

United States Senate

SPECIAL COMMITTEE ON AGING

WASHINGTON, DC 20510-6400

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March 22, 2024

Ms. Alanna McCargo
Acting President and Chief Operating Officer
Government National Mortgage Association
425 3rd Street SW
Washington, D.C. 20024

Dear President Alanna McCargo:

As Ranking Member of the United States Senate Special Committee on Aging, I am writing to address the challenges facing the Housing and Urban Development's (HUD) Home Equity Conversion Mortgage Program ("HECM"), also known as a reverse mortgage program. Reverse mortgages can be a lifeline for older homeowners needing access to cash during retirement, and recent failures threaten the financial security for hundreds of thousands of seniors. Mismanagement of this program could lead to the collapse of the reverse mortgage market that hurts both seniors and taxpayers. Specifically, I am concerned about the stability and viability of the program as new details emerge regarding the bankruptcy of a key company called "Reverse Mortgage Funding" (RMF).¹ I also request more information about proposed policy solutions to safeguard the reverse mortgage market in the future.

HECM reverse mortgages are a unique financial product only available for older homeowners. They offer value to borrowers who may have little income or savings but have dutifully built equity in their home over decades of mortgage payments. The Federal Housing Administration (FHA) administers and regulates the HECM program through "approved lenders" and insures these loans against the value of their home. Additionally, The Government National Mortgage Association ("Ginnie Mae"), a government-owned corporation, is responsible for administering the secondary market for these reverse mortgages. They do this by regulating "authorized issuers" in the private sector who bundle these loans into a specific type of reverse mortgage-backed security called HECM Mortgage-Backed Securities (HMBS).

In November 2019, the Government Accountability Office (GAO) released a report highlighting concerns with how Ginnie Mae manages risk. The report noted troubling factors including staffing problems and oversight shortcomings and provided recommendations to fix the very problems that may have contributed to bankruptcy of the company "Reverse Mortgage Funding" (RMF) in November 2022.²

¹ Rae Oliver Davis, *Management and Performance Challenges for Fiscal Year 2024*, Office of the Inspector General, November 13, 2023. <https://www.hudoig.gov/sites/default/files/2023-11/FY%202024%20Top%20Management%20Challenges.pdf>

² GAO-19-191, *Risk Management and Staffing-Related Challenges Need to Be Addressed*, April 3, 2019. <https://www.gao.gov/assets/gao-19-191.pdf> See litigation: Case 2:23-cv-00156-Z

The bankruptcy of RMF was alarming given its substantial role as an authorized lender of HECM loans and issuer of HMBS. The distress leading up to RMF's declaration of a \$1.4 billion indebtedness revealed programmatic deficiencies and required urgent intervention by Ginnie Mae.³ In an unprecedented move, Ginnie Mae extinguished RMF's assets to the tune of \$20 billion, which comprised 36 percent of all existing HECM loans.⁴ This was the first ever extinguishment of HMBS assets by Ginnie Mae.⁵ Overnight, Ginnie Mae's balance sheet grew by 50 percent while the agency scrambled to service a large, seasoned reverse mortgage portfolio.

The gravity of this incident prompted HUD's Office of Inspector General (OIG) to launch an investigation in November 2023.⁶ Deeper Congressional scrutiny is also warranted. First, and most importantly, I seek to understand how seniors were impacted by this glaring failure. Second, I request detailed insights into Ginnie Mae's actions prior to and following the bankruptcy of RMF and request more information on steps taken to improve troubled issuer management practices that threaten market stability. Third, I ask about other efforts Ginnie Mae is exploring to strengthen the secondary market for HECM loans. I request that you please provide answers to the following questions by Friday, May 10th.

1. In the period of distress prior to Ginnie Mae extinguishing RMF's assets, there was a scramble to stabilize the situation at RMF. During Ginnie Mae's actions to handle the troubled issuer situation, it should have been of paramount concern to ensure that the seniors who are HECM borrowers were protected.
 - A) In what ways were HECM borrowers directly impacted by the failure of RMF?
 - B) Was there ever a lapse in servicing for HECM borrowers during RMF's distress and ultimate bankruptcy?
 - C) What planning, prior to RMF's distress, did Ginnie Mae do to protect HECM borrowers in the case of a troubled issuer?
 - D) What actions did Ginnie Mae take to protect HECM borrowers during RMF's distress and subsequent bankruptcy?

2. In the past 14 months, Ginnie Mae has taken some steps to stabilize the market through changes in the HMBS program. Most recently, On January 16, 2024, Ginnie Mae published a press release that announced, "Plans to Explore New Reverse Mortgage-Backed Security."⁷ According to the statement, this proposal seeks to improve the

³ Alanna Mccargo, *2023 Annual Report*, "Ginnie Mae 2023, December 22, 2023.

https://www.ginniemae.gov/about_us/what_we_do/Annual_Reports/annual_report23.pdfhttps://www.ginniemae.gov/about_us/what_we_do/Annual_Reports/annual_report23.pdf

⁴ Chris Clow, HMBS portfolio poses 'significant risk' to HUD in 2024, Housingwire, November 17, 2023. <https://www.housingwire.com/articles/hmbs-portfolio-poses-significant-risk-to-hud-in-2024/>

⁵ Mccargo, *Report*, Ginnie Mae. [23.https://www.ginniemae.gov/about_us/what_we_do/Annual_Reports/annual_report23.pdf](https://www.ginniemae.gov/about_us/what_we_do/Annual_Reports/annual_report23.pdf)

⁶ *Notification of Inquiry Regarding Ginnie Mae's Monitoring and Extinguishment of Reverse Mortgage Funding*, Office of the Inspector General, November 2, 2023. <https://www.hudoig.gov/newsroom/press-release/notification-inquiry-regarding-ginnie-maes-monitoring-and-extinguishment>

⁷ *Ginnie Mae Announces Plans to Explore New Reverse Mortgage-Backed Security*, Ginnie Mae, January 16, 2024. <https://www.ginniemae.gov/newsroom/Pages/PressReleaseDispPage.aspx?ParamID=311>

reverse mortgage market by “exploring the viability of a new securitization product that would accept HECM loans with balances above 98 percent of FHA’s Maximum Claim Amount (MCA).”⁸ This effort, known in the industry as HMBS 2.0, would represent a significant change in reverse mortgage market.

