

Servicing Retained/Released Resource Guide

In the current market environment, many lenders are considering expanding their business by retaining servicing, rather than selling loans on a servicing-released basis, or possibly developing a business strategy that combines the two options. Fannie Mae offers a competitive servicing-retained option to our approved seller-servicers for both whole loan and MBS executions.

This Resource Guide is for informational purposes only. It outlines some of the considerations and factors related to business strategy, execution, economic and financial impact, and operations that may be important in making an informed decision. The information presented in this Resource Guide should not be construed as legal, accounting, or tax advice. Please consult with your own advisors to determine how the information presented may apply to your specific situation.

For questions regarding this Resource Guide please contact your Fannie Mae Account Manager.

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Fannie Mae Approval

- To retain the servicing rights, a lender with “seller-only” approval status would need to become an approved Fannie Mae servicer – even if you plan to delegate servicing functions to a subservicer.
 - Fannie Mae’s basic requirements for seller/servicer approval can be found in the Fannie Mae [Selling Guide](#)
 - To access Fannie Mae’s online seller/servicer approval application, visit www.fanniemae.com/newcustomer. (This Seller/Servicer approval process also applies to approved sellers requesting approval as servicers).
- Note that new lenders who are Provisionally Approved are only able to sell loans on a servicing-released basis during this period. Seller/servicer applicants who are approved may retain servicing if Full Approval is granted by Fannie Mae.

Business Considerations

- Capitalization requirements
- Accounting options and policies
- Mortgage Servicing Rights (MSR) volatility
- Management of cash flow. Tradeoff, if any, between cash received from the sale of servicing (servicing-released) and the economic value received over time (servicing-retained)
- Minimum volumes needed to be profitable
- Which MSR to sell and which MSR to hold



- Establishment of a risk management function:
 - Developing a risk tolerance policy framework
 - Deciding whether the interest rate risk management function will be outsourced or managed in-house
 - Determining reliability of data from your loan origination system
 - Creating a structure for risk management functions, including best execution analysis, pipeline tracking, mark-to-market, and position reports
- Exit strategy – how long to hold servicing and when to sell a portion or the entire servicing portfolio

Execution Considerations

A lender should understand the different servicing considerations related to whole loan vs. MBS executions.

- Excess Servicing
 - The Fannie Mae whole loan execution eliminates the need for excess servicing as the lender sells just the net pass-through rate ($\text{PTR} = \text{note rate} - \text{servicing fee}$).
 - A lender may retain anywhere from 25– 50bps in servicing.
 - In the MBS execution, the buy-up/buy-down program can be utilized to fit a loan into a particular MBS coupon by buying up or buying down the guaranty fee. ($\text{Coupon} = \text{note rate} - \text{servicing fee} - \text{guaranty fee}$). A lender can also retain excess servicing in lieu of using the buy up/buy down program.
- Remittance
 - Both the actual/actual and scheduled/scheduled remittance options are available for Fannie Mae whole loan sales through PE – Whole Loan.
 - Actual/Actual remittance is generally made as borrower payments are made. This remittance structure may at times have a higher price through PE –Whole Loan than scheduled/scheduled reflecting the transfer of float value from the lender to Fannie Mae.
 - Only the scheduled/scheduled remittance option is available for the MBS execution.
 - Scheduled/scheduled remittance option requires interest and principal advances to be made on a schedule regardless of whether a borrower payment has been received.

You may contact the Fannie Mae Capital Markets Pricing and Sales Desk at: 800-752-0257 with questions regarding these execution considerations.

Economic/Financial Considerations

- Strategies and techniques to value and hedge the servicing asset:
 - Valuing and pricing MSR's – the value of the MSR's represents the net present value of the future income stream (net of the cost to service) and is highly dependent on future prepayment speed assumptions.
 - Explore servicing value under various interest rate scenarios including impacts on prepayment speeds to highlight risks
- Balance Sheet Risk Management: mark-to-market, interest rate risk and/or impairment risk.



- Management of the MSR asset, including accounting implications.
- Revenue and expenses:
 - Revenue – servicing fee income, float on P&I and T&I, late fees, ancillary fees, cross-sell opportunity or customer retention value, etc.
 - Expenses – salaries and benefits for staff members who support servicing or subservicing, overhead, hedging costs, amortization of the cost of acquiring MSRs, other direct costs, etc.

