SUSTAINABLE HOUSING FINANCE: THE ROLE OF GINNIE MAE IN THE HOUSING FINANCE SYSTEM

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND INSURANCE

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

NOVEMBER 29, 2017

Printed for the use of the Committee on Financial Services

Serial No. 115–59

U.S. GOVERNMENT PUBLISHING OFFICE
31–286 PDF WASHINGTON : 2018

HOUSE COMMITTEE ON FINANCIAL SERVICES

JEB HENSARLING, Texas, *Chairman*

PATRICK T. MCHENRY, North Carolina, *Vice Chairman*
PETER T. KING, New York
EDWARD R. ROYCE, California
FRANK D. LUCAS, Oklahoma
STEVAN PEARCE, New Mexico
BILL POSEY, Florida
BLAINE LUETKEMEYER, Missouri
BILL HUIZENGA, Michigan
SEAN P. DUFFY, Wisconsin
STEVE STIVERS, Ohio
RANDY HULTGREN, Illinois
DENNIS A. ROSS, Florida
ROBERT PITTENGER, North Carolina
ANN WAGNER, Missouri
ANDY BARR, Kentucky
KEITH J. ROTHFUS, Pennsylvania
LUKE MESSER, Indiana
SCOTT TIPTON, Colorado
ROGER WILLIAMS, Texas
BRUCE POLIQUIN, Maine
MIA LOVE, Utah
FRENCH HILL, Arkansas
TOM EMMER, Minnesota
LEE M. ZELDIN, New York
DAVID A. TROTT, Michigan
BARRY LOUDERMILK, Georgia
ALEXANDER X. MOONEY, West Virginia
THOMAS MacARTHUR, New Jersey
WARREN DAVIDSON, Ohio
TED BUDD, North Carolina
DAVID KUSTOFF, Tennessee
CLAUDIA TENNEY, New York
TREY HOLLINGSWORTH, Indiana

MAXINE WATERS, California, *Ranking Member*
CAROLYN B. MALONEY, New York
NYDIA M. VELÁZQUEZ, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
MICHAEL E. CAPUANO, Massachusetts
WM. LACY CLAY, Missouri
STEPHEN F. LYNCH, Massachusetts
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
GWEN MOORE, Wisconsin
KEITH ELLISON, Minnesota
ED PERLMUTTER, Colorado
JAMES A. HIMES, Connecticut
BILL FOSTER, Illinois
DANIEL T. KILDEE, Michigan
JOHN K. DELANEY, Maryland
KYRSTEN SINEMA, Arizona
JOYCE BEATTY, Ohio
DENNY HECK, Washington
JUAN VARGAS, California
JOSH GOTTHEIMER, New Jersey
VICENTE GONZALEZ, Texas
CHARLIE CRIST, Florida
RUBEN KIHUEN, Nevada

KIRSTEN SUTTON MORK, *Staff Director*

CONTENTS

SUSTAINABLE HOUSING FINANCE: THE ROLE OF GINNIE MAE IN THE HOUSING FINANCE SYSTEM

Wednesday, November 29, 2017

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND INSURANCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:06 a.m., in room 2128, Rayburn House Office Building, Hon. Sean Duffy [chairman of the subcommittee] presiding.

Present: Representatives Duffy, Ross, Royce, Hultgren, Rothfus, Zeldin, Trott, MacArthur, Budd, Hensarling, Cleaver, Clay, Sherman, Beatty, Kildee, and Gonzalez.

Also present: Representative Kustoff.

Chairman DUFFY. The Subcommittee on Housing and Insurance will come to order. Today's hearing is entitled, "Sustainable Housing Finance: The Role of Ginnie Mae in the Housing Finance System."

Without objection the Chair is authorized to declare a recess of the subcommittee at any time. Without objection, all Members will have 5 legislative days within which to submit extraneous materials to the Chair for inclusion in the record.

Without objection, Members of the full committee who are not members of the subcommittee may participate in today's hearing for purposes of making an opening statement and questioning our witness. The Chair now recognizes himself for 4 or 5 minutes.

I want to thank our members and our witness for participating in our fourth hearing on housing finance reform. I look forward to hearing from Mr. Bright.

Now while both Ginnie and the GSEs (government-sponsored enterprises) have enjoyed the backing of the Federal Government, Ginnie finds itself in a different position today than Fannie Mae and Freddie Mac.

I understand that part of that is because there is a difference between the implicit and explicit guarantee, but I also believe it is because of the structure in which Ginnie provides mortgage-backed securities versus the system employed by Fannie and Freddie.

Since the financial crisis, Ginnie has seen a significant amount of growth, yet has still been able to put the private sector in a first dollar loss position.

I hope to hear today how Ginnie has been able to manage their growth, which has been significant, and the responsibilities to the American taxpayer. I also want to explore the Ginnie model more in-depth as we look to reform the housing finance system and bring more private skin back into the game.

Mr. Bright himself has authored a proposal with former FHFA (Federal Housing Finance Agency) Acting Director Ed DeMarco to stand Ginnie up further in its role in the housing market.

With now time at the helm to evaluate Ginnie's inner plumbings, he is in a unique position as to whether the suggestions made in that paper would actually work. Do the logistics make sense?

Exploring a model in which the Federal Government is in the fourth dollar loss position and whether there can be more levels before the Federal Government is expected to pay out should be a primary goal of any housing finance reform endeavor undertaken by this committee.

Another area that has been highlighted in the written testimony, and I hope to discuss today, is the Ginnie Mae 2020 initiative. While we know that a large investment has been made in the common securitization platform, Ginnie has successfully employed its own platform that hundreds of private sector participants have been able to utilize.

While the GSEs' common securitization platform was originally intended to be utilized by more market participants than Fannie and Freddie, it has changed direction since Mr. Watt has been in charge of the FHFA.

Are there similarities between the two platforms, and can one be utilized by both Ginnie and the GSEs? As I have said in previous hearings, I think we need to move forward with housing finance reform in a bipartisan manner. I hope today's hearing will help inform members on both sides of the aisle what Ginnie's future role is in the housing finance space.

I would just note that Mr. Cleaver and I have had a number of meetings and are trying to move forward in a bipartisan fashion and we are painting off the same picture, at least to begin with, which I think is a pretty good start.

So with that, I now recognize the Ranking Member, Mr. Cleaver, the gentleman from Missouri, for 3 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman, and thanks for the hearing, and thanks for the interest and time that you have given this issue.

And I want to welcome you, Mr. Bright, to this hearing, "The Role of Ginnie Mae in the Housing Finance System." The Housing and Insurance Subcommittee has held, as you probably know, a number of hearings this year on the state of our housing finance system.

As these conversations continue, and some of them continue out of sight, just so that we can get down into the nitty gritty on where we stand on these issues, I think it is important to hear from you on the role of Ginnie Mae in our current housing system.

Ginnie Mae has a large footprint in a small office because you are connected inside HUD (Housing and Urban Development), you have less than 200 employees, and I think that we appropriate funding for the salaries in Ginnie Mae and the expenses, the claims, and the capital reserve fund. I am assuming that they are funded through your fee revenues.

But given the small amount appropriated to the agency, it is important, I think, for us to determine if Ginnie Mae is sufficiently funded or whether or not there is a need for some adjustments.

Additionally, Ginnie Mae is engaged in a modernization initiative which I appreciate, and I am interested to hear more about this during the course of the hearing.

Any plan to reform the GSEs must include an explicit government guarantee, preservation of the 30-year fixed mortgage, and strong affordability goals. That is what I have shared.

Chairman Duffy and I have talked about that as well. And so getting a bit better understanding from you today will help us understand proposals that might be forthcoming.

Thank you, Mr. Chairman.

Chairman DUFFY. The gentleman yields back.

The Chair now recognizes the gentleman from Florida, the Vice Chair of this subcommittee, Mr. Ross for 2 minutes.

Mr. ROSS. Thank you Chairman, thank you very much for holding this hearing, and I commend you on your dedication for finding a better way for taxpayers and homeowners alike.

I would also like to thank Mr. Bright for being here with us today to share his insights from his current role as Acting Director of Ginnie Mae and years of experience in the field.

The United States has been a beacon of freedom in the world and a big part of that freedom has been the freedom to take risks. An entrepreneur has an idea that involves a bit of risk, the American system has replied go forth and God bless. Risk taking and the entrepreneur spirit is a fundamental part of our tradition of free market competition.

Unfortunately these days some of the risky, big ideas aren't coming from entrepreneurs. They are coming from bureaucrats and policymakers. That means that the collateral isn't one person's house or his credit. It is the taxpayers' dollars and our children's future.

Rather than say go forth and God bless, it is the duty of this body and the House of Representatives and, in particular, this committee to say, in the words of Lee Corso, "Hold on, not so fast."

Right now our housing finance policies are exposing taxpayers to a level of risk that cannot be justified or tolerated. With Fannie Mae and Freddie Mac on track to have their capital reserve deleted by year's end, and nearing a decade of conservatorship, it is high time for this body to produce solutions that pave the way for a sustainable future.

This brings me to Ginnie Mae, whose experience in the years following the financial crisis, I believe, to be invaluable in informing our reform effort.

As a governmental agency, Ginnie Mae has a political mandate to help people achieve the dream of homeownership, but it also has a fiduciary duty to protect taxpayers against precarious risks that will lead to bailouts.

With regard to achieving that balance, Ginnie Mae has done relatively well given the restrictions and directives that have complicated its missions. My hope is that this hearing will provide members of the subcommittee with additional insight as to how we can build upon Ginnie Mae's strengths and address its weaknesses.

I believe as members of the House we have a responsibility to make sure the taxpayer is protected. I believe that this hearing will get us closer to a plan for protecting taxpayers against unnecessary risks so we can better stabilize our housing market.

I yield back.

Chairman DUFFY. The gentleman yields back.

