2101 Wilson Boulevard, Suite 610
Arlington, VA 22201
(571) 527-2601

CHLA Report on the Government National Mortgage Association

Maintaining Ginnie Mae's Access to Mortgage Credit Role Through Broad Issuer Participation

Managing Its Risk Through Balanced Supervision

Community Home Lenders Association (CHLA)

January 2019

Table of Contents

Page	
2	Table of Contents
3	Balancing Ginnie Mae's Dual Responsibilities of Facilitating Access to Mortgage Credit and Prudent Financial Supervision
5	CHLA Recommendations for Ginnie Mae Policies
6	IMBs Play a Critical Role in Access to Mortgage Credit
7	IMBs' Share of The FHA Market
8	IMBs' Share of GNMA Market
9	Taxpayer Risk Posed by Ginnie Mae is Limited
12	Ginnie Mae's Financial Performance Has Consistently Been Strong
14	Ginnie Mae is Taking Actions to Enhance Issuer Supervision

Balancing Ginnie Mae's Dual Responsibilities of Facilitating Access to Mortgage Credit and Prudent Financial Supervision

CHLA's written statement, presented in testimony before the December 21, 2018 House Financial Services Committee hearing on a Ginnie Mae model for GSE reform, noted that:

"CHLA members are increasingly becoming aware of reports of GNMA tightening actions being taken against smaller non-bank issuers, which clearly do not pose the same level of risk to GNMA that larger issuers do. Reports include GNMA denying or significantly curtailing requests for commitment authority that meet all objective GNMA requirements and raising net worth and liquidity requirements for individual issuers above posted levels."

These actions are causing some smaller IMB issuers to re-assess their commitment to the Ginnie Mae program and are straining their relationships with warehouse and working capital lenders.

The purpose of this report is to warn that Ginnie Mae supervisory tightening of smaller IMB issuers that is disproportionate to the risk they pose could undermine GNMA's primary statutory responsibility to facilitate access to mortgage credit.

Ginnie Mae

The Government National Mortgage Association (also referred to as GNMA, Ginnie Mae, or Ginnie) is a government corporation located within the federal Department of Housing and Urban Development (HUD). Since its inception in 1968, GNMA has guaranteed federally insured mortgage loans for 53 million homes, including 2.9 million loans for veteran homebuyers. Put simply, millions of families would not have been able to buy a home without Ginnie Mae.

Ginnie Mae facilitates a secondary market for single family mortgage loans insured by the Federal Housing Administration (FHA), the Rural Housing Service (RHS), and the Veterans Administration (VA). Ginnie Mae securities are backed by the full faith and credit of the federal government. This enables FHA, RHS, and VA mortgage loans to have affordable mortgage rates, by accessing a broad base of investors in Ginnie Mae securities, not just in the United States but throughout the world.

The Congressional statute that chartered Ginnie Mae (Section 301 of the National Housing Act) expressly states that Ginnie Mae's purpose is to establish a secondary mortgage market, in order to:

"(1) provide stability in the secondary market for residential mortgages;
(2) respond appropriately to the private capital market;
(3) provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families. . .);
(4) promote access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing;
(5) manage and liquidate federally owned mortgage portfolios in an orderly manner, with a minimum of adverse effect upon the residential mortgage market and minimum loss to the Federal Government."

Since Ginnie Mae securities are backed by the full faith and credit of the federal government, it should operate the program in a financially sound manner, including maintaining an annual appropriations negative credit subsidy.

This Report explains why Ginnie Mae financial risks are very low compared to other major mortgage market players. It highlights the fact that even during and after the 2008 Housing Crisis, Ginnie Mae has consistently been profitable, with almost $10 billion in cumulative net profits over the last decade alone. In this same period, Ginnie Mae loss claims are very limited, particularly in comparison to the significant net profits Ginnie has generated. Thus, the taxpayer risk of Ginnie Mae is relatively low.

Ginnie Mae accomplishes this strong financial performance in part through its supervision of issuers, using numerical net worth, liquidity and delinquency requirements for all of its 300+ issuers, and by monitoring the counterparty risk of its issuers. CHLA generally supports recent steps that Ginnie Mae has taken in this regard (see page 14) - including moving towards stress testing of its largest issuers (that issue the majority of its securities), limiting the churning of VA loans, and scrutinizing the impact of the rapid growth in its non-bank (IMB) issuance.

