FannieMae

New Eligibility Requirements for Fannie Mae Single-Family Seller/Servicers Frequently Asked Questions

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Q1. Why is Fannie Mae updating their operational and financial eligibility requirements for single-family Seller/Servicers?

The housing crisis and accompanying increase in non-performing loans precipitated an unprecedented growth of specialty servicers who focus on servicing seriously delinquent loans. Fannie Mae updated eligibility requirements for servicers will better address the unique risks associated with emerging servicer business models. Fannie Mae is updating their servicing eligibility requirements to create consistent and transparent standards and will make these available through Seller/Servicer Guides and supporting documents. The new operational requirements are effective on September 1, 2015 and the financial requirements are effective December 31, 2015.

Q2. Why is Fannie Mae providing best practices documents to Seller/Servicers? When and where will the update be available?

The best practices documents help clarify Fannie Mae's expectations for mortgage servicers. They communicate various operational expectations associated with the execution of a transfer of contractual mortgage servicing rights between servicers and provide examples of different processes to review as part of the servicer oversight. The best practices documents also convey Fannie Mae expectations for master servicers and their subservicers with respect to the servicing obligations owed to Fannie Mae. The Guide Announcement is available here. The Servicer/Master Servicer Oversight Job Aid is available here. The Servicing Transfers Overview Job Aid is available here.

Q3. What has changed in these final requirements from the proposed minimum financial eligibility requirements announced in January?

The final minimum financial eligibility requirements did not substantively change from the proposed requirements announced in January. The requirements are noted below:

Financial Requirements:

Minimum Financial Requirements are:

Minimum Net Worth:

- Requirement for all Seller/Servicers: Base of $2.5 million plus 25 basis points of unpaid principal balance (UPB) for total 1-4 unit residential mortgage loans serviced.

Minimum Capital Ratio:

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

Minimum Liquidity:

- Requirement for all non-depository Seller/Servicers (depository institutions must continue to comply with regulatory standard):
  a) 3.5 basis points **of** total Agency servicing (Fannie Mae, Freddie Mac, Ginnie Mae) UPB *plus*

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b) Incremental 200 basis points of total non-performing Agency servicing UPB 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 single-family servicing advance lines (a quarterly CFO certification of this information will be required at this time)

Q4. When will the minimum financial requirements for Fannie Mae Seller/Servicers be effective?

- The minimum financial requirements will be effective December 31, 2015.
- Fannie Mae Seller/Servicers must fully comply with all components of the minimum financial requirements by the effective date.
- Seller/Servicers that do not comply with the minimum financial requirements as of the effective date may be considered for an extension of the transition period, subject to Fannie Mae discretion.

Q5. What if a Seller/Servicer is unable to maintain the minimum financial requirements?

Consistent with current practice, if a Seller/Servicer does not maintain compliance with the minimum financial requirements, Fannie Mae will have the discretion to take appropriate action.

Q6. How frequently will compliance of the new minimum financial requirements be tested?

Seller/Servicer compliance with the new minimum financial requirements will be reviewed on a quarterly basis by Fannie Mae.

Q7. Will Seller/Servicers engaged in servicing transfers be required to be in immediate compliance with the new minimum requirements after the effective date?

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

Q8. Does the legal entity that is contractually obligated to Fannie Mae need to meet the minimum capital and liquidity requirements?

Yes. The legal entity that is contractually obligated to Fannie Mae 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.

Q9. Why are these new minimum financial requirements being implemented?

- To improve the safety and soundness of Fannie Mae by strengthening their minimum Seller/Servicer counterparty standards;

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- To create a more consistent framework for Seller/Servicer eligibility;
- To provide the industry with greater clarity about Fannie Mae Seller/Servicer counterparty requirements; and
- To provide for consistent application of the new eligibility requirements by Fannie Mae, subject to Fannie Mae discretion where appropriate.

Q10. How were these metrics derived?

Freddie Mac and Fannie Mae (the Enterprises), 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 requirements set a minimum level of capital needed to adequately absorb potential losses and a minimum amount of liquidity needed to service Enterprise loans.

Q11. Could Seller/Servicers have financial requirements in excess of the new minimum financial requirements?

Yes, Fannie Mae may institute requirements beyond the minimum financial requirements for certain Seller/Servicers due to situations including but not limited to overall complexity, or other evidence of heightened risk embedded in the business model or financial condition.

Q12. 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 Fannie Mae. Financial regulatory requirements for non-depository Seller/Servicers are the responsibility of applicable regulators.

Q13. Are depository institutions tested against the new minimum liquidity standards?

No. Depository institutions have existing regulatory liquidity requirements that Fannie Mae will continue to use in assessing financial eligibility. Therefore, only non-depository institutions will be tested against the new liquidity requirements.

Q14. 14. Will subserviced loans be included in the subservicer's minimum financial requirements?

No. The requirements apply to loans where the servicer serves as master servicer. Loans that are subserviced are not applied to either the capital or liquidity requirement, however a subservicer must be a GSE approved servicer. All GSE approved servicers must meet the minimum net worth and tangible capital ratio requirements.

Q15. How do Seller/Servicers report their unused/available committed servicing advance lines?

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

Q16. How do Seller/Servicers provide the delinquency of their total Agency servicing book?

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

Q17. Is there an exception process to the new minimum financial requirements?

Fannie Mae may review Seller/Servicer requests and make exceptions where warranted.

Q18. What should a Seller/Servicer do if it believes it is non-compliant with the new minimum financial requirements?

A Seller/Servicer should contact its customer account manager at Fannie Mae to discuss this question further.

Q19. Is there a differentiation in the minimum liquidity requirement between remittance types?

Presently, there is not a differentiation in the minimum liquidity requirement between scheduled and actual remittance types although Fannie Mae will continue to evaluate the requirement on an ongoing basis to determine whether a differentiation should be made.

Q20. What is the impact of the new minimum financial requirements on MSR values and servicers' willingness to grow their servicing portfolios?

Fannie Mae carefully considered these impacts and believe the requirements are appropriate and provide the right balance between managing counterparty risks and encouraging investments in the servicing business.

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Definitions

Enterprises – Fannie Mae and Freddie Mac

Agency servicing – the aggregate UPB of single-family 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 single-family 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 single-family residential mortgages serviced by the Seller/Servicer.

Tangible Net Worth – total Equity Capital as determined by Generally Accepted Accounting Principles (GAAP), less goodwill and other intangible assets (excluding mortgage servicing rights), and a possible deduction of “affiliate receivables” and “pledged assets net of associated liabilities”

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