Introduction to the Secondary Market: The Basics

June 2020

Customer Education

Brought to you by: Genworth Customer Development and Process Consulting
Secondary Market 101 Outline

– Credit
– The Markets
– Money Market Risk
– Mortgage Loan Cycle
– What is the Secondary Market?
– Functions of the Secondary Market
– Main Players in the Market
– Size of the Secondary Market
– Share of the Secondary Market
– Mortgage Origination Income
The Market

The real estate mortgage market actually consists of two separate sections: the Primary Market and the Secondary Market.

The Primary Market is where loans are originated; mortgage lenders and banks loan money to borrowers for the purpose of financing real estate transactions. These lenders make their profit on the fees and interest rate that they charge. They then bundle these loan notes together in a package and sell them in the secondary market.

The Secondary Market, is where mortgages originated in the Primary Market are bought and sold. The secondary market consists of investors, both public and private, who buy the mortgage notes. This allows the mortgage lenders to replenish the cash reserves, so that they can originate more mortgages to more consumers. The investors profit from the interest that the mortgages charge.
Short-Term Credit
Federal Funds
Discount Window
Certificates of Deposit
Treasury Bills
Commercial Paper

Long-Term Credit
Mortgages
Treasury Bonds
Municipal Bonds
Corporate Bonds
Corporate Stock
Basic Mortgage Loan Cycle

- Consumer
- Loan Originator
- Portfolio

Sells To Secondary Market
- Aggregator
- GSE/Ginnie Mae
- Private Label
Originators Of Mortgage Loans

Types of Originators

– Mortgage Bankers
  ▪ Originate mortgage loans
    ▪ May originate both Retail and Wholesale
  ▪ Close loans in their name with borrowed funds from a warehouse line
    ▪ They may not have a savings base to lend from
  ▪ Rely on quick turnover of funds from the sale of the loans
  ▪ Sell at best execution
  ▪ May service the loans
Originators of Mortgage Loans

Types of Originators
- Mortgage Brokers
  - Originate loan applications and collect documentation from the applicant
  - Loans are underwritten, closed and funded by a Bank or Mortgage Banker
  - Can never service a loan
  - Make simple fee income
Originators of Mortgage Loans

Types of Originators

– Correspondent Lenders
  ▪ Deliver closed loans to Mortgage Bankers or Investment Bankers

– Banks
  ▪ Depository institutions that take deposits and lend money out
  ▪ Hold loans in portfolio or sell on the secondary market
  ▪ When business cycle is down, geared toward residential lending
  ▪ Have CRA requirements

– Credit Unions
  ▪ Service driven, not profit driven
  ▪ Serve Members
  ▪ Most lending is for their own portfolio
  ▪ Becoming more involved in the secondary market
Mortgage Industry Specialties

**Originators**
- Find Borrowers
- Write Loans
- Nationwide
  - Mortgage Bankers
  - Savings and Loans/Thrifts
  - Banks
  - Credit Unions

**Servicers**
- Manage Collection of Payments, Customer Service Questions, etc.
- Receive Servicing Fees
- Dominated by Large Lenders

**Investors**
- Purchase Existing Loans From Originators
- Assume Rights to Payments From Borrowers
- Two Types of Investors
  - Government (GSEs and Ginnie Mae)
  - Private Investors
    - Investment Bankers
    - Pension Funds
    - Life Insurance Companies
  - State Housing Agencies
  - Large Financial Institutions
  - Foreign Investors

- Mortgage Brokers
- Correspondent Lenders
- Wholesalers

Secondary Market
Mortgage Origination Income

Fee Income
- Origination fees
- Points
- Processing and Underwriting fees

Cross Selling
- Additional consumer loans
- Financial products
- Deposit accounts

Rate Differentials
- Spread is earned over time when a loan is held in portfolio
- YSP is the amount over Par (100%) that is earned by a lender when they sell a loan in the secondary market.
Mortgage Origination Income *(continued)*

**Servicing Income** - *Largest source of income in the industry*

- **Servicing Retained** - Servicer usually retains a portion of the interest and any late fees charged
- **Servicing Released** - Relinquishes the rights to service the loan and receives an up-front fee. This is called SRP (Service Release Premium).

