



Transcript

Ginnie Mae 101



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1. Introduction

1.1 Ginnie Mae 101 Course



1.2 Course Purpose

Welcome to Ginnie Mae 101!

The purpose of this training is to train Ginnie Mae Issuers on Risk Management with emphasis on the primary and secondary mortgage markets, counterparty risk, and risk distribution models.

Learning Objectives

- Differentiate between the primary (origination) and secondary (securitization) mortgage markets
- Identify what counterparty risk is
- Identify risks to Ginnie Mae counterparties
- Describe the securitization process
- Identify the benefits of securitization
- Differentiate Ginnie Mae from other market participants (i.e., insuring agencies, GSEs, and Lenders/Service providers)
- Differentiate the risk distribution models
- Explain the implication of GSE risk-based pricing for Ginnie Mae
- Identify when the Issuer must cure a defective loan or buy it out

1.3 Navigation Tutorial

[The navigational tutorial is applicable to the on-line training only.]

2. Primary and Secondary Mortgage Markets

2.1 Primary and Secondary Mortgage Markets Overview

The Primary Market is the Borrower-Lender relationship. A homeowner obtains a loan for a number of potential reasons, such as to be able to purchase a home, refinance a loan, obtain a cash-out refinance, etc. The Lender secures that loan with collateral from the property. Also involved in the primary market are brokers, who typically research loan options and negotiate with Lenders on behalf of their clients.

Ginnie Mae operates within the Secondary Market along with Fannie Mae, Freddie Mac, and private financial institutions. Mortgage banks sell loans to the Secondary Market; however, it is important to understand that some entities, such as traditional commercial banks and credit unions, choose not to sell loans. They instead hold onto them in the hopes of increasing their portfolio assets.

Note that Ginnie Mae facilitates the creation of mortgage securities by a varied network of mortgage Lenders/Servicers but does not itself buy or sell loans or issue MBS. This approach effectively minimizes risk to the government and taxpayers.

2.2 Primary Market Participants

There are several primary market participants. First, homeowners and those who are refinancing their mortgages are primary market participants.

Mortgage brokers are also primary market participants. Mortgage brokers can be thought of as loan intermediaries, but not Lenders. They acquire Borrowers that qualify for various mortgage products provided by programs in GSEs, FHA, or VA.

Before moving on, let's define these acronyms. GSEs are Government-Sponsored Enterprises. FHA is the Federal Housing Administration. Lastly, VA refers to the Department of Veterans Affairs.

The other primary market participant is mortgage Lenders. Mortgage Lenders fit into 2 categories. The first is depositories, which are entities that have federally insured deposits (e.g., commercial banks or credit unions). The second category is nonbanks, which are independent mortgage companies (e.g., PennyMac).

2.3 Secondary Market Participants

As mentioned previously, there are several secondary market participants.

The first is Ginnie Mae-supported securitization. Ginnie Mae is a self-sustaining, profitable, and wholly owned government corporation located within the U.S. Department of Housing and Urban Development (HUD). Ginnie Mae guarantees the timely payment

of principal and interest (P&I) for securities issued by approved private institutions and backed by federally insured mortgages. We will further discuss Ginnie Mae's role in the secondary market shortly.

The second participants fall into the category of enterprise securitization. Fannie Mae and Freddie Mac are GSEs that are public corporations chartered by Congress, but owned by shareholders. Fannie Mae and Freddie Mac purchase conforming loans from the primary market. The enterprises guarantee the timely payment of P&I for Mortgage-Backed Securities (MBS) backed by these loans.

Lastly are private financial institutions, which fall into the category of private-label securitization. Private financial institutions purchase mortgages that are neither federally insured nor conform to the enterprises' requirements. These institutions issue "private-label" securities backed by pools of these loans.

2.4 Ginnie Mae's Role in the Secondary Market

Let's talk more specifically about Ginnie Mae's role in the secondary market.

