1. What is this request?

Ginnie Mae's fiscal year 2013 Budget request consists of two parts: (1) Ginnie Mae proposes $500 billion in limitation on new commitments of single class mortgage-backed securities (MBS); and (2) Ginnie Mae proposes $21 million to cover personnel compensation and benefits and non-personnel services expenses for fiscal year 2013 plus a contingent amount should guarantee volume exceed a threshold during execution.

The Government National Mortgage Association (Ginnie Mae), revolutionized American housing finance by pioneering the issuance of MBS. Before MBS took hold as a housing finance vehicle, lending institutions would originate a mortgage, collect payments, and
Guarantees of Mortgage-Backed Securities

hold mortgages in portfolios until the principal was paid off. Some regions experienced localized credit crunches, and borrowers across the United States had limited access to fixed interest rate home mortgages. Worse yet, borrowers faced strikingly dissimilar mortgage rates across different regions.

In 1970, Ginnie Mae guaranteed the first MBS. Since then, Ginnie Mae’s securitization program has allowed lenders to pool loans issued to individual borrowers and sell them (along with the rights to their future cash flows) for cash in the global securities market. This innovation has increased the ease with which capital flows into the U.S. housing market. By guaranteeing timely payment of principal and interest to investors, individual mortgages are transformed from relatively illiquid, individual assets into liquid, tradable, and homogeneous capital market instruments.

Commitment Authority

The fiscal year 2013 Budget requests $500 billion in limitation on new commitments of single-class MBS to remain available until September 30, 2014. 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), the U.S. Department of Agriculture (USDA) Rural Housing Service, and the Secretary of Housing and Urban Development under the Native American Housing Loan Guarantee Program (Section 184) of the Housing and Community Development Act of 1992 and administered by the Office of Public and Indian Housing (PIH).

In fiscal year 2013, Ginnie Mae is estimating $239 billion in new guarantees in its single class mortgage-backed securities. Since all the Ginnie Mae guaranteed multiclass securities are based on and backed by mortgage-backed securities issued pursuant to commitment authority, separate commitment authority will not be required for multiclass securities.

Commitment authority of $500 billion is requested to provide critical support for the housing market. Ginnie Mae first issues a "commitment" to the prospective securities issuer (mortgagee) indicating that the issuer is permitted to issue securities up to the commitment amount. After Ginnie Mae issues the commitment authority, the issuer can begin to assemble mortgage pools and issue securities providing liquidity to the mortgage market. See Section 2 “What is this Program” for an explanation of the “Capital Flow of Ginnie Mae Guaranteed Securities.”

The fiscal year 2013 request for $500 billion in commitment authority is the same as fiscal year 2012. The vast majority of the mortgages in Ginnie Mae securities are originated through FHA and VA programs. FHA-insured mortgages account for approximately 73 percent of loans in Ginnie Mae pools, while VA-guaranteed loans account for 23 percent; rural Development and PIH loans make up the remaining 4 percent.
Ginnie Mae’s operations are self-financed through a variety of fees – primarily commitment fees, guaranty fees, and multiclass fees. Ginnie Mae earns income by approving commitment authority, that is, for providing approved issuers with the authority to pool mortgages into Ginnie Mae MBS. Ginnie Mae also earns income for providing the guaranty of the full faith and credit of the U.S. Government to investors. As a result Ginnie Mae receives no appropriations from general tax revenue.

In fiscal year 2011, Ginnie Mae generated total GAAP-basis revenue of $1,064.6 million. Figure 1 shows Ginnie Mae’s total annual revenue for the last 5 years.

Figure 1: Ginnie Mae Total Revenues, fiscal years 2007 to 2011

Over the same period, Ginnie Mae’s negative credit subsidy receipts increased from $193 million in fiscal year 2007 to $841 million in fiscal year 2011. Negative credit subsidy receipts are estimated at $553 million for fiscal year 2012 and $550 million for fiscal year 2013.

