

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
SALARIES AND EXPENSES
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION**

(Dollars in Thousands)

| | FY 2017 Actuals | FY 2018 Annualized CR | FY 2019 President's Budget |
|--|----------------------------|--------------------------------------|---|
| Personnel Services | \$22,702 | \$22,844 | \$24,400 |
| Non-Personnel Services | - | - | - |
| Travel | - | - | - |
| Transportation of Things | - | - | - |
| Rent and Utilities | - | - | - |
| Printing | - | - | - |
| Other services/Contracts | - | - | - |
| Training | - | - | - |
| Supplies | - | - | - |
| Non-Personnel Services Subtotal | - | - | - |
| Working Capital Fund | - | - | - |
| Grand Total | \$22,702 | \$22,844 | \$24,400 |
| Permanent FTE | 134 | 134 | 138 |
| Temporary FTE* | 15 | 20 | 20 |
| Associated FTE | 149 | 154 | 158 |

*Temporary FTE are term employees paid via GNMA no-year funding. Non-Personnel Services and WCF are also paid via GNMA no-year funding.

1. Program Purpose and Fiscal Year 2019 Budget Overview

The Government National Mortgage Association (Ginnie Mae) is a revenue generating Government corporation originally chartered to conduct commercial operations for a public purpose. Its operations are integral to the viability of our Nation's housing finance system and its mission is to bring domestic and global capital into that market. Ginnie Mae fulfills its mission by providing a

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mortgage backed securities (MBS) platform to lenders and attracting investors to the sale of the MBS, which provides the liquidity that keeps funds flowing to lenders, allowing them to continue to originate loans under the Federal Housing Authority (FHA), Veterans Affairs (VA), Rural Housing Services (RHS) and Public and Indian Housing (PIH) programs. At the heart of the demand for the Ginnie Mae MBS is the explicit government guaranty that effectively removes credit risk for investors, making Ginnie Mae MBS a valuable international commodity.

Ginnie Mae's core activities surround its guarantee of timely payment on Ginnie Mae guaranteed-MBS securities. Activities include the key operational functions of approving and monitoring the mortgage lenders who can issue and service the Ginnie Mae MBS, and maintaining the platform over which the MBS is issued, and investors receive payment. Ginnie Mae provides potential investors with the U.S. government's guarantee that they will receive timely payments from said Issuer while they remain in good standing in the Ginnie Mae program. Due to its critical role in providing liquidity to lenders and the housing market, Ginnie Mae is designated by the Federal Government as a Nationally Essential Function (NEF) for protecting and stabilizing the Nation's economy and ensuring public confidence in its financial system. Ginnie Mae's ability to fulfill its NEF role effectively and seamlessly is a direct function of its ability to conduct timely and efficient business operations and transactions and oversee and manage complex program and Issuer risks.

Protecting the government guaranty, by insuring that only financially sound and operationally capable lenders (Issuers) can issue MBS and reliably make payments to investors, has been one of Ginnie Mae's two operational priorities. The other priority has been running the platform over which the MBS are issued, and investors receive payment. Without access to the Ginnie Mae program, lenders would be challenged to offer a 30-year fixed-rate mortgage at affordable interest rates. The fiscal year 2019 Budget request, along with use of Ginnie Mae's accumulated no-year funding, will allow it to meet these priorities while managing a growing and changing portfolio as well as increasing business complexity and risk.

The fiscal year 2019 President's Budget request of \$24,400K for Salaries and Expenses (S&E) is \$1,556K more than the fiscal year 2018 CR level. The Budget does not request a contingent S&E appropriations due to balances of no-year funds from prior years.

Personnel Services (PS): Ginnie Mae's request of \$24,400K will support 138 Full-Time Equivalents (FTE) in fiscal year 2019, including 5 of the most urgently needed new staff. These additional staff are needed for mission critical functions, compliance and oversight functions and related foundational technology development to manage the increasing business complexity and risks associated with growing MBS program volume and dynamic changes in the housing finance market and risk profile of program participants -- to continue seamlessly operating as a successful, self-financed government corporation that supports housing credit access and liquidity across the Nation at no cost, and at limited risk to taxpayers.

Non-Personnel Services (NPS): Ginnie Mae intends to support its NPS requirements in travel, training, contract and supplies using carryover of no-year funds.

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Working Capital Fund (WCF): Ginnie Mae's fiscal year 2019 WCF fees of \$1,131K, for its use of shared services and other investments directed by the Secretary, will be funded using carryover of no-year funds.

