Operationalizing Risk Appetite

Panelists: Nahla Ivy (NIST), Elizabeth Ryan (Export-Import Bank of the United States), Jason Leecost (HUD)
Introduction & Opening Remarks

Varun Malhotra
Ginnie Mae’s leadership and staff expressed a business need for explicit, consistent guidelines and boundaries when making the day-to-day operational decisions that drive the mission.

Ginnie Mae’s enterprise-level risk appetite approach:
• Helps create a common and consistent understanding of the organization’s willingness to accept or not accept risk
• Establishes a series of boundaries
• Creates consistency in the amount of risk accepted (or not)
• Supports and is supported by Ginnie Mae’s risk governance, its risk management processes, and its risk culture
• Informs leadership of performance and risk decisions

**RISK APPETITE METHODOLOGY**

Using Ginnie Mae’s strategic plan, the Office of Enterprise Risk (OER) engaged each Ginnie Mae office to create risk appetite statements and tolerance levels by:
• Conducting interviews with Ginnie Mae Senior Vice Presidents (SVPs) and Directors
• Facilitating an enterprise risk appetite working session
• Identifying potential metrics aligned with each strategic objective
• Aligning statements with Ginnie Mae’s strategic and management goals and objectives
• Socializing Ginnie Mae’s enterprise risk appetite with leadership

**RISK APPETITE DECISION MAKING & OUTCOMES**

- Ginnie Mae’s leadership and staff use the risk appetite to:
  - Make better, more informed decisions
  - Accelerate performance outcomes
  - Manage the risks that threaten performance outcomes

- Ginnie Mae’s enterprise risk appetite success and effectiveness is determined by:
  - How leadership uses this information and these boundaries to inform decisions
STRATEGIC GOAL # 1

Enterprise Risk Appetite Statement

Strategic Goal 1: Maintaining the vitality of the MBS program by keeping it relevant and useful to mortgage industry stakeholders (which in turn requires that it convey meaningful benefits to consumers). The vitality of the program is also a function of the reliability and currency of the securitization platform through which pools are issued, payments remitted, and information transmitted. The program and platform must continuously improve.

Enterprise Risk Appetite Statement: Ginnie Mae aims to balance the need to modernize its programs and its supporting technologies whilst continuing to meet routine investor commitments and “running the railroad”, ensuring confidence in the integrity and availability of Ginnie Mae’s securitization infrastructure. Ginnie Mae aims to manage operational risk consistent with Ginnie Mae’s financial capacity and performance.

Risk Tolerance Levels for October 2019

- Percentage of loans endorsed by Federal Housing Administration securitized into Ginnie Mae Mortgage Backed Securities (MBS)
- Percentage of loans endorsed by U.S. Department of Veterans Affairs securitized into Ginnie Mae MBS
- Percentage of loans endorsed by U.S. Department of Agriculture, Rural Development securitized into Ginnie Mae MBS

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Percentage of Agency Endorsed Loans Securitized into Ginnie Mae Mortgage Backed Securities

National Institute of Standards and Technology

Enterprise Risk Conference
AGA & AFERM

Nahla Ivy
Risk Appetite and ERM Maturity

Agency enterprise risk inventory informs risk appetite by identifying topics for management focus

- Establish mission priorities (strategy)
- Establish organizational priorities and values
- Make risk appetite decisions

- Implement organizational priorities
- Allocate budgets
- Define operational outcomes

- Implement operations and systems objectives
- Conduct assessments
- Apply risk tolerance
- Identify gaps

Senior Leaders Survey

Mission Goals
Strategic Objectives
Cross-Cutting Functions
Core Products and Services
Core Values

Techniques:
- Surveys
- Interviews
- Facilitated workshops

NIST pursued a Survey method:
- Obtained management perspectives on risk appetite using standardized 1-5 rating scale
- Considered five aspects of the organization
- Results captured “current” and “desired” states of risk appetite
Risk-taking Philosophies – Risk Tolerance at Operations Levels

Senior Leaders
- Focus on areas of misalignment
- Assess and compare operational level risk tolerance

Operations Level
- NIST leaders – perceived
- NIST leaders – desired

Determine where the organization falls

Risk Accepting
Averse Minimalist Cautious Flexible Open

Risk appetite helps to explore and evaluate options – balance of risks and opportunities
- Eventually... how will the organization measure alignment, once risk appetite is defined? Translation must be made at the operational level through new or existing metrics.
Panel Discussion

How to Start

• What are some of the strategies your organization used to implement risk appetite? What was the key to getting buy-in to operationalize the risk appetite in various divisions and business units?

Panel Discussion

How it is Used

• How do senior leaders view risk appetite? How is the risk appetite used to make decisions?
Panel Discussion

Value/ROI

• What is the perception of value within your organization of establishing and implementing a risk appetite? How does your organization continue to derive value from the Risk Appetite?

Panel Discussion (Optional Question)

Communication

• What are some of the strategies that your organization leverages to communicate the risk appetite to the broader set of stakeholders?
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