



OFFICE *of*
INSPECTOR GENERAL
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UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Guidance and Process for Troubled Issuers

Government National Mortgage Association

2023-KC-0003

March 28, 2023

Date: March 28, 2023

To: Leslie Meaux Pordzik
Senior Vice President, Office of Issuer and Portfolio Management, Ginnie Mae, TS

//signed//

From: Kilah S. White
Assistant Inspector General for Audit, GA

Subject: Opportunities Exist for Ginnie Mae To Improve Its Guidance and Process for Troubled Issuers

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Government National Mortgage Association's (Ginnie Mae) guidance and process for troubled issuers. HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act of 1978, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>. If you have any questions or comments about this report, please do not hesitate to call Patrick Anthony, Audit Director, at (716) 646-7056.

Highlights

Ginnie Mae's Guidance and Process for Troubled Issuers | 2023-KC-0003

What We Audited and Why

We audited the Government National Mortgage Association's (Ginnie Mae) guidance and process for managing troubled issuers. Ginnie Mae's risk for loss occurs almost entirely at the point of issuer extinguishment from its program. If an issuer cannot ensure the timely payment of principal and interest to investors, Ginnie Mae extinguishes the issuer from its program, acquires the servicing of the loans, and uses its own funds to manage the portfolio and make any necessary advances to investors. In 2015, Ginnie Mae began exploring alternative methods of issuer extinguishment to avoid the costliness and complexity of absorbing extinguished portfolios and accounting for the associated assets, which included rapid relocation of portfolios. Using this alternative, Ginnie Mae would execute a purchase and sale of a troubled portfolio without absorbing the associated assets of an extinguished issuer.

Our objective was to assess Ginnie Mae's policy and procedures for rapid relocation extinguishments and assess Ginnie Mae's implementation of a previous Office of Inspector General recommendation to develop and implement controls to determine the total impact of a large- or multiple-issuer default, the maximum-size default Ginnie Mae could adequately execute, and individual issuers' ability to adapt to changing market conditions.

What We Found

Ginnie Mae's guidance and process for rapid relocation extinguishments contain gaps. Ginnie Mae made progress in developing an issuer default governance framework, but has not (1) defined its authorities for marketing troubled portfolios; (2) formalized guidance for how to identify potential buyers before extinguishment; (3) established expectations for determining portfolio value, price before sale, and evaluation against other options or (4) included a step to evaluate prospective purchasers' ability to absorb an extinguished portfolio.

Ginnie Mae had implemented our previous recommendation to develop and implement controls to determine the total impact of a large- or multiple-issuer default, the maximum-size default Ginnie Mae could adequately execute, and individual issuers' ability to adapt to changing market conditions, but there was a gap related to the semiannual capacity reports submitted by master servicers (MSS).

What We Recommend

We recommend that Ginnie Mae update its policy and procedures to define its authority for marketing troubled issuer portfolios and the conditions that must exist to extinguish issuers using rapid relocation. We also recommend that Ginnie Mae address (1) how and what type of information it may disclose before extinguishment, (2) how it will determine the portfolio value and price before sale, and (3) how it intends to evaluate prospective buyers to ensure its ability to absorb the extinguished portfolio before executing a purchase and sale agreement. Lastly, we recommend that Ginnie Mae develop and implement guidance before the preplanning phase of an extinguishment that (1) assesses what information it needs from the MSS to ensure that they have the capacity for a large- or multiple-issuer extinguishment and (2) prescribes how the contracting officer representative will review submitted reports and provide actionable feedback to ensure MSS readiness.

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Background and Objective

The Housing and Urban Development Act of 1968 created the Government National Mortgage Association (Ginnie Mae), a wholly owned U.S. Government corporation within the U.S. Department of Housing and Urban Development (HUD). Ginnie Mae guarantees securities backed by pools of mortgages and issued by Ginnie Mae-approved mortgage lenders, referred to as issuers. As of December 2022, the outstanding balance for Ginnie Mae's mortgage-backed securities (MBS) program was \$2.3 trillion.