Ginnie Mae will review a Lender's counterparty capacity to approve eligible Issuers. Through securitization, mortgage Lenders, who are approved to participate in the Ginnie Mae program as an Issuer, create the MBS by using a pool of loans as collateral.

Note that Lenders that engage in this securitization process are referred to as "Issuers" because, in addition to originating or acquiring mortgage loans, they are now also issuing securities.

The MBS must be backed by mortgage loans that are guaranteed or insured by the U.S. Government, such as the following: Fannie Mae, Freddie Mac, FHA, VA, HUD/PIH (Public and Indian Housing), USDA (United States Department of Agriculture)/RD (Rural Development).

In turn, Issuers sell the securities to Investors. Investors receive monthly P&I payments, guaranteed by Ginnie Mae, called pass-through payments. These derive from the payments made by Borrowers of the underlying mortgages (MBS collateral).

2.5 Counterparty Risk

A counterparty is the other party that participates in a financial transaction. Counterparty risk is the risk associated with the inability or failure of the institutional Borrower, Issuer, or counterparty to meet its contractual obligations.

For Ginnie Mae, this means the inability of an Issuer counterparty to advance payments to Investors or properly service loans in Ginnie Mae securities.

The term counterparty risk is often used in the context of trading; however, it can be thought of as an institutional type of credit risk. In the case of Ginnie Mae, Issuer/Servicer counterparty risk occurs when the Issuer is unable to make good on advancing its own funds on delinquent loans in order to make scheduled MBS

payments. This puts Ginnie Mae at risk of having to advance its own funds to make up for the pass-through shortfall. Furthermore, this situation could create some significant liability to Ginnie Mae should it have to default the Issuer.

2.6 Implications of Counterparty Failure

Let's examine some implications of counterparty failure to Ginnie Mae. Potential losses could be incurred after absorbing losses on a failed Servicer. Counterparty failure could lead to servicing transfer difficulties and associated operational issues. And lastly, it could cause potential credit losses beyond what would be covered by federal insuring agencies or counterparties

The banking and mortgage sectors have taken steps to protect themselves from some of these risks after the 2008 economic crisis. Mortgage underwriting standards and quality have significantly improved in recent years. Bank regulators required banks to increase the amount of capital that they needed to insulate themselves from episodic downturns that could erode their capital base. Ultimately, this would not leave them in an insolvent position, such as what occurred during 2008.

A very large portion of Ginnie Mae's Issuer and Servicer network is made up of nonbank entities which has significant implications for the nature of risk at the agency.

It is, therefore, important to understand the landscape of what these institutions, both depositories and nonbanks, bring to the table in terms of their counterparty exposure for an agency like Ginnie Mae.

2.7 Risks to Ginnie Mae Counterparties

Ginnie Mae counterparties originate and service mortgage loans, and these activities pose risk to them and to Ginnie Mae. The first risk is credit risk, which reflects losses if the Borrower defaults. The second risk is Prepayment risk, which reflects losses in value to the portfolio due to Borrower refinance activity brought on by falling mortgage rates.

When loans default, Ginnie Mae Servicers must continue to send payments to Investors, which can choke cash flows and cause liquidity issues. Likewise, heavy prepayment can cause a decline in the valuation of an important component of a Ginnie Mae counterparty's balance sheet; namely mortgage servicing rights (i.e., MSRs).

2.8 Mortgage Lifecycle

To better understand Ginnie Mae's counterparties, it is important to understand the ecosystem in which they operate. Let's walk through the mortgage lifecycle, which has 3 phases.

Phase 1 is Originations, which is the loan manufacturing process. This is the acquisition of the assets from the moment a Borrower reaches out to a broker, a retail branch, or a correspondent, who ultimately sells to an aggregator. Embedded in this phase is an evaluation phase, which is about underwriting and collateral valuation. All Borrowers, whether FHA, VA Borrower, or conventional, will go through some form of either

automated or manual underwriting process that will evaluate the following: risk profile as a Borrower, credit score, Loan-to-Value (LTV) ratio, Debt-to-Income (DTI) ratio.

