

Charging Fees for Service — How and Why?

The Dilemma

For years, the idea of charging fees for service was unthinkable for affordable housing organizations since both counselors and clients believed that “nonprofit” meant “free.” Although this approach was acceptable when the economy was stable, it quickly collapsed when the housing and economic crisis emerged. Current conditions make this model unrealistic in terms of long-term program sustainability.

Consequently, many nonprofits are changing their minds about charging fees for service in order to make ends meet. This not only means charging clients; there are a number of ways for nonprofits to generate fees. Think about your stakeholders – they profit from the work you do and charging fees for services that benefit them makes sense.

Fees for Lenders

A number of fee-collection opportunities exist with lenders. The most obvious are packaging fees, fees for property management and counseling fees.

Packaging Fees. Charging a loan-packaging fee is a straightforward practice. After approving the idea with your board, decide on the fee amount and let lenders and servicers know. To determine an appropriate fee, check with lenders or loan packagers in your area to see what typical fees are.

As part of this practice, housing counselors must learn to assemble a comprehensive and organized package. Learning to assemble a tidy package is worth the effort; once your organization is proficient in this, lenders will have no problem paying a fee.

The Preferred Provider List

Many organizations create a “preferred provider list” to share with first-time buyers and other clients, which lists reputable and reliable for-profit providers in the community. Stakeholders want to be on this list! Not only does it help them to market their business but it ensures their credibility when they are referred by a trusted, local nonprofit.

Nonprofits can and should provide training for providers that want to be on this list and can charge a fee for this training. The training will ensure that providers understand and support the philosophies of your organization. In return, they are listed as a “preferred” provider and will benefit from that status as well as any related marketing.

Be sure to invite lenders, servicers, home inspectors, appraisers, insurance companies, attorneys, Realtors, and title insurance companies to be a part of your preferred provider list.

Property Management Fees. Nonprofit housing agencies – especially those that offer rental and property management programs – can help lenders by providing property management services for their foreclosed properties. This may include caring for yards, bushes and seasonal weatherization tasks as well as doing regular check-ins at the property to ensure pipes are intact and squatters have not moved in. In general, lenders do not want to be responsible for property management and need to hire for this. Nonprofits generally charge reasonable fees for this service, which benefits the lender. In addition, by hiring a local nonprofit, lenders can show that they care about the neighborhood and support neighborhood revitalization. Again, these fees should be commensurate with others in the region.

Counseling Their Customers. Oftentimes, nonprofit housing organizations do most of the counseling for borrowers in their communities that are in default or facing foreclosure. In this way, housing counselors are helping servicers to protect their investments. It is therefore reasonable to charge a counseling fee when *your* counselors help *their* borrowers avoid foreclosure.

And Yes, Charging Clients

Unfortunately, housing agencies must also consider charging fees to clients. This differs from past practices but the current financial climate has made one thing clear: counseling agencies must determine program value and ask clients to help cover that cost. For clients, this may mean a nominal fee for educational programs or counseling services. It may also mean fees for specific materials, credit reports, credit analysis or other agency services.

Determining Value

Determining the value of services for clients can be a challenge. To begin, consider the cost of providing the service. Most educational and counseling programs require staff time, materials, marketing activities and space. Next, determine the savings that the client will experience when – after receiving your services – they choose a home that is reasonably priced, and/or are able to find a safe and affordable mortgage. Using those two numbers as a starting point, determine a fee that is fair and affordable and aligned with service costs in your area.

Over the long term, education and counseling is of great value to homeowners both emotionally and financially. Charging a reasonable fee is not greedy; it is sometimes necessary and promotes sustainability. Agencies can also use a sliding scale to assist families with very low incomes.

Making the Change

Just do it, but don't forget to state your case. When shifting from "free" to "fee," be sure to express the value of your programs and services in all marketing promotions and agency communications. Focus on your merit and worth and make the fee-for-service transition transparent. Fees for service are not meant to fully make up for an organization's loss in funding, but are meant to supplement other sources. Be clear about this. Charging a fee for service also increases the "perceived value" of the service, which benefits the agency overall.