

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
MORTGAGE-BACKED SECURITIES PROGRAM
2017 Summary Statement and Initiatives
(Dollars in Thousands)**

GUARANTEES OF MORTGAGE-BACKED SECURITIES	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2015 Appropriation	\$500,000,000	\$500,000,000	...	\$1,000,000,000	\$505,586,103	...
2016 Appropriation	500,000,000	494,413,897	...	994,413,897	994,413,897	...
2017 Request	<u>500,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>	...
Program Improvements/Offsets	-494,413,897	...	-494,413,897	-494,413,897	...

GUARANTEES OF MORTGAGE-BACKED SECURITIES PROGRAM ACCOUNT	<u>Carryover</u>	<u>Spending Authority from Offsetting Collections</u>	<u>Precluded From Obligation</u>	<u>Gross Budget Authority¹</u>	<u>Obligations</u>	<u>Net Outlays</u>
Administrative Expenses and Commitment and Multiclass Fees						
2015 Appropriation.....	\$295,111	\$140,161	-\$409,272	\$26,000	\$21,333	-\$118,000
2016 Appropriation/Request.....	409,272	118,000	-504,272	23,000	25,000	-95,000
2017 Request.....	<u>504,272</u>	<u>101,000</u>	<u>-582,272</u>	<u>23,000</u>	<u>28,000</u>	<u>-76,000</u>
Program Improvements/Offsets.....	+95,000	-17,000	-78,000	...	+3,000	+19,000

1. What is this request?

The fiscal year 2017 Budget request for the Government National Mortgage Association (Ginnie Mae) consists of two parts:

- (1) \$500 billion in limitation on new commitments of single class mortgage-backed securities (MBS); and

¹ Gross Budget Authority represents new budget authority to be collected within the fiscal year and does not include the \$7.2 million balance of no-year S&E collected in prior fiscal years.

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- (2) \$23 million to cover personnel compensation and benefits and non-personnel services expenses for fiscal year 2017 (the appropriations request also includes contingent budget authority should the actual guarantee volume exceed the prescribed threshold during execution).

Commitment Authority

In recent years, private markets have played a diminished role in fulfilling the nation's residential housing funding needs. Ginnie Mae has stepped up to fill the gap and provide liquidity in the secondary market, bringing stability to a still-recovering housing market. Therefore, Ginnie Mae is requesting \$500 billion in commitment authority, to remain available until September 30, 2018, to issue guarantees of securities in order to meet the housing needs of Americans across the single family, multifamily, and healthcare segment of the market. This request provides ample authority given estimates of mortgage insurance and guarantee activity of the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), HUD's Office of Public and Indian Housing (PIH), and the U.S. Department of Agriculture (USDA).

Salaries and Expenses

In fiscal years 2016 and 2017, Ginnie Mae will utilize a portion of the \$7.2M in cumulated S&E funding made available until expended through the Commitment and Multiclass Fee Proviso (section 306 of the National Housing Act, as amended (12 U.S.C.1721(g)) to cover Non-Personnel Services, Working Capital Fund expenses and hire additional 2-year Term or Presidential Management Fellow (PMF) staff.

Ginnie Mae's salaries and expenses (S&E) request of \$23 million, equal to the fiscal year 2016 enacted level, is offset by an estimated \$101 million in collections from multiclass and commitment fees for an expected net decrease to the deficit of \$78 million. This request of \$23 million will support 139.9 FTE and with the no-year S&E expected to fund 25 additional temporary FTE this brings the fiscal year 2017 FTE total to 164.9.

2. What is this program?

Ginnie Mae 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.). Section 306(g) of the National Housing Act authorizes Ginnie Mae to guarantee the timely payment of principal and interest on securities that are issued by approved entities and which are backed by FHA, VA, USDA Rural Development, or PIH mortgages.

