March 25, 2020

The Honorable Seth Appleton
Principal Executive Vice President
Ginnie Mae
451 Seventh Street, Room B-133
Washington, DC 20410

Dear Mr. Appleton,

The National Council of State Housing Agencies[1] (NCSHA) urges Ginnie Mae to take immediate steps with its existing authorities to aid state housing finance agency (HFA) issuers of Ginnie Mae securities in meeting urgent liquidity needs as they continue to work as your partners to assist homeowners and potential homebuyers affected by COVID-19 across the U.S.

State HFAs as a group are the primary mission-based source of mortgage financing for lower-income households operating statewide, as well as in the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. In 2018, state HFAs provided more than $27 billion of financing to help more than 156,000 households achieve homeownership. More than half of those loans were FHA-insured and 37 state HFAs issued $16 billion in Ginnie Mae securities over the past two years.

HFAs share the federal government's concern that those who are experiencing a temporary loss of income may be unable to make their mortgage payments for a number of months to come because they cannot report to work or are suffering serious income losses. We appreciate the various recent federal efforts to lessen the financial stress that COVID-19 has placed on so many American homeowners. Yet those policies will also soon engender financial pressures on HFAs that will undermine their ability – and unique responsibilities – to deliver housing help to many who need it most.

In general, we share the perspective and support the recommendations regarding the need for all servicers to have access to a new liquidity source or facility, as proposed by the Mortgage Bankers Association, Housing Policy Council, and other industry groups and transmitted in a letter to you and other federal housing agency leaders this week.

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[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

State HFAs are not typical Ginnie Mae servicers. Their mission and structure requires a more targeted Ginnie Mae response.

State HFAs Serve the Hardest-to-Reach Homebuyers in Their States

HFAs generally serve borrowers and market segments that typical Ginnie Mae servicers do not. For example, in 2018:

- The median state HFA-assisted homeowner's income was $57,039 — 10% below the national median income and 46% less than the median income of all homebuyers.
- 73% of HFA loans served borrowers earning at or below area median income. By contrast, FHA estimates that 56% of all its program loans went to borrowers earning at or below 115% AMI.
- The average loan size for HFA loans was 17% smaller than the average size of all FHA loans in 2018 ($171,084 compared to $206,041).

Additionally, HFAs have been effective in reaching home buyers of color, and, in many states, are the drivers of affordable homeownership opportunity for individuals and families of color, which, as a demographic, lost significant ground as homeowners during the last recession.

State HFAs are also fundamentally different from other Ginnie Mae servicers in their structure and mission. They are state-chartered authorities established to help meet the affordable housing needs of their states' residents, yet they do not receive public funding for their operations. They generate their financing and run their enterprises largely with their own resources, balance sheets, and capital markets executions. Some of them have limitations on borrowing funds, which means traditional sources of lender liquidity will not work for them.

At the same time, state HFAs operate under strict government oversight and strong transparency requirements. To the extent their programs generate income, those monies are, by state law and regulation, invested in the agencies' affordable homeownership and rental housing activities.

Immediate Needs for HFA Servicer Relief

Currently, after no more than 90 days of nonpayment, even if a homeowner is under a forbearance agreement, HFAs are required to buy back mortgage loans not within Ginnie Mae's delinquency guidelines.

This will require potentially billions of dollars of long-term financing or other relief in the current crisis because until loss mitigation strategies, such as forbearance agreements, are developed on a loan-by-loan basis, it is not clear if the P&I will be added to the end of the mortgage term or recapitalized, meaning that it will be repaid back to the HFA over the long-term.

Also, because of the FHA 60-day foreclosure moratorium, HFAs may not pursue foreclosure for homeowners that had previously defaulted on their mortgages for reasons unrelated to COVID-19. This

further constrains HFA capital. The foreclosure ban may be extended and state and local governments are also imposing their own restrictions.

Complying with buy-back requirements necessitates large amounts of capital. With so many Americans impacted by COVID-19, we anticipate that within 90 days and every 30 days thereafter for at least as long as borrower payment relief programs and foreclosure moratoriums last, HFAs will need relief from their remittance requirements, waivers of buy-back requirements, and/or liquidity to buy back loans from MBS pools if Ginnie Mae relief to HFAs is not forthcoming.

