

Module I – Ginnie Mae Programmatic Requirements

## Ginnie Mae Multifamily Issuer Training





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#### Ginnie Mae

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#### **Ginnie Mae Team**

Many different entities are involved in the Mortgage-Backed Securities issuance and servicing processes.

**Ginnie Mae** – Government National Mortgage Association guarantees securities backed by FHA-insured Multifamily mortgages; a) approves issuers, sets policies and procedures; provides customer service to participating issuers; provides commitment authority; approves security issuances; monitors issuers.

**Issuers/Lenders** – Organizations approved by Ginnie Mae to issue securities guaranteed by Ginnie Mae; create mortgage pools; prepare and submit relevant documents for each pooled loan; market securities; make monthly payments to security holders; prepare reports to Ginnie Mae; cover shortfalls in collections to pay security holders; service the pooled mortgages until maturity.

Funds Custodian – Financial institution that maintains pool principal and interest (P&I) custodial accounts and required escrow accounts (T&I)

**Document Custodian** – Reviews multifamily loan documents submitted by issuers; certifies as necessary, and holds documents for life of the pool, on behalf of Ginnie Mae.



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**Pool Processing Agent (PPA)** – Contracted by Ginnie Mae to review documents submitted by issuers that describe the pool as a whole; upon approval, PPA directs that the securities be issued on Ginnie Mae's behalf; forwards pool to Depository or investor, as appropriate.

**Depository** – <u>Depository Trust Company</u>, institution that registers and holds all Ginnie Mae book entry securities; transfers all book entry securities; collects from issuers and remits to security holders all Ginnie Mae I payments.

**Investor** (also known as Security Holders) – Purchase interests in Ginnie Mae mortgage-backed securities; can be large institutions such as banks, insurance companies or other major corporations, foreign governments, mutual funds or individuals.

Please refer to Tab 1.



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## GINNIE MAE'S History, Purpose and Authority Ginnie Mae • Formed in 1968 • Promotes Affordable Housing by Linking the Federal Housing and Capital Markets. • Guarantees Mortgage-Backed Securities Collateralized by Multifamily Loans Insured by the FHA. • FULL FAITH AND CREDIT Guaranty of the UNITED STATES on the Mortgage-Backed Securities (MBS)

#### Ginnie Mae's History, Purpose and Authority

Ginnie Mae was formed in 1968 as a government chartered corporation within the U. S. Department of Housing and Urban Development to link the Federal housing markets with the capital markets.

Created in 1968, Ginnie Mae pioneered the development of the Mortgage-Backed Security (MBS). Ginnie Mae's MBS program provides capital to lenders, allowing them to finance FHA-insured Multifamily projects insured by Sections 221 (b)(4), 223(f), 232 and 241 of the National Housing Act

There are currently over \$38 Billion in Multifamily MBS. Ginnie Mae's operations are managed by the Secretary of HUD in conjunction with the President of Ginnie Mae, both of whom are appointed by the President of the United States and confirmed by the United States Senate.

Please refer to Tab 2.





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# WITHOUT MBS Ginnie Mae • Loans held in Bank Vaults or Sold Loanby-Loan • Requires re-Underwriting • Wide Regional Variations in Interest Rates • Credit Shortages in some parts of USA • Financing could "dry-up" in hard times • OUCH!

#### **Without MBS**

The multifamily housing markets were inefficient and illiquid prior to the invention of the MBS for multifamily housing.

Before the invention of the MBS for multifamily housing, nearly all loans were made by lenders and held to maturity. Funding of multifamily housing depended on depositors or other investors such as major insurance companies or other more liquid industries. A great deal of effort is spent on loan-by-loan underwriting on individual commercial loans for multifamily housing.



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## Ginnie Mae Bond Like--tradable on Secondary Market No New Credit Underwriting Uniform Quality--a Ginnie Mae is a Ginnie Mae--yes and no! Full Faith and Credit Guarantee gives MBS liquidity and HIGHEST rating in Bond Market HOORAY!

#### **Mortgage-Backed Security**

Ginnie Mae is the ONLY secondary mortgage market entity with the authority to provide the full faith and credit guarantee of the U. S. Government. The full faith and credit guaranty places the Ginnie Mae MBS in the lowest risk category for investors. As a guarantor, Ginnie Mae does not issue, sell, or buy mortgage-backed securities, or purchase mortgages at this time.