Ginnie Mae acknowledges that its main risk is not credit risk, but instead having to advance funds if an issuer fails to do so. As our report notes, advances are commonly recovered (sometimes with a profit to Ginnie Mae), and historical losses of servicing transfers appear minimal, certainly in relation to overall Ginnie Mae profits.

Therefore, CHLA believes that Ginnie Mae policies that result in a significant reduction in the number of smaller non-bank issuers would undercut Ginnie Mae's access to mortgage credit responsibilities, without any commensurate reduction in risk. This would harm not just smaller lenders, but also the low and moderate income borrowers they serve. Moreover, policies that shrink the number of issuers could even **increase Ginnie Mae risk**, through increased Ginnie Mae concentration of large, riskier issuers.

CHLA is offering a series of recommendations (see page 5) that are designed to foster balanced Ginnie Mae supervision of issuers, particularly smaller IMBs. Our central recommendation is the first, which calls on Ginnie Mae to balance the dual objectives of financial supervision and access to mortgage credit.

Recommendation 2 is a critical principle – that Ginnie Mae should <u>not</u> have as one of its objectives a reduction in the number of issuers, particularly for reasons not based on credit risk (see pages 10-11). Ginnie Mae's statutory responsibilities are inconsistent with an objective of shrinking the number of Ginnie Mae issuers, particularly if it is driven by a general objective of shrinking the federal footprint or is based on a claim that smaller issuers are not as profitable or that they consume more Ginnie Mae staff time relative to their issuance volume.

Recommendation 3 - that enhanced Ginnie Mae supervision of issuers should concentrate on its largest issuers – reflects the simple fact that Ginnie Mae's largest issuers constitute its greatest risk. Recommendations 4 and 5 reflect references from CHLA's recent Congressional testimony to reports of recent Ginnie Mae actions against smaller issuers, such as curtailment of commitment authority and raising financial requirements above posted levels – the types of actions that are of concern to smaller IMBs. Recommendations 6 and 7 are designed to encourage due process and fair treatment of issuers.

Recommendation 8 calls on Congress to fully fund Ginnie Mae Salaries and Expenses. A continued failure by Congress to do so could create inappropriate pressures to shrink the number of issuers Ginnie Mae supervises. CHLA's final recommendation is to restore the Targeted Lending Initiative, eliminated by the prior Administration, in order to improve access to credit for low/moderate income homebuyers.

CHLA Recommendations for Ginnie Mae Policies

The Community Home Lenders Association (CHLA) is the only national association that exclusively represents IMBs. Following are CHLA recommendations to ensure that GNMA continues its critical role in providing access to credit for homebuyers by serving a broad base of mortgage loan originator/issuers:

(1) Ginnie Mae should balance supervision of issuers between the dual objectives of:
(a) meeting access to mortgage credit needs through a broad issuer base and
(b) protecting taxpayers through prudent financial management.

(2) Ginnie Mae should <u>not</u> have an objective of reducing the number of Ginnie Mae issuers or of eliminating smaller issuers – particularly on a basis:
(a) of a general objective of shrinking the government footprint,
(b) that smaller issuers are allegedly not as profitable as larger issuers, or
(c) that Ginnie Mae does not have adequate staff to supervise all issuers [Congress should fully fund staff from Ginnie Mae's $1.5+ billion annual profits].

(3) Ginnie Mae stress testing and increased net worth and liquidity requirements should be primarily focused on issuers with the highest risk of Ginnie Mae loss, i.e.: (a) issuers with the largest portfolios and (b) issuers with complicated financial structures.

(4) GNMA should meet commitment authority requests by an Issuer that are reasonably consistent with an Issuer's previous commitment authority levels should be met in full unless an issuer is on the Watch List and has been notified of such fact.

(5) Ginnie Mae should not impose higher net worth or liquidity ratios or more stringent delinquency ratios on individual Ginnie Mae issuers, except as are publicly posted. Any adverse actions against an issuer should be subject to due process.

(6) Issuers should only be placed on the Ginnie Mae Watch list if there are objective grounds for such action, they are notified of such action, and are given clear guidance regarding the steps needed to be removed from the Watch List.

(7) An Issuer should not be considered in default as a result of a Ginnie Mae advance it offers as a result of a natural disaster.

(8) Congress should fully fund Ginnie Mae Salaries and Administrative Expenses.

