DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

GUARANTEES OF MORTGAGE-BACKED SECURITIES

PROGRAM HIGHLIGHTS

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002	INCREASE + DECREASE - 2002 vs 2001
	(Dollars in Thousands)			
Single-Class MBS				
Commitments:				
Limitation	$200,000,000	$200,000,000	$200,000,000	...
Use	$87,535,630	$200,000,000	$200,000,000	...
Guarantees:				
Issued in Year	$105,517,628	$96,262,200	$103,198,772	+$6,936,572
Outstanding, End of Year	$602,887,200	$620,393,243	$631,960,708	+$11,567,465
Guarantee Fees	$370,288	$378,063	$385,665	+$7,602
Advances to Investors	$42,610	$80,168	$43,806	-$36,362
Default Expenses	$1,917	$2,935	$6,010	+$3,075
MULTICLASS				
Guarantees:				
Issued in Year	$41,882,000	$46,069,100	$50,676,010	+$4,606,910
Outstanding, End of Year	$136,177,846	$165,438,946	$197,626,156	+$32,187,210
Guarantee Fees	$9,923	$20,964	$23,094	+$2,130
CREDIT REFORM Program Account:				
Budget Authority: (Appropriation for Administrative Expenses) ...	$9,383	$9,383	$9,383	...
Outlays	$9,383	$9,383	$9,383	...
Liquidating Account:				
Budget Authority (net)	...	...	...	...
Outlays	-$388,733	$6,215,668	-$57,305 a/	-$6,272,973
Financing Account:				
Budget Authority (net)	...	...	...	...
Net Disbursements	-$107,152	-$27,654	-$43,658	-$16,004
Reserve Receipt Account:				
Payment to Receipt Account	$302,800	$346,544	$345,372	-$1,172
Transfer to Receipt Account	...	$6,609,780	$56,097	-$6,553,683
Subtotal	$302,800	$6,956,324	$401,469	-$6,554,855

a/ $58 million in collections is an adjustment to the President's Budget.

SUMMARY OF BUDGET ESTIMATES

A. Current Business

The Government National Mortgage Association (Ginnie Mae) Budget proposes a limitation on new commitments for single-class mortgage-backed securities (MBS) of $200 billion for fiscal year 2002. This request is based on FHA and VA estimates of mortgage insurance and guarantee activity. In addition, an appropriation of $9.4 million is proposed to fund salaries and expenses.

In fiscal year 2002, it is estimated that $50.7 billion of Multiclass securities will be guaranteed. Since all Ginnie Mae guaranteed Multiclass securities will be based on and backed by mortgage-backed securities issued pursuant to commitment authority, separate commitment authority will not be required for the Multiclass securities.

Ginnie Mae has estimated that $354 million in net receipts (not obligated to cover expenses) from the financing account be transferred to its reserve receipt account in fiscal year 2002.

B. New Business

The fiscal year 2002 Budget includes Ginnie Mae as a key partner to the FHA "hybrid ARMs" legislative proposal, the adjustable rate mortgages which have a fixed interest rate for an initial period of greater than 1 year, followed by annual adjustments to the interest rate. These mortgages are expected to appeal to potential home buyers who cannot otherwise qualify for a fixed rate mortgage at the level they need, and are wary of annual adjustments in the early years of an adjustable rate mortgage. This legislative proposal includes an increase of $4 billion in Ginnie Mae’s fiscal year 2002 guarantees volume and an increase of $13 million in negative subsidy payment to its Receipt Account.

EXPLANATION OF INCREASES AND DECREASES

Multiclass guarantees issued and guarantees outstanding are projected to increase $4.6 billion and $32.2 billion respectively in fiscal year 2002, attributable to the anticipation of slightly lower interest rates. Advances in fiscal year 2002 is expected to decrease $36 million from the fiscal year 2001 estimate. This is to adjust for high projections made for the Y2K contingency that was expected to continue through fiscal year 2001. MBS guarantees issued and guarantees outstanding are expected to increase $6.9 billion and $11.6 billion respectively in fiscal year 2002. An estimated $4 billion is included in guarantees issued due to a legislative proposal to allow FHA to insure "hybrid ARMS". In fiscal year 2001, $6.6 billion will be transferred from the liquidating account to the receipt account, resulting in a positive outlay for the year. However, collections for fiscal year 2002 is anticipated to exceed cash outlays by $57.3 million.

