MORTGAGE SERVICER FUNDING FACILITY
Revised 4/1/2020

Facility	Federal Reserve-backed facility (The Facility) for Servicers of single-family home mortgage loan portfolios.	
Purposes	Protect the financial integrity of the mortgage servicing system. Enable more than 6.75 million low- and moderate-income homeowners to avoid default on their mortgages despite layoffs and unemployment due to the COVID-19 crisis.	
Sizing of the Facility	$35 billion. Based on approximately 27 million home loans in Ginnie Mae (GNMA), Fannie Mae, and Freddie Mac mortgage-backed securities (MBS) and state and local housing finance agency bond indentures. Would cover at least 3 months' mortgage payments on forbearance of 25% of total loans.	
What Facility Provides		
For Homeowners	Enables borrowers to avoid loan default despite missing up to 3 monthly payments. Ensures 0% interest on unpaid amounts.	
For Federal Reserve	Safe, profitable investment.	
	Needed financing to avoid mass foreclosures following loan forbearance.	
	A model for using new CARES Act lending authority for businesses and state and local governments.	
Fed's Role	Purchases Tranche 1 of the Facility: Amount needed: 55% of the total $35 billion for the Facility. Est. investment: **$19.25 billion.** Earns 2% on its investment (based on 10-year Treasury rate + approx. 100 bp).	
For Treasury	Leverages funds under CARES in a Fed funding facility that protects homeowners.	
	Avoids foreclosure losses to FHA, VA, RD, Fannie Mae, and Freddie Mac.	
Treasury's Role	Purchases Tranche 2 of the Facility: Amount needed: 45% of the total funds for the Facility. Est. investment: **$15.75 billion.**	
	Receives up to ¾ of its investment back (approx. $11.8 billion) when borrows pay off their mortgages. Net taxpayers' investment after recovery: **$4 billion.**	Based on 150% PSA prepayment speed.
For Servicers	Avoids significant financial consequences of needing: - Up to $35 billion of liquidity for advances of regular principal & interest to MBS and bondholders, and advances of borrowers' taxes, homeowners' insurance, and mortgage insurance premiums (MIP). - Major additional amounts to buy loans out of GNMA MBS above 7.5% delinquency rate if needed to meet GNMA financial standards.	
For MBS and Bond Holders	Provides an ongoing payment stream. Reduces prepayments due to loan defaults.	

Features		
Eligible Loans	Eligible loans are: - Fixed-rate, fully amortizing, owner-occupied for 1- to 4-unit properties that are insured by FHA, VA, RD; PMI; state or state-created mortgage insurance; or less than 80% loan-to-value; or are otherwise Fannie Mae- or Freddie Mac-eligible; and - Covered by forbearance by federal or state law or policy or investor determination in current emergency.	
Individual Loan	Mortgagor fails to make payments up to max. of 3 full monthly payments (e.g., $1,500 each on typical loan = $4,500).	
	Missing payments are still due from the borrower. Mortgage insurer continues to insure these unpaid amounts, as they would in any claim.	Insurer continues to insure unpaid amounts.
	Mortgagor repays the mortgage by: - Keeping monthly payments the same; and - Making 3 additional monthly payments to repay the unpaid $4,500 after original term.	
	No interest on the $4,500; final 3 payments are principal-only.	
	Mortgagor is not placed in default. Loan is considered current as long as borrower resumes making payments but with $4,500 still to be paid. Mortgagor may pay $4,500 arrearage at any time. In order to pay off loan, mortgagor has to pay this unpaid $4,500 together with the outstanding principal balance.	
	Loan insurance remains on the outstanding amount of the loan and unpaid amount through the 3 extended months allowed to make payments.	Insurance remains in place, including $4,500 unpaid.
	In order to qualify for deferral of more than 3 payments: - The Presidential national emergency must be continuing, and - May be subject to borrower being registered with state unemployment or other evidence of loss of income.	
Servicer	Enters into funding Facility with Commercial Bank Intermediary for the Federal Reserve.	
Eligible Servicers	Servicers include approved GNMA issuers and state and local housing finance agencies and departments.	
Eligible Advances	Enables Servicer to draw 100% of all Eligible Advances.	
	Eligible Advance is: - Amount Servicer provides on behalf of borrower to make that loan's scheduled payment on MBS/bonds; - Advances needed to pay borrower's taxes, homeowners' insurance, and mortgage insurance (i.e., potentially entire monthly payment); and - Amounts are treated as unpaid and insured by insurer. Obtains any insurer approval needed.	
	Draws from Federal Reserve Facility via Commercial Bank Intermediary an amount equal to all Eligible Advances made by Servicer in that month. E.g., 10,000 borrowers with forbearance x $1,500 = $15,000,000; for 3 months = $45 million).	
	Uses draw to make full scheduled payments due on loans to MBS or bonds.	

	Assigns 1st lien interest to Federal Reserve on the amount advanced by servicer and unpaid by borrowers, as security for the Draw.	
Repayment of Draw	If loan goes to term: The final 3 months are repaid to Federal Reserve through Commercial Bank intermediary (since not needed to pay MBS/bonds, which received all payments due them from that loan earlier). If loan is prepaid, servicer allocates: - All remaining regular principal to MBS/bonds. - $4,500 to Fed.	
	Draw is repaid without interest.	
Federal Reserve	Funding facility for each servicer.	
Draws through Commercial Bank Intermediary	Lends $ under Facility to servicer to cover all Eligible Advances.	
	Receives from Treasury 45% of amount advanced under Facility for all Draws made in that month.	
	Owns Tranche 1 from the Facility.	
Repayment of Draws	Receives repayments of all Draws.	
	Earns 2% rate of return (e.g., 10-year Treasury + 100 bp) on its net investment.	
	All amounts received after earning 2% on its net investment in Facility are repaid to Treasury.	
Treasury	Reimburses Federal Reserve for 45% of all Draws.	
	Owns Tranche 2, the residual tranche from Facility.	
	Receives repayment from all amounts beyond Federal Reserve's 2% return on net investment.	
GNMA	Because Facility would be funding advances to servicers, GNMA would: - Not need to provide loans to servicers; and - Suspend requirement for buying out loans above 7.5% during Presidentially-declared National Emergency.	
Why Needed Now	Servicers face immediate liquidity needs when April monthly payments aren't made by unemployed or laid-off borrowers.	
	Jeopardizes ability to continue new lending programs.	
Benefits	Simple, efficient, easy to implement. Secure Federal Reserve investment. Standard, uniform approach across eligible servicers. Avoids ultimate default, foreclosure, and claims on insurance for borrowers' missed payments. Can be used on loans in MBS or whole loans backed by FHA, Fannie, Freddie, or AA-rated state mortgage insurance fund.	

CONTACT

Gene Slater, CSG Advisors
gslater@csgadvisors.com
415.341.5203

Ted Tozer, Milken Institute
ttozer1@gmail.com
937.620.7988

Stockton Williams, NCSHA
swilliams@ncsha.org
202.302.3850