



Financial Stability
Oversight Council

Report on Nonbank Mortgage Servicing 2024

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Executive Summary

The statutory duties of the Financial Stability Oversight Council (FSOC or Council)¹ include monitoring the financial services marketplace to identify potential threats to U.S. financial stability; identifying gaps in regulation that could pose risks to U.S. financial stability; and making recommendations to enhance the integrity, efficiency, competitiveness, and stability of U.S. financial markets. In recent years, the Council has identified potential risks to our financial system arising from the vulnerabilities of nonbank mortgage servicers.²

Nonbank mortgage companies (NMCs) carry out critical servicing functions for the residential mortgage market and originate and service the majority of U.S. residential mortgages.³ However, NMCs have key vulnerabilities that can impair their ability to carry out these functions. NMCs' vulnerabilities can amplify shocks to the mortgage market and thereby pose risks to financial stability.

The NMC share of mortgage origination and servicing has increased considerably since the 2007-09 financial crisis. At the same time, there has also been an increasing share of mortgages outstanding funded by securitizations guaranteed by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Government National Mortgage Association (Ginnie Mae), collectively referred to as the "Agencies." The federal government provides financial support to Fannie Mae and Freddie Mac in conservatorship and explicitly guarantees Ginnie Mae securitizations. As NMCs have become increasingly important servicers for the Agencies, the exposure of the federal government and the mortgage market to the vulnerabilities of these companies has increased significantly.

NMCs bring some strengths to the mortgage market. NMCs are generally quick to adapt their operations as market conditions change. Some NMCs have been early adopters of technological developments and other practices that have helped make mortgage origination and servicing more efficient and consumer friendly in certain instances. NMCs are also key mortgage originators and servicers for groups that have historically been underserved by the mortgage market.

However, because NMCs focus almost exclusively on mortgage-related products and services, shocks to the mortgage market can lead to significant deterioration in NMC income, balance sheets, and access to credit simultaneously. NMCs rely heavily on financing that can be repriced or canceled by the lender at times when the NMC is under financial stress. In addition to these liquidity

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- 1 The Council is composed of ten voting members who head the U.S. Department of the Treasury, the Board of Governors of the Federal Reserve System (Federal Reserve Board), the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), the Securities and Exchange Commission (SEC), the Federal Deposit Insurance Corporation (FDIC), the Commodity Futures Trading Commission (CFTC), the Federal Housing Finance Agency (FHFA), and the National Credit Union Administration (NCUA), and an independent member with insurance expertise, plus five non-voting members. Two of the nonvoting members are the directors of the Office of Financial Research (OFR) and the Federal Insurance Office (FIO). The other three non-voting members are a state insurance commissioner, a state banking supervisor, and a state securities commissioner designated by their peers.
 - 2 See Financial Stability Oversight Council. *Annual Report*. Washington, D.C.: Council, December 14, 2023. <https://home.treasury.gov/system/files/261/FSOC2023AnnualReport.pdf>; and Financial Stability Oversight Council. *Annual Report*. Washington, D.C.: Council, May 7, 2014. <https://home.treasury.gov/system/files/261/FSOC-2014-Annual-Report.pdf>. See also Ginnie Mae. "An Era of Strategic Transformation." Washington, D.C.: Ginnie Mae, September 2014. https://www.ginniemae.gov/newsroom/Documents/ginniemae_an_era_of_transformation.pdf.
 - 3 This report focuses on one- to four-family property forward residential mortgages.

and leverage vulnerabilities, NMCs face significant operational risk because mortgage servicing is complex and encompasses third-party and cybersecurity risks.

If these vulnerabilities result in NMCs being unable to carry out their critical functions at times of market stress, borrowers could experience disruption and harm, the Agencies and other credit guarantors could experience large losses, and there could be payment delays to stakeholders such as insurance companies and local governments. Since NMCs have similar business models and share financing sources and subservicing providers, distress in the NMC sector may be widespread during times of strain. The federal government has only limited tools to mitigate and manage these risks.

State regulators and federal agencies have taken steps to mitigate the risks posed by NMCs in recent years, but the Council is concerned that the combination of various state requirements and limited federal authorities to impose additional requirements does not adequately and holistically address the risks described in this report. The Council supports recent actions and continued efforts by state regulators and federal agencies to act within their authorities to promote safe and sound operations, address liquidity pressures in the event of stress, and ensure the continuity of servicing operations. The Council also encourages Congress to promote greater stability in the mortgage market and the economy by addressing the identified risks. The Council will continue to monitor the evolution of these risks and may take or recommend additional actions to mitigate such risks in accordance with the Analytic Framework for Financial Stability Risk Identification, Assessment, and Response (Analytic Framework), if needed.

1 Introduction

In 2022, NMCs originated approximately two-thirds of mortgages in the United States and owned the servicing rights on 54 percent of mortgage balances.⁴ NMC market share has risen significantly since the low it reached in 2008, when NMCs originated only 39 percent of mortgages and owned the servicing rights on only 4 percent of mortgage balances. As indicated by their large market share, NMCs perform critical functions for the mortgage market through their operational capacity in loan origination and servicing. Although some NMCs specialize only in origination or servicing, larger NMCs tend to focus on both. While this report explores the vulnerabilities of both these interdependent activities, the Council’s primary concern for this report is the ability of NMCs to carry out critical mortgage servicing responsibilities in times of stress.

NMCs bring strengths to the mortgage market. They are key mortgage originators and servicers for groups that are historically underserved by the mortgage market. NMCs can specialize in certain products or operations. For example, some NMCs developed technology platforms that enabled them to originate mortgages quicker than their competitors. Others expanded into specialty default servicing for nonperforming loans and loss mitigation.

NMCs are also subject to significant risks and have key vulnerabilities. Since NMCs only offer mortgage-related products and services, their profitability fluctuates with changes in mortgage demand and mortgage defaults—much more so than for financial institutions with diversified lines of business. Likewise, NMCs’ high exposure to mortgage risk means they can experience adverse effects on their income, balance sheets, and access to credit simultaneously. NMCs’ reliance on debt that can be repriced, reduced, or canceled at times of stress can lead to significant liquidity risk, which is exacerbated by high leverage carried by some NMCs. As a result of these liquidity risks, high leverage, and other vulnerabilities, rating agencies typically assign speculative-grade credit ratings to NMCs’ debt obligations. Finally, vulnerabilities are similar across NMCs. As a result, certain macroeconomic scenarios may lead to stress across the entire sector.

When these vulnerabilities compromise NMCs’ ability to carry out their critical functions, borrowers may suffer from disruptions in the servicing of their mortgages and credit guarantors and insurers may experience sizeable losses. Commonalities in NMC vulnerabilities and their shared funding providers and subservicers could lead to contagion. Financial distress at NMCs that is sufficiently severe and widespread might lead to a reduction in servicing capacity and in the availability of mortgage credit.

4 Origination shares for 2008 and 2022 are from data collected under the Home Mortgage Disclosure Act (HMDA) by the Federal Financial Institutions Examination Council (“HMDA data”). Except as noted, HMDA statistics in this report for the years 2004 and later are based on closed-end, first-lien purchase mortgages collateralized by owner-occupied, site-built one-to-four family properties. Prior to 2004, HMDA data did not include information on lien status, number of units, or construction type. Data from 2003 and earlier are therefore for all closed-end purchase mortgages collateralized by owner-occupied properties. HMDA data cover about 90 percent of the residential mortgage market. Bhutta, Neil, Steven Laufer, and Daniel R. Ringo. “Residential Mortgage Lending in 2016: Evidence from the Home Mortgage Disclosure Act Data.” *Federal Reserve Bulletin*, 103: 1, Washington, D.C.: Federal Reserve Board, November 2017. https://www.federalreserve.gov/publications/files/2016_hmda.pdf. Servicing share is for the fourth quarter of 2022 and is from *Inside Mortgage Finance*. “Nonbanks and Second-Tier Servicers Gain Share in 4Q23.” *Inside Mortgage Finance* (February 2, 2024). It is based on the 50 largest servicers. Servicing share for 2008 is from Figure 10b in Federal Reserve Board, FDIC, OCC, NCUA. “Report to the Congress on the Effect of Capital Rules on Mortgage Servicing Assets.” Washington, D.C.: Federal Reserve Board, FDIC, OCC, NCUA, June 2016. <https://www.federalreserve.gov/publications/other-reports/files/effect-capital-rules-mortgage-servicing-assets-201606.pdf>.

In recent years, the federal government has become increasingly exposed to concentration risks and potential losses stemming from the fragilities of NMCs. The federal government supports the availability of U.S. mortgages through insurance and direct guarantees of loans financed through Ginnie Mae securitizations and through its financial support for Fannie Mae and Freddie Mac (the Enterprises) in conservatorship.⁵ The Agencies depend on private firms to service loans, and those firms are primarily NMCs. From January 2014 to January 2024, the share of Agency servicing handled by NMCs increased from 35 percent to 66 percent. In total, NMCs serviced approximately \$6 trillion for the Agencies in 2023 and six NMCs serviced Agency portfolios that were each in excess of \$450 billion.⁶

With servicing so concentrated in NMCs, state and federal regulators and the Agencies may have difficulty enforcing borrower protections and minimizing taxpayer losses in the event that a large NMC or several mid-sized NMCs fail. Large servicing portfolios cannot be transferred quickly because the transfer process is inherently lengthy and complicated. In addition, it might be difficult to identify another servicer to take over the portfolio. The similarity of NMC business models means that other NMCs might also have the same issues and be unable to acquire new portfolios. While the Agencies have backup servicing capacity, that capacity could quickly be exhausted in the event of a large NMC failure or multiple failures.

As a result, any large nonbank mortgage servicer that failed might need to remain operational while in bankruptcy for some time to maintain critical mortgage servicing functions. While this could be done in an adequately financed bankruptcy under the reorganization chapter of the Bankruptcy Code (Chapter 11), absent such funding or sufficient liquidity just before bankruptcy, the NMC would likely only be able to sustain operations for a limited period of time. Moreover, because the risk profiles of NMCs are so similar, it is possible that multiple NMCs with common creditors could be in bankruptcy simultaneously. This situation could create significant challenges and potential disruptions to borrowers and the Agencies, as each bankruptcy is oriented toward resolving a single company. As described in this report, the federal government has only limited tools to mitigate and manage the risks and ensure that borrowers and taxpayers are sufficiently protected.

Depository institutions (referred to as “banks” in this report for simplicity) are not immune to financial strains and changes in macroeconomic conditions, and federal and state regulators have identified banks’ servicing errors in both loss mitigation and foreclosure actions. However, federal and state banking regulators have supervisory and regulatory tools to promote the safety and soundness of the banking system. Federal and state banking regulators also utilize risk-based supervision to focus on mortgage servicing risks and safeguard consumer protections. Further, federal banking agencies have resolution tools to enable core operations, such as mortgage servicing by a bank, to continue in the event of a bank failure. The federal government’s regulatory, supervisory, and resolution authorities are more limited with respect to NMCs, although states have broad authorities.

The Council has raised concerns about the vulnerabilities of NMCs for several years. Those concerns have become more acute because of the increasing federal government exposure to NMCs and because the NMCs that originate mortgage loans are currently under financial strain due to the low

⁵ See Section 3.1 for further discussion on financial support provided by the government to Fannie Mae and Freddie Mac.

⁶ Calculation for total nonbank mortgage servicing balances is based on data from Board of Governors of the Federal Reserve System, Financial Accounts of the United States. Washington D.C. at <https://www.federalreserve.gov/releases/z1/> and from eMBS at <https://www.embs.com/>. Calculation of NMCs with Agency portfolios in excess of \$450 billion is from *Inside Mortgage Finance* at <https://www.insidemortgagefinance.com/>.

volume of mortgage originations since 2022. Vulnerabilities in mortgage origination can bleed into servicing operations at firms that both originate and service mortgages.

This report begins with an overview of mortgage servicing. It then describes the mortgage market shifts toward NMCs, the increased federal government exposure to these firms, NMCs' strengths and vulnerabilities, and the transmission channels that could lead to NMC vulnerabilities amplifying the effect of a shock to financial stability in a stress scenario. The report concludes with recommendations that could promote greater stability in the mortgage market.

Box A: Overview of the Regulatory Framework for Nonbank Mortgage Companies and the Role of Key Market Participants

A combination of state financial regulators, federal agencies, and market participants play different roles in overseeing NMCs. State financial regulators have broad authorities, including prudential regulation, over NMCs. The Consumer Financial Protection Bureau has a consumer protection focus but is not designed to be a comprehensive prudential regulator. Ginnie Mae and the Enterprises, which function as market participants, can negotiate requirements for their counterparties, including the nonbank mortgage servicers with which they do business, as a matter of contract. The Federal Housing Finance Agency has regulatory authority over the Enterprises. Each has different objectives regarding their oversight of, or engagement with, nonbank mortgage servicers.

State Financial Regulators

State financial regulators are the primary regulators of NMCs. They have broad licensing, examination, investigation, enforcement, and prudential regulatory authority for NMCs that operate within their respective state. A license is required in each state in which a company conducts business.⁷ States can initiate examinations or investigations at any time, gain immediate access to books and records upon request, compel production of documents or information through a subpoena, and enforce financial condition requirements as a condition of holding a license to do business. Through their administrative enforcement powers, state financial regulators can issue consent judgments or consent orders compelling NMCs to restructure operations and/or management, cease certain activities, and prohibit the acquisition of new servicing rights. These administrative enforcement powers allow states to, among other things, require regular reporting on the status of a loan servicing portfolio, and impose deadlines for compliance with state and federal consumer protection regulations, as well as financial condition and corporate governance requirements.⁸

States also coordinate multistate supervision through the Conference of State Bank Supervisors (CSBS). CSBS is the nationwide organization of state banking and financial regulators from all 50 states, the District of Columbia, and the U.S. territories. CSBS also administers the Nationwide Multistate Licensing System (NMLS) on behalf of state regulators, which includes maintaining all regulatory data submitted by individual mortgage loan originators and NMC licensees for annual license renewals as well as periodic financial, activity, banking, and control information at the company level.⁹ The quarterly Mortgage Call Report is a large database dating to 2011 containing activity and financial data for all companies licensed through NMLS and is largely modeled after the Mortgage Bankers' Financial Reporting Form (MBFRF) data collected from the same companies by the Enterprises and Ginnie Mae.¹⁰ The State Examination System is a component of NMLS that is utilized by states to conduct exams and facilitates multistate exams.¹¹

7 CSBS. "State Licensing." State Regulatory Registry, 2024. <https://mortgage.nationwidelicensingsystem.org/slr/Pages/default.aspx>.

8 CSBS. "Mortgage Companies – State Authorities." CSBS, April 1, 2024. <https://www.csbs.org/mortgage-companies-state-authorities>.

9 CSBS. "NMLS Modernization FAQs." CSBS. <https://www.csbs.org/nmls-modernization-faqs>.

10 CSBS. "Mortgage Call Report." CSBS. <https://www.csbs.org/nmls-modernization-faqs>.

11 CSBS. "State Examination System (SES)." CSBS. <https://www.csbs.org/aboutSES>.

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Consumer Financial Protection Bureau (CFPB)

The CFPB has supervisory authority over NMCs to assess their compliance with federal consumer financial law and enforcement authority to take action against violations of federal consumer financial laws. The CFPB also has rulemaking authority with respect to federal consumer financial law, including those related to mortgage origination and servicing. The CFPB has a consumer protection focus; it is not designed to be a comprehensive federal prudential regulator for nonbank mortgage servicers.

Ginnie Mae

Ginnie Mae is a government-owned corporation of the federal government within the U.S. Department of Housing and Urban Development (HUD) and is subject to annual congressional appropriations for its salaries and expenses spending. Ginnie Mae provides guarantees to investors in mortgage-backed security (MBS) programs collateralized by loans insured or guaranteed by other federal government mortgage lending programs, including the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Rural Housing Service (RHS), and the Public and Indian Housing Program (PIH). In its role as a guarantor, Ginnie Mae is tasked with providing stability to the secondary market for residential mortgages, increasing the liquidity of federally-backed residential mortgage investments, and managing federally-owned mortgage portfolios with minimum loss to taxpayers. Ginnie Mae has the contractual right to set capital, liquidity, and other eligibility requirements for companies participating in its program, as well as to conduct compliance reviews of its counterparties. However, it has no direct prudential regulatory authority over its counterparties.

Federal Housing Finance Agency (FHFA)

FHFA is responsible for the effective supervision, regulation, and housing mission oversight of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks). In this capacity, FHFA may regulate and supervise the Enterprises' and FHLBanks' counterparty credit risk. FHFA has no direct regulatory authority over NMCs or any other counterparties of the Enterprises. Since 2008, FHFA has served as conservator for Fannie Mae and Freddie Mac. As conservator, FHFA has the powers of the management, boards, and shareholders of Fannie Mae and Freddie Mac, including authority to set contractual standards for and exercise contractual rights of each Enterprise with respect to its counterparties.¹²

The Enterprises

The Enterprises support liquidity in the secondary mortgage market for housing finance by directly buying and securitizing mortgages and providing guarantees on MBS backed by eligible conforming loans. Although the Enterprises are government-sponsored and have a public mission, they are private companies and are not regulatory agencies. The Enterprises operate as business corporations and do not regulate seller/servicers. As a matter of prudent risk management, the Enterprises consider possible risk exposure from contractual relationships with seller/servicers and assess, monitor, and take appropriate actions to address the risks to which they are exposed in their business relationships. As part of their risk management processes, Fannie Mae and Freddie Mac each have established an approval process for seller/servicers that includes ascertaining that seller/servicers meet minimum financial eligibility requirements and monitoring eligibility compliance of approved seller/servicers.¹³

12 FHFA. "History of Fannie Mae and Freddie Mac Conservatorship." Washington, D.C.: FHFA, October 17, 2022. <https://www.fhfa.gov/Conservatorship/Pages/History-of-Fannie-Mae--Freddie-Conservatorships.aspx>.

