Servicing Retained/Released Resource Guide

In the current market environment, many mortgage bankers are considering expanding their business by retaining servicing, rather than selling loans on a servicing-released basis, or possibly developing a business strategy that combines the two options. Fannie Mae offers a competitive servicing-retained proposition to our approved seller-servicers, including best efforts and mandatory whole loan sales via our Pricing & Execution – Whole Loan® (PE – Whole Loan) application, as well as MBS executions.

This Resource Guide is for informational purposes only. It outlines some of the considerations and factors related to business strategy, execution, economic and financial impact, and operations that may be important in making an informed decision. The information presented in this Resource Guide should not be construed as legal, accounting, or tax advice. Please consult with your own advisors to determine how the information presented may apply to your specific situation.

For questions regarding these considerations please contact your Fannie Mae Account Manager.

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Fannie Mae Approval

- A lender with "Seller-only" approval status would need to become an approved Fannie Mae Servicer – even if you plan to delegate loan administration functions to a subservicer.
  - Fannie Mae's basic requirements for Seller/Servicer approval include:
    - Minimum of $2.5 million net worth plus a dollar amount that represents one-quarter of 1 percent (0.25%) of the outstanding principal balance of the lender's Fannie Mae servicing portfolio.
    - Minimum capital requirement for adjusted net worth/total assets ratio greater than 6 percent.
  - To access Fannie Mae's online Seller/Servicer approval application, see "Sell Loans Directly to Fannie Mae – How to Apply Online" on Fannie Mae's web site. (This Seller/Servicer approval process also applies to approved Sellers requesting approval as Servicers).

Business Considerations

- Capitalization requirements
- Accounting options and policies
- Mortgage Servicing Rights (MSR) volatility
- Management of cash flow. Tradeoff, if any, between cash received from the sale of servicing (servicing-released) and the economic value received over time (servicing-retained)
- Minimum volumes needed to be profitable
- Which product to sell and which product to hold
- Establishment of a risk management function:
    - Developing a risk tolerance policy framework
    - Deciding whether the interest rate risk management function will be outsourced or managed in-house
    - Determining reliability of data from your loan origination system
    - Creating a structure for risk management functions, including best execution analysis, pipeline tracking, mark-to-market, and position reports
- Exit strategy – how long to hold servicing and when to sell a portion or the entire servicing portfolio

Execution Considerations

A lender should understand the different servicing considerations related to whole loan vs. MBS executions.

- Excess Servicing
    - The Fannie Mae whole loan execution eliminates the need for excess servicing as the lender is just selling the net pass-through rate (PTR = note rate – servicing fee).
        - For whole loan mandatory commitments in PE – Whole Loan, a lender may retain anywhere from 25 – 50bps in servicing.
        - For whole loan best efforts commitments in PE – Whole Loan, a lender must retain 25bps in servicing.
    - In the MBS execution, the buy-up/buy-down program can be utilized to fit a loan into a particular MBS coupon by buying up or buying down the guaranty fee. (Coupon = note rate – servicing fee – guaranty fee). A lender can also retain excess servicing in lieu of using the buy up/buy down program.
- Remittance
    - Both the actual/actual and scheduled/scheduled remittance options are available for Fannie Mae whole loan sales through PE – Whole Loan.
        - Actual/Actual remittance is generally made as borrower payments are made. This remittance structure may at times have a higher price through PE – Whole Loan than scheduled/scheduled reflecting the transfer of float value from the lender to Fannie Mae.
    - Only Scheduled/Scheduled remittance is available for the MBS execution.
        - Scheduled/Scheduled remittance requires interest and principal advances to be made on a schedule regardless of whether borrower payment has been received.

Contact the Fannie Mae Capital Markets Pricing and Sales Desk at: 800-752-0257 with questions regarding these execution considerations.

