U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-9000

THE GOVERNMENT NATIONAL
MORTGAGE ASSOCIATION

March 2, 1999

99-09

MEMORANDUM FOR: All Participants in Ginnie Mae Programs

FROM: George S. Anderson, Executive Vice President

SUBJECT: Reduction in the Minimum Number and Dollar Amount of Loans Permitted in Certain Ginnie Mae Pools

Ginnie Mae announces a change to the minimum number of loans it permits in certain Ginnie Mae pools. The announcement results from Congress raising the maximum loan amount it permits FHA to insure. This announcement applies to all pools except multifamily, manufactured housing and serial note pools. Effective immediately, Ginnie Mae requires that affected Ginnie Mae pools or loan packages, except for pools issued through housing bond financing programs, contain a minimum of three loans. Therefore, Ginnie Mae has removed the Loan Package Table contained in the Ginnie Mae II Guide and is in the process of removing it from the GinnieNET software. Additionally, Ginnie Mae is eliminating the requirement that no loan may represent more than 20 percent of the original principal amount of a pool. However, the minimum dollar amount in which a pool may be issued remains unchanged. For example, the minimum issue amount of a standard Ginnie Mae I single family (SF) pool remains one million dollars.

Ginnie Mae also announces revisions to its pooling requirements for pools of single family loans created through state and local housing bond-financing programs. These revisions will also be effective immediately.

Ginnie Mae is reducing the minimum pool size to $25,000 for pools of single family loans created through housing bond-financing programs (BFPs) and backing securities held by Bond Trustees. In addition, the minimum number of loans required for BFP pools submitted through both the Ginnie Mae I and Ginnie Mae II Custom programs is reduced to one. Issuers will be required to certify that a pool is collateral for a BFP if the pool does not satisfy standard minimum pool and loan requirements of the Ginnie Mae I and Ginnie Mae II programs.

Currently, GinnieNET Version 5.1 will not accommodate the above changes. Therefore, pools containing these loans will have to be submitted in hard copy form until GinnieNET Version 5.2 is available. Processing time will be ten business days after receipt of the pool package. We expect GinnieNET Version 5.2 to be available this month.

Any questions regarding this memorandum should be addressed to your Account Executive in the Office of Customer Service at (202) 708-1535.

Section 1-9(C) (continued

(2) The issuer collects the mortgagors' monthly principal, interest, and escrow payments and all other payments and recoveries with respect to the pooled mortgages and deposits them into the pool's P&I and escrow custodial accounts. The issuer makes all required payments to security holders so as to assure that the security holders receive by the 15th of each month (or, in the case of securities issued in book-entry form with an issue date of October 1, 1998 or later, on the next business day if the 15^{th} is not a business day) payment of principal and interest to which they are entitled. In case of shortfalls in collections on the mortgage loans, the issuer must pay from its own funds amounts necessary to fully fund the payments due security holders. (See Chapter 15)

(3) Each month the issuer submits an accounting report for each pool to Ginnie Mae. (See Chapter 17)

(4) Each month the issuer reports each pool's aggregate remaining principal balance, as of the end of the preceding month, to Ginnie Mae. This is the basis for the calculation of the monthly payment to the security holder. (See Chapter 19)

(5) The issuer maintains a security holder's registry for each of its pools and reports to the CPTA requests for the issuance of certificated securities, requests for transfers of certificated securities, and claims due to missing or damaged certificates. (See Chapter 12)

(6) The CPTA issues and transfers Ginnie Mae MBS according to instructions received from the issuer, security holders, or securities dealers, maintains a central registry of all outstanding Ginnie Mae pools, and deals with claims due to missing or damaged certificates. (See Chapter 12)

Section 1-9(C) (continued

(7) The issuer may pledge its servicing rights to a

secured party or effect one or more of the following transfers: transfer custodial accounts; transfer document custodian responsibilities; transfer subcontract servicing responsibilities; and transfer issuer responsibility. (See Chapter 21)

1-10: POOL TYPES AND MINIMUM SIZES

The different Ginnie Mae pool types and minimum pool sizes are shown in this table.

