

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
MORTGAGE-BACKED SECURITIES PROGRAM  
2005 Summary and Initiatives  
(Dollars in Thousands)

GUARANTEES OF MORTGAGE-BACKED SECURITIES	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2003 Appropriation .....	\$10,343	...	-\$67	\$10,276	\$10,276	\$10,276
2004 Appropriation/Request .....	10,695	...	-63	10,632	10,695	10,695
2005 Request .....	<u>10,986</u>	<u>...</u>	<u>...</u>	<u>10,986</u>	<u>10,986</u>	<u>10,986</u>
Program Improvements/Offsets .....	291	...	63	354	291	291

**Summary Statement**

Loan Guarantee limitation. The Government National Mortgage Association (Ginnie Mae) Budget proposes \$200 billion in loan guarantee limitation on new commitments of single-class mortgage-backed securities (MBS) for fiscal year 2005. This request is based on Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA) estimates of mortgage insurance and guarantee activity. In fiscal year 2005, the Department is estimating \$160 billion in guarantees of mortgage-backed securities, of which \$117 billion is estimated for guarantees of multiclass securities. Since all the Ginnie Mae guaranteed multiclass securities are based on and backed by mortgage backed securities issued pursuant to commitment authority, separate commitment authority will not be required for multiclass securities.

Appropriation. Ginnie Mae is requesting a total of \$11 million for administrative expenses necessary to carry out the Mortgage-backed Securities Program.

**Initiatives**

In fiscal year 2005, no new initiatives are proposed for this program. However the Department is proposing two new initiatives under the FHA program. These two legislative proposals are estimated to increase Ginnie Mae's fiscal year 2005 guarantee volume by \$10 billion. Below is a brief description of the two initiatives:

The FHA Payment Incentive Program. This program is designed to assist potential homebuyers who because of poor credit ratings do not meet existing underwriting standards, qualify for an FHA insured loan. Borrowers would still be required to meet all debt, income, and repayment standards. Requiring greater owner equity and charging higher upfront and annual premiums will offset the increased risk of default associated with these borrowers. These premiums would be phased down over several years, and would also require families to undergo pre-purchase housing counseling.

Zero Downpayment Program. This program will offer a new 100 percent financing mortgage product to help first time homebuyers purchase a home by allowing zero down-payment loans and financing of settlement costs.

Guarantees of Mortgage-Backed Securities

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
MORTGAGE-BACKED SECURITIES PROGRAM  
Summary of Resources by Program  
(Dollars in Thousands)

<u>Budget Activity</u>	<u>2003 Budget Authority</u>	<u>2002 Carryover Into 2003</u>	<u>2003 Total Resources</u>	<u>2003 Obligations</u>	<u>2004 Budget Authority/ Request</u>	<u>2003 Carryover Into 2004</u>	<u>2004 Total Resources</u>	<u>2005 Request</u>
Administrative Expenses	\$10,276	...	\$10,276	\$10,276	\$10,632	...	\$10,632	\$10,986
Total Guarantees of Mortgage-Backed Securities .....	10,276	...	10,276	10,276	10,632	...	10,632	10,986
FTE								
Headquarters .....			71				70	70
Field .....			...				...	...
Total .....			71				70	70
Loan Guarantee Limitation. . . . .	\$200,000,000	\$59,419,669	\$259,418,669	\$222,367,587	\$200,000,000	\$37,052,082	\$237,052,082	\$200,000,000

Guarantees of Mortgage-Backed Securities

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
MORTGAGE-BACKED SECURITIES PROGRAM  
Program Offsets  
(Dollars in Thousands)

<b>Administrative Expenses</b>	<b><u>Amount</u></b>
2003 Appropriation .....	\$10,276
2004 Appropriation/Request .....	10,632
2005 Request .....	<u>10,986</u>
Program Improvements/Offsets .....	354

**Proposed Actions**

The Department proposes \$11 million for administrative expenses to be transferred to the Departmental Salaries and Expenses account to cover the cost to carry out the guaranteed mortgage-backed securities program in fiscal year 2005.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
MORTGAGE-BACKED SECURITIES PROGRAM  
2005 Summary Commitment Authority  
(Dollars in Thousands)**