Economic/Financial Considerations

- Strategies and techniques to value and hedge the servicing asset:
  - Valuing and pricing MSRs – the value of the MSRs represents the net present value of the future income stream (net of cost to service) and is highly dependent on future prepayment speed assumptions.
  - Explore servicing value under various interest rate scenarios to highlight risks.
- Balance Sheet Risk Management: mark-to-market, interest rate risk, impairment risk.
- Management of the MSR asset once it is on the books, including accounting implications.
- Revenue and expenses:
  - Revenue – servicing fee income, prepayment speed assumptions, float on P&I and T&I, late fees, ancillary fees, cross-sell opportunity or customer retention value, etc.
  - Expenses – salaries and benefits for staff members who support servicing or sub-servicing, overhead, hedging costs, amortization of the cost of acquiring MSRs, other direct costs, etc.

Operational Considerations

- Costs and benefits of building an internal valuation model, purchasing an “off-the-shelf” analytics/valuation model, or outsourcing to a third-party valuation/analytics vendor.
- Costs and benefits of keeping other operations in-house or outsourcing to a third-party service provider, subservicing, hedging, pipeline management, servicing platform, valuation models, daily operations, risk management, etc. For a variety of business reasons, Fannie Mae Servicers may elect to have a subservicer fulfill some or all of their mortgage loan servicing obligations specified in the Fannie Mae *Servicing Guide*.

Deciding whether to retain servicing, sell servicing-released, or combine them

There are many factors to consider when selling a loan servicing-retained or servicing-released to Fannie Mae, including:

Servicing Retained	
Advantages	**Disadvantages**
Retain relationship with borrower.	Necessary cash investment and capital reserve requirement to keep servicing asset.
Servicing cash flow stream.	Establish business policies and procedures.
Creates countercyclical annuity to smooth earnings over various interest rate cycles.	P&I advance expense for loans with Scheduled/Scheduled remittance cycles.
Possible to scale servicing costs by using a subservicer.	Costs for subservicing and other third-party service providers, if needed.
Create franchise value in firm.	Technology investments or outsourcing technology.
Increased profitability when aggregators back off in their SRP bids.	Less profitable when aggregator provide aggressive SRP bids

Servicing Released	
Advantages	**Disadvantages**
In some cases, enable Fannie Mae sales with access to secondary marketing advantages such as ASAP, ASAP Plus, and specified pools.	Hedge Interest rate risk of the MSR and accounting responsibilities.
Paid for the servicing asset up front – can leverage to support other areas.	Potential loss of borrower relationship and/or refinance opportunity.
Avoid servicing asset risk.	Volatility of Servicing Released Premiums (SRPs).
Do not have to hold capital against the MSRs in portfolio.	Loss of long-term, revenue stream.
Avoid hedging interest rate risk of the MSR.	Pricing could change during lock period.
Do not need a servicing operation.	Subject to underwriting/origination policies of aggregators in addition to pricing overlays.
Depending on market environment, may be a better execution.	Early payoff - SRP recapture risk.
In some cases, enable Fannie Mae sales with access to secondary marketing advantages such as ASAP, ASAP Plus, and specified pools through an aggregator.	Possible separate wires for loan asset and SRP fundings.
	Possible minimum monthly volume requirements by servicing buyer.

Vendor/Services Matrix

This is a list of third-party service providers of which Fannie Mae is aware. Each vendor confirmed its desire to be included in this list as well as the services it offers. This list is provided for information only and is subject to modification at any time. Inclusion in the list does not constitute an endorsement or recommendation by Fannie Mae. (See Contact Information on page 8.)