13 Fannie Mae. "Maintaining Seller-Servicer Eligibility." Washington, D.C.: Fannie Mae, November 1, 2023. <https://selling-guide.fanniemae.com/sel/a4-1-01/maintaining-sellerservicer-eligibility> and Freddie Mac. "Eligibility Criteria." Tysons, VA: Freddie Mac, September 30, 2023. <https://guide.freddiemac.com/app/guide/section/2101.1>.

2 Mortgage Servicers

2.1 Servicer Responsibilities

This report uses the term “servicer” to mean a firm that holds the servicing rights on a mortgage and records this mortgage servicing right (MSR) as an asset on its balance sheet. Section 5.2 describes MSRs in more detail. Servicers are responsible for ensuring that servicing functions are carried out in accordance with the servicing contracts and applicable regulations; as described later, some servicers carry out these functions themselves and others subcontract them to third parties. Servicers are also responsible for a variety of cash outlays required under the servicing contract. As discussed later in this report, for example, if a borrower does not make a mortgage payment, the servicer may be required to make the missed payment amounts to investors, insurance companies, and local governments.

Borrowers, guarantors, insurers, and investors depend on servicers to carry out a wide range of loan administration duties in an accurate and timely way. These duties include collecting and recording borrower payments of mortgage principal and interest, taxes, and insurance premiums and distributing those payments to investors, local governments, and insurance companies. These duties also include responsibilities associated with borrowers who do not make their payments, such as contacting these borrowers and determining available loss mitigation plans. If a borrower is unable to make mortgage payments even under a loss mitigation plan, the servicer is responsible for enforcing the mortgage contract and identifying potential liquidation outcomes, such as a short sale, deed-in-lieu of foreclosure, or foreclosure; evicting the borrower if necessary; and maintaining the property so that its vacancy does not increase losses for the owner of the mortgage credit risk. In addition, federal or state governments may establish borrower relief programs in extreme circumstances that servicers are required to implement, such as the broad mortgage forbearance provided during the COVID-19 public health emergency.

These loan administration duties entail considerable interactions with borrowers, including billing, maintaining escrow accounts, handling customer service, and working with delinquent borrowers. Borrowers sometimes report frustrations with their interactions with both bank and NMC servicers. In both 2021 and 2022 the CFPB received approximately 30,000 complaints from consumers about their mortgages, with about half of those complaints centered on “trouble during the payment process.”¹⁴

Mortgage loan administration duties of servicers include:

- Collecting and recording payments.
- Distributing payments to investors, tax authorities, and insurance companies as needed.
- Contacting borrowers (especially for delays or delinquencies).
- Determining available loss mitigation strategies and implementing loss mitigation plans.
- Foreclosing, evicting, and maintaining properties after eviction.

¹⁴ CFPB. “Consumer Response Annual Report.” Washington, D.C.: CFPB, March 31, 2022. https://files.consumerfinance.gov/f/documents/cfpb_2021-consumer-response-annual-report_2022-03.pdf and CFPB. “Consumer Response Annual Report.” Washington, D.C.: CFPB, March 31, 2023. https://files.consumerfinance.gov/f/documents/cfpb_2022-consumer-response-annual-report_2023-03.pdf.

Some servicers conduct these critical functions in-house, while others contract them out to a third-party subservicer. This report uses the term “subservicer” to describe a firm that performs servicing activities on behalf of the servicer based on contractual requirements. Subservicers have considerable operational risk but less liquidity and funding risk for cash outlays than servicers. Both banks and NMCs can perform subservicing and use subservicers.

2.2 Servicer Business Models

Servicer business models vary and affect the servicer’s choice of whether to perform loan administration duties in-house or use a subservicer. Some servicers have active mortgage origination platforms and carry out the loan administration duties themselves, often to maximize their interactions with borrowers. A strong borrower connection increases the likelihood that borrowers will refinance their mortgages with their current originators. Originators without an in-house servicing platform may still value the servicing income and will retain the servicing while contracting out the loan administration to a subservicer. Other servicers do not have active origination platforms and own the MSRs as passive investors. Mortgage real-estate investment trusts, for example, hold MSRs to earn yield and to hedge mortgage basis volatility and slower prepayment speeds related to other assets in their portfolios. Firms that primarily value these hedging properties are more likely to outsource loan administration duties to a subservicer.

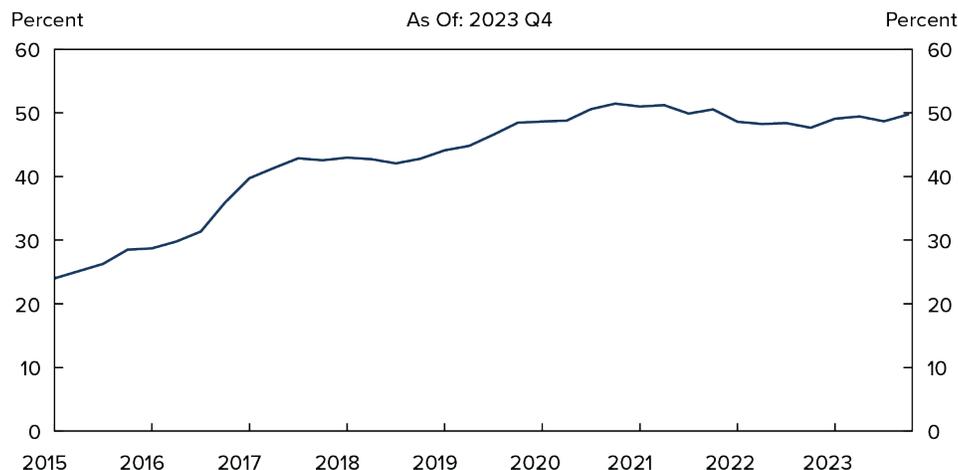
Primary Activity of Servicers and Subservicers

Servicer	Subservicer
Hold servicing rights	Do not hold servicing rights
Record servicing assets on balance sheet	Do not record servicing assets on balance sheet
Retain some (or most) mortgage loan administration functions	Provide loan administration functions that are not performed by the servicer
Responsible for cash outlays required under servicing contract	Not responsible for cash outlays required under servicing contract

As passive MSR investors have expanded their MSR holdings, there is an increasing share of mortgages with an NMC holding the servicing rights and contracting out the loan administration duties to a third-party subservicer. As of the fourth quarter of 2023, of the mortgage balances for which an NMC held the servicing rights, the administrative duties were handled by a third-party subservicer for approximately half of those balances (see **Figure 1**).¹⁵ This share is sharply higher than in 2015, when subservicers handled the administrative responsibilities for approximately 25 percent of the portfolios of nonbank servicers.

¹⁵ Statistics calculated from Mortgage Call Report data collected under the NMLS. Statistics calculated for all mortgages serviced by NMCs, including some mortgages not funded by Agency securitization.

Figure 1: Share of NMC Servicing Subserviced by Another Firm



Note: The figure shows the share of all unpaid principal balances serviced by an NMC for which another firm carries out subservicing responsibilities.

Source: NMLS Mortgage Call Report

To illustrate why managing nonbank mortgage servicer failures might be challenging for the Agencies, **Table 1** shows data from *Inside Mortgage Finance* for the 20 largest Agency servicers (both bank and nonbank) as of the fourth quarter of 2023.¹⁶ The table shows the size of each servicer’s portfolio, the servicer’s market share, whether the servicer substantially relies on a subservicer for servicing its portfolio, and whether the servicer acts as a material subservicer for other servicers. A servicer is defined as utilizing a subservicer if the servicer is not listed in *Inside Mortgage Finance*’s “Top Primary Mortgage Servicers” table.¹⁷ A servicer is defined as providing subservicing for other servicers if it is listed in *Inside Mortgage Finance*’s “Top Residential Subserving” table.¹⁸ This classification only captures significant subservicing relationships; servicers that perform the loan administration duties for most of the loans in their servicing portfolios may still have smaller portfolios that are subserviced by other firms.

16 Bancroft, John. “Agency Servicing Ranking Shaped by 4Q MSR Sales.” *Inside Mortgage Finance* (January 12, 2024). <https://www.insidemortgagefinance.com/articles/229895-agency-servicing-ranking-shaped-by-4q24-msr-sales?v=preview>.

17 *Inside Mortgage Finance*. “Nonbanks and Second-Tier Servicers Gain Share in 4Q23.” *Inside Mortgage Finance* (February 2, 2024). <https://www.insidemortgagefinance.com/products/313275-nonbanks-and-second-tier-servicers-gain-share-in-4q23>.

18 Muolo, Paul. “Some Headwinds for the Subserving Sector.” *Inside Mortgage Finance* (March 22, 2024). <https://www.insidemortgagefinance.com/articles/230529-some-headwinds-for-the-subserving-sector?v=preview>.

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Table 1: Top Agency MBS Servicers, Q4 2023

Firm	Type	Rank	Servicing UPB Balance (in \$ Billions)	Market Share (Percent)	Utilizes Subservicer	Provides Subservicing
Lakeview/Bayview Loan Servicing	Nonbank	1	644.5	7.3	Yes	No
Chase Home Finance	Bank	2	597.0	6.7	No	No
PennyMac Corp	Nonbank	3	588.5	6.7	No	No
Wells Fargo	Bank	4	539.9	6.1	No	No
Mr. Cooper Group	Nonbank	5	531.7	6.0	No	Yes
New Rez/Caliber Home Loans (Rithm)	Nonbank	6	474.1	5.4	No	Yes
Rocket Mortgage	Nonbank	7	463.6	5.2	No	Yes
Freedom Mortgage Corp	Nonbank	8	456.7	5.2	No	Yes
United Wholesale Mortgage, LLC	Nonbank	9	274.4	3.1	Yes	No
U.S. Bank NA	Bank	10	220.0	2.5	No	No
Matrix Financial Services/Two Harbors	Nonbank	11	213.2	2.4	Yes	No
Truist	Bank	12	210.6	2.4	No	No
PNC Bank NA	Bank	13	202.5	2.3	No	No
Ocwen Financial/PHH Mortgage	Nonbank	14	163.0	1.8	No	Yes
Onslow Bay Financial	Nonbank	15	150.3	1.7	Yes	No
LoanDepot.com LLC	Nonbank	16	134.0	1.5	No	No
Carrington Mortgage Services, LLC	Nonbank	17	126.6	1.4	No	Yes
Fifth Third Bank	Bank	18	97.6	1.1	No	No
Citizens Bank NA RI	Bank	19	96.3	1.1	No	No
CMG Mortgage Inc	Nonbank	20	92.6	1.0	Yes	No
Top 10 Agency MBS Servicers Total			4,790.4	54.1		
Top 20 Agency MBS Servicers Total			6,277.1	70.9		
Total Nonbank Agency MBS Servicers in Top 20			4,313.2	48.7		
All Agency MBS Servicers Total			8,847.8			

Note: Servicing unpaid principal balance (UPB) is for mortgages in Agency pools only, as estimated by *Inside Mortgage Finance*, and may be different from other data sources. A firm is classified as using a subservicer if it is not listed in the *Inside Mortgage Finance* “Primary Servicer” table. A firm is classified as providing subservicing if it is listed in the *Inside Mortgage Finance* “Top Residential Subservicers” table. Sums may not fully match due to rounding.

Source: *Inside Mortgage Finance*

The data in Table 1 show that nonbank mortgage servicers are among the largest Agency servicers. NMCs are seven of the 10 largest Agency servicers and 13 of the largest 20 Agency servicers. In total, the top 20 Agency servicers hold the servicing rights on nearly \$6.3 trillion in unpaid balances on mortgages in Agency pools, approximately 70 percent of the total Agency market. Nonbank mortgage servicers in the top 20 hold the servicing rights on \$4.3 trillion, or almost half, of the total Agency market.

Table 1 and related data also indicate that many NMCs have large servicing portfolios. In total, 20 NMCs had servicing portfolios with unpaid principal balances in excess of \$50 billion in the fourth quarter of 2023, which is the Agency threshold at which more stringent expanded requirements take effect.¹⁹ This total includes seven NMCs in addition to those listed in the top 20.²⁰ Despite the different operating models, since NMCs have similar vulnerabilities and are susceptible to similar shocks (see Section 5), stress in the mortgage market may be more likely to simultaneously put multiple NMCs at risk of failure. The failure of several mid-sized servicers could be as disruptive as the failure of a large servicer.

To provide perspective on how large subservicers can be, **Table 2** shows the ten largest subservicers as ranked by *Inside Mortgage Finance*. A subservicer is classified as a “subservicer only” if it is not listed in the *Inside Mortgage Finance* “Top 100 Firms in Owned Mortgage Servicing” table. Seven NMCs are among the top 10 residential subservicers, and some of these firms handle very large balances. Dovenmuehle and Mr. Cooper, for example, have subservicing responsibilities for portfolios exceeding \$400 billion in unpaid principal balances.

19 The Enterprises and Ginnie Mae require a nonbank servicer to meet additional requirements if it holds the servicing rights on more than \$50 billion in unpaid single-family mortgage balances. FHFA. “Fact Sheet: Enterprise Seller/ Servicer Minimum Financial Eligibility requirements.” Washington, D.C.: FHFA, August 17, 2022. <https://www.fhfa.gov/Media/PublicAffairs/Documents/Fact-Sheet-Enterprise-Seller-Servicer-Min-Financial-Eligibility-Requirements.pdf>.

20 In addition to the NMCs shown in Table 1, Planet Home Lending, Crosscountry Mortgage, Guild Mortgage Company, Amerihome Mortgage Company, New American Funding/Broker Solutions, Movement Mortgage, and Provident Funding Associates had Agency servicing UPBs in excess of \$50 billion as of the fourth quarter of 2023 according to *Inside Mortgage Finance*. Amerihome is a nonbank subsidiary of Western Alliance Bank.

Table 2: Top Residential Mortgage Subservicers, Q4 2023

Firm	Type	Rank	Subservicer Balance (in \$ Billions)	Market Share (Percent)	Subservicer Only
Cenlar	Bank	1	875.0	21.9	Yes
Dovenmuehle	Nonbank	2	515.0	12.9	Yes
Mr. Cooper	Nonbank	3	403.8	10.1	No
LoanCare	Nonbank	4	320.0	8.0	Yes
Flagstar	Bank	5	294.9	7.4	No
ServiceMac	Nonbank	6	245.2	6.1	Yes
Ocwen Financial/PHH Mortgage	Nonbank	7	139.9	3.5	No
Select Portfolio Servicing	Nonbank	8	133.0	3.3	Yes
M&T Bank	Bank	9	115.1	2.9	No
New Rez/Caliber/Shellpoint	Nonbank	10	102.5	2.6	No
Estimated Subservicing Market Total			3,990.0		

Note: Estimates include loans held for investment on bank books and loans in private-label securitizations as well as loans in Agency pools.

Source: *Inside Mortgage Finance*

Tables 1 and 2 also indicate that servicing and subservicing relationships create considerable linkages across firms and across the bank and NMC sectors, which is further discussed in Section 5.6. As shown in Table 1, five of the 20 largest Agency servicers rely on subservicers to handle their administrative servicing duties, while six of the 20 largest Agency servicers subservice loans for others. NMCs can use multiple subservicers and can share these subservicers with other NMCs and banks; subservicers can have many clients.

In summary, the organization of the servicing industry means that financial strains at both servicers and subservicers can pose challenges to the Agencies. Servicers provide cash outlays required under the servicing contract, and both servicers and subservicers perform the critical functions associated with loan administration. Since some subservicers handle servicing functions for many companies, vulnerabilities at these subservicers could result in stress being transmitted in the system more broadly (see Section 6.3). The similarities in NMC business models mean that multiple servicers could fall into material distress at the same time, which could require the Agencies to manage several failures at once and could make it challenging to find new firms to take on the portfolios of failing NMCs. Some NMC portfolios can be sizeable, and moving these portfolios to a new servicer can be difficult.

3 The Growth in Agency Securitization and Nonbank Mortgage Companies

In the last 30 years, the types of institutions that originate, fund, securitize, and service mortgages have shifted significantly. In particular, the share of mortgages originated or serviced by an NMC and securitized into an MBS guaranteed by the Agencies has increased dramatically, especially since the 2007-09 financial crisis. These trends, combined with the government's financial support for the Enterprises during their ongoing conservatorships, mean that the government's aggregate exposure to the fragilities of NMCs has increased substantially.

3.1 Increased Government and Enterprise Backing of the Mortgage Market

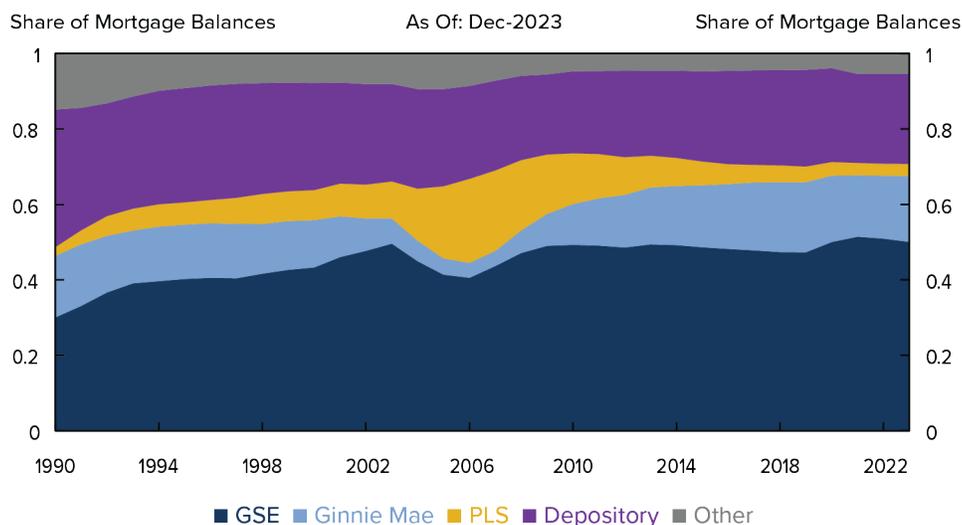
The share of outstanding mortgages with a government or Enterprise guarantee has increased since the 2007-09 financial crisis. The guarantee takes two forms for investors: protection against credit losses on the underlying mortgages ("credit" guarantee) and guarantees to receive timely payment of principal and interest on the securitizations that fund the mortgages ("timely payment" guarantee). For Ginnie Mae securitizations, Ginnie Mae provides the timely payment guarantee on the security while the credit insurance or guarantee on the loans is provided by the FHA, VA, RHS, or PIH.

