



— OFFICE *of* —
INSPECTOR GENERAL



UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Ginnie Mae Mostly Implemented a Crisis Readiness Program That Followed Federal Guidance

Government National Mortgage Association

2023-KC-0004

March 28, 2023

Date: March 28, 2023

To: Alanna B. McCargo
President, Ginnie Mae, T

//signed//
From: Kilah S. White
Assistant Inspector General for Audit, GA

Subject: Ginnie Mae Mostly Implemented a Crisis Readiness Program That Followed Federal Guidance

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Government National Mortgage Association's (Ginnie Mae) crisis readiness program. HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act of 1978, as amended, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>. If you have any questions or comments about this report, please do not hesitate to call Patrick Anthony, Audit Director, at (716) 646-7056.

Highlights

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What We Audited and Why

We audited the Government National Mortgage Association's (Ginnie Mae) crisis readiness and response actions before the onset of and during the coronavirus disease 2019 (COVID-19) pandemic. We initiated this audit because of recent efforts by the Council of Inspectors General on Financial Oversight (CIGFO) to address crisis readiness within Federal agencies following the March 2020 Presidential Proclamation declaring the COVID-19 virus to be a national emergency.

Our audit objective was to determine whether Ginnie Mae had implemented a crisis readiness program, including precrisis planning, a crisis readiness plan, and a crisis management strategy, that followed Federal guidance.

What We Found

Ginnie Mae generally followed Federal guidance in precrisis planning and executed its crisis management strategy with respect to the COVID-19 pandemic. However, it does not have an agencywide crisis readiness plan, addressing likely hazards arising from a crisis, or include all key elements in line with crisis guidance from CIGFO.¹

What We Recommend

We recommend that the President of Ginnie Mae develop and implement an agencywide crisis readiness plan addressing likely hazards arising from a crisis. This guidance should include all key elements that align with CIGFO crisis guidance.

¹ See Appendix B, Agencies' Crisis Readiness Plan Elements.

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Background and Objective

The Housing and Urban Development Act of 1968 created the Government National Mortgage Association (Ginnie Mae), a wholly owned U.S. Government corporation within the U.S. Department of Housing and Urban Development (HUD). Ginnie Mae guarantees investors the timely payment of principal and interest on mortgage-backed securities (MBS) backed by insured or guaranteed loans. The loans are insured or guaranteed mainly by the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), the U.S. Department of Agriculture Rural Development, and HUD's Office of Public and Indian Housing. Through its MBS program, Ginnie Mae guarantees securities backed by pools of mortgages and issued by approved mortgage lenders referred to as Ginnie Mae issuers.

Ginnie Mae securities are the only MBS to carry the full faith and credit guaranty of the U.S. Government. MBS allow for many loans to be pooled and used as collateral in a security that could be sold in the secondary market. MBS also support housing finance by channeling investment capital from markets all over the globe for use in lending to support neighborhoods across the Nation. The outstanding principal balance for Ginnie Mae's MBS program was approximately \$2.3 trillion in December 2022.

In March 2020, the President declared a national emergency concerning the coronavirus disease 2019 (COVID-19) pandemic. In September 2021, the White House further stated, "As devastating as the COVID-19 pandemic is, there is a reasonable likelihood that another serious pandemic that may be worse than COVID-19 will occur soon — possibly within the next decade. Unless we make transformative investments in pandemic preparedness now, we will not be meaningfully prepared."²

In August 2020, the Council of Inspectors General on Financial Oversight (CIGFO) convened a working group to develop guidance for the Financial Stability Oversight Council (FSOC) and its member agencies to consider in preparing for and managing future crises.³ The working group issued its report, *Guidance in Preparing for and Managing Crises*, in June 2022 (CIGFO-2022-01). In response to the report, FSOC stated that it would "recirculate the guidance to all of the FSOC member agencies that have not developed an approach to crisis management to do so and to coordinate, as appropriate, with other federal or state regulators."

In its report, CIGFO developed a crisis management framework derived from the input, experiences, and lessons learned of the CIGFO members and the agencies they oversee. The CIGFO report analyzed, for example, Federal agencies' contingency and readiness plans, interviews with FSOC officials, stress tests, testing of market coordination procedures, retrospective analyses of regulator responses to prior crises, business resiliency management analyses, supervision framework in response to the COVID-19 pandemic, and economic impact analyses following a crisis. CIGFO divided its framework into three parts: (1) *Collaboration and Pre-Crisis Planning Activities*, which inform an agency's communication and risk identification before a crisis occurs; (2) *Agencies' Crisis Readiness Plan Elements* that should be included

² American Pandemic Preparedness: Transforming Our Capabilities, September 2021

³ FSOC is charged with identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the stability of the United States' financial system. CIGFO was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act and is a committee of nine Inspectors General that facilitates oversight of the financial sector and provides oversight of FSOC. Although HUD is not a member of FSOC, OIG is a member of CIGFO.

in an agency's crisis readiness plan and used at the beginning of a crisis; and (3) *Agencies' Crisis Management*, which informs the execution of an agency's crisis response actions after a crisis has been identified.

