SUMMARY
Ministry of Housing Republic of Indonesia

Kirk Freeman, Vice President of the Office of Capital Markets at Ginnie Mae (GNMA), welcomed a six person delegation from the Republic of Indonesia to HUD. The delegation was made up of officials from the Ministry of Housing, the National Housing Savings Agency for Civil Servants, and PT Pemeringkat Efek Indonesia (a Security Ratings Company). The delegation visited HUD to learn more about mortgage-backed securities (MBS) and the role of the U.S. Government in the program. Michael Nardacci and Shalei Choi, also with the Office of Capital Markets at GNMA, also joined the briefing.

Mr. Freeman explained that the Office of Capital Markets works on several important aspects of GNMA's business. The office collects market intelligence, performs market research, and interacts with investment banks on Wall Street. It is also involved in business development activities, and has recently been increasing its focus on Asian countries. The GNMA team recently visited Taiwan, China, Hong Kong, and Korea to help buyers of MBS to better understand the U.S. housing finance model. Kirk expressed that Indonesia is also a priority for GNMA. He explained that the number one question from investors in Asian countries has been, "Why can't GNMA issue more securities?" Kirk explained that GNMA cannot issue more securities than there is demand to back up.

GNMA was founded in 1968 and was the birthplace of the MBS in the U.S. MBS allows banks to finance mortgages in the secondary market. They use the proceeds generated to make additional home loans. In this way, GNMA's primary role is to facilitate home affordability. GNMA does not buy, sell, or arbitrage securities. Its primary role is like that of an insurance company, which guarantees MBS. GNMA basically insures the creditworthiness of the servicers or originators, which are mainly the four big U.S. banks, Citibank, Bank of America, Wells Fargo, and Chase. GNMA only securitizes FHA loans.

Mr. Freeman explained that the Federal Housing Agency (FHA) does not fund loans, but provides guarantees of loans. The customer pays an insurance premium on the loan, which goes into an insurance fund. He explained that part of the reason that FHA is so special is that it has never needed additional funds to pay its claims. FHA issues guidelines that loans must meet in order to be insured. FHA also closely monitors the actors with which it works.

Mr. Nardacci explained that one issue which arises with the FHA model is that FHA essentially competes against private mortgage insurers, so when FHA decreases its premium, it can have the effect of pushing private mortgage insurers out of the market. Currently, FHA is trying to raise the insurance premium in order to both increase the amount of money available in the insurance fund, and to help the private sector re-enter the market.

Today, GNMA has about $1 trillion in MBS outstanding. This large dollar value is primarily due to the financial crisis, which saw GNMA's volume triple as a result of the shrinking presence of the private sector in the housing finance market. While other housing finance entities such as Fannie Mae and Freddie Mac are currently in conservatorship of the government, with their futures unclear, GNMA provides full faith and credit and is explicitly supported by the federal government.

GNMA currently makes up about 33 percent of the market, with Fannie and Freddie accounting for another 60 percent, for a total of about 95 percent of the market. This an unprecedented level of government involvement in the housing finance market. However, in the U.S. we believe that the government should not control such a large percentage of the housing market. This is because private capital will make markets for mortgages more efficient. Thus although GNMA has been increasingly popular since the global crisis, its current market share is probably not sustainable. The crisis today is more a crisis of confidence than a crisis of capital. The U.S. model first began with heavy government involvement in order to give the private sector the confidence to get more involved. The ideal ratio for the market is about 70/30 or 60/40. Thus the U.S. now faces the challenge of restoring confidence in the market so that private investors will return. This will allow the market to become more efficient again.

The Indonesian delegation was curious about how the housing market was recovering in the U.S. Mr. Nardacci explained that there are regional differences in housing prices, with some places still hampered by the crisis. One in four home owners currently owes more than what their house is worth. There are also not enough depository institutions to take all their mortgages on their balance sheet. Further, the banks and the government do not want to simply flush the foreclosed properties through the system with no protection for the borrowers. These are some problems which have complicated the recovery.

The Indonesian delegation also shared information on their own housing market system. They explained that the Ministry of Housing in Indonesia also has programs for low income people in order to help them own their first home. Thus the mission of the Ministry of Housing in Indonesia is similar to that of HUD. However, Indonesia faces some different challenges. For example, in Indonesia, many low income people work in the informal sector, where their income is not stable. Overall about 70 percent of people in Indonesia are employed in the informal sector, with only 30 percent holding formal sector jobs. This makes providing affordability difficult. Another issue that Indonesia faces is squatters in urban areas. Java Island, for example, has half of Indonesians 240 million people, but only 7 percent of the total land. This leads to illegal informal settlements. The government tries to relocate these people to public housing. Indonesia also faces problems with land titling. Especially in more rural areas, it is not always clear who the land belongs to because it is not registered. Therefore property claims are not always clear and this type of settlement is only quasi legal.

Right now in Indonesia, the interest rate is very high for government loans. The government directly funds low income housing. This is different than the U.S. model, where FHA and GNMA provide insurance, but not actual funds for loans. It may be possible for the Indonesians to switch to a model more similar to the U.S., and indeed the Indonesian government is trying to phase out its involvement so that the private sector can take over. They are also using a savings program for formal civil sector employees. Under this program, civil servants contribute some of their salary to a fund for housing, and their contribution is matched.

A final issue in Indonesia is that, although Indonesia has a sovereign wealth fund that makes investment in state owned enterprises, the housing market is not considered an attractive investment opportunity. In Indonesia, housing is only 2.5 percent of GDP, as opposed to twenty five percent of GDP in the U.S. Indonesia's debt rating by Standard and Poor's is currently BB, but is improving and will soon be at investment grade. This is heartening news, especially in such a difficult global financial environment.

Besides looking at the U.S. model for guidance, the Indonesian delegation has also turned to China and Singapore for lessons on how to better fund low income housing. As the meeting ended the officials thanked GNMA for their time and for the valuable information they provided, and also asked for links to further resources so that they could learn more about FHA and GNMA regulations. Mr. Freeman expressed GNMA's willingness to continue the dialogue on any further questions the delegation may have as they attempt to catalyze the private market and improve home affordability for their population.