



Increase Profitability.  
Improve Performance.  
Manage Risk.

## **Selling Loans Servicing Retained**

The lack of buyers actively seeking to purchase servicing has depressed servicing prices. Aggregators have reduced their base loan pricing to offset higher-than-market servicing values listed on their SRP schedules. As a result, many lenders are considering retaining servicing. There are a number of valid reasons to implement a servicing retained execution:

- To increase gain on sale of loans due to improved all-in execution.
- To eliminate aggregator imposed product and process restrictions via direct secondary marketing executions.
- To provide a steady long-term income stream regardless of fluctuating production levels.

To effectively execute a servicing retained strategy:

- Volume levels should be at least \$15 - \$20 million per month in conventional conforming 30 year business.
- The lender should possess the financial strength to be approved as a Fannie or Freddie Seller Servicer.
- The lender should have the capability to execute a secondary marketing strategy that utilizes mandatory delivery as well as best efforts commitments.
- The company must be comfortable putting mortgage servicing assets on its books. The internal Mortgage Servicing Rights (MSR) value added to the base price should provide a higher rate of profitability than the lender's current servicing released execution.

In addition, lenders need to recognize the costs to service loans. Additional technology and staffing expenses will be incurred. Accounting policies and procedures must be implemented. Risks such as volume spikes, training and managing staff, and proper disposition of problem loans must be considered. ARMs, Interest Only loans and other special products which require payment adjustments must be serviced properly. Failure to service loans correctly could result in increased regulatory scrutiny, reputation risk and cancellation of servicing contracts.

If your company has the requisite volume levels and secondary marketing expertise, but does not want to set up a servicing operation, explore the feasibility of a sub-servicer relationship. You may be able to enjoy the benefits of a servicing retained execution without incurring the costs necessary to set up a servicing operation.

## **Getting Started**

Once you have decided to start servicing loans, you need to determine what types of loans to service.

### **Conventional Loans**

The agencies are realistically the only outlets for servicing retained loan sales. Conventional loans should be sold to Fannie and Freddie using best efforts, mandatory and MBS delivery options.

Lenders who wish to begin servicing loans should retain Fannie and Freddie servicing. Agency pricing plus the lender's internal MSR value should allow the lender to retain servicing and beat aggregator all-in pricing (base pricing plus SRP).

Retaining servicing should not negatively impact the lender's rate sheet pricing.

### **Government Loans**

Government servicing should continue to be sold released via best efforts, mandatory or AOT to the aggregators. Government loans are more expensive to service, delinquencies are higher and special servicing expertise is required. In addition, Ginnie Mae MBS is the only servicing retained option for government loans.

### **Private Investor Loans**

Private Investor and State Housing loans should be sold released. Servicing small portfolios for different investors is expensive.