CIGFO's crisis management framework relates to several principles within the U.S. Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (Federal Internal Control Standards) and Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, which are designed to ensure responsible management within the Federal Government.

According to Federal Internal Control Standards, management sets objectives to fulfill the entity's mission and establishes operations necessary to fulfill those objectives. Management should identify, analyze, and respond to risks related to achieving the defined objectives. Federal Internal Control Standards provide that management.

- Establish structure, responsibility, and authority to enable the entity to plan, execute, control, and assess achievement of objectives (principle 3). This supports CIGFO, parts 1, *Collaboration and Pre-Crisis Planning Activities*, Part 2 *Crisis Readiness Plan Elements*, and 3 *Crisis Management* (See appendix B.)
- Ensure effective documentation to communicate the who, what, when, where, and why of internal control execution. Documentation also provides a means to retain organizational knowledge (principle 3). This supports CIGFO, part 2.
- Design control activities in response to the entity's objectives and risks. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks (principle 10). This supports CIGFO, parts 1, 2, and 3.
- Communicate internally to achieve the entity's objectives. Quality information is communicated down, across, up, and around reporting lines to all levels of the entity (principle 14). This supports CIGFO, part 2.
- Communicates externally to achieve the entity's objectives. Management communicates with and obtains quality information from external parties using established reporting lines (principle 15). This supports CIGFO, parts 1 and 3.
- Evaluate issues and remediate deficiencies identified through monitoring activities or reported by personnel to determine whether any of the issues rise to the level of an internal control deficiency (principle 17). This supports CIGFO, part 3, "lessons learned."

OMB Circular A-123 further provides that management must evaluate the effectiveness of internal controls using Federal Internal Control Standards.

Our audit objective was to determine whether Ginnie Mae had implemented a crisis readiness program, including precrisis planning, a crisis readiness plan, and a crisis management strategy, that followed Federal guidance.

Results of Audit

Finding 1: Ginnie Mae Generally Performed Precrisis Planning and Executed its Crisis Management Strategy in Alignment With Federal Guidance With Respect to the Covid-19 Pandemic

Ginnie Mae generally performed precrisis planning and executed its crisis management strategy in alignment with Federal guidance with respect to the COVID-19 pandemic. Ginnie Mae's precrisis planning activities included the sharing of crisis-related information, assessing market risk, collaborating with FHA, and continuously monitoring its issuers. Ginnie Mae's crisis management actions after the crisis has been identified included coordinating with HUD leadership, enhanced sharing of crisis-related information, communicating crisis information to external stakeholders, assessing its crisis response resources, increasing its monitoring of its high-risk issuers, providing issuer relief programs, and documenting its lessons learned.

Ginnie Mae's Precrisis Planning Activities Followed Federal Guidance

Ginnie Mae generally performed precrisis planning activities in alignment with Federal guidance with respect to the COVID-19 pandemic. According to CIGFO's framework, Part 1, *Collaboration and Pre-Crisis Planning*, precrisis planning activities should focus on risk identification and crisis plan development before a crisis materializes. Ginnie Mae facilitated the sharing of crisis-related information, regularly assessed market risk, collaborated with FHA, and implemented continuous monitoring of its issuers as regular practices within its operations before the onset of the COVID-19 pandemic.

Ginnie Mae Facilitated Crisis Information Sharing

Ginnie Mae facilitated crisis-related information sharing with other Federal agencies and its key issuers and throughout its own agency before the COVID-19 pandemic. This activity aligned with the Federal Internal Control Standards as well as CIGFO guidance to promote proactive information sharing relating to crisis preparations among agencies to facilitate coordination and prevent duplication of efforts.

With respect to crisis information sharing, Ginnie Mae

- Executed various data-sharing memorandums of understanding (MOU) with FHA as early as June 2007.
- Held a prepandemic practice of periodic calls with its key issuers as needed to increase awareness of potential and emerging risks or threats. Such risks included policy, economic, technological, or operational changes.
- Established an Enterprise Risk Committee (ERC) in January 2018, with a charter outlining that it would provide for a system to identify risks from within all segments of the agency, assess those risks, and bring significant risks to leadership's attention for consideration and decision. Under the ERC, Ginnie Mae employees had a mechanism to raise concerns through appropriate channels for leadership decisions.

Ginnie Mae Assessed Market Risk and Collaborated With FHA

Ginnie Mae assessed market risk and collaborated with FHA before the COVID-19 pandemic. This activity aligned with CIGFO and Federal guidance to promote information sharing across components and to communicate consistently when a crisis arose.⁴

With respect to the assessment of market risk and collaboration with relevant agencies, Ginnie Mae

- Established monitoring practices to periodically assess financial market risk and apply scenario analysis to its issuers in 2019 and going forward.
- Sat on FHA’s Mortgagee Review Board as a voting member. Ginnie Mae stated that its participation on the board provided “a forum for collaboration and discussion.”

