Ginnie Mae Liquidity Progress Report

Ginnie Mae

JUNE 2023

GINNIE MAE LIQUIDITY PROGRESS REPORT

EXECUTIVE SUMMARY

Chartered as a government corporation within the U.S. Department of Housing and Urban Development (HUD), Ginnie Mae connects global capital markets to America's housing finance system through its administration and oversight of the explicit full faith and credit of the U.S. government guaranty on mortgage-backed securities (MBS).

Ginnie Mae attracts investors from around the world, leveraging global capital in support of mortgages insured or guaranteed by the Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA), U.S. Department of Agriculture's Rural Housing Service (USDA-RHS), and HUD's Office of Public and Indian Housing.

Ginnie Mae's MBS guaranty serves as a multiplier for these government-backed mortgage programs and their impact on historically underserved communities, creating additional market liquidity by securitizing the single- and multifamily loans these agencies guarantee or insure into Ginnie Mae MBS. This liquidity in turn lowers the cost of mortgage funding and helps expand access to affordable housing to millions of middle and lower-income Americans, first-time homebuyers, and veterans.

Ginnie Mae's MBS program creates liquidity in the market by facilitating the consistent production of MBS with relatively low risk and predictable performance; that predictability provides investors (and lenders and issuers) with confidence, both meeting and helping drive investor demand.

In 2022, the macroeconomic climate became more challenging due to inflation, contractionary monetary policy that increased interest rates and shifts across the entire housing finance system following the COVID-19 pandemic and in reaction to the higher interest and mortgage rate environment. Ginnie Mae remained committed to its social impact mission by implementing a number of policies and new initiatives to expand the liquidity in the government MBS market and to support the liquidity of issuers.

Enhancing the ability of its issuers to access capital and maintain the liquidity needed to fulfill their responsibilities under the Ginnie Mae MBS program is of utmost importance to the agency.

Therefore, this report presents some of Ginnie Mae's most notable initiatives and policies that have supported both the MBS market and issuer liquidity since the beginning of 2022. They include:

- Opening its Digital Collateral Program to all qualified Ginnie Mae-approved issuers that securitize government-backed mortgages composed of eNotes. Expanding from a pilot to the full program increases liquidity for digital collateral. This policy helps boost cost savings, which can be directed into new loans, which in turn can be securitized and provide liquidity to the Ginnie Mae program and additional loans for American borrowers. The program has grown 350 percent since January 2022.

- Changing some institution-wide capital requirements and program risk parameters to ensure credit unions and housing finance agencies (HFAs) that are GNMA issuers are well-capitalized, which promotes stability in the housing finance system. Giving these institutions access to GNMA's programs increases their liquidity.

- Revising the net worth and liquidity requirements for Ginnie Mae single-family MBS issuer applicants and existing issuers and introducing a risk-based capital ratio (RBCR) of 6 percent for non-depository issuers. These changes enhance the stability of the mortgage finance system and ensure a minimum level of service for borrowers in all environments. These new requirements are not yet in effect, but they are designed to support issuer liquidity by giving the lenders on which issuers rely greater confidence that our issuers are strong counterparties for credit extension.

- Working jointly with the FHA on policy enhancements to the FHA's Title I Manufactured Home Loan Program aimed at attracting more lenders to the program and ensuring they have access to GNMA's securities and the liquidity they help generate.

- Expanding environmental, social, and governance (ESG) disclosures in response to investor demand, including key metrics related to low-to-moderate income (LMI) borrowers or multifamily MBS backed by loans with "green" features, with the aim of attracting investors who are either required by law or interested in making investments with a social impact. Attracting more investors brings more global capital into the U.S. housing market, providing liquidity that helps issuers make home loans to more households.

