



May 8, 2009

The Honorable Timothy F. Geithner
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Warehouse Lines of Credit

Dear Secretary Geithner:

As you know, the availability of warehouse lines of credit has been a critical issue for members of the Mortgage Bankers Association¹ (MBA), especially those who are non-depository independent mortgage bankers. MBA has been actively engaged with the Department of Treasury (Treasury) and a host of other public and private resources in search of possible solutions that provide for increased warehouse lines of credit capacity for residential, commercial, and multifamily mortgages. One possible solution has emerged as a result of discussions with Ginnie Mae. The proposed program calls for Treasury to initiate a temporary lending facility administered by Ginnie Mae to provide liquidity support for loans insured or guaranteed by the Federal Housing Administration, Veterans Administration, or Rural Housing Service. Specific details regarding the structure, terms and other aspects of the proposed facility are included in the attached term sheet.

MBA believes this proposal provides immediate support to help lower borrowing costs for creditworthy consumers and preserve the viability of over 1,000 small businesses engaged in activities related to warehouse lending. Therefore, MBA requests that Treasury consider authorizing a Ginnie Mae-administered lending facility as soon as possible in order to address the public policy need for improving the flow of affordable mortgage credit to eligible residential and multifamily borrowers. MBA stands ready to work with Treasury and Ginnie Mae on this important initiative. MBA would like to meet

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

with you in order to obtain Treasury's input and further refine the proposal. I or someone on my staff will call you next week to schedule a convenient meeting time and date. In the meantime, please contact me if you would like additional information regarding this proposal.

Regards,

A handwritten signature in black ink that reads "John A. Courson". The signature is written in a cursive style with a large initial 'J'.

John A. Courson
President and Chief Executive Officer

Cc: Joseph J. Murin
Shaun L. S. Donovan
James B. Lockhart, III

Attachment

Proposed Ginnie Mae-Administered Lending Facility

Term Sheet

This proposal allows Ginnie Mae, as an agent of the Department of the Treasury, to establish a Ginnie Mae-Administered Lending Facility (GALF) to provide liquidity support for Federal Housing Administration (FHA), Veterans Administration (VA), HUD and Rural Housing Service (RHS) insured or guaranteed loans. The intent of the program is to provide for the financing of government loans as a means of maintaining and growing the availability of credit during the current crisis. The form of the support would be a lending facility that would have the authority to offer a short-term solution for the current crisis in loan funding.

Background:

- **Consumer Issue:** The GALF is anticipated to be a temporary program initiated by Treasury and administered by Ginnie Mae to meet a public policy need as a result of the extraordinary circumstances in the financial markets arresting the flow of residential mortgage credit to consumers. The administration's efforts to reduce the cost of mortgage credit for consumers are being thwarted by the lack of financing capacity for non-depository mortgage bankers. The result is that consumers are paying more for mortgage credit relative to the cost of mortgages in the secondary market than would occur if credit was readily available.
- **Industry:** Warehouse lenders typically supply the initial funding for newly originated loans for the period prior to the sale of the loan into the secondary market, generally a period of less than 30 days. The warehouse lenders have been an essential element in the delivery of mortgage credit to consumers for a majority of Ginnie Mae-eligible loans. Warehouse lines of credit come in many varieties including lines funded directly by the warehouse lender, lines funded by a syndicate of warehouse lenders, lines participated out to several lenders, commercial paper lines collateralized by mortgage loans, repo programs, lines meant to be treated as sales and lines meant to be financings. Prior to the financial crises, there were approximately 90 warehouse lenders. We understand that there are currently less than 10.

Structure of GALF

- Treasury Department would provide support in the form of either a non-recourse, standby loan arrangement or a funding arrangement extended to non-depository or small depository approved Ginnie Mae issuers (Issuers) that is secured by eligible loan collateral, e.g., FHA (including HECMs, multifamily, and healthcare loans), VA, HUD or RHS guaranteed or insured loans.