Operational Considerations

- Costs and benefits of building an internal valuation model, purchasing an “off-the-shelf” analytics/valuation model, or outsourcing to a third-party valuation/analytics vendor.
- Costs and benefits of keeping other operations in-house or outsourcing to a third-party service provider, such as subservicing, hedging, pipeline management, servicing platform, valuation models, daily operations, risk management, etc. For a variety of business reasons, Fannie Mae servicers may elect to have a subservicer fulfill some or all of their mortgage loan servicing obligations specified in the Fannie Mae *Servicing Guide*.

Deciding whether to retain servicing, sell servicing-released, or combine these approaches

There are many factors to consider when selling a loan servicing-retained or servicing-released to Fannie Mae, which may include the following:

Servicing Retained	
Advantages	Disadvantages
<ul style="list-style-type: none"> • Retain relationship with borrower. 	<ul style="list-style-type: none"> • Necessary cash investment and capital reserve requirements to keep the servicing asset.
<ul style="list-style-type: none"> • Servicing cash flow stream. 	<ul style="list-style-type: none"> • Establish business policies and procedures to support servicing.
<ul style="list-style-type: none"> • Create countercyclical annuity to smooth earnings over various interest rate cycles. 	<ul style="list-style-type: none"> • P&I advance expense for loans with Scheduled/Scheduled remittance cycles.
<ul style="list-style-type: none"> • Possible to scale servicing costs by using a subservicer. 	<ul style="list-style-type: none"> • Costs for subservicing and other third-party service providers, if needed.
<ul style="list-style-type: none"> • Create franchise value in firm. 	<ul style="list-style-type: none"> • Technology investments or outsourcing technology.
<ul style="list-style-type: none"> • Increased profitability when aggregators offer less competitive Servicing Released Premiums (SRPs) bids 	<ul style="list-style-type: none"> • Less profitable when aggregators provide aggressive SRP bids.

Servicing Released	
Advantages	Disadvantages
<ul style="list-style-type: none"> • In some cases, enable Fannie Mae sales with access to secondary marketing advantages such as ASAP, ASAP Plus, and specified pools. 	<ul style="list-style-type: none"> • Hedge interest rate risk of the MSR and accounting responsibilities.
<ul style="list-style-type: none"> • Leverage funds received upfront for the servicing asset to support other business areas. 	<ul style="list-style-type: none"> • Potential loss of borrower relationship and/or refinance opportunity.
<ul style="list-style-type: none"> • Avoid servicing asset risk. 	<ul style="list-style-type: none"> • Volatility of SRPs.



Servicing Released	
Advantages	Disadvantages
<ul style="list-style-type: none"> Do not have to hold capital against the MSRs in portfolio. 	<ul style="list-style-type: none"> Loss of long-term, revenue stream.
<ul style="list-style-type: none"> Avoid hedging interest rate risk of the MSR. 	<ul style="list-style-type: none"> Pricing could change during lock period.
<ul style="list-style-type: none"> Do not need a servicing operation. 	<ul style="list-style-type: none"> Subject to underwriting/origination policies of aggregators in addition to pricing overlays.
<ul style="list-style-type: none"> Depending on market environment, may be a better execution. 	<ul style="list-style-type: none"> Early payoff - SRP recapture risk.
<ul style="list-style-type: none"> In some cases, enable Fannie Mae sales with access to secondary marketing advantages such as ASAP, ASAP Plus, and specified pools through an aggregator. 	<ul style="list-style-type: none"> Possible separate wires for loan asset and SRP fundings.
	<ul style="list-style-type: none"> Possible minimum monthly volume requirements by servicing buyer.

Servicing Released: Servicing Marketplace / Servicing Execution Tool™ Comparison (vendor services matrix)

