

TO: Freddie Mac Sellers and Servicers

September 21, 2022 | 2022-19

## SUBJECT: SELLER/SERVICER FINANCIAL ELIGIBILITY REQUIREMENTS

### Effective September 30, 2023 unless otherwise indicated

At the direction of the FHFA and in coordination with Fannie Mae, we are revising our Seller/Servicer minimum financial eligibility requirements to better manage Freddie Mac's counterparty risk exposure.

Seller/Servicers that do not currently meet these new minimum financial eligibility requirements must take steps to be in, and to maintain, compliance with the requirements on and after the effective dates. These Seller/Servicers should contact their Freddie Mac representative or the Customer Support Contact Center at 800-FREDDIE to further discuss the requirements. We will continue to monitor Seller/Servicer financial eligibility compliance, and at our discretion, we may provide Seller/Servicers with additional time to remediate deficiencies on a case-by-case basis or take other appropriate action.

The Guide will be updated to reflect these requirements with future Bulletins.

### Seller/Servicers that are depository institutions

Seller/Servicers that are depository institutions must continue to maintain at all times a Tangible Net Worth of \$2,500,000 plus a dollar amount equal to or exceeding the sum of:

- 25 basis points of that portion of the Seller/Servicer's Residential First Lien Mortgage Servicing UPB, as defined below, serviced for the Enterprises, as defined below in the "[Definitions for financial eligibility requirements](#)" section below (new)
- 25 basis points of the Other Servicing UPB, as defined below, plus
- 35 basis points of that portion of the Seller/Servicer's Residential First Lien Mortgage Servicing UPB serviced for Ginnie Mae (new)

In addition, Seller/Servicers that are depository institutions must continue to maintain compliance with capital and liquidity requirements imposed by their regulators as applicable.

### Seller/Servicers that are non-depository institutions

Seller/Servicers that are non-depository institutions must maintain at all times the Tangible Net Worth requirements applicable to depository institutions described above, and must also maintain:

- A Tangible Net Worth/total assets ratio greater than or equal to 6%, where total assets are determined in accordance with generally accepted accounting principles (GAAP), and
- A base Liquidity of eligible assets equal to or exceeding:
  - 7 basis points of that portion of the Seller/Servicer's Residential First Lien Mortgage Servicing UPB serviced for the Enterprises, if the Seller/Servicer remits (or an Enterprise draws) interest or principal, or both, as scheduled, regardless of whether principal or interest has been collected from the Borrower, (new)
  - 3.5 basis points of that portion of the Seller/Servicer's Residential First Lien Mortgage Servicing UPB serviced for the Enterprises, if the Seller/Servicer remits (or an Enterprise draws) the interest and principal only as actually collected from the Borrower, (new)
  - 3.5 basis points of the Seller/Servicer's Other Servicing UPB, plus (new)

- 10 basis points of that portion of the Seller/Servicer's Residential First Lien Mortgage Servicing UPB serviced for Ginnie Mae (new)
- Effective December 31, 2023, an origination Liquidity equal to or exceeding 50 basis points of the sum of the following as reported by Seller/Servicer using the fields from the Guide Form 1055, *Mortgage Bankers' Financial Reporting Form*:
  - One-to-four-unit residential first lien (excluding reverse Mortgages, one-to four-unit residential construction and land development loans to home buyers, and lot loans to consumers) Mortgages held for sale, at lower of cost or market, (new)
  - One-to-four-unit residential first lien (excluding reverse Mortgages, one-to four-unit residential construction and land development loans to home buyers, and lot loans to consumers) Mortgages held for sale, at fair value, plus (new)
  - UPB of interest rate lock commitments after fallout adjustments (new)

Note: These origination Liquidity requirements do not apply to Small Sellers, as defined below.

### **Seller/Servicers that are Large Non-Depository Institutions**

In addition to the Liquidity requirements specified for non-depository institutions above, all Seller/Servicers that are Large Non-Depository Institutions, as defined below, must maintain supplemental Liquidity at all times equal to or exceeding the sum of:

- 2 basis points of that portion of the Seller/Servicer's Residential First Lien Mortgage Servicing UPB serviced for the Enterprises, plus (new)
- 5 basis points of that portion of the Seller/Servicer's Residential First Lien Mortgage Servicing UPB serviced for Ginnie Mae (new)

### **Financial reporting requirements for Seller/Servicers that are Large Non-Depository Institutions (new)**

Effective December 31, 2023, Large Non-Depository Institutions must obtain an assessment of the Seller/Servicer's performance and creditworthiness by a qualified, independent third party on an annual basis. The assessment must be made available to Freddie Mac upon request and must substantiate that the Seller/Servicer has adequate capacity to perform its financial obligations in an adverse stress environment and must meet the following criteria:

- One primary Servicer Rating or master Servicing Rating, as applicable for Large Non-Depository Institutions that have greater than or equal to \$50 billion in Servicing UPB, and
- One primary Servicer Rating or master Servicing Rating, as applicable, and one third-party Long-Term Senior Unsecured Debt Rating or Long-Term Corporate Family Rating, each as defined below, for Large Non-Depository Institutions that have greater than \$100 billion in Servicing UPB, and
- One primary Servicer Rating or master Servicing Rating, as applicable, and issued by two Rating Agencies, each of which must issue either a third-party Long-Term Senior Unsecured Debt Rating or Long-Term Corporate Family Rating for Large Non-Depository Institutions that have greater than \$150 billion in Servicing UPB

Effective March 31, 2024, all Large Non-Depository Institutions must submit a capital and liquidity plan, annually on or before March 31, that describes how the Seller/Servicer intends to manage its capital and liquidity consistent with Freddie Mac requirements. 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 its 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 servicing contract rights in an adverse scenario (i) developed by the Seller/Servicer or (ii) that may be prescribed by Freddie Mac or both. The servicing contract rights stress test may be conducted either in-house or using a third-party vendor, and
- Require notice to Freddie Mac within five (5) Business Days following any material change to or material deviation from the plan. During times of stress, material changes must require immediate notification within one (1) Business Day.

