DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
MORTGAGE-BACKED SECURITIES PROGRAM
2020 Summary of Resources

(Dollars in Thousands)

	Enacted/ Requested	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2018 Appropriation	500,000,000	470,245,811	-	970,245,811	443,539,387	-
2019 Annualized CR	500,000,000	500,000,000	-	1,000,000,000	1,000,000,000	-
2020 Request	550,000,000	-	-	550,000,000	550,000,000	-
Change from 2019	50,000,000	(500,000,000)	-	(450,000,000)	(450,000,000)	-

Administrative Expenses and Commitment and Multiclass Fees

	Carryover	Spending Authority from Offsetting Collections	Budget Authority	Precluded from Obligations	Obligations	Net Outlays
2018 Appropriation	634,492	129,335	30,000[a]	(733,827)	26,462	(101,915)
2019 Annualized CR	733,827	131,000	30,000[a]	(834,827)	28,000	(98,000)
2020 Request	834,827	132,000	28,400	(938,427)	30,400	(103,600)
Change from 2019	101,000	1,000	(1,600)	(103,600)	2,400	(5,600)

a/ Budget Authority for 2018 and 2019 includes $27 million of annual funds and $3 million of no-year funds.

1. Program Purpose and Budget Overview

Ginnie Mae makes affordable housing a reality for millions of low- and moderate-income households across America by channeling global capital into the nation's housing markets. Specifically, the Ginnie Mae guarantee allows mortgage lenders to obtain a better price for their Mortgage Backed Securities (MBS) in the secondary mortgage market. The lenders can then use the proceeds of their

MBS sales to fund new mortgage loans. Without that liquidity, lenders would be forced to keep all loans in their own portfolio, meaning they would not have adequate capital to make new loans.

The 2020 President's Budget requests $550 billion in commitment authority, $50 billion above the 2019 Annualized CR level, allowing Ginnie Mae to remain the primary financing mechanism for all government-insured or government-guaranteed mortgage loans.

2. Request

Ginnie Mae's 2020 Budget consists of two parts:

(1) $550 billion (non-cash) in limitation on new commitments of single class MBS; and

(2) $28.4 million to cover personnel compensation and benefits and non-personnel services expenses for 2020.

Commitment Authority

Ginnie Mae is requesting $550 billion in commitment authority, to remain available until September 30, 2021, to issue guarantees of MBS to meet the credit access and housing needs of Americans across the single-family, multifamily, and healthcare segments of the market. This request provides sufficient 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

The 2020 President's Budget requests $28.4 million, which is $1.4 million more than the 2019 Annualized CR level (excluding the $3 million in no-year funds assumed in 2019). Ginnie Mae's salaries and expenses (S&E) request is offset by an estimated $132 million in collections from multiclass and commitment fees for an expected net decrease to the deficit of $103.6 million. Please see the Ginnie Mae S&E justification for more detail.