**Escrow Accounts**

- Interest earned on escrow funds held by the servicer however, some states require that interest be paid back to the borrower.
Chart of the Week – July 19, 2019
Components of the Cost to Originate in the Retail Production Channel

Mortgage Loan Flow

**Originating**
- Loan Officer
  - Markets Lender’s Loan Products
  - Assesses Borrower’s Eligibility
  - Completes Loan Application
  - Collects Initial Documentation
  - Educates Applicants About Products/Process
  - Provides Borrower with Legally Required Lending Disclosures

**Processing**
- Loan Processor
  - Collects Additional Information from Borrowers, Employers, Banks, etc.
  - Evaluates Accuracy and Completeness of Application
  - Makes Preliminary Decision Regarding Borrower’s Eligibility

**Underwriting**
- Underwriter
  - Evaluates Risk Associated with Each Loan
  - Approves or Denies Loan

**Closing**
- Lender
  - Loan Request Becomes a Mortgage Lien
  - Closing Documents Signed
  - Funds are Dispersed
  - Fees are Paid

**Post Closing**
- Lender
  - Reviews Documentation to Ensure Completeness for Sale Into Secondary Market
  - Makes Corrections to Loan Documents if Necessary

**Secondary Marketing**
- Lender
  - Sells Loan to Investor on the Secondary Market

**Servicing**
- Servicer
  - Collects Monthly Payments from Borrowers
  - Takes Servicing Fees and Passes Remaining Principle and Interest on to Investor
  - Pays Tax Collectors and Insurance Companies out of Escrow
What Is The Secondary Market?

It is an informal market where lenders and investors buy and sell existing loans as whole loans, participations, and mortgage-backed securities.

- **Whole Loans** - The purchase of an entire loan, as opposed to the purchase or sale of a participation or share in a loan.

- **Participations** - A mortgage made by one lender, known as the lead lender, in which other lenders or investors, known as participants, own a part interest.

- **Mortgage-Backed Securities (MBS)** - Investment securities representing an undivided interest in a pool of loans secured by mortgages or trust deeds. Principle and interest payments on the underlying mortgages are used to pay the P&I on the securities.

Secondary Mortgage Market = Liquidity
Functions Of The Secondary Market

• Allows Lenders to generate money to create mortgage loans
• Sale of loans on the secondary market allows lenders to transfer portions of risk to the investor
• Typically, there are two types of risk:
  – Risk of loss due to borrower default
  – Risk of loss due to interest rate changes
• Sale of loans help banks manage the risk associated with negative cash flow
• Sale of loans on the secondary market can create additional fee income

Liquidity = Increased Capacity And Potential Profit
“Players” In The Secondary Market

The Players or Investors in the secondary mortgage market are typically divided into two categories:

– The Organized Market
– The Private Market

Organized Market = Government
Private Market = “Unorganized”
Players - Government

Government Sponsored Enterprises (GSEs)

- Federal National Mortgage Association (Fannie Mae)
  - Federally-chartered, publicly-owned corporation
  - Provides secondary-market outlet for conventional loans
  - Largest single purchaser/owner of loans

- Federal Home Loan Mortgage Corporation (Freddie Mac)
  - Also federally-chartered, publicly-owned corporation
  - Also provides secondary-market outlet for conventional loans
  - Second-largest single purchaser/owner of loans

Organized Market = Government
Players - Government

GSE Basics
After a homeowner has borrowed money to buy a home, the original lender likely resold that loan to Fannie or Freddie. The GSE in turn collected some of those mortgages in a pool, which was sold in the form of mortgage-backed securities (MBS) to private investors, for which the GSE’s collect a fee in exchange for guaranteeing payment on the MBS.