Multifamily lending was added to the Ginnie Mae MBS program as a method of increasing and improving low-cost, affordable rental housing for that segment of the population that would prefer apartment-style living. The program also includes hospital and nursing home sub-programs. Ginnie Mae assists with the construction of project loan housing through its innovative construction loan draw program which is converted into permanent financing for up to 40-years. New small loan and mature loan programs were launched within the past three years allowing smaller loans, loans that have had more than 24-monthly principal payments to be securitized and more than one loan in a pool. The minimum pool size for a multifamily MBS is \$250,000. The program allows funds to be used for refinancing, as well as acquisition with rehabilitation.



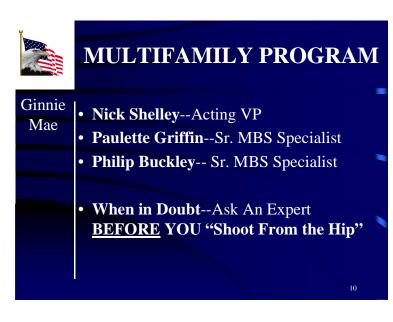
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#### Multifamily Program Team at Ginnie Mae

Ginnie Mae has a proud tradition of Multifamily lending with the program currently being led by Nick Shelley, Acting Vice President for Multifamily Housing. His staff of knowledgeable, skilled multifamily experts includes Paulette Griffin and Philip Buckley both of whom are Senior Mortgage Backed Securities Specialists, and serve as extremely important issuer points of contact.

Please refer to Tab 3.



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## Ginnie Mae • FHA Mortgagee • Multifamily Loans Principal Element of Business • Management Capability--Knowledge of Multifamily Lending • Net Worth Required--Real Net Worth \$500,000 + .2%>\$35MM

#### **Approval**

Not just anyone can issue Ginnie Mae Multifamily MBS – each issuer must meet certain defined criteria.

To participate in the Ginnie Mae multifamily program, a lender must be an FHA-approved multifamily lender in good standing and APPLY for approval as a Ginnie Mae Issuer.

For the multifamily lender/issuer, it must principally make multifamily loans. Management must be knowledgeable of mortgage lending in the multifamily arena, and the issuer must have the required net worth.

Please refer to Tab 4.





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#### Approval (cont'd)

E & O Insurance / Fidelity Bond -- Each issuer is required by Ginnie Mae to maintain fidelity bond (theft insurance) and mortgage errors and omissions insurance. The issuer must submit proof of this insurance at the end of each fiscal year.

Mortgage Impairment – Mortgage Impairment is highly recommended and is required if the lender does not maintain a complete copy of necessary insurance policies. This can be particularly important to the multifamily issuer.

**Financial Statements and Documents** – The issuer must provide annual and quarterly financial reports and related documents that attest to the ongoing financial soundness of the issuer's organization. They are:

- Annual Audited Financial Statement
- Quarterly Unaudited Statements

Please refer to Tab 5.



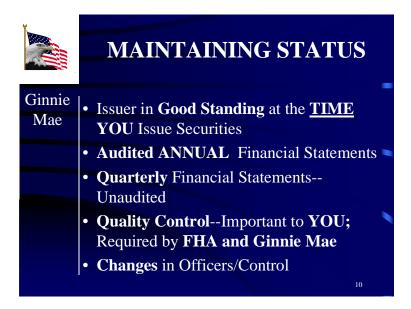
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#### **Maintaining Status**

A Ginnie Mae multifamily issuer must constantly maintain the necessary net worth and process and service the underlying loans and deal in the securities in the manner required by the Ginnie Mae Guide.

An ongoing Quality Control program is one required item which can protect the lender while insuring the safety and soundness of the Ginnie Mae and FHA programs.

Ginnie Mae requires that changes in Officers and/or control of the Company must be reported. In some instances a change of control is actually a sale of the issuer, requiring Ginnie Mae's approval of a transfer of issuer responsibility.

Please refer to Tab 6.