Pool Type	Acronym	Minimum Pool Size
Single Family Level Payment Mortgages	SF	$1,000,000 ($25,000 for state or local housing bond financing programs. See Section 23-2(B)(3))
Buydown Mortgages	BD	$500,000
Graduated Payment Mortgages	GP, GT	$500,000
Growing Equity Mortgages	GA, GD	$500,000
Serial Notes	SN	$2,500,000
Manufactured Home Loans	MH	$500,000
Project Loans	PL, PN, LM, LS	$250,000
Construction Loans	CL, CS	$250,000

(B) Pool Requirements

(1) Number of loans:

As of the date of issue, each SF pool must include at least 3 loans; .

(2) Minimum pool balance:

As of the date of issue, each SF pool, except as provided in paragraph (3) below, must have an original principal amount of at least $1,000,000.

(3) State or local housing bond financing programs:

Pools with an original principal amount of less than $1,000,000 and fewer than 3 loans are permissible if the securities are to be used as collateral for a bond financing program (BFP). It is the intent that the securities will be held by the trustee for the bond program. As part of the pool package for such a pool, the issuer must submit to the PPA a certification for a BFP. If the pool is ever traded in the secondary market, purchasers must be provided with a letter stating that the underlying mortgages were part of a mortgage revenue bond program and the security holder may experience different prepayment characteristics, than is customary.

A pool issued as part of a particular BFP must have a minimum original principal amount of $25,000. Each pool submitted under this paragraph must contain at least one loan.

(4) Maturity:

To ensure reasonable homogenentity among pools of loans:

(continued)

(a) At least 80 percent of the original principal amount of each pool must be in mortgages with maturities within 30 months of the latest mortgage maturity.

(b) At least 90 percent of the original principal amount of the pool must be in mortgages with maturities of 20 years or more, except as provided in paragraph (c) below.

(c) Ginnie Mae will allow the mortgages in a pool to have a uniform maturity of less than 20 years if at least 90 percent of the original principal amount of the pool is in mortgages with the same original term (e.g., 15 years), that original term is the longest term of any loan in the pool, and the following special disclosure requirements are met:

 (i) The issuer must disclose the following in writing to the securities dealer or other first purchaser:

  (aa) that the pool differs in maturity composition from Ginnie Mae's normal requirements;

  (bb) the longest term of any loan in the pool; and

  (cc) that loans comprising at least 90 percent of the original principal amount of the pool have that term.

 (ii) The issuer must obtain from the securities dealer or other first purchaser written confirmation that these required disclosures have been made and are acceptable.

(B) For Approval by PPA and Ginnie Mae

The SF pool documents required for approval by Ginnie Mae are the same as those discussed in Section 10-3, except that the issuer must also submit:

(1) Unless the pool is submitted by Ginnie*NET* 5.1, a prospectus, form HUD 11717 (Appendix IV-2), which must be modified, if appropriate, in accordance with Section 23-2(B)(4)(c)(iii).

(2) For bond financing program pools under $1,000,000, the certification required pursuant to Section 23-2(B)(3).

The following table lists the pool documents required by the PPA for approval of SF pools:

DOCUMENT NAME	FORM NUMBER	APPENDIX
Schedule of Subscribers and Ginnie Mae Guaranty/Contractual Agreement	HUD 11705	III-6
Schedule of Pooled Mortgages	HUD 11706	III-7
Master Servicing Agreement	HUD 11707	III-1
Master Agreement for Servicer's Principal and Interest Custodial Account	HUD 11709	III-2
Master Agreements for Servicer's Escrow Custodial Accounts	HUD 11720	III-3
Master Custodial Agreement	HUD 11715	III-4
Prospectus (unless submitted by Ginnie*NET* 5.1)	HUD 11717	IV-2
For BFB pools, the certification required by Section 23-2(B)(3)		

Section 27-3 (continued)

(B) For Approval by PPA and Ginnie Mae

The SN pool documents required for approval by Ginnie Mae are the same as those discussed in Section 10-3, except that the issuer must also submit a prospectus, form HUD 1734 (Appendix IV-5),.unless the pool is submitted by Ginnie*NET* 5.1.

The following table lists the pool documents to be sent to the PPA for approval of SN pools by Ginnie Mae.