The two, Fannie Mae and Freddie Mac, either own or guarantee about half of the $10 trillion in outstanding US one-to-four family home mortgage loans, or about $4.9 trillion.
Players - Government

Government Sponsored Enterprises (GSEs)

- Federal Home Loan Banks (FHLBs)
  - Federally-chartered but owned by member banks
  - Also provides secondary-market outlet of conventional loans
  - Smallest GSE
Players - Government

Government Owned Enterprise

- Government National Mortgage Association (Ginnie Mae)
  - Provides secondary-market outlet for Federal Housing Authority (FHA) and Veterans Authority (VA) loans
  - Federally chartered and owned corporation

Organized Market = Government
Players - Private

Private Investors

– Investment Bankers
– Large Financial Institutions
– Pension Funds
– Life Insurance Companies
– State Housing Agencies (HFAs)

Private Market = “Unorganized”
## Risk Allocation As Per Loan Placement

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Portfolio</th>
<th>FHLB</th>
<th>GSE</th>
<th>Aggregator</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Rate Risk</strong></td>
<td>Portfolio</td>
<td>FHLB</td>
<td>GSE</td>
<td>Aggregator</td>
</tr>
<tr>
<td><strong>Credit Default Risk</strong></td>
<td>Bank</td>
<td>FHLB &amp; *Bank</td>
<td>GSE</td>
<td>Aggregator</td>
</tr>
<tr>
<td><strong>Underwriting/Misrepresentation Risk</strong></td>
<td>Bank</td>
<td>Bank</td>
<td><strong>Originating Entity</strong></td>
<td><strong>Originating Entity</strong></td>
</tr>
</tbody>
</table>

*With certain FHLB programs the originating Bank shares in the Credit Default Risk.

**The Originating Entity is responsible for Underwriting/Misrepresentation Risk. However, in certain cases it may be limited to a specific period of time.*
Do You Want To Increase Mortgage Production Or Reallocation Your Risk?

- Economy
  - National
  - Local
- Rate Environment
- Loan Product Environment
- Purchase or Refinance Market
- Staffing
- Accounting and Regulatory Issues
- Technology Capabilities
- Internal Budget
Loan Placement Options

• Create different options for best execution
• Become an Approved Seller/Servicer
• Become an Approved Correspondent Lender
• Become an Approved Mortgage Broker
Mortgage Origination Market - Rates

**Interest Rate**

- Price paid by a borrower for the use of funds for a specified period of time

**Interest Rate Determinants**

- Supply of Funds
- Demand for Funds
- Inflation
- Risk (Default, Prepayment, Liquidity)
- Taxes
Impact Of Interest Rate Movement

On Closed Loans
  – Rates up, value goes down
  – Rates down, value goes up

On Rate Locks
  – Same effects as above on the underlying instrument, but with an additional dynamic:
    • As rates go down, close less loans
    • As rates rise, close more loans

On Servicing Portfolios
  – Rates up, value up
  – Rates down, value down
https://www.mba.org/news-research-and-resources/research-and-economics
# MBA Mortgage Finance Forecast

