

# Government National Mortgage Association

**ANNUAL REPORT 2013**







## SECRETARY'S MESSAGE

FOR MORE THAN 45 YEARS, Ginnie Mae has been leveraging the combined resources of the U.S. Government and the private sector to infuse capital into the Nation's housing finance market and assist millions of low-and moderate-income households to find an affordable place to live.

Ginnie Mae's strong foundation, based on sound financial discipline, has positioned the organization for long-term success and growth and contributed to its status as a strong, successful, independently financed, wholly owned corporation of the U.S. Government. This enables Ginnie Mae, through its numerous programs, to support housing liquidity around the country at no cost and limited risk to taxpayers. Moreover, Ginnie Mae funds its programs primarily through user fees and remained highly profitable, even during the recent financial crisis and its aftermath.

Ginnie Mae relies on a clear and simple model that allows the Federal Government and the private sector to work collaboratively in support of homeowners, renters, mortgage lenders, and investors. The sustainability of this model lends stability, consistency, and accountability to its mortgage-backed securities programs, which allow for flexibility and adaptability in an ever-evolving housing market.

As this market continues to stabilize and recover, Ginnie Mae is building for the future. By continuing to invest in its technology and infrastructure, augment its risk-management practices, and foster a stakeholder-centric organization, Ginnie Mae is solidifying its commitment to delivering top securitization capabilities and operational expertise that attract global capital to America's housing finance system.

I commend Ginnie Mae on its continued success.

A handwritten signature in blue ink, appearing to read "Shaun Donovan", is written over a light blue horizontal line.

Shaun Donovan

December 6, 2013

The Honorable Shaun Donovan  
Secretary  
U.S. Department of Housing and Urban Development  
451 7th Street, SW  
Washington, DC 20410

Dear Mr. Secretary:

As the end of another year approaches, I am happy to report that Ginnie Mae's foundation and business model remain strong, sustainable, and profitable as we continue to build for the future.

Ginnie Mae's strong foundation is grounded in financial discipline, sound risk management processes and a growing team of leading mortgage and capital markets professionals organized for long-term success and growth. Our continued profitability as a self-financed government corporation is a direct result of effective resource deployment, careful expense management, and products that attract investment capital from all over the world.

Our simple and unique business provides stability to the U.S. housing finance system in good times and bad. Ginnie Mae's full-faith-and-credit backing, combined with the flexibility of our mortgage securitization products, attracts a growing number of mortgage lenders to our programs. We require our lender partners to protect taxpayers from risk exposure by having skin in the game and retaining financial responsibility for the securities they issue.

The results of our proven business model are clear. Ginnie Mae has profitably guaranteed \$2.0 trillion in mortgage-backed securities since 2009, providing housing opportunities for 8.8 million households. During the past year alone, we guaranteed \$460 billion in securities, translating to nearly 2.1 million homes across the country.

We continue to make significant investment in our future by modernizing our technology and data infrastructure and providing loan-level collateral data that our investor community has come to expect. Responding to investor needs is just one of the ways in which we are fostering a stakeholder-centric organization that balances the interests of borrowers and lenders and provides leadership on housing reform issues.

In times like these it becomes increasingly clear that Ginnie Mae's guaranty matters. I take tremendous pleasure in presiding over such a dynamic organization that continues to successfully balance the relationship of the private market with the U.S. Government, delivering leading securitization capabilities and operational expertise in support of America's housing finance system.

Sincerely,



Theodore W. Tozer. *President*



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# 01

## GINNIE MAE'S FOUNDATION IS STRONG



### Mission and Purpose

The Government National Mortgage Association's (Ginnie Mae) mission and purpose is to bring global capital into the housing finance system—a system that runs through the core of our Nation's economy—while minimizing risk to the taxpayer. The simple but strong business model that Ginnie Mae has built highlights the power of the Federal Government and the private sector working together. Through an efficient and low-cost securitization model, Ginnie Mae provides liquidity and fulfills the needs and demands of various market segments by leveraging the full faith and credit of the United States to access global capital.

Established by Congress in 1968 as a Government-owned corporation, Ginnie Mae's statutory purpose is to ensure that adequate capital and liquidity are available to finance single family homes, multifamily housing, rental housing and healthcare facilities throughout all market conditions. Ginnie Mae successfully played a countercyclical role for housing finance in the secondary mortgage market during the worst economic crisis since the Great Depression. The recent housing crisis demonstrated the critical importance of government-guaranteed

securities as the private market retreated. Today, Ginnie Mae remains a self-financing, wholly-owned U.S. Government corporation within the Department of Housing and Urban Development.

Ginnie Mae does not originate mortgage loans, nor does it buy or sell securities or loans for investment purposes. Rather, it guarantees investors the timely payment of principal and interest on securities backed by loans insured or guaranteed

by other Federal Government housing agencies. In doing so, Ginnie Mae stands in the fourth loss position behind three layers of risk absorption, including borrowers' equity, Federal Government loan-level mortgage guarantee programs, and the corporate resources of the lender that issues the mortgage-backed security (MBS). The strength, simplicity, and agility of Ginnie Mae's unique mission and business model serve to help maintain a well-functioning mortgage market while minimizing taxpayer risk.

The strength, simplicity, and agility of Ginnie Mae's unique mission and business model serve to help maintain a well-functioning mortgage market while minimizing taxpayer risk.



Ginnie Mae reaffirmed its leadership position by sustaining its steady support of the housing market, playing a vital role in our Nation's economic recovery.

Ginnie Mae's business model continues to attract both international and domestic attention. This model has provided an uninterrupted, reliable investment vehicle across the global markets for MBS investors who rely on Ginnie Mae's safety and soundness. Ginnie Mae is also recognized for its definitive presence and role within the Nation's housing market today and for the role it is ready to play in the future.

In Fiscal Year (FY) 2013, Ginnie Mae reaffirmed its leadership position by sustaining its steady support of the housing market, playing a vital role in our Nation's economic recovery. This past year, Ginnie Mae also established market standards for securities' transparency and disclosure, enhanced risk management and technology, and extended organizational capabilities to meet the needs of the capital markets today and for future success.

### Today's Ginnie Mae

As the housing market begins to show signs of stabilization, Ginnie Mae's contribution throughout the crisis stands out as a model for the secondary mortgage market and for national housing policy. Ginnie Mae's fundamental purpose to support affordable financing for housing in America by linking global capital markets to the Nation's housing markets continues. The demand for its products and the need for the efficient, low-cost securitization model it provides

have increased. The number of lenders issuing Ginnie Mae securities is growing. Ginnie Mae's increased investment in technology, infrastructure, and staffing expertise has ensured that the expanding needs of the market are met.

### Ginnie Mae's History and Development of the Mortgage-Backed Security

Ginnie Mae's origins stem from the Government's efforts to help revitalize the U.S. housing market during the Great Depression. The Federal National Mortgage Association (Fannie Mae) was chartered in 1938 to create a mortgage market by purchasing FHA-insured loans from lenders in order to support the flow of credit and encourage lenders to make mortgage loans.

The Housing and Urban Development Act of 1968 split Fannie Mae into two separate corporations: (1) the current Fannie Mae, to purchase "conventional" (non-Government-backed) mortgages that conform to specific underwriting standards; and (2) Ginnie Mae, to focus on creating an MBS market that provides a guaranty backed by the full faith and credit of the United States. The guaranty assures investors they will receive timely payment of monthly principal and interest (P&I) on MBS secured by pools of loans guaranteed or insured by the Federal Government. This guaranty is invoked only in the rare occurrence when an Issuer<sup>1</sup> defaults on its obligation to make that timely monthly payment of P&I.

<sup>1</sup> Ginnie Mae uses the term Issuer to refer to the lenders that issue or service securities in its program. Unlike the Government-sponsored enterprises (GSEs), Issuers are legally responsible for paying the security holders, administering the securities, and servicing the mortgages.



The creation of Ginnie Mae eliminated the U.S. Treasury's need to provide funding for Federal Government loan programs. Today, Ginnie Mae remains the primary financing mechanism for all Government-insured or Government-guaranteed mortgages. Historically, mortgage rates and availability of funds varied by region, and individual mortgages were rarely sold on the secondary market. Lenders had customarily retained their mortgage loans in portfolios, which limited the number of new loans that could be originated.

In 1970, Ginnie Mae addressed these impediments to new loan origination by designing and pioneering the very first MBS, which allowed for many loans to be pooled and used as collateral in a security that could be sold in the secondary market. The explicit Government guaranty of the timely receipt of P&I on the behalf of the Issuers made these securities especially attractive to investors. By channeling investment capital from global markets, Ginnie Mae MBS support housing finance and neighborhoods across the Nation and infuse liquidity into the housing finance system.

## Supporting Mortgage Liquidity and Protecting the Taxpayer

Ginnie Mae only guarantees the performance of the Issuer. Ginnie Mae does not take credit or default risk on the underlying loans. The U.S. agencies insuring or guaranteeing the underlying mortgages include the Federal Housing Administration (FHA), the Department of Housing and Urban Development's (HUD) Office of Public and Indian Housing (PIH), the Department of Veterans Affairs' (VA) Home Loan Program, and the Department of Agriculture's (USDA) Rural Housing Service Single Family, Multifamily, and Community Facilities guaranteed loan programs (Rural Development, or RD). Ginnie Mae remains a self-financing, wholly owned U.S. Government corporation within HUD.

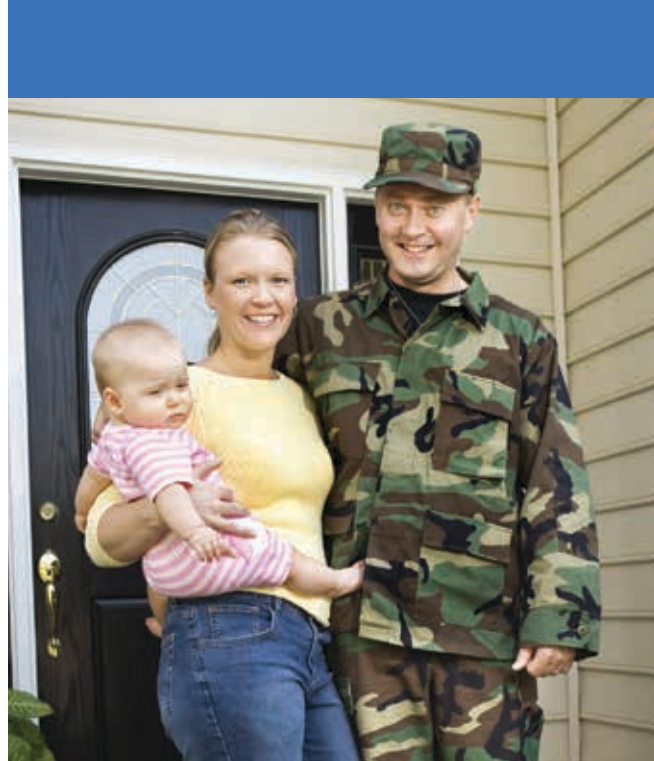
Issuers pool Government-backed mortgage loans, issue the MBS, and service and manage the MBS portfolio and the underlying loans. Ginnie Mae, in turn, guarantees the timely payment of principal and interest to the investors. In exchange for this guaranty, Issuers pay Ginnie Mae a fee from the spread between the interest rate paid by mortgage borrowers and the interest rate paid to MBS investors.



Issuers in the Ginnie Mae program are qualified institutions that are individually approved and closely monitored by Ginnie Mae’s detailed risk management framework. Ginnie Mae Issuers are diverse in size and geography and include mortgage companies, commercial banks, thrifts, credit unions, and state housing finance agencies (HFA) (see Figure 1).

Investors seek the Ginnie Mae guaranty, coupled with an expected rate of return higher than U.S. Government securities. The Ginnie Mae MBS is highly liquid and attractive to domestic and foreign investors. This liquidity is passed on to lenders who can use the proceeds from new security issuances to make new mortgage loans.

Active investor interest ensures the capital flow to Ginnie Mae guaranteed securities (as depicted in Figure 2) which helps to lower financing costs, which in turn supports accessible and affordable rental housing and homeownership. Because the securities are backed by the full faith and credit of the U.S. Government, the investor market is larger and broader, and financing is available at lower mortgage interest rates, which benefits borrowers and renters.



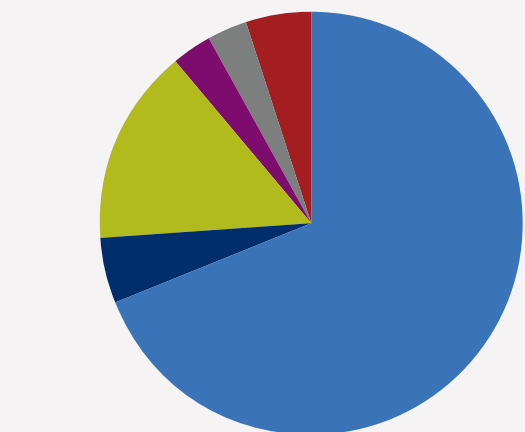
## Ginnie Mae’s Risk Model

Ginnie Mae is a mono-line business that insures only Issuer performance. There are three levels of protection that must be exhausted before the Ginnie Mae guaranty is at risk: homeowner equity, the insurance provided by the Federal Government agency that insured the loans, and the corporate resources of the lender that issued the security. Ginnie Mae is in the fourth and final loss position (Figure 3). An Issuer must exhaust its corporate resources—usually through bankruptcy—before Ginnie Mae will take on the Issuer’s role and pay on its guaranty to investors. By insuring only the performance of Issuers in their servicing responsibilities and requiring them to make principal and interest payments to investors until they can no longer do so, Ginnie Mae significantly reduces taxpayer exposure to risk.

Even if an Issuer fails to meet its obligations, Ginnie Mae does not necessarily suffer a loss. Instead, it acquires control of the Issuer’s mortgage servicing rights and places the portfolio with a financially sound Issuer. It is through investors’ confidence in this sustainable business model that Ginnie Mae ensures that capital continues to flow to the Nation’s housing finance system.

The credit exposure of Ginnie Mae is limited to counterparty risk because Ginnie Mae guarantees that an Issuer will meet its obligations. Ginnie Mae manages this risk through

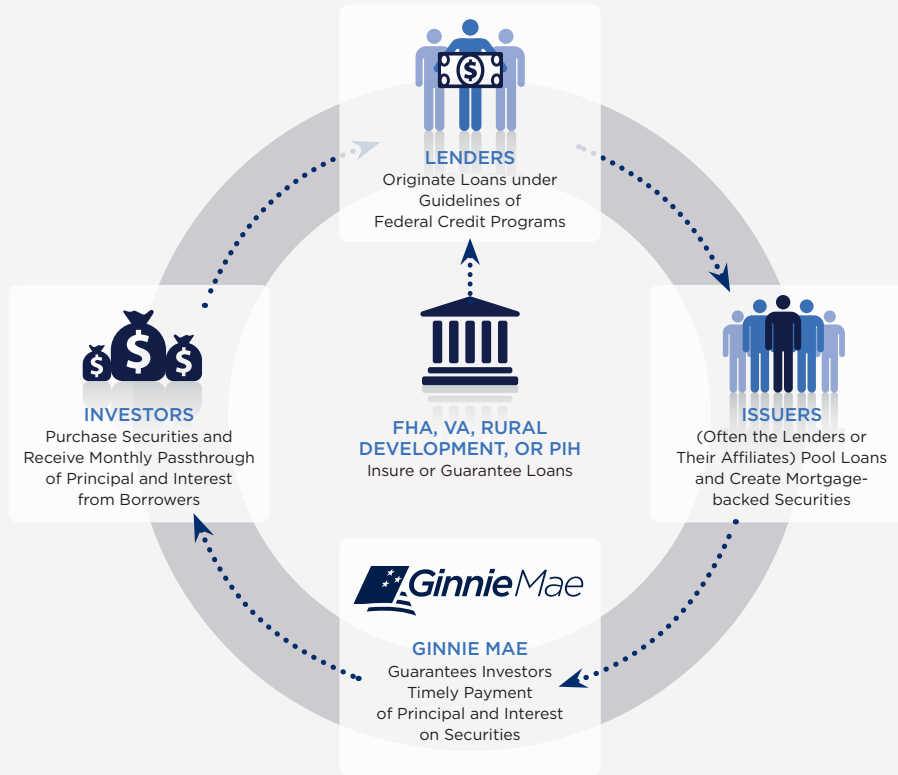
**FIGURE 1: GINNIE MAE ISSUERS BY INSTITUTION TYPE** as of September 30, 2013



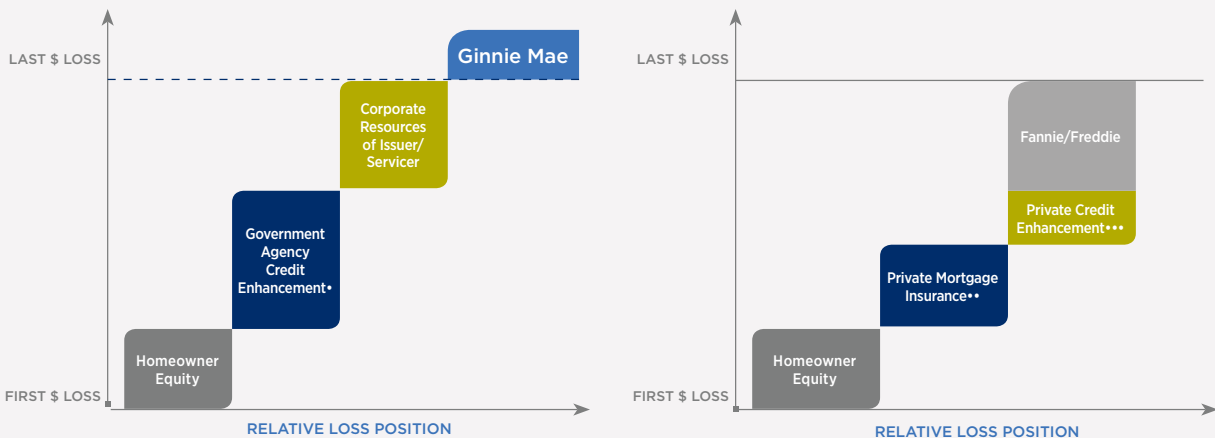
- 69% Mortgage Banks
- 5% Savings and Loans
- 15% Commercial Banks
- 3% Mutual Savings Banks
- 3% Credit Unions
- 5% Others

## FIGURE 2: CAPITAL FLOW OF GINNIE MAE GUARANTY SECURITIES

*Ginnie Mae's Risk Model*



## FIGURE 3: PROTECTING THE GINNIE MAE GUARANTY



\*VA covers the first 25% of credit loss, USDA-RHS covers the first 90%, and FHA covers 100%. Coverage of foreclosure expenses varies by agency; uncovered expenses can be substantial.