(9) Ginnie Mae should restore its Targeted Lending Initiative (TLI), to improve access to credit for low- and moderate-income homebuyers.

IMBs Play a Critical Role in Access to Mortgage Credit

Ginnie Mae securities provide a critical secondary market for affordable mortgage credit for:
(1) FHA mortgage loans for low and moderate income, minority and underserved homebuyers,
(2) RHS mortgage loans for borrowers in rural and non-urban areas, and (3) VA loans for veterans.

A May 2018 Committee for Responsible Lending (CRL) report highlighted the critical importance of FHA, concluding *"FHA remains crucial to the mortgage market for the countercyclical role it offers in sustaining the system, and it continues to ensure access for underserved borrowers."*

Independent Mortgage Bankers (IMBs) have played an increasingly dominant role in recent years in originating FHA loans. In the aftermath of the 2008 housing crisis, many banks eliminated or reduced their FHA lending (e.g. through actions such as increased credit overlays to discourage all but the highest credit quality borrowers). IMBs stepped up their lending in response, and the IMB share of FHA loans rose from 57% in 2010 to 85% in 2016 (see chart on page 7).

During this period, many banks exited the correspondent loan business. In response, many IMBs gained approval and started issuing Ginnie Mae securities. As a result of this and the IMB growth in FHA market share, the IMB share of Ginnie Mae issuance increased dramatically - from 18% in 2009 to 78% in 2018 (see chart on page 8).

IMBs have historically been critical to maintaining affordable mortgage loans for low and moderate income, first-time, and underserved borrowers – but never more so than in recent years when banks have pulled back. A January 2017 report prepared for Ginnie Mae and posted on its web site [**"The Role of Nonbanks in Expanding Access to Credit"]** made this point, drawing the following conclusions from an analysis of mortgage origination data:

- ***". . . nonbanks have led the way in improving access to credit for low- and moderate-income borrowers – a critically important function in an age of overly tight credit."***
- ***"A look at key indicators of credit availability such as credit scores and debt-to-income (DTI) ratios for Ginnie Mae securitizations shows that nonbank underwriting has been more relaxed than bank underwriting, while still being responsible."***
- ***Credit Scores for GNMA: '. . . nonbanks have consistently required lower credit scores from their borrowers than banks have. Currently, the median FICO score for bank originations securitized into a Ginnie Mae MBS is 698, compared to 680 for nonbanks."***
- ***"The second, more important takeaway from Figure 3 is that the difference between median FICO scores for banks and nonbanks. . . has grown between 2013 and 2016."***

This has significant implications for Ginnie Mae policies that would tighten financial ratios or limit commitment authority for community-based small to mid-sized IMB issuers.

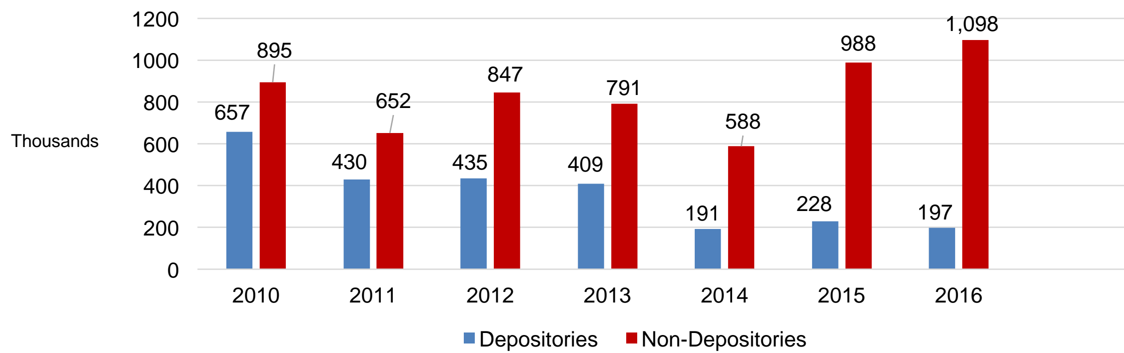
Ginnie Mae policies which result in a reduction in the number of IMBs that issue Ginnie Mae securities could reverse the positive trends of the last decade -- of IMBs providing affordable mortgage loans for low- and moderate income, first-time, minority, and underserved borrowers.

