

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Government National Mortgage Association

Mortgage-Backed Securities Program

SUMMARY OF RESOURCES

(Dollars in Thousands)

	Enacted/ Requested	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2019 Appropriation	550,000,000	500,000,000	-	1,050,000,000	455,601,208	-
2020 Appropriation	550,000,000	550,000,000	-	1,100,000,000	463,000,000	-
2021 President's Budget	550,000,000	550,000,000	-	1,100,000,000	400,000,000	-
Change from 2020	-	-	-	-	(63,000,000)	-

ADMINISTRATIVE EXPENSES AND COMMITMENT & MULTICLASS FEES

(Dollars in Thousands)

	Carryover	Spending authority from offsetting collections	Budget Authority	Precluded	Obligations	Net Outlays
2019 Appropriation	733,827	140,254	30,000 ^a	(844,081)	28,514	(111,740)
2020 Appropriation	844,081	132,000	33,500 ^a	(942,581)	30,000	(98,000)
2021 President's Budget	942,581	129,000	31,479	(1,040,102)	34,000	(98,000)
Change from 2020	98,500	(3,000)	(2,021)	(97,521)	4,000	-

^{a/} Budget Authority for 2019 and 2020 include \$3 million of no-year funds contingent on volume.

PROGRAM PURPOSE

The Government National Mortgage Association (Ginnie Mae) makes affordable housing a reality for millions of households across America by channeling global capital into the nation's housing markets while minimizing the risk to the U.S. taxpayer. Specifically, the Ginnie Mae guarantee (i.e. the timely payment of principal and interest to mortgage-backed securities (MBS) investors, backed by the full faith and credit of the U. S. Government) allows mortgage lenders to obtain a better price for their MBS in the U.S. secondary mortgage market and increases total funding available for lenders to offer such mortgages. This, in turn, increases access to affordable and sustainable homeownership for eligible borrowers.

BUDGET OVERVIEW

The 2021 President's Budget requests \$550 billion in commitment authority for Ginnie Mae, which is equal to the 2020 enacted level.

Ginnie Mae's 2021 President's Budget requests consists of two parts:

- 1) \$550 billion (non-cash) in limitation on new commitments of single class MBS; and
- 2) \$31.5 million in spending authority from offsetting collections to cover personnel compensation and benefits and non-personnel services expenses.

Commitment Authority

Ginnie Mae is requesting \$550 billion in commitment authority, to remain available until September 30, 2022, to issue guarantees of MBS to meet the credit access and housing needs of Americans across the single-family housing, multifamily housing, and healthcare facility segments of the market. This request provides ample commitment authority given volume 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

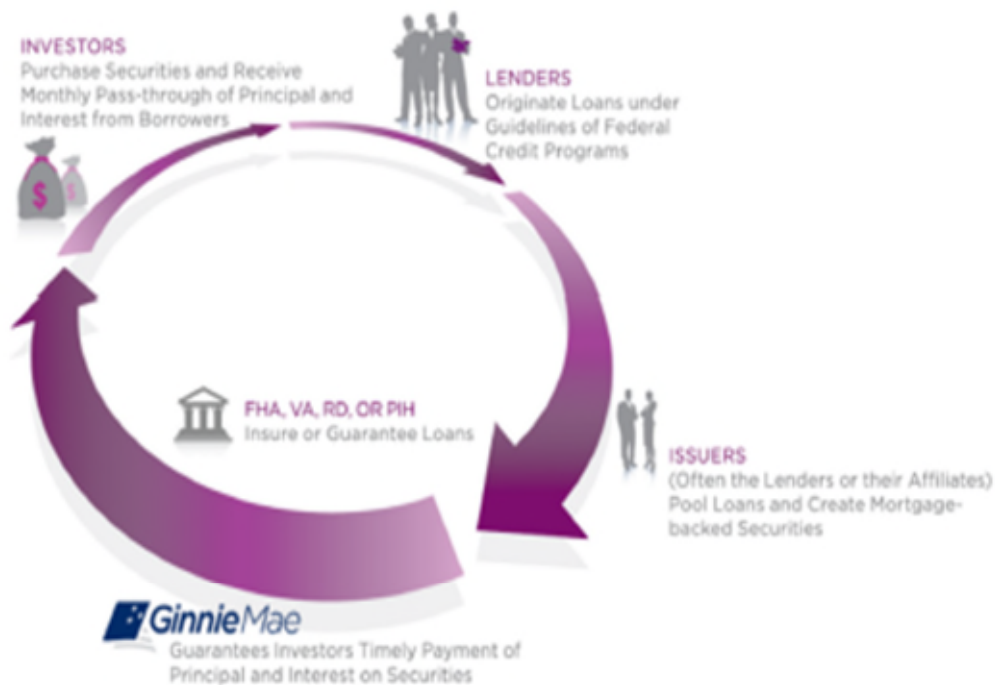
The 2021 President's Budget requests of \$31.5 million, to remain available until September 30, 2022, is \$1 million more than the 2020 enacted two-year level and \$2 million below total S&E funding (including no-year funds). Ginnie Mae's salaries and expenses (S&E) request is offset by an estimated \$129 million in collections from multiclass and commitment fees, resulting in net budget authority of \$97.5 million. Please see the Ginnie Mae S&E Congressional Justification for more details.

