Written Testimony
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Introduction

Chairman Duffy, Ranking Member Cleaver, and Members of the Subcommittee, thank you for inviting me to appear today to discuss the Government National Mortgage Association, also known as Ginnie Mae.

What Ginnie Mae Does

Ginnie Mae was established in 1968, and issued the first mortgage-backed security (MBS) in 1970. The mission of Ginnie Mae is to bring global capital into the U.S. housing market while minimizing risk to the American taxpayer. Our MBS program provides access to global capital for our issuers and supports the federal mortgage insurance programs – currently that is loans backed by the FHA, USDA, and the VA. Ginnie Mae provides a government backstop on qualifying MBS to protect against losses in catastrophic situations, and our securities are the only MBS to carry the explicit full faith and credit guaranty of the U.S. government.

The easiest way to understand Ginnie Mae's mission is that we oversee a process for ensuring the success of the government's MBS guarantee, often referred to as the government's "wrap". Specifically, Ginnie Mae manages technology and infrastructure designed to track the payment of principal and interest, coming from borrowers and going through lenders, making sure it ultimately gets into our common security on time and in full every single month. This is what a government guarantee means – an agency such as Ginnie Mae has the authority and the mandate to ensure the timely payment of principal and interest, and has regulatory authority over the process.

For nearly 50 years, Ginnie Mae has provided liquidity and stability through all market cycles, serving as the principal financing arm for government-insured loans and ensuring that mortgage lenders at all times have funds to provide loans to consumers.

Ginnie Mae's simple, effective business model shows how an agency working inside of a clearly defined lane with a clearly defined mission can be successful. Ginnie Mae charges program participants guaranty and other programs fees. The revenue we collect, net of operating expenses, sits in an account at Treasury and can be drawn upon in the event of issuer default. Today we have nearly $20 billion in this account, which demonstrates our financial strength and low risk profile.

The design features of the Ginnie Mae model significantly limit the taxpayer exposure to risk associated with secondary market transactions. Importantly, we are different than the GSEs in that rather than acquiring, holding and managing credit risk and interest-rate risk, in Ginnie Mae's business model almost all risk is disaggregated to other market participants, including private entities who act as issuers of our securities. Ginnie Mae's federal backstop of MBS greatly increases liquidity and lowers rates for borrowers, but it also places taxpayers at a remote risk of loss.

The responsibility for protecting taxpayers against loss is a mandate that I take very seriously. In our current design, Ginnie Mae is in the fourth loss position, protected by the equity of the borrower, mortgage insurance, and the financial resources of our issuers, including their retained servicing fees. Only when all three of the preceding layers of risk protection are exhausted or fail is the Ginnie Mae program exposed to loss. Because private lending institutions originate eligible loans, pool them into securities and issue Ginnie Mae MBS, Ginnie Mae's exposure to risk is limited to the ability and capacity of its MBS issuers to fulfill their obligations to pay investors.

This is a very important point and something that distinguishes the Ginnie Mae model from the GSE model, and from some of the so-called "utility" model proposals. In our program, issuance and master servicing functions reside with private lenders. That means, servicing remains with the loan originators, who therefore have some stake in the performance of their loans. And by guaranteeing the MBS, not the underlying issuing entity, Ginnie Mae's exposure is explicit, remote and paid for.

Additionally, the failure of an issuer in our program would cause Ginnie Mae to experience financial loss only to the extent that funds are needed to transfer the servicing to another issuer or that servicing income is insufficient to cover future credit losses and operational costs. Ginnie Mae monitors the delinquencies in issuer servicing portfolios in an efficient and effective manner to mitigate the potential losses associated with any issuer default.

The responsibilities of administering an explicit government guarantee are significant, and I know they are not taken lightly by policy-makers. Ginnie Mae's guarantee program only works if our program is well managed. A government wrap must be properly designed and administered if it is to succeed at the dual missions of providing liquidity while protecting taxpayers. At Ginnie Mae we take administration oversight of our program incredibly seriously. And no matter how our country's housing finance system evolves or is changed by policy-makers, the roles and responsibilities of administering a government wrap should be fully understood. Ginnie Mae is very glad to lend its expertise to this discussion.

Housing Crisis Through Today

Ginnie Mae's role in America's housing finance ecosystem has changed quite a bit over the past decade. This shift began in 2008, as the housing crisis unfolded, and as banks pulled back from the market to reduce exposure to real estate. The financial crisis also saw the evaporation of the private-label securitization (PLS) market, which led to an increase in demand for FHA and VA insured, and Ginnie Mae backed loans.

Pre-crisis, smaller nonbanks originated loans and largely sold them to bank aggregators who were Ginnie Mae approved issuers. Prior to 2008, Ginnie Mae typically faced only a few, often large, money-center counterparties. But post crisis, with bank aggregators exiting the market, non-depository mortgage companies without legacy books of delinquent loans began to enter the mortgage lending space. In response, Ginnie Mae worked directly with these lenders to become Ginnie Mae issuers, helping restore liquidity to the primary market during a time of significant disruption.

