Request for Input

Pooling Eligibility Changes

Ginnie Mae

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Overview

Ginnie Mae is considering making changes to the parameters governing loan eligibility for pool types and is soliciting input from stakeholders about the impacts of potential changes.

Background

The Ginnie Mae II Multi-Issuer Program (GII MIP) today represents nearly one-third of agency mortgage-backed security (MBS) issuance and is a vehicle for the funding of origination under the federal government's single-family loan insurance/guaranty programs. One of the key features distinguishing the GII MIP is the fact that it is an aggregation of production from a wide variety of lender/servicer Issuers and is comprised of a broad base of loan characteristics. Purchasers of GII MIP securities have invested in a pro-rata share of large mortgage pools[1] that are representative of current production within the government-insured or guaranteed lending sector. Strong market acceptance of the GII MIP has been critical in enabling Ginnie Mae to fulfill its mission of facilitating low-cost financing for American homeowners and the federal housing finance programs it's intended to serve.

Ginnie Mae is vigilant about any trend that impairs investor confidence in the GII MIP. Ginnie Mae monitors activity centered on refinance loans within the underlying federal loan or guarantee programs. Originally, this effort concerned the ease with which newly-created Department of Veterans Affairs (VA) loans could be rapidly prepaid by a streamlined refinance process,[2] and the counterparty risk that arose when Issuers specialized in such products and constructed overly-concentrated servicing portfolios. More recently, Ginnie has expanded its focus, and is considering additional policy actions as described below.

The actual and projected extent of loan prepayment is a primary concern of MBS investors and analysts, particularly when an above-par price has been paid for the security in which the prepayment occurs. Prepayment risk is a well-understood feature of the MBS asset class and is the subject of extensive loan-level analysis that supports the liquidity of the securities. However, for security investors, concerns arise when investment losses are borne as the result of refinance activity that appears not to correlate with economic fundamentals.

Recently, Ginnie Mae has focused on certain adverse trends in how some GII MIP securities were trading relative to the securities issued by Fannie Mae.[3] It's clear from published analysis and investor commentary

1 Please see Appendix I showing Issuance Volumes Issuance of Ginnie Mae securities backed by Single-Family loans for January, February, and March 2019.

2 In 2016, Ginnie Mae published APM 16-05: Pooling Eligibility for Streamlined Refinance Loans, which restricted streamline refinances of loans on which fewer than six consecutive monthly payments had been made from accessing the GII MIP.

3 Please see Appendix II below.

that GII MIP securities were believed to be susceptible to refinance activity out of proportion to what should be expected from prevailing economic conditions. Ginnie Mae's concern, then and now, is that investor trepidation about this activity will negatively impact investor confidence in the performance of the securities and the relative price that they receive in the market. **Deterioration in market pricing translates directly into a higher cost of homeownership for the homeowners the Ginnie Mae MBS program is intended to serve.**

The consumer protection aspects of the situation have been the recipient of attention from policymakers, and to date the following actions have been taken by Congress, Ginnie Mae and the VA to curb the behavior of rapid refinancing in the VA program

- **Ginnie Mae All Participants Memoranda (APM) 16-05 (October 2016)** implemented a six-month seasoning requirement for streamline refinance loans to be eligible for pooling in the GII MIP. APM 17-06 (December 2017) modified the definition of the seasoning period and extended the requirement to cash-out refinance loans and Ginnie Mae I[4] securities.
- **Public Law 115-174 (May 2018)** imposed new requirements on loans to veterans, and codified in law the seasoning requirement earlier imposed by Ginnie Mae.[5]
- **VA Interim Final Rule RIN 2900 AQ42 (December 2018)** imposed new requirements on cash-out refinances, which had not been addressed in PL 115-174.

Non-correlated VA refinance activity continues to be evident, and the extent to which it is a focus of analysts and investors is unhealthy for Ginnie Mae's ability to fulfill its mission.

In 2018, in addition to these program eligibility changes, Ginnie Mae identified security performance as being subject to standards of acceptable risk and began reviewing security performance at the Issuer level and restricting Issuers whose performance deviated substantially from cohort performance.

Ginnie Mae believes that taken together these policy actions have probably had moderate success in lessening uncorrelated refinance spikes, but that there is not yet reasonable assurance that the safeguards now in place are sufficient. Non-correlated VA refinance activity continues to be evident, and the extent to which it is a focus of analysts and investors is unhealthy for Ginnie Mae's ability to fulfill its mission.