We will provide details regarding submitting the plan and providing notification of changes to Freddie Mac at a later date.

## Reminder

As a reminder as outlined in Section 2101.2(d), in addition to the above requirements, Freddie Mac may, as it deems appropriate and at its sole discretion:

- Modify a Seller/Servicer's Tangible Net Worth requirement,
- Impose limitations, restrictions or qualifications on the sale of Mortgages to or the Servicing of Mortgages for Freddie Mac by any Seller/Servicer, and
- Impose additional financial requirements on any Seller/Servicer, including but not limited to (i) requirements relating to liquidity and profitability, regardless of the Seller/Servicer's Tangible Net Worth, and (ii) the requirement that any Seller/Servicer execute and deliver a Collateral Pledge Agreement, in substantially the form and substance of Guide Exhibit 104, *Collateral Pledge Agreement*, whereby the Seller/Servicer will pledge certain collateral (whether cash, securities or otherwise), as pledgor, to Freddie Mac, as secured party, in such amount as determined by Freddie Mac, at its sole discretion

Freddie Mac will provide the Seller/Servicer with notice of any modification to the Seller/Servicer's Tangible Net Worth or other financial requirements, any additional requirements, and any limitations, restrictions or qualifications on the sale of Mortgages or Servicing of Mortgages.

## Definitions for financial eligibility requirements

The following terms and definitions will be added to the Guide and are intended to help Seller/Servicers better understand the financial eligibility requirements:

- **Enterprise:** Freddie Mac and Fannie Mae, each an "Enterprise" and collectively the "Enterprises"
- **Large Non-Depository Institutions:** Non-depository institutions with \$50 billion or more in Residential First Lien Mortgage Servicing UPB plus Other Servicing UPB as determined at the end of each calendar quarter
- **Long-Term Senior Unsecured Debt Rating:** A rating assigned to a financial obligation with an original maturity of one year or more that reflects both on the likelihood of a default on contractually promised payments on senior unsecured debts and the expected financial loss suffered in the event of default on such debts from a Rating Agency
- **Long-Term Corporate Family Rating:** A long-term rating that reflects the relative likelihood of a default on a corporate family's debt and debt-like obligations and the expected financial loss suffered in the event of default from a Rating Agency
- **Other Servicing UPB:** Using the fields from Form 1055, the outstanding UPB of a Seller/Servicer's portfolio of one-to-four-unit residential First Lien Mortgages the Seller/Servicer is contractually obligated to service for all investors other than the Enterprises and Ginnie Mae, plus the following, regardless of the investor:
  - Second lien Mortgages,
  - Funded home equity lines of credit,
  - Reverse Mortgages, plus
  - Construction and land development Mortgages

This does not include the outstanding UPB of Mortgages serviced under a subservicing arrangement.

- **Rating Agency:** An entity that is 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))

- **Residential First Lien Mortgage Servicing UPB:** Using the fields from Form 1055, the outstanding UPB of a Seller/Servicer's portfolio of one-to-four-unit residential First Lien Mortgages the Seller/Servicer is contractually obligated to service for the Enterprises and Ginnie Mae, as applicable, excluding:
  - Funded home equity lines of credit,
  - Reverse Mortgages, plus
  - Construction and land development Mortgages

This does not include the outstanding UPB of Mortgages serviced under a subservicing arrangement.

- **Servicer Rating:** 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, from a Rating Agency. Servicer Ratings may be conducted based upon the type of servicing actions performed, including evaluations for entities that act as primary servicers, special servicers or master servicers.
- **Small Seller:** A Seller that originates \$1 billion or less in one-to-four-unit residential First Lien Mortgages (excluding reverse Mortgages, one-to four-unit residential construction and land development loans to home buyers and lot loans to consumers) in the most recent four-quarter period

Additionally, the definitions of Agency Mortgage Servicing, Liquidity and Tangible Net worth have been updated as follows:

- **Agency Mortgage Servicing:** The Residential First Lien Mortgage Servicing UPB of all Mortgages serviced for the Enterprises and Ginnie Mae
- **Liquidity:** Cash and cash equivalents (unrestricted), certain unpledged investment grade securities that are available for sale or held for trade (including single-family MBS backed solely by Agency Mortgage Servicing, obligations of the Enterprises and Treasury obligations) and 50% of committed/unused Agency Mortgage Servicing advance lines of credit
- **Tangible Net Worth:** Total equity less receivables (as determined in accordance with generally accepted accounting principles (GAAP)) due from related entities, less goodwill and other intangible assets, less carrying value of pledged assets net of associated liabilities, less deferred tax assets net of associated deferred tax liabilities
  - Note: If the deferred tax liabilities are greater than the deferred tax assets, then the deduction from the Tangible Net Worth will be zero.

## CONCLUSION

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call the Customer Support Contact Center at 800-FREDDIE.

Sincerely,



Kevin Kauffman  
Vice President, Single-Family Client Engagement