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HW

+ The challenge of going long on short sales

Answer the call! Time to fight some fraud

The frosted glass of securitization thaws

the trillion dollar man

HOUSINGWIRE EXCLUSIVE

Will the new boss of Ginnie Mae, **TED TOZER**, usher in an outstanding MBS balance that hits the thirteen-digit mark in 2010?

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THE PUBLICATION FOR MORTGAGE LENDING, SERVICING AND INVESTMENT PROFESSIONALS

Ginnie Mae supplies the only government-backed mortgage securities in the secondary market. And now it has a new boss.

the trillion dollar man

BY JACOB GAFFNEY & DIANA GOLOBAY
PHOTOGRAPHS BY STEPHEN VOSS

HOUSINGWIRE EXCLUSIVE

Will Ginnie Mae top $1 trillion in total MBS outstanding? Operations at Ginnie Mae have not contracted since 2005, expanding throughout the recession to hit the $836 billion in outstanding MBS in 2009. Considering that in 2008, Ginnie Mae issued nearly $600 billion, it certainly seems possible. And with Ted Tozer now in charge it seems not so much a question of 'if' as 'when.'

Tozer is quiet, unassuming and intellectual. He does not have the feel of someone gunning for a big number a few months down the road. Instead, Tozer is more comfortable discussing how his business will grow, and how he intends to grow it – without ever tapping the taxpayer for a bailout.

It's a huge charge for Tozer, and *HousingWire* had to know how much business at Ginnie Mae is changing in order to connect all the dots in an ever-challenging secondary market environment.

HOUSINGWIRE: *Thank you so much for taking some time from your busy schedule to speak with us. We're curious to see how Ginnie is preparing for a possible post-GSE world, however that may look. Compared with the GSEs, your website seems rather transparent in terms of calendars and fee disclosures. How would you say that makes investing in Ginnie more transparent?*

TED TOZER: Our whole structure is to try to make the Ginnie Mae MBS as valuable as possible by having investors put as high a price as they can to drive down rates for borrowers in FHA and VA guaranteed housing programs. We have listened to our investors' request for more disclosure. We're trying to be as investor-centric as we possibly can without causing any major burdens on our issuers as well as our government guarantee. It's part of our ongoing customer service initiative, to maximize the value of Ginnie Mae securities, which drives down the rates for the customers that are in those programs that are being supported by the government.

HW: *Mortgage interest rates are still lingering near historic lows, and part of that undoubtedly is due to the Fed's ZIRP conditions. Do you see the Fed raising rates any time soon, and will that have a knock-on effect for rates in Ginnie programs?*

TT: My guess is as good as yours as to what the Fed's going to do. We're trying to establish an environment for our securities that, if the Fed does raise rates then borrowers will only have to pay minimum interest rate. Ginnie Mae's goal is to minimize the impact of an interest rate increase that the Federal Reserve implements. It's hard to say, with the way the economy is moving now, what the Fed is going to do. We're trying to position ourselves so that we're there to support the market as much as we can — if the Fed does decide to raise interest rates.

HW: *You've been in your current position for four months now. Have things changed dramatically since day one to where you are now, or do you find the economy is moving a bit slower in terms of the products you offer?*

TT: Time does fly. I was sworn in four months ago. The market is changing overall but the thing is, FHA and VA tend to be a purchase type product. Fannie and Freddie products might be more affected by refinance activity. Ginnie Mae's volume hasn't changed much from when I joined Ginnie Mae.

HW: *To modify that question, do you find your investor base is changing at all, because one of the issues with the subprime and European mezzanine investors was, they sort of pulled away. It was argued at the time in 2008 that they didn't have the stomach for the buy-to-hold commitment. Do you find that offering 30-year products that the investor base is changing greatly? Is there a shift in demand, or do you find institutional investors coming in, for example? If today's news flow is anything to judge, there are pension funds in Japan that are looking to invest in real estate investment trusts and that sort of thing. There appears to be a lot of capital in this market. How do you feel Ginnie Mae is positioning itself to be competitive, and do you feel those investors are now fully aware of what they're getting into with Ginnie Mae bonds?*

TT: Oh, yes. Ginnie Mae bonds may have a leg up to some degree on other sectors because we are fully guaranteed by the U.S. government. There isn't any credit risk on a Ginnie Mae security. All you have is a prepayment risk. Because of the government guarantee we have seen a tremendous flight-to-quality bid from foreign investors. We've found very good demand. And from our prepayment characteristics, we've found really good demand in our REMIC activity, which shows again the tranching out of the different cash flows into longer and shorter tranches is valued by investors. Between our REMIC program and our government guarantee, we've built a pretty robust investor base.