- A) Can you provide any analysis that you undertook in evaluating the need for a new securitization program for loans with balances above 98 percent of FHA’s MCA?
 - B) In evaluating the feasibility HMBS II program, what are some of the goals, risks, and expected outcomes?
 - C) How will this proposal impact government owned HECM loans that are currently serviced by FHA and Ginnie Mae?
 - D) What are the costs associated with creating HMBS II?
 - E) Have you considered whether issuers would be able to securitize HECM loans in HMBS II before they reach the 98% threshold?
3. In March of 2023, HUD’s OIG published recommendations titled “Opportunities Exist for Ginnie Mae to Improve Its Guidance and Process for Troubled Issuers.”⁹ Can you provide answers to the following questions as they pertain to Ginnie Mae’s guidance and management of troubled issuers prior to RMF’s distress, as well as how you intend to respond to the recommendations from HUD’s OIG?
- A) What steps did you take to market RMF’s assets to potential buyers?
 - B) Can you provide details on the process and challenges Ginnie Mae encountered in locating a financier for RMF?
 - C) Can you provide details about each step that Ginnie Mae took before extinguishing RMF’s assets, including the risk assessment of servicing RMF’s assets?
 - D) At what point did Ginnie Mae know that RMF was in danger of failing, and what steps did you take in attempt to prevent such a failure?
 - E) What is the timeline for implementing these recommendations from the HUD OIG?
4. Prior to Ginnie Mae's extinguishment of RMF’s assets, they had communicated with Texas Capital Bank, one of the few warehouse lenders active in the HECM space. In times of distress, such warehouse lenders are an important partner to help stabilize a troubled issuer by infusing capital. Yet, when Ginnie Mae extinguished RMF’s assets, they also extinguished \$28 million worth of mortgage servicing rights allegedly owed to Texas Capital Bank. This raises questions about the communication and commitments between Ginnie Mae and its partners during a crisis.
- A) What guidelines should warehouse lenders follow in their communications with Ginnie Mae in cases of troubled issuers?

⁸ Ginnie Mae Announces Plans to Explore New Reverse Mortgage-Backed Security, Ginnie Mae, January 16, 2024. <https://www.ginniemae.gov/newsroom/Pages/PressReleaseDispPage.aspx?ParamID=311>

⁹ Opportunities Exist for Ginnie Mae To Improve Its Guidance and Process for Troubled Issuers, Department of Housing and Urban Development, Office of Inspector, March 28, 2023. General <https://www.hudoig.gov/open-recommendation/2023-kc-0003-002-opportunities-exist-ginnie-mae-improve-its-guidance-and>

- B) Where might these expectations need clarification or revisiting, considering the ongoing litigation from Texas Capital and four open recommendations by the OIG?
 - C) Do you believe that your actions in extinguishing mortgage servicing rights from Texas Capital, not as a matter of law but as a matter of reputation, has damaged Ginnie Mae's dependability?
 - D) Should this dispute with Texas Capital lead other lenders to pull out of the HECM market, what are the implications of fewer participants in the HECM and HMBS programs generally?
 - E) How does this dispute discourage other lenders that may be able to help in future cases of troubled issuers?
5. Ginnie Mae's balance sheet has grown 50 percent since extinguishing RMF's assets, a portfolio of seasoned HECM loans that are capital intensive to service and manage¹⁰.
- A) What strategies are in place for managing RMF's troubled assets, and what criteria define success in handling HECM-related securities?
 - B) Is there an established framework or set of practices Ginnie Mae adheres to for minimizing risks in managing HECM securities, especially considering the current economic climate's impact on liquidity risks?
 - C) What is the breakdown of the assets in the RMF portfolio- how many are non-assignable buyouts ("NABO") loans?
 - D) Was there a risk management assessment of the RMF assets? If so, when was this determined, what was the process for completing such task, and will you make this publicly available?
 - E) How does Ginnie Mae obtain capital to buy out HECM from HMBS?
6. Ginnie Mae noted in the 2024 Budget justification¹¹ that it needed additional staffing to support the continued servicing of the RMF and HECM portfolios.
- A) Has Ginnie Mae explored selling off these assets to other market participants?
 - B) If yes, please describe the advantages and disadvantages of maintaining these assets on the balance sheet or selling these assets as it relates to the stability of the housing finance system, the stability of Ginnie Mae, the cost to taxpayers, the interests of HMBS investors, and the interests of HECM borrowers.

Thank you for your prompt attention to these matters and I eagerly await your detailed explanations and perspectives on these matters.

Sincerely,



Senator Mike Braun
Ranking Member
U.S. Senate Special Committee on Aging

¹⁰ Mccargo, *Report*, Ginnie Mae. 13.

¹¹ *FY 2024 Congressional Justifications*, The United States Department of Housing and Urban Development.
https://www.hud.gov/sites/dfiles/CFO/documents/2024_CJ_S_E_-_GNMA.pdf