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APM 14-04

April 1, 2014

To: All Participants in Ginnie Mae Programs

From: Theodore W. Tozer, President

Subject: Pooling of HECM loans that provide for future draws at a fixed rate of interest

Ginnie Mae is announcing certain policy changes and clarifications to pooling requirements for its Home Equity Conversion Mortgage (HECM) Mortgage Backed Securities (HMBS) program. Specifically, as described below, Ginnie Mae will prohibit the inclusion of fixed rate HECM loans where the borrower may choose a payment plan option that provides for future loan advances against the principal limit to be disbursed to the borrower.

The origination of HECM loans in which servicers are committed to advancing future funds at a fixed interest rate gives rise to the risk that such advances will become uneconomic should interest rates rise from the time of origination. The impact of negative spreads between a fixed note rate and future prevailing rates could be exacerbated in such loans, and endanger the servicers' capacity to meet their HMBS obligations, which require the Issuer to maintain the capacity to advance funds as required under the HMBS program. Such requirements include the funding of draw requests from borrowers, and buying all related participations out of pools when the outstanding principal balance of the related HECM loan reaches 98% of the maximum claim amount.

All HECM loans have future advance obligations such as set-asides for servicing fees, accrued interest, and mortgage insurance premiums, that are eligible to be pooled as Participations related to the HECM loan. On a fixed rate HECM loan, these obligations carry interest rate risk, although the level of risk is mitigated by the fact that the timing and amounts of these advance obligations are generally known. By contrast, timing and amounts of borrower requested advances are unknown. Borrowers who have selected payment plan options other than the Single Disbursement Lump Sum, may change their plans at any time, and request advances in varying amounts at varying times in the future.

The varied timing and amounts of borrower requested advances introduce the potential for excessive levels of interest rate risk, as well as the possibility that economic obligations from risks would be assumed by Ginnie Mae in the event of an Issuer default. Consequently, Ginnie Mae is prohibiting the pooling of such loans. Moreover, Ginnie Mae will monitor Issuers who retain such loans outside of

Ginnie Mae pools, to the extent that interest rate risk could impact the issuers' capacity to meet their obligations for pools backing Ginnie Mae-guaranteed securities.

Effective for HMBS securities issued on or after June 1, 2014, Ginnie Mae will not permit fixed rate HECM loans originated without the Single Disbursement Lump Sum payment plan option to be included in Ginnie Mae-guaranteed HMBS securities. However, this prohibition will not extend to pooling Participations related to these loans, provided that the related HECM loan was pooled in a security with an Issue Date prior to June 1, 2014. Fixed rate HECM loans originated with the Single Disbursement Lump Sum payment plan option selected at closing are not subject to this prohibition and remain eligible for pooling, as do Participations related to these loans. Ginnie Mae will announce corresponding updates to the Mortgage-Backed Securities Guide, HUD Handbook 5500.1 (Guide) via a separate All Participants Memorandum, which will be published no later than June 1, 2014.

Ginnie Mae recognizes and is supportive of the need for the HECM and HMBS programs to evolve to meet the long-term needs for which they were created. Ginnie Mae will continue to collaborate with Issuers and the Federal Housing Administration (FHA) to explore appropriate and sound refinements of the programs toward this end, including refinements that may alter the terms of this All Participants Memorandum.

Please direct any questions you may have to your Ginnie Mae Account Executive in the Office of Issuer and Portfolio Management at (202) 708-1535.