VA Report

Ginnie Mae

November 10, 2022

I'm pleased to share the Government National Mortgage Association's (Ginnie Mae) full report to Congress on the liquidity of the Department of Veterans Affairs (VA) Housing Loan Program.

The report was prepared in accordance with a requirement in the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 that Ginnie Mae analyze and report on VA guaranteed mortgage loans in its portfolio, specifically the market liquidity of VA mortgage loans pooled into Ginnie Mae guaranteed mortgage-backed securities (MBS) and recommendations for improving the market for VA guaranteed mortgage loans. This report evaluates our progress over a three-year period.

The market liquidity for VA guaranteed mortgage loans is strong due to a consistent supply of VA guaranteed mortgages available to eligible borrowers from a large number of lenders, and consistent demand for Ginnie Mae MBS from investors around the world that consist of VA guaranteed mortgages. Numerically, the proportion of VA loans in Ginnie Mae's portfolio has steadily increased over the past decade, going from 23 percent of issuances in 2011 to nearly 45 percent of all newly issued MBS in Fiscal Year 2021.

Growth has come with challenges. Unique aspects of the VA mortgage program, compared to other mortgage programs supported by Ginnie Mae, have led to market dislocations that, if left unchecked, could have material impact on all borrowers supported by the Ginnie Mae MBS program. Through several program adjustments and coordination with the VA, Ginnie Mae has mitigated these market disruptions and continued to provide a strong MBS product for investors and low-cost mortgage financing for borrowers.

After reviewing the VA Loan Program and the summary findings, Ginnie Mae recommends the following actions:

- Establishment of a formalized Ginnie Mae/VA working group to discuss market conditions and program issues.
- Establishment of a task force including Ginnie Mae, the VA, and the Consumer Financial Protection Bureau (CFPB) to monitor and discuss business practices relating to VA lending.
- Implementation of memoranda of understanding to facilitate information-sharing within these groups.

Thank you for the opportunity to present these findings. They are critical for accountability and ensuring that Ginnie Mae and the VA are working together, effectively, to make affordable homeownership a reality for our nation's Veterans.

Sincerely,

Alanna McCargo

Alanna McCargo, President, Government National Mortgage Association

EXECUTIVE SUMMARY

Background

The report has been prepared in accordance with a requirement in the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018.

The Government National Mortgage Association (GNMA), or Ginnie Mae, is a government-owned corporation located within the Department of Housing and Urban Development that guarantees investors timely payments of principal and interest on mortgage-backed securities (MBS). In doing this, Ginnie Mae works with other government agencies to make affordable housing widely available through mortgage loans. Ginnie Mae's guaranty can only be applied to mortgage loans that are insured or guaranteed by the Federal Housing Administration (FHA), Department of Veterans Affairs (VA), U.S. Department of Agriculture's Rural Housing Service , or U.S. Department of Housing and Urban Development's Public and Indian Housing program.

The proportion of VA loans in Ginnie Mae's portfolio has been increasing steadily over the past decade, going from 23 percent in 2011 to around 45 percent of all newly issued MBS in Fiscal Year 2021. Ginnie Mae MBS are considered the best source of liquidity for VA lenders, evidenced by the fact that 99.4 percent of VA fixed-rate mortgage loans guaranteed in 2021 were packaged into Ginnie Mae MBS. On a full-year basis, net issuance of VA guaranteed loans (new loans less paid off loans in securities)has exceeded that of FHA insured loans every year since 2013, and the VA share of the Ginnie Mae portfolio is at a historic high.

In early 2016, Ginnie Mae and its investors first began to identify a wave of early loan repayments and serial refinancing as a problem with much greater incidence in VA mortgages in Ginnie Mae securities than loans insured by other agencies. Mortgage loans often prepay, especially when interest rates drop. The increase in the rate of early loan prepayments of VA mortgages was attributed in part to their lower cost of refinancing compared to the FHA mortgages, and to the relatively higher credit scores of many VA borrowers, which made refinancing easier. However, Ginnie Mae's internal analysis indicated that some loan prepayments of VA mortgages could not be justified by economic factors. When it is the result of marketing schemes to repeatedly refinance a borrower's mortgage, without a corresponding net benefit to the borrower, refinancing can be harmful from an economic standpoint. Refinancing may not always be advantageous to the borrower because the costs involved (up front or over the life of the loan) might outweigh the benefit of a lower payment (or the funds received if equity is being withdrawn).

As a result, the VA and Ginnie Mae made significant program policy changes in 2018-19 (the 2018-19 Changes) that addressed program terms for refinance lending (especially cash-out lending, where home equity is withdrawn, or a non-VA loan is refinanced into a VA loan) and pooling. More specifically, on December 18, 2018, VA released circular 26-18-30, which made effective on February 15, 2019, a rule that amended VA regulations pertaining to all cash-out refinancing loans. On August 1, 2019, Ginnie Mae published the All Participants Memorandum 19-05 announcing changes to the pooling eligibility requirements for VA refinance loans.

These changes were driven in large part by concerns that additional measures were necessary to ensure that VA refinance activity serves the interest of veteran borrowers. From a Ginnie Mae perspective, this translates to the need to guard against volatility in security performance caused by questionable prepayment activity that weakens investor confidence in the securities, leading to worsening prices and higher rates for homeowners under all the single-family programs served by Ginnie Mae.

Ginnie Mae does not have administrative data from the VA which would enable it to evaluate the impact of the cash-out refinance requirements that were implemented by the VA in December 2018 (which also included net tangible benefit and recoupment standards). It is therefore difficult to isolate their effect from the influence of the central bank policies implemented since 2019 and from the agency policy actions aimed at mitigating the impact of the COVID-19 pandemic on homeowners—because interest rates decreased so dramatically during this period, the vast majority of securitized loans were candidates for refinancing which could lower the borrowers' monthly mortgage payments, and it is therefore not possible to evaluate the marginal impact the program policy changes may have had.

Main Findings

- The VA program continues to grow and that growth in issuance has been met by strong investor demand for Ginnie Mae issuance. In the context of any MBS program, program liquidity is a product of steady issuance and strong market demand for that issuance.
- Recent trends showed an improvement in the price difference between Ginnie Mae MBS and those of the government-sponsored enterprises (i.e., the Ginnie Mae/uniform mortgage backed securities price spread), indicating a solid investor appetite for Ginnie Mae MBS, including those containing VA-guaranteed loans.
- Cash-out refinances have been a small part of the picture since the 2018-19 Changes, and although Ginnie Mae cannot evaluate the effectiveness of the policy changes made by the VA in that period, it has concluded that its own 2019 cash-out refinance pooling policy change has not had a negative impact on general program liquidity.
- As is usually the case, VA lending continues to display lower borrower delinquency levels and higher levels of refinancing compared to FHA lending, each of which must continue to be monitored for impact on liquidity.
- The top 10 VA lenders (by loans guaranteed) for Fiscal Year 2021 accounted for 47 percent of Ginnie Mae's VA production that year. Because eight of these were non-depositories, it should be noted that in August 2022 Ginnie Mae published new financial eligibility requirements for non-depository issuers—these requirements are more closely tailored to a servicer's financial risk and should therefore improve stability in the housing finance system by facilitating the ability of servicers to secure financing.