- In response to the National Emergency declared by the President on March 13, 2020, in connection with COVID-19, Ginnie Mae provided its issuers temporary relief from the acceptable delinquency rate threshold requirement via All Participant Memoranda (APM) 20-06 (Treatment of Mortgage Delinquency Ratios for Issuers Affected by COVID-19). Due to the continuing impact of the COVID-19 Pandemic National Emergency on forbearance levels and delinquency rates, Ginnie Mae extended these delinquency reporting exemptions for calculating delinquency ratios until July 31, 2023. This measure continues to give Ginnie Mae's issuers greater flexibility in managing their own liquidity.

- Allowing mortgages that were previously bought out of a Ginnie Mae pool but whose terms were not modified to be securitized faster into both single-issuer and multi-issuer Ginnie Mae pools without modifying their terms. This policy change enhances an issuer's liquidity by reducing the amount of time the issuer is required to hold onto the loan before securitizing it.

INTRODUCTION

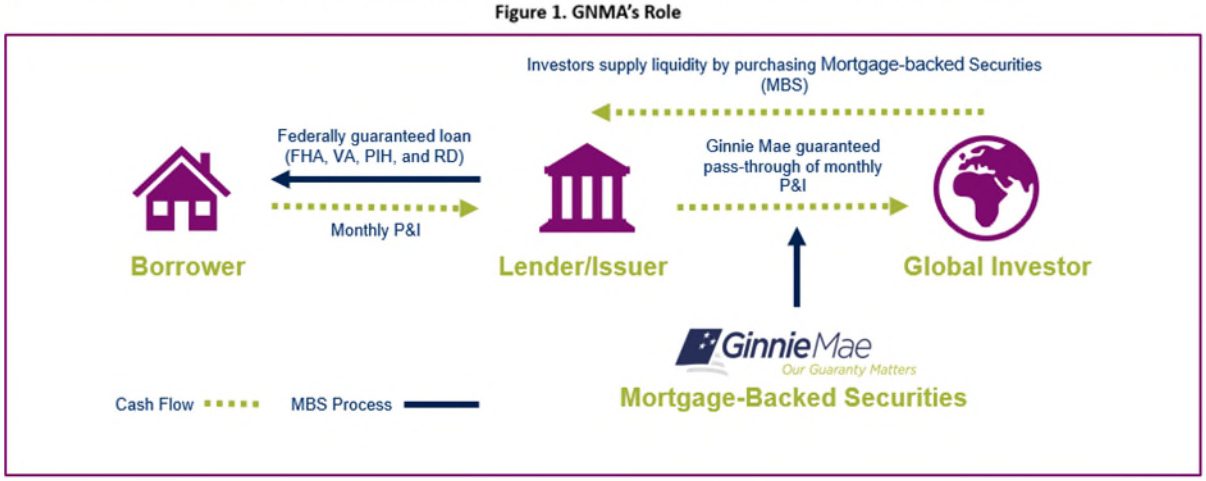
The Government National Mortgage Association (GNMA, or Ginnie Mae) has worked since 1968 to make affordable housing a reality for millions of Americans. It is chartered by the federal government and located within the Department of Housing and Urban Development (HUD). GNMA is the only federal agency tasked with the administration and oversight of an explicit, paid-for, full-faith-and-credit U.S. Government guaranty on mortgage-backed securities (MBS).

Under Ginnie Mae's MBS programs, federally insured or guaranteed single- and multifamily mortgages are securitized and sold to investors worldwide, creating liquidity and lowering the cost of loans for borrowers. Most home loans insured or guaranteed by the Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA), U.S. Department of Agriculture's Rural Housing Service (USDA-RHS), and HUD's Office of Public and Indian Housing are pooled into Ginnie Mae MBS. Ginnie Mae guarantees timely and full principal and interest payments to the investors purchasing its securities. Because of Ginnie Mae's guaranty, mortgage lenders can obtain a better price for their mortgage loans in the secondary mortgage market. Lenders can then use the proceeds to make new mortgage loans to first-time homebuyers, veterans, rural and Tribal homeowners, low- to moderate-income (LMI) borrowers, and others who qualify under federal mortgage programs.