Ginnie Mae is undertaking a comprehensive review of loan data seeking a better understanding of the ways in which loan type categories performed differently from one another.

4 The Ginnie Mae I MBS Program is a mortgage-backed securities program comprised of single-Issuer securities, in which the timely payment of principal and interest on the securities is guaranteed by Ginnie Mae to occur on the 15th day of each month (or, in the case of payment by electronic funds transfer, if the 15th is not a business day, the next business day). In contrast, the Ginnie Mae II MBS Program allows loan packages from multiple Issuers to serve as collateral for a single security.

5 Though on slightly different terms than the original Ginnie Mae language. Ginnie Mae issued APMs 18-04 and 19-02 to reflect and clarify program terms affected by PL 115-174

This review is based on pooling and monthly reporting data from January 2017 through March 2019. The initial results are summarized in greater detail in Appendices III through VI and indicate the following:

- **Refinance loans** liquidate with greater frequency than purchase loans.[6]
- **VA refinance liquidations** on average, occur earlier than do Federal Housing Authority (FHA) refinance liquidations.[7]
- **Liquidations of VA cash-out refinance loans,** with higher loan-to-value ratios (LTV) generally liquidate with greater frequency and have a greater impact on prepayments than FHA cash-outs at the same loan to value ranges.[8]

The loans analyzed in the review and detailed in the Appendices were originated at differing times relative to the prior policy actions noted above, and in particular the VA rule is so recent that it is too soon to determine the impact it would have on this particular analysis. One of the primary observations of the review is that there are substantial differences between how the Federal Housing Administration and VA loans perform when securitized, some of which may be attributable to the parameter differences between the two refinance programs. Program differences among the agency program sponsors are not inherently problematic, and melding different loan types within the GII MIP is, as noted, one of the purposes of the MIP program. However, it has come to Ginnie Mae's attention that despite the differences in program requirements for refinances, there are additional dynamics at play, particularly as it relates to prepayment speeds and performance of the GII security.

Given the impact we believe this continues to have on the GII MIP, Ginnie Mae is therefore exploring the possibility of further actions, and this Request for Input (RFI) is to give program stakeholders and observers an opportunity to provide analysis and insight to inform Ginnie Mae's consideration of the issues involved.

One of the primary observations of the review is that there are substantial differences between how the FHA and VA loans perform when securitized.

6 See Appendix III

7 See Appendix IV

8 See Appendix V

ISSUE TO ADDRESS FOR CONSIDERATION

The initial review summarized in the Appendices indicates that VA cash-out refinance loans have a particularly high propensity to prepay rapidly in large part because the LTV requirements for cash-out refinances in the VA program are different from those of the FHA program and the government-sponsored enterprises (GSEs).

Two areas for consideration arise from this analysis. One concerns the need to ensure that loans made serve the interests of the veteran homeowners – this concern was the basis for both Public Law 115-174 and VA's recent interim final rule, the effectiveness of which will continue to be evaluated by market participants.

The second issue concerns the extent to which the more lenient VA requirements are fostering short-term borrowing patterns that are at odds with the purpose of the GII MIP program. Ginnie Mae's view of the GII MIP products is that they are intended for loans in which the average lifespan can be expected to align with ownership of a property, adjusted for the periodic opportunity to improve loan terms when interest rate cycles permit. Cash-out refinances serve a role for borrowers, but traditionally only on a smaller scale, as the FHA and the GSEs require more stringent loan-to-value ratios for cash-out refis relative to the VA program.[9]

Ginnie Mae is confronting a situation in which the GII MIP, because of the combination of greater volume of VA loans[10] and present-day borrowing/lending practices, is being utilized to support short-term consumer financing for veterans to a greater degree than has previously been the case. As noted earlier, this situation may be having an adverse impact on the prices paid for these securities, and thereby resulting in cross-subsidization of high-LTV cash-out refinancing by the residual FHA, VA and United States Department of Agriculture (USDA) borrowers whose loans are commingled in the GII MIP.

Ginnie Mae is therefore evaluating the possibility of excluding from (or restricting within) the GII MIP loan type categories that can be expected to prepay at significantly higher rates from the loan types whose performance is better correlated with market trends and the intended purpose of the GII MIP securities.

For consideration is the potential for VA cash-out refinances in excess of 90% loan-to-value to be excluded, or restricted, from the multi-Issuer pools, given their performance history in the securities and the program requirement differences relative to FHA and the GSEs.

