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NRMLA Reverse Mortgage Securitization Forum

Thank you and good afternoon.

I want to thank NRMLA for the opportunity to speak to you today about reverse mortgage securitization. This is a topic I have some personal feeling for, as I had until a year ago spent the entirety of my career within the industry, mostly in the field of secondary marketing as a heavy user of government-sponsored mortgage-backed securities programs. And, just before coming to Ginnie Mae, I was in the reverse mortgage business, and as part of a fairly small bank originator, weathered the white-knuckle transition from the Fannie Mae era to the Ginnie Mae era that many of you helped bring about. The club of people in the history of Ginnie Mae and HUD itself who have actually sat at a kitchen table and taken a HECM loan application is certainly very small, but I am in it.

My topic here is how Ginnie Mae views reverse mortgage securitization. Understanding how Ginnie Mae views anything depends simply on understanding what Ginnie Mae is. This is an area where we surprisingly frequently encounter misunderstanding, often stemming from the idea that we are more analogous to Fannie Mae and Freddie Mac than is in fact true, or confusion about how we relate to or interact with FHA and HUD, the agency within which we are located, despite our status as a government corporation.

One way to see Ginnie Mae, in fact, is simply as a mono-line insurance company owned by the federal government. We insure mortgage-backed securities holders against loss, by guaranteeing that they will be paid according to the terms outlined in the prospectus. That is really it. We don’t buy loans, we don’t issue securities, and we don’t set rules for originating or servicing loans. Our primary concern is that the money moves from one place to another, at the time and in the amount specified.

Continuing with the insurance company analogy – we currently have about $1.25 trillion dollars of insurance in force, in the form of outstanding mortgage-backed securities. And here is how it breaks down among product line: 92.5% of our insurance covers traditional single-family loan securities, 5% covers multifamily securities, and 2.5% covers reverse mortgage securities. Interestingly, that distribution was almost exactly the same among the securities issued in the most recent month for which we have figures. This means that, at the moment, we are in a kind of equilibrium state where the HMBS share of the overall Ginnie Mae portfolio is neither growing nor shrinking. It is a good time for consideration about where we need to go from here.

Philosophically, our position with respect to the HMBS program is unchanged. It is our mandate and core mission to use our government guarantee to support the lending programs of HUD as well as our other partner agencies, thus attracting capital into the U.S. Housing System. We are enormously proud of the work that was done at Ginnie Mae to create the HMBS product, and we take seriously our continuing role in supporting HECM lending. We are fully committed to this program.

But our commitment is predicated on a fundamental premise that will become more of a challenge to sustain in the future than it was in the formative years of HMBS lending. The premise is that the lenders who participate in the HMBS program will be fully capable of living up to the financial and operational responsibilities they bear under the program. This was easier when most of the securities we insure were issued by large depositories with strong operating histories, and enormous and stable funding resources. We are watching carefully as this changes, and are mindful of the fact that the HMBS security and HMBS servicing portfolios are still relatively new and have not yet been through anything resembling a full life cycle.

So -- much of our dialogue with the industry in this coming period will be about capital adequacy. How much capital is necessary to support a given level of HMBS issuance? How might capital adequacy differ among institutions with different portfolio characteristics? How should Ginnie Mae be monitoring HMBS issuers to ensure that they are reserving appropriately for losses? How many lenders in the industry have an appropriate amount of capital to support participation in the HMBS program? And, what are the alternatives for competent lenders who do not have the resources, or the desire, to meet the demands of being an HMBS issuer?

I used the word “dialogue” just now deliberately. These questions do not have fully-worked-out answers today. To some extent, giving birth to the HMBS baby at Ginnie Mae was such a sizable undertaking that we have been catching our breath ever since. Now it is time for us to give some thoughtful attention to the issues that will affect the long-term health of the program as the housing market recovers. As we grapple with them, we can only say that we will strive to be as transparent and solicitous of input as we are able to be, and in this we value the fact that we possess what we believe are a constructive set of relationships with all the participants in this arena.

Job one, then, is ensuring that reverse mortgage issuers are well-equipped to perform their role in the Ginnie Mae HMBS program. As we attend to this fundamental requirement, we at Ginnie Mae are ready and willing to address the various individual issues, some directly related, that are today in need of attention. I will mention a few of these now.

One issue concerns the accounting treatment of HMBS securities. The question of whether or not HMBS transactions should be accorded sale treatment is complicated and largely outside our purview. However, our President, Ted Tozer, understands fully that this question has an enormous impact on the program, and has stated his intention to play whatever role is appropriate and constructive in addressing the situation.

The practical implication of this accounting question has to do with compliance with the standards we recently implemented to supplement the net worth requirement for Ginnie Mae issuers, and in particular the Capital Requirements. We understand that not applying sale treatment to HMBS securities will render some lenders non-compliant who would otherwise meet the requirement. While we might at some future time re-visit our requirements, at this point we simply suggest that affected issuers make application to us for a temporary waiver of this particular requirement as potential solutions are being explored. It is not our desire that unintended consequences of the accounting question damage an Issuer’s status within the program.

A second issue of concern to us has to do with the need for Issuers to carry HECMs on their balance sheet prior to assignment to HUD. There are a number of factors at work here, but the bottom line is that liquidity threats to Issuers are ultimately a threat to Ginnie Mae as well: liquidity strains are the most likely reason we would be called upon to make a payout to security holders. We are mindful of the fact that this situation will increase in prominence as the overall HMBS portfolio ages, and it is a principal reason for what will be our heightened attention to the level of capital of our Issuers. But it also means that we are highly motivated to find ways, working with HUD, to reduce this carrying period. We have not much to show for our efforts thus far – our initial intention to reduce the carrying period by allowing the required buyout of a loan reaching 98% of maximum claim to occur in the month following rather than the month of – was stymied by our inability to modify the procedures specified originally in the offering prospectus. But there are other approaches that can be taken, and this continues to be perhaps the operational aspect of the program we would most like to find ways to improve -- so I can pledge that these efforts will continue in coming quarters.

A third issue also concerns improving issuer liquidity. President Tozer has spoken frequently of the high priority Ginnie has accorded the project to improve the usefulness of our Acknowledgment Agreement, through which we set forth the terms under which Ginnie Mae servicing portfolios may be pledged as collateral for financing. Several sizable Issuers have obtained financing within the terms of the Acknowledgment Agreement recently. Our efforts on this front are continuing, and we believe they have applicability to the reverse mortgage arena as well. We encourage interested parties to explore this subject with us.

Finally, I want to re-affirm Ginnie Mae's desire to improve the information that is disclosed about Ginnie Mae securities. This is a challenging task for us, not least because it is in part a data management project in a very small agency with numerous data management goals and objectives. I mention it here today merely to demonstrate that it remains on our agenda, and that we welcome continued input about a topic that we fully understand is critical to providing for the continued long-term desirability of our mortgage-backed security product.

I will close by mentioning that we are aided in all these efforts by the level of support we have received recently from the Administration, the Department of Housing, and Congress. Our staff a year from now will be significantly larger than it was a year ago, and we believe this will have a noticeable positive impact on our ability to manage the program and provide services that benefit the Issuers and investors that participate in it as well as the citizens that benefit from it.

Thank you for your kind attention to my remarks today; I am appreciative to have been given this forum. My Ginnie Mae colleague John Kozak will be participating in the panel discussion that I believe immediately follows; he and I would be happy to speak to any of you further about any of these issues.

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