



MORTGAGE BANKERS ASSOCIATION

September 16, 2019

Ms. Maren Kasper
Acting President
Ginnie Mae
425 3rd Street, SW, Suite 500
Washington, DC 20024

RE: Request for Input: Stress Testing Framework and Recommendations¹

Dear Ms. Kasper:

Ginnie Mae has shown a commitment to transparency and collaboration with interested stakeholders as it has undertaken updates to its counterparty risk management policies, and this Request for Input (RFI) represents a continuation of that engagement. The Mortgage Bankers Association (MBA)² appreciates the use of RFIs as a means to solicit feedback on potential program and policy changes, and we encourage their ongoing use.

MBA also appreciates Ginnie Mae's repeated acknowledgement that appropriate counterparty risk management policies should recognize and account for the diversity of business models within the Ginnie Mae Issuer base. This diversity is a positive feature of the program, as it mitigates correlation risk and makes for a more resilient government-insured mortgage market.

The development of the Stress Testing Framework (Framework) could serve as a useful forward-looking mechanism for evaluating the financial strength of Ginnie Mae Issuers in response to adverse market conditions. It is not a supervisory tool, but it does have the potential to serve as an early warning system for Ginnie Mae. In order for it to achieve this potential, however, it must be implemented in a manner that

¹ Ginnie Mae, "Request for Input: Stress Testing Framework and Recommendations," July 23, 2019. Available at:

https://www.ginniemae.gov/newsroom/publications/Documents/ginniemae_rfi_stress_testing.pdf.

² The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, DC, the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, credit unions, thrifts, REITs, Wall Street conduits, life insurance companies, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

produces relevant information for Ginnie Mae while also remaining clear and transparent to Issuers.

MBA offers the following recommendations and observations, which we believe will meaningfully improve the value of the Framework to both Ginnie Mae and Issuers:

- Stress test results should be evaluated as one of many sources of information used by Ginnie Mae to oversee its Issuer base. Stress test results should not be used as a standalone factor for any actions taken by Ginnie Mae, but instead should serve as a basis for further analysis and engagement with the Issuer.
- The primary objective of the Framework should not be to grade all Issuers, but instead to identify significant outliers among the Issuer base that appear particularly susceptible to weakness in the event of adverse market conditions. The Framework should not be used to parse differences across Issuers whose results are well within ranges found to be acceptable by Ginnie Mae, including those with results that remain above existing Ginnie Mae required thresholds.
- A rating system as envisioned in the Framework (Pass / Watch / Potentially Non-Compliant / Potentially Deficient) places too great an emphasis on arbitrary thresholds between categories. Instead, Ginnie Mae should focus only on those Issuers that are shown to be significant outliers.
- Ginnie Mae should engage in a constructive dialogue with Issuers whose stress test results identified them as significant outliers to better understand the financial condition and operating model of these Issuers. The stress test results should serve as the basis for further examination rather than a dispositive conclusion.
- Prior to the final implementation of the Framework, the validity of the stress test results should be evaluated across a broad range of Issuers, with a particular focus on ensuring the results are reliable for smaller Issuers or those Issuers with unique business models.
- The Framework should be used in a purely “informational” or “testing” phase for at least two years, in which Ginnie Mae collects and analyzes the stress test results, but does not rely on these results when taking actions with respect to Issuers. This transitional period will allow Ginnie Mae to adjust and fine-tune the Framework to reduce both “false positive” and “false negative” results, while also allowing Issuers to better understand how they fare when subjected to the stress test. By instituting a transitional period, Ginnie Mae would not be limiting its ability to use any existing authorities when needed; it simply would not use the stress test results as a factor when determining whether such actions are necessary during this period.

