



Testimony of

**Michael D. Berman, CMB
Chairman
Mortgage Bankers Association**

**House Committee on Financial Services
Subcommittee on Insurance, Housing and
Community Opportunity**

**“The Future Role of FHA and GNMA in the Single and
Multifamily Mortgage Markets”**

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Chairwoman Biggert, Ranking Member Gutierrez and members of the subcommittee, thank you for the opportunity to testify on behalf of the Mortgage Bankers Association (MBA)¹ on the roles of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) in the single- and multifamily mortgage markets. My name is Michael D. Berman, CMB, and I am the current Chairman of MBA. I have been in the real estate finance industry for over 25 years and am a founder and member of the Board of Managers of CW Financial Services. I also serve as President and Chief Executive Officer of CW Capital. Headquartered in Needham, Massachusetts, CW Capital is one of the top 10 lenders to the multifamily real estate industry, with \$3 billion in annual production and over 150 employees in 12 offices throughout the country. My responsibilities include overseeing the strategic planning and operations for all of the company's loan programs, including multifamily programs with Fannie Mae, Freddie Mac, and FHA. CW Capital has been active in the commercial mortgage-backed securities (CMBS) arena as an investor, lender, primary servicer and issuer of securities. Additionally, CW Capital is a special servicer of approximately 20 percent of the CMBS market.

FHA and Ginnie Mae are essential elements of the American housing finance system and are especially important to segments of the population who need a little extra help in securing safe, decent affordable housing – whether through the American dream of homeownership or the foundation of affordable rental housing.

More than any other national program, FHA focuses on the needs of first-time, minority, and low- and moderate-income borrowers. According to recent data provided by the Department of Housing and Urban Development (HUD), both first-time homebuyers and minorities continue to make up a significant portion of FHA's customer base. As of April 2011, approximately 77 percent of FHA-insured home purchase loans were made to first-time homebuyers, and 31 percent of these first-time homebuyers were minorities. Minorities also comprise a higher percentage of the FHA market than the conventional mortgage market.

In the early 2000s, there were discussions among policymakers about whether FHA was truly necessary, or if the private sector could assume its functions. The significance of FHA and Ginnie Mae in the housing finance system has been underscored, however, with the recent mortgage crisis that began in late 2006 and resulted in the retreat of the private sector and an illiquid mortgage market. FHA's counter-cyclical role has proven invaluable to maintaining liquidity in the single family,

¹The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

multi-family, and healthcare markets and has helped buttress the country's unstable housing finance system. With the contraction of the private sector, FHA's market share has grown to almost 30 percent of all loan originations and has reached as high as 50 percent in some geographic locations in 2010, and almost 50 percent of all purchase mortgages in the country. Temporary higher loan limits of \$729,750 for one-unit properties in high-cost areas helped increase this market share. FHA was also responsible for 21 percent of multifamily and healthcare mortgages originated in 2010.

In this time of crisis and increased defaults, FHA had to redouble its efforts to protect the Mutual Mortgage Insurance (MMI Fund), which supports the main single family programs. FHA made a series of single family risk management and lender oversight and enforcement changes over the last two years designed to protect the financial stability of FHA. Single family changes included restructuring the mortgage insurance premiums, increasing down-payment requirements from 3.5 percent to 10 percent for borrowers with credit scores below 580, eliminating FHA's approval of loan correspondents, raising lender net worth requirements in all programs, and establishing the Office of Risk Management for all FHA programs. MBA commends HUD and FHA's leadership for taking proactive measures in order to ensure that a taxpayer bailout is not necessary. The most recent Actuarial Report released in November 2010, shows the MMI Fund at 0.50 percent, but expects the capital reserve ratio requirement of two percent to be met in 2014. The report estimates that FHA will meet its capital reserve requirement in 2015, without any additional policy changes.

The recent crisis also put a spotlight on the importance of FHA to multifamily rental housing. One in every three households lives in rental housing, and over the course of a lifetime many more will rent at one time or another. Rental housing supports those going to school away from home, relocating to find work or choosing to rent in retirement, as well as others who rent because they cannot afford to purchase a home or because they prefer the locations, amenities and lifestyles that may accompany renting. In its report to Congress, "Reforming America's Housing Finance Market," the Obama administration made an important commitment to affordable rental housing and to FHA's central role in meeting that commitment.