Ginnie Mae is not in the business of making or purchasing mortgage loans, nor does it buy, sell, or issue securities. Instead, Ginnie Mae earns income by approving commitment authority for which qualified mortgage issuers pay a fee. Issuers use that authority to pool their eligible government loans into securities and issue Ginnie Mae MBS. Ginnie Mae, in turn, guarantees the performance of

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the Issuer who issues the MBS and who continues to service and manage the underlying loans. The guarantee to investors also earns Ginnie Mae guarantee fee income from issuers. The Ginnie Mae guarantee, coupled with an expected return higher than U.S. Treasury securities, makes Ginnie Mae securities highly liquid and attractive to domestic and foreign investors of all types. This liquidity is passed on to the issuers who can then use the proceeds from issuances to make new mortgage loans at attractive interest rates to borrowers. The ongoing cycle (as depicted in Figure 1) helps to lower financing costs and supports increased access to capital for housing finance across the single-family, multifamily and healthcare housing markets. Because the securities are backed by the full faith and credit of the U.S. Government, capital continues to flow even during recessionary periods when liquidity stalls in the private market and in times of great market change as we are experiencing now with the withdrawal of major banks from the origination space.

Ginnie Mae's business model enables it to maintain a negative subsidy rate and earn money for the U.S. Treasury, which significantly reduces taxpayer exposure to the risk associated with the issuers' ability to meet its financial obligations to Ginnie Mae MBS investors. It is through this model that Ginnie Mae brings global capital and stability to the Nation's housing finance system.

Ginnie Mae is a mono-line business taking only counterparty risk – the risk that the Issuer does not have the financial strength and liquidity to cover borrower defaults and un-reimbursed losses on mortgage loans underlying their MBS issuances. There are three levels of protection that must be exhausted before the Ginnie Mae guarantee is at risk:

- 1) Homeowner equity;
- 2) Insurance provided by the government agency that insured the loans; and
- 3) Corporate resources of the lenders who issued the security.

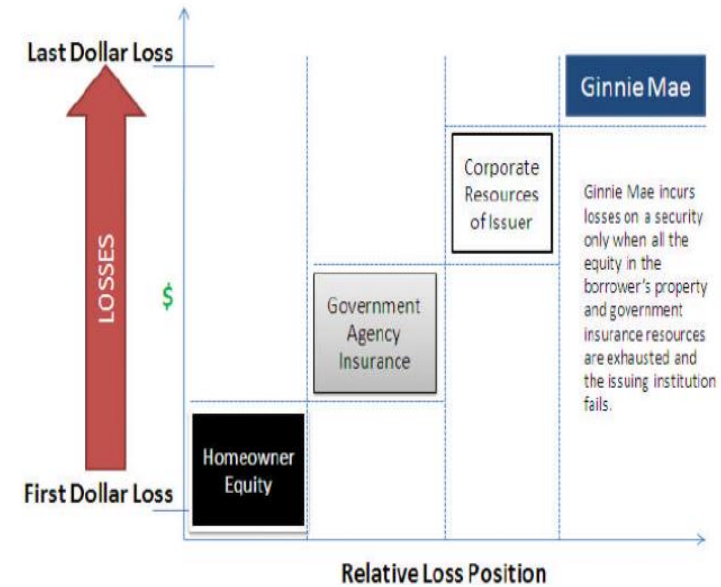
Ginnie Mae is in the fourth and last loss position (Figure 2). Ginnie Mae issuers must exhaust their corporate resources — usually through bankruptcy — before Ginnie Mae will pay on its guarantee through all financial losses in transferring the defaulted issuers Ginnie Mae obligations to another Ginnie Mae issuer. This process is very similar to the Federal Deposit Insurance Corporation (FDIC) closing a failed bank. Insuring only the performance of the Issuer and requiring that issuers make principal and interest payments to investors until they can no longer do so significantly reduces taxpayer exposure to risk. By actively managing and monitoring issuers, Ginnie Mae manages its risk of potential Issuer default and can better protect the guarantee from loss.