	Servicing Marketplace	Servicing Execution Tool (SET)
<ul style="list-style-type: none"> Fannie Mae seller eligibility requirements 	<ul style="list-style-type: none"> Fannie Mae-approved sellers with a minimum net worth of \$2.5 million plus the greater of 25bps of UPB servicing or 25bps of bifurcated sales for the past 3 years 	<ul style="list-style-type: none"> Fannie Mae-approved sellers with a minimum net worth of \$2.5 million plus the greater of 25bps of UPB servicing or 25bps of bifurcated sales for the past 3 years
<ul style="list-style-type: none"> Fannie Mae onboarding process 	<ul style="list-style-type: none"> Sellers must be approved for Servicing Marketplace using the above eligibility requirements. Upon approval the seller will be: <ul style="list-style-type: none"> Issued the MSSC addendum confirming Bifurcation approval, and Activated for Servicing Marketplace. Once Fannie Mae activates access for Servicing Marketplace, the seller can request a partnership with any of the participating Servicing Marketplace servicers. The sellers must establish relationship(s) with servicing partners before selling loans servicing-released using the Servicing Marketplace. (See the description of the servicer approval process above) 	<ul style="list-style-type: none"> Sellers must be approved for SET using the above eligibility requirements. Upon approval the seller will be: <ul style="list-style-type: none"> Issued the MSSC addendum confirming Bifurcation approval, and Activated for SET option. Once Fannie Mae activates access for SET, seller has access to the tool via Pricing & Execution –Whole Loan® (PE – Whole Loan) and servicers may begin to bid on the seller’s servicing.
<ul style="list-style-type: none"> Seller access to servicers 	<ul style="list-style-type: none"> Seller and servicer negotiate terms of the relationship, including SRP pricing, servicing Purchase and Sales Agreement (PSA), and data and document delivery requirements. 	<ul style="list-style-type: none"> Once the seller is activated in SET, servicers may bid on the seller’s servicing. Transaction parameters are standardized for all participants:



	Servicing Marketplace	Servicing Execution Tool (SET)
		<ul style="list-style-type: none"> ○ Loan level SRP included in Commitment pricing ○ Standard PSA ○ Standard Loan Data File provided to servicers – servicers may require additional loan data to be provided via a data upload process in PE-Whole Loan ○ Fannie Mae facilitates “all-in” funding (Loan and SRP) to the seller
<ul style="list-style-type: none"> • Available through PE – Whole Loan 	<ul style="list-style-type: none"> • Yes. 	<ul style="list-style-type: none"> • Yes, via SET pipeline tab.
<ul style="list-style-type: none"> • SRP pricing method 	<ul style="list-style-type: none"> • Seller has access to servicer SRP pricing and performs own best-execution analysis, then chooses the servicing partner when committing. 	<ul style="list-style-type: none"> • Blind Auction – Best execution of the servicer’s SRP bids.
<ul style="list-style-type: none"> • Bifurcation option 	<ul style="list-style-type: none"> • All sales bifurcated. 	<ul style="list-style-type: none"> • All sales bifurcated.
<ul style="list-style-type: none"> • Execution options 	<ul style="list-style-type: none"> • Whole Loan – Mandatory • Mandatory MBS execution targeted for late 2019 	<ul style="list-style-type: none"> • Whole Loan – Mandatory and Best Efforts Whole Loan Execution
<ul style="list-style-type: none"> • Commitment type 	<ul style="list-style-type: none"> • Single or multiple loans 	<ul style="list-style-type: none"> • Single loan
<ul style="list-style-type: none"> • Minimum transaction volume 	<ul style="list-style-type: none"> • Servicers may impose delivery volume minimum/maximum depending on the individual seller. 	<ul style="list-style-type: none"> • No minimum transaction volume. Servicers may impose a monthly cap on delivery volume based on their individual counterparty requirements.
<ul style="list-style-type: none"> • SRP locked in at time of commitment 	<ul style="list-style-type: none"> • Yes. Seller locks in the SRP pricing schedule that will apply to all loans delivered under the associated commitment. 	<ul style="list-style-type: none"> • Yes.
<ul style="list-style-type: none"> • All-in funding for sale of loan and servicing within 48 hours 	<ul style="list-style-type: none"> • Yes. 	<ul style="list-style-type: none"> • Yes.
<ul style="list-style-type: none"> • Currently Participating Servicing buyers 	<ul style="list-style-type: none"> • Arvest Central Mortgage • CMC Funding • Colonial Savings • Matrix/Two Harbors • Mr. Cooper (NationStar Mortgage) • New Residential • Pingora Loan Servicing • PNC Bank • Regions Bank • RoundPoint Mortgage Servicing 	<ul style="list-style-type: none"> • Arvest Central Mortgage • CMC Funding • Lakeview Loan Servicing (note: additional approval is required) • PNC Bank



Servicing Marketplace Frequently Asked Questions

Q1. What is the activation process for sellers to use Servicing Marketplace?

