

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
GUARANTEES OF MORTGAGE-BACKED SECURITIES

PROGRAM HIGHLIGHTS

	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004	INCREASE + DECREASE - 2004 vs 2003
	(Dollars in Thousands)			
<u>SINGLE-CLASS MBS</u>				
Commitments:				
Limitation	\$200,000,000	\$200,000,000	\$200,000,000	...
Carryover	<u>38,343,213</u>	<u>59,418,669</u>	...	-59,418,669
Subtotal	238,343,213	259,418,669	200,000,000	-59,418,669
Use	<u>-178,924,544</u>	<u>-259,418,669</u>	<u>-200,000,000</u>	<u>59,418,669</u>
Subtotal	59,418,669	...	...	...
<u>Guarantees:</u>				
Issued in Year	174,853,252	120,000,000	150,000,000	30,000,000
Outstanding, End of Year	568,351,015	597,830,515	641,083,809	43,253,294
Guarantee Fees	376,468	364,994	390,186	25,192
Advances to Investors	64,055	137,897	75,413	-62,484
Default Expenses	335	23,509	1,255	-22,253
<u>MULTICLASS</u>				
Guarantees:				
Issued in Year	122,851,243	133,250,000	147,000,000	13,750,000
Outstanding, End of Year	209,650,457	248,308,498	286,527,745	38,219,247
Guarantee Fees	30,137	38,870	43,888	5,018
<u>Budget Authority (Program)</u>				
Budget Authority:				
(Appropriation for				
Administrative Expenses)	9,383	10,343	10,695	352
<u>Outlays (Program)</u>				
Outlays	9,383	10,343	10,695	352
<u>Liquidating Account:</u>				
Budget Authority (net) .....	...	...	...	...
Outlays	-388,132	-219,463	-315,428	-95,965
<u>Financing Account:</u>				
Budget Authority (net) .....	...	...	...	...
Net Disbursements	-112,103	-44,309	-99,690	-55,381
<u>Reserve Receipt Account:</u>				
Payment to Reserve Receipt				
Account	354,000	398,400	405,000	6,600

SUMMARY OF BUDGET ESTIMATES

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 2004. This request is based on Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA) estimates of mortgage insurance and guarantee activity. In addition, an appropriation of \$10.7 million is proposed to fund salaries and expenses in fiscal year 2004.

In fiscal year 2004, it is estimated that \$147 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.

PROGRAM DESCRIPTION AND ACTIVITY

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 FHA, 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 mortgage-backed securities (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.

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 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.

Guarantees of Mortgage-Backed Securities

PROGRAM ACTIVITY

1. Status of Program. In fiscal year 2002, the Ginnie Mae Mortgage-Backed Securities program approved \$178.9 billion in commitment authority and issued \$174.9 billion for its single class guarantees. Guarantees of mortgage-backed securities are estimated at \$120 billion in fiscal year 2003 and \$150 billion in fiscal year 2004.

The estimated changes in the outstanding principal balance of mortgage-backed securities for fiscal years 2002, 2003, and 2004 are shown in the following table:

	<u>ACTUAL</u> <u>2002</u>	<u>ESTIMATE</u> <u>2003</u>	<u>ESTIMATE</u> <u>2004</u>
(Dollar in Thousands)			
Securities Outstanding, start of year . . .	\$604,442,361	\$568,351,015	\$597,830,515
Issued During Year	174,853,252	120,000,000	150,000,000
Principal Payments to Securities Holders .	-210,944,598	-90,520,500	-106,746,706
Securities Outstanding, end of year . . .	<u>568,351,015</u>	<u>597,830,515</u>	<u>641,083,809</u>

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:

	<u>ACTUAL</u> <u>2002</u>	<u>ESTIMATE</u> <u>2003</u>	<u>ESTIMATE</u> <u>2004</u>
(Dollar in Thousands)			
Securities Outstanding, start of year . . .	\$165,625,846	\$209,650,457	\$248,308,498
Issued During Year	122,851,243	133,250,000	147,000,000
Principal Payments to Securities Holders .	-78,826,632	-94,591,959	-108,780,753
Securities Outstanding, end of year . . .	<u>209,650,457</u>	<u>248,308,498</u>	<u>286,527,745</u>

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:

<u>Estimated</u>	<u>Pools</u>	<u>Loans</u>	<u>Mortgage</u> <u>Amount</u>
10/01/96 through 09/30/02.....	13,751	218,954	\$21.8 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 include 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 2002, \$5 million was written-down on assets held.