**Loan Limitation**

<b>MORTGAGE-BACKED SECURITIES</b>	<b><u>Enacted/ Request</u></b>	<b><u>Carryover</u></b>	<b><u>Supplemental/ Rescission</u></b>	<b><u>Total Resources</u></b>	<b><u>Obligations</u></b>	<b><u>Outlays</u></b>
2003 Appropriation .....	\$200,000,000	\$59,418,669	...	\$259,418,669	\$222,367,587	...
2004 Appropriation/Request .....	200,000,000	37,052,082	...	237,052,082	237,052,082	...
2005 Request .....	200,000,000	...	...	200,000,000	200,000,000	...
Program Improvements/Offsets .....						

**Proposed Action**

Ginnie Mae is requesting a total of \$200 billion in new loan guarantee commitment for the Ginnie Mae Mortgage-backed Securities Program. In fiscal year 2005, it is estimated that approximately \$160 billion in mortgage-backed securities will be guaranteed.

The Government National Mortgage Association (Ginnie Mae) is responsible for the administration of activities associated with the Mortgage-Backed Securities (MBS) and Multiclass Securities Programs. A brief description of Ginnie Mae's programs is provided below.

Mortgage-Backed Securities Program. Section 306(g) of the National Housing Act authorizes Ginnie Mae to guarantee the timely payment of principal and interest on securities which are issued by approved entities and which are backed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), or Rural Housing Service (RHS) mortgages.

In fiscal year 2005, the Government National Mortgage Association (Ginnie Mae) Budget proposes a limitation on new commitments for single-class mortgage-backed securities (MBS) of \$200 billion. In addition, an appropriation of \$11 million is proposed to fund salaries and expenses in fiscal year 2005. In fiscal year 2005, it is estimated that \$117 billion of Multiclass securities will be guaranteed. Since all Ginnie Mae guaranteed Multiclass securities are based on and backed by mortgage-backed securities issued pursuant to commitment authority, separate commitment authority will not be required for the Multiclass securities.

Ginnie Mae currently guarantees modified "pass-through" type securities. Modified pass-through securities provide payment to registered holders of interest plus the monthly installments of principal due on the pooled mortgages, whether or not collected, plus any additional principal collections.

Separate pass-through programs have been developed to finance single-family homes, multifamily projects and manufactured housing. Ginnie Mae first issues a "commitment" to the prospective securities issuer (mortgagee) indicating that the firm meets Ginnie Mae's eligibility requirements. After Ginnie Mae issues the commitment, the issuer can begin to assemble mortgage pools and issue securities. Securities are issued with minimum face amounts of \$25,000 which have the same aggregate face amount as the aggregate unpaid balance of the pooled mortgages and bear interest at the rate borne by the mortgages--less the amount of issuer servicing fees and Ginnie Mae guarantee fees. Ginnie Mae's credit risk in this program is limited by mortgage insurance provided by Government agencies with respect to all pooled loans.

Guarantees of Mortgage-Backed Securities

Multi-class Securities Program. In fiscal year 1994, Ginnie Mae began guaranteeing Real Estate Mortgage Investment Conduit (REMIC) and in fiscal year 1995, the Ginnie Mae Platinum securities. A REMIC security is backed by a pool or trust composed of mortgages or MBS. The REMIC issuer issues certificates of interest to investors and elects to be taxed under the REMIC provisions of Federal tax law (Sections 860A through 860G of the Internal Revenue Code of 1986). REMICs are multiple class securities with different maturities, typically between 2 and 20 years, or with payments based on fractions of the MBS income stream. This multiple class characteristic is what largely distinguishes REMICs from single class Mortgage-Backed Securities of the kind that Ginnie Mae has been guaranteeing since 1970.

The Ginnie Mae Platinum security consolidates Ginnie Mae MBS pools with the same interest rate into larger pools that are sold to investors by securities dealers. Ginnie Mae, under its Multiclass securities program, will guarantee only securities based on and backed by mortgage-backed securities guaranteed by Ginnie Mae. Since all Ginnie Mae guaranteed Multiclass securities will be based on and backed by MBS issued pursuant to previously issued commitment authority, additional commitment authority will not be required for the Multiclass securities.

