DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Government National Mortgage Association

SALARIES AND EXPENSES

(Dollars in Thousands)

	2022*	2023			2024		
	Actuals	Carryover	Enacted	Total	Carry Over	President's Budget	Total
Personnel Services	**$36,424**	**$2,613**	**$39,912**	**$42,525**	**$488**	**$59,626**	**$60,114**
Non-Personnel Services							
Total, Non-Personnel Services	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Working Capital Fund	-	-	-	-	-	1,374	1,374
Carryover	2,613	-	488	488	-	-	-
Grand Total	**$39,037**	**$2,613**	**$40,400**	**$43,013**	**$488**	**$61,000**	**$61,488**
FTEs	**180**	**12**	**189**	**201**	**2**	**269**	**271**

*Includes 2021 carryover

PROGRAM PURPOSE

The Government National Mortgage Association (Ginnie Mae) is a revenue-generating government-owned corporation chartered to conduct commercial operations for a public purpose. Its operations are integral to the Nation's housing finance system and its mission is to bring low-cost domestic and global capital into that market. Ginnie Mae fulfills its mission by providing a mortgage-backed securities (MBS) guarantee, which provides the liquidity that keeps funds flowing to lenders that originate loans under HUD, via Federal Housing Administration (FHA) and Public and Indian Housing (PIH) programs, the Department of Veterans Affairs (VA), and the Department of Agriculture (USDA), via Rural Development programs.

BUDGET OVERVIEW

The 2024 President's Budget requests $61 million for Ginnie Mae, which is $20.6 million more than the 2023 enacted level. The Budget reflects total funding (carryover and new authority) of $61.5 million, which is $18.5 million above 2023 total funding.

It is critical to emphasize that 2024 will be the initial year Ginnie Mae transitions to supporting all the cost for personnel services strictly from the annual appropriation. Ginnie Mae will also utilize the budget to pay for most of its share of Working Capital Fund (WCF) costs. Contrary to the previous ten years, Ginnie Mae will not have the ongoing supplement of a contingent (no-year) salaries and expenses account balance. The full utilization of contingent resources in 2024 (and inability to meet business volume thresholds in current market environment) directly translates to the loss of $3 million, which was historically used to bolster staffing for the organization. Ginnie Mae will be executing <u>all</u> staffing requirements, both Full-time Permanent and Other Than Full-Time Permanent (OTFTP or Term), based on the funding resources received from the $61 million budget request. This full transition to the two-year account to support personnel services requires a significant funding increase for 2024.

The Budget will enable Ginnie Mae to achieve its mission and purpose to provide liquidity in the housing finance ecosystem, enabling first-time homebuyers, veterans, seniors, and members of urban, rural, and tribal communities access to affordable housing. This core function also includes the key operational activity of ensuring the securitization platform supports access to and liquidity for all government-insured mortgage programs (i.e., FHA, VA, USDA, and PIH) and remains stable and reliable through any economic cycle. The requested amount of $61 million will produce meaningful MBS program accomplishments, and an increased focus on current operations. The scope of current operations has expanded and now includes managing a defaulted issuer Home Equity Conversion Mortgages ("HECM") portfolio, which introduces new/significant risk to the Government.

For allocation of the budget and X-year balances, Ginnie Mae will utilize the S&E two-year appropriation for Personnel Services (PS), and then use remaining balances of S&E X-year funding to pay for Non-Personnel Services (NPS) and a portion of WCF expenses, as discussed below.

Personnel Services (PS)

The Budget assumes $60.1 million for PS, which is $17.6 million above the 2023 total funding level. This $60.1 million funding level supports 271 full-time equivalents (FTEs), 70 FTEs above the 2023 total funding level. However, the "net new" 2024 FTE level is only 40 FTEs above 2023 after accounting for the 30 FTEs previously funded from the no-year account in 2023. The Budget also supports a 5.2 percent Federal pay raise. This significant investment will allow Ginnie Mae to continue to afford onboarded staff, backfill critical vacancies, and establish additional management and staffing capacity to assist in mitigating identified risks, address unmet needs, as well as support Departmental strategic goals and key operational initiatives. The Budget supports the following critical objectives:

- Continuity (base-level), $55.4 million (250 FTE)
    - Ginnie Mae intends to begin 2024 with 224 Full-Time Permanents (FTP) and 30 Terms onboard to support the existing operational requirements.
- HUD Strategic Initiatives, $2.4 million (11 FTE)
    - The organization intends to add a minimum of 22 positions during 2024 based on identified critical skillsets needed to continue to expand on the implementation and development of platforms supporting departmental initiatives and goals.
- Reverse Mortgage Funding (RMF) Issuer Default(s), $2.2 million (10 FTE)
    - Ginnie Mae will require at least 20 positions to be onboarded in 2024 to support the unexpected urgent requirements of addressing and resolving the financial as well as operational challenges imposed as a result of the RMF issuer bank default.

