# Ginnie Mae at 50

Celebrating a half-century of funding the government loan market so millions of Americans can buy, refinance or rent homes.

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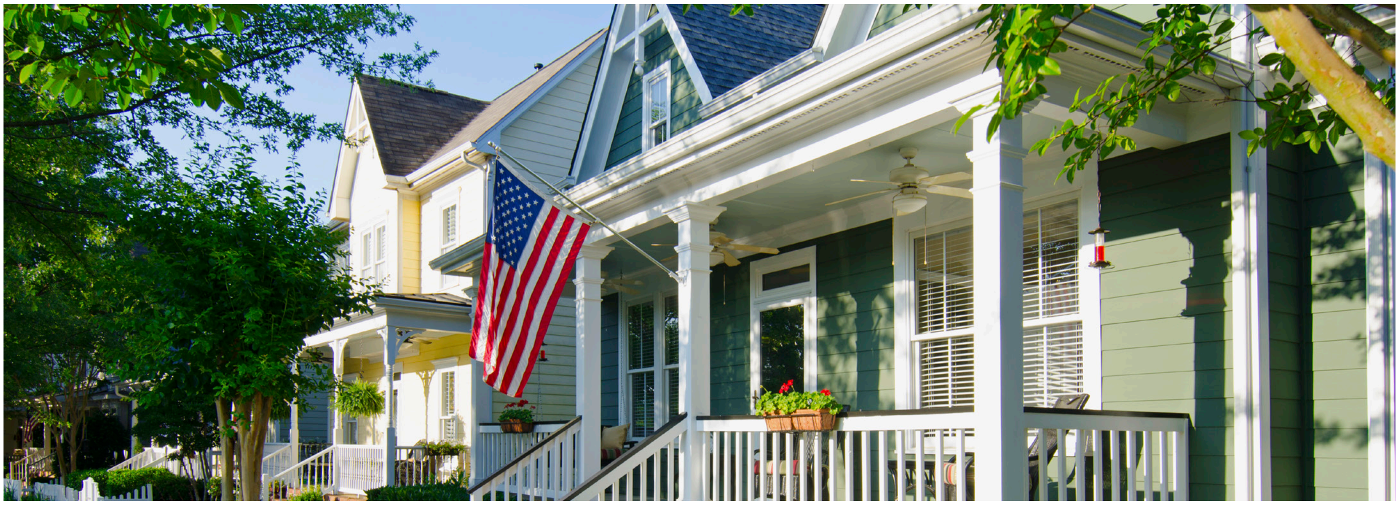


## Executive Summary

*This paper explains Ginnie Mae's purpose, history and business model, on the occasion of the organization's 50th anniversary. A forthcoming paper will address the strategic approach Ginnie Mae will take in the years ahead as it evolves to meet the needs of the dynamic housing finance marketplace.*

The Government National Mortgage Association, or Ginnie Mae, has worked since 1968 to make affordable housing a reality for millions of Americans.

Chartered by the federal government as the primary financing mechanism for all government-insured or government-guaranteed mortgage loans, Ginnie Mae developed the nation's first mortgage-backed securities, or MBS, in 1970. It is the only federal agency tasked with the administration and oversight of an explicit, paid-for, full-faith-and-credit guaranty on MBS. Even in difficult times, an investment in Ginnie Mae MBS has proven to be one of the safest an investor can make, as evidenced by the demand for these securities from investors worldwide.

From the beginning, Ginnie Mae has enabled the financing of borrowers who might not otherwise have been able to obtain a loan, including low- and moderate-income borrowers, minority borrowers and first-time home buyers.

Ginnie Mae's model — in which it facilitates the creation of mortgage securities by a varied network of mortgage lender/servicers but does not itself buy or sell loans or issue MBS — effectively minimizes risk to the government and taxpayers. The corporation's share of the MBS market has skyrocketed from a low of 4 percent in 2005 to a peak of 31 percent in recent years, making it the second largest guarantor of MBS after Fannie Mae, measured by securities outstanding.

