

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 fiscal years 2004, 2005, and 2006.

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 2006, the 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 2006. In fiscal year 2006, it is estimated that \$89 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.

Salaries and Expenses, Housing and Urban Development
 Budget Activity 4: Government National Mortgage Association

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

	<u>POOLS</u>	<u>LOANS</u>	<u>MORTGAGE AMOUNT</u>
10/01/96 through 09/30/04.....	19,365	461,946	\$48.7 billion

PROGRAM ACTIVITY

Status of Program. In fiscal year 2004, the Ginnie Mae Mortgage-Backed Securities program approved \$146.1 billion in commitment authority and issue \$149.1 billion for its single class guarantees. Guarantees of mortgage-backed securities are estimated at \$160 billion in fiscal year 2005 and \$160 billion in fiscal year 2006.

The estimated changes in the outstanding principal balance of mortgage-backed securities for fiscal years 2004, 2005, and 2006 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

	<u>ACTUAL 2004</u>	<u>ESTIMATE 2005</u>	<u>ESTIMATE 2006</u>
	(Dollars in Thousands)		
<u>Guarantees of Mortgage-Backed Securities</u>			
Issued during year.....	\$149,080,558	\$160,000,000	\$160,000,000
Outstanding, end of year.....	453,517,948	492,768,227	571,819,337
<u>MULTICLASS:</u>			
Issued during year	81,400,000	116,916,327	122,762,143
Outstanding, end of year.....	189,100,000	201,647,250	212,029,612

Salaries and Expenses, Housing and Urban Development
 Budget Activity 4: Government National Mortgage Association

TRAVEL

	<u>ACTUAL 2004</u>	<u>ENACTED 2005</u>	<u>ESTIMATE 2006</u>	<u>INCREASE + DECREASE - 2006 vs 2005</u>
	(Dollars in Thousands)			
Travel (HQ).....	\$132	\$108	\$108	...
Total	<u>132</u>	<u>108</u>	<u>108</u>	<u>...</u>

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

CONTRACTS

	<u>ACTUAL 2004</u>	<u>ENACTED 2005</u>	<u>ESTIMATE 2006</u>	<u>INCREASE + DECREASE - 2006 vs 2005</u>
	(Dollars in Thousands)			
General Support	\$50	\$35	\$35	...
Total	<u>50</u>	<u>35</u>	<u>35</u>	<u>...</u>

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

Salaries and Expenses, Housing and Urban Development
 Budget Activity 4: Government National Mortgage Association

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

<u>Personal Services</u>	<u>FTE</u>	<u>S&E Cost</u>
2004 Actual.....	66	\$7,240
2005 Appropriation.....	67	7,715
<u>Changes Due To</u>		
2006 January Pay Raise.....	0	142
2005 January Pay Raise.....	0	72
Staffing increase/decrease.....	5	541
Other benefit changes.....	0	44
2006 Request.....	72	\$8,514

Salaries and Expenses, Housing and Urban Development
 Budget Activity 4: Government National Mortgage Association

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

	<u>2004</u> <u>Actual</u>	<u>2005</u> <u>Appropriation</u>	<u>2006</u> <u>Request</u>	<u>Increase/</u> <u>Decrease</u>
<u>Grade:</u>				
Executive Level	1	1	1	0
Executive Service	5	5	6	+1
GS-15	14	14	15	+1
GS-14	12	12	19	+7
GS-13	21	21	20	-1
GS-12	2	2	1	-1
GS-11	2	3	1	-2
GS-10	1	1	1	0
GS-9	4	4	5	+1
GS-8	1	1	1	0
GS-7	1	2	1	-1
GS-6	1	1	0	-1
GS-5	0	0	1	+1
GS-4	0	0	0	0
GS-3	1	0	0	0
GS-2	0	0	0	0
GS-1	0	0	0	0
Total Positions	66	67	72	+5
Average ES Salary	\$141,774	\$144,609	\$147,501	+\$2,892.0
Average GS Salary	\$83,966	\$85,646	\$87,359	+\$1,713.0
Average GS Grade	12.7	12.8	13.1	+ 0.3