This budget and staffing support the policy goal of "Supporting homeownership through provision of Federal Housing Administration mortgage insurance programs." Ginnie Mae plays an increasingly important role in the U.S. economy and MBS market upon which residential lenders and low and moderate-income homebuyers depend for access to liquidity and credit and is currently funding 1 in 3 new single-family mortgages securitized, with currently outstanding MBS of \$1.8 trillion supporting over ten million households. If Ginnie Mae fails to meet either of its roles, liquidity to the housing mortgage market and homebuyer credit access will be insufficient or the taxpayer dollar will be at greater risk. Ginnie Mae will continue to utilize full-time staff to develop its programs and infrastructure in response to market changes, thereby reducing the risk of increased Issuer failures, potential taxpayer losses, and a decrease in the utility of the Ginnie Mae securitization platform, leading to higher interest rates and lower availability of credit for home buyers and borrowers served by the government mortgage insurance programs - FHA, VA, PIH, and RHS.

GNMA Priorities:

- **Carry out mission-critical work** in the *Offices of Issuer and Portfolio Management, Enterprise Risk, Enterprise Data and Technology Solutions, and the Chief Financial Officer*, including building the foundation eventually to reach a right-sized Issuer to staff ratio.
- **Enhance risk management and reduce risks in certain aspects of operations** and management of the portfolio of \$1.8 trillion in outstanding 30-year MBS that continues to grow and evolve through market forces. That growth and increased program complexity is affecting all core business processes and has expanded contractor dependence and increased enterprise risk in the most vulnerable areas.
- **Eliminate or lessen single-person dependencies and improve internal controls and efficiency** by providing adequate back-up personnel and segregation of certain duties, particularly in the CFO's office.
- **Address some of the numerous functions that are currently not able to be performed** at all due to the absence of adequate staff in certain areas and the inappropriateness of having contractors perform the functions.
- **Make meaningful progress in audit remediation**, by the *Office of the CFO*, which demands experienced and highly skilled staff with expertise to resolve disclaimers. Current accounting staff and information technology (IT) infrastructure are inadequate to handle the complex loan-level accounting requirements.
- **Build some increased capacity to strengthen management oversight of contractors** across the parts of the enterprise and reduce dependence on contractors for certain core business functions, increase efficiency and contractor effectiveness, reduce cost, and begin to right size significantly lopsided contractor to staff ratio. Inherently Government Functions, such as Issuer and contractor oversight, require Government human resources to execute business operations identified as Ginnie Mae core competencies, for more effective internal controls.

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- **Increase oversight of and risk management of non-depository Issuers** by the *Offices of Issuer and Portfolio Management and Enterprise Risk* to allow Ginnie Mae to continue issuing commitment authority, approving servicing transfers and managing Issuer defaults, all critical to ensuring ongoing MBS liquidity and access to credit capital for low/moderate income homebuyers.
 - **MBS Volume Sources have Shifted from Depositories to Non Depositories as Issuers**, from a few large depository institutions to many smaller, unregulated non-depository mortgage companies. Ginnie Mae's Issuer base is almost 80 percent non-banks, issuing 73 percent of MBS.
 - **Ginnie Mae is Primary Evaluator of Non-Depositories** to determine their financial soundness, including their ability to make pass-through payments to investors during the life of a 30-year mortgage.
 - **Highly Skilled Staffing Needed to oversee unregulated non-depository Issuers**, which commonly have lower capital, fewer liquidity sources and more complex and creative financing than traditional banks.
- **Begin to implement Ginnie Mae's comprehensive Issuer Monitoring Framework**, with special focus on troubled Issuer remediation and the Issuer Default Process, to ensure adequate staffing for the broad strategy, expanded actions steps and resources required at each stage of Issuer oversight, remediation and default resolution, including contingency planning for extreme adverse situations.
- **Maintain investor confidence in Issuer stability.** Investors must have confidence that Ginnie Mae properly monitors Issuers to reduce risk of improper prepayments and provide a consistent rate-of return. Loss of investor confidence could adversely affect investor participation in Ginnie Mae's MBS programs.
- **Mitigate against guaranty overextension, which is a growing risk.** Ginnie Mae's model depends on minimizing the activation and the losses to the guaranty of the full faith and credit of the Federal Government. The model only works if Ginnie Mae's risk, operations, monitoring, and securities processes are fully operational.
- **Continue modernization and transformational initiatives** by the *Offices of the CFO, Securities Operations and Enterprise Data and Technology Solutions* necessary to remain competitive in the market; comply with audits, organizational internal controls, security standards (FISMA, FISCAM, NIST Rev. 4) and other regulatory mandates; align with internal policies and procedures. This will eliminate outdated systems technology to facilitate ability to adapt to future Issuer market demands, which will help keep the program relevant, maintain Issuer interest and preserve program cost benefits to borrowers.