\*\*Private Mortgage Insurance (PMI) is only required for loans with > 80% LTV; loans with ≤ 80% LTV have no PMI.

\*\*\*Private Credit Enhancement is the result of a recent FHFA mandate on Fannie Mae and Freddie Mac requiring them to establish risk-share instruments with private enterprises or investors.

its comprehensive Issuer approval process and ongoing monitoring procedures, both of which are a part of a multi-layer risk management framework.

## Ginnie Mae's Products and Programs

Ginnie Mae offers reliable solutions that meet the needs of a broad constituent base of borrowers, lenders and investors and provides sufficient flexibility to respond to market changes. At the core of its business model and product offerings is the simple pass-through security, which comes in the form of two product structures—Ginnie Mae I MBS and Ginnie Mae II MBS. Characteristics of each are summarized in the following table.

The Ginnie Mae I Single Issuer MBS is the foundation of its MBS program. In recent years, however, the Ginnie Mae II MBS has generated increased demand and surpassed the Ginnie Mae I MBS in terms of issuance volume. In FY 2013, the Ginnie Mae II program accounted for approximately 82 percent of Ginnie Mae's MBS issuance.

This is the result of investors' growing preference for multi-Issuer pools, as well as increased appetite for larger pools with diverse collateral characteristics.

The Ginnie Mae MBS also serve as the underlying collateral for multiclass products, such as Real Estate Mortgage Investment Conduits (REMICs), Callable Trusts, Platinum Securities, and Stripped Mortgage-Backed Securities (SMBS). Ginnie Mae also guarantees the timely payment of principal and interest of these products. These structured transactions allow the private sector to combine and restructure cash flows from Ginnie Mae MBS into securities that meet unique investor requirements for yield, maturity, and call-option features.

Multiclass products are structured for offering in the public markets by "sponsors." These sponsors are approved Ginnie Mae securities dealers in the REMIC program, and depositors in the platinum program, who have wide access to global investors. By managing the ongoing relationship with

GINNIE MAE I MBS	GINNIE MAE II MBS
Single-issuer pools	Single- or multiple-issuer pools
Note rates on underlying mortgages are fixed and all the same	Multiple note rates on underlying mortgages—limited to a range of 50 basis points (0.25 to 0.75 above the pass-through interest rate)
Acceptable collateral: <ul style="list-style-type: none"> <li>• To Be Announced (TBA) eligible: Single Family Level Payment Mortgages</li> <li>• Non-TBA eligible: Buydown Mortgages, Graduated Payment Mortgages, Growing Equity Mortgages, Serial Notes, Manufactured Home Loans, Project Loans, Construction Loans</li> </ul>	Acceptable collateral: <ul style="list-style-type: none"> <li>• TBA eligible: Single Family Level Payment Mortgages, including up to 10 percent Buydown Mortgages</li> <li>• Non-TBA eligible: Adjustable-rate Mortgages, Graduated Payment Mortgages, Growing Equity Mortgages, Serial Notes, Manufactured Home Loans, Home Equity Conversion Mortgage (HECM) Loans</li> </ul>
Timing of payments: 15th of the month	Timing of payments: 20th of the month
	Larger pool size
	More demographically and geographically diverse
	Customizable pools

REMICs	CALLABLE TRUSTS	PLATINUM SECURITIES	SMBS
Investment vehicles reallocate pass-through cash flows from underlying mortgage obligations into a series of different bond classes, known as tranches, which vary based on term and prepayment risk.	Investors can redeem or call a security prior to its maturity date under certain conditions to hedge against fluctuating interest rate environments.	Investors can hold multiple pools of MBS to combine them into a single Ginnie Mae Platinum Certificate.	Custom-designed securities that redirect MBS principal and/or interest cash flows to meet investors' specific objectives. Ginnie Mae guarantees the timely payment of principal and interest on each class of SMBS.

investment banks and institutional investors, Ginnie Mae supports multiple products that meet the needs of global capital market participants and attract financing to the U.S. housing market.

This wide range of Ginnie Mae security products finances the diverse single family and multifamily lending initiatives provided by the Government's housing agencies. Those Government-insured and guaranteed lending programs align with Ginnie Mae's four MBS programs. These programs are designed to serve a variety of loan financing needs and different Issuer origination capabilities. All loans in each of these programs are insured or otherwise guaranteed by the Government, which minimizes risk to Ginnie Mae.

Ginnie Mae supports multiple products that meet the needs of global capital market participants and attract financing to the U.S. housing market.

**Single Family Program:** The majority of Ginnie Mae securities are backed by single family mortgages predominantly originated through FHA and VA loan insurance programs (61.9 percent and 32.9 percent, respectively). In FY 2013, 96.7 percent of FHA fixed-rate single family loans and 98.0 percent of VA fixed-rate single family loans were placed into Ginnie Mae pools. As of the end of FY 2013, investors held \$1.3 trillion in outstanding single family Ginnie Mae

MBS. The Single Family Program supports purchase mortgages, loans that are modified to support loss mitigation programs, as well as mortgage refinancing.

Within the Single Family MBS Program, the Targeted Lending Initiative (TLI) provides incentives for lenders to increase loan volumes in traditionally underserved areas. Established in 1996, the TLI program offers discounts ranging from one to three basis points on Ginnie Mae's six-basis-point guaranty fee, depending on the percentage of TLI-eligible loans within the pool or loan package. The reduced fee motivates lenders to originate loans in these distressed areas.

**Multifamily Program:** Ginnie Mae's Multifamily MBS Program enables lenders to reduce mortgage interest rates paid by property owners and developers of apartment buildings, hospitals, nursing homes, assisted living facilities, and other types of housing. These lower interest rates provide the necessary incentive for many developers to construct or substantially rehabilitate new projects.

The importance of multifamily financing is growing as the population ages, facilities need renovation, and the demand for memory care services increases. Tailored for many property types and financing scenarios, Ginnie Mae's Multifamily MBS Program reaches diverse segments of the U.S. rental housing market and finances projects that stabilize local economies and bring jobs to communities across the country. The sophisticated and flexible structure



of the program provides Ginnie Mae with a competitive advantage over other multifamily financing offerings in the industry. This advantage is due to four key characteristics typically attributed to government loan programs: lower interest rates on loans; higher loan-to-value ratio for borrowers; all-in-one construction to permanent loan origination; and an advantageous capital source for health care properties, including nursing homes and hospitals. In FY 2013, Ginnie Mae's Multifamily MBS portfolio increased to \$79.8 billion, compared to \$67.4 billion in FY 2012, helping to finance 1,854 apartment building loans, 46 hospital loans, and 690 nursing home loans.

**Home Equity Conversion Mortgage (HECM) MBS (HMBS) Program:** Ginnie Mae's HECM securities program provides capital and liquidity for FHA-insured reverse mortgages. HECM loans can be pooled into HMBS within the Ginnie Mae II MBS program. They also can serve as collateral for REMICs backed by HMBS (H-REMICs). Ginnie Mae has been a pioneer in the development of a liquid securities market for reverse mortgages, providing senior citizens with access to their home equity during challenging economic times. In FY 2013, Ginnie Mae's HMBS portfolio reached \$44.6 billion, compared to \$36.9 billion in FY 2012.

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**Manufactured Housing (MH) Program:** Ginnie Mae's MH program provides financing for and allows the issuance of pools of loans insured by FHA's Title I Manufactured Home Loan program for manufactured home loans that do not include land as collateral. This program went through significant changes in support of the Housing and Economic Recovery Act of 2008 (HERA).

### Prudent Use of the Strength of the Full Faith and Credit Guaranty

The full faith and credit guaranty separates Ginnie Mae from all other MBS guarantors, including Fannie Mae and Freddie Mac. As federally chartered secondary market participants, these Government-sponsored enterprises (GSEs) share many similarities with Ginnie Mae. These organizations each provide liquidity in the secondary mortgage market, support housing finance opportunities,

and guarantee MBS by ensuring the timely payment of principal and interest to investors. Their structure and business models, however, differ in a number of ways, including most notably their guaranty of the loans underlying the MBS.

The key differences between Ginnie Mae and the GSEs are summarized in the table below.

### Ensuring a Liquid Market

The recovery of the housing market depends on a reliable supply of liquidity that only a strong capital market can provide. The consistent performance of Ginnie Mae’s MBS products has been essential to providing this liquidity. Issuers know that Ginnie Mae securities provide attractive pricing and are an important asset class for many investors. The

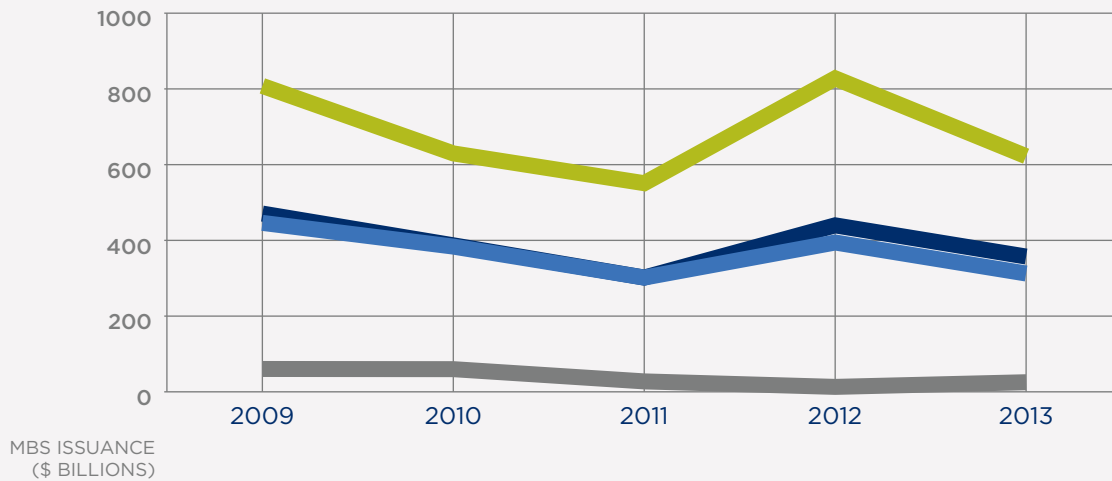
favorable pricing on securities, enabled by the Ginnie Mae guaranty, is ultimately passed on to many homeowners and renters in the form of lower interest rates and more attractive leasing terms. In addition, these securities provide the financing necessary for all Federal Government loan guarantee programs that support safe and affordable housing.

Ginnie Mae’s creation of pass-through securities also led to the establishment of the “To Be Announced” (TBA) market, a critical feature of the secondary mortgage market allowing for future lending commitments and valuation. Investors in TBA securities know that the terms and conditions of the security are consistent and the underlying mortgage loans are comprised of relatively homogeneous collateral. This innovative process enables lenders to lock in a rate for the mortgages before closing, which facilitates the availability

	GINNIE MAE	GSEs
<b>Governance</b>	Wholly owned Government corporation	Under Government conservatorship since September 2008 but remain publicly traded companies (not on NYSE)
<b>Government Guaranty</b>	Explicit guaranty to investors	Implicit guaranty to investors
<b>Business Activities</b>	Does not purchase loans, nor does it buy, sell, or issue securities as part of its regular course of business, but approves private lending institutions to issue MBS for which Ginnie Mae provides the guaranty.	Purchase loans, and they buy, sell, and issue securities.
<b>Rates and Terms</b>	Trade at a higher price than comparable GSE MBS, thus providing a lower interest rate to borrowers	Trade at lower prices relative to Ginnie Mae MBS
<b>Functions</b>	Guaranty and bond administration of MBS Only	Loan-level guaranty and bond administration of MBS; and management of investment portfolio of whole loans and MBS
<b>Risk</b>	Limited risk to Ginnie Mae. Issuer/Servicer Risk. Issuers must have capital to advance payments of principal and interest to investors when a loan defaults. Government agencies insurance (e.g., FHA, VA, RD, PIH) repays Issuers for principal (not Ginnie Mae). Also, Issuers are responsible for unreimbursed credit losses for the securities they issue.	Significant risk to the GSEs. Borrower Credit Risk, Interest Rate Risk, and Servicer Risk. These GSEs guarantee full repayment of principal to investors when a loan defaults. Also, these GSEs are responsible for the risk of loss on their securities.
<b>Eligible Collateral</b>	Government-backed loans (FHA, VA, RD, PIH)	Conventional Loans

**FIGURE 4: MARKET SHARE OF GINNIE MAE AND GSE SECURITIES**

Calendar Years 2009 through 2013<sup>2</sup>



	2009	2010	2011	2012	2013
<b>Ginnie Mae</b>	\$446.2	\$383.6	\$301.7	\$394.4	\$312.5
<b>Fannie Mae</b>	\$807.9	\$629.7	\$551.0	\$827.9	\$622.3
<b>Freddie Mac</b>	\$470.8	\$387.0	\$301.8	\$439.7	\$357.3
<b>Non-agency</b>	\$60.4	\$59.9	\$27.6	\$13.1	\$25.4

<sup>2</sup> Source: *Inside MBS & ABS*. MBS issuance figures based on the 12 months of the calendar year for 2009 through 2012, and for the first 9 months of calendar year 2013.

of affordable mortgages to millions of prospective homeowners. Although established many years ago, a significant portion of the volume of MBS traded in the market today continues to be in the form of TBA securities, which are contracts for the purchase or sale of a type of MBS security that will be delivered at a future agreed-upon date. Though the specific loans, pool numbers or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade, the TBA market uses accepted parameters for loans and pools to be delivered. Ginnie Mae’s TBA-eligible MBS enables mortgage lenders to sell their primary originations forward by securitizing the mortgages for purchase in the secondary market.

Another segment of the secondary mortgage market is the non-agency, or private-label securities market. Figure 4 shows the dramatic decline in the private-label market over the past several years and the consistent issuance of agency MBS—those backed by Ginnie Mae and the GSEs. The total issuance of agency MBS during the first three quarters of calendar year 2013 remained at an elevated level of \$1.29 trillion compared to the limited issuance of private-label MBS.

Although Ginnie Mae has maintained a significant share of the MBS market over the past several years, maintaining a high market share is not its goal. Its goal is simply to support the housing market in a safe and efficient manner.



# 02

## FINANCIAL HIGHLIGHTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS



The outstanding MBS portfolio guaranteed by Ginnie Mae increased by \$115.7 billion in FY 2013, which led to increased guaranty fee revenues.

Ginnie Mae continued to post stable financial results during FY 2013. Revenues decreased by 1.7 percent to \$1,225.1 million, down from \$1,246.6 million in FY 2012. Expenses increased to \$128.4 million in FY 2013, compared to \$86.0 million in FY 2012. However, Ginnie Mae recognized a provision for MBS loss liability of \$422.7 million. The provision for MBS loss liability was \$8.9 million less than FY 2012 and the Total Losses from credit impairment of mortgage loans held for investment was \$73.8 million less than FY 2012. As shown in Table 1 on the following page, Ginnie Mae achieved excess revenues over expenses (net profit) of \$628.4 million, compared with \$609.6 million in FY 2012. Total assets increased to \$25.0 billion from \$23.7 billion in FY 2012.

The outstanding MBS portfolio guaranteed by Ginnie Mae increased by \$115.7 billion in FY 2013, which led to increased guaranty fee revenues. In FY 2013, MBS guaranty fees increased to \$870.9 million, up from \$779.4 million in FY 2012. Interest on mortgage loans held for investment decreased to \$116.4 million in FY 2013, down from \$279.8 million in FY 2012. However, U.S. Government securities interest income increased from \$81.5 million in FY 2012 to \$98.7 million in FY 2013.

In FY 2013, Ginnie Mae issued \$464.7 billion in commitment authority, a 14.4 percent increase from FY 2012. The \$460.4 billion of MBS issued in FY 2013 represents an 18.6 percent increase from FY 2012. The outstanding MBS balance of \$1,457.1 billion at the end of FY 2013, compared to \$1,341.4 billion in FY 2012, resulted from new issuances exceeding repayments. FY 2013 production provided the capital to finance home purchases, refinances, or rental housing for approximately 2.1 million U.S. households.

Table 1 also provides financial highlights of Ginnie Mae over the past three years.