Ginnie Mae Conducted Continuous Monitoring Activities

Ginnie Mae conducted continuous monitoring activities before the COVID-19 pandemic. Federal Internal Control Standards provide that management should establish and operate activities to monitor the internal control system and evaluate the results. In addition, CIGFO guidance states that “monitoring vulnerabilities to the stability of the U.S. financial sector is critical... using the results of these monitoring activities helps to identify the array of risks to be addressed in crisis readiness plans.”

With respect to continuous monitoring activities, Ginnie Mae

- Conducted periodic financial, operational, and compliance reviews of all of its issuers to determine whether they posed a risk to Ginnie Mae’s MBS guarantee program. Ginnie Mae required its issuers to submit annual audited financial statements and quarterly unaudited financial statements. Ginnie Mae also conducted operational reviews of its issuers’ management of their Ginnie Mae portfolios as needed. Finally, Ginnie Mae conducted compliance reviews of its issuers at least once every 3 years to determine whether an issuer violated Ginnie Mae’s requirements.
- Placed 51 of its issuers on an enhanced monitoring status from February 2018 to August 2022 after identifying issues following its periodic reviews.
- Began stress testing its nonbank issuers in 2019 under a variety of economic scenarios.⁵ These scenarios included a consideration of market disruptions caused by disasters, pandemics, and other external events.
- Expanded stress testing to also include its traditional banking issuers in 2021. Ginnie Mae conducted semiannual stress testing, generating eight quarters of projected financial statements with each stress test.

Ginnie Mae’s Crisis Management Actions Followed Federal Guidance

Ginnie Mae generally took crisis management actions that were in alignment with Federal guidance with respect to the COVID-19 pandemic. According to CIGFO’s framework, Part 3, *Agencies’ Crisis Management*, crisis management activities should contribute to effectively managing a crisis once it has materialized. After the COVID-19 pandemic was declared a national emergency in March 2020, Ginnie

⁴ Federal Internal Control Standards, Principles 14 and 15.

⁵ A nonbank is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency.

Mae coordinated with HUD before taking action, continued to facilitate the sharing of crisis-related information as it did before the emergency declaration, communicated crisis information to external stakeholders, assessed its crisis response resources, increased its monitoring of its high-risk issuers, provided issuer relief programs, and had a policy to document its lessons learned following issuer extinguishments.⁶

Ginnie Mae’s Leadership Coordinated With Other HUD Program Offices Before Acting

Ginnie Mae’s leadership coordinated with other HUD program offices before acting during the COVID-19 pandemic. OMB Circular A-123 provides that agencies deploy a leadership response in which strategic decision making and coordination occur at the senior agency level.⁷

With respect to leadership response and coordination, Ginnie Mae

- Participated in weekly risk meetings with HUD leadership and FHA beginning in March 2020 and continuing throughout the year. Their purpose was to provide coordination among leadership of the two agencies – ensuring that each agency was aware of current information, including forecasting and predictive models under different market scenarios, what issues were on the table, and what each agency’s view was with respect to risk and agency mission.
- Explored, after coordinating with other HUD program offices, relief options that could be made available to issuers impacted by the quickly changing environment. Leadership ultimately decided to develop a COVID-specific addition to the existing Pass-Through Assistance Program (PTAP) and in conjunction with HUD’s Office of General Counsel, began working on its implementation. PTAP was created as an issuer assistance program to help issuers meet their principal and interest pass-through obligations to investors to help minimize any disruptions that might occur in the mortgage-servicing market because of COVID-19. Through application, issuers may request funds monthly to assist with the temporary financial impacts of the pandemic. Funds may be used only to cover shortfalls in the principal and interest owed to MBS security holders associated with loans that are delinquent, which include loans in forbearance. However, funding may not be used to cover other issuer operational or servicing costs.

Ginnie Mae Coordinated With FHA, VA, and Other FSOC Members

Ginnie Mae coordinated with FHA, VA, and other FSOC members during the COVID-19 pandemic. According to CIGFO guidance, “[f]or specific crises, using pre-existing working groups or establishing interagency working groups and sub-working-groups fosters the exchange of ideas, and helps to facilitate decision-making and determine plans for action and communications.”

With respect to coordination with relevant agencies, Ginnie Mae

- Established and served as the lead coordinator for an interagency working group with other FSOC members to discuss pandemic information, planned policy changes, and emerging risks monthly.
- Participated in interagency crisis status meetings with FHA, the Federal Housing Finance Agency (FHFA), and VA to provide a roundtable opportunity for information sharing. During these

⁶ An extinguishment occurs when Ginnie Mae seizes the issuer’s portfolio of guaranteed loans and terminates the issuer from the MBS program.

