

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SALARIES AND EXPENSES, HOUSING AND URBAN DEVELOPMENT
BUDGET ACTIVITY 4: GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

The consolidated discussion for the appropriation "Salaries and Expenses, HUD" is shown in Part 3 of the Justifications. All data are presented on a comparable basis for the 3 fiscal years 2003, 2004, and 2005.

SCOPE OF ACTIVITY

The Government National Mortgage Association (Ginnie Mae) is responsible for the administration of activities associated with the Mortgage-Backed Securities (MBS) and Multiclass Securities Programs. A brief description of Ginnie Mae's programs is provided below.

Mortgage-Backed Securities Program. Section 306(g) of the National Housing Act authorizes Ginnie Mae to guarantee the timely payment of principal and interest on securities which are issued by approved entities and which are backed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), or Rural Housing Service (RHS) mortgages.

In fiscal year 2005 The Government National Mortgage Association (Ginnie Mae) Budget proposes a limitation on new commitments for single-class mortgage-backed securities (MBS) of \$200 billion. In addition, an appropriation of \$11 million is proposed to fund salaries and expenses in fiscal year 2005. In fiscal year 2005, it is estimated that \$117 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.

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.

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 securities pursuant to previously issued commitment authority, additional commitment authority will not be required for the Multiclass securities.

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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.

	MORTGAGE		
	POOLS	LOANS	AMOUNT
10/01/96 through 09/30/03	16,302	269,176	\$ 27.5 billion

PROGRAM ACTIVITY

Status of Program. In fiscal year 2003, the Ginnie Mae Mortgage-Backed Securities program approved \$222.4 billion in commitment authority and issued \$215.8 billion for its single class guarantees. Guarantees of mortgage-backed securities are estimated at \$150 billion in fiscal year 2004 and \$160 billion in fiscal year 2005.

The estimated changes in the outstanding principal balance of mortgage-backed securities for fiscal years 2003, 2004, and 2005 are shown in the following table:

The attached charts display detailed staffing and workload estimates based on the Resource Estimation and Allocation Process (REAP) baseline data.

TYPE OF ACTIVITY BY FUNCTION

	ACTUAL <u>2003</u>	ESTIMATE <u>2004</u>	ESTIMATE <u>2005</u>
	(Dollars in Thousands)		
<u>Guarantees of Mortgage-Backed Securities</u>			
Issued during year.....	\$215,817,959	\$150,000,000	\$160,000,000
Outstanding, end of year.....	473,907,979	539,679,625	555,556,972
<u>MULTICLASS:</u>			
Issued during year	106,046,555	111,348,883	116,916,327
Outstanding, end of year.....	182,900,000	192,044,999	201,647,250

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TRAVEL

	ACTUAL 2003	ENACTED 2004	ESTIMATE 2005	INCREASE + DECREASE - 2005 vs 2004
	(Dollars in Thousands)			
Travel (HQ)	\$130	\$161	\$162	+\$1
Total.....	130	161	162	+1

Travel funds on-site visits and the monitoring of program participants.

CONTRACTS

	ACTUAL 2003	ENACTED 2004	ESTIMATE 2005	INCREASE + DECREASE - 2005 vs 2004
	(Dollars in Thousands)			
General Support	\$56	\$252	\$253	+\$1
Total.....	56	252	253	+1

General Support funds the MBS, Multiclass Securities Program, and related administrative functions.

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GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
Personal Services
Summary of Change
(Dollars in Thousands)

<u>Personal Services</u>	<u>FTE</u>	<u>S&E Cost</u>
2003 Actual.....	71	\$7,350
2004 Appropriation/Request.....	70	7,451
<u>Changes Due To</u>		
2005 January Pay Raise.....	0	84
2004 January Pay Raise.....	0	76
Staffing increase/decrease.....	0	0
Other benefit changes.....	0	185
2005 Request.....	70	7,796

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GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
 Summary of Requirements by Grade
 Salaries and Expenses
 (Dollars in Thousands)