Concluding Remarks

- While Ginnie Mae is not a regulator and does not maintain and enforce general origination or servicing standards, Ginnie Mae possesses the authority to address concerns that have bearing on its role as guarantor (the basis for recent program policy actions increasing financial eligibility requirements for program participants) and the accompanying need to protect the value of Ginnie Mae securities.
- Ginnie Mae offers three recommendations to ensure that liquidity for the VA lending program remains strong:

- Establishment of a formalized Ginnie Mae/VA working group to discuss market conditions and program issues.
- Establishment of a task force including Ginnie Mae, the VA, and the Consumer Financial Protection Bureau (CFPB) to monitor and discuss business practices relating to VA lending.
- Implementation of memoranda of understanding to facilitate information-sharing within these groups.

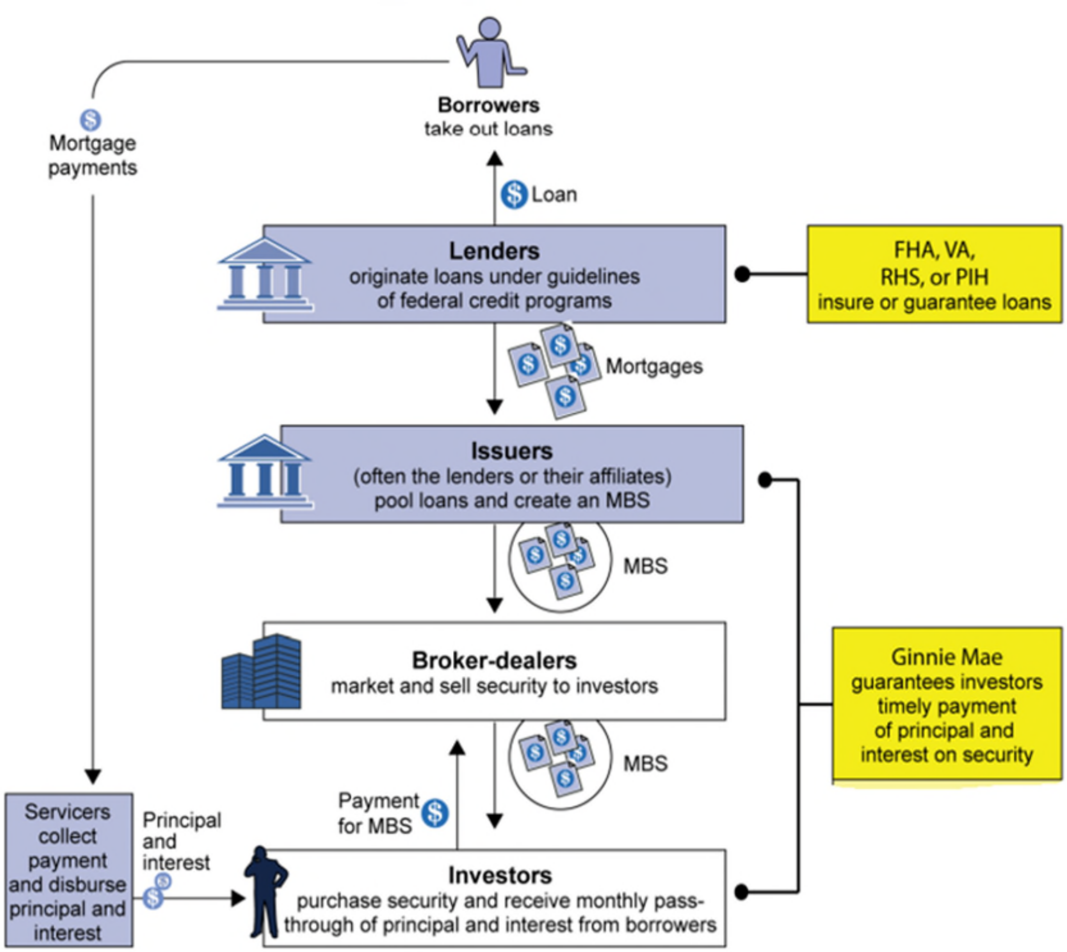
Introduction

The Government National Mortgage Association, or Ginnie Mae, is a government-owned corporation located within the Department of Housing and Urban Development.

Ginnie Mae's mission is to link the United States housing market to the global capital markets, ensuring sustainability, affordability, and liquidity for government housing program and creating a more equitable housing finance system for all. It achieves its mission by providing a program and platform through which approved institutions issue mortgage-backed securities (MBS) and by guaranteeing investors timely payment of principal and interest on those MBS.

Ginnie Mae's guaranty is backed by the full faith and credit of the United States government. It can only be applied to mortgage loans that are insured or guaranteed by the Federal Housing Administration (FHA), Department of Veterans Affairs (VA), U.S. Department of Agriculture's Rural Housing Service (USDA-RHS), or Department of Housing and Urban Development's (HUD) Public and Indian Housing (PIH) program (collectively, the "insuring agencies").

The diagram below provides more details about Ginnie Mae's securitization model.



In accordance with Section 309 of the 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act (S.2155 / P.L. 115-174) (EGRRCPA Act), the Secretary of HUD and the President of Ginnie Mae submit the following report on secondary market liquidity for home mortgage loans guaranteed under Chapter 37 of Title 38 of the United States Code (VA Loans).

This report provides market information focused on the period since the major policy changes made by VA and Ginnie Mae in 2018 and 2019 (the 2018-19 Changes[1]) and makes recommendations for actions that should be taken to ensure market liquidity for VA loans and protections for veteran homeowners.

Part A: Market Liquidity Update

Origination and market share

Market liquidity, in the context of VA mortgage lending and the Ginnie Mae MBS program, means a consistent supply of production, where security performance is reasonably predictable and well-understood. This predictability helps support strong investor demand and attractive pricing for Ginnie Mae MBS, which in turn supports better pricing for borrowers.

The period since the 2018-19 Changes has been characterized by two extraordinary macro shifts in market conditions—both spurred by central bank policy—which color much of the data in this report. The onset of the pandemic brought about a rapid decrease in interest rates, and resulting refinancing wave, that lasted for much of 2020 and 2021. The current year, by contrast, has been marked by a rapid increase in interest rates and a corresponding decrease in refinance activity. Playing out within these macro trends are the unprecedented policy efforts to protect homeowners from the impact of the pandemic.

