1/2015

REQUIREMENTS FOR ENTERPRISE SELLER/SERVICERS

Minimum Net Worth:

Proposed Requirement for all Seller/Servicers: Base of $2.5 million plus 25 basis points of unpaid principal balance (UPB) for total loans serviced

Minimum Capital Ratio:

Proposed Requirement for all non-depository Seller/Servicers: Tangible Net Worth/Total Assets ≥ 6%. Depository institutions should continue to comply with regulatory standard.

Minimum Liquidity:

Proposed Requirement for all non-depository Seller/Servicers (depository institutions should continue to comply with regulatory standard):

a) 3.5 basis points of total Agency servicing (Fannie Mae, Freddie Mac, Ginnie Mae) plus

b) Incremental 200 basis points of total nonperforming Agency servicing in excess of 6% of the total Agency servicing UPB

Allowable assets for liquidity may include the following:

a) Cash and Cash Equivalents (Unrestricted)

b) Available for Sale (AFS) or Held for Trading (HFT) Investment Grade Securities:

- Agency MBS
- Obligations of GSEs
- US Treasury Obligations

c) Unused/available portion of committed servicing advance lines (a quarterly CFO certification of this information will be required at this time)

FREQUENTLY ASKED QUESTIONS

Why are these new minimum financial requirements being implemented?

- To improve the safety and soundness of the Enterprises by strengthening their minimum Seller/Servicer standards;
- To create a more consistent framework for Seller/Servicer eligibility;
- To provide the industry with greater clarity about the Enterprises' Seller/Servicer counterparty requirements; and
- To provide for consistent application of the new eligibility requirements by both Enterprises, subject to Enterprise discretion where appropriate.

When will the proposed minimum financial requirements for Enterprise Seller/Servicers be finalized and effective?

- FHFA anticipates that the proposed minimum financial requirements will be finalized in the second quarter of 2015, and will be effective six months after they are finalized.
- FHFA, Fannie Mae and Freddie Mac will conduct outreach to help Seller/Servicers understand these requirements and prepare for the effective date.

Do these new minimum financial requirements establish a regulatory standard for non-depository Seller/Servicers?

- No. These are new minimum financial requirements for approved non-depository Seller/Servicers to engage in business with the Enterprises. Financial regulatory requirements for non-depository Seller/Servicers are the responsibility of applicable regulators.
- The Conference of State Bank Supervisors is undertaking an effort to enhance state-level prudential standards for non-bank mortgage servicers, and FHFA is providing input into that effort.

How were these metrics derived?

Freddie Mac and Fannie Mae, at the direction of and in consultation with FHFA, undertook an extensive review of financial risks that the Enterprises face from doing business with their Sellers and Servicers. Based on this analysis, the proposed requirements set a minimum level of capital needed to adequately absorb potential losses and a minimum amount of liquidity needed to service Enterprise loans to cover the financial risks.

What if a Seller/Servicer is no longer eligible under the new criteria, or is unable to comply?

A Seller/Servicer that does not meet the new minimum financial requirements must take steps to be in compliance as of the effective date. If a Seller/Servicer is not in compliance with the new minimum financial requirements as of the effective date, the Enterprises will have the discretion to take appropriate action, including termination of the Seller/Servicer.

Does the legal entity that is contractually obligated to the Enterprises need to meet the minimum capital and liquidity requirements?

Yes, the legal entity that is contractually obligated to the Enterprises must meet these new minimum capital and liquidity requirements. Exceptions may be considered if there is tangible evidence of support, such as a guarantee by a parent company that exhibits sufficient creditworthiness.

Will Seller/Servicers engaged in servicing transfers be required to be in immediate compliance with the new minimum requirements after the effective date?

Yes, the Enterprises will assess whether both the transferor and the transferee servicer meet the minimum requirements as a result of the transaction in addition to the other eligibility requirements.

Are depository institutions tested against the new minimum liquidity standards?

No, depository institutions are typically not liquidity constrained and have existing regulatory liquidity requirements. Therefore, only non-depository institutions will be tested against the new liquidity requirements.

How frequently will compliance of the new minimum financial requirements be tested?

Seller/Servicer compliance with the new minimum financial requirements will be reviewed quarterly.

Will subserviced loans be included in the minimum financial requirements?

No. If the master servicer contracts with a sub-servicer, compliance with the requirements will remain with the master servicer.

How do servicers report their unused/available committed servicing advance lines?

This information is not currently required to be reported to the Enterprises; therefore, the unused/available committed servicing advance lines must be provided to the Enterprises via a CFO certification quarterly. Concurrently, a more efficient reporting solution will also be explored.

How do servicers provide the delinquency of their total Agency servicing book?

This information is not currently required to be reported to the Enterprises; therefore, the delinquency statistics on the total Agency servicing book must be provided to the Enterprises via a CFO certification quarterly. Concurrently, a more efficient reporting solution will also be explored.

Is there an exception process to the new minimum financial requirements?

Each Enterprise reserves the right to review Seller/Servicer requests and may make exceptions where warranted.

What should a servicer do if it believes it is non-compliant with the new minimum financial requirements?

A servicer should contact its customer account manager at either Enterprise to discuss this question further.

What should a Seller/Servicer do if it has additional questions about the proposed minimum financial requirements?

FHFA and the Enterprises will conduct outreach with industry trade associations, regulators, a representative group of Seller/Servicers, and other stakeholder groups as appropriate. Seller/Servicers servicer should forward any inquiries to its customer account manager at either Enterprise, or send inquiries to **ServicerEligibility@FHFA.gov**. [closed 4/30/2015].

DEFINITIONS

Agency servicing – the sum of mortgages serviced for Freddie Mac, Fannie Mae & Ginnie Mae by the Seller/Servicer

Liquidity – includes the sum of

a) Cash and Cash Equivalents (Unrestricted)

b) Available for Sale (AFS) or Held for Trading (HFT) Investment Grade Securities:

- Agency MBS
- Obligations of GSEs
- US Treasury Obligations

c) Unused/available portion of committed servicing advance lines (a quarterly CFO certification of this information will be required at this time)

Non-performing loans – includes loans 90 or more days delinquent and loans in the foreclosure process

Servicing UPB (unpaid principal balance) – UPB of mortgages serviced by the Seller/Servicer.

Tangible Net Worth – total equity less receivables due from related entities less goodwill and other intangibles less pledged assets