Ginnie Mae's MBS program is the engine for government-backed mortgage programs that make affordable rentals and homeownership opportunities available to all American households, especially underserved communities. In January 2022, there were around $2.17 trillion in outstanding MBS with the GNMA guaranty. Today, that figure exceeds $2.4 trillion. Ginnie Mae achieved this growth even as the outlook for the housing market began to change in 2022, and the Federal Reserve engaged in contractionary monetary policy in its efforts to combat inflation, which led to higher interest rates.

Ginnie Mae has served and continues to serve a unique role as a successful government-run corporation, supporting and sustaining the financing of affordable single- and multifamily housing for all Americans. No other entity like Ginnie Mae exists in the federal government.

Figure 1. GNMA's Role



FHA = Federal Housing Administration. VA = U.S. Department of Veterans Affairs. PIH = U.S. Department of Housing and Urban Development's Office of Public and Indian Housing. RD = Department of Agriculture's Rural Housing Service. P&I

As of the beginning of fiscal year 2023, 26 percent of GNMA's issuers were depositories (traditional banks and credit unions), and 74 percent were non-depositories (independent mortgage institutions). The depositories accounted for 11 percent of the total number of issuances during fiscal year 2022, and the non-depositories were responsible for 89 percent.

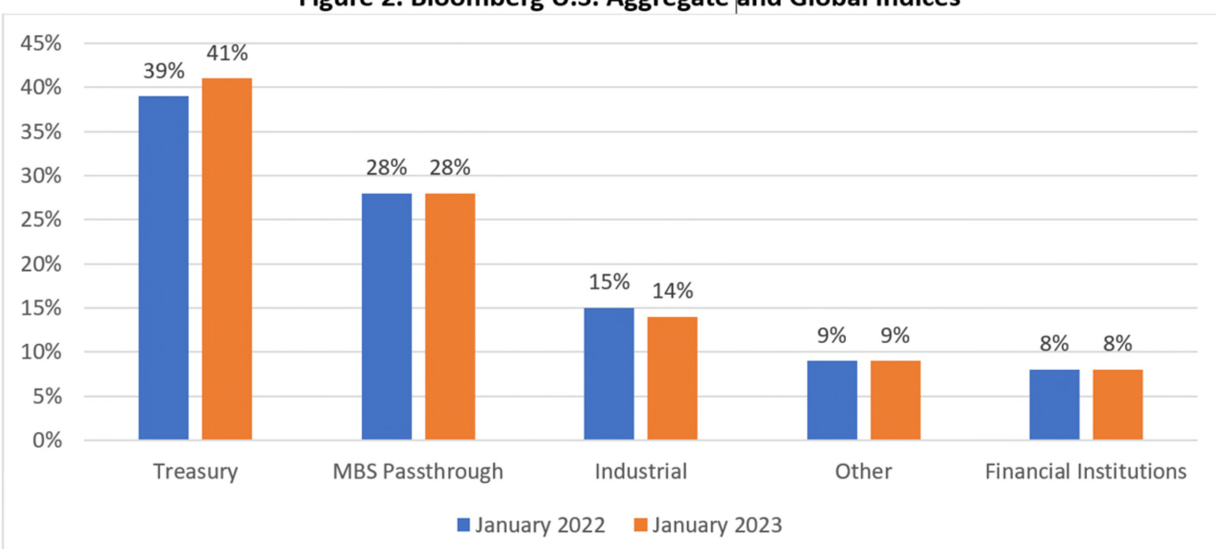
Ginnie Mae understands that the speed with which market conditions can change must be considered, underlining the fact that additional efforts aimed at strengthening the liquidity of its issuers, especially the non-depository ones, are necessary. Unlike traditional banks, independent mortgage institutions rely on credit lines, securitization transactions, other types of external financing, and sales of mortgage servicing rights (MSR) to provide liquidity. Therefore, since the beginning of 2022, Ginnie Mae has undertaken initiatives and policies to support the liquidity of its MBS and to enhance the liquidity of its issuers.