Targeted Lending Initiative. Ginnie Mae started and developed the Targeted Lending Initiative in fiscal year 1996. The Initiative is consistent with Ginnie Mae's statutory purpose to promote access to mortgage credit in the central cities by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing. Through the Targeted Lending Initiative, Ginnie Mae reduces the guarantee fees it charges lenders by up to 50 percent for making mortgage loans in any of the nation's urban and rural Empowerment Zones or Enterprise Communities, adjacent eligible central city areas, and areas with a majority population of Native Americans.

PROGRAM ACTIVITY

1. Status of Program. In fiscal year 2003, Ginnie Mae Mortgage-Backed Securities program approved \$222.4 billion in commitment authority and issued \$215.8 billion for its single class guarantees. Guarantees of mortgage-backed securities are estimated at \$150 billion in fiscal year 2004 and \$160 billion in fiscal year 2005.

The estimated changes in the outstanding principal balance of mortgage-backed securities for fiscal years 2003, 2004, and 2005 are shown in the following table:

	<u>ACTUAL</u> <u>2003</u>	<u>ESTIMATE</u> <u>2004</u>	<u>ESTIMATE</u> <u>2005</u>
	(Dollars in Thousands)		
Securities Outstanding, start of year. . .	568,351,015	473,907,980	539,679,625
Issued During Year . . . . .	215,817,959	150,000,000	160,000,000
Principal Payments to Securities Holders .	<u>-310,260,994</u>	<u>-84,228,355</u>	<u>-144,122,653</u>
Securities Outstanding, end of year. . .	473,907,980	539,679,625	555,556,972

Guarantees of Mortgage-Backed Securities

The Multiclass Program activity, which involves a Ginnie Mae guarantee on the Multiclass securities that are backed by securities already guaranteed, is shown in the following table:

	ACTUAL <u>2003</u>	ESTIMATE <u>2004</u>	ESTIMATE <u>2005</u>
	(Dollars in Thousands)		
Securities Outstanding, start of year . .	209,650,457	182,900,000	192,044,999
Issued During Year . . . . .	106,046,555	111,348,883	116,916,327
Principal Payments to Securities Holders	<u>-132,797,012</u>	<u>-102,203,884</u>	<u>-107,314,076</u>
Securities Outstanding, end of year . . .	182,900,000	192,044,999	201,647,250

The Targeted Lending Initiative, which allows Ginnie Mae to reduce the guarantee fee it charges lenders by up to 50 percent for making mortgage loans in any of the nation's urban and rural Empowerment Zones or Enterprise Communities and adjacent eligible central city areas, as well as in eligible Indian lands, is shown in the following table:

<u>Estimated</u>	<u>Pools</u>	<u>Loans</u>	<u>Mortgage Amount</u>
10/01/96 through 09/30/03.....	16,302	269,176	\$27.5 billion

	<u>ACTUAL 2003</u>	<u>ESTIMATE 2004</u>	<u>ESTIMATE 2005</u>	<u>2005 vs. 2004</u>
	(Dollars in Thousands)			
				INCREASE + DECREASE -
<u>SINGLE-CLASS MBS</u>				
Limitation.....	\$200,000,000	\$200,000,000	\$200,000,000	...
Carryover.....	<u>59,418,669</u>	<u>37,052,082</u>	...	<u>-37,052,082</u>
Subtotal.....	259,418,669	237,052,082	200,000,000	-37,052,082
Use.....	<u>-222,366,587</u>	<u>-237,052,082</u>	<u>-200,000,000</u>	<u>-37,052,082</u>
Subtotal.....	37,052,082	...	...	...
Guarantees:				
Issued in Year.....	215,817,959	150,000,000	160,000,000	10,000,000
Outstanding, end of year.....	473,907,979	539,679,625	555,556,972	15,877,347
Guarantee Fees.....	337,498	329,667	354,856	25,189
Advances to Investors.....	79,626	73,447	73,354	-93
Default Expenses.....	1,552	11,847	1,860	-9,987