For Enterprise securitizations, the Enterprises provide both the credit and timely payment guarantees. The Enterprise guarantee is not directly backed by the federal government. In conjunction with FHFA placing each Enterprise into conservatorship in 2008, the U.S. Department of the Treasury began providing Fannie Mae and Freddie Mac with financial support through the Senior Preferred Stock Purchase Agreements (SPSPAs), which were executed on September 7, 2008.²¹ The SPSPAs, which remain in place, were designed to provide stability to financial markets and prevent disruptions in the availability of mortgage finance. However, even in conservatorship, Fannie Mae and Freddie Mac operate as private market participants.

21 FHFA. "Senior Preferred Stock Purchase Agreements." Washington, D.C.: FHFA, October 17, 2022. <https://www.fhfa.gov/Conservatorship/Pages/Senior-Preferred-Stock-Purchase-Agreements.aspx>.

On net, the share of outstanding mortgages funded by Agency securitization rose from 46 percent in 1990 to 68 percent in 2023 (see **Figure 2**).²² This upward trend was interrupted in the 2000s as the emergence of subprime and near-prime mortgage products led to a surge in the private-label securitization (PLS) market. After the PLS market imploded in 2007, the Agency share expanded again, led initially by a sharp rise in Ginnie Mae guaranteed securitizations as the FHA, VA, and RHS programs absorbed some of the origination activity that was funded earlier through PLS (see **Figure 3**).²³ Increases in the maximum loan size eligible for FHA insurance and VA guarantees also contributed to the growth.²⁴

Figure 2: Outstanding Mortgage Balances by Sector



Note: One-to-four family residential mortgages excluding home equity loans. Credit unions are included in the depository category.

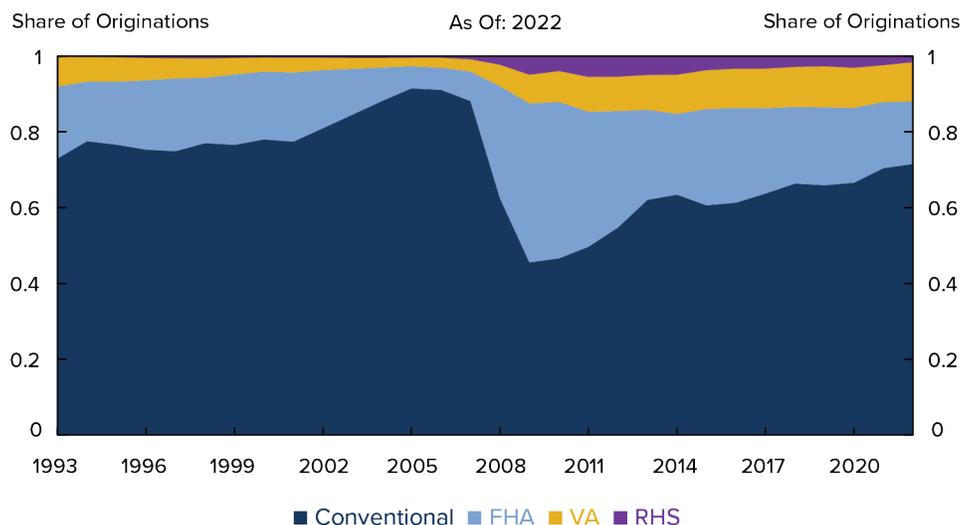
Source: Financial Accounts of the United States

22 Data are from the Financial Accounts of the United States, Table L.218. Data are for residential mortgages collateralized by one-to-four family properties. Home equity loans are excluded from the calculation. Credit unions are included in the depository category. Data for the Ginnie Mae component of Agency and MBS pools in the Flow of Funds Account can be found at https://www.ginniemae.gov/data_and_reports/reporting/Pages/monthly_rpb_reports.aspx.

23 See Adelino, Manuel, William B. McCartney, and Antionette Schoar. “The Role of Government and Private Institutions in Credit Cycles in the U.S. Mortgage Market.” Working Paper no. 27499. NBER, July 2020. <https://www.nber.org/papers/w27499> for more discussion of this switch.

24 For more information on the increases in the maximum loan amount eligible for FHA insurance, see Park, Kevin A., “Temporary Loan Limits as a Natural Experiment in FHA Insurance,” Working Paper no. HF-021, Washington, D.C.: HUD Office of Policy Development and Research, May 2016. <https://www.huduser.gov/portal/sites/default/files/pdf/WhitePaper-FHA-Loan-Limits.pdf>. See also Veterans Benefits Administration. “Updated Guidance for Blue Water Navy Vietnam Veterans Act of 2019.” Circular 26-19-30, Washington, D.C.: Department of Veterans Affairs, November 15, 2019. https://www.benefits.va.gov/HOMELOANS/documents/circulars/26_19_30.pdf for increases in the maximum amount of VA guaranty entitlement resulting from the Blue Water Navy Vietnam Veterans Act of 2019.

Figure 3: Loan Origination by Credit Guarantor



Source: Federal Financial Institutions Examination Council (U.S.), Home Mortgage Disclosure Act (Public Data)

3.2 Increased NMC Presence in the Mortgage Market

The bank share of mortgage origination and servicing rose substantially at the beginning of the 2007-09 financial crisis after many NMCs failed amid a sharp rise in delinquencies and unemployment, decline in house prices, and collapse of the subprime and Alternative-A securitization market. Altogether, the total number of NMCs (both independent and bank-affiliated) fell by half—a drop of nearly 1,000 companies—between 2006 and 2012.²⁵ Some very large NMCs failed, such as New Century Financial and American Home Mortgage, which received nearly 450,000 and 350,000 mortgage applications, respectively, in 2006.²⁶ The origination and servicing businesses of New Century Financial and American Home Mortgage included significant exposure to mortgages that were not eligible for Agency securitization.²⁷

While many of the factors that contributed to NMC failures during the 2007-09 financial crisis are significantly different or nonexistent today, it is worth examining similarities in vulnerabilities given the large market share and reliance on NMCs in today’s market. The NMCs from the pre-financial crisis period originated and serviced many subprime and near-prime mortgages that were poorly underwritten and had opaque and confusing features such as teaser interest rates and negative amortization.²⁸ State and federal regulations since the 2007-09 crisis have dramatically

25 Bhutta, Neil, and Glenn B. Canner. 2013. “Mortgage Market Conditions and Borrower Outcomes: Evidence from the 2012 HMDA Data and Matched HMDA–Credit Record Data.” *Federal Reserve Bulletin* 99, no. 4 (November). https://www.federalreserve.gov/pubs/bulletin/2013/pdf/2012_hmda.pdf.

26 Applications for 2006 can be found at <https://www.federalreserve.gov/pubs/bulletin/2008/pdf/hmda07tableA1.xls>.

27 See these companies’ SEC filings, available for American Home Mortgage at <https://www.sec.gov/Archives/edgar/data/1256536/000119312507044477/d10k.htm> and for New Century Financial at <https://www.sec.gov/Archives/edgar/data/1287286/000089256906001359/a24944e10vq.htm>.

28 For a discussion of the deterioration in underwriting standards, see Mayer, Christopher, Karen Pence, and Shane M. Sherlund. 2009. “The Rise in Mortgage Defaults,” *Journal of Economic Perspectives*, 23, no. 1 (Winter): 27-50. See the Housing Credit Availability Index in Urban Institute Housing Finance Policy Center. “Housing Finance at a Glance: A Monthly Chartbook.” Washington, D.C.: Urban Institute, March 2024. https://www.urban.org/sites/default/files/2024-03/Housing_Finance_At_A_Glance_Monthly_Chartbook_March_2024.pdf, for a measure of the role of product risk in mortgage default risk before the 2007-09 financial crisis.

improved underwriting standards and restricted or eliminated the use of these product features.²⁹ NMCs were also heavily dependent on private-label securitization and whole loan sales, which are less stable funding sources than Agency securitization markets in periods of stress. Today NMCs focus primarily on Agency securitization. Despite these improvements to the product and market environment, NMCs in the period before the 2007-09 crisis had liquidity and leverage vulnerabilities similar to those of NMCs active today, and those vulnerabilities contributed to their demise when confronted with the market shocks of that era.³⁰ The NMCs with the largest market share today are also almost entirely independent, whereas a large share of the NMCs in the period before the 2007-09 crisis were affiliated with a bank holding company and subject to regulation and supervision from federal and state banking regulators.

In the years after the 2007-09 financial crisis, banks pulled back from mortgage origination and servicing in part due to heightened regulation and sensitivity to the cost and uncertainty associated with delinquent mortgages. On the regulatory front, the revised capital rule issued by the banking agencies in 2013 imposed stricter capital requirements on MSR.³¹ This rule made mortgage servicing a less attractive business line for some banks.³² To the extent that the obligation to service a mortgage arises from mortgage origination, the revised capital treatment may have dampened banks' desires to originate some types of mortgages.³³ Banks perceived an increase in the cost and uncertainty of default servicing because of developments such as the National Mortgage Settlement, the Independent Foreclosure Review, prosecutions under the False Claims Act, and private litigation.³⁴ While the costs of default servicing rose for both banks and NMCs, banks appeared to respond more strongly than NMCs to these developments and reduced their exposure from originating and servicing mortgages to borrowers with a higher risk of default.

NMCs also appear to have gained market share in mortgage originations after the 2007-09 financial crisis because they were quicker to embrace new technology that made the mortgage origination

29 CFPB. "Consumer Financial Protection Bureau Publishes Assessments of Ability-to-Repay and Mortgage Servicing Rules." Washington, D.C.: CFPB, January 10, 2019. <https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-publishes-assessments-ability-repay-and-mortgage-servicing-rules/>. McCoy, Patricia A and Susan M. Wachter. 2020. "Why the Ability-to-Repay Rule Is Vital to Financial Stability." *Georgetown Law Journal* 108, no. 3 (March 2020): 649-698. <https://www.law.georgetown.edu/georgetown-law-journal/wp-content/uploads/sites/26/2020/03/Why-the-Ability-to-Repay-Rule-Is-Vital-to-Financial-Stability.pdf>.

30 For examples, see Dash, Eric. 2007. "American Home Mortgage Says It Will Close," *New York Times* (August 3, 2007) <https://www.nytimes.com/2007/08/03/business/03lender.html> and the discussion in Kim, You Suk, Steven Laufer, Karen Pence, Richard Stanton, and Nancy Wallace. 2018. "Liquidity Crises in the Mortgage Market," *Brookings Papers on Economic Activity* (Spring 2018): 347-428. https://www.brookings.edu/wp-content/uploads/2018/03/KimEtAl_Text.pdf.

31 See Federal Reserve Board, FDIC, OCC, NCUA. "Report to the Congress on the Effects of Capital Rules on Mortgage Servicing Assets," Washington, D.C.: Federal Reserve Board, FDIC, OCC, NCUA, June 2016. <https://www.federalreserve.gov/publications/other-reports/files/effect-capital-rules-mortgage-servicing-assets-201606.pdf>.

32 For some banks, the change in risk weights on MSRs was a relatively small increase from 215 percent to 250 percent. See *ibid*.

33 The capital treatment only affects mortgages that are funded through securitization. No MSR is created for a mortgage held in a bank's portfolio.

34 See "Joint State-Federal National Mortgage Servicing Settlements." Joint State-Federal National Mortgage Servicing Settlements. <http://www.nationalmortgagesettlement.com/>; Federal Reserve Board. "Independent Foreclosure Review." Federal Reserve Board (July 21, 2014). <https://www.federalreserve.gov/publications/2014-independent-foreclosure-review-background-on-the-independent-foreclosure-review.htm>, and U.S. Department of Justice "The False Claims Act & Federal Housing Administration Lending." U.S. Department of Justice (March 15, 2016). <https://www.justice.gov/archives/opa/blog/false-claims-act-federal-housing-administration-lending>.

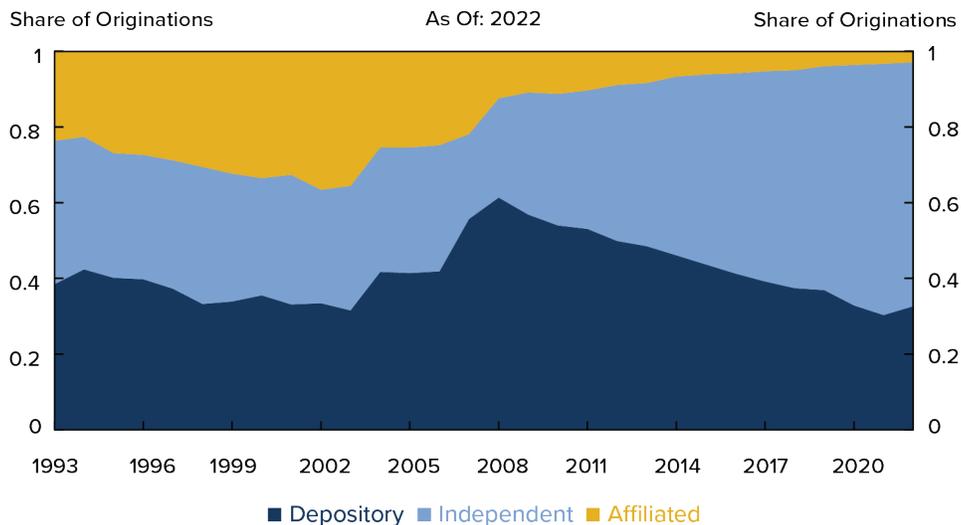
process faster and more convenient for some borrowers.³⁵ In addition, NMCs pivoted quicker than banks after the 2007-09 financial crisis to develop the expertise to service nonperforming loans. The extraordinary need for such servicing expertise in the aftermath of the 2007-09 financial crisis also helped fuel the growth of some NMCs.³⁶

The next section describes how this broad shift from banks to NMCs unfolded in different parts of the mortgage market.

3.2.1 Increased NMC Share of Mortgage Originations

From 1993 to 2006, the mortgage origination market was split roughly evenly among banks, NMCs affiliated with banks or bank holding companies, and independent NMCs (see **Figure 4**).³⁷ Both bank-affiliated and independent NMCs lost market share to banks during the 2007-09 financial crisis. After the crisis, bank-affiliated NMCs mostly closed their operations, while independent NMCs expanded and banks contracted. By 2022, 64 percent of purchase mortgages were originated by independent NMCs.

Figure 4: Loan Origination by Type of Originator



Note: Depositories include credit unions. Independent refers to nonbank mortgage companies. Affiliated refers to nonbank mortgage companies affiliated with a depository institution.

Source: Federal Financial Institutions Examination Council (U.S.), Home Mortgage Disclosure Act (Public Data)

35 See Buchak, Greg, Gregor Matvos, Tomasz Piskorski, and Amit Seru. 2018. “Fintech, Regulatory Arbitrage, and the Rise of Shadow Banks.” *Journal of Financial Economics* 130, issue 3: 453-483, and Fuster, Andreas, Matthew Plosser, Philipp Schnabl, and James Vickery. 2019. “The Role of Technology in Mortgage Lending,” *Review of Financial Studies* 32, issue 5: 1854-1899. <https://doi.org/10.1093/rfs/hhz018>.

36 See Federal Reserve Board, FDIC, OCC, NCUA. “Report to the Congress on the Effect of Capital Rules on Mortgage Servicing Assets.” Washington, D.C.: Federal Reserve Board, FDIC, OCC, NCUA, June 2016. <https://www.federalreserve.gov/publications/other-reports/files/effect-capital-rules-mortgage-servicing-assets-201606.pdf>.

37 All statistics in this section are calculated from HMDA data as described in footnote 4. The data series begin in 1993 because HMDA’s coverage of independent NMCs increased in 1993.

3.2.2 Increased NMC Share as Agency Counterparties

NMCs have a strong incentive to sell their originations quickly because secondary market sales are a significant source of income, and they lack affordable or reliable sources of long-term funding. The Agencies' dominant securitization market share means that they are the major source of secondary market liquidity for NMCs. Some NMCs engage directly with the Agencies to sell or securitize their loans, whereas others sell their loans to larger banks or NMCs, known as "aggregators," that engage with the Agencies.

An originator that funds mortgages through a securitization guaranteed by an Enterprise can either sell the loans to the Enterprise for cash or exchange the loans for an MBS guaranteed by the Enterprise. The originator can choose to retain the servicing or release it to be serviced by another firm. Originators that sell loans to or service loans for an Enterprise are referred to as Enterprise seller/servicers.

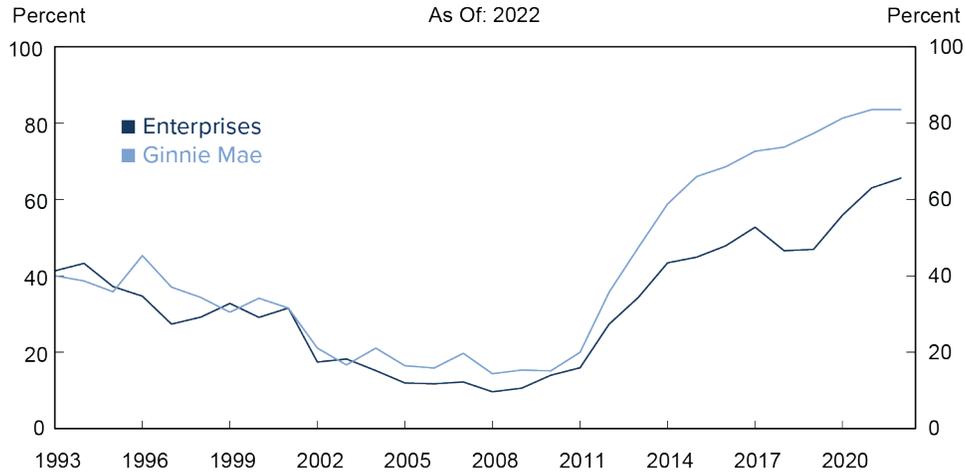
If the originator decides to fund mortgages by issuing a securitization guaranteed by Ginnie Mae, the originator receives a guaranty on the MBS and retains the servicing unless it transfers issuer responsibilities through the Pools Issued for Immediate Transfer program. Originators that issue securitizations guaranteed by Ginnie Mae are referred to as Ginnie Mae issuers. This report collectively refers to Enterprise seller/servicers and Ginnie Mae issuers as Agency counterparties.

