RE-PROPOSAL TO ENHANCE ELIGIBILITY REQUIREMENTS FOR ENTERPRISE SINGLE-FAMILY SELLER/SERVICERS

February 24, 2022

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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 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.

Rationale for Proposed Requirements

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 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 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, 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. 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 with the To-Be-Announced (TBA) market at the onset of the pandemic
- Importance of higher requirements for large non-depository servicers that are important to the mortgage servicing system and who hold a substantial portion of Enterprise servicing
- Need to differentiate servicer liquidity requirements based on differences in remittance type

[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

Servicer Eligibility Requirement Changes

The Servicer Eligibility 2.0 Requirements contain proposed changes related to incorporating an enhanced definition of capital, reducing the procyclicality of the current liquidity requirements, and incorporating lessons learned from the pandemic. In addition, the Servicer Eligibility 2.0 Requirements include higher supplemental requirements applicable only to large non-depositories, defined as non-depositories having $50 billion or more of total single-family (SF) servicing unpaid principal balance (UPB).

Effective Date

Current as well as new applicant Enterprise seller/servicers will be required to comply with all of the Servicer Eligibility 2.0 Requirements by December 31, 2022, with the exception of the following:

- The Capital and Liquidity Plan requirement will be effective and must be submitted to the Enterprises by December 31, 2023 and will be due annually by the end of each year thereafter.

Eligibility Requirements[3]

I. Tangible Net Worth: (Applicable to All Seller/Servicers)

Definition of Tangible Net Worth

The Servicer Eligibility 2.0 proposal modifies the definition of tangible net worth by subtracting deferred tax assets. The exclusion of deferred tax assets from tangible net worth reflects the uncertainty of a company's ability to realize the value of deferred tax assets as a source of capital when experiencing losses during a period of financial stress.

Under the proposal, tangible net worth is defined as:

- Total Equity
- MINUS Goodwill and Other Intangible Assets
- MINUS "Affiliate Receivables" and "Pledged Assets net of Associated Liabilities"
- MINUS Deferred Tax Assets

Proposed Tangible Net Worth Requirement:

All Enterprise seller/servicers (both depositories and non-depositories) must maintain tangible net worth of at least 1) $2.5 million plus 2) the dollar amount that is not less than the sum of:

1. 0.25 percent of the seller/servicer's Enterprise SF servicing UPB[4]; plus
2. 0.25 percent of the seller/servicer's non-agency[5] SF servicing UPB; plus
3. 0.35 percent of the seller/servicer's Ginnie Mae servicing UPB.

The proposed requirement establishes a minimum level of tangible net worth for all seller/servicers, both depository and non-depository. The requirement includes a fixed base requirement as well as an incremental charge that reflects the volume and risk of a

[3] See Appendix II for a detailed description and breakdown of Servicer Eligibility 2.0 proposed requirements and changes.
[4] Defined as outstanding servicing portfolio balances reported through the Mortgage Bankers Financial Reporting form as of a quarter-end.
[5] Agency servicing includes servicing for Fannie Mae, Freddie Mac, and Ginnie Mae. Non-agency servicing is all other servicing.

seller/servicer's servicing portfolio. The proposed tangible net worth base requirement of $2.5 million is the same as the Enterprises' current requirement.

The Enterprises currently impose an incremental tangible net worth requirement for servicing, calculated by multiplying the UPB of the total SF loans serviced by the seller/servicer by 25 basis points (bps). The current requirement does not differentiate among the types of portfolios serviced by the seller/servicer, even though servicing requirements differ between the Enterprises and Ginnie Mae.

The Enterprises may be exposed to a seller/servicer's risk associated with servicing portfolios beyond the Enterprises' portfolios. Therefore, the proposed requirement establishes an incremental tangible net worth requirement that distinguishes between Ginnie Mae and Enterprise servicing.

The proposed higher incremental charge for Ginnie Mae servicing reflects the higher cost and risk associated with servicing Ginnie Mae portfolios. This higher charge is consistent with Ginnie Mae's current capital requirement for its servicers.

II. Capital Ratio: (Applicable to All Non-Depository Seller/Servicers)

Proposed Capital Ratio Requirement:

All non-depository seller/servicers must maintain a capital ratio such that the seller/servicer's tangible net worth is not less than nine percent of its total assets, where total assets are determined in accordance with Generally Accepted Accounting Practices (GAAP).