Ginnie Mae depends on its issuers to take full responsibility for servicing, remitting, and reporting activities for the mortgages in every pool. If the borrower fails to make its monthly mortgage payment, the issuer must use its own funds to ensure that investors receive timely payment. If an issuer cannot ensure timely payments of principal and interest to investors, Ginnie Mae steps in, in accordance with its guaranty, to ensure those payments. Ginnie Mae requires issuers to execute a guaranty agreement upon pooling and securitization in exchange for the Government's full faith and credit guarantee on all MBS issued. Under the agreement, the issuer transfers all rights, titles, and interests in the underlying mortgages to Ginnie Mae and obtains the right to issue MBS carrying Ginnie Mae's guaranty.

Ginnie Mae manages its program through its MBS guide, which outlines how to become and remain a Ginnie Mae issuer. The MBS guide and the guaranty agreement establish grounds on which Ginnie Mae may declare an issuer in default of its responsibilities under the MBS program. One of the remedies available to Ginnie Mae includes the termination of issuer status and extinguishment of the issuer's rights in its Ginnie Mae portfolio. The extinguishment of an issuer from its program is the greatest risk to Ginnie Mae because it must step in to exercise its guaranty and pay investors.

In several cases, Ginnie Mae has seized MBS portfolios from issuers following an extinguishment. Doing so requires Ginnie Mae to assume ownership of the extinguished issuer's assets and fulfill the associated mortgage-servicing responsibilities. Ginnie Mae contracts with multiple mortgage servicers to provide these services and refers to these contractors as its master subservicers (MSS). In 2015, Ginnie Mae began exploring alternative methods of issuer extinguishment to avoid the costliness and complexity of absorbing extinguished portfolios and accounting for the associated assets. One such alternative is called rapid relocation, in which Ginnie Mae acquires an extinguished issuer's portfolio and facilitates its immediate sale and transfer to another Ginnie Mae-approved issuer. Between 2015 and 2019, Ginnie Mae extinguished five issuers using rapid relocation. Of these issuers, two involved bank seizures facilitated by the Federal Deposit Insurance Corporation.

Ginnie Mae also developed a default strategy, which included robust policies and procedures addressing monitoring of troubled issuers and how Ginnie Mae handles extinguished portfolios. It was developed, in part, as a response to a prior Office of Inspector General (OIG) audit recommendation.¹ In audit report 2017-KC-0008, we also recommended that Ginnie Mae develop and implement controls to determine the total impact of a large- or multiple-issuer default, the maximum-size default Ginnie Mae could adequately execute, and individual issuers' ability to adapt to changing market conditions. Through its management decision, Ginnie Mae said that it would implement an enhanced monitoring protocol, require the MSS to

¹ In audit report 2017-FO-0001, we recommended that Ginnie Mae develop and document an issuer default governance framework that includes the identification, monitoring, analysis, evaluation, and response to potential issuer defaults. This process includes an assessment to maximize defaulted issuer assets and minimize losses to Ginnie Mae.



submit capacity reports, develop steps to conduct postdefault analysis, and implement a cross-divisional framework contemplating its internal staff's capacity to extinguish large or multiple issuers.

Our audit objective was to assess Ginnie Mae's guidance and process for handling troubled issuers.² Specifically, we assessed whether Ginnie Mae's guidance and process provided reasonable assurance that the risks and challenges identified by Ginnie Mae and HUD OIG of its use of rapid relocation extinguishments had been addressed and whether its guidance and process included (1) an enhanced monitoring protocol to assess issuers' ability to adapt to changing market conditions, (2) MSS capacity reviews to ensure that they could absorb portfolios of defaulted issuers without disruption in servicing, (3) steps to conduct a postdefault analysis to assess Ginnie Mae's staffing capacity to default and extinguish issuers, and (4) a cross-divisional framework to extinguish large or multiple issuers.

² The term "troubled issuer" is used to identify an issuer that has violated a provision of the MBS guide or when there is a concern with the issuer's viability to remain in Ginnie Mae's program.

Results of Audit

Ginnie Mae's Guidance and Process for Rapid Relocation Extinguishments Contains Gaps

Ginnie Mae's guidance and process for rapid relocation extinguishments can be enhanced to provide clarity to staff and better reflect its current business practices. Ginnie Mae made progress in developing an issuer default governance framework but has not (1) defined its authorities for marketing troubled portfolios; (2) formalized guidance for how to identify potential buyers before extinguishment; (3) established expectations for determining portfolio value, price before sale, and evaluation against other options; or (4) included a step to evaluate prospective purchasers' ability to absorb an extinguished portfolio. Ginnie Mae was reluctant to create policy that limited its flexibility in handling the unique circumstances of issuer extinguishments. Without these controls in place, Ginnie Mae faces increased financial and reputational risks.