Agency counterparties assume certain responsibilities. For example, if the loan was not underwritten in accordance with the policies or guidelines of the respective Agency, the Enterprises or the U.S. government (FHA, VA, or RHS) can pursue the seller for damages or require repurchase of the loan. Originators that retain the servicing for the loans sold or securitized via the Agencies must agree to service the loans in accordance with the respective Agency guidelines.

Although NMCs have always originated loans, until the 2010s most nonbank originators were too small to handle the responsibilities of being an Agency servicing counterparty in a cost-effective way. Instead, they sold their originations to bank or NMC aggregators. In 2008, independent NMCs were the sellers for only 10 percent of mortgages in Enterprise securitizations and the issuers for 14 percent of mortgages in Ginnie Mae securitizations (see **Figure 5**). After the 2007-09 financial crisis, some large banks withdrew from the Agency counterparty role for the reasons noted in Section 3.2 and some independent NMCs responded to this market opportunity by expanding their operations and becoming Agency counterparties. By 2022, independent NMCs were the sellers for 66 percent of mortgages in Enterprise securitizations and the issuers for 84 percent of mortgages for Ginnie Mae securitizations.³⁸

³⁸ This paragraph focuses solely on independent NMCs because they may pose more counterparty risk to the Agencies than bank-affiliated NMCs. Banks and bank holding companies are subject to federal and state supervision and regulation.

Figure 5: Share of Originations in Agency Pools Contributed by Independent NMCs

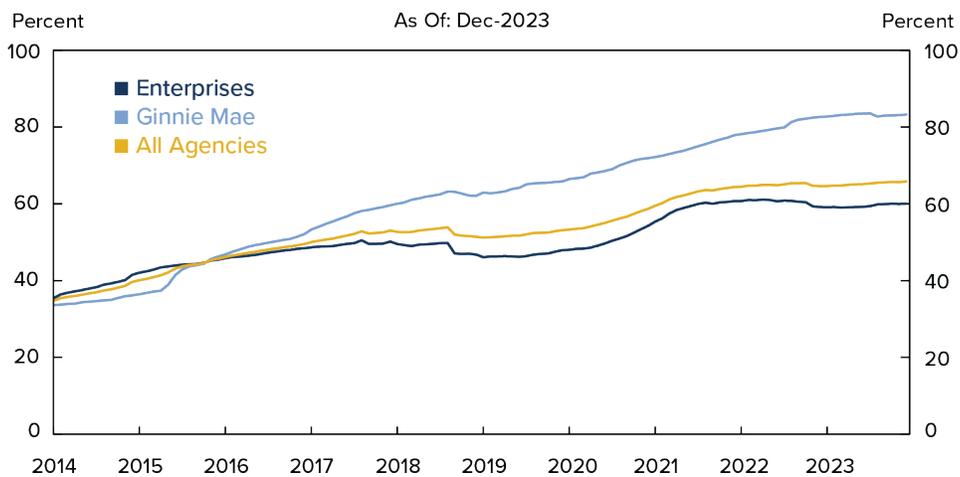


Note: The figure shows the market share for independent NMCs that sold originations to the Enterprises or issued a securitization guaranteed by Ginnie Mae. In some cases that NMC was the mortgage originator and in some cases it was a mortgage aggregator.

Source: Federal Financial Institutions Examination Council (U.S.), Home Mortgage Disclosure Act (Public Data)

Nonbank firms also expanded their role as Agency servicers (see **Figure 6**). For the Enterprises, different firms may serve as the seller and servicer of a loan, whereas for Ginnie Mae the functions are combined. The share of loans serviced by nonbank mortgage servicers for the Enterprises rose from 35 percent in 2014 to 60 percent in 2023, while the share for Ginnie Mae rose from 34 percent to 83 percent during the same period.³⁹

Figure 6: NMC Share of Agency Servicing



Source: Black Knight eMBS

³⁹ Statistics calculated starting in 2014 because eMBS data are incomplete in earlier years.

3.3 Increased Aggregate Mortgage Market Exposure to Agency Securitization and NMCs

As a result of the increased Agency securitization and NMC market share, the aggregate mortgage market exposure to Agency securitizations with nonbank mortgage servicers has risen dramatically over time. From 2014 to 2023, the share of all mortgages outstanding that were serviced by NMCs and had an Agency guarantee grew from 26 percent to 44 percent.⁴⁰ In total, the Agency nonbank mortgage servicer exposure was approximately \$6 trillion at the end of 2023.

⁴⁰ Estimates are for closed-end, one- to four-family residential mortgages and based on data from the Financial Accounts of the United States and eMBS.

4 Strengths of Nonbank Mortgage Companies

In some circumstances, NMCs appear to have been more entrepreneurial in their marketing and market expansion than banks. They are generally thought to have been quicker to partner with financial technology (fintech) companies and leverage their technologies, especially for mortgage origination activities.⁴¹ In addition, because NMCs focus solely on mortgage-related products, they may have a greater incentive than banks to adjust their operations when market conditions change. When interest rates fall and there is greater demand for mortgages, nonbank originators may scale quicker than banks to meet the surge in demand. In 2020, nonbank originators increased their market share by four percentage points when mortgage interest rates fell sharply amid the policy response to the COVID-19 pandemic.⁴² As another example, in the aftermath of the 2007-09 financial crisis, when a large share of mortgages was delinquent or in foreclosure, some nonbank mortgage servicers developed greater experience in handling the servicing of distressed mortgages.⁴³

NMCs have also developed substantial operational capacity, as evidenced by the large market share that they originate and service. Their origination and servicing platforms are important parts of the mortgage infrastructure, especially for historically underserved borrowers.⁴⁴ NMCs originated 72 percent and 75 percent, respectively, of mortgages extended to Black and Hispanic borrowers in 2022, and 61 percent of those to Asian and White borrowers; the higher NMC share for Black and Hispanic borrowers has persisted for at least 30 years (see **Figure 7**).⁴⁵ A similar, albeit smaller, gap is apparent by income. In 2022, NMCs originated 67 percent of mortgages extended to low-to-moderate income borrowers and 64 percent of mortgages extended to borrowers with higher incomes (see **Figure 8**).

41 See Buchak, Greg, Gregor Matvos, Tomasz Piskorski, and Amit Seru. 2018. "Fintech, Regulatory Arbitrage, and the Rise of Shadow Banks." *Journal of Financial Economics* 130, issue 3: 453-483, and Fuster, Andreas, Matthew Plosser, Philipp Schnabl, and James Vickery. 2019. "The Role of Technology in Mortgage Lending," *Review of Financial Studies* 32, issue 5: 1854-1899. <https://doi.org/10.1093/rfs/hhz018>.

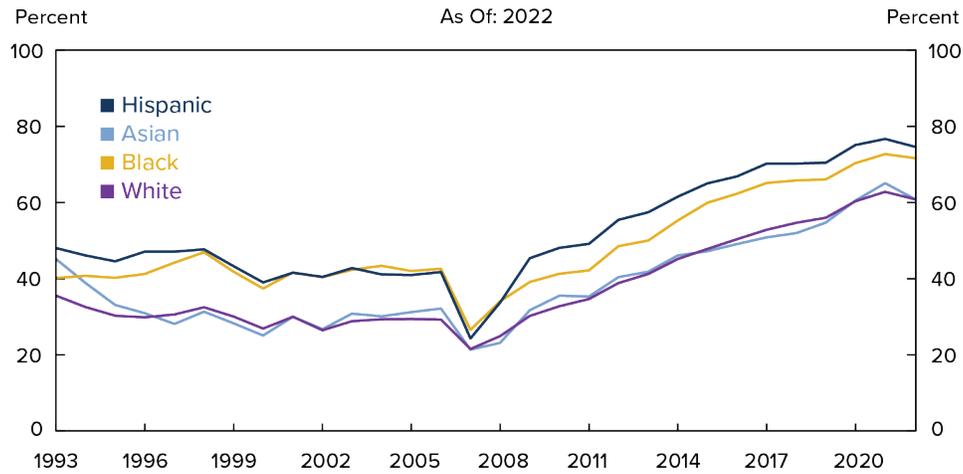
42 Calculation is from HMDA data as described in footnote 4. See Fuster, Andreas, Aurel Hizmo, Lauren Lambie-Hanson, James Vickery, and Paul Willen. "How Resilient is Mortgage Credit Supply? Evidence from the COVID-19 Pandemic." Washington, D.C.: Federal Reserve Board, July 2021. <https://www.federalreserve.gov/econres/feds/how-resilient-is-mortgage-credit-supply-evidence-from-the-covid-19-pandemic.htm> for a discussion of how NMCs' fintech platforms may have helped them expand quicker.

43 See Lee, Pamela. "Nonbank Specialty Servicers: What's the Big Deal?" Washington, D.C.: Urban Institute Housing Finance Policy Center, August 4, 2014. <https://www.urban.org/sites/default/files/publication/22831/413198-Nonbank-Specialty-Servicers-What-s-the-Big-Deal-.PDF>.

44 12 U.S.C. 5330(a). Congress directed the Council to specifically consider the financial stability consequences for low-income, minority, or underserved communities.

45 Data are from HMDA as described in footnote 4.

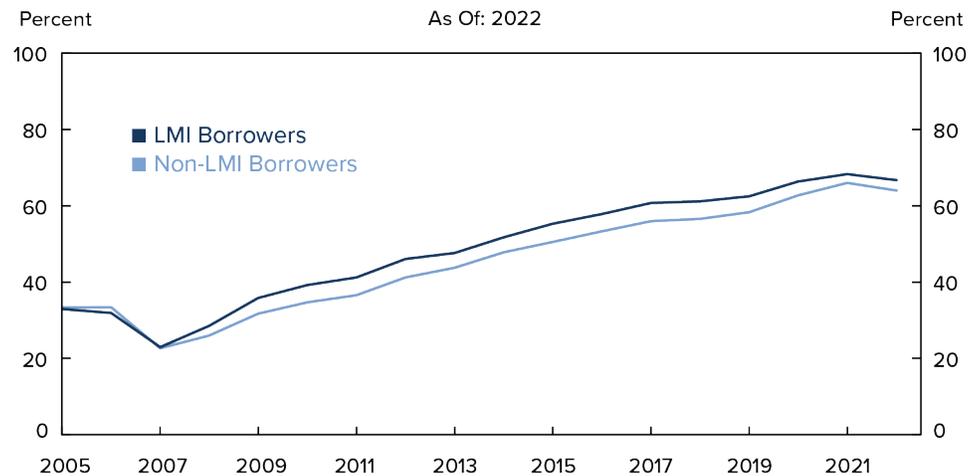
Figure 7: NMC Share of Originations by Race or Ethnicity



Note: NMCs includes both independent NMCs and NMCs affiliated with a banking institution. Hispanic borrowers can be of any race. White, Asian, and Black borrowers are those who identify as non-Hispanic.

Source: Federal Financial Institutions Examination Council (U.S.), Home Mortgage Disclosure Act (Public Data)

Figure 8: NMC Share of Originations to Low and Moderate Income (LMI) Borrowers

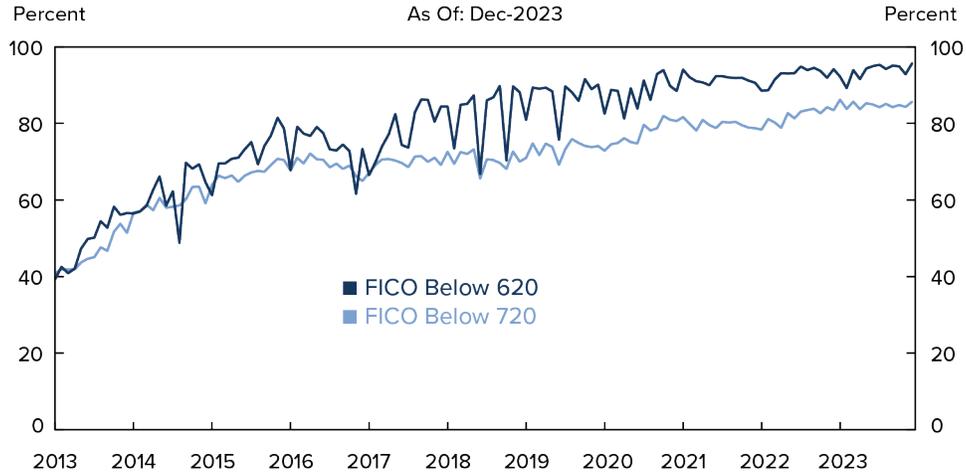


Note: NMC includes both independent NMCs and NMCs affiliated with a banking institution. A borrower is considered LMI if their income is less than 80 percent of the median household income in their respective Metropolitan Statistical Area for the year.

Source: Federal Financial Institutions Examination Council (U.S.), Home Mortgage Disclosure Act (Public Data)

NMCs are also more likely to originate mortgages to borrowers with lower credit scores. As of December 2023, NMCs originated 96 percent of mortgages in Agency pools with borrowers having a credit score less than 620 and 86 percent of mortgages with borrowers having a credit score below 720 (see **Figure 9**).

Figure 9: NMC Share of Agency Originations by FICO Score



Note: Statistics calculated over mortgages in Agency pools.

Source: Black Knight eMBS

Finally, NMCs attract new sources of capital into the mortgage market, such as private equity funding. This new capital increases market liquidity but introduces new risks associated with capital that may have less long-term commitment to the mortgage market. For example, these firms may be less likely to make long-term investments in infrastructure and may be more likely to respond to downturns in mortgage-market conditions by exiting their mortgage-related investments and re-deploying their capital elsewhere.

5 Vulnerabilities of Nonbank Mortgage Companies

Of the eight categories of vulnerabilities defined in FSOC's Analytic Framework, NMC vulnerabilities tend to fall into concerns about liquidity, leverage, operational risk, and interconnections.⁴⁶ In addition, NMCs' concentrated exposure to mortgage-related assets and services can lead to significant swings in profitability and a lack of assets to draw upon to absorb shocks. NMC financing can quickly become expensive, or even disappear, at times of stress. Despite the vulnerability of their financing, some NMCs have highly leveraged business models. As a reflection of these factors, credit rating agencies have generally assessed the debt obligations of NMCs as speculative-grade credits. Shared funding and subservicing providers can lead to weaknesses at one NMC being transmitted to others.

5.1 Vulnerability to Macroeconomic Shocks

Since NMCs specialize in mortgage-related assets, their profitability can vary dramatically with changes in the economy that disproportionately affect mortgages. For example, consumer demand for mortgages varies with house prices, housing supply, and interest rates. When interest rates fall sharply, more borrowers benefit from refinancing their fixed-rate mortgages, and so mortgage demand surges. Nonbank originators are typically very profitable during these periods because they process more mortgages and can charge more for their services.⁴⁷ As observed in the 2022-23 rising interest rate cycle, when refinancing booms end, originator profitability may be adversely affected. If originators are unable to reduce their expenses in proportion to the decreased demand, they may even lose money on originations. Since most large nonbank mortgage servicers also originate mortgages, losses in their origination operations may affect their ability to service loans.

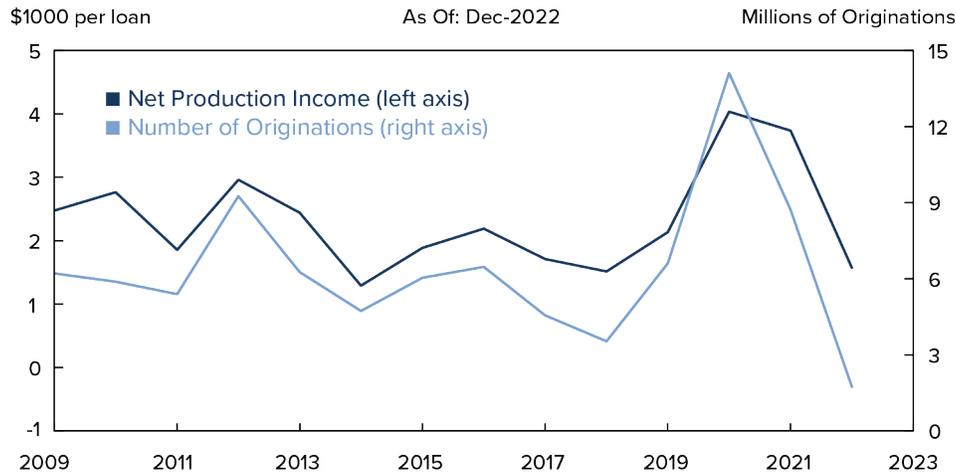
To illustrate this point, **Figure 10** shows that on average during the 2009-2022 period, NMCs earned \$1,558 in net production income on each loan origination, expressed in 2022 dollars.⁴⁸ However, when mortgage refinancing surged during the pandemic, net production income increased to more than \$4,500 per loan, and then plummeted to a \$300 loss per loan in 2022 as both refinancing and purchase transactions decreased. In 2023 (not shown in graph), losses were around \$1,000 per loan.

46 Financial Stability Oversight Council. Analytic Framework for Financial Stability Risk Identification, Assessment, and Response. 88 Fed. Reg. 78026 (Nov. 14, 2023). <https://home.treasury.gov/system/files/261/Analytic-Framework-for-Financial%20Stability-Risk-Identification-Assessment-and-Response.pdf>. FSOC's Analytic Framework describes eight vulnerabilities that most commonly contribute to risks to financial stability and four transmission channels that are most likely to facilitate the transmission of negative effects of a risk to financial stability. The factors described in the Analytic Framework are not meant to be exhaustive or exclusive.

47 For evidence that lenders can charge more during periods of peak mortgage demand, see Fuster, Andreas, Stephanie Lo, and Paul S. Willen. 2023. "The Time-Varying Price of Financial Intermediation in the Mortgage Market." *Journal of Finance*, Forthcoming, Available at SSRN: <https://ssrn.com/abstract=2902542>.