- Tangible Net Worth / Total Assets ≥ 9%

The 2015 Eligibility Requirements impose a minimum capital ratio of six percent of total assets on all non-depository seller/servicers. An evaluation of the sufficiency of that requirement determined that raising the requirement to a ratio of nine percent would mitigate the Enterprise's counterparty risk exposure to non-depositories.

The capital ratio measures the tangible capital available relative to an entity's overall assets and is conceptually similar to the tier 1 leverage ratio used by the federal banking agencies.

In 2019, federal banking regulators adopted the Community Bank Leverage Ratio Framework that provides a simple alternative for qualifying community banks to comply with capital rules.[6] Under the framework, qualifying community banks are exempt from multiple complex capital requirements and are considered "well capitalized" by maintaining a minimum nine percent tier 1 leverage ratio. This minimum leverage ratio provides a reference point in setting a more meaningful capital ratio threshold for the Enterprises' non-depository counterparties. Our impact analysis indicates that the increase in the requirement would not unduly burden smaller non-depository seller/servicers.

III. Base Liquidity: (Applicable to All Non-Depository Seller/Servicers)

Proposed Base Liquidity Requirement:

All non-depository seller/servicers must maintain base liquidity of eligible assets not less than the sum of:

1. 0.07 percent of the seller/servicer's Enterprise SF servicing UPB, if the seller/servicer remits (or the Enterprise draws) interest or principal, or both, as scheduled, regardless of whether principal or interest has been collected from the borrower; plus
2. 0.035 percent of the seller/servicer's Enterprise SF servicing UPB, if the seller/servicer remits (or the Enterprise draws) the interest and principal only as actually collected from the borrower; plus
3. 0.035 percent of the seller/servicer's non-agency SF servicing UPB; plus
4. 0.10 percent of the seller/servicer's Ginnie Mae SF servicing UPB.

Like the 2015 Eligibility Requirements, the proposed eligibility requirements establish a requirement for a minimum amount of "eligible liquid assets" that non-depository seller/servicers must hold. Seller/servicer liquidity needs arise primarily from servicing costs and advancing obligations, particularly when loans become non-performing. The scope and length of these obligations vary by servicing contracts. Complexity of servicing models such as subservicing relationships, mortgage servicing rights (MSR) financing, and excess MSR sales can exacerbate this challenge.

The 2015 Eligibility Requirements impose a minimum liquidity requirement on non-depository seller/servicers of (i) 3.5 basis points of total Agency servicing UPB plus (ii) an incremental

[6] Community Bank Leverage Ratio Framework (October 9, 2020). *Regulatory Capital Rule: Temporary Changes to and Transition for the Community Bank Leverage Ratio Framework.* https://www.federalregister.gov/documents/2020/10/09/2020-19922/regulatory-capital-rule-temporary-changes-to-and-transition-for-the-community-bank-leverage-ratio

requirement of 200 basis points of total non-performing Agency servicing UPB that is in excess of six percent of total Agency servicing UPB.

FHFA received comments that criticized the liquidity requirement as being procyclical (the liquidity requirement increases with a rising number of non-performing loans (NPLs) during times of stress when liquidity is needed most). Industry feedback also advocated for differentiating liquidity requirements by remittance type. Therefore, the proposed eligibility requirements establish minimum requirements that reflect differences in advancing obligations that vary by remittance type.

With regard to remittance schedules, Enterprise seller/servicers typically contract to remit principal and interest payments to the investor under one of three approaches:

1. "actual/actual" remittance, which requires a seller/servicer to only remit the interest and principal actually received from the borrower, even if the amounts received differ from the amounts the borrower is contractually obligated to pay;
2. "scheduled/actual" remittance, which requires a seller/servicer to remit the scheduled interest due – the amount of interest the borrower is contractually obligated to pay – regardless of whether or not it has been collected from the borrower (thus, to "advance" any portion of the interest payment that the borrower did not pay) and the actual principal collected from the borrower; or
3. "scheduled/scheduled" remittance, which requires a seller/servicer to remit the scheduled interest and scheduled principal due, regardless of whether any monies have been collected from the borrower.