Figure 1 shows the evolution of the Ginnie Mae single-family guaranteed security portfolio since 2019, illustrating the increasing VA share over this period. Figure 2 shows the breakdown of the VA share by loan purpose type, and the dramatic shift in activity that occurred during this period. The height of the bars reflects the significant ramp-up of refinance loan production that occurred when Federal Reserve easing drove down interest rates after the onset of the pandemic, and the reversal of this trend as the supply of refinance-eligible loans diminished (in the latter part of 2021) and interest rates began rising (in 2022). In the VA loan program, refinance activity is most evident in the interest rate reduction refinance (streamline refinance) loan (IRRRL)[2] category, which is more sensitive to interest rates than is cash-out refinance activity. Table 1 depicts VA guaranteed loan volume on a government fiscal year basis.

Figure 3 shows a comparison of cash-out refinance activity among FHA, VA, Fannie Mae and Freddie Mac. This chart was included because the 2018-19 Changes were aimed at cash-out refinances.

[1] VA Circular 26-18-30: *Revisions to VA-Guaranteed Cash-Out Refinancing Home Loans* (December 19, 2018), and Ginnie Mae APM 19-05 (August 1, 2019).

[2] Interest Rate Reduction Refinance Loan, which is intended to be an efficient method for veterans to lower monthly payments.

Table 2 shows the top 10 VA lenders (by loans guaranteed) for Fiscal Year 2021—this group accounted for 47 percent of Ginnie Mae's VA production that year. The fact that only the last two lenders in the group are depository institutions highlights the long-running shift in government loan origination and servicing that has resulted in market share increases for non-depositories.[3] While this trend has been beneficial in some respects, the fact that non-depositories are heavily dependent on external funding means that liquidity issues will become increasing important as economic stresses increase. This was a primary driver of Ginnie Mae's August 2022 revision of financial eligibility standards for issuers, which are more targeted to financial risk and therefore help support issuers' ability to obtain financing across economic cycles.

Analysis. Liquidity in the market for VA loans securitized through Ginnie Mae remains strong. In recent years the market has been able to accommodate continued program growth but also the dramatic transition of the portfolio to lower interest rates via broad-based refinancing (as occurred across all the agency securitization programs). Looking at the period beginning in 2019, the VA share of the total Ginnie Mae portfolio has grown in every quarter except the most recent.

The swings in refinance activity in the VA program were extraordinary, but reflective of the interest rate situation that affected all agency mortgage production. The VA cash-out program that was the subject of the 2018-19 Changes maintained steady absolute levels during the period of this report (as a smaller share of the greatly expanded total refinance volume during this time), with an increase in activity coming in recent quarters. As shown in Figure 3, the portion of VA production that is cash-out is much higher than with FHA production except during the peak of the recent refinance wave.

Ginnie Mae does not have data that allows it to isolate and evaluate the impact of the cash-out refinance requirements that were implemented by the VA in December 2018 (which included net tangible benefit and recoupment standards).

In a May 2019 Request for Input, Ginnie Mae articulated its concern that prepayment activity uncorrelated to economic conditions was negatively impacting investor confidence in its securities, and in a December 2019 APM followed up by prohibiting the securitization in multi-issuer pools[4] of cash-out refinances in excess of 90 percent as means of preserving homogeneity of loan characteristics and performance in these pools. Since that time, approximately 50,000 such loans (totaling approximately $17 billion) have been securitized through Ginnie Mae custom pools, as was permitted when they were rendered ineligible for the multiple issuer pool program. The existence of a small but active securitization market for these loans, plus the stable VA cash-out refinance volume since that time, indicate that this restriction has not significantly affected general program liquidity.

The more significant impact for Ginnie Mae of the 2018-19 Changes has been the seasoning requirement imposed on VA refinance loans. The requirement, stemming originally from 2018's Public Law 115-174[5], has achieved its intended effect of reducing the immediate refinancing of VA loans, but has also proven challenging for industry to operationalize with precision and for Ginnie Mae to enforce – in the latter case, because of the inability to preclude non-compliant loans from being pooled up front.

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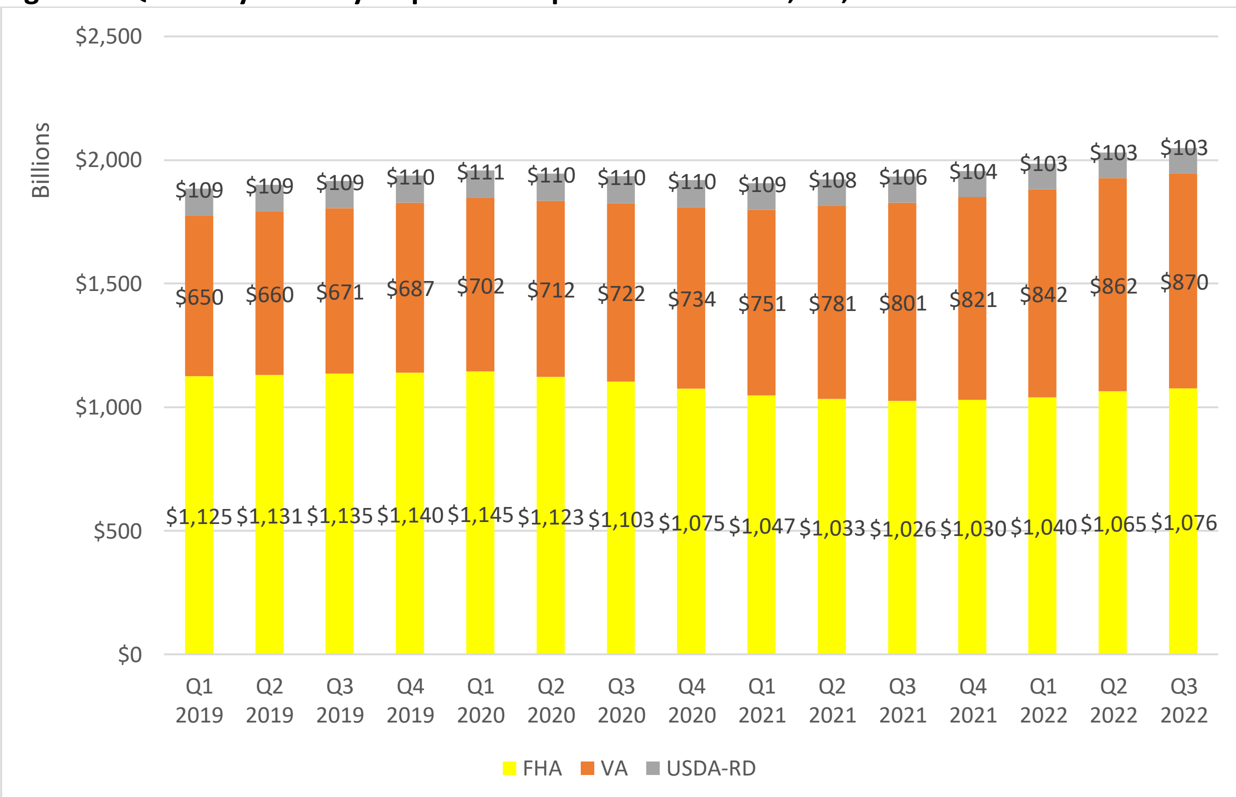
[3] The trend exists in the conventional (non-government) segment as well, though at lower levels.