48 Data on net production income are from the Mortgage Bankers Quarterly Performance Report from the Mortgage Bankers Association and are converted to 2022 dollars using the Personal Consumption Expenditures Price Index. Loan originations are from HMDA data and include both purchase and refinance originations.

Figure 10: Net Production Income and Mortgage Originations



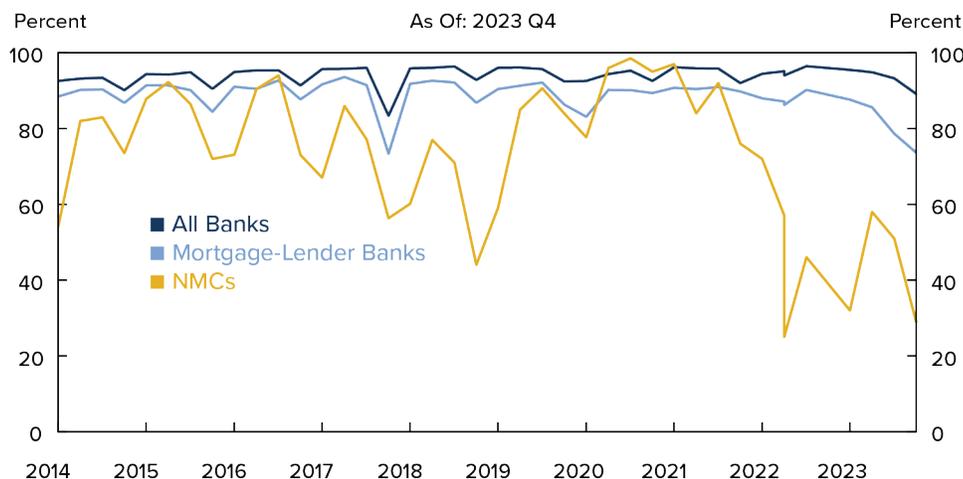
Note: Number of originations is the sum of purchase and refinance originations. Net production income is adjusted to 2022 dollars.

Sources: Mortgage Bankers Association Quarterly Performance Report (income) and HMDA (originations)

Mortgage servicing fees provide a more stable stream of cash than origination income. In addition, servicers book MSRs as an asset on their balance sheet. MSRs are calculated as the expected future net revenue received from servicing mortgages in securitized pools. When interest rates rise and origination income slows, MSR valuations increase because servicers can anticipate receiving servicing fees for a longer time because of the lower prepayment risk. However, although fair-value markups are recorded as income on NMC balance sheets, NMCs do not experience improved cash positions unless the NMC sells the MSRs or is able to borrow more on MSR-secured credit lines.

Even with the partial offset from servicing, NMCs are often unprofitable at times of low mortgage demand (“unprofitable” is defined as having negative income in a given quarter). NMCs’ profitability varies throughout the year and is typically lowest in the first and fourth quarters, when mortgage demand is lower (see **Figure 11**). NMCs can also be unprofitable at other times when origination income is low. Only 44 percent of NMCs covered by the Mortgage Bankers Quarterly Performance Report were profitable at the end of 2018 and only 29 percent were profitable at the end of 2023.

Figure 11: Share of Firms that are Profitable



Note: Profitability defined as positive pretax income in a given quarter for NMCs and positive after-tax income for banks. A mortgage-lender bank is a bank with residential mortgage loans and MBS in excess of 50 percent of total assets.

Sources: For NMCs, Mortgage Bankers Association Quarterly Performance Report. For banks, Federal Deposit Insurance Corporation Quarterly Banking Profile

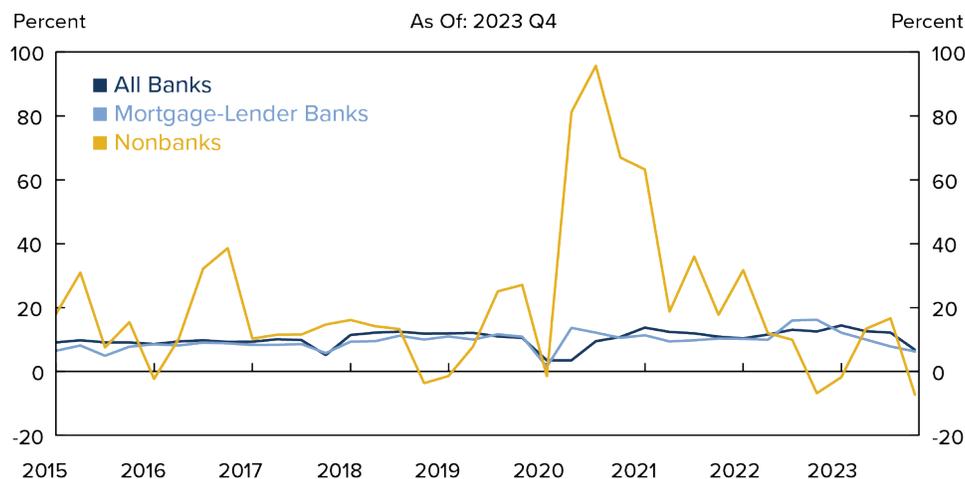
In contrast, the share of banks that are unprofitable is typically much lower because banks have more diversified business lines and smaller seasonal fluctuations. To show this point, “average profitability” is constructed by calculating the share of banks that are profitable in each quarter in the ten-year period from the first quarter of 2014 to the fourth quarter of 2023 and then calculating the average of these quarterly shares. The calculation is repeated for one- to four-family “mortgage-lender” banks with more than half of their assets in mortgages and MBS and for NMCs. The average profitability was 94 percent for banks for this ten-year period, 88 percent for mortgage-lender banks, and 73 percent for NMCs.⁴⁹ For NMCs, the average encompasses some quarters when only a minority of NMCs were profitable.

Figure 12 shows the volatility of NMC profitability by plotting the annualized return on equity (ROE) for NMCs, banks, and mortgage-focused banks. From 2015 to 2023, ROE for NMCs ranged from a high of 96 percent in the third quarter of 2020 to a low of -7.3 percent in the fourth quarter of 2023, which is in line with the swings in profitability. For banks overall, ROE ranged from a high of 14.4 percent in the first quarter of 2023 to a low of 3.5 percent in the second quarter of 2020; while for

⁴⁹ Bank statistics are calculated from the FDIC Quarterly Banking Profile and cover all FDIC-insured institutions. The FDIC identifies 326 banks and savings institutions as mortgage lenders. NMC statistics are calculated from the Mortgage Bankers Quarterly Performance Report and cover roughly 300 NMCs in each quarter.

mortgage-lender banks, the range was 16.2 percent in the fourth quarter of 2022 to 1.5 percent in the first quarter of 2020.

Figure 12: Annualized Return on Equity



Note: Return on equity (ROE) calculated as a weighted average by total equity.

Sources: NMLS Mortgage Call Report, Federal Deposit Insurance Corporation Quarterly Banking Profile

The profitability of servicers can also decline when mortgage delinquencies increase and defaults rise, which tend to occur when unemployment rates rise or house prices decrease. Profitability declines because servicing fees generally do not vary by whether a loan is performing or delinquent. The servicing fee is substantially above the average cost to service a performing loan (\$160 in the first half of 2022) but below the average cost to service a delinquent loan (\$1,994 in the first half of 2022).⁵⁰ Additionally, when borrowers do not make their mortgage payments, the servicer may need to advance the missed payment amounts to bondholders, insurance companies, and other stakeholders. Servicers are eventually reimbursed for most of these payments once the delinquency is cured but servicers must cover the financing costs in the interim. While servicing fees on the overall portfolio should be enough to cover the total costs unless delinquencies reach a very high level, profitability will decrease as delinquencies increase.

NMCs are more exposed than banks to defaults because NMCs tend to originate and service loans to a different risk profile of borrowers than banks. As discussed in Section 3, NMCs service most of the loans in Ginnie Mae securitizations, which include FHA loans that tend to be originated to borrowers with lower credit scores. Even when considering the Enterprise and Ginnie Mae markets separately, the average credit score is a bit higher for mortgages serviced by banks than NMCs.⁵¹

As an example of how much servicers' costs can rise when foreclosures are high, as the share of mortgages in foreclosure or real estate owned (REO) increased from an average of about 1.9 percent in 2008 to 4.1 percent in 2010, unreimbursed foreclosure, REO, and other default costs increased

50 Sinnock, Bonnie. 2023. "Distressed servicing costs normalizing after two-year reprieve." *National Mortgage News* (February 24, 2023).

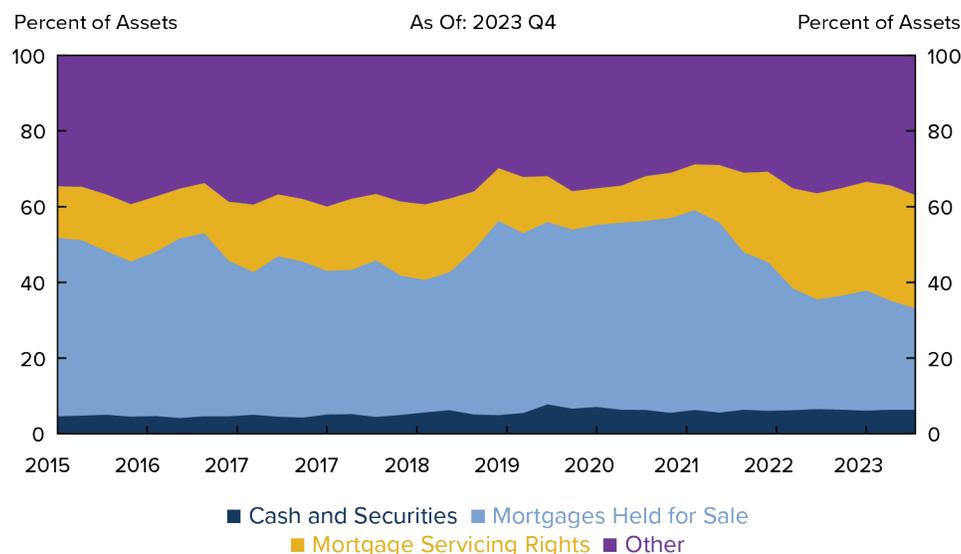
51 See Figures 56 and 57 in https://www.ginniemae.gov/data_and_reports/reporting/Documents/global_market_analysis_jan24.pdf.

from \$8 per loan in 2008 to \$105 per loan in 2012.⁵² The \$105 represented about a third of the \$312 average cost of servicing a loan in 2012. In 2021, when foreclosures were at very low levels, these foreclosure costs represented just \$13 of the \$240 average servicing cost.

5.2 Risks Associated with NMC Assets

NMC assets are highly concentrated in mortgage-related assets and their balance sheets are vulnerable to mortgage-related shocks. In the aggregate, NMCs typically have only about 5 percent of their assets in unrestricted cash and securities (see **Figure 13**). Mortgages held for sale, which are originations that NMCs hold briefly on their balance sheets before securitization, total around 30 percent to 50 percent of aggregate assets, depending on the year. Mortgage servicing rights are 10 percent to 30 percent of NMC assets. Other NMC assets largely cannot be monetized. This category includes certain securitized mortgages that NMCs are required to recognize under accounting regulations as on-balance sheet assets and are fully offset by existing financing recognized as on-balance sheet liabilities, as well as items such as deferred tax assets and miscellaneous advances and receivables.

Figure 13: Composition of NMC Assets



Source: NMLS Mortgage Call Report

MSRs may not hold their value in certain situations, so bank regulators limit the extent to which MSRs can be included in bank capital.⁵³ First, MSR valuations are based on models that forecast how long the servicer can expect to receive the servicing fee. The valuations depend heavily on the

52 Data on foreclosure costs are from <https://newslink.mba.org/mba-newslinks/2022/july/mba-newslink-monday-july-18-2022/mba-chart-of-the-week-july-15-2022-cost-to-service-loans-per-employee/>. Data on share of mortgages in foreclosure or REO are from Black Knight McDash Data.

53 For more background information on MSRs, Federal Reserve Board, FDIC, OCC, and NCUA. “Report to the Congress on the Effect of Capital Rules on Mortgage Servicing Assets.” Washington D.C.: Federal Reserve Board, FDIC, OCC, NCUA, June 2016. <https://www.federalreserve.gov/publications/other-reports/files/effect-capital-rules-mortgage-servicing-assets-201606.pdf>.

model's structure and the model's assumptions for how the loan will prepay through refinancing or default. As a result, the valuations have considerable uncertainty and subjectivity.

Second, MSR valuations can swing dramatically with interest rate changes. When interest rates decrease, the probability that borrowers will refinance increases, and MSR valuations decline. Some NMCs partially offset this volatility through hedging, although hedges do not always perform as anticipated. Over time, the drop in MSR valuations may be offset by an increase in mortgage origination income. However, that origination income may materialize at a slower pace than the decline in MSR valuations, and in the interim, NMCs that have borrowed against their MSRs may face margin calls from their lenders. NMCs that have not hedged effectively will need to find other sources of funds to meet the margin calls.

Third, MSR valuations fall when delinquencies rise. If the delinquency rate on a given servicing portfolio is high enough, there may be no bidders for the MSR. This drop in valuations can be problematic because NMCs often raise cash by selling MSRs. NMCs generally have a greater need for cash when delinquencies are high: servicing costs are much higher for delinquent loans and NMCs may be facing more requests from the Enterprises and other counterparties to repurchase non-performing loans.

Challenges with MSR valuations and volatility are exacerbated by the concentration of MSRs on NMC balance sheets. MSRs for some NMCs are significantly higher than the NMC industry-wide statistic of 10 percent to 30 percent of assets. By comparison, for banks MSRs were less than 1 percent of assets in the fourth quarter of 2023.⁵⁴

5.3 Liquidity Risk

NMCs face considerable liquidity risk from their funding sources and the often-volatile nature of the assets on their balance sheets. NMCs can experience a variety of liquidity strains, such as margin calls that require them to post more collateral or cash to support a credit facility when their liquidity may already be under pressure. NMCs can also experience increases in their borrowing costs and reductions or cancellation of financing sources altogether.

NMCs can also face liquidity pressures from their obligations under the mortgage servicing contracts. These contracts can require the servicer to advance funds on behalf of the Agencies or a private-label securitization trust. While servicers are eventually reimbursed for these advances, they must fund them in the interim, typically through credit facilities, working capital, or a combination of the two. Because of their different funding structures and business models, nonbank servicers have more difficulty and incur more cost than bank servicers in obtaining financing for these advances. These servicing-advance pressures are particularly pronounced for mortgages in Ginnie Mae pools because of the issues described in section 5.3.2.

5.3.1 Liquidity Risk from Financing Sources

Warehouse lines of credit

NMCs need short-term financing for their mortgage originations until the mortgages can be securitized. Without this funding, NMCs cannot originate mortgages. Lining up more-expensive

⁵⁴ MSR statistic calculated from Reports of Condition and Income (Call Report) data for large and midsize national banks that report holding MSRs.

long-term financing for this purpose is not economical because mortgage demand can swing dramatically and quickly as interest rates change.

The financing generally comes from “warehouse” lines of credit provided by banks, bank affiliates, and private lenders. These credit facilities generally have maturities of less than a year and require the NMC to abide by covenants regarding the NMC’s financial condition and the collateral financed by the facility. The warehouse credit market is large and deep: as of the fourth quarter of 2023 about 235 warehouse lenders extended credit facilities with total borrowing limits of approximately \$285 billion.⁵⁵ On average, an NMC had warehouse lines from about 9.5 creditors in the fourth quarter of 2023.⁵⁶ However, the depth is somewhat deceptive. Because warehouse lenders have similar business models and warehouse lines are generally cross-collateralized, meaning that a default on one line triggers a default on others, at times of stress an NMC’s warehouse lenders are likely to behave similarly and tighten credit standards—potentially resulting in restricted access to liquidity.

NMC’s reliance on warehouse lines of credit poses multiple liquidity risks. The first risk is margin calls. Warehouse lenders typically finance 90 percent to 95 percent of the loan value, and NMCs fund the rest of the loan with their own cash.⁵⁷ If a loan drops in value while being financed on the warehouse line, the NMC will need to post more cash collateral. These margin calls may result in NMCs facing demands on their cash at a time when the NMCs are already stressed.

The second risk is the run dynamics that can be sparked by the margin calls. Since NMCs have multiple warehouse lenders, each warehouse lender may worry that other warehouse lenders will also ask for additional cash collateral and that the NMC might not have sufficient cash to meet all the demands. This dynamic could lead warehouse lenders to quickly enforce covenants and impose higher margin requirements during periods of heightened volatility or strain, which may place additional strain on NMCs.

The third risk is that warehouse lenders may reprice or restructure the lines, for example by raising interest rates, changing the types of acceptable mortgage collateral, or curtailing or canceling the lines altogether. An estimated 55 percent of the lines were uncommitted in the fourth quarter of 2023, meaning that the warehouse lenders can reprice the lines at any time. For the remaining 45 percent, the warehouse lenders can only reprice the lines when the lines roll over or if the NMCs are not in compliance with loan covenants.⁵⁸ In times of strain, NMCs are often in violation of the covenants. In normal market conditions, warehouse lenders generally provide flexibility on covenant violations, especially if the NMC cures the covenant violation within a certain number of days.⁵⁹ At times of systemic stress, warehouse lenders may seek to limit their exposure to NMCs and may exercise their options to reprice or restructure the lines.

55 Ginnie Mae tabulation of data from the MBFRF. All MBFRF statistics provided by Ginnie Mae in this report are limited to entities that filed the MBFRF in the fourth quarter of 2023 and originated residential one-to-four family property mortgages, serviced such mortgages, or owned MSRs.

56 Staff calculation from the NMLS Mortgage Call Report. Average is weighted by NMC origination volume.

57 Moody’s assumes that warehouse lenders lend around 93 percent of the loan value. See Moody’s Ratings. “Non-bank Mortgage Finance Companies - U.S.: Q4 2023 Update: Core profitability decline with seasonal drop in originations.” New York, NY: Moody’s Ratings, March 26, 2024.

