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2016 Ginnie Mae Summit

The Differences Between Ginnie Mae and the GSEs and Why Its Important

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Welcome!

Panelists

- **Angel R. Hernandez**, Policy and Program Development Specialist, Office of Issuer and Portfolio Management
- **Stephanie Schader**, Program Development Manager, Office of Issuer and Portfolio Management

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Agenda

1. History and Structure Overview
2. Differences Related to Federal Agency Status
3. Differences Related to Program Structure
4. Differences Related to Business Model and Risk Position
5. Open Forum Q&A

Presentation is not meant to provide a comprehensive overview of all differences, but rather, to highlight a few differences that bear importance on Ginnie Mae's policies.

History and Overview

- Development of Ginnie Mae
- Structure—Key Legal and Governing Documents
- General Differences Between Ginnie Mae and Other Industry Participants
- Primary Role

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Development of Ginnie Mae

2016- Ginnie Mae MBS reach 1.7 trillion dollars

1983-Ginnie Mae securities become available internationally, (Luxembourg Stock Exchange)

1970- First ever MBS is issued through Ginnie Mae

1968- Housing and Urban Development Act of 1968 effectively split Ginnie Mae from Fannie Mae and established Ginnie Mae as corporation within HUD

1938- Fannie Mae was created in response to great depression

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Structure-Mae-Key Legal and Governing Documents

- Ginnie Mae Statute, 12 U.S.C. 1716 *et seq*.
  - Ginnie Mae Regulations, 24, CFR 320-350.11
    - Mortgage Backed Securities Guide, HUD Handbook 5500.3 REV 1
      - MBS Program Agreements
      - MBS Program Forms
      - MBS Prospectus
    - Ginnie Mae Guaranty Agreement

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General Differences Between Ginnie Mae and Other Industry Participants

Insuring/Guaranteeing Agencies

- Ginnie Mae does not insure lenders against borrower credit risk.
- Ginnie Mae does not set credit, underwriting, or servicing standards at the loan level.

GSE's

- Ginnie Mae does not purchase individual loans or MBS*.
- Ginnie Mae does not issue or sell MBS*.

Lenders/Servicers

- Ginnie Mae does not originate loans or provide any type of financing for Issuers
- Ginnie Mae does not service loans, with the exception of seized portfolios.

**Under the Multiclass program, Ginnie Mae does momentarily acquire and subsequently Issue MBS comprised of other Ginnie Mae MBS (i.e. Platinum securities)*

Ginnie Mae's Primary Roles

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Differences Related to its Federal Agency Status

- Public Mission
- Approach to Counterparty Management
- Operational Limitations

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Public Mission

Mission

- To increase the availability of funds for government mortgage loans, and thereby increase access to credit for first-time homeowners as well as low and moderate income borrowers

Strategy

- By establishing and maintaining an MBS Program capable of:
  - attracting domestic and global capital to the nation's housing finance markets
  - improving the ability to trade government mortgage investments

Implications

- Soundness and stability of the MBS program are key considerations for Ginnie Mae
  - Stewards of public trust and taxpayer funds
  - Less emphasis on market share or profitability
  - Leads to a conservative stance in establishing program requirements

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Approach to Counterparty Management

Equal Treatment

- All program participants should be treated on equal footing regardless of size, performance, financial stability, business model, etc.

Implications

- Ginnie Mae standards and requirements must be set in consideration of the wide degree of variances within our stakeholder population
- Requirements that may seem too strict for certain participants may be less strict than necessary for others
- Need for balance along the spectrum is a key concern of our policy decisions

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Operational Limitations

Funding

- Regardless of profitability, Ginnie Mae's operational budget is appropriated each year by Congress

Expansion and Resources

- Hiring is subject to established federal practices and congressional appropriations
- Contracting is not a panacea

Statutory Limitations

- Certain aspects of the program (i.e. Amount of G-Fee) set by statutory and/or regulatory framework

Implications

- Resource availability requires Ginnie Mae to focus on Issues that have widespread impact on our stakeholders
- Multi-year projects and significant overhauls of program structure are challenging to manage given the annual nature of appropriations
- Significant program changes may require an act of congress
- Inability to change G-Fee means that risk tolerance considerations must be addressed via program requirements

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Differences Related to Program Structure

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Differences Related to Program Structure

Simple and Standard

- Scheduled-Scheduled securities
- Standard collateral leading to simple pooling parameters

Pool Level Program Managed By Issuers

- Ginnie Mae does not purchase individual loans for pooling
- Does not Issue securities in its own name
- Responsibility for compliance and marketing remains with the Issuer of record

Key Assumptions

- Underlying familiarity with servicing responsibilities for Government loans
- Variances or program updates arise from public policy considerations, industry trends, insuring or guaranteeing agency policy changes, and cannot be customized on an Issuer by Issuer basis

