

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

### 3-1: OVERVIEW OF CHAPTER

Once an applicant is approved as a Ginnie Mae Issuer, it must thereafter comply with the applicable Guaranty Agreement and this Guide, and it must advise Ginnie Mae immediately of any default or impending default under the applicable Guaranty Agreement as soon as it becomes apparent. In addition, an Issuer must satisfy the continuing eligibility requirements described in this chapter, which are applicable with respect to all pool types. Additional continuing eligibility requirements, if any, for a Ginnie Mae Issuer of a particular pool type can be found in Chapters 24 through 32 and 35.

If an Issuer fails to satisfy a continuing eligibility requirement, it will be subject to termination of its Ginnie Mae Issuer status or other administrative action by Ginnie Mae as outlined in this Guide.

If at any time an Issuer's participation is inconsistent with Ginnie Mae's MBS program requirements, Ginnie Mae reserves the right, in its sole discretion, to impose additional standards to ensure that the Issuer's portfolio and portfolio management do not compromise the safety and soundness of the MBS program.

### 3-2: INSURING OR GUARANTY AGENCY APPROVAL

An Issuer must remain an FHA approved mortgagee in good standing at all times. Suspension or withdrawal of FHA mortgagee approval constitutes an event of default by the Issuer under the applicable Guaranty Agreement. The Issuer must comply with all FHA mortgagee guidelines.

An Issuer must immediately notify Ginnie Mae's Office of Issuer & Portfolio Management (see Addresses), of any pending adverse FHA action and any FHA Mortgagee Review Board action that affects the Issuer, including, but not limited to, any letter of reprimand, probation, suspension or withdrawal of FHA lender or mortgagee approval, or the imposition of a fine. An Issuer also must disclose to Ginnie Mae immediately if it or any of its principals become the subject of any proceedings for government debarment or HUD program exclusion.

Failure by an Issuer to provide Ginnie Mae with any notification or disclosure required by this Section 3-2 may be determined by Ginnie Mae, in its sole discretion, to be an event of default under the applicable Guaranty Agreement and also may result in administrative action by Ginnie Mae (see Chapter 23).

An Issuer must certify through its independent auditor (IA), in accordance with Section 3-7(A)(4) of this Guide, that it is in good standing with FHA, and whether it has been the subject

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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of any adverse action as described in this section. If an Issuer is an approved FHA mortgagee and is not in good standing with any one of these agencies, the Issuer must state so in accordance with Section 3-7(A)(4) of this Guide

If an Issuer is approved to participate in VA, RD or PIH loan programs, then it must maintain approval in good standing with those agencies, and must certify that it is a VA, RD or PIH lender in good standing. Further, if the Issuer has been the subject of an adverse action by any of these agencies, then it must notify Ginnie Mae accordingly.

### **3-3: FANNIE MAE OR FREDDIE MAC APPROVAL**

If an Issuer is a Fannie Mae or Freddie Mac-approved mortgage servicer, termination of its approved status by either agency shall be grounds for termination by Ginnie Mae.

An Issuer that has been in good standing as a Fannie Mae- or Freddie Mac-approved mortgage servicer must immediately notify Ginnie Mae's Office of Issuer & Portfolio Management (see Addresses) if it is no longer in good standing with Fannie Mae or Freddie Mac. In addition, if Fannie Mae or Freddie Mac takes any adverse action against the Issuer, including but not limited to a letter of reprimand, termination, or forced transfer of servicing rights, the Issuer must immediately notify Ginnie Mae. Failure to notify Ginnie Mae of an adverse action taken by Fannie Mae or Freddie Mac may be determined by Ginnie Mae, in its sole discretion, to be an event of default under the applicable Guaranty Agreement and may also result in immediate administrative action by Ginnie Mae. (See Chapter 23)

An Issuer that has been an approved Fannie Mae or Freddie Mac mortgage servicer must certify to Ginnie Mae annually through its Audit Guide Reports (Audit Reports), in accordance with Section 3-7(A)(4), that it continues to be in good standing with Fannie Mae and/or Freddie Mac, and whether it has been the subject of any adverse action as described in this section. If an Issuer is an approved Fannie Mae or Freddie Mac mortgage servicer, and it loses any one of these approvals, it must state so in its Audit Reports.

### **3-4: PRINCIPAL ELEMENT OF BUSINESS**

The underwriting, origination, and servicing of mortgage loans must continue to be principal elements of the Issuer's business.

### **3-5: MANAGEMENT CAPABILITY**

An Issuer must conduct its business on a continuing basis in accordance with the requirements set forth in Section 2-6.

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

### **3-6: FIDELITY BOND AND ERRORS AND OMISSIONS INSURANCE**

Each Issuer must maintain on a continuing basis the fidelity bond and mortgagee errors and omissions insurance described in Section 2-7. In addition:

#### ***(A) Insurance Information***

- (1) The Issuer must forward to Ginnie Mae's Financial Reports Review Agent (see Addresses) within 90 days after the end of each fiscal year a duplicate original of each current certificate of insurance with proper endorsements, including an endorsement naming Ginnie Mae as loss payee. Each Issuer must also provide Ginnie Mae with timely updates to its insurance information.
- (2) Renewal certificates and endorsements must be received by Ginnie Mae's Financial Reports Review Agent (see Addresses) no later than 30 days prior to policy expiration.

