Our Guaranty Matters

Overview of Ginnie Mae Guaranty Agreement Key Components Transcript

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1. Introduction

1.1 Overview of Ginnie Mae Guaranty Agreement Key Components

1.2 Module Purpose

Welcome to the Overview of the Ginnie Mae Guaranty Agreement Key Components!

The purpose of this training is to present the Government National Mortgage Association (Ginnie Mae) guaranty, its benefits, how it is protected and the risk management approach, and what constitutes non-compliance with the Guaranty Agreement

Learning Objectives

Learning Objectives:

- Identify the benefits of the Ginnie Mae guaranty
- Describe how Ginnie Mae's guaranty is supported by structural protection and risk management
- Identify Ginnie Mae Guaranty Agreement program violations

1.3 Navigation Tutorial

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

2. Ginnie Mae's Guaranty

2.1 Ginnie Mae's Guaranty

Ginnie Mae is the only federal agency tasked with the administration and oversight of an explicit, paid-for, full faith and credit guaranty on Mortgage-Backed Securities (MBS). Even in difficult times, an investment in Ginnie Mae MBS has proven to be one of the safest an investor can make, as evidenced by the demand for these securities from investors worldwide. With a guaranty for the timely receipt of Principal and Interest (P&I), MBS can be attractive investments for investors worldwide.

Ginnie Mae's guaranty, which is applicable with respect to all Ginnie Mae MBS and Home Equity Conversion Mortgage-Backed Securities (HMBS), is included in the terms of each uncertificated Ginnie Mae MBS and appears on the face of each certificated Ginnie Mae MBS.

The Ginnie Mae guaranty ensures that the security holder receives the timely payment of scheduled monthly principal and any unscheduled recoveries of principal on the underlying mortgages, plus interest at the rate provided for in the securities.

If a borrower fails to make a timely payment on a mortgage, the Issuer must use its own funds to ensure that the security holders receive timely payment.

If an Issuer fails to ensure that the funds necessary to make timely payment are available or otherwise defaults in the discharge of its responsibilities, Ginnie Mae, in accordance with its guaranty, will make payments to security holders.

Note: Loans eligible for Ginnie Mae MBS are insured or guaranteed by FHA, VA, USDA's Rural Housing Service (RHS), and HUD's Office of Public and Indian Housing (PIH), which set credit underwriting and servicing requirements.

Ginnie Mae Guaranty

The undersigned, pursuant to Section 306(g) of the National Housing Act, hereby guarantees to the registered holder thereof the timely payment of principal and interest set forth in the above instrument, subject only to the terms and conditions thereof. The full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under this guaranty.

2.2 Ginnie Mae's Guaranty Benefits

The Ginnie Mae guaranty states that an Issuer can obtain from Ginnie Mae, for a specific MBS, a guaranty that the investor will receive the timely payments of all P&I due on the security regardless of whether the borrower, lender, or servicer are able to make monthly payments.

The guaranty ensures the following benefits including the full faith and credit backing of the United States and attracts domestic and global capital to the nation's housing finance markets.

The guaranty lowers the costs of mortgage funding and passes along the savings to support housing and homeownership in American communities. It allows mortgage lenders to obtain a better price for their mortgage loans in the secondary mortgage market.

Additionally, proceeds can be used by lenders to make new mortgage loans available thereby increasing the availability of funds for mortgages. Without this liquidity, lenders would be forced to keep loans in their own portfolio, greatly reducing the number of new loans they could make.

Finally, the guaranty improves the ability to trade mortgages in the secondary capital markets.

2.3 Knowledge Check 1

Which of the following are requirements for pools?

A. It enables Ginnie Mae to buy loans and issue its own securities to finance a variety of buyers many of which may have difficulty getting and keeping a loan.
B. It lowers the costs of mortgage funding and passes along the savings to support housing and homeownership in American communities.
C. It increases the availability of funds for mortgages but increases the costs of mortgage funding.
D. It attracts domestic and global capital to the nation's housing finance markets, improves the ability to trade mortgage investments, and increases the availability of funds for mortgages.

