

VOLUME 1:

THE SERVICING DECISION

Aligning Servicing Strategy with Identity, Scale, and Risk

How mortgage lenders can improve profitability, enhance operational efficiency, and improve customer experience via their servicing strategy.

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Executive Summary

In today's mortgage market, servicing and the borrower relationship is viewed as the key driver of long-term profitability for mortgage servicers. As a key driver of profitability, the mortgage borrower servicing experience is critical and goes well beyond a simple administrative function that includes an element of compliance and regulatory risk. For mortgage originators that retain servicing, the decision to keep servicing in-house or partner with a subservicer(s) is not simply a question of cost, but a strategic choice that can shape the trajectory of the business for years.

This white paper is designed to help mortgage originators that choose to retain servicing make that decision with clarity and confidence in regard to performing the servicing loan administration function in-house or outsource it to a subservicer. It distills the complex operational, regulatory, and customer-experience topics that influence servicing strategy and ultimately profitability. The paper offers a balanced view of the opportunities and trade-offs in both models. Drawing on industry best practices, real-world examples, and actionable evaluation frameworks, it equips decision-makers with the tools to ensure the decision to retain servicing is consistent with their overall strategy.

Readers will gain:

- A clear understanding of the **core differences** between in-house servicing and subservicing, including how each model impacts cost structure, compliance risk, scalability, and borrower experience and satisfaction.
- Insights into the **specific considerations for each lender type**, from credit unions and banks to independent mortgage bankers and “investor-backed” entities.
- A candid look at the **most common pitfalls** in servicing operations and how to avoid them.
- A practical **five-point takeaway framework** to guide long-term servicing strategy.
- Key **questions for evaluating subservicers**, setting partnership expectations, and developing a successful servicing strategy.

Whether your organization prioritizes customer/member experience, data, reporting, operational control, rapid scalability, compliance risks or technology, the guidance in this paper will help you select, create and manage a servicing strategy that aligns with your goals and risk tolerances.

Drawing on industry best practices, real-world examples, and actionable evaluation frameworks, this paper equips decision-makers with the tools to ensure the decision to retain servicing is consistent with their overall strategy.

CHAPTER 1:

The Evolving Loan Servicing Landscape

SETTING THE STAGE

In the past decade, the loan servicing landscape has undergone a transformation that few industry servicing veterans could have predicted. What was once treated as an afterthought or by-product of the origination function—in other words, a mechanical backend administrative function—has evolved into a key strategy for customer retention, brand loyalty, and potential source of future originations. This shift has been driven by both technological innovation and dramatic changes in borrower expectations.

Whereas mortgage lenders who retained servicing once assumed customers would return automatically—to refinance, to purchase their next home, to take out a HELOC—the playing field has changed (a mindset often driven by banks). Independent mortgage banks (IMBs) have disrupted legacy bank-focused servicing by leveraging the massive volumes of customer interaction data they gather to predict borrower behavior, personalize engagement, and streamline the lending journey. In short, the traditional assumption of loyalty has evaporated. Today, loyalty and retention must be earned and remain an intense area of focus for mortgage servicers.

The COVID-19 era further crystallized this shift. With mortgage rates dropping to historic lows at or below 3% for 30-year fixed rate mortgages, millions of borrowers locked into rates that they're unlikely to refinance anytime soon. Lenders who retained servicing quickly realized that keeping these customers

engaged and informed through proactive servicing strategies was no longer optional, but imperative. If you're not top of mind as a trusted advisor, someone else will be, and ultimately take your customer.

Against this backdrop, servicing has emerged as one of the richest, most underleveraged opportunities in the mortgage value chain. It's not just about collecting payments. Done right, servicing becomes a powerful vehicle for collecting data and cultivating long-term relationships, identifying new loan opportunities, and maintaining continuity across the customer lifecycle.

The problem is that, since servicing, servicing data and technology, were not treated as a top priority, many servicers are realizing that quickly pivoting to treat it as a priority is harder than they assumed. Many mortgage servicers, by their own admission, don't even know if they're "good at servicing" at the moment, because that wasn't previously a question that demanded an answer. Furthermore, it is still unclear what being good at servicing means. As a result, a great deal of mortgage lenders are revisiting their servicing retention strategy and who should service their loans. In doing so, many have found themselves at a strategic crossroads: do they feel confident enough in their servicing abilities to service in-house, or do they want to outsource to a subservicer?

This decision isn't straightforward, and it ultimately comes down to far more than just "am I good at servicing?" Many assume in-house servicing offers the most control over

customer experience. And in some ways, it may. Others are drawn to the perceived cost savings and operational simplicity of subservicing. Still others are more focused on the technology and the required investment. But this binary lens ultimately proves myopic and ineffective.

Control of the borrower experience isn't absolute. Once a loan becomes delinquent, investor or guarantor rules govern borrower communication, whether you service in-house or not. And costs? They're notoriously difficult to compare in isolation. While subservicing can offload upfront capital expenses, it may become less cost-effective over time, especially if your servicing portfolio grows. Conversely, in-house operations can appear cost-inefficient until you begin significant scaling and diffuse the true cost burden of the required infrastructure, compliance, and labor. Furthermore, in-house servicers tend to have a difficult time isolating all the internal servicing expenses.

Perhaps the most common myth is that portfolio size alone should dictate the decision. Lenders often ask, "How many loans do I need to justify in-house servicing?" It's often the wrong question. Volume matters, yes; but not as much as your growth strategy, portfolio composition, operational resilience, investor mix, technology, and customer experience priorities.

Whether you're servicing 10,000, 100,000 or over a million loans, what truly matters is how well your servicing model aligns with your long-term mortgage and servicing strategy.