58 Estimate is weighted by the facility credit limit and is based on the subset of MBFRF respondents that reported the breakdown between committed and uncommitted lines. The warehouse credit facilities for this subset of respondents had an aggregate limit of \$186 billion.

59 Ivey, Brandon. 2024. “Warehouse Lenders Willing to Be Flexible in Tough Times.” *Inside Mortgage Finance* (March 8, 2024).

The fourth risk is that warehouse lines generally have cross-default provisions so that an NMC default on one warehouse line can trigger an event of default on other lines. These provisions can trigger run dynamics as well. At times of extreme stress, nonbanks can face a rapid unraveling of their access to credit and liquidity. During the 2007-09 financial crisis, some NMCs experienced this type of run on the warehouse lines that financed their subprime mortgage originations.

Hedges

NMCs also face liquidity risks from margin calls on the hedges that are in place to safeguard against interest rate movements while the mortgage is funded on the warehouse line. Mortgage originations decline in value when interest rates rise, and originators hedge this risk by taking positions that increase in value with interest rates. A sharp decline in interest rates, however, can lead to large margin calls on these hedges, and such margin calls were a substantial source of instability in March 2020.⁶⁰

Credit lines collateralized by MSRs

NMCs can also face liquidity risks from their “MSR lines,” or lines of credit extended by banks, bank affiliates, and private lenders that are collateralized by the NMC’s MSRs. NMCs use this financing to cover a variety of operating expenses and for other corporate purposes such as purchasing MSRs from other firms. MSR lines are smaller in aggregate than warehouse lines: about 35 lenders extended MSR lines with aggregate credit limits of approximately \$30 billion in the fourth quarter of 2023.⁶¹

The terms are less favorable on MSR lines than warehouse lines. Interest rates are higher and the amount that NMCs can borrow against the collateral value is lower. Moody’s assumes an advance rate of 65 percent for MSR collateral.⁶² The less-favorable terms reflect the volatility and subjectivity of MSR valuations and the fact that the Agencies have the option to move the servicing (and thus the MSRs) to another firm without compensating the current servicer if that servicer does not meet the ongoing eligibility requirements specified in the servicing agreement. The Agencies reserve this right so that they can fulfill their guarantees to investors of timely payments of principal and interest. Although the Agencies enter into acknowledgement agreements that somewhat limit the risks, creditors still bear some risk of losing their collateral entirely.

Like warehouse lines, MSR lines are subject to margin calls when the MSR collateral valuations decline, which usually occurs when interest rates fall or delinquency rates rise. Margin calls can cause liquidity strains in both situations. When interest rates fall, NMCs expect to receive increased revenue from mortgage refinancing in a future period but may need to honor the margin call immediately. When delinquencies rise, servicers may want to borrow more money on their MSR line to fund the expenses associated with delinquent loans, but instead may need to provide additional collateral to comply with collateral margin requirements. For some facilities, the MSR lender determines the value of the MSR collateral and the NMC has a limited or no ability to dispute the valuations, which may expose the NMC to additional liquidity risk associated with margin calls.

60 See Pence, Karen. “Liquidity Crises in the Mortgage Market: How does the COVID-19 crisis compare with the Global Financial Crisis?” *Real Estate Economics* 50, no. 6 (November):1405-1424. <https://doi.org/10.1111/1540-6229.12389>.

61 Ginnie Mae analysis of MBFRF data.

62 Moody’s Ratings, “Non-bank Mortgage Finance Companies – U.S: Q4 2023 Update: Core profitability decline with seasonal drop in originations.” New York, NY: Moody’s Ratings, March 26, 2024.

Other sources of funding

NMCs also have funding sources that are less subject to liquidity risk, including equity funding and long-term financing. Some large NMCs issue notes from securitization trusts collateralized by their MSR and some NMCs issue high-yield corporate bonds. Corporate bonds are expensive financing because they are unsecured debt and because rating agencies generally assess these debt obligations as speculative grade (see Section 5.4). Other NMCs enter into debt arrangements with private-credit funds and insurance companies. Some of these debt arrangements are collateralized by the owners' equity in the company or by other corporate assets. While these financing sources may not contribute materially to liquidity risk, they add to the NMC leverage vulnerability described later in this report.

5.3.2 Liquidity Risk from Servicing Obligations and Repurchase Requests

NMCs may also face liquidity strains under the requirements of the Agency servicing contracts. Under certain circumstances, these contracts require servicers to advance funds on behalf of the Agencies or repurchase mortgages from the securitization pools. These requirements are more onerous for nonbank mortgage servicers than bank mortgage servicers because NMCs lack inexpensive sources of liquidity.

Servicing Advances

When a borrower does not make a mortgage payment, the servicer may be required to advance principal and interest payments to bondholders, insurance premiums to insurance companies, property tax payments to local governments, and expenses associated with the foreclosure process to various vendors. The servicer can book these "servicing advances" as an asset on its balance sheet and is generally repaid most of the advances. However, the servicer must fund the advances in the interim, and in some cases may incur negative carry by doing so.

Principal and interest advancing requirements, and the associated liquidity strains, can vary across servicing portfolios. For some Enterprise servicing portfolios, servicers are only required to forward the interest and principal payments that servicers receive from borrowers. This "actual/actual" remittance schedule does not impose as large of a liquidity strain on servicers. For other Enterprise portfolios, servicers are required to send the interest payments that borrowers were scheduled to make under the mortgage contract, along with whatever principal payments borrowers made ("scheduled/actual"). For other portfolios, servicers are required to advance the scheduled interest and principal ("scheduled/scheduled") regardless of the payments submitted by the borrower. This remittance schedule places the greatest liquidity strain on servicers and is required for all Ginnie Mae pools.

Enterprise servicers are only required to advance principal or interest (if required under the remittance schedule) for up to 120 consecutive days. After that point, the Enterprises generally purchase the loans out of the pool and servicers are no longer required to advance principal and interest. Enterprise servicers advance taxes, insurance, and foreclosure costs until the delinquency is resolved, but servicers are generally reimbursed quickly for these expenses.

Ginnie Mae servicers advance the scheduled interest and principal payments, as well as taxes, insurance premiums, and foreclosure expenses, until the delinquency is resolved. This process may take years to complete. Ginnie Mae servicers are also required to advance funds even if they

anticipate limited reimbursement that may result in losses on any advances paid. The VA guaranty, for example, only covers losses up to a specified limit.

If delinquencies rise substantially, servicers may have difficulty obtaining the funds for the advances. To some extent, servicers can fund the advances with their cash holdings, and the Agency liquidity requirements are calibrated so that servicers will have some reserves in case their advancing obligations increase. Servicers can also fund principal and interest advances from “prepayment float;” after a borrower refinances a mortgage, the principal balance stays with the servicer for a few weeks before being paid to the investor.

If delinquencies rise sharply or if refinancing is so low that little prepayment float is available, servicers might need to borrow to finance the advances. NMCs can generally borrow directly against their advances in the case of Enterprise servicing but have a more-restricted ability for Ginnie Mae servicing. To protect its guarantee of timely payment of principal and interest to bondholders, Ginnie Mae is authorized to extinguish issuers from its program and seize its Ginnie Mae assets in certain cases when the servicer is in violation of the Ginnie Mae guarantee agreement. Although Ginnie Mae has created acknowledgement agreements to give creditors more reassurance about the conditions in which they might lose their collateral, a robust private market does not exist for standalone financing of Ginnie Mae advances. Instead, servicers tap their MSR lines or notes issued by securitization trusts collateralized by the MSRs for these funds. MSR valuations decrease when delinquencies rise, so the servicer’s borrowing capacity on the line may shrink in this situation instead of expanding with the greater need for advance financing.

Loan Repurchases

In certain circumstances, Agency counterparties are required to repurchase mortgages from Enterprise and Ginnie Mae pools. With respect to the Enterprises, seller/servicers’ contracts with the Enterprises require that all loans delivered must meet certain underwriting and documentation standards. The Enterprises conduct quality control sampling of loan deliveries to determine compliance with these standards. If exceptions are discovered during the quality control review processes, the seller/servicer may be required to either repurchase the loan or provide some level of remediation, such as a fee or credit enhancement, to remediate a significant defect. Seller/servicers have the ability to resolve or appeal the Enterprises’ decisions. Additionally, the Enterprises work with seller/servicers exhibiting higher significant defect rates to assist them in improving loan quality.

With respect to Ginnie Mae, if a mortgage in a Ginnie Mae pool needs to be modified in a way that changes the terms of the mortgage, the issuer is required to purchase the loan out of the pool at par before performing the modification.⁶³ More generally, Ginnie Mae issuers have the option to purchase out of the pool any mortgage that is more than 90 days delinquent.⁶⁴ If the issuer purchases the mortgage out of the pool, the issuer is no longer required to advance principal and interest to investors, but the issuer must have the funds to purchase and hold the mortgage.

Both types of repurchases have the potential to strain servicer liquidity. In particular, full purchase requests could have a more substantial financial impact depending on the market conditions, the

⁶³ Servicers are also required to purchase reverse mortgages out of Ginnie Mae pools under certain circumstances. This report focuses on forward mortgages.

⁶⁴ Ginnie Mae. “Ginnie Mae MBS Guide, Chapter 18, Mortgage Delinquency and Default.” Washington, D.C.: Ginnie Mae. https://www.ginniemae.gov/issuers/program_guidelines/Lists/MBSGuideAPMsLib/Attachments/126/Chapter_18.pdf.

significance of the defect in the “scratch and dent” secondary markets, and the extent to which the NMCs’ cash and liquidity positions are already under pressure.

5.4 Leverage

Despite the risks that NMCs face from their concentration in mortgage-related assets and services and from liquidity strains, some NMCs take on considerable debt. One measure of high leverage is provided by Moody’s, which requires an NMC to have a ratio of secured debt to gross tangible assets of less than 30 percent for that factor of its long-term debt rating to be consistent with an investment grade.⁶⁵ Of the more than 550 NMCs that file the MBFRF, only 37 percent had secured debt less than 30 percent of gross tangible assets as of the third quarter of 2023. Thirty-five percent had ratios in excess of 60 percent, which Moody’s considers to be speculative of poor standing and subject to very high credit risk.⁶⁶

Moody’s provides a corporate family rating for the debt of 11 NMCs; these tend to be large NMCs that turn to capital markets for funding.⁶⁷ Moody’s consistently rates the debt of these NMCs as speculative grade (**Table 3**). As of March 2024, only one of these companies had the highest rating (Ba1) within the speculative-grade category, and even that rating conveys the judgment of Moody’s that the debt has “speculative” elements. Two NMCs had a rating (Caa1) that in the judgment of Moody’s rendered their debt in “poor standing.” Of the factors that Moody’s uses in determining the ratings, NMCs score most poorly on funds from operations relative to total debt and on secured debt relative to gross tangible assets.

Table 3: Count of NMCs by Corporate Family Credit Rating

Substantial Credit Risk			High Credit Risk			Very High Credit Risk		
Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3
X	X	X	X	X		X		
		X	X	X		X		
			X					

Note: Each “X” represents the credit rating of one anonymized NMC.

Source: Moody’s Ratings

5.5 Operational Risk

The operations of an NMC can be very complex and require a meaningful technology investment to create efficiencies and improve controls, along with necessary investments required to develop a highly controlled environment that is overseen by a robust risk management framework. The span of risks addressed from an operational standpoint include continuity of operations, threats from cyber events, third-party risk management, quality control, governance, and compliance. These risks have grown with the size of NMC portfolios over the last decade.

65 Moody’s Ratings. “Finance Companies Methodology.” New York, NY: Moody’s Ratings, November 25, 2019. <https://ratings.moody.com/api/rmc-documents/65543>.

66 Ginnie Mae analysis of MBFRF data.

67 Moody’s Ratings. “Non-bank Mortgage Finance Companies – U.S: Q4 2023 Update: Core profitability decline with seasonal drop in originations.” New York, NY: Moody’s Ratings, March 26, 2024. Of the rating agencies, Moody’s provides debt ratings for the largest number of NMCs.

Additionally, mortgage servicing can be a particularly operationally intensive activity in times of high delinquencies because servicing delinquent loans is more labor-intensive than servicing performing loans and requires additional personnel with expertise in addressing such loans. Processes for servicing delinquent loans also tend to be more complex, leading to additional operational risk.⁶⁸

5.6 Interconnections

NMCs are interconnected to each other and to the broader financial system through their financing and servicing relationships. NMCs often have warehouse lenders and other funders in common. Financial difficulties at one of these core lenders could affect many NMCs. Likewise, the financial difficulties at one NMC may cause lenders to reassess the credit risk of other NMCs with similar business models. Lenders may conclude that these other similar NMCs are also vulnerable, even if these NMCs are solvent at the time, and preemptively tighten credit conditions and thereby cause financial difficulties for these other NMCs.

As noted in Section 2.2, servicing and subservicing relationships also lead to interconnections across NMCs and across banks and NMCs. If a large NMC does not pay its servicer, the servicer's ability to perform loan administration duties for other servicers may be compromised. If a servicer experiences distress, the servicers that depend on the servicer may not be able to fulfill their obligations under their servicing contracts.

68 Goodman, Laurie. "Servicing Costs and the Rise of the Squeaky-Clean Loan." Washington, D.C.: Urban Institute, February 2016. <https://www.urban.org/sites/default/files/publication/77626/2000607-Servicing-Costs-and-the-Rise-of-the-Squeaky-Clean-Loan.pdf>.

6 Transmission Channels

In a stress scenario, the NMC vulnerabilities described above could cause NMCs to amplify and transmit the effect of a shock to the mortgage market and broader financial system. The consequences, such as borrower harm, could disrupt the provision of financial services and impair the ability of the financial system to support economic activity.

Shocks are difficult to predict. The shocks that NMCs experienced during the 2007-09 financial crisis and the COVID-19 pandemic included swings in interest rates and MBS prices that led to margin calls on warehouse lines, MSR financing facilities, and hedge positions. Key credit providers to the mortgage industry experienced negative effects on their own capital and liquidity and pulled back on extending credit to NMCs. During the 2007-09 financial crisis, PLS channels shut down, leaving NMCs without long-term financing for their nonconforming loan originations and with covenant violations on their warehouse lines. During and after the 2007-09 financial crisis, NMCs experienced larger-than-expected credit losses that also resulted from required repurchases of delinquent loans and large default servicing costs; in turn, lenders to NMCs pulled funding because of the counterparty risk. During the COVID-19 pandemic, warehouse lenders tightened their credit standards because of concerns that newly originated loans would immediately enter forbearance and become ineligible for securitization.⁶⁹ NMCs could transmit the negative effects of these and other shocks through all four channels set forth in the Council’s Analytic Framework—exposures, asset liquidation, critical function or service, and contagion.

6.1 Critical Functions and Services

6.1.1 Servicer Financial Stress

If financial difficulties impede NMCs’ abilities to conduct critical functions, mortgage borrowers can suffer harm. Originators have a legal responsibility to ensure that potential homeowners are informed about their mortgage options and take out loans that are appropriate for their financial circumstances. Servicers have a legal responsibility to ensure that borrowers have clear titles to their homes, that payments are reported accurately to credit bureaus, and that property taxes and insurance premiums are paid. When borrowers face difficulties with making their payments because, for example, they lose their jobs or their homes are damaged by natural disasters, and they ask for help, servicers are required to perform analyses of potential loss-mitigation options to help borrowers determine which options might enable them to weather the disruption to their finances and allow them to keep their homes.⁷⁰

When NMCs are under financial strain, they may not have the resources to carry out these responsibilities fully. Although borrowers with federally-backed mortgages were eligible to receive forbearance relief under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, research indicates that borrowers were less likely to receive relief if their mortgages were serviced by NMCs

69 For more information on strains faced by NMCs during the 2007-09 financial crisis, see Kim, You Suk, Steven Laufer, Karen Pence, Richard Stanton, and Nancy Wallace. 2018. “Liquidity Crises in the Mortgage Market,” *Brookings Papers on Economic Activity* (Spring 2018): 347-428. https://www.brookings.edu/wp-content/uploads/2018/03/KimEtAl_Text.pdf. For more information on strains faced by NMCs during the COVID-19 pandemic, see Pence, Karen. “Liquidity Crises in the Mortgage Market: How does the COVID-19 crisis compare with the Global Financial Crisis?” *Real Estate Economics* 50, no. 6 (November):1405-1424. <https://doi.org/10.1111/1540-6229.12389>.

70 12 CFR Part 1024 Subpart C.

with weaker liquidity or capital positions.⁷¹ In the aftermath of the 2007-09 financial crisis, servicers under duress were more likely to proceed with foreclosures or mortgage modifications even though these actions were not always in the best interest of investors or borrowers.⁷²

6.1.2 Servicing Transfers

If a servicer is unable to fulfill its obligations under the servicing contract, state regulators may require the transfer of servicing or the Agencies may decide to transfer the servicing. In recent years, the Mortgage Industry Standards Maintenance Organization (MISMO) Servicing Transfer Development Workgroup has been collaborating to identify and address issues associated with servicing transfer data and develop a standardized servicing transfer dataset and process. FHFA, CFPB, Ginnie Mae, and the Enterprises are supporting these efforts.⁷³ This initiative is improving the efficiency and accuracy of servicing transfers. Nonetheless, transferring the entire portfolio of a distressed servicer that handles loans for both the Enterprises and Ginnie Mae remains a time-consuming and resource-intensive process that can take from a couple months (for small portfolios of performing loans) to six months or longer (for large portfolios or portfolios with a significant number of mortgages in default). It is important to note that no servicing transfers have ever occurred at the scale of the largest current NMC portfolios.

Servicing transfers are time-consuming because they encompass an extensive list of activities that require comprehensive processes. In the normal course of business, an effective servicing transfer may include planning; multiple counterparty coordination across the old and new servicers and their vendors; significant data mapping; data transfer trial testing; data transfer validation; document imaging; and tasks related to payment setup, escrow administration and customization, and investor accounting and reporting. Comprehensive controls must be deployed to ensure accurate and timely mortgage account setup including reconciliations and resolution of unreconciled items. Extensive time must be devoted to consumer compliance that may need to be tailored to loan-level characteristics and borrower protections at the federal and state level. Customer communications and complaint-management resolution must be effective and timely. Servicer staff training must address differences in servicing practices, timing, and terminology from the old to new servicer. Mortgage records must be accurate related to document receipt (imaging, electronic, and recorded calls); custodianship; and safeguarding, including reconciliation, verification, and validation with sufficient follow-up for missing items and trailing documents.