- Ginnie Mae should ensure appropriate levels of transparency regarding the modeling and inputs that support the Framework.
- Ginnie Mae should ensure strict confidentiality of stress test results.
- Ginnie Mae should ensure that the implementation of the Framework does not divert resources from other important risk mitigation tools, such as fraud identification, improved capacity to manage servicing transfers, and efforts to strengthen liquidity in the market for mortgage servicing rights (MSRs).
- Ginnie Mae has expressed concern that it has insufficient resources to handle multiple, simultaneous episodes of Issuers in distress. The Framework will be of limited utility in managing this risk, and MBA therefore supports efforts to provide Ginnie Mae with the funding needed to protect taxpayers by deploying robust resolution capabilities during a period of adverse financial conditions.

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The Role of Stress Testing Amid Broader Counterparty Risk Management Policy Changes

Over the past decade, outstanding mortgage-backed securities (MBS) guaranteed by Ginnie Mae have grown dramatically, rising from approximately \$750 billion in mid-2009 to over \$2 trillion in mid-2019. During this period, the composition of active Ginnie Mae Issuers has also changed, with non-depository institutions now accounting for the vast majority of MBS issuance.

Against the backdrop of these changes, it is appropriate for Ginnie Mae to review its counterparty risk management policies in order to ensure they remain effective and consistent with the size and composition of the program. Over the past two years, Ginnie Mae has introduced a number of policy updates on this front, including requirements or risk factors related to: delinquency rates, servicing capability, portfolio diversification, prepayment speeds, corporate credit evaluations, subservicer advance and servicing income agreements, portfolio servicing spreads, secured debt ratios, and servicer and credit ratings, among others.³

Many of these policy updates have already been instituted, while others will become effective shortly. The introduction of stress testing therefore should be considered in the context of the broader set of counterparty risk management policies in place at Ginnie Mae. In order for stakeholders to better understand how Ginnie Mae will use and rely on the stress test results, Ginnie Mae should clearly articulate how the stress test fits into this broader set of policies.

³ See Ginnie Mae APMs 18-02, 18-07, 19-02, and 19-06.

Specifically, we recommend that Ginnie Mae underscore that the stress test results will be used as one of many tools and requirements at its disposal to understand and manage its counterparty risk. In doing so, it should also make clear that stress test results are not final determinations, nor will they be the sole basis for Ginnie Mae actions regarding enhanced requirements, reduced commitment authority, or limits on program participation. Rather, the stress test results should be used as a forward-looking assessment of the susceptibility of Issuers to falling short of required thresholds due to adverse market conditions. Ginnie Mae would then use this information in concert with all other available information when making decisions about particular Issuers or program-wide changes.

Ginnie Mae should also continually evaluate the validity, utility, and costs associated with all of its counterparty risk management policies, including monitoring of key capital and liquidity ratios and stress testing. For each of these policies, Ginnie Mae should consider any adjustments that may be needed to reflect the varying size, complexity, or business model profiles across Issuers. Policies should be tailored appropriately to ensure that any modified Issuer requirements are commensurate with the risks posed to Ginnie Mae by those Issuers.

Because the Framework is not a prudential supervision program, but rather a counterparty risk management program, its objective should not be to prevent all defaults by non-depository Issuers. Instead, the objective of the Framework should be to provide a forward-looking assessment of Issuer default risk that will help Ginnie Mae reduce the likelihood of widespread defaults and ensure that any Issuer default does not expose taxpayers to undue risk. As such, the Framework should be implemented in a risk-focused manner.

Identification of Outliers

Ginnie Mae should use the Framework as a risk-mitigation tool by focusing on how the stress test results help to identify Issuers that could exhibit material weakness under adverse economic or financial market conditions. Any risks to Ginnie Mae from a stressed environment would come from the insolvency of one or more Issuers. The utility of stress testing, therefore, would be to provide Ginnie Mae with a more data-driven approach to understanding the likelihood of Issuer insolvencies under varying scenarios, as well as to provide Ginnie Mae with an early warning regarding the need for additional resolution resources and the magnitude of the necessary resources. Said differently, the greatest benefit of stress testing is to help Ginnie Mae identify significant outliers among the Issuer base with respect to financial resiliency.

