

March 7, 2019

MEMORANDUM FOR: All Participants in Ginnie Mae Programs

FROM: Maren Kasper, Acting President

SUBJECT: Counterparty Risk Management Policy Series – Volume 2:
Minimum Portfolio Servicing Spread Requirements for Single
Family Issuers

Ginnie Mae requires Issuers to engage in practices that are consistent with its mission and the integrity of the Mortgage-Backed Securities (MBS) Program. The amount of net servicing income generated by each Issuer portfolio is a key factor impacting that Issuer's ability to remit scheduled payments to security holders. Currently, Issuers can create Ginnie Mae pools or loan packages that yield servicing spreads ranging from 19 to 69 basis points (bps). Issuer pooling practices that result in overall portfolios with servicing spreads that fall on the lower end of the possible range may not generate sufficient amounts of servicing income to withstand periods of financial stress, and therefore may have an adverse impact on the stability of the MBS Program. As part of a series of counterparty risk management policy updates, Ginnie Mae is implementing the following requirement:

New Minimum Portfolio Servicing Spread Requirement

Effective March 1, 2020 (Effective Date), Issuers will be required to have, and maintain at all times, a weighted average servicing spread of at least 25 bps for their Ginnie Mae portfolio comprised of forward, fixed-rate, Single-Family loans (Minimum Portfolio Servicing Spread). Please note that this general requirement applies at the portfolio level, not at the pool or loan package level. Issuers may continue to create Ginnie Mae pools and loan packages that yield servicing spreads within the ranges permissible under Section 24-2(A)(1)(c) of the MBS Guide so long as the Issuer's overall portfolio servicing spread does not fall below the required minimum. For reference, the average servicing spread of all Single-Family Ginnie Mae II pools and loan packages is approximately 36.7 bps. If weighted by unpaid principal balance, the average servicing spread of the same is approximately 35 bps.

Effect on Transactions that Pledge or Encumber Servicing Income

Subject to the limitations outlined in Chapter 21 of the MBS Guide, Issuers may continue to execute transactions that pledge or otherwise encumber their Servicing Income or servicing rights. Any amount of Servicing Income or servicing rights that is



pledged or encumbered in accordance with Chapter 21 of this Guide will not be excluded from the computation of the Minimum Portfolio Servicing Spread required by this Subsection 3-21(C).

Effect of Non-Compliance

Any Issuer that does not have Minimum Portfolio Servicing Spread of at least 25 bps by the Effective Date may be subject to additional requirements, which could include, but are not limited to, restrictions on pools or loan packages with servicing spreads that are lower than the Minimum Portfolio Servicing Spread, or other minimum servicing spread determined by Ginnie Mae at its sole discretion. Ginnie Mae will notify in writing any Issuers at risk of non-compliance ahead of the Effective Date.

Chapter 3 of the MBS Guide is modified effective immediately to incorporate new subsection 3-21(C) Minimum Portfolio Servicing Spread Requirements, which contains additional details, as well as the definitions and formulas pertaining to this announcement. Please contact your Account Executive directly with any questions or concerns.