Mortgage Servicers Add Fees as Costs Increase

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By Kate Berry

The rising cost of servicing nonperforming mortgages has forced some companies to start charging special fees.

These include fees for managing loans that are seriously delinquent or in foreclosure or bankruptcy, as well as incentive fees that reward the servicers for reducing losses.

"Quite frankly, my clients can't pay me enough to cover these higher expenses," said John LaRose, the chief executive of CompuLink Corp., the Lansing, Mich., subservicer that does business under the CeLink brand.

He said he has had to double the number of employees in his foreclosure department in the past six months.

Most servicers charge a fee of 35 to 50 basis points for subprime loans, but in the current environment they may need as much as 125 basis points to cover their costs, Mr. LaRose said.

"There are considerably more delinquencies that take a lot of time and effort to work through, and we are constantly talking to borrowers," he said.

Servicers say one problem is that they stop collecting their regular fee when a loan goes into foreclosure, even though the expenses of servicing such a loan are higher. For this reason, Mr. LaRose said, he has introduced a monthly management fee of $50 to $100 for loans that are in foreclosure.

The problem is "even worse" if a servicer has to coordinate the sale of a foreclosed home, he said, because there are additional expenses, and in the current slump homes can remain unsold for months.

Shane Ross, the senior vice president of account management at Litton Loan Servicing LP of Houston, said its costs have increased 24% in the past six to eight months, primarily as a result of loss mitigation programs. Some servicers "are pushing hard" to increase revenue by asking for special fees on loans delinquent for 90 days.

"Everyone is hiring," Mr. Ross said, and servicing these days involves serious footwork, like sending employees to meet with borrowers.

Litton also has restructured its servicing agreements for the loans in which its parent company, C-Bass LLC, is not an investor, to include incentive fees. "If I do a modification of a loan and it avoided losses of $30,000, then I would get a percentage of that," Mr. Ross said.

Cary Burch, the chief executive of Lender Support Systems Inc., a servicing software provider in Poway, Calif., said another reason costs are rising is that investors who

own groups of specific loans within a pool, rather than sharing ownership of the entire pool, want electronic access to the loan files to track performance.

"The challenge is whether a servicer can negotiate a variable cost to protect themselves," he said. "They can't raise their fees, because they are bound by contracts, so when the new loans are coming in, they're renegotiating higher fees."

William Rinehart, the chief risk officer at Ocwen Financial Corp. of West Palm Beach, Fla., said: "When we bid on servicing, we make estimates as to how we think that portfolio will perform. If we're accurate in our estimates, then our servicing costs should be covered."