If servicing is transferred while a servicer is in financial distress, the servicer could face significant challenges in continuing servicing operations until this extensive process is complete. For example, the servicer could have difficulty retaining experienced personnel because staff might depart for other opportunities due to the uncertainty surrounding the company's future.

71 See Kim, You Suk, Donghoon Lee, Tess Scharlemann, and James Vickery. "Intermediation Frictions in Debt Relief: Evidence from CARES Act Forbearance." Finance and Economics Discussion Series 2022-017. Washington, D.C.: Federal Reserve Board, 2022. <https://doi.org/10.17016/FEDS.2022.017>. The CARES Act defines a federally-backed mortgage as a one-to-four family owner-occupied loan that is guaranteed or insured by the FHA, VA, or the Department of Agriculture; or purchased or securitized by Fannie Mae or Freddie Mac. See P.L. 116-136. Coronavirus Aid, Relief, and Economic Security Act.

72 Aiello, Darren J. 2022. "Financially Constrained Mortgage Servicers." *Journal of Financial Economics* 144, issue 2: 590-610. <https://www.sciencedirect.com/science/article/pii/S0304405X21004396#sec0003>.

73 MISMO. "Servicing Transfers Development Workgroup." Washington, D.C.: MISMO. <https://www.mismo.org/get-involved/workgroup/servicing-transfers-dwg>.

These operational challenges can lead to substantial borrower harm and market disruption, especially if the servicer is unable to transfer all relevant information and documents to the new servicer in a timely and accurate manner.⁷⁴ Borrowers having difficulty making mortgage payments are even more susceptible to harm because they may be enrolled in loss mitigation accommodations or have otherwise negotiated special payment plans with their servicer. These arrangements and the supporting documentation may not be transferred to the new servicer.⁷⁵ Such borrowers may need to re-start the loss mitigation process with the new servicer.

6.1.3 NMC Bankruptcy

If a nonbank mortgage servicer enters bankruptcy—which is the primary method of resolution available to insolvent NMCs—the servicer might have difficulty obtaining the financing required to continue operations. This type of financing, known as debtor-in-possession (DIP) financing, is frequently provided by an existing creditor seeking to protect its existing interests. However, if the servicing portfolio has little value due to high levels of borrower delinquencies or nonpayments, existing creditors may not believe that they have interests to protect and so may be unwilling to arrange DIP financing. Without this financing, the typical nonbank mortgage servicer would have no ability to continue operating, and its bankruptcy case may be converted from a Chapter 11 restructuring plan (which allows a company to continue operating while it restructures or reorganizes) to a Chapter 7 liquidation plan, which entails the appointment of a Chapter 7 trustee. While a Chapter 7 trustee may request the court’s approval to continue to operate the business for a limited time, in a Chapter 7 case, the company would typically cease its operations immediately, and its assets—including its servicing infrastructure—would be liquidated while the Agencies would have to take over the servicing of the portfolio.

A Chapter 7 bankruptcy that did not enable the orderly transfer of servicing could cause significant and sustained harm to borrowers and other stakeholders. It could cause mass confusion as borrowers may be unsure where to send their payments. The accurate and timely payment of funds to insurance companies, municipalities, vendors, and other stakeholders would likely be disrupted. Borrowers facing financial hardship and in need of payment assistance would not be sure whom to call. Borrowers who are in the process of refinancing their mortgages or selling their homes might not be able to complete the transactions. Borrowers enrolled in loss-mitigation plans might lose their homes through foreclosure even though this outcome could have been avoided with better default servicing.

While the government generally has the right to appear in bankruptcy court and be heard, it does not have the unfettered power to simply take whatever actions it deems necessary with respect to the bankrupt NMC to protect borrowers.⁷⁶ Bankruptcy law contains various prohibitions against

74 See CFPB. “Bulletin 2020-02 – Compliance Bulletin and Policy Guidance: Handling of Information and Documents During Mortgage Servicing Transfers.” Washington, D.C.: CFPB, April 24, 2020. https://files.consumerfinance.gov/f/documents/cfpb_policy-guidance_mortgage-servicing-transfers_2020-04.pdf.

75 See CFPB. “Supervisory Highlights mortgage Servicing Special Edition.” Washington, D.C.: CFPB June 2016. Section 3.5. https://files.consumerfinance.gov/f/documents/Mortgage_Servicing_Supervisory_Highlights_11_Final_web_.pdf.

76 If a bankruptcy filing appears imminent, individual authorities may nonetheless be able to exercise police powers that would not be subject to the automatic stay, for example allowing states to commence or proceed with certain supervisory actions—including actions designed to protect borrowers from fraud—during the pendency of the bankruptcy.

actions affecting the bankrupt company (the debtor) that must be carefully navigated by regulators.⁷⁷ In fact, the primary responsibility of the Enterprises and Ginnie Mae in a bankruptcy proceeding is to protect their assets, even if their actions might impose costs on other stakeholders in the bankruptcy.

6.1.4 Mortgage Origination Disruptions

The focus and concern in this report is harm and disruption to borrowers and the mortgage market and costs to the federal government from any disruptions to mortgage servicing. However, sufficiently large and widespread disruption in the NMC sector could also affect the mortgage origination market and lead to a temporary restriction of mortgage credit, particularly among higher-risk borrowers or borrowers who have been historically underserved by the mortgage market. It could take time for new originators to enter the market to replace capacity lost in a disruption; in the meantime, credit could become more expensive and difficult to obtain.

6.2 Exposures

The ability of NMCs to execute their functions affects stakeholders in the mortgage market beyond borrowers. Investors and credit guarantors depend on originators and servicers to minimize credit losses by underwriting loans with care, guiding borrowers in distress to the available loss-mitigation options, and if necessary, appropriately handling foreclosures. Municipalities' finances depend on receiving property taxes on time. The Agencies can incur sizeable losses when transferring servicing from a failed servicer to a stable servicer.

The Agencies may experience particularly high costs or credit losses if they are unable to find another servicer to take over the portfolio of a distressed NMC. In that case, the Agencies may need to assume the servicing themselves and transfer the servicing to their contracted subservicers. This situation can occur if the portfolio contains a large fraction of mortgages in default. In this case, the financial obligations associated with servicing the loans may be greater than the expected revenue, and other servicers may have little interest in acquiring the portfolio. The Agencies have a limited ability to induce firms to purchase delinquent portfolios once the servicer has become insolvent, in part because the Agencies typically do not subsidize servicing purchases. In addition, Ginnie Mae pools must be transferred in their entirety and servicers cannot bid on only the performing loans in a given pool.

The Agencies have a vested interest in reducing the risks of servicer failure, both because of the size of the exposures (see Tables 1 and 2) and because remediation tools are limited and the costs of servicing increase once a servicer fails. Assuming the servicing operations from a bankrupt or insolvent servicer is particularly costly to the Agencies because the Agencies are not set up to directly manage long-term servicing operations platforms. When the Agencies do so, they must assume both the financial and operational responsibilities of entering into subservicing arrangements (including fees associated with the portfolios and assuming the advancing burden of a master servicer), and are exposed to losses through several other channels. The assuming Agency bears the costs of any losses that are not covered by the credit insurance (credit risk transfers or mortgage insurance) or guarantee.

⁷⁷ For example, the automatic stay prohibits numerous activities affecting the debtor, including attempts to exercise control of the debtor or its property, 11 U.S.C. 362(a), although there are exceptions to some of these for the government's exercise of its police and regulatory powers. See 11 U.S.C. 362(b)(4).

For Ginnie Mae, the costs can be substantial: the VA guaranty, for example, only covers losses up to a specified limit, the FHA programmatic curtailments affect what funds are returned to Ginnie Mae, and the FHA claim must be resolved prior to full remittance of taxes and insurance if a borrower is in nonpayment status. A failed servicer may have cut corners in its operations or taken outsized risks in its portfolio or business management in ways that increase costs. For example, delinquent borrowers may have been placed in inappropriate loan modifications, key documents may be missing from files, or important procedural steps may have been omitted. If the servicer did not follow the appropriate steps to certify the loan for FHA insurance or a VA guaranty, the FHA and VA curtailments may be higher.

Ginnie Mae also faces unique challenges in supporting NMCs in its program due to statutory limitations on its authorities, which differ from the Enterprises. While the Enterprises are able to purchase loans and hold in their own investment portfolios loans that have been in nonpayment status for 120 days, Ginnie Mae is not authorized to make similar purchases or maintain its own investment portfolio. As such, servicing assumption risk may be slightly less acute (though not less costly) for the Enterprises, which have more preemptive tools available to them to assist a servicer in distress than Ginnie Mae does. However, in the event of a failure of a larger servicer or multiple servicers, the lack of durable financing and liquidity options for NMCs, or for the assuming Agency, could lead to strain for both the Agency and for other NMCs across the broader mortgage market.

6.3 Contagion and Asset Liquidation

The interconnections noted in Section 5.5 through shared financing and servicing providers can lead to contagion. Contagion can arise from the perception of common vulnerabilities or exposures. The similarities in NMC business models can lead to many contagion scenarios. MSR valuations, for example, can be volatile and subjective (see Section 5.2). Changes in macroeconomic conditions or funder risk appetite can lead to a broad-based decrease in MSR valuations across NMCs that may result in margin calls or a reduction in NMCs' borrowing capacity. If NMCs are forced to sell their MSRs to preserve adequate capital and liquidity, the sales could further depress MSR valuations. Since MSRs are a large share of NMC assets, such rapid liquidation and value deterioration could have a material impact on NMC solvency and access to credit.

7 Existing Authorities, Recent Actions, and Council Recommendations

State regulators and federal agencies have taken steps in recent years to mitigate the risks posed by the rising share of mortgages serviced by NMCs. The combination of various state requirements and limited federal authorities to impose additional requirements do not adequately and holistically address the risks described in this report. The Council remains concerned that stress in the nonbank mortgage sector may lead to disorderly servicing transfers and the failure of stressed nonbank mortgage servicers to apply collections properly, make required advances, provide adequate loss mitigation, and perform other servicing activities. Stress in the sector could impair the functioning of the mortgage market, harm mortgage borrowers, and disrupt economic activity.

The Council's Analytic Framework explains the range of authorities the Council may use to address any particular risk, including interagency coordination, recommendations to regulators and Congress, or the designation of certain entities. The Council's actions with respect to any particular identified risk depend on the nature of the risk. Below are the Council's recommendations for addressing risks posed by nonbank mortgage servicers as identified in this report. The Council will continue to monitor the evolution of these risks and may take or recommend additional actions to mitigate such risks in accordance with the Analytic Framework, if needed.

7.1 Promoting Safe and Sound Operations

State regulators are the primary prudential regulators of NMCs (see Box A). State regulators have the authority to set prudential financial standards, such as capital and liquidity, and corporate governance standards, such as for recovery and resolution planning.⁷⁸ In recent years, state regulators have coordinated to take additional steps to enhance the prudential requirements for nonbank mortgage servicers and better align with the programmatic requirements nonbank mortgage servicers face. For example, on July 23, 2021, state regulators approved new prudential standards—financial condition and corporate governance standards—for NMCs and aligned the standards with those required by the Enterprises.⁷⁹ As of April 2024, nine states have adopted these CSBS standards in whole or in part.⁸⁰ Given the multistate operations of most NMCs and applicability of these prudential standards company-wide, CSBS estimates these standards apply to no less than the 50 largest nonbank mortgage servicers and cover 98 percent of the nonbank mortgage market by loan count as of April 2024.⁸¹ The CSBS standards are enforceable by states that have adopted these standards, including through multistate examinations that include at least one state that has adopted the standards or through referrals to states that have adopted

⁷⁸ Information provided by CSBS.

⁷⁹ CSBS. "CSBS Final Model State Regulatory Prudential Standards for Nonbank Mortgage Servicers." Washington, D.C.: CSBS, July 2021. <https://www.csbs.org/sites/default/files/2021-08/Final%20Model%20Prudential%20Standards%20-%20July%2023%2C%202021%20Board%20Approved%20Aug.pdf>. The financial condition standards align with the minimum eligibility requirements established by FHFA for Enterprise single-family seller/servicers, except for allowable sources of liquidity. The state prudential standards exclude unused, committed servicing advance lines of credit from the allowable sources of liquidity used to satisfy the requirement, which may result in a higher dollar amount of liquid assets than that required by the Enterprises.

⁸⁰ Information provided by CSBS. Other states have comparable prudential standards requirements (e.g., New York).

⁸¹ Information provided by CSBS.

these standards.⁸² However, these standards are not otherwise enforceable by states that have not implemented them.

As the primary regulators, states are the only entities with authority to directly supervise NMCs for prudential risks and with examination and enforcement authorities to promote safety and soundness. State regulators coordinate examinations of NMCs operating in 10 or more states through the Multistate Mortgage Committee (MMC).⁸³ State regulators have developed a “One Company One Exam” protocol, which is a supervisory process that leverages resources from throughout the state system to conduct multistate exams of the largest NMCs.⁸⁴

The federal government has an interest in addressing servicing risks due to its financial support for the Enterprises in conservatorship and the direct responsibility for Ginnie Mae’s guarantee to bond investors, but federal agencies do not have the requisite tools to mitigate the risks arising from nonbank mortgage servicers. No federal regulator has direct prudential authorities over nonbank mortgage servicers. While the CFPB has examination, enforcement, and rule-writing authority for federal consumer financial law applicable to the NMCs, the CFPB is not a comprehensive prudential regulator. FHFA is the regulator of the Enterprises and FHLBanks. As such, FHFA has oversight of Enterprise and FHLBank management of counterparty risk exposures but has no direct supervisory authority and limited direct enforcement authority over nonbank mortgage servicers. Ginnie Mae also has no regulatory authority over NMCs or other counterparties, but it can set eligibility requirements for entities participating in Ginnie Mae programs as part of its counterparty risk management.

On August 17, 2022, FHFA (as conservator) and Ginnie Mae jointly announced updates to align minimum requirements for NMCs doing business with the Enterprises and Ginnie Mae.⁸⁵ The updated requirements include modified definitions of capital and liquidity and heightened requirements for large nonbank mortgage servicers with \$50 billion or more of total single-family servicing unpaid principal balance. Though they announced minimum requirements for relevant NMC counterparties, neither FHFA nor Ginnie Mae has direct prudential supervisory authority with regard to servicing performed by, or effective enforcement authority over, nonbank mortgage servicer counterparties of the Enterprises and Ginnie Mae, respectively.⁸⁶

82 Information provided by CSBS.

83 The MMC oversees a risk profiling group that aids in identifying and assigning risk profiles to multistate NMCs based on various financial and operational risk factors and assists developing and maintaining mortgage data analytics tools. For more information on MMC, see CSBS. “MMC Mortgage Examination Manual.” Washington, D.C.: CSBS, May 2, 2019. <https://www.csbs.org/sites/default/files/external-link-files/MMC%20Mortgage%20Examination%20Manual%20v2%20-%20May%202019.pdf>.

84 Information provided by CSBS.

85 FHFA. “Fact Sheet: Enterprise Seller/Servicer Minimum Financial Eligibility Requirements.” Washington, D.C.: FHFA, August 17, 2022. <https://www.fhfa.gov/Media/PublicAffairs/Documents/Fact-Sheet-Enterprise-Seller-Servicer-Min-Financial-Eligibility-Requirements.pdf>; Ginnie Mae. “FHFA and Ginnie Mae Announce Updated Minimum Financial Eligibility Requirements for Enterprise Seller/Servicers and Ginnie Mae Issuers.” Washington, D.C.: Ginnie Mae, August 17, 2022. <https://www.ginniemae.gov/newsroom/Pages/PressReleaseDispPage.aspx?ParamID=251>.

86 In 2016, the Government Accountability Office (GAO) issued a recommendation that remains open for Congress to consider granting FHFA authority to examine third parties that do business with the Enterprises, including nonbank mortgage servicers. GAO. “Nonbank Mortgage Servicers: Existing Regulatory Oversight Could Be Strengthened (GAO-16-278).” Washington, D.C.: GAO, March 2016. <https://www.gao.gov/assets/d16278.pdf>. Additionally, FSOC’s annual reports have called for third-party supervisory authority. For instance, the Council’s *2023 Annual Report* recommended that “Congress pass legislation that ensures that the FHFA, NCUA, and other relevant agencies have adequate examination and enforcement powers to oversee third-party service providers that interact with their regulated entities.” Financial Stability Oversight Council. *Annual Report*. Washington, DC: Council, December 14, 2023. <https://home.treasury.gov/system/files/261/FSOC2023AnnualReport.pdf>.

Apart from suspending NMCs from doing business with the Agencies, the Agencies have limited authority to require and ensure their NMC counterparties develop credible and comprehensive recovery and resolution plans at the corporate level to better position the Agencies and their counterparties for stress or failures. Ginnie Mae is developing recovery plans to enhance Ginnie Mae’s ability to recover its servicing portfolios from its issuers in the event of failure, but such plans are limited to the management of the Ginnie Mae portfolio. Ginnie Mae’s intent in developing this requirement is to reduce the risk to itself and taxpayers by enabling prompter recovery of defaulted portfolios in the event of a failure of a participant in the Ginnie Mae program. Similarly, while these are not resolution plans, the Enterprises require large NMC counterparties to submit capital and liquidity contingency funding plans.⁸⁷

State regulators, FHFA, the Enterprises, and Ginnie Mae conduct significant risk analysis of nonbank mortgage servicers but are limited in what information they can share with each other. State regulators perform regular monitoring and examinations of mortgage servicers, including using call report data to build customized institution dashboards. The Enterprises require large NMC counterparties to conduct an annual liquidity stress test as part of their enhanced eligibility requirements. Ginnie Mae has developed a methodology and analytical approach for an NMC issuer stress testing framework to project certain NMC counterparties’ performance under expected and stressed scenarios. These efforts allow for better monitoring of current or potential future financial strains across the sector and at specific counterparties.

