HMBS 2023: State of the Capital Markets

NRMLA National Conference

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Ginnie Mae HMBS: How the Program Works: The Basics

- The Federal Housing Administration ("FHA") insures the Home Equity Conversion Mortgage ("HECM") program. The Government National Mortgage Association ("GNMA" or "Ginnie Mae") insures the HECM Mortgage Backed Securities ("HMBS") Program.
- Qualified HMBS Issuers may issue HMBS "Pools" backed by HECM loans that they own. HMBS are "Pass-Through" securities: undivided interests in a Pool of assets. The cash flow from the underlying HECM loans, less a servicing strip, is "passed through" to the HMBS investor.
- The HMBS security pays a "Pass-Through" interest rate equal to the weighted average interest rate of the underlying HECMs in that Pool, less the servicing strip, or Servicing Fee Margin ("SFM") of 0.36% per annum.
- Ginnie Mae collects a 0.06% premium per annum guaranty fee from the SFM, leaving 0.30% per annum as an excess servicing strip for the issuer.

Ginnie Mae HMBS: How the Program Works: Participations

- HMBS pools must be segregated by Interest Rate Type and Underlying Adjustable Rate Index.
- Each month, the issuer must pay all required fees and advances, regardless of how many underlying HECM loans pay off.
- The issuer will issue an initial “First Participation” HMBS, equal to the initial amount borrowed by the HECM borrower.
- The issuer makes additional advances such as Line of Credit draws and Mortgage Insurance Premium (“MIP”) which, along with accrual of the excess SFM interest strip. As a result, the underlying HECM balance will exceed the corresponding HMBS balance.
- This excess is known as a “Tail”: it can be securitized into another HMBS. Over time, an issuer will own multiple HECMs with multiple Tails securitized into multiple HMBS pools.
- As of October 1, over $59 billion in HMBS are outstanding, consisting of over 13,000 pools, 300,000 HECM loans, and millions of individual participations.

Ginnie Mae HMBS: How the Program Works: The Buyout

- When the underlying HECM loan reaches 98% of its Maximum Claim Amount, the HMBS issuer must buy it out of the HMBS pool at a price of par.
- The HMBS issuer can then sell the HECM loan to HUD at par, but this "Assignment Claim" is not allowed for Non-Active loans.
- The Assignment Claim does not take place immediately; several months may elapse between the initial Claim and HUD's purchase of the Active Buyout loan. (HUD's Mortgagee Letter 2023-10 announced revised guidelines designed to significantly reduce this lag).
- Therefore, the issuer must secure temporary financing for Active Buyouts and permanent financing for non-Active Buyouts.
- Buyout financing can take the form of warehouse lending or private securitization.
- Buyout financing is a major challenge facing HMBS issuer in 2023, as rates rise and liquidity deteriorates.

HMBS 2023

Trends in 2023: HMBS at a Crossroads

- In 2022, over $14 billion of HMBS were issued
- In 2023, less than $5 billion has been issued through 10 months
- Interest Rates Are Climbing Relentlessly
- 10-Year Treasury Yields: 4.60% October 11, 2023 vs. 3.89% November 1, 2022 and 1.56% November 1, 2021
- Both original participation and tail issuance have declined significantly
- Issuance has consolidated with the exit of two large issuers: AAG and RMFs.
- Liquidity difficulties: Financing for Buyouts Expensive and Scarce
- What can be done?

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Risk Fact: What Determines the Health of the HMBS Program?

- Payoff Rates (Too slow, too fast or whipsaw)
- Buyout Financing
- Default Rates (Tax and Insurance, Occupancy, etc.)
- Spreads
- Interest Rates
- Production level
- Other Factors include: Draw Rates, Servicing, Financing, Buyout Liquidity

