

ask the servicer

Does the Ginnie Mae reverse mortgage securitization program pose any challenges from the servicing perspective?

By Ryan LaRose

Much has been recently written in our industry about the Ginnie Mae HMBS program for reverse mortgages. Although the program has only been around for a few years, it has profoundly changed the dynamics of our industry and has been incredibly successful in providing a viable secondary market alternative to Fannie Mae. Consider this: HMBS volume increased from \$1.36 billion in 2008 to \$8.54 billion in 2009, a 629% increase!

Any lender that has researched the HMBS program knows that the levels of complexity can be rather daunting on the “front end” – from obtaining Ginnie Mae approval, to the various ways a securitization can be structured and customized, to developing and maintaining a healthy and active secondary market execution for the sale of the end product.

When I read some of the detailed information on structuring a HMBS and the complexities surrounding secondary market executions, I have to admit, I felt happy to be won the servicing side of the business!

In 2009, my company initiated the approval process to be a HMBS Participation Agent and discovered first-hand how seriously Ginnie Mae takes their responsibilities. Their testing process was the most thorough our IT and Accounting Departments had ever experienced. At the conclusion of the process, department team members stated, “We sure hope we don’t have to do that again!”

So how does the HMBS program create or require its own unique challenges and complexities for a servicer?

On a very high level, day-to-day servicing duties and responsibilities are not significantly impacted by the HMBS program. There are, however, several features of the program which may require servicers to enhance system controls and reporting functionality. Specifically, those areas of the program that can affect servicing systems and operations are:

- Pool tracking for securitized loans
- Multiple participations per loan tracking capabilities
- Participation accounting (reporting and remitting funds to Ginnie Mae)
- Enhanced investor reporting capabilities
- Detailed “advanced” tracking and the required buyouts of all loans that reach 98% of the maximum claim amount
- Buyout of any loan that has been liquidated (foreclosure, deed in lieu, etc.)
- Internal management and sale of any “real estate owned” (REO) properties

From my perspective, and as a sub-servicer of the HECM product for the last five years, the process of loans being originated by our clients, sold to Fannie Mae as the investor, and handed over to us for servicing was a fairly straightforward one. Standardized electronic interfaces were established long ago with Fannie Mae’s eBoutique system; monthly reporting and reconciliations with Fannie Mae are streamlined; and Fannie Mae handles the management, marketing and disposition of any foreclosed properties.



On the other hand, it is critical for a HMBS issuer to understand, and be properly prepared for, the “back-end risk” they assume by securitizing their loans – versus selling the loan, and therefore that same “back-end risk”, to Fannie Mae.

I have seen a number of HECM lenders back away from the HMBS program when they learn that loans must be purchased out of the security when the loan balance reaches 98% of the maximum claim amount - regardless of whether that same loan is eligible to be assigned to HUD.

For instance, if the loan is in any stage of default at the time of buyout, it cannot be assigned to HUD at 98%. The issuer is thereby required to maintain the loan on their balance sheet until it pays off, is liquidated through a foreclosure, deed in lieu of foreclosure, or through a short sale. If title to the property is passed back to the holder of the loan through a foreclosure or deed in lieu, the issuer then takes on the risk (and expense) of having to market and attempt to sell that home, better known as REO management.

It is a common misperception that when a loan is insured by HUD an investor (or issuer) cannot lose money on a HECM. Just ask any investor who has had to file a foreclosure/REO claim! HUD insurance will cover most, but potentially not all, of the investor’s outstanding amount due from the HUD claim proceeds in this scenario.

The Ginnie Mae HMBS program has made an incredibly positive impact on our industry by generating liquidity and a long-term option for secondary market execution. At the same time, it does require a higher level of interaction, and integration across servicing operations, information technology, investor accounting, and secondary marketing. Lenders must fully analyze and understand the balance between reward and risk that comes with participation in the HMBS program.

I look forward to receiving any questions you may have regarding servicing at: ryan@celink.com. Please remember: there is no such thing as a stupid question. No doubt, the question you ask will have been in the minds of other readers as well. If you wish to remain anonymous for my response, just let me know.