Ginnie Mae servicing contracts require all servicers to remit on a "scheduled/scheduled" basis, regardless of whether any monies have been collected from the borrower

From an advancing perspective, "actual/actual" remittance imposes the lowest liquidity demand on a seller/servicer because there is no obligation to advance missed (or missed portions of) payments of principal or interest to investors. Seller/servicers that remit payments on a "scheduled/actual" or "scheduled/scheduled" basis have increasingly higher liquidity needs compared to "actual/actual" remittance, as they must meet advance obligations on principal and/or interest. However, the proposed requirement does not further distinguish between "scheduled/scheduled" and "scheduled/actual" remittance types when servicing Enterprise loans. Scheduled/scheduled servicers are often allowed to hold principal and interest payments in custodial accounts for a longer period before payments are remitted to investors than scheduled/actual servicers. This longer remittance period creates extra liquidity for the scheduled/scheduled servicers, offsetting the disadvantage of having to advance scheduled interest payments. Under any remittance type, seller/servicers must advance tax and insurance payments on behalf of the investor when borrowers do not make such payments.

Except in the case of "actual/actual" remittance, Enterprise seller/servicers are generally obligated to advance payments for up to 120 consecutive days (roughly, for four months of missed payments of principal and/or interest). Ginnie Mae servicers are responsible for advancing payments until the loan re-performs, is liquidated through foreclosure or short sale, or is bought out from the pool by the servicer.

The proposed requirement differentiates between Enterprise, Ginnie Mae, and all other servicing to account for the differences in liquidity needs associated with each type of servicing. FHFA expects the proposal will result in more predictable liquidity requirements for non-depository seller/servicers. The current liquidity requirement is calibrated to a lower delinquency environment and uses a NPL threshold and incremental add-on to increase liquidity during times of stress. The proposed liquidity requirement is calibrated to protect against higher levels of delinquency, thus requiring more upfront base liquidity, and in exchange, removes the incremental NPL charge that has been criticized as being procyclical.

Eligible assets for meeting minimum liquidity requirements remain unchanged from the current requirement, and include the following types of assets:

- Unrestricted Cash and Cash Equivalents
- The following, unpledged, Available-for-Sale (AFS) or Held-for-Trading (HFT) securities:
    - Agency MBS
    - Obligations of GSEs
    - US Treasury Obligations

IV. Origination Liquidity: (Applicable to All Non-Depository Seller/Servicers)

Proposed Origination Liquidity Requirement:

- Two percent of the seller/servicer's outstanding to-be-announced (TBA) hedging position, in the case of a non-depository seller/servicer that originates 1-4 unit single-family mortgage loans.

The proposal establishes an incremental liquidity requirement for non-depository mortgage originators that use the TBA market to hedge interest rate risk. Mortgage originators who forward sell mortgage loans into the TBA market to hedge the interest rate risk of pipeline loans are exposed to the risks of significant TBA price spikes that could trigger margin calls, as was the case in March 2020.

To address the higher risk exposure to a seller/servicer in such circumstances, the proposed requirements establish a two percent incremental liquidity requirement to be applied to a non-depository seller/servicer's outstanding TBA hedging position. Two percent represents a stress movement in MBS prices in March 2020 (during the pandemic market stress), which FHFA observed as a market-based approximation of the level of liquidity needed to cover such stress events.

Acceptable liquid assets for meeting this requirement are the same as for other liquidity requirements.

V. Liquidity Buffer: (Applicable to Large Non-Depository Seller/Servicers)

Proposed Liquidity Buffer Requirement:

All large non-depository seller/servicers must maintain a liquidity buffer of eligible liquid assets in excess of the base liquidity requirement, in an amount that is at least the sum of:

1. 0.02 percent of the seller/servicer's Enterprise SF servicing UPB and
2. 0.05 percent of the seller/servicer's Ginnie Mae SF servicing UPB

The proposed requirements establish that each large non-depository seller/servicer maintain a liquidity buffer that the seller/servicer could draw on in times of financial or economic stress.