Fannie Mae activates Servicing Marketplace for all new lenders as part of the approval process and existing lenders may request access from their Relationship Manager. Once Fannie Mae activates access for Servicing Marketplace, the seller can request partnerships with any of the participating Servicing Marketplace servicers. The sellers must establish relationship(s) with servicing partners before selling loans servicing-released using Servicing Marketplace. Steps for the seller to take with the servicer include:

- Negotiating contract terms of the Purchase and Sale Agreement (PSA)
- Finalizing data and document delivery terms and timing
- Finalizing SRP Pricing

Q2. What are the seller net worth requirements for Servicing Marketplace? Are a servicer's net worth requirements different than those of Fannie Mae?

Fannie Mae requires a minimum net worth of \$2.5MM + (greater of 25bps of Servicing UPB, or 25 bps of Bifurcated deliveries for the past 3 years) to participate in Servicing Marketplace. Servicers may have their own net worth requirements for sellers that differ from Fannie Mae's requirements. Additional information can be found in the Fannie Mae *Selling Guide* (A3-3-02).

Q3. Is there a minimum transaction volume to participate in Servicing Marketplace?

Fannie Mae does not require a minimum volume to participate in SMP. However, sellers establish agreements directly with servicers who may include minimum volume requirements and limits.

Q4. Will hedging companies have access to pricing in Servicing Marketplace?

Yes, access for hedging companies will be available through their approved seller's access to the Fannie Mae committing platform, PE – Whole Loan. Servicers will provide rate sheets in a standardized format and through Application Programming Interface (API) calls.

Definitions

Business Component	Definition
<ul style="list-style-type: none"> • Best Efforts Whole Loan Execution 	<ul style="list-style-type: none"> • Ability to sell directly to Fannie Mae without taking on the interest rate risk associated with a borrower rate lock. The asset price will be lower than a mandatory execution.
<ul style="list-style-type: none"> • Mandatory Whole Execution 	<ul style="list-style-type: none"> • Ability to sell directly to Fannie Mae while taking on the interest rate risk associated with a borrower rate lock.
<ul style="list-style-type: none"> • Pipeline Hedging 	<ul style="list-style-type: none"> • Ability to derive daily and intraday risk and hedging reports based on best execution and expected closing percentages.
<ul style="list-style-type: none"> • Subservicing 	<ul style="list-style-type: none"> • Vendor that provides outsourced servicing for servicers.
<ul style="list-style-type: none"> • Servicing Valuation Services 	<ul style="list-style-type: none"> • Vendors that provide third-party market values for servicing portfolios. Some of these vendors also broker servicing rights when servicers are looking to sell servicing.



Contact Information

The following contact information for subservicers participating in SMP is provided for your information only. Providing such information does not constitute Fannie Mae’s endorsement or recommendation of the listed entities or any other vendors or service providers.

Contact information for servicers participating in SMP will be provided as part of the application process.

Subservicers			
Company	Name/Title	Email	Phone
• AmeriNat Community Services	• Timothy J. O'Malley SVP, Sales & Marketing	• tomalley@amerinational.net	• 410-644-3901 x1417
• Cenlar	• Dave Miller SVP, Business Development	• dmiller@cenlar.com	• 609-883-3900 x5404
• Arvest Central Mortgage Company	• Michael Lott Account Manager • Rodney Bechdoldt SVP, Exec Director - Mortgage Loan Servicing	• mlott@arvest.com • rbechdoldt@arvest.com	• 501-716-5736 • 501-716-5623
• Dovenmuehle	• David Allison SVP	• david.allison@dmicorp	• 847-550-7550
• Flagstar Bank	• Don Klein SVP, Business Development, Mortgage Servicing • Mark Landschulz EVP – Director of Performing Servicing	• Don.Klein@flagstar.com • Mark.Landschulz@flagstar.com	• 561-226-1572 • 248-312-1545
• LoanCare	• Vicki Brown SVP-Client Relationship Manager	• vicki.brown@loancare.net	• 757-892-1727
• Midwest Loan Services	• Ryan DeForge VP, Controller & Investor Reporting	• deforger@midwestloanservices.com	• 906-483-4340
• Provident Funding	• Lori Pica Chief Operating Officer	• LPica@provident.com	• 650-652-1300
• ServiceMac, LLC	• Eric Sadow EVP, General Counsel	• eric.sadow@servicemacusa.com	• 803-650-3413
• SLS/Computershare	• David K. Vida, Jr. EVP, Business Development	• David.Vida@sls.net	• 720-348-2385