Center on Federal Financial Institutions

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The Center on Federal Financial Institutions (COFFI) is a nonprofit, nonpartisan, non-ideological policy institute focused on federal insurance and lending activities.

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Government National Mortgage Association

Ginnie Mae's mission. The objective of the Government National Mortgage Association is to make affordable housing possible for millions of low- and moderate-income households across the country by channeling capital into the nation's housing market.

Ginnie Mae was established in 1968. It was split from the Federal National Mortgage Association and retained its ownership by the government when shares of Fannie Mae were sold to the private sector. Prior to the founding of Ginnie Mae and similar government corporations, the national housing market was fragmented and illiquid. Since then, Ginnie Mae has worked to provide enhanced access and flexibility in the national housing market.

Ginnie Mae

Secondary Guarantees Outstanding: $453.2 billion[1]

Secondary Guarantees Issued FY2004: $146.1 billion[1]

Statutory Taxpayer Exposure[2]: $453.2 billion[1]

Budget Cost FY 2004: Nothing

[1]Note: Ginnie Mae provides secondary loan guarantees; to avoid double counting, these figures are not included in aggregated federal budget totals

[2]Note: Reflects total federal losses in a worst case scenario given current law and current financial commitments

Structure and Functions

Nuts and bolts. The Government National Mortgage Association is a corporation wholly owned by the Department of Housing and Urban Development. It is government owned and therefore not what is commonly referred to as a Government Sponsored Enterprise. Overseeing Ginnie Mae is the Corporation's President who is appointed by the President and confirmed by the Senate. Ginnie Mae's guidelines are set by Congress pursuant to 12 U.S.C 1716. It is supervised by the House's Financial Services committee and the Senate's Banking, Housing, and Urban Affairs committee. Ginnie Mae does not receive appropriations from general revenues; however, its spending authority requires annual congressional authorization.

Mortgage-Backed Securities. MBS are pools of mortgages used as collateral for the issuance of securities on the secondary market. Interest and principal payments of underlying loans "pass through" to investors.

MBS allow lenders to replenish their capital and provide additional mortgages on the primary market as investors buy MBS. The increased supply of mortgages allows for reduced interest rates for homeowners. Guaranteed MBS shift the risk of default from the lender to the primary guarantors and to Ginnie Mae. However, investors are still subject to interest rate and prepayment risk.

Ginnie Mae's functions. Ginnie Mae provides guarantees to private investors for the payments on MBS backed by federally guaranteed loans, including those insured by the Federal Housing Administration, the Department of Veterans Affairs, the Rural Housing Service, and the Office of Public and Indian Housing. As of FY 2003, Ginnie Mae provided a secondary guarantee on 92.6% of all FHA and VA home loans.

Whether or not a mortgage in the pool is paid on time, Ginnie Mae provides a guarantee that investors in its MBS will be paid interest and principal payments on time. This guarantee is the only one for MBS that provides the full faith and credit of the federal government.

Ginnie Mae does not issue MBS itself, nor does it originate or service loans or mortgages itself. Approved issuers (banks, thrifts, credit unions) pool mortgages and securitize them to create a Ginnie Mae MBS. Investors in these MBS receive a pro rata share of the resulting cash flows. Ginnie Mae supports two different types of MBS. Ginnie Mae also supports Real Estate Mortgage Investment Conduits, allowing the pooling of MBS pools into varying classes to provide differing maturities and interest rates, and Platinum Securities, allowing pooling of similar MBS pools in order to reduce administrative costs and streamline investor payments.

MBS I Program

Underlying Mortgages: Single- or multi-family homes, fixed interest rate mortgages

Pooling Provisions: Pools of underlying mortgages with identical interest rates (except manufactured homes) by a single-issuer; payments to investors are paid out separately for each MBS I Pool

Minimum Pool: from $250,000 for multi-family mortgages to $1 million for single-family level-payment mortgages

MBS II Program

Underlying Mortgages: Single--family homes, fixed or adjustable interest rate mortgages.

Pooling Provisions: Pools of underlying mortgages with a similar range of interest rates by one or more issuers; payments to investors are paid out in consolidated payments for all MBS II Pools

Minimum Pool: from $350,000 for manufactured home mortgages to $1 million for single-family level-payment mortgages

Real Estate Mortgage Investment Conduits

These instruments direct interest and principal payments from underlying MBS or REMICs into different classes, instead of being paid out to investors pro rata.

These classes vary by principal balances, interest rates, payment provisions, and seniority.

This allows REMICs to offer long, medium, and short term maturities not possible through standard MBS programs.

MBS Fees. The interest rates on MBS are lower than those of the underlying loans in order to cover servicing and guaranty fees. Guaranty fees accrue to Ginnie Mae while servicing fees accrue to the issuer. Guaranty fees are charged monthly at an annual rate of 0.06% for single-family homes, 0.30% for manufactured homes, and 0.13% for multi-family homes. Guaranty fees for pools in the Targeted Lending Initiative for low-income homes are significantly less. For FY2004, Ginnie Mae collected $307 million in guaranty fees and $82 million in other fees.