Phase 2 is Portfolio Management. In this phase, depending on whether the entity in question is a mortgage bank not holding onto the loans, they are selling their mortgages through a secondary market vehicle, such as Fannie Mae or Freddie Mac. If the entity is an approved Issuer for Ginnie Mae, they can aggregate their loans and issue Ginnie Mae MBS pools, that are sold out to Investors. Investors could be banks, hedge funds, pension funds, insurance companies, or international Investors, such as sovereign wealth funds.

In the third phase, Servicing, the payments are processed to ensure that they are passed to the correct parties. This phase is conducted by servicing businesses, which are economy of scale businesses. Scale is necessary to be able to process such large volumes of payments; however, scale also poses counterparty risk simply because of the sheer size in volume.

2.9 Knowledge Check 1

Review the example, then match each description with the correct market.

Example: ABC Mortgage Company originates a fixed-rate mortgage to a Borrower in DC. In turn, ABC sells the loan to a depository that pools this loan with others like it. The depository then sells that pool to Fannie Mae where a mortgage-backed security is issued. Where does the primary and secondary market begin and end in this example?

Description	Primary Market	Secondary Market
ABC sells the loan to a depository that pools the loan in a Fannie Mae security.		✓
ABC Mortgage originates the loan to Borrower.	✓	

2.10 Knowledge Check 2

What is counterparty risk?

- A. The risk that occurs if there is a lack of Borrowers and Lenders in the market.
- B. The risk homeowners accept when receiving a loan.
- C. The risk when assets are acquired during the origination phase of the mortgage lifecycle.
- D. The risk associated with the inability or failure of the institutional Borrower, Issuer, or counterparty to meet its contractual obligations.

Feedback:

Counterparty risk is the risk associated with the inability or failure of the institutional Borrower, Issuer, or counterparty to meet its contractual obligations.

2.11 Knowledge Check 3

Which of the following are risks to Ginnie Mae counterparties?

- A. Credit risk
- B. Overpayment risk
- C. Prepayment risk
- D. Nonpayment risk

Feedback:

The following are risks to Ginnie Mae counterparties:

- Credit risk
- Prepayment risk
- Nonpayment risk

3. Securitization Process

3.1 Securitization

Securitization is the process in which certain types of assets are pooled so that they can be repackaged into interest-bearing securities. The P&I payments from the assets are passed through to the purchasers of the securities.

The Lender pools eligible mortgages into a securitization and is compensated for each loan when it sells the pools to Investors. This allows the Lender to make more loans, or receive an MBS to place into their portfolio. By taking back an MBS, the Lender still accepts interest rate risk and is responsible for advancing for delinquent loans. This is called the mortgage banking model.

Mortgage securitization in the United States is unique in that even small entities, such as independently owned community banks, can still participate in the market by working with other aggregators.

3.2 Benefits of Securitization

Securitization significantly increases funding for mortgages by connecting Wall Street capital with mortgage Lenders. This, in turn, lowers the cost of mortgages to homeowners than what it would otherwise be.

Securitization provides a continuous supply of capital flows to the mortgage markets at all times. For example, during the economic crisis in 2008, FHA, VA, and the GSEs continued to provide liquidity while private Investors issuing their own securities fled the market.

Securitization also ensures mortgage capital flows to all areas of the country and not just certain geographic areas or urban centers.

Ginnie Mae securitizes the following type of assets. First, is Single-Family Residential Mortgage-Backed Securities (RMBS). RMBS are particularly attractive to private, public, and global Investors because of the homogeneity of the assets, diversification, relatively low risk nature, and stability of the cash flows overtime.

Ginnie Mae also securitizes Multifamily MBS. These include Multifamily apartments, hospitals, and nursing homes.

Lastly, Ginnie Mae securitizes Reverse Mortgage MBS, specifically Home Equity Conversion Mortgages (HECM).

3.3 Monthly Pass-Through Process – Performing Loans

Ginnie Mae MBS are the legal obligation of the Issuer and Servicer. Recall that the Issuer creates pools with performing loans that can then be transferred to a Servicer. Performing loans refers to Borrowers making their scheduled monthly P&I payments to the Servicer.

