

APM 19-06

August 21, 2019

MEMORANDUM FOR: All Participants in Ginnie Mae Programs**FROM:** Maren Kasper, Acting President and Executive Vice President**SUBJECT:** Counterparty Risk Management Policy Series – Volume 3: New Rating Requirements, New Risk Factors, Revised Financial Requirements, and Other Revised Participation Requirements

Ginnie Mae continually monitors Issuer performance and seeks to encourage Issuer practices that are consistent with its mission and the integrity of the Mortgage-Backed Securities (MBS) Program. As part of a series of counterparty risk management policy updates, Ginnie Mae is implementing the following requirements.

Rating Requirements for Issuers with a Servicing Portfolio Exceeding \$25 Billion

To minimize potential exposure to large Issuer defaults, Ginnie Mae will be obtaining additional key risk indicators relating to servicing capability and creditworthiness. Effective September 1, 2020, Issuers with a Ginnie Mae Single-Family (SF) Servicing Portfolio Amount that exceeds \$25 billion in UPB will be required to obtain an external primary servicer rating. For the purpose of this requirement, the term Ginnie Mae Single-Family Servicing Portfolio Amount is the sum of the unpaid principal balance of an Issuer's outstanding Ginnie Mae SF MBS and HMBS for which it is the Issuer of Record in addition to the sum of the unpaid principal balance of any outstanding SF MBS and HMBS that the Issuer is subservicing on behalf of another approved Ginnie Mae Issuer. Issuers with a Ginnie Mae Single-Family Servicing Portfolio that exceeds \$50 billion in UPB will be required to obtain credit ratings in addition to the external primary servicer rating. Both, the primary servicing rating and credit rating requirements are detailed in Chapter 3 of the MBS Guide.

Revised Financial Requirements for Applicants and Issuers

Ginnie Mae is amending Chapter 2 and Chapter 3 of the MBS Guide to change the manner in which liquidity and net worth are calculated. Effective immediately, new applicants will be permitted to satisfy minimum liquidity requirements using a combination of AAA rated government securities that are marked to market in addition to cash and certain cash equivalents. However, new applicants will no longer be permitted to include deferred tax assets when computing the minimum net worth required for participation in the MBS Program. For approved Issuers, these changes will become effective for fiscal year 2020. Ginnie Mae will take into account these changes when evaluating an Issuer's compliance with Ginnie Mae's liquidity, net worth and capital requirements as part of the review of the Issuer's audited financial statements and documents covering fiscal year 2020.



Moreover, Ginnie Mae is exempting Issuers that participate exclusively in the HMBS program from the leverage ratio requirements in cases where Ginnie Mae, in its sole discretion, determines that the HMBS Issuer's failure to meet the requisite leverage ratio test is directly attributable to a demonstrated lack of true sale accounting treatment in the HMBS Program. This exemption for HMBS Issuers has been incorporated into Chapter 3, Part 8, § C of the MBS Guide, and is effective September 1, 2019.

Secured Debt Ratio as a Risk Factor

Effective September 1, 2019, Ginnie Mae is amending Chapter 3, Part 21 § B to prescribe that Issuers with secured debt to gross tangible asset ratios greater than sixty percent (60%), as described in the Guide, may, at Ginnie Mae's sole discretion, be subject to additional financial and operational requirements prior to receiving approval for various transactions within the MBS Program, including, but not limited to requests for commitment authority and approval of Transfers of Issuer Responsibility.

Risk Factors Applied to the Approval of Transfers of Issuer Responsibility

Effective September 1, 2019, Ginnie Mae is updating Chapter 21 to inform Issuers about various risk factors that Ginnie Mae currently evaluates when assessing requests for Transfers of Issuer Responsibility, including an evaluation of whether a given approval would lead to a degree of concentration of Issuer responsibility that may pose a substantial risk to the overall integrity and soundness of the MBS Program.

Risk Factors applied to the Approval Issuer-Subservicer Agreements

Ginnie Mae, in its sole discretion, may grant or withhold approval of Issuer-Subservicer arrangements. Effective September 1, 2019, Ginnie Mae is amending Chapter 4, Part 3 of the MBS Guide to inform Issuers that it will assess the percentage of the outstanding Ginnie Mae MBS or HMBS portfolio being subserviced by any entity involved in the transaction as a factor when evaluating Issuer requests for approval of subservicing arrangements.

Revised Demonstrated Participation Requirements

Ginnie Mae dedicates significant resources to monitoring the performance of its Issuers and seeking to ensure the active and successful participation of each Issuer. Ginnie Mae grants Issuers an 18-month period to perform a qualified activity in the MBS Program. Entities that do not perform any qualified activities within that prescribed period risk losing their status as approved Issuers. Ginnie Mae is revising Chapter 3, Part 21 § A to require all Issuers to perform at least one qualified activity within a consecutive 12-month period in order to maintain their approved Issuer status and to eliminate the blanket exemption for state housing finance agencies from these requirements. The revised Demonstrated Participation Requirements have been incorporated to Chapter 3, Part 21 § A of the MBS Guide and will be effective September 1, 2020.



Mailing Address
451 Seventh Street SW, B-133
Washington, DC 20410

Revised Custodial Bank Rating Requirements

Ginnie Mae is updating the rating requirements applicable to funds custodians to align with industry standards. These revisions have been incorporated into Chapter 16, Part 8 and are effective September 1, 2019.

If you have any questions regarding this announcement, please contact your Account Executive in the Office of Issuer and Portfolio Management directly, or at (202) 708-1535.



Mailing Address
451 Seventh Street SW, B-133
Washington, DC 20410