

[The Partnership to Strengthen Homeownership](#) [Bill Summary](#)

This bill establishes an insurance program through Ginnie Mae (Ginnie) whereby it makes available the full faith and credit guarantee of the Federal Government on qualifying single and multi-family mortgage backed securities (MBS). The program combines the government's unique capacity to accommodate the size of the United States housing finance market with the private sector's superior ability to price and analyze risk. A government guarantee under this system will be explicit, but taxpayer money will be protected through adequate private sector capital and accurate pricing of government reinsurance.

Under this system, all government guaranteed MBS will be supported by a minimum of 5% private sector capital (standing in a first loss position). The remaining 95% of the risk will be shared between Ginnie and a private reinsurer on a *pari passu* basis (on at least a 90% to 10% split).

By leveraging the government's capacity with the market's ability to price risk, you strike the correct balance between public and private participation in the U.S. housing market.

Private Capital and Privately Priced Government Guarantee

- Ginnie Mae will establish a mortgage insurance program where at least 5% of the “first loss” is held by private entities and the remaining 95% of the risk is shared on a *pari passu* basis between the government and private reinsurer.
- Ginnie will design and study two types of programs, then implement the most efficient program to achieve the risk sharing principles outlined above.
 - Program 1: Reinsurance Bid Program
 - Aggregators and issuers will be permitted to deliver qualified mortgage pools to Ginnie. The price Ginnie charges for the guarantee will be ascertained through an insurance bidding process described below.
 - Ginnie will secure forward reinsurance contracts on a periodic basis (30-90 days), with the assistance of a reinsurance broker appointed annually in a competitive process.
 - The bids will seek coverage for two levels of risk on each securitization – the 5% “first loss” and the remaining 95% “second loss.”
 - From these bids, Ginnie will contract with a series of carriers for each risk and aggregate the policies.
 - For the first loss, Ginnie will seek bids for 100% of its expected exposure.
 - For the second loss, Ginnie will seek bids for 100% of its aggregate exposure but will offer retrocessional reinsurance for up to 90% of the second loss cover.
 - Ginnie's guarantee fee quote will cover a forward period (Quote Period) as determined by Ginnie.
 - Prices passed onto originators may vary based on quality of product, and other factors as determined by Ginnie, so long as the overall pricing equals a weighted-average bid in a given period.
 - Program 2: Bond Gaurantor Program

- Ginnie will reinsure first loss holders of risk through an insurance system where insurers/guarantors will hold mortgage credit risk on an aggregate, loan by loan, or security basis.
 - In addition to security level coverage, insurers/guarantors are authorized to issue loan level coverage to lenders as long as the coverage is for 100%, or if less than 100% loan level coverage, the servicer is responsible for any losses the guarantor did not cover
 - Ginnie will reinsure bond guarantor and/or issuers by entering into contracts with private sector reinsurers sharing risk on a 90/10 *pari passu* basis
 - To the extent Ginnie Mae will be reinsuring insolvency of a bond guarantor and/or insurers, it will be required to enter into risk-sharing contracts with private resinsureres to assess the risk of default of any entity.
- Under either program, each MBS meeting the outlined private sector capital requirements will carry the full faith and credit of the United States Government, but with private sector directed pricing.
 - Banks, life insurance companies, Real Estate Investment Trusts (REITs), insurance companies and other Ginnie approved market participants will be eligible to participate in the insurance and risk sharing transactions with Ginnie Mae
 - All market participants will be overseen by Ginnie Mae and Ginnie will have authority to establish necessary capital levels and stress tests

Small Lender Access

- During the transition Fannie and Freddie may remain as aggregators of mortgage loans for small lenders that do not have the sufficient volume to pool and create these new securities with their mortgage loans on their own, so long as adequate private sector alternatives do not exist
- The Federal Home Loan Banks (FHLBs) will be authorized to aggregate and pool mortgages for small lenders

Issuing Platform

- The platform will allow for standardized securities thus creating a single security and creating a deeper and more liquid TBA market which will reduce the cost of mortgage credit for consumers.

Standardized Mortgages, Servicing, and Capital Requirements

- Transition Federal Housing Finance Agency (FHFA) regulation to Ginnie Mae with oversight over the secondary mortgage market
- Mortgages eligible for the full faith guaranty must meet minimum underwriting standards
- Ginnie will maintain the power to stress test all market participants and define adequate capital standards.

Winding Down Fannie and Freddie

- Fannie and Freddie will be wound down over a five year period. Their government guarantee and charter will be removed and they will repay the government with interest

for the government's investment in the institutions. The repayment must take into account both the injection of capital and overall exposure to the government.

- During the transition, Fannie and Freddie may act as an aggregator for small lenders to retain small lender access to the new Ginnie Platform.
- The transition will continue until competitive access for small lenders is established and Ginnie has achieved an adequate return to taxpayers and established a competitive private housing finance market.
- The assets of Fannie and Freddie will be returned to the private sector and may operate within the new mortgage system as issuers and/or aggregators

Affordable Housing

- Ginnie Mae will charge a fee for the insurance that they provide for these securities.
- The fees charged will range 10 basis points of the total principal balance of these mortgages.
- The money acquired will be allocated to strengthen affordable housing programs facilitated by the federal government. The funds received will be allocated to the Housing Trust Fund (75%), the Capital Management Fund (15%) and the Market Access Fund (10%).
- Ginnie will be under a duty to serve all markets

Multifamily Housing

- Fannie and Freddie's multifamily business will be spun out as separate entities. Ginnie will be required to create and implement a workable multifamily guarantee that utilizes private sector pricing consistent with the single family model.
- The current multifamily businesses of Fannie and Freddie will continue to function within the new multifamily housing market as purely private organizations with an explicit government guarantee provided by Ginnie Mae and a private sector reinsurer.

Well-functioning TBA Market

- Investors will receive timely principle and interest payments through Ginnie Mae.
- This model will also ensure that one standardized security is delivered to the TBA Market. This will increase liquidity and limit disruptions to the secondary mortgage market, which will ultimately benefit consumers.