RIISING COSTS AND OPERATIONAL COMPLEXITIES

Loan servicing isn't immune to the economic pressures reshaping every corner of the financial services industry. While today's cost-per-loan metrics appear more favorable than in the wake of the 2008 financial crisis, that's largely thanks to technological efficiencies and low delinquency rates, higher home values, and changes to loss mitigation options. But all of these can shift quickly.

During the 2011–2013 recovery period, and with the implementation of new servicing standards, servicing costs spiked in response to heightened regulatory oversight and the sheer complexity of managing distressed portfolios. As technologies evolved, introducing automation, AI-powered decisioning, and scalable support platforms, those costs initially came down. But the relief is precarious, and technology costs have begun to rise again—especially as once-groundbreaking tools have become table stakes, and the need to introduce more advanced solutions to remain cutting-edge grows.

Today, large publicly traded companies with massive servicing portfolios are helping keep average servicing costs low, benefiting from economies of scale and deeply integrated technology infrastructures. But for smaller or mid-size servicers, the upfront cost of replicating such systems in-house is significant. There are only a few dominant players in the servicing software space; however, new entrants continue to emerge. No matter who you choose, it is important to remember any servicing software likely requires support staff, training, compliance, and ongoing upgrades, and this is before adding on the cost of data mining.

Inflation adds another layer of complexity. While it affects virtually all aspects of business operations, its most acute impact on servicing comes through labor costs. Hiring and retaining qualified servicing personnel—from call center staff to compliance officers—becomes more expensive as the cost of living rises. Subservicers, with their existing staff and streamlined hiring practices, can mitigate this somewhat. But if you're managing your own team, you're shouldering that burden directly.

AI (Artificial Intelligence) has entered the picture, with some lenders experimenting with automation to reduce headcount or enhance scalability. But servicing, especially when delinquencies occur, is still fundamentally a human-intensive endeavor at this point. Borrowers in distress may need more than a chatbot. They want and need a conversation, which requires more resources (and incurs more costs).

Delinquency rates, while currently low, remain a wildcard. Natural disasters, economic downturns, and declining home values can spike default rates, and with them, servicing complexity. And while interest rates do impact origination and refinance volumes, their impact on servicing costs is more indirect, often driven by broader economic forces.

Bottom line: the operational cost of servicing is a moving target. Predictability is difficult to the degree that many lenders who service in-house may not even be fully aware of what they're currently spending to keep their servicing infrastructure and technology afloat. Furthermore, servicing cost assumptions based on today's environment can quickly become outdated.

THE REGULATORY ENVIRONMENT

Servicing compliance has always been a high-stakes endeavor, but the current regulatory climate adds new layers of uncertainty. While many regulations have remained largely consistent, the landscape is shifting in subtler, yet impactful ways.

Chief among these are changes at the Consumer Financial Protection Bureau (CFPB) and among State Attorneys General who are elected by their constituents in 43 states and appointed by various methods in the other states. As administrations at the national or state level change, so do enforcement priorities, interpretations, and compliance expectations. This makes long-term servicing strategy hard to pin down (especially given rumblings that the CFPB and OCC might pull back, which could leave lenders beholden to roughly 50 different state regulators rather than a few major ones).

Semi-recent scrutiny under the False Claims Act (FCA) has created particular anxiety. Originators and servicers are finding themselves retroactively penalized for actions previously considered compliant, especially when it comes to Ginnie Mae loans. The ambiguity around ex post facto enforcement adds risk and deters many lenders from servicing these portfolios in-house.

The complexity of servicing compounds over time. A relatively simple and performing servicing portfolio is easy to keep compliant. But the moment you start servicing diverse products across multiple states, investor types, or delinquencies, the complexity—and your exposure—multiplies. Delinquencies increase compliance obligations, restrict how and when you can contact borrowers, and escalate

the risk of litigation. It's a slippery slope: more risk demands more staff, more training, more oversight, and more expense.

If the aforementioned considerations sound like a lot of potential risk, remember this excludes additional compliance concerns around technology and data privacy. As we discussed in the previous chapters, AI is becoming a mainstay in servicing, touching everything from automated administrative tools to customer service resources and self-service options. As such, lenders must put additional time and effort into ensuring that these solutions aren't making mistakes or causing issues that could expand into regulatory or litigation issues, be it mischaracterizing personal information, providing faulty advice, or inaccurately underwriting a potential loan file. All these tools require monitoring, and that monitoring requires expertise.

Said another way, using a subservicer adds a layer of protection versus in-house servicing. If the subservicer fails to follow the servicing guidelines or violates any laws, any fines that result are most likely paid by the subservicer, versus the servicing owner (though, since the lender remains the master servicer, that responsibility isn't completely offloaded). If servicing in house, there is no one else who is accountable.

In this context, subservicers present a compelling case. With deeply entrenched compliance infrastructure, purpose-built technology, and dedicated regulatory teams, they offer lenders a way to manage risk without reinventing the wheel. For lenders considering in-house servicing, it's essential to evaluate not just current compliance needs, but future ones, as well as the internal capabilities required to meet them. Servicing in-house

is not simply a question of whether you can manage compliance today. It's whether you can afford to manage it when things change.

CUSTOMER SERVICE EXPECTATIONS

Customer expectations in mortgage servicing have entered a new era, one defined by immediacy, personalization, and seamless communication. And borrowers are no longer just comparing you to other lenders; they're comparing you to Amazon, Apple, and every other consumer experience they've grown accustomed to. They want to know how many self-service options are offered, how integrated the payment process is, and what they can expect in the future.

Servicing plays a critical role in shaping that experience. It's often the longest-lasting relationship a borrower has with your institution. That relationship can reinforce your brand or erode it.

