CSBS Prudential Standards for Nonbank Mortgage Servicers

This chart compares the Oct. 1, 2020 Proposed Regulatory Prudential Standards for Nonbank Mortgage Servicers to the July 23, 2021 Final Model State Regulatory Prudential Standards for Nonbank Mortgage Servicers

Description	CSBS Proposed Regulatory Prudential Standards	CSBS Final Model State Regulator Prudential Standards
Baseline Coverage	Subject to public comment	Final Model Standards apply to all nonbank mortgage servicers with portfolios of 2,000 or more 1-4 unit residential mortgage loan serviced or subserviced for others and operating in two or more states, districts or territories, excluding whole loans owned and loans being "interim" serviced prior to sale. The standards do not apply to not-for-profit mortgage servicers or housing finance agencies. Financial condition does not apply to servicers solely owning and/or conducting reverse mortgage servicing, or the reverse mortgage portfolio administered by covered institutions or the whole loan portion of portfolios.
Capital	Definition: Total Equity Capital under GAAP minus goodwill and other intangible assets excluding mortgage servicing rights and minus receivables from related parties and pledged assets net of associated liabilities. The higher of: a) $2.5 million plus 25 bps of UPB for total 1-4 unit residential mortgage loans serviced, excluding sub-serviced UPB, reverse mortgages and wholly-owned loans [25 bps add-on does not apply to subservicers], OR	Now a sub-supervisory area under Financial Condition category of the Final Model Standards. A covered institution that meets the FHFA Eligibility Requirement for Enterprise Single-Family Seller/Servicers, regardless of whether the servicer is approved for GSE servicing, meets the requirements of this section. This means that the standards apply the FHFA calculations to all servicing (GSE, Government and private). Covered institutions shall maintain

Capital (Cont.d)	b) FHFA Eligibility Requirement for Enterprise Single-Family Seller/Servicers, as modified from time to time. For subservicers that are not originators and do not own MSRs or whole loans: additional 25 bps of UPB add-on does not apply.	written policies and procedures implementing the capital and servicing liquidity requirements of this section. Such policies and procedures must include a sustainable written methodology for satisfying the requirements and be available to state regulators upon request.
Net Worth Ratio	The higher of: a) Tangible Net Worth / Total Assets is equal to or greater than 6%, OR b) FHFA Eligibility Requirement for Enterprise Single-Family Seller/Servicers, as modified from time to time. Applicable to all covered nonbank servicers, including subservicers.	Now a sub-supervisory area under Financial Condition category of the Final Model Standards. A covered institution that meets the FHFA Eligibility Requirement for Enterprise Single-Family Seller/Servicers, regardless of whether the servicer is approved for GSE servicing, meets the requirements of this section. Covered institutions shall maintain written policies and procedures implementing the capital and servicing liquidity requirements of this section. Such policies and procedures must include a sustainable written methodology for satisfying the requirements and be available to state regulators upon request. No change in applicability.

Servicing Liquidity	The higher of: a) 3.5 bps of total servicing UPB (Fannie, Freddie, Ginnie Mae, PLS) excluding subservicing, reverse mortgages and wholly owned loans, plus 200 bps of total non-performing servicing UPB in excess of 6% of the total servicing UPB, OR b) FHFA Eligibility Requirement for Enterprise Single-Family Seller/Servicers, as modified from time to time. Applicable to all covered nonbank servicers excluding the subserviced portion of a portfolio.	Now a sub-supervisory area under Financial Condition category of the Final Model Standards. A covered institution that meets the FHFA Eligibility Requirement for Enterprise Single-Family Seller/Servicers, regardless of whether the servicer is approved for GSE servicing, meets the requirements of this section. This means that the standards apply the FHFA calculations to all servicing (GSE, Government and private). Covered institutions shall maintain written policies and procedures implementing the capital and servicing liquidity requirements of this section. Such policies and procedures must include a sustainable written methodology for satisfying the requirements and be available to state regulators upon request. No change in applicability.
Allowable Assets for Minimum Liquidity	a) Cash and Cash Equivalents b) Agency MBS, Obligations of GSEs, US Treasury obligations	No Change
Minimum Operating Liquidity	Additional Allowable Assets for Liquidity to cover normal or non-servicing related operating expenses and general business risk.	No Change
Documentation for Minimum Operating Liquidity	Management is required to have a written methodology as well as policies and procedures for determining and maintaining Operating Liquidity sufficient for the ongoing needs of the institution, normal business	No Change

	operations as well as recovery or orderly wind-down of critical operations and services. Such plans, policies and procedures and written methodologies must be available to state regulators upon request.	
Risk Management	All organizations must establish a risk management program under the oversight of the board of directors and scaled appropriately to the complexity of the organization. A risk management assessment must be conducted on an annual basis concluding with a formal report to the board of directors.	Now a sub-supervisory area under Corporate Governance category of the Final Model Standards. Covered Institutions shall establish a risk management program under the oversight of the board of directors that identifies, measures, monitors and controls risk sufficient for the level of sophistication of the servicer and be sufficiently robust to manage risk in several areas as outlined. Covered Institutions shall also conduct an annual risk management assessment concluding with a formal report to the board of directors and made available to state regulator upon request.
Data Standards	Mortgage servicing rules under Regulation X and Regulation Z apply to all nonbank mortgage serviced. All firms will be required to have a documented process for onboarding, maintenance and internal audit of serviced loans.	Deleted due to redundancy with Reg X Sec. 1024.38
Data Protection, including Cyber Risk	Data protection standards includes governance over information technology (IT), IT security risk assessment, and IT security testing and monitoring.	Deleted due to redundancy with FTC Safeguards Rule