#### ***(B) Mortgage Impairment Insurance***

The Issuer must maintain evidence of insurance for each property securing a pooled loan by retaining either the original hazard insurance policies or the information relating to the insurance policies in a form that is accessible to Ginnie Mae. If the Issuer does not maintain the original policies as evidence of insurance it must carry mortgage impairment or mortgage interest insurance (See Section 14-9(B)).

#### ***(C) Determining Required Coverage***

For purposes of determining, under Section 2-7(D), the amount of coverage required under the fidelity bond and the mortgagee errors and omission policy, the Issuer's "total servicing portfolio" will include the remaining principal balance ("RPB") of the Issuer's Ginnie Mae pooled loans plus all other loans for which it has servicing responsibility.

#### ***(D) Cancellation of Coverage***

If the fidelity bond or mortgagee errors and omission insurance is canceled or otherwise terminated and replacement coverage cannot be obtained, the Issuer is required to contact Ginnie Mae's Office of Issuer & Portfolio Management (see Addresses), for instructions at least 30 days prior to the cancellation or termination. If mortgage impairment or mortgage interest insurance carried by the Issuer is canceled or otherwise terminated and replacement coverage cannot be obtained, the Issuer must notify Ginnie Mae at least 30 days prior to the cancellation or termination.

#### ***(E) Report of Embezzlement, Fraud or Claims***

The Issuer must promptly advise Ginnie Mae's Office of Issuer & Portfolio Management (see Addresses) of each case of embezzlement or fraud in its organization involving over \$1,000 and of the total amount of the loss, whether or not the Issuer submits an insurance claim.

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

### 3-7: REQUIRED FINANCIAL STATEMENTS AND DOCUMENTS

An Issuer must provide Ginnie Mae with annual and quarterly financial reports and related documents that attest to the ongoing financial soundness of the Issuer's organization. These documents are described below.

Issuers should also refer to [Chapters 1, 2 and 6 of the HUD OIG Consolidated Audit Guide](#).

#### ***(A) Annual Audited Financial Statement***

An approved Issuer, independent of whether the Issuer has securities or commitment authority outstanding, must provide Ginnie Mae with a copy of its annual audited financial statements and Audit Reports, prepared by an IA. The Audit Reports must be prepared in accordance with the requirements in, and in the format prescribed by, the HUD OIG Consolidated [Audit Guide Chapters 1, 2 and 6](#).

The Audit Reports, which must be submitted electronically via the Independent Public Accountant (IPA) module within the Ginnie Mae Enterprise Portal (GMEP) (see Appendix VI-20) within 90 days after the end of the Issuer's fiscal year, must include the following information:

- (1) The name and telephone number of one or more contact persons on the Issuer's staff who are familiar with the audit.
  - (2) The name and address of each affiliate that is an approved Ginnie Mae Issuer. ("Affiliate" is defined in Section 2-12 of the Guide.) The affiliate's four-digit Ginnie Mae Issuer number must be provided.
  - (3) The Issuer's Ginnie Mae Issuer number, employer identification number (EIN), and FHA mortgagee number;
  - (4) The IA's EIN.
  - (5) The Issuer, through its IA, must certify that it is in good standing with FHA and, if applicable, Fannie Mae and/or Freddie Mac, and whether it has been the subject of any adverse actions as described in Sections 2-3 and 2-4.
  - (6) The following Audit Reports. (See [Audit Guide Chapters 1, 2 and 6](#)).
- (a) internal control structure;
  - (b) compliance with applicable laws and regulations;
  - (c) computation of adjusted net worth;

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

- (d) verification of adequate fidelity bond and mortgagee errors and omissions insurance coverage with proper Ginnie Mae endorsement; and
  - (e) corrective action plan, if applicable.
- (7) The annual financial statements must include a balance sheet; and statements of operations and cash flows, including notes and supplemental schedules; and must be prepared in accordance with GAAP.

### ***(B) Quarterly Financial Statements***

Each Issuer that is not regulated by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), or the U.S. Comptroller of the Currency (OCC) must provide Ginnie Mae with an unaudited quarterly financial statement.

This statement must be submitted on a Web-based Mortgage Bankers Financial Reporting Form (MBFRF) (form HUD-11750). To obtain access to the Web-based MBFRF (Web MB), please send an e-mail to [administrator@mbfrf.org](mailto:administrator@mbfrf.org).

Web MB statements for the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> quarters are due no later than April 30, July 31, October 31, and February 28, respectively. These dates apply to all non-supervised Issuers regardless of the Issuer's fiscal year. Therefore, non-supervised Issuers whose fiscal year ends on a date other than December 31 must file the reports for the Issuer's most recent quarter on or before the due dates stated above. For example, a non-supervised Issuer with a May 31<sup>st</sup> fiscal year-end must submit the May 31<sup>st</sup> statements as 2<sup>nd</sup> quarter MBFRF data no later than July 30<sup>th</sup>. The statements must be sent via Web MB ([www.mbfrf.org](http://www.mbfrf.org)).