9 For a fixed rate fully-amortizing cash-out loan on a principal residence, Fannie Mae and Freddie Mac impose an 80% LTV maximum. Please see Fannie Mae's Eligibility Matrix, accessible at https://www.fanniemae.com/content/eligibility_information/eligibility-matrix.pdf, and Freddie Mac's Maximum LTV/TLTV/HTLTV Ratio Requirements for Conforming and Super Conforming Mortgages accessible at http://www.freddiemac.com/singlefamily/factsheets/sell/ltv_tltv.htm.

10 VA loans constitute a substantial subsegment of Ginnie Mae's monthly issuance. For the months of January, February and March 2019, VA loans accounted for 38.6%, 38.79% and 41% of Ginnie Mae's issuance volume, respectively.

Ginnie Mae reserves the right to overlay its own requirements about acceptable loan characteristics on those of the insuring/guaranteeing agencies when it deems the performance of the Ginnie Mae MBS securities is being negatively impacted.

An additional topic for consideration is the securitization path for excluded (or restricted) loan type categories. In accordance with its mission, Ginnie Mae would seek to provide an alternative securitization path that provided for liquidity to the maximum extent possible, while also providing full market transparency.

The logical possibilities for an alternative path are:

- **Single-Issuer custom securities.**
- **Imposition of a *de minimis* standard** restricting inclusion in the MIP.
- **Creation of a new MIP** specifically for shorter duration loan type categories.

This evaluation involves complex cause-and-effect issues, and projections about market-driven impacts, about which Ginnie Mae is soliciting input from stakeholders relating to the questions identified in the following section.

INPUT SOUGHT

Responders may provide input on any of the following topics and expand on the topics as seems appropriate to address related questions or implication that are not directly articulated below.

Topic 1

Input is sought on the extent to which varying prepayment performance by different loan type categories within the GII MIP should be considered acceptable. Commentary may be provided on attendant issues of homogeneity and subsidization.

Topic 2

Additional analysis is welcomed on the propensity of high-LTV VA cash-out refinances to prepay, in comparison with those of other loan type categories. Commentary may be provided on whether LTV greater than 90% is an appropriate threshold for identifying the loan type category that would be subject to an alternative securitization path.

Topic 3

Analysis is sought on the impact of an increased propensity of high-LTV VA cash-out refinances to prepay on the pricing of the GII MIP, and on the residual GII MIP production. This might include analysis of the projected pricing of the GII MIP if high-LTV VA cash-outs were excluded or restricted.

Topic 4

Input is sought on the alternative path possibilities for the subject loan type category, including as to the marketability, pricing, liquidity and TBA market implications of each.

Instruction For Submitting Input

Ginnie Mae asks that each respondent **transmit responses via email no later than 3:00 p.m. Eastern Time on May 22, 2019 to gnma.rfi.submission@hud.gov**. Ginnie Mae acknowledges that any responses are provided completely on a voluntary basis and responses are not required for participation in any federal program. Please clearly mark all responses with “Voluntary response provided to HUD in response to an RFI. This is not a required submission for participation in a federal program.” Any responses provided to Ginnie Mae may be subject to release subject to the Freedom of Information Act (FOIA). Should responses be responsive to a FOIA request, HUD will process in accordance with the law and apply any FOIA exemptions that may apply. If you wish HUD and Ginnie Mae to consider any portion of your response exempt from disclosure under the FOIA, you should clearly mark that portion as “confidential commercial information.”

Please include the following in your response the following information:

