IMB POLICY SPOTLIGHT

IMB Servicing Liquidity

Opportunities to Improve Market Resilience and Enhance Value for First-Time Homebuyers

The independent mortgage bank (IMB) sector has proven remarkably durable through recent challenging and unprecedented market cycles. Nonetheless, the growing share of IMBs among government loan servicers continues to attract federal regulatory attention — particularly around the question of servicers' ability to sustain the contractually required monthly advances of principal and interest to investors on delinquent Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA), and U.S. Department of Agriculture (USDA) loans where payments are not received from the borrower for extended periods.

A May 2024 report by the Financial Stability Oversight Council (FSOC) recognized the important role IMBs play in today's housing finance market, but identified a potential system vulnerability in the inherent timing mismatch between when servicers must advance funds and when they are ultimately reimbursed by FHA, VA, or USDA. Some of the recommendations made in the FSOC report rightly seek to alleviate this structural timing issue, while other suggested reforms — such as giving the Federal Housing Finance Agency (FHFA) direct supervisory power over IMBs, increasing IMB capital and liquidity requirements, or requiring IMBs to pay into a federal insurance fund — are not responsive to the core issue and would raise origination costs, impose duplicative supervision, and unnecessarily extend a federal backstop. These misguided reforms in the FSOC report fail to appreciate the unique nature of the IMB business model and the existing regulatory ecosystem.

Today's IMB servicers are subject to robust capital and liquidity requirements as well as rigorous exams and supervision by state regulators, Consumer Financial Protection Bureau (CFPB), FHA, VA, USDA, and counterparty oversight by Ginnie Mae, the government-sponsored enterprises (GSEs), and their warehouse lenders. This regulatory regime has withstood the test of time, as recently demonstrated by the industry's resilience through the COVID-19 global pandemic and corresponding wave of mortgage forbearance. In that instance, the emergency Pass-Through Assistance Program (PTAP) facility established by Ginnie Mae — while an important emergency response — was hardly needed by issuers.[1]

Even with that track record, it is prudent to consider additional tools and program reforms to alleviate the liquidity burden on servicers by addressing the structural timing mismatch in the Ginnie Mae program. Below are a few opportunities for targeted reforms that federal policymakers should consider. These reforms not only make sense from a prudent risk management standpoint but could also reduce the overall costs and uncertainties of servicing government loans. This proposal would reduce friction and add value to every stakeholder in the origination chain from the homebuyer to the end mortgage-backed securities (MBS) investor. Importantly, each of the recommendations below enhances the stability of the housing finance market without extending direct federal support to issuers or increasing taxpayer risk, and most can be implemented under existing program authority.

Improved Reimbursement Speeds

MBA has encouraged FHA to consider accelerating reimbursement of servicers for their tax and insurance escrow advances on delinquent FHA loans rather than delaying reimbursement until a borrower completes a loss mitigation option or the loan goes to foreclosure and a claim. In response, FHA in December 2024 proposed a program to allow servicers to file every few months for reimbursement of tax and insurance advances until the borrower either reperforms or proceeds to liquidation. Given the rapid rise in escrow advancing costs due to higher property taxes and insurance premiums and post-Covid adoption of long-term forbearance options for

1 PTAP was established in March 2020 in response to the pandemic and passage of the CARES Act requiring long term forbearance from issuers. In May 2020, the number of issuers needing PTAP assistance peaked at 9, and the volume of advances outstanding made from PTAP peaked in July of 2020 at $5.3 million. All PTAP advances were paid in full by July 2021.

FHA borrowers, such a policy change from FHA would provide significant liquidity relief for Ginnie Mae issuers and complement other proposals for enhancing liquidity. The proposal would not result in materially higher costs to FHA as they would be changing the timing of reimbursement, and not the amount reimbursed per loan. *[Existing FHA authority]*

