



Report to the Ranking Member,
Subcommittee on Housing,
Community Development, and
Insurance, Committee on Financial
Services, House of Representatives

April 2019

GINNIE MAE

Risk Management and Staffing-Related Challenges Need to Be Addressed

Accessible Version

GAO Highlights

Highlights of [GAO-19-191](#), a report to the Ranking Member, Subcommittee on Housing, Community Development, and Insurance, Committee on Financial Services, House of Representatives

Why GAO Did This Study

Ginnie Mae, a government corporation within HUD, plays a significant role in the secondary mortgage market. Institutions issue MBS (backed by federally insured or guaranteed mortgages). Ginnie Mae guarantees MBS investors timely payments of principal and interest on the MBS if issuers cannot make such payments. In 2011, GAO identified challenges related to Ginnie Mae's issuer oversight, staffing, and contracting.

GAO was asked to re-examine these issues. This report reviews Ginnie Mae's (1) MBS volume, issuers, and risks; (2) oversight of issuers and related risks; (3) staff levels and contractor use; and (4) oversight structure compared to selected entities to identify areas for potential reforms. GAO analyzed data on MBS volume, reviewed Ginnie Mae policies and procedures, reviewed oversight structures of three similar financial entities, and interviewed agency officials.

What GAO Recommends

GAO makes four recommendations to Ginnie Mae, including that it evaluate its issuer guaranty fee, contractor use, and alternative compensation structures. GAO also makes recommendations to Congress to consider requiring Ginnie Mae to report on its evaluations of (1) the adequacy of its issuer guaranty fee, (2) its reliance on contractors and use of certain fee revenue to hire in-house staff, and (3) use of greater flexibility to set staff compensation; and (4) to consider possible reforms to Ginnie Mae's oversight structure. Ginnie Mae concurred with GAO's recommendations.

View [GAO-19-191](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov.

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What GAO Found

The amount of mortgage-backed securities (MBS) that the Government National Mortgage Association (Ginnie Mae) guaranteed rose from \$500 billion to \$2 trillion in fiscal years 2007–2018—exposing it to a greater risk of loss. From 2011 to 2018, the majority of institutions issuing Ginnie Mae-guaranteed MBS (issuers) shifted from banks to nonbanks, such as mortgage lenders. Unlike banks, nonbank issuers generally are not consistently subject to comprehensive federal safety and soundness standards.

Since GAO's 2011 report, Ginnie Mae increased minimum financial requirements for MBS issuers and developed new tools to monitor them. However, it has limited flexibility under law to raise the fee charged to guarantee single-family MBS in response to changes in risks. Ginnie Mae also has not assessed if the current fee would provide it with sufficient capital reserves to withstand losses under various scenarios, which would be consistent with federal internal control and risk-management standards. Such an analysis would provide Ginnie Mae with information necessary to help ensure the fee is set appropriately and inform Congress whether Ginnie Mae needs greater flexibility to adjust the fee.

As GAO reported in 2011, Ginnie Mae still faces contracting and staffing challenges. It continues to rely heavily on contractors (because it has authority to use certain fee revenue to fund contractors but not its own in-house staff). However, it has not routinely analyzed if using its own in-house staff instead of contractors for certain functions would be more efficient. Such analyses could help inform Ginnie Mae and Congress about the optimal mix of contractors and staff and potential need for greater budget flexibility. Ginnie Mae also still faces challenges recruiting and retaining staff, in part due to its lower pay scale relative to some of its competitors. But it has not exhausted all options under its current authority to revise its pay scale to mitigate these challenges or evaluated the costs and benefits of other options. Such actions could help inform Ginnie Mae about how it could use current authorities to address these challenges and provide Congress with the information needed to consider providing Ginnie Mae with additional pay flexibility.

The Department of Housing and Urban Development (HUD) oversees and sets general policies that govern Ginnie Mae's operations. However, GAO previously reported that HUD's management challenges limit the effectiveness of its oversight of Ginnie Mae and its other programs. In light of these challenges and Ginnie Mae's increasing risks, GAO reviewed the oversight structures of three similar financial entities and found that certain alternative structures used by these entities, such as boards of directors, offer potential oversight benefits that could be considered as part of any future reform proposals for Ginnie Mae. As GAO previously reported, if Congress considers legislation to reform the federal role in housing finance, such reforms would need to be comprehensive and consider all relevant federal entities, including Ginnie Mae. As part of such reforms, it also would be important to ensure that Ginnie Mae is adequately overseen and its risks effectively managed.

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Abbreviations

CFPB	Consumer Financial Protection Bureau
enterprises	Fannie Mae and Freddie Mac
ERM	enterprise risk management
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FTE	full-time equivalent
Ginnie Mae	Government National Mortgage Association
GSA	General Services Administration
HUD	Department of Housing and Urban Development
MBS	mortgage-backed securities
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
VA	Department of Veterans Affairs

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April 3, 2019

The Honorable Sean Duffy
Ranking Member
Subcommittee on Housing, Community Development, and Insurance
Committee on Financial Services
House of Representatives

Dear Mr. Duffy:

The Government National Mortgage Association (Ginnie Mae) plays an important role supporting federal housing initiatives by increasing liquidity in the secondary mortgage market.¹ It guarantees the timely payment of principal and interest on mortgage-backed securities (MBS) issued primarily by financial institutions and backed by pools of federally insured or guaranteed mortgages.² More specifically, Ginnie Mae relies on institutions that it approves as MBS issuers to pool mortgages and issue MBS and on federal agencies—including the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA)—to insure or guarantee the underlying mortgages against borrower default. In the event an issuer defaults by not making timely payments to its MBS investors, Ginnie Mae makes the payments to the investors and then may take control of the issuer’s MBS, including servicing the loans (receiving and depositing borrowers’ monthly principal and interest payments).

Members of Congress, researchers, and others have discussed the federal role in the housing finance system, including the continued conservatorship of Fannie Mae and Freddie Mac (enterprises), nearly a decade after the financial crisis of 2007–2009. We designated the federal role in housing finance as high risk in 2013 due to the government and taxpayers facing increased risk exposures to large losses in the mortgage

¹The secondary mortgage market consists of financial institutions and individuals that buy and sell mortgage-backed securities (MBS). In general, MBS are bonds representing an ownership interest in a pool of residential mortgages. Borrowers make mortgage payments to lenders that typically include principal, interest, and a servicing fee. The mortgage servicer then allocates the funds to compensate the mortgage servicer and pay Ginnie Mae a guaranty fee. The remaining amounts are “passed through” to investors.

²Although Ginnie Mae issuers are primarily financial institutions, housing finance agencies and public housing agencies can be Ginnie Mae issuers.

market.³ Moreover, in 2016 and 2019, we suggested that Congress take steps related to continued conservatorship.⁴ Policymakers have considered ways to reform the federal role to reduce this risk exposure.

At the same time, Ginnie Mae has faced challenges that relate to its ability to oversee significant growth in its operations. In a 2011 report, we identified issues related to staffing, contractor oversight, and issuer approval and monitoring.⁵ Moreover, the Office of Inspector General (OIG) in the Department of Housing and Urban Development (HUD) issued a disclaimer of opinion on Ginnie Mae's fiscal year 2017 financial statements, because the OIG was not able to obtain sufficient, appropriate evidence to provide a basis for an audit opinion for the fourth consecutive year.⁶

You asked us to examine the steps Ginnie Mae has taken to manage its financial, operational, and other risks related to its MBS program in light of our 2011 report. This report focuses on (1) changes in Ginnie Mae's MBS volume and issuers and their effect on Ginnie Mae's risks, (2) Ginnie Mae's oversight of issuers and related risks, (3) Ginnie Mae's staff levels and use of contractors, and (4) oversight structure of Ginnie Mae compared to selected entities to identify areas for potential reforms.

To analyze changes in Ginnie Mae's MBS volume and issuers and their effects on Ginnie Mae's risks, we collected and analyzed data from Ginnie Mae and *Inside Mortgage Finance* (which collects mortgage market data). We analyzed data on the cumulative outstanding principal balance and new annual issuance of Ginnie Mae-guaranteed MBS for fiscal years 2005–2018 and on the number and types of financial

³GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: Feb. 14, 2013). We issue high-risk reports every 2 years that identify federal operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.

⁴GAO, *Federal Housing Finance Agency: Objectives Needed for the Future of Fannie Mae and Freddie Mac After Conservatorships*, [GAO-17-92](#) (Washington, D.C.: Nov. 17, 2016); and *Housing Finance: Prolonged Conservatorships of Fannie Mae and Freddie Mac Prompt Need for Reform*, [GAO-19-239](#) (Washington, D.C.: Jan. 18, 2019).

⁵GAO, *Ginnie Mae: Risk Management and Cost Modeling Require Continuing Attention*, [GAO-12-49](#) (Washington, D.C.: Nov. 14, 2011).

⁶Department of Housing and Urban Development, Office of Inspector General, *Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2017 and 2016 (Restated)*, 2018-FO-0002 (Washington, D.C.: Nov. 14, 2017).

institutions that issue MBS and their share of outstanding MBS for fiscal years 2011–2018. We assessed the reliability of the Ginnie Mae data by reviewing documentation on the systems that produced the data, performing data tests, and conducting interviews with relevant Ginnie Mae officials. We determined that the data were sufficiently reliable for our reporting objective. To analyze the effects of MBS market changes on Ginnie Mae’s risks, we reviewed academic and other studies identified through a literature search of relevant databases for the period from 2008 through 2017, and we also reviewed relevant reports by Ginnie Mae, GAO, and HUD OIG.

To examine Ginnie Mae’s oversight of issuers and related risks, we reviewed its MBS Guide, all participant memorandums, and related issuer guidance; internal policies, procedures, and manuals for approving, monitoring, and managing issuers; and policies and procedures for managing fraud risk.⁷ We reviewed Ginnie Mae’s internal systems, data sources, and quantitative metrics used to monitor and evaluate issuers’ financial condition and operations and track its MBS portfolio. We also reviewed relevant laws, selected legislative history, relevant regulations, and Ginnie Mae, GAO, and HUD OIG reports.

To analyze Ginnie Mae’s staff levels and use of contractors, we reviewed Ginnie Mae’s budget justifications, budget requests, related policies and procedures, and studies and assessments Ginnie Mae conducted or commissioned on staffing or contracting. We also obtained and analyzed Ginnie Mae’s data on budget requests and authorizations, staff turnover, and amounts paid to contractors. We assessed the reliability of the staff turnover and contract data by reviewing documentation on the systems that produced the data. We determined that the data were sufficiently reliable for our reporting objective. We reviewed HUD’s policies and procedures for hiring, procurement, and contractor oversight and related guidance. We reviewed GAO and HUD OIG reports on resource challenges Ginnie Mae faced in overseeing issuers and contractors.

To compare the oversight structure of Ginnie Mae to selected entities to identify areas for potential reforms, we reviewed Ginnie Mae’s statutory authority, HUD policies on its oversight of Ginnie Mae, and relevant GAO and HUD OIG reports on HUD oversight of Ginnie Mae. For our

⁷Ginnie Mae generally issues all participant memorandums (which issuers, document custodians, and other participants in Ginnie Mae programs access) to announce policy and MBS Guide changes.

comparative analysis, we selected the enterprises and the Federal Deposit Insurance Corporation (FDIC) based on their mission, functions, risks, and oversight structure.⁸ To analyze the oversight and other characteristics of the selected entities, we reviewed their annual reports, bylaws, strategic plans, and other relevant documents. We also conducted a literature search of congressional, academic, and other proposals to reform the housing finance system. Specifically, we reviewed 14 proposals introduced in 2014–2018 that were (1) introduced in Congress, either in legislation or released as discussion drafts, or (2) introduced by industry stakeholders or discussed in Congressional hearings. We used our framework for assessing potential changes to the housing finance system to analyze Ginnie Mae’s role in the proposed reforms.⁹

For all the objectives, we interviewed officials at Ginnie Mae and HUD OIG. We also interviewed officials at HUD and the Office of Management and Budget (OMB) to analyze Ginnie Mae’s use of staff and contractors. To analyze oversight and other characteristics of Ginnie Mae and selected entities, we interviewed officials at FDIC and the Federal Housing Finance Agency (FHFA), which provided FHFA’s perspective on the enterprises as their conservator.¹⁰ For more information on our scope and methodology, see appendix I.

We conducted this performance audit from May 2017 to April 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁸For purposes of this report, the discussion of FDIC’s operations is limited to its management of the Deposit Insurance Fund.

⁹In a 2014 report, we outlined a framework composed of nine elements we consider to be critically important to help policymakers assess or craft proposals to change the housing finance system. See GAO, *Housing Finance System: A Framework for Assessing Potential Changes*, GAO-15-131 (Washington, D.C.: Oct. 7, 2014). For more information on the development of the framework, see appendix I.

¹⁰FHFA became the conservator of the enterprises in 2008. In addition, FHFA is the safety and soundness regulator of the enterprises and may set standards in certain areas that affect third parties that do business with the enterprises, including nonbanks that service loans on the enterprises’ behalf.

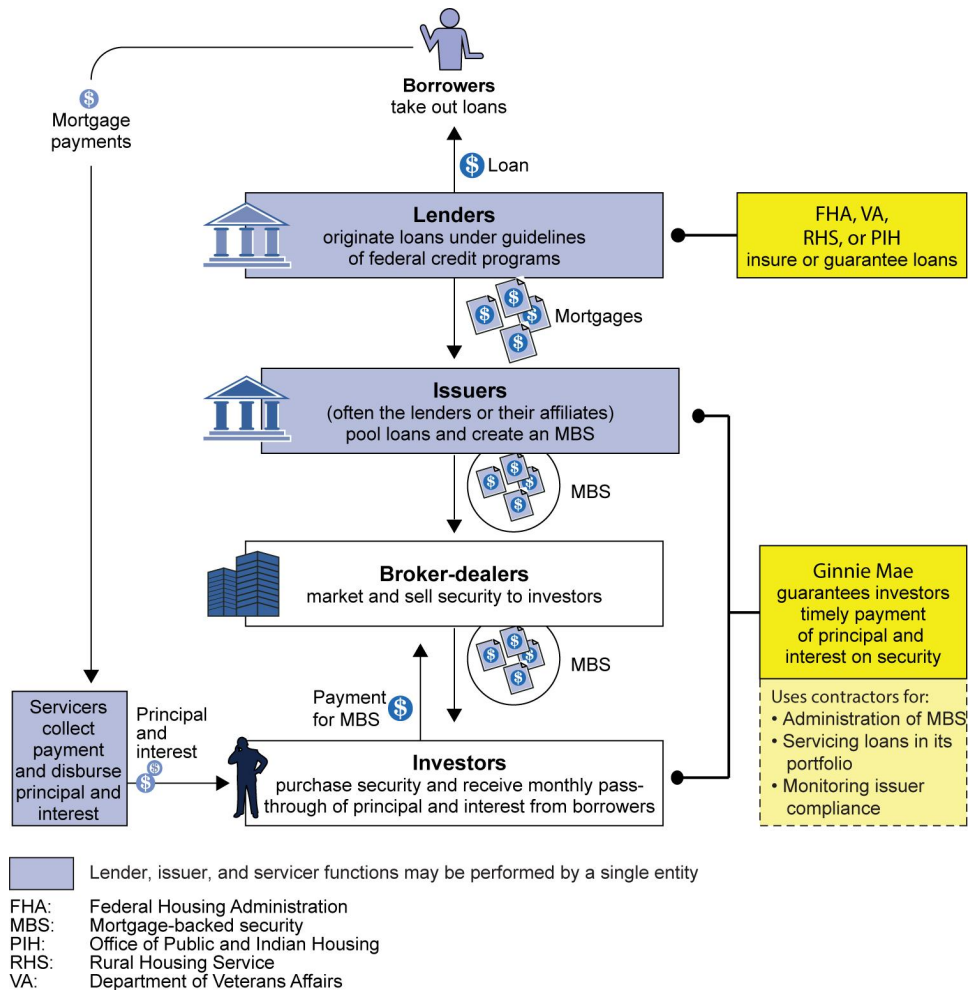
Background

Overview of MBS Securitization and Ginnie Mae Guarantee

Ginnie Mae provides an explicit federal guarantee (full faith and credit of the United States) of the performance of MBS backed by mortgages insured or guaranteed by federal agencies, including FHA, VA, the Rural Housing Service in the Department of Agriculture, and the Office of Public and Indian Housing in HUD.¹¹ Ginnie Mae does not issue MBS or originate the underlying mortgages; rather, it relies on approved financial institutions (issuers) to pool or securitize the eligible mortgages and issue Ginnie Mae-guaranteed MBS. Ginnie Mae's issuers can service the MBS themselves or hire a third party to perform certain functions. Issuers can obtain these mortgages by originating the loans or purchasing the loans from another institution. Figure 1 provides an overview of Ginnie Mae securitization.

¹¹When Ginnie Mae acquires the portfolio of an issuer terminated from the MBS program and a borrower in the defaulted issuer's portfolio defaults on an acquired mortgage, Ginnie Mae files a claim with the federal agency that insured or guaranteed the mortgage. In some instances, mortgages in pools may not be insured or guaranteed due to error, which may result in curtailment of claim payments to Ginnie Mae, or fraud. FHA's single-family mortgage insurance program guarantees 100 percent of the mortgage, and FHA refers to its guarantee fees as insurance premiums. Similarly, the Office of Public and Indian Housing's Loan Guarantee for Indian Housing program guarantees 100 percent of the mortgage. VA generally guarantees 25 percent of the mortgage amount but can guarantee up to 50 percent of the mortgage amount for smaller loans. The Rural Housing Service guarantees up to 90 percent of the mortgage.

Figure 1: Securitization of Ginnie Mae-Guaranteed Mortgage-Backed Securities



Source: GAO. | GAO-19-191

Ginnie Mae operates an MBS program which includes mortgages on (1) single-family housing; (2) multifamily housing, such as apartment buildings and nursing homes; and (3) manufactured housing. The MBS program also includes home equity conversion mortgages (often called reverse mortgages) on single-family housing. Ginnie Mae charges issuers a monthly guaranty fee, which varies depending on the program, for guaranteeing timely payment of principal and interest. Issuers also pay a commitment fee to Ginnie Mae each time they request authority

(commitment authority) to pool mortgages into Ginnie Mae-guaranteed MBS.¹²

Issuers of Ginnie Mae-guaranteed MBS are responsible for ensuring that investors who purchase the MBS receive monthly payments on time and in full, even if the borrower makes a late payment or defaults on an underlying mortgage. Ginnie Mae issuers are responsible for making advance payments to investors using their own funds and for recovering any losses from the federal agencies that insured or guaranteed the mortgages.

Ginnie Mae's guarantee benefits lenders, borrowers, and investors in a number of ways. First, the guarantee benefits lenders by increasing the liquidity of mortgage loans, which may lower the cost of raising funds and allow lenders to transfer risks, such as the interest-rate risk of a mortgage, to investors.¹³ Second, the guarantee benefits borrowers by lowering the cost of raising funds for lenders, which helps lower interest rates on mortgage loans. Finally, Ginnie Mae's guarantee provides investors with a fixed-income security that has the same credit quality as a U.S. Treasury bond. Investors face the risk that a mortgage will be removed from the MBS prematurely—for instance, because borrowers pay off their mortgage loans early or go into foreclosure—which reduces the amount of interest earned on the security.¹⁴ However, investors do not face credit risk—the possibility of loss from unpaid mortgages—because Ginnie Mae guarantees timely payment of principal and interest.

¹²The commitment fee is based on the size of the commitment authority request—\$500 for the first \$1.5 million and \$200 for each additional \$1 million (or part thereof) in commitment authority. In 2017, Ginnie Mae reported approximately \$101 million in commitment fee revenue.

¹³Interest-rate risk includes the risk that an increase in interest rates will reduce a loan's value.

¹⁴Prepayment occurs when a mortgage is paid off before it matures, which may occur because the home was sold or the mortgage was refinanced into a new loan. Prepayment also may occur as a result of a foreclosure action, if the loan is delinquent or defective, requiring the liquidation of the loan from the security.

Financial Risks Ginnie Mae Faces

Because of its MBS guarantee, Ginnie Mae is exposed to counterparty credit risk—the risk of loss arising from the default of an issuer or other counterparty (such as a mortgage servicer or custodian).¹⁵ If an issuer defaults (for instance, by failing to make timely payment of principal and interest to investors), Ginnie Mae may take a number of actions (see fig. 2).¹⁶ For example, Ginnie Mae could

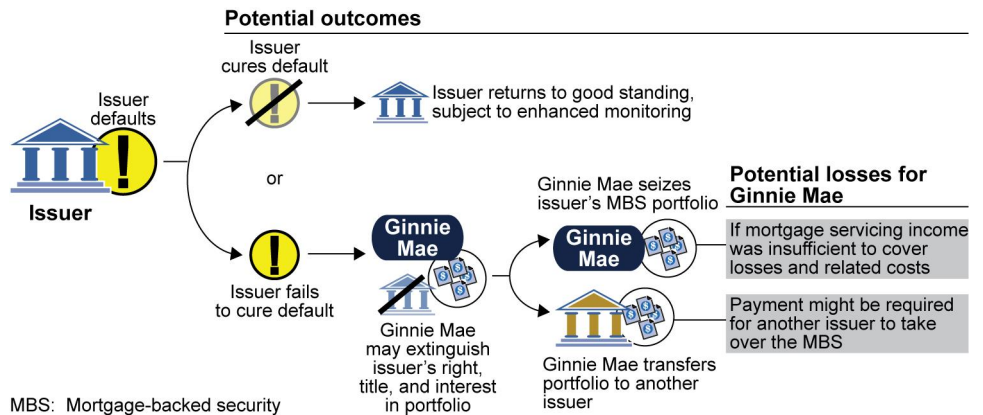
- terminate the issuer’s status as an approved Ginnie Mae issuer;
- extinguish, among other things, any legal or other right of the issuer in the pooled mortgages in MBS for which the issuer has responsibility. Based on its statutory authority, Ginnie Mae also can seize the issuer’s MBS portfolio and service it itself, or permit the transfer of the portfolio to another issuer (as discussed below);
- recover from the issuer all shortfalls in any principal and interest custodial account and certain other accounts;¹⁷ and
- seek civil money penalties against the issuer.

¹⁵According to its 2017 Annual Report, Ginnie Mae considers several factors as part of the assessment process for counterparty credit risk, including the issuer’s financial and operational vulnerability, credit analysis, and other evidence of probability of default, such as known regulatory activity, interest rates, and other economic conditions. See Government National Mortgage Association, *Ginnie Mae 2017 Annual Report* (Washington, D.C.: Jan. 25, 2018). While Ginnie Mae used the term “counterparty credit risk” in its 2017 Annual Report, it also used “counterparty risk” in its other annual reports to refer to the same risk.

¹⁶Federal law, guaranty or other contractual agreements between Ginnie Mae and issuers, and Ginnie Mae’s MBS Guide set forth grounds on which Ginnie Mae may declare an issuer in default of its responsibilities under the MBS program.

¹⁷A funds custodian is an insured depository institution that maintains pool or loan package principal and interest custodial accounts and required escrow custodial accounts.