	<u>2003 Actual</u>	<u>2004 Appropriation/ Request</u>	<u>2005 Request</u>	<u>Increase/ Decrease</u>
<u>Grade:</u>				
Executive Level IV	1	1	1	0
ES-6	1	1	1	0
ES-5	0	0	1	1
ES-4	3	3	2	-1
ES-3	2	0	1	1
ES-2	0	1	0	-1
ES-1	0	0	0	0
GS-15	15	15	15	0
GS-14	11	12	12	0
GS-13	18	24	24	0
GS-12	6	1	2	1
GS-11	0	1	1	0
GS-10	1	1	1	0
GS-9	4	5	5	0
GS-8	2	2	1	-1
GS-7	3	1	1	0
GS-6	1	2	2	0
GS-5	1	0	0	0
GS-4	0	0	0	0
GS-3	0	0	0	0
GS-2	0	0	0	0
GS-1	0	0	0	0
Total Positions	70	70	70	0
Average ES Salary	\$131,733	\$131,480	\$132,620	+\$1,140
Average GS Salary	\$63,877	\$74,556	\$75,675	+\$1,119
Average GS Grade	12.4	12.8	12.8	0

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GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
Summary of Requirements by Object Class
Salaries and Expenses
(Dollars in Thousands)

<u>Object Class</u>	<u>2003 Actual</u>	<u>2004</u> <u>Appropriation/Request</u>	<u>2005 Request</u>	<u>Increase/Decrease</u>
Personal Services.....	\$7,350	\$7,451	\$7,796	\$345
Travel and Transportation of Persons.....	130	161	162	1
Transportation of Things.....	0	0	0	0
Rent, Communication & Utilities.....	0	0	0	0
Printing and Reproduction.....	1	2	2	0
Other Services.....	56	252	253	1
Supplies and Materials.....	19	10	10	0
Furniture & Equipment.....	136	0	754	754
Insurance Claims & Indemnities.....	0	0	0	0
Total Obligations.....	\$7,692	\$7,876	\$8,977	1,101

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
 Performance Measurement Table**

Program Mission: To expand affordable housing in America by linking domestic and global capital markets to the nation's housing markets.					
Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2003 Plan	2003 Actual	2004 Enacted	2005 Plan
Increase Homeownership Opportunities: Ginnie Mae secures at least 85 percent of single-family FHA, VA, and RHS loans.	Ginnie Mae database of monthly endorsements by FHA and VA	85%	92%	85%	85%
Promote Decent Affordable Housing: Ginnie Mae secures at least 80 percent of eligible FHA multifamily mortgages.	Ginnie Mae database of multifamily loan securities, compared with FHA multifamily database adjusted to remove ineligible projects.	80%	91%	80%	80%
Ginnie Mae credit enhancements on multi-class securities increase to \$116.9 billion in fiscal year 2005.	Ginnie Mae database of REMIC issuances.	\$80.9 B	\$106.1 B	\$147 B	\$116.9 B

Explanation of Indicators

In fiscal year 2005, the Government National Mortgage Association (Ginnie Mae) proposes \$200 billion in commitment authority, \$8 million in Salaries and expenses, and 70 FTEs to support Strategic Goal H: Increase homeownership opportunities.

Ginnie Mae's Mortgage-Backed securities program is authorized by Title III of the National Housing Act, as amended, Public Law 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 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. The primary function of the Ginnie Mae is to support the Federal Government's housing initiatives by providing liquidity to the secondary mortgage market and to attract capital from the nation's capital markets into the residential mortgage markets. Through its

Mortgage-Backed Securities Program, Ginnie Mae guarantees the timely payment of principal and interest on securities issued by private institutions and backed by pools of Federally insured or guaranteed mortgage loans. The securing of Federal Housing Administration (FHA) insured, Rural Housing Service, and Veterans Affairs (VA) guaranteed mortgages increases the liquidity of funds available to lenders making these loans and, thereby, decreases the costs associated with making and servicing loans. This decrease in costs helps lower mortgage cost for homebuyers using Federal Government housing programs.

H.1.7: Ginnie Mae Secures at least 85 percent of single-family FHA and VA loans.

Ginnie Mae's fiscal year 2003 goal was to secure at least 85 percent of FHA and VA insured or guarantee loans. The year-end result was 92.4 percent of all VA and FHA loans were placed into Ginnie Mae securities, a significant accomplishment in light of existing competition for the product. Ginnie Mae was able to exceed its goal by offering superior up-front pricing and the flexibility in determining servicing spreads.

Ginnie Mae supports strategic objective H.1: by creating a secondary market that secures a high level of FHA insured and VA guaranteed loans. Ginnie Mae's guaranteed securities increases the liquidity of funds in the market for mortgage credit, and the presence of government-backed securities lowers the cost to first time homebuyers and also increases homeownership. In fiscal year 2005, Ginnie Mae requested \$200 billion in new commitment authority and it has estimated that the entire amount will be used to facilitate the financing of residential mortgage loans insured or guaranteed by FHA, VA, and 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 will also improve and expand use of technology with new computer applications that will increase the attractiveness of Ginnie Mae's securities.