Salaries and Expenses Appropriation

In fiscal year 2013, Ginnie Mae is requesting $21 million to cover personnel compensation and benefits and non-personnel services, with these expenses to be offset by commitment and multiclass fees. Of the $21 million, $19.8 million is to cover personnel compensation and benefits, and $1.2 million is to cover non-personnel services. Table 1 below shows Ginnie Mae’s Salaries and Expenses appropriations/requests for fiscal years 2011 - 2013.
Guarantees of Mortgage-Backed Securities

Table 1

<table>
<thead>
<tr>
<th>Salaries and Expenses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 Appropriation</td>
<td>$11,072,810</td>
</tr>
<tr>
<td>2012 Appropriation</td>
<td>19,500,000</td>
</tr>
<tr>
<td>2013 Request</td>
<td>21,000,000</td>
</tr>
<tr>
<td>Change from 2012</td>
<td>$1,500,000</td>
</tr>
</tbody>
</table>

Ginnie Mae is requesting an increase in its salaries and expenses appropriation to execute a phased initiative to increase and strengthen its staffing capacity by hiring professionals with specialized skills and experience necessary to manage its $1 trillion business and the increasing, inherent risks. Over the past few years, Ginnie Mae’s market share rose significantly from approximately 4 percent to over 27 percent. These volume increases have placed unprecedented stress on the organization, and have raised the risk of managing this large portfolio.

Ginnie Mae increased its FTE in fiscal year 2011 by 13 and in fiscal year 2012 will continue to increase FTE. In fiscal year 2012, Ginnie Mae was appropriated $19.5 million, and is continuing to execute on its multi-year hiring plan, working towards its goal of ensuring there are sufficient resources to adequately manage the areas of greatest risk exposure: (1) counterparty risk, across all Issuers (lenders/servicers), Master Subservicers, and operations service-providers; and (2) defaulted portfolio management.

Staffing

At the end of fiscal year 2012 Ginnie Mae will have approximately 124 full-time professionals on board. The table below illustrates Ginnie Mae’s growth by showing FTE levels fiscal years 2011 – 2013:

<table>
<thead>
<tr>
<th>FTE</th>
<th>2011 Actual</th>
<th>2012 Estimate</th>
<th>2013 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters</td>
<td>78</td>
<td>124</td>
<td>131</td>
</tr>
<tr>
<td>Field</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>124</td>
<td>131</td>
</tr>
</tbody>
</table>

It is Ginnie Mae’s goal to reduce its reliance on its contractors. At the proposed staffing level, Ginnie Mae will have the ability to assess outsourced functions and make deliberate decisions about whether they remain outsourced or whether these functions should be brought in-house. At the proposed staffing level Ginnie Mae would be able to continue to enhance its risk management.
processes. Ginnie Mae would continue to increase on-site and off-site issuer oversight by adding additional staff in the Office of Mortgage-Backed Securities, both account executives and monitoring staff. Ginnie Mae staff closely reviews all its issuers from both an operational and financial perspective. New issuers and existing issuers are reviewed onsite as necessary through regular monitoring of their financial statements, loan origination characteristics, and other performance measures. The Ginnie Mae Portfolio Analysis Database System (GPADS) is an off-site tool that helps track counterparty risk using portfolio statistics and comparing issuers with broader peer group activity. Ginnie Mae will continue to work with FHA, VA, and the Department of Agriculture’s Rural Development on sharing loan data to match loan guarantees.

In fiscal year 2013, an appropriation of $21 million, will allow Ginnie Mae to support approximately 131 FTEs and associated non–personnel costs. In fiscal year 2013, Ginnie Mae is requesting $21 million to cover personnel compensation and benefits and non–personnel services with these expenses to be offset by commitment and multiclass fees. Appropriating $21 million to cover personnel compensation and benefits and non-personnel services to Ginnie Mae will achieve the following outcomes:

- The benefits of an increase in specialized professionals will enable quicker detection of and actions to counter emerging programmatic risk. Many of the FTEs will be in the Office of Mortgage-Backed Securities, both account executives and monitoring staff, as well as in the newly proposed Office of Enterprise Risk and will participate in increased onsite and offsite Issuer oversight.

- The additional staff in Mortgage Backed Securities and Enterprise risk staff will allow Ginnie Mae to mitigate the risk of its over $1.2 trillion in outstanding guaranteed securities. Productivity and efficiencies will also be realized as Ginnie Mae builds capacity to expand its portfolio modeling and valuation capabilities, and invests in upgrading the MBS pooling and accounting operations and technology platforms.

- On an on-going basis, Ginnie Mae actively monitors issuers to minimize fraud and default risks that would negatively impact financial and operating results. As a larger organization with larger resources, Ginnie Mae will be able to enhance reviews of issuers. Reviews of issuers are conducted in four key areas:

  - Portfolio Quality, particularly indicators such as early payment defaults, origination comparison ratios, and the percentage of an issuer’s loan assets that are delinquent.

  - Financial Health, including recent audited financial reports, net worth, profitability levels, and regulatory relationships.