MBA has always been a proponent for a strong and vibrant FHA and Ginnie Mae. We called for updates and enhancements to FHA's risk management, scope and operations well before the current market disruptions reestablished FHA's prominence as a catalyst for bringing liquidity to the housing finance system. In the last Congress, the association supported H.R. 5072, the FHA Reform Act of 2010, which overwhelmingly passed the House. Although H.R. 5072 did not pass the Senate, one of the most important provisions in the bill, raising the annual insurance premium cap to 155 basis points (bps), was enacted as part of H.R.5981, thus enabling FHA to restructure premiums, stabilize its finances, and potentially reach the two percent capital reserve fund goal in a shorter timeframe. Because of the annual insurance premium increase of 25 bps last month to 110 or 115 bps (depending on the loan-to-value ratio), the positive results in the General Insurance/Special Risk Insurance (GI/SRI) Fund, as well as other

reforms, the president's current budget reflects estimated FHA offsetting budgetary receipts of \$9.8 billion in FY2011. Moreover, the president's FY2012 budget projects FHA and Ginnie Mae to generate, collectively, more than \$6 billion in receipts that will help rebuild FHA's capital reserves and offset HUD's gross budget request of \$47.8 billion.

Notably, FHA is not only generating revenue, but is also improving the quality of its book of business. According to FHA's April 2011 data, the average credit score for all transactions was 703, six points higher than a year ago. The serious default rate was 8.2 percent, lower than the 8.8 percent reported a year ago. These indicators give MBA comfort that FHA is moving in the right direction.

MBA believes FHA's dramatic growth and corresponding need to maintain the MMI Fund make it imperative that we enact thoughtful and appropriate measures to preserve the agency's strength and viability now, and over the longer term. Protecting and improving FHA requires a multifaceted approach to both the single family and multifamily businesses: ensuring that FHA has the right resources; creating credit policies that are both prudent and aligned with FHA's mission; requiring high eligibility standards for lenders; and ensuring that FHA is helping to provide market liquidity during times of crisis. The tools that Congress has already given FHA and the policy changes that FHA has made to date position FHA to continue on a course to fiscal stability.

An outstanding issue that will have a dramatic impact on FHA and Ginnie Mae is the future of the government sponsored enterprises (GSEs). As the housing market begins to stabilize and the debate intensifies over the new configuration of the country's housing finance system, policymakers are now faced with the question of how to transition FHA back to a state of normalcy without dramatically disrupting the housing recovery. The release of the Obama administration's white paper renewed the discussion of how best to wean the country of its dependency on a government-supported housing industry. Recommendations for how to scale back government involvement in the housing sector range from an extremely limited role, focused solely on FHA and the other government housing programs, to a broader framework that would allow for a catastrophic government backstop for a portion of the conventional market. The report recognized that the foundation of the housing market is still not strong and that the return of the private sector and regulatory certainty for lenders are keys to a smooth transition.

MBA supports a gradual reduction of government involvement, and is committed to supporting FHA through this transition and providing it with the support it needs to remain a viable, relevant component of the housing finance system and continue to provide housing opportunities for millions of Americans.

Throughout this transition, FHA should ensure that it balances appropriate risk management, sustainable homeownership, increased need for rental and healthcare

housing, and support for the housing market recovery. Policies that are too constricting over too short a period of time would not allow businesses the flexibilities that are necessary to revive the housing market and provide reasonably-priced credit to responsible borrowers.

MBA believes FHA's importance to the housing finance market make it imperative that policymakers act thoughtfully to preserve the agency's strength and viability now, and over the longer term, without hindering the progress of the housing recovery. We appreciate Congress' commitment to FHA. Also, MBA has received and is analyzing a new draft FHA bill, the FHA-Rural Regulatory Improvement Act of 2011. After a thorough review, MBA will present formal comments to the amendments outlined in the bill.