Additional information regarding human capital management, including staffing objectives to support the implementation of essential risk management and technology platform improvements, as well as new program initiatives reflecting administration priorities, are further described under the "Key Operational Initiatives" section.

Non-Personnel Services (NPS)

The Budget assumes Ginnie Mae will continue to support its 2024 NPS requirements, including travel, training, conferences, contracts and supplies, using carryover balances of contingent spending authority from offsetting collections earned in the Ginnie Mae S&E X-year account.

Working Capital Fund (WCF)

The WCF funding level is $2 million, of which $648 will be forward funded in 2023. The 2024 level is $432 thousand more than the 2023 funding level. The WCF cost will be partially funded by balances from the contingent no-year account ($648 thousand) and the remaining $1.4 million will be funded by new authority. This level reflects payments for baseline WCF services (including inflationary adjustments and changes in service utilization) and the addition of the End-User Devices, Scanning and Archiving Services business lines.

KEY OPERATIONAL INITIATIVES

Ginnie Mae will utilize the appropriation for PS for the following strategic staffing objectives:

Continuity (base-level), $55.4 million (250 FTE)

HUD Strategic Initiatives, $2.4 million (11 FTE)

1. HUD Strategic Objective 3B: Equity/Underserved: Funding will be used to focus on developing long-term workforce planning strategies and sponsoring initiatives to promote and achieve a culture of performance excellence and accountability, while supporting diversity, equity, fairness, and inclusion. This Budget makes an investment towards initiatives that advance racial equity and expand affordable homeownership and wealth building opportunities for underserved communities. Initiatives include:
    - *Program Management*: Development of new products/structures/channels will, separately, require staff to implement and manage on an ongoing basis.
    - *Policy Support*: This objective will entail the creation of new security products and delivery structures/channels (such as potentially supporting expanded Title I lending, conversion of multifamily risk share lending to Ginnie Mae securitization, and developing a business channel and securitization product to enhance liquidity for Community Development Financial Institutions (CDFIs)). Ginnie Mae does not currently have the staff to manage expansion research and policy developments on multiple fronts, and even before the formulation of the HUD 2022-2026 Strategic Plan had recognized the establishment of a dedicated unit to oversee major development initiatives as a top organizational priority. Publication of the plan makes this essential.

2. HUD Strategic Objective 3B: Protect/Enhance Security Value: As a national leader in financing affordable and first-time homeownership, Ginnie Mae and our securitization programs are vital. By enhancing the value of our MBS through expanded data on Environmental, Social and Governance (ESG) disclosures and implementing new methods of attracting global capital into the American housing finance system, we can ensure that our MBS and programs remain attractive to the global investment community. Furthermore, to increase ease of access for these programs, we are also committed to modernizing Ginnie Mae's technology and operations platforms -- with planned upgrades to ensure efficient and secure delivery of our MBS, as well as advance digital innovation in our MBS program and the mortgage ecosystem. In an optimized digital environment, all stakeholders including the households our programs serve will have more efficient and streamlined access. Initiatives include:
    - *Dedicated Business Transformation Unit*: The Objective calls for the execution of already-planned initiatives that take advantage of cloud migration to introduce further technology transformation and ensure that the Ginnie Mae securitization platform supports the business needs of Ginnie Mae and its stakeholders. In the last decade, several billion dollars of investment has been made in the Common Securitization Platform (CSP) supporting Fannie Mae and Freddie Mac – the government's platform cannot be allowed to stagnate relative to the CSP (because failure to modernize our platform would result in a loss of issuance volume, which would raise the relative cost of homeownership for borrowers under the government programs).

- *Digital Collateral*: The HUD Strategic Plan commits Ginnie Mae to "advance the digitalization and optimization of the Ginnie Mae MBS securities platform." The plan specifically calls for an expansion of the existing pilot program (Digital Collateral) that made possible securitization of eNotes on government loans, addressing a significant disadvantage of the government sector of housing finance relative to the government-sponsored enterprises (GSEs) e.g., Fannie Mae, Freddie Mac.
- *ESG Products/Disclosure*: The increasing importance of ESG information to capital markets investors provides HUD with the ability to leverage information about the government-backed loans that underly Ginnie Mae securities to materially enhance the value of those securities (and potentially help direct capital to needed areas). Early efforts on this front have been well-received in the market, and an increased focus will establish HUD as a leader on the ESG front in a highly visible way. Additional resources in this space are critical because the ESG sector remains immature, and Ginnie Mae will need to develop its ESG approach and programmatic enhancements in a rapidly evolving sector.
- *Re-securitization (Products & Transaction)*: Securitization implementation would significantly improve the supply of stable and low-cost source of capital and enhanced market liquidity.