Corporate Governance	The board of directors must establish a sound corporate governance framework to protect the financial, reputational, cultural and strategic interests of the firm and the firm's stakeholders and set minimum standards of acceptable behavior for employees. The board must also establish appropriate internal controls and a method for independently validating the accuracy and reliability of the financial and servicing information of the firm. Ginnie Mae reporting standards will be used as baseline internal audit requirements.	In the Final Model Standards, Corporate Governance is the second main category of standards (in addition to Financial Condition) and has four sub-supervisory areas: Board of Directors, Internal Audit, External Audit and Risk Management.
Board of Directors	No explicit requirement for a board of directors or similar governing body, though board oversight of multiple Proposed Baseline and Enhanced Standards is detailed.	Now a sub-supervisory area under Corporate Governance category of the Final Model Standards. Covered Institutions shall establish and maintain a board of directors or a similar body constituted to exercise oversight and fulfill the board of directors' responsibilities as outlined.
Internal Audit	Included in corporate governance above.	Now a sub-supervisory area under Corporate Governance category of the Final Model Standards. The board of directors shall establish internal audit requirements that are appropriate for the size, complexity and risk profile of the servicer. Internal audit requirements and results shall be made available to state regulator upon request.

External Audit	Included in corporate governance above.	Now a sub-supervisory area under Corporate Governance category of the Final Model Standards. Covered Institutions shall receive an external audit, including audited financial statements and audit reports conducted by an independent public accountant annually, which shall be made available to state regulator upon request. Must include minimum statements and schedules as outlined.
Servicing Transfers	Baseline standards incorporate CFPB's *Compliance Bulletin and Policy Guidance: Mortgage Servicing Transfers* and FHFA *Advisory Bulletin 2014-06: Mortgage Servicing Transfers*.	Deleted due to redundancy with Reg X and CFPB Bulletins
Change of Control	All nonbank mortgage servicers must provide 30 business days prior notification of a change in ownership of 10% or more.	Deleted to harmonize with NMLS requirements for all licensed entities.

Enhanced Prudential Standards and Heightened Supervisory Expectations: Applicability	Enhanced Standards will apply to "Complex Servicers", defined as any servicer owning whole loans plus mortgage servicing rights totaling the lesser of $100 billion or representing at least 2.5% market share based on Mortgage Call Report data. State regulators may determine specific servicers, including subservicers, not meeting the definition of a Complex Servicer may be subject to Enhanced Standards based on unique risk profile, growth, market importance or financial condition.	"Complex Servicer" determination and Enhanced Prudential Standards eliminated and replaced with Section 500 - Authority. Sections 500 a. and b. are placeholders to adopt rules and conduct examinations, investigations and enforcement actions in conformity with state law, typically carried in the licensing law. Section 500 c.: Authority to Address Risk as Necessary. The [commissioner] may: i. Where risk is determined by a formal review of a specific covered institution to be extremely high, order or direct the institution to satisfy additional conditions necessary to ensure that the institution will continue to operate in a safe and sound manner and be able to continue to service loans in compliance with state and federal law and/or regulation. ii. Where risk is determined by a formal review of a particular covered institution or institutions to be extremely low, provide notice that all or part of this [Act/Rule] is not applicable to those covered institutions. iii. Where economic, environmental, or societal events are determined to be of such severity to warrant a temporary suspension of all or certain sections of this [Act/Rule], provide public notice of such temporary suspension.

Enhanced Standards: Capital	Capital standards for complex mortgage servicers should be developed by management and board of directors and be commensurate with the risk within the entire firm. Management and board must develop a methodology for supporting capital adequacy of the firm and capital planning process. Methodology must be validated by an independent third party.	Complex Servicer capital requirement deleted
Enhanced Standards: Liquidity	Liquidity risk management for a Complex Servicer must include a framework that encompasses cash flow projection analysis, a diversified funding strategy, stress testing and sound contingency funding plans. Management and the board of directors are expected to develop and routinely utilize a methodology to monitor the liquidity needs of the enterprise.	Complex Servicer liquidity requirement deleted
Enhanced Standards: Operating Liquidity	Minimum operating liquidity for Complex Servicers will be determined on an individual company basis. Management is expected to develop, establish and implement plans, policies and procedures for complying with liquidity requirements imposed by state regulators.	Complex Servicer operating liquidity requirement deleted
Enhanced Standards: Stress Testing	Complex Servicers will be required to maintain a robust, forward-looking capital and liquidity planning process that considers the servicer's unique markets and risks. A third-party vendor with expertise in developing and validating risk modeling assumptions provides	Deleted

	state regulators with confirmation of appropriateness of model.	
Enhanced Standards: Living Will and Recovery and Resolution Plans	Complex Servicers are expected to develop and maintain a living will and recovery and resolution plan, subject to state regulator review and approval.	Deleted