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APM 20-09

July 2, 2020

MEMORANDUM FOR: All Participants in Ginnie Mae Programs

FROM: Seth Appleton, Principal Executive Vice President

SUBJECT: Discretion in the Treatment of Preferred Equity

In order to ensure the continued integrity of the MBS program, Ginnie Mae is changing the methodology used to determine the extent to which non-depository financial institutions may rely on Preferred Equity to meet program capital requirements.

Currently, the Mortgage-Backed Securities Guide, Handbook 5500.3 (MBS Guide) provides Ginnie Mae with discretion to define Issuer liquidity and capital requirements and to determine which assets Issuers may use to meet these financial standards. For example, Chapter 2, Part 9, § B(2)(b) of the MBS Guide provides that credit unions and non-depository financial institutions must have a ratio of Total Adjusted Net Worth (as defined by Ginnie Mae) to Total Assets of 6% or greater in order to meet institution-wide capital requirements for participation in the MBS program. Chapter 3, Part 8, §§ A(3)(b), B(3)(b), C(3)(b), and D(3)(b) reiterate these capital requirements for approved Single-family, Multifamily, HECM and Manufactured Home MBS Issuers.

Ginnie Mae is hereby announcing factors that will be assessed in determining whether an Issuer's preferred equity is to be included or excluded in the Issuer's financial statements, in whole or in part, for purposes of the Total Adjusted Net Worth computation. These factors include, but are not limited to, the Issuer's ability to defer or suspend dividend payments to preferred equity holders, whether the preferred equity is cumulative or non-cumulative, the seniority and maturity of the preferred equity at issue, and the Issuer's ability to convert preferred equity to common equity.

Chapter 2, Part 9, § B(2)(b) and § D, and Chapter 3, Part 8, § A(3)(b), § B(3)(b), § C(3)(b), and § D(3)(b) have been amended in accordance with this memorandum. If you have any questions, please contact your account executive directly or by calling (202) 708-1535.