Borrowers expect transparency, proactive outreach, and a consistent voice throughout their homeownership journey. They know you're collecting data on their habits, and they expect that data to be used for their benefit, whether that's spotting a refinance opportunity, assisting with a second-home purchase, or simply reminding them of key milestones.

When servicing is handled in-house, lenders may feel a greater sense of ownership over that relationship. But subservicing doesn't have to mean disconnection. The key is in execution and the relationship established with the subservicer. If one views their subservicer as simply a vendor and not a strategic partner, they have not maximized the relationship.

“White-labeled” subservicing—where communications go out under your brand and follow your directives—can offer the best of both worlds: consistency for the borrower and scalability for you. But it requires intent. Setting expectations during the origination process can prevent borrower confusion or dissatisfaction. A borrower who’s informed from day one that his or her loan will be serviced by a partner, and why, is far less likely to feel abandoned than one who receives a surprise transfer notice months later.

Geographic outsourcing, especially offshore servicing, can exacerbate customer dissatisfaction if handled poorly. Borrowers may not doubt the competence of their servicer, but they will notice language barriers, perceived cultural disconnects, lack of self-service options, or long wait times. This reinforces

the importance of aligning your subservicing partner with your brand expectations: not just in terms of KPIs, but tone, empathy, and accessibility. Technology options continue to change in this space, and it is important to understand all the potential solutions available.

At the end of the day, borrowers may not have strong feelings about whether you service in-house or work with a subservicer. They also often don’t care about your servicing rating or the number of awards you’ve won; Ultimately, they care that the servicing experience feels seamless, responsive, and aligned with the trust they placed in you during the origination process. To create loyalty, you need to guarantee that their experience with you will be rewarding because of what you specifically provide.

CHAPTER 2:

To Service or to Subservice? A Strategic Decision

KEY DECISION FACTORS

The question of whether to service in-house or outsource to a subservicer is often framed in terms of unit volume; and, while volume does matter when it comes to the power of negotiating volume discounts from vendors, it’s not the only important factor.

Historically, the unit-count benchmark served as a quick heuristic for IMBs building out origination and servicing infrastructures simultaneously. But as the industry has

matured, so too has the understanding that this is often a gross oversimplification. A lender with 50,000 loans concentrated in a single time zone and a handful of states may face fewer operational headaches than a lender with 20,000 loans spread across dozens of states and multiple time zones. As such, while there are rough lines you can draw to delineate when your unit count is very clearly suited for one servicing strategy or the other, things like geography, portfolio mix, long-term growth

trajectory, and technology readiness all weigh heavily—often more so than raw unit count.

Take infrastructure requirements, for instance. Servicing in-house means committing to a servicing system that often includes a one-time fee, followed by an ongoing per-unit charge, along with the necessary support staff to maintain it. Those systems require dedicated personnel, frequent updates, and dozens of vendor relationships, each of which brings its own price tag and time demand to monitor and maintain. In high-cost regions, finding and retaining qualified staff can significantly inflate the overcost burden.

Then there are the “hidden” costs. Think of in-house servicing like flying with a budget airline: you buy the ticket (servicing platform), but then discover every add-on—insurance, snacks, early boarding, seat selection—is an extra charge. In this metaphor, the add-ons are your collections vendor, your payment processor, your insurance management vendor, your call center, and your mailing house. When you subservice, these elements are baked into one predictable rate package. When you go in-house, you are responsible for managing all the vendor relationships, ensuring adequate backups exist, and unless the lender has a very large volume of business, the vendors are unlikely to offer any volume discounts.

And that’s before you even get to the complexity of your portfolio. Many lenders service more than just plain vanilla mortgages: second liens, HELOCs, Ginnie Mae loans, and more. These products bring additional loss mitigation requirements and compliance obligations. Fannie- and Freddie-backed loans are relatively uniform. Ginnie Mae? That’s a different story, one often involving additional staffing, specialized technology, and higher costs, not to mention elevated regulatory

scrutiny and potential servicing losses for any operational missteps that occur.

Some lenders attempt a hybrid model, servicing certain products in-house and outsourcing others. In theory, this seems like a clever middle ground. In practice, it’s rarely financially efficient and may increase risks. Managing two servicing functions introduces duplication of systems, staff, and oversight. The result is often a bloated operational model with fragmented customer experiences and higher costs per unit. That said, a potentially effective approach to this strategy, known as a “champion/challenger” environment, introduces subservicing to influence and drive best practices in-house.

Another critical (and frequently overlooked) factor is strategic clarity. Many lenders move to in-house servicing with the best of intentions, only to misjudge their future volume or trajectory. Maybe they anticipated substantial growth that didn’t materialize. Or perhaps they retained only part of the portfolio they expected and now find themselves trying to spread fixed costs across a much smaller base than planned. Either way, the economics collapse.

Subservicing, on the other hand, offers flexibility and potentially less financial risk. It allows lenders to scale up or down without major infrastructure changes, and to experiment with portfolio mixes or geographies without committing capital upfront. But it, too, must be approached with clear expectations and a strong vendor partnership.

The takeaway? There is no one-size-fits-all answer. The right decision hinges not just on what your business looks like today, but what you want it to look like three, five, or even ten years from now, and how much risk you’re willing to accept to get there.

BENCHMARKING YOURSELF: WHO SHOULD CONSIDER IN-HOUSE SERVICING?

In-house servicing is not a hobby. It's a full-fledged business line, and like any business line, it must be resourced, staffed, and governed with long-term commitment and operational rigor. For the right institution, that commitment can pay off in spades, but only if the fit is right.

