DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

GUARANTEES OF MORTGAGE-BACKED SECURITIES

PROGRAM HIGHLIGHTS

	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003	INCREASE + DECREASE - 2003 vs 2002
		(Dollars in Thousands)		
Single-Class MBS				
Commitments:				
Limitation	$200,000,000	$200,000,000	$200,000,000	...
Carryover	...	$38,343,213	...	-$38,343,213
Subtotal	$200,000,000	$238,343,213	$200,000,000	-$38,343,213
Use	$161,656,787	$238,343,213	$200,000,000	-$38,343,213
Uncommitted Limitation Carryover	$38,343,213	...	...	...
Guarantees:				
Issued in Year	$153,797,628	$120,000,000	$120,000,000	...
Outstanding, End of Year	$604,442,361	$627,741,604	$675,560,606	+$47,819,002
Guarantee Fees	$382,945	$382,436	$398,238	+$15,802
Advances to Investors	$98,567	$107,992	$108,051	+$59
Default Expenses	$808	$818	$925	+$107
MULTICLASS				
Guarantees:				
Issued in Year	$67,422,000	$73,650,000	$80,925,000	+$7,275,000
Outstanding, End of Year	$165,625,846	$197,504,846	$232,480,846	+$34,976,000
Guarantee Fees	$18,445	$20,964	$21,094	+$130
Budget Authority (Program)				
Budget Authority: (Appropriation for Administrative Expenses) ...	$9,362	$9,383	$10,343	+$960
Reserve for Retiree Costs	...	...	$418 a/	+$418
Subtotal	$9,362	$9,383	$10,761	+$1,378
Outlays (Program)				
Outlays	$9,362	$9,383	$10,343	+$960
Reserve for Retiree Costs	...	...	$418 a/	+$418
Subtotal	$9,362	$9,383	$10,761	+$1,378
Liquidating Account:				
Budget Authority (net)	...	...	...	...
Outlays	-$365,056	-$378,067	-$376,519	+$1,548
Financing Account:				
Budget Authority (net)	...	...	...	...
Net Disbursements	-$78,786	-$10,682	-$44,001	-$33,319
Reserve Receipt Account:				
Payment to Reserve Receipt Account	$346,544	$389,017	$387,639	-$1,378

a/ Beginning in fiscal year 2003, the Budget presents the amounts associated with shifting the cost for benefits accrued to the Federal retirees from central accounts to affected program accounts.

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 2003. This request is based on FHA and VA estimates of mortgage insurance and guarantee activity. Ginnie Mae has estimated that, of the $398.4 million in net receipts (not obligated to cover expenses) from the financing account, $387.6 million be transferred to its reserve receipt account and an appropriation of $10.8 million is proposed to fund salaries and expenses in fiscal year 2003, including $418,000 for the Administration's retirement costs proposal.

In fiscal year 2003, it is estimated that $80.9 billion of Multiclass securities will be guaranteed. Since all Ginnie Mae guaranteed Multiclass securities are based on and backed by mortgage-backed securities issued pursuant to commitment authority, separate commitment authority will not be required for the Multiclass securities.

B. Administration Legislative Proposal. The President's 2003 Budget corrects a long-standing understatement of the true cost of the Civil Service Retirement System (CSRS) and the Federal Health Benefits Program (FEHB). For some time, the accruing charge of CSRS and all retiree health benefits has been charged to central accounts. Beginning in fiscal year 2003, the Department's request reflects the shifting of these costs from central accounts to the Department. The $418,000 represents the related charges for Ginnie Mae in 2003.

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 that 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 that 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.

Guarantees Mortgage-Backed Securities

Multiclass Securities Program: In fiscal year 1994, Ginnie Mae began guaranteeing Real Estate Mortgage Investment Conduit (REMIC) and in fiscal year 1995 the 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 860G 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 that 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 and developed the Targeted Lending Initiative in fiscal year 1996. The Initiative 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 Initiative, Ginnie Mae reduces the guarantee fees it charges lenders by up to 50 percent for making mortgage loans in any of the nation's urban and rural Empowerment Zones or Enterprise Communities, adjacent eligible central city areas, and areas with a majority population of Native Americans.

PROGRAM ACTIVITY

1. Status of Program. In fiscal year 2001, the Ginnie Mae Mortgage-backed securities program approved $161.7 billion in commitment authority and issued $153.8 billion for its single class guarantees. Guarantees of mortgage-backed securities are estimated at $120 billion in fiscal year 2002 and $120 billion in fiscal year 2003.

The estimated changes in the outstanding principal balance of mortgage-backed securities for fiscal years 2001, 2002, and 2003 are shown in the following table:

	ACTUAL 2001	ESTIMATE 2002	ESTIMATE 2003
	(Dollar in Thousands)		
Securities Outstanding, start of yea . . .	$602,887,200	$604,442,361	$627,741,604
Issued During Year	153,797,628	120,000,000	120,000,000
Principal Payments to Securities Holders .	-152,242,467	-96,700,757	-72,180,998
Securities Outstanding, end of year . . .	604,442,361	627,741,604	675,560,606

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 2001	ESTIMATE 2002	ESTIMATE 2003
	(Dollar in Thousands)		
Securities Outstanding, start of year . .	$136,177,846	$165,625,846	$197,504,846
Issued During Year	67,422,000	73,650,000	80,925,000
Principal Payments to Securities	-37,974,000	-41,771,000	-45,949,000

Guarantees Mortgage-Backed Securities Holders .			
Securities Outstanding, end of year . . .	165,625,846	197,504,846	232,480,846

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 urban and rural Empowerment Zones or Enterprise Communities and adjacent eligible central city areas, as well as in eligible Indian lands, is shown in the following table:

Estimated	Pools	Loans	Mortgage Amount
10/01/96 through 09/30/01............	10,835	171,454	$16.6 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 2001, $5 million was written-down on assets held.

