

**Congratulations!** You've closed on the purchase of your new home! Time to pack and move, paint and hang pictures. And before too long, you'll need to start making your new mortgage payment too. As you're settling in to your new home, your mortgage goes through a transition period as well. Here's what you can expect from the loan side of things as your new mortgage settles into a groove.

## Servicing vs. noteholder

At closing, your lender sends a big ol' pile of money to the title company. In exchange, you give back a piece of paper, called a "note". The note is your promise to pay and includes all the terms of your loan (interest rate, loan amount, due date, etc).

Every lender only has so much money available to lend. Running out of money would not, as you can imagine, be good for business. To replenish their available funds, your lender will sell the note you signed into what's called the "secondary market". Fannie Mae, Freddie Mac and other similar entities in the secondary market exist to buy notes from lenders. By selling your note to Fannie Mae, your lender gets its money back and lives to lend again.

Although Fannie Mae is perfectly happy to collect your interest payments, they don't want to be bothered with all of the day-to-day administrative duties that go with your mortgage. So they hire a third party to take care of these details.

This third party is your loan "servicer". For their troubles, your servicer gets to keep a sliver of every payment you make, before sending the rest on to Fannie Mae. The logo you see on your monthly statement is that of your servicer.

## What happens after closing?

So far we've talked about all the stuff that happens behind the scenes. Now, let's talk about what you can expect to see...and not see.

You probably won't get a lot of communication with regard to your first payment. Instead, rifle through that big stack of papers you signed at closing, and you should find a "first payment letter", a few coupons, or both, with all the information you need to start paying your loan: Who, when, what, where. These documents are your marching orders until you hear otherwise.

Then, within 30-60 days of closing you can expect to receive three letters.

- "Goodbye" letter – Your lender will send you a letter letting you know who will be taking over your loan servicing, how to reach your new servicer and the date the transfer will occur.
- "Hello" letter – Your new loan servicer will send you a letter with their contact information, the date they're taking over servicing your loan and a synopsis of the terms of your loan.
- Noteholder notification – You may also get a letter notifying you that Fannie Mae or Freddie Mac has purchased your loan. As a practical



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matter, this isn't important, since your day-to-day dealings will be with your servicer.

These letters come via snail mail and (unless you purchased the property as a rental) will likely be sent to your new home. If you're not moving in right away, be sure and check the mailbox from time-to-time.

## Don't sweat the transition

Servicing transfers are an orderly process and something lenders handle every day. Your lender and servicer will keep lines of communication open and see you through the transition. A few things to keep in mind:

- Don't worry if you don't receive any communication ahead of the due date for your first monthly payment. Just use the first payment letter you received at closing. If you can't find your first payment letter, give your lender a buzz and they'll get you a copy and can confirm the due date.
  - Sometimes the "Goodbye" and "Hello" letters come out of order. If you're concerned about the validity of a letter or have questions you can always give your lender a ring to verify the letter you received is legit.
  - Don't worry about making a payment to the "wrong" lender. It's not unusual to receive a letter telling you to pay a new servicer right after you pop a payment in the mail. (It's the loan servicing corollary to Murphy's Law.) You don't need to stop payments or do anything. Your lender will endorse your check and forward it to your new servicer.
- Don't worry if your first check or two take a long while to clear. When your lender endorses a check and sends it to a new servicer, the new servicer may not have your account set up just yet. Before posting your check, they have some administrative work to do. This can take a little while (even a couple of weeks).
  - Don't worry about your credit record. When your loan servicing transfers, there is a 60-day grace period during which you cannot be charged a late fee and you will not have a late payment posted to your credit record.

## Timing your auto-pay

If you plan on setting up an automatic payment for loan, try to be patient. If you set up autopay right after closing, based on the terms in your first payment letter, you'll likely have to cancel it and set it up all over again in a month or two. Hold off on auto-pay until the dust has settled on your servicing transfer. Send that first payment via good old fashioned snail mail.

## What do servicers do?

Once your loan servicing transfers and you set up that auto-pay, you probably won't have a lot of reason to talk to your loan servicer. Servicers are quite efficient at going about their duties. Each month they'll cash your check (or debit your account), send you a monthly statement and deposit the tax and insurance part of your payment into your escrow account (if you have an escrow account).

Annually, they will send you an IRS Form 1098, showing what you paid in interest and taxes so you



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can file your tax return. And if you have an escrow account, your servicer will pay your taxes and insurance as they come due and send annual escrow statement adjusting the tax and insurance portion of your payment.

On those rare occasions you have questions about your loan, you can log into your servicer's website or call for assistance.

## Servicing transfers

Although many loans stay with the same servicer for the full duration of the loan, loan servicing rights can be bought and sold. During the life of your loan, your loan servicing may transfer again. If a servicing transfer occurs, you'll receive "goodbye" and "hello" letters just like you did right after closing.