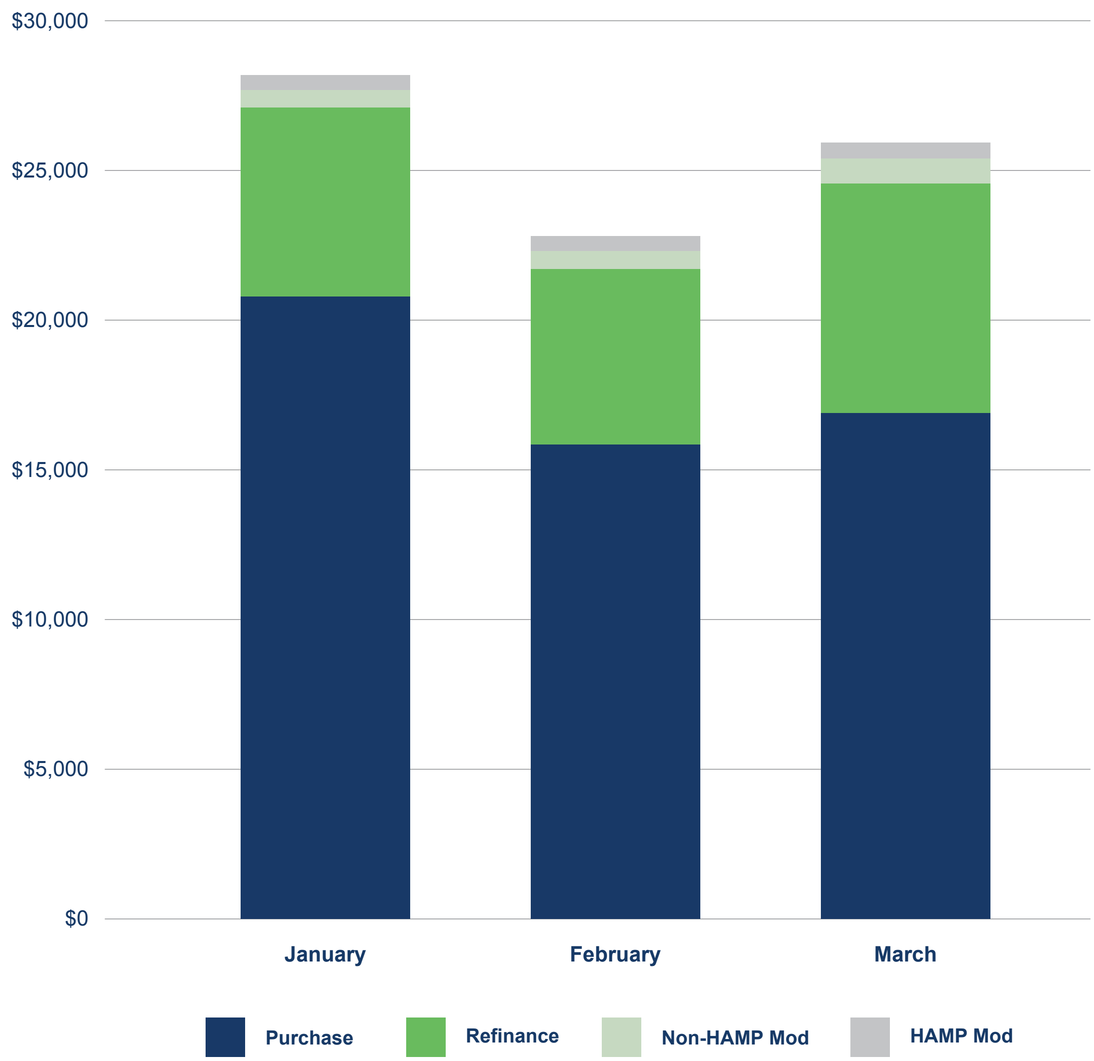
- **Name(s) or organization(s) and addresses.**
- **Contact information.**

Important Notes (Disclaimer)

This RFI is not a request for proposal, request for quotation, offer or an invitation for bid, nor does its issuance restrict the Government on its eventual activities. This is an RFI only, and all information received will be used for planning and market research purposes only. Information received will not be published. Respondents will not be notified of any results derived from a review of the information provided. This RFI should not be construed as a commitment by Ginnie Mae. All information contained in the RFI is preliminary and is subject to modification and is in no way binding on the Government. The Government will not pay for information received in response to this RFI. Responders to this RFI are solely responsible for all expenses associated with responding to this RFI.