3. Justification

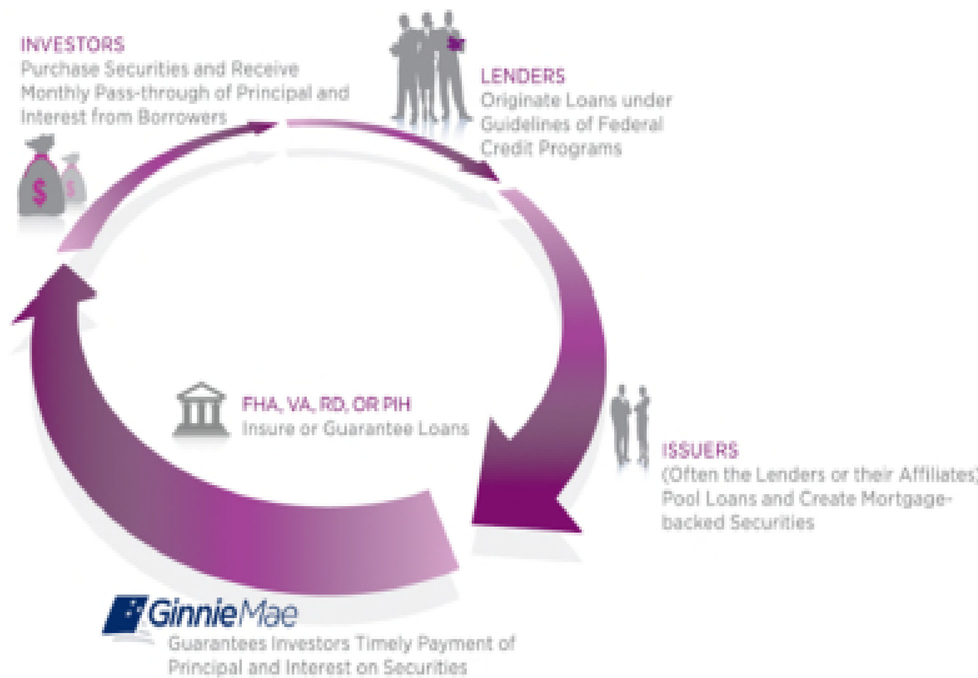
Ginnie Mae, authorized by Title III of the National Housing Act, as amended (P.L. 73-479; codified at 12 U.S.C. 1716 et seq.), supports liquidity in the mortgage market by guaranteeing timely payment to investors on securities backed by federally guaranteed mortgages, for which qualified mortgage issuers pay a fee (a guarantee fee). Issuers use that authority to pool their eligible government-insured loans into securities and issue Ginnie Mae guaranteed MBS. Section 306(g) of the National Housing Act authorizes Ginnie Mae to guarantee the timely payment of principal and interest to investors. The guarantee fee charged to issuers generates guarantee fee income for Ginnie Mae.

Altogether, the combination of the guarantee and an expected return generally exceeding that of U.S. Treasury securities make Ginnie Mae MBS highly liquid and attractive to domestic and foreign investors of all types. This liquidity is passed on to the issuers, who can use the proceeds from the securities issuances to make new mortgage loans at attractive interest rates to borrowers.

Ginnie Mae, designated by the federal government as a National Essential Function (NEF), benefits borrowers, issuers, and investors while helping to stabilize the U.S. housing and capital markets, including in the aftermath of a disaster, and ensuring public confidence in its financial system.

In 1970, Ginnie Mae created and issued the first MBS in the United States as a financial tool to help bring funds from worldwide investors into the U.S. mortgage market. Figure 1 below depicts the flow of this capital in the U.S. mortgage market. The net effect of this flow of capital helps to ensure mortgage financing remains available for affordable homeownership and rental properties and supports increased access to capital for housing finance across the single-family, multifamily, and healthcare housing markets. Moreover, because the Ginnie Mae-guaranteed MBS are backed by the full faith and credit of the U.S. Government, capital continues to flow even during recessionary periods and liquidity disruption in the private market and in times of substantial shifts in the mortgage market as has occurred since the 2008 housing crisis with the withdrawal of major banks from the government mortgage market.