PART A: MBS LIQUIDITY

MBS liquidity, in the context of Ginnie Mae's programs, means a consistent supply of production in which security performance is reasonably predictable. This predictability supports strong investor demand creating attractive pricing for Ginnie Mae's MBS, resulting in better pricing for borrowers.

The market for MBS passthrough is second in size only to the market for U.S. Treasuries. In January 2022, MBS pass-through contributed approximately 28 percent to the Bloomberg US Aggregate. That trend continued in January 2023 (Figure 2).

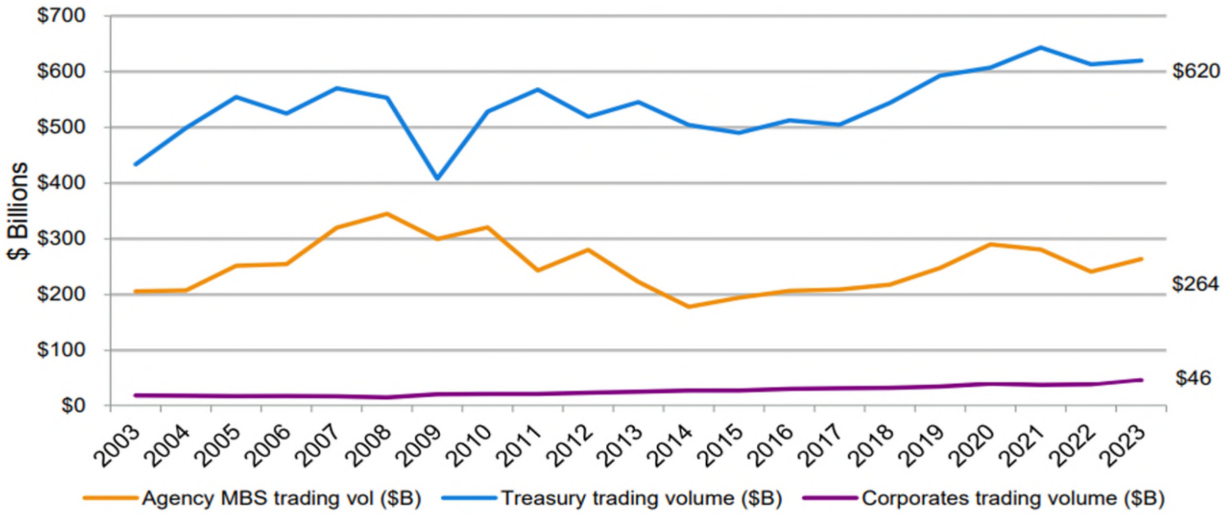
Figure 2. Bloomberg U.S. Aggregate and Global Indices



Note: Numbers are rounded and as a result some sums may not match the sum of their rounded component values.

MBS average daily trading volume is another indicator of the health of Ginnie Mae's MBS programs. Investors tend to prefer high-volume securities. This, in turn, has an impact on the investor demand for Ginnie Mae's MBS as well as Agency MBS—that is, MBS issued by Ginnie Mae and the government-sponsored enterprises (Fannie Mae and Freddie Mac)—more broadly. The Agency MBS average daily trading volume in January 2023 was $264 billion, up from a monthly average of $241 billion for calendar year 2022 (Figure 3).