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#### **Commitment Authority**

**Commitment Authority** – Each issuer must have sufficient commitment authority to cover the dollar amount of any pools it plans to securitize. Commitment Authority is the approval given by Ginnie Mae – for a fee – to the Issuer to proceed with a set dollar amount of securities.

**Appropriate Forms, Commitment Fee** – The issuer must submit all appropriate documentation to support its request for commitment authority.

**Pool Numbers** – Each pool has a unique pool number that never expires. An issuer must request Pool numbers from Ginnie Mae. REMEMBER that Construction Loan and Project Loan securities are to be numbered with consecutive pool numbers with the PL or PN or LS security having the higher number.

**Appropriate Agreements** – Ginnie Mae requires an issuer to establish formal agreements with all of the financial players in the pooling process. The issuer also must have a formal agreement with Ginnie Mae that it will conduct its business according to all the Ginnie Mae requirements, including master agreements with fund custodians and subservicers (if appropriate), and assure that Ginnie Mae is entitled to all the appropriate documents both from the loans and the pools in the event of an issuer default.



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**Electronic Data Interchange (EDI) Agreement** – Each issuer is required to formally establish an Agreement with Ginnie Mae governing the submission of data through the use of EDI methodologies.

Please refer to Tab 7.



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#### **Example Security**

In the regular multifamily loan program (PL or PN securities), each security is backed by one loan of at least \$250,000.

Please refer to Tab 8.





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#### **Regular Multifamily Program**

Only FHA-insured loans are eligible for inclusion in Ginnie Mae multifamily securities. Each security is backed by one loan of at least \$250,000. Servicing may be between 12 and 37 basis points. Ginnie Mae guarantee fee is 13 basis points annually.

Please refer to Tab 9.





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## Ginnie Mae--Small Loans (LS) Ginnie Mae - Small Loans--FHA Small Loan Program - Maximum Amount of any loan may not exceed \$ 1 MM - Term of Loans is Maximum of 35-years - Servicing MINIMUM is 37 bp with 13 bp of Guaranty Fee--Minimum .50% note to security spread

#### **Small Multifamily Loans**

Ginnie Mae's new small loan program is designed to support the FHA small loan program. Unique to this multifamily program is a limitation on the maximum size of any loan (no larger than \$ 1 million) and that more than one loan may be included in a pool. The loan term is limited to 35-years.

Servicing MUST be at least 37 basis points with no maximum specified by Ginnie Mae. The Ginnie Mae guaranty fee remains only 13 basis points for this program.

Please refer to Tab 10.



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## Ginnie Mae Mature Loan Program (LM) Cinnie Mae Loan has had more than 24-months of Principal and Interest Payments!!! Loan has been Performing Without Owner Contribution Occupancy 93% or > for 24 months Reserves--at least 24 months Fully insured by FHA; not previously pooled Ginnie Mae

#### **Mature Loan Program**

Ginnie Mae has an innovative program allowing issuers to securitize loans, which have had more than 24-monthly payments of principal and interest, or a loan that has been modified by FHA after final endorsement.

Special requirements of this program include that:

- the loan has been performing without Owner contribution;
- occupancy rates of at least 93% have been maintained for 24-months;
- at least two years of reserves\* "in the Bank"; and
- the loan is FULLY insured by FHA and not previously pooled by Ginnie Mae.

#### Please refer to Tab 11.

\* The owner is responsible for all management functions relating to repair, maintenance, and replacement of capital items. A replacement reserve must be established and generally maintained in an interest-bearing account to aid in funding extraordinary maintenance and repair and replacement of capital items (see Handbook 4350.1 REV-1 for additional requirements and exceptions). An amount, as required by HUD, will be deposited in the replacement reserve annually. The reserve must be built up to and maintained at a level determined by HUD to be sufficient to meet projected requirements.



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All earnings including interest on the reserve must be added to the reserve. Partially assisted projects are exempt from the requirement for periodic deposits to a reserve account. For Section 8, a partially assisted project is defined as a project for non-elderly families which includes more than so units of which 20 percent or fewer are assisted (24 CFR 880.602 and 880.401).



