



January 25, 2023

Ms. Alanna McCargo  
President, Government National Mortgage Association  
Department of Housing and Urban Development  
425 3<sup>rd</sup> Street SW  
Washington, DC. 20024

Dear Ginnie Mae President McCargo:

The Community Home Lenders of America (CHLA)<sup>1</sup> writes to offer our recommendations to expand and make permanent the Ginnie Mae Pass-Through Assistance Program (PTAP).

Ginnie Mae established the PTAP program in spring of 2020 in response to (1) concerns about the impact of COVID on borrowers' ability to make mortgage payments and (2) a Congressionally mandated right of forbearance for borrowers of federal agency mortgage loans (FHA, VA, RHS, Fannie Mae, Freddie Mac).

Only a handful of Ginnie Mae issuers utilized PTAP, due to factors which included a perceived taint that goes with issuer participation, high borrowing rates, and most importantly, a requirement that an issuer must *"explore and exhaust all available financing options prior to requesting PTAP. . . relief."*

This standard is too restrictive. Ginnie Mae statutory mission responsibilities emphasize access to credit objectives over the only listed safety and soundness objective ("minimum federal loss to the Federal government"), and we see nothing in Ginnie Mae's statute that prohibits a more flexible use of PTAP.

Currently, 90% of Ginnie Mae securities are issued by IMBs. With Wells Fargo's recent exit from the correspondent business, preservation of a broad base of IMB issuers is critical to direct securitization of Ginnie MBS, to maximize competition and consumer choice, consistent with Ginnie's statutory mission.

Therefore, CHLA is writing to ask that Ginnie Mae develop a more robust, flexible, and permanent PTAP authority and signal that it will use it in appropriate circumstances, which should include:

- 1. Preserving solvent issuers with short-term liquidity concerns.**
- 2. Using PTAP during financial crises or periods of above-average mortgage default rates.**
- 3. Delaying MSR transfers of a troubled issuer as needed for a better financial resolution.**

We want to be clear that CHLA is **not** proposing that Ginnie Mae replace bank warehouse lenders as the primary financing source for Ginnie Mae IMB issuers. However, a more robust PTAP program would:

- Increase access to mortgage credit by assuring a broad issuer base and consumer choice.**
- Increase warehouse lender confidence in issuers and in the Ginnie Mae program.**
- Give Ginnie Mae more flexibility as to when to transfer the MSRs of a troubled issuer.**

---

<sup>1</sup> CHLA is the only national trade association focused exclusively on small and mid-sized independent mortgage banks (IMBs).

## **1. Help preserve solvent issuers with short-term liquidity concerns.**

Last spring, 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.*”

One of Ginnie Mae’s greatest strengths is its broad base of hundreds of IMB issuers - both large and small - that facilitate strong pricing and direct access to Ginnie Mae MBS, in order for IMBs to continue their leadership role, originating 90% of FHA and VA loans and serving minority and underserved borrowers.

Ginnie Mae has consistently emphasized that its primary concern about issuers is not direct risk exposure, since Ginnie MBS are generally backed by federally insured mortgage loans, such as FHA loans. Instead, Ginnie Mae’s primary concern, which drives issuer net worth and liquidity requirements and supervision, is the timely payment of advances on Ginnie Mae MBS when borrowers fail to make payments.

**IMBs which are Ginnie Mae issuers are essentially acting as a banker to borrowers that miss mortgage payments, by making required advances on Ginnie Mae securities.**

However, unlike banks, which have access to a host of government backed funding sources (including FDIC insurance, FHLB advances, and the Federal Reserve discount window), IMBs have no such source of funds to carry out their responsibility to act as a banker for borrowers that miss payments. Moreover, smaller IMBs tend to have fewer financing options than large IMBs or publicly traded IMBs.

CHLA is not asking Ginnie Mae to use advances to keep insolvent IMBs afloat. However, it would further Ginnie Mae’s mission to use PTAP to fund advances to IMB issuers that are solvent but are experiencing difficulties in obtaining financing for the sole purpose of meeting advance responsibilities.

Such a program would allow Ginnie Mae to preserve solvent IMBs as ongoing issuers of Ginnie Mae MBS - instead of simply going directly to eliminating their issuer eligibility and transferring their MSR portfolios in situations where Ginnie Mae may have concerns about an issuer making timely advances.

Such a standard could be determined subjectively by Ginnie Mae as it supervises its issuers. Additionally, Ginnie Mae could set an average benchmark of the issuer average default rate and permit issuers that exceed this benchmark to be eligible for PTAP advances. This would eliminate existing incentives for issuers to establish credit overlays in order to discourage underserved borrowers, which are more likely to have higher default rates and therefore create higher advance responsibilities on the issuer.

We would also point out that the risk on a PTAP advance is extremely low, since Ginnie Mae advances represent assets with tangible economic value - assets that are repaid through a claim on an insured FHA or VA loan, through a partial claim or loan modification, or through a borrower resuming loan payments.

## **2. Commit to use of PTAP during financial crises or periods of rising mortgage default rates.**

As noted, Ginnie Mae established COVID in response to the COVID crisis and to the Congressionally mandated option that borrowers could skip mortgage payments without any penalties. Counter-intuitively, this program was successful despite the small number of users - in part because the existence of PTAP created confidence among warehouse lenders that Ginnie was standing by to help with these obligations, if necessary.

Put simply, PTAP helped re-assure warehouse lenders that Ginnie Mae would not precipitously shut down Ginnie Mae issuers and take away their MSR portfolios, which have value. In turn, warehouse lenders were less likely to cut off the credit spigot for IMB issuers in a period of financial stress.

Therefore, though not essential, it would be constructive for Ginnie Mae to signal that it will activate and use PTAP as needed in any future crisis. Ginnie Mae might even establish benchmark national default rates that if substantively exceeded, would automatically trigger broad PTAP availability.

It would also be constructive for Ginnie Mae to make public statements to eliminate or reduce the potential public reputational taint that arguably went with using PTAP in 2020.

**Banks do not have their reputation sullied because they access the Federal Reserve window to meet liquidity concerns or use FHLB advances to meet liquidity concerns or address interest rate risk.**

**Neither should IMBs.**

Therefore, Ginnie Mae should signal that use by an IMB issuer during a crisis or a substantive rise in default rates, should not be read by the market as an adverse conclusion by Ginnie Mae regarding the finances of the issuer receiving a PTAP advance.

We would also point out that using PTAP to help solvent issuers with temporary advance responsibilities could in some cases **reduce** Ginnie Mae losses, by obviating the need to transfer the MSR portfolio to another issuer. The need for such transfers has historically been relatively rare and generally results in no or small losses (particularly for smaller IMB issuers). However, maintaining solvent issuers in periods of financial stress would avoid the need for MSR transfers, thus reducing the opportunity for a loss.

**3. Delay MSR transfers of a troubled issuer as needed to obtain a better financial outcome.**

Finally, CHLA recommends that Ginnie Mae create the option to use PTAP advances for an issuer that it determines no longer meets issuer financial requirements, but is still doing a sound job of servicing. This option could help Ginnie Mae avoid abruptly taking over an MSR servicing portfolio or rushing a forced portfolio sale, particularly during a choppy market when a later sale could generate a higher price.

We note this because we have heard anecdotally that Ginnie Mae may be concerned about taking over a small MSR portfolio, due to a lack of buyer interest in such a portfolio. Keeping a qualified servicer in place with a PTAP advance could buy Ginnie Mae more time to obtain a better MSR transfer price.

Thank you for the opportunity to present these recommendations.

Sincerely

COMMUNITY HOME LENDERS OF AMERICA