The Chair now recognizes the gentleman from California, Mr. Sherman, for 2 minutes.

Mr. SHERMAN. Thank you. I don't buy the idea that if it is not broke don't fix it because sometimes you can make things better, but if it is not broke, don't break it. We now have a system of 30-year, fixed rate, pre-payable mortgages available to ordinary Americans on good terms. Let us not break that.

We have a system where the Federal Government can earn a profit in most years, put that profit aside, and be sure that it will more than cover losses that could be expected. If it is not broke, don't break it.

Now, we were traumatized, not just economically, but in terms of our social fabric by the bailouts. That is when you bail out a private enterprise. We have to avoid creating enterprises that on the one hand are private and on the other hand expect a bailout, whether that be AIG or Lehman Brothers, Goldman Sachs or Fannie and Freddie.

That is why I think we should strip the veneer of saying that Fannie and Freddie are somehow independent, non-government agencies under conservatorship and acknowledge what they are.

They are government agencies and should be treated as such. If they produce a profit in a good year that should accrue to the taxpayers, and of course the taxpayers are taking the risk. I look forward to learning how Ginnie Mae can be improved, but I am not looking for some radical and disruptive change.

And finally, I would like to look at the servicing rights of loans because I know a number of small banks have a good relationship with the individual borrower. They are not just a portfolio, and we will want to talk about that.

I yield back.

Chairman DUFFY. Very well, the gentleman yields back.

We now welcome our one witness today, Mr. Michael Bright, the Acting President of the Government National Mortgage Association or Ginnie Mae. Mr. Bright, you will in a moment be recognized for 5 minutes to give an oral presentation of your written testimony. Without objection the witness' written statement will be made part of the record following his oral remarks.

Once the witness has finished presenting his testimony, each member of the subcommittee will have 5 minutes within which to ask Mr. Bright questions.

You are well aware of this, but on your table you have three lights. Green means go, yellow means you have a minute left, and red means that your time is up, pretty common sense. Your microphone is sensitive so please make sure you are speaking into it.

With that, Mr. Bright, you are now recognized for 5 minutes for an oral presentation of your statement.

STATEMENT OF MICHAEL R. BRIGHT

Mr. BRIGHT. Thank you. Thank you. Good morning Chairman Duffy, Ranking Member Cleaver, and distinguished members of the subcommittee. My name is Michael Bright, and I am the Executive Vice President and Chief Operating Officer of the Government National Mortgage Association, or Ginnie Mae. Thank you very much for inviting me here today to discuss our mission and our work.

Established in 1968, Ginnie Mae is a federally chartered corporation responsible for applying and administering a full faith and credit government backstop on qualifying mortgage-backed securities.

In exchange for this backstop, Ginnie Mae charges lender fees and a six-basis-point guarantee fee, which is currently set in statute. The benefit of the Ginnie Mae model is that, through a well-defined and limited government role, global capital is attracted to the U.S. housing finance system through our market cycles.

This reliable flow of low cost capital purchasing Ginnie Mae mortgage-backed securities provides affordable mortgage financing for millions of borrowers.

The easiest way to understand Ginnie Mae's mission is that we oversee a process for ensuring the success of the government's guarantee, often referred to as the government's wrap.

Specifically, Ginnie Mae manages technology and infrastructure designed to track the payments of principal and interest coming from borrowers, going through the lenders, and making sure it ultimately flows into our common security on time and in full every single month.

At its core this is what a government guarantee means. An agency such as Ginnie Mae has regulatory authority over the process of ensuring the timely payment of principal and interest on securities.

To ensure that Ginnie Mae MBS (mortgage-backed security) remain liquid, we have extensive relationships with large investors across the globe. This helps maintain low interest rates for loans backed by the USDA (United States Department of Agriculture), the V.A. (United States Department of Veterans Affairs) and the FHA (Federal Housing Administration), which ultimately get securitized into our program.

A government wrap on MBS does not alone ensure success. I think this is an important point. At a very high level, the Ginnie Mae wrap works because we do two things effectively.

First we are transparent about our rules and our processes with our investors, and second, we work hard to police our program. Both work streams are vital to meeting our statutory missions of providing liquidity and protecting taxpayers.

We are also successful, in part, because we have a nimble staffing model. Ginnie Mae was designed to have a relatively small core staff leveraging specialized support from contractors where appropriate.

Far from being a weakness, we actually believe that our outsourcing model, in some ways, has allowed Ginnie Mae to be scalable and to expand or contract as market conditions change. In our mandate to protect taxpayers against loss, we are helped by the fact that in the Ginnie Mae model, the government backstop is in a so-called fourth loss position.

In front of Ginnie Mae are multiple layers of capital, including the balance sheets of our issuers. Mechanically speaking, Ginnie Mae's primary risk is that a lender fails to remit timely payment of principal and interest on a security. If this occurs, Ginnie Mae must make the payment for them.

And similar to the FDIC (Federal Deposit Insurance Corporation) receivership process, Ginnie Mae moves the lender-servicing book to another lender. Missed payments or issuer failures are always a risk, but in practice they are, in fact, quite rare. This was true even during the financial crisis.

Right now, Ginnie Mae typically remits to the Treasury somewhere between $1 billion and $2 billion annually, which is reserved in an account at Treasury against future losses. To date, we have never needed emergency Federal assistance to perform our jobs.

We are always working to align our rules and our procedures with the shifting landscape of risk. In recent years, our issuer base has evolved from large banks toward smaller monoline mortgage banks that do not have significant balance sheets themselves. For Ginnie Mae, this poses the risk that multiple issuer failures could occur during a liquidity run of the markets.

To protect against this, in late 2014, Ginnie Mae issued minimum cash liquidity requirements for all of our issuers. While that was a necessary first step, we are currently examining ways to further enhance taxpayer protections.

Looking forward, Ginnie Mae is engaged in long-range planning for the future. As noted, we are calling this initiative Ginnie Mae 2020, and it is the next wave of strategic modernization for Ginnie Mae.

While we will be officially unveiling the effort next year, the initiative focuses on technology modernization and enhancements to our counterparty risk management policies.

One other recent development that I would like to quickly mention is our effort to curb aggressive and potentially abusive marketing by some V.A. lenders.

We have recently formed a task force with the V.A. designed to bring a stop to abusive behavior that puts veteran borrowers at risk and raises the cost of financing for everyone who relies on the Ginnie Mae program.

In conclusion, let me say that Ginnie Mae has proven itself, adapted administering a government backstop on MBS since the agency began operating 50 years ago. With that in mind, Ginnie Mae is here to help policymakers implement whatever housing finance system that you deem appropriate for the future.

Thank you, and I am happy to answer any questions.

[The prepared statement of Mr. Bright can be found on page 30 of the appendix.]

Chairman DUFFY. Thank you, Mr. Bright, for your oral statement.

The Chair now recognizes himself for 5 minutes. I just—in response to Mr. Sherman's comments in regard to if it is not broken, don't break it, I come at this with the premise that the system was broken, and it broke our whole economy. It broke American families.

There is a problem with the structure of that old system that continues today. And thinking through reforms to make sure that we don't break the American family again, I think is smart for policymakers.

And the thought that we would, and I am not saying that anyone is proposing this, but we are going to put politics and political decisions in front of market discipline I think would be foolish because in the end you get a very bad result which doesn't actually help the American people, the American family. It actually hurts them, which is what we saw in the 2008 crisis.

But Mr. Bright, you and Mr. DeMarco wrote a paper. You now sit in a unique position to maybe analyze the conclusions of that paper.

Any thoughts or insights that you want to give us? Does your paper still work based on your knowledge today? Could Ginnie Mae be the model that we stand up for your paper?

Mr. BRIGHT. Sure. Well, yes, I definitely am not walking away from the paper. In fact, I would say my experience so far at Ginnie Mae, I believe in the conclusions and the model even more than I did potentially when we wrote it.

I would say that when Ed and I started talking about that and, it would have been 2014, 2015, the idea of using Ginnie Mae as a full faith and credit backstop, as opposed to creating a new one, so the genesis of the idea was that the Ginnie Mae, maybe, the security was already out there.

They are $2 trillion in size. They are very transparent-priced, so we don't have to have all kinds of back and forth about how much is the full faith and credit wrap worth in terms of lowering rates.

Because in most reform proposals, you wrap mortgages with a full faith and credit wrap and everybody says rates go down. Then you bring in private capital, which costs some amount of money, and so rates go up. There is this debate over what is the net impact.

We said, hey, let us just use Ginnie Mae because we can see what the price is. So you actually take that argument off the table. And that was the reason that we did that.

What I have learned since being at Ginnie is that there is even more to it, which is that a wrap doesn't just exist because we wave a magic wand and say all these mortgages are now guaranteed by the government. An explicit wrap, if it is going to work, needs people to oversee and administer it to make sure that money is flowing.

If there isn't P&I (principle and interest) calculated properly, and it is not on the account at the right time, you can go to your explicit account at the Treasury and put money in there and then go back to the system and say, who messed up and why?

And that is a process. It is an administrative process. That is what the folks at Ginnie Mae do.

And that has really been, I think, a little bit of a lightbulb moment about how using not only a brand that exists, but a set of processes and administrative functions that exist, would probably make it easy, easiest way to transition to something.

Chairman DUFFY. Do you note any operational infrastructure challenges since you have been there?

Mr. BRIGHT. We have to do some modernization. The mortgage market is moving toward this new mortgage type process. And our architecture has some upgrades to get there. We have that slated, actually, for next year. We are procuring a contract to get that done. So we want to be able to do e-mortgage.

There are some pool splitting capabilities that a lot of issuers said that they would like to have, which we are actually procuring as well. But they are pretty nuanced and technical.

There is no sort of big picture, anything major, that I would say that Ed and I missed that I have seen since I have—

Chairman DUFFY. So the Chairman and I, who is here for this hearing, have been talking to a number of different groups trying to get their feedback and input on if we are going to do a reform, what should reform look like.