Guarantees of Mortgage-Backed Securities

	<u>ACTUAL 2003</u>	<u>ESTIMATE 2004</u>	<u>ESTIMATE 2005</u>	<u>INCREASE + DECREASE - 2005 vs. 2004</u>
	(Dollars in Thousands)			
<u>MULTI-CLASS MBS</u>				
Guarantees:				
Issued in Year.....	106,046,555	111,348,883	116,916,327	5,567,444
Outstanding, end of year.....	182,900,000	192,044,999	201,647,250	9,602,251
Guarantee Fees.....	31,190	33,841	35,872	2,031
Budget Authority (Program):				
(Appropriation for Administrative Expenses)a/.....				
	10,276	10,632	10,986	354
<u>Outlays (Program):</u>				
Outlays.....	10,276	10,632	10,986	354
<u>Liquidating Account:</u>				
Budget Authority (net) .....	0	66,610	54,658	-11,952
Outlays.....	-289,440	-196,778 b/	-299,778 b/	-103,000
<u>Financing Account:</u>				
Budget Authority (net).....	...	...	...	...
Net Disbursements.....	-34,094	-80,075	-84,530	-4,455
<u>Reserve Receipt Account:</u>				
Payment to Reserve Receipt Account.....	398,000	405,000	368,000	-37,000

a/ Appropriations are reduced by the .65 percent and .59 percent rescissions for fiscal years 2003 and 2004, respectively.

b/ Differs from MAX due to rounding.

Guarantees of Mortgage-Backed Securities

2. Financing. Application fees, guarantee fees, and other charges are paid by issuers of guaranteed securities to cover Ginnie Mae's issuing and claims costs under the guarantees and to provide additional amounts to reduce the deficit. The Association may borrow from the Treasury in order to meet obligations. However, it has not had to use that authority.

The following table reflects the composition of program net income:

	ACTUAL <u>2003</u>	ESTIMATE <u>2004</u>	ESTIMATE <u>2005</u>
	(Dollars in Thousands)		
<u>Revenue:</u>			
Investment Interest.....	350,755	368,627	377,494
Interest Payment from Treasury.....	52,536	39,169	42,473
Guarantee Fees.....	337,498	329,667	354,856
Multiclass Fees.....	31,190	33,841	35,872
Commitment and Other Fees.....	43,764	33,861	37,445
Interest on Mortgages.....	<u>-404</u>	<u>663</u>	<u>721</u>
Subtotal.....	815,339	805,829	848,860
Contingency.....	<u>-15,736</u>	<u>0</u>	<u>0</u>
Total Revenue.....	<u>799,603</u>	<u>805,829</u>	<u>848,860</u>
	ACTUAL <u>2003</u>	ESTIMATE <u>2004</u>	ESTIMATE <u>2005</u>
	(Dollars in Thousands)		
<u>Expenses</u>			
Operating Expenses:			
Administrative Expenses.....	10,276	10,632	10,986
Pool Processing .....	12,103	13,708	14,343
Issuer Reviews.....	12,020	13,621	14,252
Other Contractor Expenses.....	8,991	7,441	7,914
Soldiers & Sailors Act.....	9,866	10,359	10,877
Mortgage Insurance Claims.....	3,995	4,195	4,405
Default Expenses.....	1,552	11,847	1,860
Servicing Expenses.....	2,012	1,539	1,246
Multiclass Expenses.....	8,444	8,867	9,310
Total Operating Expenses.....	<u>69,260</u>	<u>82,209</u>	<u>75,193</u>
Non-Operating Expenses:			
Write-Down of Assets to Lower of Cost or Market.....	<u>15,329</u>	<u>802</u>	<u>722</u>
Subtotal.....	84,589	83,011	75,915
Contingency.....	<u>-16,462</u>	<u>-10,632</u>	<u>-10,986</u>
Total Expenses.....	<u>68,127</u>	<u>72,379</u>	<u>64,929</u>
Net Income.....	<u>731,476</u>	<u>733,450</u>	<u>783,931</u>

SALE OF SERVICING RIGHTS

In fiscal years 2004 and 2005, it is estimated that proceeds from the sale of servicing rights will be \$300 thousand and \$118 thousand respectively.



