

# INVESTOR DAY 2023

**Seller/Servicer Risk Management**

# Today's Speakers



## Keith Jones

Vice President, Credit Policy, Client Credit Risk Management & Quality Control

Keith Jones is responsible for Seller/Servicer applications and annual recertifications, as well as holistic oversight of Seller/Servicer risk management activities for the Single-Family business. Throughout his career, Mr. Jones has primarily worked within the risk and capital markets areas of large lending and financial institutions. Prior to this role, Mr. Jones was most recently senior vice president of credit policy for Bayview Loans and senior vice president of risk management for NewRez, where he was responsible for policy, product, quality control and counterparty risk. He has held risk-centered roles at PHH Mortgage and Credit Suisse. Mr. Jones received his Bachelor of Science in biology from The College of New Jersey.



## David Marcus

Vice President, Counterparty Credit Risk Management

David Marcus is responsible for the financial analysis and risk appetite of financial counterparties to include non-bank seller/servicers, financial institutions, and reinsurers as well as exposure management for Single Family and I&CM financial risks (less mortgage insurers).

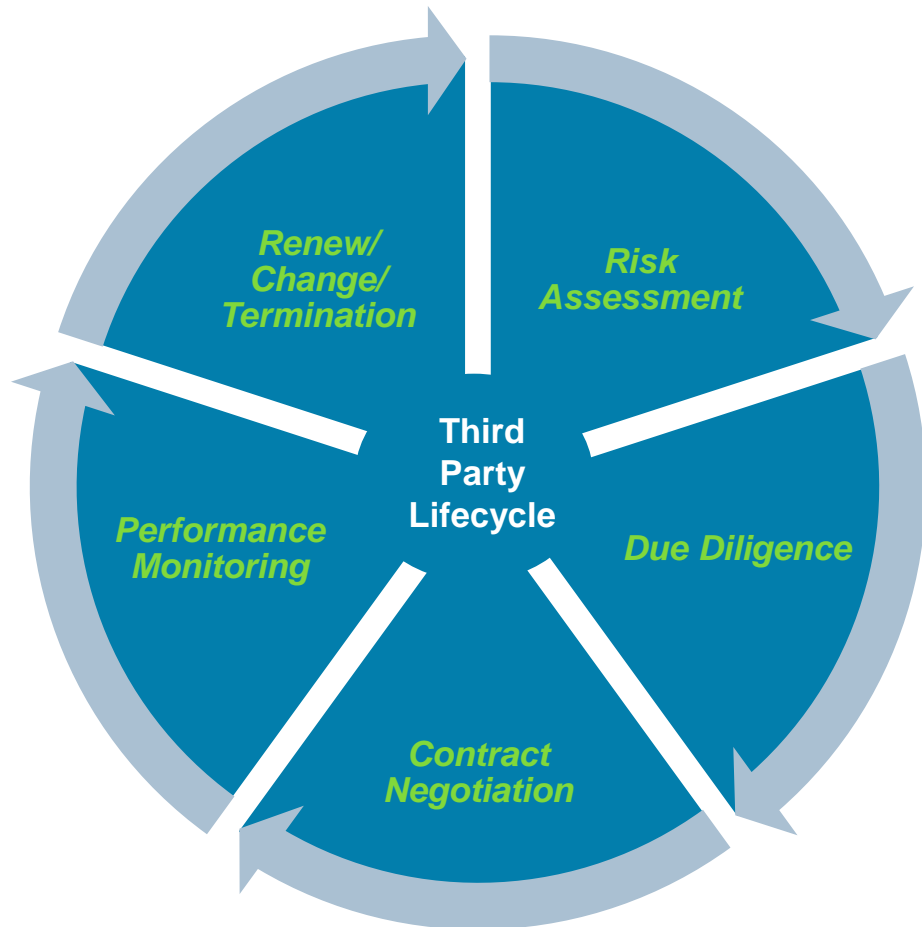


# Our Agenda

- 1. Risk Management Life Cycle Overview**
- 2. Seller/Servicers Oversight**
- 3. Update to FHFA Financial Requirements**

# Risk Management Life Cycle Overview

**Third-Party Risk Management** as outlined in FHFA Advisory Bulletins: risk assessment, due diligence, contracting, monitoring, issue management and renewal/termination.



## Third Party Lifecycle

### **Risk Assessment/Measurement/Planning**

Manage significant changes in third parties.