Salaries and Expenses, Housing and Urban Development
 Budget Activity 4: Government National Mortgage Association

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

<u>Object Class</u>	<u>2004 Actual</u>	<u>2005 Appropriation</u>	<u>2006 Request</u>	<u>Increase/Decrease</u>
Personal Services.....	\$7,240	\$7,715	\$8,514	+\$799
Travel and Transportation of Persons.....	132	108	108	0
Transportation of Things.....	0	0	0	0
Rent, Communication & Utilities.....	0	0	0	0
Printing and Reproduction.....	0	0	0	0
Other Services.....	50	35	35	0
Supplies and Materials.....	9	8	8	0
Furniture & Equipment.....	45	0	0	0
Insurance Claims & Indemnities.....	0	0	0	0
Total Obligations.....	\$7,476	\$7,866	\$8,665	+\$799

**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	
		2004 Plan	2004 Actual	2005 Enacted	2006 Plan
Increase Homeownership Opportunities: Ginnie Mae secures at least 90 percent of singlefamily fixed rate FHA loans.	Ginnie Mae database of monthly endorsements by FHA and VA.	85%	87%	85%	90%
Promote Decent Affordable Housing: Ginnie Mae secures at least 90 percent of eligible FHA multifamily mortgages.	Ginnie Mae database of multifamily loan securities, compared with FHA multifamily database adjusted to remove ineligible projects.	80%	92%	80%	90%

Explanation of Indicators

In fiscal year 2006, the Government National Mortgage Association (Ginnie Mae) proposes \$200 billion in commitment authority, \$11 million in Salaries and Expenses, and 71.7 FTEs to support the Department's Strategic Goal H: Increase homeownership opportunities and Strategic Goal A: Promote decent affordable housing.

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 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 securitization 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.

Indicator: Ginnie Mae Securitizes at least 90 percent of single family fixed rate FHA loans in fiscal year 2006.

The direct focus of Ginnie Mae's Mortgage-Backed Securities Program is in support of the Department's goal of increasing housing and homeownership. In contribution toward this goal, Ginnie Mae lends indirect support to all of the other Department goals.

Salaries and Expenses, Housing and Urban Development
Budget Activity 4: Government National Mortgage Association

Ginnie Mae's fiscal year 2004 goal was to securitize at least 85 percent of FHA and VA insured or guarantee loans. The year-end result was 87 percent securitized in single family. Ginnie Mae achieved and slightly exceeded the fiscal year 2004 goal due to the decrease in purchases of FHA/VA loans by the Federal Home Loan Banks' (Banks). The Banks became less active in purchasing government loans because their regulator limited the amount of government loan purchases the Banks could make to a percentage of their conventional loan purchases. Also, Ginnie Mae was able to exceed its goal by offering superior up-front pricing and the flexibility in determining servicing spreads.

Indicator: Ginnie Mae securitizes at least 90 percent of eligible FHA multifamily mortgages in fiscal year 2006.

To contribute to Strategic Objective, "Expand Access To Affordable Rental Housing," Ginnie Mae set its goal to securitizes 80 percent of eligible FHA multifamily mortgages to support the increase in housing available for low- and moderate-income Americans. 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.

Ginnie Mae streamlined requirements for the multifamily program, which enhanced its efficiency as a securitization vehicle. As a result, in fiscal year 2004, Ginnie Mae's goal was to securitize 80 percent of eligible FHA multifamily mortgages. The principal balance remaining in the multifamily portfolio increased from \$28.9 billion in fiscal year 2003 to \$32.7 billion in fiscal year 2004. This reflects the preference of investors in multifamily securities of 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 2004 was the result of exceptional market conditions.