The ability to draw on the liquidity buffer would require Enterprise approval, with FHFA providing oversight as Conservator, and would require that large non-depositories submit remediation plans that adequately document how they will return to full compliance. Additionally, FHFA may, at its discretion, instruct the Enterprises to allow drawdowns of the liquidity buffer for all large non-depositories when adverse market conditions and systemic liquidity shortages warrant such action.

VI. Capital and Liquidity Plans: (Applicable to Large Non-Depository Seller/Servicers)

Proposed Capital and Liquidity Plan Requirement:

All large non-depositories must submit to the Enterprises, on an annual basis, a capital and liquidity plan that describes how the seller/servicer intends to manage its capital and liquidity in a manner that is consistent with Enterprise requirements.

The proposed requirements establish that each large non-depository seller/servicer develop and provide a capital and liquidity plan to the Enterprises on an annual basis. In addition, each seller/servicer must provide notice to the Enterprises of any material changes to its capital and liquidity plans.

Acceptable capital and liquidity plans must, at a minimum:

- Include a description of the seller/servicer's corporate governance over the capital and liquidity planning process, such as oversight responsibilities of senior management and the board of directors, and a discussion of the seller/servicer's risk management framework.
- Describe processes to monitor and measure liquidity risks, such as business activity reports and financial forecast and cashflow projections.
- Contain capital and liquidity contingency funding plans and provide for testing and reaffirmation of such plans at least annually.
- Provide for an annual liquidity stress test, including a stress test of the value of MSRs in an adverse scenario (1) developed by the seller/servicer or (2) an adverse scenario prescribed by the Enterprises, or both.
- Require notice to the Enterprises following any material change to or deviation from the plan.

VII. Third-Party Assessment: (Applicable to Large Non-Depository Seller/Servicers)

Proposed Third-Party Assessment Requirement:

All large non-depository seller/servicers must obtain and make available to the Enterprises an assessment of the seller/servicer's performance and creditworthiness by a qualified, independent third-party on an annual basis.

The proposed requirements establish that, on an annual basis by year-end, each large non-depository seller/servicer must obtain and provide to the Enterprises an assessment of the seller/servicer's performance and creditworthiness prepared by a qualified, independent, third party. The assessment should substantiate that the seller/servicer has adequate capacity to perform its financial obligations in an adverse stress environment.

Required third-party servicer and creditworthiness assessments for large non-depositories are as follows:

- ≥ $50 billion in SF servicing UPB must have one primary servicer rating.
- > $100 billion in SF servicing UPB must have a primary servicing rating and one third-party credit rating from debt issuance.
- > $150 billion in SF servicing UPB must have a primary servicer rating and two third-party credit ratings from debt issuance provided by two separate independent parties.

Frequently Asked Questions

1. Why do the 2.0 Servicer Eligibility requirements include additional standards for large non-depositories?

The proposed requirements include additional standards for large non-depositories to account for the Enterprises' higher risk exposure to such seller/servicers. While seller/servicers that are depository institutions are subject to safety and soundness supervision, including capital and liquidity requirements imposed by their primary federal or state regulator that could mitigate Enterprise risk exposure, non-depository seller/servicers are subject to state licensing requirements that may vary state-by-state and may not include capital and liquidity standards.

2. How do the proposed requirements define a large non-depository seller/servicer?

A large non-depository seller/servicer is defined as a seller/servicer that services $50 billion or more in total single-family servicing UPB at the end of any quarter, where the servicer is the master servicer of record. The Enterprises also have the discretion to designate a non-depository as a large seller/servicer in certain circumstances (e.g., the entity is part of group of seller/servicers that are owned by the same parent company and are large in aggregate). While consideration was given to defining "large" based on the value of a non-depository seller/servicer's MSRs, UPB is a preferable measure because MSR value is a volatile and subjective measure and UPB is not.

3. Why do the proposed requirements differentiate between small and large non-depositories?

Large non-depository seller/servicers pose relatively higher counterparty risk than smaller non-depositories due to their size and business model complexity. Additionally, large non-depositories account for a substantial portion of industry and Enterprise servicing.

4. Could seller/servicers be required to have financial requirements in excess of the proposed minimum financial requirements?

Yes. 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.

5. How frequently will compliance with the minimum financial requirements be tested?

The Enterprises will review seller/servicer compliance with the minimum financial requirements on a quarterly basis. Some requirements for large seller/servicers will be reviewed on an annual basis.