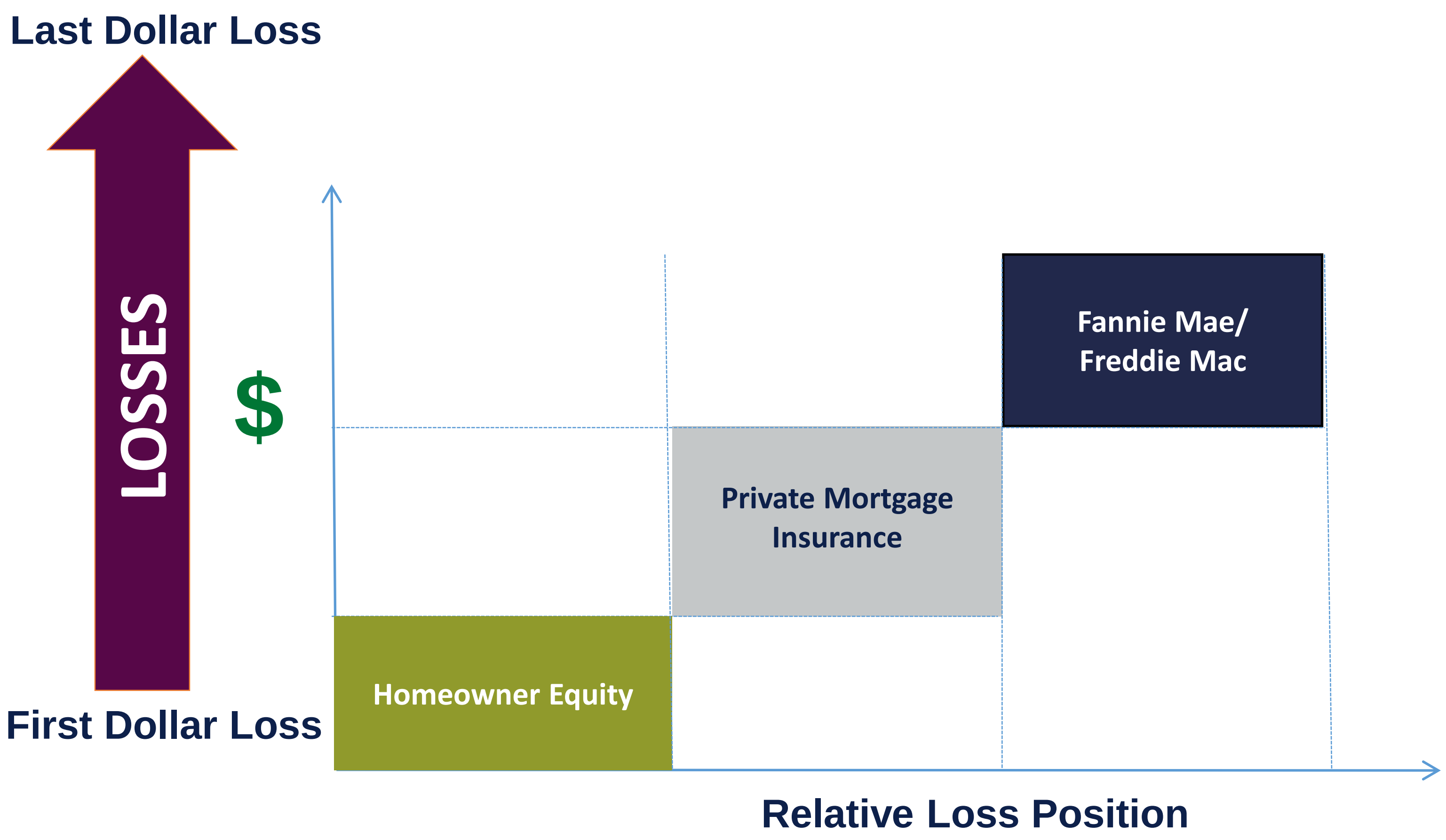
Implications

- New products developed only as needed
- Performance and other similar assessments are done at the portfolio level
- Program is not meant to design custom solutions for each participant (i.e. no negotiated commitments)