And there are a number of different models—

Mr. BRIGHT. Yes.

Chairman DUFFY. —And including the one that you helped author, and we are soliciting feedback and input from all different players in the market.

I think there has been a consistent concern by the smaller institutions having equal access to the secondary market. Can you address those concerns? Should they be concerned under your model?

Mr. BRIGHT. It is housing reform, so everybody is always concerned, and they want to make sure that they get it right and all these things. Ginnie Mae does have 450 issuers. Most of them are small. We do have standards for whether or not you can be an approved issuer.

There is a process to it, but the vast majority of our issuers are small issuers. And in a Ginnie Mae security you actually get all the benefits of cross-subsidization from the large institutions because every month, every loan that is originated and put into a Ginnie pool, all gets aggregated into the same CUSIP (Committee on Uniform Security Identification Procedures).

So small lenders you can deliver one loan, you get the exact same price execution as if you were the largest mega-bank delivering millions of loans. And so we think that that is the advantage of a single CUSIP security based on the way that we have it.

So we don't have specified pay-up trading, which the GSEs do, which I think disadvantages small lenders. We have a single CUSIP, like I said, which aggregates all the loans every single month. Most of our issuers are small lenders. We work very hard to make sure that small lenders have access.

So to the extent that there are concerns, we are certainly here to work through them, but on a macro level we think we have something that should work for them.

Chairman DUFFY. Thank you. My time has expired.

I now recognize the gentleman from Missouri, the Ranking Member, Mr. Cleaver for 5 minutes.

Mr. CLEAVER. Thank you. Thank you, Mr. Chairman.

Mr. Bright, I wanted to talk to you a little about actual differences in risk. And pardon me, I am unable to use my beautiful voice as usual.

But you are significantly different, maybe not, maybe significant is not a good word, but different than Fannie and Freddie. And can you concisely just give me the differences as you would see it?

Mr. BRIGHT. Sure, very different, actually. We have the similar-sounding names, but very different functions. We administer a full faith and credit wrap on a security. Full stop.

That is an administrative function, making sure that the bondholders know they are going to get paid and that the issuers know the rules for participating in our program in terms of when they have to remit P&I, what data they need to give us.

But it is an administrative function that ensures that a full faith and credit guarantee, both makes investors confident in buying security and taxpayers confident that there are risk controls in place that we are not going to have to ask Treasury for a bailout. That is Ginnie.

Fannie and Freddie, they buy loans from lenders. They pool them together. They put them into a security.

They issue their own securities and they have cash windows to buy loans for smaller lenders and Fannie, who does the issuance for them as well. And finally, they have balance sheets where they buy delinquent loans out of pools.

They are really secondary marketing aggregators, credit enhancers, and cash window providers. So in some sense, their role is almost analogous to what the FHA does in the GMA program.

Now, they don't operate within an explicit full faith and credit guarantee, they operate with what we all know is an implied credit guarantee.

And mechanically the way that implied guarantee works is that Fannie and Freddie can buy loans out of pools when they go delinquent by issuing debt into the capital market at very cheap rates, rates that are subsidized almost explicitly.

They raise that capital, and they buy loans out of pools and put them on their own balance sheet. In our program, our private issuers actually do that, and we just guarantee the NBS.

Mr. CLEAVER. How does Ginnie Mae approve issuers? What is the process?

Mr. BRIGHT. Yes. It is about a 4- to 6-month process that involves examination of management capabilities; examination of business plan; examination of an issuer's commitment to being in the servicing business; examination of an issuer's access to capital, liquidity, and financing; history of this issuer's occupational capacity.

So it is not entirely dissimilar in some ways to the way a bank would be approved in that there is a very thick dossier of—look through it of—

Mr. CLEAVER. But it takes about 6 months?

Mr. BRIGHT. About 4 to 6 months. We go as fast as we can being as diligent as we can. That is right.

Mr. CLEAVER. Now, Fannie and Freddie take on risk. I guess with Ginnie Mae, who is taking on the risk?

Mr. BRIGHT. Yes. So in Ginnie the risk is bifurcated or it is split very neatly into three different parts. Our issuers, which are private lenders, so think of mortgage lending institutions, have the risk that they have to remit timely principal and interest every month no matter what.

So if you are a lender and you issue a Ginnie Mae mortgage-backed security and some of the borrowers to whom you have made loans to don't pay you on time, you as the lending institution are responsible for getting P&I to us and into our MBS.

So that is risk number one, and that is with the lending institution. Once that borrower goes more than 90 days delinquent, the lending institution files an insurance claim with the FHA, the V.A., or the USDA.

Those institutions then look and say, are the documents in order? Is this a conveyable property? They have a series of checklists that they do like any insurance claim. And if everything is good then the FHA writes a check to the lender and says here, we owe you this money for the loan. This is what you had insured.

So that is the FHA's risk, which is basically the credit risk and the risk that loans that were underwritten properly go delinquent, a claim gets filed and you have to give them an insurance claim.

Ginnie Mae's risk is that the process doesn't work somehow, that a lending institution has a liquidity situation and can't remit P&I or delinquencies spike and there is a time lag between when an insurance claim can be filed and when the cash is actually there.

In that case, the explicit wrap kicks in, Ginnie Mae remit puts P&I into the investor account and then would kick an issuer out of the system because they missed the fundamental premise of our program.

But it is worth noting that even in the financial crisis, we didn't really get to that layer. That layer of Ginnie actually having to dip into our reserve account at Treasury in order to pay a bondholder really only happens in the case of a fraud or something sort of exogenous because there are many reasons that you can get removed from the Ginnie Mae program as an issuer.

Missing a payment, even by a day, is instant. You are no longer a participant. So that doesn't happen very often.

Mr. CLEAVER. Thank you.

Mr. BRIGHT. And I would be happy to go through this.

Mr. CLEAVER. Yes, thank you.

Chairman DUFFY. The gentleman's time has expired.

The Chair now recognizes the Vice Chair of the subcommittee, Mr. Ross, for 5 minutes.

Mr. ROSS. I thank the Chairman.

And thank you Mr. Bright for being here. I am very intrigued and even more encouraged by the DeMarco-Bright theory in your paper, and as you talk about the last layer of responsibility under Ginnie Mae and how it has rarely, other than an instance of fraud been tapped, is it when we look at the Fannie and Freddie and transforming them under the DeMarco-Bright plan that this would also be the same?

That this would be the level—that the same tiers of responsibility, the private or the mortgage insurance or the equity then the mortgage insurance and then last would be Ginnie Mae?

Mr. BRIGHT. That was what the basis of the proposal was.

Mr. ROSS. And my concerns are—and not from me necessarily but from some of those that are very concerned about something like this working is—one is the capacity for private sector involvement with credit enhancements.

Is there capacity out there to do this on the level that DeMarco-Bright suggests through the Fannie and Freddie transformation?

Mr. BRIGHT. Well, I—not tomorrow.

Mr. ROSS. Right.

Mr. BRIGHT. But yes, over time there certainly would be.

Mr. ROSS. How much time would you say, just to—everything I understand when we have the government providing and subsidizing forever, you can't go cold turkey overnight.

Mr. BRIGHT. That is right.

Mr. ROSS. You have to transition. It doesn't matter whether it is flood insurance. It doesn't matter what it is.

Mr. BRIGHT. Right.

Mr. ROSS. If we are going to do that in order to build a market, we have to give the path and then let the market develop as market forces do. So—

Mr. BRIGHT. Yes.

Mr. ROSS. —5 years?

Mr. BRIGHT. And that is the number I was thinking, which actually corresponds to the average tenure of a mortgage. So maybe that is a good way to target it.

That would be about the amount of time that a loan that was originated today under an old system, maybe under a new system would be getting insurance from Fannie and Freddie as opposed to doing all the issuance and stuff through Fannie and Freddie that has been going through Ginnie.

Mr. ROSS. And then let us say 5 years from now we have the private sector capacity where we are minimizing any exposure to the taxpayers, let us go to the big question, and that is affordability.

Are we going to be able to have affordable mortgages under this particular type? And if not, I would like to know that, but if so, why would you say so?

Mr. BRIGHT. Well, there is a critical boundary constraint I think both politically and on policies that mortgages be available. There are a couple of things here, crossvaling currents.

The first is that the advantage of wrapping the market with an explicit wrap as opposed to an implicit wrap—

Mr. ROSS. Right.

Mr. BRIGHT. —Is you absolutely bring in—

Mr. ROSS. You give the guarantee.

Mr. BRIGHT. Yes. So you have an explicit guarantee which brings in a whole set of global capital that—

Mr. ROSS. That is at a lower risk, less return and so there should be more availability. Would you not agree?

Mr. BRIGHT. Yes. No, and that is—

Mr. ROSS. If there is more availability would there not be more affordability?

Mr. BRIGHT. That is the idea. That is correct, yes.

Mr. ROSS. And then within 5 years we could create this type of market and significantly reduce the trillions of dollars of exposure the taxpayers presently have under Fannie and Freddie?

Mr. BRIGHT. I believe that that would be true, yes.

Mr. ROSS. Let me ask you with regard to flood insurance, because there are certain properties with a 100-year flood plan that are backed by both Ginnie and Freddie and Fannie that have to have flood insurance, but yet we know that flood isn't abiding by the law and only go where there is a 100-year flood plan, as is evidenced in this last storm season.

Do you know how many properties have been affected under Ginnie Mae by damage due to flood that were not covered in the 100-year plan?

Mr. BRIGHT. I am being told 150,000 properties.

Mr. ROSS. A hundred and fifty thousand properties that did not have flood insurance, so what impact does that have? How does that affect, one, the liquidity and the solvency of Ginnie Mae?