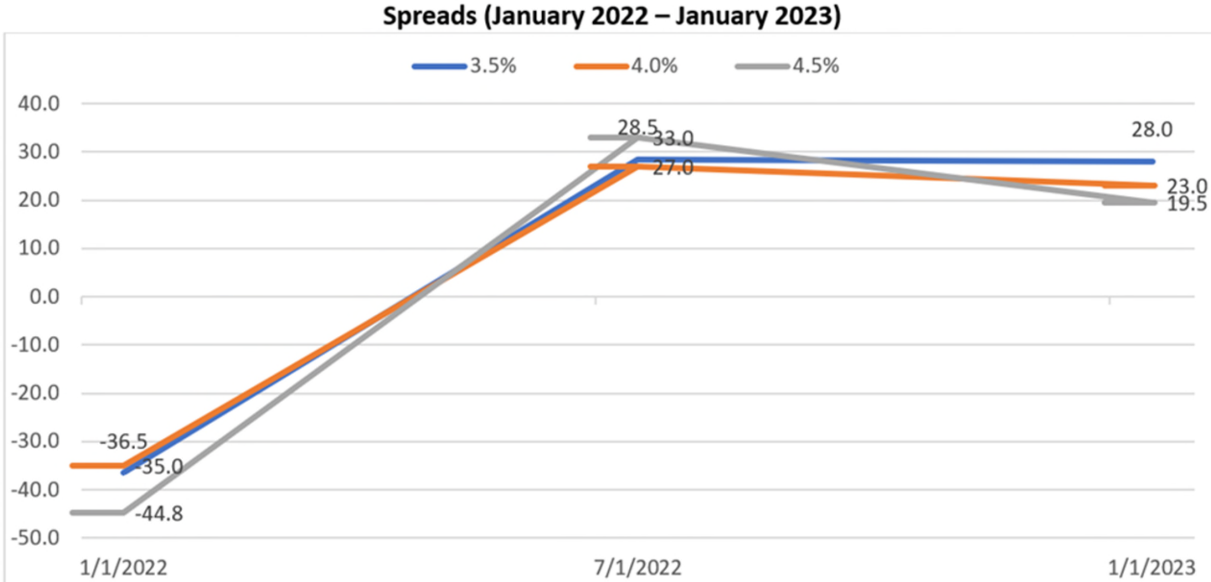
Figure 3. Average Daily Trading Volume by Sector



Source: SIFMA.

The price difference between Ginnie Mae's MBS and those of the government-sponsored enterprises (GSEs), also referred to as the Ginnie Mae/uniform mortgage-backed securities price spread, is an indicator of how solid the investor demand for Ginnie Mae's MBS is, making it a key indicator of Ginnie Mae's MBS programs' ability to provide low-cost liquidity. Figure 4 shows that the spreads (measured at 3.5 percent, 4 percent and 4.5 percent coupons) between Ginnie Mae and GSE securities have improved since January 2022, indicating that investors are comfortable holding Ginnie Mae (vs. GSE) securities.

Figure 4. GNMA and UMBS Price Spreads for 3.50 Percent, 4.00 Percent, and 4.50 Percent Price Spreads (January 2022 – January 2023)



Source: Bloomberg.

Some of Ginnie Mae's most notable initiatives and policies that have supported MBS liquidity since the beginning of 2022 include:

- APM 22-07: "Opening of the Digital Collateral Program to New Applicants"[1]
- APM 22-08: "Institution-wide Capital Requirements and Program Risk Parameters"
- FHA's Title I Manufactured Home Loan Program Request for Input (RFI)
- Producing Enhanced LMI Disclosures

APM 22-07: "Opening of the Digital Collateral Program to New Applicants"

This APM enabled all active Ginnie Mae issuers in good standing to apply to participate as issuers that securitize government-backed mortgages comprised of eNotes.

In July 2020, Ginnie Mae entered the digital collateral space with the launch of the Digital Collateral Program (DCP) Pilot. Issuers dealing with changing consumer expectations and disruptions from the COVID-19 pandemic helped push mortgage originators toward digitizing their mortgage process. The DCP Pilot was designed to allow approved issuers to begin securitizing government-backed mortgages that were backed by digital collateral. Allowing issuers to securitize these mortgages backed with digital collateral boosted liquidity for the issuers that held this collateral, which previously could not be securitized into Ginnie Mae pools. During the pilot, the 12 participating issuers securitized $8 billion of Ginnie Mae MBS that were made up of digital collateral.