Today, Ginnie Mae's staff of about 150 people manages a portfolio of $1.94 trillion. The corporation is scalable and flexible enough to shrink or expand as needed. It can guarantee, or "wrap," $500 billion in loans — as it did just a few years ago — or the nearly $2 trillion in loans it does today, or even substantially more if tasked to do so in the future.

## Section 1: Ginnie Mae's Mission

### Backbone of Housing Finance

Low- and moderate-income borrowers may not realize it, but for nearly 50 years, MBS guaranteed by Ginnie Mae have supported homeownership for them and many of their fellow Americans.

Ginnie Mae's mission, since its founding in 1968, has been to bring capital into the housing finance market — a system that runs through the heart of our nation's economy — while minimizing risk to the taxpayer. Lenders use the capital supplied by investors in the global capital markets to make loans to first-time homebuyers, veterans, minority borrowers and others, making affordable housing a reality and helping to strengthen neighborhoods across the nation.

**The Ginnie Mae guaranty allows mortgage lenders to obtain a better price for their mortgage loans in the secondary mortgage market.**

As a wholly-owned, self-sustaining government corporation, Ginnie Mae fulfills its mission by providing a government guaranty, or "wrap," on MBS, which ensures the timely payment of principal and interest payments to the owner of the security. The Ginnie Mae guaranty allows mortgage lenders to obtain a better price for their mortgage loans in the secondary mortgage market. The lenders can then use the proceeds to make new mortgage loans available. Without this liquidity, lenders would be forced to keep loans in their own portfolio, greatly reducing the number of new loans they could make. Ginnie Mae has throughout its history played a vital role in enhancing market liquidity, while protecting taxpayers and regulating risk. The corporation's growth can be attributed to its success in these three areas over the last half-century.

Today, Ginnie Mae's staff of about 150 people manages a portfolio of $1.94 trillion, accounting for just under a third of the agency MBS market. Because Ginnie Mae has been able to leverage the government guaranty at minimal cost and risk to the federal government, it has dramatically lowered the cost of housing for the 12 million households currently financed by government-insured loans.

#### Commitment to Borrowers

Ginnie Mae finances a variety of borrowers, including many Americans who may otherwise have difficulty getting and keeping a loan, for example:

- First-time home buyers
- Minority borrowers
- Borrowers with lower down payment loans
- Borrowers with lower FICO credit scores
- Borrowers with lower incomes
- Borrowers with higher debt to income ratios
- Borrowers with smaller loan balances
- Borrowers in rural or other areas where credit access is limited

## Section 2: Ginnie Mae's History

### Roots in the Great Depression

In 1968, when Ginnie Mae was created and established within the U.S. Department of Housing and Urban Development, three decades had passed since the Great Depression. But the genesis of the organization can be traced back to that time of historically high unemployment rates and its unprecedented wave of loan defaults.

When the surge in home foreclosures of the 1930s depressed housing values and the nation's overall economy, Congress responded urgently by passing the National Housing Act of 1934, a key component of the New Deal. The Act created a national mortgage loan insurance program that gave greater incentive to banks, building and loan associations, and other institutions to make loans to everyday Americans. Then in 1938, Congress chartered the Federal National Mortgage Association, or Fannie Mae, to create a secondary mortgage market. Fannie Mae's role was to buy FHA-insured loans from lenders, providing liquidity to support the flow of credit.

Ginnie Mae came along 30 years later, when the Housing and Urban Development Act of 1968 re-chartered Fannie Mae as a shareholder-owned company that purchased conventional (non-government insured) as well as government mortgages. Ginnie Mae was designed to serve as a securitization facility — a novel idea at the time — whose full faith and credit guaranty would provide liquidity to lenders while broadening the market for mortgage loan investment beyond portfolio ownership. This innovative re-alignment reshaped the U.S. mortgage finance landscape.