Key to Applicable Services/ Analytics	**Sellers Seeking to Evaluate Hedging and Execution Alternatives**					**Sellers Seeking Assistance in Evaluating Retaining Servicing and Setting up Servicing Operations**			**Seller/Servicers Seeking to Retain, Valuation/Risk Management Support**			
Vendor/ Services Matrix	**Pipeline Best Execution**	**Pipeline Hedging**	**Outsourced Hedging**	**Pipeline Consulting**	**Pipeline Analytics Licensing**	**Retain/ Release Analytics**	**Subservicing**	**Servicing Consulting**	**Servicing Valuation Services**	**Servicing Valuation Software**	**Servicing Risk Management Services**	**Servicing Risk Mgmt. Software**
AmeriNational Community Services							X					

Key to Applicable Services/ Analytics	Sellers Seeking to Evaluate Hedging and Execution Alternatives					Sellers Seeking Assistance in Evaluating Retaining Servicing and Setting up Servicing Operations			Seller/Servicers Seeking to Retain, Valuation/Risk Management Support			
Vendor/ Services Matrix	Pipeline Best Execution	Pipeline Hedging	Outsourced Hedging	Pipeline Consulting	Pipeline Analytics Licensing	Retain/ Release Analytics	Subservicing	Servicing Consulting	Servicing Valuation Services	Servicing Valuation Software	Servicing Risk Management Services	Servicing Risk Mgmt. Software
CENLAR – Central Loan Administration and Reporting							X					
Arvest Central Mortgage Company							X					
Capital Markets Cooperative	X	X	X	X		X			X			
Cenlar							X					
Compass Analytics	X	X	X	X	X	X				X	X	X
Dovenmuehle							X					
Flagstar Bank							X					
Innovient	X				X	X						
Incenter Mortgage Advisors, LLC	X			X		X		X	X		X	
Loan Care							X					
Midwest Loan Services							X					
Mortgage Industry Advisory Corporation (“MIAC”)	X	X	X	X	X	X		X	X	X	X	X

Key to Applicable Services/ Analytics	Sellers Seeking to Evaluate Hedging and Execution Alternatives					Sellers Seeking Assistance in Evaluating Retaining Servicing and Setting up Servicing Operations			Seller/Servicers Seeking to Retain, Valuation/Risk Management Support			
Vendor/ Services Matrix	Pipeline Best Execution	Pipeline Hedging	Outsourced Hedging	Pipeline Consulting	Pipeline Analytics Licensing	Retain/ Release Analytics	Subservicing	Servicing Consulting	Servicing Valuation Services	Servicing Valuation Software	Servicing Risk Management Services	Servicing Risk Mgmt. Software
MountainView Servicing Group, LLC								X	X	X	X	X
Newbold Advisors, LLC	X	X		X		X		X			X	
Peak Performance Resources, Inc.	X	X	X	X	X		X	X			X	X
Phoenix Capital	X			X		X		X	X		X	
The Prestwick Mortgage Group						X		X	X			
Provident Funding							X					
Quantitative Risk Management (“QRM”)	X	X		X	X	X		X	X	X	X	X

Definitions

Business Component	Definition
Best Efforts Whole Loan Execution	Ability to sell directly to Fannie Mae without taking on the interest rate risk associated with a borrower rate lock. The asset price will be lower than a mandatory execution.
Mandatory Whole Execution	Ability to sell directly to Fannie Mae while taking on the interest rate risk associated with a borrower rate lock.
Pipeline Best Execution	Ability to compare all-in delivery pricing for sellers to deliver loans at their highest value.
Pipeline Hedging	Ability to derive daily and intraday risk and hedging reports based on best execution and expected closing percentages.
Outsourced Hedging	Pipeline Hedging where the vendor monitors seller's risk position and executes trades daily on behalf of the client (usually through POA). The relationship suits new hedgers well, as they leverage the trade desk, expertise, and trade volume of the vendor.
Pipeline Consulting	Consulting across a variety of pipeline topics such as finding warehouse banks, internal controls, lock-in and hedge policies, investor relationships and selecting pipeline hedging vendor. This relationship may cross over to consulting on servicing topics.
Pipeline Analytics Licensing	Vendor offers a commercial, turn-key product that sellers can license and use to affect hedging a mortgage pipeline and performing best execution. Licensing is typically employed by sellers with risk management expertise.
Retain/Release Analytics	Vendors that provide daily analytics on whether selling individual loans on a retained or released basis is more advantageous to the seller.
Subservicing	Vendor that provides outsourced servicing for servicers.
Servicing Consulting	Consulting across a variety of servicing topics including starting a servicing operation, determining whether to service or subservice, loss mitigation and compliance, and variety of other topics.
Servicing Valuation Services	Vendors that provide third-party market values for servicing portfolios. Some of these vendors also broker servicing rights when servicers are looking to sell servicing.
Servicing Valuation Software	Vendor offers a commercial, turn-key product that can be licensed and used by servicers and vendors providing servicing valuation services to price and account for servicing assets. Licensing is typically employed by servicers with some MSR valuation expertise and a reasonable-sized portfolio.
Servicing Risk Management Services	Vendor offers risk management measurement, hedge strategies, and recommendations for hedging a servicer's MSR portfolio. Vendor may or may not provide outsourced hedge execution. Vendor employs valuation and hedge analytics in making its recommendations.
Servicing Risk Management Software	Vendor offers a commercial turn-key product that servicing hedgers can license and use to hedge and account for servicing assets and hedges. Licensing is typically employed by servicers with MSR hedge expertise.