[4] 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.

[5] The Economic Growth, Regulatory Relief, and Consumer Protection Act (S.2155 / P.L. 115-174)

Ginnie Mae has worked with issuers to reduce the number of non-compliant loans, but recently issued notices regarding violations[6] to those issuers that have not fully addressed non-compliant loans that remain in pools. Ginnie Mae will continue to monitor progress and address operational and compliance issues, but the number of affected loans is minimal (fewer than 100 as of August 2022).

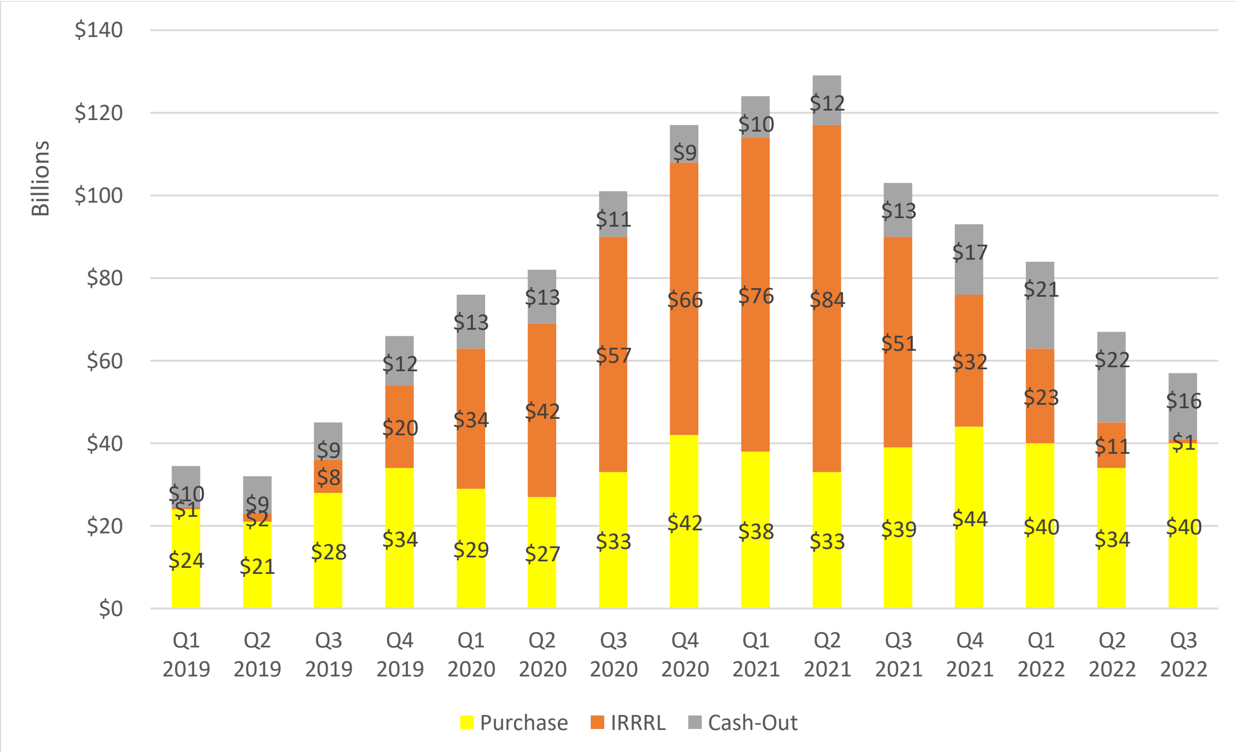
Figure 1: Quarterly Security Unpaid Principal Balance – FHA, VA, USDA



Source: GNMA Administrative Records.

[6] These notices advise issuers that Ginnie Mae is considering the imposition of civil money penalties as the result of a breach of program requirements.

Figure 2: Quarterly VA Guaranteed Loan Volume by Loan Purpose



Source: VA Lender Statistics

Table 1: FY 2019 - 2022 VA Guaranteed Loan Volume

	# Loans Guaranteed	% Loans Guaranteed	Avg. Loan Amount	Total Loan Amount	% Total Loan Amount
FY 2019					
Purchase	384,495	61.6%	$277,835	$106,826,283,226	60.8%
IRRRL	94,861	15.2%	$311,000	$29,501,742,884	16.8%
Cash-Out	145,188	23.2%	$270,749	$39,309,434,938	22.4%
All Loans	624,544	100%	$281,225	$175,637,461,048	100%
FY 2020					
Purchase	428,421	34.4%	$304,848	$130,603,321,890	34.8%
IRRRL	662,064	53.1%	$300,533	$198,971,764,894	53.0%
Cash-Out	156,330	12.5%	$292,787	$45,771,330,831	12.2%
All Loans	1,246,815	100%	$301,044	$375,346,417,615	100%
FY 2021					
Purchase	444,050	30.8%	$344,274	$152,874,681,302	34.2%
IRRRL	831,824	57.7%	$292,078	$242,957,369,669	54.3%
Cash-Out	165,871	11.5%	$309,641	$51,360,482,592	11.5%
All Loans	1,441,745	100%	$310,174	$447,192,533,563	100%
FY 2022*					
Purchase	307,395	50.4%	$372,426	$114,428,709,971	55.2%
IRRRL	127,666	20.9%	$264,451	$34,664,046,450	16.7%

