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SECTOR COMMENT
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Housing finance agencies – US

Ginnie Mae's Pass-Through Assistance Program will benefit HFAs that service loans impacted by coronavirus

On April 10, 2020 the Government National Mortgage Association (Ginne Mae) announced the Pass-Through Assistance Program related to COVID-19 (PTAP/C19), which will provide a backstop to loan servicers, including state housing finance agencies (HFAs), to cover principal and interest advances for single-family mortgage loans that have gone into forbearance. The program is credit positive for HFAs because of the liquidity support it provides to make advances. However, PTAP/C19 has downsides because it must be used as a last resort, does not cover advances of taxes and insurance, requires full repayment by the servicer, and will bear a fixed rate of interest.

PTAP/C19 will have the largest impact on HFAs that service the largest Ginnie Mae loan portfolios or service loans for other HFAs, since these are most exposed to liquidity strain from servicing advances. These programs will still have significant liquidity requirements for the payment of taxes and insurance and will have to repay Ginne Mae for the PTAP/C-19 assistance within a relatively short time.

HFAs that service Ginne Mae loans can access the PTAP/C19 lending program as a last resort if their typical sources of liquidity, such as available cash and investments or draws on lines of credit, are not enough to cover advances of principal and interest. This request would not be considered an event of default under the Ginne Mae program.

PTAP/C19 has downsides, however. The program will not cover any additional advances that the HFAs are required to make, including real estate taxes, homeowners insurance and mortgage insurance and may not be used to cover other operational or servicing costs. Furthermore, the assistance advanced by Ginnie Mae will bear a fixed rate of interest announced monthly and must be repaid in full on the earlier of seven months or July 30, 2021. Upon request, Ginne Mae can extend the maturity date.

The Coronavirus Aid, Relief and Economic Security (CARES) Act, passed on March 25, 2020, allows coronavirus-impacted homeowners who have a federally backed mortgage loan, including Ginne Mae-backed loans, to request forbearance on their loans regardless of their delinquency status. The bill states that servicers should provide forbearance for up to 180 days to the homeowner, which may be extended for an additional 180-day period. Forbearance will pause mortgage payments and halt foreclosure, causing a higher volume of servicing advances for HFAs, a credit negative. If loans are foreclosed upon, the HFA servicers will receive reimbursement of their advances by the entities who insure the loans – US

Department of Housing and Urban Development (HUD), US Department of Veterans Affairs (VA) and US Department of Agriculture (USDA) – under the Ginnie Mae program.

The Ginne Mae PTAP/C-19 program will not cover advances for Freddie Mac or Fannie Mae mortgage-backed securities and also does not cover advances of taxes and insurance required for whole loans. However, for these loan types the advancing requirements are less onerous. For example, advances for Fannie Mae- and Freddie Mac-guaranteed loans last for only four months because these entities typically repurchase loans after they are delinquent for four consecutive months. In addition, HFAs servicing whole loans would only need to advance taxes and insurance because the principal and interest payments are not guaranteed. However, in the case of whole loans, the missed payments would have to be absorbed by the HFA's bond program.

The Federal Housing Finance Agency, the Federal Reserve and the US Treasury have not offered any relief or assistance to servicers, to date, although there has been bipartisan support for such measures. If they were to do so, it would significantly reduce the liquidity strain on HFAs that service loans.

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