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#### Mature Loan Program (cont'd)

The project MAY NOT have a rental subsidy contract unless subject to the FHA's Mark-to-Market initiative. Minimum debt service is 117%, and there must be at least a "Satisfactory" inspection rating on the project within the past 12 months.

Please refer to Tab 11.



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## Ginnie Mae - Currently Chase Manhattan Bank - Pool Processing is Paper TODAY - Processing Time is 3-days - Errors in Pooling--Make Sure "Annex -- Special Disclosure" is REAL - Particularly Important on PN and LS - CHASE can't "read your mind"

#### **Pool Processing Agent**

Chase Manhattan is currently the Ginnie Mae contractor for the purpose of processing all types of Ginnie Mae securities.

Chase Manhattan has been a constant pool processing agent for Ginnie Mae for the better part of two decades. Chase processes all Ginnie Mae pools on behalf of Ginnie Mae. Currently, ALL multifamily pools are processed using manual paper processing. Soon, Ginnie Mae will be beta testing the new GinnieNET electronic pool processing system (paperless). This should lower pool processing to TWO days.

The "Annex – Special Disclosure" is the addendum to the prospectus, which describes the unique aspects of YOUR particular pool. Make sure that this is completed in a clear fashion.

Chase is experienced and knowledgeable about the Ginnie Mae multifamily program, BUT they need your help. Complete forms, written explanations and asking questions before you submit the pool to the Ginnie Mae staff and/or Chase staff can save a lot of pain and get your pool ISSUED timely.

Please refer to Tab 12.



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### Conversion of Construction Loan to Permanent Loan Pools

One of the major advantages of the Ginnie Mae multifamily program is the ability to build the project with construction loan securities financing. The minimum period of the construction loan securities is 200% of the expected construction period anticipated by FHA. Construction loan securities may have the same or a different interest rate than the project loan—permanent loan—securities.

The minimum draw is \$25,000 on a construction loan pool issuance. Construction loan and permanent loan securities are CONSECUTIVELY numbered—higher number is on permanent loan.

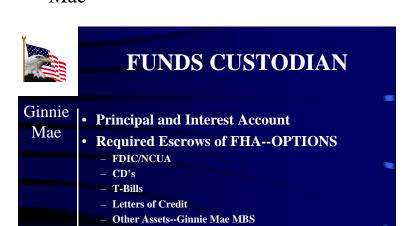
Last construction loan draw can be tricky. When in doubt call the very capable staff at Ginnie Mae. Construction loans have NO principal curtailment. Principal payments must be held and REDUCE the amount of the permanent loan. Likewise, if the certification process limits the amount of the permanent loan, the construction loan securities must be paid off with a combination of permanent loan securities and cash retiring the ineligible piece of the construction loan securities.

Please refer to Tab 13a and Tab 13b.





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#### **Funds Custodian**

Principal and Interest and required FHA escrows must be held in Ginnie Mae approved escrow accounts. The institutional funds must be in FDIC or NCUA-insured accounts. P&I accounts must be secured and used exclusively for Ginnie Mae pools. Several options are available for other required FHA escrows/funds.

Please refer to Tab 14.



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### **Documents Custodian**

The document custodian who must be APPROVED by Ginnie Mae holds all notes, mortgages, FHA commitment/Endorsements, title policies, and unrecorded assignments to Ginnie Mae. This procedure safeguards important documents and allows ready access to key documents in the event of an issuer default.

Please refer to Tab 15.





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# Ginnie Mae Book-Entry Securities--What are They? Depository Trust Company P & I Information is Reported to DTC by 8th Business Day of the Month Wire Money to DTC--"Holy Grail" Notify DTC Nominee of Conversion of Construction Loan Securities

**Depository** 

Book entry securities are maintained at the Depository Trust Company. Book entry means that a paper security is NOT issued to the investor. However, an initial paper security is forwarded to the DTC and kept in their vault. Similar to other instruments—most notably stock—Ginnie Mae book entry securities are safely maintained on the books of the DTC and into the records of the members of the DTC. All major and many regional banks and stock/bond brokerage firms are members of the DTC.

Securities are actually SAFER in book entry form, because theft of the securities is virtually impossible.

Please refer to Tab 16.