Ginnie Mae may require more frequent, internally prepared, unaudited financial statements if, in Ginnie Mae's sole discretion, more current or more frequent information is required.

### ***(C) Filing Date Extension***

If an extension of any filing date is necessary, the Issuer must request the extension by letter to the Ginnie Mae Office of Issuer & Portfolio Management (see Addresses), at least 15 days prior to the due date. The letter must include the following:

- (1) The reasons for the delay;
- (2) The name, EIN, contact person, and telephone number of the firm conducting the audit;

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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- (3) A list and explanation of any unresolved issues with the Issuer's auditor;
- (4) If it is likely that the auditor's opinion will not be unqualified, an explanation;
- (5) The expected date that the audit will be delivered. Requests for extensions should not exceed 30 days beyond the due date. Each request, however, will be evaluated on a case-by-case basis;
- (6) An internally prepared balance sheet as of the most recent month-end, but not later than the end of the prior fiscal year and an earnings statement for the 12 month period ending as of the month for which the balance sheet is submitted. The statement must be signed and certified by the chief executive or chief financial officer of the company. The certification must read:

I hereby certify that the information contained herein is true and accurate to the best of my knowledge and belief. The enclosed unaudited financial statements were prepared in accordance with GAAP.
- (7) The Issuer's Ginnie Mae four-digit identification number.

### ***(D) Failure to Submit Required Statements***

If an Issuer fails to submit the annual audited financial statement and Audit Reports in accordance with Section 3-7(A) on or before the due date, Ginnie Mae will not approve requests for commitment authority, or the transfer of Ginnie Mae Issuer responsibility or subservicing to the Issuer, until a complete package is submitted and the adequacy of the Issuer's net worth has been determined. The failure also may result in a suspension of eligibility to use existing commitment authority.

An Issuer who fails to provide complete and timely financial statements will be notified in writing of each deficiency and will be required to correct the deficiency within a specified time and be subject to administrative action by Ginnie Mae.

### **3-8: NET WORTH REQUIREMENTS**

Ginnie Mae requires that Issuers meet minimum financial requirements in order to maintain their Issuer approval. Based on market conditions or other relevant factors Ginnie Mae may, in its sole discretion, impose additional net worth, liquidity, or other Issuer financial requirements to program participants.

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

An approved Issuer must maintain adjusted net worth, calculated as provided in Chapter 2, Section 2-9(D), of at least the following amounts:

**(A) Net Worth Requirements by Authorized Securities Program Types**

- (1) For Issuers approved to participate in the Single-Family program, which is comprised of mortgage-backed securities (MBS) that are backed by Single-Family level payment, graduated payment, growing equity, buy-down, serial note, or adjustable rate mortgages, the minimum base net worth requirement is \$2,500,000 plus 0.20% (20 basis points) of the Issuer's total Single-Family effective outstanding obligations. The total Single-Family effective outstanding obligation is the sum of: 1) all Single-Family Ginnie Mae securities outstanding, 2) available commitment authority to issue new Single-Family pools, and 3) total Single-Family pools funded.

The above requirements will change effective December 31, 2015 and thereafter. For Issuers approved to participate in the Single-Family program, which is comprised of MBS that are backed by single-family level payment, graduated payment, growing equity, buy-down, serial note, or adjustable rate mortgages, the minimum base net worth requirement will be \$2,500,000 plus 0.35% (35 basis points) of the Issuer's total Single-Family effective outstanding obligations. The total effective Single-Family outstanding obligation is the sum of: 1) all Single-Family Ginnie Mae securities outstanding, 2) available commitment authority to issue new Single-Family pools, and 3) total Single-Family pools funded.

- (2) For Issuers approved to participate in the Manufactured Home (MH) program, which is comprised of MBS backed by FHA- insured Title I manufactured home loans, the minimum base net worth is \$10,000,000 plus 10% of the Issuer's total effective MH outstanding obligations. The total effective MH outstanding obligation is the sum of: 1) all MH securities outstanding, 2) available commitment authority to issue new MH pools, and 3) total MH pools funded. Additional MH MBS program requirements are addressed in Chapter 30 of this Guide.
- (3) For Issuers approved to participate in the Multifamily program, which is comprised of MBS backed by multifamily construction or permanent loans, the minimum net worth requirement is \$1,000,000 plus 1%

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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of the total effective Multifamily outstanding obligations in excess of \$25 million up to \$175 million plus 0.20 percent (20 basis points) of the total effective Multifamily outstanding obligations in excess of \$175 million. The total effective Multifamily outstanding obligation is the sum of: 1) all Multifamily securities outstanding, 2) available commitment authority to issue new Multifamily pools, and 3) unexpended Multifamily construction draws.

- (4) For Issuers approved to participate in the Home Equity Conversion Mortgage (HECM) MBS (HMBS) program, which is comprised of mortgage-backed securities backed by HECMs, the minimum base net worth requirement is \$5 million plus 1% of the total effective HMBS outstanding obligations. The total effective HMBS outstanding obligation is the sum of: 1) all HMBS securities outstanding, 2) available commitment authority to issue new HMBS pools, and 3) total HMBS pools funded.