  - Compliance Reviews, determining the adequacy of servicing and bond administration system controls, safety and soundness practices, and compliance with Ginnie Mae’s requirements.

  - Insurance Matching, confirming (via an automated verification process) that adequate proof of insurance is in place for all pooled loans.
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Without the $21 million appropriation Ginnie Mae will not have adequate resources to implement identified enhancements to risk management and monitoring. In addition, Ginnie Mae will not be able to implement GAO recommended modeling and valuation capabilities or complete upgrades to operations and technology.

Table 3 below shows the non-personnel services expenses by budget object class (BOC) for fiscal years 2010 – 2013.

<table>
<thead>
<tr>
<th></th>
<th>Actual FY 2010</th>
<th>Actual FY 2011</th>
<th>Estimate FY 2012</th>
<th>Estimate FY 2013</th>
<th>Increase/Decrease compared to FY 2012-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Compensation</td>
<td>$8,000,418</td>
<td>$9,988,568</td>
<td>$15,355,000</td>
<td>$16,434,000</td>
<td>$1,079,000</td>
</tr>
<tr>
<td>Benefits</td>
<td>1,528,686</td>
<td>1,630,577</td>
<td>3,145,000</td>
<td>3,366,000</td>
<td>221,000</td>
</tr>
<tr>
<td>Travel</td>
<td>196,775</td>
<td>291,337</td>
<td>676,000</td>
<td>819,000</td>
<td>143,000</td>
</tr>
<tr>
<td>Transportation of Things</td>
<td>7,672</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Printing</td>
<td>...</td>
<td>2,179</td>
<td>5,000</td>
<td>6,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Other Services</td>
<td>36,333</td>
<td>26,343</td>
<td>199,000</td>
<td>241,000</td>
<td>42,000</td>
</tr>
<tr>
<td>Training</td>
<td>47,661</td>
<td>58,430</td>
<td>75,000</td>
<td>91,000</td>
<td>16,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>18,705</td>
<td>24,982</td>
<td>33,000</td>
<td>40,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Furniture</td>
<td>121,258</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Total</td>
<td>9,957,508</td>
<td>12,022,416</td>
<td>19,488,000</td>
<td>20,997,000</td>
<td>1,509,000</td>
</tr>
</tbody>
</table>

Travel will support Ginnie Mae visits to issuers, visits to manage master sub-servicers and other contractors conducting business on behalf of Ginnie Mae, travel to defaulted issuers, travel to visit investors in Ginnie Mae securities, on-site reviews, attendance at industry conferences, and travel attendance for training courses.

Training funds will provide approximately $700 for each employee for outside courses that are in line with their individual training plans.

Supplies and materials are needed for the performance of staff work and/or for presentations and meetings.

The Other category will fund conference registrations to attend industry conferences, visual arts, and other miscellaneous non-personnel expenses.

2. What is this program?

Ginnie Mae is a unique program in that it utilizes the explicit full faith and credit guaranty of the U.S. Government to back its mortgage-backed securities (MBS). 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 partners with qualified mortgage lenders that pool their government-insured or government-guaranteed mortgage loans to issue MBS. Ginnie Mae, in turn, guarantees the performance of the lender who issues the MBS and who continues to service and manage the underlying loans. The Ginnie Mae guaranty, 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 lenders who then can use the proceeds from issuances to make new mortgage loans available. The on-going cycle (as depicted in Figure 2) helps to lower financing costs and thus supports accessible and affordable homes for Americans; and because the securities are backed by the full faith and credit of the U.S. Government, capital still flows even during recessionary periods when liquidity stalls in the private market.

Separate pass-through programs have been developed to finance single family homes, multifamily projects and manufactured housing. Ginnie Mae is not in the business of making or purchasing mortgage loans, nor does it buy, sell, or issue securities. Instead, private lending institutions approved by Ginnie Mae originate eligible government loans, pool them into securities, and issue MBS. It is through this sustaining model that Ginnie Mae brings capital into the Nation’s housing finance system.
Guarantees of Mortgage-Backed Securities

Figure 2: Capital Flow of Ginnie Mae Guaranteed Securities

Ginnie Mae is a mono-line business which insures only servicer performance. There are three levels of protection that must be exhausted before the Ginnie Mae guaranty is at risk: homeowner equity, the insurance provided by the government agency that insured the loans, and the corporate resources of the lenders who issued the security. Ginnie Mae is in the fourth and last loss position (Figure 3). Ginnie Mae issuers must exhaust their corporate resources—usually through bankruptcy—before Ginnie Mae will
pay on its guaranty to investors. Insuring only the performance of the servicer and requiring that servicers make principal and interest payments to investors until they can no longer do so significantly reduces taxpayer exposure to risk.