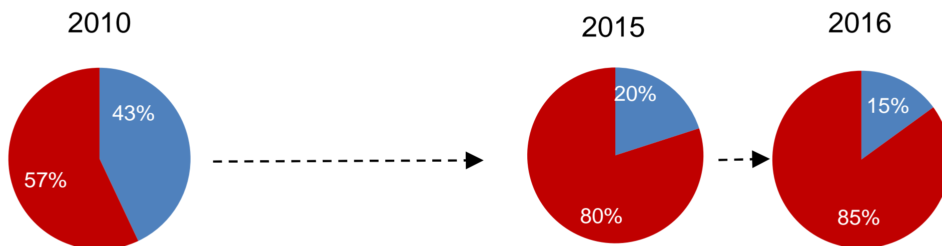
IMBs' SHARE OF THE FHA MARKET

1

Federal Housing Administration Endorsements: 2010 - 2016

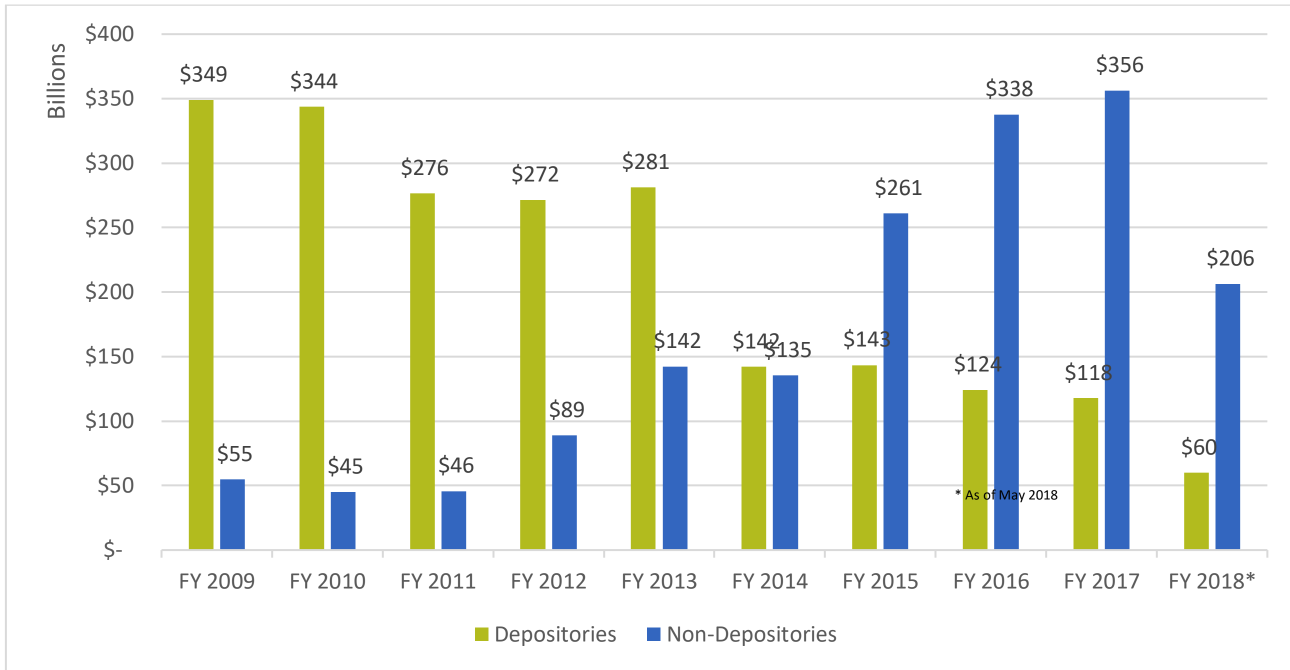
Originator Profile: Non-Depository vs. Depository