The Framework as currently designed seems to emphasize rating all Issuers across a series of factors, which in turn would produce an overall, four-tier rating system. Each Issuer would be assigned a rating of Pass, Watch, Potentially Non-Compliant,

or Potentially Deficient. This rating system implies that Ginnie Mae would use the Framework not only to identify outliers, but also to parse differences across hundreds of Issuers that are generally compliant and less likely to pose excessive risks to Ginnie Mae. Such a structure bears greater resemblance to a prudential supervision program—which is not what the RFI proposes or suggests—than to a counterparty risk management program.

If Ginnie Mae's risks center on Issuer insolvency, it is not necessary for Ginnie Mae to use time and resources to understand variations in stress test results for Issuers in the lower risk categories. Such variations are unlikely to address any realistic risks posed to Ginnie Mae, and they also imply a level of precision that the stress test is unlikely to provide.

Further, the four-tier rating system places too great an emphasis on arbitrary thresholds between categories. For example, while the stress test results for the last Issuer in the Pass category and the first Issuer in the Watch category would likely be very similar, the placement of these Issuers in different rating categories would exaggerate any differences in results. The stress test results would more appropriately be considered on a continuum, in which the results are analyzed without the need for multiple "break points" for categories that may or may not accurately reflect the distribution of results.

As such, we recommend that Ginnie Mae eliminate the four-tier rating system as envisioned in the Framework and instead evaluate the stress test results of each Issuer in the context of the full distribution of results for all Issuers. In doing so, Ginnie Mae should direct its attention to Issuers with results that are significant outliers in this distribution. By identifying and focusing on outliers, Ginnie Mae can use the Framework as a means of directing its limited resources towards Issuers that are more likely to experience significant financial challenges under adverse market conditions.

Finally, in determining which stress test results constitute "outliers" across the distribution, Ginnie Mae should calibrate its assessment based on the size and complexity of Issuers, as well as the risks posed to Ginnie Mae by the failure of each Issuer. This practice is common in the context of stress testing. For example, the stress test results that would designate an Issuer as an outlier—and thereby warrant further analysis by Ginnie Mae—likely are not the same for the largest Issuers and the smallest Issuers. This approach is akin to risk-based evaluations; the greater the risk an Issuer's insolvency would pose to Ginnie Mae, the closer Ginnie Mae should monitor for counterparty risk.

Remediation of Identified Weaknesses

The Framework as published in the RFI does not address the consequences of poor stress test results for Issuers, nor the actions that Ginnie Mae may take in response to the stress test results.⁴ The proposed rating system suggests that the Framework is a supervisory tool, with corrective actions for lower-rated Issuers. Again, using the Framework for such a purpose would assume a supervisory role that is beyond the responsibilities of Ginnie Mae. Given these concerns, it will be critical that Ginnie Mae provide greater specificity to ensure that Issuers understand how the stress test results will be used. Such communication should occur prior to any finalization and implementation of the Framework.

As is noted above, the Framework will be most effective if it is considered as one tool in the broader set of Ginnie Mae counterparty risk management policies and requirements. Poor stress test results should not, on their own, lead Ginnie Mae to take adverse actions or levy penalties against an Issuer. Because Ginnie Mae is not a prudential regulator, a Prompt Corrective Action framework is not necessarily applicable or feasible.

Instead, Ginnie Mae should treat the poor stress test results of an outlier Issuer as the trigger for a series of interactions that will allow for further analysis and examination. Ginnie Mae can and should draw on the experience of its recent “liquidity meetings” with the largest non-depository Issuers as a guide. In its report following these meetings, Ginnie Mae found no indications of existing systemic liquidity challenges due to the profiles of non-depository Issuers.⁵

Because the Framework does not take into account all relevant information that would impact Issuers’ financial health during a period of adverse market conditions, it will be incumbent upon Ginnie Mae to provide Issuers with the opportunity to present any additional information that could impact Ginnie Mae’s evaluation. This information could include the varying steps that different Issuers would plan to take in response to a period of adverse market conditions, as well as the varying resources available to different Issuers under such circumstances.