6. 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, the Enterprises will have the discretion to take appropriate action. A seller/servicer should contact its Enterprise customer account manager to discuss this question further.

7. Is there an exception process to the proposed minimum financial requirements?

The Enterprises may review seller/servicer requests and make exceptions where warranted.

8. Will seller/servicers engaged in servicing transfers be required to be in immediate compliance with the proposed minimum requirements after the effective date?

Yes. The Enterprises will continue to assess whether both the Transferor and the Transferee Servicer meet the minimum requirements as a result of the transaction, in addition to other requirements.

9. Are depository institutions tested against the proposed minimum tangible net worth standards?

Yes. Similar to today's practice, depository institutions will need to meet the new minimum tangible net worth standard. Depository institutions are also expected to meet the requirements set by their regulatory agencies.

10. Are depository institutions tested against the proposed minimum liquidity standards?

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

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

No. Although subservicers must be Enterprise-approved servicers and must meet all applicable minimum financial requirements, these requirements only apply to loans for which the servicer serves as Master Servicer. Loans that are subserviced are not applied to either the capital or liquidity requirements.

12. What will happen if Ginnie Mae changes its issuer/servicer liquidity or capital requirements?

FHFA will work with the Enterprises to reevaluate the Servicer Eligibility component that pertains to Ginnie Mae's servicing portfolio and will issue changes where appropriate.

13. Are there any reporting and disclosure changes needed to support the proposed requirements?

FHFA will work with the Enterprises, and others as needed, to add new data fields to the Mortgage Bankers Financial Reporting Form (MBFRF) to facilitate calculations for the proposed requirements.

14. 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 should forward any inquiries to its customer account manager at either Enterprise or send inquiries to **ServicerEligibility@fhfa.gov**.

Appendix I

Definitions

Agency Servicing – The aggregate UPB of single-family mortgages serviced for Freddie Mac, Fannie Mae, and Ginnie Mae by the seller/servicer.

Credit Rating – A credit rating is a quantified assessment of the creditworthiness with respect to a particular debt issuance, or to a particular debt issuer, from a "Nationally Recognized Statistical Rating Organization" as defined by Section 78c(a) of Title 15 of the United States Code (15 U.S.C. 78c(a)).

Enterprises – Fannie Mae and Freddie Mac

Large Non-Depositories – Non-depositories with $50 billion or more in total single-family servicing UPB

Eligible Liquidity – Includes the sum of:

a) Unrestricted Cash and Cash Equivalents

b) The following, unpledged, Available-for-Sale (AFS) or Held-for-Trading (HFT) Securities:

- Agency MBS
- Obligations of GSEs
- US Treasury Obligations

Servicer Rating – A servicer rating is an evaluation of a servicer for its capacity to carry out servicing business, which is different from evaluations of financial instruments or credit standing of corporations.

Servicing UPB – UPB of single-family residential mortgages serviced by the seller/servicer calculated as follows:

- Total Residential First Mortgages (field L100 in MBFRF)
- (+) Closed-End Second Mortgages (L110)
- (+) Funded HELOCs (L120)
- (+) Reverse Mortgages (L130)

Tangible Net Worth (TNW) – Total equity capital less goodwill and other intangible assets, less "affiliate receivables" and "pledged assets net of associated liabilities," and less deferred tax assets.

Appendix II

Proposed Enhancements to Enterprise Seller/Servicer Minimum Eligibility Requirements

Note: Changes to the current 1.0 requirements are displayed in *red/italic*

Requirements Applicable to All Seller/Servicers (Both Depositories and Non-Depositories)

Key Changes

1. Deferred Tax Assets is to be excluded from the current definition of Tangible Net Worth
   - Tangible Net Worth =
     - Total Equity
     - MINUS Goodwill and Other Intangible Assets
     - MINUS "Affiliate Receivables" and "Pledged Assets net of Associated Liabilities"
     - *MINUS Deferred Tax Assets*
2. Tangible net worth requirements differentiate Ginnie Mae servicing from Enterprise servicing.

