



MORTGAGE BANKERS ASSOCIATION

FHFA Re-Proposal of Capital, Liquidity, and Net Worth Minimum Requirements for GSE Seller/Servicers

February 2022

Background

In January 2015, the Federal Housing Finance Agency (FHFA) introduced capital, liquidity, and net worth minimum [requirements](#) for GSE single-family seller/servicers that took effect in December 2015 and (largely) remain in place today. Most of the requirements are specific to independent mortgage banks (IMBs).

In January 2020, FHFA [proposed](#) updates to these capital, liquidity, and net worth minimum requirements for single-family seller/servicers to the GSEs.

In April 2020, MBA submitted [detailed comments](#) on this proposal. MBA's comments highlighted several areas of concern, including the procyclical treatment of liquidity requirements in periods of market stress, the complete removal of committed servicing advance lines of credit for purposes of liquidity calculations, and the lack of differentiation between actual and scheduled servicing remittances.

In June 2020, FHFA [announced](#) that it would re-assess and re-propose the updated requirements in light of lessons learned from the COVID-19 pandemic.

Since that time, the Conference of State Bank Supervisors (CSBS) has released a finalized prudential [framework](#) for IMB servicers that largely aligns its proposed capital, liquidity, and net worth requirements with those of the GSEs. Ginnie Mae also has released a [Request for Input](#) on updated capital, liquidity, and net worth requirements for IMB servicers, though no further action has been taken on that proposal. MBA submitted detailed comments to both [CSBS](#) and [Ginnie Mae](#).

Net Worth

Key Changes:

- Removes deferred tax assets from the calculation of a servicer's tangible net worth
- Increases the minimum tangible net worth associated with Ginnie Mae servicing from 25 bps to 35 bps

Tangible Net Worth Calculation:

- 2015: Total Equity (GAAP) – Goodwill – Other Intangible Assets (excluding MSR) – Affiliate Receivables – Pledged Assets Net of Associated Liabilities
- 2020: Same as 2015
- 2022: Total Equity (GAAP) – Goodwill – Other Intangible Assets (excluding MSR) – Affiliate Receivables – Pledged Assets Net of Associated Liabilities – Deferred Tax Assets

Minimum Tangible Net Worth:

- 2015: \$2.5 million + 25 bps of UPB for total 1-4 unit residential loans serviced
- 2020: \$2.5 million + 35 bps of UPB on Ginnie Mae servicing + 25 bps of UPB on all other servicing
- 2022: Same as 2020

Note: This net worth portion of the framework is applicable to both depository and IMB servicers.

Capital

Key Change:

- Increases minimum capital ratio from 6% to 9%

Minimum Capital Ratio:

- 2015: Tangible Net Worth / Total Assets \geq 6%
- 2020: Same as 2015
- 2022: Tangible Net Worth / Total Assets \geq 9%

Note: The new requirement is calibrated to match the Community Bank Leverage Ratio. The capital portion of the framework is applicable only to IMB servicers.

Note: The FHFA proposal does not contain a risk-based capital ratio requirement, as was proposed by Ginnie Mae in 2021. The Ginnie Mae proposal would have applied a 250% risk weight on MSR and deducted “excess MSR” from a servicer’s adjusted net worth.

Liquidity

Key Changes:

- Increases base liquidity requirements for Ginnie Mae servicing, non-agency servicing, and the portion of GSE servicing subject to scheduled servicing remittances
- Removes the non-performing loan threshold and the associated liquidity surcharge
- Keeps committed servicing advance lines of credit ineligible for liquidity purposes
- Adds a liquidity requirement associated with hedged TBA positions for institutions that originate loans

- For larger servicers, adds a heightened liquidity buffer, an annual capital and liquidity plan to be submitted to the GSEs, and third-party servicer and credit rating requirements

Base Liquidity Requirement:

- 2015: 3.5 bps of Agency servicing UPB
- 2020: 4 bps of GSE servicing UPB + 10 bps of Ginnie Mae servicing UPB
- 2022: 3.5 bps of GSE servicing UPB (actual remittances) + 7 bps of GSE servicing UPB (scheduled servicing remittances) + 10 bps of Ginnie Mae servicing UPB + 3.5 bps of non-agency servicing UPB

Non-Performing Loan Threshold and Incremental Liquidity Surcharge:

- 2015: Incremental 200 bps on Agency NPL for portion of Agency NPL > 6% of Agency servicing
- 2020: Incremental 300 bps on Agency NPL for portion of Agency NPL > 4% of Agency servicing
- 2022: NPL threshold removed

Allowable Assets for Liquidity:

- 2015: Cash and cash equivalents, agency MBS, GSE obligations, U.S. Treasuries, unused portions of committed servicing advance lines of credit
- 2020: Cash and cash equivalents, agency MBS, GSE obligations, U.S. Treasuries
- 2022: Same as 2020

Note: In December 2020, FHFA directed the GSEs to remove unused portions of committed servicing advance lines of credit from consideration for purposes of allowable assets.

Origination Liquidity:

- 2015: No such requirement
- 2020: No such requirement
- 2022: 200 bps of outstanding TBA hedging position (if company is an originator)

Liquidity Buffer:

- 2015: No such requirement
- 2020: No such requirement
- 2022: Additional 2 bps of GSE servicing UPB and additional 5 bps of Ginnie Mae servicing UPB

Note: GSE approval needed for servicer to draw down buffer. This liquidity buffer only applies to servicers with portfolios larger than \$50 billion in master servicing of single-family loans.

Note: The liquidity portions of the framework are applicable only to IMB servicers.

Capital and Liquidity Plans

Large servicers must submit an annual capital and liquidity plan to the GSEs that describes their capital and liquidity management. These plans must include an annual liquidity stress test that features a stress test of the value of MSR. Large servicers also must notify the GSEs of any material changes to these plans.

Note: This portion of the framework is applicable only to IMB servicers with portfolios larger than \$50 billion in master servicing of single-family loans.

Third-Party Assessments

Large servicers must obtain third-party assessments of their performance and creditworthiness.

Third-Party Assessment:

- If (master) servicing portfolio greater than or equal to \$50 billion, must have a primary servicer rating
- If (master) servicing portfolio greater than \$100 billion, must have a primary servicer rating and a third-party credit rating from debt issuance
- If (master) servicing portfolio greater than \$150 billion, must have a primary servicer rating and two third-party credit ratings from debt issuance

Note: This portion of the framework is applicable only to IMB servicers with portfolios larger than \$50 billion in master servicing of single-family loans.

Timeline

Expected Timeline:

- Comments on the FHFA proposal due in 60 days (April 25, 2022)
- FHFA to finalize requirements in Q2 2022
- Most requirements to take effect on December 31, 2022
- Capital and liquidity plan for large IMB servicers to take effect on December 31, 2023