Additional HMBS program requirements are addressed in Chapter 35 of this Guide.

For Issuers who participate in more than one program type, the greater of the minimum net worth requirements applies.

Effective December 31, 2015, Issuers approved to participate in more than one program type (Single-Family, Multifamily, Manufactured Home, and/or HMBS) will be required to meet and maintain a minimum adjusted net worth equal to or greater than the sum of the minimum net worth requirements for all program types in which the Issuer is approved to participate.

### ***(B) Other Financial Requirements***

Single-Family, Multifamily, and HMBS Issuers must meet the following liquidity and institution-wide capital requirements:

- (1) **Liquidity Requirements.** The liquidity requirement recognizes an Issuer's need for liquid assets (cash and cash equivalents as defined under FAS-95), and is based on the Issuer's most recent fiscal year-end audited financial statement. Issuers are required to have and maintain liquid assets of at least 20% of their Ginnie Mae required net worth.

The above requirement will change for Single-Family Issuers effective December 31, 2015 and thereafter. Single-Family Issuers will be required to have and



## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

maintain liquid assets equal to the greater of \$1,000,000 or 0.10% (ten basis points) of the Issuer's outstanding Single-Family MBS.

Effective December 31, 2015, Issuers approved to participate in more than one program type (Single-Family, Multifamily, and/or HMBS) will be required to meet and maintain minimum liquid assets equal to or greater than the sum of the minimum liquid assets requirements for all program types in which the Issuer is approved to participate.

- (2) **Institution-wide Capital Requirements:** Institution-wide capital requirements are based on the Issuer's most recent fiscal year-end audited financial statement.
  - (a) Issuers who are banks, bank holding companies, thrifts, or savings and loan holding companies must meet the following institution-wide capital requirements (These formulas are not applicable to credit unions.):
    - (i) Tier 1 Capital/Total Assets ratio of 5% or greater;
    - (ii) Tier 1 Capital/Risk-Based Assets ratio of 6% or greater; and
    - (iii) Total Capital/Risk-Based Assets ratio of 10% or greater.
  - (b) Issuers that are not covered by the requirements for financial institutions shown above in Section 3-8(B)(2)(a) above must meet the following capital requirements:
    - (i) Total Adjusted Net Worth as defined by Ginnie Mae/Total Assets must equal a ratio of 6% or greater.

### 3-9: QUALITY CONTROL

The Issuer must maintain a quality control plan for underwriting, originating, and servicing mortgage loans and for secondary marketing. An HMBS Issuer must maintain a quality control plan that also accounts for, and monitors, Participations related to HECM loans. The quality control plan

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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must include procedures for monitoring the work of the Issuer's Participation Agents, if any.

If an Issuer intends to contract out the servicing function, the applicant must have in place an Oversight Plan detailing how the Issuer will monitor the contracted subservicer to ensure that compliance is maintained in accordance with Ginnie Mae requirements. Additionally, the Issuer's subservicer must have in place its own quality control plan for servicing and subservicing for others.

### **3-10: PRIOR DEFAULTS: INSTITUTIONS**

A previously defaulted Issuer who is subsequently reapproved as a new Issuer is required to serve a three-year period of provisional participation (provisional participant). A provisional participant is required to maintain its delinquency statistics DQ2, DQ3, and DQP at or below the threshold levels described in Section 18-3(C).

A provisional participant is required to maintain pool and loan package administration procedures in accordance with policies stated in this Guide.

Delinquency statistics may not exceed levels set by Ginnie Mae.

A provisional participant will receive compliance reviews after six and twelve months of program participation and annually for the next two years. Each review, other than the review in the third year, will be performed at the Issuer's expense, which will not exceed \$12,000 for each review.

If a provisional participant fails to satisfy these requirements, Ginnie Mae, in its sole discretion, may terminate the provisional participant's Ginnie Mae Issuer status.

### **3-11: PRIOR DEFAULTS: PRINCIPALS AND OFFICERS**

A principal or officer of a previously defaulted or extinguished Issuer may appear on a new application for Issuer approval from the defaulted Issuer or from a different entity. If the applicant is granted Issuer status, the Issuer will be a provisional participant as described in Section 3-10. In addition, the following restrictions will apply with respect to such a principal or officer of the Issuer.

- (A) A principal or officer who held primary responsibility for the management of the defaulted Issuer may not represent a Ginnie Mae Issuer or work on any Ginnie Mae MBS matter for any Issuer for three years following the date of the letter of extinguishment sent to the defaulted Issuer. Ginnie Mae considers the Chairman, Chief Executive Officer, Chief Operating Officer, President, any senior or executive vice

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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president, and any vice president of servicing, origination, or secondary marketing, to have primary responsibility for management of an Issuer. Ginnie Mae may include the principal owners or additional officers of the Issuer in this category.

Should a principal or officer be debarred or sanctioned by any government agency or government-sponsored entity for a period in excess of the period that Ginnie Mae restricts reentry, he or she may not represent a Ginnie Mae Issuer or work on any Ginnie Mae MBS matter for any Issuer until the removal of these sanctions.