Here's when in-house servicing makes sense:

- **You have sufficient, stable, and growing volume.** The fixed costs of in-house servicing only become justifiable when spread across a large, and predictably growing, portfolio.
- **You have adequate expertise and management.** Ensuring that adequate staff, including back up, exists, and that the servicing management team is talented and deep, with significant expertise.
- **You have robust vendor management capabilities.** Managing and ensuring strategies for documenting and testing the dozens of vendors and tools needed to service loans are in place.
- **You have the resources and culture to support a new business unit.** This includes a leadership team that sees servicing as strategic, not just operational.

Some of the most successful in-house operations require a fair amount of planning, combined with confident implementation. They are strategized in detail and aggressively

executed so that all the necessary pieces can be put into place without unnecessary hiccups.

The playbook includes:

- **Realistic implementation timelines** that allow for testing.
- **Transparent analysis of real costs**, including vendor contracts, headcount, technology, licensing, and compliance infrastructure.
- **Honest forecasting** around volume, geographic dispersion, and servicing product mix.
- **Ongoing investment in servicing as a business unit**, with dedicated oversight, not a part-time servicing manager wearing multiple hats.

Conversely, where lenders have failed, it's often because they saw servicing as a project rather than a program or full-fledged strategic business unit. They paid for the platform, hired the minimum team, and hoped everything else would run itself. Then originations slowed, volumes dropped, or unforeseen compliance hurdles arose; and, suddenly, the economics no longer worked.

Think of in-house servicing like building a hotel. You don't just need to build the building; you need the cleaning staff, the reservation system, the insurance, the security, the maintenance, and the concierge. And all of it needs to be humming in sync. Otherwise, the "guests" (your borrowers) check out and don't return.

WHO SHOULD CONSIDER SUBSERVICING?

Subservicing is not the consolation prize. For many lenders, especially those who are growing, experimenting with new products, or seeking geographic expansion, it's the smarter, more strategic play.

Subservicing is particularly advantageous when:

- **You are in a high-cost area for servicing talent.** Since subservicing takes hiring experts off your plate, it suits institutions for which bringing on competitive talent would be cost-prohibitive.
- **You want to avoid building new teams or managing vendor relationships.** Subservicers provide staff, systems, and compliance baked into their service models.
- **You're servicing complex or high-risk portfolios** that require specialized loss mitigation or regulatory oversight.
- **It is not core to your culture** and management lacks expertise to oversee a servicing operations function.

Even for large lenders, subservicing remains attractive, especially when retaining a servicing platform internally would require a major organizational overhaul or when internal expertise is limited.

But success here also demands clarity and speed. Like with in-house transitions, moving to a subservicer should be executed decisively. Treat it like ripping off a Band-Aid: quick, confident, and customer-centric.

The alternative (moving too slowly or too hesitantly) opens the door for potential service disruptions that will affect your borrower experience.

Communicate proactively with borrowers about what's happening, why it's happening, and what they can expect. If you white-label your subservicer (and you should), ensure communications stay under your brand. Borrowers should never feel like they've been passed off to a stranger; this combination of clarity and speed will assure them they're still in good hands.

Equally important is the contracting phase. Subservicing can be cost-efficient, but only if you understand what you're paying for. Take the time to evaluate the fine print: what's included, what's not, how are disputes handled, what SLAs are in place, and how is data being shared? Stakeholders who skip this step often end up frustrated and tempted to bring servicing in-house without understanding the deeper cost implications.

In short, subservicing gives you flexibility, speed, expertise and technology. But it requires a true partnership. Choose a provider with the same culture and values you would apply to acquiring a new business unit. After all, that's essentially what you're doing: you're outsourcing a critical piece of your brand and customer experience.

CHAPTER 3:

Subservicing Pros, Cons, and Common Pitfalls to Avoid

THE PROS OF SUBSERVICING

Cost Efficiency and Scalability

Ask ten lenders why they subservice, and most will point to the same thing: cost.

Subservicing can be extremely cost-effective. Typically, a subservicer will charge a fixed amount per loan, per month; they may also offer a volume discount once certain servicing volumes are achieved. If you're consistently above that threshold, servicing becomes a predictable, known expense (like an inflation adjustment), often locked in for a year before adjusting in the next cycle.

What surprises some lenders is that this structure transforms servicing into a variable cost; and not everyone's comfortable with that. But the reality is: it's a controllable variable cost. You know the terms. You know the thresholds. And as your portfolio grows or contracts, your servicing expense follows. That's a more flexible arrangement than most in-house setups can offer.

Access to Emerging Technology Without the Full Cost Burden

One of the more underappreciated advantages of subservicing is access to bleeding-edge tools and technologies without the upfront capital investment or long-term licensing headaches.

Take AI, for instance. If you want to experiment with AI-based servicing solutions in-house, you're looking at purchasing the software, training your staff, integrating it into your systems, implementing security measures, and hoping it provides ROI. With a subservicer, you can benefit from those same technologies without shouldering the full cost. If they're using AI effectively—say, to detect early signs of borrower distress or to streamline document processing—you benefit by proxy.

It's a try-before-you-buy setup, allowing you to explore new solutions at arm's length while keeping your internal spend low and optional.

Built-In Compliance Expertise

As discussed in Chapter 1, one of the biggest expenses and pain points of in-house servicing is compliance. Regulatory complexity is rising, oversight is intensifying, and the cost of getting it wrong is steep. Subservicers absorb much of this burden.

You don't need a full internal compliance team when you partner with a subservicer, but that doesn't mean you're off the hook. The best relationships are collaborative; you're sampling your loans, reviewing dashboards, and staying in the loop. But the day-to-day compliance busywork is off your plate.

Your subservicer handles system updates triggered by regulatory changes. They're the ones updating borrower letters to comply with new disclosure requirements. They're maintaining certifications and staying current with changing state laws.