⁷ OMB Circular A-123, Part II, Section A: Governance

meetings, participants shared an understanding of the nature of the crisis and began conversations around how to react and prevent large-scale defaults.⁸

- Worked with the U.S. Department of the Treasury and OMB in implementing its PTAP COVID-19 pandemic-related liquidity facility.
- Established an MOU with the U.S. Department of the Treasury to expand Ginnie Mae’s borrowing authority in the event that issuer demands exceeded funding in Ginnie Mae’s Capital Reserve Account.

Ginnie Mae Used Its Website To Communicate Crisis Information to External Stakeholders

Ginnie Mae used its website to communicate crisis information to external stakeholders during the COVID-19 pandemic. Principle 15 of Federal Internal Control Standards provides that management should communicate externally to achieve the entity’s objectives, and CIGFO guidance further provides that publicly communicating an individual agency’s responses to the crisis promotes transparency.

With respect to communication with external stakeholders during a crisis, Ginnie Mae

- Provided information on its public website, acknowledging that Ginnie Mae understood the potential emerging risks to housing finance because of COVID-19. Ginnie Mae assured the market that it was developing an emergency liquidity facility (PTAP) in response to the crisis and that this facility would be implemented the following month.
- Provided information related to its development and issuance of its COVID-19-related all participant memorandums (APM). Ginnie Mae generally uses APMs to announce policy and MBS Guide changes accessed by issuers, document custodians, and other participants in Ginnie Mae programs. The first of Ginnie Mae’s COVID-19-related APMs, issued in April 2020, expanded its PTAP liquidity facility. Later APMs provided issuers relief from certain MBS requirements as well as preventing transactions resulting from changing loss mitigation policies that might have harmed security performance.

Ginnie Mae Assessed Its Crisis Response Resources

Ginnie Mae assessed its crisis response resources during the COVID-19 pandemic. Federal Internal Control Standards state that management is responsible for operating an internal control system that balances the allocation of resources in relation to the areas of greatest risk, complexity, or other factors relevant to achieving the entity’s objectives. Further, the CIGFO guidance notes the importance of considering “the need to meet both budget and staffing increases, commensurate with crisis demands.”

With respect to its assessment of resources during a crisis,

- Ginnie Mae held meetings with FHA and VA to discuss various legal authorities available to their respective agencies in responding to the COVID-19 pandemic.
- As a normal course of its operations, Ginnie Mae had a standby group of employees to respond to potential issuer extinguishments if there was a need to conduct multiple simultaneous extinguishments.

⁸ Ginnie Mae defines an issuer default as a violation of the MBS Guide or the formal agreement an issuer enters into with Ginnie Mae to receive Ginnie Mae’s MBS guarantee.

- Finally, also as a normal course of its operations unrelated to the pandemic, Ginnie Mae already had contractual requirements for its contractors to have additional capacity to handle the unanticipated transfer of loans to it in the event of multiple issuer extinguishments.

Ginnie Mae Provided Additional Oversight of Its High-Risk Issuers

Ginnie Mae provided additional oversight of its high-risk issuers during the COVID-19 pandemic. CIGFO guidance states that “coordinating and prioritizing supervisory activities on those markets and entities that pose the greatest risk is critical.”

With respect to prioritizing supervisory activities on financial markets and entities that posed significant risk, Ginnie Mae

- Conducted one-on-one “spotlight and issuer liquidity” meetings with its high-risk issuers in 2020. Ginnie Mae met with each of its 13 high-risk issuers at least once between September and December 2020.
- Conducted special runs of its stress testing for its issuers immediately following the emergency declaration in March 2020.

Ginnie Mae’s Crisis Response Included Issuer Relief Programs and Interagency Coordination Efforts

Ginnie Mae’s crisis response included issuer relief programs and interagency coordination efforts. According to CIGFO guidance, crisis “response programs typically involve government investments, loans, guarantees, or repayment modifications, and are designed to address the unique circumstances of a particular crisis.”

With respect to its crisis response programs and actions, Ginnie Mae

- Revised and expanded its PTAP.
- Continued to enhance existing and implement new data-sharing MOUs with FHA and implemented an MOU with FHFA to facilitate data flow between the agencies in January 2010.
- Executed an MOU with the Federal Deposit Insurance Corporation (FDIC) to enhance coordination among the agencies for issuer resolution efforts in the event of Ginnie Mae extinguishment.

Ginnie Mae Had a Policy To Document Its Lessons Learned Following Issuer Extinguishments

Ginnie Mae had a written policy to document its lessons learned following issuer extinguishments during the COVID-19 pandemic. CIGFO guidance states, “Following a crisis and return to steady state, initiating after-action reviews to examine the cause(s) for any implementation issues, analyzing the effectiveness of the agency’s crisis management process, identifying opportunities for improvement, and acting on those opportunities for improvement is helpful. Based on the observations in the after-action reviews, agency leadership should consider initiating improvement planning.”

