September 12, 2022

Ms. Alanna McCargo
President
Government National Mortgage Association
425 3rd Street SW
Washington, DC. 20024

Dear President McCargo:

The Community Home Lenders of America (CHLA)[1] writes to renew our request that Risk-Based Capital Requirements for Ginnie Mae issuers exempt small and mid-sized independent mortgage banks (IMBs).

Earlier this year, you were quoted as citing ***". . . the importance of increasing access to Ginnie Mae for small nonbanks in order to narrow a gender gap in homeownership."*** And, referring to new issuer requirements, you said that ***". . . one of the big concerns is just what does this mean for smaller issuers? Smaller participants would need to maintain capital requirements that are bank-like and potentially very difficult because their business models are so different from depositories."***

We are assessing the impact of the Risk-based Capital requirements on our members. However, we continue to believe that imposing bank-like requirements on smaller issuers is unnecessary, inappropriate, and likely to reduce the number of issuers. The resulting increase in market concentration would reduce access to credit for minority and other underserved borrowers and increase risk for Ginnie Mae.

Therefore, we ask that any use of Risk-based capital standards be limited to only the top 10 or 15 mega-issuers, since there are more effective ways to address prudent supervision of smaller IMBs:

- **If Risk-based Capital Requirements for IMB issuers are being driven by concerns about timely advances by issuers, the focus should be on enhancing liquidity, not on narrowing the issuer base. A more effective approach would be to create a permanent and broader PTAP standby credit facility, to assure confidence that all advances are made in a timely manner.**

- **If Risk-based Capital Requirements for smaller IMB issuers are being driven by concerns about administrative burdens of resolving smaller issuers, a more effective solution would be to give Ginnie Mae the same direct spending authority that FHA has for loss mitigation.**

- **Liquidity and net worth requirements are more than adequate for small and mid-sized issuers. Thus, we believe imposing risk-based capital requirements on these issuers fails the Ginnie Mae statutory charter requirement to balance access to credit and minimum loss.**

- **Imposing risk-Based Capital Requirements on IMBs is not needed to address counterparty issuer risk, since the MBS securities are backed by federally insured loans (FHA/RHS/VA).**

- **Risk-based Capital Requirements for smaller IMBs are not justified by potential losses in the transfer of MSR portfolios, as advances have value (and are monetized when FHA pays claims) and Ginnie Mae rarely if ever loses money transferring portfolios of smaller issuers.**

- **Any use of risk-based capital standards should be only as an evaluative or monitoring tool instead of as a requirement, to avoid selloffs of MSRs and resulting declines in MSR values.**

[1] CHLA is the only national trade association focused exclusively on small and mid-sized independent mortgage banks (IMBs).

Ginnie Mae's Statutory Mission Requirements Should Govern Its Issuer Standards

CHLA appreciates that the current economic climate presents challenges for IMBs. Mortgage origination volumes are falling as refinance loans decline with rising interest rates. While IMBs are adapting to these developments by cutting costs and trimming staff, we have witnessed a few lenders go out of business (although notably these have tended to be larger publicly traded entities, including lenders more focused on non-QM and PLS, as opposed to generic smaller IMBs that focus on FHA and GSE loan origination).

However, Ginnie Mae's statute (Section 301 of the National Housing Act) mandates that standards like Risk-Based Capital requirements should be consistent with Ginnie's mission requirements (our bolding):

(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.***

We understand that Ginnie Mae operates under the Federal Credit Reform Act and must maintain a negative credit subsidy (i.e. expected net profit on each new loan) - which it does. We also support the principle that Ginnie Mae should supervise issuers in a prudent manner, consistent with counterparty risk.

However, Ginnie Mae's statutory mission requirements clearly establish mortgage access to credit objectives at least equal to - and seemingly much higher - than risk considerations. The first four prongs refer to mortgage access to credit mandates, while only the fifth prong deals with risk.

Moreover, even this last prong does not refer to maximizing profits or eliminating losses. It merely refers to a requirement to "manage and liquidate federally owned portfolios in an orderly manner with ***. . .a minimum loss to the Federal government.***"

Thus, the imposition of unprecedented bank-like Risk Based Capital requirements on small and mid-sized IMB issuers should be evaluated against these five statutory charter mission prongs.

Ginnie Mae is Consistently Extremely Profitable - in both Good and Bad Mortgage Markets

- CHLA's 2019 ***Report on the Government National Mortgage Association*** highlighted the fact that Ginnie Mae makes a net profit year in and year out - even in 2008!

- The HUD Budget, released just four months ago, projects Ginnie Mae will make a net profit of:
  - $2.090 billion next year (FY 2023)
  - $2.699 billion this year (FY 2022)
  - $2.893 billion last year (FY 2021)

- The principal reason for Ginnie Mae's consistent profitability is simple: Ginnie Mae has extremely low risk exposure, since its guarantee of Mortgage Backed Securities (MBS) is in turn simply a guarantee of federally insured loans - FHA, RHS and VA. FHA and VA loans are 100% federally insured and VA covers the first 25% of losses and the program's loss rates are very low.

- According to ***Ginnie Mae's Annual Report***, as of September 30, 2021, Ginnie Mae had $26.075 billion in cash and cash reserves available to pay claims and.net assets of $28.79 billion.

Imposing Risk-based Capital Requirements on Smaller IMBs not Warranted by Counterparty Risk

We appreciate that the new risk-based capital requirements may be driven by concerns about **systemic risk -** a breakdown in the entire system of Ginnie Mae issuers and servicing. However, Ginnie Mae issuance/servicing is already heavily concentrated - with its 15 top issuers accounting for 75% of MBS.

