Ginnie Mae warns issuer partners about faster prepayments

Seeing "increased prepayment activity" in elements of its MBS programs

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Ginnie Mae this week issued a public notice to its issuer partners warning of an observation of higher prepayments in some of its mortgage-backed securities (MBS) programs, reminding issuers that a violation of its requirements could result in punitive action.

In a prior All Participants Memorandum (APM) issued in December 2017, Ginnie Mae described how it monitors prepayments in its MBS programs.

"Ginnie Mae is able to identify issuers with unusually fast prepayment rates through operational performance metrics," the APM said. "Issuers with such prepayment rates should anticipate increased engagement from Ginnie Mae."

The government-backed company monitors prepayments out of concern for habitual refinancing, since the MBS program has a vested interest in the seasoning of securities to avoid adverse impacts on the secondary market.

In the new guidance, Ginnie Mae explained recent sources of concern.

"Ginnie Mae has observed increased prepayment activity in some elements of its program," the April 5 notice explained. "Ginnie Mae reminds issuers that it continues to monitor prepay activity and performance, and violations of requirements will be proactively addressed with issuers. This could include warranted sanctions as permitted by the MBS Guide and the relevant Guaranty Agreements."

In January, Piper Sandler issued a note citing lower prepayment speeds as a tailwind for mortgage market performance projections in 2024.

In November 2023, Ginnie Mae pools remained relatively steady at 5.7%, and the low prepayment speeds "indicate mortgage servicing rights (MSR) amortization expense should continue to decline," according to reporting by HousingWire's Connie Kim. Quality MSRs correlate to those at lower risk of prepayment.

“We expect these tailwinds to continue despite the near-term drop in mortgage rates given very few borrowers have a mortgage rate above the current market rate. We would need to see a more persistent decline in 30-year fixed rates to up to 6% for a more meaningful pickup in prepay speeds,” the firm said in January.