Figure 2: Examples of Potential Ginnie Mae Actions in the Case of Default of a Mortgage-Backed Security Issuer

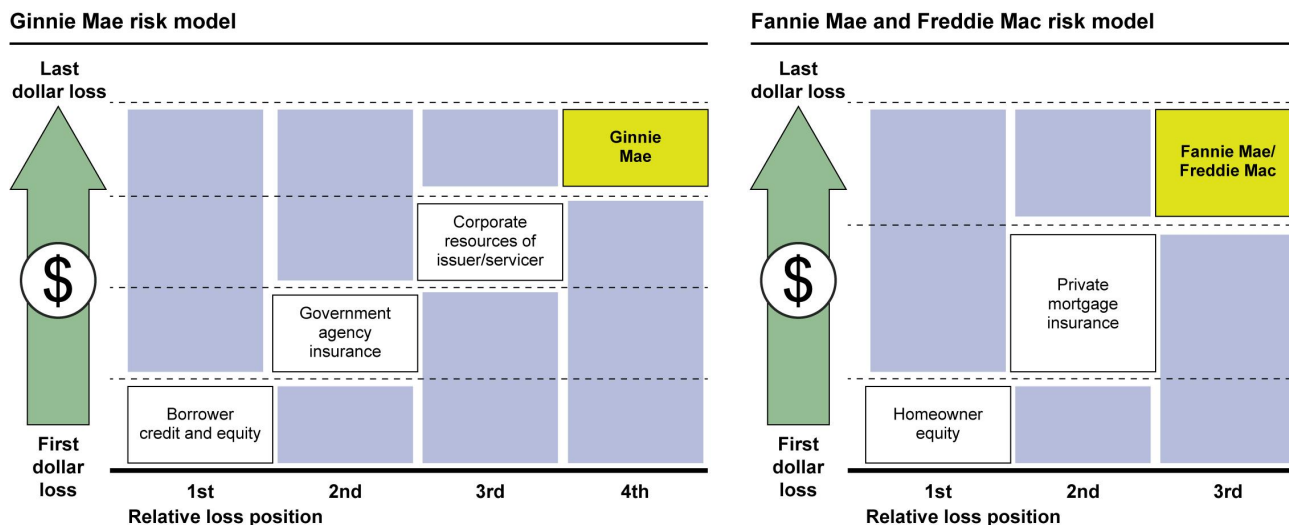


Source: GAO analysis of Ginnie Mae information. | GAO-19-191

After a default and extinguishment occurs, Ginnie Mae can suffer a loss if (1) borrowers default on loans or loans are not fully insured or guaranteed, (2) Ginnie Mae must pay another issuer to take over the portfolio (mortgage servicing rights), or (3) issuers engage in wrongdoing, such as fraud. Under the first two scenarios, Ginnie Mae would work to recover as much as possible from borrowers, the insuring or guaranteeing agencies, and the defaulted issuer. Under the third scenario, Ginnie Mae would seek recovery directly from the defaulted issuer.

Under its risk model, Ginnie Mae sits in the fourth loss position—that is, the agency experiences a loss after the borrower's credit and equity, the federal agency guarantee or insurance (such as FHA or VA), and the issuer's financial resources have been exhausted (see fig. 3). Ginnie Mae incurs losses when FHA, VA, or other federal insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include unrecoverable losses from borrower defaults because of coverage limitations on mortgage insurance or guarantees, ineligible mortgages included in defaulted Ginnie Mae pools, and improper use of proceeds by an issuer (for example, because of fraud).

Figure 3: Ginnie Mae’s Loss Position Compared with Fannie Mae and Freddie Mac’s Loss Position



Portion of dollar loss for which position does not assume risk

Source: GAO adaptation of Ginnie Mae graphic. | GAO-19-191

Unlike Ginnie Mae, the enterprises purchase mortgages from lending institutions and pool them into MBS to be sold to investors. Because the enterprises own mortgages and issue and guarantee their own MBS, they sit in the third loss position.¹⁸ Before the enterprises were placed in conservatorship under FHFA, the market commonly viewed their MBS as backed by the federal government.¹⁹

¹⁸Under FHFA’s direction, the enterprises have transferred increasing amounts of credit risk on their guaranteed MBS to the private market since 2013. When the enterprises purchase mortgages and issue guaranteed MBS, they retain the credit risk of those mortgages—that is, they are exposed to potential losses if a borrower cannot pay back the mortgage. The enterprises have transferred an increasing amount of credit risk on some of the mortgages they guarantee through a variety of credit risk transfer structures.

¹⁹This market perception lowered the enterprises’ overall cost of doing business and may have led to increased risk taking and moral hazard. For example, see GAO, *Fannie Mae and Freddie Mac: Analysis of Options for Revising the Housing Enterprises’ Long-term Structures*, [GAO-09-782](#) (Washington, D.C.: Sept. 10, 2009).

Institutions That Issue Ginnie Mae-Guaranteed MBS

Banks (depository institutions) and nonbanks (non-depository financial institutions) issue Ginnie Mae-guaranteed MBS. Banks and nonbanks typically have different business models.²⁰ Banks offer financial products to consumers that include deposit accounts, loans, and credit cards and are funded by deposits (such as savings and checking accounts). In contrast, nonbank issuers generally are involved only in mortgage-related activities, including servicing and originating loans. Nonbanks rely on funding sources other than deposits, including lines of credit that can be less stable than deposits.

Banks are subject to supervision and regulation by federal or state banking regulators. The specific regulatory oversight configuration for a bank depends in part on its type of charter.²¹ Banks may obtain their charters at the state or federal level. State regulators charter some banks and participate in their oversight, but all banks that offer federal deposit insurance have a federal banking (prudential) regulator. The responsibilities of federal banking regulators include ensuring the safety and soundness of the banks they oversee, protecting federal deposit insurance funds, promoting stability in financial markets, and enforcing compliance with applicable consumer protection laws. They also are required to conduct on-site examinations of their supervised banks on a routine basis.

Nonbank issuers such as mortgage originators and servicers generally are not subject to consistently comprehensive federal safety and soundness standards. State regulators supervise nonbank entities that are chartered or licensed in their states to offer products and services related to the mortgage industry. According to the Conference of State Bank Supervisors, an industry organization that represents state banking regulators, there are initiatives currently in development intended to modernize state regulation of nonbank financial companies by 2020.

²⁰Nonbank can be defined broadly to cover any company that offers or provides consumer financial products or services but is not an insured depository institution. For our report, we generally use nonbank issuer to refer to a subset of nonbanks that engage primarily in mortgage-related activities, including loan origination and servicing.

²¹Depository institution charter types include commercial banks; thrifts, which include savings banks, savings associations, and savings and loans; and credit unions.

Nonbanks also are subject to monitoring by market participants, such as the enterprises.²² FHFA is the safety and soundness regulator of the enterprises, and may set standards in certain areas that affect third parties that do business with the enterprises, including nonbanks that service loans on the enterprises' behalf. For example, the enterprises, at FHFA's direction, have issued updated eligibility requirements for their servicers.

Finally, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 subjects certain nonbanks to federal consumer financial protection laws.²³ The Consumer Financial Protection Bureau (CFPB) has rulemaking authority to implement provisions of federal consumer financial law and has issued rules governing the mortgage market, including rules related to mortgage servicing. CFPB also has enforcement authority to assess nonbank mortgage originators and servicers for compliance with federal consumer financial laws, including CFPB's mortgage servicing rules.²⁴

Ginnie Mae's Mission and Operations

Ginnie Mae's mission statement is to link the U.S. housing market to the global capital markets, thus providing low-cost financing for federal housing programs. Ginnie Mae is a wholly owned government corporation, located within HUD, and is a primary funding mechanism for government-insured and government-guaranteed mortgage loans. Its

²²For example, see GAO, *Nonbank Mortgage Servicers: Existing Regulatory Oversight Could Be Strengthened*, [GAO-16-278](#) (Washington, D.C.: Mar. 10, 2016). In this report, we recommended that Congress consider granting FHFA explicit authority to examine third parties that do business with and play a critical role in the operations of the enterprises.

²³See Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, §§ 1021-22, § 1024, 124 Stat. 1376, 1980 (2010) (codified at 12 U.S.C. §§5511 et seq.).

²⁴See Dodd-Frank Act, Pub. L. No. 111-203, § 1021-22, § 1024, 124 Stat. 1376, 1980, 1987 (2010) (codified at 12 U.S.C. § 5511 et seq.).

administrative, staffing, and budgetary decisions are coordinated with HUD.²⁵

Ginnie Mae comprises the following offices:

- Office of the President and Executive Vice President (oversees business and policy development),
- Office of the Chief Financial Officer (maintains financial management and operational controls),
- Office of Enterprise Risk (monitors and manages Ginnie Mae's aggregate risk),
- Office of Capital Markets (directs and manages capital market activities),
- Office of Issuer and Portfolio Management (executes the MBS program through the institutions that issue and service Ginnie Mae-guaranteed MBS),
- Office of Securities Operations (manages Ginnie Mae's securitization platform),
- Office of Enterprise Data and Technology Solutions (manages enterprise-wide technical and information management strategies and solutions), and
- Office of Management Operations (manages human resources functions).

Ginnie Mae uses contractors to help support its offices and assist with many aspects of its work. Contracted functions include administering payments to investors, collecting data from issuers, and servicing defaulted portfolios.

Reform of the Housing Finance System

Congress has considered proposals to make significant changes to the housing finance system. For example, during the 113th Congress (2013–

²⁵Ginnie Mae was created in 1968 with the passage of the Housing and Urban Development Act of 1968. Pub. L. No. 90-448, 82 Stat. 476 (1968) (codified as amended at 12 U.S.C. §§ 1716-1723i). Ginnie Mae is authorized to guarantee the timely payment of principal and interest for securities backed by pools of federally insured or guaranteed mortgages. 12 U.S.C. § 1721(g).

2015), three proposals—the Housing Finance Reform and Taxpayer Protection Act of 2014, S. 1217; the FHA Solvency Act of 2013, S. 1376; and the Protecting American Taxpayers and Homeowners Act of 2013, H.R. 2767—were reported out of committee but did not become law. The Protecting American Taxpayers and Homeowners Act of 2018 (H.R. 6746) was introduced during the 115th Congress and referred to committee, but no further action was taken. Industry groups and think tanks also have published reform proposals.²⁶

Ginnie Mae’s Continued Growth and Changes in Issuers Have Increased Its Counterparty Credit Risk Exposure Since 2007

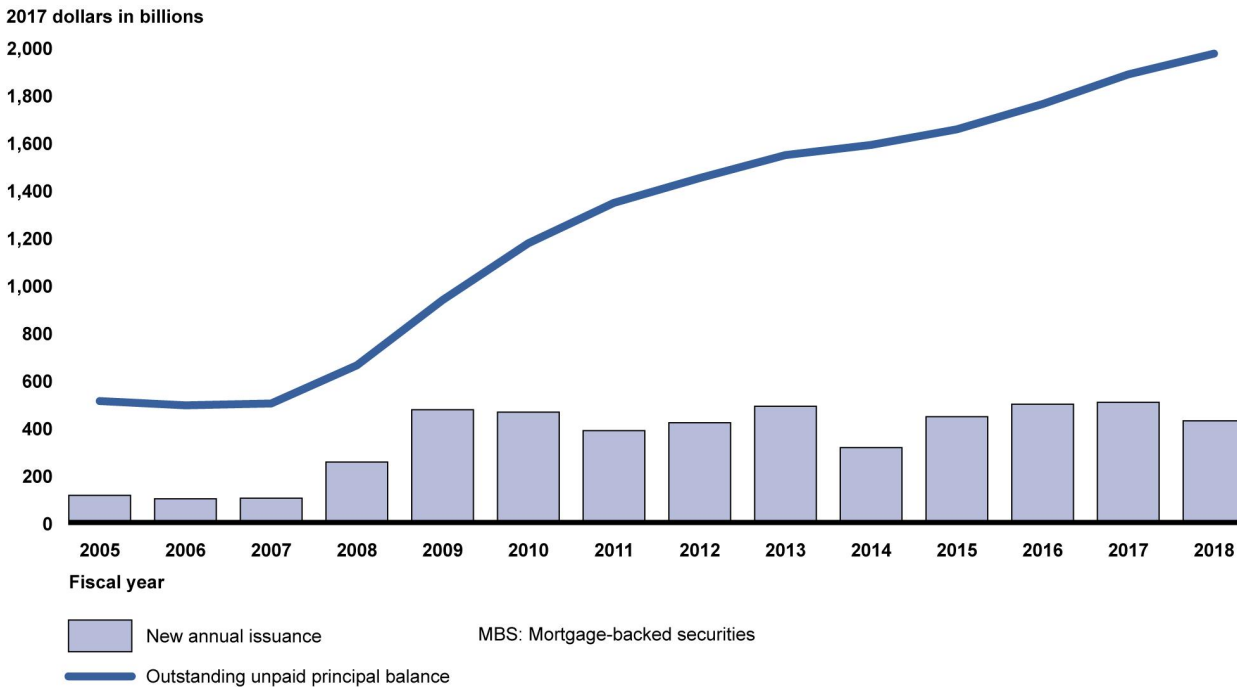
Amount of MBS Outstanding Grew Substantially Since 2007 and Increased Ginnie Mae’s Potential Exposure to Loss

Based on Ginnie Mae data, the dollar amount of Ginnie Mae-guaranteed MBS—in terms of the cumulative unpaid principal balance of outstanding Ginnie Mae-guaranteed MBS and annual issuance of new Ginnie Mae MBS—increased substantially since fiscal year 2007 (see fig. 4). The cumulative outstanding unpaid principal balance of Ginnie Mae MBS increased by 295 percent—from \$500 billion as of September 30, 2007, to nearly \$2.0 trillion as of September 30, 2018 (in fiscal year 2017 dollars).²⁷ The cumulative balance grew substantially after the 2007–2009 financial crisis, largely because of the high growth rate in federally insured or guaranteed mortgages. New annual issuance of Ginnie Mae-guaranteed MBS increased from \$102 billion in fiscal year 2007 to nearly \$427 billion in fiscal year 2018 and averaged nearly \$442 billion per year in fiscal years 2009–2018 (in fiscal year 2017 dollars).

²⁶For example, see Michael Bright and Ed DeMarco, *Toward a New Secondary Mortgage Market* (Washington, D.C.: September 2016).

²⁷We adjusted the annual dollar amounts for inflation using the gross domestic product price index from the Bureau of Economic Analysis, with fiscal year 2017 as the base year.

Figure 4: Cumulative Outstanding Unpaid Principal Balance and New Annual Issuance, Ginnie Mae-Guaranteed MBS, at Year End, Fiscal Years 2005–2018 (in 2017 dollars)



Source: GAO analysis of Ginnie Mae data. | GAO-19-191

Note: Annual dollar amounts are adjusted for inflation using the gross domestic product price index from the Bureau of Economic Analysis, with fiscal year 2017 as the base year.

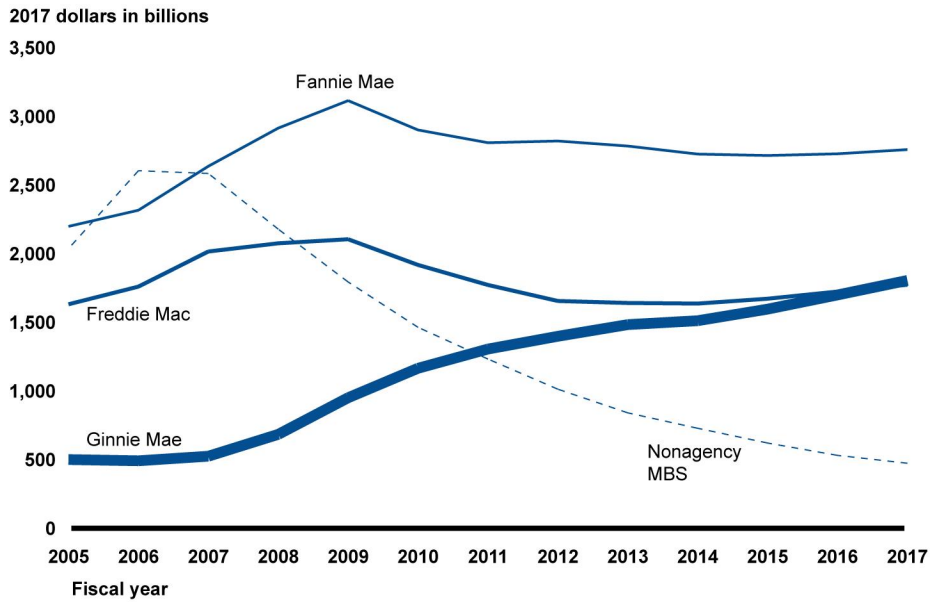
While Ginnie Mae’s outstanding principal balance on its MBS grew from 2007 through 2017, the enterprises’ year-end outstanding principal balances remained relatively stable. As a result, Ginnie Mae’s share of all year-end outstanding MBS increased from 8 percent in 2005 to 27 percent in 2017 (see fig. 5).²⁸ In the first quarter of 2017, Ginnie Mae’s outstanding balance surpassed Freddie Mac’s for the first time and reached \$1.8 trillion by the end of 2017.²⁹ Concurrently, the outstanding principal balance of nonagency (not federally guaranteed) MBS peaked at

²⁸To compare Ginnie Mae’s outstanding principal balance to that of the enterprises, we used data from *Inside Mortgage Finance*. These data include single-family MBS but did not include multifamily MBS. See *Inside Mortgage Finance, 2018 Mortgage Market Statistical Annual* (Bethesda, Md.: 2018).

²⁹*Inside Mortgage Finance* data are reported by calendar year.

\$2.6 trillion at year-end 2007 and fell to \$474 billion by year-end 2017 (in 2017 dollars).³⁰

Figure 5: Cumulative Outstanding Unpaid Principal Balances, Agency MBS (Ginnie Mae, Fannie Mae, and Freddie Mac) and Nonagency MBS, at Year-End, Calendar Years 2005–2017 (in 2017 dollars)



MBS: Mortgage-backed securities

Source: GAO analysis of Inside Mortgage Finance data. | GAO-19-191

Note: Annual dollar amounts are adjusted for inflation using the gross domestic product price index from the Bureau of Economic Analysis, with 2017 as the base year. Nonagency MBS, also referred to as private-label MBS, are issued by private institutions, such as investment banks, and are not guaranteed by Ginnie Mae or issued by the enterprises.

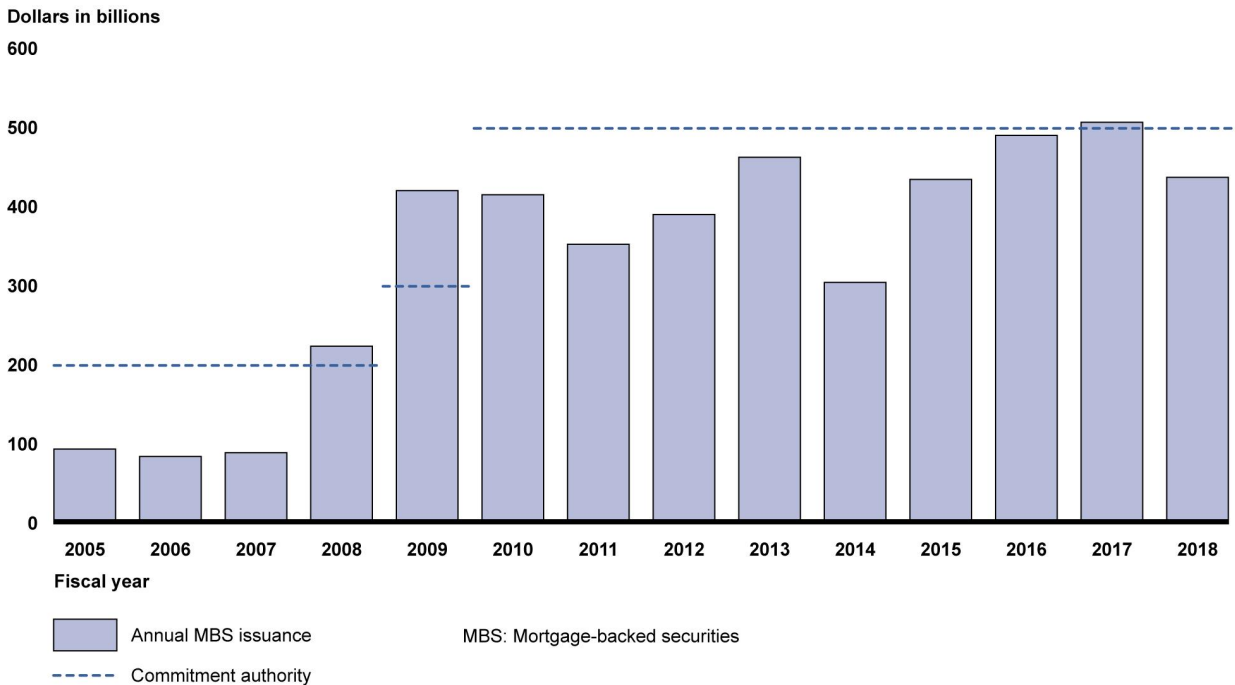
³⁰Nonagency MBS, also referred to as private-label MBS, are issued by private institutions, such as investment banks, and are not guaranteed by Ginnie Mae or issued by the enterprises.

In fiscal years 2008–2018, Ginnie Mae issued guarantees of MBS at a significantly higher rate than in previous years, leading Ginnie Mae to request increases in its commitment authority cap—the maximum amount of MBS Congress annually authorizes Ginnie Mae to guarantee (see fig. 6).³¹ In response to the requests, Congress increased Ginnie Mae’s commitment authority from \$200 billion to \$300 billion for fiscal year 2009 and to \$500 billion for fiscal year 2010 to meet the increased demand for Ginnie Mae-guaranteed MBS. Ginnie Mae issued guarantees for \$504.6 billion of MBS in fiscal year 2017 and \$427 billion in fiscal year 2018 (in fiscal year 2017 dollars).³² To address the increasing demand in recent years, Ginnie Mae requested an increase to the cap (to \$550 billion) for fiscal year 2019.

³¹The total annual amount of commitment authority that Ginnie Mae can approve in any fiscal year is limited by statute and administrative procedures. Before an approved issuer may issue Ginnie Mae MBS, it must apply to Ginnie Mae for commitment authority to guarantee MBS (in an amount equal to or greater than the MBS the issuer plans to issue).

³²HUD’s annual appropriation has provided for annual caps on Ginnie Mae’s commitment authority—the limit on the dollar volume of new securities that the agency can guarantee. Annual commitment authority for Ginnie Mae generally has been available for 2 fiscal years. That is, Ginnie Mae can use “carry-over” authority from the prior year to make current year commitments (and used it in 2017, when the annual 1-year cap was exceeded).

Figure 6: Annual Issuance of Ginnie Mae-Guaranteed MBS Relative to Maximum Level of Commitment Authority, Fiscal Years 2005–2018



Source: GAO analysis of Ginnie Mae data. | GAO-19-191

Note: The annual commitment authority Ginnie Mae receives generally has been available for 2 fiscal years. Ginnie Mae can use “carry-over” authority, when available, from the previous year to make current year commitments. In 2008, 2009, and 2017, Ginnie Mae used carry-over authority to continue to issue MBS. Numbers are not adjusted for inflation, as commitment authority represents budget data.