The following discussion provides information relevant to understanding Ginnie Mae's operational results and financial condition. It should be read in conjunction with the financial statements and notes in Section III of this report; the financial statements have received an unqualified audit opinion from Ginnie Mae's

**TABLE 1: GINNIE MAE FINANCIAL HIGHLIGHTS** *Fiscal Years 2011 to 2013*

	2013	2012	2011
<b>BALANCE SHEETS HIGHLIGHTS AND LIQUIDITY ANALYSIS</b> <i>(Dollars in Thousands)</i>			
Funds with U.S. Treasury	\$ 9,622,400	\$ 7,075,500	\$ 7,210,300
U.S. Government Securities	\$ 1,810,200	\$ 2,113,600	\$ 2,126,800
Other Assets	\$ 13,587,000	\$ 14,540,500	\$ 9,514,000
Total Assets	\$ 25,019,600	\$ 23,729,600	\$ 18,851,100
Total Liabilities	\$ 8,019,900	\$ 7,358,200	\$ 3,089,300
Investment of U.S. Government	\$ 16,999,700	\$ 16,371,400	\$ 15,761,800
Total RPB Outstanding (1)	\$ 1,457,108,143	\$ 1,341,404,733	\$ 1,221,685,233
MBS Loss Liability (2) and Investment of U.S. Government	\$ 17,700,000	\$ 16,728,800	\$ 16,157,600
Investment of U.S. Government as a Percentage of Average Total Assets	69.74%	76.90%	87.77%
MBS Loss Liability and Investment of U.S. Government as a Percentage of RPB	1.21%	1.25%	1.32%
Capital Adequacy Ratio (3)	1.19%	1.23%	1.30%
<b>HIGHLIGHTS FROM STATEMENTS OF REVENUES AND EXPENSES &amp; PROFITABILITY RATIOS</b> <i>Year Ended September 30</i>			
MBS Program Income (5)	\$ 1,126,400	\$ 1,165,100	\$ 856,500
Interest Income - U.S. Government Securities	\$ 98,700	\$ 81,500	\$ 208,100
Total Revenues	\$ 1,225,100	\$ 1,246,600	\$ 1,064,600
MBS Program Expenses	\$ (100,200)	\$ (62,900)	\$ (72,800)
Administrative Expenses	\$ (17,500)	\$ (14,100)	\$ (11,000)
Fixed Asset Amortization	\$ (10,700)	\$ (9,000)	\$ (9,900)
Total Expenses	\$ (128,400)	\$ (86,000)	\$ (93,700)
Total Recapture (Provision) for Losses	\$ (422,700)	\$ (431,600)	\$ 394,600
Total Other Gains (Losses) (4)	\$ (45,600)	\$ (119,400)	\$ (181,500)
Excess of Revenues Over Expenses	\$ 628,400	\$ 609,600	\$ 1,184,000
Total Expense as a Percentage of Average RPB	0.0092%	0.0067%	0.0083%
Total Recapture (Provision) for Losses as a Percentage of Average RPB	0.0302%	0.0337%	0.0348%

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS; this does not include \$1.6M of Ginnie Mae Guaranteed Bonds

(2) Liability for loss on MBS program guaranty (MBS Loss Liability)

(3) MBS Loss Liability and investment of U.S. Government divided by the sum of Total Assets and Remaining Principal Balance

(4) Total Losses from credit impairment of mortgage loans held for investment, net and loss on MSR offset by the gain on sale of securities

(5) MBS Program income includes MBS guaranty fees, interest on mortgage loans held for investment, commitment fees, multiclass fees and other MBS program income

independent auditor. Ginnie Mae's operating results are subject to change each year, depending on fluctuations in interest income from its U.S. Government securities and in MBS program income, expenses and provisions for losses.

## Revenues

Ginnie Mae receives no appropriations from general tax revenue. Instead, its operations are self-financed through a variety of fees. In FY 2013, Ginnie Mae generated total revenue of \$1,225.1 million. This included \$870.9 million in guaranty fee income and \$98.7 million in interest income from U.S. Government securities. It should be noted that Ginnie Mae's cash reserves are being held at the U.S. Treasury.

Figure 5 shows Ginnie Mae's total annual revenue for the last five years.

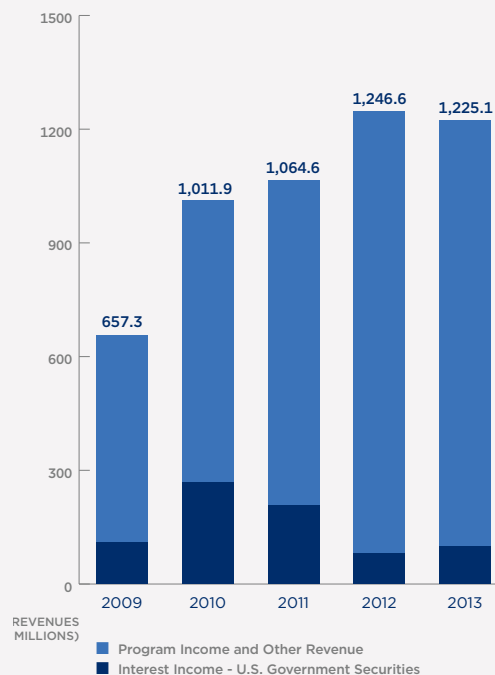
### MBS Program Income

MBS program income consists primarily of guaranty fees, commitment fees, and interest on mortgage loans held for investment (HFI). For FY 2013, MBS program income was concentrated in guaranty fees of \$870.9 million, followed by interest on mortgage loans HFI of \$116.4 million, and commitment fees of \$92.2 million. Combined guaranty fees, mortgage loans HFI and commitment fees made up 95.8 percent of total MBS program revenue for FY 2013. Other lesser income sources included multiclass fees, new issuer fees, handling fees, and transfer-of-servicing fees.

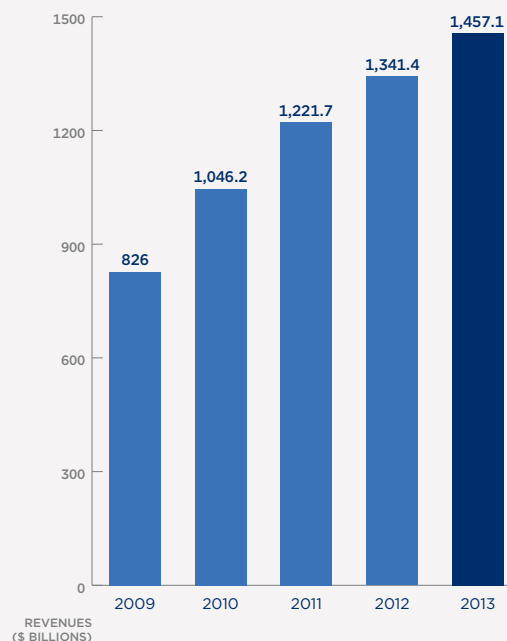
### Guaranty Fees

Guaranty fees are income streams earned for providing Ginnie Mae's guaranty of the full faith and credit of the U.S. Government to investors. These fees are paid over the life of the outstanding securities. Guaranty fees are collected on the aggregate principal balance of the guaranteed securities outstanding in the non-defaulted issuer portfolio. MBS guaranty fees grew 11.74 percent to \$870.9 million in FY 2013, up from \$779.4 million in FY 2012. The growth in guaranty fee income reflects the increase in the MBS portfolio. The outstanding MBS balance at the end of FY 2013 was \$1,457.1 billion, compared with \$1,341.4 billion as of the end of FY 2012, as new issuances exceeded repayments (see Figure 6).

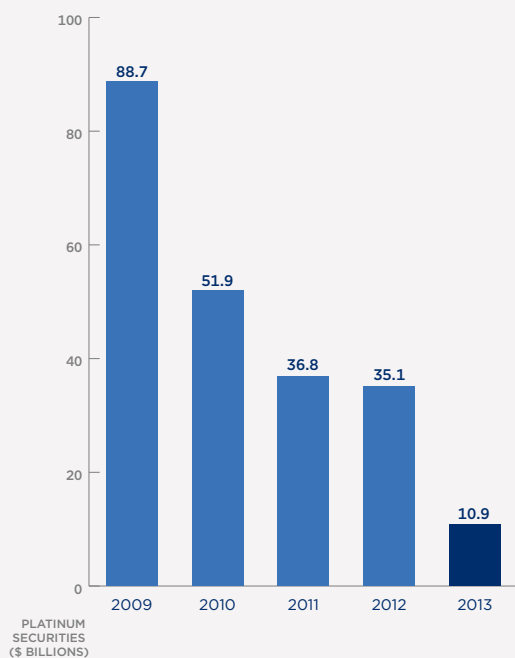
**FIGURE 5: GINNIE MAE TOTAL REVENUES**  
FYs 2009 to 2013



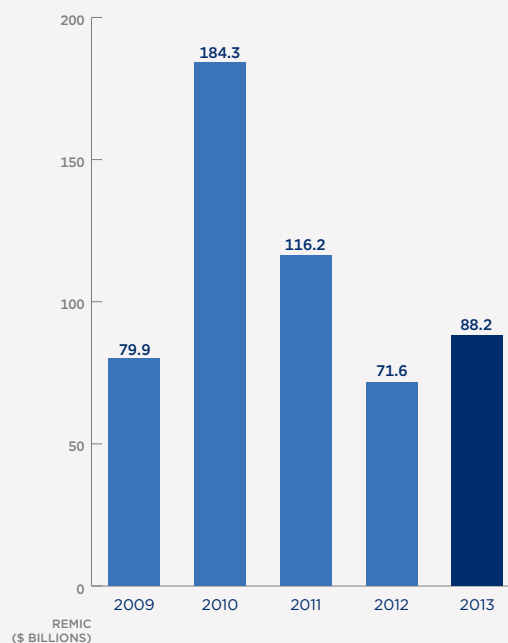
**FIGURE 6: REMAINING PRINCIPAL BALANCE (RPB) OUTSTANDING IN THE MORTGAGE-BACKED SECURITIES PORTFOLIO** FYs 2009 to 2013



**FIGURE 7: PLATINUM SECURITY VOLUME**  
FYs 2009 to 2013



**FIGURE 8: TOTAL REAL ESTATE MORTGAGE INVESTMENT CONDUIT VOLUME** FYs 2009 to 2013



### **Commitment Fees**

Commitment fees are income that Ginnie Mae earns for providing approved issuers with the authority to pool mortgages into Ginnie Mae MBS. This authority expires 12 months from its receipt for single family issuers and 24 months from its receipt for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority. Ginnie Mae issued \$464.7 billion in commitment authority in FY 2013, a 14.4 percent increase from FY 2012. It recognizes the commitment fees as earned when issuers use their commitment authority. The balance is deferred until earned or expired, whichever occurs first. As of September 30, 2013, commitment fees deferred totaled \$28.3 million.

### **Multiclass Revenue**

Multiclass revenue is part of MBS program revenue and is composed of REMIC and Platinum program fees. Ginnie Mae issued approximately \$10.9 billion in Platinum products in FY 2013 (see Figure 7). Total cash fees for Platinum securities amounted to \$3.1 million. Total cash

guaranty fees from REMIC securities totaled \$36.7 million on \$88.2 billion in issuance of REMIC products (see Figure 8). Ginnie Mae recognizes a portion of REMIC, Callable Trust, and Platinum program fees in the period they are received, with balances deferred and amortized over the remaining life of the financial investment.

In FY 2013, Ginnie Mae issued \$99.1 billion in its multiclass securities program (REMIC and Platinum). The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2013, was \$468.5 billion. This represents a \$54.0 billion decrease from the \$522.5 billion outstanding balance as of the end of FY 2012.

### **Interest Income**

Ginnie Mae invests in U.S. Government securities of varying terms. In FY 2013, Ginnie Mae's interest income increased as a percentage of total revenue, to \$98.7 million as compared to \$81.5 million in FY 2012. This increase resulted primarily from an increase in the interest rate.

## Expenses

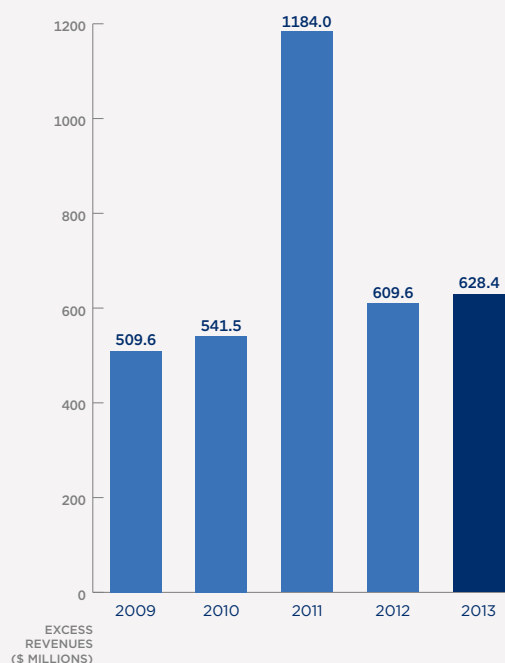
Operating expenses in FY 2013 increased by 49.3 percent to \$128.4 million, up from \$86.0 million in FY 2012, while total expenses were 10.48 percent of total revenues in FY2013, up from 6.9 percent in FY 2012.

Ginnie Mae's higher excess revenues over expenses (net profit) of \$628.4 million for FY 2013, versus \$609.6 million for FY 2012 (see Figure 9), were driven by an increase in guaranty fees, notwithstanding an increase in expenses.

Table 2 presents the expenses related to Ginnie Mae programs and contractors during the last five years. Although issuance volume has increased more than four times, related expenses have been managed well over this timeframe, as shown in the table.

Credit-related expenses include Ginnie Mae's provision for loss and defaulted issuer portfolio costs. Ginnie Mae completes a MBS loss liability analysis on an annual basis. Based on this analysis in FY 2013, Ginnie Mae recognized \$422.7 million in total provisions for losses. This contrasts

**FIGURE 9: EXCESS OF REVENUES OVER EXPENSES** *FYs 2009 to 2013*



**TABLE 2: MORTGAGE-BACKED SECURITIES PROGRAM EXPENSE** *FYs 2009 to 2013*

<i>(In Millions)</i>	2013	2012	2011	2010	2009
Central Paying Agent	29.0	11.3	9.7	10.4	7.7
Contract Compliance	0.6	1.3	0.9	0.9	0.3
Federal Reserve	6.0	5.2	4.5	4.8	4.9
Financial Support	2.9	1.7	4.9	1.8	0.8
IT Related & Miscellaneous	15.1	3.9	7.6	8.0	5.4
MBS Information Systems & Compliance	31.4	21.4	17.2	19.2	15.1
Multiclass	11.6	11.2	21.2	17.5	11.0
Multifamily Program	2.7	5.8	5.1	7.7	8.0
Servicemembers Civil Relief Act	.09	1.1	1.7	2.3	2.2
<b>TOTAL</b>	<b>100.2</b>	<b>62.9</b>	<b>72.8</b>	<b>72.6</b>	<b>55.4</b>



with \$431.6 million in total provisions for losses in FY 2012, which drove an increase in net profit in FY 2013. Ginnie Mae defaulted one Issuer during FY 2013.

### ***MBS Issuance and Portfolio Growth***

Demand for government loans remained strong, and Ginnie Mae MBS issuance increased by 18.6 percent to \$460.4 billion in FY 2013, as shown in Figure 10.

The current outstanding MBS amount stands at \$1,457.1 billion, which is a \$115.7 billion increase over the amount at the end of FY 2012. The effect of the increase of the portfolio also has changed its character, as evidenced in the average age of the loans. Approximately 17.4 percent of the \$4.9 trillion in MBS guaranteed by Ginnie Mae since its inception has been issued in the last two years (see Figure 11).

As shown in Figure 12, Ginnie Mae supported approximately 2.1 million units of housing for individuals and families in FY 2013, a 19.2 percent increase from FY 2012.

### ***Single Family Program***

The vast majority of the mortgages in Ginnie Mae securities are insured by FHA and VA loans. FHA-insured mortgages accounted for 61.9 percent of loans in Ginnie Mae pools, while VA-guaranteed loans accounted for 32.9 percent in FY 2013; Rural Development and PIH loans made up the remainder. Although other agencies and private issuers may pool FHA-insured loans for their own MBS or hold in

portfolio as whole loans, almost all of these loans make their way into Ginnie Mae securities. In FY 2013, 96.7 percent of FHA fixed loans and 98.0 percent of VA fixed-rate loans were placed into Ginnie Mae pools. In FY 2013, 18.9 percent of single family Ginnie Mae pools received a discounted guarantee fee for the inclusion of a high percentage of loans originated in economically depressed markets.

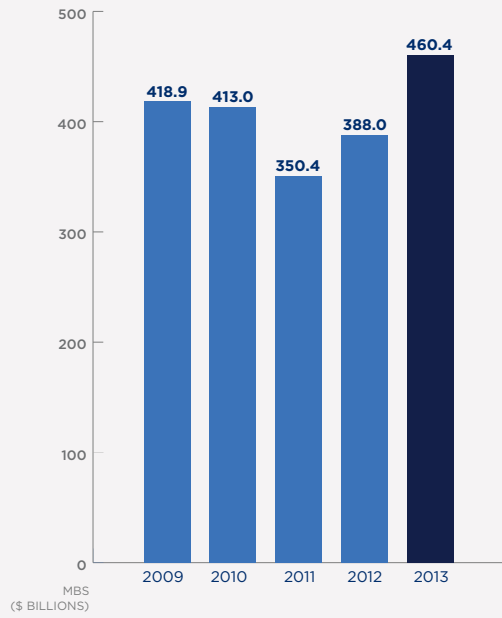
Although loans underlying its securities may be concentrated in specific areas, Ginnie Mae has provided homeownership opportunities in every U.S. state and territory. Figure 13 highlights the geographic distribution of single family properties securing Ginnie Mae securities as of September 30, 2013.

