

**APM 18-07**

November 15, 2018

**MEMORANDUM FOR:** All Participants in Ginnie Mae Programs

**FROM:** Michael Bright, Chief Operating Officer and Executive Vice President

**SUBJECT:** Counterparty Risk Management Policy Series – Volume 1

Ginnie Mae monitors Issuer performance and requires Issuers to engage in practices that are consistent with its mission and the integrity of the Mortgage-Backed Securities (MBS) Program. To promote stability and liquidity in the secondary market, Ginnie Mae is implementing a series of updates to its counterparty risk management framework to strengthen the financial resilience of Issuers. The following MBS Program policy changes constitute the first set of program policy adjustments in this series.

### **Issuer Application Process**

In addition to examining an applicant's financial qualifications against the minimum financial standards in the Guide (such as net worth and liquidity), Ginnie Mae will perform corporate credit evaluations. The credit evaluation, which is similar to those employed by credit rating agencies, will be used by Ginnie Mae to determine whether an applicant is qualified and whether such approval is conditioned upon the imposition of additional requirements, even if minimal financial standards are met. Ginnie Mae also applies additional scrutiny to applicants relying on a subservicer arrangement to ensure that any newly approved Issuer possesses the competencies required to meet and oversee the servicing and investor reporting obligations required by the MBS Program. If a proposed subservicer arrangement is deemed unsatisfactory for approval and the application is denied, further consideration would require the re-submission of a new application. Lastly, new applicants are no longer being asked to complete the Ginnie Mae online university courses, as the course modules are no longer available on Ginnie Mae's website. These MBS Guide changes have been incorporated to Chapter 2 and Chapter 7 of the MBS Guide.

### **New Notification Requirement – Subservicer Advance and Servicing Income Agreements**

Effective immediately, Ginnie Mae is implementing new notification requirements for Issuers engaged in certain subservicer advance or servicing income agreements, which do not require prior Ginnie Mae approval, but can impact an Issuer's ongoing liquidity position and financial obligations. While Ginnie Mae currently permits subservicers to advance funds on behalf of an Issuer to pay security holders under the MBS Program, subservicers will now be required, upon request, to notify Ginnie Mae about such advances, including details about the frequency, amount, and purpose. Similarly, Issuers that enter into pledges of servicing income, or other



transactions that encumber an Issuer's Servicing Income, that are not subject to an Acknowledgment Agreement, must notify their Account Executive via email no later than 15 business days after the date that the transaction agreement is executed. Upon notification, Ginnie Mae may require the Issuer to provide the specific terms of the transaction, relevant documentation, or updated financial information. In addition, as a one-time requirement, all Issuers that have executed pledges of Servicing Income, or other transactions that encumber that Issuer's Servicing Income (not subject to an Acknowledgment Agreement) as of the date of this Memorandum, must notify their Account Executive via email 1) that the Issuer has executed one or more such transactions; and 2) the date that any such transaction was executed. This one-time notification should occur no later than December 15, 2018. These notification requirements have been incorporated to Chapter 4 and Chapter 21 of the MBS Guide. For avoidance of doubt, such notifications do not constitute any approval by Ginnie Mae of the pledge and do not provide the servicer or any other party with any rights with respect to the Issuer's servicing portfolio.

### **Factors Governing the Imposition of Enhanced Financial or Operational Requirements**

Section 3-8 of the MBS Guide grants Ginnie Mae discretion to impose additional financial or operational requirements on program participants when warranted by market conditions or other relevant factors that may impair an Issuer's ability to meet its obligations under the MBS Program. As part of this first series of counterparty risk policy updates, Ginnie Mae is announcing a list of risk factors that may trigger the imposition of enhanced financial or operational requirements on a specific Issuer, in consideration of that Issuer's current financial standing, financial history, and overall compliance. These factors have been incorporated to Section 3-21(B) and are effective immediately.

### **Restatement of Issuer Financial Requirements**

As part of ongoing efforts to standardize and modernize the MBS Guide, Ginnie Mae is restating Issuer financial requirements, including net worth and liquidity, but is not changing those requirements at this time.

In consideration of the number and nature of the MBS program changes implemented by this memorandum, and APM18-06, Ginnie Mae is including updated versions of MBS Guide Chapters 2, 3, 4, 7, and 21 as attachments to this APM. Issuers should review carefully the updated MBS Guide chapters. The guidance discussed here, as incorporated in the revised MBS Guide and Guaranty Agreements should serve as a basis for ongoing Issuer reviews. Issuers should consult with Ginnie Mae as necessary to ensure that their participation meets standards of acceptability.

If you have any questions regarding this announcement, please contact your Account Executive directly.