Guarantees of Mortgage-Backed Securities

The following table reflects the composition of program net income:

	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
	(Dollar in Thousands)		
<u>Revenue:</u>			
Investment Interest.....	\$354,768	\$346,374	\$353,412
Interest Payment from Treasury.....	52,200	31,238	38,307
Guarantee Fees.....	376,468	364,994	390,186
Multiclass Fees.....	30,137	38,870	43,888
Commitment and Other Fees.....	46,060	40,318	48,316
Servicing Income.....	3,250	3,141	2,387
Interest on Mortgages.....	918	876	604
Subtotal.....	863,801	825,811	877,100
Contingency.....	-12,707	...	...
Total Revenue.....	851,094	825,811	877,100
<u>Expenses:</u>			
Operating Expenses:			
Administrative Expenses.....	9,383	10,343	10,695
Contractor Expenses.....	38,518	82,367	29,177
Default Expenses.....	335	23,509	1,255
Servicing Expenses.....	1,698	1,665	1,396
Multiclass Expenses.....	7,090	9,173	10,823
Total Operating Expenses.....	57,024	127,057	53,346
Non-Operating Expenses:			
Write-Down of Assets to Lower of Cost or Market.....	4,954	...	...
Subtotal.....	61,978	127,057	53,346
Contingency.....	-5,143	...	...
Total Expenses.....	56,835	127,057	53,346
Net Income.....	794,259	698,754	823,754

SALE OF SERVICING RIGHTS

In fiscal years 2003 and 2004, it is estimated that proceeds from the sale of servicing will be \$40 million and \$174 thousand respectively.

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 2004, the Financing Account will transfer \$405 million from its net receipts to a Receipt Account from which \$10.7 million will be appropriated for administrative expenses into the Program Account, and a total transfer of \$394.3 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 2004 CREDIT REFORM PRESENTATION
(Dollars in Thousands)

BUDGET AUTHORITY

On-Budget Accounts:

Liquidating Account:

Gross Budget Authority.....	\$432,428
Offsetting Collections.....	-392,428
Net Budget Authority (Mandatory)	40,000

Program Account:

Appropriation:	
Administrative Expenses.....	10,695

Receipt Account:

Deduction for Offsetting Receipts:	
Proprietary Receipts from the Public (Discretionary)	405,000

Guarantees of Mortgage-Backed Securities

<u>Non-Budgetary Account:</u>		
<u>Financing:</u>		
Gross Financing Authority		\$547,616
Offsetting Collections		<u>-547,616</u>
Net Financing Authority.....		...
<u>OUTLAYS:</u>		
<u>On-Budget Accounts:</u>		
<u>Liquidating Account:</u>		
Gross Outlays.....		77,000
Offsetting Collections.....		<u>-392,428</u>
Net Outlays (Mandatory)		<u>-315,428</u>
<u>Reserve Receipt Account:</u>		
Transferred from Liquidating Account.....		...
Transferred from Financing Account.....		405,000
<u>Program Account:</u>		
Outlays (Discretionary).....		10,695
<u>Receipt Account:</u>		
<u>Deduction for Offsetting Receipts:</u>		
Offsetting Receipts.....		405,000
Discretionary Appropriation.....		10,695
Net Receipts.....		<u>394,305</u>
<u>Non-Budgetary Account:</u>		
<u>Financing:</u>		
Gross Outlays.....		447,926
Offsetting Collections		<u>-547,616</u>
Net Outlays.....		<u>-99,690</u>

ADMINISTRATIVE EXPENSES

FTE/OBJECT CLASS	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
FTE			
Headquarters	63	77	77
Field	...	...	...
Total FTE	63	77	77
S&E Cost (Dollars in Thousands)			
Personal Services	\$6,380	\$8,018	\$8,235
Travel	135	101	162
Printing	3	2	2
Other Services	103	196	253
Supplies	10	10	10
Total S&E Cost	\$6,631	\$8,327	\$8,662