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December 31, 2020

Non-Depository Supervisory Committee
Conference of State Bank Supervisors
1129 20th Street, NW
Washington, DC 20036

RE: Proposed Regulatory Prudential Standards for Nonbank Mortgage Servicers

Dear Members of the Non-Depository Supervisory Committee:

The Housing Policy Council ("HPC")[1] appreciates the opportunity to comment on the regulatory prudential standards for nonbank mortgage servicers (the "Proposed Standards") published for comment by the Non-Depository Supervisory Committee of the Conference of Bank Supervisors ("CSBS").[2] The Proposed Standards would have a direct impact on HPC's nonbank members engaged in mortgage servicing[3] and HPC's bank members that sell mortgage servicing rights or extend credit to nonbank mortgage servicers.

Our comments on the Proposed Standards are divided into two sections. Section I describes certain fundamental principles that, we believe, should guide the development and implementation of the Prudential Standards. These principles are consistency with federal practices, uniformity in application, and alignment with the risks of mortgage servicing and the business models of nonbank mortgage servicers. Section II sets forth some recommended modifications to appropriately calibrate the Prudential Standards to the risks inherent in nonbank mortgage servicing and deter unwarranted economic burdens on nonbank mortgage servicers.

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[1] HPC is a trade association comprised of the nation's leading mortgage lenders, servicers, mortgage insurers, and title and data companies. HPC advocates for the mortgage and housing finance interests of its members in legislative, regulatory, and judicial forums. Our interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promotion of lending practices that create sustainable home ownership opportunities that lead to long-term wealth-building and community-building for families.
[2] Proposed Regulatory Prudential Standards for Nonbank Mortgage Servicers 2020; https://www.csbs.org/system/files/2020-09/FinalProposedPrudentialStandardsForComment-2020_1.pdf.
[3] Most of the nonbank mortgage servicers that are members of HPC would be classified as "complex" servicers. Thus, our comments are focused on the impact of the Proposed Standards on those large firms.

I. Principles to Guide the Development and Implementation of the Prudential Standards

In the introduction to the Proposed Standards, CSBS recognizes the importance of nonbank mortgage servicers in the mortgage market.[4] HPC agrees. Nonbank mortgage servicers are a vital conduit between mortgage borrowers and investors in mortgage loans. The mortgage market has evolved to rely on the services provided by these companies, especially for mortgage borrowers in the FHA/VA mortgage market.

Given the role of nonbank mortgage servicers in the mortgage market, HPC also agrees with the stated goal of the Proposed Standards, which is to ensure that nonbank mortgage servicers are in a sound financial condition and have implemented effective risk management practices. Basic standards for capital, liquidity and operations will contribute to systemic market stability and enable nonbank mortgage servicers to serve borrowers and investors in all economic cycles. CSBS is rightly interested in knowing which nonbank mortgage servicers are capable of absorbing additional servicing volume should certain individual servicers – large or small – fail.

Appropriate financial and managerial standards can provide a useful framework for making this determination. It is imperative, however, that such standards be consistent with federal requirements and that they be uniformly applied and uniformly enforced by the states. CSBS undertakes this effort as federal standard setters, notably FHFA and Ginnie Mae, have taken steps in recent years to upgrade counterparty oversight of nonbank servicers and those agencies continue to evaluate their standards.

The Prudential Standards should be consistent with federal requirements and uniformly applied and enforced by the states.

HPC appreciates the fact that CSBS has tried to align the Proposed Standards with the Eligibility Requirements for Enterprise Single-Family Seller/Servicers established by the Federal Housing Finance Agency ("FHFA"). We note, however, that CSBS is proposing a "higher of" construct under which the standards may increase but not decrease. To ensure complete alignment the standards should be structured to simply align with the standards set by FHFA.

Moreover, CSBS's recent "One Company, One Exam" initiative is a positive step toward more uniform supervision of nonbank mortgage companies. We encourage CSBS to build on this recent initiative as it develops and implements the Prudential Standards. Conversely, a patchwork of conflicting requirements (or interpretations of requirements) that are applied differently by different states would impose additional costs and needless complexities for nonbank mortgage servicers and increase systemic risks in adverse economic environments.