I just want to make sure that we're taking any kind of uncertainty out of our payment modeling, by giving good transparent information on the makeup of our pools; so that investors can make reliable projections of prepayments. We want to make sure we minimize any surprises in prepayment data. That's one of the reasons we feel obligated to keep making our data disclosures as robust as possible, again without causing major disruptions to our issuers.

HW: *Certainly the best form of credit enhancement is government backing, unless it comes out of Greece or Spain. With the United States Treasury behind you, certainly that would create a great draw for investors and there is, as you mentioned, a massive flight to quality from investors. You mentioned REMICs, though, again in the broad press there's been a bit of negative activity by association to Re-REMICs. I can think of a couple reports in The Atlantic, for example, that slam these products* *and investors don't know what they're getting into. You've mitigated that through transparency and disclosure, but is there anything you can tell us on the front end? Are you involved in any due diligence or any further underwriting to make sure the Treasury doesn't actually end up on the hook, that the guarantee remains just that, a guarantee?*

TT: What we're guaranteeing is basically the performance of the servicer not the performance of the loans. That's where the FHA and VA step in, they're the borrower-level credit guarantee. The first layer is the borrower's equity. The second layer becomes the FHA or VA insurance. The third level of guarantee is the capital of the issuer or the servicer. We only step in once those three levels of credit enhancement have been exhausted. We are doing very thorough counterparty analysis on our servicers/issuers to make sure that they can withstand the stress of having to service delinquent FHA and VA loans. Our guarantee kicks in when the servicer can't perform.

For example, most of our servicers are depository institutions and have plenty of capital. So, even though they have delinquent FHA loans, with FHA paying off on the claim, it's more their ability to advance the principal and interest payments until they can get the borrower through to claim or get them current that we are concerned about. Most depositories have plenty of capital to do that.

We're really just watching to see if any issuers are distressed. That's the reason for our 5 percent rule for 90-day plusses, because once a servicer or issuer has more than 5 percent of its Ginnie Mae book 90-plus-days delinquent, we have a discussion to make sure they do have liquidity and the wherewithal to continue, again as part of that counterparty risk management of the issuer.

HW: *It seems you're well-hedged and well-positioned to expand into a market that is seeing a lot of demand, perhaps not in terms of whether the supply is quality enough to meet that demand remains to be seen. You seem to be positioning yourself as a place of excellent quality. I have to wonder if there are any more esoteric knock-on effects from what we mentioned earlier about the GSEs. Obviously you're not in conservatorship like the GSEs Freddie Mac and Fannie Mae, but do you find any negativity associated with the "Mae" in your name?*

TT: No, I don't think so. Our whole issue is, we're just trying to educate people on the role we're performing. I think the key thing is, as long as we

THE MAN BEHIND THE TITLE

President Barack Obama nominated Ted Tozer for his post. The whole event went swimmingly, in comparison to some other presidential nominations. For his part, Tozer had huge support for the nomination in the mortgage finance industry.

According to campaignmoney.com, Tozer gave $2,250 to the President's election campaign in 2008, the most he contributed to any political entity this decade. However, Tozer has yet to repeat this generosity, as he is listed with zero sums provided so far in 2010.

In his role, Tozer is responsible for ensuring Ginnie Mae safely guarantees the principal and interest payments on mortgage-backed securities (MBS) backed by loans insured or guaranteed by the FHA, VA, HUD's Office of Public and Indian Housing, and the USDA's Rural Development Housing & Community Facilities Programs.

