Issuer Eligibility Requirements Fact Sheet

Key Objectives

1. Ginnie Mae updated its capital, liquidity, and net worth eligibility requirements to reflect the changing nature of its approved issuers.

2. Ginnie Mae's enhanced issuer eligibility requirements will promote confidence in the safety, stability, and vitality of its mortgage-backed securities (MBS) program through volatile market conditions.

3. Ginnie Mae solicited and reviewed stakeholder feedback, carefully considering the impact of these requirements on independent non-depository mortgage bankers (IMBs). To reduce regulatory burden and provide greater consistency and predictability for IMBs, FHFA and Ginnie Mae have worked closely to align our respective standards, to the greatest extent possible, and agreed to a mutual implementation period and compliance deadlines.

4. Ginnie Mae is committed to supporting access to mortgage credit for underserved communities in a sustainable way across economic cycles. Ensuring that Ginnie Mae issuers can acquire financing during times of stress is critical to preserving access to credit for those borrowers who depend on Ginnie Mae and our insuring agency partners. To date, Ginnie Mae's research and analysis has not revealed any evidence that the revised requirements will reduce access to credit for underserved communities. We will monitor for any indications to the contrary or potential areas of concern and are prepared to make adjustments, if necessary.

5. This update to financial eligibility requirements is the most recent of a series of steps taken by Ginnie Mae to upgrade its counterparty risk management program, in line with the changing profile of the housing finance system. Ginnie Mae has approached counterparty risk management systematically, through changes to program policy, provision of additional issuer liquidity tools and increasing our analytic and modeling capabilities.

Background

Since the 2008 mortgage crisis, the scale and composition of Ginnie Mae's guaranteed MBS portfolio has changed dramatically. Total Unpaid Principal Balance (UPB) outstanding prior to the crisis was less than $600 billion and now exceeds $2.2 trillion. Additionally, as of March 2022, IMBs are responsible for over 80% of outstanding single family MBS issuance. To date, IMBs originate nearly 90% of new single-family mortgage loans, up from less than 50% prior to the crisis.

With this dynamic shift in the secondary market, IMBs now play an integral role in providing access to credit for millions of American homeowners. Ginnie Mae's IMB issuer eligibility requirements are designed to bolster long-term viability of these companies so they may continue to support improved and greater affordable rental opportunities and homeownership for American families during all economic cycles.

The concern about the ability of IMBs to weather inevitable volatile market conditions has been a concern since the mortgage crisis and is shared by state and federal regulators as well as industry experts and analysts. Since 2014, Ginnie Mae and the Federal Housing Finance Agency (FHFA) have periodically increased adjusted net worth, capital, and liquidity requirements. In 2018-2019, Ginnie Mae issued three separate counterparty credit risk policy All Participants Memorandum (APMs) introducing supplemental financial requirements for IMBs, and began development of an Issuer Stress Test program to project how various economic scenarios would affect issuers' financial standing and program compliance.

Most notably, in January 2020, FHFA proposed updated minimum financial eligibility requirements which, among other things, amended new net worth and liquidity requirements for seller/servicers to account for Ginnie Mae servicing. This proposal was later suspended due to the COVID-19 pandemic.

In July 2021, the Conference of State Banking Supervisors (CSBS) approved model state regulatory prudential standards for non-depository mortgage servicers.

Also, in July 2021, Ginnie Mae published its Request for Input (RFI) relating to Financial Requirements for Single Family MBS issuers. In February 2022, FHFA published a re-proposal to enhance financial requirements for GSE seller/servicers.

As early as 2021, Ginnie Mae and FHFA have shared analyses and policy considerations relating the counterparty risks of IMBs to their respective MBS ecosystems. In the past several months, the agencies have collaborated extensively to align on as many issuer and seller/servicer requirements as possible. Going forward, Ginnie Mae will expand its engagement on systemic risk, including by making available high-level (aggregated) data and trends identified by its Issuer Stress Test and other modeling or monitoring activities.

These final requirements and the solidarity and alignment of Ginnie Mae and FHFA is a result of a culmination of years of discussion, analysis, and policy regarding the need for greater IMBs governance and sustainable stability of the MBS ecosystem that drives American housing finance and the supportive secondary market.

Overall Requirements

Ginnie Mae's financial requirements are structured around three core components:

1) **Net worth** (assets minus liabilities with some required adjustments) is the most basic measurement of an issuer's capital or resources with which to meet its obligations under adverse circumstances;

2) **Liquidity** is the accessibility of funds to meet actual or potential obligations;

3) **Institution-wide capital** has requirements including a leverage ratio and a risk-based capital ratio.

Net Worth Requirements

Minimum Base Net Worth
$2,500,000

Additional Net Worth Requirements
0.35% (35 basis points) of the Issuer's Ginnie Mae Single-family outstanding obligation; plus
0.25% (25 basis points) of the Issuer's Enterprise Single-family servicing UPB; plus
0.25% (25 basis points) of the Issuer's non-agency Single-family servicing UPB

Liquidity Requirements

Base Liquidity
10 basis points: of the Issuer's Ginnie Mae Single-family servicing UPB; plus
7 basis points: of the Issuer's Enterprise Single-family serving UPB, if the issuer remits (or the Enterprise draws) interest or principal, or both, as scheduled, regardless of whether principal or interest has been collected from the borrower; plus
3.5 basis points: of the Issuer's Enterprise Single-family servicing UPB, if the Issuer remits (or the Enterprise draws) the interest and principal only as actually collected from the borrower; plus
3.5 basis points: of the Issuer's non-agency Single-family servicing UPB; plus

Origination Liquidity (Large and Medium Issuers only, as defined by UPB issued in any four quarter period exceeding $1 billion).
50 basis points: of the Issuer's Loans Held for Sale; plus
50 basis points: of the Issuer's UPB of interest rate lock commitments (after adjusting for estimated fallout).

