



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

GOVERNMENT NATIONAL  
MORTGAGE ASSOCIATION

July 9, 2004

MPM-04-03

MEMORANDUM FOR: All Participants in the Ginnie Mae Multiclass Securities Program

FROM: George S. Anderson, Executive Vice President

SUBJECT: Ginnie Mae Stripped Mortgage Backed Securities Program

In July 2004, Ginnie Mae will introduce a Stripped Mortgage-Backed Securities Program (the "SMBS Program") that will allow participating Sponsors to transfer and assign to a grantor trust (each, an "SMBS Trust") all of their rights, title and interest in certain securities previously guaranteed by Ginnie Mae, in exchange for two or more classes of Ginnie Mae Guaranteed Stripped Mortgage-Backed Securities (the "SMBS Securities"). The SMBS Securities will represent entitlements to all of the interest or principal collections or partial principal and interest collections received on the pool of assets underlying the related SMBS Trust. In addition, the holders of specified portions of SMBS Securities may exchange the SMBS Securities for equivalent combinations of other SMBS Securities, and under certain circumstances, may exchange the SMBS Securities for the assets underlying the SMBS Trust. Initially, Ginnie Mae will only permit Sponsors to include Ginnie Mae Platinum Securities as assets for an SMBS Trust. Ginnie Mae will guarantee the timely payment of principal and interest on the SMBS Securities. Ginnie Mae's guaranty of the timely payment of principal and interest on the SMBS Securities is backed by the full faith and credit of the United States.

Ginnie Mae has structured the SMBS Program to accommodate suggestions received during the last several months from various industry participants. The rationale for the establishment of the SMBS Program was to improve market execution for the Ginnie Mae MBS and Ginnie Mae Multiclass Securities programs by giving Ginnie Mae issuers increased flexibility, and by making new Ginnie Mae products available to derivatives investors. As a general matter, improved execution should enhance the liquidity of Ginnie Mae securities by increasing demand from capital markets investors and stimulating mortgage origination, which should in turn reduce the cost of homeownership to American homeowners.

Broker/dealers eligible to participate in the Ginnie Mae Multiclass Securities Program will act as Sponsors in the SMBS Program. Ginnie Mae will institute a rotation system for designating a Sponsor for SMBS transactions. It is anticipated that multiple broker/dealers will participate in each SMBS transaction, which will result in a broad distribution of new issue SMBS and active secondary trading markets.

In the SMBS Program, a Sponsor will be responsible for:

- Creating a disclosure document that describes the characteristics of the underlying trust assets and the details of the SMBS Securities to be issued
- Creating the SMBS Trust
- Creating the Ginnie Mae Platinum Security to be deposited in the SMBS Trust
- Providing certain representations and warranties with respect to the assets to be included in the SMBS Trust
- Executing the supporting transaction documents (e.g. Sponsor Agreement)
- Selecting the Trustee, Trust Counsel, External Accountants, and other third parties

Ginnie Mae will create a rotation of Sponsors. The rotation will be based upon the sum of total REMIC issuance volume in 2002 and 2003. Each eligible broker/dealer will, in turn, have the opportunity to serve as Sponsor of a Ginnie Mae SMBS transaction. The opportunity to act as Sponsor shall last for 30 days. If no SMBS transaction has been executed during the 30-day period, the right to be Sponsor will move to the next eligible broker/dealer on the rotation list. After a Sponsor executes an SMBS transaction, the right to be a Sponsor is immediately available to the next firm on the rotation list. The order of rotation will be based upon REMIC volume summarized below:

**REMIC Volume (2002-2003) \$ billions**

Dealer name	2002	2003	2002 + 2003
Citigroup	\$10.6	\$14.7	\$25.3
Goldman	13.0	9.6	22.6
UBS	9.4	10.5	19.9
CSFB	6.6	9.1	15.7
JPMorgan	8.0	5.5	13.5
Bear	5.8	4.2	10.0
Banc of America	3.0	6.4	9.4
Lehman	3.5	2.6	6.1
Morgan Stanley	1.3	2.7	4.0
Greenwich	1.4	2.5	3.9
Merrill Lynch	1.2	1.6	2.8
Deutsche Bank		1.3	1.3
Nomura		0.9	0.9
Countrywide		0.7	0.7
FTN		0.3	0.3

After each eligible firm has an opportunity in the rotation format to act as Sponsor in an SMBS transaction, the rotation format will terminate and all of the firms eligible to sponsor an SMBS transaction will be able to initiate an SMBS transaction when and, as they are able. Each eligible Sponsor would propose a list of collateral stipulations to Ginnie Mae to initiate the transaction process. (See MPM-04-04)

Questions regarding this MPM should be referred to the Office of Capital Markets at (202) 401-8970.