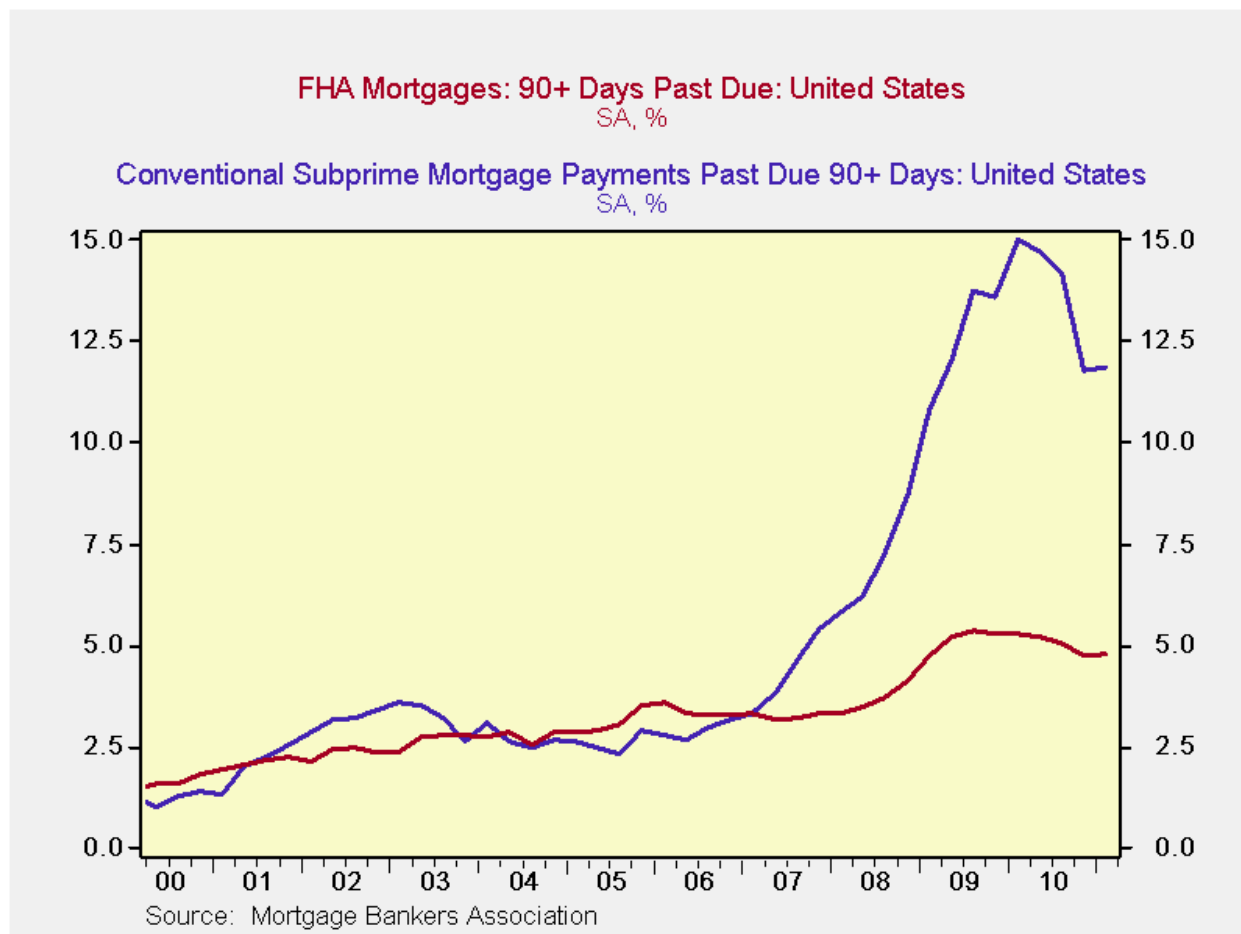
MBA makes the FHA single family and multifamily and Ginnie Mae recommendations below that are intended to fortify their financial foundations, continue affordable housing missions, and assist in a smooth transition to a normalized housing market.

MBA's RECOMMENDATIONS FOR FHA SINGLE FAMILY

Maintain the Current Minimum Down payment

A critical component of FHA's mission is to maintain the affordability of homeownership. The current minimum down-payment of 3.5 percent for borrowers with credit scores of 580 or above and 10 percent for borrowers with credit scores of 579 and below permits borrowers to have appropriate "skin in the game" while providing credit-worthy homebuyers with an option for entering the purchase market. Maintaining the existing minimum down-payment requirements, while requiring strong underwriting standards, such as full documentation and income verification, allows borrowers to responsibly become, and stay, homeowners.

Recently, policymakers have focused on required minimum down-payments as a measure of what factors are necessary to create sound lending practices. While down-payment certainly impacts default risk, other compensating factors, particularly full documentation of conservative loan products, are more influential mitigating factors. Importantly, FHA's requirement of full documentation of all loans and limited loan product options helped insulate the MMI Fund from experiencing the devastating default rate during the height of the housing crisis. As the chart below illustrates, for most of the past decade, FHA loans have performed better than subprime loans, with the exception being the years where FHA problems were dominated by the now defunct Seller-Funded Down payment Assistance Program. Over the course of the crisis, delinquency rates on subprime loans have far exceeded rates on FHA loans.