Guarantees of Mortgage-Backed Securities

Figure 1: Capital Flow of Ginnie Mae Guaranteed Securities



Figure 2: Protecting the Ginnie Mae Guarantee



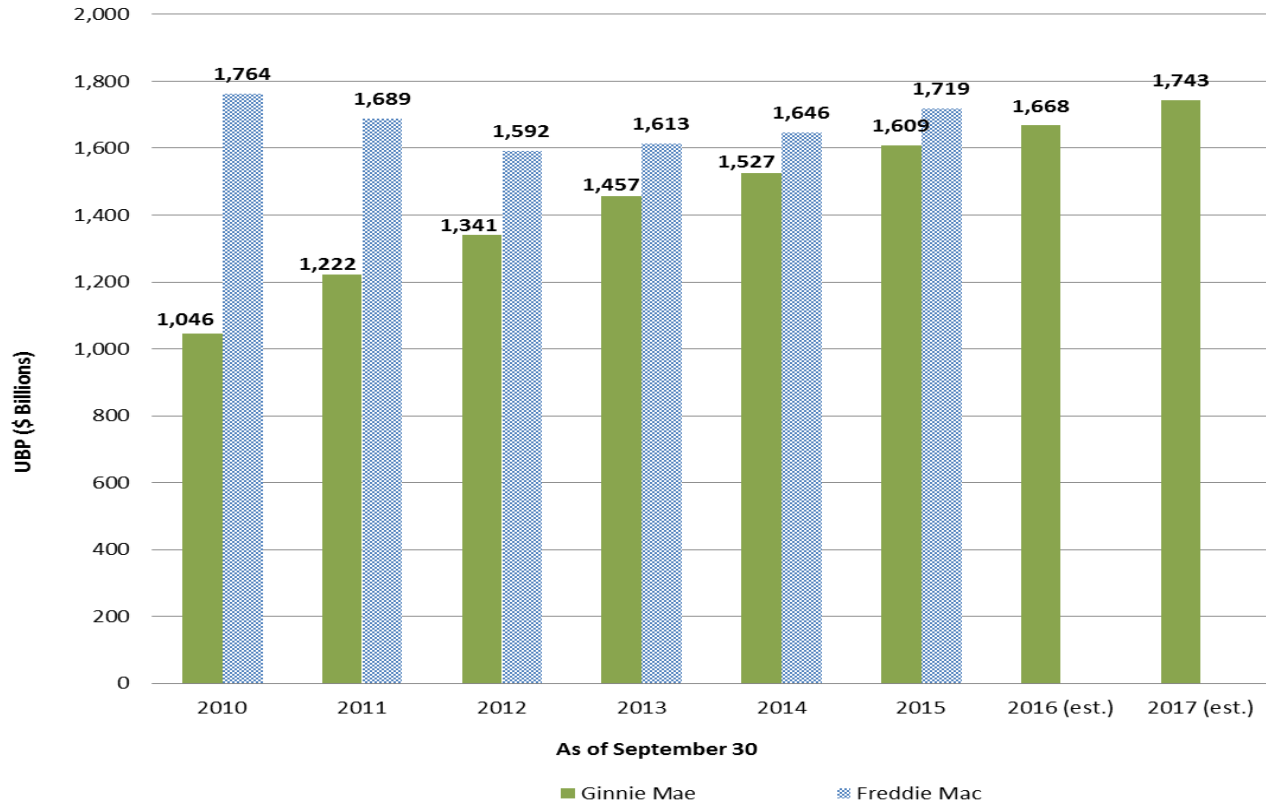
Securities and Products

Ginnie Mae has become a major outlet providing global capital and liquidity to the housing market. Ginnie Mae's unpaid principal balance (UPB) is rapidly approaching Freddie Mac's MBS guarantee levels². Ginnie Mae's UPB of securities outstanding in the market has risen from \$1.05 trillion to an estimated \$1.74 trillion between fiscal years 2010 – 2017 (estimated) (see Figure 3).

