



Office of the President
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September 14, 2017

Senator Elizabeth Warren
Ranking Member
Senate Subcommittee on
Financial Institutions and Consumer Protection

Dear Senator Warren,

Thank you for your letter dated September 6, 2017, concerning aggressive practices by mortgage companies that are VA approved lenders and Ginnie Mae approved MBS issuers. As you note, some lender marketing practices may be negatively impacting Ginnie Mae securities without necessarily benefiting veteran borrowers. In my view, you are correct to be concerned and thank you for bringing attention to this topic.

Allow me to first provide a bit of historical context on this issue from Ginnie Mae's perspective. As the proportion of VA guaranteed loans in our pools has grown in recent years, our attention to VA loan performance has also increased. Last year, Ginnie Mae noted unusually fast prepayment speeds in our securities. To investigate, Ginnie Mae opened a dialogue with our partners at VA, Ginnie Mae issuers, and the investor community. Concurrently, the Consumer Financial Protection Bureau (CFPB) was receiving complaints from veterans about aggressive solicitation practices - resulting in the November 2016, CFPB report that you cite in your letter.

Collectively, Ginnie Mae's internal research and work with the VA, along with the CFPB's report, paint a picture of a market for VA loans that is somewhat saturated with lenders and brokers making dozens of calls and sending dozens of letters to veterans attempting to get these homeowners to refinance their mortgages. When a refinance occurs, the lender collects refinance fees, but the borrower may be left no better off and, in some cases, worse off in the long-term

In response to these market dynamics, Ginnie Mae, in consultation with VA, decided in late 2016, that the most expeditious approach to curbing abuse in the short-term was to change our program standards for pooling streamline loans. The first attempt to solve this problem took the form of an "All Participants Memorandum"¹ (APM) which was issued in October 2016. The APM put in place a limitation on the delivery of so-called "streamline refinance" loans into standard Ginnie mortgage-backed-securities (MBS) until six consecutive monthly payments were made on the initial mortgage loans. Effectively, this means that an originator cannot do a quick refinance of a loan and deliver it into a standard Ginnie Mae security until the borrower has made six months of payments. This type

¹ https://www.ginniemae.gov/issuers/program_guidelines/Pages/mbsguideapmslibdisppage.aspx?ParamID=https://www.ginniemae.gov/issuers/program_guidelines/Pages/mbsguideapmslibdisppage.aspx?ParamID=74

of program change represented one of the options that Ginnie Mae could implement unilaterally to effectuate change in marketplace behavior.

The APM restriction went into effect in February 2017, and was successful during the six-month period during which the streamline refinance option was limited. Unfortunately, however, that initial period has elapsed, and in recent weeks, we have begun to see more streamline refinancing loans appear in our pools.

Additionally, it appears that other evasive mechanisms are now being employed by some issuers active in aggressive VA loan churning to avoid the consequences of our new requirement. More precisely, we continue to witness a variety of behaviors by a subset of our issuers who seem determined to evade the intent of our program guidelines. These behaviors include the following:

- Waiting until six months and one day after origination and then originating a refinance.
- Performing a fully underwritten (e.g. non-streamlined) refinance within just a couple of months of the origination of the prior loan.
- Marketing a cash out refinance, since cash outs are excluded from the definition of a “streamlined refinance” and are therefore excluded from the original moratorium on early refinancing.
- Refinancing from fixed rate loans to adjustable rate mortgages (ARMs)
- Soliciting borrowers for a refinance with the promise that they can skip a month of mortgage payments.
- Offering to return the borrowers’ escrows; as well as other tactics.

We have also found suspicious loan characteristics on some fast refinance loans in our pools, including examples of home values or credit scores that increase substantially over a period of just a couple of month. These practices by a few issuers appear designed to market products that evade Ginnie Mae and VA program rules, and, in our view, may not be designed to help veteran homeowners.

And so, to answer your first question, yes, there are clearly some Ginnie Mae-approved issuer companies who appear to be taking advantage of the VA program to aggressively market and “churn” loans in our securities. We are working to analyze the data in more detail to understand what – if any – net economic benefit these refinances offer to the borrower. We believe that we have identified some patterns of suspicious behavior that we will endeavor to curtail.

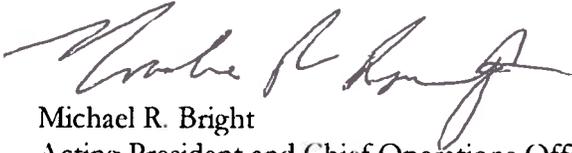
This churning is having a negative impact on Ginnie Mae securities. As you reference in your letter, the Ginnie Mae MBS benefits from an explicit full faith and credit guarantee via the 1968 statute that created Ginnie Mae. As such, Ginnie Mae MBS trade at a substantial premium to other similar securities, such as Fannie Mae or Freddie Mac MBS. We closely guard this price premium and its ensuing taxpayer risk. However, even with a full faith and credit guarantee, the Ginnie MBS investor still assumes the risk of prepayments. Both anecdotal and empirical evidence clearly show that the inability to model prepayment speeds on Ginnie Mae MBS due to this VA churning issue has caused some investors to change their approach to buying these securities. The impact of this is that some VA borrowers may now pay a higher mortgage rate than they otherwise would.

With all of this as background, we have recently created a joint Ginnie Mae-VA “Lender Abuse Task Force” to continue and intensify our work in analyzing monthly data and developing additional policy steps. We will also be working side by side in discussing this issue through direct, in-person meetings, lender-by-lender. This task force will also be responsible for keeping you, other members of Congress, the MBS investor community, and pertinent industry participants abreast of program changes and enforcement actions deemed necessary².

Please note that, Ginnie Mae, in its sole discretion, reserves the right to remove any lender from its program for violations and we have not finished our work to solve this issue. We are analyzing every option, from large scale program changes, to working lender-by-lender to understand how individual marketing practices may be impacting the overall health of Ginnie Mae’s program.

Thank you once again, Senator, for your letter and for raising awareness on this issue. The marketing strategies of a few lenders are having a negative effect on Ginnie Mae securities, and I commit to working with you and partner federal agencies to put an end to these practices.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael R. Bright". The signature is fluid and cursive, with a large initial "M" and "B".

Michael R. Bright
Acting President and Chief Operations Officer
Government National Mortgage Association

² It is worth noting that we do not observe this type of churning behavior with FHA loans, even though FHA also has a streamlined refi program.