FHA's traditional business has typically performed well and its product, credit, and documentation standards have been important contributors to this solid performance. Policymakers need to carefully weigh their desire to decrease risk by raising minimum down-payment versus the certain and dramatic negative impact on the availability of loans to low-to-moderate, first-time, and minority homebuyers if FHA raises its down-payment requirement. Analysis has shown that the risk from low down-payment loans can be mitigated by compensating factors, such as documentation and borrower credit².

Another outstanding issue that will have a profound impact on FHA is the proposed risk retention rule. The Dodd-Frank Wall Street Reform and Consumer Protection Act require mortgage securitizers to retain five percent of the credit risk unless the mortgage is a Qualified Residential Mortgage (QRM). The proposed rule recently issued by six federal regulators would require families to make a 20 percent down-payment and meet other stringent requirements. It is not at all clear from the proposal whether the regulators reflected on the relationship between the proposed QRM definition and the

² "U.S. RMBS Rating Methodology and Assumptions for Prime Jumbo, Alternative-A, and Subprime Loans." Standard and Poor's. 2009

FHA's eligibility requirements in light of FHA's statutory exemption from risk retention. The proposed QRM definition appears to conflict directly with the Obama administration's plan for reforming the housing finance system, as it would make it more difficult for private capital to re-enter the housing finance market. In its white paper, the administration made clear that it intends to shrink FHA from its current role of financing one-third of all mortgages, and one-half of all purchase mortgages.

We support FHA's role as a source of financing for first-time homebuyers and other underserved groups. However, because of the wide disparity between FHA's down payment requirement of 3.5 percent and the QRM's requirement of 20 percent, MBA is concerned that the FHA programs will be over-utilized. While FHA should continue to play a critical role in our housing finance system, MBA firmly believes that it is not in the public interest for a government insurance program like FHA to dominate the market, especially if private capital is available to finance and insure mortgages that exhibit a low risk of borrower default.

Increased Resources and Operational Efficiencies

MBA believes a critical requirement for achieving, sustaining and protecting the housing market's long-term vigor is ensuring that FHA has the resources it needs to operate in a modern, high-tech real estate finance industry. FHA's staff levels have remained virtually unchanged, even though its market share has risen from three to over 30 percent. This ratio of activity to resources stretches FHA beyond its capacity. In the prior Congress, MBA strongly supported H.R. 3146, the 21st Century FHA Housing Act, which would have provided FHA with up to \$72 million in funding to hire additional staff and upgrade compensation to be commensurate with that of other federal financial regulators.

MBA supports FHA's FY2012 budget request of 92 additional FTEs compared to FY2010 enacted levels. The association also questions whether the current appropriations practice of dividing HUD's salaries and expenses among multiple sub-accounts, with limited transfer and reprogramming flexibility, is the most efficient and effective structure. MBA supports the proposal in HUD's FY2012 budget to restructure the Executive Direction account by removing sub-function allocations to provide HUD with the flexibility to respond quickly to emerging or unanticipated needs as they arise. Additionally, MBA agrees with HUD that Congress should explore providing additional administrative flexibilities in accounts funding salaries and expenses across the department, so that resources can be easily deployed where they are most needed.

MBA also strongly supports funding to upgrade technology to improve operational efficiencies. New technology would enable FHA to better monitor lenders, protect against fraud, and generally be better equipped to handle the challenges of a modern marketplace. An example of how FHA could modernize its technology for the betterment of consumers and lenders is by permitting the use of electronic signatures for all mortgage origination forms required by FHA. E-signatures, acceptable under federal law and by FHA on certain documents, would help reduce processing issues

that impair the home-buying process. E-signatures would reduce the volume of lost paperwork, reduce the time required to close a loan, lower borrower costs, and reduce signature fraud. MBA has requested that FHA implement a revised policy accepting the use of e-signatures on all of its loan documents.

Restore HUD Counseling Funding

Earlier this year, H.R. 1473, the FY2011 Continuing Appropriations Act, eliminated \$88 million in counseling funds, which directly impacts first-time homebuyer counseling and counseling for reverse mortgages for seniors. The president's FY2012 budget includes \$88 million for the Housing Counseling program and MBA urges Congress to restore these funds.