² Source: Table 4 - Freddie Mac Monthly Volume Summary Report, <http://www.freddiemac.com/investors/volsum/>

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Figure 3: Ginnie Mae vs. Freddie Mac – Unpaid Principal Balance Outstanding in Mortgage-Backed Securities Portfolio



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The outstanding principal balance of MBS for fiscal years 2015 – 2017:

	<u>ACTUAL</u> <u>2015</u>	<u>ESTIMATE</u> <u>2016</u>	<u>ESTIMATE</u> <u>2017</u>
	(Dollars in Thousands)		
Securities Outstanding, start of Year.....	\$1,526,470,160	\$1,608,790,109	\$1,667,531,494
Issued During Year.....	432,445,025	330,200,000	359,000,000
Principal Payments to Securities Holders.....	<u>-350,125,076</u>	<u>-271,458,615</u>	<u>-283,714,409</u>
Securities Outstanding, end of year.....	1,608,790,109	1,667,531,494	1,742,817,085

The Ginnie Mae MBS Program and Multiclass products provide liquidity for an array of FHA, VA, and USDA Rural Development programs:

Home Equity Conversion Mortgages

Home Equity Conversion Mortgages (HECMs) allow homeowners ages 62 and older to tap into their home equity without repaying the money as long as they live in their homes. These "reverse mortgages" help more senior homeowners enjoy a better quality of life by allowing them to retain their homes and use their home's accumulated wealth to help with health care costs and other expenses. America's aging population makes HECMs an increasingly attractive product for issuers, and Ginnie Mae provides a capital markets solution to support this population.

Currently, FHA's HECM program allows Ginnie Mae-qualified issuers to help underserved and elderly borrowers while tapping into a safe, secure, and guaranteed capital markets solution. Ginnie Mae's securitization and MBS is the only securitization program for reverse mortgages in the world. Ginnie Mae's securitization of HECMs reduces costs to seniors by allowing issuers to offer loans at lower-than-market interest rates. By focusing on senior housing, Ginnie Mae is well positioned to serve the needs of a major demographic subgroup that is predicted to increase rapidly in the coming years.

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Multiclass Mortgage-Backed Securities Products

In fiscal year 1994, Ginnie Mae began guaranteeing Real Estate Mortgage Investment Conduits (REMIC). A pool or trust composed of mortgages or MBS back a REMIC security. 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.

Ginnie Mae REMIC products allow the private sector to combine restructured cash flows from Ginnie Mae MBS (including Home Equity Conversion MBS) and other permissible REMIC securities to be tailored to meet investor's preferences. The Ginnie Mae Callable Trust products permit one investor to receive the cash flows from the underlying MBS, while another investor has the right to buy the underlying MBS, under certain circumstances, thereby calling or terminating the Callable Trust. The Ginnie Mae Stripped Mortgage-Backed Securities (SMBS) Trust program complements the REMIC program and involves the allocation of principal and interest from pass-through securities in differing proportions than exist in the underlying mortgage loans. 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 are based on and backed by MBS issued securities pursuant to previously issued commitment authority, additional commitment authority is not required for the multiclass securities.

<u>REMICs</u>	<u>Callable Trusts</u>	<u>Platinum Securities</u>	<u>SMBS</u>
Investment vehicles that reallocate pass-through cash flows from underlying mortgage obligations into a series of different bond classes, known as tranches, which vary based on term and prepayment risk.	Allow investors the flexibility to redeem or call a security prior to its maturity date under certain conditions to hedge against fluctuating interest rate environments.	Allow investors who hold multiple pools of MBS to combine them into a single Ginnie Mae Platinum Certificate.	Custom-designed securities that redirect MBS principal and/or interest cash flows to meet investors' specific objectives. Ginnie Mae guarantees the timely payment of principal and interest on each class of SMBS.

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The Multiclass Program activity, which involves a Ginnie Mae guarantee on the multiclass securities that are backed by Ginnie Mae MBS, is shown in the following table:

	<u>ACTUAL</u> <u>2015</u>	<u>ESTIMATE</u> <u>2016</u>	<u>ESTIMATE</u> <u>2017</u>
	(Dollars in Thousands)		
<u>MULTICLASS MBS SECURITIES</u>			
Securities Outstanding, start of year.....	\$495,140,000	\$541,007,625	\$574,297,648
Issued During Year.....	93,030,625	85,169,322	85,169,322
Principal Payments to Securities Holders.....	<u>-47,163,000</u>	<u>-51,879,300</u>	<u>-54,473,265</u>
Securities Outstanding, end of year.....	\$541,007,625	\$574,297,648	\$604,993,706