Ginnie Mae's Rapid Relocation Guidance and Process Contains Gaps

In 2019 Ginnie Mae published a white paper on the challenges it faced in operationalizing rapid relocation extinguishments. According to the white paper, Ginnie Mae benefited from the troubled issuers already being actively engaged with interested buyers before extinguishment from the program and lacked a formal policy for qualifying potential purchasing issuers. Based on the white paper and Ginnie Mae's policies and procedures, Ginnie Mae must complete the following steps to complete a rapid relocation extinguishment, as shown in figure 1.

Figure 1. Rapid relocation extinguishment steps



We reviewed Ginnie Mae's guidance and process for its use of rapid relocation and identified four challenges:

- an unclear process to identify potential buyers before extinguishment;
- process conflicts with its stated authority to negotiate sale before extinguishment;
- unclear expectations for determining portfolio value, price before sale, and evaluation against other extinguishment options; and
- no evaluation of a prospective purchaser's ability to absorb the portfolio of an extinguished issuer before executing the purchase and sale agreement.

Ginnie Mae's Process To Identify Potential Buyers Before Extinguishment Is Unclear

A rapid relocation extinguishment requires an immediate transfer of the extinguished portfolio between Ginnie Mae and the issuer purchasing the portfolio. Therefore, Ginnie Mae must identify a buyer before

the formal extinguishment. The process flow found in its extinguishment policy included a step to identify potential buyers for extinguished portfolios, but the policy did not provide guidance on how Ginnie Mae intended to complete and carry out this step. The extinguishment policy referenced a rapid relocation standard operating procedure (SOP), but Ginnie Mae did not provide this document to us during this audit. Therefore, we were unable to determine whether there is additional guidance available to Ginnie Mae staff on this topic.

Ginnie Mae Can Enhance Its Guidance on its Authorities to Market Troubled Portfolios and Obligations to Protect Confidential Nonpublic Information

Ginnie Mae officials, along with HUD's Office of General Counsel, stated that Ginnie Mae did not have the authority to negotiate the sale of a portfolio before formal extinguishment of the issuer from Ginnie Mae's program. Before formal extinguishment, HUD's Office of General Counsel said that the information pertaining to a defaulted issuer is considered privileged and protected and stated that it counsels Ginnie Mae that it is the issuer's responsibility to sell its portfolio before formal extinguishment and not Ginnie Mae's.

Ginnie Mae told us that it did not premarket a portfolio because doing so is not permitted. However, we found that Ginnie Mae's guidance and documented process for carrying out a rapid relocation extinguishment included steps to obtain a list of buyers, verify that buyers were active Ginnie Mae issuers, and solicit and receive offers before issuer extinguishment.

Notably, Ginnie Mae's guidance and process for extinguishment did not address how it would handle nonpublic information during this process.³ It is unclear how Ginnie Mae staff could solicit and receive offers about troubled portfolios without providing confidential, nonpublic information about a troubled portfolio to a prospective buyer. Ginnie Mae told us that in prior rapid relocation transactions, the issuers involved had already begun negotiations before Ginnie Mae's involvement.

Ginnie Mae's Expectations for Determining Portfolio Value, Price Before Sale, and Evaluation Against Other Options Is Unclear

Ginnie Mae's policy and guidance did not address how Ginnie Mae was to determine the portfolio value, price before the sale, or evaluate against other extinguishment options. The rapid relocation process flow included a step to perform a cost-benefit analysis but did not include detailed information on how Ginnie Mae should execute this step. In interviews, Ginnie Mae stated that it hired a contractor to conduct portfolio valuations, but the policy was silent on how it would conduct valuations. Further, the extinguishment policy referenced an "extinguishment waterfall." This waterfall included a pros and cons list for each extinguishment option and stated that Ginnie Mae should consider the costs and benefits each option provided, but it did not provide detailed steps on how this procedure was to be performed and documented when selecting the extinguishment option.

³ Ginnie Mae had a separate confidentiality policy, which stated that confidential information included "information regarding Ginnie Mae's monitoring of its issuers that [was] not otherwise publicly available." This policy was not referenced in Ginnie Mae's extinguishment policy.