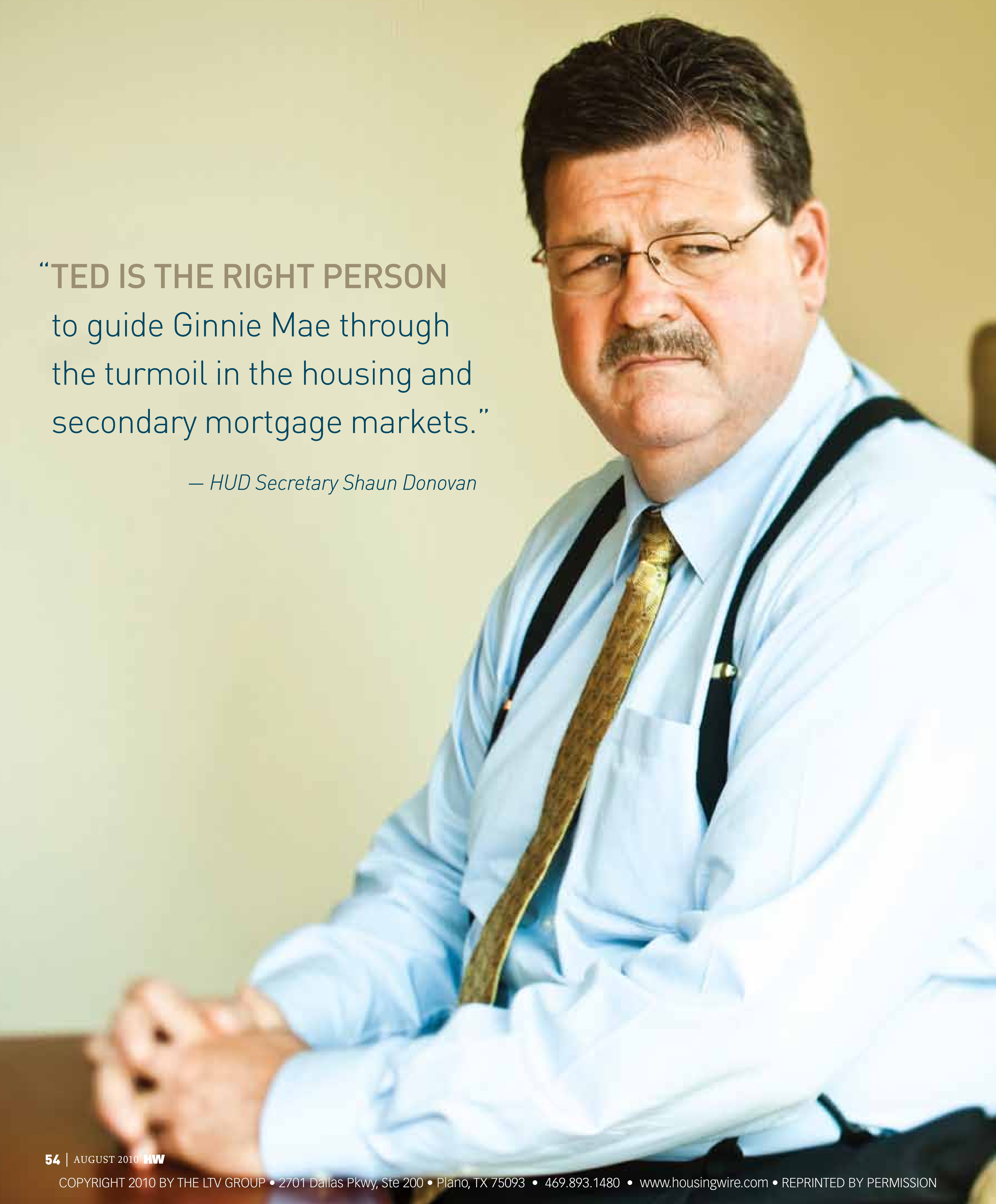
"Ted is the right person to guide Ginnie Mae through the turmoil in the housing and secondary mortgage markets," said HUD Secretary Shaun Donovan. "Until the markets completely stabilize, a security backed by the full faith and credit of the United States is critical to the market. Ted brings the experience to help Ginnie Mae continue playing that important role while also helping it to eliminate additional risk."

