FACT SHEET: ENTERPRISE SELLER/SERVICER MINIMUM FINANCIAL ELIGIBILITY REQUIREMENTS

Overview

As part of their risk management processes, Fannie Mae and Freddie Mac (the Enterprises) each have established an approval process for seller/servicers that includes both ascertaining that seller/servicers meet minimum financial eligibility requirements and monitoring compliance of approved seller/servicers.

A seller/servicer must meet or exceed minimum financial requirements in order to be an approved Enterprise seller/servicer. The minimum financial requirements are not, by themselves, measures of adequacy. Accordingly, the Enterprises 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.

The minimum financial eligibility requirements are not regulatory requirements, and a seller/servicer that does not wish to do business with the Enterprises is not required to meet them. The Enterprises do not regulate seller/servicers but, as a matter of prudent risk management, they consider possible risk exposure from contractual relationships with seller/servicers and assess, monitor, and take appropriate actions to address the risks to which they are exposed in their business relationships.

Background

The 2015 Eligibility Requirements became effective on December 31, 2015, and have remained in effect with minor modifications. The 2015 Eligibility Requirements established minimum levels of capital and liquidity to be maintained by seller/servicers to service single-family mortgage loans guaranteed or owned by the Enterprises. The Enterprises use the financial eligibility requirements to monitor and manage risk exposures to non-depository seller/servicers while largely relying on banking regulators' prudential capital and liquidity standards as financial requirements for depository counterparties. Under the financial eligibility requirements, both depository and non-depository seller/servicers are subject to the same tangible net worth requirements.

Even with the 2015 Eligibility Requirements in place, the Federal Housing Finance Agency (FHFA) and the Enterprises are continually focused on mitigating the risk presented by the Enterprises' non-depository counterparties. In 2018, FHFA instructed the Enterprises to evaluate the appropriateness of the requirements for non-depository seller/servicer Enterprise counterparties. In 2019, FHFA instructed the Enterprises to "continue mortgage servicing and asset management efforts that promote stability and readiness for more challenging market conditions" and "assess readiness of servicers . . . for an economically stressed environment."[1] FHFA initially released Servicer Eligibility 2.0 proposed requirements for public input on January 31, 2020 ("2020 Proposal").[2]

The 2020 Proposal was intended to strengthen the Enterprises' Seller/Servicer Eligibility Requirements and provide transparency and consistency of capital and liquidity required for non-depository seller/servicers.

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[1] Federal Housing Finance Agency (October 2019). *2020 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions*. https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2020-Scorecard-10282019.pdf

[2] Federal Housing Finance Agency (January 31, 2020). *FHFA Proposes Updated Minimum Financial Eligibility Requirements for Fannie Mae and Freddie Mac Seller/Servicers.* https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Proposes-Minimum- Financial-Eligibility-Requirements-for-Fannie-Mae-and-Freddie-Mac-SellerServicers.aspx

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Specifically, the 2020 Proposal focused on improving the 2015 Eligibility Requirements by incorporating cost and risk assumptions that were not previously considered and re-evaluating modeling assumptions and inputs, given changes in the servicing environment.

Finally, where the 2015 Eligibility Requirements captured most of the major cashflows associated with seller/servicer capital and liquidity needs, the 2020 Proposal considered additional operational and financing costs.

As it had with the 2015 Eligibility Requirements, FHFA expected to issue updated requirements as a directive to the Enterprises under its authority as Conservator. However, as a result of the global COVID-19 pandemic (pandemic), FHFA announced on June 15, 2020, that it would assess and re-propose the minimum financial eligibility requirements considering lessons learned from market events in reaction to the pandemic. Lessons learned include the:

- Impact of higher delinquency and costs associated with servicing mortgage loans, exposing the Enterprises to increased levels of counterparty risk
- Need to cover seller risk as a result of liquidity challenges experienced by mortgage sellers at the onset of the pandemic
- Importance of higher requirements for large non-depository servicers that hold a substantial portion of Enterprise servicing
- Need to differentiate servicer liquidity requirements based on differences in remittance type

Enhancements to the 2015 Eligibility Requirements

FHFA and Ginnie Mae staff met regularly to discuss these requirements prior to their release. FHFA understands the importance of the governing bodies discussing requirements that impact both Ginnie Mae issuers and Enterprise seller/servicers, while reserving the right to differ if needed. Tables 1 through 3 below highlight these alignment efforts and provide a side-by-side comparison of each agency's requirements and effective dates.[3]

Servicer Eligibility 2.0 requirements contain changes related to incorporating enhanced definitions of capital and liquidity, reducing the procyclicality of the current liquidity requirements, and incorporating lessons learned from the pandemic. The Servicer Eligibility 2.0 requirements also include higher supplemental requirements applicable only to large non-depositories, defined as non-depositories having $50 billion or more of total single-family servicing unpaid principal balance (UPB). Tables 4 and 5 below provide a side-by-side comparison of the existing Servicer Eligibility 1.0 requirements and the enhanced Servicer Eligibility 2.0 requirements.