Guarantees of Mortgage-Backed Securities

FEDERAL CREDIT REFORM

The Omnibus Budget Reconciliation Act (OBRA--P.L. 101-508) required Federal credit programs to implement credit reform beginning in fiscal year 1992. This year's Budget presentation for Ginnie Mae has been structured with four accounts to comply with the requirements of OBRA. In fiscal year 2005, the Financing Account will transfer \$368 million from its net receipts to a Reserve Receipt Account. Of the total net receipts, \$11 million will be appropriated for administrative expenses into the Program Account, and the balance of \$357 million will remain in the Reserve Receipt Account as negative subsidy. The Financing Account is treated as a non-budgetary account. Budget authority and outlay data for each of the accounts are presented in the following table.

GINNIE MAE MORTGAGE-BACKED SECURITIES  
FY 2005 CREDIT REFORM PRESENTATION  
(Dollars in Thousands)

BUDGET AUTHORITY

<u>On-Budget Accounts</u>	
<u>Liquidating Account</u>	
Gross Budget Authority.....	\$455,881
Offsetting Collections.....	<u>-401,223</u>
Net Budget Authority (Mandatory) .....	54,658
<u>Program Account</u>	
<u>Appropriation</u>	
Administrative Expenses.....	\$10,986
<u>Receipt Account</u>	
Deduction for Offsetting Receipts:	
Proprietary Receipts from the Public (Discretionary) .....	\$368,000
<u>Non-Budgetary Account</u>	
<u>Financing</u>	
Gross Financing Authority .....	\$490,758
Offsetting Collections .....	<u>-490,758</u>
Net Financing Authority.....	...
<u>OUTLAYS:</u>	
<u>On-Budget Accounts</u>	
<u>Liquidating Account</u>	
Gross Outlays.....	\$101,445
Offsetting Collections.....	<u>-401,223</u>
Net Outlays (Mandatory) .....	-299,778
<u>Reserve Receipt Account</u>	
Transferred from Liquidating Account.....	...
Transferred from Financing Account.....	\$368,000
<u>Program Account</u>	
Outlays (Discretionary).....	\$10,986
<u>Receipt Account</u>	
Deduction for Offsetting Receipts:	
Offsetting Receipts.....	\$368,000
Discretionary Appropriation.....	<u>-10,986</u>
Net Receipts.....	357,014
<u>Non-Budgetary Account</u>	
<u>Financing</u>	
Gross Outlays.....	\$406,228
Offsetting Collections .....	<u>-490,758</u>
Net Outlays.....	-84,530

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
MORTGAGE-BACKED SECURITIES PROGRAM  
Performance Measurement Table**

Program Name: Government National Mortgage-Backed Securities Association Program						
Program Mission: To expand affordable housing in America by linking domestic and global capital markets to the nation's housing markets.						
Performance Indicators		Data Sources	Performance Report		Performance Plan	
			2003 Plan	2003 Actual	2004 Enacted	2005 Plan
Increase Homeownership Opportunities: Ginnie Mae securitizes at least 85 percent of single-family FHA, VA, and RHS loans.		Ginnie Mae database of monthly endorsements by FHA and VA	85%	92%	85%	85%
Promote Decent Affordable Housing: Ginnie Mae securitizes at least 80 percent of eligible FHA multifamily mortgages.		Ginnie Mae database of multifamily loan securities, compared with FHA multifamily database adjusted to remove ineligible projects.	80%	91%	80%	80%
Ginnie Mae credit enhancements on multi-class securities increase to \$138 billion in fiscal year 2005.		Ginnie Mae database of REMIC issuances.	\$80.9 B	\$106.1 B	\$147 B	\$138 B

## Guarantees of Mortgage-Backed Securities

### **Explanation of Indicators**

In fiscal year 2005, the Government National Mortgage Association (Ginnie Mae) proposes \$200 billion in commitment authority, \$11 million in Salaries and expenses, and 70 FTEs to support the Department's Strategic Goal H: Increase homeownership opportunities and Strategic Goal A: Promote decent affordable housing.

