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Making It Happen

Outsourcer's Costs Spark Proxy Battle

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An Article Written By Kate Berry

"The reason people sign up to do business with PHH is, they don't want to incur the capital expense of starting up a mortgage company from scratch," said Terry Wakefield, the chief executive of Wakefield Co., a Grafton, Wis., mortgage consulting firm.

Wakefield, who founded the first mortgage outsourcing firm, Private Label Mortgage Services Corp., in 1988 (it is now a part of Wells Fargo & Co.), nevertheless called the business model "tenuous."

"If you're tailoring your offering to every customer, it would be very hard to make money," he said. "The whole strategic notion of third-party outsourcing is to get a single platform producing as much volume as possible."

Mortgage outsourcers need to have labor costs that are 40% to 60% below the industry average to be profitable, he said.

"PHH is a very people-dependent enterprise," said Wakefield. "The only way to manage the ups and downs of the business is by hiring and firing people, which is a 30-year-old model."

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