Housing Finance

Ginnie Mae Is Meeting Its Mission but Faces Challenges in a Changing Marketplace

What GAO Found

Despite its declining share of the overall MBS market, Ginnie Mae continues to serve its key public policy goal of providing a strong secondary market outlet for federally insured and guaranteed housing loans. Ginnie Mae MBS financed more than 90 percent of new FHA-insured and VA-guaranteed loans in fiscal year 2004, and the agency appears to face relatively little competition in this market. Ginnie Mae’s total volume has declined in recent years, however, and its share of the overall MBS market has fallen from 42 percent of new securities in 1985 to 7 percent in 2004. This drop is largely the result of the decline in the market share of the FHA and VA loan programs and the concurrent rise in the securitization of non-government-backed mortgages.

Further declines in Ginnie Mae’s volume could potentially have implications for borrowers, the liquidity of its securities, and federal revenues. For example, Ginnie Mae’s securities could become less liquid, although it is unclear at what levels of volume this would occur. In addition, Ginnie Mae’s program revenues could decline if its volume decreased. In fiscal year 2004, program revenues exceeded expenses by $295 million, which helped reduce the federal budget deficit.

Ginnie Mae faces a number of challenges in responding to changes in the marketplace, meeting stakeholders’ needs, and managing its operations, and the agency has been taking steps to address these challenges. For example, it has expanded its product mix to reach more borrowers and has begun disclosing more information on loans underlying its securities to help investors better predict risk. GAO and others have identified opportunities for improvement in Ginnie Mae’s data integrity and internal controls. The agency has begun addressing these issues, but it contracts out most of its operations, so ensuring that it has sufficient staff capabilities to plan, monitor, and manage its contracts is essential.

What GAO Recommends

GAO is making no recommendations. Ginnie Mae agreed with this report’s conclusions.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.