Appendix I

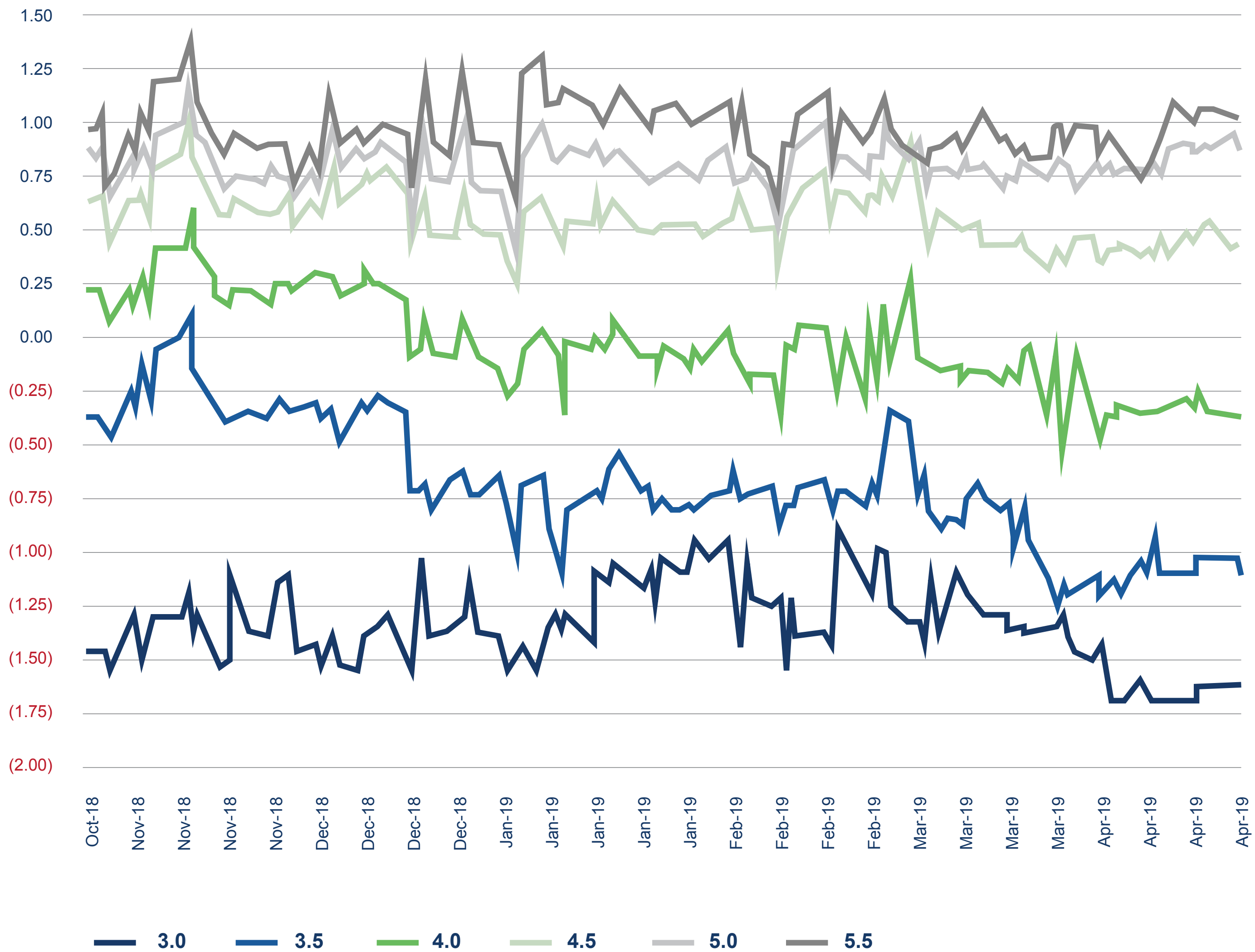
CY 2019 Single-Family Issuance Volumes by Loan Purpose



Loan Purpose (Insurance Amount(s) in millions)	January	February	March
Purchase	$20,858	$15,844	$16,943
Refinance	$6,319	$5,887	$7,738
Non-HAMP Mod	$581	$663	$724
HAMP Mod	$491	$496	$585

Data source: Form HUD 11706 issuance data Jan 2019 through March 2019.

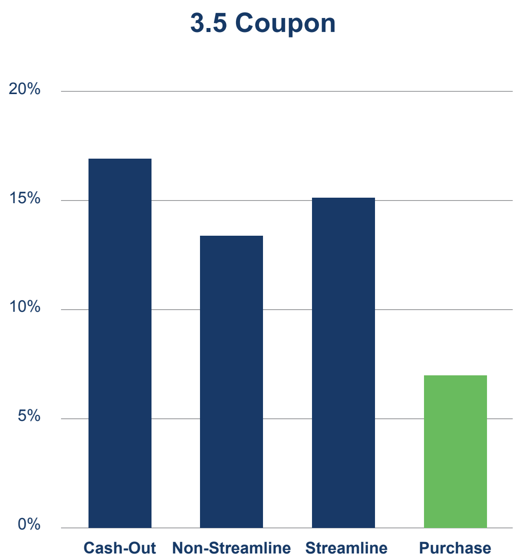
G2 vs FN Swaps October 2018 Through April 2019