Strategic Goal A: Promote decent affordable housing.

A.1.8: Ginnie Mae secures at least 80 percent of eligible FHA multifamily mortgages.

Ginnie Mae makes the multifamily mortgages market more liquid by helping lenders package FHA insured loans into securities for investors to purchase on the secondary market. Ginnie Mae guaranteed securities increase the availability of capital for multifamily mortgages, thereby making loans less costly and easier to obtain. To contribute to Strategic Objective A.1, Ginnie Mae secures 80 percent of eligible FHA multifamily mortgages to support the increase in housing available for low- and moderate-income Americans. Ginnie Mae will also expand its use of information technology with new computer applications into its business and marketing processes to improve its operational efficiencies and market capabilities that should increase the attractiveness of Ginnie Mae's securities.

In the multifamily arena, Ginnie Mae was successful in exceeding its target for program growth of 80 percent. Ginnie Mae streamlined business requirements for the multifamily program, which enhanced its efficiency as a vehicle for the securing of loans. As a result, in fiscal year 2002, Ginnie Mae secured 91 percent of eligible FHA multifamily mortgages. The multifamily remaining principal balance increased from \$25.4 billion in fiscal year 2002 to \$28.9 billion in fiscal year 2003, an increase of 13.8 percent. This reflected the preference of investors in multifamily securities for stable, insured government guaranteed loans over conventional loans. Investor preference induced issuers to use Ginnie Mae's multifamily MBS programs. Furthermore, performance improvement in fiscal year 2003 was the result of exceptional market conditions.

A.1.9: Ginnie Mae credit enhancements on multi-class securities increase to \$116.9 billion in fiscal year 2005.

Ginnie Mae's multi-class products include Real Estate Mortgage Investment Conduits (REMIC) and Ginnie Mae Platinum securities. REMIC securities pool mortgages or mortgages-backed securities for sale as multiple-class securities. By packaging for investors specific needs among the various security classes (tranches), REMIC increase the secondary mortgage market's liquidity, which can reduce the cost of capital for borrowers. The Platinum product provides customers the ability to trade a group of small pools for one large pool. Ginnie Mae will also incorporate improvements from and expand use of information technology with new computer applications into its business and marketing processes to improve its operational efficiencies and market capabilities that should increase the attractiveness of Ginnie Mae's securities.

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In fiscal year 2003, Ginnie Mae's credit enhancement in its Multi-class Securities program exceeded the target by over 31 percent. The REMIC and Platinum programs issued a total of \$106.1 billion in securities.

Ginnie Mae's Multi-class Securities activities are divided into its two principal product segments: REMIC Securities and Platinum Securities. The Multi-class Securities business generated record REMIC transaction of 109 and total volume of \$38.2 billion in fiscal year 2003--as Ginnie Mae capitalized on lower interest rates, increased volatility in the equity markets, and strong investor demand.

The Ginnie Mae Platinum transaction volume in fiscal year 2003 was \$67.9 billion. The Platinum product line provides customers the ability to trade a group of small pools for one large pool.

Overall Summary of Government National Mortgage Association Staff Requirements

	Actual 2003	Estimate 2004	Estimate 2005	Increase + Decrease - 2005 vs 2004
Headquarters.....	71.0	70.0	70.0	0.0
Field	0.0	0.0	0.0	0.0
Total	71.0	70.0	70.0	0.0

Summary of Government National Mortgage Association Staff Requirements

	Actual 2003	Estimate 2004	Estimate 2005	Increase + Decrease - 2005 vs 2004
<u>Headquarters Employment</u>				
Office of the President, Ginnie Mae	8.1	6.0	6.0	0.0
Office of Management Operations	16.9	17.0	17.0	0.0
Office of Mortgage-Backed Securities (MBS)	19.0	19.0	19.0	0.0
Office of Program Operations	9.0	9.0	9.0	0.0
Office of Capital Markets	5.0	6.0	6.0	0.0
Office of Finance	13.0	13.0	13.0	0.0
Total Government National Mortgage Associatio	71.0	70.0	70.0	0.0