DOCUMENT NAME	FORM NUMBER	APPENDIX
Schedule of Subscribers and Ginnie Mae Guaranty/Contractual Agreement	HUD 11705	III-6
Schedule of Pooled Mortgages	HUD 11706	III-7
Master Servicing Agreement	HUD 11707	III-1
Master Agreement for Servicer's Principal and Interest Custodial Account	HUD 11709	III-2
Master Agreements for Servicer's Escrow Custodial Accounts	HUD 11720	III-3
Master Custodial Agreement	HUD 11715	III-4
Prospectus (unless submitted by Ginnie*NET* 5.1)	HUD 1734	IV-5

27-4: THE SECURITIES

Preparation and delivery of the securities are described in Chapter 12. This section describes additional requirements for issuers of securities backed by SN pools.

Until further notice, Serial Notes for which pools are submitted using Ginnie*NET* 5.1 will be issued initially in certificated book-entry form. Serial Notes for which pools are submitted using paper submission will be issued initially in fully-registered, certificated form.

Payment of interest must be made by the 15th of each month or, if made by electronic transfer and the 15th day is not a business day, on the first business day following the 15th day of each month on all outstanding Serial Notes. Payment of principal must be made when accumulated scheduled principal, and unscheduled recoveries of principal, is sufficient to retire a Serial Note unit or units in sequential order.

Each issue will consist of at least 100 consecutively numbered units of equal amounts. The principal amount of each serial unit must be $25,000, except for the last unit, which may be in a principal amount greater than $25,000 but less than $50,000. If Serial Notes are initially issued in book-entry form, the CPTA will issue to the depository one Serial Note certificate for each serial unit. Otherwise, a single Serial Note certificate may represent one or more consecutively numbered serial units.

The maturity date of a Serial Note issuance will be the maturity date of the last serial unit to mature that is included in that issue, based on the amortization of the mortgage pool assuming no unscheduled recovery of principal.

Example: Serial Note Unit 37 is part of a $2,500,000, 9% pool with 100 $25,000 units. Serial Note 37 ($25,000) will be paid principal only after the preceding 36 Serial Notes (36 x $25,0000 = $1,550,000) have been paid in full. That is, $1,575,000 will have to be paid on the mortgages in order for Serial Note 37 to be retired. Assuming no prepayments or other early recovery of principal on the mortgages, Serial Note 37 will pay off in 246 months.

5-3. REQUIREMENTS FOR SINGLE FAMILY POOLS AND LOAN PACKAGES.

Each single family custom pool must contain an aggregate principal balance at the date of issue of at least $1,000,000, (except as noted in sections 5-3(e) and 5-3(l) of this Guide, referencing APM and mortgage revenue bond pools). Each loan package for a multiple issuer pool must contain an aggregate principal balance at the date of issue of at least $250,000 in mortgages which must meet the following requirements.

a. Maturity Requirements.

Custom pools or loan packages must consist of mortgages with maturities that are allowable under the FHA, VA, or RHS programs. However, to assure reasonable homogeneity among pools, at least 90 percent must be in mortgages with maturities of 20 years or more; in addition, at least 80 percent of the original principal amount of each custom pool must be in mortgages with maturities within 30 months of the latest loan maturity (not applicable for multiple issuer loan packages). GNMA will allow the mortgages to have a uniform maturity of less than 20 years (e.g. l5-year loans), provided the special disclosure requirements specified in section 5-3k below are met.

b. Interest Rate. Each mortgage in a pool or loan package must bear a rate of interest at least 50 basis points higher but not more than l50 basis points higher than the face rate of interest of securities backed by the pool or loan package. The mortgages may not be subject to changes in interest rate during their life, (except for APM loans, see Section 5-7). When loans with different face interest rates are included in the same pool or loan package, the issuer must specify the weighted average interest rate, as described in Appendix l2, in the preparation each month of the form HUD ll7l0A for the pool or loan package.

c. Amortization. Each mortgage in a pool or loan package must provide for repayment in equal monthly installments.

d. Delinquency Status. No mortgage may be more than two months delinquent as to loan payments as of the date of issue of the securities. (For example, for securities with an issue date of August 1, all loan payments due through June 1 must have been paid.)

