Wisconsin Housing and Economic Development Authority (WHEDA)
Management Innovation/Operations: "Servicing Acquisition and Cost Reduction"

Background

For HFAs, the costs incurred as a result of the home loans they service is a trend that needs to be thoroughly researched over the course of a year. Since the Wisconsin Housing and Economic Development Authority (WHEDA) has traditionally allowed some of our originating lenders to service the WHEDA loans they worked on, we knew that studying servicer trends was equally important.

WHEDA has been performing the in-house servicing of home loans since 1980. During the late 80s, the number of WHEDA servicers grew to as many as 182. Due to mergers, acquisitions, and loan portfolio transfers, the number of WHEDA servicers decreased to 19 mid-way through 2007.

Historically, the default rate on loans serviced by WHEDA has been lower than the default rate on loans serviced by lenders. Additionally, as WHEDA's servicing portfolio has grown, our General and Administrative (G&A) cost-per-loan to service each one has decreased. Thus, as we sized up our operations in 2007, we strongly believed that one of WHEDA's strengths was its high quality and increasingly efficient servicing operations.

Assessment

As a result, WHEDA began to assess the impact of acquiring the servicing rights on WHEDA loans serviced by these 19 originating lenders. During this assessment period, we determined that further economies of scale could be achieved. We also found that our aggressive collections could reduce 30-day delinquency rates if we were to acquire certain portfolios. However, since we knew that in many cases our partner lenders did not want to give up servicing, we would have to pay a servicing release premium (SRP) to acquire certain portfolios.

Response

After evaluating our options, we determined our goal would be to acquire selected portfolios at a reasonable cost without losing those banks as loan originators. By negotiating a slightly higher SRP, we could avoid frustrating a long-time WHEDA partner lender, while being more cost-effective.

In the early 1990s, WHEDA had set a minimum portfolio size of 50 loans for an originating lender to continue to operate as one of our servicers. In July 2007, we increased the minimum to 200 loans. From there, we started seeing positive results from this modification as early as fall 2007. The process started off modestly when we managed to successfully transfer back servicing from five smaller servicers. Then we managed a huge breakthrough, when one of our largest servicers pledged their support and transferred their portfolio. This servicer, who had a portfolio of over 5,200 loans, was supportive of WHEDA's plan to bring back in-house servicing.

In June 2008, we transferred back another smaller servicer reducing the number of outside servicers to 12. We are currently in the process of acquiring another small portfolio and will soon make a formal bid for two more, whose portfolio sizes range from 300 to 700 loans.

Our goal was to improve efficiencies by reducing our cost per loan and by making improvements to the default performance of the acquired portfolios. Through a cost analysis of individual portfolios from each of our servicers, we were able to determine an appropriate SRP in negotiating the transfers.

	As of 6/30/07	**As of 6/30/08**
WHEDA Serviced Portfolio	**7,677 loans (30%)**	**14,285 loans (52%)**
Lender Serviced Portfolio	**17,626 loans**	**12,971 loans**
Total Home Loan Portfolio	**25,303 loans**	**27,256 loans**
Average Delinquency Rate for the Fiscal Year;		
WHEDA Serviced	**1.23%**	**1.95%**
Lender Serviced	**2.08%**	**2.12%**
Overall Portfolio	**1.83%**	**2.06%**
G&A Cost per Loan – WHEDA Serviced	**$125.29**	**$89.80**

Results

After reviewing the compiled data and assessing the scope of this project, we concluded that our initial beliefs in the strength of WHEDA's servicing operations proved to be accurate.

As the table above shows, from year to year, the delinquency rate on loans serviced by WHEDA is much lower than those serviced by outside servicers. Furthermore, when we first took over a large servicer's portfolio last year, we took over a large number of delinquent loans, causing our delinquency rate to spike. It took WHEDA servicing staff only four months to significantly bring our rate back down below the average of our servicers. This once again helped WHEDA-serviced delinquency rates remain lower than the competition.

Through economies of scale, our cost per loan saw a significant decrease as well. Therefore, we added two servicing staff members last fall to compensate for the increase in the loan portfolio. Most importantly, during this entire process we were able to double our overall servicing profitability from FY 2007 to 2008.

This is a team study that is easily replicable, and will be extremely useful in measuring our home loan servicing objectives for the upcoming year.