Mr. BRIGHT. That is not an insignificant problem because if you have a property that has been damaged through a flood and the property cannot get into a conveyable condition to file an insurance claim with FHA, it does raise the risk that the issuer, if they are concentrated in that particular geographic location, could have an insolvency situation.

Mr. ROSS. Correct.

Mr. BRIGHT. In which case Ginnie Mae has to take that book and either put it on our own balance sheet or transfer it to somebody else, which is what we would normally do.

It is important to note that in the current flooding, the disasters from this past summer, we are analyzing with very sharp pencils and all kinds of models and everything—

Mr. ROSS. With everything, but—

Mr. BRIGHT. Yes. We don't see a problem for ourselves and we are in constant—

Mr. ROSS. Imagine what it is like for Freddie and Fannie?

Mr. BRIGHT. Right.

Mr. ROSS. That is compounded exponentially I would imagine.

Mr. BRIGHT. So it is something that poses a problem. There is—

Mr. ROSS. And I guess my suggestion would be that we need to look at an all lines policy that is somehow or another offered throughout this country that includes flood, especially for those that can be more than affordable if they are not in the 100-year plan.

I am just concerned that we don't have the capacity to insure as a Federal Government, which we shouldn't be doing in the first place, but even if we are able to structure the market to where we have private sector through credit enhancements taking the bulk of the risk, we still have other risks out there that could impact us, such as flood and other national disasters—

Mr. BRIGHT. I think that is right.

Mr. ROSS. —Natural disasters.

I yield back.

Chairman DUFFY. The gentleman yields back.

The Chair now recognizes the gentleman from California, Mr. Sherman, for 5 minutes.

Mr. SHERMAN. Mr. Chairman, you point out that the system broke in 2008. I want to stress that isn't the system we have now. What we know fails is an implicit Federal guarantee for privately run, profit-oriented institutions.

That is why Fannie and Freddie, when they were run by private enterprise but guaranteed by the taxpayer, led to failure. We have that current situation now with the too big to fail banks.

They are run for private profit. Their executives are focused on stock options and yet there is an implicit Federal guarantee because the very words too big to fail imply that we will not allow them to fail.

Two systems we know do work. One is to keep it as if the Federal Government is not in a certain private sector area, such as technology. That works.

And then in specialized areas where we want to benefit the consumer, where we want to achieve national and especially financial purposes, you may have government agencies. That also works.

So the current system did not break. The system we had in 2008 did and we shouldn't go back to it.

Under your proposal, Mr. Bright, Ginnie Mae acts as a standalone corporation that issues explicit government guarantees to mortgage-backed securities with proper credit enhancements. The first 4 percent of the loss is absorbed by the private sector, as I understand it.

Where did you get the number 4 percent? And more importantly, because I know you had to pick some number, under this proposal will homebuyers be paying more?

Mr. BRIGHT. Thank you, Congressman. So I apologize to taking a caveat, but my day job is incredibly busy right now. I haven't read Ed's and my paper in a little bit of time.

My recollection is that the 4 percent capital that we had proposed was somewhat analogous to what the Basel standards were for banks and so we were looking to try and not create—

Mr. SHERMAN. But more to the point, if we went with your approach would we be paying a few basis points more when we financed our new home?

Mr. BRIGHT. Our analysis, which had Ginnie Mae MBS trading about 1 1/2 to 2 points above Fannie's on par coupons showed that rates would be roughly the same under the proposal, as where they are today.

Mr. SHERMAN. Now, Ginnie Mae has experienced dramatic growth in your MBS issuance. Do you have—and as I understand it you are charging a fee so money is coming in, but that money goes to Treasury. You can't spend it on salaries.

Mr. BRIGHT. That is correct.

Mr. SHERMAN. So you are doing a lot more. Do you need more appropriations, at least to appropriate back to you the fees you are charging? Or do you think that there is no risk in spending $23 million in salaries with a half trillion portfolio?

Mr. BRIGHT. A $2 trillion portfolio, not to answer your point—

Mr. SHERMAN. Oh.

Mr. BRIGHT. —But—

Mr. SHERMAN. Oh, wait. That was—no, excuse me, not portfolio, half a trillion dollars issuance in 2016.

Mr. BRIGHT. That is correct. That is—yes.

Mr. SHERMAN. Portfolio of 2016.

Mr. BRIGHT. That is right.

Mr. SHERMAN. Yes.

Mr. BRIGHT. Well, so I don't know of any head of an agency that wouldn't say that they would like both more money and more flexibility in how they spend their money. So that is just a baseline.

Because there are a couple of caveats to that. The first is that we do actually have a reasonable degree of autonomy in—actually quite a bit of autonomy in the terms of how much we spend on contractor resources.

So our fees come from two sources. There is a six basis point ongoing guarantee fee so that is in rate. And then there is the 10 basis point upfront commitment fee that our lenders pay.

Mr. SHERMAN. So you are in a position where you can't have employees but you can have contractors. Does that bias you toward using contractors rather than employees?

Mr. BRIGHT. It does have that effect.

Mr. SHERMAN. OK. And then finally I do want to sneak in, since you have the small originators who want to maintain that personal relationship with the borrower, is it wise to require them to sell their servicing fees? That is a point I brought up toward the end of my—

Mr. BRIGHT. No. We want servicers who originate, service, and have responsibility for that loan all the way through in relationship with the customer. That is the best position for Ginnie.

Mr. SHERMAN. OK. So originators are not required to sell their servicing, right?

Mr. BRIGHT. Oh, no, definitely. Definitely not, no.

Mr. SHERMAN. Thank you.

Chairman DUFFY. The gentleman's time has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Trott, for 5 minutes.

Mr. TROTT. I thank the Chairman.

And I thank you, Mr. Bright, for your time this morning. And I think your proposal and your solution regarding housing finance reform is attractive in part because of its simplicity. So I would like us to spend more time considering it.

But one aspect of the solution that is a reality is that it is hard for us to get things done. And so given the political realities, another simple solution that I have been advocating for is just to get the Federal Government out of the refi business, and don't really see any reason why Fannie and Freddie and FHA should be involved in refinancing loans.

If someone has a mortgage and they are paying and it is a performing loan and they want to get a lower interest rate, they are enjoying the dream of home ownership and the government doesn't need to have a role in that. What are your thoughts on that statement and that solution?

Mr. BRIGHT. Well, I haven't thought about that a lot in my current role. I think I hear you. I understand entirely the case that you are making. I suppose, and I am thinking off the top here, I suppose the middle ground, if that, to consider would potentially be cash out refinancing.

That might be something where you say why is the government incentivizing the removal of equity from someone's house? That would probably be where I would consider starting. But, no, and I understand what you are saying.

Mr. TROTT. But let us assume it is not a cash out refi. It is just a straight up refi for a lower interest rate. Do you think FHA has a role in that? Is that something you think FHA and similarly, along the same lines, do you think the private sector would be interested in security that had just refis in it?

Mr. BRIGHT. Well, so I do think that certainly there is bank capacity to do more lending and would like to see more of that happen. I think it is better if we could figure out what barriers there are to having banks make loans and hold them on their balance sheet.

That is something I think you all have been working on. And I applaud that work and encourage you to continue doing that. It is better for everybody.

The reason I think I distinguish between the cash out refinance and the refinance is that because if there isn't, let us say, a bank take out for a loan, if you are in an FHA loan and rate, you are paying 6 percent and you are paying on time and you refinance 3 or 4 percent, the likelihood of your default actually has gone down because your monthly payment has gone down.

That changes if you take cash out. So that is where I would start to think about potentially a distinguishing factor from where I sit now, which is just to look at the risk in the system.

Mr. TROTT. Well, but again, yes, I appreciate what you said and I agree with everything you just said, but again, if you start with the goal of reducing the footprint of the Federal Government in housing finance, a simple solution would be just to get them out of the refi business.

Two-thirds of Fannie and Freddie's portfolio is refi or refis. And if you look at the FHA program and allowing first time homebuyers to realize the dream of home ownership, that is not a refi.

That has already been taken care of and now the only argument I have heard that really resonates is in discussing this with my friend from Massachusetts, who is not here, he strongly opposed that suggestion of taking the GSEs and FHA out of the refi business.

I can make an argument for our veterans that maybe we don't go there, but his argument was basically you look at someone who is a low to moderate income family and that refi is their solution to how to make ends meet.

And so the counterargument to that point is basically, and this is my question, perhaps you can speculate on what the impact on rates would be if the proposal I have outlined came to fruition?

Mr. BRIGHT. That you could not refinance?

Mr. TROTT. Right, if you go to the private sector for a refi, what do you think they—

Mr. BRIGHT. Well, if you couldn't do that I would say MSR (mortgage servicing right) values would certainly go up quite a bit because the repayment risk is the biggest challenge in MSR valuations. So that would certainly have a very large economic impact.

What may be, since I haven't thought about this I could get back to you, maybe we have this conversation and I would be happy to give it a little bit more thought—

Mr. TROTT. All right. Well—

Mr. BRIGHT. —On the numbers on it and I hear your point for sure.

Mr. TROTT. And I am out of time here, but again, if the impact on the refi rate is *de minimis* then my friend from Massachusetts' argument is not compelling either.

And with that I will yield back, but I sure appreciate your time and insight because I have great respect for your knowledge. Thank you.

Mr. BRIGHT. Thank you.

Chairman DUFFY. Now, the gentleman yields back.

The Chair now recognizes the gentleman from Texas, Mr. Gonzalez, for 5 minutes.

Mr. GONZALEZ. I pass my time.

Chairman DUFFY. The gentleman passes.

The Chair now recognizes the gentleman from New Jersey—or no, from Illinois, Mr. Hultgren, for 5 minutes.

Mr. HULTGREN. Thank you, Chairman.

Thank you so much Mr. Bright for being with us today. Your testimony, you mention that Ginnie Mae does not have many tools or dials it can turn to determine how big we are. I wonder do you have any immediate concerns about the recent or expected growth of Ginnie Mae? If you could talk about that a little bit?