Tozer has been the Senior Vice President of Capital Markets at National City Mortgage, now a part of The PNC Financial Services Group, since 1989. His responsibilities have included pricing, hedging, loan delivery, loan sales, and new product design. Previously, he served in various roles at BancOhio Mortage Company and BancOhio National Bank.

Tozer has also served as chairman of the Mortgage Bankers Association (MBA) of America Secondary and Capital Markets committee from 2002 – 2004. The MBA support his nomination. During his time as chairman, he also served on the MBA Residential Board of Governors and worked with the Government National Mortgage Association (GNMA) in the overhaul of the GNMA II program. He served on the Board of Directors of the Ohio Mortgage Bankers Association from 1999 – 2001.

He is a graduate of Indiana University with a B.A. in Accounting and Finance.

Tozer meets often with his senior advisers, Thomas Weakland (left) and Terry Carr.



"**TED IS THE RIGHT PERSON** to guide Ginnie Mae through the turmoil in the housing and secondary mortgage markets."

— HUD Secretary Shaun Donovan

can show people the level of protection of the Treasury and the fact that we don't have any borrower credit risk the "Mae" shouldn't hurt us. We are trying to make sure people realize the role we do play and that our risk is with the issuers rather than the borrowers.

HW: *Thanks for taking that question on branding. It's an important part of anyone's business to have a clear focus and that's interesting to find out the strategies especially at such a large player as you and how you're maintaining your identity in all this sort of negative press about Fannie and Freddie.*

TT: This certainly is a gem of the government's process as far as trying to bring housing back.

HW: *We've covered at some length on our website the changing pooling guidelines, most recently the reduction of the minimum quota for pooling for securitization. It seems to be all about liquidity, all about keeping capital moving within mortgage finance. Can you tell us in a bit more detail what that change is looking like and how it's affecting your business?*

TT: Well, the single pooling changes are effective in July. So we haven't seen the impact yet. The daily issuance begins in November. Again, what we're trying to signal to the issuer community, which is similar to what we're doing on the disclosure side to the investment community that Ginnie Mae is working to find solutions to the industries challenges. We are here as a support mechanism for both the issuer and the investment communities. I'm hoping the couple of changes we've made will encourage issuers to reach out to us with challenges so we can try to find solutions to help them be as effective as they can in supporting the housing market. My goal here is to emphasize the message that Ginnie Mae is here as an enabler to help organizations be the best issuers and investors they can be. So far, we're getting some good feedback from people who are happy with the fact we're trying to deal with warehousing issues. I'm hoping it helps encourage dialogue with our issuers. We're beefing up our account executive staff to have people to talk to issuers and build that customer-issuer centric process.

In terms of initial feedback on the changes, I personally have talked to a couple of large issuers that said it would help them in terms of their warehouse lines and it was a major move for them to be able to turn their loans over quickly.

HW: *You obviously have an open dialogue with your issuers and are addressing some of these concerns over warehouse lines. What other concerns are issuers bringing to you?*

TT: Other than just the fact that there's been a bit of a culture change from before, when Ginnie Mae had a program they had to work around. This concept of being more flexible is a change in the perception of Ginnie Mae. We had our first issuer roundtable at the MBA in New York in May, and I think people are starting to understand. I'm hoping we'll get more feedback over time as people grow more comfortable approaching us with their issues.

HW: *An issuer roundtable? That's sort of a marked difference from the way business was done in the past, isn't it? It sounds like there's a lot more reaching out on your part, a lot more coming to the table and discussion to make sure everyone is clear. Am I right to interpret it that way?*

TT: Exactly. Like I said, my goal is basically to ensure that any impediments are legitimate impediments — what I mean by that is, a lot of times you can have perceptions, or misunderstandings. We're just trying to make sure

people feel comfortable, ask some questions. We're really trying to keep that dialogue going to make sure people want to do business with Ginnie Mae. I want issuers to do business with Ginnie Mae not because they have to but because they want to.

Right now we're in the driver's seat, but when the market comes back and our market share goes down — which hopefully it will — at that point we hope people still want to do business with us.