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.), does not make or purchase mortgage loans, nor does it buy, sell, or issue securities. Instead, Ginnie Mae supports liquidity in the mortgage market by guaranteeing timely payment of pass-through income to investors of MBS pooled by mortgages insured and guaranteed by the Federal government. The agency collects fees for commitment authority sold to approved issuers. Issuers use that authority to pool their eligible federal government insured loans into securities and issue Ginnie Mae guaranteed MBS. Ginnie Mae, in turn and as authorized by Section 306(g) of the National Housing Act, guarantees the performance (i.e., timely payment of principal and interest) of the Issuer who issues the MBS and who continues to service and manage the underlying loans. In return for this guarantee on MBS securitized by approved issuers, Ginnie Mae charges a guarantee fee.

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 facility markets. 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 when liquidity stalls in the private market and in times of great market change as we experienced with the withdrawal of major banks from the origination space.

In 1970, Ginnie Mae created and issued the first MBS in the U.S. as a financial tool to help bring funds from worldwide investors into the U.S. housing market. Ginnie Mae's countercyclical role (Figure 1) ensures that mortgage financing is available for homeownership and rental properties regardless of the economic climate.

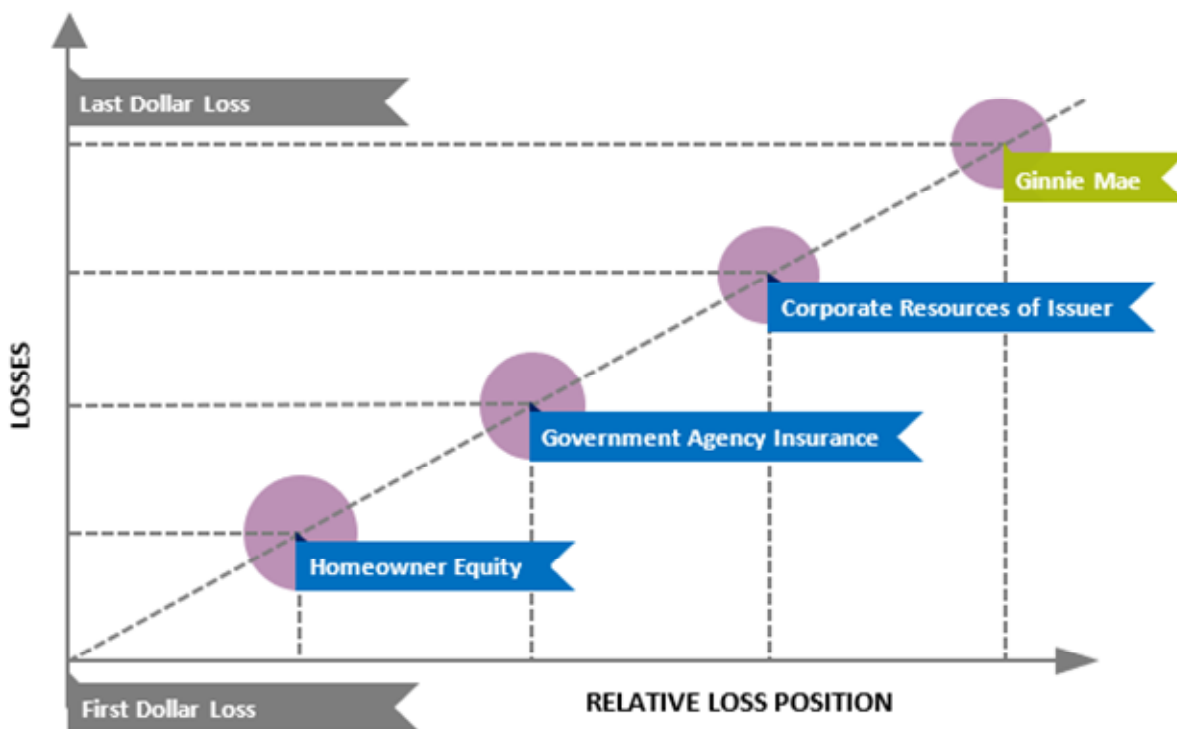
Figure 1: Capital Flow of Ginnie Mae Guaranteed Securities