3. Why is this program necessary and what will we get for the funds?

Ginnie Mae plays a critical role in the U.S. housing finance system, as it is a low risk, high revenue-generating conduit for bringing private capital into the U.S. housing markets. Without such a conduit, the prevalence of the 30-year mortgage would significantly diminish. If issuers were unable to access the global capital market through the sale of Ginnie Mae securities, they would not have the long-term funding necessary to continue originating FHA, VA, PIH and USDA insured loans upon which so many in America depend. In response, issuers would originate mainly adjustable-rate mortgage (ARM) loans and be forced to raise mortgage rates for the loans they do make to individual borrowers, weakening a recovering but still somewhat fragile housing market. In addition, the existing global MBS market would experience a major disruption, with negative effects on both the liquidity and value of existing Ginnie Mae securities (which represent an important component of the balance sheets of many of the world's largest financial institutions). Ginnie Mae benefits borrowers, issuers, and investors while helping to stabilize the U.S. housing and capital markets.

The Ginnie Mae MBS transforms individual mortgages from relatively illiquid individual assets into liquid, tradable, and homogeneous capital market instruments that will allow the lender to transfer the risks of offering a 30 year fixed interest rate mortgage to the worldwide capital markets. Prior to MBS, borrowers across the United States had limited access to fixed interest rate home mortgages and some regions experienced localized credit crises because lenders only source of funding was form certificates of

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deposits they sold in their local markets. Worse yet, borrowers faced strikingly uneven mortgage rates across different regions. Without Ginnie Mae’s support of the mortgage market, such problems could resurface.

The steep decline of the housing market in recent years placed tremendous stress on issuers, including Ginnie Mae’s issuers, and led to the retreat of investors from investing in MBS that the government did not guarantee the issuer’s ability to perform their financial obligations. As it has done before in troubled times, Ginnie Mae stepped into the market space previously dominated by others to ensure that core customers — issuers and investors — are well served. Ginnie Mae has guaranteed over \$2.8 trillion in new mortgage backed securities during fiscal years 2009 – 2015, bringing its outstanding guarantee to over \$1.61 trillion.

Since 2008 GNMA’s issuer base has grown 30 percent and is projected to reach 484 in fiscal year 2017. A significant subcategory of the new Issuer population is composed of sizable non-depository entities that have grown rapidly (Figure 4), and due to their financial and operational complexity will require substantial changes to Ginnie Mae’s counterparty monitoring and governing practices.

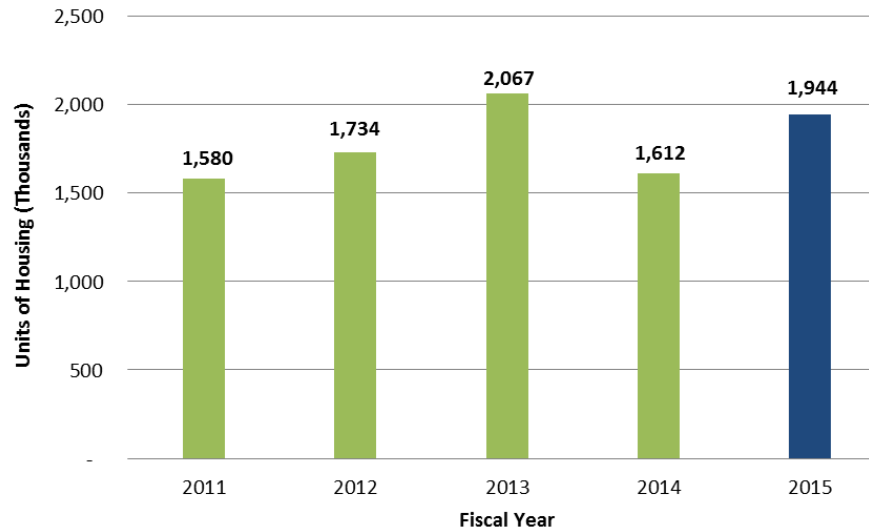
Figure 4: League Table Fiscal Years 2012 – 2015