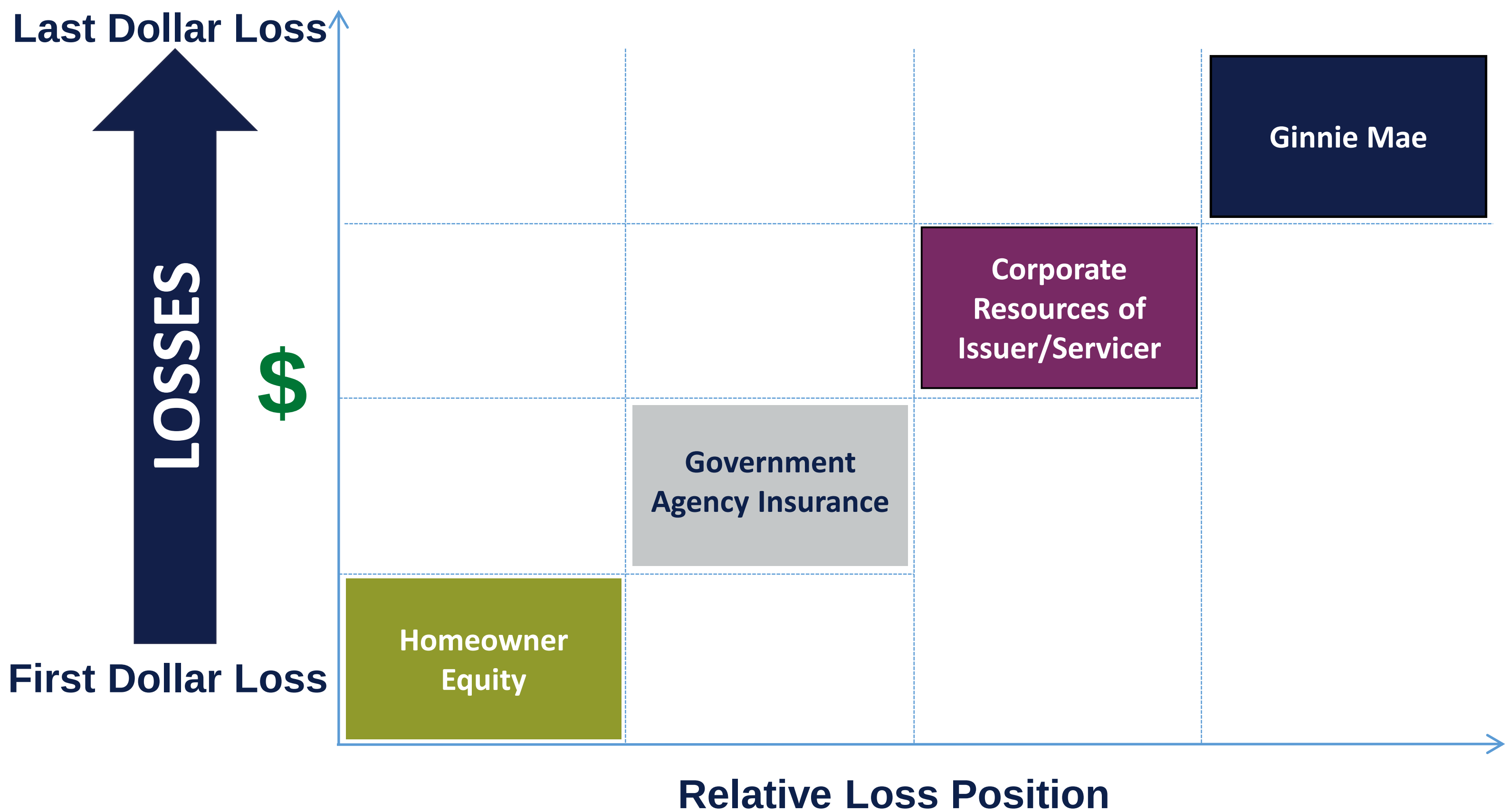
Differences Related to Business Model and Risk Position

- Ginnie Mae's Risk Position Charts
- Implications

Fannie Mae and Freddie Mac General Model of Risk Distribution



Ginnie Mae's Risk Distribution



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Implications

- Fannie Mae/Freddie Mac Issue MBS and retain forms of recourse against the servicer/seller, while Ginnie Mae does not operate as the Issuer until the Issuer has defaulted
- In those scenarios, Ginnie Mae steps into the shoes of the Issuer
- All losses on the portfolio that could have been attributed to the Issuer are passed onto Ginnie Mae
- This includes losses arising from insufficient recovery under insuring/guaranteeing agency claims
- In general, by the time risk is passed on to Ginnie Mae, Ginnie Mae has no recourse against an Issuer
- For these reasons, Ginnie Mae has to set standards based on its own risk tolerance, not the Issuer of record

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Implications

- In general, the portfolios seized by Ginnie Mae may have issues with the underlying collateral, which also impacts our ability to recover
- Ginnie Mae cannot underwrite against its risk because its ability to impose higher G-Fees is foreclosed
- Ginnie Mae may have requirements that are more strict than the insuring/guaranteeing agencies
- Insuring/Guaranteeing agencies may reject claims based on defects on the collateral
- Ginnie Mae must continue to honor its guaranty, regardless of the state of the collateral

Open Forum

Q

&

A

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