### The Need for a Secondary Market

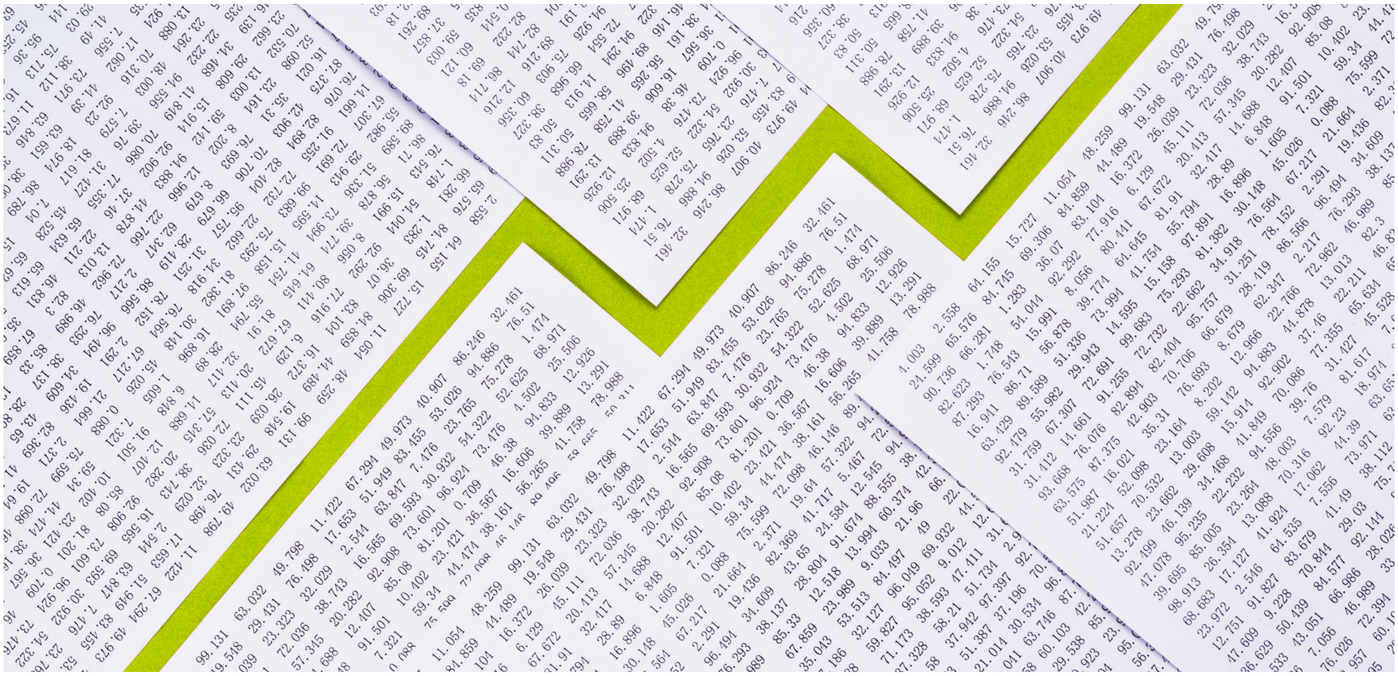
The creation of Fannie Mae, and then Ginnie Mae, had an enormous impact on the residential finance market. Because regional variation in mortgage rates and the availability of funds had inhibited the development of a secondary market for mortgage loans, banks or other home lenders had been forced to retain more loans in their own portfolios, which severely constrained the number of loans they could make.

Ginnie Mae's contribution was the development of the MBS, the first issuance of which was in 1970. This allowed a lender's loans to be pooled as collateral for a security that could be sold into the secondary market, allowing the lender's funds to be quickly replenished and lent again.

**Backed by the Government**

The loans pooled into Ginnie Mae's MBS are insured or guaranteed by:

- The Federal Housing Administration (FHA)
- HUD's Office of Public and Indian Housing (PIH)
- The U.S. Department of Veterans Affairs
- The U.S. Department of Agriculture's Rural Development Programs (USDA or RD)



## Surge of Growth

In the five decades since Ginnie Mae's creation, housing markets and interest rates have risen and fallen, and Ginnie Mae's products have evolved. But Ginnie Mae's pursuit of its mission has never faltered, surviving recessions and a variety of market changes. Its revenues have always been more than enough to pay for losses, and over the years it has retained its standing as a profitable, self-sustaining government corporation.