Overall Summary of Government National Mortgage Association Staff Requirements

	FTE			Increase + Decrease - 2006 vs 2005
	Estimate 2004	Estimate 2005	Estimate 2006	
Headquarters.....	65.5	67.0	71.7	+4.7
Field	0.0	0.0	0.0	0.0
Total	65.5	67.0	71.7	+4.7

Summary of Government National Mortgage Association Staff Requirements

	FTE			Increase + Decrease - 2006 vs 2005
	Estimate 2004	Estimate 2005	Estimate 2006	
<u>Headquarters Employment</u>				
Office of the President, Ginnie Mae	6.0	6.0	6.0	0.0
Office of Management Operations	17.5	18.0	20.0	+2.0
Office of Mortgage-Backed Securities (MBS)	18.0	18.0	18.0	0.0
Office of Program Operations	8.0	8.0	8.7	+0.7
Office of Capital Markets	4.0	4.0	5.0	+1.0
Office of Finance	12.0	13.0	14.0	+1.0
Total, Government National Mortgage Association	65.5	67.0	71.7	+4.7

Workload Guideline	Workload Indicator	Fiscal Year 2004			Fiscal Year 2005			Fiscal Year 2006				
		Projected Accomplishment	Projected Unit Cost (Hrs)	FTE	Underfunded Workload/Allocation	Projected Accomplishment	Projected Unit Cost (Hrs)	FTE	Underfunded Workload/Allocation	Projected Accomplishment	Projected Unit Cost (Hrs)	FTE
Provide Policy Support, Risk Management, and perform Contract Administration	NA	...	...	...		...	...	...		...	...	...
Provide Policy Support, Risk Management, and perform Contract Administration	NA	...	...	...	1.0	...	...	3.5	0.3	...	...	4.2
Subtotal				8.0				8.0				8.7
Office of Capital Markets												
General Guidance of Capital Markets Activities	NA	...	...	...	1.0	...	...	...		...	...	1.0
Provide REMIC Multi-Class Securities Transactions Functions	# of REMIC classes closed	2,269	1.89	2.0		...	...	...		...	...	...
Perform Capital Market Activities	# of approved issuers maintained in the Ginnie Mae MBS portfolio	475	8.80	1.5		...	...	...		...	...	...
Administer Multi-Class Securities Program and Program Participants	# of Multi-Class Program Participants serviced	9	244.00	0.5		...	...	...		...	...	...
Provide General Guidance, Perform Capital Market Activities, Multi-Class transaction Activities, and Perform Contract Administration	NA	...	...	...	1.0	...	...	3.5	1.0	...	...	3.5
Conduct Monitoring and Risk Management Functions	# of Multi-Class Program Participants serviced	...	...	...		112	1.64	0.5		112	1.64	0.5
Subtotal				4.0				4.0				5.0
Office of Finance												
Provide General Oversight and Support to Financial Activities	NA	...	...	2.0		...	...	2.0		...	...	2.00
Provide Cash Control Functions	# of Financial Reports Produced	21,601	0.41	4.0		...	...	...		...	...	...
Provide Cash Management and Disbursements	# of Transactions Processed	14,511	0	3.0		...	...	...		...	...	...
Perform Budgetary/Financial Management Activities	NA	...	...	...		...	...	...		...	...	...
Support Cash Management Functions, Perform Budgetary/Financial Management activities, and Perform Contract Administration	NA	...	...	3.0	1.0	...	...	11.0		...	...	12.0
Subtotal				12.0				13.0				14.0
Ginnie Mae Total				65.5		11.0		67.0		6.3		71.7

HEADQUARTERS EMPLOYMENT

EXPLANATION OF CHANGES FROM 2004 ESTIMATE TO 2005 ESTIMATE

All positions are required to support the consolidation of program activities, to maintain and enhance performance accountability and risk management of Ginnie Mae programs, and to assure continuity of operations.

Ginnie Mae's FTE level of 67.0 FTE for fiscal year 2005 is an increase of 1.5 FTE from fiscal year 2004 but is 11 FTE less than the requirements identified by the recently completed Resources Estimation and Allocation Program (REAP) study. The specific numbers for each office are shown below.