There Is Not an Evaluation of a Prospective Purchaser’s Ability To Absorb an Extinguished Portfolio

Ginnie Mae did not include a step to evaluate whether the purchasing issuer could absorb the extinguished issuer’s portfolio without causing undue hardship. In December 2021, when we followed up with Ginnie Mae to discuss how it closed the gaps identified in its white paper, Ginnie Mae stated that it would evaluate purchasing issuers in the same manner as regular portfolio transfers, but the policy guidance did not include steps to ensure that this evaluation would be completed, nor did it reference the policy governing portfolio transfers.⁴

The Uniqueness of Extinguishments Created Policy Challenges

Ginnie Mae was reluctant to create policy that limited its flexibility in navigating the unique nature of issuer extinguishment. Ginnie Mae stated that its use of rapid relocation extinguishment was situational and depended on different circumstances, facts, and scenarios. It explained that there was a science, as well as an art, to this type of extinguishment. Ginnie Mae also said that rapid relocation was not a common extinguishment method, noting that the last time it used this option, the distressed issuer was already working with a potential buyer.

Ginnie Mae Could Experience Increased Losses and a Disruption in Servicing and Face Reputational Harm

The statute that established Ginnie Mae required it to manage and liquidate federally owned mortgage portfolios in an orderly manner, with a minimum of adverse effects upon the residential mortgage market and minimum loss to the Federal Government. Ginnie Mae stated in its extinguishment waterfall that considering the cost and benefits provided by each extinguishment option was an important factor in its decision making following a default. If Ginnie Mae considers using rapid relocation extinguishments in the future, it will be important to address its process challenges to reduce exposure to risk when facilitating a sale and transfer of a troubled issuer’s portfolio. Ginnie Mae could experience increased losses on portfolio sales if it does not determine the value of the distressed assets before sale. Additionally, Ginnie Mae could face reputational harm and create litigation risk if it fails to prevent the improper disclosure of nonpublic information. Finally, Ginnie Mae’s market and its own operations may face significant disruption if it does not consistently and effectively evaluate the purchasing issuers’ ability to absorb distressed assets.

Conclusion

Ginnie Mae’s guidance and process for rapid relocation was inconsistent with the conditions Ginnie Mae said needed to be present to execute a rapid relocation extinguishment. Additionally, Ginnie Mae’s policy contains gaps and does not reflect its current business practices. Ginnie Mae was reluctant to create policy that might limit its flexibility due to the varying factors that lead to extinguishment. Ginnie Mae’s policies and procedures must clearly reflect what Ginnie Mae may and may not do within the confines of its authority. Without clear guidance and process, Ginnie Mae could not ensure that it sold portfolios with limited loss to the Government and with minimal disruption to the mortgage market. It also could not ensure that it protected confidential information related to its distressed issuers.

⁴ Ginnie Mae’s rapid relocation white paper, entitled “Ginnie Mae Rapid Relo Extinguishment Addressing Gaps for Operationalizing,” dated April 2019

Recommendations

We recommend that Ginnie Mae's Senior Vice President, Office of Issuer and Portfolio Management, update its policy and procedures to address the following:

- 1A. Define its authority for marketing troubled issuer portfolios and the conditions that must exist to extinguish issuers using rapid relocation.
- 1B. What type of information Ginnie Mae may disclose and how it will handle protected information before extinguishment.
- 1C. How Ginnie Mae will determine the portfolio value and price before sale.
- 1D. How Ginnie Mae intends to identify and evaluate prospective buyers to ensure its ability to absorb the extinguished portfolio before executing the purchase and sale agreement.

Ginnie Mae had Implemented a Prior Audit Recommendation, But Its Guidance and Process for Troubled Issuers had Weaknesses

While Ginnie Mae had implemented our previous audit recommendation, its guidance and process did not include procedures for the semiannual capacity reports submitted by the MSS. Further, the MSS contracts did not provide sufficient detail on what the contractors should include in these reports. This condition occurred because Ginnie Mae did not rely on the semiannual reports, as they did not contain real-time information, and instead relied on its assessment during the preplanning stage of issuer extinguishment. Additionally, Ginnie Mae prioritized its data-reporting standardization over the procurement of the MSS. As a result, affected borrowers may experience a disruption of servicing if the MSS are not fully prepared to absorb an extinguished portfolio.