At the same time, as banks were reducing mortgage credit risk exposure during the housing crisis, the GSEs did so as well by tightening their underwriting requirements, limiting mortgage access for borrowers without stellar credit. With the retrenchment in private market and GSE mortgage lending, FHA and VA became a primary outlet for many borrowers to get access to home loans. The efforts of Ginnie Mae to enable issuer access to capital, combined with the countercyclical response of federal mortgage insurance, helped support the housing market during a period of severe stress and played a role in the housing recovery. As a result of the corresponding growth of FHA and VA insured mortgages, Ginnie Mae's total outstanding MBS has grown from $400B to just under $2 trillion today. Last year we passed Freddie Mac to become the second largest MBS platform in the world.

Growth and Risk Management

Of course, growth comes with responsibilities. In order to manage the risks associated with this growth, Ginnie Mae has taken some steps to help ensure we have a strong handle on the risks we face. Included in these are the following: the development of a subledger database capable of handling loan level accounting on millions of troubled loans, the creation of issuer scorecards which rank lenders against their peers in a variety of risk categories, the development of minimum liquidity requirements to ensure that our issuers have sufficient cash on hand to weather an economic downturn, the development of in-house risk models used to police our issuer base, a series of guideline changes to clarify program rules, among other steps. We are currently evaluating ways to enhance these risk management techniques and we expect further meaningful adjustments.

Ginnie Mae is proud that it has been able to expand to meet such a rapidly changing market environment. But it is important to note that while Ginnie Mae has many tools to police its program, we do not have very many tools or dials we can turn to determine how big we are. Generally speaking, other market participants decide this through the growth of their respective programs. For example, Ginnie Mae does not control FHA pricing, which is an important variable when a lender decides whether to issue a Ginnie MBS. The dearth of a private label securitization market also increases demand for FHA loans, which in turn increases Ginnie Mae's size. We also do not control the number of veterans returning from service who chose to buy a home with a VA-insured loan.

Our statute mandates that we provide liquidity to these programs while protecting taxpayers from loss. But it is worth noting that we cannot change our guarantee fees ("g'fees"). Ginnie Mae's g'fees were capped in statute by Congress in 1987. Likely, if we had statutory authority to adjust g'fees slightly, we would consider small adjustments. In the meantime, however, we continue to develop and enhance a robust issuer risk management program, which evolves and improves as market conditions warrant.

Staffing and Outsourcing Model

Ginnie Mae was designed to have a small core staff, with support from contactors to address market shifts that produce increased workload and operational needs. Today, Ginnie Mae has approximately 150 highly professional and experienced employees supported by contractors. By design, Ginnie Mae's organizational structure leverages a nucleus of senior professional staff, supported by contract staff focused on technology and operations. The majority or our contractors are in our securities operations area running the bond administration function of our platform, which includes data dissemination to the MBS investor community and the transfer of funds to investor accounts. We also leverage subservicers to handle the operational work of servicing the small number of loans that sit on Ginnie Mae's balance sheet. Ginnie Mae's staff oversee these functions and ensure their day-to-day success.

The design of Ginnie Mae's organizational and business model has enabled Ginnie Mae to quickly respond to market demands, and it allows us to scale to address growing or shrinking markets. In addition, our technology platforms are specifically designed to be volume agnostic. They can run hundreds of loans, thousands of loans, or millions of loans leveraging the same process.

In the future, Ginnie Mae will continue to evaluate resource needs and make cost-benefit decisions on whether to insource or outsource any operational functions at the best value for the government as we continue to modernize our technology and platform operations.

Planning for the future

Ginnie Mae is currently engaged in long range planning for the future. We are calling this initiative "Ginnie Mae 2020" and it is the next stage in strategic modernization for Ginnie Mae and our securitization platform. As the name refers, we are targeting implementation of these initiatives by the end of 2020. While we will be officially unveiling the details of this effort early next year, noteworthy initiatives we can highlight include the following:

- Modernizing the Ginnie Mae program for managing pool collateral to reflect technological advances and to better align program requirements with risk.
- Providing more flexibility within single pools of securitized loans to allow mortgage servicing rights to be managed more efficiently.
- Streamlining platform access, support services, and program requirements, effectively lowering barriers to participation in the Ginnie Mae MBS program.
- Testing and evaluating new methods for connecting the capital markets to the residential finance industry through the Ginnie Mae platform.

While we have effectively managed our growth since the beginning of the financial crisis, it is now time to look toward the Ginnie Mae of the future. These and other modernization efforts under consideration will ensure we are keeping up with market trends and demands, whether they be from the market or from policy-makers.

Housing Finance Reform

As Secretary Carson said recently in his testimony to this committee, reform to our secondary mortgage market is an important piece of unfinished business from the housing crisis. Reform efforts should be built on shared goals of ensuring a well-functioning housing finance system that provides credit access, and reduces overall taxpayer exposure. It is notable that many of the recent housing finance reform proposals include, in some way, an explicit government guaranty as a catastrophic backstop for some portion of the mortgage market.

