# State of Wisconsin
Department of Financial Institutions

Tony Evers, **Governor** | Wendy K. Baumann, **Secretary-designee**

May 30, 2025

**TO**: Licensees that service or subservice for others multistate portfolios of 2,000 or more 1- to 4-unit residential mortgage loans

**FROM:** Division of Banking

**RE**: Standards for safe and sound practices relating to financial condition and governance

Under Wisconsin law, the Division of Banking is responsible for taking regulatory action to address unsafe or unsound practices by licensees.[1] In broad terms, a "practice is unsafe or unsound if it embraces action which is contrary to generally accepted standards of prudent operation and potentially exposes the [licensee] to an abnormal risk of loss or harm."[2] Courts "have generally interpreted the phrase 'unsafe or unsound practice' as a flexible concept which gives the administrating agency the ability to adapt to changing business problems and practices in the regulation of the [financial services] industry."[3]

In July 2021, the Conference of State Bank Supervisors (CSBS) published its final *Model State Regulatory Prudential Standards for Nonbank Mortgage Servicers*, which were intended to "align with existing standards or leverage generally accepted business practices" relating to financial condition and governance among certain mortgage servicers.[4] These standards do not apply to all mortgage servicers, but only to "covered institutions"—a term that includes any nonbank mortgage servicer that meets both of the following criteria:

1. It has servicing portfolios of 2,000 or more 1- to 4-unit residential mortgage loans serviced or subserviced for others, excluding whole loans owned and loans being "interim" serviced prior to sale as of the most recent calendar year end, as reported in the NMLS Mortgage Call Report; **and**

2. It operates in two or more states, districts or territories of the United States, either currently or as of the prior calendar year-end.

The Division finds that the CSBS standards set forth generally accepted standards of prudent operation for such servicers, while reducing exposure to potential risks of loss or harm. Therefore, beginning December 1, 2025, the Division will apply those standards—which are included in

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[1] *See* Wis. Stat. § 220. 04(9)(b)2.
[2] *Michael v. Fed. Deposit Ins. Corp.*, 687 F.3d 337, 352 (7th Cir. 2012).
[3] *Seidman v. Office of Thrift Supervision*, 37 F.3d 911, 927 (3d Cir. 1994).
[4] CSBS, *Model State Regulatory Prudential Standards for Nonbank Mortgage Servicers* at 2.

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relevant part below[5]— when weighing the safety and soundness of a "covered institution" that is licensed with the Division. A covered institution that fails to meet these standards may be subject to regulatory action by the Division to address its unsafe or unsound practices.

Please do not hesitate to contact the Division with any questions regarding these standards and their applicability. The relevant standards are as follows:

## Regulatory Prudential Standards for Higher-Volume, Multistate Mortgage Servicers

### I. Definitions

Unless specified otherwise in this guidance, the following definitions apply:

a) *Agency* means Fannie Mae, Freddie Mac and Ginnie Mae.

b) *Allowable assets for liquidity* means those assets that may be used to satisfy the liquidity requirements herein, including unrestricted cash and cash equivalents and unencumbered investment grade assets held for sale or trade (Agency MBS, obligations of GSEs, U.S. Treasury obligations).

c) *Board of directors* means the formal body established by a covered institution that is responsible for corporate governance and compliance with this guidance.

d) *Covered Institution* means a nonbank mortgage servicer, which includes but is not limited to an MSR investor or subservicer, with servicing portfolios of 2,000 or more 1 – 4-unit residential mortgage loans serviced, master serviced, or subserviced for others, excluding whole loans owned, and loans being "interim" serviced prior to sale as of the most recent calendar year end, reported in the NMLS Mortgage Call Report, and that operates in two or more states, districts or territories of the United States either currently or as of the prior calendar year end.

e) *Corporate governance* means the structure of the institution and how it is managed including the corporate rules, policies, processes, and practices used to oversee and manage the institution.

f) *External audit* means the formal report prepared by an independent certified public accountant expressing an opinion on whether the financial statements are presented fairly, in all material aspects, in accordance with the applicable financial reporting framework, and is inclusive of an evaluation of the adequacy of a company's internal control structure.

g) *FHFA* means the Federal Housing Finance Agency.

h) *GSE* means government-sponsored enterprises, or Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac).

i) *Ginnie Mae* means Government National Mortgage Association.