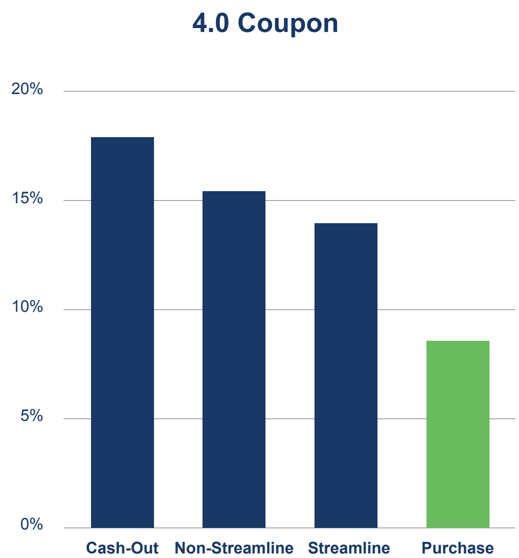


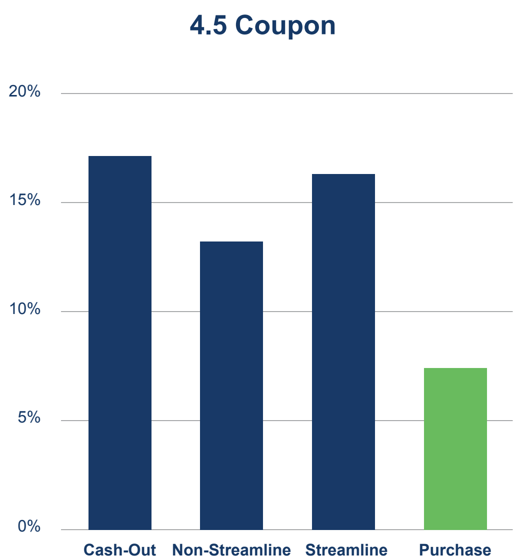
Data source: Bloomberg.

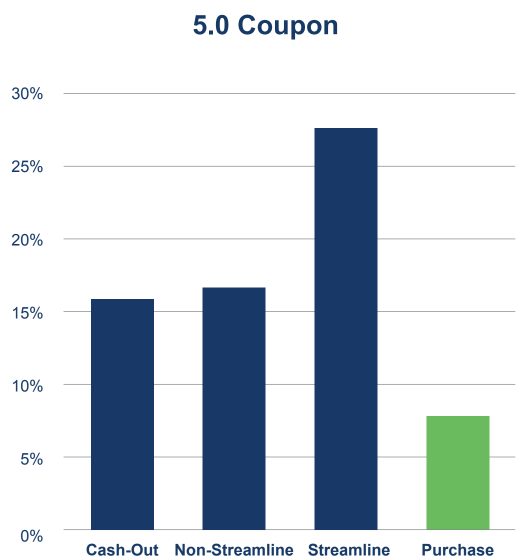
Appendix III

% of Liquidated Principal of Total OPB at Issuance by Loan Purpose for Single-Family Fixed Rate Loans in Pools Issued from January 2017 through December 2018









Data source: Form HUD 11706 issuance data Jan 2017 - Dec 2018 and liquidations data reported in Ginnie Mae's Reporting and Feedback System (RFS) through Mar 2019.

Appendix IV

Comparison of Average Loan Age at Liquidation for All FHA Refinance Loans and All VA Refinance Loans for Single-Family Fixed Rate Loans in Pools Issued from January 2017 through December 2018

Refinance Purpose Code	Coupon Rate	FHA Avg. Loan Age (Months)	VA Avg. Loan Age (Months)
Non-Streamline	3.5%	12.95	11.23
	4.0%	14.96	10.15
	4.5%	35.81	23.99
	5.0%	72.64	26.71
Cash-Out	3.5%	10.98	10.01
	4.0%	10.25	8.04
	4.5%	11.24	7.45
	5.0%	16.24	7.99
Streamline	3.5%	13.88	11.30
	4.0%	15.72	15.71
	4.5%	36.09	38.86
	5.0%	101.29	52.81

Data source: Form HUD 11706 issuance data Jan 2017 - Dec 2018 and liquidations data reported in Ginnie Mae's Reporting and Feedback System (RFS) through Mar 2019. All Refinance codes (Streamlined, Cash-out, Non-Streamlined) are included for each agency.

