

## **What is 'Loan Servicing'**

Loan servicing is the administration aspect of a loan from the time the proceeds are dispersed until the loan is paid off. This includes sending monthly payment statements and collecting monthly payments, maintaining records of payments and balances, collecting and paying taxes and insurance (and managing escrow and impound funds), remitting funds to the note holder, and following up on delinquencies.

## **BREAKING DOWN 'Loan Servicing'**

Loan servicers are compensated by retaining a relatively small percentage of each periodic loan payment known as the servicing fee or servicing strip. This is usually 0.25% to 0.5% of the periodic interest payment. For example, if the outstanding balance on a mortgage is \$100,000 and the servicing fee is 0.25%, the servicer is entitled to retain  $((.0025 / 12) \times 100,000) = \$20$  of the next period payment before passing the remaining amount to the note holder.