Feedback:

Ginnie Mae's guarantee:

- Lowers the costs of mortgage funding and passes along the savings to support housing and homeownership in American communities.
- Attracts domestic and global capital to the nation's housing finance markets, improves the ability to trade mortgage investments, and increases the availability of funds for mortgages.

2.4 Structural Protection and Risk Management

Turn your attention now to how Ginnie Mae's guaranty is supported by its Risk Distribution Model on defaulted Issuer portfolios.

Ginnie Mae's federal government guaranty is supported by a structural protection and attention to risk management that minimizes the extent to which the guaranty is acted upon. To accomplish this, Ginnie Mae subscribes to a Risk Distribution Model on defaulted Issuer portfolios.

This business model puts Ginnie Mae in a “fourth loss” position as a federal backstop, behind three other layers of capital, thereby minimizing direct government exposure to financial risk from the MBS guaranty and coming into play only if the private sector Issuer failed.

The loss positions include homeowners’ equity, capital of Ginnie Mae credit enhancers (FHA, PIH, VA, USDA), and balance sheet of Ginnie Mae Issuers, who are responsible for on-time remittance of P&I if borrowers don’t make mortgage payments on time.

If an Issuer fails, Ginnie Mae steps in to cover payments to Investors. Ginnie Mae has consistently upheld the guarantee at all times, and investors have always received scheduled monthly payments of interest and principal without fail, since program inception.

The model effectively minimizes risk to the government and taxpayers because revenues have always been more than enough to pay for losses.

Ginnie Mae has retained its standing as a profitable, self-sustaining government corporation.

It maintains reliable operations and invests in modernization and improvement. We are always working to enhance program offerings and ensuring that our securitization platform allows for timely pooling without delay.

Overall, Ginnie Mae's risk distribution model is designed to minimize risk to taxpayers.

How Risk Is Minimized

The Risk Model minimizes risk to the government and taxpayer because:

- Revenues have always been more than enough to pay for losses.
- Ginnie Mae has retained its standing as a profitable, self-sustaining government corporation.
    - By virtue of Ginnie Mae's unique position as a corporate instrumentality and strong management, Ginnie Mae has consistently returned profits to the US Treasury.
- It maintains reliable operations and invests in modernization and improvement.

2.5 Knowledge Check 2

What is Ginnie Mae’s position in its Risk Distribution Model on defaulted Issuer portfolios that minimizes direct government exposure to financial risk from the MBS guaranty?

A. Ginnie Mae is in the first/lowest relative loss position
B. Ginnie Mae is in the second relative loss position

C. Ginnie Mae is in the third relative loss position
D. Ginnie Mae is in the fourth relative loss position

Feedback:

Ginnie Mae's business model puts it in a "fourth loss" position as a federal backstop, behind three other layers of capital. As a practical matter, the government guaranty would come into play only if the private sector Issuer failed.

2.6 Guaranty Agreement

Ginnie Mae requires Issuers to execute a Guaranty Agreement upon pooling and securitization in exchange for the government's full faith and credit guarantee on all MBS issued. All updates to the guarantee are proactively attached not only to new MBS but to the entire MBS outstanding with each Issuer.

Under the Agreement, Issuers transfer all rights, titles, and interests in the underlying mortgages to Ginnie Mae.

Ginnie Mae provides the framework and infrastructure needed by approved entities (Issuers) to pool loans and loan packages as collateral for an MBS that will carry the Ginnie Mae guaranty.

Issuers obtain the right to issue MBS carrying Ginnie Mae's guaranty, by entering into a Guaranty Agreement with Ginnie Mae.

The guaranty requires Issuers to pay a monthly guarantee fee and abide by a set of requirements detailed in the *MBS Guide*.