Consistency and uniformity will require information sharing between state regulators and federal authorities. Therefore, we also encourage state regulators to enter into, or modify

[4] "Nonbank mortgage servicers are an important segment of the financial services community.", page 2.

as necessary, information sharing agreements with FHFA, CSBS, Ginnie Mae, and the Consumer Financial Protection Bureau ("CFPB") regarding the oversight, supervision, and regulation of nonbank mortgage servicers.[5] As CSBS acknowledges in the introduction to the Prudential Standards, the Financial Stability Oversight Council has recommended collaboration between state and federal regulators and appropriate information sharing agreements will be an integral part of that collaboration. Uniform and consistent supervision and regulation of nonbank mortgage servicers cannot be achieved without such agreements.

The Prudential Standards should be designed to address the unique risks of mortgage servicing and the business models of mortgage servicers.

It is equally important that the Prudential Standards be tailored to address the specific risks associated with mortgage servicing and the different business models of nonbank mortgage servicers. Since the financial crisis, financial regulators have recognized the need to align prudential standards with various business models. For example, the federal banking agencies have scaled capital and liquidity requirements for large banking organizations based upon the size, complexity, and risk profile of the organization.[6] CSBS also has recognized the need to tailor regulation for smaller community banks.[7]

Yet, it appears that some of the Proposed Standards are based, in part, upon regulatory requirements applicable to the structure and risks associated with banking organizations. The primary concern with the failure of a nonbank mortgage servicer is the transfer of assets to another servicer. Before finalizing the Prudential Standards, we encourage CSBS to calibrate the Prudential Standards to the risks associated with the distinct business models of nonbank mortgage servicers and the need to transfer servicing in the event of failure.

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[5] These agreements should provide that state regulators and federal authorities impose common reporting requirements that are based upon the mortgage bankers' financial reporting form (MBFRF) used by Fannie Mae, Freddie Mac, and Ginnie Mae rather than the mortgage call report (MCR). The use of one common data source would ensure consistency in the data used for overseeing, supervising, and regulating nonbank mortgage servicers.
[6] See 84 Fed. Reg. 59032 (Nov. 1, 2019). (The standards were "tailored … to reflect these banking organizations' lower risk profile and lesser degree of complexity relative to other large banking organizations.")
[7] "State regulators are concerned that the current approach to applicable regulation falls short in providing a tailored and reasonable approach to community bank regulation, which in turn harms these institutions and the communities they serve." Statement of Charles G. Cooper, Banking Commission, Texas Department of Banking before the Senate Banking Committee, June 22, 2017.

II. Recommended Modifications to the Proposed Standards

A. Net Worth

The definition of net worth should be aligned with current practices by Ginnie Mae and the Enterprises.

CSBS is proposing that the definition of net worth be based upon the definitions used by the Enterprises in their financial eligibility standards.[8] Ginnie Mae uses a similar definition of net worth.[9]

This definition could be read to require a nonbank mortgage servicer to exclude from its net worth mortgage servicing rights (MSRs) and other assets pledged against unused credit lines. Such a result is inconsistent with the actual practices of Ginnie Mae and the Enterprises and would materially reduce the net worth of nonbank mortgage servicers. Based upon discussions with Ginnie Mae staff, we understand that Ginnie Mae has interpreted its definition of net worth to exclude MSRs from net worth only if the MSRs are used to secure an obligation of another entity. In other words, if a nonbank mortgage servicer uses its MSRs to secure a line of credit, that line of credit is an obligation of the nonbank mortgage servicer, not another entity, and the MSRs may count toward the nonbank mortgage servicers net worth.[10]

Similarly, HPC members have told us that the Enterprises routinely use their discretion to permit MSR and other pledged assets to count toward net worth. Therefore, to avoid potential confusion over the treatment of pledged assets in calculating net worth, we recommend that the Prudential Standards explicitly adopt an approach toward pledged assets that is fully aligned with the practices employed by Ginnie Mae and the Enterprises. Aligning written guidelines with actual Enterprise and Ginnie Mae practice would promote consistency in FHFA, Ginnie Mae, and CSBS standard-setting. We believe the actual practice reflects prudent business judgment and better reflects economic realities.

