



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-9000

THE GOVERNMENT NATIONAL
MORTGAGE ASSOCIATION

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03-08

MEMORANDUM FOR: All Participants in Ginnie Mae Programs

FROM: George S. Anderson, Executive Vice President

SUBJECT: GNMA II Mortgage-Backed Securities Changes

Details of the GNMA II changes were announced in All Participants Memorandum ("APM") 03-02, dated January 10, 2003. The purpose of this APM is to clarify how these changes will impact (1) Adjustable Rate Mortgages ("ARMs"), (2) Buydown loans, (3) new payment date requirements for all GNMA II securities held in depository form, and (4) Ginnie Mae's GinnieNET pool delivery system. These changes will be effective July 1, 2003.

1. Adjustable Rate Mortgages

The FHA Adjustable Rate Mortgage ("ARM") product will be subject to the same GNMA II program changes as outlined in APM 03-02. Similarly, the GNMA II changes apply to ARM products in both custom pools and multiple issuer loan packages. Finally, these changes will also apply to the FHA- and VA-Hybrid ARM loans when they become eligible for FHA insurance or VA guarantee.

As with fixed rate mortgages, these changes are designed to improve market execution of Ginnie Mae's Mortgage-Backed Securities ("MBS") program through more predictable prepayment speeds that result from tighter servicing spreads. The program modifications will not restrict an issuer's ability to create pools with mortgage margins or security margins of its choice. The following points summarize the changes to the GNMA II program as they relate to ARM loans:

- a. The spread of note rates eligible for securitization within a GNMA II pool or loan package will be reduced from a spread of 50-150 basis points to a spread of 25-75 basis points above the security rate.
- b. The minimum servicing fee for GNMA II pools or loan packages will be 19 basis points (the minimum 25 basis points note rate/security rate spread minus the 6 basis points Ginnie Mae guarantee fee).

- c. The Mortgage (“Gross”) Margin spread over the Security (“Net”) Margin will be reduced from 50-150 basis points to 25-75 basis points. Issuers will continue to be responsible for establishing margins for the ARM products.

2. Buydown Loans in GNMA II Pools

As previously announced in APM 03-02, the total dollar amount of Buydown loans in a pool may be no more than ten percent (10%) of the original principal balance of a GNMA II multiple issuer pool. If a multiple issuer pool exceeds the 10% threshold, Ginnie Mae’s Pool Processing Agent (“PPA”) will determine which issuer has the highest percentage of Buydown loans in the pool. The entire loan package will be removed from the pool and Ginnie Mae will notify the issuer of the withdrawal. If the loan package satisfies all other applicable guidelines, the PPA will recommend resubmittal of the loan package as a custom pool. The recalculation and removal process will continue until the pool reaches the 10% limit. Issuers whose loan packages do not exceed the 10% buydown limit will not be subject to having their loan package removed from a multiple issuer pool.

3. Payment Dates for GNMA II Securities

For securities held in book-entry form, the Central Paying and Transfer Agent (“CPTA”) will collect payments by ACH debit from the issuer for GNMA II securities at or after 7:00 a.m. Eastern Time on the 20th day of each month, or the next business day if the 20th calendar day is not a business day.

For securities held in certificated form, the CPTA shall collect pass-through payments by ACH debit at or after 7:00 a.m. Eastern Time on the 19th calendar day of the month. If the 19th calendar day is not a business day, then the applicable date is the 20th calendar day. If the 20th calendar day also is not a business day, then the applicable date is the business day immediately preceding the 19th calendar day of the month.

4. GinnieNET Pool Delivery System for GNMA II Pools

No later than June 1, 2003, Ginnie Mae will release GinnieNET, Version 5.8 (“Version 5.8”). Version 5.8 will contain the new pooling requirements for GNMA II products. Effective July 1, 2003, all Ginnie Mae issuers and custodians will be required to use version 5.8 for all GNMA I and II pools.

Ginnie Mae MBS Guide changes will be forthcoming. Questions regarding this memorandum should be addressed to your Ginnie Mae Single-Family Account Executive at (202) 708-1535.