Figure 1: Capital Flow of Ginnie Mae Guaranteed Securities

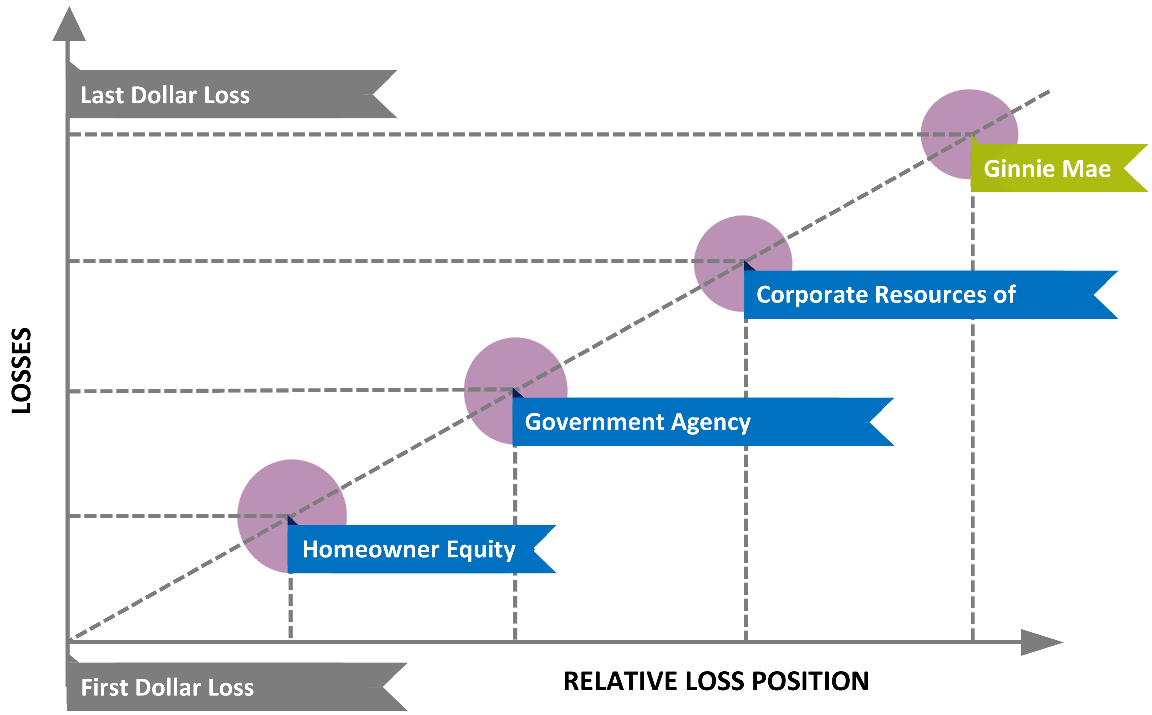


For over 50 years, Ginnie Mae has provided market stability and liquidity to America's housing finance system, and it is a major outlet for providing global capital to the housing market, ensuring a steady source of funding for the vast majority of the government-insured or guaranteed loans offered. Ginnie Mae's outstanding MBS portfolio has grown substantially since the 2008 housing crisis, increasing from less than $445 billion at the start of the 2008 housing crisis to over $2 trillion at the end of FY 2018.

Ginnie Mae's primary risk is counterparty risk. This is the risk that an issuer fails to maintain the financial strength and liquidity necessary to advance principal and interest and absorb un-reimbursed losses on mortgage loans underlying their MBS issuances. Ultimately, Ginnie Mae is protected by the homeowner's equity, government agency insurance/guarantee, and corporate resources of the issuer (see Figure 2).

As such, Ginnie Mae issuers must exhaust their corporate resources before Ginnie Mae will pay on its guarantee. This process is 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. Ginnie Mae manages its risk through active compliance monitoring and program enforcement of its issuers, in addition to the overall performance of its security.

Figure 2: Protecting the Ginnie Mae Guarantee



In FY 2018, Ginnie Mae guaranteed $435 billion in MBS, supporting approximately 1.9 million units of housing for individuals and families, and generated $1.7 billion in deficit-reducing offsets to the U.S. Treasury.

Salaries and Expenses Justification

Ginnie Mae has experienced persistent challenges attracting and retaining candidates with the requisite expertise, having to consistently make compromises in it attempts to meet the environmental demands noted below. The proposed increase would allow Ginnie Mae to continue to add staff at a moderate pace, pilot a critical pay initiative, and prudently explore pay flexibilities for the Agency.

The environment in which Ginnie Mae operates is far more complex than that of earlier periods, and specialized expertise among its workforce is more necessary. Reasons for/examples of this include:

- A wider variety of issuers, a much greater percentage of which are non-banks with less diversified businesses and greater need for external capital;
- A much higher number of transactions (financing, servicing transfer, M&A) that need to be analyzed and approved or executed;
- Potential workout situations (issuer failure, bankruptcy, serious non-compliance) that are of significantly larger scale, and in many cases beyond the capacity of Ginnie Mae's historical resolution approaches; and
- More pressing need for continual enhancement of the MBS program platform, to keep up with technological changes and security needs.