The DCP Pilot results showed that Ginnie Mae has the policy, technology, and operational know-how to work with digital collateral and expand the program. In June 2022, Ginnie Mae opened the DCP to all issuers currently in good standing. Over the past year, the original principal balance of all Ginnie Mae ePools is $23 billion, and the number of eLoans has increased 350 percent since the program access was expanded in June 2022. The DCP represents a major potential source of securitization for Ginnie Mae in the future and provides an easier, more seamless process for borrowers and issuers. The expansion of the DCP can attract new issuers with robust digital collateral origination operations, which would further increase liquidity.

Not only does the DCP help to modernize the Ginnie Mae program, it also helps boost MBS liquidity and cost savings. By leveraging digital collateral, issuers can find not only efficiency gains but real cost savings relative to a traditional paper close. On an individual loan level, issuers can find hundreds of dollars of savings with each loan they originate as digital collateral compared to paper collateral. These cost savings can be directed into new loans that can be pooled, providing liquidity to both the Ginnie Mae program and loans for the borrowers. Given that the DCP is still relatively new, the program represents a potential major source for liquidity growth over the coming years for issuers participating in the program.

APM 22-08: "Institution-wide Capital Requirements and Program Risk Parameters"

Ginnie Mae issued APM 22-08 to ensure that the MBS program requirements appropriately reflect the risk associated with different issuer profiles. APM 22-08 harmonized Ginnie Mae's capital requirements with the standards enforced by federal credit unions' regulators. It also granted the HFAs an exemption

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[1] APMs are issued by Ginnie Mae generally to announce policy and Mortgage-Backed Securities (MBS) Guide changes.

from Ginnie Mae's capital requirements, recognizing their unique financial status as well as the fact that they pose a reduced risk as instrumentalities of the states. Helping these institutions gain access to GNMA's programs increases their liquidity.

The changes announced in APM 22-08 went into effect on December 31, 2022. They ensured the credit unions and the HFAs that are GNMA issuers are well-capitalized, promoting stability in the housing finance system.

It should also be noted that the HFAs and the credit unions play critical roles in supporting community-based lending, particularly in underserved areas, which in turn has a positive impact on the borrowers' access to affordable housing.

FHA's Title I Manufactured Home Loan Program Request for Input (RFI)

The Title I program insures mortgage loans made to finance the purchase of a new or used manufactured home. The program increases the availability of affordable financing and mortgages for buyers of manufactured homes and allows buyers to finance their home purchase at a longer term and lower interest rate than with conventional loans.

Ginnie Mae and FHA are considering policy enhancements to FHA's Title I Manufactured Home Loan Program to encourage increased lender participation. As part of that process, Ginnie Mae published jointly with FHA a Request for Information (RFI). The purpose of this RFI was to solicit input from stakeholders to assist in the evaluation of current program policies and identify opportunities to implement adjustments that will better address housing shortage and affordability issues with respect to manufactured housing.

This initiative aims to attract participation in the Title I program and promote access to affordable housing. Exploring steps to improve the issuers' access to GNMA's securities would improve overall liquidity by providing them with more funds to lend.

Enhanced Disclosures (Low-to-Moderate Income Borrowers and Multifamily Program Pools and Loans)

Ginnie Mae introduced low-to-moderate income (LMI) disclosure in 2023 to continue serving its core constituencies of borrowers, mortgagees, and investors. This new disclosure was designed to augment the LMI Geographical disclosure released by Ginnie Mae in May 2021.

Through a Memoranda of Understanding with the FHA and the Department of Veteran Affairs (VA), they will be collecting information from their mortgagees that will enable Ginnie Mae to report out key metrics related to LMI borrowers, such as:

- The number of underlying loans made to LMI borrowers
- The percentage of LMI loan count out of total loan count
- The unpaid principal balance (UPB) of LMI loans in the MBS
- The percentage of LMI UPB out of the total MBS UPB

A loan is designated as LMI if the borrower's income, as reported by the appropriate government loan guarantying agency, is less than 80 percent of the area median income, which is determined by the relevant Federal Financial Institution's Examination Council for that borrower. This means that a difference is being made at the local level that helps LMI borrowers across the country. Investors around the world have increasingly sought out investments with ESG impacts. By highlighting the social impact of Ginnie Mae-backed MBS, investors with an ESG strategy will purchase MBS that include high levels of LMI borrowers because of their greater social impact. Investors purchasing these MBS bring global capital into the U.S. housing market and provide valuable liquidity that helps issuers make home loans to Americans of all income levels. This, in turn, incentivizes issuers to make more loans to LMI borrowers, knowing there is demand from investors for MBS that prominently feature LMI borrowers.