**The corporation's market share of MBS has skyrocketed from a low of 4 percent in 2005 to a peak of 31 percent in recent years.**

Ginnie Mae's stability and flexibility in any kind of market has come into even clearer relief in the years since the financial crisis of 2007-2008 and ensuing recession. Ginnie Mae sustained no annual losses during this time. In fact, the corporation's market share of MBS has skyrocketed from a low of 4 percent in 2005 to a peak of 31 percent in recent years, making it the second largest guarantor of MBS after Fannie Mae, as measured by amount outstanding. This period also saw a substantial increase in the number of institutions that participate in the MBS program, and a broadening of the range and size of these participants.

During this market-share surge, Ginnie Mae has expanded service with minimal disruption. Its efficient operating structure leverages highly experienced staff and services procured from private sector firms to maintain reliable operations and invest in modernization and improvement. This demonstrates Ginnie Mae's scalability to grow as needed to meet market needs, now and in the future.

## Section 3: Ginnie Mae’s Model

### Six Core Functions

Ginnie Mae facilitates the creation of mortgage securities by lender/servicer issuers who create pools of loans that are converted to securities and purchased by investors the world over. Ginnie Mae’s role is to:

1. Establish requirements for the MBS program.
2. Approve, support and monitor issuers and servicers.
3. Maintain the infrastructure through which MBS are issued.
4. Provide loan-level information about pools to investors and analysts.
5. Remit interest and principal to investors.
6. Support multi-class securities formed from MBS.

This business model differs from the government-sponsored enterprises, or GSEs, Fannie Mae and Freddie Mac, which also package loans into mortgage securities that are sold to investors. Unlike the GSEs, Ginnie Mae does not itself issue the securities it guarantees, nor does it buy or sell loans, which means it operates with a much smaller balance sheet and no debt.

Moreover, an active program of counterparty risk management guards against the possibility of an issuer failure and mitigates losses to the government when such failures do occur.

#### ‘Fourth Loss’ Position and Counterparty Risk Management Discipline

The provision of the federal government guaranty is supported by a structural protection and attention to risk management that minimize the extent to which the guaranty is acted upon.

Ginnie Mae’s business model puts it in a “fourth loss” position as a federal backstop, behind three other layers of capital, thereby minimizing direct government exposure to financial risk from the MBS guaranty. As a practical matter, the government guaranty would come into play only if the private sector issuer failed.

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| **Homeowners’ equity** | **Capital of Ginnie Mae credit enhancers (FHA, VA, USDA)** | **Balance sheet of Ginnie Mae issuers, who are responsible for on-time remittance of principals and interest if borrowers don’t make mortgage payments on time** | **Ginnie Mae** |

### Strong Partnership with the Private Sector

The Ginnie Mae model therefore represents an enduring and effective partnership with the private sector.

1. It relies on lender/servicer issuers to make loans and issue the resulting securities, minimizing the government's need for involvement in the lending process.
2. It relies on these issuers to service the loans and remit principal and interest payments to investors, even when such payments are not received from borrowers, minimizing the government's risk.
3. It relies on a base of investors of a wide variety of types and locations who have placed their trust in Ginnie Mae securities, so that government funds are not required to fund loans to targeted homeowners.
4. It relies on private sector vendors to supply critical infrastructure and support services, minimizing the government's need to take on overhead.

## Conclusion

Throughout its 50-year history, Ginnie Mae has helped make affordable housing a reality for millions of low- and moderate-income households and veterans across America. Its risk model protects taxpayers. The Ginnie Mae brand is globally known and respected, resulting in premium pricing of its securities and liquidity even in economic down cycles. Ginnie Mae's simple, effective business model has exemplified how the federal government and private sector can work together to deliver meaningful improvements to citizens.

Ginnie Mae's model has proven to be reliable, flexible and scalable, particularly over the last decade. The corporation can wrap $500 billion in loans — as it did just a few years ago — or the nearly $2 trillion in loans it does today, or even more if tasked to do so in the future. It's an organization fully equipped for its current mission and able to effectively perform any role in housing finance that policymakers ask it to take on in the future.