

Professional Servicing of Homeowner Loans

Why an affiliate should consider having its homeowner loans professionally serviced

As affiliates see the number of homes they have completed grow, the challenges of appropriately handling homeowner payments increases. Many affiliates have found that having loans professionally serviced is critical not only to collecting payments in a timely manner from homeowners, but also to making timely payments for real estate taxes and property / liability insurance for these homes. What affiliate wants to be responsible for the lapsed property insurance of a homeowner because the treasurer was unable to make the payment on time? And, wouldn't it be helpful if a professional was making contact with homeowners to collect delinquent payments? Certainly, keeping track of payments on the sheer number of loans as they increase each year can be a daunting challenge to a treasurer. A professional servicer can provide these services on a very cost effective basis. From the homeowner's perspective, there are advantages as well. A professional servicer will file timely credit reports so that the homeowner can build a positive credit history. A professional servicer will provide an annual report to the homeowner as to the status of their loan so that they know the remaining principal balance. A professional servicer will always be available to contact should the homeowner anticipate problems with making a payment on a timely basis.

What to look for in a professional servicer

Affiliates have contracted with a range of institutions for loan servicing. Local banks and credit unions are currently servicing loans as well as institutions such as the Community Reinvestment Fund, a national servicer for these types of loans. The entity you choose to service your loans should utilize as a guideline the Mortgage Banker's Association Uniform Single Attestation Program for Mortgage Bankers. The entity you choose should, at a minimum, be in good standing with its regulatory authority and should be fiscally sound. A professional servicer should have adequate liability coverage and an adequate disaster recovery plan in place. The best relationships between servicer and homeowner come when a single individual at the servicer's office is responsible for contacting homeowners. This individual is then known to the homeowner as a person to contact before a payment becomes delinquent so that a payment schedule can be agreed upon to bring the loan current. You may choose to inquire as to who will be servicing your loans as part of your decision making process.

Sample Loan Servicing Scope of Services:

Pre-loan Closing

- Volunteer staff for family selection committee
- Provide credit report
- Provide underwriting expertise

Homeowner Mortgage Closing

- Provide venue and personnel to assist with actual closing.

Post-loan Closing

- Provide monthly billings or payment books to homeowners or preferably set-up a direct debit account with homeowner
- Collect and record monthly payments. Report to Affiliate on a timely basis.
- Establish and maintain escrow accounts for real estate taxes and property/liability insurance
- Perform annual escrow analysis and send out new payment amount letters
- Pay property taxes and insurance on a timely basis
- Track delinquent loans and make appropriate contact with homeowners to collect delinquent payments. Example of contact points:
 - Call affiliate/borrower if payment greater than 5 days or payment is later than normal
 - Send out 15-day late notice to borrower with copy to Affiliate
 - Send out 30-day late notice to borrower with copy to Affiliate
- Report payment history to credit bureau
- Provide year-end reports to the homeowner regarding the status of the loan
- Handle ongoing maintenance of the homeowner's files in part to ensure that RESPA requirements are met

What those services should cost

Some affiliates have found that local institutions will service their loans for free as part of their community service obligations. Certainly, if there is a possibility of obtaining this service for free it is the preferred option. Other institutions charge a range of fees. There are most typically two fees: 1) an initial set up fee when the servicer starts servicing the loan (in the range of \$15 per loan), and 2) a monthly charge for the collection of payments (between \$5 and \$8 per loan). We have also seen servicers charge or collect fees consisting of a portion of the late fee paid by a homeowner, but few affiliates charge a late fee.

What is the impact on your homeowner

The homeowner can anticipate a few changes in how they make their payments. The primary and most significant of these changes is that they will receive a payment book from the servicer and instructions to send their loan payments to a new address. Four other elements of professional servicing will impact the homeowner as well:

- Late payments will be dealt with on a timely basis and contact will be made with homeowners to collect on late payments in the same manner as for a conventional mortgage.
- Escrow payments for real estate taxes and property/liability insurance will be held in interest bearing accounts until disbursed.
- Regular credit reports will be filed for the homeowner to establish a credit history.
- The homeowner will receive regular annual reports as to the status of their loan.

What to anticipate if a homeowner has problems paying on time

As noted above, a homeowner can expect to be contacted in the event that their monthly payment is not received on a timely basis. The servicer's staff will make these contacts in the same manner they would on other delinquent payments. It is likely that this contact will occur in a manner that differs from how your affiliate has contacted the homeowner in the past. While it is very important that an affiliate still retain control over how much pressure is exerted to collect late payments, the servicer is likely to have a better chance of collecting these payments using the skills they have acquired in this difficult task. A pre-agreed upon collection procedure can be established to more clearly define the boundaries of a servicer's responsibility in the collection of delinquent loans. Once payments become seriously overdue, the affiliate will need to make decisions as to whether to proceed with foreclosure or whether to pursue an alternate course of action. The servicer can provide guidance to the affiliate in this instance as to options and legal responsibilities.