Issuers also benefit from these new disclosures. Those that are FDIC-insured depository institutions, such as national banks, savings associations, and state-chartered commercial and savings banks can utilize these new LMI disclosures to demonstrate they are serving the needs of the communities in which they are chartered, as they are required to do under the Community Reinvestment Act.

Ginnie Mae also expanded its data disclosures to identify which of its multifamily MBS have loans backed by properties with one or more "green" features, which include everything from energy-efficient windows to water-saving devices. Where applicable, the "Green Status" field will always be populated for FHA multifamily loan types in Ginnie Mae's Multifamily Pool and Loan Monthly Portfolio Disclosure. This enhancement became possible with the help of the FHA, which designates which properties contain green features.

The "green" disclosure provides an incentive for ESG-conscious investors to buy Ginnie Mae's multifamily MBS with a "green" designation. This, in turn, increases the liquidity for FHA's multifamily program and helps it finance an even higher number of affordable homes.

Ginnie Mae's disclosures are clear and quantifiable and give investors the information they need to make portfolio decisions, whether based on their own standards or the evolving ESG metrics.

PART B: ISSUER LIQUIDITY

Since the beginning of 2022, Ginnie Mae has guaranteed 2.36 million single-family mortgages securitized by its issuers, with an outstanding principal balance (OPB) on these loans of more than $669 billion. Over 1.4 million of these loans, with an OPB of $435 billion, were mortgages used to purchase a house or condo, and close to 70 percent of these loans went to first-time homebuyers. During that same period, Ginnie Mae's issuers also securitized 7,038 multifamily loans, with an OPB exceeding $35 billion.

The most notable policies produced since the beginning of 2022 by Ginnie Mae to enhance the liquidity of its issuers include:

- APM 22-09: "Single-Family Applicant and Issuer Financial Eligibility Requirements"
- APM 22-11: "Extension of the Implementation Date for Single-Family Issuers and Applicants Risk-Based Capital Ratio ("RBCR") Requirements"
- APM 23-02: "Extension of DQ Threshold Relief"
- APM 23-03: "Revised Requirements for Re-Performing Loans"

APM 22-09: "Single-Family Applicant and Issuer Financial Eligibility Requirements"

This APM revised GNMA's issuer net worth and liquidity requirements for financial institutions seeking approval to become Ginnie Mae single-family applicants (SF applicants) and existing Ginnie Mae single-family issuers (SF issuers). The changes to the net worth and liquidity standards are intended to account for the totality of the business done by a Ginnie Mae issuer, not just the Ginnie Mae portion. More specifically, this new requirement allows Ginnie Mae to consider the issuers' GSE and non-agency servicing UPB when it calculates how much capital they are required to have, and not just the Ginnie Mae proportion of their servicing UPB. This change was a logical one because most large issuers originate and service both GSE and government loans.

APM 22-09 also introduced a requirement for SF applicants and SF issuers that are non-depository mortgage companies to maintain an RBCR of 6 percent, which tailors the amount of capital held to the institution's riskiness. The RBCR requirement is an important component of measuring risk and, in this case, is used to reinforce the issuers that support the government mortgage market.

These amendments were necessary 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 in the security. Efforts to enhance financial requirements for non-bank issuers and servicers are needed to ensure they remain financially stable during times of distress. These efforts also facilitate stability of the broader mortgage finance system and ensure a minimum level of service for borrowers in all environments.

Although these new requirements are not yet in effect, they are designed to support issuer liquidity by conveying to all market participants that Ginnie Mae's issuers are strong counterparties for credit extension.