2.7 What Constitutes an Event of Non-Compliance?

The Ginnie Mae Guaranty Agreement lists the following 11 egregious program violations that are examples of non-compliance events:

1. Failure by a Ginnie Mae I MBS Issuer to remit timely P&I payment to Security Holders
2. Failure by a Ginnie Mae II MBS Issuer to have funds in the central P&I custodial account at the time and in the amount required
3. Notice by the Issuer to Ginnie Mae for an advance of funds
4. Any other act or omission by the Issuer that results in an untimely payment
5. Any notification to Ginnie Mae by the Issuer that it cannot meet its payment obligation
6. Any impending or actual insolvency of the Issuer
7. Any change in an Issuer's business status that may result in an inability to carry out its obligations
8. Any unauthorized use of custodial funds
9. Any withdrawal and/or suspension of FHA mortgagee status or Fannie Mae/Freddie Mac seller/servicer status

10. Any submission of false reports, statements or data, or any act of dishonesty or breach of fiduciary duty to Ginnie Mae
11. Any failure of the Issuer to observe or comply with any of the terms and provisions of the Guaranty Agreement or the MBS Guide

2.8 Knowledge Check 3

Which of the following are examples of non-compliance with the Ginnie Mae Guaranty Agreement?

A. Failure to remit timely P&I payments or to have funds in the central P&I custodial account when required
B. Use of Issuer's own funds to ensure that the security holders receive timely payment
C. Change in Issuer business status that results in insolvency or the inability to carry out its obligations
D. Issuing false reports, statements or data, dishonesty or breach of fiduciary duty

Feedback:

Ginnie Mae's guarantee:

- Lowers the costs of mortgage funding and passes along the savings to support housing and homeownership in American communities.
- Attracts domestic and global capital to the nation's housing finance markets, improves the ability to trade mortgage investments, and increases the availability of funds for mortgages.

3. Conclusion

3.1 Summary

The goal of this training module was to provide you with an understanding of the Ginnie Mae guaranty. You learned that Ginnie Mae's guaranty ensures that the security holder receives the timely payment of scheduled monthly principal and any unscheduled recoveries of principal on the underlying mortgages, plus interest at the rate provided for in the securities. This guaranty for the timely receipt of P&I means that MBS can be attractive investments for investors worldwide because it has the full faith and credit backing of the United States.

You then explored the benefits of the guaranty as well as Ginnie Mae's Risk Distribution Model on defaulted Issuer portfolios. You learned that this business model provides a structural protection and risk management approach to minimize the extent to which the guaranty is acted upon. Finally, you examined events that constitute non-compliance with the guaranty.

Learning Objectives

Learning Objectives:

- Identify the benefits of the Ginnie Mae guaranty
- Describe how Ginnie Mae's guaranty is supported by structural protection and risk management
- Identify Ginnie Mae Guaranty Agreement program violations

Benefits

- The full faith and credit backing of the U.S.
- Attracts domestic and global capital
- Lowers the costs of mortgage funding
- Securitization allows lenders to pool loans into a security, sell it in the capital markets, receive payment for the security, and then use those funds to repeat the cycle, make more loans, create new pools, issue another MBS to investors, collect the payment.
- Passes along savings to housing and homeownership
- Allows mortgage lenders to obtain a better price for their mortgage loans
- Proceeds can be used to make new mortgage loans
- Improves the ability to trade mortgages

Non-Compliance Events

1. Failure to remit timely P&I payment
2. Failure to have funds in P&I account
3. Notice for an advance of funds
4. Act or omission resulting in untimely payment
5. Cannot meet payment obligation
6. Impending or actual insolvency
7. Change in status that may result in inability to carry out obligations
8. Unauthorized use of custodial funds
9. Withdrawal or suspension of FHA mortgagee or seller/servicer status
10. False reports, statements or data, dishonesty or breach of fiduciary duty
11. Failure of the Issuer to observe or comply with any terms and provisions