3. <u>HUD Strategic Objective 5: Strengthen Internal Capacity</u> – Ginnie Mae will strengthen internal efficiency to better ensure delivery of its mission by supporting and developing staff, assessing and mitigating risks (e.g., counterparty risk, cyber risk, MBS/HMBS program risk), sound acquisition management, and enabling data-based decision making. Initiatives include:

- *In-sourcing*: While Ginnie Mae's ability to utilize contracted services is generally a source of strength, recently conducted (at the recommendation of GAO) reviews identified several areas where in-sourcing was appropriate and feasible and could reduce costs. These include monitoring reviews of Ginnie Mae's largest issues, functions related to the maintenance of the issuer stress testing program, and certain specialized technology functions.
- *Cybersecurity and Counterparty Risk*: The scale and prominence in the capital markets of the Ginnie Mae securitization platform (whose operation is classified as a National Essential Function) necessitates continued investment over the next two years, not least as a result of the requirements of Executive Order 14028. In addition, Ginnie Mae has continued to make strides in the extent to which it uses data and analytics to manage counterparty risk, but significant deficiencies remain and must be addressed with additional resources (such as the inadequacy of the current infrastructure for advance detection of compliance failures that stem from program changes made by the Congress, FHA, VA and USDA).
- *Contract Services Oversight*: GAO's review of Ginnie Mae's use of contracted services pointed to ongoing challenges in managing procurement and contracts. Ginnie Mae has subsequently reported to GAO its own opinion that "procurement execution is consistently the top-ranked risk" to the organization, and that "greater dedicated technical contracting expertise in-house" is required. Ginnie Mae is developing a specific plan of internal reforms that will require some budgetary support. GAO's report also discussed oversight concerns – while the recommendations on this front were directed at Congress, Ginnie Mae is seeking to implement a Federal Advisory Committee Act (FACA)-compliant body that would both improve transparency and support the 3B objective to increase the level of engagement with outside stakeholders. This will require a modest investment in ongoing administration.

- *HMBS Program Management*: Ginnie Mae's HMBS (reverse mortgage securitization) program has long been regarded as a source of risk disproportionate to its size, owing to the combination of program complexity and a small base of generally lesser capitalized institutions as program participants – with outsized political risk in the bargain. Ginnie Mae has no staff dedicated full-time to this program and seeks to remedy this deficiency.
- *Data Analytics*: Ginnie Mae's cloud migration initiative will make possible significant advancements in its ability to generate and utilize program data. At present Ginnie Mae employs only a small number of data specialists and will need to increase this investment in order to achieve the objectives discussed above.

Reverse Mortgage Issuer Default(s), $2.2 million (10 FTE)

On November 30, 2022, Reverse Mortgage Funding ("RMF"), a mortgage bank specializing in Home Equity Conversion Mortgages ("HECMs") and a Ginnie Mae HECM MBS ("HMBS") Issuer with a $21.3 billion portfolio, filed for Chapter 11 bankruptcy. RMF was the largest HMBS Issuer in the Ginnie Mae ecosystem with 40 percent of the total Ginnie Mae reverse portfolio. Ginnie Mae went to great lengths to have the portfolio transferred to an alternative reverse mortgage servicer. Ultimately, a transaction with an alternative mortgage bank was not feasible. As a result, Ginnie Mae seized the RMF portfolio on December 20, 2022. Upon default and seizure, Ginnie Mae assumed the responsibilities of the defaulted issuer. As such, Ginnie Mae must manage the entire acquired reverse mortgage portfolio, ensure appropriate consumer protections, and identify long-term redesign of the HMBS program to ensure future resiliency and sustainability. Furthermore, given the size of RMF's portfolio and the small number of Issuers (<13) and even smaller number of financiers (handful) in this space, we are monitoring the impact of our acquisition of this portfolio on the sector. Therefore, Ginnie Mae must triage this risk on several fronts. This includes (but is not limited to):

1. Enhancing information technology platforms to track/record/report onboarded portfolio, manage daily cash activities including borrower draws and other funding requests.
2. Work with Master Subservices (MSS) to improve servicing for this portfolio, which also includes planning for a disposition of the asset back to the private sector.
3. Develop policy options that can enhance liquidity for this sector and promote efforts that ensure Ginnie Mae is in the vanguard of financial institutions with respect to counterparty risk policy and oversight; etc.