Contact Information

The following information applies to the third-party service providers noted above (pages 4–5), as explained above. Fannie Mae does not endorse or recommend these or any other vendors or service providers.

Subservicers			
Company	**Name/Title**	**Email**	**Phone**
AmeriNational Community Services	**Timothy J. O'Malley** SVP, Sales & Marketing	tomalley@amerinational.net	410-644-3901 x1417
Cenlar	**Dave Miller** SVP, Business Development	dmiller@cenlar.com	609-883-3900 x5404
Arvest Central Mortgage Company	**Michael Lott** Account Manager	mlott@arvest.com	501-716-5736
Dovenmuehle	**Glen Braun** SVP and CFO	glen.braun@dmicorp	847-550-7450
Flagstar Bank	**Don Klein** SVP, Business Development, Mortgage Servicing	Don.Klein@flagstar.com	561-226-1572
LoanCare	**Vicki Brown** SVP-Client Relationship Manager	vicki.brown@loancare.net	757-892-1727
Midwest Loan Services	**Ryan DeForge** CFO	deforger@midwestloanservices.com	906-483-4340
Provident Funding	**Lori Pica** Chief Operating Officer	LPica@provident.com	650-652-1300

Industry Advisors			
Company	**Name/Title**	**Email**	**Phone**
Capital Markets Cooperative	**Richard Dybel** National Sales Manager	rdybel@capmkts.org	904-404-3558
Compass Analytics	**Rob Kessel** Managing Partner	rkessel@compass-analytics.com	415-462-7500
Innovient	**Ted Kramer** President	tkramer@innovient.com	210-481-1196
Incenter Mortgage Advisors, LLC	**Tom Piercy** Managing Member	tpiercy@incenterms.com	303-302-9234
Mortgage Industry Advisory Corporation	**Dave McCraw** SVP Marketing & Sales	david.mccraw@miacanalytics.com	212-233-1250 x 357
MountainView Servicing Group, LLC	**Greg Harris** President	gharris@mvrisk.com	303-633-4724
Newbold Advisors, LLC	**Amy S. Creason, CMB** Senior Director	acreason@newboldadvisors.com	804-387-3566
Peak Performance Resources, Inc.	**Betsy Clarke-Cavanna** Managing Partner	ecavanna@cfl.rr.com	407-234-4511
Phoenix Capital	**Stephen Fleming** Senior Vice President	sfleming@phnxcap.com	303-892-7070
Quantitative Risk Management	**Dan Rudd** Senior Vice President	Dan.Rudd@QRM.com	312-782-4608
The Prestwick Mortgage Group	**George L. Christo, Jr.** Executive VP	gchristo@prestwickgroup.com	703-519-8882