And then what tools are there? You said there aren't many, but what tools are available to control its size and overall risk exposure? And then do you believe any other tools are necessary to protect the longevity of the Ginnie Mae model, and do these require action by Congress?

Mr. BRIGHT. Yes, thank you for the question. The growth number itself isn't, on its own, concerning, per se. I think you want to understand why it is growing and what you are doing about it.

So there is no doubt that there is a confluence of factors taking place at Ginnie where we have had this growth and we have had a shift in our issuer base at the same time.

A lot of this occurred before I came here, but I will commend the Ginnie Mae staff. We have an incredible group of senior managers at Ginnie who have really instituted a series of sophisticated risk management tools.

We have something called Corporate Watch, which brings in all kinds of data about our issuers. We kick the tires on these issuers all the time. They have instituted a liquidity rule which was not without controversy or kicking and screaming or whatnot when it happened.

We are looking at additional sets of liquidity requirements that, in tailoring the liquidity requirements, and we have a list of additional issuer risks that we are making part of our 2020 proposal.

So we are very aware that with greater size comes greater risk, especially when your issuer base is shifting.

Mechanically speaking, our systems are volume agnostic and so they can do 20 million borrowers or they can do 20,000 borrowers and it is the same process.

So it is not on its own a risk. What we really need to do more work on, and I think where we are going to focus a lot of our energy over the next few years, is do our issuers have access to the liquidity that they need so that if there is a hiccup they can continue to make payments?

And how good is the collateral that Ginnie Mae has, because our collateral as the MSR as an asset so that if an issuer fails to live up to their obligations or worst case scenario miss a payment, we go and we take that MSR and that asset has value. So it is a strip of 35 basis points of I.O. for some number of years and they just got a net present value even if there are high delinquencies.

And we go to another lender and say would you take this book? And often you can sell it to the highest bidder. Sometimes the value is zero and so you just transfer it. And worst case scenario that is what our reserve account is for at Treasury. We can transfer book with a check.

So what we really need to do is, regardless of the size, we need to know what the value of that MSR is, how it is being divided, how it is being serviced, the operational capacities of the servicers that are doing it, and what we would do with it in the event of an issuer default. And that is really where our energy is.

It is not so much volume as it is quality of your counterparty that matters.

Mr. HULTGREN. Yes. Well, I think if I can dig into that a little more? You touched on it, but I wonder if you could discuss that reserve account that Ginnie Mae keeps at the Treasury Department?

How is the size of that account determined? Do you believe the $20 billion in the account right now is sufficient and do you believe that $20 billion would still be sufficient if we encountered a housing crisis or an economic downturn like the one that we saw 10 years ago?

Mr. BRIGHT. So all that happens is the six basis points that we collect on an ongoing basis on guarantee fees produces about—right now it produces between $1 billion and $2 billion a year. It certainly produced less when Ginnie was smaller.

That money just goes directly to the account. It is just there and it builds up, and so it is currently sitting at about $19.5, I think, billion.

It is a misleadingly small number in the sense that the only thing that that money is there for would be to augment the value of a book if we needed to transfer it.

So it is like if a bank went insolvent, the FDIC doesn't buy the bank for the total value of the assets of the bank. The FDIC transfers that bank which has some amount of value, and if the value is negative it has to dip into its DIF to do it. There are a lot of analogies with the Ginnie Mae fund.

I don't see any situations where there would be anything like $20 billion needed to transfer a 35 or 40 basis point thick MSR strip. I will caution that in 2007 no one saw any situations where housing prices would decline nationally either.

So I am very professionally and personally aware that just because it has never happened doesn't mean it can't ever happen. We try and look at every downside conceivable risk possible, even ones that we don't have empirical evidence have happened recently in the past.

Mr. HULTGREN. I have a few more questions. My time has expired. I may follow up in writing if that is all right?

Mr. BRIGHT. Yes, of course. Yes.

Mr. HULTGREN. With that I yield back. Thanks, Chairman.

Chairman DUFFY. The Chair now recognizes the gentlelady from Ohio, Mrs. Beatty, for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman and thank you Ranking Member.

And thank you to our solo witness here, Mr. Bright. And let me just tell you I have been watching you from our cloakroom and you are doing a great job. So we appreciate your service and all of the information that you have provided.

As we know in November 2016 under the leadership of the former director, Richard Cordray, of the Consumer Financial Protection Bureau, that there was a report on servicemembers' complaints. And in that report it highlighted approximately 1,800 servicemembers' mortgage complaints concerning refinancing through the V.A.'s housing program.

As you know, Ginnie Mae guarantees the MBS for these programs. Specifically, many of these complaints concerned aggressive solicitation, misleading advertisement, and failed promises to the lenders.

In your written testimony, you recognized the rapid refinance and loan churning occurring with the V.A. refinances created downward pressures on Ginnie Mae securities, ultimately harming veterans by increasing borrowing cost.

I was encouraged to see that Ginnie Mae and the V.A. announced a joint task force just last month to address these issues. I would like to ask you to keep this committee informed on your progress and inform us of any legislative reform needed to stamp out this abusive and predatory behavior.

In my district, 3rd Congressional District of Ohio, just last week I had an opportunity to participate in a field hearing with Senator Sherrod Brown from Ohio, and it was with veterans.

And of course one of the things—that we heard was what happens to them in the whole industry of housing in coming back home, trying to relocate, trying to get a house financed.

And we heard some very compelling stories that weren't good about how they were treated. So I have been a huge advocate with legislation on housing, financial literacy with veterans.

So one of the things I would like you to do is to tell us how we can do a better job or what are some of the things how you would respond to this criticism?

Mr. BRIGHT. Well, thank you very much for bringing up the issue and the question. It is definitely a bad problem. It is a situation that needs attention from Ginnie, from the V.A., and from Congress.

And some of your colleagues in the Senate have reached out and want to address this issue, and we very much appreciate any help that we can get, both, moral suasion, public pressure on lending institutions, all of the above legislation if it is deemed necessary.

So this is a long conversation—and what would be great is if we could sit down and I would love to talk to you about some ideas. But basically Ginnie Mae can control the access to Ginnie Mae MBS and we are going to be—I don't want to promise before Christmas, but I am pretty confident that this is going to happen.

We are going to be announcing a series of steps that limit the ability for lenders to access the Ginnie Mae security if they are shown to clearly be churning loans. There is no justifiable reason with interest rates not dropping that we would have pools of loans that would pre-pay in 5 months.

There is no economic explanation for that. There is gaming of the system that is taking place on the part of the lender. And that kind of stuff needs to stop.

It does have the effect of making MBS investors less willing to buy Ginnie MBS, which lowers the price, which increases the interest rates for veterans, V.A., and USDA borrowers.

Mrs. BEATTY. Let me reclaim my time because we only have a few seconds. One of the biggest criticisms of the Bright-DeMarco GSE reform proposal is that it could disadvantage small banks and community banks and credit unions, which I have a lot of in my district.

How would you respond to that in that proposal?

Mr. BRIGHT. Well, I would certainly want everybody to hear their concerns and I make sure that there is nothing that was missed in the paper. And if there was, then address it.

There were a few features, too, that I think should have been community bank friendly. The first is that, like I said in the Ginnie Mae program, we have 450 issuers. Most of them are small and they get the value add of every month every single loan gets in the same CUSIP.

So you don't need to produce large volume in order to get access to the security that is highly liquid. You just need to be approved to be in the program, whereas when you have GSEs there is a difference in terms of the way pricing can be, some treatment can be done, terms and conditions can be done. Ours are flat for every lender.

And then a feature of that paper that I recall, I think we suggested that new Fannie and new Freddie or whatever you want to call them, would have to have cash windows for small lenders and that they would be issuers of the Ginnie Mae security on behalf of those loans.

And I think that was part of the idea there was to help address those concerns. But certainly it is a paper. It was 25 pages and it goes into a multi-hundred page piece of legislation. There would be more amendments, but glad to work with you on that as well.

Mrs. BEATTY. Thank you, and my time is extinct.

Chairman DUFFY. The gentlelady's time has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. MacArthur, for 5 minutes.

Mr. MACARTHUR. Well, thank you, Chairman.

I am most interested not so much in reducing government involvement but in the nature of government involvement in the housing sector. And I, like others, I have read your paper and I hear you loud and clear that you are not looking to put a bill number on your paper and turn it into law today. I hear that.

But one of the concepts that you flesh out that I think is pretty helpful is that you have a private primary market, like you do today. You have a mutualized secondary market that is also controlled by the banking sector. That alone would be different from what we have today.

And then you have what I would call a government reinsurance model, not unlike what Ginnie does maybe the mechanisms are different, but that would apply across the entire platform of Ginnie, Freddie, Fannie. Is that fairly stated?

Mr. BRIGHT. Yes, that is correct.

Mr. MACARTHUR. So I am most interested today in the third part, and I just would like to talk about, I guess, the moral hazard issue. One of the concerns I think I have and certainly I think the Nation should have is we don't create a system where bad actors can write bad loans, make money today and others can pay the cost of those bad loans tomorrow and they are long gone.

And so I wanted to hear your thoughts on how would a government backstop potentially function, a reinsurance model, however it is structured, how would we do that in a way that mitigates that moral hazard, that doesn't allow people to not pay for their own errors?

Mr. BRIGHT. So recognizing that it is the mortgage market and so I understand that market is almost in quotations sometimes in this industry for a lot of reasons. But within the context of what we have, the best, I think, attempts to eliminate moral hazard would be twofold.

The first would be the explicit guarantee needs to do two things. It needs to have some regulatory and policing authority, and it needs to be run well.

And I can't promise that an agency will always have good policing and be run well, but whatever controls and processes and boards and governance structure we could come up with to help ensure that there are policing mechanisms so that you have the ability to take bad actors or people who don't look like they are in it for the long haul out of the game, that would be one thing.

