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## Eligibility for Ginnie Mae Approval

by Anna DeSimone, President

On May 18, 2011, the Government National Mortgage Association (Ginnie Mae) updated Chapter 7, Application for Approval as A Ginnie Mae Issuer, in Ginnie Mae's Mortgage-Backed Securities Guide 5500.3, Rev. 1. On the same date, Ginnie Mae revised Chapter 6 of the Handbook, Fees, which describes the fees the Issuer must pay under the MBS program.

### New Ginnie Mae Issuer Application Form

This article summarizes the recent revisions to Ginnie Mae's eligibility requirements and application procedures. Institutions that wish to apply to become a Ginnie Mae Issuer are required to use the new Form HUD-11701, "Application for Approval - Ginnie Mae Mortgage-Backed Securities Issuer."

Institutions seeking to become FHA lenders must use the new Form HUD-92001-A, "FHA Lender Approval Application." The previous version of Form HUD-11701 dated November 2008, which was a joint application form for applying for

either Ginnie Mae or FHA approval, or both, will no longer be available for a dual application. The two forms can be found on AllRegs: Agency Guidelines / Ginnie Mae / Memoranda / Memo 10-05: New Ginnie Mae Issuer Application Form (05/21/10) or by accessing the following link: <http://www.allregs.com/ao/main.aspx?did2=c07e077cea82431cb33e0e19163d95b0>

Summarized below are the general requirements for application as a Ginnie Mae Issuer:

1. Background disclosures regarding any adverse incident for each person who serves on the company's board of directors or is an authorized signatory.
2. Board of Resolutions of Board of Directors, Certificate of Authorized Signatures; resumes of other named persons.
3. Annual financial statement for the last three fiscal years audited and certified by an Independent Auditor (IA) meeting the requirements of the Audit Guide.
4. Insurance certificates, fidelity bond, mortgagee E&O along with Ginnie Mae loss payee and other endorsements.

*continued on next page*

5. Written certification from an officer that the company has in place a written quality control program for the underwriting, origination, and servicing of loans in Ginnie Mae MBS pools and loan packages and for secondary marketing.
6. Most recent quality control audit, including the date of the audit, and must include a written statement of the action taken as a result of the findings.
7. A written statement of the dollar value of loans to officers, directors, or affiliates; or confirm in writing if there are no loans of this type.
8. A written statement of the dollar value of pledged assets; or confirm in writing there are no pledged assets.
9. A list of any affiliates that are already participating in the Ginnie Mae MBS Program as Issuers and their four-digit Ginnie Mae Issuer identification number. ; or confirm in writing there are no affiliates participating.
10. If any affiliate of the applicant is already participating in the Ginnie Mae MBS Program as an Issuer, a Cross-Default Agreement between the applicant and each such affiliate must be completed, stating the name and Ginnie Mae Issuer identification number of each affiliate that is a party to it.
11. A written statement of the name, address, telephone number, and contact person for each mortgage insurance company, warehouse lender, and investor with whom the applicant is currently doing business.
12. Payment to Ginnie Mae, via pay.gov, of \$2,500. This payment represents the Issuer application fee and is for review and analysis. It

is earned when paid and is non-refundable.

13. Before issuing securities under any Program, an Issuer must also submit to Ginnie Mae's PPA the following additional documents:

(a) For the Issuer's proposed central P&I custodial account, a Master Agreement for Servicer's Principal and Interest Custodial Account, form HUD 11709 (Appendix III-2), unless the Issuer proposes to use as its central P&I custodial account a P&I custodial account for which a valid form HUD 11709 is already on file.

(b) For the Issuer's proposed central P&I custodial account, an ACH Debit Authorization, form HUD 11709-A (Appendix I-6).

#### **Applicants That Are Not Fannie Mae- or Freddie Mac-Approved**

Institutions that are not approved by either Fannie Mae or Freddie Mac must submit the following additional documents:

1. A brief description of the applicant's history including operating and business plans.
2. A written statement of the volume of mortgage loan origination during the three years preceding the filing of the application, broken down by loan type (conventional, FHA, VA) for each of the following categories: single family residential, manufactured housing, and multifamily.
3. A list of investors for whom the applicant is servicing loans, the number of loans being serviced for each investor, and the aggregate

remaining principal balances of the loans. Subcontract servicing must be identified and broken out separately using the same format.