2. Key Operational Initiatives

- **Data Center Consolidation Initiative:**

Currently Ginnie Mae has technology infrastructure, technology services, technology operations deployed and supported across multiple contracts. Ginnie Mae is pursuing a strategy of collapsing its IT infrastructure and migrating approved platforms to a

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cloud hosting environment to increase IT agility, scalability, control costs and align with Federal Government mandates and direction. Consolidating IT infrastructure and migrating to cloud hosting will help the organization drive business value and achieve its strategic vision. It will also help alleviate the cost, performance, and service challenges Ginnie Mae is facing with its current hosting providers. Currently, the organization is hampered by the lengthy and costly process that is required to expand and provision computing infrastructure when a new IT capability is needed or when current IT capacity is not sufficient to meet user demands. This delay in providing IT capabilities can adversely affect Ginnie Mae's ability to provide customers with innovative services in a timely manner. Listed below are several important benefits directly related to Ginnie Mae transitioning to a consolidated infrastructure and cloud hosting model:

- **Reduce Capital Expenditures:** Under a consolidated infrastructure and cloud hosting model, Ginnie Mae will only pay for the services that it consumes. Ginnie Mae will no longer be required to purchase computing hardware at multiple sites, and costs associated with cloud consolidation will be shifted from capital expenditures (buying hardware) to operations expenditures (services).
 - **Improve IT Agility & Scalability:** The current several-month process to procure, install, and configure computing equipment can potentially be reduced significantly through consolidated and cloud infrastructures and platforms. When a new need is identified, additional computing instances can quickly be provisioned in the cloud. Platforms requiring hardware will only be required at a single location/provider, not at multiple locations and multiple providers. Additionally, if the need is short term, Ginnie Mae will no longer be responsible for a large capital expenditure for a piece of equipment that may only be used briefly. Finally, as user demand increases with increased business activity over time, computing capacity can be rapidly expanded to meet rising demands.
 - **Reduce Computing Needs:** Currently Ginnie Mae maintains several alternative computing environments for each key IT system. The current hosting model requires each of these environments to be up and running 24 hours/day, 7 days/week, 365 days/year, leading to additional expenditures required to power, maintain and monitor servers and platforms that may be rarely used, at multiple locations. Consolidating infrastructure and migrating to cloud services will allow the organization to be far more tactical in the way it consumes computing resources, bandwidth, and power by switching to an on-demand service model.
 - **New Approaches to Disaster Recovery:** Ginnie Mae currently maintains multiple sites for an always-on disaster recovery environment for each key IT system. Although these environments provide a blanket of security should the production environment fail, they are costly and may never be used. In a consolidated and cloud environment, if a system is architected for high availability, the need to maintain multiple sites or a separate disaster recovery environment for each system can be reduced or eliminated.
- **Counterparty Issuer Monitoring Initiative**

Ginnie Mae is re-engineering how it manages its relationship with Issuers, to support their participation in the MBS program and prevent problems from arising within the Ginnie Mae MBS portfolio. This initiative includes the following:

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- Re-orientation of counterparty risk management emphasis
- Re-organization around strengthened, cross-functional team approach
- Addition of specialized functions within teams (e.g. account associates, account analysts)
- Addition of specialized functions supporting teams (e.g. transactions, financing Issuers, data management, program development, training)
- Re-defined and fully-documented processes for identifying, analyzing, and addressing Issuer-related issues, especially pertaining to counterparty risk

Benefits

- Better alignment of Ginnie Mae's organization and functions to business-driven needs
- Improvement in Ginnie Mae staff's ability to execute these functions successfully
- Improvement in Ginnie Mae's ability to identify and address counterparty risk and other Issuer-related issues effectively

• **Issuer Failure Resolution Initiative**

Ginnie Mae is re-engineering how it manages segments of the MSR portfolio where problems have occurred, to ensure that servicing is performed by capable institutions and losses are avoided/minimized. This initiative includes the following:

- Reformulation of a wide variety of processes (pre-default mitigation, Issuer termination, collateral management, portfolio asset stabilization and management, asset disposition) into an integrated whole
- Breakdown of key decision points and processes
- Identification of areas where further development is necessary (e.g. legal, policy, intergovernmental, market, contracts with third-party service providers)
- Documentation of resulting comprehensive portfolio management program

Benefits

- Improved decision making and documentation of procedure, roles and responsibilities relating to the management of troubled segments of the MBS portfolio
- Improved ability to execute related activities effectively
- Minimized disruptions and losses resulting from troubled portfolios