



March 20, 2019

The Honorable Maxine Waters
Chairwoman
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
House Committee on Financial Services
4340 O'Neill House Office Building
Washington, DC 20024

Dear Chairwoman Waters and Ranking Member McHenry:

The Community Home Lenders Association (CHLA) is writing to urge Congress to adopt legislation to create a higher pay scale for the Government National Mortgage Association (“Ginnie Mae”) – commensurate with existing higher pay scales for other federal financial regulators, such as the Office of the Comptroller of the Currency (OCC), the Federal Housing Finance Agency (FHFA), the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, and the Securities and Exchange Commission (SEC).

CHLA is composed of small and mid-sized non-bank mortgage lender/servicers, also known as independent mortgage bankers (IMBs). IMBs currently originate the great majority of Ginnie Mae securities, which create a secondary market for Federal Housing Administration (FHA), Rural Housing Service (RHS), and Veterans Administration (VA) mortgage loans. These programs are vital to homeownership, particularly for low and moderate income, minority, veteran, rural, and other underserved homebuyers.

It may be unusual for an association to write Congress to advocate for authority that augments an agency’s ability to regulate its members. However, CHLA is taking this action because a professional, well-trained Ginnie Mae staff is important both to the integrity of the program and to ensure that Ginnie Mae does not have any unintended incentives to reduce the number of issuers it regulates, merely because it might lack the capacity or expertise to regulate all its issuers.

With the significant pullback in mortgage lending by banks since the 2008 Housing Crisis, both Ginnie Mae issuance and the volume of loans in the federal mortgage programs it securitizes have grown substantially. Today, Ginnie Mae oversees a \$2 trillion mortgage-backed securities portfolio, which is double where the portfolio stood just eight years ago.

As CHLA outlined in its recent January 2019 “Report on Ginnie Mae,” Ginnie Mae has had a consistently strong financial track record. The agency has generated almost \$10 billion in net profits for taxpayers over the last decade, with a steady financial performance, including the years before and after the 2008 Housing Crisis. Moreover, since Ginnie Mae guarantees other federally insured mortgage loans, it has almost no mortgage credit risk; its risk is primarily so-called “advance risk,” which has historically generated low or non-existent claims rates.

However, as the number and types of issuers have grown in recent years, it is important for Ginnie Mae to keep pace with their supervision, through the use of experts and other qualified personnel in specialized areas that include mortgage origination, mortgage servicing, and technology.

Unfortunately, Ginnie Mae has been constrained in its ability to attract and retain talent, in large part because of the high cost of living in Washington DC. Both the HUD Office of Inspector General (OIG) and the Governmental Accountability Office (GAO) have documented these challenges.

The problem is the discrepancies between the basic federal government pay scale and the salaries of comparable personnel in the private sector in the Washington DC area and in other federal financial regulatory agencies – both of which on average have 30% higher salaries.

Even when Ginnie Mae succeeds in developing talent within these specialized fields internally, these pay scale discrepancies make it vulnerable to serving as a training ground for other federal agencies that have a higher pay scale and are also located in the Washington DC area.

While Ginnie Mae has been able for many decades to perform effectively with a staff whose capabilities were developed almost entirely within the government, that appears to now no longer be the case. Ginnie Mae now regularly seeks to augment its capability by recruiting and retaining individuals with expertise that has been developed outside government. However, for certain areas requiring specialized expertise, it simply cannot attract a field of applicants with the necessary skill sets, given compensation levels relative to what other comparable positions are able to pay.

Congress has long recognized the importance of a permissible higher wage scale for financial experts at other federal agencies.

For example, the OCC schedule utilizes 14 pay bands, each with a wider range of salaries than the GS grades that Ginnie Mae is subject to. The occupations within the agency are divided into 8 categories, and each category is associated with 1-4 of the pay bands. Provisions are also made on the schedule for promotional and special increases, and merit bonuses. The OCC schedule, or something similar, could be easily adapted for use at Ginnie Mae. It offers the ability to define categories of responsibility to which higher compensation levels would be attached, thus improving Ginnie Mae’s ability to attract and retain specialized expertise.

Higher wage scales would not necessarily translate into higher overall salary and expenses (S&E) for Ginnie Mae. If granted such authority, Ginnie would analyze how to best use it, before implementation, and would be expected to work within whatever S&E budgets are adopted under the annual HUD appropriations bills.

Moreover, higher wage scales could actually **reduce** Ginnie Mae costs in some cases. To address some of its challenges in fielding qualified personnel, GNMA has turned in recent years to third-party contractors to obtain the expertise needed to oversee issuers. As noted by the OIG and GAO, the estimated hourly compensation of the contractor personnel is \$165 per hour – which translates into \$365,000 annually for a full-time employee. Not only must GNMA pay more for the work, but the contractor personnel performing such work are constrained in what they may do as they may not carry out inherently governmental functions reserved for GNMA staff.

We appreciate your consideration of this request, and would be pleased to discuss this letter in more detail.

Sincerely,

COMMUNITY HOME LENDERS ASSOCIATION

cc: The Honorable David E. Price, Chairman, THUD Appropriations Subcommittee
The Honorable Mario Diaz-Balart, Ranking Member, THUD Appropriations Subcommittee