4. A list of investors for whom the applicant has sold mortgages over the prior 12-month period.

5. Resumes for at least three full-time officers and one additional full-time employee, all of whom will have the responsibilities of performing the obligations of the Ginnie Mae Issuer. One of the resumes must be for the officer responsible for mortgage servicing and securities administration. Another must be for the full-time officer in charge of day-to-day operations.

### **Other Eligibility Requirements and Agreements**

Chapter 2 of the Guide, Eligibility Requirements: Approval as a Ginnie Mae Issuer, was updated on 11/1/11. Chapter 2 outlines the custodial, servicing and sub-servicing requirements of an approved Issuer. Section 2 includes links to the Appendices that are submitted along with Form 11701. These documents can be found on All Regs / Agency Guidelines / Ginnie Mae / Chapter 2 or using the following link:

<http://www.allregs.com/ao/main.aspx?did2=52c21c8c0e3c4e6da353d359f080cbf3>

### **Increase in Net Worth Requirements**

Ginnie Mae has changed the financial requirements for institutions participating in the Single Family Program. The changes include an increase in the net worth requirement and new liquid asset and capital

asset requirements. This information can be found on All Regs / Agency Guidelines / Ginnie Mae / Memo 10-17, New Financial Requirements, Single Family Issuers 10/22/10) or by accessing the following link: <http://www.allregs.com/ao/main.aspx?did2=6b34a6fa3e7c449eb859f1363b0cc043>

Ginnie Mae is increasing the base net worth requirement for Single Family Program participants from the current \$1 million base net worth requirement to \$2.5 million. In addition, the formula for calculating the additional net worth required above the base net worth requirement is changing. Currently, additional net worth is calculated as 1% of Remaining Principal Balance (RPB) plus the amount of available commitment authority between \$5 million and \$20 million, plus .2% of RPB greater than \$20 million. With this change, additional net worth will be calculated as .2% of the Issuer's RPB, plus the amount of available commitment authority.

*\* See Figure 1.1, page 5*

Effective immediately, institutions that are seeking Issuer approval will be required to meet the new minimum net worth requirements. Existing Issuers will have until October 1, 2011, to meet the new net worth requirements.

### **Liquid Asset Requirements**

Ginnie Mae is also instituting a new liquid asset requirement. Ginnie Mae will require that Issuers eligible for its Single Family Program have liquid assets of 20 percent of Ginnie Mae's net worth requirement. The new liquid asset requirement will help to ensure funds are available when there is a need for cash to fund

loan buyouts and/or to pay for potential indemnification requests from insuring agencies. Single Family Issuers will have until October 1, 2011, to meet the new liquid asset requirement.

### **Institution-Wide Capital Requirements**

Ginnie Mae is adopting institution-wide capital requirements. The capital requirement provides better assurance that Issuers have sufficient capital to cover their financial risks on an institution wide basis. The capital requirements are as follows:

*\*See Figure 1.2, page 5*

The new capital requirements will be effective on October 1, 2011, for all Single Family Issuers.

For background information about Ginnie Mae and information on how to become a Ginnie Mae Issuer: visit the following link: <http://www.ginniemae.gov/issuers/how.asp?subTitle=Issuers#req>

FIGURE 1.1

Program	Current Net Worth Requirement		New Net Worth Requirements	
	Base	Additional Net Worth	Base	Additional Net Worth
Single Family	\$1,000,000	Add 1%, of RPB plus the amount of available commitment authority that is greater than \$5 million and less than \$20 million, Plus .2% of RPB plus the amount of available commitment authority that is greater than \$20 million	\$2,500,000	.2% of RPB plus the amount of available commitment authority

FIGURE 1.2

Banks and Thrifts Well Capitalized Under Federal Banking Regulations	Non Banks, Credit Unions & Subsidiaries
<ul style="list-style-type: none"> <li>1. 5% of Tier 1 Capital/Total Assets</li> <li>2. 6% of Tier 1 Capital/Risk Based Assets</li> <li>3. 10% of Total Capital / Risk Based Assets</li> </ul>	<ul style="list-style-type: none"> <li>1. 6% of Total Equity / Total Assets</li> </ul>