Ginnie Mae's Mortgage-Backed securities program is authorized by Title III of the National Housing Act, as amended, Public Law 73-479, codified at 12 U.S.C. 1716 et seq. Ginnie Mae is a wholly owned instrumentality of the United States within the Department of Housing and Urban Development; authorized by Section 306(g) of the National Housing Act to facilitate the financing of residential mortgage loans insured or guaranteed by the FHA, VA and the Rural Housing Service (RHS), or guaranteed by the Secretary of Housing and Urban Development under Section 184 of the Housing and Community Development Act of 1992 and administered by the Office of Public and Indian Housing (PIH). Ginnie Mae's guaranty of mortgage-backed securities is backed by the full faith and credit of the United States. Funds available to mortgagees to lend to borrowers are provided through investments in long-term securities guaranteed by Ginnie Mae that are backed by pools of such mortgages. The investment proceeds are used in turn to finance additional mortgage loans.

The primary function of Ginnie Mae is to support the Federal Government's Housing initiatives by providing liquidity to the secondary mortgage market and to attract capital from the nation's capital markets into the residential mortgage markets. Through its Mortgage-Backed Securities Program, Ginnie Mae guarantees the timely payment of principal and interest on securities issued by private institutions and backed by pools of Federally insured or guaranteed mortgage loans. The securitization of Federal Housing Administration (FHA) insured, Rural Housing Service, and Veterans Affairs (VA) guaranteed mortgages increases the liquidity of funds available to lenders making these loans and, thereby, decreases the costs associated with making and servicing loans. This decrease in costs helps lower mortgage cost for homebuyers using Federal Government housing programs.

### **Ginnie Mae securitizes at least 85 percent of single-family FHA and VA loans.**

Ginnie Mae's fiscal year 2003 goal was to securitize at least 85 percent of FHA, VA, and RHS insured or guarantee loans. The year-end result was 92.4 percent of all VA, FHA, and RHS loans were placed into Ginnie Mae securities, a significant accomplishment in light of existing competition for the product. Ginnie Mae was able to exceed its goal by offering superior up-front pricing and the flexibility in determining servicing spreads.

Ginnie Mae creates a secondary market that securitizes a high level of FHA insured, VA and RHS guaranteed loans and increases the liquidity of funds in the market for mortgage credit. In addition, presence of government-backed securities lowers the cost to first time homebuyers and also increases first time homeownership. In fiscal year 2005, Ginnie Mae requested \$200 billion in new commitment authority and it has estimated that the entire amount will be used to facilitate the financing of residential mortgage loans insured or guaranteed by FHA, VA, and RHS, or guaranteed by the Secretary of Housing and Urban Development under Section 184 of the Housing and Community Development Act of 1992 and administered by the Office of PIH. Ginnie Mae will also improve and expand use of technology with new computer applications that will increase the attractiveness of Ginnie Mae's securities.

### **Performance/Means and Strategies**

### **Ginnie Mae securitizes at least 80 percent of eligible FHA multifamily mortgages.**

Ginnie Mae makes the multifamily mortgages market more liquid by helping lenders package FHA insured loans into securities for investors to purchase on the secondary market. Ginnie Mae guaranteed securities increase the availability of capital for multifamily mortgages, thereby making loans less costly and easier to obtain. To contribute to Strategic Objective A.1, Ginnie Mae securitizes 80 percent of eligible FHA multifamily mortgages to support the increase in housing available for low- and moderate-income Americans. Ginnie Mae will also incorporate improvements from and expand use of information technology with new computer applications into its business and marketing processes to improve its operational efficiencies and market capabilities that should increase the attractiveness of Ginnie Mae's securities.

## Guarantees of Mortgage-Backed Securities

In the multifamily arena, Ginnie Mae was successful in exceeding its target for program growth of 80 percent. Ginnie Mae streamlined business requirements for the multifamily program, which enhanced its efficiency as a securitization vehicle. As a result, in fiscal year 2002, Ginnie Mae securitized 91 percent of eligible FHA multifamily mortgages. The multifamily remaining principal balance increased from \$25.4 billion in fiscal year 2002 to \$28.9 billion in fiscal year 2003, an increase of 13.8 percent. This reflected the preference of investors in multifamily securities for stable, insured government guaranteed loans over conventional loans. Investor preference induced issuers to use Ginnie Mae's multifamily MBS programs. Furthermore, performance improvement in fiscal year 2003 was the result of exceptional market conditions.