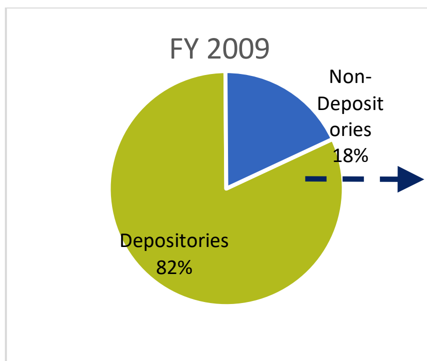


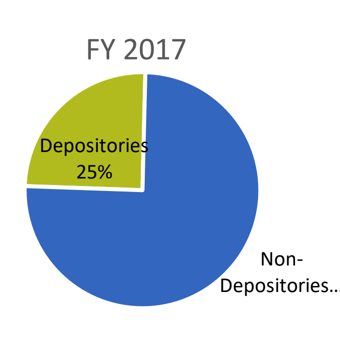


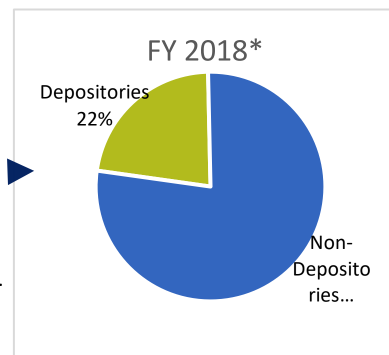
Source: FHA. Numbers of Loans in Thousands

IMBS' SHARE OF GINNIE MAE MARKET









Source: GNMA. Dollar Amounts in Billions

Taxpayer Risk Posed by Ginnie Mae is Limited

Since Ginnie Mae securities are backed by the full faith and credit of the United States, Ginnie Mae should exercise appropriate supervision of its issuers and establish prudent policies to address the financial risk of actual credit losses, in the context of its overall level of profitability.

However, in assessing the stringency of tightening actions that Ginnie Mae might take in supervising issuers, it is critical to keep in mind that the ultimate taxpayer risk of Ginnie Mae losses is limited.

Ginnie Mae HAS MINIMAL CREDIT RISK ON ITS UNDERLYING MORTGAGES

The role of Ginnie Mae is not well understood. Unlike FHA, RHS, VA, Fannie Mae and Freddie Mac, which all have significant credit risk on the mortgage loans they purchase or guarantee, Ginnie Mae securities overwhelmingly consist of loans insured under federal mortgage insurance programs.

In its 2016 Ginnie Mae Summit release, *"Understanding Ginnie Mae's Approach to Counterparty Risk,"* a chart and statement on page 3 explain that Ginnie Mae is in a ***"last dollar loss"*** position on the loans it insures and only incurs losses after the following sources first absorb losses: (1) Homeowner Equity, (2) Government Agency Insurance, and (3) Corporate Resources of Issuer.

Number 2 is key. Since FHA and RHS loans are 100% guaranteed, the credit risk on pools with such loans is almost non-existent. **This is the main reason why, even during the 2008 housing crisis, Ginnie Mae was virtually the only major mortgage participant that did not suffer losses.**

It is true that the federal government does not insure 100% of the principal balance of VA loans in their pools. Thus, it is understandable that Ginnie Mae would want to monitor and take steps to address such risk, particularly since its percentage of VA loans in Ginnie Mae pools has increased from 16% in FY 2008 to 37% in FY 2018.

While the VA guaranty is complicated and varies according to loan size, the federal government generally insures the first 25% of losses on a VA loan. Operationally, VA pays a claim on a bad loan and the servicer is responsible for foreclosure and loan recovery, taking financial responsibility for any additional losses. Thus, a servicer does not take a loss unless there is more than a 25% claim, and further, Ginnie Mae does not take a loss unless additionally the servicer goes out of business or is otherwise unable to absorb the loss.

In practice, VA loans have performed very well. VA loans have had lower delinquency and foreclosure rates than the other loan types that GNMA guarantees. VA loans utilize the additional underwriting tool of "residual income," to measure a homebuyer's capability of meeting all of their financial obligations. Finally, VA imposes early intervention requirements on its servicers.

Thus, risk sharing on VA loans does not appear to be creating a significant risk for Ginnie Mae.

“ADVANCE RISK” IS GINNIE MAE’S MAIN RISK – BUT ADVANCES ARE USUALLY RECOVERED

The same 2016 Ginnie Mae Summit release states that: ***“The primary risk to Ginnie Mae is that issuers will fail to perform their obligations under the guaranty agreement (i.e. make payment to investors on time) either due to a lack of financial resources or operational inability.”***

When a borrower fails to make a payment on an insured mortgage loan in a Ginnie Mae pool, the issuer is responsible for “advancing” principal and interest payments on the loan. Ginnie Mae’s risk is that it has a residual responsibility to make such advance payments when an issuer fails to do so. This could occur, for example, when the issuer fails to do so, does not have the resources to make the payment because of financial problems, goes into bankruptcy or goes out of business.

