The Evolution of Ginnie Mae

— by TED TOZER —

Ginnie Mae grew significantly in recent years to support the housing market through the crisis. Now it's time to reflect on lessons learned during this period as we seek a sustainable housing finance model for the future.

Ginnie Mae's transformation over the past few years has been nothing short of extraordinary. Having come to Ginnie Mae from the private sector a little more than three years ago, I was unsure. ¶ While at National City Mortgage Company, I knew Ginnie Mae as the agency that "stuck to its knitting." Prior to the housing crisis, Wall Street, Fannie Mae and Freddie Mac were the mainstays of the industry. ¶ Across the country, it seemed as though people were trading homes like stock. The industry thrived on aggressive investments and speed. And while Ginnie Mae supported federally backed mortgage-backed securities (MBS) programs, its issuance volumes were low and it was considered a small player in a huge industry. ¶ By the time I arrived in February 2010, though, the industry landscape had changed dramatically. The private-label MBS had become nonexistent and the government-sponsored enterprises (GSEs) were operating under conservatorship. ¶ Though Ginnie Mae's volumes had increased dramatically in response to the environment, the organization was reluctant to show leadership in the housing policy debate. ¶ Upon appointment, my first priority was to secure the organization a seat at the table. Ginnie Mae had to take control of its own destiny and make its voice heard. The industry needed to understand Ginnie Mae's simple, low-cost, low-risk business model. I did not want to lead an organization viewed as bureaucratic and inflexible because, as I found out, that simply was not the case.

A higher profile

Fast-forward to today. We now see a drastically evolved organization, proven to be malleable and adaptable. The Obama administration and others across the industry now understand Ginnie Mae's value and how instrumental we can be in building the future of a sustainable housing system in America.

Our market presence and performance have risen dramatically, infusing more than $1.7 trillion of liquidity into the U.S. market since the crisis began. Ginnie Mae's MBS market share has increased almost fivefold, from 5 percent in 2007 to 23 percent in fiscal year (FY) 2012. On top of that, our issuance has grown from $85.1 billion in 2007 to $388 billion in FY 2012. Our unpaid principal balance (UPB) has grown 213 percent since 2007 to $1.34 trillion (see Figure 1).

These numbers have contributed to raising Ginnie Mae's profile across the industry and reinforce our leadership role in the U.S. housing finance market. Industry participants know who we are and what we do. Housing trade associations and others in the public and private sectors view us as respected partners.

Ginnie Mae's upward trend doesn't stop there. We have a long-term vision to be a key problem solver in the industry. We've reworked our staffing levels to ensure that stronger relationships with issuers, investors and other stakeholders are cultivated and nurtured. Moving from "firefighting mode" to proactive outreach has made us a more efficient and effective organization.

Just as Ginnie Mae has evolved with the changing times, so has the industry as a whole. Now is the time for the industry to go back to the basics.

Time for some tough questions

We have reached a critical juncture in the debate on housing policy reform and now must ask ourselves the tough questions. What role should the federal government play? How do we attract private capital? How will risk be managed? How big should the market be? How do we provide access to credit for low- to moderate-income individuals? How can we make sure that lenders of all sizes have access to the secondary markets?

These are not easy questions to answer. Nonetheless, we must come up with the right solution so that America's housing finance system remains strong and sustainable.

We have witnessed firsthand that global investors value an explicit U.S. government guarantee. Our nation's system remains the envy around the world. But the question of when the government should step in remains unanswered.

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The first option calls for a privatized system that provides a government guarantee only for Federal Housing Administration (FHA), Department of Agriculture (USDA) and Department of Veterans Affairs (VA) loans to a narrowly targeted group of borrowers. The absence of an explicit government guarantee with this option means that the housing market could be vulnerable to a high-interest-rate environment and scarcity of capital to fund mortgages. On the other hand, this option offers taxpayers the most protection from losses.