Institution-Wide Capital Requirements

The existing 6% Leverage Ratio requirement is unchanged and aligned with FHFA.

Risk Based Capital Requirement (RBCR) The most significant change to the financial requirements is the introduction of a risk-weighted aspect to the Institution-wide Capital component for Issuers that are not regulated by a federal prudential regulator or that are not an instrumentality of a state.

While all assets are given the same weight in the existing Leverage Ratio, the RBCR will risk weight assets according to the following schedule:

Risk Weighting	Asset Type
0%	Cash and Cash Equivalents
0%	Reverse Mortgages Held for Investment (non-true sale)
0%	Ginnie Mae Loans Eligible for Repurchase, if included in total assets
0%	Pre-paid expenses and leases
0%	Items deducted from Equity to compute Adjusted Net Worth

20%	Government Loans and Conforming Loans HFS
50%	Other Loans HFS
250%	Gross MSRs (not to exceed Adjusted Net Worth)
100%	All other assets not included above

MSR Risk Weighting

MSRs, while arguably the single most important asset held by IMBs, also represent a unique risk to the solvency of IMBs during periods of economic turbulence. By making the RBCR a program requirement, Ginnie Mae is attempting to balance the importance of holding MSRs while creating an attractive return, while limiting the unique risks MSRs represent. The primary mechanisms for limiting the risk of the MSRs are the 250% risk weighting and the direct deduction of Excess MSRs from Adjusted Net Worth.

For the reasons described below, Ginnie Mae has concluded that the risk of concentrated MSR positions necessitate a direct deduction of Excess MSRs.

High Volatility

Since the fourth quarter of 2020, Ginnie Mae has been collecting data on the valuation of Issuers' MSRs, encompassing Ginnie MSRs, Enterprise MSRs and Private-label securities (PLS) MSRs. As a result, Ginnie Mae has observed extreme volatility in MSR values in some periods, and high volatility for some issuers in most periods.

Valuation Risk

Some Ginnie Mae Issuers have business models that result in significant concentrations of MSRs, a Level III asset, relative to capitalization. The weighted average holdings of MSRs within the IMB sector exceeds 25% of total assets. At depository institutions, federal regulators scrutinize Level III asset values to reduce the risk of inaccurate valuation. There is no such oversight of IMBs, and as a result, IMBs' MSRs introduce a high degree of valuation risk.

Leverage

MSRs represent an important asset for IMBs to obtain additional leverage. For many IMBs, leverage is critical in maintaining financially feasible participation in the program. The financing arrangements that IMBs enter typically have provisions that allow lenders (or a third-party valuation agent) to remark MSRs to match the current market. In periods of rapid value decline, the possibility of margin spirals and credit runs could be quite significant, particularly for issuers with large concentrations of MSRs.

Concentrated positions, high volatility, valuation risk and leverage taken individually may not introduce a great deal of incremental risk to the solvency of IMBs. However, when considered together, they could have a very material impact on an IMB's financial condition.

A key objective of the RBCR is to encourage efficient allocation of MSRs to issuers that hold sufficient capital to support the asset during periods of economic turbulence and to reduce the likelihood of disruptions to the market.

Primary Differences with FHFA

Risk Based Capital Requirement

Ginnie Mae has a 6% Risk Based Capital Requirement (RBCR), while FHFA has not imposed an RBCR. This is because Ginnie Mae's issuers are responsible for making all principal and interest payments to MBS investors, as scheduled, regardless of the performance of the underlying mortgage. Ginnie Mae issuers must continue making payments as long as the underlying mortgage is in the security, without limit, even if the borrower does not submit a timely payment.

Conversely, regarding the entities that FHFA regulates, the obligation of government sponsored enterprises (GSEs) seller-servicers is limited both by the nature of the payment and a ceiling on total payments required to be made. In some cases, seller-servicers must only forward payments on an "actual" basis, meaning as payment from the underlying borrower is received. Additionally, seller-servicers are generally not required to make advances beyond a period of four months. In totality, the nature of the Ginnie Mae program is more liquidity intensive and thus necessitates additional capital for issuers. With better capitalization, IMBs will have more dependable access to, and liquidity from, the counterparties on which they rely for financing.

Liquidity Buffers

FHFA has required liquidity buffers equal to 2 basis point for Enterprise UPB, and 5 basis points for Ginnie Mae UPB, which will apply to large seller/servicers. Ginnie Mae will not require a liquidity buffer.

Allowable Liquid Assets

Ginnie Mae and FHFA differ in their definitions of allowable liquid assets. FHFA has determined that 50% of an unused portion of a committed agency servicing advance line of credit (LOC) may be used to count towards a seller/servicer's liquid assets. Conversely, Ginnie Mae does not permit a LOC to count towards liquidity but will allow servicing advance receivables to count towards liquid assets.

Instead of counting 50% of a LOC as a liquid asset, Ginnie Mae acknowledges that program participants use liquidity for servicing advances. In turn, under our requirement, servicers will utilize servicing advances in calculating their liquidity position.