In assessing this residual Ginnie Mae risk, it is critical to keep in mind that just as issuers are ultimately reimbursed and made whole for an advance when a borrower resumes payments or an FHA, RHS, or VA claim is made – so, too, is Ginnie Mae is ultimately reimbursed and generally made whole when it takes over the responsibilities for an issuer that fails to make required advances or goes out of business.

Moreover, when an issuer begins to encounter financial problems, Ginnie Mae often takes a proactive role – encouraging the sale of an issuer’s servicing portfolio of Ginnie Mae securities.

Even when Ginnie Mae must step in to manage the transfer of a portfolio after an issuer’s failure, it has generally been relatively easy for Ginnie Mae to find a purchaser, without incurring a loss. **Ginnie Mae can even make money when an issuer goes out of business**, as an issuer contractually forfeits its right to recoup previously made advances and Ginnie Mae takes over that asset.

However, Ginnie Mae can lose money on a transfer. For example, if there is fraud or some other failure in actually obtaining a legal FHA guarantee on loans in a Ginnie pool, Ginnie Mae can incur a loss. Ginnie Mae may have to subsidize the transaction, to induce a new servicer to assume liability for the loans it is taking over. There are also other factors that could contribute to Ginnie Mae taking a loss, such as an issuer absconding with tax and insurance payments from borrowers’ escrows.

Historical losses related to such responsibilities appear to have been relatively minimal (see page 13) even through the worst years of the Housing Crisis of 2008. Of course, this crisis took place during a period in which the majority of Ginnie Mae issuers were banks, which are backstopped by federal taxpayers through the FDIC and eligible for FHLB advances. In contrast, the majority of current Ginnie Mae securities are issued by non-banks, which don’t have FDIC insurance or FHLB advance authority.

Therefore, it is appropriate to examine the relative risk of different types and sizes of non-bank issuers.

GINNIE MAE’S GREATEST RISK IS WITH ITS LARGEST ISSUERS

The section *“Risk Disclosures”* in GNMA’s 2018 Annual Report highlights Ginnie Mae’s greatest risks as *“Counterparty Credit Risk”* and *“Issuer Concentration Risk.”* The priority that Ginnie Mae puts on monitoring issuer concentration risk is shown by its recent action to send letters to its 15 largest issuers (see page 14).

Similarly, an October 2018 HUD Inspector General report cited the risks of larger issuers, referring to the challenge of Ginnie Mae servicing mortgages absorbed in a default, saying this *“might require additional funds from the U.S. Treasury to pay investors if a large issuer default occurs.”*

There are a number of reasons why larger issuers are riskier to Ginnie Mae than smaller ones:

(1) Large issuers constitute the bulk of Ginnie Mae's risk exposure. Ginnie Mae's largest 15 issuers constitute 75% of GNMA securities – while its smallest 144 issuers (almost half of the number of total issuers) constitute only .49% [less than ½ of one percent]

(2) In the same way that it is much easier for the FDIC to resolve a smaller failed bank than a larger one, it is generally easier for Ginnie Mae to arrange the transfer of a failed portfolio of a smaller issuer than a large issuer. This is because the universe of servicers capable of absorbing a small servicing portfolio is much larger than for a large portfolio.

(3) The possibility that a single, fast growing issuer is going to engage in fraud or otherwise place FHA loans without proper insurance in Ginnie Mae pools is much higher for one large servicer than for a number of smaller issuers with the same total issuance exposure.

(4) Ginnie Mae proactively encourages smaller issuers starting to encounter financial problems to sell their servicing portfolio before financial problems worsen – thus eliminating or reducing Ginnie Mae financial exposure before it occurs. This is more difficult to do with larger issuers.