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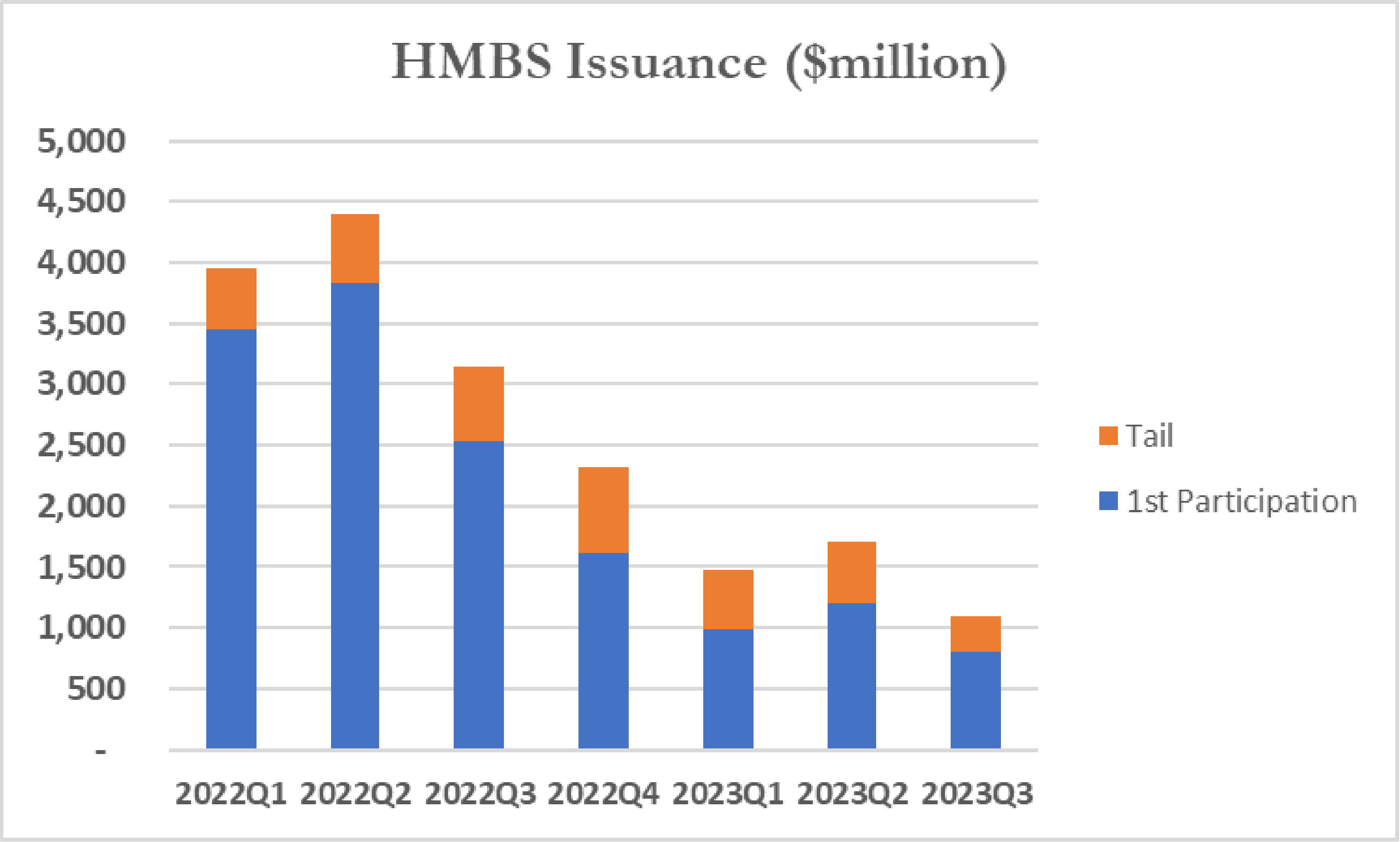
HMBS Issuance: 2022 and YTD 2023



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HMBS 2023

HMBS Issuer Rankings: YTD 2023

	HMBS ISSUER	Original Aggregate Amount		# of Pools	Market Share
1	FINANCE OF AMERICA REVERSE	$	1,834,538,441	285	37.4%
2	LONGBRIDGE FINANCIAL	$	1,045,331,929	106	21.3%
3	PHH MORTGAGE CORP	$	783,668,467	119	16.0%
4	MUTUAL OF OMAHA MORTGAGE	$	690,666,701	32	14.1%
5	TRADITIONAL MORTGAGE ACCEPTANCE	$	160,767,740	52	3.3%
6	GUILD MORTGAGE COMPANY	$	138,992,898	7	2.8%
8	MORTGAGE ASSETS MANAGEMENT	$	132,675,734	56	2.7%
7	PLAZA HOME MORTGAGE	$	80,850,713	21	1.6%
9	SUNWEST MORTGAGE COMPANY	$	25,782,829	26	0.5%
10	THE MONEY HOUSE	$	5,687,750	4	0.1%
11	THE MONEY SOURCE	$	3,207,219	3	0.1%
	TOTAL	**$**	**4,902,170,421**	**711**	**100.00%**

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HMBS 2023

Total Outstanding HMBS

	HMBS ISSUER		Original Aggregate Amount	# of Pools	Market Share
1	GINNIE MAE - REVERSE MORTGAGE FUNDING 42	$	18,763,147,973	4040	31.8%
2	FINANCE OF AMERICA REVERSE LLC	$	16,522,369,317	2446	28.0%
3	LONGBRIDGE FINANCIAL, LLC	$	7,995,668,977	938	13.6%
4	PHH MORTGAGE CORPORATION	$	7,445,989,990	1618	12.6%
5	MORTGAGE ASSETS MANAGEMENT, LLC	$	4,373,240,176	3182	7.4%
6	MUTUAL OF OMAHA MORTGAGE, INC.	$	1,351,911,411	61	2.3%
8	TRADITIONAL MORTGAGE ACCEPTANCE	$	1,282,861,191	289	2.2%
7	PLAZA HOME MORTGAGE, INCORPORATED	$	490,229,553	234	0.8%
9	SUNWEST MORTGAGE COMPANY, INC	$	327,502,169	237	0.6%
10	GUILD MORTGAGE COMPANY LLC	$	254,735,066	13	0.4%
11	THE MONEY SOURCE INC.	$	156,250,393	92	0.3%
12	THE MONEY HOUSE, INC.	$	37,947,227	29	0.1%
	TOTAL	**$**	**59,001,853,446**	**13,179**	**100.00%**

Rates and Reform Reduce HECM

- **HECM Principal Limit Factor Changes: 2010 - 2017**

PLF Regime	72 year old	82 year old	90 year old
Original @5.5% Expected Rate	70.6%	79.4%	85.9%
FY 2010 @5.5% Expected Rate	61.6%	68.0%	74.0%
FY 2013 @5.5% Expected Rate	52.4%	57.8%	62.9%
FY 2014 @5.5% Expected Rate	52.9%	61.6%	69.9%
FY 2017 @5.5% Expected Rate	44.1%	53.3%	63.6%
FY 2017 @3.0% Expected Rate	58.8%	65.8%	73.0%
FY 2017 @7.0% Expected Rate	37.2%	47.1%	56.9%

Thank You

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