Let's walk through the monthly pass-through process.

First, Borrowers make P&I payments to the Servicer. In our example, we have two Borrowers, each making a \$500 payment. In reality, pools contain many more Borrowers, which means there are many more payments coming in.

Second, the Servicer processes these payments, which, in this example, total \$1,000. The Servicer deducts a servicing fee, \$200 in our example, from the P&I as payment.

Third, the Pool Processing Agent (PPA) verifies that they are receiving full and complete payments from each Borrower. The PPA then aggregates all the payment streams onto one pool level.

Fourth, the Servicer pays the G-Fee, \$150 in our example, to Ginnie Mae.

Lastly, the Investor receives a net monthly payment of \$650, which is P&I (\$1,000) minus the servicing fee (\$200) and G-Fee (\$150).

3.4 Monthly Pass-Through Process – Nonperforming Loans

Now, let's discuss what happens with a nonperforming loan. A nonperforming loan refers to a loan for which the Borrower fails to make a P&I payment. In this example, one of the two Borrowers fails to make the \$500 payment to the Servicer. Therefore, the Servicer only receives \$500, instead of \$1,000.

The process remains the same, the Servicer remits to the Investors net of the G-Fee and net of the servicing fee, regardless of whether or not Borrowers make the P&I payment. This means that the Servicer is still obligated to make the \$150 G-Fee payment to Ginnie Mae.

In this example, Investors will receive their scheduled payment of \$650. Since the Servicer only received \$500, you can understand the risk of nonperforming loans. Servicers are still on the hook for the shortfall.

3.5 Knowledge Check 4

What is the securitization process?

- A. Assets are transformed into non-tradable securities
- B. Assets are separated so they can be individually purchased by Lenders
- C. Assets are pooled so that they can be repackaged into interest-bearing securities
- D. Assets are pooled so they can be repackaged into non-interest-bearing securities

Feedback:

The securitization process is the process whereby assets are pooled so that they can be repackaged into interest-bearing securities.

3.6 Knowledge Check 5

Which of the following are benefits of securitization?

- A. Provides a continuous supply of capital flows to the mortgage markets
- B. Prevents small entities from participating in the market
- C. Increases funding for mortgages
- D. Ensures mortgage capital flows to all areas of the country

Feedback:

The following are benefits of securitization:

- Provides a continuous supply of capital flows to the mortgage markets
- Increases funding for mortgages
- Ensures mortgage capital flows to all areas of the country

4. Market Participant Business Models

4.1 Ginnie Mae and Other Market Participants

There are many differences between Ginnie Mae and Insuring Agencies, such as FHA, GSEs, such as Fannie Mae or Freddie Mac, and Lenders/Servicers.

Unlike Insuring Agencies, Ginnie Mae does not insure Lenders against Borrower credit risk. They also do not set credit or underwriting standards. While Insuring Agencies and GSE's have credit policy departments, Ginnie Mae does not.

Compared to GSEs, Ginnie Mae does not purchase loans or MBS, and they do not issue or sell MBS.

From a Lender/Servicer standpoint, Ginnie Mae does not originate loans or provide financing for other Lenders. Additionally, Ginnie Mae does not service loans, with the exception of seized portfolios.

4.2 Similarities between Ginnie Mae and GSEs

In several ways, Ginnie Mae is similar to Fannie Mae and Freddie Mac, which oversee conventional (non-government insured) securitization and purchase programs. The main similarity is that they all provide for the conversion of individual mortgage loans into guaranteed securities that are readily absorbed into the global capital market.

4.3 Primary Distinctions between Ginnie Mae and GSEs

There are important distinctions between Ginnie Mae and the GSEs, central to the basis for Ginnie Mae's particular view of the transformation underway in the nation's housing finance system. First, let's cover the three primary distinctions. Later, we will review several nuanced differences.