Ginnie Mae’s growing potential exposure to loss corresponded to the growth of its cumulative outstanding unpaid principal balance. Because of its MBS payment guarantee, Ginnie Mae is exposed to counterparty credit risk: the risk of loss if an issuer defaults. If an issuer defaulted, Ginnie Mae might need to service the loans underlying the MBS and advance principal and interest payments to investors. Ginnie Mae’s outstanding MBS balance of nearly \$2.0 trillion largely represents its maximum potential exposure to loss. However, the amount does not represent Ginnie Mae’s actual exposure because it does not account for insurance or guarantee claims or the recoveries Ginnie Mae would

receive by exercising its right to the underlying collateral.³³ As previously discussed, Ginnie Mae could incur losses when FHA, VA, or other federal insurance and guarantees do not cover expenses that result from issuer defaults, and such expenses include unrecoverable losses from borrower defaults due to coverage limitations on mortgage insurance or guarantees.

Issuer Base Shifted from Mostly Banks to Nonbanks, Presenting Oversight Challenges and Risk for Ginnie Mae

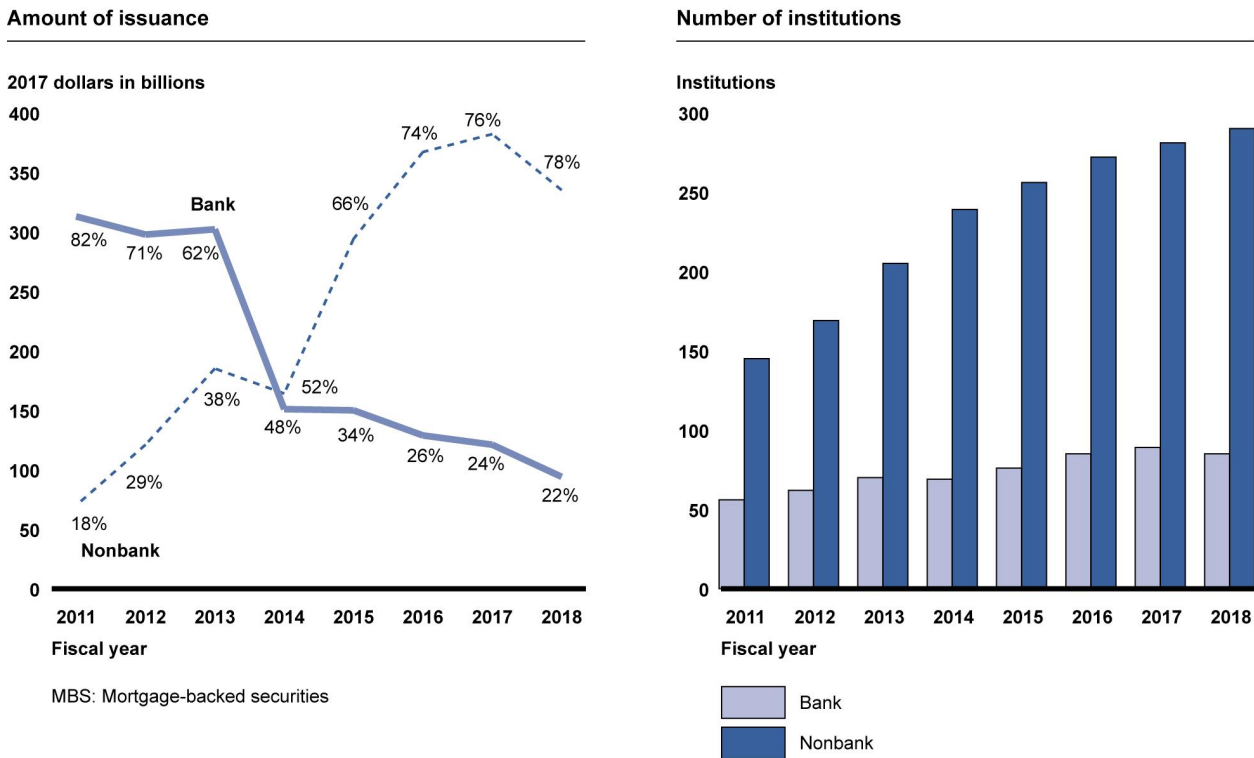
Changes to Issuer Base

Based on Ginnie Mae data, nonbanks became more prominent in Ginnie Mae's issuer base as the amount of MBS issuance shifted from 82 percent banks and 18 percent nonbanks in fiscal year 2011 to 22 percent banks and 78 percent nonbanks in fiscal year 2018 (see fig. 7).³⁴ While the number of banks issuing Ginnie Mae-guaranteed MBS increased by 52 percent from fiscal year 2011 to fiscal year 2018, the number of nonbanks doubled in that time period. Consequently, the average amount issued per nonbank issuer increased from \$484 million to \$1.16 billion in the same time frame (in fiscal year 2017 dollars). However, concentration of MBS issued by nonbanks also increased among the largest nonbank issuers, as discussed in more detail later.

³³Collateral includes mortgage servicing rights, which represent Ginnie Mae's rights and obligations to service mortgage loans underlying a defaulted issuer's entire Ginnie Mae-guaranteed MBS portfolio. Ginnie Mae receives a monthly servicing fee based on the remaining unpaid principal balance of the loans. The servicing fees are included in and collected from payments made by the borrower. Ginnie Mae hires and pays contractors to service its pooled mortgage loans. According to Ginnie Mae officials, they use a risk-based capital model to estimate the agency's potential future exposure from issuer defaults under a stressed environment.

³⁴We did not include fiscal years 2005–2010 in figure 7 because we did not report information on the number of institutions and amount of issuance for these years in [GAO-12-49](#).

Figure 7: Number of Institutions Issuing Ginnie Mae-Guaranteed MBS (left) and Amount of Issuance in Millions (right and in 2017 dollars), Fiscal Years 2011–2018



Source: GAO analysis of Ginnie Mae data. | GAO-19-191

Note: Annual dollar amounts are adjusted for inflation using the gross domestic product price index from the Bureau of Economic Analysis, with fiscal year 2017 as the base year.

The increase in nonbank issuers corresponded to banks exiting and reducing their share of the mortgage lending market after the 2007–2009 financial crisis. A recent working paper by staff of the Board of Governors of the Federal Reserve System cited several reasons for banks reducing their share of the mortgage lending market, such as liability from legal settlements and increased capital requirements for mortgage servicing rights.³⁵ Following the financial crisis, the enterprises and the federal government worked to recover credit losses from loan originators, most of which were banks. Additionally, the passage of the Fraud Enforcement and Recovery Act in 2009 allowed the Department of Justice to litigate

³⁵The paper also cited rapid nonbank technology adoption and growth of the subservicing sector as factors facilitating the rise of the nonbank sector. You Suk Kim, Steven M. Laufer, Karen Pence, et al., *Liquidity Crises in the Mortgage Market*, Finance and Economics Discussion Series 2018-016 (Washington, D.C.: Mar. 7, 2018).

additional mortgage-related violations.³⁶ These actions placed greater financial constraints on banks, as they carried more exposure from their previously issued loans than nonbanks.

As banks reduced their engagement and overall holdings in government lending programs, nonbanks generally were unhampered by bank capital requirements, allowing them to quickly adapt to innovations in financial technology and profit from refinancing mortgages. For example, according to a study by the Department of the Treasury, many nonbank lenders were early adopters of financial technology innovations, which simplified the loan application and approval process.³⁷ Such factors allowed nonbanks to increase their issuance and servicing of MBS. Nonbanks went from holding \$191 billion of Ginnie Mae's outstanding balance as of September 30, 2011—versus \$1.1 trillion for banks—to \$1.3 trillion as of September 30, 2018—versus \$692 billion for banks (in 2017 dollars).

Oversight Challenges and Potential Risks Associated with Nonbanks

Nonbank issuers have helped ensure consumer access to federally insured mortgages, but according to Ginnie Mae officials, the sharp growth in nonbank issuers increased oversight challenges and costs associated with monitoring them. In its 2017 annual report, Ginnie Mae noted that the majority of nonbank issuers involve more third parties in their MBS transactions—making its oversight of the issuers more complicated.³⁸ Ginnie Mae also noted that monitoring nonbanks greatly increased its staff workload. The number of Ginnie Mae issuers increased from 201 in 2011 (145 of which were nonbanks) to 375 in 2018 (290 of which were nonbanks).

As HUD OIG reported in 2017, when banks dominated the issuer base, Ginnie Mae relied, in part, on the oversight of federal banking regulators,

³⁶Pub. L. No. 111–21, 123 Stat. 1617 (2009). This law enhanced criminal enforcement of federal fraud laws, especially regarding financial institutions, mortgage fraud, and securities or commodities fraud.

³⁷Department of the Treasury, *A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation* (Washington, D.C.: July 2018).

³⁸*Ginnie Mae 2017 Annual Report*.

which conduct safety and soundness supervision.³⁹ As previously discussed, nonbank issuers generally are not subject to the same federal safety and soundness regulation as banks. Rather, market participants (including Ginnie Mae and the enterprises) monitor nonbank servicer activities to manage risk exposure to the nonbank mortgage servicers. HUD OIG reported that Ginnie Mae has functioned, in effect, as the “first line of defense” to evaluate nonbanks for financial and operational soundness. In addition, as we previously reported, some state regulators monitor nonbank servicers through their licensing and examination programs, but requirements are not consistent across states.⁴⁰

Although nonbank issuers generally are not subject to the same federal safety and soundness regulations as banks, CFPB has supervisory and enforcement authority with respect to their compliance with federal consumer financial protection laws. We reported in 2016 that incomplete information on the identity of nonbanks may hinder those responsible for oversight of nonbanks.⁴¹ According to Ginnie Mae and CFPB officials, they meet to discuss broad issues and trends relating to nonbank servicing.

In 2018, the Department of the Treasury recommended that Ginnie Mae collaborate with FHFA, the enterprises, and the Conference of State Bank Supervisors to expand and align standard, detailed reporting requirements on the financial health of nonbank counterparties (including terms and covenants associated with funding structures) to provide confidence that taxpayers would be protected during a period of severe market stress.⁴² Furthermore, in 2015 a task force of the Conference of State Bank Supervisors issued proposed prudential standards for nonbank servicers after they found a lack of consistently comprehensive

³⁹Department of Housing and Urban Development, Office of Inspector General, *Ginnie Mae Did Not Adequately Respond to Changes in Its Issuer Base*, 2017-KC-0008 (Kansas City, Kans.: Sept. 21, 2017).

⁴⁰[GAO-16-278](#).

⁴¹To improve CFPB’s ability to monitor the effect of nonbank servicers on consumers, we recommended that CFPB take action to collect more comprehensive data on the identity and number of nonbank mortgage servicers in the market. To address the recommendation, CFPB analyzed National Mortgage Licensing System data and identified 880 additional servicers, resulting in a list of 1,050 mortgage servicing entities. See [GAO-16-278](#).

⁴²See *A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation*.

safety and soundness standards. As of February 2019, the Conference of State Bank Supervisors had not reported on actions taken after receiving comment letters on the proposal.⁴³

In addition, some recent research suggests that nonbanks may expose Ginnie Mae to greater liquidity, default, and other risks in comparison with banks. More specifically,

- In 2018, staff from the Board of Governors of the Federal Reserve System found that nonbanks are exposed to significant liquidity risks in their funding of mortgage originations and servicing of mortgages.⁴⁴ They also found that nonbank issuers rely more on credit lines provided mostly by banks, securitizations involving multiple players, and more frequent trading of mortgage servicing rights than banks. For instance, during times of stress, lenders to nonbanks have the right to quickly pull their lines of credit and seize and sell the underlying collateral when nonbanks do not maintain certain levels of net worth.⁴⁵
- According to researchers from the Urban Institute, nonbank servicers have substantial exposure to interest rate risk and default risk, and recent increases in Ginnie Mae's capital, liquidity, and net worth requirements may not be sufficient to protect against these risks.⁴⁶

We and HUD OIG also previously identified risks posed by nonbanks. In 2016, we reported that some servicers, including specialty servicers, have business models that result in significant concentrations of mortgage servicing rights on their balance sheets relative to capitalization and

⁴³As previously discussed, in March 2017, the Conference of State Bank Supervisors, an industry organization that represents state banking regulators, announced Vision 2020, a series of initiatives intended to modernize state regulation of nonbank financial companies by 2020 and make supervision more efficient by recognizing standards across state lines.

⁴⁴Kim, Laufer, Pence, et al., *Liquidity Crises in the Mortgage Market*.

⁴⁵Nonbank issuers typically rely on credit lines provided by warehouse lenders, which tend to be commercial and investment banks. Warehouse lending is a process by which lenders extend lines of credit to nonbanks to fund mortgages until the nonbank finds a willing investor. Warehouse lenders generally can adjust the terms or cancel lines if nonbanks violate any of the covenants of the contract, including maintaining certain levels of net worth and profitability. See *Liquidity Crises in the Mortgage Market*.

⁴⁶Karen Kaul and Laurie Goodman, *Nonbank Servicer Regulation: New Capital and Liquidity Requirements Don't Offer Enough Loss Protection*, Housing Finance Policy Center, Urban Institute (Washington, D.C.: Feb. 25, 2016).

servicing income as their principal source of revenue.⁴⁷ As a result, while all holders of mortgage servicing rights are sensitive to changes in the value of mortgage servicing rights, some nonbanks are particularly vulnerable to these fluctuations due to a lack of diversification. Our report also noted that values of mortgage servicing rights are highly volatile, as they depend on interest rates and loan mortgage defaults.⁴⁸ These fluctuations can affect perceptions of the financial condition of institutions and therefore the willingness of creditors to provide them with the liquidity required for critical operations. Additionally, in 2017, HUD OIG found that Ginnie Mae's issuer base changed dramatically—from banks to nonbanks—but that Ginnie Mae did not assess and address the risks posed by nonbanks in a timely manner, citing a failure to consider strategic issues and determine the maximum-size issuer default Ginnie Mae could manage.

Issuer Concentration Risk

Since we last reported on this issue in 2011, the overall issuer concentration risk has decreased, but concentration risk among nonbank issuers has increased. Ginnie Mae faces concentration risk when a significant number of issuers are susceptible to similar changes in economic conditions that could affect their ability to meet contractual obligations.⁴⁹ Ginnie Mae's fiscal year 2017 Annual Report to Congress stated that the increase in nonbank issuers has distributed the amount of annually issued MBS across more issuers, thus decreasing its concentration of bank issuers.

- In fiscal year 2011, the top five issuers accounted for 70 percent of the approximately \$383 billion (in fiscal year 2017 dollars) in MBS

⁴⁷GAO-16-278. Ginnie Mae officials and Freddie Mac representatives said that some newer nonbank servicers issue debt to acquire mortgage servicing rights and then rely on returns from those mortgage servicing rights to repay their debts.

⁴⁸GAO-16-278. As interest rates decline, loans are more likely to be prepaid due to enhanced refinancing opportunities. As a result, the total value of existing mortgage servicing rights declines because no further servicing fees are collected on the prepaid loans.

⁴⁹GAO-12-49. In 2011, we reported that Ginnie Mae planned to expand the number of issuers by marketing its MBS program to smaller financial institutions, such as credit unions and state housing finance agencies, because the concentration of the MBS portfolio among a few issuers represented some level of risk to Ginnie Mae. However, Ginnie Mae's increase in issuers resulted from higher issuance by banks and independent mortgage banks (non-depository institutions).

issued that year, and four of them were banks, including the top three issuers.

- In fiscal year 2018, the top five issuers accounted for 34 percent of the approximately \$429 billion (in fiscal year 2017 dollars) in MBS issued that year, and four of them were nonbanks, including the top three issuers.⁵⁰

While the number of nonbanks issuing Ginnie Mae-guaranteed MBS increased, the concentration of MBS among the largest nonbank issuers also increased. Between 2011 and 2018, the average MBS issuance by the top five nonbank issuers increased from \$7.2 billion to \$28.7 billion (in fiscal year 2017 dollars). As a result, the concentration of nonbanks issuing Ginnie Mae-guaranteed MBS and the increase in MBS held by the largest nonbank issuers may expose Ginnie Mae to concentration risk. For example, as of September 2018, the vast majority of the issuers on Ginnie Mae’s Watch List—an enhanced oversight tool used to monitor issuers exposing Ginnie Mae to relatively high credit or operational risk (discussed in additional detail later)—were nonbank issuers.⁵¹

Growth in the Share of VA Loans Underlying MBS Could Increase Ginnie Mae’s Losses from Issuer Defaults

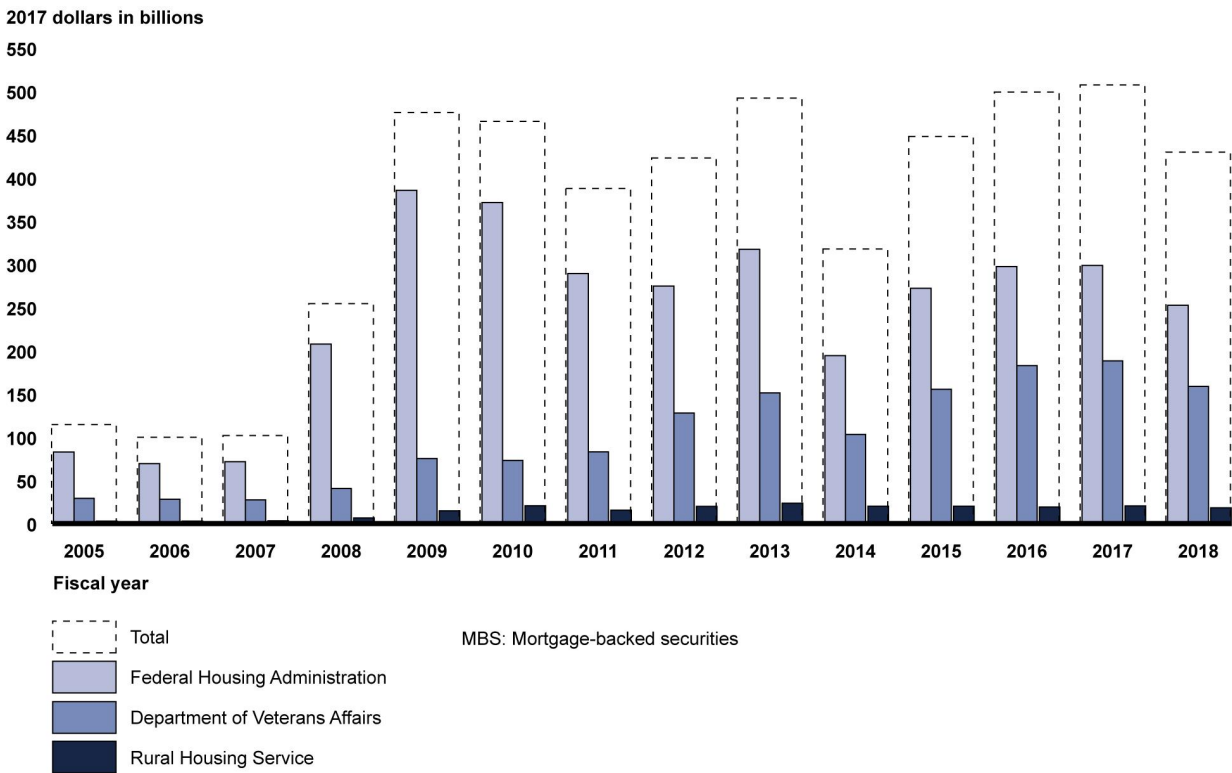
While the volume of loans that underlie Ginnie Mae-guaranteed MBS grew substantially, the share of fully guaranteed federal loans underlying Ginnie Mae MBS decreased (see fig. 8). This could expose Ginnie Mae to greater losses in the event of an issuer default and extinguishment. Specifically, FHA typically insures 100 percent of each loan, but VA typically insures 25 percent of each loan. We found that the total percent of FHA loans underlying Ginnie Mae-guaranteed MBS (issued each year) decreased from 72 percent in 2005 to 59 percent in 2018 but the percent of VA loans underlying Ginnie Mae-guaranteed MBS (each year) increased from 25 percent in 2005 to 37 percent in 2018. If issuers of MBS with a concentration of VA loans defaulted, they could expose Ginnie Mae to greater losses than issuers of MBS with a concentration of

⁵⁰The top five issuers’ share of issuance may not capture all elements of concentration risk. For example, if the top five issuers’ share declined but they issued MBS using mortgages on homes in the same state, then they would be susceptible to changes in economic conditions in that state, which also creates concentration risk.

⁵¹Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

FHA loans.⁵² VA officials stated that historically low interest rates and other market factors drove the growth in VA-insured loans, including an increase in the number of service members being discharged.

Figure 8: Federally Insured and Guaranteed Mortgages Pooled into New Ginnie Mae-Guaranteed MBS, Fiscal Years 2005–2018 (in 2017 dollars)



Source: GAO analysis of Ginnie Mae data. | GAO-19-191

Note: Due to their relatively small volume, the figure does not include mortgages from the Office of Public and Indian Housing, which accounted for \$509 million of Ginnie Mae-guaranteed mortgage-backed securities in fiscal year 2011 and \$563 million in fiscal year 2018. Annual dollar amounts are adjusted for inflation using the gross domestic product price index from the Bureau of Economic Analysis, with fiscal year 2017 as the base year.

In November 2016, CFPB published a report on trends found from its review of about 1,800 servicemember mortgage complaints on the topic

⁵²According to Ginnie Mae officials, VA loans typically have lower default rates than FHA loans, in part because their borrowers have higher credit scores, but VA loans can have a higher loss given default than FHA loans if home prices declined.

of refinancing in roughly the past 6 years.⁵³ As the housing market rebounded, CFPB heard less about veterans struggling to refinance their loans when facing a financial hardship or imminent default and more about veterans facing refinancing problems when trying to get potentially more favorable loan terms. For example, one of the key findings was that veterans reported aggressive solicitations, misleading advertisements, and failed promises by lenders. In 2017, Ginnie Mae recognized these problems and their negative effect on the value of Ginnie Mae MBS while increasing costs for VA borrowers. To combat potential lender abuses, Ginnie Mae and VA created a joint task force charged with analyzing monthly data and developing additional policy. Ginnie Mae changed eligibility requirements for VA-insured or guaranteed mortgages to help stop abuses connected with refinancing programs targeting veterans to refinance their loans multiple times (called churning). Additionally, Ginnie Mae identified and required a small number of issuers potentially engaging in churning to complete corrective action plans. Subsequently, Ginnie Mae restricted three issuers to pooling single-family loans guaranteed by VA in certain MBS until they met certain performance metrics. We discuss issuer oversight in more detail later in the report.

Since 2011, Ginnie Mae Has Enhanced Its Oversight of Issuers but Has Not Yet Fully Considered a Key Option for Helping to Manage Aggregate Risks

Ginnie Mae Enhanced Its Issuer Risk-Management Framework, and Some Actions Are In Process

In light of the increase in its maximum potential exposure to loss, shift in issuer base, and other changes, Ginnie Mae has taken actions since we last reported on this issue in 2011 to enhance its risk-management framework to oversee MBS issuers. The risk-management framework covers (1) review and approval of new issuers, (2) monitoring of issuers, (3) enforcement actions, and (4) management of issuer defaults,

⁵³Consumer Financial Protection Bureau, *A Snapshot of Servicemember Complaints* (Washington, D.C.: Nov. 10 2016).

terminations, and extinguishments.⁵⁴ A key risk to Ginnie Mae is that issuers will default because of a financial shortfall or an operational deficiency. We found that Ginnie Mae has been developing new and updated existing policies and procedures since 2011—including those for monitoring issuers and managing issuer defaults. We discuss some of the policies and procedures below.