GNMA ACTIONS TO REDUCE SMALL IMB ISSUANCE COULD INCREASE RISK

Tightened supervision of small lenders disproportionate to their risk could even **increase Ginnie Mae risk**. To some extent, driving smaller issuers out of the program will result in fewer Ginnie Mae securities issued and fewer mortgage loans originated. **However, to the extent such loans are made and securitized instead by larger issuers or correspondent lenders, the result is an increase in the concentration of Ginnie Mae securities among the largest Ginnie Mae issuers – precisely the types of issuers with higher level of risk.**

Moreover, excessive Ginnie Mae focus on the risk of non-bank issuers could increase its risk by becoming a self-fulfilling prophecy. Ginnie Mae should of course be prudent in its supervision and transparent about the risks it perceives. **But, if warehouse lenders become overly concerned that Ginnie Mae will make it hard for smaller issuers to remain in the program or will reduce the value of Ginnie Mae issuance authority, warehouse lenders could clamp down on or stop lending to smaller IMBs. This could increase Ginnie Mae's risk in this sector of the market.**

Finally, disproportionate Ginnie Mae scrutiny of smaller issuers diverts staff time that could be better spent on larger issuers. Ginnie Mae has established objective metrics regarding net worth, liquidity, and delinquency rates (see page 13). It should rely on those metrics, and not impose additional, non-transparent requirements on smaller issuers.

TAXPAYER RISK IS NOT THE SAME AS GINNIE MAE RISK

In evaluating the financial supervision of Ginnie Mae, it is important to keep in mind that taxpayer risk is not the same as GNMA risk. Like other federal insurance programs, an objective of either zero losses or zero risk is inappropriate, and can undermine program objectives. Ginnie Mae's long track record of consistent net profits, combined with over $20 billion in equity and cash reserves, need to be considered in assessing the taxpayer risk of Ginnie Mae. Moreover, supervisory policies, including with respect to smaller IMBs, should not have a goal of eliminating Ginnie Mae risk, but instead should be evaluated in the broader context of taxpayer risk, taking into account net program profits or losses. Finally, this assessment should be balanced with achieving the program's statutory objective of access to mortgage credit.

Ginnie Mae's Financial Performance Has Consistently Been Strong

GINNIE MAE IS EXTREMELY PROFITABLE

According to Ginnie Mae's Annual Report for Fiscal Year 2018 (Page 22), **Ginnie Mae net income in 2018 was $1.736 billion, and net income in the previous year (2017) was $2.140 billion.**

The strong profitability of Ginnie Mae is confirmed by the other major financial performance metric – annual net profit (negative subsidy) calculations of new securities made by the Office of Management and Budget (OMB). The Administration's FY 2019 HUD budget shows the following:

- **$1.914 billion = FY 2019** projected Net Income [Negative credit subsidy]
- **$1.696 billion = FY 2018** projected Net Income [Negative credit subsidy]
- **$2.016 billion = FY 2017 actual** Net Income [Negative credit subsidy]

GINNIE MAE HAS SIGNIFICANT EQUITY AND CASH RESERVES TO PAY CLAIMS

The same 2018 Ginnie Mae Annual Report (page 19) shows that **Ginnie Mae has $25.567 billion in equity** (referred to as "Investment of the U.S. Government) **as of September 30, 2018. This includes $20.9 billion in "cash and cash equivalents" on hand, which are available to pay claims.**

GINNIE MAE DID NOT LOSE MONEY DURING THE HEART OF HOUSING CRISIS

The 2008 housing crisis caused severe economic stress, with almost all the major mortgage market players requiring a financial bailout or entering bankruptcy or conservatorship. Examples include:

- Fannie Mae and Freddie Mac: Went into conservatorship, with an $85 billion taxpayer advance.
- FHA: Held up relatively well, but its Net Worth fell below its statutory 2% requirement.
- AIG: Received a Federal Reserve bailout of $70 billion.
- Major Banks and other financial institutions: Received $700 million in federal TARP assistance.
- Lehman Brothers: Its $619 billion bankruptcy touched off the 2008 Financial Crisis.
- Bear Stearns: The Federal Reserve guaranteed $30 billion to facilitate a sale to J P Morgan.

Yet, during the very same period of severe stress in the mortgage markets, Ginnie Mae consistently posted significant net earnings which were never less than $500 million during the years from 2007 (the year before the 2008 Housing Crisis) through 2013 [five years after the 2008 Housing Crisis]

Moreover, in the 10 years since the greatest recession since the Great Depression, Ginnie Mae has made cumulative net profits of $9.7 billion. This equates to just under $1 billion a year in net profits.

Only once during that 10-year period did Ginnie Mae post net profits of less than $428 million – when, in 2014, it posted a small loss of $66 million.