And most subservicers offer a variety of compliance visibility tools (dashboards, data exports, audit logs) that help you keep tabs on the process without rebuilding the entire infrastructure yourself. Some tools are standard, some are add-ons, but either way, the price tag is typically far lower than building a team and tools from scratch.

Enhanced Technology and Reporting

The right subservicer doesn't just keep you compliant; they make you smarter. Servicing is, at its core, a data business. Every interaction, every payment, every delinquency is a breadcrumb. And subservicers that know how to track, interpret, and present that data can give you a serious advantage.

Access to borrower behavior trends allows you to proactively engage borrowers, identifying risk before it becomes a loss mitigation issue. For example, if data indicates a borrower is late for the second month in a row, you can intervene early, potentially avoiding months of mounting losses and the cost of foreclosure proceedings.

But not all reporting systems are created equal. Some subservicers prioritize compliance dashboards. Others lean into operational metrics. Some offer both; others offer neither unless you pay for it. So once again, it comes down to selecting your partner wisely. You can't expect a Ferrari experience on a used-car budget.

Choosing the wrong subservicer, then complaining about what they can't deliver, is like ordering a Big Mac when you wanted a Whopper. They're both burgers, but they're not the same meal. Do your due diligence.

Reinvestment in Core Business

Ultimately, the biggest advantage of subservicing may be what it frees you up to do. Every hour your team isn't spending chasing down a tech issue, rewriting borrower letters, or navigating loss mitigation is an hour you can invest back into originations, marketing, relationship building: the work that actually grows your business.

Servicing can become a distraction if it isn't your core competency. Subservicing lets it stay a priority without becoming a problem.

Reduced Cybersecurity and Infrastructure Burden

Subservicing also reduces your direct exposure to cybersecurity risks, or at least the amount you need to spend to manage those risks.

A full in-house cybersecurity team is expensive. Firewalls, penetration testing, cloud compliance, business continuity planning—it adds up. But when you subservice, much of that risk is transferred (at least operationally) to your partner.

That doesn't mean you're off the hook. You still need a third-party risk management plan, as outlined in [**Richey May's Third Party Risk Management Guide**](#), which stresses the importance of continual oversight, strong vendor vetting, and consistent performance auditing. But the cost and complexity of cybersecurity execution shifts substantially to your subservicing partner.

Additional Consideration: Using Multiple Subservicers

A common strategy deployed by many is the use of multiple individual subservicers based on loan type. This approach (like the hybrid model in which an institution will service some of its loans in-house, while outsourcing others to a subservicer) provides additional flexibility regarding the ways in which different loans are serviced, based on the specific needs of those loans and their borrowers.

For example, an institution might assign Ginnie Mae loans to a subservicer with deep expertise in government-insured programs, while directing conventional or jumbo loans to a partner with stronger borrower-facing technology and customer service capabilities. By segmenting servicing responsibilities in this way, lenders can align each loan product with the subservicer best equipped to handle its operational, compliance, and customer experience requirements.

The advantages are clear: lenders can leverage specialized expertise, mitigate single-vendor risk, and create competitive pressure among providers. This structure also allows for greater resilience. If one subservicer underperforms or faces operational disruption, the institution has built-in redundancy to ensure continuity of borrower support.

However, the strategy is not without challenges. Using multiple subservicers increases the complexity of oversight, requiring more rigorous performance monitoring, stronger vendor management frameworks, and careful borrower communication to avoid confusion. As noted throughout this chapter, regulatory accountability ultimately remains with the lender—not the subservicer—so fragmentation of responsibility must be

balanced by strong internal controls (even in cases where penalties might be directed to the subservicer as opposed to the lender). Additionally, lenders should weigh whether the incremental benefits of specialization outweigh the administrative overhead of managing multiple vendor relationships.

For lenders with the operational discipline and scale to manage it, a multi-subservicer strategy can offer best-of-breed servicing capabilities while maintaining agility. For smaller institutions without dedicated vendor management resources, however, it may prove more burdensome than beneficial. Like all servicing decisions, success depends less on the model itself than on how intentionally and proactively it is executed.

THE CONS OF SUBSERVICING

Loss of Direct Control (But Only If You Let It Happen)

Let's be honest: the moment you outsource anything, you give up a degree of control. But how much you lose depends on how engaged you choose to remain.

Some lenders hand off their servicing and disappear, only to be shocked six months later when they feel disconnected from the customer experience. But that's not a flaw in subservicing. That's a flaw in strategy.

The most successful lenders treat subservicers like strategic partners. They stay involved, communicate expectations, and use available dashboards to monitor performance. If you set it and forget it, don't be surprised when things drift.

Even before you sign with a subservicer, you should evaluate how they manage client input, how customizable their operations are, and

how responsive they are to feedback. If you don't like the answer, don't sign the contract.

Customer Experience Risks

As discussed in Chapter 1, borrower experience is a major concern in today's market, and subservicing introduces variables.

A customer who's built rapport with a lender may feel blindsided when his or her loan is transferred to an unfamiliar name, particularly if the subservicer's customer service feels less personal, less responsive, or culturally distant.

Offshoring, for example, can introduce friction. While overseas teams may be highly trained and knowledgeable, differences in time zones, accents, or communication styles can frustrate borrowers. In some cases, borrowers have reported preferring U.S.-based representatives even when foreign agents were technically more proficient, simply because they felt more comfortable and better understood.

The solution is to manage it proactively:

- **Use white labeling** to maintain brand continuity.
- **Set borrower expectations** up front during origination.
- **Understand options offered** in terms of the physical location of employees used for customer- and non-customer-facing duties.
- **Understand what the subservicer is allowed to outsource** to non-subservicer employees (the extent of use of contractors).
- **Ask about tiered customer service routing** based on borrower needs or demographics.