- (B) A principal or officer engaged in management of the previously defaulted Issuer, but not specifically identified in paragraph (A), is not permitted to represent a Ginnie Mae Issuer or work on any Ginnie Mae MBS matter for any Issuer for two years following the date of the letter of extinguishment sent to the defaulted Issuer. Should a principal or officer be debarred or sanctioned by any government agency or by a government-sponsored entity for a period in excess of the period that Ginnie Mae restricts reentry, he or she may not represent a Ginnie Mae Issuer or work on any Ginnie Mae MBS matter for any Issuer until the removal of these sanctions.
- (C) Each person not identified in paragraphs (A) or (B) above who was authorized on the Resolution of Board of Directors and Certificate of Authorized Signatures, form HUD 11702 (Appendix I-2), to act for the defaulted Issuer is not permitted to represent a Ginnie Mae Issuer or work on any Ginnie Mae MBS matter for any Issuer for a period of one year following the date of the letter of extinguishment sent to the defaulted Issuer. Should the person be debarred or sanctioned by any government agency or by a government-sponsored entity for a period in excess of the period that Ginnie Mae restricts reentry, he or she may not represent a Ginnie Mae Issuer or work on any Ginnie Mae MBS matter for any Issuer until the removal of these sanctions.
- (D) Other officers and technical and administrative employees, who had no management responsibilities for the defaulted Issuer, may work for Issuers without being subject to the restrictions above.

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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### **3-12: AUTHORIZED SIGNATORIES; CHANGE OF OFFICERS**

Every Issuer is required to certify annually, by January 1, that the existing Resolution of Board of Directors and Certificate of Authorized Signatures, form HUD-11702 (Appendix I-2), which names the individuals who are authorized to sign documents on behalf of the Issuer, is still current and accurate, or to replace that form HUD-11702 with an up-to-date and accurate form HUD-11702. The certification must be performed electronically via the Master Agreements Management System (MAMS) in GMEP.

If no changes have occurred in the information in the Resolution of Board of Directors and Certificate of Authorized Signatures currently on file in MAMS, then the Issuer needs only to certify the existing form in MAMS.

If the form HUD-11702 on file in MAMS is out of date or incorrect, then the Issuer must file a new or additional form HUD-11702 following the procedures in Section 7-4(A)(3) for submission of the form.

If the change involves an additional or new signatory for the Issuer, then the Issuer must file a new form HUD-11702 authorizing the additional signatory and providing that individual's name, title and signature. The Issuer must provide the information in MAMS, print the new form, have it signed and completed, apply the corporate seal, scan the signed and executed form into MAMS, and then mail the signed original form HUD-11702 to the PPA. The new form would supplement the existing form HUD-11702 currently on file.

If the change involves the withdrawal of an existing signatory from the form HUD-11702 because that person has left the Issuer's employment or for other reasons, then the Issuer may simply line through that individual's name and signature on the form HUD-11702 that is on file with MAMS and certify the form.

The Issuer must notify Ginnie Mae within five (5) business days after any change to the Issuer's authorized signatories, including the addition or withdrawal of any authorized signatories or other changes.

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

### **3-13: CHANGES IN ISSUER BUSINESS STATUS**

Requirements for an Issuer undergoing certain types of changes in business status are set forth below. The timeframes specified must occur prior to the proposed effective date of the change, except when post-transaction documentation is required. Issuers must meet the timeframes specified in order to allow Ginnie Mae sufficient time to review the transaction and update its records.

In connection with any change described in this section, the Issuer, following initial notice to Ginnie Mae, must apprise Ginnie Mae from time to time of the status of the proposed change and its implementation.

Ginnie Mae, at its discretion, may request additional statements and documents to confirm that any change with respect to the Issuer's business status does not materially adversely affect Ginnie Mae or the ability of the Issuer to carry out its obligations under the Ginnie Mae Program. Upon request, Issuers are required to submit statements or documents within five (5) business days of Ginnie Mae's request, unless otherwise directed by Ginnie Mae personnel. Ginnie Mae retains the authority to approve or deny the Issuer's continued participation in the Ginnie Mae Program.

Each Issuer must submit written notice to Ginnie Mae in advance of any anticipated changes in its business, not otherwise addressed below, that may materially or adversely affect the Issuer's business or financial condition.

#### ***(A) Changes in Relationship with Agencies***

The Issuer must notify Ginnie Mae in writing within five (5) business days of any material adverse change in its business relationship with Fannie Mae, Freddie Mac, FHA, VA, RD, PIH, or any other supervisory or regulatory government agency including, but not limited to, banking agencies, the FDIC, the CFPB, and state licensing or regulatory agencies.

Material adverse changes include, but are not limited to, terminations, defaults, suspensions, cease and desist orders, fines, and other administrative or disciplinary actions taken against the Issuer.

#### ***(B) Mergers***

In a merger in which a Ginnie Mae Issuer will be the surviving entity (or alternatively, where two Ginnie Mae Issuers are merging), the Issuer must submit written notice regarding the merger to Ginnie Mae at least sixty (60) days prior to the desired effective date of the merger. Ginnie Mae will review the transaction to determine, in its sole discretion, whether to approve or deny the surviving Issuer's continued participation in the program.