Thus, imposing unwarranted new risk-based capital requirements on small and mid-sized IMBs may simply drive some of them out of business and thus increase concentration. The impact would be an increase in systemic risk.

With regard to **financial risk**, as noted Ginnie Mae's direct counterparty risk is extremely low, since its guarantee is backed by federally backed mortgage loans (FHA, RHS, VA).

The primary counterparty risk that Ginnie Mae faces is when it has to transfer an MSR portfolio when an issuer goes out of business or has financial problems. We ask Ginnie Mae to consider the following points in support of our request to exempt small and mid-sized issuers from risk-based capital requirements:

(1) Risk related to portfolio transfers has historically been extremely low, if not non-existent. The main reason is that Ginnie Mae MSR portfolios have value as advances are typically replenished either by an FHA claim or by a borrower making payments to bring the loan current.

(2) Portfolios of smaller issuers are much easier to transfer and therefore much less likely to result in a loss, for the simple reason that their size makes finding a buyer much easier.

(3) CHLA has consistently made the case that bank-like risk-based capital requirements are inappropriate for IMBs. However, they are particularly inappropriate for small and mid-sized IMBs - which have less complicated financial structures, lower levels of leveraged MSRs, and less shareholder pressure to relentlessly maximize profits than the large mega-issuers.

(4) Imposing unwarranted risk-based capital requirements on small and mid-sized IMBs could counter-intuitively have the impact of **increasing** Ginnie Mae financial risk. As CHLA noted in its 2019 Ginnie Mae report, "*"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."***

(5) By volume, the largest issuers make up 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]

Since imposing risk-based capital requirements on small and mid-sized IMBs is likely to increase issuer concentration, we believe the four access to mortgage credit statutory mission prongs would be adversely affected. Fewer issuers translates into less competition for borrowers in the origination of FHA, VA, and RHS loans. The result is likely to be higher prices, fewer consumer choices, and more dependence on large aggregators, which have historically proven to be less responsive to underserved borrowers.

Therefore, CHLA believes that imposing Risk-based Capital requirements on small and mid-sized IMB issuers fails the Ginnie Mae statutory charter mission requirements.

More Effective Options Exist to Address Smaller IMB Liquidity and Resolution Concerns

If Risk-based Capital Requirements for IMB issuers are being driven by concerns about timely advances by issuers, the focus should be on enhancing liquidity, not on narrowing the issuer base. A more effective approach would be to create a broader PTAP standby credit facility, to assure confidence that all advances are made in a timely manner.

Ginnie Mae advance obligations essentially represent a requirement for an IMB issuer to act as a banker to mortgage borrowers unable to meet their mortgage payments. Moreover, this obligation has a negligible impact on their net worth (since advances will generally be recovered).

Thus, imposing risk-based capital requirements on small and mid-sized IMBs serves a very limited purpose with respect to addressing concerns about timely servicing advances. Such concerns about should be addressed by liquidity requirements, which we believe are more than adequate.

However, if Ginnie Mae is concerned about issuers meeting advance requirements, a more effective solution is to explore ways to create more liquidity in the system.

During COVID, Ginnie Mae established the PTAP standby liquidity facility, in response to concerns that the Congressionally mandated forbearance option, along with an increase in borrower defaults due to COVID economic dislocations, would result in a large increase in Ginnie Mae issuer advance obligations.

Use of PTAP was extremely low for a number of reasons - an important one being that the simple act of creating more liquidity in the system and more confidence among warehouse lenders had the result of reducing Ginnie Mae's risk of issuers failing to making advances during COVID.

Therefore, CHLA would be happy to work with Ginnie Mae to explore the development of a more permanent and more flexible PTAP program to address liquidity concerns of small and mid-sized issuers - in lieu of the imposition of new and unwarranted risk-based capital requirements.

Secondly, if Risk-based Capital Requirements for smaller IMB issuers are being driven by concerns about administrative costs or burdens of resolving smaller issuers, a more effective solution would be to have Congress give Ginnie Mae the same direct spending authority FHA has for loss mitigation.

We would understand if Ginnie Mae would prefer to avoid the need to deal with resolutions of smaller issuers. We also understand that this may be driven to some degree by concerns that Ginnie Mae could lack sufficient federal appropriations to hire Ginnie Mae staff and/or independent contractors to do this.

However, imposing unwarranted risk-based capital requirements on smaller IMB issuers with an objective of avoiding ever having to incur administrative expenses to resolve smaller IMBs would be disproportionate - and inconsistent with Ginnie Mae's statutory charter mission requirements.

And, since Ginnie Mae consistently makes net profits of over $2 billion a year, it would not be justified.

We note that FHA has direct spending authority under Section 204(a)(2) of the National Housing Act, to carry out loss mitigation activities. This gives FHA flexible direct spending authority to spend money to protect defaulted borrowers and to resolve claims related to defaults.

Congress should grant similar direct spending authority to Ginnie Mae - to deal with resolution of its issuers, including hiring staff or contractors if there is an increase in troubled issuers in a troubled economic scenario. This could be done by authorizing legislation or in individual appropriations bills.

This is a more effective approach than imposing unwarranted risk-based capital requirements on smaller issues with an objective of never having the need to carry out portfolio transfer resolutions of issuers.

We thank you for your consideration of these remarks and we appreciate the opportunity to discuss them with you and your staff.

Sincerely,

COMMUNITY HOME LENDERS OF AMERICA