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# Ginnie Mae Originate Loan(s) Form Pool--Documents to Custodian Sell Security--Secondary Market Pool Documents to Pool Processing Agent Settle Security--Money Wired to? NEW Money--Play It Again!!

### MBS's are EASY—Really!

Now we have seen and discussed all but one major player in the MBS process. MBS are efficient ways to obtain capital to support the nation's need for new or renovated multifamily housing including nursing homes and hospitals. Lenders may tap the worldwide capital markets through the use of the AAA-rated Ginnie Mae multifamily security—the only security backed by the full faith and credit of the United States of America. In this way the lender/issuer is not limited to the deposits of the area, but the issuer is able to tap the worldwide capital markets with a recognized security—known for its superior administration and superior credit worthiness.

### GINNIE MAE IS THE WAY TO DO MULTIFAMILY LOANS.



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# **Servicing and Ginnie Mae HOT BUTTONS**

There can be only ONE issuer of record. Several items can get the Ginnie Mae issuer into "hot water." I call these "hot buttons"—meaning that Ginnie Mae takes the matters very seriously. They include making your Pass-Throughs timely; Servicing and Subservicing properly in accordance with Ginnie Mae Guide requirements; Properly handling fund transfers in and out of Custodial Accounts; Proper Pool Advance Agreements and the Duty to make Corporate Advances, when necessary.



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# Ginnie Mae Issuer of Record Subservicing--HOT Button See Guide Duty to Make Pass-Throughs--HOT Button Duty to Make Corporate Advances Approved Pool Advance Agreement

Please refer to Tab 17.



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**Basics** 

Let's discuss pool formation again and some other Ginnie Mae BASICS.

**Obtain Commitment Authority** – Ginnie Mae's promise to you that THEY WILL guarantee eligible securities. (Even if there is a Government shutdown or a blizzard).

**Pooling Documents to Ginnie Mae** – Pool documents are currently handled through paper processing between the Issuer, Document Custodian and Ginnie Mae's Pool Processing Agent, Chase Manhattan Bank. Pool processing is three days from the business day after the documents are received. COMING ATTRACTIONS: GinnieNET, electronic pool submission with TWO-day pool processing. HOORAY!

**Sell Securities in the Secondary Market** – Usually BEFORE the loans are even made, you have sold the security in the secondary market through your national or regional broker/dealer in Ginnie Mae mortgage-backed securities.



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**Establish Custodial Accounts** – Use an institution with an acceptable rating for P & I custodial account, AND use other approved methods for other accounts.

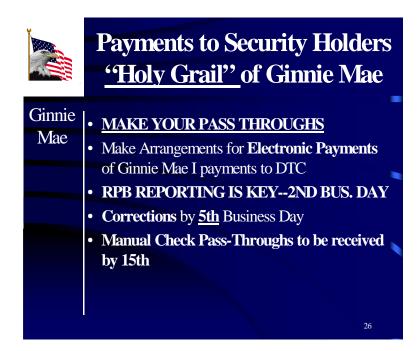
**Prepare to Make Pass-Throughs** – Is there a formal mechanism to transfer the funds from your Ginnie Mae I principal and interest custodial account to the Depository Trust Company? Have you tested these procedures with the DTC? If you have issued any regular paper securities, have you methods to make sure that the investor receives their pass-through MBS payment by the 15<sup>th</sup> of the month? Do you have a Disaster Plan?

**Good Servicing is a MUST** – If you subservice or have a subservicer performing some servicing duties for you, be sure to adhere to subservicing requirements. Servicing your multifamily loans in accordance with industry standards preserves your loans in a performing fashion eliminating the need for costly advances. Servicing can save a loan and even your company.

**Cash Management Capability** – When your Ginnie Mae mortgage-backed security settles in the secondary market, you must have mechanisms for the money to be wired to you.



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### **The Holy Grail**

Make your pass-through payments!

The making of Ginnie Mae pass-throughs in a TIMELY and CORRECT method is **ABSOLUTELY REQUIRED.** This is Ginnie Mae's # 1 HOT BUTTON. Your pass-throughs CANNOT be even a minute late. Pay the pass-through based on your reported Remaining Principal Balance numbers, which you reported by monthly business day 2. Ginnie Mae can and WILL default issuers who fail to make proper security holder payments (pass-throughs).