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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The written notice must include the rationale and effective date of the merger, any anticipated changes to the financial position of the surviving entity, the proposed management team of the surviving entity, which Issuer number should be deactivated (if applicable), a corporate guaranty (Appendix I-8) or cross default agreement (Appendix I-4) if required, and a confirmation that following the merger the Issuer will continue to meet all Ginnie Mae requirements.

In addition, within thirty (30) business days after the effective date of the merger the Issuer must submit the following documents for Ginnie Mae review:

- (1) Updated fidelity bond and mortgagee errors and omissions certificates of insurance along with proper loss payee and other required endorsements (see Section 2-7).
- (2) A new Resolution of Board of Directors and Certificate of Authorized Signatures, form HUD-11702 (Appendix I-2) reflecting the name of the surviving (merged) entity and all directors, officers and key employees. Resumes for new officers, directors or key employees also must be provided.
- (3) A Cross-Default Agreement (Appendix I-4) executed by each affiliated Issuer.
- (4) A certificate of merger from the Secretary of State of the jurisdiction in which the merger occurs or other evidence that the state acknowledges or approves the merger; or, if the Issuer is a financial institution regulated by a federal agency, a certificate of merger from the federal agency or other evidence that the federal agency acknowledges or approves the merger.
- (5) Certification from the Issuer that upon completion of the merger the entity will continue to meet all Ginnie Mae program requirements.

In a merger where the anticipated surviving entity is not currently approved as a Ginnie Mae Issuer, the Issuer must submit written notice regarding the merger or acquisition to Ginnie Mae at least ninety (90) days prior to the desired effective date of the merger.

If the surviving entity wishes to become a Ginnie Mae Issuer it must apply to Ginnie Mae for MBS Issuer approval in accordance with Chapters 2 and 7. The surviving entity must pay the application fee and submit its application package to

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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become a Ginnie Mae Issuer at least ninety (90) days prior to the effective date of the proposed merger.

If the surviving entity does not wish to become a Ginnie Mae Issuer, then the Issuer must submit written notice to Ginnie Mae at least ninety (90) days prior to the effective date of the proposed merger, in order to ensure that there will be adequate time for the Issuer to transfer its Ginnie Mae portfolio to another Ginnie Mae Issuer prior to the merger (see Section 21-8 for more details on Transfers of Issuer Responsibility). At no time may an entity not approved as a Ginnie Mae Issuer hold and service or subservice any Ginnie Mae pool or loan package.

### ***(C) Change of Principal Owners or Control of Issuer***

When a Ginnie Mae Issuer anticipates a change in principal ownership or control, the Issuer must submit written notice regarding the anticipated change to Ginnie Mae at least thirty (30) days prior to the desired effective date. Ginnie Mae will review the transaction to determine, in its sole discretion, whether to approve or deny the Issuer's continued participation in the program. Ginnie Mae defines the terms "principal owner" and "control" according to the [Statement of Financial Accounting Standard No. 57 \(FAS-57\)](#) issued by the Financial Accounting Standards Board. An Issuer may consult its independent auditor for further guidance on the subject.

The written notice regarding the change in principal ownership or control should include any anticipated change(s) to the financial position of the Issuer, the timing of the transaction, as well as confirm that following the change in ownership or control that the Issuer will continue to meet all Ginnie Mae requirements.

In addition, within thirty (30) business days after the completion of any change in principal owners or control of a Ginnie Mae Issuer, the Issuer must submit the following documents to Ginnie Mae for review:

- (1) Updated fidelity bond and mortgagee errors and omissions certificates of insurance along with proper loss payee and other required endorsements (see Section 2-7).
- (2) Identification of new officers, directors or key employees on a Resolution of Board of Directors and Certificate of Authorized Signatures, form HUD 11702 (Appendix I-2); resumes for new officers, directors or key employees also must be provided.
- (3) A Cross-Default Agreement (Appendix I-4) executed by each affiliated Issuer.

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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- (4) Certification from the Issuer that upon completion of the change of control the entity will continue to meet all Ginnie Mae program requirements.

### **(D) Transfer of Assets**

When a Ginnie Mae Issuer plans to transfer assets, other than mortgage servicing rights (MSRs), the Issuer must submit written notice regarding the proposed change to Ginnie Mae at least thirty (30) days prior to the desired effective date. Ginnie Mae will review the transaction to determine, in its sole discretion, whether to approve or deny the Issuer's continued participation in the program. Ginnie Mae considers a transfer of assets to be any transfer of a principal element of the Issuer's business assets, related to the origination, underwriting, or servicing of mortgage loans without the transfer of accompanying liabilities. A transfer of Issuer responsibility for Ginnie Mae Mortgage Servicing Rights (MSRs) is not applicable to this section and is covered in Chapter 21.

The written notice regarding any transfer of assets should include a description of the assets being sold and those being retained, timing of the transaction, and the Issuer's long term business plan for participation in the Ginnie Mae program (including volume projections and continuity of operations).