[3] The high-level comparisons contained in this FHFA document do not capture the entirety of Ginnie Mae's and the Enterprises' requirements, any interpretation of which should defer to Ginnie Mae's and the Enterprises' Guides and related updates.

Table 1: Comparison of Allowable Capital and Liquidity – FHFA versus Ginnie Mae[4]

Definitions	FHFA (Fannie Mae and Freddie Mac) Servicer Eligibility 2.0	Ginnie Mae	Comment
Tangible Net Worth (FHFA) Adjusted Net Worth (Ginnie Mae)	Total Equity • Less Goodwill and Other Intangible Assets • Less "Affiliated Receivables" and "Pledged Assets net of associated Liabilities" • Less Deferred Tax Assets net of associated Deferred Tax Liabilities	Total Equity less Unacceptable Assets such as: • Goodwill and Other Intangible Assets • Affiliated Receivables and Pledged Assets net of associated Liabilities • Deferred Tax Assets net of associated Deferred Tax Liabilities • Valuation adjustment of certain assets	Largely Aligned

Eligible Liquidity	• Unrestricted Cash and Cash Equivalents
	• The following unpledged, Available-for-Sale or Held-for-Trading securities:
	  ○ Agency MBS
	  ○ Obligations of GSEs
	  ○ US Treasury Obligations
	• 50 percent of the unused portion of committed Agency servicing advance lines of credit
		• Unrestricted Cash and Cash Equivalents
		  ○ AAA rated government securities marked to market
		  ○ Agency MBS marked to market
		  ○ Obligations of GSEs marked to market
		• P&I, T&I and Foreclosure advances
			Agency servicing advance lines of credit do not count as liquidity for Ginnie Mae

[4] The high-level comparisons contained in this FHFA document do not capture the entirety of Ginnie Mae's and the Enterprises' requirements, any interpretation of which should defer to Ginnie Mae's and the Enterprises' Guides and related updates.

Table 2: Comparison of Eligibility Requirements – FHFA versus Ginnie Mae[5]

Requirements	FHFA (Fannie Mae and Freddie Mac) Servicer Eligibility 2.0	Ginnie Mae	Comment
Net Worth	**Base: $2.5 million Plus** • Enterprise Servicing: 25 bps • Ginnie Mae Servicing: 35 bps • PLS & Other Servicing: 25 bps	**Base: $2.5 million Plus** • Enterprise Servicing: 25 bps • Ginnie Mae Outstanding Obligations: 35 bps • PLS & Other Servicing: 25 bps	Aligned
Capital Ratio (FHFA) Leverage Ratio (Ginnie Mae)	Tangible Net Worth / Total Assets greater than or equal to 6%	Adjusted Net Worth / Total Assets greater than or equal to 6%	Aligned
Risk-Based-Capital		(Adjusted Net Worth Less Excess MSRs) / Risk Weighted Assets greater than or equal to 6%	FHFA does not have this requirement
Base Liquidity	**Enterprise Servicing** Scheduled / Scheduled: 7 bps Scheduled / Actual: 7 bps Actual / Actual: 3.5 bps **Ginnie Mae Servicing:** 10 bps **PLS & Other Servicing:** 3.5 bps	**Enterprise Servicing** Scheduled / Scheduled: 7 bps Scheduled / Actual: 7 bps Actual / Actual: 3.5 bps **Ginnie Mae Servicing:** 10 bps **PLS & Other Servicing:** 3.5 bps	Aligned
Origination Liquidity	50 bps times (Loans Held for Sale + Pipeline loans with Interest Rate Lock Commitments after Fallout Adjustments)	50 bps times (Loans Held for Sale + Pipeline loans with Interest Rate Lock Commitments after Fallout Adjustments)	Aligned

[5] The high-level comparisons contained in this FHFA document do not capture the entirety of Ginnie Mae's and the Enterprises' requirements, any interpretation of which should defer to Ginnie Mae's and the Enterprises' Guides and related updates.

	Small sellers originating less than $1 billion of mortgages in the last four quarters are excluded	Small issuers originating less than $1 billion of mortgages in the last four quarters are excluded	
Liquidity Buffer	Enterprise Servicing: 2 bps Ginnie Mae Servicing: 5 bps		Ginnie Mae does not have this requirement

Table 3: Effective Dates[6]

Requirement	FHFA (Fannie Mae and Freddie Mac)	Ginnie Mae	Comment
Definition Change for: Tangible Net Worth Eligible Liquidity	9/30/2023	9/30/2023	Aligned
Net Worth	9/30/2023	9/30/2023	Aligned
Base Liquidity	9/30/2023	9/30/2023	Aligned
Liquidity Buffer	9/30/2023		Ginnie Mae is not implementing
Origination Liquidity	12/31/2023	12/31/2023	Aligned
Third-Party Ratings	12/31/2023		Already in effect at Ginnie Mae
Risk-Based Capital Ratio		12/31/2023	FHFA is not implementing
Capital and Liquidity Plan	03/31/2024		Ginnie Mae is not implementing
Capital Ratio			Already in effect at both Agencies

[6] The high-level comparisons contained in this FHFA document do not capture the entirety of Ginnie Mae's and the Enterprises requirements, any interpretation of which should defer to Ginnie Mae's and the Enterprises' Guide and related updates.

