

Internal Controls – In a Rapidly Changing Government Business Process

Michael J. Najjum, Jr.

Senior Vice President / CFO

Ginnie Mae

Internal Controls

- The CFO must be concerned with internal controls as it relates to both the financial position of the organization and as support for the strategic decisions.
- Let me first explain the Ginnie Mae program and why controlling risk has a role for everyone in our organization and why controls are changing.

Ginnie Mae's History, Purpose & Authority

- Formed in 1968 as a Government Corporation
- Promotes Affordable Housing by Linking the Federal Housing Market and Capital Markets
- Guarantees Mortgage-Backed Securities Collateralized by Loans Insured or Guaranteed by the Federal Government
- Full Faith & Credit Guaranty of the United States on the Mortgage-Backed Securities (MBS)

Primary Markets

Borrower # 1



Mortgage

Borrower # 2



Mortgage

Borrower # 12



Mortgage



\$0 to lend

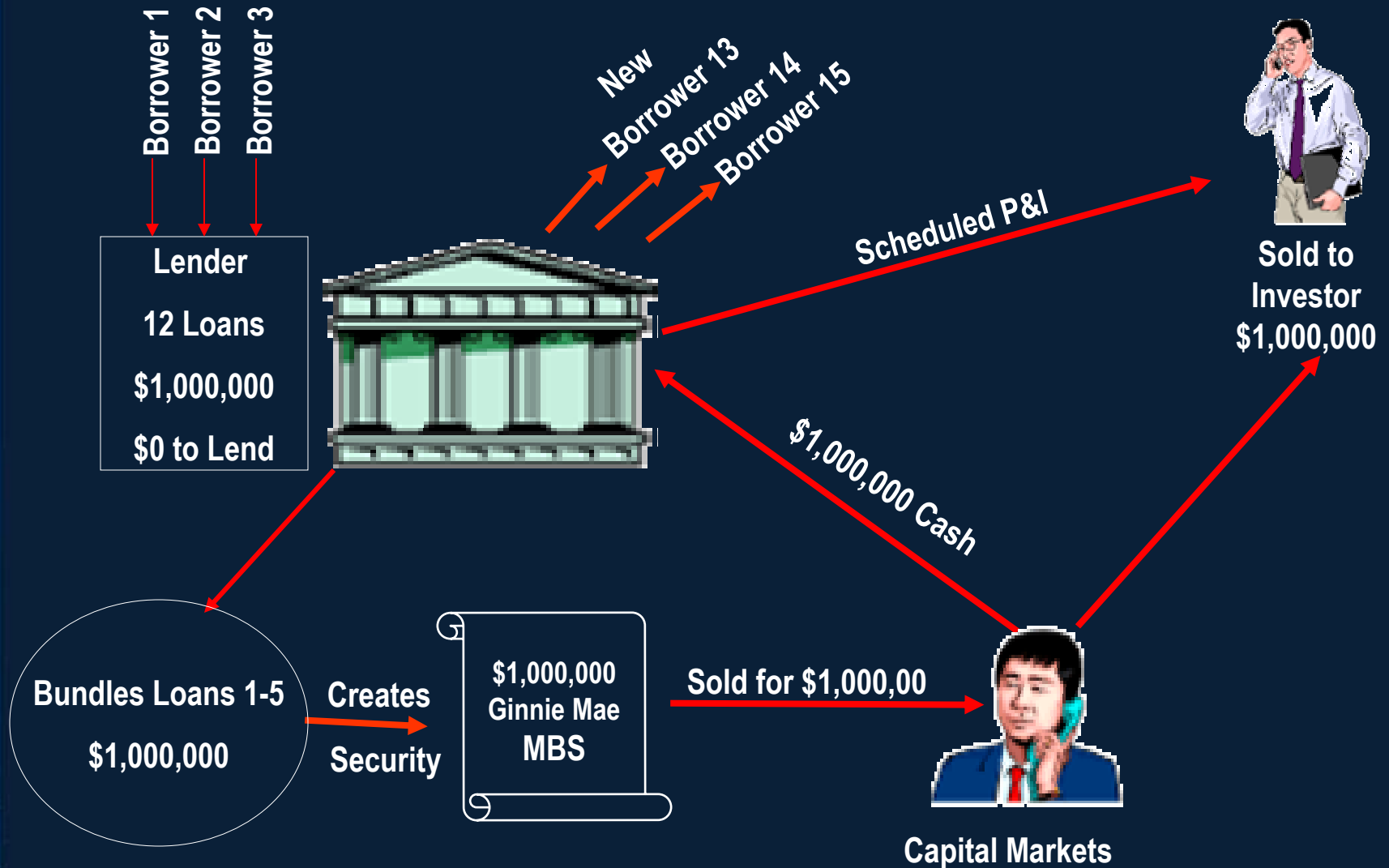


Insures/Guarantees
Loans



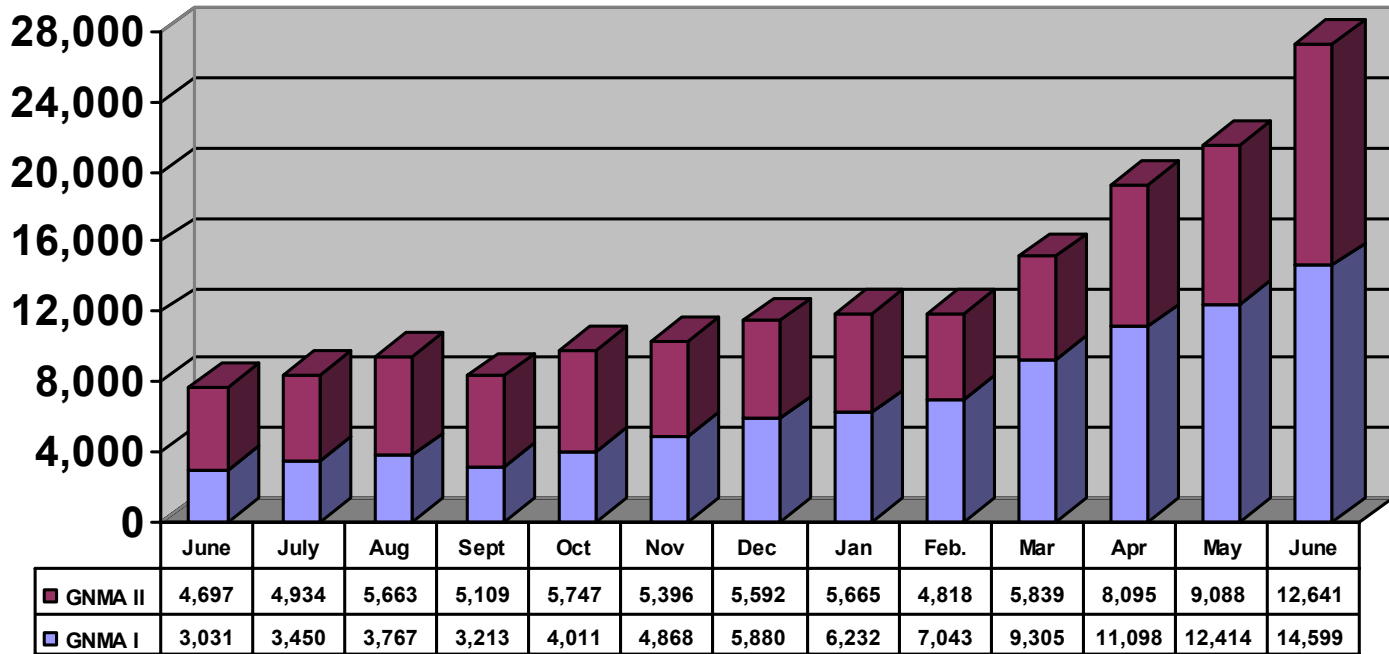
FHA -- VA -- RHS - PIH

Secondary Markets --SF



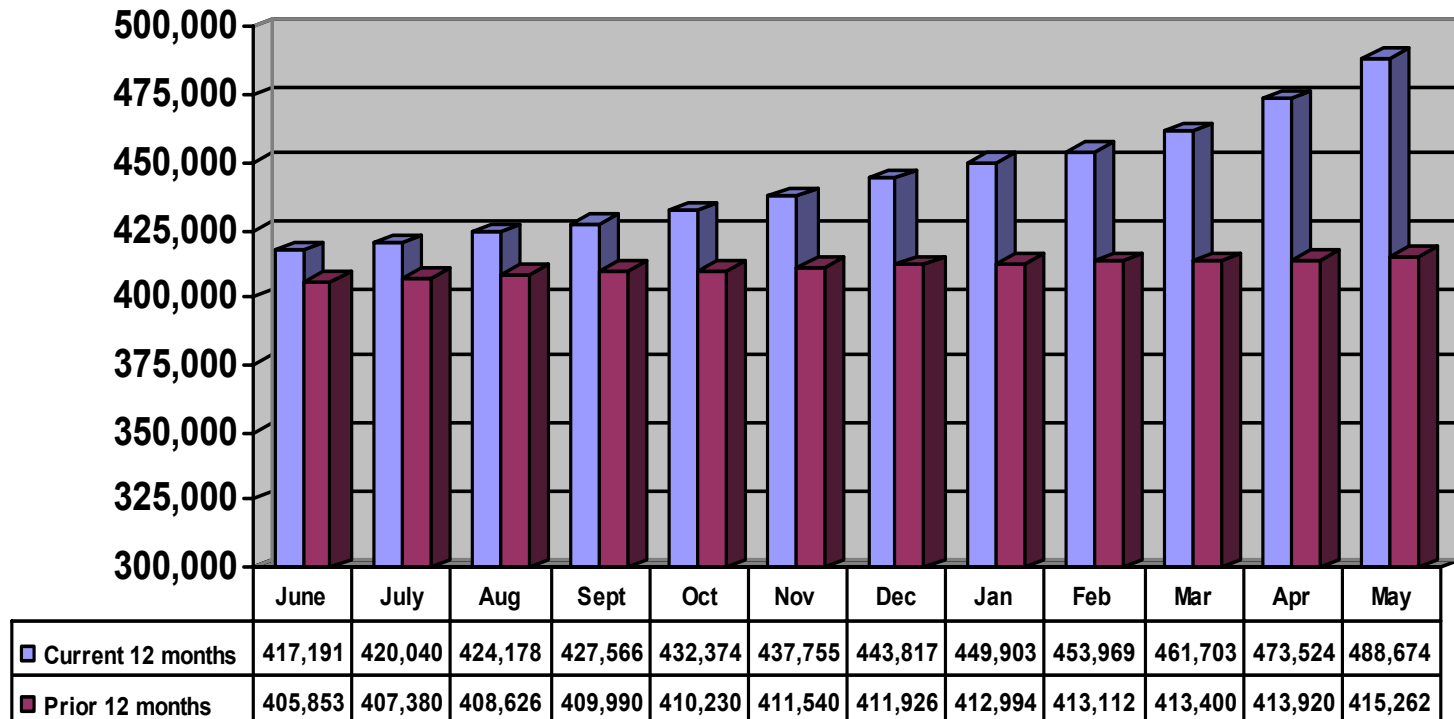
Rising Volume

Issuance Activity 12 month Snapshot



Outstanding Principle Balance

Securities Outstanding Balance



Causes for Change

- The collapse of the housing mortgage markets.
- Elevation of Ginnie Mae in the secondary mortgage market from a 3% market share to 15% and rising.