### **(E) Change in Ownership or Control of Guarantor**

Requirements for an entity (a guarantor) that has issued a guaranty pursuant to Chapter 2 and is undergoing certain types of change in business status are set forth below. When a Ginnie Mae Issuer anticipates that there will be a change in the principal ownership or control of a guarantor the Issuer must submit written notice regarding the proposed change to Ginnie Mae at least thirty (30) days prior to the desired effective date. Ginnie Mae defines the terms "principal owner" and "control" according to the [Statement of Financial Accounting Standard No. 57 \(FAS-57\)](#) issued by the Financial Accounting Standards Board. An Issuer may consult its independent auditor for further guidance on the subject.

The written notice must include any anticipated change to the financial position of the Issuer's guarantor, anticipated change to the Issuer's management team, and any other known specifics about the transaction.

If the original guarantor will not be a surviving entity, then the notice must include a written affirmation by the surviving entity that it accepts responsibility for the guarantor's guaranty obligation to Ginnie Mae.

Each guarantor must submit notice to Ginnie Mae in writing in advance of any anticipated change in its business, not



## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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otherwise addressed in this section that may materially or adversely affect the guarantor's business or financial condition.

### **3-14: CHANGE IN NAME**

To effect a change in name only on Ginnie Mae's records, the Issuer must furnish a copy of the amendment to the Issuer's Articles of Incorporation (or other appropriate governing document) approved by the appropriate Secretary of State or equivalent official, a new original Resolution of Board of Directors and Certificate of Authorized Signatures, form HUD-11702 (Appendix I-2) (follow the procedures for submission of a new form HUD-11702 on MAMS), and updated certificates of insurance for fidelity bond and mortgagee errors and omissions coverage, along with proper Ginnie Mae loss payee and other required endorsements, all indicating the new name. This information must be sent to Ginnie Mae's Office of Issuer & Portfolio Management (see Addresses) within 10 business days after the effective date of the name change.

### **3-15: ADDRESS CHANGE**

The Issuer must notify Ginnie Mae's Office of Issuer & Portfolio Management (see Addresses) in writing within five (5) business days of any change in the Issuer's location, mailing address, or telephone number.

### **3-16: DELINQUENCY RATES**

In order to remain eligible to participate in the Ginnie Mae MBS Program and receive additional commitment authority, an Issuer must maintain sound mortgage servicing practices, without excessive delinquency rates, for pools and loan packages outstanding. Requests for new commitment authority or the right to purchase additional Ginnie Mae Issuer responsibility or subservicing will be limited or denied, in Ginnie Mae's sole discretion, if the rates of delinquencies in the Issuer's Ginnie Mae portfolio reach the threshold level for any delinquency indicator described in Section 18-3(C) of this Guide. Data used to measure delinquency rates are derived from the RFS Issuer Monthly Report of Pool and Loan Data (Appendix VI-19). Delinquency reporting, as described in Section 18-3(C), does not apply to HMBS reporting.

### **3-17: SERVICING PERFORMANCE**

The Issuer must at all times service pooled mortgages and Participations and administer the related securities in accordance with the requirements of the applicable Guaranty Agreement and this Guide.

### **3-18: ADDITIONAL REQUIREMENTS**

At its discretion, Ginnie Mae also may require any or all of the following:

- (A) Credit reports on the Issuer's principals and a commercial credit report on the Issuer.

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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- (B) Cross-Default Agreements (Appendix I-4) between the Issuer and affiliates of the Issuer that are prospective Issuers. (See Section 2-12)
- (C) Corporate guaranties in the following circumstances, among others:
  - (1) If the Issuer, although meeting Ginnie Mae's net worth requirements, has been experiencing financial problems but its parent is financially strong.
  - (2) If the Issuer is financially strong but its parent or an affiliate is experiencing financial problems, Ginnie Mae may require the parent company to sign a corporate guaranty not to remove assets or increase liabilities of the Issuer for the benefit of the parent or an affiliate.
  - (3) If the Issuer does not make up at least 40% or more of its parent's equity and has elected to submit consolidated audited financial statements for its parent company along with supplemental reports from the Issuer. (See [Audit Guide Chapter 6](#))
  - (4) If the Issuer is affiliated with an existing Ginnie Mae Issuer and the affiliated Issuer's federal regulator will not permit it to sign a Cross-Default Agreement.
- (D) Evidence of continued compliance with Ginnie Mae's requirements, as indicated in Section 2-2 of this Guide.

### **3-19: ANTI-DISCRIMINATION POLICIES**

Issuers must maintain at all times policies prohibiting discrimination based on race, religion, color, sex, national origin, or age. Issuers must comply with all rules, regulations, and orders specified in Section 2-14 and all related requirements.

### **3-20: SUBCONTRACT SERVICER ELIGIBILITY REQUIREMENTS**

A subservicer must be a Ginnie Mae-approved Issuer and continue to meet all Issuer eligibility requirements. See Section 4-3 for a discussion of subservicer responsibilities and Section 21-7 for a discussion of transfers of subservicer responsibility.