Please refer to Tab 18.



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# Ginnie Mae Transfers ONLY with Ginnie Mae Approval Fees/Time Deadlines Why Does Ginnie Mae Care About Servicing Transfers? Subservicing may be needed by YOU or an EXTRA area of Income for your Co. Do's and Don't's on Subservicing!

# Transfer of Servicing and Subservicing

Ginnie Mae REQUIRES that ALL servicing transfers be pre-approved by Ginnie Mae. Submit the proper fees and meet the required deadline for having servicing moved from you or to you as an Issuer. Subservicing is a very big HOT BUTTON for Ginnie Mae. The Ginnie Mae Guide 5500.3 has a chart about allowable and unallowable items for subservicing/and servicing. Use That Chart.

Please refer to Tab 19.



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### **Reporting to Ginnie Mae**

Ginnie Mae is responsible to taxpayers, investors, and Wall Street to assure that issuers adhere to the requirements of the multifamily program. As part of its oversight and risk management strategy, Ginnie Mae requires issuers to provide certain periodic reports.

**Annual Audited Financial Statements** – While a lot of information can be gathered from this document, two particular items are of special interest to Ginnie Mae.

**Net Worth** – Ginnie Mae wants to be assured that the net worth requirement continues to be met – that there are sufficient assets to allow the issuer to meet serious cash demands; e.g., making payments on delinquent loans prior to claim settlement. The issuer must demonstrate enough net worth for existing commitment authority, requested commitment authority and your existing portfolio of pooled mortgages.

**A Clean Opinion** – A "clean" opinion from an IPA or CPA gives Ginnie Mae comfort that the statement clearly and accurately represents the financial well being of the particular Lender/Issuer AND that its operations are appropriate.



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**Monthly Investor Reporting (Pool Level)** – Pool level reporting tells Ginnie Mae how well the issuer's portfolio is doing – i.e., the number of delinquent loans (60, 90 days), defaults and foreclosures. There are numerous edit checks done on these reports when

Ginnie Mae's review agent reviews them. These in turn give Ginnie Mae vital management information.

**Quarterly Reporting (Loan Level)** – This reporting MUST be done using Electronic Data Interchange (EDI). These reports are also submitted to the Review Agent. Quarterly loan level reporting gives vital additional information for analyses of the issuer's underwriting and servicing.



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### **Investors**

**Lenders and Investors** – The Secondary Market is made up of the lending community, investors and broker/dealers who trade mortgage-backed securities. The lending community forms pools (MBS) which are sold through investment brokers to the investment community. In multifamily it is very common for the players to all know about one another—in detail. There is a "glass house" effect in this marketplace.

Investors are usually large institutions such as a corporation, government or trust. It can also be mutual funds! Individual investors also may purchase mortgage-backed securities. MBS are traded worldwide bringing in capital from the entire world financial market.





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### **Trading of Securities**

Extract from Ginnie Mae Handbook 5500.3 – Securities Marketing and Trading Requirements

- "c. Suitability of Issuer Marketing and Trading Transactions. An issuer shall enter into agreements to purchase or sell securities only to the extent the transactions are suitable for the issuer in view of its financial capacity and existing contractual obligations, including contracts with Ginnie Mae. An issuer shall not enter into any agreement to purchase or sell securities if the result of the transaction could materially jeopardize the issuer's ability to continue to satisfy Ginnie Mae's basic net worth requirements or the issuer's ability to continue to administer its outstanding securities.
- "d. Prudent Business Practices. Issuers are required to exercise sound and prudent business practices in the marketing and trading of securities. For the most part, issuers' relationships with the investing public are carried out through securities dealers. The following rules apply to issuers' direct relationships with dealers as well as with all investment bankers, individuals, corporations, trusts, and other entities to which the issuer delivers, or makes commitments to deliver or purchase securities."

**NOTE:** Internal Control Requirements in this area.



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### **YOU and YOUR Company**

As with all of life, your integrity and hard work are important. There are no insignificant jobs in the multifamily, mortgage-banking field. You and Your Company can make a difference in the housing of America. I urge you to realize what special people that you are and what a special job that you are doing. You Can Make A Difference in Housing America!



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