The second thing is that this guarantee it does have this feature of actually serving as a traffic director between any reform system between the interest rate investor and the credit investor.

So you would need both investors and you want both investors to be in the system. And, in some sense, if properly structured the guarantee is just splitting who is who.

And so the interest rate investors are worried about prepayment risk and bringing capital there, but you still would want credit investors who are on the hook for the losses of the loans that are made.

And I think most of the reform proposals that have been out there have this idea that there would be folks investing in credit risk and there would be folks investing in interest rate risk and they could be the same but they don't necessarily have to be the same.

It is just making sure that there is enough there, there is enough of them, that they have enough skin in the game, that the capital is sufficient and that there is punishment for when you make bad mistakes. And that is the problem of taking that out.

Mr. MACARTHUR. Well, I think that is the critical point. And I agree there has to be a regulatory framework but fraud by its nature is hidden until it is not.

Mr. BRIGHT. Yes.

Mr. MACARTHUR. And the fraud will always overcome regulatory frameworks because there are always going to be some people that find a way to hide it until they get caught.

So I think you have to have—and in the business I came out of, insurance, we would have attachment points that always left the one who wrote the business on the hook up to some meaningful level.

Enough of a level to drive them out of business if they made real mistakes. And I think that is the key here—

Mr. BRIGHT. Yes.

Mr. MACARTHUR. —Is the attachment points either on a per risk basis or on an aggregated basis, however it is defined, they have to attach at a high enough level that all of the market participants at the primary level, the lending level, at the secondary level, they all have to be primarily responsible, it seems to me.

And the third part, the reinsurance part, is really just meant to protect our economy from a meltdown, like we had in 2008. Thanks very much. I look forward to exploring it more with you.

And I yield back.

Mr. BRIGHT. Absolutely, thank you.

Chairman DUFFY. The gentleman yields back.

The Chair now recognizes the gentleman from Missouri, Mr. Clay, for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman.

And thank you Mr. Bright for being here. Ginnie Mae's guarantee fee is capped in statute. Should Congress be considering legislation to raise or eliminate the cap? What would that do to—

Mr. BRIGHT. If Congress eliminated the cap and gave Ginnie Mae the authority to operate a little bit more like other regulators where we could set the price and use those funds for risk management, Ginnie Mae would likely have the effect of being an even more sophisticated risk management operation than it is now.

Mr. CLAY. I see. Let us shift to another subject. I am looking at the intersection of housing and student loan debt. That is a barrier to a lot of young Americans who are strapped with student loan debt.

Was wondering would Ginnie Mae have any interest in backing mortgages that, say—and it has been tried on a small scale in the country as far as folding student loans into 30-year mortgages. Would you all have any interest in that?

Mr. BRIGHT. Well, I have not—

Mr. CLAY. Are you familiar with that concept?

Mr. BRIGHT. Yes. I would say this. Student loans are not my personal forte. I have heard—

—The idea of explicit backing on ABS (asset-backed security) being something that folks have talked about. And if that were to be the case we would be glad to explain to you the mechanisms for how our backstop works and whether it can be applied to ABS.

I would make the point that an explicit guarantee fundamentally changes the way the market views an asset class. It changes everything.

And so I would be very happy to help explain to you the way it shifts the way global investors look at an asset class and the way that that has downstream effects to the economy.

It doesn't just have the effect of lowering rates. It is a fundamental shift and in how goods and services are allocated inside of an economy. So we would want to talk through all of that.

Mr. CLAY. Yes. Perhaps we can have that conversation offline someday.

Mr. BRIGHT. Yes, sir, any time.

Mr. CLAY. One more question, the PATH Act would reduce the FHA's guarantee from 100 percent to 50 percent. The CBO has reported that this would seriously impair the value and liquidity of Ginnie Mae securities. Can you elaborate on how this would detrimentally impact Ginnie Mae?

Mr. BRIGHT. Well, let us see. I guess I am not—

Mr. CLAY. Are you—

Mr. BRIGHT. —I wouldn't—yes. It has been a while, but it is worth noting that in the V.A. loan program the guarantee is only 25 percent.

So FHA guarantee is 100 percent of the loan. The V.A. loan program is 25 percent of the loan. And in Ginnie Mae securities right now about 40 percent of our loans are V.A.-backed. They are all fungible. They all are blended. When you buy an MBS you get some V.A., some USDA, some FHA. And the V.A. loans do have a cap at 25 percent.

I will also say that Ginnie Mae knows that this presents additional risk to Ginnie—

Mr. CLAY. Yes.

Mr. BRIGHT. —Because if there were—for example, we were looking at this in Texas. If you have an issue where that is V.A. concentrated and we have a lot of issuers that are V.A. only, and they are concentrated in one area that gets particularly hit, that guarantee goes away after the top 25 percent of loss.

And so the likelihood of an issuer insolvency is greater. So we do a program that does pose additional risk.

Mr. CLAY. I see. All right. Well, thank you very much—

Mr. BRIGHT. Yes, Congressman.

Mr. CLAY. —For your response.

Mr. Chairman, I yield back.

Chairman DUFFY. The gentleman yields back.

The Chair now recognizes the gentleman from California, Mr. Royce, for 5 minutes.

Mr. ROYCE. Thank you, Chairman, very much. Appreciate it.

This discussion that we are having here on reshaping Fannie and Freddie and that we also hear this talk about reshaping them into utilities. And that given history is concerning in that obviously we had a moral hazard problem there.

Wouldn't that approach simply bless the entities then as too big to fail? And wouldn't it also crowd out private capital thus making it a lot harder also to price risk?

Mr. BRIGHT. Well, I would definitely say that, yes, it does depend on—some of the proposals I do think would probably not eliminate implied guarantees because the enterprises—it would still perform a lot of the functions that they do now.

And so in the Ginnie model we have issuer and master servicer and credit risk taker and they are separate. They are disaggregated functions.

If those functions are all with one entity, the likelihood of being able to resolve that entity is substantially more difficult, so yes.

Mr. ROYCE. And as an alternative approach, some have been critical of the idea of Ginnie Mae playing a larger role in housing finance, as you know. But that is the other direction to go here. The two concerns that we have heard are, first, because Ginnie is within HUD it doesn't have the capacity to play a bigger role.

The second argument you hear is that the False Claims Act comes into effect, so banks' potential legal liability therefore is in play. How would you respond to those concerns?

Mr. BRIGHT. Yes. It is interesting because when I came to Ginnie I had heard some folks say, well, we don't like the Ginnie model.

And so one of the things we did was say, well, we want to run this agency well and we want to be a good counterparty. We want to have a good counterparty so let us figure out what it is folks don't like about it.

When you start to peel the onion back a lot of the concerns were really FHA-related concerns. And so the False Claims Act are really FHA-related, technology upgrades turned out to actually be FHA-related.

And so there are some things that Ginnie needs to do in technology modernization, like every institution. And we are doing them. And I think we are right where we need to be on that. But, some of the initial concerns were really more FHA than Ginnie.

Mr. ROYCE. But you think you have the capacity to handle it?

Mr. BRIGHT. Yes. I think it would be nice to be able to—I would like to talk to you if we are going to do that about S sellers and expenses and whether appropriated or we can set those ourselves and all that kind of stuff. That would be—

Mr. ROYCE. OK.

Mr. BRIGHT. —Part of the conversation. But certainly technologically there is no impediment to it whatsoever.

Mr. ROYCE. Well, let me ask you a 3-part question here. Do you think that credit risk transfers at the GSEs is bringing more private capital into play? Would be the first question I would ask you.

Mr. BRIGHT. Yes.

Mr. ROYCE. All right. Do Ginnie, Fannie, and Freddie have the legal authority to do more, including increasing the front end risk sharing?

Mr. BRIGHT. I believe so, yes.

Mr. ROYCE. You think all three? And finally, have you seen the legislation that Gwen Moore and I have introduced that would call on the GSEs to increase the amount and the type of credit risk transfer transactions to the maximum level that is economically and commercially viable?

Mr. BRIGHT. Yes, I am familiar with it.

Mr. ROYCE. And do you support that legislation?

Mr. BRIGHT. I think credit risk transfer is the biggest success story in the secondary mortgage market over the last 5 years. And so anything that you can do to lock in those gains I think would be smart.

Mr. ROYCE. Now, let me ask you on the topic of common securitization platform, as we look at potential reforms, is a bigger role for the CSP and the Ginnie mutually exclusive, I would ask you? Or can these two working in tandem?

Mr. BRIGHT. They can absolutely work in tandem. They are not—

Mr. ROYCE. Explain how you would do that.

Mr. BRIGHT. That is right. I have 39 seconds. So the CSP—there was a vision for what it was going to be in 2012, and I am very familiar with the vision because I had the pleasure of working next to Ed DeMarco for over a year.

I don't even think FHFA, they say that that vision is not really what it is right now, and that was intentional. So it has evolved into being a bond administration platform for use by Fannie and Freddie. So that is not a CSP. That is a dual bond administration platform.

We use Bank of New York Mellon for government insured loans as our bond administration platform. It would be very operationally not difficult to say we will have a Ginnie II that is bond administered by BNY and a Ginnie III that is bond administered by CSS (common securitization solutions) and that exists for a little while, but they are both full faith and credit, no problem.

Then the next step would be how do we blend them? And to blend them you would align day count conventions so that everybody pays on the same date.

You would align disclosures so that everybody gets the same disclosures. And you would pick one of the two bond administration platforms, and that could be a decision that would make sense to do 5, 10 years down the road because CSS is barely even—it is brand new.

Mr. ROYCE. And you would have a lot more room for private capital to go back in. Thank you, Mr. Bright.

Thank you, Chairman.

Chairman DUFFY. The gentleman yields back.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus, for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Mr. Bright, the 2014 Ginnie Mae paper, "An Era of Transformation," described the changing mortgage lending and servicing market and its implications for the corporation.