If a government backstop, or wrap, of MBS were to be considered by Congress as an important part of housing finance reform, the expertise and experience of Ginnie Mae as an administrator of just such a backstop can likely be helpful. Unlike the GSE's, who have a commercial relationship with the housing finance industry, the administrator of any government wrap will, in all likelihood, look a bit more like a regulatory relationship than a purely commercial one. In short, a government wrap will likely look similar to the model we use at Ginnie, with fair and prudential rules consistently applied across the industry and are subject to government oversight.

A much-discussed aspect of housing finance reform is the creation of a common security and a common securitization platform. Ginnie Mae has been running a common security and a "common securitization platform" for almost 50 years. By "common securitization platform" we mean that we have a platform where hundreds of issuers – currently more than 400 lenders of all sizes – can create and sell a single, common MBS sold into a global market. So long as these issuers meet our program requirements and purchase acceptable credit insurance, they can enjoy the benefits of a single security and a tremendous amount of liquidity.

We have chosen to outsource a piece of our platform - our bond administration functions - to the private sector rather than build the function in-house. We have done this in large part because this bond administration function has existed in the market for more than a century. At Ginnie Mae we currently have this process outsourced to Bank of New York Mellon, or BNY. The functions performed by Common Securitization Solutions, LLC, ("CSS") - the joint venture formed by the GSEs to build its in-house bond administration platform - are almost precisely the same as those which Bank of New York Mellon performs for Ginnie Mae. Bond administration platform alternatives are details that can be addressed in a variety of ways as housing reform moves forward. As that occurs, we are more than happy to work with Congress as it examines and oversees these various technical choices.

Hurricane Recovery

Hurricane(s) Harvey, Irma, and Maria has created an urgent issue for homeowners impacted by the hurricanes. As Ginnie Mae oversees our issuers and works with mortgage servicers, we are working closely with our partners at FHA, VA, and USDA who insure the mortgages. We have recently issued guidance on special assistance for our issuers with portfolios in the hurricane impacted areas. To facilitate the ability of issuers to provide relief to borrowers, we approved accelerated buyout authority, pass through assistance, and other relief measures for issuers with a portfolio concentration in the affected area. While we cannot alter the fundamental requirements for issuers in our program, these adjustments recognize that this confluence of disasters required some extraordinary measures. These measures are intended to aid issuers in render assistance to borrowers more quickly than under standard program guidelines. As disaster recovery efforts continue to progress, we will work closely with our issuers and partners at the state and federal levels to ensure the recovery is as effective as possible, while also maintaining the health of the Ginnie Mae program.

VA Refinance-Loan Churn Issue

Another recent development I would like to address is our efforts to curb VA refinance speeds and address aggressive marketing by some VA approved lenders. Late last year, the rapid refinance and loan churning was recognized as a problem in the VA portfolio. This led to our initial measures to change the Ginnie Mae program rules to address the issue. These initial measures were successful in stopping these practices with many lenders for a short period of time.

Unfortunately, some lenders have actively worked to evade those new rules by changing their tactics to continue questionable lending practices. This created downward pressure on Ginnie Mae securities, which ultimately harm veterans by increasing borrowing costs. As the next step in the process to fully solve this issue, Ginnie Mae and VA have formed the "Joint Ginnie Mae – VA Refinance Loan Task Force" to continue and intensify work on this challenge.

Ginnie Mae's efforts, along with its partners in government, industry, Congress and other stakeholders, seek to fully root out questionable lending practices that harm veterans and harm the Ginnie Mae security, which also notably means harm to FHA and other government backed loan program borrowers.

The task force will focus on examining critical issues, important data and lender behaviors related to refinancing loans and will determine what program and policy changes should be made by the agencies to ensure these loans do not pose an undue risk or burden to veterans or the American taxpayer.

The task force has already begun its work by examining data and information on the net tangible benefit to Veteran-borrowers, and the time needed to recoup fees following refinancing loans. In our view, changes need to be made to the requirements for what constitute an acceptable refinance loan - that is, a refinance that benefits the veteran. Other changes will include more stringent requirements on the number of payments needed before a refinance is permissible for delivery into a Ginnie Mae MBS, clearer standards for what constitutes a "premium loan" and therefore can only be issued into a so-called "custom pool," and joint discussions with individual lenders whose origination practices may negatively affect veteran borrowers or increase program costs and risks. For lenders who produce pools with inexplicably fast prepayment speeds, removal from the Ginnie Mae program is not out of the question.

The task force will continue to work collaboratively until concrete solutions have been implemented to eliminate lender practices that are harmful to veterans, the Ginnie Mae program, and ultimately the American taxpayer.

Conclusion

Ginnie Mae offers a very unique perspective on the mortgage market and our country's system of housing finance. We have 50 years of experience in the administration of a government wrap. We are glad to share the many lessons learned with Congress and other policy-makers as you continue your oversight of the country's housing system. We are enthusiastic partners in helping you accomplish any objectives that you deem necessary. Thank you again, for inviting me to testify today. I look forward to answering your questions.