### **Ginnie Mae credit enhancements on multi-class securities increase to \$138 billion in fiscal year 2005.**

Ginnie Mae's multi-class products include Real Estate Mortgage Investment Conduits (REMIC) and Ginnie Mae Platinum securities. REMIC securities pool mortgages or mortgages-backed securities for sale as multiple-class securities. By packaging for investors specific needs among the various security classes (branches), REMIC increase the secondary mortgage market's liquidity, which can reduce the cost of capital for borrowers. The Platinum product provides customers the ability to trade a group of small pools for one large pool. Ginnie Mae will also incorporate improvements from and expand use of information technology with new computer applications into its business and marketing processes to improve its operational efficiencies and market capabilities that should increase the attractiveness of Ginnie Mae's securities.

In fiscal year 2003, Ginnie Mae's credit enhancement in its Multiclass Securities program exceeded the target by over 31 percent. The REMIC and Platinum programs issued a total of \$106.1 billion in securities.

Ginnie Mae's Multiclass Securities activities are divided into its two principal product segments: REMIC Securities and Platinum Securities. The Multiclass Securities business generated record REMIC transaction of 109 and total volume of \$38.2 billion in fiscal year 2003--as Ginnie Mae capitalized on lower interest rates, increased volatility in the equity markets, and strong investor demand.

The Ginnie Mae Platinum transaction volume in fiscal year 2003 was \$67.9 billion. The Platinum product line provides customers the ability to trade a group of small pools for one large pool.

Guarantees of Mortgage-Backed Securities

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
MORTGAGE-BACKED SECURITIES PROGRAM  
Justification of Proposed Changes in Appropriations Language**

The 2005 President's Budget includes proposed changes in the appropriations language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

New commitments to issue guarantees to carry out the purposes of section 306 of the National Housing Act, as amended (12 U.S.C. 1721(g)), shall not exceed \$200,000,000,000, to remain available until September 30, [2005] *2006*. For administrative expenses necessary to carry out the guaranteed mortgage-backed securities program, \$10,695,000, to be derived from the GNMA guarantees of mortgage-backed securities guaranteed loan receipt account, of which not to exceed [~~\$10,695,000~~] \$10,986,000, shall be transferred to the appropriation for ``Salaries and expenses''. (*Division G, H.R. 2673, Consolidated Appropriations Bill, FY 2004.*)

**Explanation of Changes**

No new policy changes are proposed in this account.

Guarantees of Mortgage-Backed Securities

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
MORTGAGE-BACKED SECURITIES PROGRAM  
Crosswalk of 2003 Availability  
(Dollars in Thousands)

<u>Budget Authority</u>	<u>2003 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2003 Resources</u>
Administrative Expenses .....	\$10,343	-\$67	...	...	...	\$10,276
Total .....	10,343	-67	...	...	...	10,276

The \$10 million proposed administrative expenses in fiscal year 2003 was used to cover the cost to carry out the guaranteed mortgage-backed securities program.

Transfers

None.

Guarantees of Mortgage-Backed Securities

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION  
MORTGAGE-BACKED SECURITIES PROGRAM  
Crosswalk of 2004 Changes  
(Dollars in Thousands)

<u>Budget Authority</u>	<u>2004 President's Budget Request</u>	<u>Congressional Appropriations Action on 2004 Request</u>	<u>2004 Supplemental/ Rescission</u>	<u>Reprogrammings</u>	<u>Carryover</u>	<u>Total 2004 Resources</u>
Administrative Expenses .....	<u>\$10,695</u>	<u>\$10,695</u>	<u>-\$63</u>	<u>...</u>	<u>...</u>	<u>\$10,632</u>
Total Changes .....	10,695	10,695	-63	...	...	10,632

The Department proposes \$11 million for administrative expenses to cover the cost to carry out the guaranteed mortgage-backed securities program in fiscal year 2004.