HUD expects the majority of the requested funds to be distributed competitively to national and regional intermediaries, local housing counseling agencies, multi-state agencies, and state housing finance agencies to directly support housing counseling services, including pre-purchase, foreclosure prevention, and reverse mortgage counseling. The funds support the delivery of a wide variety of housing counseling services to potential homebuyers, homeowners, low- to moderate-income renters, and the homeless. Counselors provide information to help households improve their housing conditions and choices, avoid foreclosure, and understand the responsibilities of tenancy and homeownership. During FY2010, HUD-approved counseling agencies provided housing counseling services to approximately 3.04 million households, using both HUD and non-HUD funding.

Although the funding cut hurts all borrowers, seniors are particularly impacted because Congress mandated that reverse mortgage counseling was a requirement for receiving a reverse mortgage. Congress has now eliminated the funding for this requirement. Moreover, because FHA policy bars lenders from paying for reverse mortgage counseling (to eliminate any conflict of interest); the reverse mortgage counseling fee becomes the borrower's responsibility. Policymakers determined that borrowers of reverse mortgages needed mandatory counseling because of the complexity of the product and because the product serves a vulnerable population, yet Congress have removed the funding that ensures this intent is carried out. Regrettably, the result will be that seniors who need the proceeds of a reverse mortgage the most will be the ones least likely to afford the counseling fee. Eliminating funding for counseling is a set-back for seniors who are trying to maintain a decent standard of living in these tough economic times.

Loan Correspondents "Table Funding"

As of January 1, 2011, HUD stopped approving loan correspondents. A phase-out period was granted until March 31, 2011, to allow loan correspondents to work through their pipelines; however, the new policy is now in effect. While this requirement was intended to hold approved mortgagees responsible for the origination of their loans and improve risk management, an unfortunate unintended consequence of the new rule has been to shut down the practice of table funding.

Table funding is a financing option that allows originators approved for wholesale lending to originate process and close loans in their name. At the time of closing, the loan is transferred to an FHA-approved lender and that lender simultaneously advances the funds for the loan.

The prohibition of table funding was never HUD's intention, and the department sought to correct it during the prior Congress through a narrow amendment contained in H.R. 5072, the FHA Reform Act. Section 13 of that legislation, which passed the House 406 to 4, would have permitted the practice of table funding to continue.

The new HUD rule has had an immediate negative impact on the availability of credit to FHA borrowers. Lenders rely on the efficient process of allowing qualified correspondents to close loans in their own names in order to serve all markets effectively. Because correspondents are unable to close loans in their own name, many of them have ceased offering and originating FHA products, thus reducing the availability of safe and affordable mortgages and refinancing options for low- to moderate-income and first-time homebuyers. Rural areas, in particular, have been negatively affected, as these communities are typically served by smaller community banks that rely on table funding.

HUD supports permitting loan correspondents to close loans in their own names. Allowing this practice would not reduce the liability of the FHA-approved mortgagee for its correspondents or the overall underwriting quality of the loans, nor would it jeopardize the financial stability of FHA. The FHA-approved mortgagee would still be held responsible for the quality of its loans and would bear the risk of approving and monitoring its sponsored correspondents. Moreover, permitting correspondents to close loans in their own names would align FHA policies with those of Fannie Mae and Freddie Mac.

In this fragile housing market, the real estate finance industry supports measures that will encourage a continued and sustainable housing recovery. Permitting correspondents to close loans in their own names is an important part of that effort. MBA would strongly encourage Congress to take action on this issue as soon as possible to restore any market disruption.

Transition from Temporary Single Family Loan Limits

The maximum loan limits for Fannie Mae, Freddie Mac, and FHA are currently \$417,000 with a temporary limit of up to \$729,750 for one-unit properties in high-cost areas. The temporary high-cost area limit was first set in the Economic Stimulus Act of 2008, and was extended in subsequent legislation. It expires on September 30, 2011. Without the extension, the high-cost loan limit ceiling would revert back to the limits established under the Housing and Economic Reform Act (HERA), a maximum of \$625,500 in high-cost areas.

The Obama administration stated in its white paper that it will not support another extension of the higher loan limits and MBA understands that many in Congress agree with this position.

MBA believes the higher limits should be maintained until the housing market stabilizes and the private market shows more signs that it has returned. We believe that careful consideration should be given as to whether the housing market is ready for a change in the loan limits.