This approach would ensure that Ginnie Mae is not overemphasizing the stress test results, but rather that it is using them as an indicator to guide its ongoing analysis

⁴ The Framework notes: “Issuers rated Potentially Deficient are flagged for further examination as to the causes of the deficiency and if any mitigating actions may be available to mitigate the outcome of the stress test.”

⁵ Ginnie Mae, “Report on Issuer Liquidity Meeting Series: February-April 2019,” May 17, 2019. Available at: https://www.ginniemae.gov/newsroom/publications/Documents/issuer_liquidity_meeting_series_report.pdf.

and review of its counterparties. In this sense, the Framework would be used as a means to direct limited Ginnie Mae resources in a more targeted manner. Such an approach also fits with the Ginnie Mae acknowledgement that varying stress test scenarios will have different effects on different types of Issuers based on business model, corporate structure, and other factors. Finally, nothing about this approach prevents Ginnie Mae from taking actions or making use of its existing authorities; it simply requires a constructive dialogue between Ginnie Mae and the Issuer prior to any such action being taken in response to the stress test results.

Data Considerations

Much of the data that serve as inputs into the Framework appear to come from the Mortgage Bankers Financial Reporting Form (MBFRF). While this is a useful source of financial data for non-depository Issuers, there are limitations and ambiguities associated with the current form and definitions, as is noted in the RFI.

The lack of clarity in the MBFRF data inhibits an accurate understanding of cash flows and financing options available to Issuers. It therefore would be difficult to compare results across Issuers over time. If Ginnie Mae plans to rely on MBFRF data as critical inputs into the Framework, it should also undertake systematic and collaborative efforts to improve the quality and reliability of this data.

We would also caution Ginnie Mae that an overly onerous attestation requirement with respect to the MBFRF data could be counterproductive. Rather, we would recommend providing the industry with sufficient time, guidance, and opportunities for input to improve the MBFRF data without the fear of undue penalties.

In addition, it is unclear if Ginnie Mae will compare the quarterly, unaudited MBFRF data with annual, audited data provided in relevant financial statements. If Ginnie Mae plans to undertake reconciliation of these data sources, it should provide more information regarding these plans and the ways in which discrepancies will be handled for purposes of the Framework and the stress test results. This concern is particularly important if Issuers are required to attest to unaudited financial results.

With respect to measurements of Issuer liquidity, Ginnie Mae should provide more specificity in terms of its calculations and definitions. For example, variations in Issuers' MSR hedging practices could produce starkly different liquidity metrics, as could differences in business practices related to credit facilities (e.g., if an Issuer were to use cash to pay down warehouse credit facilities to avoid extra interest expense). The nuanced nature of liquidity metrics, and the importance of liquidity projections in the Framework, suggest that these data and definitional issues must be resolved prior to any final implementation of the Framework.

Performance Criteria

Issuers are evaluated in the Framework through a set of performance criteria, which includes Ginnie Mae's proprietary risk grades as well as various compliance metrics and debt covenants. Together, these criteria are used to produce an overall stress test rating for each Issuer.

The Framework does not, however, specify the relative importance of these risk grades, compliance metrics, and debt covenants. For example, it is unclear if there is equal weighting of the seven compliance metrics and debt covenants, or if some criteria are determined to be more consequential or predictive. It is also unclear if these weightings are intended to be constant, or if Ginnie Mae will adjust them based on further testing and validation of the stress test model.

Separately, it is unclear how poor stress test results on any single compliance metric or debt covenant relate to the Issuer's overall rating. For example, a Watch rating is put in place if an Issuer has "one or more compliance ratios in the Watch category...the Watch category threshold is determined as being within a 50% buffer of the Ginnie Mae and Government-Sponsored Enterprise (GSE) compliance ratios." Based on a strict reading, this definition would imply that any Issuer that is above the required thresholds on all of the compliance metrics over all periods of the stress test still would not obtain a Pass rating unless it held a large buffer over the required thresholds across all periods.

