May 31st, 2019

Acting Director Maren Kasper
EVP and Chief Operations Officer
Ginnie Mae
425 3rd St SW, Washington, DC 20024

Dear Acting Director Kasper:

I am writing on behalf of the Structured Finance Industry Group (SFIG)[1] in response to the Ginnie Mae Request for Input on Pooling and Eligibility Changes for the Ginnie II Multi-Issuer Program (RFI). We appreciate Ginnie Mae's leadership on this issue, and welcome the opportunity to comment on these proposed changes.

As a threshold matter, SFIG strongly supports the necessary role of the government in regulating and overseeing our nation's mortgage markets, recognizing that well-regulated markets are a necessary precondition to attracting private capital. In the present situation, SFIG and its members—which include many large institutional investors—appreciate that a fundamental component of confidence in the market for Ginnie Mae securities is the ability to model constant prepayment rates (CPRs) for the loans in a given pool. This modeling is complex and requires a great deal of expertise, and while models used by various institutions may be particular to that institution, certain fundamental assumptions support every model.

Among those assumptions is the idea that a borrower will only refinance if it is in his or her economic interest to do so. Analytical models can project CPR based on the likelihood of rising or falling interest rates, but the variability introduced by borrowers making uneconomic decisions threatens to undermine the predictive value provided by the models, and thus weakens investor confidence in these securities. SFIG members have observed a material reduction in their ability to price Ginnie Mae securities given the highly unpredictable – and often economically unreasonable – nature of prepay speeds. This has improved, but more needs to be done in order to prevent the erosion of investor confidence in Ginnie Mae securities. A loss of investor confidence may ultimately impact borrowers in the form of higher mortgage rates or restricted access to mortgage credit through the Federal Housing Administration (FHA) and Veterans Administration (VA) lending programs.

SFIG supports Ginnie Mae's proposal to exclude or restrict VA cash-out refinances in excess of 90% loan-to-value. While Ginnie Mae's published analysis suggests that various factors influence the observed divergences in prepayment speeds relative to the prepayment speeds of similar Fannie Mae securities, in

[1] SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFIG provides an inclusive network for securitization professionals to collaborate and, as industry leaders, to drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitization market, including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at www.sfindustry.org.

SFIG's estimation, limiting or otherwise excluding only VA cash-out refinances in excess of 90% is appropriate and proportional to the perceived harm caused by CPRs not correlated with underlying economic fundamentals. This proposal balances the need to maintain systemic liquidity by allowing some variance in the characteristics of mortgages comprising the Ginnie II MIP pools with the need to protect investors' interests by limiting the composition of pools to mortgages that are economically beneficial to the borrower. This is especially true in the context of observations by Ginnie Mae that the greatest divergence in expected prepayments are driven primarily by a limited subset of lenders[2] seeking to extract fees by driving VA borrowers to loans for which there is not an economic benefit to the borrower.

SFIG notes that broader restriction on mortgages eligible for pooling in Ginnie II securities (i.e., a similar restriction on FHA loans, or a broader restriction on cash-out refinances) would seem unnecessarily broad given the available information at this time and may threaten to undermine the fungibility of existing securities with newly-issued securities. Additionally, we would request that the effective date of any changes to pooling eligibility requirements be implemented in such a way that loans which are already closed or delivered would be eligible for inclusion based on the rules in effect as of the date the loan was originated. This will ensure that loans which have been delivered or are in the pipeline are not inadvertently excluded from Ginnie II pools due to timing issues associated with the implementation date of new rules.

As the RFI requests input on the possible alternative paths for the potentially-excluded loans, SFIG recommends that Ginnie Mae impose a *de minimis* standard restricting inclusion in Ginnie II pools. We believe that this will have the least impact on the pricing of the related Ginnie II securities of these loans, and thus have the least impact on VA borrowers. Barring that, SFIG believes that Ginnie Mae should explore the possibility of creating a new multi-issuer program comprised of loans with CPRs that are materially distinct from those in existing Ginnie II MIP pools, but relatively homogenous to each other. While such securities would likely be priced differently than current Ginnie II securities, creating a new program that pools loans with similar short-duration CPRs may produce a security that is more fungible and liquid than a series of single-issuer custom securities. We believe that forcing these loans into a series of single-issuer custom pools is the least favorable option, and the most likely to impact borrowers' mortgage rates. Regardless of the approach taken, we recommend that Ginnie Mae work with issuers to provide options and flexibility in their program offerings. Again, as more analysis is needed in order to support such a change, SFIG would be glad to serve as a resource.

While SFIG does support these changes, we would note that the combination of recent policy changes from both the VA and Ginnie Mae make it difficult to determine whether any future outcomes are driven by primary market changes (i.e., VA Interim Final Rule RIN 2900 AQ42, published December 19, 2018[3]) or secondary market changes (i.e. Ginnie Mae RFI on Pooling Eligibility Changes). For instance, the Revisions to VA-Guaranteed Cash-Out Refinancing Home Loans was only effective as of February 15, 2019. Meanwhile the datasets in Appendices III, IV, and V in the Ginnie Mae RFI observed loan performance from January 2017 through December 2018. Thus, the data that Ginnie Mae references does not account for changes that may result from the subsequent modifications to the VA lending program.

Again, SFIG supports these proposed changes from Ginnie Mae, but based on the ongoing and iterative nature of this initiative, it is possible that further steps may be needed in the future. Should that be the case, SFIG believes that Ginnie Mae should continue to work with the VA, allowing sufficient time for

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[2] See: Ginnie Mae Press release on "Ginnie Mae-VA Loan Churn Task Force" Feb. 8, 2018, available at https://www.ginniemae.gov/newsroom/Pages/PressReleaseDispPage.aspx?ParamID=129
[3] https://www.benefits.va.gov/homeloans/documents/circulars/26_18_30.pdf

the results of these changes to be observed before undertaking any new policy changes. Moreover, we would respectfully request that Ginnie Mae continue to publish analytical support for any future decisions relating to lender qualifications or pooling eligibility requirements, continue to apprise all stakeholders of any future contemplated changes, and provide an ample opportunity for public input. Finally, we would encourage Ginnie Mae to continue the ongoing interagency work with the VA and the Consumer Financial Protection Bureau to deter and prevent bad actors from engaging in deceptive or misleading refinance solicitations targeting veterans.

Once again, we thank you for your leadership on this issue, and for the opportunity to comment on this proposal. We look forward to continuing to work with you in accounting for investors' interests in a manner that will help ensure access to credit for borrowers in the FHA and VA lending programs

Sincerely,

Dallin Merrill
Senior Manager, MBS and CMBS Policy
Structured Finance Industry Group