Ginnie Mae also has permitted servicers to exclude certain assets from the calculation of the minimum capital-to-asset ratio, which otherwise would be included under Generally Accepted Accounting Principles (GAAP). These assets are Home Equity Conversation Mortgage (HECM) loans sold into Ginnie Mae securitization trusts (HMBS trusts), loans repurchased from Ginnie Mae pools, MSRs associated with subservicing contracts, and assets in RMBS trusts. In each case, GAAP requires that the asset be carried on the books of the servicer, but the servicer has limited economic exposure to the asset. We recommend that the Prudential Standards

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[8] Net worth would be defined as: total equity capital (as determined by Generally Accepted Accounting Principles (GAAP), minus goodwill and other intangible assets (excluding mortgage servicing rights), and minus receivables from related parties and pledged assets net of associated liabilities.

[9] See Chapter 2 of the Ginnie Mae MBS Guide, which cross references Chapter 6 of the Consolidated Audit Guide for Audits of HUD Programs.

[10] This interpretation is conditioned upon other provisions in Ginnie Mae's MBS Guide which provide that encumbered MSRs do not alter Ginnie Mae's superior interest in the MSR in the event a servicer fails.

explicitly adopt Ginnie Mae's implemented treatment of these assets for purposes of the net worth calculation to ensure that the Prudential Standards reflect actual practice. Additional information on these assets is found in Attachment A.

B. Liquidity

Consistent with a proposal made by FHFA earlier this year, CSBS is proposing a framework for addressing the liquidity risk of nonbank mortgage servicers that would: (i) impose a base liquidity requirement tied to a percentage of UPB serviced by a nonbank mortgage servicer; (ii) exclude unused/available portions of committed servicing advances lines of credit and exclude other available but unused credit lines from satisfying the base liquidity requirement; and (iii) impose an incremental liquidity requirement based upon the amount of nonperforming loans serviced by a nonbank mortgage servicer. Additionally, CSBS is proposing a liquidity requirement (of an unspecified amount) to cover operational risks.

As noted above, one of the fundamental principles that should guide the development and implementation of the Prudential Standards should be the calibration of the standards to the risks of mortgage servicing and the business models of different mortgage servicers. This principle is particularly applicable to the proposed liquidity requirements because not all nonbank mortgage servicers are subject to the same liquidity risks, and not all types of liquidity risks are the same. The liquidity requirements in the Prudential Standards should reflect the liquidity risk posed by different business models and the different types of liquidity risks.

Liquidity standards should recognize the array of liquidity sources relied upon in normal commercial practice and the types of liquidity risk to be managed.

The liquidity risk for nonbank mortgage servicers is affected by different business models. Even more so than banks, nonbank mortgage servicers have a diversity of corporate forms, and corporate sources of funds, that defy simple assessments of liquidity resources and potential liquidity needs. For example, nonbank mortgage servicers that engage in a meaningful loan origination business have different liquidity risks from nonbank mortgage servicers that do not originate loans. Publicly traded and large private mortgage servicers may have more access to sources of funds, and some servicers may have parent companies that can be a source of funding.

As both CSBS and FHFA recognize, not all mortgage servicing imposes the same degree of potential liquidity needs. Clearly, servicing loans in Ginnie Mae pools involves a more substantial potential call on servicer liquidity, and for a longer and less certain duration, than loans in GSE pools. In fact, a number of large-scale, nonbank Ginnie Mae servicers sourced excess financing under existing committed credit lines, to withstand the economic uncertainty created by the pandemic. This additional liquidity serves as a cushion, enhancing the cash available to address unexpected demand for advances.

Moreover, not all liquidity risks are the same. The liquidity risks faced by nonbank mortgage servicers vary based upon idiosyncratic liquidity demands that arise from how the business is operated, the performance of the underlying portfolio, and applicable remittance schedules. Liquidity risks also may result from systemic liquidity crunches during which most or all servicers and credit providers face a sudden and severe tightening of market liquidity that either creates, or in part results from, adverse economic conditions that may or may not be related to an increase in mortgage delinquencies.[11]

To be clear, these differences in business models and liquidity risks should not be interpreted as a call for a variety of liquidity standards. We are highlighting these to illustrate the types of factors CSBS (as well as FHFA) should consider in calibrating liquidity standards for the business of mortgage servicing. As we stated at the outset of this letter, it is important that all of the standards, including the liquidity standards, be consistent and uniformly applied.

The liquidity requirements should be designed to cover near-term operating expenses and include a cushion to cover changes in market conditions.