PROGRAM DESCRIPTION AND ACTIVITY

The Government National Mortgage Association (Ginnie Mae) Program: The Ginnie Mae mortgage-backed securities program is authorized by Title III of the National Housing Act, as amended, P.L. 73-479, codified at 12 U.S.C. 1716 et seq. Ginnie Mae is a wholly owned instrumentality of the United States within the Department of Housing and Urban Development; authorized by Section 306(g) of the National Housing Act to facilitate the financing of residential mortgage loans insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA) and the Rural Housing Service (RHS), or guaranteed by the Secretary of Housing and Urban Development under Section 184 of the Housing and Community Development Act of 1992 and administered by the Office of Public and Indian Housing (PIH). Ginnie Mae's guaranty of MBS is backed by the full faith and credit of the United States. Funds available to mortgagees to lend to borrowers are provided through investments in long-term securities guaranteed by Ginnie Mae which are backed by pools of such mortgages. The investment proceeds are used in turn to finance additional mortgage loans.

Ginnie Mae currently guarantees modified "pass-through" type securities. Modified pass-through securities provide payment to registered holders of interest plus the monthly installments of principal due on the pooled mortgages, whether or not collected, plus any additional principal collections.

Separate pass-through programs have been developed to finance single family homes, multifamily projects and manufactured housing. Ginnie Mae first issues a "commitment" to the prospective securities issuer (mortgagee) indicating that the firm meets Ginnie Mae’s eligibility requirements. After Ginnie Mae issues the commitment, the issuer can begin to assemble mortgage pools and issue securities. Securities are issued with minimum face amounts of $25,000 which have the same aggregate face amount as the aggregate unpaid balance of the pooled mortgages and bear interest at the rate borne by the mortgages--less the amount of issuer servicing fees and Ginnie Mae guarantee fees. Ginnie Mae’s credit risk in this program is limited by mortgage insurance provided by Government agencies with respect to all pooled loans.

Institutions which originate and service mortgages (such as mortgage companies, commercial banks, savings banks, and savings and loan associations) assemble pools of mortgages and issue securities backed by the pools.

Investors in Ginnie Mae securities include mortgage investors, pension and retirement funds, life insurance companies and individuals.

Multiclass Securities Program: Ginnie Mae's Multiclass securities program guarantees Real Estate Mortgage Investment Conduit (REMIC) and Ginnie Mae Platinum securities. A REMIC security is backed by a pool or trust composed of mortgages or mortgage-backed securities (MBS). The REMIC issuer issues certificates of interest to investors and elects to be taxed under the REMIC provisions of Federal tax law (Sections 860A through 86OG of the Internal Revenue Code of 1986). REMICs are multiple class securities with different maturities, typically between 2 and 20 years, or with payments based on fractions of the MBS income stream. This multiple class characteristic is what largely distinguishes REMICs from single class Mortgage-Backed Securities of the kind that Ginnie Mae has been guaranteeing since 1970. The Ginnie Mae Platinum security consolidates Ginnie Mae MBS pools with the same interest rate into larger pools which are sold to investors by securities dealers. Ginnie Mae, under its Multiclass securities program, will guarantee only securities based on and backed by mortgage-backed securities guaranteed by Ginnie Mae. Since all Ginnie Mae guaranteed Multiclass securities will be based on and backed by MBS issued pursuant to previously issued commitment authority, additional commitment authority will not be required for the Multiclass securities.

Targeted Lending Initiative: Ginnie Mae started the Targeted Lending Initiative on October 1, 1996. The targeted lending initiative was developed by Ginnie Mae in support of its statutory purpose. It is consistent with Ginnie Mae's statutory purpose to promote access to mortgage credit in the central cities by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing. Through the Targeted Lending Initiatives, Ginnie Mae reduces the guarantee fees it charges lenders by up to 50 percent for making mortgage loans in any of the nation's 72 Empowerment Zones or Enterprise Communities and adjacent eligible central city areas. The incentive to lenders has financed over $11 billion and more than 121,000 loans in central cities, since September 30, 1996. The Targeted Lending Initiative supports Strategic Goal #1: Increase the Availability of Decent, Safe, and Affordable Housing in American Communities and supports outcome indicator 1.1.2, Increase First Time Homeownership; outcome indicator 1.1.3., Increase Homeownership Rates for Families with Less Than Median Income; and outcome indicator 1.1.4., Increase Central City Home ownership Rates.