### ***Multifamily Program***

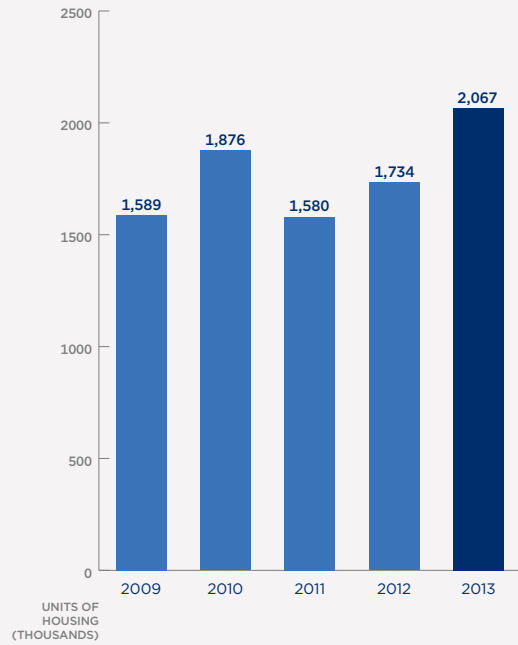
At the end of FY 2013, Ginnie Mae guaranteed securities that contained 99.5 percent of eligible multifamily FHA loans. The Multifamily Program portfolio increased by \$12.4 billion, from \$67.4 billion at the end of FY 2012 to \$79.8 billion at the end of FY 2013, marking the 19th year of consecutive growth.

Figure 14 shows the geographic distribution of multifamily properties securing Ginnie Mae securities as of September 30, 2013. Since 1971, Ginnie Mae has guaranteed \$197.6 billion in multifamily MBS, helping to finance affordable and community-stabilizing multifamily housing developments across the Nation.

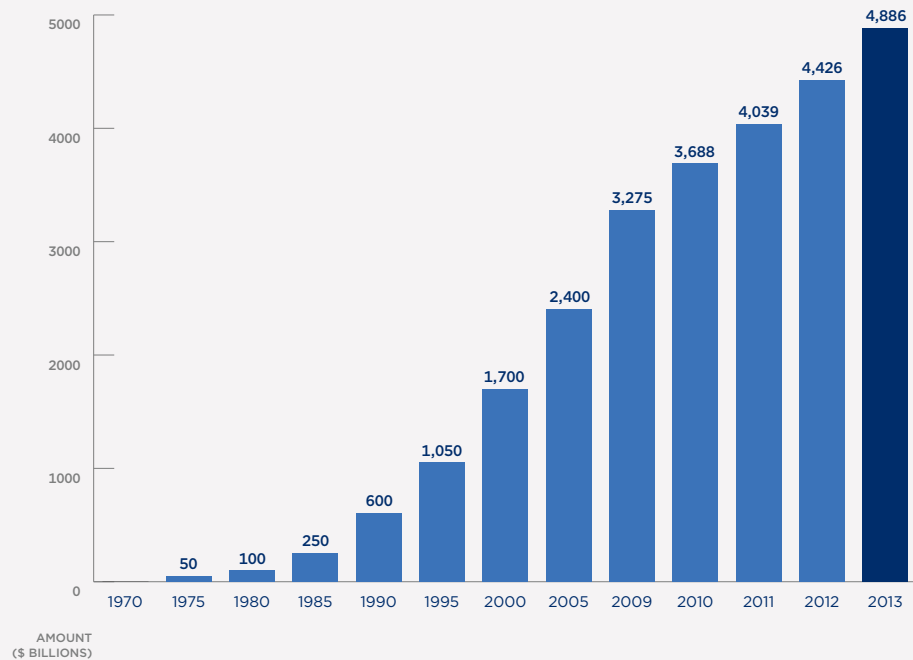
**FIGURE 10: GINNIE MAE MORTGAGE-BACKED SECURITIES ISSUANCE** *FYs 2009 to 2013*



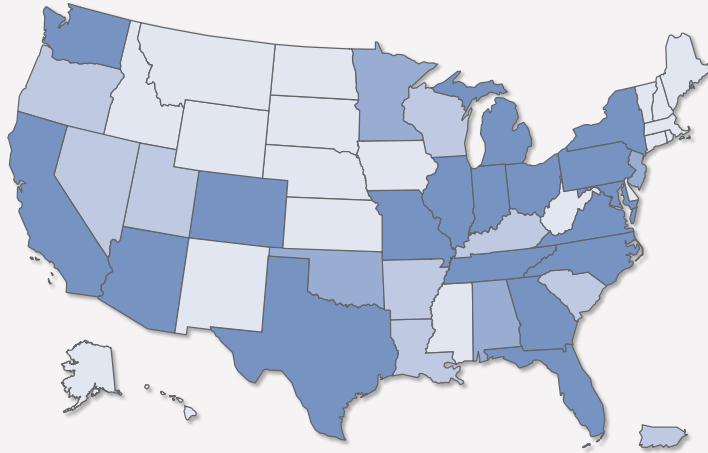
**FIGURE 12: GINNIE MAE-SUPPORTED UNITS OF HOUSING** *FYs 2009 to 2013*



**FIGURE 11: CUMULATIVE AMOUNT OF GINNIE MAE MORTGAGE-BACKED SECURITIES ISSUED** *FYs 1970 to 2013*



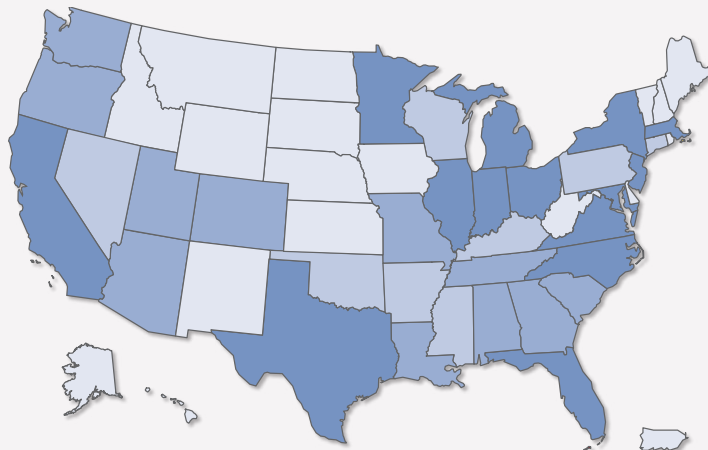
**FIGURE 13: GEOGRAPHIC DISTRIBUTION OF SINGLE FAMILY PROPERTIES SECURING GINNIE MAE SECURITIES** *as of September 30, 2013*



STATE	LOANS	PERCENT OF TOTAL LOANS	RPB (MILLIONS)
California	684,075	7.68%	\$159,388
Texas	924,744	10.49%	\$110,348
Virginia	323,400	3.67%	\$69,309
Florida	500,850	5.68%	\$68,982
Georgia	378,896	4.30%	\$49,644
New York	262,454	2.98%	\$46,677
Maryland	208,939	2.37%	\$46,576
North Carolina	330,224	3.75%	\$44,727
Washington	223,706	2.54%	\$44,541
Pennsylvania	298,826	3.39%	\$41,804
<b>Top 10 States</b>	<b>4,136,114</b>	<b>46.85%</b>	<b>\$681,996</b>

LESS THAN 100,000 LOANS     
  100,000-149,000 LOANS  
 150,000-200,000 LOANS     
  MORE THAN 200,000 LOANS

**FIGURE 14: GEOGRAPHIC DISTRIBUTION OF MULTIFAMILY PROPERTIES SECURING GINNIE MAE SECURITIES** *as of September 30, 2013*



STATE	LOANS	PERCENT OF TOTAL MF LOANS	RPB (MILLIONS)
Texas	809	7.06%	\$6,904
New York	494	4.31%	\$6,614
California	759	6.62%	\$5,450
Illinois	624	5.44%	\$4,961
Ohio	863	7.53%	\$3,431
Florida	375	3.27%	\$3,204
Maryland	270	2.36%	\$2,998
Indiana	583	5.09%	\$2,855
Michigan	496	4.33%	\$2,790
Minnesota	375	3.27%	\$2,678
<b>Top 10 States</b>	<b>5,648</b>	<b>49.28%</b>	<b>\$41,885</b>

LESS THAN 100 LOANS     
  100-199 LOANS     
  200-299 LOANS  
 300-399 LOANS     
  MORE THAN 400 LOANS





In addition, Ginnie Mae’s portfolio of Multifamily Rural Development loans grew in FY 2013 to an outstanding principal balance of \$577.6 million at fiscal year-end. These loans are guaranteed through the USDA’s RD. The number of Multifamily Rural Development programs became more diverse in FY 2013 than in previous years, as new issuers entered the program. There were Rural Development loans from eight issuers in 44 states in Ginnie Mae pools by the end of FY 2013.

### **HMBS Program**

Significant efforts have been made to help meet the growing needs and demands in the market for reverse mortgages. With continued investor interest in HECM-backed securities, Ginnie Mae bolstered its HMBS program by improving its reporting, disclosure, and quality assurance reviews of the relevant issuers. The unpaid principal balance of HMBS climbed to \$44.6 billion in FY 2013, and the number of participations (the funded portions of HECM loans that have been securitized) increased to 4,384,935. Demand in the structured market for HMBS remains strong; 32 H-REMIC transactions were issued in FY 2013, up from 25 in FY 2012. The structure and support that Ginnie Mae has brought to this market has increased its liquidity, which translates into better execution on the securities and, ultimately, lower costs for the growing population of senior citizens.

### **MH Program**

Four Issuers are currently approved to issue manufactured housing securities under Ginnie Mae’s MH program since

its relaunch in June 2010. The MH program’s remaining principal balance was \$284.9 million by the end of FY 2013, up from \$276.6 million at the end of the FY 2012.

### **Liquidity and Capital Adequacy**

Ginnie Mae’s primary sources of cash are MBS and multiclass guaranty fee income, and commitment fee income. After accounting for expenses and other factors, on September 30, 2013, Ginnie Mae reported approximately \$9.6 billion in funds with the U.S. Treasury, compared to \$7.1 billion on September 30, 2012.

In addition to the funds with the U.S. Treasury, Ginnie Mae’s investment in U.S. Government securities was \$1.8 billion as of September 30, 2013, down from 2.1 billion as of September 30, 2012. As the servicer, Ginnie Mae assesses loans to determine whether the loan should be purchased out of the pool. Ginnie Mae will purchase mortgage loans out of the pool when: mortgage loans are uninsured by the FHA, USDA, VA or PIH; mortgage loans were previously insured but insurance is currently denied (collectively with (a.), referred to as uninsured mortgage loans); and, mortgage loans that are insured but are delinquent for more than 90 and 120 days based on management discretion for manufactured housing and single family loans, respectively. In total, Ginnie Mae bought out 1,055 million in loans, primarily for the single family defaulted portfolio. These acquired mortgage loans are subsequently categorized as mortgages held for investment.

Table 3 shows the fair value composition and maturity of Ginnie Mae’s U.S. Government securities as of September 30, 2013 and 2012.

**TABLE 3: COMPOSITION OF U.S. GOVERNMENT SECURITIES AS OF SEPTEMBER 30, 2012 AND 2013** (Percentage of Total)

MATURITY	2013	2012
Due within 1 year	10%	23%
Due in 1-5 years	90%	77%
Due in 5-10 years	0%	0%

**FIGURE 15: COMPONENTS OF INVESTMENT IN U.S. GOVERNMENT SECURITIES**

as of September 30, 2013

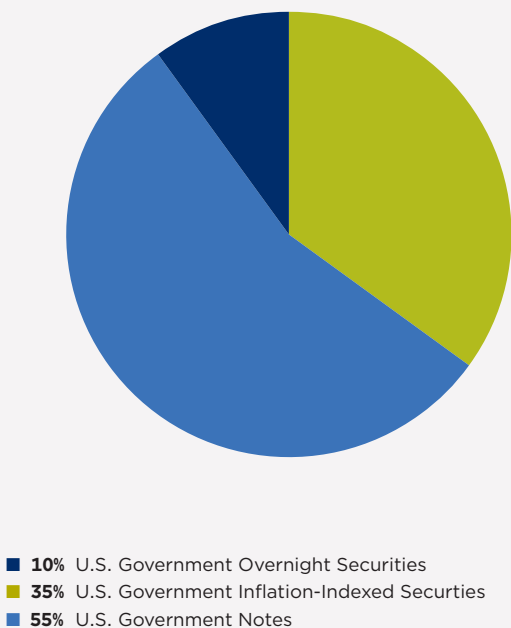


Figure 15 illustrates the components of Ginnie Mae’s Investments in U.S. Government securities as of September 30, 2013.

Ginnie Mae’s MBS guaranty activities operate at no cost to the U.S. Government. Ginnie Mae actually operates at a profit, which reduces the U.S. Government’s budget deficit. Ginnie Mae’s net income continues to build its capital base, and its management believes that the organization maintains adequate capital reserves to withstand downturns in the housing market that could cause issuer defaults to increase.

As of September 30, 2013, the investment of the U.S. Government (GAAP-based retained earnings) was \$17.0 billion, compared with \$16.4 billion as of September 30, 2012. Figure 16 shows Ginnie Mae’s capital reserves as of September 30, 2013, for each of the past five years.

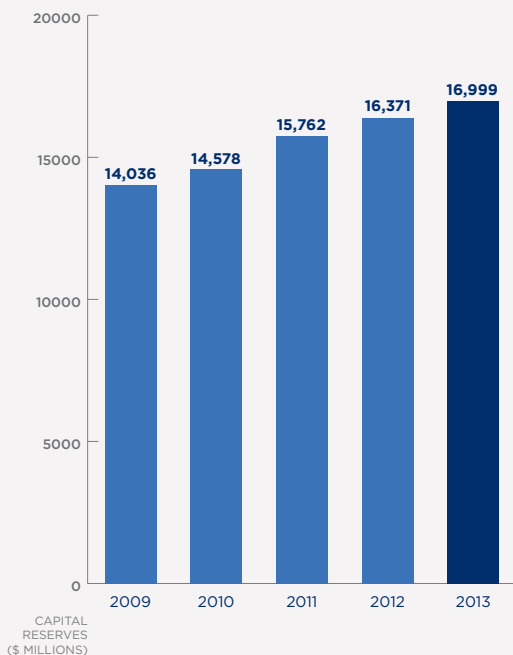
***Risk Management and Systems of Internal Controls***

Ginnie Mae reviews and manages internal controls framework for the organization, including contractor assessment reviews (CARS); internal controls assessments in accordance with OMB Circular A-123, Appendix A; and other internal control and risk management activities. The audits, reviews, and monitoring of all issuers and major contractors that Ginnie Mae conducts enable Ginnie Mae to strengthen its internal controls and minimize risks that would negatively impact financial and operating results.

Finally, Ginnie Mae assesses the effectiveness of its internal controls over financial reporting, including the reliability of financial reporting and financial management systems, in accordance with the requirements of OMB Circular A-123, Appendix A. Safeguarding assets is a subset of all of these objectives. Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. No material weaknesses were found in the design or operation of the internal controls over financial reporting. Based on these results, Ginnie Mae can provide reasonable assurance that its internal controls over financial reporting were operating effectively.