As CSBS notes, liquidity risk management should ensure that a nonbank mortgage servicer has sufficient liquidity to meet near-term operating expenses, and should include a cushion for unexpected, rapid increases in liquidity needs to fund pipelines, meet margin calls, and advance payments due to changes in market conditions, such as an increase mortgage delinquencies. The CSBS framework recognizes these needs by requiring servicers of all sizes to have appropriate cash management plans "that match the size and sophistication of the institution" and by requiring written policies to ensure operating liquidity is always maintained.

Committed but unused/available credit lines should count toward the liquidity requirement.

Consistent with a similar proposal from FHFA, the Prudential Standards would exclude unused/available portions of committed servicing advance lines of credit from the base liquidity requirement. Both HPC's nonbank mortgage servicer members that use these lines and HPC's bank members that provide these lines view the total exclusion of committed, but unused lines as an extreme and unwarranted remedy.

First, it is important to clarify that nonbank mortgage servicers rely upon various types of committed credit lines, including credit lines collateralized by MSRs, committed advance lines that are secured by other assets, and committed lines that are not secured. In each case,

[11] While nonbank mortgage servicers should be expected to manage their businesses to be prepared for the first two sources of liquidity risk, market liquidity crises are harder to anticipate. This spring's sudden and unforeseen liquidity crunch arising from a national health emergency is a good example. This does not mean that individual nonbank mortgage servicers should not be prepared for such disruptions, but rather to suggest that there are limits as to what may reasonably be expected of individual firms before more systemic responses are required by governmental authorities.

committed lines are subject to contractual agreements that recognize the strength of the servicer and include performance monitoring by the creditor banks. Nonbank mortgage servicers pay fees for these commitments in order to have funds available for future use and banks that extend the credit are required to hold capital to support the lines and are required to meet their own liquidity requirements. Therefore, the treatment of committed, but unused credit lines should not be a binary, all-or-nothing, choice; some, if not full, credit should be given to these credit lines. Moreover, excluding committed, but unused credits lines could create a perverse incentive for nonbank mortgage servicers by discouraging the prudent practice of prepositioning liquidity sources before such sources are needed.

Second, and most importantly, we recommend that, rather than exclude these lines entirely, CSBS count all types of committed, but unused lines of credit toward the liquidity requirement, subject to certain caps and/or limitations. For example, for a given liquidity requirement, CSBS could provide that no more than [X] percent of the base liquidity requirement be met by committed, but unused credit lines. The appropriate percentage cap would need to be determined. This approach would be similar to the "haircut" given to level 2A and level 2B liquid assets in the short-term liquidity requirement applicable to banking institutions.[12]

Another approach would be to provide that only a portion of the remaining capacity on a line of credit could count toward the requirement. That is, a nonbank mortgage servicer could be limited to counting a maximum of a certain percentage of the capacity of a line toward the requirement. This approach may require different thresholds based upon the different types of credit lines. An MSR-backed line may be haircut more than a servicing advance-backed line, for instance.

HPC is not endorsing one of these approaches over the another. In fact, we assume there may be other approaches that should be considered. And HPC understands that CSBS and FHFA have raised questions about how to account for the risk that an expiring credit line is not renewed by the lender. Considering all these issues, HPC recommends that at least some meaningful portion of all types of committed, but unused credit lines should count toward the liquidity requirement, and we would be pleased to engage further with CSBS (and FHFA) on this issue. Questions about renewal should be considered separately, but in any event, servicers should be expected to maintain compliance with the liquidity requirements as credit lines are added or dropped, and as usage on those lines varies over time. And, as stated multiple times already, in the end we believe it is essential that CSBS and FHFA and Ginnie Mae align on how such lines are treated in satisfying liquidity requirements.

The base requirement should reflect differences in remittance schedules.

The liquidity risk for a nonbank mortgage servicer is affected by two conditions in servicing agreements: (i) how long a servicer must make advances of principal and interest

[12] See 12 C.F.R. 249.21.

payments to the holders of mortgage securities when a borrower is delinquent on a mortgage payment, and (ii) when the servicer is reimbursed for the advances by future mortgage payments, mortgage insurance coverage, or guaranty proceeds. These conditions, however, are not the same in all servicing agreements. As a result, the liquidity risk for a nonbank mortgage servicer will vary depending upon the terms for reimbursing advances contained in a servicing agreement. Consideration of this additional factor would more closely align the base liquidity requirement with the actual liquidity risk faced by nonbank mortgage servicers. We encourage CSBS to consult with FHFA and Ginnie Mae on this issue.

