



PROPOSED WAREHOUSE LENDING TREASURY GUARANTEE PROGRAM

TERM SHEET

This proposal is for a 100 percent Treasury guarantee to warehouse lenders who provide lines of credit to mortgage bankers who originate approved FHA, VA, RHS, Fannie Mae, Freddie Mac or HECM loans. This serves to expand warehouse line availability, favorably impacting the single family real estate market. Additionally, the proposal would reduce capital requirements for warehouse lending, thus encouraging expansion of warehouse line availability. The program guarantees that the warehouse lender or the related investors in or participants in the warehouse line will collect the outstanding principle and accrued interest on eligible warehouse lines.

Funding for the Guarantee: Warehouse lines 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 warehouse collateral, repo programs, lines meant to be treated as sales and lines meant to be financings. Treasury would guarantee full payback of principal advanced by the warehouse lender to independent mortgage bankers under the program, and any unpaid interest receivable. The beneficiary of the guarantee would be the warehouse lender or any investor in or participant in the warehouse line's outstanding balance.

The government would fund the program through a guarantee pool managed by the Treasury or its designee. The government would assess the warehouse lender a risk-based insurance fee on average daily outstanding balances.

Total principal (which is the outstanding advances) under the program would be a minimum of \$30 billion. The likelihood of default and loss under the program is expected to be small because of the nature of the short term flow.

Risk-Based Capital Rating (RBC): For depository warehouse lenders, the proposed risk-based capital rating would be zero percent based upon RBC rules and the program's full faith and credit guarantee of the U.S. government, if determined to be the same as Ginnie Mae securities.

Eligible Loans: Newly originated FHA, VA, Rural Housing, Fannie Mae and Freddie Mac eligible loans and HUD Home Equity Conversion Mortgages (HECMs).

Eligible Warehouse Lenders: The warehouse lender is the party that conducts credit due diligence on the independent mortgage lender, ongoing diligence of the adequacy of the collateral, manages loan fundings and paydowns under the line, and monitors compliance with debt covenants.

Eligibility to function as the lead bank on a warehouse line guaranteed by Treasury should be limited to existing, experienced warehouse lenders who agree to the terms of this program and use an eligible warehouse collateral agent. The program should encourage new entrants to participate in syndicated warehouse lines of credit, commercial paper lines or other warehouse funding vehicles lead by an experienced warehouse lender.

Eligible Warehouse Collateral Agents: The warehouse collateral agent holds and safeguards the collateral; makes certain that the loans qualify as FHA, VA, Rural Housing, Fannie Mae and Freddie Mac eligible loans and HECMs; sends documents to the buyer of the loans under appropriate bailee letters, and prepares daily collateral reports for the warehouse agent.

Eligible warehouse collateral agents must be able to demonstrate their ability to distinguish which loans are eligible FHA, VA, Rural Housing, Fannie Mae and Freddie Mac eligible loans and HUD HECMs. Factors to be considered include experience as a seller/servicer for the agencies, experience as a pool custodian for the agencies and previous experience as a warehouse collateral agent.

Guarantee Premium: The guarantee fee will be risk-weighted taking into account 1) the pre-sold nature of the collateral and 2) the short-term (generally less than 30 days) credit risk of the underlying collateral. In pricing the guarantee, the government should look to the present Ginnie Mae, Fannie Mae and Freddie Mac guarantee fees and adjust accordingly for the nuances of the warehouse guarantee program.

Guarantor: Treasury or its designee.

Term of the Program: 24 months.

Eligible Warehouse Period: "Day One" funding through MBS trade or whole loan sale settlement (generally, within 30 days of mortgage loan funding).

Required Collateral Documents:

- Agreement to Pledge (Uniform Commercial Code (UCC) document) for each loan funded as temporary substitute for closing documents in transit to collateral custodian;
- Mortgage note endorsed in blank to warehouse lender and, for FHA and VA loans, any required insurance or commitment documents;
- Blanket lien on mortgage lender's forward trade or best efforts sale commitments;
- Lien against pool settlement Demand Deposit Account (DDA); and
- Mortgage Electronic Registration System (MERS) and/or mortgage assignment in blank, as applicable.

Aged Collateral: Loans in warehouse greater than 60 days must be repurchased or additional collateral posted.

Forward Sale Coverage: Mortgage lender must maintain “best efforts” or mandatory trades of whole loans or forward MBS sale commitments that cover 100 percent of loans in warehouse.

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: None required.