PROGRAM ACTIVITY

1. Status of Program. In fiscal year 2000, The Ginnie Mae Mortgage-backed securities program approved $87.5 billion in commitment authority and issued $105.5 billion for its single class guarantees. Guarantees of mortgage-backed securities are estimated at $96.3 billion in fiscal year 2001 and $103.2 billion in fiscal year 2002.

The changes in the outstanding principal balance of mortgage-backed securities for fiscal years 2000, 2001, and 2002 are shown in the following table:

	ACTUAL 2000	ESTIMATE 2001	ESTIMATE 2002
		(Dollar in Thousands)	
Securities Outstanding, start of year ..	$569,311,587	$602,887,200	$620,393,243
Issued During Year	105,517,628	96,262,200	103,198,772
Principal Payments to Securities Holders..	-71,942,015	-78,756,157	-91,631,307
Securities Outstanding, end of year . . .	602,887,200	620,393,243	631,960,708

The Multiclass program activity, which involves a Ginnie Mae guarantee on the Multiclass securities that are backed by securities already guaranteed, is shown in the following table:

	ACTUAL 2000	ESTIMATE 2001	ESTIMATE 2002
		(Dollar in Thousands)	
Securities Outstanding, start of year ..	$124,595,846	$136,177,846	$165,438,946
Issued During Year	41,882,000	46,069,100	50,676,010
Principal Payments to Securities Holders..	-30,300,000	-16,808,000	-18,488,800
Securities Outstanding, end of year . . .	136,177,846	165,438,946	197,626,156

The Targeted Lending Initiative, which allows Ginnie Mae to reduce the guarantee fee it charges lenders by up to 50 percent for making mortgage loans in any of the nation's 72 Empowerment Zones or Enterprise Communities and adjacent eligible central city areas, is shown in the following table:

	Pools	Loans	Mortgage Amount
10/01/96 through 09/30/00	7,758	121,348	$11.3 billion

2. Financing. Application fees, guarantee fees, and other charges are paid by issuers of guaranteed securities to cover Ginnie Mae's issuing and claims costs under the guarantees and to provide additional amounts to reduce the deficit. The Association may borrow from the Treasury in order to meet obligations. However, it has not had to use that authority.

Expenses that reflect the cost of operations including write-down of assets held in inventory (real estate-owned properties, manufactured housing units, mortgages, and claims receivable) to the lower of cost or market value. During fiscal year 2000, $1.9 million was written-down on assets held.

The following table reflects the composition of program net income:

	ACTUAL 2000	ESTIMATE 2001	ESTIMATE 2002
	(Dollar in Thousands)		
Revenue:			
Investment Interest	$369,814	$373,981	...
Interest Payment from Treasury	45,387	35,877	$420,801
Guarantee Fees	370,288	378,063	385,665
Multiclass Fees	9,923	20,964	23,094
Commitment and Other Fees	36,052	28,838	29,691
Servicing Income	32	1,968	4,925
Interest on Mortgages	...	715	226
Sale of Servicing Rights	...	...	72
Subtotal	831,496	840,406	864,474
Contingency	-32	...	...
Total Revenue	831,464	840,406	864,474
Expenses:			
Operating Expenses:			
Administrative Expenses	9,383	9,383	9,383
Contractor Expenses	30,126	37,331	37,646
Default Expenses	1,917	2,935	6,010
Servicing Expenses	...	4,539	2,704
Multiclass Expenses	6,180	11,170	13,167
Total Operating Expenses	47,606	65,358	68,910
Non-Operating Expenses:			
Write-Down of Assets to Lower of Cost or Market	1,917	...	...
Subtotal	49,523	65,358	68,910
Contingency	18,404	...	...
Total Expenses	67,927	65,358	68,910
Net Income	$763,537	$775,048	$795,564

SALE OF SERVICING RIGHTS

In fiscal year 2000, there were no sales of servicing rights. Sales proceeds from the sale of servicing rights in fiscal year 2002 is estimated to be $72 thousand.