Review and Approval of New Issuers

Ginnie Mae enhanced its process for reviewing and approving new issuers in recent years.⁵⁵ Ginnie Mae officials told us that the agency previously had a paper-based review process and one staff reviewing applications. Officials said that outstanding applications increased from 5 in 2007 to 123 in 2012, which was unsustainable. According to the officials and our review of Ginnie Mae documentation, in 2014 Ginnie Mae implemented an electronic process to manage the application review work flow, assign tasks to staff, and establish time frames for tasks. Additionally, the officials said that Ginnie Mae increased staff resources for issuer analytics capabilities and leveraged a portion of staff time to resolve the application backlog.

According to Ginnie Mae officials, as of September 2018, the agency utilized four in-house staff and had three contractor staff supporting the review process.⁵⁶ According to Ginnie Mae data, in fiscal years 2011–2015, some applications took more than 1 year to be approved from the date of submission. Officials added that the agency’s efforts reduced the

⁵⁴In accordance with its statute, regulations, guaranty agreements, and MBS Guide, at its sole discretion Ginnie Mae may declare an issuer in default of its responsibilities under the MBS program. For example, issuers may be in default due to failure to remit funds, impending insolvency, unauthorized use of custodial funds, or any submission of false reports. In the event of an issuer’s default, Ginnie Mae has the right to terminate the issuer’s status and extinguish the issuer’s rights in the Ginnie Mae portfolio.

⁵⁵Under Ginnie Mae’s MBS Guide, potential issuers must meet certain minimum financial and other eligibility requirements to be approved by Ginnie Mae to issue MBS. Eligibility requirements include that an applicant is an FHA-approved mortgagee in good standing; conducts its business in accordance with accepted mortgage lending and servicing practices, ethics, and standards; has a fidelity bond and a mortgagee’s errors and omissions policy; and meets minimum net worth and liquidity requirements.

⁵⁶According to Ginnie Mae officials, in-house staff contribute 10–15 percent of their time to the process. Contractors generally conduct the initial review of applications, which is procedural and includes reviewing and gathering the submitted documents from applicants.

application review time of 9–12 months at the height of the backlog to an average of 3.7 months in 2017, under its new goal of completing each application in 4–6 months.⁵⁷ The officials said that the actual time it takes to complete this process depends on the size and complexity of the institution applying to be an issuer and how quickly the institution can submit the required documentation.

In 2014 and in response to the shift in its issuer base from banks to nonbanks, Ginnie Mae issued an “all participant” memorandum to announce its plan to revise its MBS Guide to increase the minimum financial requirements for new (and existing) issuers to participate in its MBS programs.⁵⁸ When Ginnie Mae amended its MBS Guide, it increased the minimum adjusted net worth and liquid asset requirements for issuers participating in its single-family MBS program.⁵⁹ According to a 2014 Ginnie Mae press release, the new issuer requirements were intended to support the agency’s continued efforts to effectively monitor risk and appropriately evaluate issuers’ financial strength, performance, and stability.

Under its MBS Guide, Ginnie Mae also implemented a 1-year probationary period for newly approved issuers, which begins when they first issue MBS or acquire existing Ginnie Mae MBS. According to the MBS Guide, Ginnie Mae will monitor such issuers for data integrity and quality, among other things. Newly approved issuers also receive a compliance review after 6 months of program participation and annually for the next 2 years. In comparison, other issuers may receive compliance reviews every 1–3 years, depending on their risk level (discussed in the following section).

⁵⁷The total number of applications submitted annually declined from a high of 110 in 2012 to a low of 42 in 2017, based on Ginnie Mae data.

⁵⁸Government National Mortgage Association, *New Issuer Net Worth and Liquidity Requirements*, APM 14-16 (Washington, D.C.: Oct. 17, 2014). Issuers are required to follow the Ginnie Mae MBS Guide and all participant memorandums, which generally announce policy and MBS Guide changes.

⁵⁹More specifically, Ginnie Mae increased the minimum adjusted net worth requirement for single-family issuers from \$2.5 million plus 0.20 percent of the issuer’s total effective outstanding single-family obligations to \$2.5 million plus 0.35 percent of the issuer’s total effective outstanding single-family obligations. It revised the minimum liquidity requirement for single-family issuers from 20 percent of required net worth to the greater of \$1 million or 0.10 percent of the issuer’s outstanding single-family MBS.

Monitoring of Issuers

According to a Ginnie Mae publication on strategies for the MBS program, issuer monitoring helps Ginnie Mae to identify in advance those issuers at risk of defaulting and to take action to minimize its losses.⁶⁰ Ginnie Mae monitors bank and nonbank issuers using issuer risk scorecards, models, and other risk-management techniques, such as audits and reviews. As described in its annual reports to Congress and other documentation, Ginnie Mae has had to assume the responsibility of evaluating and monitoring nonbank issuers for financial and operational stability, because nonbank issuers generally are not subject to the same safety and soundness supervision and regulation as banks.⁶¹

Monitoring Tools and Techniques

Based on our review of Ginnie Mae's policies and procedures, since we last reported on these issues in 2011, Ginnie Mae has developed new risk-management tools or techniques and enhanced existing ones to monitor issuers, including their financial condition and operational capabilities. Such tools and actions include the following:

- **Watch List.** Ginnie Mae developed the Watch List (which Ginnie Mae officials said was created in 2008) as a formal compilation of issuers warranting more intensive monitoring because of their credit or operational risk.⁶² According to the Watch List policy, Ginnie Mae uses financial and compliance data, among other things, to determine which issuers are placed on the list. The policy establishes three Watch List categories: category I issuers have a higher relative

⁶⁰Government National Mortgage Association, *Ginnie Mae 2020: Roadmap for Sustaining Low-Cost Homeownership* (Washington, D.C.: June 2018).

⁶¹In its 2017 audit, HUD OIG found that Ginnie Mae made progress on nonbank oversight but had not, among other things, considered the potential effects of the growth of nonbanks on its organization. See Department of Housing and Urban Development, Office of Inspector General, Audit Report No. 2017-KC-0008.

⁶²According to Ginnie Mae officials, the Watch List's format and organization underwent substantial revision following the 2012 implementation of CorporateWatch, which helps analyze the risk of defaults through the use of financial metrics. Ginnie Mae also uses the Watch List as the mechanism to determine which issuers must use a nonstreamlined commitment authority process, which requires additional reviews and approvals. Issuers not on the Watch List can apply for commitment authority using the streamlined approach, which requires fewer reviews. As discussed later in this section, Ginnie Mae may limit an issuer's commitment authority to enforce findings.

corporate risk of financial default, category II issuers represent serious financial or program noncompliance or operational risk to Ginnie Mae, and category III issuers are not in compliance with certain Ginnie Mae MBS program requirements or may have an inadequate operational risk-management infrastructure. Based on our review of the September 2018 Watch List, we found that the vast majority of issuers on the list were nonbanks. According to Ginnie Mae officials, if an issuer is on the Watch List, Ginnie Mae actively manages the account until the issuer is taken off the Watch List.⁶³ Ginnie Mae officials also said they have continued to enhance the Watch List and have been incorporating both financial and nonfinancial information to further align the list with a credit rating agency methodology.

- **CorporateWatch.** In 2012, Ginnie Mae implemented CorporateWatch, which helps it analyze the risk of potential defaults through the use of financial metrics. CorporateWatch models and assigns an issuer an internal risk grade using an internally developed, proprietary risk-rating methodology that leverages data from issuer financial statements.⁶⁴ The issuer's risk grade reflects its likelihood of default relative to its peers, often relating to an issuer's financial health. According to its procedures, Ginnie Mae puts its highest-risk issuers on its Watch List (discussed above). Ginnie Mae officials said that staff review and assign each issuer an updated risk grade every month and that in 2019 the agency plans to begin educating the industry about the general drivers of risk grades and how it currently uses and potentially might use them. According to its fiscal year 2018 procurement plan, Ginnie Mae planned to procure a contractor to validate its models and make recommendations for improving them.⁶⁵

⁶³Under the Watch List policy, Ginnie Mae staff are responsible for addressing causal factors that result in an issuer's inclusion on the Watch List. Ginnie Mae officials said that issuers also can be added due to their business profile and geographic concentration. For example, states with judicial foreclosure processes can lengthen default timelines.

⁶⁴Ginnie Mae developed models to estimate the potential future exposure of individual issuers and probability of prepayment or borrower default. The models are used to compute loan-level forecasts for loan-level prepayment and probability of defaults. Another model estimates the amount of risk-based capital the agency should be holding.

⁶⁵In fiscal year 2015, HUD OIG found weaknesses in Ginnie Mae's governance framework for risk management. In fiscal year 2017, HUD OIG reported partial implementation of those recommendations and that Ginnie Mae's entity-wide governance of models was not fully implemented, which included developer testing and independent validation. In its fiscal year 2018 follow-up on these recommendations, HUD OIG determined that the issue related to developer testing and independent validation was not fully resolved.

- **Issuer Operational Performance Profile.** In 2015, Ginnie Mae implemented a scorecard for issuers, the Issuer Operational Performance Profile, to measure an issuer's operational performance against peer issuers through operational and default metrics. The operational metrics are to measure the ability of an issuer to operate effectively within the scope of Ginnie Mae's program requirements, and the default metrics are to measure the issuer's ability to manage its delinquent portfolio effectively. Scorecard results are to be provided to issuers on a monthly basis.⁶⁶ According to Ginnie Mae officials, while the Issuer Operational Performance Profile remains in a pilot phase, they added metrics to the profile in 2017 and 2018 and continue to enhance the tool. The officials said that at this phase of implementation, the scorecard has been widely adopted by issuers as the basis for understanding their operational performance in the program. The officials also said that Ginnie Mae staff use the results to assist in the management of issuers and help ensure issuer compliance with program requirements.
- **Spotlight and special situation issuers.** Ginnie Mae adopted a policy to designate issuers as spotlight issuers and subject them to more intensive monitoring. According to a 2017 policy document, issuers are subject to more intensive monitoring based on factors such as size, growth, business model, complexity, or nontraditional structures or characteristics. According to Ginnie Mae officials, 12 of the largest and most complex issuers were spotlight issuers as of September 2018.⁶⁷ Ginnie Mae officials said that during monthly calls, issuers report on any business changes and transactions to Ginnie Mae and submit regular reports. Additionally, in 2017, Ginnie Mae adopted a separate policy to identify certain issuers as special situation issuers, indicating the presence of a risk of compliance issues judged to be threatening to the issuer's standing with Ginnie Mae. This policy subjects these issuers to additional compliance or risk considerations, such as nonstandard communication protocols or enhanced monitoring. Ginnie Mae officials said that they have been developing an enhanced monitoring plan and framework for these issuers.

⁶⁶Ginnie Mae scores issuers on a scale of 1–4, with 1 denoting good standing and 4 bad standing. The scores are determined by rating each issuer against a pre-defined peer group.

⁶⁷In fiscal year 2017, the total principal balance of the 12 issuers represented approximately 49 percent of Ginnie Mae's total outstanding unpaid principal balance, based on Ginnie Mae-provided data. Additionally, 11 of the 12 issuers were nonbanks.

According to Ginnie Mae officials, the agency has considered using issuer stress tests to help monitor and manage issuers since 2015 but has not yet implemented the tests.⁶⁸ The officials said that they still plan to subject nonbank issuers to stress tests to manage counterparty credit risk and hired a contractor to help the agency design the stress test model and conduct the tests. In a publication from June 2018, Ginnie Mae noted that it would phase in the new stress test requirements to analyze how issuers' financial strength could be affected by adverse future scenarios.⁶⁹ Ginnie Mae further noted that stress testing exercises would play an increased role in its dialogues with issuers and future oversight activities. According to Ginnie Mae officials, once the stress test model is operational, Ginnie Mae will use the test results and inputs from other risk-management models to assess issuers.

Issuer Audits and Reviews

Based on our review of Ginnie Mae's procedures and related documents, we found that Ginnie Mae also conducts audits and reviews to monitor issuers and assess their operational capabilities. Such audits and reviews include the following:

- **Compliance reviews.** In these on-site reviews, contractors examine an issuer's operations and assess how well the operations conform to the requirements in Ginnie Mae's MBS Guide and follow other guidance. There are two levels of compliance reviews: standard and expanded. Issuers can be subject to compliance reviews every 1–3 years, depending on their level of risk. According to Ginnie Mae officials, the agency has been subjecting more issuers to expanded compliance reviews because of issuer complexity or newly discovered issues. The officials also said that high- and medium-risk findings increased from 2011 to 2016 because Ginnie Mae made its compliance reviews stricter since 2011 by adding additional tests.⁷⁰
- **Desktop audits.** According to Ginnie Mae documentation, desktop audits review an issuer's business processes to identify operational

⁶⁸A stress test is a "what-if" scenario that is not a prediction or expected outcome of the economy but shows the outcome of the model in extreme economic circumstances.

⁶⁹*Ginnie Mae 2020: Roadmap for Sustaining Low-Cost Homeownership.*

⁷⁰In 2011–2016, the number of reviews increased from 114 to 186 based on Ginnie Mae-provided data. Additionally, total high- and medium-risk findings increased from 323 to 825. In the same period, the number of expanded reviews and resolved findings doubled.

risk issues and gaps. For example, a desktop audit may be conducted because the issuer is unable to follow the agency's requirements or has shown signs of financial distress. Desktop audits have a more limited scope than on-site operational reviews (discussed below) and findings could result in an operational review. According to Ginnie Mae officials, desktop audits can lead to enforcement actions, but Ginnie Mae typically uses compliance reviews for such purposes.

- **Operational reviews.** According to Ginnie Mae documentation, operational reviews have a broader focus than desktop audits and are conducted on-site. The document notes that operational reviews include assessments of loan administration, default management, and document custody—each considering 10 dimensions (corporate governance, business content, human resources, policies and procedures, business continuity planning, technology, vendor management, internal and external audit, management oversight, and communications).

Enforcement Tools

According to statute, regulations, and Ginnie Mae policy, Ginnie Mae's enforcement program utilizes civil money penalties based on specific criteria for imposing such penalties.⁷¹ According to Ginnie Mae officials, the agency has issued civil money penalties totaling \$6.2 million since 2014. The officials told us that Ginnie Mae generally had issued letters advising issuers with recurring compliance issues to correct the issues instead of using civil money penalties. But the officials said that issuer conduct often showed little improvement, so stricter sanctions were necessary. According to Ginnie Mae officials, the use of civil money penalties has been effective in addressing compliance problems.

Ginnie Mae officials said the agency also has used letters of understanding to address compliance issues or other concerns with issuers. The officials said that letters of understanding can be used as a tool to compel an issuer to address concerns and practices that increase the risk exposure to Ginnie Mae, while allowing the issuer to remain in Ginnie Mae's MBS program. For example, we found that Ginnie Mae sent an issuer a letter of understanding to direct the issuer to enhance its

⁷¹According to Ginnie Mae's statute and implementing regulations, civil monetary penalties may be imposed for violations of the statute, regulations, MBS guide, guaranty agreements, and other agreements between Ginnie Mae and the issuer. The amount of the penalty is determined per violation or per pool.

financial condition after finding the issuer marginally met the MBS Guide's minimum net worth and liquidity requirements.

According to Ginnie Mae officials, under a new counterparty risk-management initiative, the agency also began using notification letters in June 2018 to advise issuers about Ginnie Mae's concerns regarding net worth, liquidity, or other financial matters and mitigate counterparty credit risk to Ginnie Mae.⁷² Ginnie Mae officials said that the agency sent notification letters to around 12 issuers (as of September 2018), mandating that they meet specified financial or operational requirements. The Ginnie Mae officials added that they limit the amount of commitment authority they approve for the issuers until those issuers meet the requirements. The officials explained that this new policy will enable Ginnie Mae to link issuer deficiencies identified by its risk-management tools and techniques to specific remediation outcomes. Ginnie Mae officials said they plan to issue a memorandum to notify and inform issuers about its new policy and other program changes.⁷³

Management of Issuer Default and Extinguishments

Ginnie Mae may declare an issuer in default under the MBS program for reasons that include the failure or inability to make payments on its MBS. If an issuer were to default on certain obligations, Ginnie Mae may extinguish the issuer's right, title, and interest to the MBS portfolio. In a 2017 audit, HUD OIG found that Ginnie Mae had not developed a written default strategy.⁷⁴ According to the HUD OIG audit, Ginnie Mae did not begin to implement a strategy to address defaults, extinguishments, and terminations of large or multiple issuers until July 2017.

⁷²To issue Ginnie Mae-guaranteed MBS, issuers must receive approval from Ginnie Mae for commitment authority on the dollar amount of MBS they may issue. According to Ginnie Mae officials, for issuers on the Watch List to access commitment authority, Ginnie Mae's Office of Counterparty Risk and Office of Issuer and Portfolio Management must analyze the issuer's request. These offices coordinate on the decision to approve, reduce, suspend, or reject requests from issuers. Ginnie Mae makes this determination using factors such as the financial and operational condition of issuers.

⁷³In November 2018, Ginnie Mae issued an all participant memorandum to update its counterparty risk-management framework, including guidance related to the issuer application process and new notification requirements for issuers. See Government National Mortgage Association, *Counterparty Risk Management Policy Series – Volume 1*, APM 18-07 (Washington, D.C.: Nov. 15, 2018).

⁷⁴Department of Housing and Urban Development, Office of Inspector General, Audit Report No. 2017-KC-0008.

Enhanced monitoring and management. Ginnie Mae officials told us that since 2017 the agency has been developing enhanced monitoring and management procedures to identify and manage issuers at potential risk of default, extinguishment, and termination. According to Ginnie Mae documentation, the procedures are the first phase of Ginnie Mae's default-management process. Under the procedures, an issuer that breaches thresholds determined by Ginnie Mae will be subject to enhanced monitoring and management, including remediation plans or other compliance and enforcement tools. Ginnie Mae plans to incorporate the procedures into a policy handbook called the default playbook. According to a 2018 HUD OIG report, the expected completion date for the project is September 30, 2019.⁷⁵

Past defaults and extinguishments. According to Ginnie Mae officials, issuer defaults can result in a number of outcomes, including (1) an issuer curing the default and returning to full compliance, (2) an issuer curing the default but failing to return to full compliance, and (3) an issuer being unable to cure the default and Ginnie Mae extinguishing the issuer. Ginnie Mae officials said that Ginnie Mae can experience a loss if (1) borrowers default on loans or loans are not fully insured or guaranteed, (2) Ginnie Mae must pay another issuer to take over the portfolio (mortgage servicing rights), or (3) issuers engage in wrongdoing, such as fraud.

Based on our review of Ginnie Mae data, Ginnie Mae defaulted and extinguished from one to three issuers each year during fiscal years 2011–2017. Ginnie Mae officials said the actual cost of a defaulted and extinguished portfolio for Ginnie Mae generally cannot be determined until insurance or guarantee claims are processed and the number of fraudulent, defective, or delinquent mortgages determined. During that period, Ginnie Mae's total annual losses on issuer defaults and extinguishments did not exceed \$4 million, based on Ginnie Mae's estimates and after considering forecasted receipts from claims and recoveries.

Additionally, for a defaulted and extinguished issuer, Ginnie Mae may acquire and hold delinquent loans from the issuer's MBS—called nonpooled loans. At the end of fiscal year 2017, Ginnie Mae held about

⁷⁵Department of Housing and Urban Development, Office of Inspector General, *Top Management Challenges Facing the U.S. Department of Housing and Urban Development in 2019 and Beyond* (Washington, D.C.: Oct. 15, 2018).

\$3.6 billion in nonpooled loans. However, since fiscal year 2014, HUD OIG has been unable to obtain sufficient, appropriate evidence to express an opinion on Ginnie Mae's financial statements, due in part to Ginnie Mae's inability to provide auditable support for its nonpooled loan assets from its defaulted issuers' portfolio.⁷⁶

Since then, both HUD OIG and Ginnie Mae officials said efforts have been underway to develop accounting systems to address financial management findings contributing to the disclaimers of opinion on Ginnie Mae's financial statements. HUD OIG officials told us they generally have met with Ginnie Mae officials on a monthly basis to address these findings. According to Ginnie Mae and HUD officials, challenges related to staffing vacancies in both HUD and Ginnie Mae's Office of the Chief Financial Officer and available data have affected timeliness in addressing these findings.

Default strategy. As discussed previously, in a 2017 audit, the HUD OIG found that Ginnie Mae had not developed a written default strategy, which HUD OIG said should include identifying, analyzing, and planning for all default scenarios and determining whether Ginnie Mae's staff and servicing functions had the capacity to default and absorb large issuers.⁷⁷ Ginnie Mae has been developing its default playbook that includes procedures for managing single-family issuer defaults and extinguishments. Ginnie Mae officials told us that the single-family procedures will serve as the basis for developing default strategies for its other MBS programs but such default strategies had not yet been completed.

Extinguishment and asset management. Ginnie Mae also has been developing procedures in its default playbook to manage and service an

⁷⁶Ginnie Mae's management is responsible for the preparation and fair presentation of the agency's financial statements in accordance with U.S. generally accepted accounting principles. This responsibility includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. HUD OIG is responsible for expressing an opinion on Ginnie Mae's financial statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards.

⁷⁷Department of Housing and Urban Development, Office of Inspector General, Audit Report No. 2017-KC-0008.

extinguished issuer's MBS portfolio.⁷⁸ According to Ginnie Mae procedures, the extinguishment process is unique to each issuer and its situation. For example, Ginnie Mae officials said issuer bankruptcy proceedings, uninsured loans, and other factors can affect the extinguishment process. During extinguishment, the new procedures call for Ginnie Mae to determine a course of action and analyze collateral, such as mortgage servicing rights.

Ginnie Mae Lacks Flexibility to Increase the Single-Family Guarantee Fee but Has Not Evaluated How Its MBS Portfolio Would Perform under Alternative Scenarios

Ginnie Mae Drafted a Risk Appetite as Part of Its Enterprise Risk-Management Program

Enterprise risk management (ERM) allows management to understand an organization's portfolio of top-risk exposures, which could affect the organization's success in meeting its goals. As such, ERM is a decision-making tool that allows leadership to view risks from across an organization's portfolio of responsibilities. ERM is part of overall organizational governance and accountability functions and encompasses all areas in which an organization is exposed to financial, operational, compliance, and other types of risks.

OMB Circular A-123 directs executive agencies and encourages other government entities (including Ginnie Mae) to implement an ERM program. Such a program should incorporate the agency's risk appetite, align the risk appetite with the agency's strategies and objectives, and address the agency's exposure to credit, operational, and other risks.⁷⁹ The circular defines risk appetite as the broad-based amount of risk an organization is willing to accept in pursuit of its mission or vision. For example, an agency uses its risk appetite to help calibrate its risk

⁷⁸If Ginnie Mae declares a default and extinguishment under the applicable guaranty agreement, the issuer forfeits and waives any and all rights to reimbursement or recovery of any advances and expenditures made by the issuer, all such rights of the issuer are extinguished, and Ginnie Mae becomes the absolute owner of such rights, subject only to the unsatisfied rights of the security holders.