APM 22-11: "Extension of the Implementation Date for Single-Family Issuers and Applicants Risk-Based Capital Ratio ("RBCR") Requirements"

This APM extended the mandatory implementation date for single-family RBCR requirements announced in APM 22-09 by one year to give issuers more time to adjust to the new requirement and benefit from the liquidity support it provides.[2] On account of APM 22-11, SF issuers and SF applicants would not be required to comply with the single-family RBCR requirements contained in APM 22-09 until December 31, 2024.

APM 23-02 "Extension of DQ Threshold Relief"

APM 23-02 extended for 6 months (until July 31, 2023) the delinquency reporting exemptions Ginnie Mae had previously granted its issuers as part of its COVID Relief policies.[3]

Under the Coronavirus Aid, Relief, and Economic Security Act, as implemented by the federal agencies providing the mortgage insurance or guaranty, issuers were required to extend forbearance to borrowers experiencing a COVID-19-related hardship. Ginnie Mae recognized that these requirements would cause

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[2] The Risk-Based Capital Requirement = (adjusted net worth – excess MSRs) / risk weighted assets.

[3] Ginnie Mae uses the following three delinquency indicators (ratios):

(i) DQ3+ Delinquency Ratio: Number of loans in the issuer's Ginnie Mae portfolio that are either in the foreclosure process or are 3 months or more delinquent divided by total number of loans remaining in the portfolio.

(ii) DQ2+ Delinquency Ratio: Number of loans in the issuer's Ginnie Mae portfolio that are either in the foreclosure process or are 2 or more months delinquent divided by total number of loans remaining in the portfolio.

(iii) DQP Delinquency Ratio: Accumulated amount of delinquent P&I payments divided by total monthly fixed installment control due the Issuer.

a significant number of Ginnie Mae issuers to experience increasing delinquency rates that may exceed the maximum thresholds described in Chapter 18 of the MBS guide. To address this, Ginnie Mae allowed its issuers to exclude any loan delinquencies that occurred on or after April 2020 when calculating the delinquency ratios they are required to maintain. This measure allows the issuers to not have to buy out all the eligible delinquent loans, which in turn gives them greater flexibility in managing their own liquidity.

APM 23-03 "Revised Requirements for Re-Performing Loans"

This APM revised the requirements for re-performing loans by reducing the seasoning requirement from 6 to 3 months and allowing re-performing loans meeting the revised seasoning requirement to be put into the Multiple Issuer Single Family Pools.

The MBS Guide defines the term *re-performing loan* as a mortgage loan that is not more than 30 days delinquent[4] and was previously bought out from a pool or loan package backing a Ginnie Mae MBS, and that retains the same rate and terms as the rate and terms associated with such a loan on the date the loan was previously securitized in a Ginnie Mae MBS.

These policies provide the issuers that hold re-performing loans with increased liquidity because, under the new rules, they can securitize those loans sooner compared to before. The fact that re-performing loans can now be securitized in Multiple Issuer Single Family Pools and not just in special Custom Single Family Pool grants the issuers some additional flexibility.[5]

CONCLUDING REMARKS

Ginnie Mae's mission remains to provide liquidity and stability to the housing finance system by guaranteeing mortgage-backed securities collateralized by mortgage loans insured or guaranteed by the Federal Housing Administration, the U.S. Department of Veterans Affairs, the U.S. Department of Agriculture's Rural Housing Service, and HUD's Office of Public and Indian Housing. Ginnie Mae's focus in 2022 and the beginning of 2023 was to pursue this mission by supporting the liquidity of the market and Ginnie Mae issuers, investing in transformational technology to bring resilience to the housing finance system, lowering costs for households, and improving access to homeownership for historically underserved communities.

[4] The term *delinquent* means a mortgage loan with a full monthly payment that is due but unpaid regardless of reason.
[5] Multi-issuer pools permit the contribution of loans from many different issuers into a single pool and are Ginnie Mae's most heavily used security products.