**Due Diligence/Evaluation** – Evaluate risks (applicant’s financial condition, operational capabilities, legal, compliance, reputational risk, fraud, money laundering, terrorist activity financing) before approving a Seller/Service applicant.

**Contract Negotiation** – Defines the responsibilities, rights and obligations of each party.

**Performance Monitoring** – Ongoing monitoring guided by documented risk-based procedures that outline periodic reviews to assess third-party performance.

**Renew/Change/Termination** – Ensure process in place to efficiently terminate a third-party relationship to minimize adverse impacts.

Issue Management

# Components of Seller/Servicer Oversight



Financial Risk, Credit Risk and Ops Risk are weighted and combined to create comprehensive risk rating.



- The Comprehensive Risk Rating comprises of Financial, Credit and Ops risk:
  - Financial Risk Score – Freddie Mac financial risk rating for seller/servicers
  - Credit Risk Score – Monthly risk assessment for each S/S based on their loan quality, performance, and QC metric
  - Operational Risk Rating – Combination of operational risk measures including CORE data, compliance risk profiles, cyber/privacy incident ratings and QC NAQ trends

# Update to FHFA Financial Requirements



- The FHFA and Ginnie Mae jointly announced updated minimum financial eligibility requirements for Enterprise Seller/Servicers and Ginnie Mae Issuers that will be phased in starting September 30, 2023.
- The core changes to the current FHFA requirements are related to:
  - Definitions of tangible net worth and eligible liquidity.
  - Minimum liquidity requirements related to seller origination pipelines and adjustments to current base liquidity requirements which now differentiate liquidity requirement by remittance type.
  - Higher requirements to large non-depositories (\$50B or more Servicing UPB).
- FHFA and Ginnie Mae requirements are largely aligned, with the notable exception of Ginnie Mae's inclusion of a 6% minimum risk-based capital requirement (RBC). This requirement is similar to bank RBC required treatment of excess MSR to capital.



# Update to FHFA Financial Requirements cont.



Net Worth Requirement (Applies to non-bank and banks)	Current	Eligibility 2.0
Base: \$2.5 million +		
Enterprise Servicing and All other Servicing	25 bps	25 bps
Ginnie Mae Servicing	25 bps	35 bps
Definition of Tangible Net Worth	Capital less Goodwill and Intangibles, Related Party Receivable, and Pledged Assets	Capital less Goodwill and Intangibles, Related Party Receivable, Pledged Assets, and <b>Deferred Tax Assets net of associated Liabilities</b>
Base Liquidity Requirement	Current	Eligibility 2.0
Enterprise Servicing		
Schedule Interest / Scheduled Principal	3.5 bps	7.0 bps
Schedule Interest / Actual Principal	3.5 bps	7.0 bps
Actual Interest / Actual Principal	3.5 bps	3.5 bps
Ginnie Mae Servicing	3.5 bps	10 bps
All Other Servicing		3.5 bps
Agency SDQ UPB greater than 6%	200bps	-
Eligible Liquidity	Unrestricted cash, Available for Sale or Held-for-Trading Agency MBS, Obligations of GSEs, US Treasury	Unrestricted cash, Available for Sale or Held-for-Trading Agency MBS, Obligations of GSEs, US Treasury, <b>50% of Unused Committed Agency Servicing Advance lines of Credit</b>
Liquidity Buffer for Large Servicers	Current	Eligibility 2.0
Enterprise Servicing	-	2 bps
Ginnie Mae Servicing	-	5 bps
Origination Liquidity Requirement	Current	Eligibility 2.0
Mortgage Loans Held for Sale + UPB of Interest Rate Lock Commitments After Fallout Adjustment <i>Not required for Sellers with less than \$1.0 billion or less in SF 1-4 Units origination in a four-quarter period</i>	-	50bps
Capital Ratio	Current	Eligibility 2.0
Tangible Net Worth / Total Assets	≥ 6%	≥ 6%

# Counterparty Credit Risk Management (Counterparty Level Lifecycle)



**Evaluation:** Assessment of counterparty financial strength

- Annual Review
- Risk Rating
- Risk Appetite

**Surveillance & Monitoring:** On-going monitoring of risk profile

- Market Indicators
- Stress Testing (Capital Adequacy and Liquidity)
- Early Warning Indicators
- Frequent Reporting and Due Diligence (Senior Management).

**Management:** Effective CCR management frameworks

- Exposure and Risk Appetite
- Risk Mitigation

**Reporting:** Timely and Comprehensive Reporting

- Risk Appetite
- Risk Profile







# Questions?



# Thank You