

## Why GAO Did This Study

The Government National Mortgage Association (Ginnie Mae) has increased its role in the secondary mortgage market significantly. Ginnie Mae is a wholly owned government corporation in the Department of Housing and Urban Development (HUD). It guarantees the timely payment of principal and interest of mortgage-backed securities (MBS) backed by pools of federally insured or guaranteed mortgage loans, such as Federal Housing Administration (FHA) loans. GAO was asked to (1) describe how Ginnie Mae's volume of MBS and market share have changed, (2) assess the risks Ginnie Mae faces and how it manages these risks, and (3) determine what effect recent changes in Ginnie Mae's market share and volume may have on financial exposure to the federal government, including mission. To address these objectives, GAO analyzed data on volume and market share and assessed their reliability. GAO also reviewed guidance and Ginnie Mae's credit subsidy calculations and estimation model, and interviewed agency officials and others.

## What GAO Recommends

Ginnie Mae should enhance the model it uses to forecast cash flows for the program by (1) assessing potential data sources, (2) conducting sensitivity analyses, and (3) assessing and documenting its modeling approaches and reasons for using management assumptions, among others. In written comments, Ginnie Mae agreed with GAO's recommendation to conduct sensitivity analyses, but neither agreed nor disagreed with the other recommendations.

View [GAO-12-49](#) or key components. For more information, contact Mathew J. Scire at (202) 512-8678 or [sciremj@gao.gov](mailto:sciremj@gao.gov).

## GINNIE MAE

### Risk Management and Cost Modeling Require Continuing Attention

## What GAO Found

From 2007 to 2010, the volume of Ginnie Mae-guaranteed MBS and its share of the secondary mortgage market increased substantially. Ginnie Mae-guaranteed MBS outstanding grew from \$412 billion to more than \$1 trillion, and market share grew from 5 percent to more than 25 percent. As the demand for FHA and other federally insured or guaranteed mortgages grew during this time, financial institutions increased their issuance of Ginnie Mae-guaranteed MBS to finance these federally insured or guaranteed loans.

Ginnie Mae has taken steps to better manage operational and counterparty risks, and has several initiatives planned or underway. The agency may face operational risk—the risk of loss resulting from inadequate or failed internal processes, people, or from external events—and counterparty risk—the risk that issuers fail to provide investors with monthly principal and interest payments. GAO and others, including HUD's Inspector General, have identified limited staff, substantial reliance on contractors, and the need for modernized information systems as operational risks that Ginnie Mae may face. For example, although Ginnie Mae's market share and volume of MBS have increased in recent years, its staffing levels were relatively constant and actual staff levels trailed authorized levels. In addition, between 2005 and 2010, the agency increasingly relied on contractors. Ginnie Mae has identified gaps in resources and conducted risk assessments on its contracts but has not yet fully implemented changes based on these analyses. To manage its counterparty risk, Ginnie Mae has processes in place to oversee MBS issuers that include approval, monitoring, and enforcement. In response to changing market conditions and increased market share, Ginnie Mae revised its approval and monitoring procedures. Ginnie Mae also has several planned initiatives to enhance its risk-management processes for issuers, including its tracking and reporting systems, but these plans have not been fully implemented. It will be important for Ginnie Mae to complete these initiatives as soon as practicable to enhance its operations.

The growth in outstanding Ginnie Mae-guaranteed MBS resulted in an increased financial exposure for the federal government as Ginnie Mae fulfills its mission of expanding affordable housing by linking capital markets to the nation's housing markets. Nonetheless, Ginnie Mae's revenues have exceeded its costs and it has accumulated a capital reserve of about \$14.6 billion. However, GAO found that in developing inputs and procedures for the model used to forecast costs and revenues, the agency did not consider certain practices identified in Federal Accounting Standards Advisory Board (FASAB) guidance for preparing cost estimates of federal credit programs. Ginnie Mae has not developed estimates based on the best available data, performed sensitivity analyses to determine which assumptions have the greatest impact on the model, or documented why it used management assumptions rather than available data. By not fully implementing certain practices identified in FASAB guidance that GAO believes represent sound internal controls for models, Ginnie Mae's model may not use critical data which could affect the agency's ability to provide well-informed budgetary cost estimates and financial statements. This may limit Ginnie Mae's ability to accurately report to the Congress the extent to which its programs represent a financial exposure to the government.