### **3-21: DEMONSTRATED PARTICIPATION REQUIREMENT** *(A) Required Participation*

Maintaining Ginnie Mae MBS Issuer approval is contingent upon the Issuer demonstrating active participation in each of the specific Ginnie Mae program type(s) for which the Issuer has been approved (i.e. single-family, multifamily, manufactured housing, or HMBS). An Issuer demonstrates

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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participation in the program type by any one of the following qualified activities within the preceding 18 months:

1. Issuing Ginnie Mae securities, including participation in Pool Issuance and Immediate Transfer (PIIT) activities (as long as Issuer also has non PIIT issuance in portfolio);
2. Being the Issuer of record for active Ginnie Mae securities (i.e. having securities outstanding); or
3. Acting as a sub-servicer of loans pooled with Ginnie Mae.

Certain Issuer entities are automatically exempt from the demonstrated participation requirement, including the following:

- State Housing Finance agencies; and
- An Issuer serving as a Participation Agent for Ginnie Mae HMBS securities reporting.

The request for, approval of, or maintaining a balance of outstanding commitment authority does not demonstrate the Issuer's active participation in a Ginnie Mae program.

If an Issuer fails to meet the criteria for Demonstrated Participation, it may request: (1) an extension of time to meet the Demonstrated Participation Requirement, which Ginnie Mae can, in its sole discretion, grant; or (2) voluntarily request program withdrawal under Chapter 3-22(A). If the Issuer has not requested an extension, or has not requested a voluntary withdrawal from the program, Ginnie Mae, at its sole discretion, may withdraw the Issuer's program approval (involuntary withdrawal) under Chapter 3-22(B).

### ***(B) Required Compliance with Program Risk Parameters***

Approved Issuers must demonstrate that their ongoing participation meets acceptable risk parameters. Acceptable risk parameters, which are in part dependent on market conditions and may be amended from time to time, include, but are not limited to, the following:

1. Rates of loan delinquency that do not pose a risk to an Issuer's responsibility to advance P&I payments to security-holders. (See the specific delinquency thresholds in Chapter 18(3)(C)).
2. A business model that provides for ongoing investment in servicing capability, both in terms of technology and staff expertise, and the addition of newly-created or acquired MSRs to the serviced portfolio.

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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3. Diverse portfolio composition, so that an Issuer's risks are spread across a broad range of loan type, geographic or other portfolio characteristics.
4. Origination and servicing practices that ensure that the performance of an Issuer's securities is in line with that of similarly constituted securities for the Ginnie Mae portfolio as a whole.

Below is a list of situations that may present undue additional risk and therefore be considered outside of acceptable risk parameters and in violation of Ginnie Mae's MBS program, which may, in Ginnie Mae's sole discretion, lead Ginnie Mae to impose additional requirements on an Issuer or remove the Issuer from its program:

1. Rates of delinquency that are above the thresholds published in Chapter 18(3)(C) or that otherwise pose a risk to an Issuer's responsibility to advance P&I payments to security-holders;
2. "Run-off" portfolios, or business models that involve the recurring sale of substantially all the servicing created by issuance;
3. Heavily-concentrated portfolios; and
4. Recurring issuance of multi-issuer program packages that exhibit prepayment activity that is substantially different from that of comparable packages.

In order to remain eligible to participate in the Ginnie Mae MBS Program and receive additional commitment authority, Issuers are required to remain inside of the acceptable risk parameters. Issuers that do not meet the acceptable risk parameters established by Ginnie Mae in this Guide are out of compliance with Ginnie Mae's requirement and will require Ginnie Mae to impose greater restrictions on the Issuer's participation, if at all, in the program. Such restrictions, can include, but are not limited to, requiring that an Issuer's high-risk portfolio be recalibrated to fall within the acceptable risk parameters; requiring portfolio diversification or placing a restriction on an Issuer's participation in the PIIT program and/or multiple issuer pools.

### **3-22: PROGRAM WITHDRAWAL (A) *Voluntary Withdrawal***

An approved Issuer may request voluntary withdrawal from one or more MBS program types if the Issuer no longer wishes to participate in Ginnie Mae programs or is unable to comply with the Demonstrated Participation Requirement. To do so, the Issuer must submit a letter to Ginnie Mae's Office of Issuer and Portfolio Management (See Addresses), signed

## CHAPTER 3: ELIGIBILITY REQUIREMENTS — MAINTAINING GINNIE MAE ISSUER STATUS

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by an authorized signatory of the Issuer whose name and signature appear on the form HUD-11702 on file with Ginnie Mae, requesting voluntary program withdrawal. Such action would relieve the Issuer from all compliance requirements, or focus requirements to only the remaining approved program type (i.e. equity requirements may change.) A voluntary withdrawal does not preclude reapplication under the requirements in Chapter 2.

### ***(B) Involuntary Program Withdrawal***

Ginnie Mae, at its sole discretion, may withdraw one or more MBS program type approvals, if the Issuer is out of compliance with the Demonstrated Participation Requirement and has not voluntarily withdrawn in accordance with Section 3-22(A). An involuntary withdrawal is not an event of issuer default; it pertains only to a specific MBS program type. In certain instances an issuer may be in good standing with securities outstanding under one program type, but has been involuntarily withdrawn under another. An involuntary withdrawal does not preclude reapplication under the requirements in Chapter 2.