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Ginnie Mae president: This is why independent banks need more access to credit

Notes from the MBA Secondary conference

By Ted Tozer

The 2016 **Mortgage Bankers Association's** Secondary Market Conference opened with the housing industry navigating an increasingly complex financing structure. Our industry is in the middle of a housing financing system that is still in the process of evolving years after the economic crisis.

The system that exists today is not the same as the one that helped borrowers get mortgage financing five years ago.

Then, traditional depository institutions dominated the landscape. Now, independent mortgage bankers are front and center.

This was a necessary and critical change for the continued growth and stability of the housing market as major banks left the mortgage origination and servicing space. Several years into the market's transformation, however, it is clear that independent mortgage banks must find new sources of liquidity to continue to play such an important role.

The search for innovative ways to raise capital was the number one topic during many of my conversations at the conference.

Independent mortgage bankers have done a tremendous job in opening the credit box for many borrowers. But what will happen to that credit access in the future if these institutions cannot find a way to access additional capital?

A lack of access to capital could severely limit the servicing capacity of independent mortgage bankers, which will in turn limit overall servicing capacity. Because of the increased role that these institutions have been playing in housing finance, they are already heavily using much of their current funding mechanisms.

Let's be clear: Independent mortgage banks are the market. This means that unless these institutions find new capital streams, we could see a reduction of mortgage originations and higher costs.

This could have a major impact on **Ginnie Mae** and borrowers. Currently, 71% of Ginnie Mae's issuance volume comes from independent mortgage bankers. And, Ginnie Mae's outstanding portfolio is closing in on $1.7 trillion dollars, which means low- to moderate-income borrowers could easily pay more for loans because a low-cost mortgage is not as readily available.

Lenders at the conference also noted that they are seeing a dip in the value of Ginnie Mae servicing. Although the lower pricing of Ginnie Mae servicing is a relatively recent trend, it is still worth noting.

These lenders theorized that the dip had more to do with the underlying government loans in the pools than with the Ginnie Mae execution. Lenders voiced concerns over the capacity for government-backed mortgage loan servicing acquisitions.

For Ginnie Mae, part of the question of capacity is managing the complex business models of these new entrants into the mortgage financing space. While we recognize the need for new capital, we also realize that we as stewards of the Americans' tax dollars must monitor and manage these entities efficiently and effectively to ensure that capital continues to pour into the mortgage industry.

Given that independent mortgage bankers have a greater dependence on banks' lines of credit, keep more sophisticated balance sheets – origination and servicing – and trade mortgage servicing rights more frequently, it is imperative that Ginnie Mae have the ability to evaluate and assess the risks associated with these tasks.

Mortgage loan guarantors (the **Federal Housing Administration**, the **Department of Veterans Affairs**, the **Office of Public and Indian Housing**, and **USDA Rural Development**) only have to worry that the loan was originated properly, Ginnie Mae must guarantee the safety and soundness of the security Issuer. And, coupled with the need to manage more than 430 Issuers in the program, you can see the complex task ahead for Ginnie Mae.

Our ability to manage the safety and soundness of the Ginnie Mae program is directly tied to acquiring the appropriate staff with the skills to monitor extremely complex finances. Currently, Ginnie Mae's budget does not allow us to make the changes that will be necessary to keep pace with the changing industry.

Over the last few years, millions of borrowers have benefitted because Ginnie Mae welcomed independent mortgage bankers. We must maintain our ability to continue this trend. History has, after all, demonstrated that the housing industry and the overall economy depend on Ginnie Mae.

Ted Tozer was sworn in as President of Ginnie Mae on Feb. 24, 2010, bringing with him more than 30 years of experience in the mortgage, banking and securities industries. As President of Ginnie Mae, Tozer operates a multi-billion dollar corporation, administers the mortgage-backed securities program, and oversees enterprise-wide risk management initiatives including capital market activity.