1. Ginnie Mae securities consist exclusively of loans that are backed by the federal government.
2. Ginnie Mae guarantees only the pass-through payments to security-holders, not the credit performance of the underlying loans.
3. Ginnie Mae securities enjoy the explicit full faith and credit guarantee of the United States Government.

These broad differences lead to other more-nuanced distinctions. The common element of these distinctions is the vastly narrower scope of Ginnie Mae's concern, capability, and responsibility relative to the GSEs. This narrower scope results from differences in legal roles. The GSEs are Issuer, Master Servicer, and Guarantor of their securities. Ginnie Mae is only the guarantor of its securities.

4.4 Ginnie Mae and GSE Business Models

Now, to review some nuanced differences, let's compare the Ginnie Mae and GSE

business models.

In the Ginnie Mae model, insuring agencies (FHA/VA/RD) take credit risk, and the Issuer takes the claim shortfall risk. Ginnie Mae performs pool-level servicing, and the Issuer owns servicing rights. The Insuring agency determines servicing/loss mitigation policies. The Issuer may buy out delinquent loans with their own funds or must make servicing advances on the claim. In the Ginnie Mae Model, there is only one pool level G-Fee.

Now, let's go over the GSE Model. This model takes on credit risk. GSEs perform loan level servicing, and they own servicing rights. The GSE Model dictates servicing/loss mitigation policies. GSEs must buy loans out of pools after 4 missed payments. Lastly, the GSE Model requires a loan level G-Fee / risk-based pricing with G-Fee add-ons for LTV/FICO (Fair Isaac Corporation)/Product features.

4.5 Implications of Different Business Models

Each business model has different implications. GSEs have the ability to dictate servicing strategy and move delinquent loans to a specialized Servicer for better service. Additionally, GSEs have higher Mortgage Servicing Rights (MSR) values due to loan level servicing capability and loan buyout policies.

Ginnie Mae servicing is more expensive for Issuers due to higher delinquencies, servicing advance payment requirements, and liability for possible claim shortfalls. Consequently, Ginnie Mae MSRs are valued less than GSE MSRs.

Lastly, GSE Risk Based Pricing results in loans being adversely selected for Ginnie Mae. In other words, GSEs obtain better credit quality (low fee) loans and Ginnie Mae receives lower credit quality (high fee) loans.

4.6 Ginnie Mae's Risk Distribution Model

Turn your attention now to Ginnie Mae's risk distribution model on defaulted Issuer portfolios.

Ginnie Mae's business model significantly limits the taxpayers' exposure to risk associated with secondary market transactions. Its strategy is to guarantee a simple pass-through security to lenders rather than buy loans and issue its own securities.

The first dollar loss and smallest relative loss position is the homeowner's equity. Someone with 20% equity in their home is less likely to default than somebody with no equity in their home. Second on Ginnie Mae's risk distribution model is any government agency insurance, such as FHA, RD, or VA.

Because private lending institutions originate eligible loans, pool them into securities and issue Ginnie Mae MBS, the corporation's exposure to risk is limited to the ability and capacity of its MBS Issuer partners to fulfill their obligations to pay Investors. By guaranteeing the servicing performance of the Issuer — not the underlying collateral — Ginnie Mae insulates itself from the credit risk of the mortgage loans.

Ginnie Mae is in the fourth loss position and is at risk once the three preceding layers of risk protection are exhausted or fail. Additionally, the failure of an Issuer will cause Ginnie Mae to experience financial loss due to the cost required to transfer the servicing to another Issuer or to the extent there is deterioration in servicing value.

Ginnie Mae monitors the delinquencies in Issuer servicing portfolios in an efficient and effective manner to mitigate the potential losses associated with Issuer defaults.

Risk Distribution Model for Pass-Through Payments

Risk Distribution Model for Pass-Through Payments portrays the Y-axis as Losses in Dollars and the X-axis Relative Loss Position.

The first dollar loss and smallest relative loss position is the homeowner's equity.