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[5] The standards set forth are slightly modified from the published CSBS standards in three respects: they include additional clarifying language in the definition of "covered institution," they adjust the definition of "servicer" to incorporate the Wis. Stat. s. 224.71(16) definition of "services," and they replace the terms "level of sophistication" and "sophistication" with "size and complexity" or "complexity."

j) *Internal audit* means the internal activity of performing independent, objective assurance and consulting to evaluate and improve the effectiveness of company operations, risk management, internal controls and governance processes.

k) *Interim serviced prior to sale* means the activity of collecting a limited number of contractual mortgage payments immediately after origination on loans held for sale but prior to the loans being sold into the secondary market.

l) *Mortgage Call Report* means the quarterly or annual report of residential real estate loan origination, servicing and financial information completed by companies licensed in NMLS.

m) *MSR Investor* means entities that invest in and own mortgage servicing rights and rely on subservicers to administer the loans on their behalf. MSR Investors are often referred to as master servicers.

n) *Mortgage-backed security or MBS* means financial instruments, often debt securities, collateralized by residential mortgages.

o) *Mortgage servicing rights or MSRs* refers to the contractual right to service residential mortgage loans on behalf of the owner of the associated mortgage in exchange for specified compensation in accordance with the servicing contract.

p) *Nationwide Multistate Licensing System or NMLS* means the state system of record for non-depository, financial services licensing or registration.

q) *Operating liquidity* means the funds necessary to perform normal business operations, such as payment of rent, salaries, interest expense and other typical expenses associated with operating the entity.

r) *Residential mortgage loans serviced* means the specific portfolio or portfolios of residential mortgage loans for which a licensee is contractually responsible to the owner or owners of the mortgage loans for the defined servicing activities.

s) *Reverse mortgage* means a loan collateralized by real estate, typically made to borrowers over 55 years of age, that does not require contractual monthly payments and is typically repaid upon the death of the borrower through the sale of the home or refinance by the heirs.

t) *Risk management program* means the policies and procedures designed to identify, measure, monitor and mitigate risk sufficient for the size and complexity of the servicer.

u) *Risk management assessment* means the functional evaluations performed under the Risk Management Program and reports provided to the board of directors under the relevant governance protocol.

v) *Servicer* means the entity that services a residential mortgage loan within the meaning of Wis. Stat. s. 224.71(16). The term includes MSR investors and subservicers.

w) *Servicing liquidity or liquidity* means the financial resources necessary to manage liquidity risk arising from servicing functions required in acquiring and financing MSRs, hedging costs (including margin calls) associated with the MSR asset and financing facilities, and advances or costs of advance financing for principal, interest, taxes, insurance and any other servicing related advances.

x) *Subservicer* means the entity performing the routine administration of residential mortgage loans as agent of a servicer or MSR investor under the terms of a subservicing contract.

y) *Subservicing for others* means the contractual activities performed by subservicers on behalf of a servicer or MSR investor.

z) *Tangible net worth* means total equity less receivables due from related entities less goodwill and other intangibles less pledged assets.

aa) *Whole loans* mean those loans where a mortgage and the underlying credit risk is owned and held on balance sheet of the entity with all ownership rights.

## II. Applicability –Exclusions

a) This guidance is applicable to covered institutions as defined herein. For entities within a holding company or affiliated group of companies, applicability shall be at the covered institution level.

b) *Exclusions*. The following exclusions apply:

i. This guidance does not apply to not-for-profit mortgage servicers or housing finance agencies.

ii. Section III of this guidance (Financial Condition) does not apply to Servicers solely owning and/or conducting reverse mortgage servicing, or the reverse mortgage portfolio administered by covered institutions.