- **Understand the full suite of technology options** that exist to improve the borrower experience, including self-service.

If customer satisfaction is a pillar of your brand, make sure your subservicer aligns with that pillar.

Vendor Management and Oversight

The myth that “the buck stops with the subservicer” is a dangerous one.

Yes, subservicers take on operational tasks. But if something goes wrong—whether it's a misapplied payment, a missed notice, or a servicing violation—the borrower holds you accountable. Regulators may too.

That said, subservicers also have skin in the game. Many are contractually liable for performance, and most are subject to regular ratings by agencies like Fannie and Freddie, which can help you compare providers.

As a lender, your job is to conduct due diligence up front; confirm licensing, review certifications, evaluate servicing history and maintain regular oversight throughout the relationship. Think of it as managing an employee: delegation is fine, abandonment is not.

Additional Consideration: Adopting Hybrid Servicing Models

For lenders who want to strike a balance, hybrid models can offer flexibility (for example, keeping certain products like Fannie Mae or Freddie Mac loans in-house while subservicing the rest, like Ginnie Mae loans and private labels).

This allows you to maintain direct oversight of your most compliance-intensive assets while

leveraging subservicing benefits for simpler products.

But hybrid models come with their own complexity. They can fragment operations, complicate borrower communications, and blur accountability. If you pursue this route, be deliberate and ensure your internal and external servicing functions and systems are tightly integrated.

COMMON PITFALLS YOU AVOID WITH SUBSERVICING

Runaway Technology Costs

In-house servicing is a perpetual line item. You'll pay for the platform. Then you'll pay for the upgrades. Then the maintenance. Then the integration. Then the staff to manage it. While some might reduce the cost to initial set-up and monthly per-loan expenses, it's important to remember that when problems occur that require additional spending, you (as opposed to a subservicer) may have to pay to fix them.

Worse still, many lenders underestimate how specialized servicing platforms are, and how hard it is to find staff familiar with their specific systems. This drives up hiring costs, extends training timelines, and compounds risk.

With subservicing, the infrastructure cost is externalized, and the staff already knows the platform inside and out.

Staffing Headaches and Hidden Contracts

Servicing requires a wide range of expertise: customer service, compliance, investor relations, loss mitigation. Each comes at a premium, especially in high-cost-of-living markets.

And once you've built your team, retaining them can become its own challenge, especially if your business relocates or your strategy changes.

Loss of an In-House Champion

Often, the drive to service in-house is championed by one or two internal experts. They're passionate. They're experienced. They understand the moving pieces.

But what happens when they leave?

Without an in-house evangelist, the strategy can lose steam. Cost overruns become harder to justify. Operational inefficiencies get harder to ignore. Furthermore, because these champions are often (though not always) the ones who bring the technical proficiency that made in-house servicing viable, their departure can lead to major experiential gaps, even if additional experts are hired in their wake. Thus, the push to subservice—usually on an emergency timeline—starts to build. That kind of reactive transition is expensive and disruptive. It's far better to plan a long-term solution from the beginning.

Compliance Slip-Ups

The more compliance you try to manage internally, the more exposed you are to violations. And regulators (from the CFPB to the OCC) don't tend to accept "we missed that" as an excuse.

As emphasized throughout this paper, compliance is one of the most costly areas of in-house servicing, both in terms of money and overall business risk. Servicing is a low-margin business, and errors tend to be expensive.

CHAPTER 4:

Perspectives by Servicer Type

As we've established throughout this paper, the decision to service in-house or outsource to a subservicer is rarely binary, and it's never one-size-fits-all. It's a strategic choice that depends not only on scale and complexity, but also on institutional priorities, cultural identity, and the operating realities of each type of lender.

Some organizations want absolute control. Others want maximum flexibility. Some operate like banks, others more like nonprofits or asset managers. What they all share is a need to make servicing decisions that align with their core business model, customer or member expectations, and regulatory requirements.

Let's explore how the in-house vs. subservicing decision plays out across different lender types, and what lessons can be drawn from each.

CREDIT UNIONS (CUS)

Credit unions are arguably the most mission-driven segment of the mortgage ecosystem. Their DNA is rooted in member service, not profit. They aren't beholden to shareholders. They aren't chasing quarterly earnings. Their primary goal is simple: deliver meaningful value to their members.

This clarity of purpose informs their servicing strategy—for better and for worse.

When credit unions believe their current model is serving members well, they're incredibly loyal to it. That loyalty, while admirable, can also lead to inertia. Many credit unions operate under the mindset: *"If no one's complaining, we must be doing something right."* In some cases, that's true. But in others, it may mean they're settling for "good enough" without realizing that "better" is available.

For example, CUs often employ hybrid servicing models, handling auto loans and home equity lines in-house, while outsourcing mortgage servicing to a third-party

subservicer. This may reflect longstanding habits more than strategic alignment. When asked, CU leadership often responds, *"It's what our members are used to."* But is habit the right reason to continue to use inefficient platforms or systems?

The opportunity here is to reframe the servicing question entirely. Rather than asking *"Should we subservice?"* or *"Should we bring it in-house?"*

CUs should ask:

- **How do our members prefer** to make payments?
- **Are our servicing touchpoints** easy, intuitive, and fast?
- **Do we have full visibility** into borrower behavior?
- **Are we able to communicate proactively** to prevent delinquencies?

Because CUs are member-first, any argument for or against subservicing must be framed in terms of member experience rather than margin. And, as we discussed

in Chapter 3, subservicing can enhance customer experience when done thoughtfully. White-labeling, AI-driven insights, responsive customer support: these are tools CUs can leverage to deepen member loyalty while reducing operational burden.