Early-Buyout (EBO) Securitization

MBA has proposed the development of a new, private sector source of liquidity — a Ginnie Mae-wrapped security comprised of non-performing FHA, VA, and USDA loans bought out of traditional Ginnie Mae pools. In this proposed securitization, the issuer/servicer is no longer required to make monthly principal and interest advances, thereby mitigating liquidity strain. End investors in a Ginnie Mae EBO security would receive an accrual of the scheduled principal and interest payments when the loan resolves through either reperformance or liquidation. This could offer a particularly attractive opportunity for some warehouse lenders to finance an EBO more efficiently as well as offer an attractive possible benefit to their clients. During periods of market stress, a Ginnie Mae EBO security would provide IMB issuers a more viable loan buyout option to mitigate protracted advancing requirements. Because the loans are already in Ginnie Mae MBS, the EBO security changes only the form of the securitization, but not the volume of Ginnie Mae guarantees outstanding. *[Existing Ginnie Mae authority]*

Bifurcation of Mortgage Servicing Right (MSR) Assets

Both Fannie Mae and Freddie Mac facilitate the financing of servicing advances by permitting the bifurcation of GSE-related MSRs and the related servicing advances as collateral for a secured loan to a servicer. In other words, there can be one secured lender for the MSRs themselves and another for the advances of principal, interest, taxes, and insurance with separate tri-party agreements among the GSEs, the servicer, and the lender providing each credit facility.

Bifurcation can be an effective source of liquidity. Unlike Fannie Mae and Freddie Mac, however, Ginnie Mae does not permit an issuer to have more than one credit facility using Ginnie Mae MSRs as collateral.

Unless and until private financers of Ginnie Mae EBOs obtain a meaningful and non-extinguishable security interest (or more options to avoid extinguishment) in the servicing asset, interest in such lending against Ginnie Mae

servicing assets will remain low and financing will only be provided to issuers at costly unsecured rates. Through bifurcation of the MSR asset, private financers would be able to offer lower, secured interest rates to facilitate EBOs, which in turn substantially reduces the risk of an issuer failure. *[Existing Ginnie Mae authority; may require legislation]*

Pool Splitting

Currently, Ginnie Mae MSRs can only be transferred as whole pools. As a result, an issuer cannot transfer delinquent loans in a pool to another servicer — such as one that specializes in servicing such loans — without transferring the entire pool, thus materially limiting the transferability of any Ginnie Mae MSR. The ability to sell Ginnie Mae MSRs on subsets of pools, or at loan level, rather than enti reimbursed through the FHA, VA re pools would significantly improve the liquidity of these MSRs. The additional flexibility would improve overall MSR pricing while attracting new buyers. Pool splitting also improves Ginnie Mae counterparty risk management by enabling a more targeted and proactive approach to addressing servicer performance and liquidity concerns. For example, the ability to direct problematic loans to a backup specialty servicer would reduce risk and align with Fannie Mae and Freddie Mac loan level servicing transfers.

Encouragingly, Ginnie Mae has been engaged in a multi-year effort to facilitate pool splitting within its program by moving to loan level tracking and accounting. While some of the technical obstacles have been resolved, until recently Ginnie Mae lacked sufficient resources to complete this project. With recent increases in Ginnie Mae staffing levels now in place to initiate this work, it is critical that Congress provide ongoing appropriations to complete this important project. *[Existing Ginnie Mae authority; needs sufficient appropriations]*

Increased Guarantee Gee (G-Fee) for Liquidity Risk

Some stakeholders have suggested a legislative proposal to establish a modest Ginnie Mae guarantee fee increase, the proceeds of which would be used to finance a standing Ginnie Mae liquidity fund to cover servicing advances beyond a certain duration of issuer advances. MBA believes this proposal has merit and expects that the resulting reduction of issuer liquidity risk would be sufficiently accretive to the value of Ginnie Mae MSRs to offset the additional cost of the g-fee increase, meaning minimal impact to borrower costs at the point of origination. *[Legislation required]*

Expanded Federal Home Loan Bank (FHLB) System Membership

Any action by FHFA and/or Congress to open membership in the FHLB System to IMBs would present another opportunity to improve servicing liquidity by lowering the financing cost of MSRs and servicing advances. The FHLBs would also need to expand eligible housing collateral to include MSRs and servicing advances. These changes would modernize the FHLB System to serve today's housing market where IMBs are the largest originators of single-family mortgage loans, MBS, MSRs, and servicing advances — which are all major housing finance assets. IMBs clearly serve the shared goal of financing homeownership. Depending on the terms of such membership expansion, it could also reduce the cost of home loan financing for first-time, veteran, and traditionally underserved homebuyers while minimizing issuer liquidity risk and enhancing stability of the housing finance sector. *[Legislation required]*