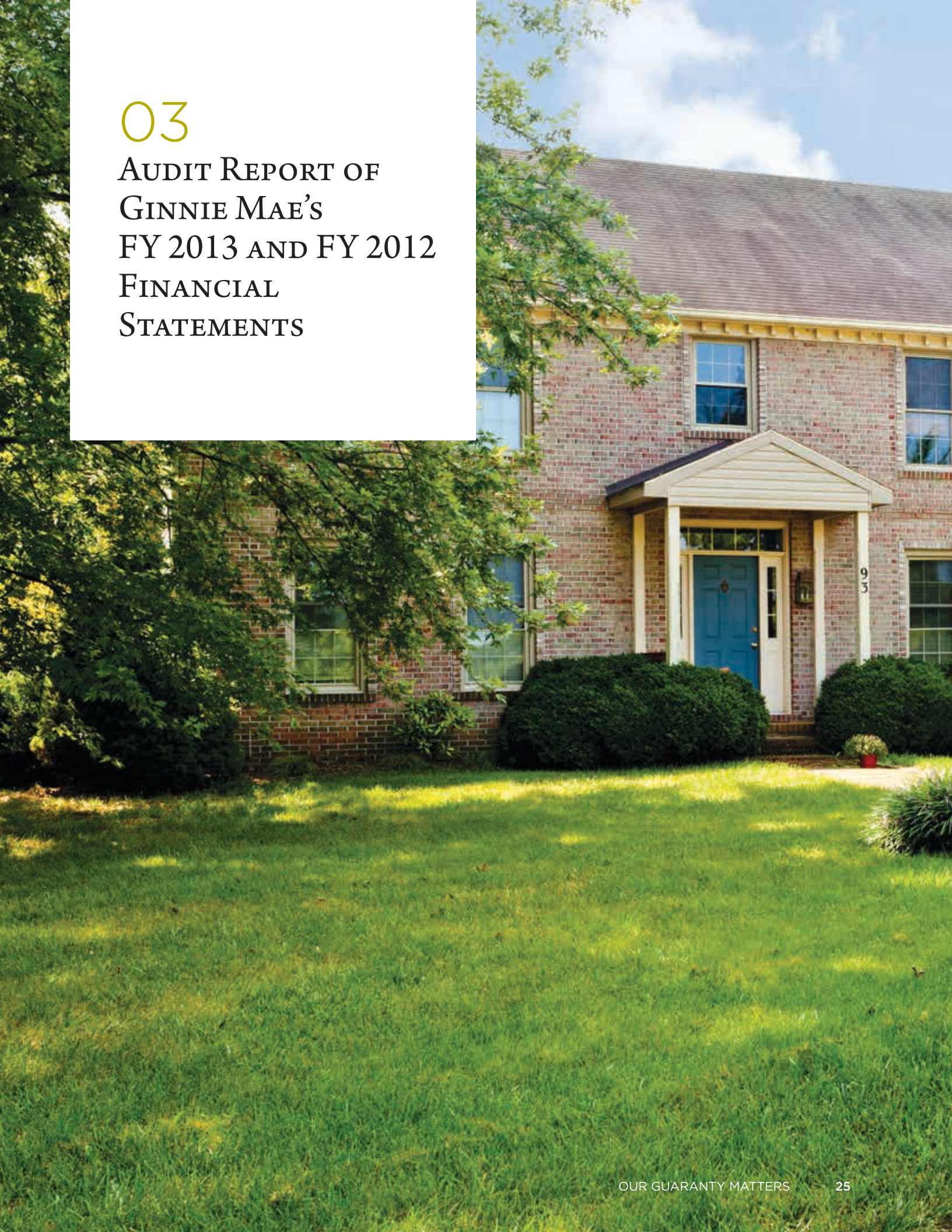
**FIGURE 16: CAPITAL RESERVES**

FYs 2009 to 2013



03

AUDIT REPORT OF  
GINNIE MAE'S  
FY 2013 AND FY 2012  
FINANCIAL  
STATEMENTS





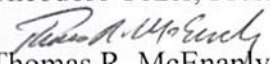
**Government National Mortgage Association  
Fiscal Years 2013 and 2012  
Financial Statements Audit**



Issue Date: December 6, 2013

Audit Report Number: 2014-FO-0001

TO: Theodore Tozer, President, Government National Mortgage Association, T

FROM:   
Thomas R. McEnany, Director, Financial Audits Division, GAF

SUBJECT: Audit of the Government National Mortgage Association's (Ginnie Mae) Financial Statements of Fiscal Years 2013 and 2012

In accordance with the Government Corporation Control Act as amended (31 U.S.C. 9105), the Office of Inspector General engaged the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the fiscal years 2013 and 2012 financial statements of the Government National Mortgage Association (Ginnie Mae). The contract required that the audit be performed according to Generally Accepted Government Auditing Standards (U.S. GAGAS).

In connection with the contract, we reviewed CLA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. GAGAS, was neither intended to enable us to express an opinion nor do we express an opinion on GNMA's financial statements, internal controls or conclusions on compliance with laws and regulations. CLA is responsible for the attached auditor's report dated November 25, 2013 and the conclusions expressed in the report. Our review disclosed no instances where CLA did not comply, in all material respects, with U.S. GAGAS.

This report includes both the Independent Auditors' Report and Ginnie Mae's principal financial statements. Under Federal Accounting Standards Advisory Board (FASAB) standards, a general-purpose federal financial report should include as required supplementary information (RSI) a section devoted to Management's Discussion and Analysis (MD&A) of the financial statements and related information. The MD&A is not included with this report. Ginnie Mae plans to separately publish a Report to Congress for fiscal year 2013 that conforms to FASAB standards.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.



Issue Date: December 6, 2013

Audit Report Number: 2014-FO-0001

Within 60 days of this report, CLA expects to issue a separate letter to management dated November 25, 2013 regarding other matters that came to its attention during the audit.

We appreciate the courtesies and cooperation extended to the CLA and OIG audit staffs during the conduct of the audit. If you have any questions or comments about this report, please do not hesitate to call me at 202-402-8216.



December 6, 2013

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**Government National Mortgage Association  
Fiscal Years 2013 and 2012 Financial Statements Audit**

# Highlights

Audit Report 2014-FO-0001

## What We Audited and Why

In accordance with the Government Corporation Control Act as amended (31 U.S.C. 9105), HUD OIG engaged CliftonLarsonAllen LLP (CLA) to audit the fiscal years 2013 and 2012 financial statements of the Ginnie Mae, a wholly-owned government corporation within HUD. CLA have audited the accompanying balance sheets of Ginnie Mae as of September 30, 2013 and 2012, and the related statements of revenues and expenses and changes in investment of U.S. Government, and cash flows for the years then ended, and the related notes to the financial statements. The objective of the audit was to express an opinion on the fairness of these financial statements.

## What We Recommend

We recommend that Ginnie Mae obtain a corrective action from Bank of America Corporation; review the projected workload requirements, evaluate the remaining impact of ongoing delays in recording servicing activity, and document the anticipated effect on future financial reporting; and for the Chief Financial Officer to continue efforts to confirm insured status of loans not yet matched with data from the insuring agencies.

## What We Found

Our IPA auditors found (1) the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S.); (2) one significant deficiency in internal control over financial reporting; and (3) no instance of reportable noncompliance with selected provisions of laws and regulations tested.

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## TABLE OF CONTENTS

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## INDEPENDENT AUDITORS' REPORT

Inspector General  
United States Department of Housing and Urban Development

President  
Government National Mortgage Association

In our audit of the fiscal years (FY) 2013 and 2012 financial statements of the Government National Mortgage Association (Ginnie Mae), a wholly-owned government corporation within the United States Department of Housing and Urban Development (HUD), we found:

- The financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S.);
- One significant deficiency in internal control over financial reporting; and
- No instances of reportable noncompliance with certain provisions of laws and regulations tested or other matters.

The following sections and Exhibits discuss in more detail: (1) these conclusions, (2) other information included with the financial statements, (3) management's responsibilities, (4) our responsibilities, and (5) management's response to findings.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Ginnie Mae, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of revenues and expenses and changes in investment of U.S. Government, and cash flows for the years then ended, and the related notes to the financial statements. The objective of our audit was to express an opinion on the fairness of these financial statements.

### ***Management's Responsibilities***

Ginnie Mae management is responsible for the (1) preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the U.S., (2) preparation and presentation of other information in documents containing the audited financial statements and auditors' report, and consistency of that information with the audited financial statements; and (3) design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## INDEPENDENT AUDITORS' REPORT (Continued)

### ***Auditors' Responsibilities***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S. and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We also conducted our audits in accordance with Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02).

In order to fulfill these responsibilities, we (1) obtained an understanding of Ginnie Mae and its operations, including its internal control over financial reporting; (2) assessed the risk of financial statement misstatement; (3) evaluated the design and operating effectiveness of internal control based on the assessed risk; (4) considered Ginnie Mae's process for evaluating and reporting on internal control under FMFIA; (5) tested compliance with certain provisions of laws and regulations, (6) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (7) evaluated the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management; (8) evaluated the overall presentation of the financial statements; (9) read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements; and (10) performed such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion on the Financial Statements***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ginnie Mae as of September 30, 2013 and 2012, the results of its operations; changes in investment of U.S. Government; and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the U.S.

### ***Other Matters***

#### *Other Information*

The information in Sections I and II (pages 1-24) contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## INDEPENDENT AUDITORS' REPORT (Continued)

### Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

#### *Report on Internal Control over Financial Reporting*

In planning and performing our audit of the financial statements, we considered Ginnie Mae's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ginnie Mae's internal control. Accordingly, we do not express an opinion on the effectiveness of Ginnie Mae's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Ginnie Mae's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

#### Inaccurate Accounting Reporting from Master Subservicer

As a result of its routine contractor monitoring process and other special reviews, Ginnie Mae identified that the accounting reports provided by their largest master loan subservicer for use in its financial reporting were inadequately supported and contained inaccurate data. They also found untimely processing and posting of certain loan servicing events. Specifically, these reviews found:

- Inadequate controls over the completeness and accuracy of the loan data reported on the accounting reports
- Untimely billing for loan servicing expenses
- Untimely recording of claims/write-offs
- Interest curtailment due to untimely filing

Ginnie Mae's Office of the Chief Financial Officer (OCFO) worked to develop alternative reports from the master subservicer's primary loan servicing system to properly support the related balances in their financial statements.

Additional details related to this finding and the specific recommendations to management are presented in Exhibit A.

## **INDEPENDENT AUDITORS' REPORT (Continued)**

### ***Report on Compliance***

As part of obtaining reasonable assurance about whether Ginnie Mae's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***Management's Responsibility for Internal Control and Compliance***

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting, (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, and (3) ensuring compliance with other applicable laws and regulations.

### ***Auditors' Responsibilities***

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (3) applying certain limited procedures with respect to the other information included with the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to Ginnie Mae. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to Ginnie Mae's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

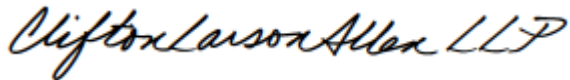
### ***Management's Response to Findings***

Management's response to the findings identified in our report is presented in Exhibit B. We did not audit Ginnie Mae's response and, accordingly, we express no opinion on it.

### ***Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance***

## INDEPENDENT AUDITORS' REPORT (Continued)

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Ginnie Mae's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ginnie Mae's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

**CliftonLarsonAllen LLP**  
Arlington, Virginia  
November 25, 2013

## **EXHIBIT A**

### **Significant Deficiency**

#### **Inaccurate Accounting Reporting from Master Subservicer**

When an issuer of mortgage-backed securities insured by Ginnie Mae is found to be non-compliant with Ginnie Mae's *Mortgage Backed Securities Guide*, Ginnie Mae may elect to declare the issuer in default and transfer the servicing of the defaulted portfolio to a Ginnie Mae Master Subservicer (MSS). As one of Ginnie Mae's MSS, Bank of America (BAC) performs loan servicing for most of the loan portfolios assumed from Ginnie Mae defaulted issuers. The loan portfolio serviced by BAC represents approximately 90% of the balance of performing mortgage loans (pooled) and defaulted mortgage loans (non-pooled) assumed from defaulted issuers. Part of their role as MSS requires BAC to submit to Ginnie Mae monthly accounting reports, on a loan level basis, detailing the activity and inventories of non-pooled loans. These reports were initially developed in compliance with the BAC contract as awarded in 2009. Ginnie Mae uses these accounting reports to record and reconcile transactions and balances related to these loans within their accounting system as an integral part of their financial reporting process.

BAC relies on an AS400LS loan servicing application (I-Series system) to manage and track loan-level servicing activity performed from their facility in Plano, Texas. This system includes key data such as original principal balance, unpaid principal balance, accrued interest, and loan status. Information on the inventory of non-pooled loans from this I-Series system is manually accumulated with sales and expense information from other BAC systems in order to generate the monthly accounting reports.

The monthly loan level accounting reports provided by the MSS to Ginnie Mae have been found to contain inaccurate information, beginning in FY2012 when the Ginnie Mae OCFO observed discrepancies within different elements of the accounting reports, including discrepancies between the data within the I-Series system and the data in the accounting reports. Ginnie Mae's OCFO also noted loans which were being closed out (transferred to the insurer, the Federal Housing Administration (FHA), as a claim) in the I-Series system, but were still being reported as open (awaiting transfer to FHA) to Ginnie Mae on the accounting reports.

Evidence of inaccurate financial information supplied by the MSS was further identified during the Contractor Assessment Review completed in October 2012 and a Special Servicing Assessment completed in January 2013. The Contractor Assessment Review of BAC found:

- Inadequate support for the posting logic and information within the accounting reports
- Insufficient reconciliations of information within the accounting reports

The report on the Special Servicing Assessment, issued in June 2013, noted:

- Inadequate controls over the completeness and accuracy of the loan data reported on the Accounting Reports
  - No reconciliation between I-Series system and accounting reports data
  - The manual process for compiling the accounting reports does not ensure information received is from an authorized source, is complete and accurate, or reported timely.
  - The default status of 5-10% of loans tested did not agree to the default status reported by the insuring agency
- Untimely billing for loan servicing expenses



## EXHIBIT A Significant Deficiency

- BAC did not submit requests for reimbursement to insuring agencies on behalf of Ginnie Mae for supplemental foreclosure expenses timely
- Untimely recording of claims/write-offs
  - For all loans tested, the unpaid principal balance of loans reported in the monthly accounting report were not reduced timely after receiving short sale and/or claim funds from the insuring agencies
- Interest curtailment due to untimely filing
  - For one-third of claims tested, BAC did not submit the first required legal filing timely, which reduced the amount of accrued interest that Ginnie Mae received from the insuring agencies.

Ginnie Mae's contract with BAC states that *"The Contractor shall be prepared to perform the complete range of services expected of a Ginnie Mae issuer. These services include, but not limited to providing default services, servicing current, delinquent and defaulted loans, both pooled and non-pooled, including foreclosure services, management and disposition of acquired properties (REO), preparation and submission of insurance or guarantee claims to FHA, VA, RD, and PIH, reporting to Ginnie Mae. The Contractor shall also provide, on a monthly basis, the accounting reports to Ginnie Mae. The Contractor shall have an automated process for producing the Ginnie Mae monthly accounting reports as also referenced in CLIN 0004, 0104, and 0204"*.

BAC should adhere to the Committee of Sponsoring Organizations (COSO) Internal Controls – Integrated Framework, which specifies that "pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business".

The monthly accounting reports are inaccurate since BAC did not have effective integrated systems to accumulate data necessary to generate monthly accounting reports accurately and reliably for Ginnie Mae's purposes, and did not establish effective controls to reconcile the data from different systems contained within the reports, nor ensure data supporting the reports could be retrieved timely.

Insufficiently reconciled, erroneous, and unsupported accounting reports increases the risk of errors in Ginnie Mae's financial statements. To address the risk of errors to their financial statements as a result of these issues, the Ginnie Mae OCFO performed several new procedures, as outlined below.

- Beginning in the fourth quarter of FY2012, Ginnie Mae's OCFO worked with the MSS to develop and obtain inventory reports derived directly from the I-Series system, which were used to support the balances of Mortgages Held-for-Investment and Accrued Interest, Foreclosed Loans Claims Receivable, Short Sale Claims Receivable and Real Estate Owned.
- Following the completion of the Special Servicing Assessment, Ginnie Mae's OCFO expanded the scope of procedures to be performed over BAC's servicing activities in connection with their assessment of internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Their review confirmed the underlying weaknesses in the completeness and reliability of the accounting reports.

## **EXHIBIT A**

### **Significant Deficiency**

- In order to ensure the reliability of the I-Series reports, Ginnie Mae's OCFO matched loan level data with data provided by FHA and the Department of Veterans Affairs (VA). They also performed additional procedures to ensure the reliability of the status of loans reported within the I-Series reports, which are now being used to confirm the reliability of the classification of these loans within the financial statements.

The results of their procedures identified a large number of loans that could not be readily matched with the data from FHA or VA through the primary loan number. Ginnie Mae has not yet completed their matching with Rural Development and the other insurers to confirm the insured status of these loans.

#### Recommendations

In order to facilitate the development of an integrated system to accumulate the data necessary for the monthly accounting reports to be reliable, we recommend the Senior Vice President of the Office of Issuer and Portfolio Management:

- 1a. Obtain a corrective action plan from BAC with critical milestones to document how all information is to be provided, supported, and reconciled to the appropriate underlying information system.
- 1b. Review the projected workload requirements with BAC, evaluate the remaining impact of ongoing delays in recording servicing activity, and document the anticipated effect on future financial reporting.

We recommend the Office of Issuer and Portfolio Management work with the Ginnie Mae Chief Financial Officer to:

Continue efforts to confirm the insured status of loans not yet matched with data from the insuring agencies.

**EXHIBIT B**  
**Management's Response**



Office of the President  
550 12th Street, SW, Third Floor  
Washington, DC 20024  
(202) 475-4900

December 3, 2013

Roger Von Elm  
CliftonLarsonAllen LLP  
4250 North Fairfax Drive  
Suite 1020  
Arlington, VA 22203

Dear Mr. Von Elm:

Thank you for the opportunity to review and comment on CliftonLarsonAllen's (CLA) Independent Auditor's Report on Ginnie Mae's financial statement for Fiscal Year (FY) 2013.

We appreciate CLA's acknowledgement that: 1) Ginnie Mae's financial statements, in all material respects, the financial position of Ginnie Mae as of September 30, 2013 and 2012, and the results of our operations; ii) changes in investment of U.S. Government; and (iii) our cash flows for the years then ended are in accordance with accounting principles generally accepted in the U.S. Additionally, we appreciate CLA's acknowledgement that for FY 2013, the audit disclosed no material weaknesses in internal control over financial reporting and no instances of reportable noncompliance with certain provisions of laws and regulations tested or other matters.

We enjoyed working with CLA and appreciate the time spent by CLA staff to understand our business and operations. Again, thank you for the opportunity to comment on the report.