Ultimately, the “if it ain’t broke, don’t fix it” approach may no longer apply in a market where expectations and competitive pressure are rising fast, especially when it comes to technology and self-service options.

BANKS (LARGE, COMMUNITY, AND REGIONAL)

Banks are a diverse group, but most fall into one of two broad categories: large, national institutions with deep resources and strict governance, and smaller community or regional banks with more limited scale but strong local ties.

Large Banks

For large banks, the calculus around servicing is dominated by two imperatives: compliance and control.

These institutions are often reluctant to give up direct oversight of any customer-facing function, particularly one as sensitive as loan servicing. Even if subservicing might yield cost savings or operational flexibility or reduce risk, the idea of placing borrower communication and compliance responsibilities in someone else’s hands is a hard sell.

Many large banks also service legacy portfolios with systems that date back decades. Rebuilding or outsourcing that infrastructure is both costly and politically and institutionally fraught. So even if they’re not operating at peak efficiency, they often choose to stay the course.

From a brand perspective, these banks see loan servicing as part of their promise: “*We’re your bank, and we’re with you for the life of the loan.*” Any disruption to that continuity risks undermining their perceived stability, a critical differentiator in a volatile lending environment.

However, if subservicing can improve profitability metrics or streamline operational reporting, it becomes a strategic option, not just a tactical one. Forward-thinking banks may eventually see subservicing as a way to increase investor confidence, not diminish it.

While in-house servicing has long been the default for larger banks, ensuring control over compliance, borrower relationships, and brand continuity, staying the course isn’t the only option. In fact, looking back at all the major priorities that large banks have for their servicing strategy, it’s easy to see how subservicing can help achieve those just as well as in-house servicing.

- **Cleaner economics:** Shifting fixed costs into variable expenses can improve efficiency metrics and free capital for growth, a story investors value.
- **Control with leverage:** White-label servicing and strong SLAs preserve brand oversight while outsourcing execution.
- **Immediate capability:** Subservicers bring compliance expertise, analytics, and modern platforms without the long build cycle.
- **Risk management:** Contracts can shift certain operational risks while keeping governance firmly in the bank’s hands.

Subservicing and in-house servicing are not diametrically opposed in why they’re used or what benefits they bring; much of what can be accomplished with one can also

be accomplished with the other, so long as the institution approaches its servicing strategically and mindfully.

By defining clear objectives, building a governance framework, and testing partnerships in controlled pilots, banks can capture subservicing value without compromising control. The question is no longer whether you can subservice, but whether you can afford not to evaluate it.

Community and Regional Banks

On the other end of the spectrum, smaller banks are more pragmatic. They often lack the staff, technology, or geographic footprint to service in-house at scale (especially when dealing with portfolios that include Ginnie Mae or other government-insured loans, which come with complex requirements and higher compliance costs).

For these institutions, subservicing isn't a compromise, but a solution. It allows them to focus on what they do best: building relationships, understanding local markets, and lending with nuance.

That said, every community bank has different priorities. Some skew toward the customer-first mindset of credit unions, making decisions based on borrower relationships. Others lean more institutional, with compliance as the guiding light.

What's consistent is that profitability, while relevant, is rarely the top concern. Reputation, regulatory risk, and borrower experience carry more weight.

As with CUs, the key to maximizing subservicing value is choosing a partner that reflects the bank's values, and then setting clear expectations from day one.

INDEPENDENT MORTGAGE BANKERS (IMBs) AND OTHER NON-DEPOSITORIES

Independent Mortgage Bankers may be the most diverse group in terms of servicing philosophy, and the most nuanced when it comes to decision-making.

At one end of the spectrum, there are IMBs servicing a few dozen loans. On the other, there are industry giants like Rocket Mortgage, which made headlines by merging with Mr. Cooper, a massive lead generation, mortgage origination, and mortgage servicing flywheel.

Larger IMBs

For large-scale IMBs, in-house servicing is often a symbol of status and a strategic moat. It allows them to mimic the big banks in infrastructure and customer lifecycle ownership, while still retaining their entrepreneurial edge.

Servicing in-house enables these lenders to extract more value from customer data, improve retention, and execute aggressive cross-sell strategies. It also supports investor narratives around brand control, revenue diversification, and long-term margin growth.

But, as we discussed in Chapter 2, this approach only works when volume is high, systems are robust, and servicing is treated as a core business, not a bolt-on. Without scale and discipline, the economics unravel quickly.

Smaller IMBs

Smaller IMBs, by contrast, tend to prioritize flexibility and speed, and are far more open to subservicing.

These organizations don't necessarily see themselves as banks, nor do they aspire to build bank-like infrastructure. They focus

on origination, relationship-building, and quick adaptation to market shifts. For them, subservicing is a way to offload complexity, scale rapidly, and preserve capital.

The challenge for these lenders is ensuring that their subservicing partners don't dilute borrower experience, especially since many IMBs compete on customer service and personalized attention. As always, success hinges on communication, oversight, and thoughtful selection of a subservicing partner.

Investor-Only Servicers

Investor-only servicers—which include private equity funds, REITs, and asset managers that have entered the mortgage space—bring a fundamentally different perspective.

These entities think like portfolio managers. Their goals are efficiency, liquidity, and optionality. Active MSR buyers may utilize a number of subservicers to avoid deboarding fees and improve the overall servicing economics. They may not be trying to build long-term servicing relationships; they're trying to maximize yield and minimize operational drag.

For that reason, subservicing is the default. In-house servicing ties up resources, requires long-term commitments, and introduces fixed costs, all of which run counter to the investor mindset.