	FY 2012	FY 2013	FY 2014	FY 2015
Top 20 Issuer's Issuance	\$310,666,844,849	\$334,546,365,702	\$194,411,098,428	\$270,196,724,372
Percent of Total Issuance	86%	79%	70%	69%
Percent of Top 20 by Depositories	83%	75%	61%	38%
Percent of Top 20 by Mortgage Banks	17%	25%	39%	62%

As shown in Figure 5, Ginnie Mae supported approximately 1.9 million units of housing for individuals and families in fiscal year 2015. Ginnie Mae has made a significant impact on the availability of homeownership and rental opportunities. Ginnie Mae expects this participation rate to continue and with the requested commitment, authority will be able to provide financing for single-family homes, apartment units, hospitals, and nursing homes.

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Figure 5: Ginnie Mae Supported Units of Housing



In addition, Ginnie Mae’s program serves special populations; the Multifamily Program makes safe and affordable rental housing available for millions of individuals and families. Ginnie Mae’s mission of supporting affordable housing and promoting stable communities extends to ensuring that decent rental units remain accessible. By guaranteeing MBS obligations that are collateralized by multifamily loans that are sold to investors in the global capital markets, Ginnie Mae enables issuers to reduce mortgage interest rates paid by property owners and developers of apartment buildings and other housing options. Ginnie Mae also supports lenders in providing funding for hospitals, nursing homes, and assisted-living facilities. The Multifamily Program guarantee portfolio increased from \$87.9 billion at the end of fiscal year 2014 to \$92.5 billion at the end of fiscal year 2015 marking the 21st year of consecutive growth. More so, Ginnie Mae’s MBS guarantee activities described above historically have operated at no cost to the U.S. Government.

4. How do we know this program works?

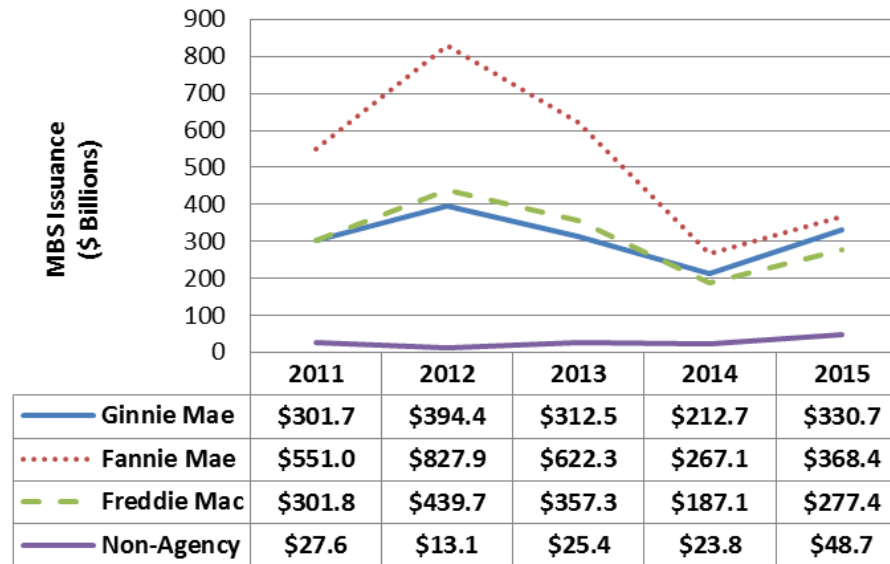
During the recent market crisis, Ginnie Mae has provided market stability and liquidity to America’s housing finance system—as evidenced by the steep trajectory of demand for our MBS. The UPB of Ginnie Mae securities outstanding in the market have risen from \$1 trillion in 2010 to over \$1.65 trillion estimated by the end of fiscal year 2016. In addition, Ginnie Mae has been profitable

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every year since it began guaranteeing securities in 1970, becoming the major outlet for providing global capital and liquidity to the housing market. Ginnie Mae provides a steady source of funding for the vast majority of government-insured or guaranteed loans offered by FHA, VA, and USDA. As of September 30, 2015, 98.2 percent of FHA fixed-rate single-family loans, 99.1 percent of multifamily eligible loans, and 97.3 percent of VA fixed-rate single-family loans were funded through the issuance of Ginnie Mae MBS, making Ginnie Mae securities the primary source of funding for new home purchases.