Second loss position is any government agency insurance (e.g., FHA, RD, or VA). Third loss position is Corporate Resources of Issuer/Servicer. Ginnie Mae is in the fourth loss position **unless** a preceding layer is exhausted or fails. For example, Ginnie Mae would be in the third position if Issuer corporate resources falls out due to failure.

4.7 Fannie Mae and Freddie Mac's Risk Distribution Model

Now, let's review Fannie Mae and Freddie Mac's risk distribution model.

The first dollar loss and smallest relative loss position is also homeowner's equity. Next is Private Mortgage Insurance (PMI). Lastly is Fannie Mae/Freddie Mac, who are at risk as the guarantors. They differ from Ginnie Mae in that they do what Ginnie Mae does, plus what the Issuer and Servicer do according to Ginnie Mae's risk distribution model.

4.8 Knowledge Check 6

Which of the following are differences between Ginnie Mae and other market participants?

- A. Ginnie Mae does not originate loans or provide financing for other Lenders
- B. Ginnie Mae insures Lenders against Borrower credit risk
- C. Ginnie Mae purchases loans and MBS
- D. Ginnie Mae does not set credit or underwriting standards

Feedback:

The following are differences between Ginnie Mae and other market participants:

- Ginnie Mae does not originate loans or provide financing for other Lenders
- Ginnie Mae does not set credit or underwriting standards

4.9 Knowledge Check 7

For each Risk Model Description, select the appropriate market participant's model.

Risk Model Description	Ginnie Mae's Model on Defaulted Issuer Portfolio	Ginnie Mae's Model for Pass-Through Payments	Fannie Mae and Freddie Mac's Model
<p>Homeowner payments are at the first dollar loss and smallest relative loss position on the graph. The Issuer's fund is in the second relative loss position. In this case, Ginnie Mae must be concerned about whether the Issuer has sufficient funds.</p>		✓	
<p>The first dollar loss and smallest relative loss position is homeowner's equity, followed by Private Mortgage Insurance (PMI), and then GSE guarantor organizations in the third relative loss position.</p>			✓
<p>The first dollar loss is homeowner's equity, followed by the government agency insurance. In this distribution model, Ginnie Mae may experience financial loss due to the cost required to transfer the servicing to another Issuer.</p>	✓		

4.10 Knowledge Check 8

Ginnie Mae Mortgage Servicing Rights (MSRs) are valued less than government sponsored enterprise MSRs.

- A. True
- B. False

Feedback:

Ginnie Mae MSRs are valued less than GSE MSRs.

5. Loan Buyout

5.1 Defective Loans

There are many conditions that lead to a mortgage or loan being labeled as a “defective mortgage”. Let’s review some of them now.

A mortgage or loan that cannot be insured or guaranteed by FHA, VA, RD, or PIH is defective. A defective mortgage or loan has the insurance or guaranty withdrawn. It is outside the pooling parameters for the pool issued.

FHA is prohibited from paying insurance benefits, whether or not the mortgage is insured, in the case of Ginnie Mae MBS II Single Family Level Payment MBS and HOPE for Homeowners (H4H) mortgage loans.

Lastly, a defective mortgage does not comply with the terms of the related securities.

Defective loans must be cured or bought out of securities and may be substituted within 4 months of issuance.

Mandatory buyouts apply to uninsurable loans or loans that do not fit pool parameters. Neither can be cured except by substituting a similar loan. Uninsurable loans are not curable; however, uninsured loans can be cured if insurance is obtained.

5.2 Issuer Responsibilities for Defective Loans

Issuers have three main responsibilities for defective loans.

First is the responsibility of loan substitution. The second responsibility is mandatory loan buyouts. Notice and approval requirements are the final of the three main responsibilities facing an Issuer in the case of a defective loan

Loan Substitution

- Single-family mortgages or manufactured home loans found to be defective within 120 calendar days must be cured or replaced by the Issuer.
- Must happen prior to the expiration of the 120-day period.

- Project loans, construction loans, and Home Equity Conversion Mortgage (HECM) loans are ineligible for loan substitutions and must be bought out.