Detail of Government National Mortgage Association Staff Requirements

Workload Guideline	Workload Indicator	Fiscal Year 2003			Fiscal Year 2004			Fiscal Year 2005				
		Projected Accomplish- ment	Projected Unit Cost (Hrs)	FTE	Underfunded Workload/ Allocation	Projected Accomplish- ment	Projected Unit Cost (Hrs)	FTE	Underfunded Workload/ Allocation	Projected Accomplish- ment	Projected Unit Cost (Hrs)	FTE
Headquarters Employment												
Office of the President, Ginnie Mae												
Overall Guidance of Ginnie Mae Activities	NA	.....	.....	6.0		.....	.....	4.0		.....	.....	4.0
Provide Policy and Program Development for Ginnie Mae	# of approved issuers maintained in the Ginnie Mae MBS portfolio	486	8.90	2.1		486	8.80	2.0		486	8.80	2.0
Subtotal				8.1				6.0				6.0
Office of Management Operations												
General Guidance of Ginnie Mae Management Operations	NA	.....	.....	3.9		.....	.....	4.0		.....	.....	4.0
Provide Administrative Support	# of Ginnie Mae personnel supported	69	89.50	3.0		70	90.00	3.0		70	90.00	3.0
Provide Information Technology Support	NA	.....	.....	6.0		.....	.....	6.0		.....	.....	6.0
Support Procurement Activities and Contract Administration	# of Contracts Administered	31	269.00	4.0		25	338.00	4.0		31	269.00	4.0
Subtotal				16.9				17.0				17.0
Office of Mortgage-Backed Securities (MBS)												
General Guidance of MBS Activities	NA	.....	.....	1.0		.....	.....	1.0		.....	.....	1.0
Support SF/Manufactured Housing MBS Program	# of approved issuers maintained in the Ginnie Mae MBS portfolio	370	51.00	9.0		370	51.00	9.0		370	51.00	9.0
Perform Monitoring and Asset Management	# of approved issuers maintained in the Ginnie Mae MBS portfolio	370	34.00	6.0		370	34.00	6.0		370	34.00	6.0
Support the Multifamily MBS Program	# of approved issuers maintained in the Ginnie Mae MBS portfolio	116	54.00	3.0		116	54.00	3.0		116	54.00	3.0
Subtotal				19.0				19.0				19.0
Office of Program Operations												
General Guidance of Ginnie Mae Program Operations	NA	.....	.....	2.0		.....	.....	2.0		.....	.....	2.0
Support the Operations of the MBS Programs	# of Product Lines Supported	34	245.00	4.0		34	245.00	4.0		34	245.00	4.0

Workload Guideline	Workload Indicator	----- Fiscal Year 2003 -----			----- Fiscal Year 2004 -----			----- Fiscal Year 2005 -----				
		Projected Accomplish- ment	Projected Unit Cost (Hrs)	FTE	Underfunded Workload/ Allocation	Projected Accomplish- ment	Projected Unit Cost (Hrs)	FTE	Underfunded Workload/ Allocation	Projected Accomplish- ment	Projected Unit Cost (Hrs)	FTE
Provide Risk Management Support	NA	.....	.....	3.0		.....	.....	3.0		.....	.....	3.0
Subtotal				9.0				9.0				9.0
Office of Capital Markets												
General Guidance of Capital Markets Activities	NA	.....	.....	1.0		.....	.....	2.0		.....	.....	2.0
Provide REMIC Multi-Class Securities Transactions Functions	# of REMIC classes closed	3,699	1.12	2.0		4,700	0.90	2.0		5,200	0.80	2.0
Perform Capital Market Activities	# of approved issuers maintained in the Ginnie Mae MBS portfolio	484	4.30	1.0		486	4.50	1.0		486	4.50	1.0
Administer Multi-Class Securities Program and Program Participants	# of Multi-Class Program Participants serviced	17	125.00	1.0		27	80.00	1.0		27	80.00	1.0
Subtotal				5.0				6.0				6.0
Office of Finance												
Provide General Oversight and Support to Financial Activites	NA	.....	.....	3.0		.....	.....	2.0		.....	.....	2.0
Provide Cash Control Functions	# of Financial Reports Produced	19,244	0.43	4.0		20,000	0.42	4.0		20,000	0.42	4.0
Provide Cash Management and Disbursements	# of Transactions Processed	15,375	0.41	3.0		16,820	0.50	4.0		16,820	0.50	4.0
Perform Budgetary/Financial Management Activities	NA	.....	.....	3.0		.....	.....	3.0		.....	.....	3.0
Subtotal				13.0				13.0				13.0
Ginnie Mae Total				71.0				70.0				70.0