Appendix V

Comparison of FHA Cash-Out and VA Cash-Out Liquidation Rates for Various LTV Ranges for Single-Family Fixed Rate Loans in Pools Issued from January 2017 through December 2018

Coupon Rate	LTV Bracket	FHA Cash-Out Liquidated Loan Count	FHA Cash-Out Liquidation Rate	Avg. Loan Age	VA Cash-Out Liquidated Loan Count	VA Cash-Out Liquidation Rate	Avg. Loan Age
3.5	100.01+	3	0.1%	5.67	1,139	1.0%	9.99
	95.01 - 100	34	0.0%	18.15	4,848	2.4%	9.70
	90.01 - 95	24	0.0%	9.08	1,911	5.0%	10.12
	85.01 - 90	7,733	8.8%	11.24	3,256	7.9%	10.37
	80.01 - 85	3,623	8.5%	11.01	1,650	7.5%	10.19
	00.00 - 80	7,053	7.7%	10.64	4,034	6.8%	9.98
	N/A	-	0.0%	0.00	-	0.0%	0.00
	Category	**18,470**	**2.4%**	**10.98**	**16,838**	**3.5%**	**10.01**
4	100.01+	3	0.0%	12.67	1,256	1.4%	7.80
	95.01 - 100	32	0.0%	32.31	4,105	2.7%	7.55
	90.01 - 95	33	0.1%	29.30	1,258	6.1%	8.28
	85.01 - 90	6,673	9.1%	10.61	1,593	8.3%	8.55
	80.01 - 85	3,080	8.9%	9.97	735	7.1%	8.45
	00.00 - 80	5,670	7.5%	9.75	1,698	6.5%	8.56
	N/A	-	0.0%	0.00	-	0.0%	0.00
	Category	**15,491**	**2.0%**	**10.25**	**10,645**	**3.3%**	**8.04**
4.5	100.01+	-	0.0%	0.00	785	1.8%	7.56
	95.01 - 100	58	0.0%	80.83	4,471	5.8%	7.23
	90.01 - 95	31	0.2%	75.94	831	10.8%	7.97
	85.01 - 90	2,566	7.1%	11.00	718	10.4%	7.65
	80.01 - 85	1,119	6.9%	10.43	411	10.8%	7.54
	00.00 - 80	2,717	7.8%	9.58	905	9.8%	7.73
	N/A	-	0.0%	0.00	-	0.0%	0.00
	Category	**6,491**	**1.5%**	**11.24**	**8,121**	**5.5%**	**7.45**

Data source: HUD 11706 pooling data from January 1, 2017 through December 1, 2018 and reporting data from January 1, 2017 through March 1, 2019. Calculation reflects total liquidations of FHA purchase loans originated during that two year window (in that coupon rate and LTV Bucket) divided by total originations of FHA purchase loans during that two year window (in that coupon rate and LTV bucket).

Appendix VI

Comparison of FHA Cash-Out and VA Cash-Out Underwriting Requirements

	FHA Cash-Out	VA Cash-Out
Max LTV	85%	96.75-100%[11]
Seasoning/Ownership Requirements	12 months Ownership/ Occupancy[12]	Six Payments and 210 Days
Appraisal Needed	Yes	Yes
Net Tangible Benefit Test	None	One of 8 NTB Needed to Pass Test[13]

Data source: HUD Handbook 4155.1, Chapter 3, Section B. et seq. accessible at https://www.hud.gov/sites/documents/4155-1_3_SECB.PDF; VA Circular 26-18-30 (Dec. 19, 2018), accessible at https://www.benefits.va.gov/homeloans/documents/circulars/26_18_30.pdf

11 LTV maximum is 100% including the funding fee. Hence, the maximum LTV will depend on applicable VA funding fee. Disabled veterans have no funding fee, other veterans have a funding fee that ranges from 2.15% for first use to 3.3% for subsequent use.

12 Additional restrictions apply for borrowers who have owned the property for less than 12 months

13 For a loan to pass the NTB test, it would have to satisfy one of the following: eliminates monthly mortgage insurance, refinances an interim construction loan, decreases the loan term, reduces the interest rate, decreases the monthly payment, increases monthly residual income, loan-to-Value (LTV) is equal to or less than 90 percent, or refinances from an adjustable rate (ARM) to fixed rate.