Ginnie Mae incorporated lessons learned into its existing written policy for the final stage of its issuer extinguishment process. This updated version was effective in August 2020. The policy required the

participation of all key members of the extinguishment team, along with representatives for the applicable master servicer, central paying and transfer agent, and document custodian.⁹

Conclusion

Ginnie Mae generally performed precrisis planning and executed its crisis management strategy in alignment with Federal guidance with respect to the COVID-19 pandemic.

Recommendations

There were no recommendations related to this finding.

⁹ Ginnie Mae's loan-servicing functions are contracted to two master servicers. They provide loan servicing, payment collection, payment passthrough, record keeping, and all other aspects of loan-servicing operations.

Finding 2: Ginnie Mae Does Not Have an Agencywide Crisis Readiness Plan

Ginnie Mae had not formalized an agencywide plan before the pandemic due to its specific scope of operations being narrowly focused on managing issuer extinguishments and ensuring timely passthrough payments to MBS investors. We found that Ginnie Mae's existing guidance did not address hazards likely to arise from a crisis and did not include all key elements in line with Federal guidance. Ginnie Mae could enhance its ability to respond to future crises effectively and in a timely manner by developing a formal, agencywide crisis readiness plan.

Ginnie Mae Does Not Have an Agencywide Crisis Readiness Plan That Addresses Likely Hazards

Ginnie Mae would be better prepared to handle future crises if it developed an agencywide crisis readiness plan that addressed likely hazards. Its existing crisis-related policies were hazard specific and decentralized, lacking a consideration of likely hazards as well as agencywide coordination, which left potential gaps in its overall readiness framework. In addition, Ginnie Mae's crisis guidance did not include all key elements aligned with CIGFO and other Federal guidance.

CIGFO guidance defines a crisis readiness plan as an overarching crisis management framework for strategic decision making, communication, and coordination. It outlines how an agency will operate in and respond to an array of crisis scenarios. Risks identified in the precrisis planning period should be addressed in an agency's readiness plan. And, once a crisis has been identified, the readiness plan assists agency leaders in developing the crisis management strategy. While Ginnie Mae's precrisis and crisis response activities generally followed CIGFO guidance, without a crisis readiness plan, Ginnie Mae missed an opportunity to formally address monitoring risks in its readiness plan, and it did not have a written framework to inform and potentially enhance its overall crisis response strategy during the pandemic.

Ginnie Mae's crisis-related policies were hazard specific and decentralized throughout the agency. They pertained to single issuer default, multiple and large issuer default, emergency liquidity facilities, the continuity of operations plan (COOP), enterprise risk management (ERM), and temporary relief to issuers. While some of these hazard-specific policies were detailed for their given procedure, no single policy provided overarching, coordinated responses to agencywide disruptions, including overseeing the activation of Ginnie Mae's default response policies. Further, no single policy formally contemplated potential crisis-related hazards other than issuer default, such as technological disruptions, issuer fraud, or climate-related risk.

Federal guidance requires agencies to use written policy in their ERM activities. OMB further requires agencies to incorporate ERM and internal controls as components of their governance framework. ERM assists agencies in identifying, assessing, and managing risks. OMB Circular A-123; GAO-14-704G, Federal Internal Control Standards; and other Federal guidance support agencies' use of written policy, as well as the use of the policy to communicate quality information down and across reporting lines to enable

personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system.¹⁰

According to Ginnie Mae leadership, ERM was incorporated into every facet of Ginnie Mae's operations. ERM was not contained within a single component in Ginnie Mae but, rather, was a continuous consideration throughout all of Ginnie Mae's business. However, during a March 2021 ERC meeting, leadership also stated that "the lack of formalization and integration of agency risk jeopardizes HUD's and Ginnie Mae's ability to successfully achieve strategic goals and objectives."

Ginnie Mae Does Not Have a Crisis Readiness Plan

According to OMB, information about major risks should flow both up and down the organization and across its organizational structures to improve the quality of decision making. However, Ginnie Mae's hazard-specific policies related to individual components of the organization rather than the senior leadership level. Those components developed and had ownership of these policies with respect to their implementation, administration, and revision. Further, the policies were not explicitly tied to Ginnie Mae's strategic planning or ERM, and they were not activated or overseen by an overarching framework at the senior leadership level.

While we found that some of Ginnie Mae's hazard-related policies met a few key elements (see appendix B) for a crisis management plan, they were not agencywide policies that would inform and execute enterprise-level strategic planning and risk management. Existing policies also did not reside at the senior leadership level, nor did they anticipate events other than issuer defaults.