Ginnie Mae Had Implemented a Recommendation From a Prior Audit

Ginnie Mae implemented our audit recommendation to develop and implement controls to determine the total impact of a large- or multiple-issuer default, the largest default Ginnie Mae could adequately execute, and individual issuers' ability to adapt to changing market conditions. Specifically, Ginnie Mae implemented an enhanced monitoring protocol, required the MSS to submit capacity reports, developed steps to conduct postdefault analysis, and implemented a cross-divisional framework to extinguish large or multiple issuers. However, guidance and process improvements were needed to ensure that the MSS had the capacity to onboard large or multiple extinguished portfolios.

Ginnie Mae's Guidance and Process for Troubled Issuers Did Not Include Information Related to Semiannual Reports That MSS Submitted

Ginnie Mae's guidance and process did not include procedures for the MSS-provided semiannual capacity reports. Therefore, it was not clear how Ginnie Mae intended to use the reports or how the contracting officer representative would review them and provide feedback to the MSS. While the MSS contract required the MSS to submit semiannual capacity reports, it did not specify the information to be included in the reports. We reviewed the capacity reports both MSS submitted between January 2020 and June 2022 and found them to be inconsistent. One reported on a proposed default scenario Ginnie Mae provided on how it would default an issuer with 725,000 loans, and the other provided its active loan portfolio and current staff capacity from a different perspective.

Semiannual Reports Did Not Provide Real-Time Information for Extinguishments

Ginnie Mae did not use the capacity reports for actionable information regarding the MSS's capacity and readiness to execute extinguishments. Instead, Ginnie Mae said that the MSS provided real-time information during the preplanning phase of an extinguishment. During this time, it had a better understanding of the size and scope of potentially seizing a portfolio. Ginnie Mae said that it was working on a reprocurement of the MSS contract and planned to include additional requirements in the performance statement of work to ensure MSS readiness for extinguishment, but it had to prioritize data standardization with its issuers before conducting a new procurement. Ginnie Mae said a new procurement would allow it to provide additional requirements to ensure the MSS's ability to absorb extinguished portfolios. In the meantime, Ginnie Mae said it provided a more standardized format for future capacity reports to be submitted by both MSS.

Borrowers Could Face Disruption of Servicing if MSS Were Not Prepared for Extinguishment

As a result of the issues described above, impacted borrowers could face a disruption of servicing if the MSS were not prepared for large- or multiple-issuer extinguishment. While Ginnie Mae worked with the MSS during the preplanning phase to determine real-time capacity, extinguishments could also be unpredictable. Ginnie Mae must act quickly to absorb portfolios to avoid disruption in servicing. Therefore, it is important for Ginnie Mae to have ongoing insight into the MSS's capacity for extinguishments.

Conclusion

Ginnie Mae had developed and implemented guidance and a process for enhanced monitoring, postdefault analysis, and a cross-divisional framework. It also required its MSS to submit capacity reports, but the submitted reports were inconsistent from one MSS to another. Additionally, Ginnie Mae did not include in its guidance how it intended to use the capacity reports or how it would review them. Ginnie Mae did not use the capacity reports for actionable information because the MSS provided real-time information to Ginnie Mae during the preplanning phase of an extinguishment. While Ginnie Mae had procedures for determining the MSS's capacity during the preplanning phase of issuer extinguishments and said that it relied on this process to provide real-time information regarding MSS's capacity, extinguishments could occur quickly, and impacted borrowers could face a disruption in servicing if the MSS were not prepared for large- or multiple-issuer extinguishment. It is important for Ginnie Mae to understand MSS's capacity before the occurrence of an actual extinguishment, especially in an economic environment that creates challenges for its issuers.

Recommendations

We recommend that Ginnie Mae's Senior Vice President, Office of Issuer and Portfolio Management, develop and implement guidance before the preplanning phase of an extinguishment that

- 2A. Assesses what information Ginnie Mae needs from the MSS to ensure that they have the capacity for a large- or multiple-issuer extinguishment.
- 2B. Prescribes how the contracting officer representative will review information provided by the MSS and provide actionable feedback to ensure MSS readiness.

Scope and Methodology

Our audit period generally covered January 1, 2019, through June 30, 2022. We conducted the audit remotely between April and September 2022. We did not conduct onsite fieldwork for this audit.