To illustrate the magnitude and time sensitivity of the issue, below is a summary from one state HFA of their challenges:

> *We anticipate that our DQ2+ ratio will exceed the 7.5% threshold by as early as June 2020 if borrowers assume forbearance broadly applies to them. In a portfolio our size, just over 200 loans equals an additional 1 percent in delinquency and our higher stress scenarios contemplate an additional 2,000 borrowers impacted by COVID-19 and containment measures. In our portfolio, buying loans to decrease DQ2+ by 1% (200 loans) requires $50 million in liquidity. Under our high stress conditions, we estimate the need to buy out over $150 million in loans by August 1, 2020.*

Existing Ginnie Mae Authorities that Can Assist HFA Servicers

Fortunately, Ginnie Mae and FHA have a number of tools at their disposal they can use immediately to assist HFAs serving the needs of COVID-19 impacted FHA borrowers in their states. With modification, they will go a long way to easing the imminent liquidity needs of HFAs. And by issuing an All Participants Memorandum (APM) applicable to all HFAs, Ginnie Mae and its account executives will not be overwhelmed, enabling them to focus on other needs during this critical time.

Handbook 5500.3, Chapter 34 (the Chapter), which pertains to "Presidentially declared disaster areas," currently only applies to three states -- California, New York, and Washington – for which a major disaster declaration has been made.

This Chapter also provides that Ginnie Mae announces through an APM if disaster assistance programs will be made available for a given major disaster, as well as the expiration date for each program. The disaster assistance programs are not available until authorized by an APM.

Given the nationwide nature of the COVID-19 pandemic, it is appropriate for Ginnie Mae to make available to all HFA Ginnie Mae issuers, via an HFA-targeted APM, the programs outlined in Part 2 of the Chapter, whether a formal "Designated Disaster Area" that defines "Eligible Loans" has been declared or not. After all, the President did declare a national emergency on March 13.

However, as outlined in the Handbook, the programs will not have the intended beneficial impact without waivers or modifications. We urge Ginnie Mae when issuing the needed APM, to apply it to all HFA issuers, along with blanket waivers to facilitate operation of its programs. These include:

a. The Pass-Through Assistance Program (Section D of the Chapter), which permits Ginnie Mae to assist issuers with pass-through payments to investors if the Issuer has a "Qualifying Portfolio," defined as a loan portfolio where five percent (5%) or more of its unpaid pool principal balance corresponds to loans located within the Designated Disaster Area.

NCSHA requests that for the Pass-Through Assistance Program, Ginnie Mae also waive provisions pertaining to its operations to enable maximum responsiveness to the market. These include:

- Waiving the provision under which Ginnie Mae would declare an issuer using such relief in default and relieving HFA issuers using the program from any similar negative consequences, thereby enabling them to access such relief without any negative ramifications to the HFA whatsoever.
- Establishing within the APM that its duration shall be at least as long as relief would have been available under a Presidentially Declared Disaster Area, to give time for HFAs to preserve their liquidity to address the pressing affordable multifamily and single-family housing needs of their states.
- Waiving the requirements that the issuer must conduct and explain its previous efforts to obtain private financing for its shortfalls and a plan for repaying any funds advanced by Ginnie Mae. We do not make this request lightly, and also request that Ginnie Mae limit the HFAs' repayment obligations to the pass-through of P&I from borrowers as it is received.

b. The Delinquency and Default Ratio Disaster Assistance Program permits Ginnie Mae to exclude "Eligible Loans" from calculations of delinquency and default ratios identified in the MBS Guide, Chapter 18, Part 3. We urge Ginnie Mae to apply the terms of this relief to all HFAs to provide equal treatment of all HFA issuers across the country — and to avoid the potential delays that might come from overwhelming the capacity of Ginnie Mae's account executives, who might otherwise have to handle individual requests.

NCSHA also urges Ginnie Mae to issue an APM that provides blanket approval to HFA issuers to either exclude Eligible Loans from calculations of delinquency and default ratios that apply to each HFA, rather than having each HFA issuer make the request of their assigned Account Executive, or waive all such ratios while at least one state remains a Presidentially declared disaster area tied to COVID-19. This should have the effect of eliminating the thresholds at which delinquent loans must be bought out of Ginnie Mae pools, thereby preserving HFA liquidity.

NCSHA, on behalf of its state HFA members, would welcome the opportunity to provide further insight into our requests, which will enable HFAs to play as significant a role in the post-COVID-19 recovery as they did after the last recession. I hope we can arrange a discussion about these issues soon.

Sincerely,

Garth Rieman
Director of Housing Advocacy and Strategic Initiatives