⁷⁹In July 2016, OMB updated Circular No. A-123 to establish management responsibilities for ERM. This circular is applicable to each executive agency, and all other nonexecutive agencies are encouraged to adopt it. While Ginnie Mae is not considered an executive agency for purposes of the circular, it has adopted the circular as a best practice.

tolerances—the acceptable level of variance in performance relative to the achievement of objectives. In addition, an agency uses its risk appetite to guide its identification and assessment of options for responding to risks. Our prior work also has noted that a good practice in implementing ERM is to select the most appropriate risk response based on a risk appetite, including acceptance, avoidance, reduction, sharing, or transfer.⁸⁰ Agency leaders review the prioritized list of risks and select the most appropriate treatment strategy to manage the risk.

In August 2017, Ginnie Mae began to implement a policy to establish the requirements and framework of its ERM program. According to the policy, the framework comprises four capability areas:

- **Governance** establishes guidelines for how the ERM program operates, how its progress and maturation will be monitored, and how ERM-related decisions should work.
- **Process** is used to produce and maintain Ginnie Mae’s enterprise risk profile and help ensure risks are managed within acceptable tolerance levels.
- **People** empowers stakeholders to help build a risk-aware culture, while clearly defining the roles and responsibilities involved.
- **Technology** includes tools and methodologies to enable the ERM process by automating manual steps (where appropriate), aggregating and analyzing data, and streamlining reporting.

While Ginnie Mae’s 2017 ERM policy did not include a risk appetite, the agency subsequently drafted an enterprise risk appetite. Ginnie Mae officials told us that they have been working during the past year to further develop their ERM program and include a risk appetite. As of September 2018, Ginnie Mae had a draft risk appetite, which consisted of risk appetite statements and risk-tolerance levels that were aligned to its strategic goals and objectives. Ginnie Mae also implemented a procedure in August 2018 to create a framework to apply its risk appetite when finalized. According to the procedure, the purpose of the agency’s risk-appetite framework is to establish a series of boundaries delineating the amount of risk Ginnie Mae is willing to accept in pursuit of its mission and the associated strategic goals and objectives. The procedures further

⁸⁰See GAO, *Enterprise Risk Management: Selected Agencies’ Experiences Illustrate Good Practices in Managing Risk*, [GAO-17-63](#) (Washington, D.C.: Dec. 1, 2016).

note that an explicit risk appetite helps establish consistency in the amount of risk accepted through enterprise, administrative, and programmatic decisions. However, it is unclear based on Ginnie Mae's recent risk appetite status report what the time frame is for finalizing the risk appetite.

Ginnie Mae Has Not Evaluated How MBS Portfolio Would Perform under Alternative Scenarios

Ginnie Mae has not evaluated how its capital reserves and MBS portfolio would perform under stressful conditions to help inform it and stakeholders, such as HUD, OMB, and Congress, about the adequacy of the guaranty fee for single-family MBS. The National Housing Act, as amended in 1987, mandates that Ginnie Mae set its guaranty fee for single-family MBS at no higher than 6 basis points (0.06 percent) per year. It currently charges issuers of single-family MBS a 6 basis point fee, the upper limit of the fee, on their outstanding principal balance. In contrast, the act establishes a standard under which Ginnie Mae can determine the amount of guaranty fees for multifamily and manufactured housing MBS. More specifically, Ginnie Mae can set these other guaranty fees at a level not more than necessary to create reserves sufficient to meet anticipated claims based upon actuarial analyses. Ginnie Mae has set the fee at 13 basis points for multifamily MBS, and 30 basis points for manufactured housing MBS.

Since the guaranty fee limit for single-family MBS was set statutorily in 1987, Ginnie Mae has operated largely at a profit.⁸¹ As a result, Ginnie Mae has been able to use its guaranty and other fee income (in excess of expenses) to build its capital reserves, which can be used to cover credit losses from issuer defaults. According to Ginnie Mae officials, the agency held \$25.6 billion in investment of retained earnings on its balance sheet as of September 30, 2018. In addition, Ginnie Mae annually estimates for budget purposes the cost of its MBS guarantee to the federal government, and Ginnie Mae's 2017 analysis for its MBS found that its

⁸¹During fiscal years 2010–2017, Ginnie Mae reported in its financial statements that its revenues exceeded its expenses each year, except for fiscal year 2014. In 2015, Ginnie Mae revised its previously issued financial statements for fiscal year 2014. Ginnie Mae concluded that the agency misapplied accounting principles and materially misstated the financial statements in specific areas.

MBS guarantee is estimated to produce a positive cash flow over the lifetime of the MBS.⁸²

Ginnie Mae officials said that partly because the fee is set in statute, they do not periodically analyze how Ginnie Mae's MBS portfolio (comprising issuers for which Ginnie Mae guarantees their MBS) would perform under alternative scenarios, including stressed scenarios, to help evaluate whether the fee was set at an appropriate level. But, as previously discussed, Ginnie Mae has experienced changes that increased or may increase its counterparty credit risk exposure, including the significant growth in its outstanding MBS, shift in issuer base, and increase in MBS backed by VA-guaranteed mortgages. While Ginnie Mae annually estimates the net lifetime costs of its MBS guarantees for budget purposes, a periodic actuarial or similar analysis that includes stress tests would provide complementary information. For example, such an analysis could estimate the value of Ginnie Mae's capital reserves and cash inflows and outflows from its MBS portfolio under alternative economic scenarios, including both strong economic conditions and economic downturns, and show under which scenarios, if any, Ginnie Mae's financial resources would be insufficient to cover losses.⁸³

According to federal internal control standards, management should design control activities—such as policies, procedures, or techniques—to achieve objectives and respond to risks.⁸⁴ The standards note that as part of the risk-assessment component, management identifies the risks related to the entity and its objectives, the entity's risk tolerance, and risk

⁸²The Federal Credit Reform Act of 1990 requires OMB, the Congressional Budget Office, and other agencies to which the Director of OMB may delegate authority to estimate the cost to the government of extending or guaranteeing credit. This cost, referred to as subsidy cost, equals the net present value of estimated cash flows from the government minus estimated cash flows to the government over the life of the loan and excluding administrative costs. Ginnie Mae reestimated that the cost of guaranteeing MBS to the government (credit subsidy) was -0.34 percent for MBS guaranteed between 1996 and 2017—indicating that Ginnie Mae expects to generate an estimated \$0.34 for every \$100 of Ginnie Mae-guaranteed MBS over the lifetime of the MBS.

⁸³In contrast to an actuarial analysis, Ginnie Mae's budgetary reviews do not include analysis under alternative economic scenarios, such as stress scenarios. The budgetary reviews are required to use the President's economic assumptions, which OMB provides to agencies for budget formulation. According to Ginnie Mae officials, the credit subsidy model incorporates estimates of counterparty failures that are independent of OMB economic assumptions.

⁸⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

responses. In turn, control activities help management fulfill responsibilities and address identified risk responses. In addition, OMB's Circular A-123 notes that risk-management practices must be forward-looking and designed, in part, to help leaders make better decisions.

Other federal agencies conduct reviews to help assess the adequacy of fees or premiums and fund or portfolio performance. For example, we reported that the Office of Personnel Management (OPM) annually conducts actuarial reviews of the Federal Employees' Group Life Insurance program, and these reviews are effectively an internal control designed to help ensure the accuracy and adequacy of the program's premium rates.⁸⁵ We previously reported that while not required to do so, FHA conducts stress tests of the Mutual Mortgage Insurance Fund using alternative scenarios, including adverse scenarios, as part of its annual actuarial review.⁸⁶

By not periodically conducting an actuarial or similar review that includes stress testing of its MBS portfolio, Ginnie Mae lacks important information for helping to ensure that its guaranty fee for single-family MBS is set at an appropriate level. For example, a fee that is set too high could impair Ginnie Mae's stated purpose of promoting access to mortgage credit. Conversely, a fee that is set too low could result in Ginnie Mae lacking sufficient capital to cover losses and hinder its stated purpose of minimizing losses to the federal government.

Statute Limits the Extent to Which Ginnie Mae May Increase Its Guaranty Fee for Single-Family MBS

As discussed above, the National Housing Act, as amended in 1987, set Ginnie Mae's guaranty fee for single-family MBS at no higher than 6 basis points but established a standard under which Ginnie Mae can determine the amount of guaranty fees for multifamily and manufactured housing MBS. In 1987, Congress and the President disagreed on whether Ginnie Mae's guaranty fee for single-family MBS should be a set amount or standards-based. In debating the bill, some members of Congress

⁸⁵See GAO, *Federal Employees' Group Life Insurance: Retirement Benefit and Retained Asset Account Disclosures Could Be Improved*, [GAO-12-94](#) (Washington, D.C.: Nov. 10, 2011).

⁸⁶GAO, *Federal Housing Administration: Capital Requirements and Stress Testing Practices Need Strengthening*, [GAO-18-92](#) (Washington, D.C.: Nov. 9, 2017).

maintained that Ginnie Mae's guaranty fee should be set at no higher than 6 basis points, in part because Ginnie Mae had \$1.35 billion in reserves and historically suffered negligible losses on its guaranteed MBS.⁸⁷ Although the President signed the bill that mandated Ginnie Mae's guaranty fee for single-family MBS, the signing statement expressed reservations.⁸⁸ Among other things, the signing statement argued that mandating a specific guaranty fee in statute would "hamper [Ginnie Mae's] ability to maintain the reserves necessary to meet its obligations."

In comparison, the enterprises use their guarantee fees, in part, as a risk-management tool. The enterprises set their guarantee fees to cover several cost components, including their (1) projected credit losses from borrower defaults; (2) cost of holding capital to protect against projected credit losses that could occur during stressful macroeconomic conditions, if the enterprises held risk-based capital; and (3) general and administrative expenses. Under conservatorship, FHFA is authorized to direct the enterprises to change their guarantee fees and has sought to protect taxpayers from losses by adjusting fees to cover estimated costs to the enterprises of providing credit guarantees.⁸⁹ FHFA has followed a course of gradual guarantee fee increases as set forth in its 2012 Strategic Plan for Enterprise Conservatorships.⁹⁰

In addition, by statute, FDIC charges banks a risk-based assessment to fund the Deposit Insurance Fund.⁹¹ According to FDIC, a risk-based

⁸⁷See 133 Cong. Rec., 3964-67(1987); *id.* at 5187-89.

⁸⁸Presidential Statement on Signing H.R. 1056 into Law, 23 Weekly Comp. Pres. Doc. 295 (Mar. 30, 1987).

⁸⁹Section 1601 of the Housing and Economic Recovery Act of 2008 requires FHFA to study the enterprise guarantee fees, including analyze the cost of providing the guarantee, and report to Congress each year. Pub. L. No. 110-289 § 1601, 122 Stat 2654, 2824 (2008) (codified at 12 U.S.C. § 4514a).

⁹⁰For example, FHFA directed the enterprises to increase their (1) guarantee fee by 10 basis points in response to the Temporary Payroll Tax Cut Continuation Act of 2011; and (2) guarantee fee by 10 basis points, on average, in 2012 to more fully compensate taxpayers for bearing credit risk. The enterprises' combined up-front and ongoing guarantee fee, on average, ranged from 36 basis points to 59 basis points in 2012-2016.

⁹¹FDIC administers the Deposit Insurance Fund, whose functions include insuring deposits and protecting depositors. The Deposit Insurance Fund is funded primarily from assessments paid by insured depository institutions for deposit insurance coverage. Other available funding sources, if necessary, are borrowings from the Department of the Treasury, the Federal Financing Bank, Federal Home Loan Banks, and insured depository institutions.

assessment system reduces the subsidy that lower-risk banks provide higher-risk banks and provides incentives for banks to monitor and reduce risks that could increase potential losses to the Deposit Insurance Fund.⁹² In an internal 2013 study, Ginnie Mae analyzed the potential of making its fee risk-based but did not develop any recommendations.

According to OMB Circular A-123, an agency's evaluation of how it will respond to risks under its ERM program, such as by developing a legislative proposal, should be used to inform decision-making through existing management processes. Ginnie Mae officials told us that they have discussed internally whether the agency should request the authority to change the guaranty fee. For example, at a 2017 congressional hearing, the then Ginnie Mae executive vice president and chief operating officer testified that the agency could not change its guaranty fee because it was capped in statute but that the agency likely would consider small adjustments to the fee if it had the authority to do so.⁹³ But Ginnie Mae officials said they had not requested such authority because they had not yet reached a decision as of September 2018. If Congress were to require Ginnie Mae to conduct an actuarial or other similar analysis as discussed above that includes stress testing, it would provide important information to help ensure the guaranty fee for single-family MBS was set at an appropriate level, and to determine if additional authority was needed from Congress to adjust the fee to respond to changing market conditions and manage aggregate risk posed by the MBS portfolio.⁹⁴

⁹²See ex. 80 Fed. Reg. 40838 (July 13, 2015).

⁹³*Sustainable Housing Finance: The Role of Ginnie Mae in the Housing Finance System*, House Financial Services Committee, Subcommittee on Housing and Insurance, 115th Cong. (Nov. 29, 2017); statement of Michael R. Bright, Executive Vice President and Chief Operating Officer, Ginnie Mae.

⁹⁴For example, the Department of the Treasury recommended in 2018 that Ginnie Mae have flexibility to charge guaranty fees appropriate to cover additional risk arising from changes in the overall market or at the program level. See *A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation*.

Ginnie Mae Has Some Procedures to Monitor Issuer Fraud and HUD Has Been Developing a Fraud Risk-Management Framework, Including for Ginnie Mae

According to Ginnie Mae officials, the agency monitors potential issuer fraud through processes such as a loan matching program and on-site compliance reviews. The officials said that Ginnie Mae also periodically added antifraud procedures to its compliance reviews of issuers. For instance, according to Ginnie Mae officials, the agency added a procedure to check whether loans were pooled in more than one MBS (double pooling) after the default of Taylor, Bean & Whitaker in 2009—a large nonbank issuer that, among other things, defrauded Ginnie Mae. After the Taylor, Bean & Whitaker default, officials said that Ginnie Mae also added a procedure to its compliance review process to verify that issuers deposited escrow funds in appropriate bank accounts when the MBS was issued.⁹⁵

According to its operating plan issued in October 2018, HUD's Office of Strategic Planning and Management recently developed an enterprise fraud risk-management framework and has been implementing the approach at program offices, including Ginnie Mae. In response to a recommendation in our previous work, HUD designated the Office of Strategic Planning and Management's Chief Risk Officer to oversee fraud risk-management activities in 2017.⁹⁶ According to its 2018 operating plan, the office developed a framework approach to address and manage fraud risk at an enterprise level.⁹⁷ The plan further noted that the office will work with all HUD offices, including Ginnie Mae, to develop or refine their current risk-management operations to create an enterprise-wide approach for managing fraud risk.

⁹⁵According to Ginnie Mae officials, they added 19 tests to compliance reviews between 2012 and April 2017.

⁹⁶See GAO, *Department of Housing and Urban Development: Actions Needed to Incorporate Key Practices into Management Functions and Program Oversight*, [GAO-16-497](#) (Washington, D.C.: July 20, 2016).

⁹⁷Additionally, HUD administered a fraud risk survey to program offices, including Ginnie Mae, and drafted an index of common fraud schemes affecting its programs based on a review by HUD's Departmental Enforcement Center, HUD OIG, and the Federal Bureau of Investigation. See Department of Housing and Urban Development, Office of Strategic Planning and Management, *Fiscal Year 2018 Operating Plan* (Washington, D.C.: October 2018).

Ginnie Mae Continues to Face Various Staffing and Contracting Challenges

Ginnie Mae Has Continued to Rely Heavily on Contractors Due to Its Funding Structure but Has Not Assessed the Cost of This Reliance

Historically, Ginnie Mae has operated with a small number of in-house staff and relied heavily on contractors to help it carry out its mission. A comparison of Ginnie Mae's staffing levels to the estimated number of contracted staff illustrates its heavy reliance on contractors. Ginnie Mae does not routinely collect data on contractor full-time equivalent (FTE) staff, but a September 2016 staffing and operations study commissioned by Ginnie Mae estimated that the agency had 719 contractor FTEs at the time—representing 84 percent of its total FTEs.⁹⁸ Ginnie Mae's budgetary data further illustrate its reliance on contractors. For example, while Ginnie Mae received \$27 million in appropriations for in-house staff in fiscal year 2018, it obligated about \$616 million on contractors.

Ginnie Mae uses contractors to perform a broad range of functions, including loan servicing and administering its MBS program. Based on our review of Ginnie Mae data, we found that Ginnie Mae spent about \$2.7 billion on contracts in fiscal years 2008–2018. As shown in table 1, Ginnie Mae spent about half of its contracting dollars in that period on obtaining contractors for servicing its default portfolio, a quarter for administering its guaranty program, and the rest on consulting, technology, and compliance. According to Ginnie Mae officials, some contracts are for services—such as administering its guaranty program—that would require a significant investment to develop in-house expertise or require expertise more readily available from an outside company. Moreover, the then Ginnie Mae executive vice president and chief operating officer testified in 2017 that Ginnie Mae's use of contractors

⁹⁸KPMG, *Ginnie Mae Operations and Staffing Analysis* (Sept. 26, 2016). To determine contractor FTE levels, KPMG asked Ginnie Mae to request estimates from its contractors. Per OMB guidance, full-time equivalent employment is defined as the total number of hours (worked or to be worked) divided by the number of compensable hours applicable to each fiscal year. Work years, or FTEs, are not employee "head counts." One work year, or one FTE, is equivalent to 2,080 hours of work.

enables it to quickly respond to market demands to scale its operations to address changing markets.⁹⁹

Table 1: Description of Select Contracted Functions at Ginnie Mae and Total Obligated Amounts, Fiscal Years 2008–2018

(Dollars in millions)

Contracted function	Description of contracted services	Obligated amount 2008–2017	Obligated amount 2018
Loan servicing ^a	Perform default services (which include servicing current, delinquent, and defaulted loans), foreclosure services, management and disposition of acquired property, and preparation and submission of insurance or guarantee claims.	1,068.5	332.0
Administration of its guaranty program	(1) Perform pool processing and certification, central payment, and transfer agent service functions; (2) provide back-office support for Ginnie Mae to operate its guaranty program, including its review of new issuer applications, the monthly collection of data from issuers, and risk analysis and monitoring; and (3) assist in the review and execution of each multiclass securities transaction, including the review of each transaction to ensure compliance with Ginnie Mae policies and procedures.	511.1	134.0
Consultative	Provide policy, financial analysis modeling, advisory, and legal support.	233.5	97.8
Technology	Provide support for operational infrastructure and maintain compliance with information technology development rules and standards (also includes communications and subscriptions).	210.9	36.8
Compliance	Perform issuer, financial statement, internal control, and contract reviews.	54.9	15.7
Total		2,078.9	616.3

Source: GAO analysis of Ginnie Mae data. | GAO-19-191

^aThe amounts for servicing loans include obligation amounts and do not include revenue or reimbursement amounts Ginnie Mae may have received for this function.

⁹⁹*Sustainable Housing Finance: The Role of Ginnie Mae in the Housing Finance System*; statement of Michael R. Bright, Executive Vice President and Chief Operating Officer, Ginnie Mae (Nov. 29, 2017).

We and HUD OIG previously raised concerns about Ginnie Mae's relatively low in-house staffing levels, reliance on contractors, and associated operational risk. Most recently, in 2011 we reported that Ginnie Mae's staffing levels remained relatively constant despite increases in its market share and MBS volume and discussed steps Ginnie Mae was taking to address staffing gaps.¹⁰⁰ Similarly, in 2016, and again in 2017, HUD OIG testified that Ginnie Mae's ability to significantly increase staffing was vital to the nation's financial health.¹⁰¹ In 2017, HUD OIG also reported that Ginnie Mae's small staff lacked the skills necessary to immediately respond to increased risks resulting from the rapid growth and shift in issuer base to nonbanks and that Ginnie Mae relied heavily on contractors to perform its core responsibilities.¹⁰²

As shown in table 2, Ginnie Mae's authorized in-house staffing levels increased substantially starting in fiscal year 2011. Ginnie Mae struggled to meet its authorized FTE levels, especially from fiscal years 2008 through 2013. Ginnie Mae's actual staffing levels averaged about 9 percent below authorized levels from fiscal years 2005 through 2018. According to agency officials, this was partly due to recruitment and retention challenges (discussed in more detail later).

¹⁰⁰[GAO-12-49](#). In 1993 and also in 2005, we reported on Ginnie Mae's challenges in overseeing issuers and contractors, in part because of its staff levels. See GAO, *Government National Mortgage Association: Greater Staffing Flexibility Needed to Improve Management*, [GAO/RCED-93-100](#) (Washington, D.C.: June 30, 1993); and *Housing Finance: Ginnie Mae Is Meeting Its Mission but Faces Challenges in a Changing Marketplace*, [GAO-06-9](#) (Washington, D.C.: Oct. 31, 2005).

¹⁰¹*HUD Office of Inspector General Fiscal Year 2017 Budget Request and HUD's Top Management and Performance Challenges*, Senate Committee on Appropriations, Subcommittee on Transportation, Housing, and Urban Development, and Related Agencies, 114th Cong. (Mar. 10, 2016); testimony of David A. Montoya, Inspector General, Department of Housing and Urban Development. Also see *HUD Oversight and Management Issues*, House Committee on Appropriations, Subcommittee on Transportation, Housing, and Urban Development, and Related Agencies, 115th Cong. (Mar. 16, 2017); testimony of David A. Montoya, Inspector General, Department of Housing and Urban Development.

¹⁰²Department of Housing and Urban Development, Office of Inspector General, *Government National Mortgage Association, Washington, D.C., Nonbank Oversight*.

Table 2: Ginnie Mae Funding for Staff and Full-Time Equivalent Staff, Fiscal Years 2005–2018

(Dollars in millions)

Fiscal year	Funding for staff		Full-time equivalent staff			
	Requested ^a	Authorized	Requested ^a	Authorized	Actual	Actual as percent of authorized
n/a						
2005	7.8	7.7	76	67	65	97
2006	8.5	8.0	76	69	66	96
2007	8.1	8.0	69	67	65	97
2008	9.0	8.3	73	69	61	88
2009	8.6	10.0	78	72	59	82
2010	11.1	11.1	90	78	70	90
2011	14.0	11.6	75	105	76	72
2012	30.0 ^b	18.5	249 ^b	104	89	86
2013	19.1	17.4	131	122	104	85
2014	20.0	17.3	130	119	112	94
2015	26.1	21.5	163	138	127	92
2016	26.3	21.7	168	135	134	99
2017	23.0	23.0	137	137	133	97
2018	26.2	27.0	146	150	140	93

Source: GAO analysis of Ginnie Mae data. | GAO-19-191

^aRequested full-time equivalent staff is the number Ginnie Mae submits to the Department of Housing and Urban Development (HUD). However, the number HUD presents to the Office of Management and Budget may not reflect Ginnie Mae's original request.

^bAccording to Ginnie Mae officials, the agency requested much-increased staff funding numbers in fiscal year 2012 because leadership wanted to strengthen risk management and oversight and to move in-house some functions performed by contractors.