The Office of the President - The FTE level for fiscal years 2004 and 2005 remain unchanged. The 7 FTE are recommended for fiscal year 2005 from the recent REAP study to support the Executive Assistant function in the Office.

The Office of Management Operations - The 18 FTE is funded in fiscal year 2005. An increase of 0.5 FTE is to support the newly created Marketing Staffing. Twenty-one FTE are recommended for fiscal year 2005 to enhance the procurement/contract management activities, IT support, and thoroughly support the newly created marketing outreach functions.

The Office of Mortgage-Backed Securities (MBS) - The 18 FTE remains the same between fiscal years 2004 and 2005. However, the recent REAP study recommended 21 FTE to provide administrative support to the Immediate Office and ongoing customer support for Multifamily MBS programs.

The Office of Program Operations - The 8 FTE requested in fiscal year 2005 remains the same as fiscal year 2004. The recent REAP study recommended 9 FTE for the Office to provide additional support toward office functions and to increase coordination between the Office of Program Operations, Mortgage-Backed Securities and Capital Markets.

The Office of Capital Markets - the FTE level (4 FTE) remains the same between fiscal years 2004 and 2005. The recent REAP study recommended 6 FTE to fully support Office functions and to obtain adequate managerial support to provide management oversight and guidance of Office operation.

The Office of Finance - The 13 FTE requested in fiscal year 2005 is 1 FTE more than the fiscal year 2004 level. The additional 1 FTE eases the workload within the Treasurer's Division. However, the recent REAP study recommended 14 FTE to address succession planning and knowledge management issues within Treasurer's Division as well as the impact of implementing a new accounting system on business processes within the Controller's Division.

EXPLANATION OF CHANGES FROM 2005 ESTIMATE TO 2006 ESTIMATE

All positions are required to support the consolidation of program activities, to maintain and enhance performance accountability and risk management of Ginnie Mae programs, and to assure continuity of operations. Ginnie Mae's FTE level of 71.7 FTE for fiscal year 2006 is an increase of 4.7 FTE from fiscal year 2005 but is 6.3 FTE less than the requirements identified by the recently completed Resources Estimation and Allocation Program (REAP) study. The specific numbers for each office are shown below.

The Office of the President - The FTE level for fiscal years 2005 and 2006 remain unchanged. The 7 FTE are recommended for fiscal year 2006 from the recent REAP study to support the Executive Assistant function in the Office.

The Office of Management Operations - The 20 FTE is funded in fiscal year 2006. An increase of 2 FTE from fiscal year 2005 is to support the newly created Marketing Staffing. Twenty-one FTE are recommended for fiscal year 2006 to enhance the procurement/contract management activities, IT support, and thoroughly support the marketing outreach functions.

The Office of Mortgage-Backed Securities (MBS) - The 18 FTE remains the same between fiscal years 2005 and 2006. However, the recent REAP study recommended 21 FTE to provide administrative support to the Immediate Office and ongoing customer support for Multifamily MBS programs.

The Office of Program Operations - The 8.7 FTE requested in fiscal year 2006 is an increase of 0.7 FTE from fiscal year 2005. The additional 0.7 FTE will ease the workload of Office functions and will improve the program support to the other Ginnie Mae Offices. However, the recent REAP study recommended 9 FTE for the Office to provide additional support toward office functions and to increase coordination between the Office of Program Operations, Mortgage-Backed Securities and Capital Markets.

The Office of Capital Markets - The 5 FTE requested in fiscal year 2006 is an increase of 1 FTE. The additional 1 FTE will ease the workload in the Office and improve the customer support.

The Office of Finance - The 14 FTE requested in fiscal year 2006 is fully staffed based on the recent REAP study. One additional FTE from the fiscal year 2005 FTE level will address succession planning and knowledge management issues within Treasurer's Division as well as the impact of the implementing a new accounting system on business processes within the Controller's Division.