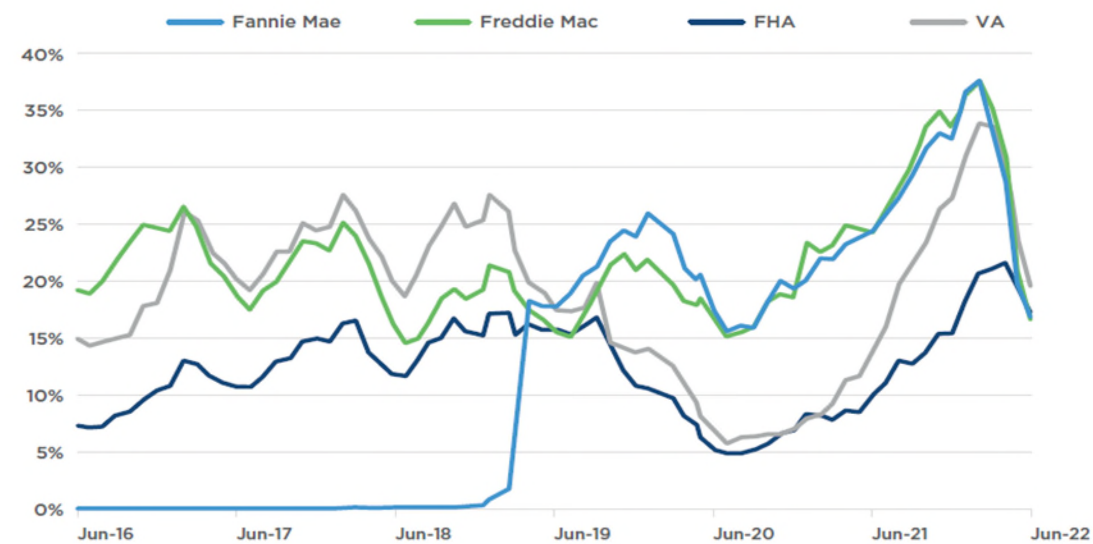
Cash-Out	175,309	28.7%	$332,362	$58,322,510,306	28.1%
All Loans	610,370	100%	$323,082**	$207,415,266,727	100%

Source: VA Lender Statistics

*** The figures for FY 2022 account for fiscal quarters 1, 2, and 3 only.**

**** Unweighted average generated by Ginnie Mae based on data from VA Lender Statistics for fiscal quarters 1, 2, and 3 of 2022.**

Figure 3: Cash-Out Refi Originations



Source: eMBS and Urban Institute.
Note: Data as of June 2022.

Table 2: FY 2021 Total VA Loan Volume and Top 10 Issuers

Rank	Lender Name	Loans Guaranteed	Avg. Loan Amount	Total Loan Amount
	Grand Total	**1,441,745**	**$310,174**	**$447,192,533,563**
1	FREEDOM MORTGAGE CORP	214,374	$278,027	$59,601,822,548
2	ROCKET MORTGAGE, LLC	127,577	$278,033	$35,470,588,107
3	VETERANS UNITED HOME LOANS	98,139	$291,535	$28,610,919,377
4	PENNYMAC LOAN SERVICES LLC	59,043	$304,271	$17,965,050,401
5	UNITED SHORE FINANCIAL SERVICES, LLC	44,597	$353,604	$15,769,684,901
6	LAKEVIEW LOAN SERVICING	38,204	$310,256	$11,853,008,667
7	LOANDEPOT.COM, LLC	35,925	$360,349	$12,945,548,365
8	CALIBER HOME LOANS, INC	33,622	$348,562	$11,719,366,086
9	NAVY FEDERAL CREDIT UNION	30,200	$329,279	$9,944,216,805
10	USAA FSB	29,505	$275,115	$8,117,262,293

Source: VA Lender Statistics.

Loan and Security Performance

Ginnie Mae securities, though advantaged relative to Fannie Mae and Freddie Mac (government-sponsored enterprise, or GSE) securities because of the explicit government guaranty, can be more volatile in terms of prepayments because of the characteristic of the loan collateral (as driven by the program terms of the insuring agency) and the model of the Ginnie Mae MBS program, which allows for greater variability in loan liquidations than does the GSE model. In other words, because principal and interest payments are guaranteed, the main driver of performance is liquidation, which in turn is largely driven by refinance and deliquencies/loss mitigation activity.

Figure 4 shows the long-term tendency of VA loan delinquency rates to run between those of FHA and the GSEs. It also depicts the spike in delinquency that occurred across all agency programs as a result of the national emergency declared regarding COVID-19 beginning in 2020.

The differing deliquency characteristics of the FHA and VA origination (that is almost entirely financed via Ginnie Mae securities) are important to the market's perception of how those securities will perform, and thus their value (and the level of liquidity that will exist for them). The same is true of differing refinance characteristics (as Figure 3 illustrates for cash-out refinances).

Figures 5 and 6 show how overall prepayment speeds have been consistently higher for Ginnie Mae securities (including VA loans) compared to Fannie Mae securities over the past year. Figures 7 and 8 show (in the dotted lines) persistence into 2021 of the pattern of high refinance of VA loans as soon as seasoning requirements permitted—because for many years almost all Ginnie Mae securities have traded at prices greater than par value, it is this pattern that had led to investor concerns about loan "loan churning."[7]

Figure 9 shows the spread between Ginnie Mae and GSE securities (at two different coupons) over the past year. This metric is a key measure of the health of the MBS program, and its ability to provide low-cost liquidity. A narrowing (or increasingly negative) spread is a sign that the markets consider the risk of Ginnie Mae security underperformance relative to GSE performance to be increasing, and this would have a detrimental impact on the cost of credit in the government sector. The graph shows that spreads (measured at two predominant coupons[8]) have improved considerably compared to one year ago, indicating that investors are more comfortable holding Ginnie Mae (vs. GSE) securities than they had been in 2021.

Analysis. The fact that Ginnie Mae securities incorporate different program types (mainly FHA and VA), in varying amounts, results in fluctuating performance and valuation relative to the more uniform GSE securities.

But in the period since the 2018-19 Changes, the combination of extreme interest rate cycles and COVID-19 policy response measures on the part of the agencies (including VA) whose loans flow through the Ginnie Mae MBS program, have been the main drivers of security performance, relegating the

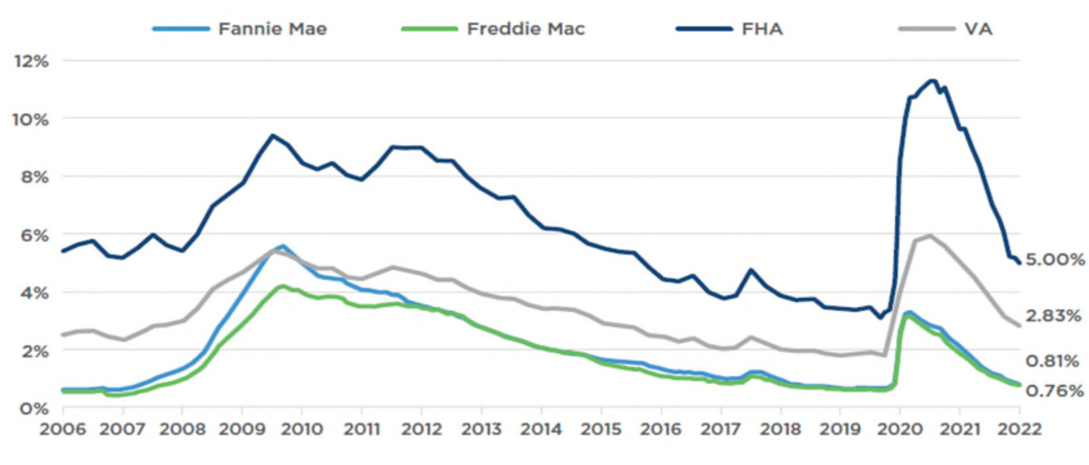
[7] If an investor purchases a security at a price above par, the return on its investment will be impaired if prepayments (which occur at par) are greater than were expected.
[8] The coupons shown are much lower than those currently used for normal production, but the lower coupons are shown out of a desire to show a longer time series (which would not be possible using current coupons).

refinance-related issues that were particularly prominent at that time somewhat more to the background.