Ginnie Mae Did Not Address Likely Hazards

OMB requires Federal leaders and managers to manage for both expected and unexpected events as a part of achieving organizational goals and objectives and ensuring compliance with relevant laws and regulations.¹¹ However, Ginnie Mae does not have a written plan outlining how it would operate in and respond to an array of crisis scenarios, including disasters, public health emergencies, issuer fraud, or technological changes. CIGFO guidance acknowledges that such scenarios, while not always financial in nature, can lead to events that destabilize and threaten the financial stability of the United States.

In August 2021, Ginnie Mae initiated an internal conversation around the risks presented by the growth and consolidation of its largest nonbank issuers that could stress its default management capabilities if one or more of them were to default. As a result of these efforts, Ginnie Mae developed a preliminary framework for assessing issuer default risk; responding to issuer noncompliance, delinquency, and default events; providing issuers access to liquidity facilities; and planning activities to increase preparedness.

Although this internal conversation document included the preliminary analysis and discussion necessary to support the eventual development of a crisis readiness plan, it remained an informal document and did not consider how various crises could impact Ginnie Mae's mission.¹² Further, because it was a document

¹⁰ In CIGFO-2022-01, CIGFO states, "Crisis readiness plans create an overarching crisis management framework for strategic decision making, communication, and coordination."

¹¹ OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, updated July 2016

¹² The document was circulated within Ginnie Mae without going through formal policymaking procedures.

that was developed and maintained within the Office of Issuer and Portfolio Management, a specific component within Ginnie Mae with a focus on issuers' compliance with the MBS program rules, it lacked an agencywide perspective with the overall leadership authority to manage and oversee hazard-specific policies that may pertain to other components within Ginnie Mae. Finally, it was not stated how the memorandum fit into Ginnie Mae's strategic planning nor to whom the memorandum would be addressed.

According to Ginnie Mae leadership, the default of an issuer represents Ginnie Mae's prevailing exposure to the agency's risk in fulfilling its mission. Further, the sudden loss of market liquidity represents the prevailing cause of multiple issuer default scenarios. However, the CIGFO guidance notes other nonfinancial scenarios, such as natural disasters, cyber incidents, geopolitical events, and public health emergencies, that could have an impact on the economy and financial stability. Some nonfinancial scenarios that could impact Ginnie Mae's operations or its ability to fulfill its mission could include

- A rapid decline in pool quality or in mortgage-servicing rights valuations
- Unanticipated disruptions in the payment transfer systems due to technological changes or cyber events
- Large issuer or contractor fraud
- Climate-related financial risks¹³
- Public health emergencies

Ginnie Mae is Currently Evaluating Improvements to Its Crisis Readiness Practices and Framework

Ginnie Mae had not formalized an agencywide plan before the pandemic due to its specific scope of operations being narrowly focused on managing issuer extinguishments and ensuring timely passthrough payments to MBS investors. However, during the audit, Ginnie Mae stated that it does see value in the development of an agencywide crisis plan that is appropriately tailored to its specific scope related to crisis preparedness. Ginnie Mae further stated that it is continuously evaluating improvements to its crisis readiness practices and framework.

Senior officials stated that Ginnie Mae has a narrow and well-defined scope, which is primarily to manage issuer extinguishments and to ensure timely passthrough payments to MBS investors. Ginnie Mae uses its existing crisis guidance to conduct these activities.

However, Ginnie Mae acknowledged that a likely hazard, agencywide plan would improve its resiliency in managing crises and that it is currently exploring new practices, framework, and formalization to its crisis readiness activities in the future. Ginnie Mae further stated that it was not opposed to developing such a plan but noted that the regular maintenance of the plan would represent a significant investment of its limited resources.

Ginnie Mae also acknowledged the benefit of its issuers' developing their own crisis readiness plans. While not making it a requirement, Ginnie Mae planned to engage with its larger issuers regarding their respective plans for dissolution in the event of issuer failure. Ginnie Mae further planned to engage with

¹³ Financial Stability Oversight Council, Report on Climate-Related Financial Risk, issued October 2021, noted that climate change will likely be a source of shocks to the financial system in the years ahead.

all of its issuers on topics surrounding financial capacities today and in the future, portfolio performance expectations, operational challenges, and a general discussion of the economic and mortgage ecosystem.

Without a Crisis Readiness Plan, Ginnie Mae Risked Compromising Its Ability To Respond to a Crisis in a Timely and Effective Manner

Without an agencywide crisis readiness plan, Ginnie Mae risked compromising its ability to respond to a crisis in a timely and effective manner. Quickly unfolding crisis events could frustrate Ginnie Mae's response if its personnel lack clear guidance on their expected roles, responsibilities, and duties in responding to these events.

Conclusion

Ginnie Mae did not have a crisis readiness plan that was agencywide, addressing likely hazards arising from a crisis. This condition occurred because Ginnie Mae used its existing hazard specific guidance during the pandemic. However, Ginnie Mae is currently evaluating improvements to its crisis readiness practices and framework. Ginnie Mae assigned its resources to maximize expected returns, but it acknowledged the benefit of a crisis readiness plan.