Sincerely,

Theodore W. Tozer  
President



Mailing Address  
451 Seventh Street SW, B-133  
Washington, DC 20410

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**Government National Mortgage Association**

**Financial Statements for the fiscal years ended**

**September 30, 2013 and 2012**

# Government National Mortgage Association

## Financial Statements

Balance Sheets		
As of September 30	2013	2012
<i>(Dollars in thousands)</i>		
<b>Assets:</b>		
Funds with U.S. Treasury	\$ 9,622,400	\$ 7,075,500
Guaranty asset	7,012,900	6,633,900
U.S. Government securities	1,810,200	2,113,600
Mortgage loans held for investment	6,169,600	6,866,500
Less: Allowance for mortgage loans held for investment	(502,200)	(177,400)
Mortgage loans held for investment, net	5,667,400	6,689,100
Foreclosed property	494,600	929,400
Less: Allowance for foreclosed property	(13,500)	(76,800)
Foreclosed property, net	481,100	852,600
Accrued interest on mortgage loans held for investment, net	44,900	88,600
Accrued fees and other receivables	76,100	66,300
Mortgage servicing rights	65,100	60,700
Advances against defaulted mortgage-backed security pools	261,600	156,900
Less: Allowance for uncollectible advances	(162,500)	(97,200)
Advances against defaulted mortgage-backed security pools, net	99,100	59,700
Fixed assets--software	94,600	87,500
Less: Accumulated amortization	(58,100)	(47,400)
Fixed assets--software, net	36,500	40,100
Short sale claims receivables	81,600	36,800
Less: Allowance for uncollectible short sale claims receivables	(19,900)	(15,700)
Short sale claims receivables, net	61,700	21,100
Properties held for sale	29,600	15,500
Less: Allowance for losses on properties held for sale	(6,200)	(3,900)
Properties held for sale, net	23,400	11,600
Accrued interest on U.S. Government securities	10,400	10,300
Insurance claims receivable	8,400	6,500
<b>Total Assets</b>	<b>\$ 25,019,600</b>	<b>\$ 23,729,600</b>
<b>Liabilities and Investment of U.S. Government:</b>		
<b>Liabilities:</b>		
Guaranty liability	7,012,900	6,633,900
Liability for loss on mortgage-backed securities program guaranty	700,300	357,400
Accounts payable and accrued liabilities	167,200	235,200
Deferred revenue	139,200	134,400
Deferred liabilities and deposits	300	(2,700)
<b>Total Liabilities</b>	<b>\$ 8,019,900</b>	<b>\$ 7,358,200</b>
<b>Commitments and Contingencies</b>		
Investment of U.S. Government	16,999,700	16,371,400
<b>Total Liabilities and Investment of U.S. Government</b>	<b>\$ 25,019,600</b>	<b>\$ 23,729,600</b>

See the accompanying notes to the financial statements.

# Government National Mortgage Association

## Financial Statements

Statements of Revenues and Expenses and Changes in Investment of U.S. Government		
For the Years Ended September 30	2013	2012
<i>(Dollars in thousands)</i>		
<b>Revenues:</b>		
Mortgage-backed securities guaranty fees	\$ 870,900	\$ 779,400
Interest income - mortgage loans held for investment	116,400	279,800
Interest income - US Government securities	98,700	81,500
Commitment fees	92,200	79,100
Multiclass fees	39,900	25,000
Other mortgage-backed securities program income	7,000	1,800
<b>Total Revenues</b>	1,225,100	\$ 1,246,600
<b>Expenses:</b>		
Mortgage-backed securities program expenses	(100,200)	(62,900)
Administrative expenses	(17,500)	(14,100)
Fixed asset amortization	(10,700)	(9,000)
<b>Total Expenses</b>	(128,400)	\$ (86,000)
Recapture (Provision) for loss on properties held for sale	(17,200)	(9,200)
Recapture (Provision) for loss mortgage loans held for investment	(16,100)	(158,100)
Recapture (Provision) for loss on mortgage-backed securities liability	(402,100)	(264,500)
Recapture (Provision) for loss on short sale claims and other receivables	(9,700)	(16,900)
Recapture (Provision) for loss on foreclosed property	(13,500)	-
Recapture (Provision) for loss on uncollectible advances	35,900	17,100
<b>Total Recapture (Provision)</b>	(422,700)	\$ (431,600)
Gain (Loss) on disposition of investment	-	12,500
Gain (Loss) on credit impairment of mortgage loans HFI, net	(50,000)	(81,700)
Gain (Loss) on mortgage servicing rights	4,400	(50,200)
<b>Total Other Gains / (Losses)</b>	(45,600)	\$ (119,400)
<b>Excess of Revenues over Expenses</b>	628,400	609,600
<b>Investment of U.S. Government at Beginning of Year</b>	16,371,300	15,761,800
<b>Investment of U.S. Government at End of Year</b>	\$ 16,999,700	\$ 16,371,400

See the accompanying notes to the financial statements.

# Government National Mortgage Association

## Financial Statements

<b>Statements of Cash Flows</b>		
<b>For the Years Ended September 30</b>	<b>2013</b>	<b>2012</b>
<i>(Dollars in thousands)</i>		
<b>Cash Flow from Operating Activities</b>		
<b>Net Excess of Revenues over Expenses</b>	<b>\$ 628,400</b>	<b>\$ 609,600</b>
<b>Adjustments to reconcile Net Excess of Revenues Over Expenses to Net Cash from Operating Activities:</b>		
Amortization	10,700	9,000
Change in accrued interest on U.S. Government securities	(100)	1,500
Change in accrued interest on mortgage loans held for investment, net	43,700	(5,200)
Change in advances against defaulted mortgage-backed securities pools, net	(39,400)	593,500
Change in foreclosed property, net	371,500	(852,600)
Change in insurance claims receivables	(1,900)	(6,500)
Change in mortgage servicing rights	(4,400)	50,200
Change in deferred revenue	4,800	17,000
Change in deferred liabilities and deposits	3,000	(38,400)
Change in accrued fees and other receivables	(9,800)	(3,800)
Change in short sale claims receivables, net	(40,600)	11,200
Change in properties held for sale, net	(11,800)	(8,200)
Change in accounts payable and accrued liabilities	(68,000)	(130,100)
Change in liability for loss on mortgage-backed securities program guaranty	342,900	(38,400)
<b>Net Cash from Operating Activities</b>	<b>\$ 1,229,000</b>	<b>\$ 208,800</b>
<b>Cash Flow from Investing Activities</b>		
Change in mortgage loans held for investment, net	1,021,700	(338,800)
Sale of U.S. Government securities, net	303,400	13,200
Purchase of software	(7,200)	(18,000)
<b>Net Cash (used for) from Investing Activities</b>	<b>\$ 1,317,900</b>	<b>\$ (343,600)</b>
<b>Cash Flow from Financing Activities</b>		
Financing activities	-	-
<b>Net Cash from Financing Activities</b>	<b>\$ -</b>	<b>\$ -</b>
Net increase (decrease) in cash & cash equivalents	2,546,900	(134,800)
Cash & cash equivalents - beginning of period	7,075,500	7,210,300
Cash & cash equivalents - end of period	<b>\$ 9,622,400</b>	<b>\$ 7,075,500</b>

<b>Supplemental Schedule of Non-Cash Activities</b>		
<b>For the Years Ended September 30</b>	<b>2013</b>	<b>2012</b>
<i>(Dollars in thousands)</i>		
Transfer of Advances against Defaulted MBS pools to		
Mortgage Loans Held for Investment	\$ 1,055,400	\$ 705,007
Transfer from Mortgage Loans Held for Investment to		
Properties Held for Sale	\$ 42,600	\$ 25,500

See the accompanying notes to the financial statements.



## Notes to the Financial Statements

September 30, 2013 and 2012

### Note 1: Organization and Summary of Significant Accounting Policies

The Government National Mortgage Association (Ginnie Mae) was created in 1968, through an amendment of Title III of the National Housing Act as a government corporation within the United States (U.S.) Department of Housing and Urban Development (HUD). The Mortgage-Backed Securities (MBS) program is Ginnie Mae's primary ongoing activity. Its purpose is to increase liquidity in the secondary mortgage market and attract new sources of capital for residential mortgage loans. Through the program, Ginnie Mae guarantees the timely payment of principal and interest on securities backed by pools of mortgages issued by private institutions. This guaranty is backed by the full faith and credit of the U.S. Government. Ginnie Mae requires that the mortgages be insured or guaranteed by the U.S. Federal Housing Administration (FHA), another government Corporation within HUD, the U.S. Department of Agriculture (USDA), the Department of Veterans Affairs (VA), or the HUD Office of Public and Indian Housing (PIH). These MBS are not assets of Ginnie Mae, nor are the related outstanding securities liabilities; accordingly, neither is reflected on the accompanying Balance Sheets.

To ensure that adequate capital continues to flow to the mortgage markets, Ginnie Mae offers reliable solutions that meet the needs of a broad constituent base and provide sufficient flexibility to respond to market changes. At the core of its business model and its product offering menu is the simple pass-through security, which comes in the form of two product structures—Ginnie Mae I MBS and Ginnie Mae II MBS. Each Ginnie Mae product structure has specific characteristics regarding pool types, note rates, collateral, payment dates, and geographical locations.

The underlying source of loans for the Ginnie Mae I MBS and Ginnie Mae II MBS comes from Ginnie Mae's following four main programs, which serve a variety of loan financing needs and different issuer origination capabilities:

- **Single Family Program** – The majority of Ginnie Mae securities are backed by single family mortgages predominantly originated through FHA and VA loan insurance programs.
- **Multifamily Program** – Ginnie Mae insures securities backed by FHA and USDA purchase and refinance loans for the purchase, construction, and renovation of apartment buildings, hospitals, nursing homes, and assisted living facilities.
- **HMBS Program** – Ginnie Mae's Home Equity Conversion Mortgage (HECM) securities program provides capital and liquidity for FHA-insured reverse mortgages. HECM loans are insured separately from regular single family mortgages due to their unique cash flow and fee structure. HECM loans can be pooled into HECM Mortgage Backed Securities (HMBS) within the Ginnie Mae II MBS program.
- **Manufactured Housing Program** – Ginnie Mae's Manufactured Housing program allows the issuance of pools of loans insured by FHA's Title I Manufactured Home Loan Program.

**Basis of Presentation:** The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in U.S. GAAP as established by the Financial Accounting Standards Board (FASB).

**Funds with U.S. Treasury:** All Ginnie Mae receipts and disbursements are processed by the U.S. Treasury Department, which in effect maintains Ginnie Mae's bank accounts. All funds are accessible in the event of a default. For purposes of the Statements of Cash Flow, Funds with U.S. Treasury are considered cash.

**U.S. Government Securities:** U.S. Government Securities are classified as held for investment as Ginnie Mae has both the ability and the intent to hold them until their maturity, and accordingly, they are carried at amortized cost. Interest income on such securities is presented on the Statements of Revenues and Expenses and Changes in Investment of U.S. Government (Statements of Revenues and Expenses). Discounts and premiums are amortized, on a level yield basis, over the life of the related security.

**Financial Guarantees:** Ginnie Mae, as guarantor, follows the guidance in FASB Accounting Standards Codification (ASC) Topic 460, *Guarantees* (ASC 460), for its accounting for, and disclosure of, the issuance of certain types of guarantees. ASC 460 requires that upon issuance of a guaranty, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guaranty. The issuance of a guaranty under the MBS program obligates Ginnie Mae to stand ready to perform over the term of the guaranty in the event that the specified triggering events or conditions occur. This means Ginnie Mae will advance funds to investors and service an issuer's portfolio in the event of their default.

At inception of the guaranty, Ginnie Mae recognizes a liability for the guaranty it provides on MBSs issued by third-party issuers. Generally, a guaranty liability is initially measured at fair value. However, Ginnie Mae applies the practical expedient in ASC 460, which allows the guaranty liability to be recognized at inception based on the premium received or receivable by the guarantor, provided the guaranty is issued in a standalone arm's length transaction with an unrelated party.

Ginnie Mae provides the guaranty of principal and interest payments to MBS holders in the event of issuer default and, in exchange, receives monthly guaranty fees from the issuers on the unpaid principal balance of the outstanding MBSs in the non-defaulted issuer portfolio. Accordingly, the guaranty asset is based on the expected present value of these fees, taking into account anticipated amortization of defaults and prepayments.

Additionally, as the guaranty is issued in a standalone transaction for a premium, Ginnie Mae records a guaranty liability to recognize the future expense for its guaranty as the offsetting entry for the guaranty asset. Thus, there is no impact from the guaranty liability and asset on the net financial position of Ginnie Mae.

**Mortgage Servicing Rights:** Mortgage Servicing Rights (MSR) represent Ginnie Mae's right and obligation to service mortgage loans in mortgage backed securities obtained from defaulted issuers. Ginnie Mae contracts with multiple Master Subservicers (MSS) to provide the servicing

of its mortgage loans. The servicing functions typically performed by Ginnie Mae's MSSs include: collecting and remitting loan payments, responding to borrower inquiries, accounting for principal and interest, holding custodial funds for payment of property taxes and insurance premiums, counseling delinquent mortgagors, supervising foreclosures and property dispositions, and generally administering the loans. Ginnie Mae receives a weighted average servicing fee annually on the remaining outstanding principal balances of the loans. These servicing fees are included in and collected from the monthly payments made by the borrowers. Ginnie Mae pays a servicing expense to the MSSs in consideration for servicing the loans.

Ginnie Mae records a servicing asset or liability each time it takes over a defaulted issuer's Ginnie Mae-guaranteed portfolio. The balance of the MSR represents the present value of the estimated compensation for mortgage servicing activities that exceeds the fair market cost for such servicing activities. Ginnie Mae considers its fair market cost to be the amount of compensation that would be required by a substitute MSS should one be required. Typically, the benefits of servicing are expected to be more than adequate compensation to a servicer for performing the servicing, and the contract results in a servicing asset. However, if the benefits of servicing are not expected to adequately compensate a servicer for performing the servicing, the contract results in a servicing liability.

Ginnie Mae has elected the fair value option for the MSRs to better reflect the potential net realizable or market value that could be ultimately realized from the disposition of the MSR asset or the settlement of a future MSR liability. Ginnie Mae uses a valuation model that calculates the present value of estimated future net servicing income to determine the fair value of MSRs, which factors in key economic assumptions and inputs used in valuations of MSRs include prepayment rates, cost to service a loan, contractual servicing fee income, ancillary income, escrow account earnings, and the discount rate. The discount rate is used to estimate the present value of the projected cash flows in order to estimate the fair value of the MSRs. The discount rate assumptions reflect the market's required rate of return adjusted for the relative risk of the asset type. This approach consists of projecting servicing cash flows and estimating the present value of these cash flows using discount rates. Upon acquisition, Ginnie Mae measures its MSRs at fair value and subsequently re-measures the assets or liabilities with changes in the fair value recorded in the Statements of Revenues and Expenses.

**Advances Against Defaulted MBS Pools:** Advances against defaulted MBS pools represent pass-through payments made to fulfill Ginnie Mae's guaranty of timely principal and interest payments to MBS security holders. The advances are reported net of an allowance to the extent that management believes that they will not be recovered. The allowance for uncollectible advances is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA and PIH. Other factors considered in the estimate include market analysis and appraised value of the loans. These loans are still accruing interest because they have not reached the required delinquency thresholds and purchased from the defaulted issuer pools.

Once Ginnie Mae purchases the loans from the pools after the 90 and 120 day delinquency thresholds for Manufactured Housing and Single Family loans, respectively, the loans are reclassified as Mortgage Loans Held for Investment (HFI) below. Ginnie Mae records a charge-

off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency or underlying collateral upon foreclosure.

**Mortgage Loans HFI:** When a Ginnie Mae issuer defaults, Ginnie Mae is required to step into the role of the issuer and make the timely pass-through payments to investors, and subsequently, assumes the servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed, pooled loan portfolio of the defaulted issuer. Ginnie Mae utilizes the MSSs to service these portfolios. There are currently two MSSs for Single Family and one MSS for Manufactured Housing defaulted issuers. These MSSs currently service 100% of all non-pooled loans.

In its role as servicer, Ginnie Mae assesses individual loans within its pooled portfolio to determine whether the loan must be purchased out of the pool as required by the Ginnie Mae MBS Guide. Ginnie Mae purchases mortgage loans out of the MBS pool when:

- A. Mortgage loans are uninsured by the FHA, USDA, VA or PIH
- B. Mortgage loans were previously insured but insurance is currently denied (collectively with B), referred to as uninsured mortgage loans)
- C. Mortgage loans are insured but are delinquent for more than 90 and 120 days based on management discretion for manufactured housing and single family loans, respectively.

During FY 2013, the majority of purchased mortgage loans were bought out due to borrower delinquency of more than 90 or 120 days depending on loan type (i.e., Single Family or Manufactured Housing).

Ginnie Mae evaluates the collectability of all purchased loans and assesses whether there is evidence of credit deterioration subsequent to the loan's origination and it is probable, at acquisition, that Ginnie Mae will be unable to collect all contractually required payments receivable. Ginnie Mae considers guarantees and insurance from FHA, USDA, VA and PIH in determining whether it is probable that Ginnie Mae will collect all amounts due according to the contractual terms.

For FHA insured loans, Ginnie Mae expects to collect the full amount of the unpaid principal balance and debenture rate interest (only for months allowed in the insuring agency's timeline), when the insurer reimburses Ginnie Mae subsequent to filing a claim. As a result, these loans are accounted for under ASC Subtopic 310-20, *Receivables – Nonrefundable Fees and Other Costs*. In accordance with ASC 310-20-30-5, these loans are recorded at the unpaid principal balance which is the amount Ginnie Mae pays to repurchase these loans. Accordingly, Ginnie Mae recognizes interest income on these loans on an accrual basis at the debenture rate for the number of months allowed under the insuring agency's timeline. After the allowed timeline, Ginnie Mae considers these loans to be non-performing as the collection of interest is no longer reasonably assured, and places these loans on nonaccrual status. Ginnie Mae recognizes interest income for loans on nonaccrual status when cash is received.