The author wrote, quote, "The retreat of commercial banks from mortgage lending and servicing and the replacement of this capacity by non-depository institutions with more complex financial and operational structures, represents a significantly different operating environment than that for which the program was originally designed."

Mr. BRIGHT. Yes.

Mr. ROTHFUS. A 2016 research report from Ginnie Mae cautioned that the use of non-bank lenders and servicers were riskier than traditional banks. The author warned of a worst case scenario in which, quote, "a rise in delinquencies could threaten multiple nonbank firms at the same time causing industry-wide panic."

What has Ginnie Mae done to address this shift in the industry?

Mr. BRIGHT. Yes, thank you. I don't agree with everything in that paper as on one level. And number two, for what it is worth, and we will be happy to talk about that; number two, we have taken many, many steps and are going to be taking more to address the concerns that I think are valid.

So the first is that are non-banks riskier? That is not really the right—I don't know that I fundamentally buy the premise. Both banks and non-banks have a servicing strip that is the same size.

And there are some non-banks that are simply more operationally adept at servicing than some banks are because they are legacy free. This is what they do. They are very good at what they do.

And so a balance sheet lending institution is not a panacea to risk. And we should not treat a large balance sheet as a panacea to risk. So I think that the entrance of non-banks can actually be good if we get it right.

The second step is risk management of those institutions. And so Ginnie has put in place a liquidity requirement, which is quite substantial in terms of the amount of liquidity that the issuer needs vis-a-vis the size of their balance sheet. And that is a very important step in preventing any sort of liquidity run where Ginnie Mae would face risk.

And then the third step, and this is one that I think has a lot of excitement and ongoing promise, and we are working on it next year, is that there are a lot of large money center institutions or large asset managers that have an interest in financing or in having the economics of the MSR, but they don't want to be in the operational business of servicing delinquent loans, which is fine.

And then there are a lot of non-bank servicers that want to be in the high touch business of servicing delinquent loans, nonperforming loans, but they don't have large balance sheets.

And so we are looking at marrying these two investor classes in some structures so that we can have lots of capital standing behind the operational efficiencies at a non-bank servicer.

We have taken some steps and we are releasing something called an acknowledgment agreement which allows issuers to take their MSR and get financing on it.

That is a first step. There are improvements that we are going to make to it, but it is interesting. I actually have a line of large asset managers and money center institutions out the door that want to be in the business but they don't want to be in the operations business. And so we are kind of working to blend the two.

Mr. ROTHFUS. How would you respond to the HUD OIG report from September 2017 saying that Ginnie Mae did not respond adequately to the changes in its issuer base?

Mr. BRIGHT. I think that is a little unfair. I think that is the—

Mr. ROTHFUS. The I.G. was unfair?

Mr. BRIGHT. I am sorry?

Mr. ROTHFUS. The I.G. was unfair?

Mr. BRIGHT. I think so. I think that Ginnie Mae is—it is important to remember we are a taker of volume from V.A. and FHA, so there is some amount that we do not actually control.

We can police the program but we can't set G fees. Ginnie Mae can set entry requirements for the program, but they need to be universally applied, right. You can't be arbitrary and capricious on that.

So there is some level of unfairness in the report, but that doesn't mean that I don't think Ginnie should have waived in everybody that it did.

And so we do have a lot of issuers right now who came in the time period between 2013 and 2016 and Ginnie spent a lot of time and a lot of money going through the application and through the process and the issuer was all hot on being an MSR owner and it was a big interest rate trade and they thought it was the trade of the day.

And then, oh, they get in and realize that it is actually really hard work and dirty work and operational work and so they are not so interested in it and now they have a legacy runoff book that just sits there. In hindsight probably some of those issuers shouldn't have been allowed in the program.

And so going forward when we look at allowing issuers into the program you really ought to be someone who is committed to being a servicer committed to the long-term business of being a mortgage servicer, not just servicing I.O.s, the hot trade of the day and so we are going to go be a Ginnie issuer.

And I do think some of that took place and those concerns are probably accurate and valid.

Mr. ROTHFUS. Thank you.

I yield back.

Chairman DUFFY. The gentleman yields back.

That concludes our questions today. Mr. Bright, thank you for your testimony and your insight. The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record, which we then forward to you, Mr. Bright. We would ask that you respond as promptly as possible.

Mr. BRIGHT. Yes.

Chairman DUFFY. Again, I want to thank you for taking your time and providing your insight to this committee, and we look forward to continually working with you—

Mr. BRIGHT. Same.

Chairman DUFFY. —As we go through this process.

Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

With that, and without objection, this hearing is adjourned.

[Whereupon, at 11:23 a.m., the subcommittee was adjourned.]

A P P E N D I X

November 29, 2017

Written Testimony
Michael R. Bright, Executive Vice President and Chief Operating Officer
Government National Mortgage Association
before the
Committee on Financial Services
Subcommittee on Housing and Insurance
November 29, 2017

Introduction

Chairman Duffy, Ranking Member Cleaver, and Members of the Subcommittee, thank you for inviting me to appear today to discuss the Government National Mortgage Association, also known as Ginnie Mae.

What Ginnie Mae Does

Ginnie Mae was established in 1968, and issued the first mortgage-backed security (MBS) in 1970. The mission of Ginnie Mae is to bring global capital into the U.S. housing market while minimizing risk to the American taxpayer. Our MBS program provides access to global capital for our issuers and supports the federal mortgage insurance programs – currently that is loans backed by the FHA, USDA, and the VA. Ginnie Mae provides a government backstop on qualifying MBS to protect against losses in catastrophic situations, and our securities are the only MBS to carry the explicit full faith and credit guaranty of the U.S. government.

The easiest way to understand Ginnie Mae's mission is that we oversee a process for ensuring the success of the government's MBS guarantee, often referred to as the government's "wrap". Specifically, Ginnie Mae manages technology and infrastructure designed to track the payment of principal and interest, coming from borrowers and going through lenders, making sure it ultimately gets into our common security on time and in full every single month. This is what a government guarantee means – an agency such as Ginnie Mae has the authority and the mandate to ensure the timely payment of principal and interest, and has regulatory authority over the process.

For nearly 50 years, Ginnie Mae has provided liquidity and stability through all market cycles, serving as the principal financing arm for government-insured loans and ensuring that mortgage lenders at all times have funds to provide loans to consumers.

Ginnie Mae's simple, effective business model shows how an agency working inside of a clearly defined lane with a clearly defined mission can be successful. Ginnie Mae charges program participants guaranty and other programs fees. The revenue we collect, net of operating expenses, sits in an account at Treasury and can be drawn upon in the event of issuer default. Today we have nearly $20 billion in this account, which demonstrates our financial strength and low risk profile.

The design features of the Ginnie Mae model significantly limit the taxpayer exposure to risk associated with secondary market transactions. Importantly, we are different than the GSEs in that rather than acquiring, holding and managing credit risk and interest-rate risk, in Ginnie Mae's business model almost all risk is disaggregated to other market participants, including private entities who act as issuers of our securities. Ginnie Mae's federal backstop of MBS greatly increases liquidity and lowers rates for borrowers, but it also places taxpayers at a remote risk of loss.

The responsibility for protecting taxpayers against loss is a mandate that I take very seriously. In our current design, Ginnie Mae is in the fourth loss position, protected by the equity of the borrower, mortgage insurance, and the financial resources of our issuers, including their retained servicing fees. Only when all three of the preceding layers of risk protection are exhausted or fail is the Ginnie Mae program exposed to loss. Because private lending institutions originate eligible loans, pool them into securities and issue Ginnie Mae MBS, Ginnie Mae's exposure to risk is limited to the ability and capacity of its MBS issuers to fulfill their obligations to pay investors.

This is a very important point and something that distinguishes the Ginnie Mae model from the GSE model, and from some of the so-called "utility" model proposals. In our program, issuance and master servicing functions reside with private lenders. That means, servicing remains with the loan originators, who therefore have some stake in the performance of their loans. And by guaranteeing the MBS, not the underlying issuing entity, Ginnie Mae's exposure is explicit, remote and paid for.

Additionally, the failure of an issuer in our program would cause Ginnie Mae to experience financial loss only to the extent that funds are needed to transfer the servicing to another issuer or that servicing income is insufficient to cover future credit losses and operational costs. Ginnie Mae monitors the delinquencies in issuer servicing portfolios in an efficient and effective manner to mitigate the potential losses associated with any issuer default.

The responsibilities of administering an explicit government guarantee are significant, and I know they are not taken lightly by policy-makers. Ginnie Mae's guarantee program only works if our program is well managed. A government wrap must be properly designed and administered if it is to succeed at the dual missions of providing liquidity while protecting taxpayers. At Ginnie Mae we take administration oversight of our program incredibly seriously. And no matter how our country's housing finance system evolves or is changed by policy-makers, the roles and responsibilities of administering a government wrap should be fully understood. Ginnie Mae is very glad to lend its expertise to this discussion.

Housing Crisis Through Today

Ginnie Mae's role in America's housing finance ecosystem has changed quite a bit over the past decade. This shift began in 2008, as the housing crisis unfolded, and as banks pulled back from the market to reduce exposure to real estate. The financial crisis also saw the evaporation of the private-label securitization (PLS) market, which led to an increase in demand for FHA and VA insured, and Ginnie Mae backed loans.

Pre-crisis, smaller nonbanks originated loans and largely sold them to bank aggregators who were Ginnie Mae approved issuers. Prior to 2008, Ginnie Mae typically faced only a few, often large, money-center counterparties. But post crisis, with bank aggregators exiting the market, non-depository mortgage companies without legacy books of delinquent loans began to enter the mortgage lending space. In response, Ginnie Mae worked directly with these lenders to become Ginnie Mae issuers, helping restore liquidity to the primary market during a time of significant disruption.

