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5 Steps to Successfully Outsource Your Loan Servicing

How to plan and prepare for a successful outsourcing journey.

Have you ever considered outsourcing either all or part of your loan servicing operations? As a leading loan servicer, we find that many companies tend to underestimate the planning that's needed as they prepare to embark on their outsourcing journey. So that's why we've outlined five key steps you should take to ensure your experience is a successful one.

1 Assess your business needs

2 Define the scope of work (SOW)

3 Select a vendor

4 Negotiate the contract

5 Initiate the transition

1 Assess your business needs

This is a critical step that should include a complete evaluation of your current infrastructure and processes. You'll need to have a clear understanding of your entire loan servicing operation: What does your process look like today? Who's responsible for which tasks? And most importantly, what are your current challenges and pain points?

Many of our clients tell us they struggle with loss mitigation and portfolio performance, in addition to providing a high-quality customer experience. You'll need to identify your unique challenges and understand how a loan servicing partner could help you address them. This will help you to determine your outsourcing goals. These goals should directly address your pain points and help you solve them.

2 Define the scope of work (SOW)

Next, you'll need to determine the scope and overall nature of the engagement. Will you rely on your partner as a master servicer, or as a sub-servicer? Will you outsource all aspects of your loan servicing, or only certain functions, such as collections and loss mitigation on non-performing loans? You should start to think about which specific roles and responsibilities your organization will take on, and which ones your outsourcing partner will handle.

Key elements of a SOW:

- Identifies the provider's responsibilities
- Defines objectives and requirements
- Provides estimated costs
- Includes a contracting method and payment schedule
- Outlines standards, regulations and special contract requirements
- Explains all tasks and limitations related to achieving project goals

3 Select a vendor

Your loan servicing partner will manage a critical part of your financial operations, so it's important to take a thoughtful and thorough approach when it comes to the selection process. You'll want to carefully assess each potential partner's reputation and industry experience, as well as their information security and disaster recovery protocols. It's also important to understand what subcontractors or partners the vendor is engaged with, because you'll be indirectly partnering with them, too. Most importantly: look for a partner that's willing to tailor their services to meet your individual needs, vs. forcing you into an out-of-the-box solution. As you begin meeting with potential vendors, here are some initial questions you should ask.

Starting the conversation with a potential vendor

1. How many years have you been in business servicing consumer loans?
2. What is the breakdown of your portfolio (number of loans and UPB by asset class)?
3. Are you currently a primary or sub-servicer on any securitized transactions?
4. Are you a primary or sub-servicer on any rated transactions? List the rating agencies.
5. What is your customer/client retention rate?
6. Please describe your experience servicing my asset class.
7. What loan management system do you use? Is it a proprietary system?
8. How many clients are currently using your solution for loan servicing?
9. Would you need to add staff to support us? What are your capabilities for rapid scaling?
10. What is your past experience for rapid scaling for other clients in the industry?
11. To what extent do you use sub-servicers and for what work?
12. Provide two to three references of clients you currently work with so that we may contact them to discuss their experience with you.
13. Provide bios of your executive team members.

During the selection process, be sure you develop a clear understanding of how your vendor will operate in these five key areas.

Key things to consider when evaluating a loan servicing partner

Operations

The best loan servicers can look beyond an organization's current needs to **anticipate what's next.**

This requires a combination of deep industry expertise and innovative technology that's **scalable to meet growing demands.**

Onboarding & Implementation

A one-size-fits-all approach simply can't address each client's **unique needs and challenges.**

A top-tier servicer should prioritize individual needs, requirements, and preferences — then develop a **tailor-made solution** to address them.

Compliance

In today's climate, your servicer should be a **subject matter expert** in consumer communications, data safety and security, and compliance-related regulation.

Even more importantly, they need to be agile enough to adjust their program to meet **ever-changing requirements.**

Client Support

Problems can happen, and no amount of foresight or planning can prevent them. So ultimately, **value is established in the trenches.**

When vetting a loan servicer, **ask hard questions** about capabilities around problem-solving and client support in every area possible.

As a best practice, you should also send out a Request for Proposal (RFP) to your top vendor finalists. This will give you an opportunity to compare their responses side-by-side and evaluate their capabilities accordingly. We've developed a partner evaluation template that you can use to drive your RFP process.

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Negotiate the contract

Once you've reviewed and evaluated the proposals and selected your vendor, it's time for contract negotiations. This process can seem intimidating, but it really boils down to just five key components that need to be clearly addressed.

Key elements of a contract

Master Services Agreement (MSA)	Defines the overall legal relationship between the vendor and your organization. It typically covers areas including intellectual property, confidentiality, payment terms, responsibilities, warranties and work standards.
Operating Principles	Establishes behavior norms and outlines what's acceptable – and what's not – as part of the relationship.
Statement of Work	Outlines the scope of the project, what work will be done, what's required to complete the work, what deliverables will be created, and the roles of each party.
Service Level Agreement (SLA)	Details expectations around service type and quality.
Metrics Definition	Contains performance evaluation measures agreed upon by both parties.

5 Initiate the transition

After the contract is signed, you'll begin transitioning loan servicing responsibilities to your new partner. This is an important step, because it sets the tone for how you'll work together in the future. Here are four tips for success:

Identify the transition team	Define roles and responsibilities for both the loan servicer and your organization.
Create a transition plan	Map out the logistics of what will happen and when, and who is responsible for each task. Be sure to obtain buy-in from all parties involved.
Develop a contingency plan	Think about what might go wrong and have a plan to address the unexpected.
Transition systems and work	Follow your transition plan and communicate regularly with your loan servicing partner.

Closing thoughts

Starting the journey to outsource your loan servicing operations can be a worrisome experience. And that's understandable! There's a lot at stake for your company when it comes to both risks and rewards. If you're considering the possibility of outsourcing, we hope this article has helped to clarify the steps you should take as part of your planning process. And we'd love to hear from you!

As a fintech company at forefront of loan portfolio servicing, Concord delivers compliant, flexible, and scalable solutions to meet your unique needs.

To learn more about our loan servicing capabilities, contact us today.

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