The incremental liquidity requirement is counterproductive and should be eliminated.

CSBS, like FHFA, also is proposing an incremental liquidity requirement based upon the volume of nonperforming loans serviced by a nonbank mortgage servicer. Such a requirement would have a counterproductive, pro-cyclical effect on the mortgage market. Nonperforming loans increase during periods of economic stress, and a key purpose of building liquidity is to use it during times of stress. Thus, a requirement that mortgage servicers hold more liquidity during periods of economic stress would limit a servicer's ability to dedicate existing cash to cover advances on such nonperforming loans precisely when such liquidity is needed most. Moreover, requiring a nonbank mortgage servicer to expand liquidity during a stress period would add to the overall strain in mortgage and financial markets by further increasing the demand for liquidity at the same time that other participants in those markets may be seeking such credit, thereby increasing the pro-cyclicality of the requirement.

Given the counterproductive effectives of the incremental liquidity requirement based on delinquent loans we recommend that it be eliminated. Instead, as discussed below, we recommend that servicers be required to maintain some additional cushion for unexpected events that takes the form of (i) additional net worth; or (ii) a reserve based upon an analysis of the quality of the loans serviced. Either of these approaches would be a more effective means to ensure that nonbank mortgage servicers have a cushion against unexpected events than an incremental liquidity requirement. Additionally, we recommend that nonperforming loans that are associated with a disaster period, such as the COVID-19 pandemic, should be excluded or discounted in any requirement to hold additional liquidity.

A supplemental liquidity cushion for unexpected events could take alternative forms.

CSBS is proposing an additional (but unspecified) liquidity requirement to ensure that a nonbank mortgage servicer has funds necessary to cover operating expenses, especially during periods of economic stress. In lieu of a separate (unspecified) liquidity requirement for operations, and as a replacement for the incremental liquidity charge, we encourage CSBS to consider various alternatives to creating a cushion for unexpected events.

One option would be to require a minimum capital requirement greater than 6 percent that is tied to the risk of the underlying portfolio. Servicers that maintain strong net worth ratios have a greater ability to obtain liquidity when needed. This option also would be consistent with the current practices of large nonbank mortgage servicers. As stated before, alignment across CSBS and federal standard-setters would be important here.

Another option would be to tie a supplemental liquidity requirement to the actual risk of a portfolio. Under this option, additional required liquidity would be based on the actual risk characteristics of the servicer's portfolio. CSBS, FHFA, CFPB, and Ginnie Mae would need to agree on clear, objective risk metrics that would identify mortgages carrying a greater-than-average risk of delinquency in any given stress environment and base the supplemental liquidity charge on those loans. This would involve a review of the risk profile of the mortgages, as well as servicer capital and liquidity under stress in order to establish realistic performance expectations. In other words, the riskier the servicer's loan portfolio, the greater the required supplemental liquidity cushion.

C. Stress Tests

Stress test requirements should be based upon Ginnie Mae's approach to stress testing.

CSBS is proposing that complex nonbank mortgage servicers be subject to stress testing requirements. We recommend that for complex servicers CSBS not develop its own stress testing standard, but, instead, defer to the stress testing framework that Ginnie Mae is developing. The Ginnie Mae stress testing framework involves a review of each servicer's business operations, its unique structure and funding, as well as consideration of how the servicer is prepared to respond to a sudden decline in originations, an increase in delinquencies (hence more servicing advances), and a decline in MSR values. Ginnie Mae plans to refine and adapt the framework over the initial deployment period but will use the information generated from the stress tests to ascertain and evaluate the financial and operational condition of large servicers. The results of the tests would also enable servicers to adjust operations to expand capacity, providing Ginnie Mae with a view into which companies might be in a position to absorb servicing, if necessary, in the event a competitor fails during periods of economic stress. The general results of the tests, perhaps, at a minimum, information on which servicers have excess capacity, could possibly be shared with individual state regulators under information sharing agreements.

D. Living Wills

The standard on living wills should be replaced with a standard on contingency and continuity planning that includes plans for servicing transfers and resolutions.

CSBS is proposing a living will and recovery resolution plan for complex mortgage nonbank servicers. Simply stated, the living will process is not appropriate for nonbank mortgage servicers. Following the financial crisis, the living will process was imposed upon large banking organizations and large banks to enable these organizations to: (i) identify contractual vulnerabilities; (ii) rationalize organizational structures; and (iii) plan for an orderly resolution in the event of failure. Nonbank mortgage servicers do not face such challenges.