The following table reflects the composition of program net income:

	ACTUAL 2001	ESTIMATE 2002	ESTIMATE 2003
	(Dollar in Thousands)		
Revenue:			
Investment Interest.....................	$355,522	$378,208	$389,113
Interest Payment from Treasury..........	47,350	38,309	38,830
Guarantee Fees.........................	382,945	382,436	398,238
Multiclass Fees........................	18,445	20,964	21,094
Commitment and Other Fees...............	47,010	39,295	41,433
Servicing Income.......................	3,778	2,830	1,110
Interest on Mortgages..................	522	514	391
Sale of Servicing Rights................	...	...	172
Subtotal............................	855,572	862,556	890,381
Contingency........................... .	22,968	...	...
Total Revenue........................	878,540	862,556	890,381
Expenses:			
Operating Expenses:			
Administrative Expenses.................	9,362	9,383	10,761
Contractor Expenses.....................	34,961	36,650	37,010
Default Expenses.......................	808	818	925

Guarantees Mortgage-Backed Securities			
Servicing Expenses......................	1,936	1,934	1,054
Multiclass Expenses.....................	5,161	5,677	6,245
Total Operating Expenses...............	52,228	54,462	55,995
Non-Operating Expenses:			
Write-Down of Assets to Lower of Cost or Market...........................	4,995	...	...
Subtotal...........................	57,223	54,462	55,995
Contingency............................	16,063	...	...
Total Expenses.......................	73,286	54,462	55,995
Net Income...............................	805,254	808,094	834,386

SALE OF SERVICING RIGHTS

In fiscal year 2001, there were no sales of servicing rights. It is estimated that proceeds from the sale of servicing rights in fiscal year 2003 would be $172 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 2003, the Financing Account will transfer $398.4 million from its net receipts to a Receipt Account from which $10.8 million will be appropriated for administrative expenses into the Program Account, and a total transfer of $387.6 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.

GINNIE MAE MORTGAGE-BACKED SECURITIES
FY 2003 CREDIT REFORM PRESENTATION
(Dollars in Thousands)

BUDGET AUTHORITY	
On-Budget Accounts:	
Liquidating Account:	
Gross Budget Authority......................................	$425,205
Offsetting Collections......................................	-425,205
Net Budget Authority (Mandatory)	...
Program Account:	
Appropriation:	
Administrative Expenses....................................	10,761
Receipt Account:	
Deduction for Offsetting Receipts:	
Proprietary Receipts from the Public (Discretionary)	398,400
Non-Budgetary Account:	
Financing:	
Gross Financing Authority	548,461
Offsetting Collections....................................	-548,461
Net Financing Authority..................................	...
OUTLAYS:	
On-Budget Accounts:	

Guarantees Mortgage-Backed Securities

Liquidating Account:	
Gross Outlays...	48,686
Offsetting Collections......................................	-425,205
Net Outlays (Mandatory)	-376,519
Reserve Receipt Account:	
Transferred from Liquidating Account.............................	...
Transferred from Financing Account...............................	398,400
Program Account:	
Outlays (Discretionary).....................................	10,761
Receipt Account:	
Deduction for Offsetting Receipts:	
Offsetting Receipts......................................	398,400
Discretionary Appropriation.................................	10,761
Net Receipts..	387,639
Non-Budgetary Account:	
Financing:	
Gross Outlays...	504,460
Offsetting Collections	-548,461
Net Outlays...	-44,001

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 mortgage lenders sell the securities to recapture their capital and make more loans using those funds.

Ginnie Mae is responsible for the administration of activities associated with the Mortgage-Backed Securities Program. The $10.8 million in administrative expenses and the 68 FTE for fiscal year 2003 is to cover salaries and expenses associated with carrying out the functions of the Mortgage-Backed Securities program.

SELECTED PERFORMANCE MEASURES

NOTE: Targets are preliminary and may be revised with the submission of the full APP document.

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Strategic Goal 2: Help families move from rental housing to homeownership.			
Discretionary BA (Dollars in Thousands)	$4,681	$4,692	$5,381
FTE			
Headquarters	33	34	34
Field	0	0	0
Subtotal	33	34	34

Guarantees Mortgage-Backed Securities

STRATEGIC GOAL/OBJECTIVE	ACTUAL 2001	ENACTED 2002	ESTIMATE 2003
Strategic Objective 2.1: Expand national homeownership opportunities.			
Indicator: Ginnie Mae securitizes at least 85 percent of single-family FHA and VA loans	98%	85%	85%
Strategic Objective 2.3: Increase the availability of affordable rental housing.			
Ginnie Mae securitizes at least 90 percent of eligible FHA multifamily mortgages.	100%	90%	90%
Ginnie Mae credit enhancements on multiclass securities will increase to $80.9 billion in fiscal year 2003.	$67.4 billion	$73.7 billion	$80.9 billion
Strategic Goal 3: Improve the quality of public housing and provide more choices for its residents.			
Discretionary BA (Dollars in Thousands)	$4,681	$4,691	$5,380
FTE			
Headquarters	33	34	34
Field	0	0	0
Subtotal	33	34	34
Strategic Objective 3.1: Help families in public and assisted housing make progress toward self-sufficiency and become homeowners.			
FTE Total	**66**	**68**	**68**