FEDERAL CREDIT REFORM

The Omnibus Budget Reconciliation Act (OBRA--P.L. 101-508) required Federal credit programs to implement credit reform beginning in fiscal year 1992. This year's Budget presentation for Ginnie Mae has been structured with four accounts to comply with the requirements of OBRA. In fiscal year 2002, the Financing Account will transfer $354 million from its net receipts to a Receipt Account from which $9.4 million will be appropriated for administrative expenses into the Program Account, and a total transfer of $346 million from its net receipts to the Reserve Receipt Account for negative subsidy. The Financing Account is treated as a non-budgetary account. Budget authority and outlay data for each of the accounts are presented in the following table. It is estimated that in fiscal year 2002, $56 million of unobligated balance will be transferred from the Liquidating Account to the Receipt Account.

GINNIE MAE MORTGAGE-BACKED SECURITIES
FY 2002 CREDIT REFORM PRESENTATION
Dollars in Thousands)

BUDGET AUTHORITY	
On-Budget Accounts:	
Liquidating Account:	
Gross Budget Authority......................................	$58,199
Offsetting Collections......................................	-58,199
Net Budget Authority (Mandatory)	...
Program Account:	
Appropriation:	
Administrative Expenses....................................	9,383
Receipt Account:	
Deduction for Offsetting Receipts:	
Proprietary Receipts from the Public (Discretionary)	9,383
Non-Budgetary Account:	
Financing:	
Gross Financing Authority	500,778
Offsetting Collections	-500,778
Net Financing Authority..................................	...
OUTLAYS:	
On-Budget Accounts:	
Liquidating Account:	
Gross Outlays..	- 55,203
Offsetting Collections.......................................	- 2,102
Net Outlays (Mandatory)	- 57,305
Reserve Receipt Account:	
Transferred from Liquidating Account.......................	56,097
Transferred from Financing Account.........................	354,755
Program Account:	
Outlays (Discretionary)....................................	9,383
Receipt Account:	
Deduction for Offsetting Receipts:	
Offsetting Receipts	
(Discretionary)	354,755
(Mandatory)	439,385
Non-Budgetary Account:	
Financing:	
Gross Outlays..	457,120
Offsetting Collections	-500,778
Net Outlays..	-43,658

STRATEGIC GOALS AND OBJECTIVES: RESOURCES REQUESTED ($ AND FTE) AND RESULTS

Ginnie Mae Program: The Ginnie Mae Mortgage-Backed securities program is authorized by Title III of the National Housing Act, as amended, P.L. 73-479, codified at 12 U.S.C. 1716 et seq. Ginnie Mae's mission is to support expanded affordable housing in America by providing liquidity to mortgage lenders that make federally insured or guaranteed loans, generally for low- and moderate-income homebuyers. In order to do this, Ginnie Mae guarantees mortgage-backed securities backed by federally insured and guaranteed mortgages, such as loans guaranteed by the Department of Veterans Affairs (VA) and the Federal Housing Administration (FHA). The securities are sold by the mortgage lenders, which enables the lenders to recapture their capital and make more loans.

Ginnie Mae is responsible for the administration of activities associated with the Mortgage-Backed Securities Program. The $9.383 million in administrative expenses and the 66 FTE for fiscal year 2002 is to cover salaries and expenses associated with carrying out the functions of the Mortgage-Backed Securities program.

SELECTED PERFORMANCE MEASURES

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002
Strategic Goal 1: Increase the availability of decent, safe and affordable housing in American communities.			
Discretionary BA (Dollars in Thousands)	9,383	9,383	9,383
FTE	61	66	66
Strategic Objective 1.1: Homeownership is increased.			
Output Indicator 1.1.a: Ginnie Mae securitizes at least 85 percent of single-family FHA and VA loans.	86.2 percent	85 percent	85 percent
Outcome Indicator 1.1.1: The overall homeownership rate increases from 67.7 percent in 2000 to 68.5 percent in 2002.	67.7 percent	67.5 percent	68.5 percent
Strategic Objective 1.2: Affordable rental housing is available for low-income households.			
Output Indicator 1.2.j: Ginnie Mae securitizes at least 80 percent of eligible FHA multifamily mortgages.	100 percent	80 percent	80 percent
Output Indicator 1.2.k: Ginnie Mae credit enhancements on multi-class securities increase by 10 percent to 50.7 billion in FY 2002.	$41.9 million	$46.1 million	$50.7 million