Ginnie Mae also recently cited the need for more in-house staff rather than contractors. For example, in its budget justifications for fiscal years 2018 and 2019, Ginnie Mae requested increased funding and FTEs to address some of the functions, such as compliance and oversight, it could not perform due to staff shortages or because it would not be appropriate for contractors to perform the functions. In August 2017, Ginnie Mae analyzed its staffing needs and determined that it would need 186 FTEs

in the medium-to-long term to fully carry out its activities.¹⁰³ Although Ginnie Mae recently raised concerns over its staff levels, Ginnie Mae officials told us that based on the current funding structure, the agency's fiscal year 2018 appropriations were sufficient to carry out the agency's mission, including performing activities it was not able to perform in the past due to staff shortages.¹⁰⁴

However, Ginnie Mae does not fully understand the relative costs of its reliance on contractors, and does not know the optimal mix of contractor and in-house staff because it has not fully assessed the relative costs and benefits of its use of contractors. Specifically, since we last reported on this issue in 2011, Ginnie Mae has conducted assessments of its contractor use, but these assessments generally were one-time—rather than regular—and did not specifically compare the costs and benefits of performing activities with contractors and in-house staff. Ginnie Mae's assessments included the following:

- A September 2016 staffing and operations study found contractors were executing core functions and should have more oversight from Ginnie Mae. The study found that more than 530 contractor FTEs executed business operations identified by Ginnie Mae as core functions and that 503 of these contractor positions could be brought in house. The study recommended that Ginnie Mae grow its in-house staff from 133 to 1,218 FTEs (an increase of 1,085) and reduce its contractor staff from 719 to 216 FTEs (a decrease of 503), resulting in a net increase of 582 FTEs to support services, address gaps in staffing capabilities, and keep pace with market and workload demands. The study did not include the information on the costs of using contractors. Moreover, Ginnie Mae officials explained the study was commissioned under the agency's previous leadership to address

¹⁰³In response to Executive Order 13781, Ginnie Mae proposed in August 2017 to reorganize the agency to better align its functions, workload, and operational missions. As part of this effort, Ginnie Mae analyzed its staffing needs. It identified positions that were (1) currently filled, (2) vacant but for which funding was authorized, and (3) to be created and filled if funding was authorized.

¹⁰⁴In fiscal year 2018, Ginnie Mae received \$27 million in appropriations for salaries and expenses—a \$4 million increase from the previous fiscal year. See Consolidated Appropriations Act, 2018, Pub. L. No. 115-141 (2018); Consolidated Appropriations Act, 2017, Pub. L. No. 115-31 (2017). Ginnie Mae officials said that this increase would enable Ginnie Mae to eventually grow to 150 FTEs, a level at which officials said they expect the agency will be able to sufficiently perform all essential functions in-house but still would require support from contractors.

a business transformation initiative and is no longer aligned with the agency's priorities.

- In 2017, Ginnie Mae assessed its management of contracts to identify opportunities to promote greater efficiencies. Unlike the 2016 study, this assessment did not recommend a specific level of in-house staff to perform activities; rather, it acknowledged Ginnie Mae's heavy reliance on contractor support and identified a shortage of staff for overseeing its contractors. The study recommended that Ginnie Mae establish metrics for the acquisition process (for example, related to optimizing workload management and increasing productivity and efficiency), but did not include any metrics related to tracking costs or the optimal mix of contractors.
- In its fiscal year 2019 President's Budget request, Ginnie Mae recognized that the growth and increased complexity of its MBS program expanded contractor dependence and increased enterprise risk in the most vulnerable areas. Ginnie Mae stated that its priorities include reducing dependence on contractors for certain core business functions and beginning to "right size" the significantly lopsided contractor-to-staff ratio. However, Ginnie Mae did not provide any specific information on what "right size" meant in terms of its contractor-to-staff ratio.

According to our framework for assessing the acquisition function, agencies should track and communicate financial information in a way that enables effective evaluation and assessment of acquisition activities to reduce the risk of inefficient or wasteful business practices.¹⁰⁵

According to federal internal control standards, management should use quality information and externally communicate it to achieve the entity's objectives.¹⁰⁶ Such information could include potential costs savings and other benefits of bringing certain functions in house.

Ginnie Mae has not estimated the relative costs of relying on contractors, developed a plan to determine the optimal mix of contractor and in-house staff, or communicated this information to relevant parties such as HUD, OMB, and Congress. Without more information on the use of contractors versus in-house staff and an assessment of options to reduce its reliance on contractors, Ginnie Mae—and ultimately, HUD, OMB, and Congress—

¹⁰⁵GAO, *Framework for Assessing the Acquisition Function*, [GAO-05-218G](#) (Washington, D.C.: Sept. 1, 2005).

¹⁰⁶[GAO-14-704G](#).

will not know the extent to which taxpayer dollars were used efficiently and effectively or be able to determine an optimal mix for in-house and contractor staff. For example, Ginnie Mae could be paying contractors more for services (in addition to incurring costs for overseeing the contractors) than it would cost Ginnie Mae to bring the service in-house. In turn, the lack of such information could impede congressional consideration of more budgetary flexibility for Ginnie Mae to help reduce its reliance on contractors.

Ginnie Mae Has Not Reviewed How It Would Use Fee Revenue to Address Staffing Challenges

Ginnie Mae has broad flexibility to use certain fee revenue to hire contractors to support the operations of its MBS program.¹⁰⁷ In contrast, Ginnie Mae's in-house staff generally have been funded through the annual appropriation process, which typically involves coordination with HUD to develop a budget in accordance with OMB guidance.¹⁰⁸

According to Ginnie Mae officials, the difference in the agency's flexibility has sometimes caused Ginnie Mae to hire contractors to perform certain activities not because outsourcing would necessarily be the most efficient or effective approach but because the agency lacked the funds to hire in-house staff to perform the activities.

¹⁰⁷Ginnie Mae's authority to use these funds to hire such contractors comes from a permanent indefinite appropriation. A permanent appropriation is always available for specified purposes and does not require repeated action by Congress to authorize its use. An indefinite appropriation is for an unspecified amount of money and may appropriate all or part of the receipts from certain sources, the specific amount of which is determinable only at some future date, or it may appropriate "such sums as may be necessary" for a given purpose.

¹⁰⁸Each fiscal year for the annual budget process, Ginnie Mae submits a request to HUD for a certain level of staffing funding and FTE staff. HUD then submits a request to OMB for its overall budget, which includes a request for a certain level of staffing funding and FTE staff for Ginnie Mae, which may or may not reflect Ginnie Mae's original request. OMB develops HUD's approved budgetary levels, which may be different from HUD's budget request, and uses this to create the President's Budget, which it submits to Congress. After the President's Budget is submitted to Congress, OMB and HUD officials submit justifications of the budget request to Congress. Congress can approve funding levels in the President's Budget request or increase or decrease those levels. In fiscal year 2018, Ginnie Mae also had the authority to use up to \$3 million annually to hire temporary employees—nonpermanent staff hired as 1-year appointments with the option of renewing for up to 4 years.

In contrast to Ginnie Mae, other entities that we reviewed (discussed in more detail later in this report) have more autonomy to use revenue to hire in-house staff. For example, the enterprises are funded primarily by fees charged to mortgage lenders in exchange for the guarantee of timely payment of principal and interest.¹⁰⁹ Similarly, FDIC determines its own budget and receives no appropriated funding. Its operational expenses are funded primarily by deposit insurance premiums it collects from insured depository institutions (banks and savings associations) and from earnings on investments in Treasury securities.

Although we and HUD OIG repeatedly reported on Ginnie Mae's staffing and contracting challenges, these challenges remain. Ginnie Mae has yet to evaluate and report to Congress on how it could use fee revenue available to hire contractors to hire in-house staff. According to our framework for assessing the acquisition function, management should make strategic decisions about what work the agency should perform in-house versus contract out.¹¹⁰ Furthermore, according to federal internal control standards, an agency should operate effectively and efficiently to fulfill its objectives.¹¹¹ More specifically, the operations should produce the intended results in a manner that minimizes the waste of resources.

By requiring Ginnie Mae to provide such information, Congress could obtain the information necessary to determine whether changes to Ginnie Mae's funding structure were warranted. Without this analysis, Ginnie Mae may continue to face challenges making strategic decisions about hiring in-house staff rather than contractors and balancing its ratio of contractor to in-house staff to achieve greater efficiencies.

¹⁰⁹The enterprises also receive revenue from the difference between the interest income earned on the assets in the enterprises' retained mortgage portfolio and the interest expense paid on the debt that funds those assets. In recent years, the enterprises have earned a greater proportion of net income from guarantee fees than from interest income. The shift primarily has been driven by guarantee fee increases put in place during conservatorship and the reduction of the retained portfolios in accordance with the requirements of the preferred stock purchase agreements between the Department of the Treasury and the enterprises.

¹¹⁰[GAO-05-218G](#).

¹¹¹[GAO-14-704G](#).

Ginnie Mae Has Developed New Tools to Oversee Contractors, but Reviews of Its Contract Oversight Identified Deficiencies That It Has Been Working to Address

Ginnie Mae added new programs to assess contractors and manage operational risks, but reviews of Ginnie Mae's contract monitoring found several deficiencies. Ginnie Mae developed a vendor risk-management program in 2016 to examine mission-critical vendors (contractors) and assess, measure, monitor, and manage operational, compliance, fraud, and other risks associated with such outsourcing. These reviews examine contractors across seven risk categories. Ginnie Mae officials said that the agency has assigned two in-house staff to conduct the vendor reviews and uses contractors for additional support. Furthermore, they said that the agency had reviewed three vendors in fiscal year 2017, three in fiscal year 2018, and planned to review four more in fiscal year 2019.¹¹²

Ginnie Mae also took other steps to oversee contractors and manage operational risks. For example, in March 2016, Ginnie Mae hired a contractor to help implement a risk control program, which is designed to analyze, identify, and provide an enterprise view of Ginnie Mae's operational risk and incidents using individual examinations of the agency's various divisions. In November 2017, Ginnie Mae established an operational incident management program to help identify internal incidents and contractor deficiencies. The program allows staff to report any incidences or deficiencies to Ginnie Mae management, so it can then identify causes and determine corrective actions.

Despite these positive steps to improve contractor oversight, HUD, which oversees Ginnie Mae's contracts, found that Ginnie Mae had not always properly followed HUD procedures for documenting contract monitoring. More specifically, in an August 2017 review of Ginnie Mae's contract files, HUD found that Ginnie Mae had not adequately documented its contract monitoring duties. HUD made four recommendations, including that Ginnie Mae obtain missing contract documents and periodically review

¹¹²Ginnie Mae officials said they categorize vendors into three categories based on several factors, including the size of the contract and the risk the contract poses to Ginnie Mae. The officials said that as of October 2018, Ginnie Mae had 19 vendors in the top two categories—those that it planned to subject to the reviews.

contract files. In October 2017, Ginnie Mae submitted a corrective action plan to address HUD's recommendations, which included plans for Ginnie Mae to review all of its contracts annually beginning February 2018. In April 2018, Ginnie Mae completed its first internal annual review of its contract files and found that 19 of the 34 contracts reviewed were not in compliance with applicable regulations due to missing documentation. Ginnie Mae agreed to bring into compliance the files for all contracts.

As mentioned earlier, in 2017, Ginnie Mae's contracting department assessed the agency's contracts and overall acquisition function. The study's nine recommendations included standardizing contract management and increasing subject-matter expertise in contract planning. For example, the study found that Ginnie Mae's contracting officer's representatives lacked standardized guidance to ensure consistent and effective contract oversight and that contract oversight was not a dedicated role. According to Ginnie Mae officials, the agency took or plans to take action on each of the recommendations. For example, Ginnie Mae officials said that contracting officer's representatives are identified for each contract and its procurement office works with the representatives to ensure adequate oversight. The agency also plans to hire dedicated contracting officer's representatives in some offices and established a contract oversight supervisor role to oversee all the representatives.

In addition to the oversight provided by the contracting officer's representative, Ginnie Mae has relied on contractors to conduct contract assessment reviews since 1993 to ensure that contract files meet requirements and that deliverables and services are received on time. According to Ginnie Mae officials, the agency allowed the contract to lapse in fiscal year 2014 because it intended to bring the contract assessment review function in house.¹¹³ Ginnie Mae officials acknowledged that the lapse of the contract for the reviews created gaps in contractor oversight. As of March 2019, Ginnie Mae had not yet

¹¹³According to HUD's procurement policies and procedures, a contracting officer's representative or government technical representative should be assigned to oversee and monitor the contractor's performance. For example, they state that the representatives should monitor the contract for timeliness and review invoices for accuracy. According to the contract assessment review contract, the third-party contractor reviews should include determining whether the contractors complied with the terms of their contracts, conducted appropriate billing, and maintained adequate internal controls to minimize risk to Ginnie Mae. The review reports also provide information on any potential risks to Ginnie Mae based on other completed audits and reviews.

renewed the contract, but Ginnie Mae officials said that they had decided to do so in part based on our review and recognized the need to provide more oversight of the agency's contracts. They said that they issued a solicitation for a contract and expect it to be awarded in April 2019.

Ginnie Mae Has Not Assessed the Effectiveness of Outsourcing Contract Administration to GSA

Ginnie Mae has made significant changes to its contract administration, but has not assessed the cost and effectiveness of current or potential future options for contract administration. More specifically, in 2014, Ginnie Mae began transitioning some of its contract administration from HUD's procurement office to the General Services Administration (GSA). Ginnie Mae officials said that HUD was not able to support Ginnie Mae's contracting needs and award its contracts in a timely manner because of Ginnie Mae's high volume of contracts. Prior to this transition, Ginnie Mae explored external contract administration options to meet its contracting needs, such as through the Departments of the Treasury and Health and Human Services. After conducting a pilot on five contracts, HUD and GSA signed an interagency agreement to allow GSA to provide administration services for Ginnie Mae contracts.

To administer these contracts, GSA charges Ginnie Mae a 3 percent fee for the first \$500 million of contracts and 2 percent on the amount above \$500 million. Ginnie Mae officials said that they expected to offset some of the fee costs because GSA's purchasing power could obtain lower contractor rates for some services, but officials did not provide any analysis to confirm this expectation. Our review of fiscal year 2018 data found that GSA-administered contracts totaled \$204 million, costing Ginnie Mae approximately \$6.1 million in fees to GSA. GSA administered approximately 46 Ginnie Mae contracts (61 percent), and HUD administered 30 Ginnie Mae contracts (39 percent).

Since GSA started serving as contract administrator in 2014, Ginnie Mae has not comprehensively evaluated whether its outsourcing of its contract administration to GSA has met its intended purposes. In 2017, as part of its review of its acquisition processes, Ginnie Mae identified issues with GSA's contract administration, including a lack of institutional knowledge, clear guidance, and oversight. The report stated the relationship with GSA had improved and a new relationship with another external administrator might not realize expected efficiencies due to time needed to learn Ginnie Mae's specialized line of business. The study

recommended that Ginnie Mae establish metrics for the acquisition process (for example, related to optimizing workload management and increasing productivity and efficiency), but did not recommend establishing metrics related to assessing financial costs or performance of its contract administration.

According to our framework for assessing the acquisition function, agencies should track and communicate financial information in a way that enables effective evaluation and assessment of acquisition activities to reduce the risk of inefficient or wasteful business practices.¹¹⁴ In addition, federal internal control standards state that management should use quality information and externally communicate it to achieve the entity's objectives.¹¹⁵

However, Ginnie Mae officials stated that they had not reevaluated their decision to use GSA as a contract administrator to determine whether continuing with GSA or selecting another provider (a federal agency or a private contractor) would be the most efficient or effective option. Without such an evaluation, Ginnie Mae—and ultimately, HUD, OMB, and Congress—lack the information necessary to help ensure the most efficient and effective use of taxpayer dollars.

Ginnie Mae Has Not Followed Through on Compensation Alternatives to Address Hiring and Retention Challenges

Ginnie Mae has continued to face challenges hiring and retaining staff, but has not followed through on options to address its compensation structure, which limits its flexibility in hiring and paying in-house staff. As discussed previously, Ginnie Mae has not reached its authorized FTE level in each year since 2005. Moreover, in 2018, HUD OIG reported that a number of senior-level positions in Ginnie Mae's finance office had remained vacant for an extended period.¹¹⁶

¹¹⁴[GAO-05-218G](#).

¹¹⁵[GAO-14-704G](#).

¹¹⁶Department of Housing and Urban Development, Office of Inspector General, *Top Management Challenges Facing the U.S. Department of Housing and Urban Development in 2019 and Beyond*.

Ginnie Mae officials said they are disadvantaged when competing for job candidates against other similar entities because those entities are not subject to OPM's General Schedule pay scale and can offer candidates higher salaries.¹¹⁷ As publicly traded companies, the enterprises are not subject to the General Schedule pay scale and generally may develop their own internal pay scale for their staff, which may be set at higher levels than the General Schedule.¹¹⁸ FDIC and FHFA, two financial regulators, also can offer pay on a scale higher than the General Schedule.¹¹⁹ For example, in January 2019, the maximum salary for an FHFA senior examiner was \$213,280, but the maximum salary for an equivalent non-management position under the General Schedule was \$148,967.¹²⁰

In addition to hiring challenges, Ginnie Mae has continued to face challenges retaining staff, some of which also may be related to compensation. According to Ginnie Mae officials, some staff resigned because they received higher pay offers from public- or private-sector entities. For example, Ginnie Mae found that in 2010–2014, 65 percent of nonretiring Ginnie Mae staff took jobs at other agencies, such as FHFA, FDIC, CFPB, and the Securities and Exchange Commission, which have higher pay scales. Similarly, the September 2016 staffing and operations study commissioned by Ginnie Mae found that 54 percent of its nonretirement turnover from May 2010 through May 2016 went to organizations not subject to the General Schedule, including some federal entities.¹²¹ The study also found that turnover was disproportionately high

¹¹⁷OPM administers General Schedule classification standards, qualifications, pay structure, and related human resources policies on a government-wide basis. Each agency classifies its General Schedule positions and follows statutory and agency guidelines to appoint and pay employees in those positions.

¹¹⁸The enterprises must obtain FHFA's approval before entering into new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements for positions at the level of senior vice president and above (and for other officers as FHFA may deem necessary to successfully execute its role as conservator).

¹¹⁹See 12 U.S.C. §§ 1819(a), 4515. FDIC and FHFA have authority to fix the compensation of their employees, which includes providing rates of pay higher than those under the General Schedule.

¹²⁰As of January 15, 2019, FHFA had one senior examiner EL 12-14 position advertised on its website. We considered the equivalent General Schedule position to be grade 14, step 10, in the Washington, D.C., locality (effective January 2019).

¹²¹KPMG, *Ginnie Mae Operations and Staffing Analysis*.

in positions Ginnie Mae defined as hard-to-fill, such as positions requiring accounting, financial, or other technical knowledge, skills, or abilities.¹²²

We previously identified strategic human capital management as a high-risk issue and staff turnover as a government-wide challenge.¹²³ In particular, we reported that if turnover was not strategically monitored and managed, gaps could develop in an organization's institutional knowledge and leadership. We also reported in 2016 that HUD's management improvement efforts were hindered by significant turnover.¹²⁴ According to principles that we previously identified for strategic workforce planning, once an agency identifies its workforce needs, it should develop strategies (including programs, policies, and practices) to address those needs, while considering flexibilities available under current authorities as well as those that might require legislation.¹²⁵ Such strategies will help enable an agency to recruit, develop, and retain critical staff needed to achieve program goals.¹²⁶

According to HUD officials, Ginnie Mae previously explored options to address challenges with its compensation structure. In September 2012, Ginnie Mae met with HUD to discuss options for addressing its compensation constraints under the General Schedule. HUD agreed on the need to explore greater pay flexibility and determined that such a request would require OPM approval. According to OPM regulations,

¹²²Specifically, the report said that hard-to-fill positions were in the Offices of Enterprise Risk, Issuer and Portfolio Management, Capital Markets, Accounting and Finance, and Securities Operations.

¹²³See GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, [GAO-17-317](#) (Washington, D.C.: Feb. 15, 2017); and *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

¹²⁴[GAO-16-497](#).

¹²⁵GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, [GAO-04-39](#) (Washington, D.C.: Dec. 11, 2003). We added strategic human capital management to our high-risk list in 2001. In our 2015 update, we noted that agencies needed to do additional work to more fully use workforce analytics to identify their gaps, implement specific strategies to address these gaps, and evaluate the results of actions taken to demonstrate progress in closing the gaps. See GAO, *High-Risk Series: An Update*, [GAO-01-263](#) (Washington, D.C.: January 2001); and *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015).

¹²⁶In addition, OPM's human capital framework sets talent-management standards to help agencies plan for and manage future workforce needs; implement proven strategies to attract, hire, develop, and retain talent; and make progress in closing skills gaps.

OPM may establish higher rates of pay to address challenges in recruiting or retaining employees.¹²⁷ Then in July 2014, according to Ginnie Mae correspondence, it finalized a memorandum detailing its recruitment and retention challenges. For example, it noted that from October 2012 to July 2014, 60 percent of Ginnie Mae's new hires were recruited outside of the federal government and that 78 percent of the selected candidates requested recruitment incentives to consider Ginnie Mae's offer of employment. HUD and Ginnie Mae met with OPM in December 2014, and HUD officials said OPM declined Ginnie Mae's request.

In September 2018, HUD officials told us that Ginnie Mae and HUD had not taken any further action to obtain approval for a revised compensation structure. In March 2019, Ginnie Mae officials told us that Ginnie Mae, HUD, OMB, and OPM officials subsequently discussed how Ginnie Mae should proceed to prepare a proposal for OPM consideration, within the existing OPM framework. However, Ginnie Mae had not prepared and submitted such a proposal. In addition, in July 2018 the Department of the Treasury recommended that Ginnie Mae assess the costs and benefits of alternative pay structures to help it more readily attract personnel with requisite expertise by paying salaries comparable to those at other financial agencies with premium pay authority.¹²⁸

By not assessing the costs and benefits of alternative compensation structures within its current authority or following through with further proposals for HUD's review and consideration, Ginnie Mae may be missing an opportunity to enhance its ability to recruit and retain staff and develop a workforce with the skills necessary to achieve its goals. By requiring Ginnie Mae to report to Congress on how it would use greater flexibility or broader authority to set the compensation of its in-house staff, Congress also could have the information it needs to consider such changes, and if warranted, provide Ginnie Mae with any additional authority necessary to address these long-standing difficulties in hiring and retaining staff.

¹²⁷ See 5 C.F.R. § 530.304. Additionally, according to OPM's Superior Qualifications and Special Needs Pay-Setting Authority, agencies may set the rate of basic pay of a newly appointed employee at a rate above the minimum rate of the appropriate General Schedule grade because of (1) the superior qualifications of the candidate or (2) a special need of the agency for the candidate's services. See 5 C.F.R. § 531.212(b).

¹²⁸ *A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation.*

Oversight Structures of Ginnie Mae and Other Entities Provide Insights for Potential Reforms of Ginnie Mae

The oversight structure of Ginnie Mae differs from the oversight structures of three selected entities—Fannie Mae and Freddie Mac, two government-sponsored enterprises, and FDIC, a government-controlled corporation.¹²⁹ Unlike the selected entities, Ginnie Mae does not have a board of directors to independently oversee its management. Ginnie Mae also does not have an independent entity to supervise the safety and soundness of its business operations. In light of HUD’s persistent challenges overseeing Ginnie Mae and its other programs, we analyzed these alternative oversight structures to provide insights for how Ginnie Mae’s oversight might be reformed.