Similarly, a Potentially Non-Compliant rating indicates that an Issuer "has one or more compliance ratios below Ginnie Mae's or the GSEs' minimum compliance thresholds, but the Issuer maintains positive overall capital and equity levels in the projection period." Again, a strict reading would imply that a projection for one compliance metric below the required threshold in one quarter would result in a Potentially Non-Compliant rating, even if all other compliance metrics were well above the required thresholds.

Ginnie Mae should specify exactly how these compliance metric projections translate into overall Issuer ratings. While we believe that Ginnie Mae should remove the arbitrary categories associated with this overall rating, if it does retain this structure, it should re-evaluate how poor results on a single metric impact an Issuer's overall rating. Given the holistic nature of this exercise, it seems that a more holistic assessment of the projected compliance metrics is warranted.

Finally, when communicating the stress test results to Issuers, Ginnie Mae should include the model projections for the seven compliance metrics and debt covenants in addition to the overall rating. By doing so, it will improve the transparency of the process and help Issuers understand and identify the areas in which they exhibit

relative strength or weakness. This transparency will in turn provide Issuers with further information by which they can address potential weaknesses before they reach outlier status. As will be discussed later, it is critical that Ginnie Mae take the appropriate steps to ensure confidentiality of these results with respect to potential dissemination to third parties.

Initial Informational Phase

Given the complexity of any stress testing regime, as well as the fact that this particular method of stress testing is a new activity for Ginnie Mae, it is likely that Ginnie Mae will need to continue to refine and adjust its model in the coming years. Similarly, it will take time for Issuers to understand the Framework and how their particular institutions fare when subjected to the stress test.

We therefore believe it would be inappropriate for Ginnie Mae to take actions, levy penalties, or restrict program access in response to the stress test results in the near term. Instead, for a period of at least two years after the Framework is finalized on an interim basis, Ginnie Mae should perform the stress test, collect and analyze the results, and review these results with Issuers on a purely informational basis.

Under this construct, during the informational phase, Ginnie Mae would meet with an Issuer that is identified as an outlier due to its stress test results to better understand the nature of the Issuer's business and any potential mitigating factors. The Issuer, in turn, would be given the opportunity to learn which criteria contributed to its poor results. Issuers would then have a reasonable time period during which to institute any necessary changes, while Ginnie Mae would also come to learn the strengths and shortcomings of its model. As this process unfolds during the informational phase, Ginnie Mae should also provide ongoing opportunities for all Issuers to submit input to improve the Framework through an iterative process.

To that end, Ginnie Mae should also use this period to consider and evaluate whether the compliance metrics and debt covenants in the Framework are providing meaningful information. Following further analysis, Ginnie Mae could find that the definitions or calculations of certain performance criteria need to be revised. Ginnie Mae could also find that a subset of these performance criteria provide sufficient information such that other criteria could be eliminated and the Framework could be simplified.

During this period, nothing would prevent Ginnie Mae from exercising its existing authorities to enforce program requirements and eligibility standards, as it does today. The stress tests results, however, would not be an input into any determinations made by Ginnie Mae until the completion of the informational phase.

It will also be critical that Ginnie Mae use this informational phase to undertake appropriate training of its account executives and other staff regarding the details of the Framework. In particular, Ginnie Mae staff who interact with Issuers should fully understand the nature of the Framework, the meaning of the stress test results, and the manner by which they are expected to work with Issuers seeking to improve their results. Similarly situated Issuers should receive similar guidance from their account executives regarding the Framework, other counterparty risk metrics, and any remedial actions that may be necessary.

We further recommend that Ginnie Mae issue a summary report, or perhaps another RFI if necessary, near the completion of this informational phase to discuss any adjustments to the Framework that will be made in response to the lessons learned during this period.

Taken together, these steps represent a deliberative process that will better ensure the validity of the Framework, as well as prepare Issuers and mitigate any surprises that could come from immediate implementation of the Framework.