Coordination among state regulators and federal agencies is important given the fragmented oversight structure and steps have been taken to improve coordination,⁸⁸ but legal impediments to information sharing limit its effectiveness. Ginnie Mae is restricted in what it can share with state and federal regulators by the Trade Secrets Act.⁸⁹ FHFA receives certain information on NMC counterparties from the Enterprises and may be limited in its ability to share company-specific information with state and federal regulators. State regulators, relevant federal regulators, and Ginnie Mae recently performed joint tabletop exercises to assess how agencies would respond individually and coordinate together during a potential stress event, but challenges with information sharing limit how constructive the coordination can be.

Recommendations

The Council supports recent efforts by the states, FHFA, and Ginnie Mae to continue to promote safety and soundness and enhance the resilience of the nonbank mortgage servicing sector, including actions to increase capital and liquidity requirements, monitor sector-wide and institution-level risks, and stress test for potential adverse scenarios. The Council encourages state regulators, as the primary prudential regulators of nonbank mortgage servicers, to enhance prudential requirements as appropriate, adopt enhanced standards in those states that have not yet done so, and further coordinate supervision of nonbank mortgage servicers. State regulators

87 FHFA. “Fact Sheet: Enterprise Seller/Servicer Minimum Financial Eligibility Requirements.” Washington, D.C.: FHFA, August 17, 2022. <https://www.fhfa.gov/Media/PublicAffairs/Documents/Fact-Sheet-Enterprise-Seller-Servicer-Min-Financial-Eligibility-Requirements.pdf>.

88 See, for example FHFA and CSBS. “State Financial Regulators and FHFA Enter Into Mortgage Market Information Sharing Agreement.” Washington, D.C.: FHFA and CSBS, April 10, 2024. <https://www.fhfa.gov/Media/PublicAffairs/Pages/State-Financial-Regulators-and-FHFA-Enter-Into-Mortgage-Market-Information-Sharing-Agreement.aspx> or <https://www.csbs.org/newsroom/state-financial-regulators-and-fhfa-enter-mortgage-market-information-sharing-agreement>.

89 The Trade Secrets Act prohibits federal agencies and personnel from sharing certain information unless authorized by law.

should require recovery and resolution planning⁹⁰ by large nonbank mortgage servicers to enhance the financial and operational resilience of the nonbank mortgage sector. State regulators should implement such requirements as appropriate to ensure that nonbank mortgage servicers develop the capabilities needed to support operational resilience in periods of stress. The Council also recommends state regulators and federal agencies continue enhanced monitoring of the nonbank mortgage sector and continue to develop tabletop exercises to prepare for the failure of one or more nonbank mortgage servicers.

While nonbank mortgage servicers have grown in size and market share, federal authority to mitigate the associated risks remains limited. The Council encourages Congress to provide FHFA and Ginnie Mae with additional authorities to better manage the risks of NMC counterparties to the Enterprises and Ginnie Mae, respectively. Congress should consider providing FHFA and Ginnie Mae with additional authority to establish appropriate safety and soundness standards and to directly examine nonbank mortgage servicer counterparties for, and enforce compliance with, such standards. FHFA and Ginnie Mae should act in coordination with each other as well as state and federal regulators when feasible. In addition, legislation should consider enhancing protections more broadly to help distressed borrowers keep their homes.

To facilitate coordination, the Council recommends Congress consider authorizing Ginnie Mae and encouraging state regulators to share information with each other and with Council member agencies, as appropriate. Legislation should ensure that the sharing of confidential information by or with Ginnie Mae, Council member agencies, and state regulators does not result in the loss of any applicable privilege or of confidentiality protections.

7.2 Addressing Liquidity Pressures in the Event of Stress

As described in Section 5, nonbank mortgage servicers may face liquidity pressure during a stress event as their financing becomes more expensive and servicing advance requirements draw on their available liquidity resources. However, there are limited liquidity facilities to support nonbank mortgage servicers, and several liquidity options that are available to banks are not available to nonbank mortgage servicers. FHLBank membership, and thus lending, is limited to commercial banks, savings institutions, insurance companies, credit unions, and community development financial institutions.⁹¹ Only depository institutions that meet certain minimum requirements can establish borrowing privileges at the Federal Reserve (the “discount window”).⁹² Even if NMCs were eligible to participate in similar liquidity facilities, NMCs would generally lack adequate unencumbered, high-quality, eligible collateral to obtain secured loans in the event of stress. Both the FHLBanks and the discount window routinely take whole loans as collateral if they meet certain requirements. However, neither the FHLBanks nor the discount window currently accept servicing advances or MSR as collateral, which are two significant sources of unencumbered assets for nonbank mortgage servicers.

Ginnie Mae has limited authorities to respond to liquidity stress experienced by its program participants. During the COVID-19 pandemic, Ginnie Mae’s Pass-Through Assistance Program (PTAP) helped participants in the Ginnie Mae program meet their obligations to advance

⁹⁰ Recovery plans require firms to proactively plan and prepare for stress events, and resolution plans require firms to strategize for rapid and orderly resolution in the event of material financial distress or failure.

⁹¹ See 12 U.S.C. 1424.

⁹² See 12 CFR 201.

principal and interest to investors.⁹³ PTAP usage was low because servicers continued to make the required advances by using float income generated by their high origination activity due to the historically low interest rate environment. However, the mere existence of a backstop provided some reassurance to the secondary mortgage market. While helpful, PTAP serves only as a limited backstop to the market. PTAP is limited to principal and interest advances; Ginnie Mae does not have the authority through PTAP to provide assistance to cover other obligations that can cause liquidity stress to a nonbank mortgage servicer, such as advancing requirements related to real estate taxes, insurance, foreclosure, or maintenance costs. In a severe downturn, these advances could be large enough to destabilize a nonbank mortgage servicer. As a result, PTAP in isolation would not address the full range of liquidity risks embedded in the servicers' advance obligations. It would also not address potential cross-default liquidity pressures associated with the nonbank mortgage servicers' obligations to the Enterprises.

Federal agencies and the Enterprises have taken additional steps to relieve liquidity pressures for nonbank mortgage servicers, including limiting servicing advances, accelerating reimbursements, and encouraging private capital flows. Several of these actions were taken during the COVID-19 pandemic, when liquidity concerns were elevated.⁹⁴ At the onset of the COVID-19 pandemic, the Enterprises acted to limit servicer obligations to advance scheduled monthly principal and interest payments to four months for certain loans in an effort to limit liquidity pressure.⁹⁵ FHA's COVID-19 National Emergency Standalone Partial Claim Program and the USDA's Mortgage Recovery Advance resulted in servicers being reimbursed earlier for certain payments, which helped limit liquidity pressures.⁹⁶

Ginnie Mae has also expanded its acknowledgement agreement⁹⁷ program in recent years to, among other efforts, facilitate private capital to invest in MSRs and provide funding for servicing advances.⁹⁸ However, with sufficient funding and operational capacity, certain administrative solutions could be explored to improve the durability of financing—such as allowing for loan-level pooling, exploring options to reduce risks for lenders in case a servicer fails, and enhancing the government-insurance

93 For more on PTAP, see Ginnie Mae. "Ginnie Mae PTAP Assistance." Washington, D.C.: Ginnie Mae. https://www.ginniemae.gov/issuers/program_guidelines/pages/ptap.aspx.

94 While the nonbank mortgage servicing sector called for the federal government to develop a liquidity facility and provide other assistance to the sector early in the COVID-19 pandemic, the action was ultimately unnecessary due to robust recovery of the housing market. See MBA. "MBA Urges Feds to Take Immediate Further Steps on Market Stabilization, Liquidity." Washington, D.C.: MBA, March 23, 2020. <https://newslink.mba.org/mba-newslinks/2020/march/mba-newslink-monday-march-23-2020/mba-urges-feds-to-take-urgent-steps-on-market-stabilization-liquidity/>.

95 FHFA. "FHFA Addresses Servicer Liquidity Concerns, Announces Four Month Advance Obligation Limit for Loans in Forbearance." Washington, D.C.: FHFA April 21, 2020. <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Addresses-Servicer-Liquidity-Concerns-Announces-Four-Month-Advance-Obligation-Limit-for-Loans-in-Forbearance.aspx>.

96 FHA. "Mortgagee Letter 2020-06." Washington, D.C.: FHA, April 1, 2020. <https://www.hud.gov/sites/dfiles/OCHCO/documents/20-06hsngml.pdf>; USDA. "Chapter 18: Servicing Non-Performing Loans – Accounts with Repayment Problems." USDA (March 9, 2016). <https://www.rd.usda.gov/sites/default/files/3555-1chapter18.pdf>.

97 "Subject to Ginnie Mae's prior written approval, which will be granted or withheld in Ginnie Mae's sole discretion, an Issuer may pledge its servicing rights as security for a loan from a private lender (the secured party) pursuant to an Acknowledgment Agreement among the Issuer, the secured party and Ginnie Mae. Pledges of servicing rights accomplished pursuant to an Acknowledgment Agreement afford the secured party broader rights with respect to an Issuer's servicing portfolio than are accorded for pledges not approved by Ginnie Mae..." Ginnie Mae. "Ginnie Mae MBS Guide, Chapter 21." Washington, D.C.: Ginnie Mae, October 31, 2022. https://www.ginniemae.gov/issuers/program_guidelines/MBSGuideLib/Chapter_21.pdf.

98 For example, see Ginnie Mae. "Ginnie Mae approves private market servicer liquidity facility." Washington, D.C.: Ginnie Mae, April 7, 2020. <https://www.ginniemae.gov/newsroom/Pages/PressReleaseDispPage.aspx?ParamID=175>.

claims processes. Improvements in claims processing and loss mitigation efforts in the FHA and VA programs, in particular, could reduce the operational and carrying cost burdens servicers face in the normal course of business for government loan products—further enhancing liquidity and operational risk mitigation efforts.

Each of these actions and the potential actions help to address some of the liquidity pressures that nonbank mortgage servicers face in a stress event but would not address many liquidity issues identified in Section 5.3, such as those associated with margin calls or corporate debt repayment.

Recommendations

The Council recommends that Congress consider legislation to provide Ginnie Mae with authority to expand the PTAP into a more effective liquidity backstop to mortgage servicers participating in the program during periods of severe market stress. PTAP should be expanded to include real estate tax payments, insurance premiums, foreclosure costs, and maintenance advances, and Ginnie Mae should have discretion to make PTAP available during periods of severe market stress.

The Council supports HUD's ongoing administrative work to relieve liquidity pressures for Ginnie Mae issuers as well as Ginnie Mae's ongoing efforts to explore ways to facilitate financing for relieving liquidity pressures for solvent issuers. Federal agencies should further explore and evaluate how existing policy tools and authorities could be further leveraged to reduce liquidity pressures from servicing advance obligations in times of stress. Such additional liquidity support should be paired with additional regulatory authorities recommended in Section 7.1. The responsible federal agencies should also be provided sufficient resources to make these and other necessary administrative reforms.

7.3 Ensuring Continuity of Servicing Operations

It is important to ensure the continuity of servicing operations to minimize the harm to mortgage borrowers and costs to the federal government when a servicer fails and is unable to collect and remit payments, perform loss mitigation activities for borrowers, or other critical functions. Continuity of servicing operations should also address cases in which the servicer subcontracted servicing operations to another entity.

The Enterprises and Ginnie Mae have certain tools for managing the failure of servicers that service loans for their respective programs, including facilitating the transfer of servicing to a new servicer. To facilitate transfers, the Enterprises and Ginnie Mae separately contract with designated backup servicers that are paid to maintain excess servicing capacity in the event that the Enterprises or Ginnie Mae need to operationally transfer servicing from a failed servicer. The process of transferring servicing can take time, especially during a stress event, when delinquencies may be elevated and there is limited capacity or appetite from other servicers to acquire additional servicing.

In other situations, keeping servicing at a stressed servicer may be in the Agencies', borrowers', and federal and state regulators' best interests, or servicing may be unable to be transferred before the failing servicer enters bankruptcy.⁹⁹ As described in Section 6.1.3, should an NMC become insolvent, the primary option for resolving the company is through bankruptcy. An NMC must obtain financing to maintain operations through the bankruptcy process. If private-sector financing

⁹⁹ Ginnie Mae, for example, typically does not seek an immediate transfer of a portfolio, but rather seeks to stabilize the asset and may contemplate a subsequent asset sale as portfolio and market conditions dictate.

is not available, state regulators, Ginnie Mae, and FHFA do not have authorities to help nonbank mortgage servicers in bankruptcy maintain servicing operations, or to provide bridge financing to help maintain a servicer's operations to facilitate an orderly transfer to a third party, including a separately chartered bridge servicing company. Additionally, the Agencies may further destabilize a servicer by terminating contracts.¹⁰⁰ Without appropriate financing of its servicing operations, a failing NMC may enter Chapter 7 bankruptcy, likely leading it to promptly cease operations and liquidate its assets, which could lead to severe disruptions to a wide range of servicing operations, including loss-mitigation activities for mortgage borrowers. Such disruptions can be particularly harmful to borrowers experiencing financial difficulty and can lead to higher losses for the Agencies; it is important for there to be tools to ensure the continuity of those loss-mitigation activities when a nonbank mortgage servicer fails.

State and federal governments have limited authorities to provide funding to facilitate an orderly wind down and transfer of servicing operations in the event of an NMC's insolvency. The primary resolution mechanism for a nonbank mortgage servicer is the bankruptcy process,¹⁰¹ and the government has little ability to intervene in the bankruptcy process to protect borrowers, as described in Section 6.1.3.¹⁰² Under a narrow set of circumstances, the FDIC can be appointed receiver of a failed financial company, potentially including an NMC, upon a determination that the financial company would meet specific statutory criteria under Title II of the Dodd-Frank Act.¹⁰³ However, placing a company in resolution under Title II could provide only limited liquidity support to a failed NMC from the Orderly Liquidation Fund, borrowing from which is subject to a statutory cap that depends on the company's assets available for repayment.¹⁰⁴

Recommendation

The Council encourages Congress to consider legislation to establish a fund financed by the nonbank mortgage servicing sector to provide liquidity to nonbank mortgage servicers that are in bankruptcy or have reached the point of failure. The fund should be designed to facilitate operational continuity of servicing, including loss-mitigation activities for borrowers and advancement of monthly payments to investors, until such time as servicing obligations can be transferred in an orderly fashion or the company has been recapitalized by investors or sold. The legislation should outline the scope and objectives of the fund, which include avoiding

¹⁰⁰ Provided such terminations or suspensions are not considered to be due solely to the servicer having started a bankruptcy case.

¹⁰¹ Authorities may file charges to exercise police and regulatory powers that would not be subject to the automatic stay.

¹⁰² This is distinct from other contexts where there are mechanisms established to mitigate undesirable consequences of insolvency or failure. Under the Federal Deposit Insurance Act, the FDIC uses the Deposit Insurance Fund to resolve failed insured depository institutions, which may include consideration of servicing continuity and the orderly transfer of servicing. 12 U.S.C. 1811, et seq.

¹⁰³ 12 U.S.C. 5381, et seq. The statutorily prescribed appointment process generally requires the recommendations of the Federal Reserve Board and the FDIC's Board of Directors (upon a vote of two-thirds of the members then serving on the Federal Reserve Board and FDIC Board) and for the Secretary of the Treasury, in consultation with the President, to determine that there is no viable private sector alternative to prevent default, that the financial company's resolution in bankruptcy would have serious adverse effects on financial stability in the United States, and that a Title II resolution would avoid or mitigate those effects, among other required determinations. 12 U.S.C. 5383.

¹⁰⁴ There are limits to the amount the FDIC may borrow from the U.S. Treasury subject to certain conditions. The initial limit is the amount equal to 10 percent of the financial company's total consolidated assets based on the most recent financial statements available. If funding is needed for more than 30 days or in excess of the 10 percent, the FDIC can obtain funding of up to 90 percent of the fair value of the financial company's total consolidated assets available for repayment, subject to certain conditions, including that a mandatory repayment plan acceptable to the Secretary of the Treasury must be in effect.

taxpayer-funded bailouts. The legislation should also provide sufficient authorities to an existing federal agency to implement and maintain the fund, assess appropriate fees, set criteria for making disbursements, and mitigate risks associated with the implementation of the fund. The establishment of such a fund should be accompanied by the additional regulatory authorities and consumer protections recommended in Section 7.1.

Abbreviations

Agencies	Fannie Mae, Freddie Mac, and Ginnie Mae
Agency counterparties	Enterprise seller/servicers and Ginnie Mae issuers
Analytic Framework	FSOC’s Analytic Framework for Financial Stability Risk Identification, Assessment, and Response
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CFPB	Consumer Financial Protection Bureau
CFTC	Commodity Futures Trading Commission
Council	Financial Stability Oversight Council
CSBS	Conference of State Bank Supervisors
DIP	Debtor-in-Possession
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
Fannie Mae	Federal National Mortgage Association
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
FIO	Federal Insurance Office
Freddie Mac	Federal Home Loan Mortgage Corporation
GAO	Government Accountability Office
Ginnie Mae	Government National Mortgage Association
HMDA	Home Mortgage Disclosure Act
HUD	U.S. Department of Housing and Urban Development
MBS	Mortgage-Backed Security
MBFRF	Mortgage Bankers Financial Reporting Form
MISMO	Mortgage Industry Standards Maintenance Organization
MMC	Multistate Mortgage Committee
MSR	Mortgage Servicing Right
NCUA	National Credit Union Administration
NMC	Nonbank Mortgage Company
NMLS	Nationwide Multistate Licensing System
OCC	Office of the Comptroller of the Currency
OFR	Office of Financial Research
PIH	Public and Indian Housing Program
PLS	Private-Label Securitization
PTAP	Pass-Through Assistance Program
REO	Real Estate Owned
RHS	Rural Housing Service
ROE	Return on Equity

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SEC	Securities and Exchange Commission
SES	State Examination System
SPSPAs	Senior Preferred Stock Purchase Agreements
UPB	Unpaid Principal Balance
The Enterprises	Fannie Mae and Freddie Mac
VA	Department of Veterans Affairs

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