Recommendations

We recommend that the President of the Government National Mortgage Association

- 2A. Develop and implement an agencywide crisis readiness plan addressing likely hazards arising from a crisis. This guidance should include all key elements that meet CIGFO crisis guidance.

Scope and Methodology

We performed our audit work remotely between January and September 2022. We did not conduct onsite fieldwork for this assignment. Our audit period covered January 1, 2016, through September 30, 2022.


To accomplish our objective, we

- Reviewed relevant crisis readiness guidance and Federal internal control and ERM requirements.
- Interviewed Ginnie Mae senior staff.
- Reviewed records supporting Ginnie Mae’s pre-pandemic and pandemic practices, including relevant APMs; updates to the MBS Guide; pandemic-related public notices; meeting agendas and minutes; the ERC charter; internal policy documents, including process manuals and draft policy (preimplementation); results of selected issuer monitoring activities; and internal risk analysis documentation. We did not review internal information technology policy documents.
- Reviewed MOU contracts and agreements with FHA, FHFA, and FDIC.
- Reviewed Ginnie Mae’s annual financial statements, governing corporate charter, and annual risk profile to support Ginnie Mae’s annual OMB ERM submission.
- Reviewed relevant issued GAO reports, FSOC’s annual reports, and FSOC’s 2021 Report on Climate-Related Risk.
- Relevant Presidential policy directives, related White House guidance, and its National COVID-19 Preparedness Plan.
- Pandemic-related actions taken by FHFA and State governments.

We used CIGFO’s Guidance in Preparing for and Managing Crises, CIGFO-2022-01, and relevant Federal criteria to assess Ginnie Mae’s pre-crisis and crisis management actions with respect to the COVID-19 pandemic. Specifically, we used each CIGFO key element as shown in appendix B and adapted each one to Ginnie Mae using established Federal criteria, including GAO-14-704G, The Standards for Internal Control in the Federal Government, and OMB Circular A-123, as they apply to all Federal agencies. In addition, we considered crisis guidance developed by the Federal Emergency Management Agency, U.S. Department of Homeland Security, and International Monetary Fund.

With respect to the CIGFO Crisis Guidance report, nine CIGFO Offices of Inspector General (OIG) collected information from the Federal Reserve Board, Consumer Financial Protection Bureau, Commodities Futures Trading Commission, U.S. Department of the Treasury, FDIC, FHFA, National Credit Union Administration, U.S. Securities and Exchange Commission, and Office of the Special Inspector General for the Troubled Asset Relief Program. The CIGFO OIGs, through interviews and review of documentation, identified integral practices employed by FSOC member agencies in their respective approaches to crisis management.

For each key element, we conducted interviews and requested documentation to determine whether Ginnie Mae had implemented the requested activity and if so, when it was implemented and its frequency, personnel or stakeholders involved, outcomes, and lessons learned. However, we did not conduct fieldwork to assess the degree to which Ginnie Mae employed the key element, nor did we assess the completeness, effectiveness, or efficiency of the practice. Therefore, our assessment that Ginnie Mae followed a CIGFO key element was not an assertion that Ginnie Mae’s practice had been effectively implemented. Rather, the purpose of our review was to compile information on Ginnie Mae’s



precrisis planning activities, its crisis response plan, and its crisis management strategy within the context of the COVID-19 pandemic to identify areas for improvement in its preparation for a potential future crisis.

We did not rely on data from HUD information systems to draw conclusions as they related to our objective.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendixes

Appendix A - Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation – Auditee Comments

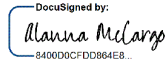
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425 3rd Street, SW, Fifth Floor
Washington, DC 20024
(202) 708-1535

DATE: March 16, 2023

MEMORANDUM FOR: Kilah S. White, Assistant Inspector General for Audit, GA

FROM: Alanna McCargo, President
Office of the President (OOP), T 

SUBJECT: Discussion Draft Audit Report – Ginnie Mae Mostly Implemented a Crisis Readiness Program That Followed Federal Guidance

We appreciate the opportunity to review the latest draft audit report (Ginnie Mae Mostly Implemented a Crisis Readiness Program that Followed Federal Guidance). Ginnie Mae recognizes the importance to have on-going assessments to ensure current operating conditions are contemplated in readiness plans.

As reflected in your report, Ginnie Mae's response to the COVID-19 pandemic demonstrated its ability to respond to crisis and the organization was able to be agile to a continuously evolving situation. This included the following

- monitoring of our Issuers and enhancing existing protocols when necessary
- working collaboratively within HUD
- actively participating with interagency working groups
- leveraging existing communications platforms to inform external stakeholders
- conducting lessons learned and updating readiness plans accordingly

 **Comment 1** >

We agree with the recommendation to enhance Ginnie Mae's ability to respond to future crises effectively and in a timely manner by developing a formal, agencywide crisis readiness plan. In FY23, Ginnie Mae's Office of the President is actively recruiting for a career Chief Operating Officer who would be central to the continuous development and management of an agencywide readiness plan.