To accomplish our objective, we

- Reviewed Ginnie Mae’s statutory authority, the applicable Code of Federal Regulations for Ginnie Mae, and Ginnie Mae’s bylaws.
- Reviewed Office of Management and Budget Circular A-123 and the U.S. Government Accountability Office’s Standards for Internal Control in the Federal Government.
- Reviewed applicable sections of the Ginnie Mae Mortgage-Backed Securities Guide.
- Reviewed the Ginnie Mae guaranty agreement, which is the contract between Ginnie Mae and the issuers of securities.
- Interviewed Ginnie Mae and Office of General Counsel officials.
- Reviewed Ginnie Mae’s rapid relocation white paper, entitled “Ginnie Mae Rapid Relo Extinguishment Addressing Gaps for Operationalizing,” dated April 2019.
- Reviewed sections of Ginnie Mae’s extinguishment SOP related to rapid relocation, including the rapid relocation process flow exhibit and extinguishment waterfall.
- Reviewed Ginnie Mae’s enhanced monitoring and management SOP and documents supporting its enhanced monitoring of an issuer.
- Reviewed documentation for Ginnie Mae’s postdefault analysis and cross-divisional framework procedures.
- Reviewed documentation from Ginnie Mae’s postdefault analysis and change control log for its Default Playbook.
- Reviewed MSS capacity reports for January 2020 through June 2022.
- Reviewed an internal referral concerning rapid relocation extinguishments.
- Reviewed Ginnie Mae’s audited financial statements.

We did not conduct sampling in our audit. We did not use automated systems data during the audit and relied primarily on such source documents as those identified above.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective(s).

Appendixes

Appendix A – Auditee Comments and OIG’s Evaluation

Ref to OIG Evaluation – Auditee Comments

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425 3rd Street, SW, Fifth Floor
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DATE: March 15, 2023

MEMORANDUM FOR: Kilah S. White, Assistant Inspector General for Audit, GA

FROM: Leslie M. Pordzik, Senior Vice President
Office of Issuer and Portfolio Management (OIPM); TS²

SUBJECT: Discussion Draft Audit Report – Guidance and Process for Troubled Issuers

We appreciate the opportunity to review the latest draft audit report (Guidance and Process for Troubled Issuers) and offer the following comments for your consideration.

1. Rapid Relocation

In regard to issuer extinguishments, the marketing troubled portfolios and specifically, identifying potential buyers before extinguishment, Ginnie Mae would like to provide clarification to those items in the report.

First and foremost, Ginnie Mae has no legal authority to market or pre-market the portfolio of a pending issuer default as this was confirmed by our Office General Counsel. To that end, Ginnie Mae’s primary protocol in terminating and extinguishing an issuer is to execute a portfolio transfer to one of the two Master Sub-Servicers (MSS).

Ginnie Mae recognizes every issuer default is unique in nature starting with the number, type, and delinquency status of loans. In addition, certain facts, and circumstances at the time of termination can affect the transfer of the portfolio to the MSS. A bankruptcy filing, rapid winddown, an unanticipated liquidity event, a supervisory regulator action (receivership/conservatorship), degree of sub-servicer involvement and/or the existence of a potential buyer(s) could influence Ginnie Mae to consider other option. In the instances where Ginnie Mae utilized the rapid relocation path, the circumstances at the time of issuer default and extinguishment dictated its use. We will clarify that either a potential buyer was in active discussion with the issuer in question, had a Letter of Intent already in place with the issuer, or had completed their due diligence on the issuer portfolio. Ginnie Mae will ensure standard operating procedures, policies, and process flows are updated to reflect that Ginnie Mae does not solicit buyers. Ginnie Mae does vet potential bidders that have been identified by the defaulting issuer prior to the termination/extinguishment action. We agree further clarification is needed on this matter, as well as implementing a more fulsome process/procedure for determination of



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Comment 1 >

Comment 1 >

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portfolio value versus the cost to bring the portfolio in-house for servicing as an opportunity to provide clear justification of disposition.

2. MSS capacity analysis

Ginnie Mae acknowledges the identified gaps as unclear statements in our written standard operating procedures and will continue to work towards improvement and clarity for all parties involved in what is a complex and rare default extinguishment path.



Comment 1 >

OIG Evaluation of Auditee Comments

Comment 1 We appreciate Ginnie Mae’s clarification on its authority and agreement on implementing our recommendations. We look forward to working with Ginnie Mae through the audit resolution process to ensure the policies are updated accordingly.