General Provisions

The 2020 Budget includes General Provisions related to Ginnie Mae (Sec. 204, 205, and 216). These provisions are described further in "Fiscal Year 2020 General Provisions".

Other Legislative Proposals and Programmatic Improvements

The 2020 Budget supports the following legislative changes that will result in programmatic improvements. HUD will seek the changes through the authorization process rather than the appropriations process.

- **Guarantee Fee Flexibility and Revised/New Fee Structure**

Ginnie Mae's single-family guarantee fee of six basis points, and the restrictions upon it, are set in statute and date to 1987. This guarantee fee provides the funds from which losses would be paid if Ginnie Mae needed to step in, under its guarantee, to remit funds to security-holders as the result of an issuer's failure to do so. It is also the source of funds for payments relating to loans that were in pools seized in the past by Ginnie Mae in the case of issuer failures.

Ginnie Mae currently possesses a level of reserves it deems adequate to meet foreseeable needs to exercise and fulfill its guarantee. Thus, the agency is not at this time proposing an increase in the fee or a change in the way it is applied to individual issuers, though it is incumbent on Ginnie Mae to consider strategies that would assure its ability to act expeditiously to meet its guarantee obligations, no matter how extreme the situation.

For this reason, Ginnie Mae has concluded that it would be advantageous to have the authority to administratively adjust its guarantee fee.

Ginnie Mae is requesting that the permissible guarantee fee be established within a range. Once this statutory authority is provided, GNMA would establish an administrative process through which an adjustment could be made. Through fee setting, Ginnie Mae could better manage its risk to ensure reserves are in place to protect both the Agency and taxpayers, based on sound economic forecasting. Ginnie Mae is revising certain financial models to demonstrate a basis for identifying a reasonable range of guarantee fee changes. The model enhancements allow Ginnie Mae to compute a hypothetical "model guarantee fee" that varies depending on a number of input factors such as loan characteristics, creditworthiness of issuers, and economic forecasts. Ginnie Mae's proposed approach is to use the model to generate data showing how the model guarantee fee could change and can be thought to have been changing in recent times, thus providing quantitative support for fee-setting flexibility.

Appropriations Language Clarifying S&E Funding Source as Offsetting Collections

Ginnie Mae requests a revision to the appropriations language that clarifies the source of Ginnie Mae's S&E as receipts from Commitment and Multiclass fees credited as offsetting collections in the program account. In April 2018, a concern was raised that the appropriations language could be interpreted in such a way that Ginnie Mae's annual S&E is funded through an appropriation instead of, as it was intended, from offsetting collections. The 2020 Budget explicitly provides for offsetting collections as the source of S&E funds.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

MORTGAGE-BACKED SECURITIES PROGRAM

Summary of Resources by Program

(Dollars in Thousands)

Budget Activity	2018 Budget Authority	2017 Carryover Into 2018	2018 Total Resources	2018 Obligations	2019 Annualized CR	2018 Carryover Into 2019	2019 Total Resources	2020 Request
Commitment Limitation	500,000,000	470,245,811	970,245,811	443,539,386	500,000,000	500,000,000	1,000,000,000	550,000,000
Total	500,000,000	470,245,811	970,245,811	443,539,386	500,000,000	500,000,000	1,000,000,000	550,000,000

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
MORTGAGE-BACKED SECURITIES PROGRAM
Appropriations Language

The 2020 President's Budget includes the appropriation language listed below:

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 $550,000,000,000, to remain available until September 30, 2021: Provided, That $28,400,000 to be derived from fees credited as offsetting collections to this account, including balances of fees collected and credited in prior fiscal years, shall be available for necessary salaries and expenses of the Office of Government National Mortgage Association: 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.

Note.—A full-year 2019 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2019 (Division C of P.L. 115–245, as amended). The amounts included for 2019 reflect the annualized level provided by the continuing resolution.