Following is the historical data of Ginnie Mae net earnings, per their annual financial statements:

2018: $1.736 billion
2017: $2.140 billion
2016: $428 million
2015: $1.987 billion
2014: (-$66 million) [Loss]
2013: $628 million
2012: $610 million
2011: $1.184 billion
2010: $542 million
2009: $510 million
2008: $906 million
2007: $738 million

GINNIE MAE HISTORICAL LOSS CLAIMS APPEAR TO BE RELATIVELY MINIMAL

While detailed financials do not appear to be publicly available about specific dollar losses related to servicing transfers or other types of operating losses, a review of Ginnie Mae's Annual Reports over the last 12 years seems to confirm that Ginnie Mae's historical loss claims are relatively minimal.

As noted in the section above, Ginnie Mae has consistently reported net profits ranging from $438 million to $2.14 billion over the last decade – with the sole exception being in 2014, when a small $66 million loss was posted. However, this loss was not due to operational losses, but to an accounting adjustment. The 2015 Annual Report makes this clear:

"Ginnie Mae's loss in operations of $65.6 million in FY 2014, as restated, is primarily driven by the fair value adjustment to the guaranty fee asset, contributing to a loss of $2,199 billion, and the amortization of the guaranty liability, an offsetting gain of $558 million."

Ginnie Mae is Taking Actions to Enhance Issuer Supervision

Ginnie Mae has taken a number of constructive steps in the last few years to increase issuer scrutiny and address the growth of non-bank issuance. CHLA generally supports these changes and believes they are sufficient to prudently manage the program and meet its access to credit mission - without singling out smaller issuers (either individually or collectively) for additional tightened supervision.

- **Letter to 15 Largest Issuers – Stress Testing.** On October 31, 2018 Ginnie Mae sent a letter to its 15 largest servicers of GNMA securities, comprising 75% of Ginnie Mae's issuance volume. The letter lays the groundwork for implementation of a Ginnie Mae stress test for large issuers, with the goal of better identifying the impact on issuer risk of adverse developments, such as an increase in borrower delinquencies, ability to absorb losses from uninsured exposures on insured loans, and adverse liquidity impacts arising from changes in lines of credit, secured debt, and term loans. ***Formal stress testing is a tool customarily used for large entities, that have significant market impact or are systemically risky.***

- **All Participants Memorandum (APM) 18-07.** On November 18, 2018, Ginnie Mae issued APM 18-07, "Counterparty Risk Management Policy Series – Volume 1, announcing factors that "may trigger the imposition of enhanced financial or operational requirements.*"* Ginnie Mae announced a new risk parameter, which sets out an adequate financial position determined by *"the issuer's financial history, current financial standing, and corporate family or affiliate matters"* – and added *"situations that may present undue risk to the program,"* including a bankruptcy filing of a parent or affiliate. ***CHLA believes that the financial complexity of an issuer is a factor that should be considered in assessing Ginnie Mae risk; conversely smaller IMBs, with a simple financial structure, pose less risk to Ginnie Mae.***

- **Curbing Ginnie Mae Insurance of Loan Churning (APM 17-06).** On December 7, 2017, Ginnie Mae issued APM 17-06, which further restricted its guarantees of streamlined refinance and cash-out refinance loans after 4/1/18, with the intended purpose of curbing Ginnie Mae guarantees of VA refinance loans that are considered "churning" transactions.

- **GNMA 2020.** In June 2018, Ginnie Mae released **"Ginnie Mae 2020,"** outlining its multi-year plans to modernize Ginnie Mae around 3 "pillars of progress": (1) Modernizing the MBS Program and platform, (2) Enhancing management of counterparty risk, and (3) Demonstrating the ability to innovate. Section 2 (**"Special Requirements for Very Large Institutions"**) affirms a central point of this Report - that larger issuers pose a greater risk – by stating that *"Ginnie Mae has begun to evaluate institutions partly in terms of whether, in the event of a failure, the MSRs that Ginnie Mae has guaranteed could be expected to be readily absorbed by the private market or managed through Ginnie Mae's contracted servicing capabilities. "*

CONCLUSION

- **Ginnie Mae has the financial tools it needs (net worth, liquidity, and delinquency ratios) to monitor smaller issuers. If Ginnie Mae needs more staff to supervise all of its issuers, Congress should provide sufficient funding for this.**

- **However, Ginnie Mae should not take actions with the objective of shrinking its issuer base. Ginnie Mae supervision of smaller issuers should be commensurate with the risk they pose and consistent with its statutory duty to facilitate access to mortgage credit.**