Servicing fees accrue monthly to issuers and range from 0.25% to 0.50%. There also exist other fees such as transfer fees and application fees.

Finances

Overall size. Ginnie Mae, as of FY 2004, had more than $453 billion in MBS securities outstanding. See Table 1. In FY 2003, Ginnie Mae issued nearly $216 billion in MBS: $209 billion for single-family homes, $7 billion for multi-family homes, and $1.4 million for manufactured homes.

Table 1: Guarantees Outstanding, Guarantees Issued, Subsidy Rates

Fiscal Years	**2003 Act.**	**2004 Act.**	**2005 Est.**	**2006 Proj.**
Mortgage Backed Securities *in millions*				
Guarantees Outstanding	$ 473,799	$ 453,163	$ 492,358	$ 570,824
Guarantees Issued	$ 215,818	$ 146,066	$ 160,000	$ 160,000
Subsidy Rate *in %*	-0.33%	-0.27%	-0.23%	-0.23%

Source: President's FY2005-6 Budget
Note: Guarantees outstanding reflect financing and liquidating accounts

Statutory taxpayer exposure. Ginnie Mae's securities are backed by the full faith and credit of the federal government. Therefore, should all borrowers default on their loans and should no recoveries be possible, the federal government would be required to take on the costs. These costs, the potential taxpayer exposure, would amount to the total outstanding loans. For FY 2004, this comes to $453 billion.

However, Ginnie Mae guarantees federal loans already guaranteed by other federal agencies. To avoid double counting, Ginnie Mae's outstanding loan totals, originated loan totals, and potential taxpayer exposure are not included in government-wide totals.

Loan program budgeting. Since 1992, loan programs have been reflected two ways in the budget. See COFFI's "Budgeting for Credit Programs: A Primer" at www.coffi.org for a fuller explanation on how federal credit programs are accounted for.

On-budget program accounts record the net cost or revenue of a loan program to the federal government. Costs and revenues are broken into two pieces: a "subsidy" cost and annual administrative expenses. Subsidies are calculated by projecting future cash inflows to and outflows from the government and discounting these flows back to today's dollars. The net "present value" represents the subsidy amount. A deficit is registered as a positive subsidy and a surplus as a negative subsidy. Since the net present value relies on default rate estimates and a discount rate which is recalculated each year (varying with interest rates), subsidy reestimates are made yearly. Reestimates are reflected in program costs, but do not directly affect discretionary appropriations, as they fall under an indefinite, unlimited appropriations authority of their own.

Non-budgetary financing accounts record the actual collections from a loan program and the cost of defaults and losses. This is on a cash flow basis, meant to make it easier to understand a program's inflows and outflows. Loans existing before the 1992 law are kept in a third type of account, a liquidating account, which operates in a similar manner to a financing account but is on-budget.

In general, with a positive subsidy, the program account receives appropriations from general revenues to cover the net cost of administrative, subsidy, and subsidy reestimate costs.

In general, with a negative subsidy, the program account applies the negative subsidy to cover administrative expenses, any subsidy reestimate costs, or subsidy costs incurred by positive subsidy programs in the same account. In some cases, the negative subsidy is enough to cover all costs and no appropriations are made to the program account. In other cases, some appropriations from general revenues are made to cover the difference. Often, negative subsidy programs pay for their own administrative costs but subsidy reestimate costs are paid through general revenues.

Ginnie Mae's loan programs run negative subsidies, bringing in more revenues than they pay out in expenses.

Ginnie Mae budgeting. Ginnie Mae has run a negative subsidy which has more than paid for their administrative costs as well as any subsidy costs or reestimates. See Table 2.

Table 2: Budget Costs

Fiscal Years	GNMA 2004 Act.	GNMA 2005 Est.
Costs *in millions*		
Administrative Expenses	$ 11	$ 11
	$ 11	$ 11
Revenues *in millions*		
Discretionary		
Offsetting Collections (from Financing Account)	$ 405	$ 368
	$ 405	$ 368
Balance *in millions*		
Balance from previous year	$ 2,084	$ 2,478
Total Costs	$ -11	$ -11
Total Revenues	$ 405	$ 368
Balance carried forward	$ 2,478	$ 2,835

Source: President's FY2006 Budget Appendix

Current Issues

Proposed reforms. At the moment, there are not many proposed reforms in Congress for Ginnie Mae. Focus has been on Fannie Mae and Freddie Mac and their accounting and auditing problems. These have principally focused on the valuation of derivatives, which is not a type of security held by Ginnie Mae. Currently, Ginnie Mae is working on devising more financial instruments, like REMICs, which will further its purpose – increasing mortgage access via housing market liquidity.

Sources

Ginnie Mae: Program descriptions; available via http://www.ginniemae.gov

U.S. Code: Full Text of 12 U.S.C. 1716; available via http://uscode.house.gov

OMB: President's FY2006 Budget; available via http://www.whitehouse.gov/omb