Transparency of the Framework

As is noted above, there are numerous questions related to the data elements that contribute to the stress test results, as well as questions related to the remediation of identified weaknesses. There are also, however, more basic questions that must be answered before the Framework can be properly implemented. We appreciate that these stress test parameters and features may still be adjusted based on feedback provided to Ginnie Mae through the RFI process.

Unaddressed issues in the Framework include:

- The exact set of Issuers to which the stress test applies;
- The frequency with which the stress test is performed;
- The process by which the baseline and adverse scenarios are developed and communicated; and
- The process by which results are communicated to Issuers.

As Ginnie Mae refines the Framework in response to further testing and public comments, it should include information on the issues above. By doing so, it can provide greater insight into the nature of the stress test, which in turn will allow for better analysis of the Framework itself and ways in which it can be improved.

Confidentiality of Stress Test Results

The Framework as published in the RFI is largely silent with respect to the disclosure or potential sharing of stress test results. It is unclear, for example, if an Issuer's stress test results or any ratings associated with these results would be treated with the same level of discretion and care as confidential supervisory information. Similarly, it is unclear whether Ginnie Mae or the Issuer would be permitted or required to share the stress test results with third parties, including regulatory agencies, warehouse lenders, or investors.

These considerations need to be carefully evaluated by Ginnie Mae and made known to all parties prior to any implementation of the Framework. Without clear parameters for the confidentiality of stress test results, these results could be released or shared in an inconsistent manner, which could result in disparate treatment of Issuers by regulators or counterparties.

As we have noted, we believe the Framework would be most effective if used as a method for identifying potential outliers among the Issuer base. Once potential outliers are identified, Ginnie Mae would then conduct a deeper analysis, which would include communication with the Issuer. Under such a model, it is particularly important that stress test results not be released publicly.

Because poor stress test results are a leading indicator that would trigger the start of a more thorough review, it would be highly inappropriate to disclose these results publicly. Doing so would be akin to publicizing a conclusion before it is reached, as the Framework will likely identify "false positives," or Issuers that are assigned poor stress test results but upon further examination are deemed by Ginnie Mae to be in an acceptable financial condition.

Third parties may not fully appreciate this process and nuance, and are therefore likely in some cases to take immediate action based on the results, even if Ginnie Mae commits to taking a more methodical approach. Public disclosure of stress test results would also likely generate unfair, negative media coverage and could skew consumer impressions of certain Issuers. As such, the public release of the stress test results could set in motion a "self-fulfilling prophecy," by which a lack of confidence in the Issuer due to its stress test results leads to a reduction in available warehouse lines, misleading media stories, diminished investor interest, loss of key employees, and fewer customers—all of which increase the likelihood that the Issuer will actually face material financial distress.

Ginnie Mae should instead disclose the stress test results to each Issuer on a confidential basis. While it may be appropriate in some instances to share certain stress test results with federal or state regulators, Ginnie Mae should ensure that

such disclosures be subject to appropriate memoranda of understanding and any other means necessary to protect confidentiality. Ginnie Mae should also take any and all steps to prevent the compulsory release of stress test results to the public under the Freedom of Information Act.⁶

Efforts to Address Issuer Insolvency

If the Framework is implemented successfully, its merits will center on providing Ginnie Mae with a better early warning system regarding the resiliency of various Issuers under adverse market conditions. While useful, the Framework would only meet a portion of Ginnie Mae's needs with respect to Issuers that are insolvent or nearing insolvency. A predictive stress test model can prepare Ginnie Mae for these scenarios, but it does not affirmatively improve Ginnie Mae's capacity to address the failure of an Issuer when such an event does occur.

Any residual risks to Ginnie Mae from the insolvency of one or more Issuers can be mitigated by highly-efficient processes for transferring servicing obligations and fulfilling other operational needs. In particular, Ginnie Mae should never be exposed to undue risks from the failure of multiple Issuers if those Issuers together only represent a small share of Ginnie Mae servicing volume.