Mandatory Loan Buyouts

- After the 120-day period, loan substitution is not allowed.
- The Issuer must either cure the defect or request approval to buy the Defective Mortgage out of the pool(s) or loan package.
- The Issuer buys out a defective loan by depositing into the Central P&I Custodial Account an amount that will reduce to zero the portion of the outstanding principal balance.
- The cure or buyout approval request must occur by the earlier of the final certification due date for the corresponding pools or loan packages or 30 days from discovery of the defect.
- If a project or construction loan is found to be defective, regardless of the time of discovery, the Issuer must cure the defect or buy out the loan.

Notice & Approval Requirements

- The Issuer must notify Ginnie Mae's Office of Issuer & Portfolio Management of any mortgage found to be defective.
- The Issuer must receive Ginnie Mae's written approval prior to any substitution for or buyout of a Defective Mortgage from a pool.
- A request to buy out a Defective Mortgage must be submitted in accordance with the Form Letter for Loan Repurchase ([Appendix VI-2](#)).

5.3 Default

Default is the failure to comply with the covenants of the mortgage. Default can be monetary, as in the failure to make a payment when due, or non-monetary, as in a failure to comply with one or more other covenants of the mortgage.

Failure to make payments when due also results in the mortgage being delinquent. If the failure continues for 30 days, the loan is considered to be one month delinquent. For the purposes of calculating delinquency and default, each month is considered to be the equivalent of 30 days regardless of actual number of days in the month.

Loans in a continuous period of default for 90 days or more may be bought out of securities without prior written approval from Ginnie Mae. Ginnie Mae may require defaulted loans to be bought out if the Issuer's portfolio exceeds certain delinquency thresholds or after consideration of the Issuer's financial position.

5.4 Knowledge Check 6

Which of the following are Issuer responsibilities for defective loans?

- A. To provide a loan substitution when the Single-Family mortgage or manufactured home loan is defective within 120 days of the Issue Date of the security
- B. To provide a loan substitution when construction loans and Home Equity Conversion Mortgage (HECM) loans are in default for greater than 90 days
- C. To either cure the defect or request approval to buy the defective mortgage out of the pool or loan package if the loan is greater than 120 days defective
- D. To provide notice to Ginnie Mae's Office of Issuer & Portfolio Management of any mortgage found to be defective

Feedback:

The following are Issuer responsibilities for defective loans:

- To provide a loan substitution when the single-family mortgage or manufactured home loan is defective within 120 days of the Issue Date of the security
- To either cure the defect or request approval to buy the defective mortgage out of the pool or loan package if the loan is greater than 120 days defective
- To provide notice to Ginnie Mae's Office of Issuer & Portfolio Management of any mortgage found to be defective

6. Conclusion

6.1 Summary

The goal of this training module was to provide a fundamental understanding of the differences between the primary and secondary mortgage market, the securitization process, and pass-through mechanics, the difference between GSEs and Ginnie Mae business models, as well as the process for curing or buying out defective loans.

You explored the differences between the primary and secondary mortgage markets. You learned what a counterparty is, as well as the risks to Ginnie Mae counterparties. You then delved into the securitization process; specifically, the Mortgage Banking Model.

Next, you learned how to differentiate Ginnie Mae from other market participants. You explored the various risk distribution models and also learned the implication of GSE risk-based pricing for Ginnie Mae. Lastly, you discovered when the Issuer must cure a defective loan or buy it out.

Learning Objectives

- Differentiate between the primary (origination) and secondary (securitization) mortgage markets
- Identify what counterparty risk is
- Identify risks to Ginnie Mae counterparties
- Describe the securitization process
- Identify the benefits of securitization
- Differentiate Ginnie Mae from other market participants (i.e., insuring agencies, GSEs, and Lenders/Servicers)
- Differentiate the risk distribution models
- Explain the implication of GSE risk-based pricing for Ginnie Mae
- Identify when the Issuer must cure a defective loan or buy it out