While the constant repayment rate (CPR) lines in Figures 5 and 6 indicate that Ginnie Mae securities remain generally more subject to prepayment, the muted (solid line) vintage performance depicted in Figures 7 and 8 shows just how dramatically different the current rising rate market has become as a result of fewer refinances and other loan payoffs occurring. This is undoubtedly a negative from the standpoint of housing affordability, since the lower levels of activity result in large part from monthly payments that are higher for a given loan amount than they would have been previously, which dampens both the appetite for refinancing and the ability to purchase homes. But this has also restrained the prepayment volatility that can be challenging for Ginnie Mae securities, in their role as a liquidity tool for the housing programs. Figure 9 shows that the current environment, as worrisome as it is from the larger perspective, has improved the liquidity climate for Ginnie Mae securities relative to GSE securities.

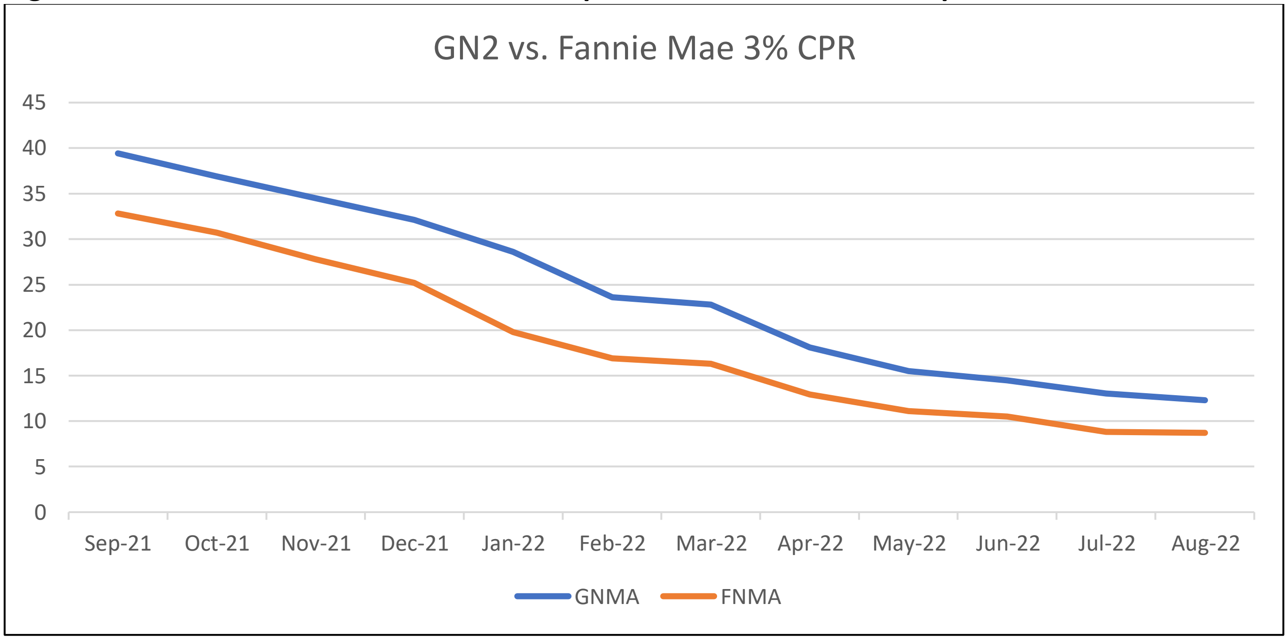
VA loans have markedly different characteristics compared to FHA loans, which has become increasingly important as their share of the Ginnie Mae portfolio has increased. They are less likely to become deliquent, but more likely to refinance. Ginnie Mae will continue monitoring VA loans and MBS program liquidity, and—as discussed further below—seeks increased collaboration and information-sharing with VA. But at the present time the emphasis continues to be on the macro issues of pandemic recovery and housing affordability, and the particular characteristics of VA loans are currently less significant than they had been in the pre-pandemic period.

Figure 4: Serious Delinquency Rates



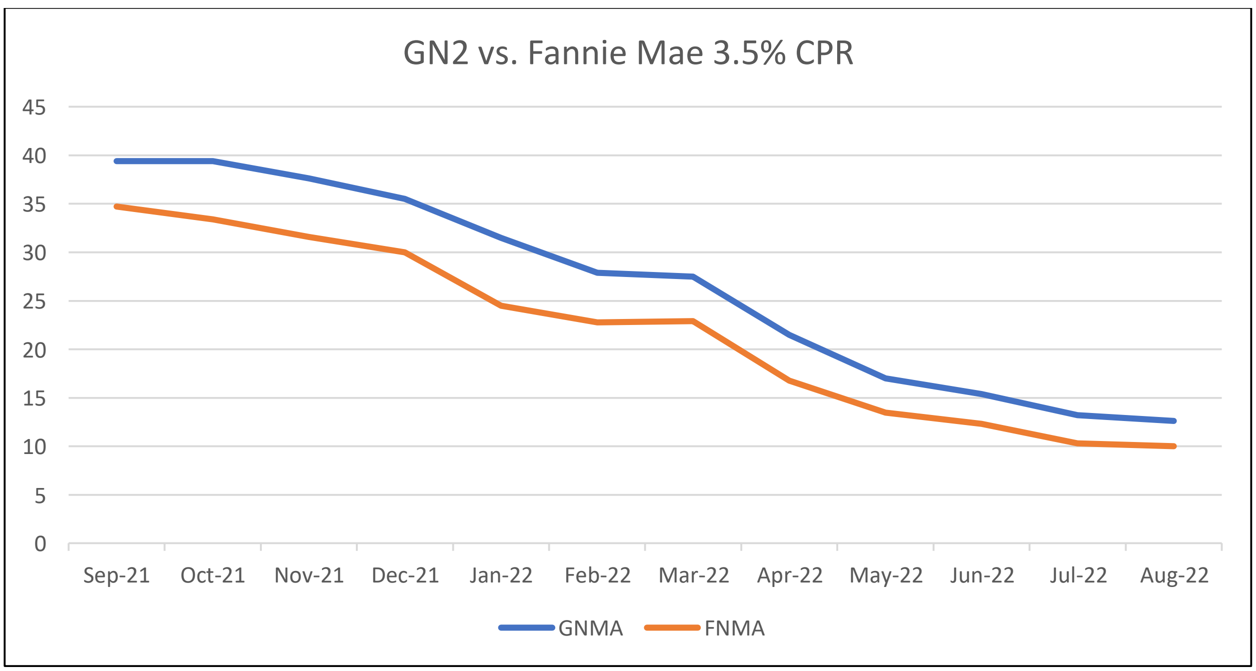
Source: Fannie Mae, Freddie Mac, Federal Housing Administration, MBA Delinquency Survey and Urban Institute.
Note: Serious delinquency is defined as 90 days or more in the foreclosure process. Not seasonally adjusted. VA delinquencies are reported on a quarterly basis, last updated for Q3 2021. GSE and FHA delinquencies are reported monthly, last updated for January 2022.