Importantly, if Congress elects to provide another temporary extension to the higher loan limits, MBA would urge that legislation be enacted well before October 1, 2011, in order to avoid certain market disruptions that will, because of rate locks, occur within 90 days of the current limits expiring. In an effort to manage pipelines and ensure timely closings, lenders will begin to curtail originations of higher limit loans in anticipation of the policy change.

MBA's RECOMMENDATIONS FOR FHA MULTIFAMILY

Increase Multifamily Loan Limits

FHA's statutory limits for multifamily financing, while sufficiently high in most markets, are severely restricting the ability of rental property owners in high-cost urban markets to use FHA insurance programs. In the prior Congress, MBA worked with the House to pass H.R. 3527, the FHA Multifamily Loan Limit Adjustment Act of 2009, on September 15, 2009, and as an amendment to H.R. 5072 on June 10, 2010. These bills, along with S. 3700, which was introduced in the Senate on August 4, 2010, would have increased the FHA loan limits for elevator properties in extremely high-cost areas. Because many MBA members originate loans in markets with higher labor, material, regulatory and land costs, there is a gap between the mortgageable amount needed to finance construction or substantial rehabilitation of units in the nation's major cities and HUD's statutory loan limits for multifamily properties. High rise elevator buildings also serve the senior population, especially in older urban markets. MBA strongly supports additional discretion to be given to the HUD Secretary to be used in extremely high-cost areas (similar to that provided in Alaska and Hawaii today).

Fundamental Changes in FHA's Multifamily Program Procedures

As it did in 2010, MBA supports in principle the major risk management initiatives that FHA implemented for its multifamily programs. Effective September 2010, FHA raised the minimum debt service coverage and lowered maximum allowable loan ratios for insurance applications on market rate multifamily projects. FHA's planned initiatives include a more robust mortgage credit review of borrowers, a more standardized approach to due diligence by the lender, and an increase in lender credentials by virtue of a significant increase in required net worth. Over the long run, these changes should strengthen FHA's GI/SRI Fund.

FHA's multifamily and healthcare insurance programs have proven to be indispensable tools for stimulating financing of rental housing production and preservation. While the nation has witnessed the importance of a strong, stable multifamily finance market, less visible has been the role FHA plays creating standards for rental housing, promoting mobility for the workforce, and increasing private capital's investment in our neighborhoods. FHA's seniors housing and healthcare programs have found new niches as the need for affordable rental housing choices for seniors grows.

In many markets, FHA has become a central source of financing for the development of rental housing. The momentum that FHA built up in 2010 continues in 2011. But the ramp up has exposed structural deficiencies in FHA's multifamily application process, leading to a back log of requests. Even today, FHA simply cannot respond to many of these requests.

In the months just before the effective date of FHA's changes in multifamily underwriting, FHA received an unprecedented surge in applications. This surge was an unintended consequence of HUD's procedures. When HUD announced its risk mitigation initiatives in February of 2010, it needed five months to codify them in a formal notice letter to its mortgagees. This formal notice required HUD to give the market 60 more days before the new rules took effect, and any application submitted within those 60 days would be considered under previous, more generous guidelines. With few other sources available for construction/rehab financing and credit tight for refinancing maturing debt on apartments, the pipeline became overloaded.

This situation is a prime example of how FHA's approval process is out of sync with the changes in the market. Coupled with a very long process, FHA cannot start or stop its application process without the long lead times its regulations require to develop and implement program changes. To make matters worse, HUD staff resources have declined. By 2010, the multifamily staff shrank by 15 percent from 2008.³

Operational Inefficiency and Risk

FHA's importance to the multifamily and senior housing finance markets make it imperative that policymakers and HUD act to preserve the agency's strength. A priority for the MBA is to see that HUD takes the necessary steps to make FHA's multifamily and healthcare programs efficient and effective. The obstacle that stands between FHA's current state and viability is the agency's ability to execute efficiently.

We believe FHA and HUD need to take three steps:

1. Link HUD's strategic goals to their multifamily credit policies.
2. Dramatically improve FHA's business processes.
3. Improve technology and reporting systems and upgrade staff training.

³ U.S. Department of HUD newsletter, February 10, 2011, Washington, D.C.

The first step is for FHA and HUD to get ahead of the back log of applications with clear credit policies, and to accomplish that their policies must link to their strategic goals. Credit policies have had difficulty keeping pace with the surge in applications and new types of rental projects under consideration for funding. Many applications are for mixed use projects, combining residential and non-residential uses within a single project. Many projects are in urban markets, adjacent or near transportation systems, but because of the backlog, the strategic benefits of mixed-use projects and transit-oriented development are not realized.