**June 17, 2020**

## Housing Measures

<table>
<thead>
<tr>
<th></th>
<th>2019 Q1</th>
<th>2019 Q2</th>
<th>2019 Q3</th>
<th>2019 Q4</th>
<th>2020 Q1</th>
<th>2020 Q2</th>
<th>2020 Q3</th>
<th>2020 Q4</th>
<th>2021 Q1</th>
<th>2021 Q2</th>
<th>2021 Q3</th>
<th>2021 Q4</th>
<th>2022 Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Starts (SAAR, Thous)</td>
<td>1,204</td>
<td>1,257</td>
<td>1,288</td>
<td>1,433</td>
<td>1,487</td>
<td>1,000</td>
<td>1,080</td>
<td>1,140</td>
<td>1,180</td>
<td>1,250</td>
<td>1,290</td>
<td>1,320</td>
<td>1,320</td>
</tr>
<tr>
<td>Single-Family</td>
<td>859</td>
<td>850</td>
<td>897</td>
<td>964</td>
<td>965</td>
<td>720</td>
<td>800</td>
<td>840</td>
<td>860</td>
<td>900</td>
<td>930</td>
<td>950</td>
<td>950</td>
</tr>
<tr>
<td>Two or More</td>
<td>345</td>
<td>407</td>
<td>390</td>
<td>469</td>
<td>522</td>
<td>280</td>
<td>280</td>
<td>300</td>
<td>320</td>
<td>350</td>
<td>360</td>
<td>370</td>
<td>370</td>
</tr>
<tr>
<td>Home Sales (SAAR, Thous)</td>
<td>5,207</td>
<td>5,287</td>
<td>5,410</td>
<td>5,420</td>
<td>5,483</td>
<td>4,736</td>
<td>5,181</td>
<td>5,427</td>
<td>5,491</td>
<td>5,580</td>
<td>5,656</td>
<td>5,801</td>
<td>5,341</td>
</tr>
<tr>
<td>Total Existing Homes</td>
<td>669</td>
<td>661</td>
<td>699</td>
<td>710</td>
<td>715</td>
<td>632</td>
<td>673</td>
<td>715</td>
<td>709</td>
<td>721</td>
<td>725</td>
<td>749</td>
<td>615</td>
</tr>
<tr>
<td>New Homes</td>
<td>5.5</td>
<td>5.1</td>
<td>4.8</td>
<td>5.1</td>
<td>5.0</td>
<td>4.7</td>
<td>4.3</td>
<td>4.0</td>
<td>3.7</td>
<td>3.4</td>
<td>3.1</td>
<td>2.9</td>
<td>6.1</td>
</tr>
<tr>
<td>FHFA US House Price Index (YOY % Change)</td>
<td>253.0</td>
<td>276.8</td>
<td>276.9</td>
<td>272.3</td>
<td>272.4</td>
<td>286.7</td>
<td>290.9</td>
<td>284.2</td>
<td>289.0</td>
<td>292.5</td>
<td>296.0</td>
<td>293.9</td>
<td>275.3</td>
</tr>
<tr>
<td>Median Price of Total Existing Homes (Thous $)</td>
<td>312.3</td>
<td>321.2</td>
<td>317.0</td>
<td>326.6</td>
<td>329.0</td>
<td>332.3</td>
<td>332.8</td>
<td>338.6</td>
<td>339.3</td>
<td>341.6</td>
<td>344.1</td>
<td>347.5</td>
<td>332.3</td>
</tr>
</tbody>
</table>

## Interest Rates

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Year Fixed Rate Mortgage (%)</td>
<td>4.4</td>
<td>4.0</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>10-Year Treasury Yield (%)</td>
<td>2.7</td>
<td>2.3</td>
<td>1.8</td>
<td>1.8</td>
</tr>
</tbody>
</table>

## Mortgage Originations

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total 1-4-Family (Bill $)</td>
<td>325</td>
<td>355</td>
<td>355</td>
</tr>
<tr>
<td>Purchase</td>
<td>228</td>
<td>355</td>
<td>375</td>
</tr>
<tr>
<td>Refinance</td>
<td>97</td>
<td>146</td>
<td>276</td>
</tr>
<tr>
<td>Refinance Share (%)</td>
<td>30</td>
<td>29</td>
<td>42</td>
</tr>
</tbody>
</table>

## Mortgage Debt Outstanding

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4 Family (Bill $)</td>
<td>10,362</td>
<td>10,446</td>
<td>10,574</td>
</tr>
</tbody>
</table>

---

**Notes:**

- Housing starts and home sales are seasonally adjusted.
- Total existing home sales include condos and co-ops.
- Mortgage rate forecast is based on Freddie Mac’s 30-Yr fixed rate which is based on predominantly home purchase transactions.
- The 10-Year Treasury Yield and 30-Yr mortgage rate are the average for the quarter, but annual columns show Q4 values.
- Total 1-4 family originations and refinance share are MBA estimates. These exclude second mortgages and home equity loans.
- The FHFA US House Price Index is the forecasted year over year percent change of the FHFA All Transactions House Price Index.