Ginnie Mae separately assesses the collectability of mortgage loans bought out of the defaulted portfolios that are uninsured and loans that are non-FHA insured for which Ginnie Mae only

receives a portion of the outstanding principal balance. If the principal and interest payments are not fully guaranteed from the insurer (i.e., there is a lack of insurance), or loans are delinquent at acquisition, it is probable that Ginnie Mae will be unable to collect all contractually required payments receivable. Accordingly, these loans are considered to be credit impaired and are accounted for under ASC Subtopic 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality*. At the time of acquisition, these loans are recorded at the lower of their acquisition cost or present value of expected amounts to be received. As non-performing loans, these loans are placed on nonaccrual status.

Ginnie Mae has the ability and the intent to hold these acquired loans for the foreseeable future or until maturity. Therefore, Ginnie Mae classifies the mortgage loans as held for investment (HFI). The mortgage loans HFI are reported net of allowance for loan losses. Mortgage loans HFI also includes mortgage loans that are undergoing the foreclosure process.

Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios for the estimated uncollectible portion of the principal balance of the loan. The allowance for loss on mortgage loans HFI represents management's estimate of probable credit losses inherent in Ginnie Mae's mortgage loan portfolio. The allowance for loss on mortgage loans HFI is netted against the balance of mortgage loans HFI. Additionally, Ginnie Mae incorporates the probable recovery amount from mortgage insurance (e.g., FHA, USDA, VA, or PIH) based on established insurance rates. To make this evaluation, Ginnie Mae reviews the delinquency of mortgage loans, industry benchmarks, as well as the established rates of insurance recoveries from insurers.

Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency or underlying collateral upon foreclosure.

**Insurance Claims Receivable:** Ginnie Mae records a receivable for insurance claims which have been submitted to an insuring agency for claim, but have not been paid as of the end of the reporting period. Because it is a Federal Receivable, Ginnie Mae expects full reimbursement. As a result, no allowance is calculated on this receivable.

**Properties Held for Sale:** Properties held for sale represent assets that Ginnie Mae has received the title of the underlying collateral (e.g. completely foreclosed upon and repossessed) and intends to sell the collateral. For instances in which Ginnie Mae does not convey the property to the insuring agency, Ginnie Mae holds the title until the property is sold. As the properties are available for immediate sale in their current condition and are actively marketed for sale, they are reported as properties held for sale on the Balance Sheets in accordance with ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*. Properties held for sale are initially recorded on the Balance Sheets at fair value less its estimated cost to sell. The fair value less estimated cost to sell on the date of foreclosure is deemed to be the carrying value of the foreclosed asset. Subsequent to initial measurement, the properties held for sale are reported at the lower of the carrying amount or fair value less estimated cost to sell. The properties are appraised by independent entities on a regular basis throughout the year. Ginnie Mae expects sale of the property to occur prior to one year from the date of the foreclosure. As a result, Ginnie Mae

does not depreciate these assets. Ginnie Mae records an allowance to account for potential sale costs including maintenance and miscellaneous expenses, along with a loss percentage based on historical data, which includes declines in the fair value of foreclosed properties.

**Short Sale Claims Receivable:** As an alternative to foreclosure, a property may be sold for its appraised value even if the sale results in a short sale where the proceeds are not sufficient to pay off the mortgage. Ginnie Mae's MSSs analyze mortgage loans HFI for factors such as delinquency, appraised value of the loan, and market in locale of the loan to identify loans that may be short sale eligible. These transactions are analyzed and approved by Ginnie Mae's MBS program office.

For FHA insured loans, for which the underlying property was sold in a short sale, the FHA typically pays Ginnie Mae the difference between the proceeds received from the sale and the total contractual amount of the mortgage loan and interest at the debenture rate. Hence, Ginnie Mae does not incur any losses as a result of the short sale of an FHA insured loan. Ginnie Mae records a short sale claims receivable while it awaits repayment of this amount from the insurer. For short sale claims receivable for which Ginnie Mae believes that collection is not probable, Ginnie Mae records an allowance for short sale claims receivable. The allowance for short sales claims receivable is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the short sale claims receivable and the allowance for short sale claims receivable is the amount that Ginnie Mae determines to be collectible. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of claims in full satisfaction of a loan from an insuring agency.

**Foreclosed Property:** Ginnie Mae records foreclosed property when a MSS receives marketable title to a property which has completed the foreclosure process in the respective state. The asset is measured as the principal and interest of a loan which is in the process of being conveyed to an insuring agency, net of an allowance. These assets are conveyed to the appropriate insuring agency within six months. Foreclosed property has previously been placed on nonaccrual status after the loan was repurchased from a pool. These properties differ from properties held for sale because they will be conveyed to an insuring agency, and not sold by the MSS.

The allowance for foreclosed property is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the foreclosed property and the allowance for foreclosed property is the amount that Ginnie Mae determines to be collectible. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency.

**Liability for Loss on MBS Program Guaranty:** Liability for loss on MBS program guaranty (MBS loss liability) represents management's estimate of future losses to be incurred as a result of the guaranty provided on MBS portfolios when information indicates a loss is probable and the amount of loss can be reasonably estimated.

The MBS loss liability is established to the extent management believes losses due to issuer defaults are probable and estimable and servicing income and FHA, USDA, VA, and PIH insurance proceeds do not fully cover Ginnie Mae servicing and loan acquisition related costs. Ginnie Mae establishes a MBS loss liability through a provision charged to operations when, in management's judgment, losses associated with existing defaulted issuers or performing issuer defaults are probable and estimable. In estimating losses, management utilizes a statistically-based model that evaluates numerous factors, including, but not limited to, general and regional economic conditions, mortgage characteristics, and actual and expected future default and loan loss experience. Ginnie Mae also analyzes the ability of the borrowers to pay as well as the recovery amount from mortgage insurance when estimating valuations of the mortgage-related assets and liabilities.

Additionally, the Office of Enterprise Risk (ERO) utilizes CorporateWatch to assist in the analysis of potential defaults. CorporateWatch assigns each issuer an internal risk grade using an internally developed proprietary risk-rating methodology. The objective of the methodology is to identify those Ginnie Mae issuers that display an elevated likelihood of default relative to their peers. To this end, the methodology assigns each active Issuer a risk grade ranging from 1-8, with 1 representing a low probability of default and 8 representing an elevated probability of default. A higher probability of default would arise from an observed weakness in an entity's financial health. Those Issuers with an elevated probability of default are assigned an internal risk grade of 7 or 8 and are automatically included in Risk Category I of the Watch List. ERO prepares written financial reviews on all Issuers appearing in Risk Category I of Watch List to assess the level of on-going monitoring needed to ensure that these Issuers remain viable Ginnie Mae counterparties or to take other mitigation actions.

Ginnie Mae's MBS loss liability is made up of three components:

- A. Liability for currently defaulted issuers' pooled loans – the estimated liability that arises from the guaranty obligation that Ginnie Mae has to the MBS holders subsequent to issuer default.
- B. Liability for currently defaulted issuers' non-pooled loans – Separate from the unpaid principal and interest of MHI, Ginnie Mae records a liability for estimated non-recoverable foreclosure costs that arise from the servicing and managing of mortgage loans HFI and properties held for sale.
- C. Liability for probable issuer defaults – loss contingency that arises from the guaranty obligation that Ginnie Mae has to the MBS holders as a result of a probable issuer default. The issuers have the obligation to make timely principal and interest payments to investors, however, in the event whereby the issuer defaults, The liability is valued as the net present value of future advancers and servicing costs, net of insurance proceeds and recoveries. For the issuers who are identified as probable defaults, Ginnie Mae records a contingent liability for the estimated amount of the cash flows in the loss liability.

The MBS loss liability is a liability account on the Balance Sheet. Ginnie Mae recognizes the loss by recording a charge to the provision for loss on MBS program guaranty on the Statements of Revenue and Expenses. Ginnie Mae records charge-offs as a reduction to the MBS loss liability account when losses are confirmed and records recoveries as a credit to the MBS loss

liability account. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios. Accordingly, the MBS loss liability is increased by provisions recorded as an expense in the Statements of Revenues and Expenses and reduced by charge-offs, net of recoveries. Among other losses and recoveries, miscellaneous expenses related to foreclosure are not capitalized on the Balance Sheet and are charged off against the MBS loss liability and recoveries of these expenses through the claims process are shown as recoveries against the MBS loss liability.

On an annual basis, Ginnie Mae assesses the loss liability model for reasonableness and predictive capabilities. As Ginnie Mae's defaulted issuer portfolio changes, the Budget and Economic Modeling Division reviews the original estimates by comparing them with actual results and historical data. This includes reviewing market inputs such as interest rates and volatility. If changes are necessary, the model is changed appropriately and reevaluated to verify that the changes were implemented properly.

**Fixed Assets:** Ginnie Mae's fixed assets represent systems (software) that are used to accomplish its mission. Ginnie Mae capitalizes significant software development project costs based on guidance in the ASC Subtopic 350-40 *Intangibles—Goodwill and Other – Internal-Use Software* (ASC 350-40). Ginnie Mae amortizes costs over a three- to five-year period beginning with the project's completion on a straight-line basis.

**Accrued Fees and Other Receivables:** Ginnie Mae's Accrued Fees and Other Receivables line item includes accrued guarantee fees and miscellaneous program receivables. The accrued guarantee fees are discussed in the Financial Guarantees section above. There is no allowance related to the miscellaneous program receivables because they are receivables with the U.S. Government.

**Fair Value:** Ginnie Mae measures the fair value of its financial instruments in accordance with ASC Topic 820, *Fair Value Measurement* (ASC 820), as amended by FASB Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS), that requires an entity to base fair value on exit price and maximize the use of observable inputs and minimize the use of unobservable inputs to determine the exit price. Accounting guidance defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Ginnie Mae categorizes its financial instruments, based on the priority of inputs to the valuation technique, into a three-level hierarchy, as described below.

Level 1      Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury and other U.S. Government securities that are highly liquid and are actively traded in over-the-counter markets.



- Level 2      Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include securities with quoted prices that are traded less frequently than exchange-traded instruments that are observable in the market or can be derived principally from or corroborated by observable market data.
- Level 3      Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

**Recognition of Revenues and Expenses:** Ginnie Mae recognizes revenue from the following sources:

- Guaranty Fees – Ginnie receives monthly guaranty fees for each MBS mortgage pool, based on a percentage of the pool’s outstanding balance. Fees received for Ginnie Mae’s guaranty of MBS are recognized as earned.
- Interest Income – Mortgage Loans HFI – Ginnie Mae earns interest income on an accrual basis at the debenture rate for the number of months allowed under the insuring agency’s timeline.
- Interest Income – U.S. Government Securities – Ginnie Mae earns interest income on U.S. Government Securities related to U.S. Treasury Overnight Certificates, Treasury Notes, and Treasury Inflation-Index Securities.
- Commitment Fees – Ginnie Mae receives commitment fees as issuers request commitment authority, and recognizes the commitment fees as income as issuers use their commitment authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired commitment authority are not returned to issuers.
- Multiclass Fees – Ginnie Mae receives one-time upfront fees related to the issuance of multiclass products. These multiclass fees are recognized as revenue over the service period in proportion to the costs expected to be incurred.
- Other MBS Program Income – Ginnie Mae also recognizes income through fees related to New Issuer Applications and Transfers of Servicing.

Ginnie Mae’s expenses are classified into three groups: MBS program expenses, administrative expenses, and fixed asset amortization. The main components of the MBS program expense line item are multiclass expenses, MBS information systems and compliance expenses, and transfer agent expenses.

**Statements of Cash Flows:** Ginnie Mae prepares the Statements of Cash Flows on an indirect basis. For purposes of the Statements of Cash Flows, Funds with U.S. Treasury are considered

cash. Ginnie Mae classifies cash flows from operations related to its programs and overall business operations (i.e., accrued interest, deferred revenue and liabilities, accounts payable, and MBS loss liability) as operating activities. Ginnie Mae classifies cash flows from securities that Ginnie Mae intends to hold for investment (i.e., U.S. Government securities and mortgage loans HFI) and capital expenditures and proceeds from sale of software as investing activities. Ginnie Mae classifies cash flows from any non-federal transactions necessary to finance or fund the operations of the agency as financing activities; of which there are none. Management determines the cash flow classification at the date of purchase of a loan, whether it intends to sell (operating activity) or hold the loan for the foreseeable future (investing activity).

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ginnie Mae has made significant estimates in a variety of areas including, but not limited to, valuation of certain financial instruments and assets (e.g., MSR, properties held for sale, and fixed assets - software), and liabilities (e.g., accruals for payments of contracts and miscellaneous expenses related to maintaining mortgage assets, and litigation-related obligations), including establishing the MBS loss liability. While Ginnie Mae believes its estimates and assumptions are reasonable based on historical experience and other factors, actual results could differ from those estimates.

**Adoption of New Accounting Standard:** Ginnie Mae adopted the new accounting standard, FASB ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, which was effective for annual reporting periods beginning after December 15, 2011 for information that Ginnie Mae has available. The adoption of ASU 2011-04 did not affect the financial statement results as it only amended and enhanced the disclosure requirements related to Fair Value disclosures.

## Note 2: U.S. Government Securities

The amortized cost and fair values as of September 30, 2013 were as follows:

<i>(Dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	\$ 192,100	\$ -	\$ -	\$ 192,100
U.S. Treasury Notes	998,600	24,500	-	1,023,100
U.S. Treasury Inflation-Indexed Securities	619,500	33,800	-	653,300
<b>Total</b>	<b>\$ 1,810,200</b>	<b>\$ 58,300</b>	<b>\$ -</b>	<b>\$ 1,868,500</b>

The amortized cost and fair values as of September 30, 2012 were as follows:

<i>(Dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	\$ 509,600	\$ -	\$ -	\$ 509,600
U.S. Treasury Notes	996,300	29,600	-	1,025,900
U.S. Treasury Inflation-Indexed Securities	607,700	40,600	-	648,300
<b>Total</b>	<b>\$ 2,113,600</b>	<b>\$ 70,200</b>	<b>\$ -</b>	<b>\$ 2,183,800</b>

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government securities at September 30, 2013, by contractual maturity date, were as follows:

<i>(Dollars in thousands)</i>	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	\$ 1,810,200	\$ 1,868,500	-3.03%
Due after one year through five years	-	-	
Due after five years through ten years	-	-	
<b>Total</b>	<b>\$ 1,810,200</b>	<b>\$ 1,868,500</b>	<b>-3.03%</b>

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government securities at September 30, 2012, by contractual maturity date, were as follows:

<i>(Dollars in thousands)</i>	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	\$ 509,600	\$ 509,600	0.05%
Due after one year through five years	1,604,000	1,674,200	-0.49%
Due after five years through ten years	-	-	-
<b>Total</b>	<b>\$ 2,113,600</b>	<b>\$ 2,183,800</b>	<b>-0.36%</b>

The U.S. Government securities portfolio is held in special market-based U.S. Treasury securities that are bought and sold at composite prices received from the Federal Reserve Bank of New York. These securities are maintained in book-entry form at the Bureau of Public Debt and include overnight certificates, U.S. Treasury notes, and U.S. Treasury inflation-indexed securities (reflecting inflation compensation). The coupon rates of Ginnie Mae's holdings, with a maturity of greater than one year, as of September 30, 2013, range from 1.88 percent to 2.00 percent. As of September 30, 2012, they ranged from 1.88. percent to 2.00 percent.

Although sales of investments are rare, Ginnie Mae liquidated one of its U.S. Government securities within one year of maturity in FY 2012. The par value of the security sold was \$520.6 million and the realized gain on the sale was \$12.5 million. These funds were used to repurchase

mortgage loans held for investment from defaulted issuer MBS pools. There were no sales of investments prior to maturity in FY 2013.

Note 1 describes loan repurchases in the mortgage loans HFI section in more detail.

**Note 3: Financial Guarantees and Financial Instruments with Off-Balance Sheet Risk**

Ginnie Mae receives a guaranty fee from issuers which is calculated based on the unpaid principal balance of outstanding MBS in the non-defaulted issuer portfolio. It is Ginnie Mae's compensation for taking on the risk of providing the guaranty to MBS investors for the timely payment of principal and interest in the event of issuer default.

Ginnie Mae recognizes a guaranty asset upon issuance of a guaranty for the expected present value of these guaranty fees. The guaranty liability is a non-contingent guaranty liability for Ginnie Mae's obligation to stand ready to perform on the guaranty. The guaranty liability recognized on the Balance Sheets is \$7,012.9 million and \$6,633.9 million as of September 30, 2013 and 2012, respectively. In addition to the guaranty liability, Ginnie Mae recognizes a MBS loss liability, which is contingent liability for estimable and probable losses in relation to these guarantees (i.e., MBS Loss Liability).

For the guarantee asset and liability recognized on the Balance Sheets, Ginnie Mae's maximum potential exposure under these guarantees is primarily comprised of the amount of MBS securities outstanding. On September 30, 2013, the amount of securities outstanding, which is guaranteed by Ginnie Mae, was \$1.5 trillion, including \$1.6 million of Ginnie Mae-guaranteed bonds. However, Ginnie Mae's potential loss is considerably less because of the financial strength of its issuers. Additionally, in the event of default, the underlying mortgages serve as primary collateral, and FHA, USDA, VA, and PIH insurance or guaranty indemnifies Ginnie Mae for most losses. The Ginnie Mae guaranteed security is a pass-through security whereby mortgage principal and interest payments, except for servicing and guaranty fees, are passed through to the security holders monthly. Mortgage prepayments are also passed through to security holders. As a result of the security's structure, Ginnie Mae bears no interest rate or liquidity risk. Ginnie Mae's exposure to credit loss is contingent on the nonperformance of Ginnie Mae issuers. Other than those issuers considered in the MBS loss liability, Ginnie Mae does not anticipate nonperformance by its other counterparties. The approximate term of the guarantee is 15-30 years. The maximum term is capped at 40 years.