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 2019.

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 unreimbursed 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



Ginnie Mae’s role from the beginning has been to provide access to capital for affordable housing for millions of Americans, and by guaranteeing \$451.6 billion in MBS in 2019¹ Ginnie Mae supported approximately 1.8 million units of housing for individuals and families.

SUMMARY OF RESOURCES BY PROGRAM

(Dollars in Thousands)

Budget Activity	2019 Commitment Authority	2018 Carryover Into 2019	2019 Total Resources	2019 Obligations	2020 Appropriation	2019 Carryover Into 2020	2020 Total Resources	2021 President's Budget
Commitment Limitation	550,000,000	500,000,000	1,050,000,000	455,601,208	550,000,000	550,000,000	1,100,000,000	550,000,000
Total	550,000,000	500,000,000	1,050,000,000	455,601,208	550,000,000	550,000,000	1,100,000,000	550,000,000

LEGISLATIVE PROPOSALS AND GENERAL PROVISIONS

Appropriations Language

The 2021 President’s budget has the following changes to appropriations language from the 2020 enacted bill:

- 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

¹ Commitment authority issuances totaled \$455.6 billion.

appropriation instead of, as it was intended, from offsetting collections. The 2021 Budget explicitly provides for offsetting collections as the source of S&E funds.

General Provisions

The 2021 President's Budget re-proposes the following general provisions that were enacted in the 2020 appropriations bill:

- **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 (2021 President's Budget, Section. 204).
- **Government Corporations Control Act:** This provision is an 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 (2021 President's Budget, Section 205).
- **Prohibition on Insuring Mortgages Subject to Eminent Domain:** Prohibits HUD from guaranteeing mortgages or mortgage-backed securities that refinance or otherwise replace mortgages that have been subject to eminent domain (2021 President's Budget, Section 215).

These provisions are described further in the "Explanation of General Provisions" section.

Legislative Proposals

The 2021 Budget supports the following legislative proposals and will seek 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, Ginnie Mae 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 several 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 and can be thought to have been changing in recent times, thus providing quantitative support for fee-setting flexibility.

APPROPRIATIONS LANGUAGE

The 2021 President's Budget includes proposed changes in the appropriation language listed below. New language is italicized, 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 \$550,000,000,000, to remain available until September 30, [2021]2022: Provided, That [~~\$30,500,000~~]*\$31,479,000*, to remain available until September 30, [2021]2022, *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 to the extent that guaranteed loan commitments exceed \$155,000,000,000 on or before April 1, 2020, 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, 2020.)