HW: *How are you handling the harsher realities of Ginnie Mae losses with exposure to instances like Taylor, Bean and Whitaker? Certainly everyone's taken some sort of hit from things like this, and there's a knock-on effect. Can you disclose any numbers if you've ultimately had to tap the Treasury backstop on losses related to this? There's also a lot of negative press on the fail rate of GSE securities. Does any of that come through to your business? If so, how do you mitigate investor concerns?*

TT: With Taylor Bean, there wasn't much of a loss for us. Like I mentioned before, we're guaranteeing the performance of the servicer, not the loans themselves. We very quickly were able to transfer the Taylor Bean servicing to Bank of America, which is servicing the portfolio for us. That the transfer went relatively painlessly. We moved it over, and BofA picked up the customer service process relatively quickly. So the losses we're going to have are minimal — we're not going to need any Treasury backstop. Because the reserves we established at the time we took over the servicing were adequate.

The only time we have losses is a loss as a servicer. The only loss we have is if FHA won't pay a claim because of servicing deficiencies or FHA does curtailment of claims. The issue of borrowers being delinquent really does not affect our cost dramatically. With Taylor Bean, it was really the process of moving such a large portfolio, orchestrating the move from the Taylor Bean's servicing platform in Ocala to Bank of America's platform in Texas was probably our biggest challenge. The staff here stepped up, got it done, and it was relatively painless for the borrower and is not going to cost the taxpayer anything.

HW: *Well, that answer certainly was honest and a bit of a breakthrough for us, so thank you. It must be irritating when a media comes out and says you lost $3 billion on this portfolio. It scares people away, and it makes our job harder, to be honest, because we're talking with Cenlar about their Taylor Bean portfolio and they've flat-out refused to discuss it.*

TT: It's part of the educational process for us. As long as the servicers are doing their jobs, our losses are minimized. I really can't talk about the actual numbers, but the amount of revenue we've got coming in, it's really not going to affect our profitability at all.

HW: *As regulators respond to situations like Taylor Bean, creating reactionary regulations and enforcing greater accountability, the industry is expecting the cost of business to increase. After all, compliance is expensive. As it becomes more costly for servicers to move through their business — considering all borrowers for HAMP and things of that nature — how will it translate to Ginnie Mae? What kind of steps is Ginnie taking to remain profitable in a post-financial reform world?*

TT: The increased costs of servicing delinquent loans is one of the items we include in counterparty reviews of our issuers/servicers to make sure they have the staff and financial ability to perform their responsibilities under their agreements with Ginnie Mae. Ginnie Mae's concern is the issuer's ability to be strong servicer so our guarantee isn't called upon. We are staying in touch with our servicers to make sure they have the trained staff. When an issuer's portfolio contains a large percentage of delinquencies, we have a discussion about their plan to successfully service the loans. Most of our servicers have been able to deal with today's challenging housing market. So far, it seems the industry is limping through it all right, at least from our perspective.

HW: *With the industry limping through, as you put it, agency securitization continues to drive the market in the absence of robust action on the private-label side. You mentioned earlier that, as private-label securitization comes back, Ginnie's share of the securities market will reasonably decrease to a certain extent. Does that necessarily mean Ginnie's business will decrease, or will it simply be an issue of market share as there are more and more deals out there? Will Ginnie issuance recede?*

TT: To a large degree, if our issuance volume declines, that means the housing market is on the mend. It's one of the best indications that things are working. Again, our issuance volume is very high because private capital has left the market. I think we're very much a counter-cyclical tool of housing. As private capital retreated, we fell into that gap to make sure homebuyers have the opportunity to get reasonably-priced credit. If our volume shrinks I look at it as very much a positive thing. If we do what we can to support the issuers and investors, and they find a better execution is going to private label, my feeling is that's a very good sign. I would be very pleased with that.

HW: *We certainly appreciate the frank response. It's not common to hear any operation say business receding for the right reason is a positive thing. What else should we know about Ginnie's plans for 2010?*

TT: Our goal is to continue the outreach to our investor base and be as customer-centric as we can without putting taxpayers at risk. We're going to try to make Ginnie Mae a tool for housing recovery as much as we can.