<table>
<tr><th>Requirement</th><th>Current (1.0)</th><th>Proposed (2.0)</th></tr>
<tr><td>Minimum Tangible Net Worth</td><td>$2.5 million
+
25 bps of UPB for total 1-4 unit residential mortgage loans serviced</td><td>$2.5 million
+
<table><tr><th>Servicing Type
(1-4 unit residential)</th><th>Requirements</th></tr><tr><td>Enterprise</td><td>25 bps</td></tr><tr><td>Ginnie Mae</td><td>35 bps</td></tr><tr><td>All Other</td><td>25 bps</td></tr></table></td></tr>
</table>

Requirements Applicable to All Non-Depositories

Key Changes

1. Minimum capital ratio increases to 9%.
2. Liquidity requirements vary by remittance type and no longer require an NPL incremental charge.
3. An origination liquidity charge is added to capture liquidity needed for sellers to meet margin calls.

<table>
<tr><th>Requirement</th><th>Current (1.0)</th><th>Proposed (2.0)</th></tr>
<tr><td>Minimum Capital Ratio</td><td>Tangible Net Worth / Total Assets ≥ 6%</td><td>Tangible Net Worth / Total Assets ≥ 9%</td></tr>
<tr><td>Minimum Liquidity</td><td></td><td></td></tr>
<tr><td>Base Liquidity</td><td>3.5 bps of Agency Servicing UPB</td><td>
<table>
<tr><th>Servicing Type
(1-4 unit residential)</th><th>Requirements</th></tr>
<tr><td>Enterprise</td><td></td></tr>
<tr><td>Scheduled Interest / Scheduled Principal</td><td>7 bps</td></tr>
<tr><td>Scheduled Interest / Actual Principal</td><td>7 bps</td></tr>
<tr><td>Actual Interest / Actual Principal</td><td>3.5 bps</td></tr>
<tr><td>Ginnie Mae</td><td>10 bps</td></tr>
<tr><td>All Other</td><td>3.5 bps</td></tr>
</table>
</td></tr>
<tr><td>NPL Threshold</td><td>Agency NPL > 6% requires an incremental NPL charge</td><td>No NPL threshold</td></tr>
<tr><td>Incremental NPL Charge</td><td>+ an incremental 200 bps charge on Agency NPL for the portion of Agency NPL > 6% of Agency servicing</td><td>No incremental NPL charge</td></tr>
<tr><td>Origination Liquidity</td><td>No origination liquidity requirement</td><td>2% (200bps) of Outstanding TBA Hedging Position</td></tr>
<tr><td>Eligible Assets for Liquidity</td><td>Unrestricted Cash and Cash Equivalents

Unpledged, Available-for-Sale (AFS) or Held-for-Trading (HFT):
• Agency MBS
• Obligations of GSEs
• US Treasury Obligations</td><td>Unrestricted Cash and Cash Equivalents

Unpledged, Available-for-Sale (AFS) or Held-for-Trading (HFT):
• Agency MBS
• Obligations of GSEs
• US Treasury Obligations</td></tr>
</table>

Requirements Applicable to Large Non-Depositories Only

Key Changes

1. Establish a liquidity buffer that can be drawn on during times of stress.
2. Submit capital and liquidity plans that include MSR stress tests.
3. Obtain third-party ratings.

<table>
<tr><th>Requirement</th><th>Current (1.0)</th><th>Proposed (2.0)</th></tr>
<tr><td>Liquidity Buffer</td><td>No Liquidity Buffer Requirement</td><td><table><tr><th>Servicing Type</th><th>Requirements</th></tr><tr><td>Enterprise</td><td>2 bps</td></tr><tr><td>Ginnie Mae</td><td>5 bps</td></tr></table></td></tr>
<tr><td>Capital and Liquidity Plans</td><td>No requirement to submit capital and liquidity plans</td><td>Require annual capital and liquidity plans that include MSR stress tests as part of the plan.</td></tr>
<tr><td>Third-Party Ratings</td><td>No third-party ratings requirement</td><td>Require third-party servicer and credit ratings for large non-depositories as follows:
≥$50 billion in SF servicing UPB must have one primary servicer rating
>$100 billion in SF servicing UPB must have a primary servicing rating and one third-party credit rating from debt issuance
> $150 billion in SF servicing UPB must have a primary servicer rating and two third-party credit ratings from debt issuance</td></tr>
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