Voya Insights

Demystifying GNMA Securities

Volatile markets and low interest rates have many investors looking for relative price stability and income. GNMAs may help investors seeking these traits, but many investors are understandably confused about what GNMAs are and how they differ from other mortgage- and government-backed securities. Here is a review of how this unique class of bonds works, in order to help investors make an informed investment decision.

What are "GNMA" mortgage-backed bonds?

GNMA bonds are any privately issued mortgage-backed security guaranteed by the Government National Mortgage Association (GNMA) to have timely payment of principal and interest payments. They are the only mortgage-backed securities that enjoy the full faith and credit of the United States government. GNMA (also known as Ginnie Mae) is a wholly owned government agency established in 1968 to guarantee mortgage-backed securities for single-family and multi-family loans insured by various government agencies.

Given these uncertain times, why should someone consider investing in them?

Investors seeking relative safety typically consider U.S. Treasuries or money market funds or maybe even cash under the mattress. Unfortunately, the income offered by these investments is very low because interest rates are currently near historic lows. GNMA-backed mortgage bonds are guaranteed by the U.S. government just as U.S. Treasuries are, and may offer extra yield at the same time.

How can GNMA bonds offer increased yield to U.S. Treasuries but the same credit risk?

GNMA securities have the same credit protections against default and late payments as U.S. Treasury securities, but GNMA bonds have to account for prepayment risk. The higher yield on GNMAs is the result of the added risk that bond holders may be repaid prior to the stated maturity, usually from mortgage owners refinancing.

What is the key difference between GNMA and Fannie Mae and Freddie Mac?

GNMA securities are explicitly backed by the full faith and credit of the U.S. government on interest and principal while the Federal Housing Finance Agency (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) have no explicit guarantees. GNMA is a wholly owned government corporation that guarantees government-issued mortgages while Fannie Mae and Freddie Mac are private corporations that securitize conventional, non-government-issued mortgages.

Despite these clear differences, confusion has emerged about the issue after the U.S. government placed both Fannie Mae and Freddie Mac under federal government conservatorship in September 2008. This action was taken during a time of extreme market crisis to keep the U.S. housing financial market solvent. The companies continue to be run as government-sponsored enterprises, but with government control over the operations. No new explicit government guarantees came from this action and conservatorship is typically a temporary arrangement.

What key risks should investors be aware of in a GNMA Fund?

The biggest risk with a GNMA Fund is "prepayment risk." If interest rates fall, some homeowners will refinance their mortgages. As existing mortgages are paid off prior to the expiration of the loan, the holders of mortgage-backed securities get this principal back and the Fund has to invest in new mortgages at lower rates, potentially decreasing yields. Rising interest rates pose another risk. When rates rise, prepayments may slow causing duration and interest rate sensitivity to increase which may result in price declines.

How does the interest rate environment impact mortgage-backed securities?

The ideal market for mortgage-backed securities is one in which interest rates are relatively stable, so investors won't be impacted by refinancings driven by rate moves. As expected, the Federal Reserve has initiated a rate hike cycle starting with the December 2015 meeting. They remain committed to a measured, more modest pace versus prior rate cycles which may result in short-term price volatility. However, as evidenced by the chart to the right, GNMA securities have historically outperformed treasuries during periods of rising interest rates.

Historically, how do GNMAs compare to U.S. Treasuries given the additional risk?

Using indexes to represent each, GNMAs have outperformed U.S. Treasuries over the past decade. There is no guarantee that GNMAs will continue to outperform in the future, especially in a volatile yield environment. It's also important to note that U.S. Treasuries have tax advantages over GNMAs in that the income on U.S. Treasuries is state tax-free.

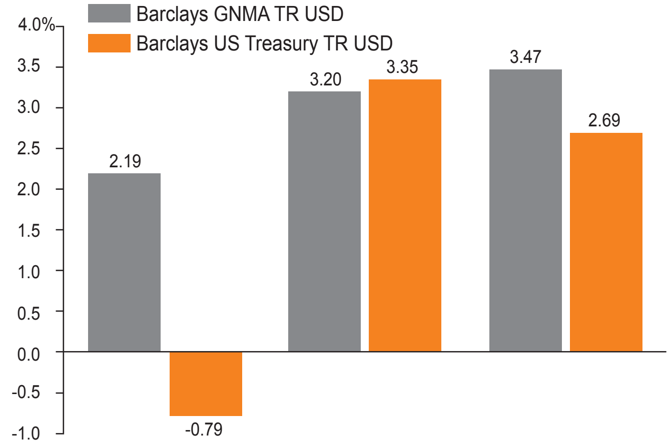
Annualized Total Returns (%) Ending December 31, 2015*

	1 Year	5 Year	10 Year
Barclays GNMA Index	1.39%	3.05%	4.66%
Barclays U.S. Treasury Index	0.84%	2.91%	4.18%

How have GNMA Mortgage-Backed Securities performed in rising rate environments?

Looking at the last three periods of rising rates, GNMAs actually performed quite well in a number of cases. In two of the three periods, GNMAs provided stronger returns than U.S. Treasuries, despite the fact that U.S. Treasuries provided better performance than one might expect, and demonstrated positive performance for all three periods:

Performance During Rising Rate Environments*



Fed Funds Rate Change

02/01/94 to 02/28/95	06/01/99 to 05/31/00	06/01/04 to 06/30/06
3.00 to 6.00	4.75 to 6.50	1.00 to 5.25

The Missing Piece of Portfolios?

The combination of historic performance, government backing and current income makes GNMA securities an asset class investors may wish to consider as part of their diversified portfolio.

Past performance does not guarantee future results.

*Source: Morningstar®, Federal Reserve, Bloomberg, FactSet

Index Disclosures

The **Barclays U.S. Aggregate Bond Index** is composed of U.S. securities in Treasury, Government-Related, Corporate, and Securitized sectors that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $250 million. The **Barclays U.S. Treasury Bond Index** is a component of the **Barclays U.S. Aggregate Index**.

Performance shown is historical. The chart is for illustrative purposes only and not indicative of any Voya fund. Index performance does not reflect any management fees or expenses associated with investing in mutual funds. **Indexes are not actively managed.** An index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot directly invest in an index.**

Investment Risks

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. As Interest Rates rise, bond prices fall, reducing the value of a GNMA security. **Mortgage-Backed** or **Mortgage-Related Securities** are exposed to prepayment and extension risks may be greater than investments in other fixed income securities.

An investor should consider the investment objectives, risks, charges and expenses of the Fund(s) carefully before investing. For a free copy of the Fund's prospectus, or summary prospectus, which contains this and other information, visit us at www.voyainvestments.com or call (800) 992-0180. Please read all materials carefully before investing.

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