## III. Financial Condition

a) A covered institution must maintain capital and liquidity in compliance with this section.

b) *Generally Accepted Accounting Principles (GAAP) required*. For the purposes of complying with the capital and liquidity requirements of this section, all financial data must be determined in accordance with GAAP.

c) A covered institution that meets the FHFA Eligibility Requirements for Enterprise Single-Family Seller/Servicers for capital, net worth ratio, and liquidity, regardless of whether the servicer is approved for GSE servicing, meets the requirements of subsections a) and b) of this section. Covered institutions shall maintain written policies and procedures implementing the capital and servicing liquidity requirements of this section. Such policies and procedures must include a sustainable written methodology for satisfying the requirements of subsection c. of this section and be available to the Division upon request.

d) *Operating Liquidity*. Covered institutions shall maintain sufficient allowable assets for liquidity in addition to the amounts required for servicing liquidity, to cover normal business operations. Covered institutions shall have in place sound cash management and business operating plans that match the size and complexity of the institution to ensure normal business operations.

Management must develop, establish and implement plans, policies and procedures for maintaining operating liquidity sufficient for the ongoing needs of the institution. Such plans, policies and procedures must contain sustainable, written methodologies for maintaining sufficient operating liquidity and be available to the Division upon request.

## IV. Corporate Governance

a) *Board of directors required*. Covered Institutions shall establish and maintain a board of directors responsible for oversight of the covered institution.

b) *Alternative to board of directors*. For covered institutions that are not approved to service loans by a GSE or Ginnie Mae, or where these federal agencies have granted approval for a board alternative, an institution may establish a similar body constituted to exercise oversight and fulfill the board of directors' responsibilities in par. IV.c below.

c) *Board of directors' responsibilities*. The board of directors shall be responsible for:

i. Establishing a written corporate governance framework, including appropriate internal controls designed to monitor corporate governance and assess compliance with the corporate governance framework, available to the Division upon request.

ii. Monitoring and ensuring institution compliance with the corporate governance framework and this guidance.

iii. Accurate and timely regulatory reporting, including the requirements for filing the Mortgage Call Report.

d) *Internal Audit*. The board of directors shall establish internal audit requirements that are appropriate for the size, complexity and risk profile of the servicer, with appropriate independence to provide a reliable evaluation of the servicer's internal control structure, risk management and governance. Board established internal audit requirements and the results of internal audits shall be made available to the Division upon request.

e) *External Audit*. Covered Institutions shall receive an external audit, including audited financial statements and audit reports conducted by an independent public accountant annually. The external audit shall be available to the Division upon request and include at a minimum:

i. Annual financial statements including a balance sheet, statement of operations [income statement] and cash flows, including notes and supplemental schedules prepared in accordance with GAAP.

ii. Assessment of the internal control structure.

iii. Computation of tangible net worth.

iv. Validation of MSR valuation and reserve methodology, if applicable.

v. Verification of adequate fidelity and errors and omissions (E&O) insurance.

vi. Testing of controls related to risk management activities, including compliance and stress testing, where applicable.

f) *Risk Management*. Covered institutions shall establish a risk management program under the oversight of the board of directors and available to the Division upon request that identifies, measures, monitors, and controls risk sufficient for the size and complexity of the servicer. The risk management program must have appropriate processes and models in place to measure, monitor and mitigate financial risks and changes to the risk profile of the servicer and assets being serviced.

The Risk Management Program must be scaled to the complexity of the organization, but be sufficiently robust to manage risks in several areas, including, but not limited to:

i. *Credit risk*: The potential that a borrower or counterparty will fail to perform on an obligation.

ii. *Liquidity risk*: The potential that the servicer will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding or that it cannot easily unwind or offset specific exposures.

iii. *Operational risk*: The risk resulting from inadequate or failed internal processes, people, and systems or from external events.

iv. *Market risk*: The risk to the servicer's condition resulting from adverse movements in market rates or prices.

v. *Compliance risk*: The risk of regulatory sanctions, fines, penalties or losses resulting from failure to comply with laws, rules, regulations or other supervisory requirements applicable to the servicer.

vi. *Legal risk*: The potential that actions against the institution that result in unenforceable contracts, lawsuits, legal sanctions or adverse judgments can disrupt or otherwise negatively affect the operations or condition of the servicer.

vii. *Reputation risk*: The risk to earnings and capital arising from negative publicity regarding the servicer's business practices.

g) *Risk Management Assessment*. Covered institutions shall conduct a risk management assessment on an annual basis concluding with a formal report to the board of directors available to the Division upon request. Evidence of risk management activities throughout the year must be maintained and made part of the report, including findings of issues and the response to address those findings.