Ginnie Mae’s Oversight Structure Differs from the Oversight Structures of the Enterprises and FDIC

Oversight structures for Ginnie Mae, the enterprises, and FDIC include a federal agency, a federal regulator and a board of directors, and a board of directors, respectively (see fig. 9).¹³⁰ Ginnie Mae is a government corporation within HUD and overseen by HUD. The enterprises are federally chartered corporations regulated by FHFA and overseen by boards of directors.¹³¹ FDIC is a government-controlled corporation, like

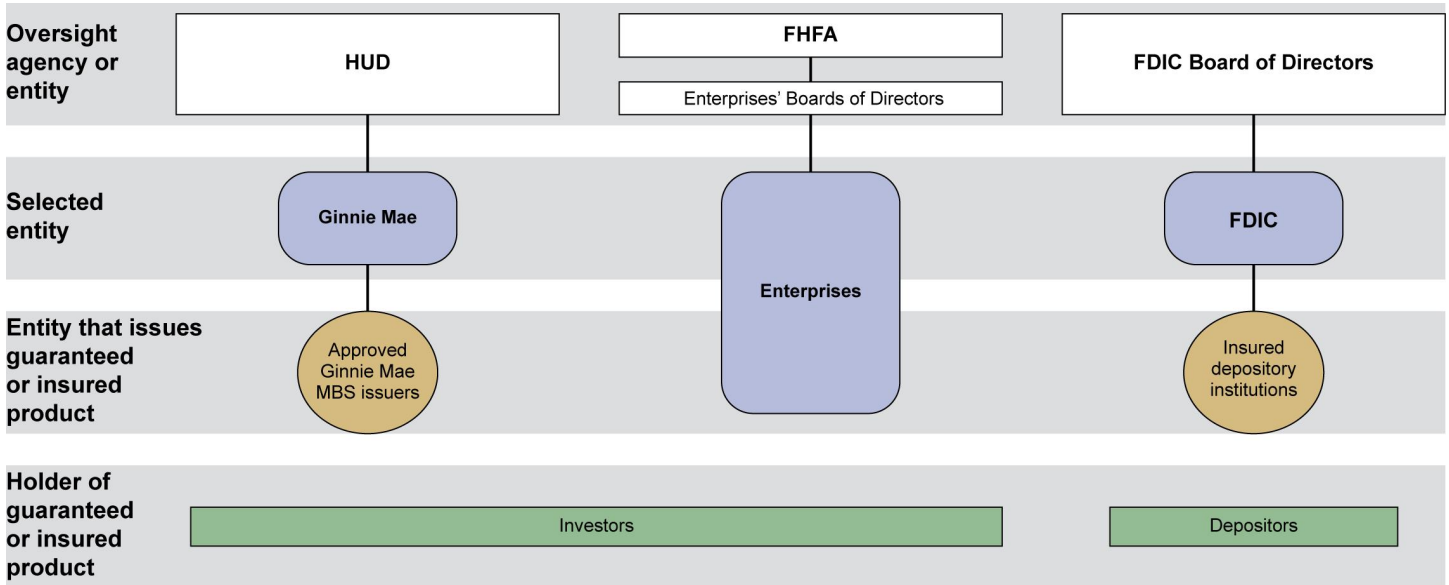
¹²⁹Each of these entities exposes the federal government to a risk of loss. We based our selection of the enterprises and FDIC on their mission, functions, risks, and oversight.

¹³⁰Ginnie Mae’s mission statement is to “link the U.S. housing market to global capital markets, thus providing low-cost financing for federal housing programs,” and it relies on issuers to issue and service its MBS. We have previously reported that the enterprises’ mission is to provide liquidity, stability, and affordability to the U.S. housing market. According to FDIC, its mission is to maintain stability and public confidence in the U.S. financial system, including by insuring deposits and examining and supervising state nonmember banks and state savings associations for safety and soundness and consumer protection.

¹³¹Federally chartered corporations are chartered through an act of Congress. According to a Congressional Research Service report, the use of separate acts to charter each corporation resulted in a wide range of legal and organizational structures for government corporations. See Congressional Research Service, *Federal Government Corporations: An Overview* (Washington, D.C.: June 8, 2011).

Ginnie Mae, but is an independent regulatory agency and overseen by a board of directors.

Figure 9: Oversight Structures for Ginnie Mae, the Enterprises, and FDIC as of February 2019



— Oversight includes agencies or entities that set policies and direct affairs, such as approving budgets, human capital decisions, and organizational changes. The nature and scope of oversight that each entity provides varies.

- Enterprises: Fannie Mae and Freddie Mac
- FDIC: Federal Deposit Insurance Corporation
- FHFA: Federal Housing Finance Agency
- HUD: Department of Housing and Urban Development
- MBS: Mortgage-backed securities

Source: GAO. | GAO-19-191

Ginnie Mae

Ginnie Mae is a government corporation overseen by the HUD Secretary, who is responsible for administering Ginnie Mae, and generally has delegated those duties to Ginnie Mae’s executive officers (as outlined in its bylaws).¹³² A 2011 Congressional Research Service report found that

¹³²Under Ginnie Mae’s statutory authority “[a]ll the powers and duties of the Government National Mortgage Association shall be vested in the Secretary of Housing and Urban Development and the Association shall be administered under the direction of the Secretary. Within the limitations of law, the Secretary shall determine the general policies which shall govern the operations of the Association, and shall have power to adopt, amend, and repeal bylaws governing the performance of the powers and duties granted to or imposed upon it by law.” 12 U.S.C. § 1723(a).

Ginnie Mae was one of only two government corporations not overseen by a board of directors.¹³³ The Secretary of HUD delegated management responsibilities to Ginnie Mae but retains authority to determine general policies that govern Ginnie Mae's operations. HUD officials said that HUD's oversight of Ginnie Mae is similar to its oversight of FHA and its other program offices.

Enterprises

As federally chartered and shareholder-owned companies, the enterprises have boards of directors that oversee and determine the general policies that govern their operations.¹³⁴ The enterprises also are regulated by FHFA, which is responsible for ensuring that the enterprises operate in a safe and sound manner.¹³⁵

In 2008, FHFA placed the enterprises into conservatorship (which according to FHFA was and still is intended to be temporary) out of concern that their deteriorating financial condition threatened the stability of financial markets.¹³⁶ As conservator, FHFA established boards of directors to oversee and manage operations, so that the enterprises can continue to operate, but the boards exercise functions and authority as directed by FHFA. FHFA reviews all significant business activities of the

¹³³*Federal Government Corporations: An Overview.*

¹³⁴The board of directors of each enterprise generally consists of 13 persons, elected annually by the voting common stockholders. In terms of board composition, at least one person is to be from the homebuilding industry, at least one person from the mortgage lending industry, at least one person from the real estate industry, and at least one person from an organization that has represented consumer or community interests for not less than 2 years or one person who has demonstrated a career commitment to the provision of housing for low-income households.

¹³⁵The Housing and Economic Recovery Act of 2008 established FHFA. Pub. L. No. 110-289 § 1101, 122 Stat. 2654, 2661 (2008). Before 2008, the Office of Federal Housing Enterprise Oversight—an agency in HUD—oversaw the enterprises' safety and soundness but lacked certain resources and authorities to monitor the enterprises. The 2008 act augmented safety and soundness responsibilities and authorities with the creation of FHFA and dissolved the Office of Federal Housing Enterprise Oversight.

¹³⁶According to FHFA, conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a company to put it in a sound and solvent condition. In a conservatorship, the powers of the company's directors, officers, and shareholders are transferred to the designated conservator. See Pub. L. No. 110-289, § 1145, 122 Stat. 2654, 2734 (codified at 12 U.S.C. § 4617).

enterprises and works with the boards to establish priorities and milestones for accomplishing the goals of the conservatorship.

FDIC

Like Ginnie Mae, FDIC is a government corporation. But unlike Ginnie Mae, FDIC is an independent regulatory agency and overseen by a board of directors.¹³⁷ One board member is designated as the chairperson. The chairperson, with the other members or officers as designated, is responsible for the management and direction of FDIC's executive and administrative functions and oversight. FDIC officials said that formal board oversight occurs through required reporting requirements. Additionally, the board meets with staff outside of board meetings on a regular and ad hoc basis.

Scope and Activities of Oversight Bodies Differ

Ginnie Mae

As an office within HUD, Ginnie Mae generally is subject to HUD's policies and procedures related to human capital, procurement, financial management, strategic planning, and risk management.

- **Human capital.** HUD's human capital office provides guidance in areas such as workforce planning and organizational structure and according to HUD officials, meets with Ginnie Mae (often weekly) to discuss and coordinate recruitment and retention issues and help manage vulnerabilities (loss of knowledge) associated with staff attrition.
- **Procurement.** Ginnie Mae generally is subject to HUD's acquisition and contracting policies. HUD officials said that HUD's procurement office generally is responsible for reviewing Ginnie Mae's contracting files, providing training for contracting officer's representatives, and conducting reviews to determine whether Ginnie Mae's contracts comply with federal requirements.
- **Financial management.** Ginnie Mae is required to complete annual reports to Congress, and submits its budget formulation through

¹³⁷FDIC's board of directors consists of five members (Comptroller of the Currency, Director of the Consumer Financial Protection Bureau, and three other persons appointed by the President with the advice and consent of the Senate).

HUD's financial office. In January 2018, the Financial Management Council, which includes staff from HUD's financial and program offices (including Ginnie Mae), held its first meeting to discuss financial governance across the agency. Additionally, as part of its responsibilities within HUD, HUD OIG conducted several audits of Ginnie Mae's financial statements and operations.

- **Strategic planning and risk management.** HUD's strategic planning and management office oversees the development of Ginnie Mae's strategic plan and annual performance plan. HUD's 2018 operating plan notes that the office will work with Ginnie Mae to develop its fraud risk-management efforts.¹³⁸ HUD's financial office directs Ginnie Mae in the development of its enterprise risk-management efforts. HUD officials said that they work with Ginnie Mae's Chief Risk Officer regularly in this effort.¹³⁹

Enterprises

As a prudential regulator, FHFA's oversight of the enterprises differs from HUD's oversight of Ginnie Mae. We previously reported that unlike Ginnie Mae, the enterprises face potential conflicts between their profit motivations and housing missions.¹⁴⁰ Like Ginnie Mae, the enterprises face credit, operational, and other risks (in differing degrees than Ginnie Mae, due to differences in their business models) that can expose taxpayers to risk of loss and raise safety and soundness concerns.

According to its 2017 Annual Report to Congress, FHFA oversees the enterprises using different monitoring tools and techniques to ensure their safety and soundness.¹⁴¹ Examples discussed in the 2017 report include the following:

¹³⁸See Department of Housing and Urban Development, Office of Strategic Planning and Management, *Fiscal Year 2018 Operating Plan* (Washington, D.C.: October 2018).

¹³⁹As previously discussed, HUD has been implementing a fraud risk-management framework. In fiscal year 2017, HUD assessed Ginnie Mae's risks related to improper payments.

¹⁴⁰[GAO-09-782](#).

¹⁴¹Federal Housing Finance Administration, *2017 Annual Report to Congress* (Washington, D.C.: May 23, 2018).

- **Examinations.** FHFA conducts on-site examinations and ongoing supervision of the enterprises.¹⁴² For example, in 2017, FHFA performed examination activities in the areas of credit, market, model, and operational risk, as well as governance, compliance, accounting, auditing, and financial disclosure. The examinations included assessment of the safety and soundness of each enterprise (financial performance, condition, and overall risk-management practices) and compliance with regulations.
- **Stress tests.** FHFA requires the enterprises to conduct stress tests to determine whether they have sufficient capital to absorb losses and support operations during adverse economic conditions.¹⁴³
- **Housing goals evaluation.** FHFA evaluates whether each enterprise met single-family and multifamily housing goals, in part by comparing their performance to a benchmark.¹⁴⁴

As publicly traded companies and registrants under the Exchange Act, the enterprises also are subject to filing and disclosure requirements of the Securities and Exchange Commission and comply with certain other public reporting requirements under federal securities laws. FHFA officials told us that under the conditions of conservatorship, FHFA reviews the enterprises' Securities and Exchange Commission filings prior to submission.

¹⁴²FHFA has permanent on-site examination teams at each enterprise but also conducts off-site reviews. FHFA's Division of Enterprise Regulation is responsible for carrying out on-site examinations and ongoing supervision of the enterprises.

¹⁴³Stress testing assesses the potential effect on a regulated entity of economic and financial conditions ("scenarios") on the consolidated earnings, losses, and capital of the regulated entity over a set planning horizon, taking into account the current condition of the regulated entity and the regulated entity's risks, exposures, strategies, and activities. Since 2014, FHFA has required the enterprises to conduct annual stress tests pursuant to Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Department of the Treasury also may provide capital support to the enterprises while in conservatorship according to the terms of the senior preferred stock purchase agreements.

¹⁴⁴Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Housing and Economic Recovery Act of 2008, the enterprises are subject to affordable housing goals covering their purchases of single-family and multifamily mortgages. 12 U.S.C. §§ 4561 et seq.

FDIC

Among its duties, the board of directors appoints officers, such as the chief financial officer and chief operating officer; approves the operating budget and strategic plan; and reviews progress reports and other FDIC reports. FDIC's bylaws specify the roles of and requirements of the different divisions of FDIC and the reports required to be prepared for review by the board. However, FDIC officials told us that unlike HUD and Ginnie Mae, the board typically does not get involved with organizational changes or human capital functions, although the budget includes authorized staff levels and compensation. FDIC manages risk through the use of committees to identify and assess internal risk, as well as forums to assess enterprise risk.

HUD Has Faced Challenges Overseeing Ginnie Mae and Its Other Programs, but Our Comparison to Other Oversight Structures Could Provide Insights for Reform

HUD Has Faced Challenges Monitoring and Overseeing Ginnie Mae and Its Other Programs

HUD has delegated day-to-day management and oversight responsibilities to Ginnie Mae, but retained authority to determine the general policies for its programs, including Ginnie Mae, and remains responsible for overseeing them to ensure their efficiency and effectiveness. However, we and others have found that HUD has struggled to resolve persistent management challenges that limit the efficiency and effectiveness of its programs. In 2016, we reported that HUD struggled to resolve persistent challenges across several management functions, in part because it had not consistently incorporated requirements and key practices to help ensure effective management of its operations.¹⁴⁵ For example, we found that HUD had not yet established a formal enterprise risk-management office to lead fraud risk-management activities agency-wide. We recommended that HUD designate entities within the program offices or an entity with agency-wide responsibilities for overseeing fraud risk-management activities. In March 2017, HUD selected the Chief Risk Officer within the Office of Strategic Planning and Management as the departmental lead

¹⁴⁵ [GAO-16-497](#).

for fraud risk management. HUD recently developed an enterprise fraud risk-management framework but still is implementing the approach at Ginnie Mae.

We also reported in 2016 that HUD had struggled to maintain up-to-date and complete policies and procedures across its human capital, financial, information technology, and acquisition management functions and gaps in its policies adversely affected performance of these functions. We recommended that HUD establish a mechanism for reviewing and updating policies and procedures to help ensure that policies and procedures for key management functions remain current and complete. In response to our recommendation, HUD stated that it would develop a schedule but, as of March 2019, had not finalized its efforts.

Furthermore, HUD's departmental offices have not always provided Ginnie Mae with adequate support. For example, HUD officials told us that until 2017, HUD's financial office had little input into Ginnie Mae's annual report to Congress or internal controls for financial reporting. They stated that the office plans to become more involved in these matters. HUD and Ginnie Mae officials continue to address numerous deficiencies with Ginnie Mae's financial management, including HUD OIG's disclaimer of opinion on Ginnie Mae's financial statements each year since fiscal year 2014.¹⁴⁶ In addition, as previously discussed, Ginnie Mae officials said that HUD's procurement office is currently unable to fully support Ginnie Mae's contract administration needs.

While HUD departmental offices recently made or committed to make improvements, uncertainty remains about HUD's ability to sustain or complete these efforts. As we noted in 2016, HUD's remedial actions were not always effective because they were not sustained. Turnover among senior leadership, shifting priorities, and resource constraints also have contributed to HUD's difficulties in implementing and sustaining needed changes. For example, both the financial and information offices have experienced significant turnover at the leadership and staff levels, limiting their capacity to follow through on major initiatives and other improvements. Furthermore, HUD's Deputy Secretary resigned from the agency in early 2019.

¹⁴⁶For example, see Department of Housing and Urban Development, Office of Inspector General, 2018-FO-0002.

Finally, HUD OIG has listed HUD's oversight of its program activities as a top management challenge for 2019.¹⁴⁷ Specifically, beginning in 2015, HUD OIG reported that HUD was not conducting routine or timely management control reviews and could not ensure that its programs were operating as required by HUD policies. Untimely reviews hamper management's efforts to provide key feedback and ensure the effectiveness and efficiency of departmental operations.

Some Reform Proposals Suggest Revising Ginnie Mae's Oversight Structure and Our Comparison Provides Insights into Such Changes

In a January 2019 report, we suggested that Congress consider legislation for the future federal role in housing finance that considers all relevant federal entities, such as FHA and Ginnie Mae. We identified and reviewed 14 housing finance reform proposals released or introduced in 2014–2018. We found, among other things, that half of the proposals did not address if and how the reforms would affect other federal entities in the housing finance system, such as FHA and Ginnie Mae.¹⁴⁸ As a result, these seven proposals lacked a system-wide focus. We concluded that housing finance reform should have a comprehensive approach that considers all relevant entities.¹⁴⁹ A comprehensive approach would help to promote consistency, transparency, and reduce unnecessary overlap and duplication between the enterprises and other federal entities, including Ginnie Mae.¹⁵⁰

In addition to having a system-wide focus, we noted that government entities should have the capacity to manage risk. Specifically, government entities in the housing finance system need adequate skills and resources

¹⁴⁷Department of Housing and Urban Development, Office of Inspector General, *Top Management Challenges Facing the U.S. Department of Housing and Urban in 2019 and Beyond* (Washington, D.C.: Oct. 15, 2018).

¹⁴⁸[GAO-19-239](#).

¹⁴⁹In prior work, we developed a framework for assessing housing finance reform proposals. One element in our framework stated housing finance reform should have a comprehensive approach that considers all relevant entities. See GAO, *Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System*, [GAO-09-216](#) (Washington, D.C.: Jan. 8, 2009).

¹⁵⁰See [GAO-15-131](#) and [GAO-09-216](#).

to understand, price, and manage risks.¹⁵¹ As previously discussed, Ginnie Mae's risks have increased, and HUD has continued to face challenges overseeing Ginnie Mae and its other programs. Yet, our review of the 14 housing finance reform proposals found that only five discussed Ginnie Mae's organization or oversight structure and included a discussion of ways Ginnie Mae could develop the capacity to manage risk (discussed in more detail below). For example, four of these proposals recommended that Ginnie Mae become an independent agency, three recommended that Ginnie Mae be governed by a board of directors, and one suggested that Ginnie Mae be regulated by FHFA. Furthermore, three of these proposals recommended that staff compensation be comparable with federal banking agencies or the private sector.¹⁵²

For this review, we examined the oversight of the enterprises and FDIC (which, like Ginnie Mae, are complex, face large financial exposure, and play significant roles in the financial markets) to see if they could provide any insights into possible oversight models for Ginnie Mae. Similar to the reform proposals that discussed Ginnie Mae's organization and oversight, our analysis found that potential oversight models might include: (1) an independent entity, (2) a board of directors, or (3) HUD (the status quo as currently required by statute). These models can operate individually or in combination with each other but would entail the following benefits and trade-offs related to the capacity to manage risk.

- **An independent oversight entity**, outside of HUD, may be more proficient and objective in evaluating the safety and soundness of Ginnie Mae's business operations; have a greater level of expertise, resources, and prominence; or promote greater oversight consistency and minimize unintended consequences. For example, like FHFA but unlike HUD, an independent oversight entity may be able to employ on-site examiners to assess the safety and soundness of Ginnie Mae's business operations and overall risk-management practices. But, depending on its authority, an independent entity also may impose restrictions on Ginnie Mae's operations if it found safety and soundness deficiencies. Creating an independent oversight entity may

¹⁵¹ [GAO-15-131](#).

¹⁵² Of the 14 proposals we reviewed, one discussed Ginnie Mae's role in securitizing loans but did not discuss or make recommendations to reform its organization or oversight.

affect HUD's ability to coordinate Ginnie Mae's and FHA's missions and operations.

- **A board of directors** to oversee Ginnie Mae, rather than the current oversight structure in which HUD oversees multiple program offices, may result in more narrowly focused, independent, and flexible oversight. As previously mentioned, in 2011, the Congressional Research Service reported that Ginnie Mae is one of only two government corporations not overseen by a board of directors.¹⁵³ For example, a board could operate separately from HUD; oversee Ginnie Mae's operational and management needs; and focus singularly on Ginnie Mae's mission and role in the secondary market. However, similar to an independent oversight entity, a board of directors may affect HUD's ability to coordinate Ginnie Mae's and FHA's missions and operations.
- **HUD** could continue to oversee Ginnie Mae but would need to expand its functions, such as by examining safety and soundness and risk-management practices, and continue to address persistent management challenges described earlier. Unlike an independent entity such as FHFA or a board of directors, HUD must manage the tradeoffs raised by its multiple programs and determine how best to focus its attention and resources to achieve its housing goals. As previously discussed, HUD has faced challenges providing ongoing support to Ginnie Mae and does not have staff assessing the safety and soundness of Ginnie Mae's business operations. As a result, enhancing oversight of Ginnie Mae would require substantial commitments by HUD and also might require additional resources for HUD.

As of February 2019, Congress had not enacted legislation to reform the housing finance system that focuses on the capacity of relevant entities, such as Ginnie Mae, to manage risks. Given HUD's challenges in overseeing Ginnie Mae, we believe that any housing finance reform proposal that does not address Ginnie Mae's current structure may miss an opportunity to help ensure that Ginnie Mae is adequately overseen and has the capacity to manage risks.

¹⁵³ *Federal Government Corporations: An Overview.*

Conclusions

Since 2007, Ginnie Mae's role in the secondary mortgage market has grown significantly, with Ginnie Mae guaranteeing around \$2 trillion in MBS at the end of fiscal year 2018. Ginnie Mae has taken a range of actions to address the risks and challenges created by the rapid growth of its MBS program and shifting issuer base, some of which have been implemented while others remain in progress. However, challenges remain in a number of areas:

- **Guaranty fee.** Ginnie Mae has not analyzed the extent to which the current level of its guaranty fee for single-family MBS is sufficient to cover potential losses under different economic scenarios. By conducting such an analysis, Ginnie Mae could better understand its ability to absorb losses and, in turn, whether its guaranty fee is set at an appropriate level. Moreover, such analysis could help inform Congress about Ginnie Mae's financial position and the potential benefits of granting Ginnie Mae authority to increase, if needed, its guaranty fee.
- **Reliance on contractors.** Ginnie Mae relies heavily on contractors for many of its functions, largely because it has the authority to use its fee revenue to hire contractors but must rely on appropriations to hire in-house staff. However, Ginnie Mae has not routinely analyzed the extent to which it would be more efficient or effective to use its own staff instead of contractors to perform certain core business functions. Planning and routinely performing such analyses could help Ginnie Mae communicate to HUD, OMB, and Congress the relative costs of its heavy reliance on contractors. Moreover, some uncertainty remains about whether its current funding structure provides Ginnie Mae with sufficient flexibility to readily adjust staffing levels to increase oversight (for instance, to address increasing MBS volume and changing issuer base). An evaluation by Ginnie Mae on how it could use its fee revenue to hire in-house staff and reduce its reliance on contractors and associated costs and risks could help inform congressional decision-making on providing Ginnie Mae with additional flexibility.
- **Contract administration.** Ginnie Mae has turned to GSA to administer its contracts because of HUD's lack of resources. But Ginnie Mae has not analyzed whether its use of GSA continues to be the best option. Performing such an analysis could help Ginnie Mae better understand its contract administration costs and inform Ginnie Mae's future decisions about contract administration.