Figure 5: Ginnie Mae and Fannie Mae CPR Speeds for 3.00 Percent Coupon Rate



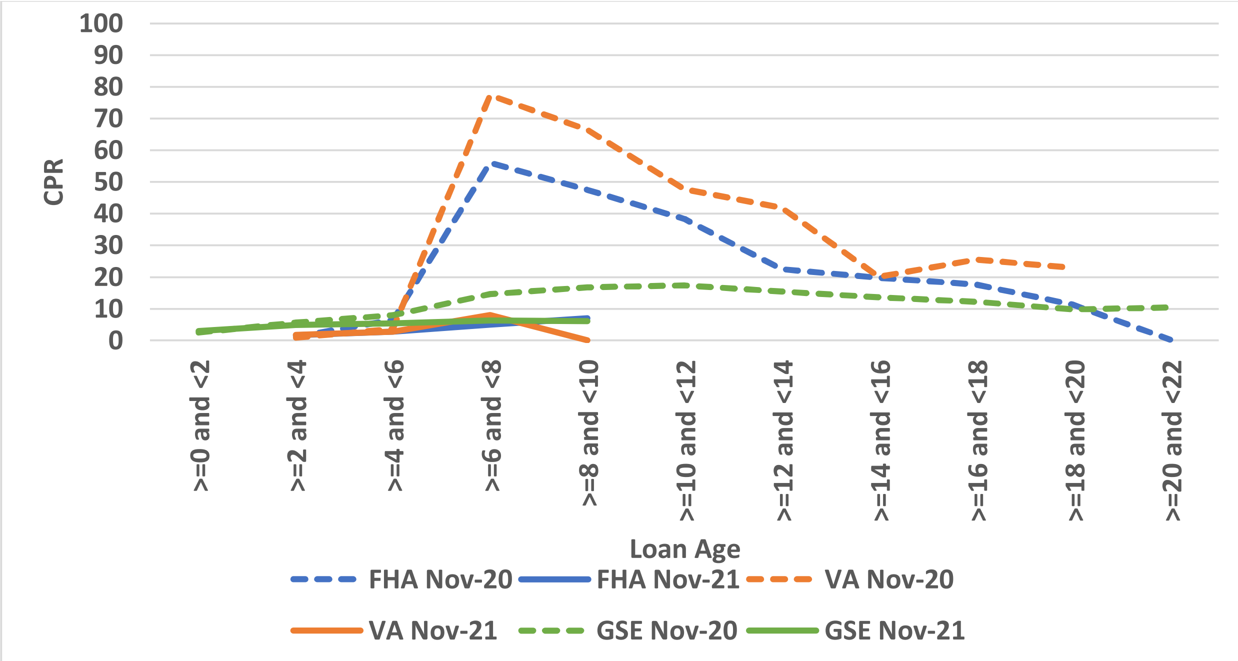
Source: eMBS.

Figure 6: Ginnie Mae and Fannie Mae CPR Speeds for 3.50 Percent Coupon Rate



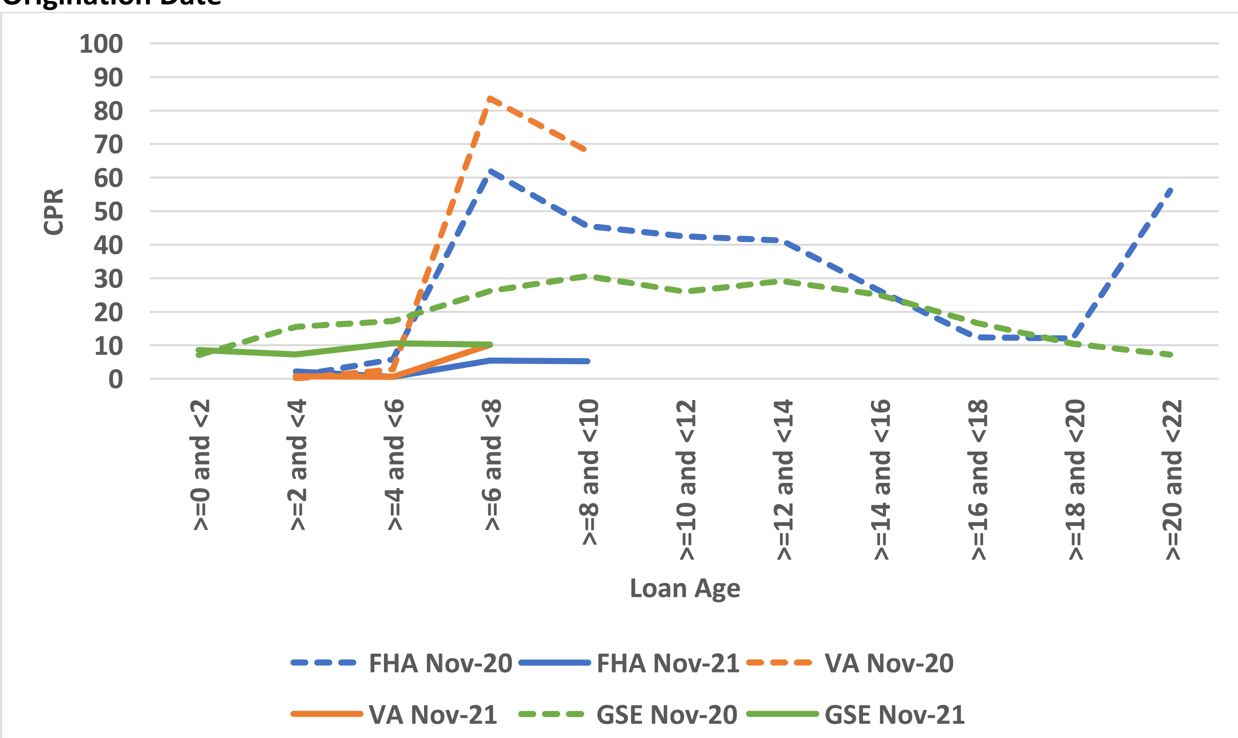
Source: eMBS

Figure 7: Loan Age (In Months) by CPR for 3.00 Percent Coupon Rate (Purchase and Refi) and Origination Date