Flexibility is paramount. The ability to pivot strategies quickly, change vendors, repackage portfolios, or shift risk off a balance sheet makes subservicing attractive. These lenders are also typically managing a diverse array of asset types (non-QM, distressed debt, securitized products) and need partners with the sophistication to handle complexity without requiring them to build it themselves.

That doesn't mean investor-only servicers don't care about quality. On the contrary, they're often highly analytical, pushing subservicers for performance data, speed, and compliance precision. However, they view servicing not as a relationship, but as a function: one that should be executed flawlessly but outsourced wherever possible.

Their preference for subservicing underscores a theme repeated throughout this paper: servicing strategy must align with identity. If you're an investor-first organization, in-house servicing doesn't fit. If you're a mission-driven CU, it might. If you're an originator trying to scale, subservicing may be your bridge.

Servicing Should Reflect Identity

As we've established, the choice between in-house servicing and subservicing is both a matter of scale and cost, as well as a reflection of identity. Whether you're a member-first credit union, a control-oriented bank, an adaptable IMB, or a portfolio-driven investor, your servicing strategy must align with your values, resources, and long-term goals. Each lender type brings its own constraints and priorities to the table, but all are navigating the same core question: how do we deliver the best borrower experience while managing risk and remaining operationally efficient? In our final chapter, we'll bring together the key themes explored throughout this paper, offering a set of closing considerations and strategic insights to help lenders of every shape and size chart the path forward.

CHAPTER 5:

Actionable Framework & Key Takeaways

Across the last four chapters, we've examined how mortgage lenders can and should approach the servicing decision as a core strategic function, not just a back-office necessity. We've explored the historical shifts that brought servicing to the forefront, weighed the risks and rewards of subservicing versus in-house servicing, examined the nuances for different types of lenders, and unpacked common pitfalls and operational blind spots.

To close, we offer five key takeaways and a practical framework for next steps:

5 Key Takeaways:

1. Servicing is Strategic, Not a By-Product of Originations

Whether in-house or outsourced, servicing affects borrower retention, compliance risk, operational agility, and long-term profitability. It's not just a logistical choice; it's a business model decision.

2. In-House Control Comes with Compounding Costs

While in-house servicing offers direct oversight, it introduces fixed costs, staffing challenges, regulatory exposure, and steep technology investments. As noted in Chapters 2 and 3, those costs are ongoing, not one-time expenses.

3. Subservicing, Done Right, Can Elevate Customer Experience

With the right partner, subservicing offers scalable technology, compliance expertise, and data insights that improve, not diminish, borrower satisfaction. White-labeling, hybrid customer support models, and proactive communication are key here (see Chapter 3).

4. Different Lenders Require Different Models

As highlighted in Chapter 4, strategy should reflect institutional identity. Credit unions, community banks, IMBs, and investor-backed servicers each have different needs and priorities. One size does not fit all.

5. Poor Preparation is the Root of Most Failures

Whether moving in-house or using a subservicer, breakdowns often stem from mismatched expectations, weak oversight, or lack of long-term commitment. The best strategies are intentional, proactive, and rigorously vetted.

Evaluating a Subservicer: What to Look For

- **Start with clarity:** Know exactly what your goals are (operational efficiency, borrower satisfaction, risk reduction, or cost control).
- **Map needs to offerings:** Understand which data tools and reporting are included, which require add-ons, and what service levels align with your expectations and how flexible/customizable the data and reporting are.
- **Use third-party rankings:** Resources from Fannie Mae and Freddie Mac provide valuable, objective assessments of subservicer performance and compliance standing.
- **Talk about tech early:** Ensure dashboards, integrations, and visibility tools match your internal needs and customer expectations.
- **Set the tone right away:** Partnership success depends on communication. Don't just sign a contract; set up a relationship.
- **Understand their current technology and technology roadmap.** What are they using and where are they going?"
- **Understand the full suite of services offered by various subservicers:** Services vary from one subservicer to another and change frequently to adapt to market conditions.

For In-House Servicers

- **Be honest about scale and commitment:** In-house servicing is a permanent line item, not a temporary project.
- **Plan for continuity:** Don't rely on internal "champions" without ensuring sustainable processes and cross-training.
- **Invest in compliance:** Systems and staffing must evolve with regulatory complexity. Don't skim here.
- **Understand the all-in and ongoing costs.** Ensure the total costs of in-house servicing are included in the analysis.

This decision isn't just about what you can afford today. It's about building an infrastructure that supports your borrowers, your brand, and your future. The best servicing strategy is the one that fits: operationally, culturally, and strategically. Let that be your guiding principle.

About Richey May

For four decades, Richey May has been focused on serving the mortgage banking industry, delivering specialized expertise that helps lenders thrive in a rapidly changing marketplace. The firm offers a comprehensive suite of audit, assurance, tax, advisory, and cybersecurity services, complemented by advanced technology solutions and business intelligence offerings.

Founded with a deep care for helping mortgage lenders achieve their goals, Richey May has built an ecosystem of services designed to improve profitability, mitigate risk, and drive sustainable growth. From servicing strategy and MSR consulting to capital markets reviews, cybersecurity, and enterprise risk assessments, Richey May provides the clarity and insight needed to navigate complex economic, regulatory, and operational challenges.

OUR MORTGAGE SERVICING & COMPLIANCE LEADERS



SETH SPRAGUE, CMB

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With nearly 20 years of mortgage industry experience, Mignonne leads Richey May's Risk Assurance practice, specializing in compliance, internal controls, and servicing quality. She has deep expertise across origination, default servicing, and subservicing oversight, and holds the Certified Internal Auditor (CIA) designation. Mignonne serves on the MBA's Loan Administration Committee, is an MBA School of Mortgage Servicing instructor, and plays a key role in professional development and mentoring within the firm.



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