- **Compensation.** Ginnie Mae has continued to face challenges recruiting and retaining staff, largely because of its compensation limitations under HUD policies and federal statutes and regulations, but has not fully reviewed or developed strategies to revise its compensation structure to address these issues. By following through and completing an assessment of potential reforms to its compensation structure, Ginnie Mae could communicate to HUD, OMB, and Congress the information necessary to justify changes in its authority that would allow it to address recruitment and retention challenges and structure its workforce to meet operational needs.
- **Oversight structure.** Our current (and past) work highlights important considerations for Congress relating to how Ginnie Mae is overseen. Ginnie Mae's prominent and central role in the housing finance system warrants that its capacity to manage risk be addressed. Ginnie Mae's status as a government corporation within HUD has contributed in part to the internal oversight challenges that Ginnie Mae, we, and HUD OIG identified over the years (including lack of flexibility in hiring and compensation that impeded efforts to increase oversight of issuers and contractors). Furthermore, more recent growth in Ginnie Mae's MBS balances, concomitant growth in potential fiscal exposure, and changes in its issuer base underscore the importance of ensuring appropriate and adequate oversight. Alternatives to Ginnie Mae's current oversight structure (such as an independent entity or a board of directors) could enhance its capacity to manage risk by providing better safety and soundness oversight or result in more focused and flexible oversight.

Matters for Congressional Consideration

We are making the following four matters for congressional consideration:

Congress should consider requiring Ginnie Mae to evaluate the adequacy of its current guaranty fee for single-family mortgage-backed securities and report to Congress with recommendations, if any, on revising the fee, such as by adopting standards under which the fee should be determined. (Matter for Consideration 1)

Congress should consider requiring Ginnie Mae to evaluate its reliance on contractors and report to Congress on how it would use fee revenue available to hire contractors to also hire in-house staff. (Matter for Consideration 2)

Congress should consider requiring Ginnie Mae to provide a report on how it would use greater flexibility or broader authority to set the compensation of its in-house staff. (Matter for Consideration 3)

Congress should consider reforms to Ginnie Mae's oversight structure that can help address its increasing risks. (Matter for Consideration 4)

Recommendations for Executive Action

We are making the following four recommendations to Ginnie Mae:

The Chief Risk Officer of Ginnie Mae should periodically conduct an actuarial or similar analysis that includes a stress test to evaluate the extent to which the current level of the guaranty fee for single-family MBS provides Ginnie Mae with sufficient reserves to cover potential losses under different economic scenarios. (Recommendation 1)

The Senior Vice President of Ginnie Mae's Office of Management Operations should analyze the costs of using contractors for its operations and develop a plan to determine the optimal mix of contractor or in-house staff for operations. (Recommendation 2)

The Senior Vice President of Ginnie Mae's Office of Management Operations should assess its contract administration options to determine the most efficient and effective use of funds. (Recommendation 3)

The Chief Financial Officer of Ginnie Mae and Senior Vice President of Ginnie Mae's Office of Management Operations should finalize efforts to assess the costs and benefits of options to revise its compensation structure within current authority and submit proposals, if warranted, to HUD for review and consideration. (Recommendation 4)

Agency Comments and Our Evaluation

We provided a draft of this report to HUD, the Department of Agriculture, VA, FHFA, FDIC, and CFPB for review and comment. In its comments, reproduced in appendix III, Ginnie Mae (HUD) concurred with our recommendations. In addition, Ginnie Mae, the Department of Agriculture, FHFA, FDIC, and CFPB provided technical comments, which we incorporated as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Secretary of Housing and Urban Development, the Secretary of Agriculture, the Secretary of Veterans Affairs, the Acting Director of the Federal Housing Finance Agency, the Chairman of the Federal Deposit Insurance Corporation, the Director of the Consumer Financial Protection Bureau, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or garcia Diaz@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Daniel Garcia-Diaz". The signature is fluid and cursive, with a long horizontal stroke at the bottom.

Daniel Garcia-Diaz
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report focuses on (1) changes in the Government National Mortgage Association's (Ginnie Mae) mortgage-backed securities (MBS) volume and issuers and their effect on Ginnie Mae's risks, (2) Ginnie Mae's oversight and management of issuers and related risks, (3) Ginnie Mae's staff levels and use of contractors, and (4) the oversight structure of Ginnie Mae compared to selected entities to identify areas for potential reforms.¹

To analyze changes in Ginnie Mae's MBS volume and issuers and their effect on Ginnie Mae's risks, we collected and analyzed data from Ginnie Mae and *Inside Mortgage Finance*, a firm that collects data on the primary and secondary mortgage markets. Additionally, we used data we collected and analyzed for a previous report.²

- The data from Ginnie Mae on its (1) cumulative outstanding principal balance and new annual issuance of Ginnie Mae-guaranteed MBS covered fiscal years 2005–2018 and (2) issuers covered fiscal years 2011–2018. We analyzed information on the number and types of financial institutions that issue Ginnie Mae-guaranteed MBS, including banks (depository institutions) and nonbanks (non-depository institutions), and their share of outstanding MBS. We included information on the amount of federally insured and guaranteed mortgages pooled into new Ginnie Mae-guaranteed MBS.
- The data from *Inside Mortgage Finance* covered calendar years 2005–2017. We analyzed information on the volume of MBS issuance by Ginnie Mae issuers, private-label issuers, and government-sponsored enterprises, and cumulative outstanding guaranteed MBS.³

¹We selected entities that participate in the housing market or operate with potential financial exposure for the federal government.

²GAO, *Ginnie Mae: Risk Management and Cost Modeling Require Continuing Attention*, [GAO-12-49](#) (Washington, D.C.: Nov. 14, 2011).

³Nonagency MBS, also referred to as private-label MBS, are issued by private institutions, such as investment banks, and are not guaranteed by Ginnie Mae or issued by Fannie Mae or Freddie Mac, two government-sponsored enterprises.

We assessed the reliability of the data provided by Ginnie Mae by reviewing documentation on the systems that produced the data, performing data tests, and conducting interviews with relevant Ginnie Mae officials. We determined that the data were sufficiently reliable for our reporting objective. To identify and review recent studies on changes in the MBS market that affected Ginnie Mae, we searched relevant databases from 2008 through 2017, such as ABI/INFORM, EconLit, and Social SciSearch. We also reviewed Ginnie Mae's annual reports to Congress from 2012 through 2017, our previous reports, and relevant reports by the Department of Housing and Urban Development's (HUD) Office of Inspector General (OIG). Finally, we interviewed officials from Ginnie Mae, HUD, and HUD OIG about changes in Ginnie Mae's MBS volume, concentration of issuers, and risks associated with these changes.

To analyze Ginnie Mae's oversight of issuers and related risks, we reviewed Ginnie Mae's issuer guidance, including its MBS Guide and all participant memorandums; and internal policies, procedures, and manuals for approving, monitoring, and managing issuers. We also reviewed HUD and Ginnie Mae policies and procedures for managing fraud risk against our fraud risk framework and federal internal control standards. We reviewed Ginnie Mae's statutory authority (Title III of the National Housing Act) and selected legislative history, and its annual reports for fiscal years 2012–2018 and annual budget justifications and submissions for fiscal years 2012–2019. We reviewed Ginnie Mae's internal systems (applications and models), data sources, and quantitative metrics used to monitor and evaluate issuers' financial condition and operations and track its MBS portfolio. We analyzed financial data on issuer defaults for fiscal years 2011–2017 to determine the number of issuer defaults and the associated losses. In addition, we reviewed our prior reports and HUD OIG reports covering audits of Ginnie Mae, including its oversight of issuers. We interviewed Ginnie Mae officials about the risks the agency faces and how it manages such risks. We also interviewed HUD OIG officials about open recommendations from their prior Ginnie Mae audits and Ginnie Mae officials about the steps taken to close the recommendations. Finally, we reviewed federal internal control standards and enterprise and risk-management guidance (such as *Standards for Internal Control in the Federal Government* and Circular A-123) issued by the Office of Management and Budget (OMB), GAO, and federal entities to evaluate Ginnie Mae's risk-management processes.

To analyze Ginnie Mae's staff levels and use of contractors, we reviewed Ginnie Mae's budget authority (Government Corporation Control Act and appropriations acts) and budget requests for fiscal years 2012–2017; policies and procedures for budget formulation and workforce planning; and other related internal documents, such as its strategic, workforce development, and reorganization plans, and a contractor study on its staffing, contracting, and operations. We also reviewed HUD policies and procedures for hiring, procurement, and contractor oversight and GAO and HUD OIG reports on the resource challenges that Ginnie Mae has faced in overseeing contractors. In addition, we obtained and analyzed Ginnie Mae data on its budget requests and authorizations (dollar amount and staff level) for fiscal years 2005–2018, staff turnover for fiscal years 2011–2016, and functions that it contracts out and obligated amounts for fiscal years 2008–2018. We assessed the reliability of the Ginnie Mae staff turnover and contract data by reviewing documentation on the systems that produced the data. We determined that the data were sufficiently reliable for our reporting objective. We interviewed Ginnie Mae, HUD, OMB, and HUD OIG officials about budgetary, staff resource, and contracting issues, such as requested changes to budget authority and functions that are outsourced to contractors.

To compare the oversight structure of Ginnie Mae to selected entities to identify areas for potential reforms, we reviewed Ginnie Mae's statutory authority; HUD documentation of its oversight of Ginnie Mae, such as guidance and risk assessments; and GAO and HUD OIG reports on HUD's oversight of Ginnie Mae. We interviewed Ginnie Mae officials and HUD officials from several offices, including strategic planning and management, finance, procurement, and human capital about HUD's processes for overseeing Ginnie Mae. We selected three other entities for our comparison: Fannie Mae and Freddie Mac—two government-sponsored enterprises—and the Federal Deposit Insurance Corporation (FDIC)—a government-controlled corporation.⁴ We based our selection on their mission, functions, risks, and oversight. To analyze oversight and other characteristics of these selected entities, we reviewed their annual reports, bylaws, internal reporting requirements, strategic plans, and other related documents. To identify and review congressional, academic, and other proposals to reform the housing finance system, we searched relevant databases from 2008 through 2017, such as ABI/INFORM,

⁴For purposes of this report, the discussion of FDIC's operations is limited to its management of the Deposit Insurance Fund.

EconLit, and Social SciSearch. We reviewed 14 proposals introduced in 2014–2018 that were (1) introduced in Congress, either in legislation or released as discussion drafts, or (2) introduced by industry stakeholders or discussed in congressional hearings. We used our framework for assessing potential changes to the housing finance system to analyze Ginnie Mae’s role in the proposed reforms.⁵ We interviewed officials from FDIC and the Federal Housing Finance Agency, which regulates and serves as the conservator of the enterprises, about how FDIC and the enterprises respectively are overseen, such as in terms of their management and operations.

We conducted this performance audit from May 2017 to April 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁵In a 2014 report, we outlined a framework composed of nine elements we consider to be critically important to help policymakers assess or craft proposals to change the housing finance system. To develop this framework, we reviewed other frameworks we had developed, reviewed reform proposals, and met with government officials, researchers, and other relevant parties at discussion groups. For additional details on how we developed the framework, see GAO, *Housing Finance System: A Framework for Assessing Potential Changes*, [GAO-15-131](#) (Washington, D.C.: Oct. 7, 2014). Also see *Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System*, [GAO-09-216](#) (Washington, D.C.: Jan. 8, 2009).

Appendix II: Housing Finance Reform Proposals Reviewed

For this report, we reviewed the following housing finance reform proposals released between 2014 and September 2018 (see appendix I for more information about how we selected the proposals):

Legislative Proposals:

Bipartisan Housing Finance Reform Act of 2018 (discussion draft). Released by House Financial Services Chairman Jeb Hensarling, Representative John Delaney, and Representative Jim Hines on September 6, 2018.

Housing Finance Reform and Taxpayer Protection Act of 2014 (S. 1217). Released by Senate Banking Committee Chairman Tim Johnson and Ranking Member Michael Crapo on March 16, 2014.

Housing Opportunities Move the Economy (HOME) Forward Act of 2014 (discussion draft). Released by House Financial Services Committee Ranking Member Maxine Waters on March 27, 2014.

Mortgage Finance Act of 2015 (S. 495). Introduced by Senator Johnny Isakson on February 12, 2015.

Partnership to Strengthen Homeownership Act of 2014 (H.R. 5055). Introduced by Representative Delaney on July 10, 2014.

Protecting American Taxpayers and Homeowners Act of 2018 (H.R. 6746). Introduced by House Financial Services Chairman Jeb Hensarling on September 7, 2018 (originally introduced on July 22, 2013).

Proposals from Other Sources:

Bright, Michael, and Ed DeMarco. Toward a New Secondary Mortgage Market. Washington, D.C.: Milken Institute, September 2016.

Federal Housing Finance Agency. Perspectives on Housing Finance Reform. Washington, D.C.: January 2018.

Independent Community Bankers of America. ICBA Principles for GSE Reform and a Way Forward. Washington, D.C.: 2017.

Moelis & Company LLC. Blueprint for Restoring Safety and Soundness to the GSEs. June 2017.

Mortgage Bankers Association. GSE Reform: Creating a Sustainable, More Vibrant Secondary Market. Washington, D.C.: April 2017.

National Association of Home Builders. Why Housing Matters: A Comprehensive Framework for Reforming the Housing Finance System. Washington, D.C.: September 2015.

Office of Management and Budget. Delivering Government Solutions in the 21st Century: Reform Plan and Reorganization Recommendations. Washington, D.C.: June 2018.

Parrott, Jim, Lewis Ranieri, Gene Spalding, Mark Zandi, and Barry Zigas. A More Promising Road to GSE Reform. Washington, D.C.: Urban Institute, March 2016.

Appendix III: Comments from Ginnie Mae



Office of the President
425 3rd Street, SW, Fifth Floor
Washington, DC 20024
(202) 475-4900

Date: March 13, 2019

TO: Daniel Garcia-Diaz, Director

FROM: Maren Kasper, Acting President/ Executive Vice President and Chief Operations Officer *MMK*

SUBJECT: Management Response to the Government Accountability Office Report
Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed

Thank you for the opportunity to review and comment on the Government Accountability Office's report *Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed* (GAO-19-191). The report provides a useful explanation of the role Ginnie Mae plays in support of the federal housing initiatives within the U.S. housing finance system. Its examination of how Ginnie Mae is organized, resourced and overseen in this role, particularly in the context of the dramatic changes that have occurred in the profile of mortgage-backed security (MBS) program participants, is highly relevant. Furthermore, we are aligned with the recommendations provided in this report. Ginnie Mae is committed to evolving its structure, operations, systems and procedures and such recommendations are reasonable steps in that direction.

As you highlight in your report, Ginnie Mae has grown into a \$2 trillion mortgage-backed security program. We have over 400 program participants and issuers who rely on our platform and our security to support lending in the Federal Housing Administration, Department of Veterans Affairs (VA), and Rural Housing programs. Monthly, over \$40 billion of principal and interest (P&I) remits over our platform from issuers to investors, and because of Ginnie Mae's unique role in the mortgage market, investors know with certainty that they will receive this principal and interest on time and in full. Ginnie Mae's history reflects investor confidence in this certainty, as Ginnie Mae MBS investors have never failed to receive P&I.

However, as you point out in your report, Ginnie Mae's role in the U.S. housing market has evolved beyond that of being purely and simply the administrator of the government-sponsored mortgage securitization (MBS) program. While our core responsibility has remained unchanged, post-crisis changes in the mortgage market have enlarged the agency's scope and brought us into new territory. These market changes raise important systemic questions, such as issuer concentration risk, as noted in your report. An appropriate response under the current structure of the market requires us to act, in some ways, akin to a federal regulator, as demonstrated in our policymaking and program compliance enforcement. The report fairly portrays the ways in which we have tried to evolve our approach to managing and protecting the Ginnie Mae MBS program in response to profound market changes including counterparty dynamics.

We concur with the report's assertion that any housing finance reform proposal should address Ginnie Mae's structure and capacity, and that these matters are worthy of further consideration by Congress. We would welcome the opportunity to share what Ginnie Mae has learned from our 50 years of experience as the administrator of a federal MBS guaranty, and to advise and collaborate with Congress, should the opportunity arise. At the same time, we will continue our heightened focus on ensuring the Ginnie Mae program is sound and efficiently run within our current construct.

We will proceed, without delay, to address the four recommendations you make directly to Ginnie Mae. We believe that our work on these topics will lay the groundwork for informing Congress about these issues, either in the normal course of business or as requested by members of Congress, as you recommend.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Daniel Garcia-Diaz, (202) 512-8678 or garciadiazd@gao.gov

Staff Acknowledgments

In addition to the contact named above, Nadine Garrick Raidbard (Assistant Director), Rich Tsuhara (Assistant Director), Christopher Forys (Analyst in Charge), Jordan Anderson, Sarah Belford, Angeline Bickner, Marcia Carlsen, Robert Dacey, Jennifer Dougherty, Carol Henn, Risto Laboski, Courtney LaFountain, Marc Molino, Barbara Roesmann, Rebecca Shea, Tyler Spunaugle, Farrah Stone, Frank Todisco, and William Woods made key contributions to this report.

Appendix V: Accessible Data

Data Tables

Accessible Data for Figure 4: Cumulative Outstanding Unpaid Principal Balance and New Annual Issuance, Ginnie Mae-Guaranteed MBS, at Year End, Fiscal Years 2005–2018 (in 2017 dollars)

Fiscal Year	New Annual Issuance	Outstanding Principal Balance
2005	113.53	509.89
2006	98.65	492.01
2007	101.61	499.71
2008	253.72	660.23
2009	473.21	934.81
2010	463.30	1,173.77
2011	385.45	1,343.90
2012	418.92	1,448.18
2013	488.04	1,544.68
2014	314.22	1,587.46
2015	444.34	1,653.06
2016	496.80	1,759.35
2017	504.58	1,884.16
2018	426.60	1,971.52

Accessible Data for Figure 5: Cumulative Outstanding Unpaid Principal Balances, Agency MBS (Ginnie Mae, Fannie Mae, and Freddie Mac) and Nonagency MBS, at Year-End, Calendar Years 2005–2017 (in 2017 dollars)

Fiscal Year	Ginnie Mae	Freddie Mac	Fannie Mae	Non-agency MBS
2005	500.40	1631.21	2198.40	2036.65
2006	491.52	1759.76	2316.13	2603.80
2007	524.74	2015.49	2636.24	2583.82
2008	683.81	2075.21	2914.10	2178.46
2009	950.67	2104.75	3114.18	1793.61
2010	1165.17	1917.59	2900.51	1463.33
2011	1305.19	1771.88	2807.64	1232.37
2012	1398.06	1655.21	2820.03	1012.86

Fiscal Year	Ginnie Mae	Freddie Mac	Fannie Mae	Non-agency MBS
2013	1483.09	1640.73	2783.38	840.57
2014	1511.52	1636.41	2724.92	728.24
2015	1595.70	1671.66	2714.60	620.87
2016	1699.11	1723.64	2726.94	530.88
2017	1804.76	1773.32	2757.73	473.72

Accessible Data for Figure 6: Annual Issuance of Ginnie Mae-Guaranteed MBS Relative to Maximum Level of Commitment Authority, Fiscal Years 2005–2018

Fiscal year	Annual MBS Issuance	Commitment Authority
2005	91.66	200
2006	82.19	200
2007	86.96	200
2008	221.64	200
2009	418.14	300
2010	412.94	500
2011	350.40	500
2012	388.03	500
2013	460.38	500
2014	302.15	500
2015	432.45	500
2016	487.97	500
2017	504.58	500
2018	435.11	500

Accessible Data for Figure 7: Number of Institutions Issuing Ginnie Mae-Guaranteed MBS (left) and Amount of Issuance in Millions (right and in 2017 dollars), Fiscal Years 2011–2018

Fiscal year	Bank	Nonbank
2011	56	145
2012	62	169
2013	70	205
2014	69	239
2015	76	256
2016	85	272
2017	89	281

Appendix V: Accessible Data

Fiscal year	Bank	Nonbank		
2018	85	290		

Fiscal year	Bank	Percent	Nonbank	Percent
2011	312.8	82%	70	18%
2012	297.6	71%	121	29%
2013	302.0	62%	185	38%
2014	150.9	48%	164	52%
2015	149.9	34%	294	66%
2016	128.8	26%	367	74%
2017	121.0	24%	382	76%
2018	94	22%	335	78%

Accessible Data for Figure 8: Federally Insured and Guaranteed Mortgages Pooled into New Ginnie Mae-Guaranteed MBS, Fiscal Years 2005–2018 (in 2017 dollars)

Year	FHA	VA	RHS	PIH (not graphed)	Total
2005	\$82,609,124,700	\$29,044,936,722	\$2,589,696,112	\$49,219,160	\$114,292,976,693
2006	\$69,065,600,143	\$27,876,286,971	\$2,555,682,614	\$95,572,591	\$99,593,142,319
2007	\$71,402,689,073	\$27,151,855,284	\$2,927,474,969	\$160,931,817	\$101,642,951,143
2008	\$207,322,514,786	\$40,400,042,095	\$6,185,498,869	\$284,733,305	\$254,192,789,055
2009	\$385,199,559,320	\$75,002,070,143	\$14,494,429,368	\$480,890,498	\$475,176,949,329
2010	\$371,173,356,039	\$72,771,507,321	\$20,454,593,000	\$579,364,289	\$464,978,820,650
2011	\$288,969,208,174	\$82,658,147,572	\$15,199,145,290	\$509,300,583	\$387,335,801,619
2012	\$274,557,352,661	\$127,684,724,813	\$19,644,696,126	\$774,988,008	\$422,661,761,609
2013	\$317,091,259,027	\$150,914,490,270	\$23,292,238,992	\$666,321,376	\$491,964,309,666
2014	\$194,058,846,607	\$102,937,345,862	\$19,746,711,711	\$676,759,583	\$317,419,663,763
2015	\$271,836,559,065	\$155,108,306,603	\$19,839,653,290	\$781,354,630	\$447,565,873,588
2016	\$296,998,164,870	\$182,371,193,689	\$18,827,320,899	\$718,575,746	\$498,915,255,205
2017	\$298,287,034,257	\$187,913,394,500	\$20,261,059,534	\$681,117,329	\$507,142,605,620
2018	\$252,226,457,226	\$158,511,926,739	\$18,066,621,306	\$563,043,702	\$429,368,048,973

Agency Comment Letter

Accessible Text for Appendix III Comments from Ginnie Mae

Page 1

Date: March 13, 2019

TO: Daniel Garcia-Diaz, Director

FROM: Maren Kasper, Acting President / Executive Vice President and Chief Operations Officer

SUBJECT: Management Response to the Government Accountability Office Report Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed

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Page 2

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