e. Number of Loans. As of the issue date, a pool or loan package must include at least three loans.

f. Loan Amounts. The original principal amount of any individual loan may not exceed $203,000, except that loans: (1) may be in such higher amounts as are established for a particular area by HUD pursuant to section 203(b)(2) or section 220(d)(3)(A)(i) of the
* National Housing Act; (2) may be in such higher amounts on properties located in Alaska, Guam, or Hawaii as are within the limits established by HUD pursuant to section 214 of the National Housing Act; and (3) if a Section 184 loan, may be in such amount as permitted by the Secretary of Housing and Urban Development. *

g. Ineligible Mortgages. Loans for the purpose of financing builders' inventories, including operative builder, builder/investor, and escrow commitment procedure loans, are not eligible for pools.

Exempted from the above, however, are 203(k) Rehabilitation Home Mortgages made to investors or builder/rehabbers under the escrow commitment procedure program. These loans are eligible for pooling only under the Ginnie Mae II multiple issuer program.

Also prohibited are loans originated at contract rates which would result in a premium price being paid at issuance for a pool composed of such loans if the borrowers have been provided with a verbal or written understanding that their loans may be refinanced (or solicited for refinancing) at a lower contract rate at some future date. The understanding in such cases between the lender and the borrower is not premised on a change in market rates in the intervening period. This provision is not intended to prevent any

(2) The issuer shall disclose in writing to the securities dealer or other first purchaser of the securities that the pool differs in maturity composition from GNMA's normal requirements, and shall disclose the longest term of any loan in the pool and that at least 90 percent of the principal amount of the loans in the pool have that term.

(3) The issuer shall obtain from the dealer to which the securities are sold (or from any other first purchaser) written confirmation that the above required disclosures have been made and are acceptable.

(4) In the case of custom pools, the issuer shall type the following text on the front page of the standard form prospectus:

"This pool contains mortgages with maturities different from those required under GNMA's standard program requirements."

(5) In the case of multiple issuer pools, GNMA allows issuers to pool loans with maturities different from those normally required. To participate in such pools, issuers follow, in addition to steps (1) and (2) above, all the regular procedures for multiple issuer pools.

l. State or local housing bond financing programs: Pools with an original principal amount of less than $1,000,000 and fewer than 3 loans are permissible provided the securities are to be used as collateral for a bond financing program (BFP) sponsored by a local or State housing financing agency. Beneficial interest in the securities must be held by a trustee who maintains a correspondent relationship with a PTC participant. The issuer must submit to the PPA a certification stating that the pool is being issued as collateral for a BFP and the intent is that the Ginnie Mae Securities will be held by the Trustee for the bond program and will not trade during the time the bonds remain outstanding. A pool issued as part of a particular BFP must have a minimum original principal amount of $25,000 and must contain at least one loan.

If this pool is ever traded in the secondary market purchasers must be provided with a letter stating that the underlying mortgages were part of a mortgage revenue bond program and the security holder may experience different prepayment characteristics, than is customary.

5-4. REQUIREMENTS FOR GRADUATED PAYMENT MORTGAGE POOLS AND LOAN

PACKAGES.

a. General. This section provides eligibility standards, in addition to those set forth in sections 5-2 and 5-3, for graduated payment mortgages (GPMs) to be included in GNMA II pools or loan packages. Where the rule in this section is different from the rule in section 5-2 or 5-3, the rule in this section applies.

Each GPM custom pool must contain an aggregate principal balance at the date of issue of at least $500,000. Each loan package in a multiple issuer pool must contain an aggregate principal balance at the date of issue of at least $250,000.

b. Eligible Mortgages. Two separate sub-programs are provided, as set forth below. The general requirements listed below must be satisfied regardless of which sub-program is used.

(1) Any GPM loan insured by FHA or guaranteed by VA with an amortization plan approved by one of those agencies and which otherwise meets the requirements of this section is eligible for pooling in this program. However, all mortgages within a single GPM pool or loan package must fall within one of the following sub-program categories, and such pools shall be identified with the indicated two-letter suffix in its pool number:

GP Mortgages on which monthly payments increase annually for no more than the first five years.

GT Mortgages on which monthly payments increase annually for no more than the first ten years.