The second step is that FHA needs to improve its business processes. MBA believes FHA can be more efficient. At a time when getting more resources for its multifamily and healthcare programs is very difficult, FHA currently lacks the authority to effectively allocate existing resources. The unique needs of the new pipeline are challenges, taxing existing resources in place. The practical impact of this creates an even longer regulatory implementation process. This adds time to the application process, which adds time and cost to the business decisions that lenders and their borrower clients have to make. Consequently, FHA has difficulty meeting the primary needs of multifamily developers and private investors.

The third step involves dramatically improving the reporting systems and staff training at FHA. The priority of addressing the processing back-log has pushed off implementation of key risk mitigation initiatives. This has contributed to an underinvestment in technology and training. FHA needs a new generation of reporting systems and improved training to manage risk and improve processing times. HUD staff needs extensive underwriting and risk management training in the next generation of multifamily and healthcare projects it is being asked to insure.

MBA'S RECOMMENDATIONS FOR GINNIE MAE

Successful Approach to Risk Management

With respect to Ginnie Mae, MBA commends the way it has served as a stabilizing force during the housing finance crisis. We believe part of its success stems from its unique business model and the value its securities bring to investors, lenders and consumers.

Ginnie Mae's business model mitigates taxpayers' exposure to risk associated with secondary market transactions. Ginnie Mae does not originate or invest in mortgage loans or MBS directly so it has no active retained investment portfolio. Additionally, Ginnie Mae does not take on borrower credit risk or rely on credit derivative products to hedge. Because Ginnie Mae has no need to finance whole loans or MBS portfolios, it does not carry significant long-term debt on balance sheet.

Ginnie Mae is insulated by several layers of protection before it faces any risk associated with the mortgage collateral underlying the securities. Ultimately, before Ginnie Mae's guaranty is at risk, three levels of protection must be exhausted:

1. The borrower's equity in the property collateralizing the loan;
2. The insurance provided by the government agency that insured the loan; and
3. The corporate resources of the lender that issued the security.

Additionally, Ginnie Mae's losses are limited to either the cost of transferring the portfolio or to any decline in the servicing value of the portfolio.

Ginnie Mae's business model also partitions the risk associated with creating and originating securities into three parts: the primary credit risk is held by FHA, the Department of Veterans Affairs, and the United State Department of Agriculture; Ginnie Mae holds the bond insurance risk; and investors hold the interest rate risk. Diversifying risk in this manner is a contributing factor to Ginnie Mae's ability to weather the recent financial storms. The past two years have demonstrated that when a tidal wave of risks results from a systemic financial crisis, it is difficult for one entity to manage all of those risk factors.

Greater Flexibility and Resources

Ginnie Mae has performed well despite its limited resources for salary and expenses. Rising to the challenge posed by the recent economic crisis has been challenging for the organization given its small staff of slightly more than 80 people. That is why the administration's FY2012 budget request for Ginnie Mae provides flexibility that enables greater capacity, service, and protection to taxpayers, without requiring additional appropriations. In light of Ginnie Mae's vastly increased market share (from four percent to over 30 percent in the past few years) and a guaranty portfolio that now tops \$1 trillion, the FY2012 request proposes to fund its personnel expenses through Commitment and Multiclass fees rather than through a separate appropriation for personnel compensation and benefits. This will allow Ginnie Mae to increase its staff level to strengthen risk management and oversight.

MBA notes that even though this financing approach affords Ginnie Mae more flexibility in funding its critical personnel and administrative needs, importantly, Congress will retain its role in determining Ginnie Mae's annual funding. However, with receipts accumulating in Ginnie Mae's program account, a ready source of funding will be available to help the agency fund both current needs along with contingencies that may arise in the future. It is critical that the agency have this additional flexibility to be able to respond to market needs and to continue to effectively and responsibly bring global capital into the American housing finance system.

Conclusion

MBA appreciates that FHA and Ginnie Mae are performing the countercyclical roles for which they were created by ensuring a stable, liquid and affordable source of housing finance during this difficult time in the housing market. We look forward to working with Congress, FHA, and Ginnie Mae to continue striving toward the proper balance between prudent risk management practices and providing assistance to qualified borrowers. Thank you again for the opportunity to share MBA's views.