Figure 3: Protecting the Ginnie Mae Guaranty

Ginnie Mae plays a critical role in the U.S. housing finance system as it is an excellent conduit for bringing private capital into U.S. housing markets. Without Ginnie Mae, the prevalence of the 30-year mortgage would be significantly diminished. If lenders were unable to access the global capital market through the sale of Ginnie Mae securities, they would not have the capital necessary for providing adequate access to FHA, VA, PIH and USDA insured loans. In response, lenders would originate fewer loans and be forced to raise mortgage rates for the loans they do make to individual borrowers, wreaking havoc on an already 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 the 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, lenders, and investors while helping to stabilize the U.S. housing and capital markets. Ginnie Mae operates with a negative subsidy, meaning guaranty-related cash flows are a net positive; in other words, Ginnie Mae provides positive cash flow to the U.S. Government. It is Ginnie Mae’s business model that enables it to maintain a negative subsidy, earn money for the U.S. Treasury, and significantly mitigate taxpayer exposure to the risk associated with secondary market transactions.
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Ginnie Mae’s ability to provide market stability and liquidity and to help America’s housing finance system recover from challenging and prolonged economic turmoil is evident in the continued global demand for its securities and the growth of its issuers, programs, and infrastructure. The remaining principal balance (RPB) of Ginnie Mae securities outstanding in the market has risen from $428 billion to more than $1 trillion in less than 5 years (see Figure 4).

Figure 4: Remaining Principal Balance Outstanding in the MBS

The estimated outstanding principal balance of MBS for fiscal years 2011 - 2013 are shown in the following table:

<table>
<thead>
<tr>
<th></th>
<th>ACTUAL 2011</th>
<th>ESTIMATE 2012</th>
<th>ESTIMATE 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities Outstanding, start of Year...........</td>
<td>$1,046,179,139</td>
<td>$1,221,685,139</td>
<td>$1,320,836,228</td>
</tr>
<tr>
<td>Issued During Year.........................</td>
<td>350,398,000</td>
<td>291,000,000</td>
<td>239,000,000</td>
</tr>
<tr>
<td>Principal Payments to Securities Holders........</td>
<td>-174,892,000</td>
<td>-191,848,911</td>
<td>-168,000,000</td>
</tr>
<tr>
<td>Securities Outstanding, end of year...........</td>
<td>1,221,685,139</td>
<td>1,320,836,228</td>
<td>1,391,836,228</td>
</tr>
</tbody>
</table>
The Ginnie Mae MBS Program and Multiclass products provide liquidity for an array of FHA, VA, and USDA Rural Development programs:

**Targeted Lending Initiative**

Ginnie Mae started the Targeted Lending Initiative in fiscal year 1996. The Initiative is consistent with Ginnie Mae’s statutory purpose to promote access to mortgage credit in the central cities by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing. Through the Targeted Lending Initiative, Ginnie Mae reduces the guarantee fees it charges lenders by up to 50 percent for making mortgage loans in any of the Nation's urban and rural Empowerment Zones or Enterprise Communities, adjacent eligible central city areas, and areas with a majority population of Native Americans.

The following table shows estimated TLI cumulative activities as of September 30, 2011:

<table>
<thead>
<tr>
<th>Pools</th>
<th>Loans</th>
<th>Mortgage Amount (Dollars in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/01/96 through 9/30/11 Actual</td>
<td>51,658</td>
<td>1,832,125</td>
</tr>
</tbody>
</table>

**Home Equity Conversion Mortgages (HECMs)**

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 Home Equity Conversion Mortgages (HECMs) an increasingly attractive product for lenders, and Ginnie Mae provides a capital markets solution to support this population (and prospective Ginnie Mae qualified lenders).

Currently, FHA’s HECM program allows Ginnie Mae-qualified lenders to help underserved and elderly borrowers while tapping into a safe, secure, and guaranteed capital markets solution. Ginnie Mae’s securitization of HECMs reduces costs to seniors by allowing lenders 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 explode in the coming years.