Table 4: Enterprise Servicer Eligibility 1.0 to 2.0 Comparison – Definitions of Capital and Liquidity[7]

Definitions	Fannie Mae and Freddie Mac Servicer Eligibility 1.0	Fannie Mae and Freddie Mac Servicer Eligibility 2.0	Who the Requirement Applies to
Tangible Net Worth	Total Equity • Less Goodwill and Other Intangible Assets • Less "Affiliated Receivables" and "Pledged Assets net of associated Liabilities"	Total Equity • Less Goodwill and Other Intangible Assets • Less "Affiliated Receivables" and "Pledged Assets net of associated Liabilities" • Less Deferred Tax Assets net of associated Deferred Tax Liabilities	All Seller / Servicers
Eligible Liquidity	• Unrestricted Cash and Cash Equivalents • The following unpledged, Available-for-Sale or Held-for-Trading securities: ○ Agency MBS ○ Obligations of GSEs ○ US Treasury Obligations	• Unrestricted Cash and Cash Equivalents • The following unpledged, Available-for-Sale or Held-for-Trading securities: ○ Agency MBS ○ Obligations of GSEs ○ US Treasury Obligations • 50 percent of the unused portion of committed Agency servicing advance lines of credit (LOCs)	All Non-Depositories

[7] The high-level comparisons contained in this FHFA document do not capture the entirety of the Enterprises' requirements, any interpretation of which should defer to the Enterprises' Guides and related updates.

Table 5: Enterprise Servicer Eligibility 1.0 to 2.0 Comparison – Minimum Financial Eligibility Requirements[8]

Requirements	Fannie Mae and Freddie Mac Servicer Eligibility 1.0	Fannie Mae and Freddie Mac Servicer Eligibility 2.0	Who the Requirement Applies to
Minimum Tangible Net Worth	**Base: $2.5 million Plus** • 25 bps of UPB for total 1-4 unit residential mortgage loans serviced	**Base: $2.5 million Plus** • Enterprise Servicing: 25 bps • Ginnie Mae Servicing : 35 bps • PLS & Other Servicing: 25 bps	All Seller/Servicers
Capital Ratio	Tangible Net Worth / Total Assets greater than or equal to 6%	Tangible Net Worth / Total Assets greater than or equal to 6%	All Non-Depositories
Base Liquidity	3.5 bps of Agency Servicing UPB	**Enterprise Servicing** Scheduled / Scheduled: 7 bps Scheduled / Actual: 7 bps Actual / Actual: 3.5 bps **Ginnie Mae Servicing:** 10 bps **PLS & Other Servicing:** 3.5 bps	All Non-Depositories
NPL Threshold	Agency NPL greater than 6% requires an incremental NPL charge	No NPL threshold	
Incremental NPL Charge	Plus an incremental 200 bp charge on Agency NPL for the portion of Agency NPL greater than 6% of Agency servicing	No incremental NPL charge	
Origination Liquidity	No origination liquidity requirement	50 bps times (Loans Held for Sale + Pipeline loans with Interest Rate Lock Commitments after Fallout Adjustments)	All Non-Depositories excluding Small Sellers[9]

[8] The high-level comparisons contained in this FHFA document do not capture the entirety of the Enterprises' requirements, any interpretation of which should defer to the Enterprises' Guides and related updates.
[9] Small sellers are defined as those that originate $1 billion or less in single-family first lien mortgages in a four-quarter period.

Liquidity Buffer	No liquidity buffer requirement	Enterprise Servicing: 2 bps Ginnie Mae Servicing: 5 bps	Large Non-Depositories
Capital and Liquidity Plans	No requirement to submit capital and liquidity plans	Require annual capital and liquidity plans that include MSR stress tests as part of the plan.	Large Non-Depositories
Third-Party Ratings	No third-party ratings requirement	Require third-party servicer and credit ratings as follows: • ≥$50 billion in Servicing UPB must have one primary servicer or master servicer rating, as applicable • >$100 billion in Servicing UPB must have a primary servicing rating or master servicer rating, as applicable, and one third-party long-term senior unsecured debt rating or long-term corporate family rating • > $150 billion in Servicing UPB must have a primary servicer rating or master servicer rating, as applicable, and two third-party long-term senior unsecured debt ratings or long-term corporate family ratings	Large Non-Depositories