While Ginnie Mae has the tools and personnel to manage a significant default, those same tools and personnel also perform critical diagnostic work to identify stressed Issuers, determine whether Ginnie Mae can work to avoid an Issuer failure, and monitor and enforce Ginnie Mae rules and regulations generally. These same staff will also need to manage multiple non-financial audits related to the seizure of RMF, our default preparations and processes, among other topics. These responsibilities fall on many of the same personnel working on the RMF portfolio. Thus, Ginnie Mae staff is stretched incredibly thin now managing their general responsibilities and this new complex portfolio.

Ginnie Mae has identified an urgent need for additional positions dedicated to managing its HECM portfolio/program in the following areas:

- *Audit Oversight*: Ginnie Mae is beginning an unprecedented audit cycle, with a very lean audit engagement team in place. Decisioning how we service, diligence, and ultimately dispose of the RMF portfolio requires this same team to provide advice in real time, as we answer important questions of first impression. We understand that the RMF seizure will figure into existing audits that have just begun and will likely merit its own audit, which means that the same small team advising our senior staff must also simultaneously work with the auditors to get them what they need. Under current staffing this is unworkable and will jeopardize the integrity of Ginnie Mae's work and the visibility of auditors on that work.

- *Governance*: We continue to spot new issues as we take the RMF portfolio in-house. It has become clear that the HECM program requires enhanced governance across how Ginnie Mae makes decisions and across how we assess reverse Issuers and the risks they bring. In other words, because the HMBS program presents a heightened set of operational risks for Ginnie Mae, we require additional staff to work through these issues.

- *MBS Program Policy*: Currently, a handful of policy staff in the Office of the President are rushing to complete urgent All Participant Memorandums that will hopefully result in increased working capital for reverse issuers. This workload was not foreseeable pre-seizure.

- *Asset management*: Ginnie Mae's Office of Portfolio Management (OIPM) lacks a dedicated asset management office with the capacity to handle this new $21 billion highly complex asset. Lack of capacity here will result in a poorer execution for taxpayers and significantly heightened oversight risk. Asset management functions include managing claims to FHA and performance of the MSS in respect to claims submission and resolution, managing the quality of the performance of our MSS in making borrower draws on our behalf, analyzing portfolio for disposition opportunities, etc.

- *Risk Assessment*: As HMBS requires more risk assessment, Ginnie Mae needs additional reverse focused expertise in our Office of Enterprise Risk (OER). This will be critical for understanding the health of reverse issuers in the near term. Moreover, a key driver of risk in this space is that the private capital markets are facing strain; we need to extend our OER scope of work to focus on developing expertise in the Private Label Security (PLS) markets that HMBS issuers depend on. A comprehensive solution in this space requires this situational awareness.

- *Issuer Compliance*: This team is leading the management of the RMF portfolio, which taken alone is a significant undertaking which puts increased pressure on this same team's ability to monitor compliance and enforce Ginnie Mae rules on Issuers in both the forward and reverse spaces. In addition, enhanced rigor over HMBS issuer monitoring including net worth and liquidity assessment, insurance requirement review, on-site review of compliance with Ginnie Mae Guide, elevated issuer assessment tools and techniques, are clearly needed given the current stress on HMBS Issuers.

- *Securities Operation*: Launching new products and other tools is incredibly work intensive for Ginnie Mae and the decisioning around structure and risk to the Government cannot be done by contractors. This team is also integral to making sure that Ginnie Mae can continue to honor borrower draw requests, which is a unique feature of reverse mortgages that Ginnie Mae has had to quickly learn to manage in order to prevent the failure of RMF from harming reverse borrowers.

- *Financial Operations*: The scope of work and level of effort for multiple financial activities has greatly increased. This includes (but is not limited to) compliance with new financial reporting requirements, additional audit requests, expanded internal controls, major accounting system enhancements, new daily cash collection and payment requirements, ongoing assessment of the sufficiency of funds to meet servicing needs of the onboarded HECM portfolio (e.g., loan buyouts, scheduled and unscheduled draws, etc.), preparation of new financial policies and procedures. These activities are essential to sustaining compliance with financial principles and regulations, as well as, maintaining audit readiness and an unmodified audit opinion.

- *Infrastructure Development*: The Office of Enterprise Data & Technology Solutions (OEDTS) is critical to creating the functionalities that our Capital Markets and Securities Operations team will depend on to stand-up and manage any future products of liquidity facilities.

Operational Improvements

Ginnie Mae will work to optimize service delivery and decision making to better meet customer needs by strengthening our workforce, which the Budget ($61.0 million) will permit. Ginnie Mae is committed to bolstering its workforce through hiring, training, opportunities for growth and has initiated efforts to stand-up a Human Capital committee that will provide transparency and accountability in the staffing and human resource management process.