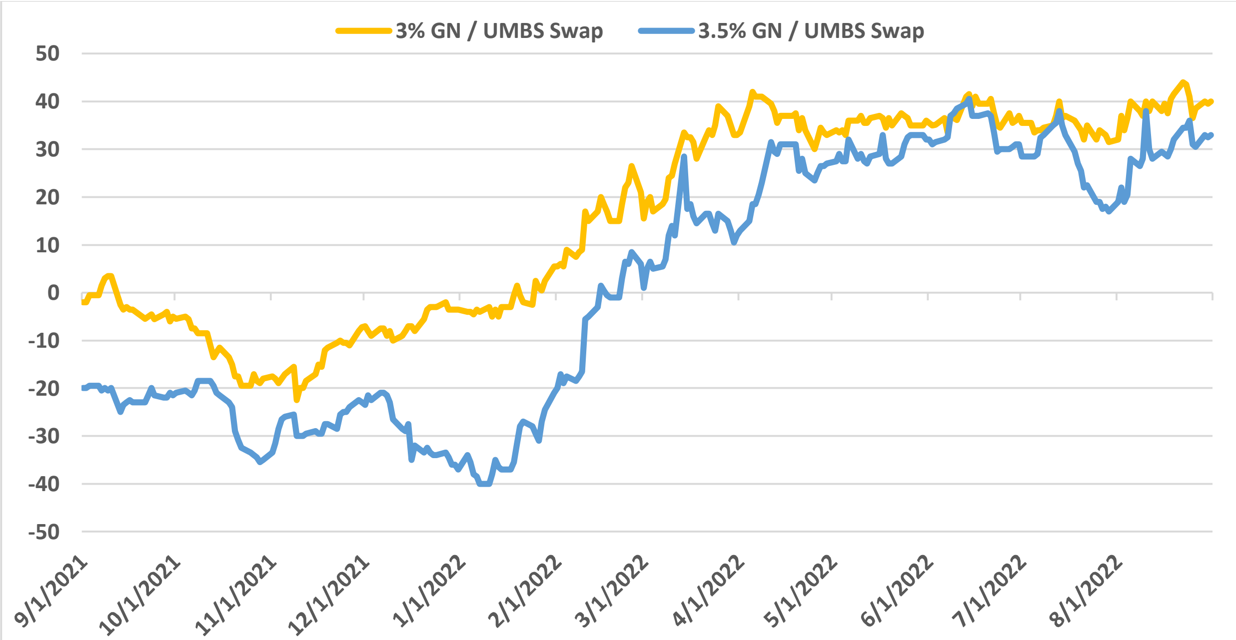
Source: Recursion.

Figure 8: Loan Age (In Months) by CPR for 3.50 PercentCoupon Rate (Purchase and Refi) and Origination Date



Source: Recursion.

Figure 9: Ginnie Mae and UMBS Price Spread for 3.00 Percent and 3.50 Percent Coupon Rates



Source: Bloomberg.

Part B: Observations and Recommendations

This report has noted the increasing volume and share of the VA program in the Ginnie Mae MBS program. The market has absorbed this increase well, and there remains strong liquidity for VA loan production. As described above, in the period since the 2018-19 Changes, macro conditions have been the dominant factor in the performance of the MBS program, and VA program characteristics have somewhat receded in importance. Nevertheless, the increasing VA share combined with the different characteristics of the program as described above mean that the VA program will require continued scrutiny.

A focus of Ginnie Mae's ongoing program monitoring will continue to be the impact of prepayment activity on the overall MBS program, especially when that activity gives rise to market concerns about servicing or origination practices. Ginnie Mae does not have the authority to set program parameters regarding loan origination practices or to take action if unfair or deceptive origination and servicing practices are detected at the Issuer level—concerns in these areas are normally the jurisdiction of the insuring agency or the Consumer Financial Protection Bureau (CFPB).

Ginnie Mae does have the authority to address concerns that have direct bearing on its role as guarantor and the accompanying need to protect the value of Ginnie Mae securities. These concerns, which were outlined in a 2019 Request for Input, were central to the 2018-19 Changes. Ginnie Mae has also taken steps to address prepayment rates at the issuer level that appear to be out of step with cohort norms and continues to monitor this topic (although no enforcement actions have resulted since prior to the pandemic). Finally, since this report has noted the high percentage of VA (as well as FHA) loans that are originated and serviced by non-depository institutions, it should be noted that in August 2022 Ginnie Mae published new financial eligibility requirements for non-depository issuers.

Recommendations

Notwithstanding the generally strong state of liquidity in the VA loan market, there are opportunities to strengthen and/or solidify liquidity and protect America's veterans, especially through stronger coordination with other agencies. Respectfully, Ginnie Mae offers the following recommendations:

1. Ginnie Mae communicates frequently with its Agency partners, including the VA. However, this communication may be hampered by limitations on the ability to share and discuss program performance data, as well as pre-decisional program changes on both sides. Ginnie Mae recommends that the VA and Ginnie Mae create a "VA/Ginnie Mae Working Group" that meets quarterly to discuss current issues, policy considerations and market conditions.
2. Recognizing the limitations on authority of the VA and Ginnie Mae to act on any identifiable unfair or deceptive activity of a mortgage loan originator, Ginnie Mae recommends the creation of a Protecting Veterans Task Force comprised of the VA, Ginnie Mae, and CFPB that meets at least biannually to discuss and share monitoring information related to any potential originator abusive, unfair or deceptive practices.
3. To facilitate the sharing of information, Ginnie Mae recommends the VA, Ginnie Mae, and CFPB execute a Memorandum of Understanding to share information and data. Increased information sharing across these three agencies will both support VA program liquidity and enhance consumer protection for VA borrowers. Ginnie Mae will also need to ensure that its securitization platform improvement initiatives provide it with a greater ability to monitor trends in compliance and performance that have bearing on the effectiveness of the VA program.

When taken together, the VA loan program, and Ginnie Mae MBS program go a long way toward ensuring that veterans have ready access to affordable homeownership with loans at competitive interest rates. But continued evaluation will always be necessary, to ensure that the programs remain effective under evolving circumstances.

Ginnie Mae appreciates Congress' attention to the importance of and critical role the VA mortgage program and Ginnie Mae MBS programs play in providing safe and affordable housing for veterans. Ginnie Mae remains vigilant and will continue to apprise Congress of our activities and findings.