- The financial problems of financial institutions in the housing market.
- The new programs at FHA.
- FHA's increasing market share and importance to the American housing mortgage market.

New Governance

- Created a Chief Risk Officer responsible for establishing an overall risk governance structure and providing independent evaluation of all risk management activities.
- Issuer Review Board (IRB) to evaluate and approve decisions of risk that exceed the established standards or guidelines.
- Risk Committee of Senior Management to address decisions regarding corporate risk issues.

Chief Risk Officer

- Evaluates eligibility requirements such net worth and fidelity bond.
- Oversees standards for Commitment Authority.
- Monitors matching policy.

IRB

- New Issuers applications.
- If standards are not met, but recommend by program area.
- Merger and acquisitions
- Transfers of issuer responsibility

Business

- The program office can assess risk in reviewing the program's guide and the regulations that are to be followed in doing business functions.
- Net worth calculation with approved Financial Statements.
- Compliance review on the field site of the program participates.
- Insurance certificates such as E&O and Fidelity Bond.

Organization Controls

- Business processes or activities (net worth of issues and guide requirements)
- Operations (Pool processing – back office)
- Finance and related compliance risks (financial statements)

Operations

- Assessing risk by evaluating the rules of operating in the program.
- Commitment authority is approved by the Program area when in compliance with guide and net worth requirements.
- Fees paid
- Loans in Pools meet the edit checks to process.

Control

- Policies and procedures that ensure strategy and management directives are carried out at all levels. (Guides to direct the program's operation.)
- Control reviews of the processes and activities can be performed.
- Activity reports can be linked to specific control factors to assure compliance with a standard.

Monitoring

- Activities should be monitored by both review and monthly (or daily/weekly) reports.
- Monitoring controls should be built in the program processes.
- Independent reviews should be part of the monitoring process.
- Matching data between agencies such as match approved FHA loans to Ginnie Mae pooled loans.

Evaluating Risk Levels

- Reports for evaluation
- Annual Audited Financials
- Quarterly Financial Reporting
- Monthly Reporting to Ginnie Mae on Pools
- Monthly Loan Level Detail Reporting

Finance

- Assessing risk is a major part of the Finance Office in an organization.
- Financial Statements & A-123 & FY Financial Audit
- The CFO must also use assessing risk as a major part of the organization's strategic decisions.

Questions

- Questions