At the same time, as banks were reducing mortgage credit risk exposure during the housing crisis, the GSEs did so as well by tightening their underwriting requirements, limiting mortgage access for borrowers without stellar credit. With the retrenchment in private market and GSE mortgage lending, FHA and VA became a primary outlet for many borrowers to get access to home loans. The efforts of Ginnie Mae to enable issuer access to capital, combined with the countercyclical response of federal mortgage insurance, helped support the housing market during a period of severe stress and played a role in the housing recovery. As a result of the corresponding growth of FHA and VA insured mortgages, Ginnie Mae's total outstanding MBS has grown from $400B to just under $2 trillion today. Last year we passed Freddie Mac to become the second largest MBS platform in the world.

Growth and Risk Management

Of course, growth comes with responsibilities. In order to manage the risks associated with this growth, Ginnie Mae has taken some steps to help ensure we have a strong handle on the risks we face. Included in these are the following: the development of a subledger database capable of handling loan level accounting on millions of troubled loans, the creation of issuer scorecards which rank lenders against their peers in a variety of risk categories, the development of minimum liquidity requirements to ensure that our issuers have sufficient cash on hand to weather an economic downturn, the development of in-house risk models used to police our issuer base, a series of guideline changes to clarify program rules, among other steps. We are currently evaluating ways to enhance these risk management techniques and we expect further meaningful adjustments.

Ginnie Mae is proud that it has been able to expand to meet such a rapidly changing market environment. But it is important to note that while Ginnie Mae has many tools to police its program, we do not have very many tools or dials we can turn to determine how big we are. Generally speaking, other market participants decide this through the growth of their respective programs. For example, Ginnie Mae does not control FHA pricing, which is an important variable when a lender decides whether to issue a Ginnie MBS. The dearth of a private label securitization market also increases demand for FHA loans, which in turn increases Ginnie Mae's size. We also do not control the number of veterans returning from service who chose to buy a home with a VA-insured loan.

Our statute mandates that we provide liquidity to these programs while protecting taxpayers from loss. But it is worth noting that we cannot change our guarantee fees ("g'fees"). Ginnie Mae's g'fees were capped in statute by Congress in 1987. Likely, if we had statutory authority to adjust g'fees slightly, we would consider small adjustments. In the meantime, however, we continue to develop and enhance a robust issuer risk management program, which evolves and improves as market conditions warrant.

Staffing and Outsourcing Model

Ginnie Mae was designed to have a small core staff, with support from contactors to address market shifts that produce increased workload and operational needs. Today, Ginnie Mae has approximately 150 highly professional and experienced employees supported by contractors. By design, Ginnie Mae's organizational structure leverages a nucleus of senior professional staff, supported by contract staff focused on technology and operations. The majority or our contractors are in our securities operations area running the bond administration function of our platform, which includes data dissemination to the MBS investor community and the transfer of funds to investor accounts. We also leverage subservicers to handle the operational work of servicing the small number of loans that sit on Ginnie Mae's balance sheet. Ginnie Mae's staff oversee these functions and ensure their day-to-day success.

The design of Ginnie Mae's organizational and business model has enabled Ginnie Mae to quickly respond to market demands, and it allows us to scale to address growing or shrinking markets. In addition, our technology platforms are specifically designed to be volume agnostic. They can run hundreds of loans, thousands of loans, or millions of loans leveraging the same process.

In the future, Ginnie Mae will continue to evaluate resource needs and make cost-benefit decisions on whether to insource or outsource any operational functions at the best value for the government as we continue to modernize our technology and platform operations.

Planning for the future

Ginnie Mae is currently engaged in long range planning for the future. We are calling this initiative "Ginnie Mae 2020" and it is the next stage in strategic modernization for Ginnie Mae and our securitization platform. As the name refers, we are targeting implementation of these initiatives by the end of 2020. While we will be officially unveiling the details of this effort early next year, noteworthy initiatives we can highlight include the following:

- Modernizing the Ginnie Mae program for managing pool collateral to reflect technological advances and to better align program requirements with risk.
- Providing more flexibility within single pools of securitized loans to allow mortgage servicing rights to be managed more efficiently.
- Streamlining platform access, support services, and program requirements, effectively lowering barriers to participation in the Ginnie Mae MBS program.
- Testing and evaluating new methods for connecting the capital markets to the residential finance industry through the Ginnie Mae platform.

While we have effectively managed our growth since the beginning of the financial crisis, it is now time to look toward the Ginnie Mae of the future. These and other modernization efforts under consideration will ensure we are keeping up with market trends and demands, whether they be from the market or from policy-makers.

Housing Finance Reform

As Secretary Carson said recently in his testimony to this committee, reform to our secondary mortgage market is an important piece of unfinished business from the housing crisis. Reform efforts should be built on shared goals of ensuring a well-functioning housing finance system that provides credit access, and reduces overall taxpayer exposure. It is notable that many of the recent housing finance reform proposals include, in some way, an explicit government guaranty as a catastrophic backstop for some portion of the mortgage market.

If a government backstop, or wrap, of MBS were to be considered by Congress as an important part of housing finance reform, the expertise and experience of Ginnie Mae as an administrator of just such a backstop can likely be helpful. Unlike the GSE's, who have a commercial relationship with the housing finance industry, the administrator of any government wrap will, in all likelihood, look a bit more like a regulatory relationship than a purely commercial one. In short, a government wrap will likely look similar to the model we use at Ginnie, with fair and prudential rules consistently applied across the industry and are subject to government oversight.

A much-discussed aspect of housing finance reform is the creation of a common security and a common securitization platform. Ginnie Mae has been running a common security and a "common securitization platform" for almost 50 years. By "common securitization platform" we mean that we have a platform where hundreds of issuers – currently more than 400 lenders of all sizes – can create and sell a single, common MBS sold into a global market. So long as these issuers meet our program requirements and purchase acceptable credit insurance, they can enjoy the benefits of a single security and a tremendous amount of liquidity.

We have chosen to outsource a piece of our platform - our bond administration functions - to the private sector rather than build the function in-house. We have done this in large part because this bond administration function has existed in the market for more than a century. At Ginnie Mae we currently have this process outsourced to Bank of New York Mellon, or BNY. The functions performed by Common Securitization Solutions, LLC, ("CSS") - the joint venture formed by the GSEs to build its in-house bond administration platform - are almost precisely the same as those which Bank of New York Mellon performs for Ginnie Mae. Bond administration platform alternatives are details that can be addressed in a variety of ways as housing reform moves forward. As that occurs, we are more than happy to work with Congress as it examines and oversees these various technical choices.

Hurricane Recovery

Hurricane(s) Harvey, Irma, and Maria has created an urgent issue for homeowners impacted by the hurricanes. As Ginnie Mae oversees our issuers and works with mortgage servicers, we are working closely with our partners at FHA, VA, and USDA who insure the mortgages. We have recently issued guidance on special assistance for our issuers with portfolios in the hurricane impacted areas. To facilitate the ability of issuers to provide relief to borrowers, we approved accelerated buyout authority, pass through assistance, and other relief measures for issuers with a portfolio concentration in the affected area. While we cannot alter the fundamental requirements for issuers in our program, these adjustments recognize that this confluence of disasters required some extraordinary measures. These measures are intended to aid issuers in render assistance to borrowers more quickly than under standard program guidelines. As disaster recovery efforts continue to progress, we will work closely with our issuers and partners at the state and federal levels to ensure the recovery is as effective as possible, while also maintaining the health of the Ginnie Mae program.

VA Refinance-Loan Churn Issue

Another recent development I would like to address is our efforts to curb VA refinance speeds and address aggressive marketing by some VA approved lenders. Late last year, the rapid refinance and loan churning was recognized as a problem in the VA portfolio. This led to our initial measures to change the Ginnie Mae program rules to address the issue. These initial measures were successful in stopping these practices with many lenders for a short period of time.

Unfortunately, some lenders have actively worked to evade those new rules by changing their tactics to continue questionable lending practices. This created downward pressure on Ginnie Mae securities, which ultimately harm veterans by increasing borrowing costs. As the next step in the process to fully solve this issue, Ginnie Mae and VA have formed the "Joint Ginnie Mae – VA Refinance Loan Task Force" to continue and intensify work on this challenge.

Ginnie Mae's efforts, along with its partners in government, industry, Congress and other stakeholders, seek to fully root out questionable lending practices that harm veterans and harm the Ginnie Mae security, which also notably means harm to FHA and other government backed loan program borrowers.

The task force will focus on examining critical issues, important data and lender behaviors related to refinancing loans and will determine what program and policy changes should be made by the agencies to ensure these loans do not pose an undue risk or burden to veterans or the American taxpayer.

The task force has already begun its work by examining data and information on the net tangible benefit to Veteran-borrowers, and the time needed to recoup fees following refinancing loans. In our view, changes need to be made to the requirements for what constitute an acceptable refinance loan - that is, a refinance that benefits the veteran. Other changes will include more stringent requirements on the number of payments needed before a refinance is permissible for delivery into a Ginnie Mae MBS, clearer standards for what constitutes a "premium loan" and therefore can only be issued into a so-called "custom pool," and joint discussions with individual lenders whose origination practices may negatively affect veteran borrowers or increase program costs and risks. For lenders who produce pools with inexplicably fast prepayment speeds, removal from the Ginnie Mae program is not out of the question.

The task force will continue to work collaboratively until concrete solutions have been implemented to eliminate lender practices that are harmful to veterans, the Ginnie Mae program, and ultimately the American taxpayer.

Conclusion

Ginnie Mae offers a very unique perspective on the mortgage market and our country's system of housing finance. We have 50 years of experience in the administration of a government wrap. We are glad to share the many lessons learned with Congress and other policy-makers as you continue your oversight of the country's housing system. We are enthusiastic partners in helping you accomplish any objectives that you deem necessary. Thank you again, for inviting me to testify today. I look forward to answering your questions.