- Small depositories should be currently using a warehouse line of credit and the current warehouse line must be from a non-affiliated warehouse lender.
- For FHA-approved lenders that are not Issuers (Non-issuers), the standby arrangement or funding arrangement is extended to the warehouse lenders on a recourse basis. Warehouse lender participation in the recourse program for non-issuers is at the discretion of the warehouse lender.
- Ginnie Mae would determine the participation requirements for warehouse lenders and monitor warehouse lenders on behalf of Treasury.
- Ginnie Mae will monitor the participation of approved Ginnie Mae Issuers
- Ginnie Mae will engage a contractor (Contractor) that would operate a credit facility that could issue the credit and monitor the funds and the performance of the warehouse lenders. The contractor would report to Ginnie Mae on the disbursement of GALF-supported financing in accordance with criteria established by Ginnie Mae.
- Warehouse lenders would continue to perform existing warehouse functions including trade settlements, monitoring of wet vs. dry tranches, loan funding (including table funding). Warehouse lenders would send daily funding requests (new eligible dry loans net of pay downs from loan sales and securitization settlements) to Contractor.
- Eligible collateral includes newly originated FHA (including HECMs, multifamily, and healthcare), VA, HUD and RHS loans that meet Ginnie Mae pooling requirements. Collateral becomes eligible for funding upon receipt of the required mortgage documents and the note by the Ginnie Mae document custodian.

Terms of GALF

- The issuer or warehouse lender will pay Ginnie Mae/Treasury a monthly commitment fee, amount to be determined.
- The term of the GALF is 24 months, with an option for Treasury to extend, depending on market conditions.
- The maximum aggregate facility amount is \$15 billion. We believe that this is the amount that would be needed to fund Ginnie Mae non-depository or small depository issuers for two months (allowing for refinancing growth).
- Documentation for loans financed with GALF support are required to be held by a Ginnie Mae approved document custodian.

GALF Structure

Through an inter-agency agreement, Ginnie Mae would administer a program that would allow Treasury to provide loan financing on the latter of day after loan closing or when the “dry funding” stage begins. It is anticipated that there would be a secondary market take out, usually within 15 days.

Additional GALF Criteria

- Purchase or “Take Out” Commitments: Each loan funded with GALF support must be either sold forward through an MBS sale commitment or sold to a Ginnie Mae approved issuer on a “best efforts” or mandatory commitment.
- Financing Period:
 - For Ginnie Mae Issuers: Loans funded with GALF support are subject to a maximum period of 60 days. Thereafter, the Ginnie Mae Issuer is required to repurchase the loan. Failure to do so will result in a default and further funding supported by GALF will not be permitted.
 - For Non-issuers: Loans funded with GALF support are subject to a maximum period of 60 days. Thereafter, the warehouse lender is required to repurchase the loan. Failure to do so will result in a default by the warehouse lender and further funding supported by GALF will not be permitted. Given that there is generally a secondary market take out within 15 days, defaults should be infrequent.
- Cross Defaults: The effects of loan defaults are limited to that specific warehouse lender’s line only, as to eliminate the threat of cross defaults.
- Various Warehouse Legal Structures: Additional details will be worked out in respect to conforming to various warehouse legal structures.

Warehouse Lender Diligence

Warehouse lender is required to exercise accepted practices of warehouse lending diligence including credit review and approval of the independent mortgage lenders and their respective counterparties, warehouse advance rates, leverage ratios and other restrictive loan covenants and other standard diligence practices.

Statutory Changes: There appear to be no prohibitions for such activities under existing statutes. In fact, the Emergency Economic Stabilization Act (EESA) of 2008 provides Treasury with the broad authority to provide assistance to financial institutions. A “financial institution” means “any institution, including but not limited to, any bank, savings association, credit union, security broker or dealer, or insurance company.” The term financial institution has been broadly interpreted. For example, under its EESA authority, Treasury provided financial assistance to automakers General Motors and Chrysler.