicing: insufficient funds fees, late fees, satisfaction fees, assumption fees, partial release fees, loan modification fees, etc.

What to look for: Subservicers generally do not make a profit from subservicing fees alone, but from fees paid by borrowers and interest earned on custodial accounts (see below).

Custodial account float benefit.

What is it? Generally, subservicers maintain cash flows in custodial accounts and the float benefit derived from them.

What to look for: For P&I accounts, interest earnings are driven by investor remittance requirements (how often and what time of the month). For T&I accounts, interest earnings are driven by frequency of escrow disbursements typically affected by state taxing authority frequency of payment requirements.

Default fee.

What is it? The fee to cover costs of additional work required when a loan becomes seriously delinquent. Stepped up collection efforts, monitoring the foreclosure and bankruptcy process, etc., are time consuming and their costs are not included in the subservicing fee.

What to look for: Fees range from $15 to $35 per loan per month for services required to manage the default. Some subservicers begin charging after the 60th day of delinquency; others begin when the loan becomes 120 days in arrears.

Private label program.

What is it? The ability to provide a subservicing program in the name of the client so that the borrower has the impression that the loan is still being serviced by the client.

What to look for: Subservicers offer a variety of private label programs from full private label where every subservicing function is in the client's name to limited private label where only certain subservicing functions (coupon books, monthly statements, year-end statements) bear the client's name.

Expect to see 10% higher subservicing fees for some subservicer's private label programs, and minimum fees may apply. Some subservicers offer a private label program that uses a client's name in certain instances and the subservicer's generic name in other cases - at no additional cost to the client.

Payoff alert program.

What is it? A program to provide clients with advance notice of borrowers intending to satisfy, usually within 48 hours of receipt of notice.

What to look for: Some subservicers charge as much as $500 per month for this customer retention strategy; others provide this service at no additional charge.

Access to loan information over the Internet.

What is it? Clients receive access to individual loan records over the Internet utilizing the same workstations the subservicer uses to subservice the loans.

What to look for: The availability of this advanced technology depends on the subservicer's system. Sometimes a subservicer's service bureau will charge a fee for this feature. Typically this charge is passed onto the client with a mark-up. Expect a one-time activation fee of $100 to $1,000 and maintenance fees of $100 to $250 per month.

Coupons vs. monthly billing statements.

What is it? Clients may be given a choice of receiving coupon books or monthly billing statements.

What to look for: There are a number of benefits associated with monthly billing statements over coupons. The client's name and logo appear on statements each month, (a customer retention strategy), and statements contain detailed loan information and provide a monthly "billboard" advertising opportunity for client, etc.

Expect to pay an extra $.50 to $1 per loan per month for monthly billing statements to cover the cost to produce and send.

Mortgage insurance claim process fee.

What is it? From time to time, a mortgage insurance claim must be processed, which can be labor intensive for the subservicer.

What to look for: Government mortgage insurance claims are far more complex to file and the process fee should be commensurably higher. Claim processing fees range from $50 and $300 per account.

Transfer to different investor fee.

What is it? Loans transferred from one investor to another with the client retaining the servicing rights.

What to look for: Although this action does not require the deletion and re-setup of the loan, the investor numbers must be changed. A one-time fee of $1 per loan usually covers the cost of this effort.

Special services and other costs.

What is it? From time to time, clients may require the subservicer to perform duties outside the scope of the subservicing agreement.

What to look for: If a client requests a report that shows the number of borrowers in Ohio making payments on Thursdays before noon, the research effort needed probably falls outside the scope of the agreement. Rates will vary from $25 to $50 per hour for staff and $50 to $200 per hour for management time.

Deconversion fee/exit-related charges.

What is it? If subservicing is terminated for any reason other than natural attrition (foreclosure, deed-in-lieu, payment in full, etc.), a deconversion fee will be charged in consideration of the subservicer's work in assisting with the transfer of servicing.

What to look for: There are a number of costs for transferring loans to another servicer/subservicer and a deconversion fee is charged to cover these costs. Some subservicers call these charges "exit-related charges."

Exit fee/termination fee.

What is it? The fee paid to a subservicer for terminating the contract without cause.

This fee discourages clients from transferring loans from the subservicer after the subservicer has built infrastructure to accommodate the servicing of the client's portfolio.

What to look for: Exit/termination fees typically range from $15 per loan to $50 per loan. Some subservicers offer a reduced termination fee each year as the subservicing relationship gets older.

These are explanations of the fees commonly charged by industry subservicers; however, some subservicing fee proposals may contain additional fees. In that event, lender/servicers should ask questions until they clearly understand all the fees they will be charged.

As stated before, analyzing the fee structure is only part of the due diligence process of choosing the correct subservicer. The subservicer of choice should have the perfect blend of advanced systems, an excellent reputation in the industry for quality service, as well as a competitive fee schedule. SME