NEW YORK (CNNMoney.com) -- When Bank of America announced last week that it would begin cutting loan balances for distressed mortgage borrowers, it marked a sea change in the way lenders deal with seriously delinquent loans.

Until now, big lenders and servicers, such as BofA (BAC, Fortune 500), have only given principal reductions to a microscopic number of borrowers -- and only then as a last resort.

But they're now having to play catch up to a new kind of mortgage servicer -- a so-called "specialty servicer" -- that is seeing success in avoiding foreclosures. They handle the worst-of-the-worst, loans at least 90 days late, and they commonly offer principal reductions.

Of course, few mortgages end up in the hands of these servicers, and whether yours lands with one is really just the luck of the draw. But more loans are going 90 days late, and so business is booming.

In fact, last week the Federal Deposit Insurance Corp. sold specialty servicer RoundPoint a 50% stake in a portfolio of mostly non-performing mortgage worth almost $500 million.

"We expect them to work the loans to maximize the outcome," said David Barr, a spokesman for the FDIC. "This allows us to recap some of the upside [when the loans start to perform again."

And this could be just the beginning: "We expect many more deals like this in the future," he added.

What are servicers?

Unlike the person who owns your mortgage, either the bank (rarely) or a group of investors (more common), mortgage servicers are the companies that handle the day-to-day administration of mortgages. They collect payments, maintain escrow accounts and confront borrowers about late payments. They also initiate the foreclosure process when borrowers default.

Most servicer operations were set up in better times, when nearly everyone paid their loans regularly. But when the foreclosure crisis hit, they had to scramble to keep up with the added workload of managing non-performing loans.

As a result, dozens of specialty services have sprung up to take on these difficult jobs. They mostly deal with loans three payments or more late, which is about 5% of all mortgages, according to the Mortgage Bankers Association.

"Some lenders are so large they can't handle delinquencies efficiently," said Rick Smith, CEO of Marix, a specialty servicers. "They're reaching out to [firms] that specialize in non-performing loans."

Plus, he added, companies don't want to staff up for what is hopefully a temporary problem. "If you hire 500 people to handle it and then the economy improves, then you're overstaffed by 500," Smith said.

Why can they cut principal?

Sometimes investors purchase whole portfolios of bad loans. These hedge funds and other groups don't service the loans themselves and their chief aim is to get the mortgages to pay off again. So they hire one of the specialty serving firms and give them a lot of leeway to get the loans back on track.

"We take a different approach to servicing," said Shaun Ahmad, CEO of RoundPoint Financial Group, a North Carolina-based firm. "We come up with better solutions.

One of their main solutions is cutting the principal balance so that homeowners no longer owe more than their houses are worth.

"Our clients would rather do a principal-reduction than an interest-reduction workout," said Gagan Sharma, CEO of BSI Financial. "Many bought the loans at discount so they're happy to pass the savings down to consumers."

This encourages people to keep paying loans rather than walking away. If property values increase, the owners can turn a profit when they sell.

Conventional servicers have been loathe to cut principal because the investors who actually own the loans don't want to accept immediate losses and lenders don't want to encourage more people to press for reductions.

In fact, less than 2% of trial loan modifications under President Obama's foreclosure-prevention plan, Home Affordable Modification Program, have cut the balance owned.

Loan balance cut in half

Joaquin Guzmann bought his Long Beach, Calif., house 23 years ago for $137,000 but has since struggled financially.
He moonlighted from his ground-servicing job with Continental Airlines and took out second mortgages and cash-out refinancings. By last year, his mortgage had ballooned to more than $518,000, counting late fees.
"I fell behind," he said. "I tried to reduce my payments but nobody was listening to me."
He got luck in the loan-servicing lottery when RoundPoint took over his account. The servicer combined his first mortgage with his home equity loan and lowered the total balance by 44% to $28,000. The servicer also lopped a point off his rate, lowering his monthly payment to $1,570.
It doesn't always work out so smoothly, however, because borrowers are hesitant to return phone calls or answer letters; sometimes they think the servicers are a scam.
"We have a hard time getting people to respond," said Vicki Lester, president of Mortgage Servicing at RoundPoint. "Borrowers are still in denial."
To get to people they start with a call campaign and then they mail out welcome letters and information packets. "Where all else fails, we send out people to knock on doors," Lester said.
So, the servicers remind, if you're lucky enough to win the modification lottery, please answer the phone. Talking to someone could mean cutting your loan balance and saving your home.
You make money on a short sale?
Not every home can be saved and specialty servicers employ strategies other than principal reduction. For example, short sales -- often with a twist.
Larry Casanova, a New Jersey truck and snow-plow driver, bought a house in Cherry Hill in early 2008.
"I've been a carpenter most of my life and I bought the house to renovate and flip, but the market turned around," he said. "I tried to sell but I wasn't even getting nibbles."
His loan had grown to $285,000 by the time RoundPoint got it. The company preferred doing a short sale, since the home was not Casanova's primary residence and he was looking to sell anyway.
RoundPoint has a short-sale program in which it pays borrowers a percentage of any price they sell the house for over a "quick sale value."
If they determine that a normal market value for a house is $200,000 but to sell it quickly the price would have to be $180,000, they give the borrower three months to sell the house for whatever he or she can get.
The servicers share with the borrowers anything they over the quick sale price. Borrowers may keep 30%, even 40%, of the overage.
Casanova only emerged with a few hundred in cash, but it was still more than he ever expected. And the nightmare of being unable to afford his home is over. ■