**Multiclass Mortgage-Backed Securities Products**

In fiscal year 1994, Ginnie Mae began guaranteeing Real Estate Mortgage Investment Conduits (REMIC) and in fiscal year 1995, the Ginnie Mae Platinum securities. 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
Guarantees of Mortgage-Backed Securities

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 Excess Yield Mortgage-Backed Securities (XMBS) Trust program is a companion program to the SMBS Trust program. The XMBS Trust program seeks to allow its Issuers to securitize a portion of the servicing fees they earn on Ginnie Mae pools.

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 will be backed on and backed by MBS issued securities pursuant to previously issued commitment authority, additional commitment authority will not be required for the multiclass securities.

<table>
<thead>
<tr>
<th>REMICs</th>
<th>Callable Trusts</th>
<th>Platinum Securities</th>
<th>SMBS</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>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.</td>
<td>Allow investors who hold multiple pools of MBS to combine them into a single Ginnie Mae Platinum Certificate.</td>
<td>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.</td>
</tr>
</tbody>
</table>
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:

<table>
<thead>
<tr>
<th>MULTICLASS MBS SECURITIES</th>
<th>ACTUAL 2011</th>
<th>ESTIMATE 2012</th>
<th>ESTIMATE 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities Outstanding, start of year</td>
<td>$479,952,997</td>
<td>$490,063,647</td>
<td>$508,993,647</td>
</tr>
<tr>
<td>Issued During Year</td>
<td>152,931,960</td>
<td>176,030,000</td>
<td>151,448,471</td>
</tr>
<tr>
<td>Principal Payments to Securities Holders</td>
<td>-142,821,310</td>
<td>-157,100,000</td>
<td>-164,960,000</td>
</tr>
<tr>
<td>Securities Outstanding, end of year</td>
<td>490,063,647</td>
<td>508,993,647</td>
<td>495,482,118</td>
</tr>
</tbody>
</table>
Guarantees of Mortgage-Backed Securities

Housing and Economic Recovery Act of 2008

The HERA provided Ginnie Mae with the authority to carry out the purposes of section 306 of the National Housing Act (12 U.S.C. 1721). When the HOPE for Homeowners (H4H) program became effective October 1, 2009, Ginnie Mae responded quickly by setting up a product under the Ginnie Mae II MBS program’s multiple-issuer pool type, accepting H4H loan packages starting with November 1, 2008, pool dates. The H4H program was designed to assist homeowners facing foreclosure. It enabled lenders to refinance conventional mortgages and existing government-insured or government-guaranteed mortgages into FHA-insured loans. The program ended September 30, 2011 and is in run-off mode during fiscal year 2013.

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

The steep decline of the housing market in recent years placed tremendous stress on lenders, including Ginnie Mae’s issuers, and led to the retreat of investors from the market. As it has before in troubled times, Ginnie Mae has stepped into the market space previously dominated by others to ensure that core customers—issuers and investors—are well served.

Ginnie Mae has guaranteed $1.2 trillion into the housing markets during the current crisis (fiscal years 2008 - 2011). Its outstanding portfolio has grown from $427.6 billion at the end of fiscal year 2007 to $1.2 trillion as of the end of September 2011. The increased interest in the program reflects the fact that Ginnie Mae represents an excellent method of accessing the capital markets. Among the new issuers are numerous housing finance agencies (HFAs); the HFAs have turned to the Ginnie Mae program to replace the capital they have traditionally raised through the bond markets.

Ginnie Mae’s securitization program has allowed lenders to pool loans issued to individual borrowers and sell them (along with the rights to their future cash flows) for cash in the global securities market. This innovation has increased the ease with which capital flows into the U.S. housing market. By guaranteeing timely payment of principal and interest to investors, individual mortgages are transformed from relatively illiquid, individual assets into liquid, tradable, and homogeneous capital market instruments.

Today, Ginnie Mae guarantees the timely principal and interest payment to investors on pools of loans consisting of loans totaling $1.2 trillion that are already insured by specific government housing programs, namely Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the U.S. Department of Agriculture (USDA) Rural Housing Service, and the Secretary of Housing and Urban Development under the Native American Housing Loan Guarantee Program (Section 184) of the Housing and Community Development Act of 1992 and administered by the Office of Public and Indian Housing (PIH).

Ginnie Mae’s guarantee to the investment community is that every month servicers will deliver to them their monthly payment of principal and interest that is stated in the Ginnie Mae securities documentation. If an issuer defaults on their obligation to make the required payments to an investor, Ginnie Mae will transfer the servicing to another Ginnie Mae servicer which can meet the obligations of a Ginnie Mae servicer. Sometimes Ginnie Mae will hire a servicer to service the defaulted portfolio. Furthermore, it should be noted that Ginnie Mae has financial and management responsibility for approximately $21.5 billion of MBS servicing
obtained when issuers defaulted on their Ginnie Mae obligations. There are significant resources associated with servicing these pooled and non-pooled loans.