**Copyright 2020 Mortgage Bankers Association. All rights reserved.**

[2020 Mortgage Finance Forecast.pdf](file:///C:/Users/213024593/Downloads/Mortgage%20Finance%20Forecast%20June%20202020.pdf)
Reasons For Issuing Mortgage-Backed Securities

There are many reasons for mortgage originators to finance their activities by issuing mortgage-backed securities. Mortgage-backed securities:

1. Transform relatively illiquid, individual financial assets into liquid and tradeable capital market instruments.
2. Allow mortgage originators to replenish their funds, which can then be used for additional origination activities.
3. Can be used by wall street banks to monetize an arbitrage between the originating credit spread of an underlying mortgage (private market transaction) and the yield demanded by bond investors through bond issuance (typically, a public market transaction).
4. Are frequently a more efficient and lower cost source of financing in comparison with other bank and capital markets financing alternatives.
5. Allow issuers to diversify their financing sources, by offering alternatives to more traditional forms of debt and equity financing.
6. Allow issuers to remove assets from their balance sheet, which can help to improve various financial ratios, utilize capital more efficiently and achieve compliance with risk-based capital standards.
Basic MBS Cash Flow

Homeowners make monthly payments of principal and interest at the mortgage rate.

The servicer retains a portion of the interest component of each monthly payment as the "servicing fee."

The pass-through rate is the mortgage rate net of the servicing fee rate.
Why an MBS

When you invest in an MBS, you are buying the rights to receive the value of a bundle of mortgages. That includes the monthly payments and the repayment of the principal.

Since it is a security, you can buy just a part of the mortgage. You receive an equivalent portion of the payments.

An MBS is a derivative, because it derives its value from the underlying asset.
Value

A mortgage backed security works the same way as a traditional bond. The rate moves inversely to the price.

- A higher rate MBS pays more to the investor
  • More likely to pay off early through a refinance
- A lower rate MBS pays less to the investor
  • More likely to be held all the way to maturity

Servicing values of lower rate mortgages are typically a more valuable asset, due to the low chances of an early payoff. When a loan pays off the servicer loses the fee income from the investor.
**Ginnie Mae MBS**

- Guarantees securities that are issued by banks and mortgage banks that participate in Ginnie Mae programs
- HUD
- Consists of FHA (federally insured) loans and VA (federally guaranteed) loans
- Government full faith and credit guarantee
- GN I: All loans have same interest rate
- GN II: Loan rates in 0.5%
Fannie Mae and Freddie Mac MBS

- Government conservatorship, federally chartered
- Directly issue MBS
- Accept conventional mortgage loans (Conforming and Jumbo Conforming)
- Guarantees its own MBS against credit losses on the underlying loans
- Loan Interest Rates historically in 1.75% band
Private-Label MBS

- Issued by private companies
- No GSE guarantee
- Rated securities with subordination or other credit support
  - Subordinate tranches absorb losses before senior tranches
  - Mortgage loan credit quality
    - Collateral - LTV
    - Credit - FICO
    - Capacity - DTI
- Jumbo Loans
- Alt-A: Loans that contain non-standard income verification features, but are “A” credit
- Securities backed by sub-prime mortgage loans, were classified as “home equity ABS” rather than MBS
Step #1 Originates

Step #2 Pool

Pool of Mortgages

Step #3 CDO’s Tranche

AAA
First claim to cash flow from P&I payments

AA
Next claim…

A
Next claim…

BBB

BB
Different Risk and Return for Different Investors

Pool of Mortgage Loans

AAA/Aaa
AA/Aa
A/A
BBB/Baa
BB/Ba
B/B
Unrated

Buyers

Last Loss
Lowest Risk
Lower Expected Yield

Loss Position
Credit Risk

First Loss
Highest Risk
Higher Expected Yield
Detailed Mortgage Loan Cycle

Mortgage Lender (Issuer)

- Retains whole loans
- Sells whole loans or participations
- Converts mortgages to MBS
  - Sells CMOs or REMICs
  - As GNMA MBSs
    - As Fannie Mae MBSs
    - As Freddie Mac PCs
    - As "Private Label" Securities
  - And sells through dealers, FNMA or FHLMC trading desk or private placement

Who sells Guaranteed MBS's
- To Fannie Mae
- To Freddie Mac
- To a Conduit

Who sells loan packages, pass-throughs
- Through securities dealers or FNMA
- Through securities dealers or FHLMC
- Through securities dealers or private conduits

Which sells Participation Cert's
- To Investors

Through securities dealers or private placements
- Through I.B.'s or Private placements
First-Time Homebuyer Market Report 02.19

February 28, 2019 / 0 Comments / in Housing/Economy / by Tian Liu

The Eighth Edition of the First-Time Homebuyer Market Report

The housing market slowdown intensified in Q4, resulting in bigger declines in home sales, a larger increase in housing inventory and supply, lower growth in new single-family home construction, and slower home price growth. This quarter's report shows that, while not immune to the slowdown, the first-time homebuyer market continues to outperform the broader market.