Figure 7 shows the variances and periods of decline in the private-label market over the past several years and the consistent issuance of agency MBS—those backed by Ginnie Mae and the Government-Sponsored Enterprises (GSEs). Although Ginnie Mae has maintained a significant share of the MBS market over the past several years, maintaining a high market share is not its goal. Rather, its goal is simply to support the housing market by providing global capital and access to credit in a safe and efficient manner.

Figure 7: Relative Market Share of Ginnie Mae and GSE Securities³, 2011 through 2015



³ Source: *Inside MBS & ABS*, MBS issuance figures based on the 12 months of the calendar year for 2011 through 2014, and for the first 9 months of Calendar Year 2015.

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Notably, between fiscal years, 2012 and 2017 (estimated) Ginnie Mae will have contributed \$582 million from discretionary commitment and multiclass fee collections toward reducing the federal deficit. Moreover, Ginnie Mae has generated an average negative subsidy in excess of \$900 million a year for a combined discretionary and mandatory collections contribution of \$4,194 million toward reducing the federal deficit between fiscal years 2012 and 2015.

5. Proposals in the Budget

- **Risk Sharing Securitization:** HUD is expanding its pool of risk sharing lenders to include lenders that have demonstrated experience in affordable housing lending, specifically in order to increase the availability of capital to small multifamily properties of 5-49 units. The language would authorize Ginnie Mae to securitize these small loans made under Section 542(b). (Sec. 225)
- **Administrative Expenses Fiscal Year Limitations:** This provision makes limitations on administrative expenses inapplicable to certain expenditures of Ginnie Mae, including legal services contracts and the expenses of carrying out its programmatic duties. This provision ensures that administrative expenses provided in annual appropriations bills does not preclude Ginnie Mae's reliance upon its permanent, indefinite appropriation, in Section 1 of the National Housing Act, for essential operating funds.

This provision also adds the authorization by which Congress implements its responsibilities under section 104 of the Government Corporations Control Act (31 U.S.C. 9104), which is necessary to carry out the programs set forth in Ginnie Mae's budget for the coming year, permanent law. (Sec. 205)

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**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
MORTGAGE-BACKED SECURITIES PROGRAM
Summary of Resources by Program**

<u>Budget Activity</u>	<u>2015 Budget Authority</u>	<u>2014 Carryover Into 2015</u>	<u>2015 Total Resources</u>	<u>2015 Obligations</u>	<u>2016 Budget Authority</u>	<u>2015 Carryover Into 2016</u>	<u>2016 Total Resources</u>	<u>2017 Request</u>
Commitment Limitation	\$500,000,000	\$500,000,000	\$1,000,000,000	\$505,586,103	\$500,000,000	\$494,413,897	\$994,413,897	\$500,000,000
Total	500,000,000	500,000,000	1,000,000,000	505,586,103	500,000,000	494,413,897	994,413,897	500,000,000

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GOVERNMENT NATIONAL MORTGAGE ASSOCIATION MORTGAGE-BACKED SECURITIES PROGRAM Appropriations language

The fiscal year 2017 President's Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

New commitments to issue guarantees to carry out the purposes of section 306 of the National Housing Act, as amended (12 U.S.C. 1721(g)), shall not exceed \$500,000,000,000, to remain available until September 30, ~~[2017]~~2018: Provided, That \$23,000,000 shall be available for necessary salaries and expenses of the Office of Government National Mortgage Association: Provided further, that to the extent that guaranteed loan commitments will and do exceed \$155,000,000,000 on or before April 1, ~~[2016]~~2017, an additional \$100 for necessary salaries and expenses shall be available until expended for each \$1,000,000 in additional guaranteed loan commitments (including a pro rata amount for any amount below \$1,000,000), but in no case shall funds made available by this proviso exceed \$3,000,000: Provided further, That receipts from Commitment and Multiclass fees collected pursuant to title III of the National Housing Act, as amended, shall be credited as offsetting collections to this account. (Department of Housing and Urban Development Appropriations Act, 2016.)