To ensure Ginnie Mae has the technical and operational capacity to handle these situations, more resources will need to be dedicated to these resiliency efforts. Given limited resources, however, Ginnie Mae necessarily must be judicious with its investments. While the development of a stress testing model and upgrades to systems for transferring servicing are not mutually exclusive, they do compete for these same limited resources.

As such, we recommend that Ginnie Mae continue to develop the Framework, but that it not draw resources away from ongoing efforts to improve its capacity to handle the insolvency of one or more Issuers. Given the importance of each of these functions, MBA will continue to urge legislators to appropriate sufficient funds to Ginnie Mae so that these program enhancements can be undertaken effectively.

Efforts to Strengthen Liquidity in the MSR Market

Another factor that plays an outsized role in the severity of the failure of one or more Issuers is the liquidity of the Ginnie Mae MSR market. All else equal, a deeper, more liquid MSR market will ease the process of transferring servicing in a timely, orderly

⁶ For example, stress test results should be subject to Exemption 8 of the Freedom of Information Act, which provides an exemption for matters that are "contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions." See: 5 U.S.C. § 552(b)(8).

manner. For Ginnie Mae, changes in the level of MSR market liquidity could likely represent the difference between a quick resolution of an insolvent Issuer and a major counterparty risk exposure.

In a recent white paper, Ginnie Mae described forthcoming efforts to “expand the supply of stable capital available to support MSRs.”⁷ These efforts include expanding options for financing servicing advances, expanding the range of institutions that can directly own MSRs, and increasing the loan-level capabilities of the program, such as loan-level servicing transfers or loan-level credit risk transfers.

These program changes, along with other opportunities for upgrades to the Ginnie Mae Acknowledgement Agreement, have the potential to increase liquidity in the Ginnie Mae MSR market greatly. This deeper liquidity in turn should result in material improvements to Ginnie Mae’s ability to facilitate the orderly resolution of one or more Issuers, as well as provide Issuers with an enhanced ability to address liquidity needs on their own, obviating the need for intervention by Ginnie Mae.

Other improvements on this front could be advanced by agencies such as the Consumer Financial Protection Bureau (Bureau). For example, Bureau rules and guidance have made clear that successor servicers are responsible for the entirety of the servicing file, including missing data or data errors that may have been made by prior servicers. Successor servicers are also responsible for any missed milestones or servicing errors made by the transferor servicer. The due diligence that these rules and guidance have engendered has lengthened the time to complete servicing transfers and increased their complexity. This potential liability, exacerbated by the lack of a common market definition of a complete servicing file, has resulted in a material reduction in liquidity for servicing transfers. If the Bureau were to provide clear guidelines rather than situational responses, it could produce significant improvements in the efficiency of servicing transfers, particularly with respect to a servicer that is experiencing financial distress. While not in the direct purview of Ginnie Mae, policy reforms of this nature should better facilitate Ginnie Mae’s ability to address the orderly resolution of one or more Issuers.

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We look forward to continued engagement with Ginnie Mae as the Framework is refined and incorporated into Ginnie Mae’s broader counterparty risk management practices. We believe the recommendations described above will produce a more useful Framework that fairly and accurately assesses Issuer financial strength in a period of adverse market conditions, while also ensuring

⁷ “Ginnie Mae 2020: Roadmap for Sustaining Low-Cost Homeownership,” June 20, 2018. Available at: https://www.ginniemae.gov/newsroom/publications/Documents/ginniemae_2020.pdf.

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that the stress test results are not overemphasized, relied upon disproportionately, or extrapolated beyond their proper use.

Thank you in advance for your consideration of these comments. Should you have questions or wish to discuss further, please contact Dan Fichtler, Associate Vice President of Housing Finance Policy, at (202) 557-2780 and dfichtler@mba.org.

Sincerely,

A handwritten signature in black ink, appearing to read "R. D. Broeksmit". The signature is fluid and cursive, with a long horizontal stroke at the end.

Robert D. Broeksmit, CMB
President and Chief Executive Officer
Mortgage Bankers Association