Authorizing $500 billion in commitment authority to Ginnie Mae’s MBS program will allow Ginnie Mae to support the Administration in bringing housing stability to American homeowners and renters.

- As shown in Figure 5, Ginnie Mae supported approximately 1.6 million units of housing for individuals and families in fiscal year 2011. 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 this commitment authority will be able to provide financing for single family homes, apartment units, hospitals and nursing homes.

- Ginnie Mae provides a steady source of funding for the vast majority of government-insured or guaranteed loans offered by FHA, VA, and RD. As of September 30, 2011, 100 percent of FHA fixed-rate single family loans, 97 percent of multifamily eligible loans, and 98 percent of VA fixed-rate single family loans were placed into Ginnie Mae pools.

- Ginnie Mae makes affordable mortgages available in rural areas. The capital provided by Ginnie MBS helps ensure rural lenders have sufficient capital to make loans. In fiscal year 2011, 23 percent of pools received TLI credit exceeding HUD’s performance goal that 20 percent of all Ginnie Mae single family pools issued be TLI pools.
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Figure 5: Ginnie Mae Supported Units of Housing fiscal years 2007-2011

Ginnie Mae’s MBS guaranty activities historically have operated at no cost to the U.S. Government. Ginnie Mae’s actual excess GAAP revenues over GAAP expenses from fiscal years 2007 to 2011 are depicted in Figure 6 below.

Figure 6: Excess of Revenues over Expenses

4. How do we know that this program works?

The challenges in housing finance have an impact not just on the mortgage industry, but on the national and global economies as well. Falling home values, high rates of mortgage delinquencies, and the loss of millions of jobs and millions of homes to foreclosure strain families and communities. The economic problems in the United States extend beyond our shores and have led to the erosion of global investors’ confidence in all but the most secure investments.
In contrast to the continued demand by investors for Ginnie Mae securities and the importance of the full faith and credit guaranty, the issuance of private-label single family MBS showed only limited signs of returning in 2011. Just $25.6 billion was issued during the first three quarters of the calendar year, compared to approximately $707.0 billion in calendar year 2007—the year the economic downturn began. Figure 6 shows the dramatic 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 GSEs. The total issuance of agency MBS during the first three quarters of Calendar Year 2011 remains at an elevated level of $829.8 billion compared to the significant decline in private-label MBS.

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, it is a function of Ginnie Mae’s countercyclical role as a shock absorber, expanding and contracting as needed in response to the ability of the private market to support mortgage financing.

Figure 7: Relative Market Share of Ginnie Mae and GSE Securities
2007 through 2011

1 Source: Inside MBS & ABS (October 14, 2011), MBS issuance figures based on the 12 months of the calendar year for 2007 through 2010, and for the first 9 months of Calendar Year 2011.
Guarantees of Mortgage-Backed Securities

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

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<tr>
<td>Commitment Limitation</td>
<td>$500,000,000</td>
<td>197,141,471</td>
<td>697,141,471</td>
<td>376,105,100</td>
<td>773,246,571</td>
<td>$500,000,000</td>
<td>321,036,371</td>
<td>821,036,371</td>
<td>500,000,000</td>
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<tr>
<td>Total</td>
<td>500,000,000</td>
<td>197,141,471</td>
<td>697,141,471</td>
<td>376,105,100</td>
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GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
MORTGAGE-BACKED SECURITIES PROGRAM
Appropriations Language

The fiscal year 2013 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, [2013] 2014. Provided, That $19,500,000 shall be available for personnel compensation and benefits, and other administrative 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, [2012] 2013, an additional $100 for personnel compensation and benefits, 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, 2012.)
Guarantees of Mortgage-Backed Securities

GOVERNMENTAL NATIONAL MORTGAGE ASSOCIATION

Office of Finance
- Controller's Division
- Treasury Division
- Budget Division

Office of Mortgage-Backed Securities
- Single Family/Manufactured Housing Division
- Multifamily Division
- Monitoring Division

Office of Management Operations
- Administrative Management Division
- Information Management Division
- Procurement Management Division
- Marketing Staff

Office of Program Operations
- Program Development & Implementation Staff

Office of Capital Markets

December 23, 2008