Get the latest edition of the First-Time Homebuyer Market Report here!
Genworth Underwriting Guidelines
LOS Connections

It's a Your Year! Rate Quote Sweepstakes
We're celebrating YOU in 2020 with opportunities to WIN BIG!

Gift cards include: Wayfair, Target, Amazon, DSW, Home Depot | Price levels: $500, $250, $100, $50

Underwriting Innovate Underwriting
Rate Express℠ Find Rates Quick
LOS Streamline Your Systems

Learn More
Training Tools and Information

Course Catalog

Genworth offers a comprehensive suite of training opportunities to boost your know-how, benefit your bottom line and ultimately best serve your borrowers. With more than 70 courses in our catalog, our team is here to help you stay up-to-date on the mortgage industry and regulatory environment. Classes are all offered at no cost to you. Check out our new Featured Series below!

Browse by Role

- Mortgage Professional
- Loan Officer
- Loan Processor
- Underwriter

Browse by Topic

- Fannie Mae Form 1084 Calculator (2018-2019)
- Freddie Mac Form 91 Calculator (2018-2019)
- Freddie Mac Form 92 Calculator (2018-2019)
- Rental Income Calculator (2018-2019)
- Fannie Mae Rental Guide (Calculator 1037)
- Fannie Mae Rental Guide (Calculator 1039)
- Fannie Mae Form 1088 Cheat Sheet (2017-2018)
- Fannie Mae Comparative Analysis Form 1088 (2017-2018)
- Income Calculation Worksheet

Due to various internet browser versions, please download and save PDF before entering data. Please note, calculators are updated periodically.

Genworth Mortgage Insurance
Additional MI Site Information

What's New
- Forbearance & Deferrals
- It's a YOU year!
- April Training

It's a YOU year! Rate Quote Sweepstakes
We're celebrating YOU in 2020 with opportunities to WIN BIG!

Self-Employed Borrower Tools
- Valuable income calculation tools and reference guides for calculating self-employed borrower income.
- Rental Income Calculator (2018-2019)
- Freddie Mac Form 1040 Calculator (2018-2019)
- Freddie Mac Form 52 Calculator (2018-2019)

Homebuyer Education
Let's help first-time homebuyers prepare for buying a home. Your no-fee resource!

Master Policy Agreement
Partner with us. A master policy agreement is the first step to submitting MI loans to Genworth.

Contract Services Agreement
Offset fixed underwriting costs as you adjust to the latest industry demands! Request a contract services underwriting agreement.

Genworth MI Community
The Genworth Office and Action Center will be closed on Friday, April 10, 2020 for Good Friday. Have a safe weekend!

Find My Sales Representative
ZIP Code: 27615

William Jackson
Account Manager
Phone: 217-433-2806
Email: william.jackson@genworth.com

Vann Holland
Inside Sales Representative
Phone: 217-433-4268
Email: vann.holland@genworth.com

Genworth Mortgage Insurance
Your Genworth Resources

- ActionCenter®: 800 444.5664
- Your Local Genworth Regional Underwriter
- Your Genworth Sales Representative
Genworth Mortgage Insurance is happy to provide you with these training materials. While we strive for accuracy, we also know that any discussion of laws and their application to particular facts is subject to individual interpretation, change, and other uncertainties. Our training is not intended as legal advice, and is not a substitute for advice of counsel. You should always check with your own legal advisors for interpretations of legal and compliance principles applicable to your business.

GENWORTH EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THESE MATERIALS AND THE RELATED TRAINING. IN NO EVENT SHALL GENWORTH BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES OF ANY KIND WHATSOEVER WITH RESPECT TO THE TRAINING AND THE MATERIALS.