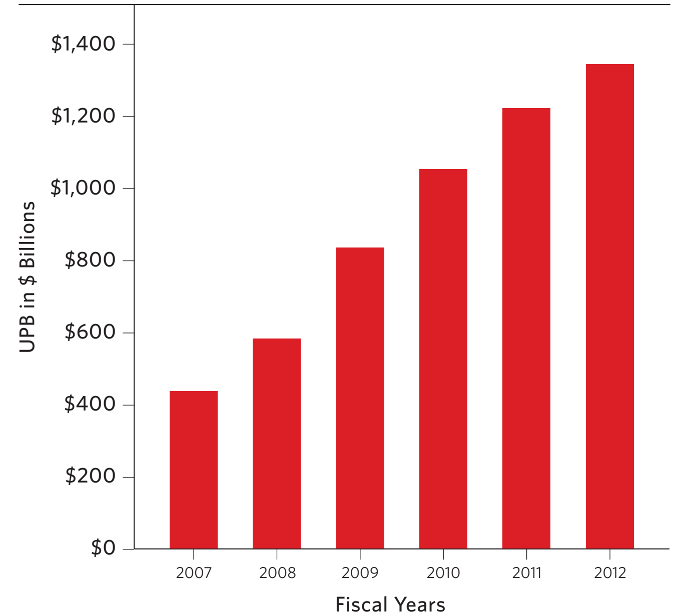
The second option also suggests a privatized system with assistance from FHA, USDA and VA for narrowly targeted groups of borrowers. However, the MBS guarantee would be on a strictly limited basis during times of crisis only. While this option delivers liquidity, it does not necessarily provide consistent credit affordability. This second option places the government in a catastrophic loss position. As in the first option, FHA and other narrowly targeted programs would provide access to mortgage credit for low- and moderate-income borrowers, but the government's role in the housing finance system would be dramatically reduced.

The third option offers an explicit government guarantee through government reinsurance for securities issued by private lenders. These entities would have to meet stringent capital and oversight requirements, and would issue securities backed by mortgages that meet strict underwriting standards. This option would ensure liquidity and consistent credit pricing regardless of market conditions.

As under the previous options, the mortgage market outside of the FHA and other federal agency guarantee programs would be driven by private investment decisions with private capital taking the primary credit risk. The strength of this

FIGURE 1

GINNIE MAE UNPAID PRINCIPAL BALANCE (UPB) BY YEAR, FY 2007–FY 2012



SOURCE: Ginnie Mae

third option is that it likely provides the lowest cost access to mortgage credit of the three options.

The model in which we are operating today is not sustainable. It goes without saying that housing remains a huge part of our nation's economy. A stable housing market provides for a strong economy.

To put the industry's size into perspective, the Federal Reserve reported that as of January 2013, U.S. credit-card debt was $850.9 billion—the third-largest source of indebtedness in America. The second-largest debt source reported was student loans, at $986.8 billion. Single-family mortgage debt, though, was $9.9 trillion.

Providing an explicit government guarantee on the entire housing market would expose taxpayers to unnecessary risk.

Five essential elements of a new model

Regardless of which future housing finance model is implemented, it should encompass the following critical elements:

- Alignment of interests across all stakeholders;
- Sufficient scale to attract wide participation;
- Broad access to credit;
- Robust disclosure of underlying assets; and
- Well-functioning to-be-announced (TBA) market

Essential to the future housing finance model is an alignment of economic interests for all those involved in the process—from borrower and issuer to insurer and investor. The industry must also deliver sufficient scale to attract wide participation and to capture all economic conditions. That means allowing opportunity for small to mid-size lenders to actively participate in the system. It also means providing investors with the appropriate disclosures to make sound investment decisions. Most importantly, it means eliminating barriers to credit for low- and moderate-income borrowers and ensuring that lenders treat all borrowers equally. We must set people up for success.

The execution of these five elements can help to ensure a robust, well-functioning TBA market. Preserving the 30-year mortgage and the TBA market that supports this valuable asset is an imperative. A thriving TBA market offers broad access to capital and liquidity, and efficiency in pricing that ultimately benefits the borrower.

Healthy discussion concerning the use of a government guarantee in the new U.S. housing finance system will continue over the coming months. In the meantime, we must tackle the immediate task at hand. That is, scale back the government's role and promote the return of private capital.

Ginnie Mae is committed to doing its part. The simplicity of our business model serves a vital public mission and reduces taxpayer exposure to risks associated with the secondary mortgage market.

Further, consistency in issuance provides the global market with access to an MBS securitization program rooted in transparency, standardization and accountability. As the industry moves closer to making decisions on housing policy, we look forward to partnering with market leaders to build for the future. **MB**

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