Existing servicing transfer and bankruptcy procedures are already well-established to handle the failure of a nonbank mortgage servicer.

In lieu of a living will requirement, we recommend that CSBS focus on contingency and continuity planning. Contingency and continuity plans are designed to ensure that a business has the systems, personnel, and resources necessary to continue to operate in response to unexpected events and to help transition assets and staffing to another servicer, as necessary. Such plans could require a servicer to identify a back-up source of servicing should a servicer cross some risk metric.

Ginnie Mae has identified the types of information a servicer should consider in developing these plans. We encourage CSBS to base its requirement on that work product. Doing so will further the goal of uniform and consistent standards for nonbank mortgage servicers. We also recommend that CSBS develop formal protocols with Ginnie Mae and FHFA to ensure that any actions taken by Ginnie Mae or by an FHFA-regulated entity, or by a state regulator, related to the resolution of a nonbank mortgage servicer be communicated and coordinated across all those parties. Such coordination is needed to minimize both market and customer disruption in the event of the failure of a nonbank mortgage servicer.

Conclusion

As we noted at the outset of this letter, nonbank mortgage servicers perform a vital role in the housing finance system. Thus, for the integrity of the system, HPC recognizes that it is important that nonbank mortgage servicers operate in a safe and sound manner. Our comments are intended to help CSBS refine the Proposed Standards so they can achieve that goal, while recognizing the unique business model of mortgage servicers. We welcome the opportunity to engage further with CSBS on any of the matters addressed in this letter.

Yours truly,

Edward J. DeMarco

Edward J. DeMarco
President
Housing Policy Council

Attachment

Attachment A

Exclusion of Certain Assets from Capital-to-Asset Calculations

<u>HECM loans sold into GNMA securitization trusts (HMBS pools), with the servicing rights being retained by the issuer</u>

In these securitization transactions, the issuer/servicer has certain requirements related to the HMBS. These include a requirement to repurchase loans from HMBS pools once their UPB reaches 98 percent of the Maximum Claim Amount for the loan. Another requirement is that the issuer/servicer is paid by issuing so-called "tail draws," issuing GNMA-back HECM securities, when the borrowers on an HECM loan are not making any cash payments from which to pay the servicing spread and fees. Due to these requirements, the transfer of HECM loans do not qualify for sale accounting treatment and are accounted for as part of "loans held for investment," with an offsetting liability. In other words, under GAAP, the entire securitization is on the issuer/servicer's balance sheet. Yet, once the HECMs are sold to GNMA trusts, they become assets of the trusts and the issuer/servicer does not have any claims on those loans. Similarly, holders of the HMBS have no recourse against the assets of the issuer/servicer.

<u>Contingent GNMA loan repurchase asset</u>

The Ginnie Mae program agreements provide that an issuer/servicer: (i) has the right, but not the obligation, to repurchase loans more than 90-days delinquent in GNMA pools subject to certain conditions; or (ii) the obligation to repurchase previously transferred mortgage loans that have been subject to a successful trial modification before any permanent modification is made. These are known as early-buy-outs or EBOs. When these conditions are met, the issuer/servicer is treated as having regained control over the mortgage loan(s), and under GAAP, must re-recognize the loans as assets on our consolidated balance sheets and establish a corresponding repurchase liability. This requirement applies regardless of whether the issuer/servicer has any intention to repurchase the loan.

<u>Rights to MSRs and long-term sub-servicing contracts</u>

GAAP often requires that the entire MSR be brought onto a servicer's books for subservicing contracts (or other similar contracts) where advancing and other responsibilities have been purchased by a 3rd party. With respect to subservicing, the length of the contract and ease of termination are among the key determining factors in the accounting treatment. Without the flexibility to exclude these assets from net worth, servicers would have an incentive to enter into shorter and more easily terminated agreements, which is contrary to market stability.

RMBS trusts

Similar to HECM securities, an issuer/servicer that holds a residual interest in an RMBS security may be required to bring the entire security onto the balance sheet. This particularly is an issue for non-QM issuers. Only the residual interests should be treated as an asset for net worth purposes because holders of the securities issued by these trusts have recourse only against the assets of the RMBS trusts and have no claims on the assets of the issuer/servicer.