We are continuing to ensure Ginnie Mae is positioned to respond to a crisis. Most importantly demonstrating Ginnie Mae is achieving its mission to provide housing support by channeling investment capital from markets all over the globe for use in lending to support neighborhoods across the Nation.



Mailing Address
451 Seventh Street SW, B-133
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OIG Evaluation of Auditee Comments

Comment 1 We acknowledge that Ginnie Mae agrees with the recommendation. We look forward to working with Ginnie Mae through the audit resolution process to ensure that the recommendation is fully addressed.

Appendix B – CIGFO Guidance in Preparing for and Managing Crises

The following are practices collected from FSOC Federal member agencies and their OIGs that were considered by CIGFO.

1. Collaboration and Precrisis Planning Activities

- Define agency mandates, roles, and responsibilities. A well-defined mandate and clear roles and responsibilities ensure the broad coverage of different risk categories while preventing the duplication of agency efforts, both before and during a crisis.
- Facilitate information sharing proactively. Promote proactive information sharing relating to crisis preparations among the agencies to facilitate coordination and prevent duplication of efforts.
- Strive for a shared view of market conditions. Striving to share a common view of the overall condition and risks within the financial markets is essential (including as emerging risks are identified).
- Implement continuous monitoring activities. Monitor for vulnerabilities to the stability of the U.S. financial sector. The goal of precrisis monitoring activities in preparing for a crisis is to limit and mitigate risks.

2. Agencies' Crisis Readiness Plan Elements

- Establish roles and responsibilities. Identify and establish the roles and responsibilities of the individuals and groups involved in a crisis response. This includes identifying a high-level crisis leadership team and describing its responsibilities.
- Describe triggering events. Define what constitutes a crisis. When triggering events activate the crisis plan, the responsible crisis leadership officials would undertake affirmative steps to initiate the plan.
- Identify relevant legal authorities and tools and compile a list of potential emergency actions. During a crisis, agencies may not have the luxury of time and resources to identify their relevant legal tools and authorities. Therefore, it is beneficial during a steady state for an agency to conduct scenario planning and analysis that thoroughly vets all legal authorities. This list of available legal authorities can include potential emergency actions that leadership may consider in response to various crisis events, as well as regulatory authorities available to, among other things, provide liquidity to financial institutions, support financial market infrastructures, facilitate the restructuring of troubled institutions, and provide regulatory relief.
- Develop communication plans and options. A checklist of potential internal and external communication actions for leadership to consider in response to a crisis can be included in the plan.
- Prioritize system capacity and cyber and information security (aligned with existing continuity capabilities). Crisis readiness plans can also include an evaluation of mission-critical systems and equipment to assess the agency's ability to handle a crisis. An effective information security program that meets Federal standards includes an incident response plan that establishes procedures for staff to follow during cyber incidents. The information security response plan documents the triggers; procedures; roles; and responsibilities, including forming an incident assessment group; and resources for eradicating or limiting the expansion of an information security incident and minimizing its effects.

- Provide for testing, evaluation, review, revision, and training. Crisis readiness plans can also include a process to review, test, and revise crisis readiness plans on a recurring basis. Training can ensure that agency personnel have the requisite knowledge, skills, and abilities to execute the crisis management tasks.
- Provide for reporting. Plans can also provide a mechanism to regularly report to key decision makers about the agency's crisis readiness.

3. Agencies' Crisis Management

- Implement leadership response. Consistent with the roles and responsibilities outlined in their crisis readiness plans, agencies deploy a leadership response in which strategic decision making and coordination occur at the senior agency level and operational and tactical authorities remain within appropriate business areas to ensure efficient management of incidents.
- Coordinate among member agencies. For specific crises, using preexisting working groups or establishing interagency working groups and sub-working-groups fosters the exchange of ideas and helps to facilitate decision making and determine plans for action and communications.
- Communicate to internal and external stakeholders. Communicate publicly the individual agency's responses to promote transparency.
- Assess resources. Future crises may present different challenges requiring agencies to assess additional support alternatives for their workforce.
- Supervise markets and regulated entities. Coordinate and prioritize supervisory activities for those markets and entities that pose the greatest risk.
- Deploy response programs. Response programs should be transparent, and decisions relating to them should be documented to ensure that the process is clear and understandable and that there is an appropriate level of oversight.
- Evaluate lessons learned. Following a crisis and return to a steady state, initiate an after-action review to examine the cause(s) for any implementation issues, analyze the effectiveness of the agency's crisis management process, identify opportunities for improvement, and act on those opportunities for improvement.