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Mortgage and Real Estate News That Matters

States Get Framework for Regulating Non-Bank Servicers

The Board of Directors of the Conference of State Bank Supervisors (CSBS) has released model state regulatory prudential standards for nonbank mortgage servicers. CSBS is *the national organization of bank regulators from all 50 states, the District of Columbia, and most U.S. territories. Those regulators supervise roughly three-quarters of all U.S. banks and a variety of non-depository financial services. CSBS also operates the Nationwide Multistate Licensing System to license and register non-depository financial service providers in the mortgage, money services, consumer finance, and debt industries.*

In announcing the new standards, CSBS said nonbank mortgage servicing has grown from 6 percent of the government agency mortgage market to 60 percent over the past 10 years. As those servicers became responsible for a larger share of consumer mortgages after the financial crisis, state regulators became concerned about the **lack of a uniform set of state standards addressing servicers' capital and liquidity levels.** In addition, both state and federal examinations identified inadequate corporate governance and board oversight of these servicers.

State regulators can use the standards to formulate law, rule, guidance, or procedures according to their individual authority or legislative process, but CSBS stressed the importance of uniform adoption to regulate multistate entities and to minimize regulatory burden. The organization said it will work to ensure as uniform an implementation as possible.

The standards focus on two main areas: financial condition and corporate governance and align with existing federal minimum eligibility requirements, wherever practical, **to minimize the regulatory burden for servicers.** Standards will apply to servicers with portfolios of 2,000 loans or more, operating in two or more states, and cover both agency and non-agency servicing. Small servicers that meet a de minimis cutoff, not-for-profit servicers, housing agencies and servicers of reverse mortgage loans are exempt. The standards also provide state agency commissioners with flexibility to increase requirements for high-risk servicers or even suspend the requirements in times of economic, societal, or environmental volatility.

According to CSBS President and CEO John W. Ryan, "The standards provide states with uniform financial condition and corporate governance requirements for nonbank mortgage servicer regulation while preserving local accountability to consumers."

CSBS says, by adopting the standards, states can provide a consistent framework that **ensures covered nonbank servicers maintain the financial capacity to serve consumers and investors** with heightened transparency, accountability, and risk management standards.

The CSBS Board of Directors approved the standards for state implementation on July 23 after a process that included public comment from 17 organizations. CSBS said it will work to ensure that implementation among states is as uniform as possible, as states may require legislation, regulation, or guidance changes to adopt them.

Mortgage Banker Association (MBA) President and CEO Bob Broeksmit said, "MBA appreciates that CSBS has created model capital and liquidity standards for nonbank servicers consistent with our call for a uniform standard that can be applied across all 50 states. Just as important, this framework mirrors the federal standards for Fannie Mae, Freddie Mac, and Ginnie Mae and is scalable for smaller servicers that operate only in a handful of states and service a small number of loans.

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"Uniform standards, aligned with federal requirements that apply to GSE and government loan servicing, will ensure that independent mortgage banks are not subjected to conflicting supervisory standards across the states in which they operate. This will lead to a more consistent and efficient state regulatory system for lenders and regulators alike."