Ginnie Mae is also subject to credit risk for its outstanding commitments to guarantee MBS which are not reflected in its Balance Sheets in the normal course of operations. The fair values of these commitments are an unrecognized MBS commitment for financial statement purposes. During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the securities are issued or the commitment period expires. Ginnie Mae's risk related to outstanding commitments is much less than for the outstanding balance of MBS commitments due in part to Ginnie Mae's ability to limit commitment authority granted to individual MBS issuers. Outstanding MBS and commitments were as follows:

	September 30	
<i>(Dollars in billions)</i>	2013	2012
Outstanding MBS	\$ 1,457.0	\$ 1,341.4
Outstanding MBS Commitments	\$ 118.1	\$ 115.7

If the outstanding MBS commitments were utilized in FY 2013, Ginnie Mae's corresponding guaranty liability, its obligation to stand ready to perform on these securities, would be approximately \$602.4 million as of September 30, 2013 and \$601.7 million as of September 30, 2012.

The Ginnie Mae MBS serves as the underlying collateral for multiclass products, such as Real Estate Mortgage Investment Conduits (REMIC), Callable Trusts, Platinums, and Stripped Mortgage-Backed Securities (SMBS), for which Ginnie Mae also guarantees the timely payment of principal and interest. These structured transactions allow the private sector to combine and restructure cash flows from Ginnie Mae MBS into securities that meet unique investor requirements for yield, maturity, and call-option features.

In FY 2013, Ginnie Mae issued a total of \$99.1 billion in its multiclass securities program. The estimated outstanding balance of multiclass securities included in the outstanding MBS balance as of September 30, 2013, was \$468.5 billion. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

#### **Note 4: Mortgage Servicing Rights**

The following table presents activity for residential first mortgage MSRs:

	September 30	
<i>(Dollars in thousands)</i>	2013	
Balance, October 1, 2012	\$	60,700
Additions		-
Changes in Fair Value		4,400
<b>Balance, September 30, 2013</b>	<b>\$</b>	<b>65,100</b>

	September 30	
<i>(Dollars in thousands)</i>	2012	
Balance, October 1, 2011	\$	110,900
Additions		-
Changes in Fair Value		(50,200)
<b>Balance, September 30, 2012</b>	<b>\$</b>	<b>60,700</b>

The Unpaid Principal Balance (UPB) of the MSR's for the total portfolio was \$7.8 billion and 11.5 billion in FY 2013 and 2012, respectively.

The variables in the table above can, and generally do, change from period to period as market conditions and projected interest rates change, and could have an adverse impact on the value of the MSR's and could result in a corresponding reduction in servicing income. The decrease in MSR value is attributable to increase in prepayments, higher cost of servicing, and higher delinquency and foreclosure rates, amongst other fair value drivers.

Impact of key economic assumptions used in determining the fair value of the Ginnie Mae's MSR are as follows:

<i>(Dollars in thousands)</i>	September 30	
	2013	2012
Valuation at period end:		
Fair value (thousands)	\$ 65,100	\$ 60,700
Weighted- average life (years)	5.38	2.43
Prepayment rates assumptions:		
Rate assumption	17.69%	32.89%
Impact on fair value of a 10% adverse change	(4,000)	(4,420)
Impact on fair value of a 20% adverse change	(7,700)	(8,339)
Discount rate assumptions:		
Rate assumption	12.57%	12.52%
Impact on fair value of a 10% adverse change	(2,700)	(1,398)
Impact on fair value of a 20% adverse change	(5,200)	(2,735)

These sensitivities are hypothetical and should be considered with caution. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., increased market interest rates may result in lower prepayments and increased credit losses) that could magnify or counteract the sensitivities. The discount rate assumptions are derived from a range of observed discount rate assumptions in the industry to which a premium was added in order to account for current credit conditions.

One of the primary risks associated with Ginnie Mae's MSR's is interest rate risk and the resulting impact on prepayments. A significant decline in interest rates could lead to higher-than-expected prepayments that could reduce the value of the MSR's.

Ginnie Mae collected \$41.1 million and \$57.0 million in mortgage servicing fees for the years ended September 30, 2013 and 2012, respectively. This amount is recorded as a recovery in the MBS loss liability.

## Note 5: Advances Against Defaulted MBS Pools

The advances against defaulted MBS pools balance is \$99.1 million in FY 2013 and \$59.7 million in FY 2012. The table below shows the account activity.

<i>(Dollars in thousands)</i>	September 30	
	2013	2012
Advances against defaulted MBS pools	\$ 261,600	\$ 156,900
Allowance for Uncollectible Advances	(162,500)	(97,200)
<b>Advances against defaulted MBS pools, net</b>	<b>\$ 99,100</b>	<b>\$ 59,700</b>

## Note 6: Ginnie Mae Defaulted Issuer Loan Portfolio Profile

Ginnie Mae's defaulted issuer loan portfolio profile consists of primarily single family loans. As of September 30, 2013, there are no multifamily mortgage loans within the Ginnie Mae defaulted issuer portfolio. Defaulted loans related to manufactured housing have a UPB of \$1.0 million and have been written down to \$0 since these are delinquent past 90 days and considered credit impaired. All manufactured housing loans have been placed on a nonaccrual status. The table below describes the aging of the single family defaulted issuer loan profile (i.e., mortgage loans HFI, foreclosed property, properties held for sale, short sale claims receivable, etc.) and UPB in millions:

As of September 30, 2013								
30 - 59 Days Delinquent	60 - 89 Days Delinquent	90-119 Days Delinquent	120+ Days Delinquent	Total Delinquent	Current	Total	Loans Over 120 Days Delinquent and Accruing Interest	Recorded Investment in Nonaccrual Loans
\$ 63,900	\$ 340,800	\$ 126,700	\$ 3,907,300	\$ 4,438,700	\$ 2,320,700	\$ 6,759,500	\$ 1,739,300	\$ 2,572,800
As of September 30, 2012								
30 - 59 Days Delinquent	60 - 89 Days Delinquent	90-119 Days Delinquent	120+ Days Delinquent	Total Delinquent	Current	Total	Loans Over 120 Days Delinquent and Accruing Interest	Recorded Investment in Nonaccrual Loans
\$ 16,500	\$ 1,458,900	\$ 145,800	\$ 6,343,200	\$ 7,964,400	\$ 179,800	\$ 8,144,200	\$ 2,858,800	\$ 3,865,000

Ginnie Mae analyzes its risk structure based on a loan's insurance coverage. Loans, which are insured by the FHA, have the least credit risk and are classified as Credit Risk Level 1 because Ginnie Mae expects to receive full recovery of principal in the event of a loan default. Loans, which are classified as a Credit Risk Level 2, are insured by other agencies (i.e., VA, USDA, etc.). These loans are more risky than Credit Level 1 loans because Ginnie Mae expects to receive partial recovery of principal. All loans without insurance coverage are classified as a Credit Risk Level 3. These loans are high risk because they have a lower probability for recovery than insured loans. The breakdown of loans by credit risk level and UPB in millions is below:

	September 30	
	2013	2012
Credit Risk Level 1 - FHA Loans	\$ 5,836,700	\$ 7,131,000
Credit Risk Level 2 - Non-FHA Loans	396,700	664,700
Credit Risk Level 3 - Uninsured Loans	526,100	348,400
<b>Total</b>	<b>\$ 6,759,500</b>	<b>\$ 8,144,100</b>

### Note 7: Mortgage Loans Held for Investment, Net

Mortgage loans HFI, net as of September 30, 2013 and 2012 were as follows:

	September 30	
	2013	2012
<i>(Dollars in thousands)</i>		
Total Mortgage Loans HFI	\$ 6,169,600	\$ 6,866,500
Total Mortgage Loans HFI Allowance for Loss	(502,200)	(177,400)
<b>Total Mortgage Loans HFI, net</b>	<b>\$ 5,667,400</b>	<b>\$ 6,689,100</b>

Ginnie Mae purchased \$1.1 billion and \$705.0 million loans from defaulted issuer pools as of September 30, 2013 and 2012, respectively. As of September 30, 2013, there are no multifamily mortgage loans within the Ginnie Mae defaulted issuer portfolio. Defaulted loans related to manufactured housing have a UPB of \$1.0 million and have been written down to \$0 since these are delinquent past 90 days and considered credit impaired. All manufactured housing loans have been placed on a nonaccrual status.

In FY 2013 and 2012, Ginnie Mae recorded \$116.4 and \$279.8 million, respectively, in interest income on mortgage loans HFI.

### Note 8: Foreclosed Property, Net

The Foreclosed property balance is \$481.1 million in FY 2013 and \$852.6 million in FY 2012, net of the allowance for foreclosed property. The table below shows account activity:

	September 30	
	2013	2012
<i>(Dollars in thousands)</i>		
Foreclosed property	\$ 494,600	\$ 929,400
Allowance for foreclosed property	(13,500)	(76,800)
<b>Foreclosed property, net</b>	<b>\$ 481,100</b>	<b>\$ 852,600</b>



Ginnie Mae utilizes the non-pooled valuation and allowance methodology to evaluate Foreclosed Property on an individual basis. Items are evaluated to determine impairment include insurance status and probable recovery amount based on experience and industry studies. As of September 30, 2013, there are no multifamily and manufactured housing foreclosed property.

**Note 9: Short Sale Claims Receivable, Net**

The Short Sale Claims Receivable balance is \$61.7 million in FY 2013 and \$21.1 million in FY 2012. The table below shows account activity:

<i>(Dollars in thousands)</i>	September 30	
	2013	2012
Short Sale Claims Receivable	\$ 81,600	\$ 36,800
Allowance for Short Sale Claims Receivable	(19,900)	(15,700)
<b>Short Sale Claims Receivable, net</b>	<b>\$ 61,700</b>	<b>\$ 21,100</b>

Ginnie Mae utilizes the non-pooled valuation and allowance methodology to evaluate Short Sale Claims Receivable on an individual basis. Items are evaluated to determine impairment include insurance status and probable recovery amount based on experience and industry studies. As of September 30, 2013, there are no multifamily mortgage loans within the Ginnie Mae defaulted issuer portfolio.

**Note 10: Insurance Claims Receivable**

The Claims Receivable balance is \$8.4 million in FY 2013 and \$6.5 million in FY 2012. There is no allowance on Insurance Claims Receivable because it is a Federal receivable.

**Note 11: Properties Held for Sale, Net**

Balances and activity for these acquired properties were as follows:

<i>(Dollars in thousands)</i>	September 30	
	2013	2012
Balance of properties, beginning of year	\$ 15,500	\$ 7,400
Additions	42,600	25,500
Dispositions and Losses	(28,500)	(17,400)
Balance of properties, end of year	\$ 29,600	\$ 15,500
Valuation Allowance	(6,200)	(3,900)
<b>Properties held for sale, net</b>	<b>\$ 23,400</b>	<b>\$ 11,600</b>

During FY 2013, \$42.6 million of loans were repurchased out of pools and categorized as properties held for sale. The properties held for sale balance is composed primarily of single family collateral.

## Note 12: Fair Value Measurements

This note discusses the recurring and non-recurring changes in fair value measurement as well as the fair value of financial instruments. The following sections provide detailed information.

### Recurring Changes in Fair Value

The following table presents the fair value measurement hierarchy level for Ginnie Mae's assets that are measured at fair value on a recurring basis subsequent to initial recognition, including financial instruments for which Ginnie Mae has elected the fair value option. Mortgage Servicing Rights is the only Ginnie Mae asset which is measured on a recurring basis subsequent to initial recognition. The fair value of the Mortgage Servicing Rights and its measurement basis is shown below.

<i>(Dollars in thousands)</i>	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Mortgage Servicing Rights	\$ -	\$ -	\$ 65,100	\$ 65,100
Total Assets at Fair Value	\$ -	\$ -	\$ 65,100	\$ 65,100

<i>(Dollars in thousands)</i>	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Mortgage Servicing Rights	\$ -	\$ -	\$ 60,700	\$ 60,700
Total Assets at Fair Value	\$ -	\$ -	\$ 60,700	\$ 60,700

Ginnie Mae measures the fair value of MSR's based on the present value of expected cash flows of the underlying mortgage assets using management's best estimates of certain key assumptions, which include prepayment speeds, forward yield curves, adequate compensation, and discount rates commensurate with the risks involved. Changes in anticipated prepayment speeds, in particular, result in fluctuations in the estimated fair values of the servicing rights. If actual prepayment experience differs from the anticipated rates used in the model, this may result in a material change in the fair value. Note 4 contains additional detail in regards to specific fair value assumptions.

The following table presents a reconciliation for the MSR's measured at fair value on a recurring basis using significant unobservable inputs for the years ended September 30, 2013 and 2012:

<i>(Dollars in thousands)</i>	<b>Mortgage Servicing Rights</b>
<b>October 1, 2012</b>	\$ 60,700
Net realized/unrealized gains (losses) included in Excess of Revenue over Expenses	4,400
<b>September 30, 2013</b>	<b>\$ 65,100</b>
Assets:	
<b>October 1, 2011</b>	\$ 110,900
Net realized/unrealized gains (losses) included in Excess of Revenue over Expenses	(50,200)
<b>September 30, 2012</b>	<b>\$ 60,700</b>

The table below summarizes gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in excess of revenue over expenses for the fiscal year ended 2013 and 2012 for the MSR's:

<i>(Dollars in thousands)</i>	<b>Total Gains and Losses on Mortgage Service Rights</b>	
	<b>2013</b>	<b>2012</b>
Classification of gains and losses (realized/unrealized) included in Excess of Revenue over Expenses for the period:		
Gain (Loss) on MSR	4,400	(50,200)
<b>Total</b>	<b>\$ 4,400</b>	<b>\$ (50,200)</b>

## Nonrecurring Changes in Fair Value

The following table displays the asset measured on the Balance Sheets at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when Ginnie Mae evaluates for impairment), and the gains or losses recognized for these assets and liabilities for the years ended September 30, 2013 and 2012, as a result of fair value measurements:

September 30, 2013				
<i>(Dollars in thousands)</i>	Level 1	Level 2	Level 3	Total Losses
Properties held for sale, net			\$ 23,400	-

September 30, 2012				
<i>(Dollars in thousands)</i>	Level 1	Level 2	Level 3	Total Losses
Properties held for sale, net			\$ 11,600	-

Properties held for sale, net represents foreclosed property received in full satisfaction of a loan, which Ginnie Mae intends to sell, net of a valuation allowance. Properties held for sale is initially recorded on the Balance Sheets at its fair value less its estimated cost to sell. Subsequent to initial measurement, the properties held for sale are reported at the lower of the carrying amount or fair value less estimated cost to sell. The fair value estimate is based on relevant current and historical factors available at the time of valuation. The properties are appraised by independent entities on a regular basis throughout the year. The appraisals include viewing the condition of properties and analyzing market conditions (i.e., comparing similar properties, recent sales, etc.). Acquired property is classified within Level 3 of the valuation hierarchy because significant inputs are unobservable.

## Fair Value of Financial Instruments

The following table displays the carrying value and estimated fair value of Ginnie Mae's financial instruments as of September 30, 2013 and 2012.

<i>(Dollars in thousands)</i>	September 30, 2013				September 30, 2012	
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Fair Value
<b>Financial Assets:</b>						
Funds with U.S. Treasury	\$ 9,622,400	\$ 9,622,400	\$ -	\$ -	\$ 7,075,500	\$ 7,075,500
U.S. Government securities	\$ 1,810,200	\$ 1,868,500	\$ -	\$ -	\$ 2,113,600	\$ 2,183,800
Mortgages held for investment, net	\$ 5,667,400	\$ -	\$ -	\$ 5,667,400	\$ 6,689,100	\$ 6,689,100
Foreclosed property, net	\$ 481,100	\$ -	\$ -	\$ 481,100	\$ 852,600	\$ 852,600
Advances against defaulted MBS Pools, net	\$ 99,100	\$ -	\$ -	\$ 99,100	\$ 59,700	\$ 59,700
Short sale claims receivable, net	\$ 61,700	\$ -	\$ -	\$ 61,700	\$ 21,100	\$ 21,100
Mortgage servicing rights	\$ 65,100	\$ -	\$ -	\$ 65,100	\$ 60,700	\$ 60,700
Guaranty asset	\$ 7,012,900	\$ -	\$ -	\$ -	\$ 6,633,900	\$ -
<b>Financial Liabilities:</b>						
Guaranty liability	\$ 7,012,900	\$ -	\$ -	\$ -	\$ 6,633,900	\$ -

Ginnie Mae's standing as a federal government corporation whose guaranty carries the full faith and credit of the U.S. Government makes it difficult to determine what the fair value of its financial instruments would be in the private market. Therefore, the fair values presented in the table above do not purport to present the net realizable, liquidation, or market value as a whole. Furthermore, amounts which Ginnie Mae ultimately realizes from the disposition of assets or settlement of liabilities may vary significantly from the fair values presented.

The valuation techniques for the line items disclosed in the above table, including funds with U.S. Treasury, foreclosed property, advances against defaulted MBS pools, and short sale claims receivable have a carrying amount which approximates fair value due to the short-term nature inherent in them. Mortgage held for investment, net is impaired when purchased from the pool and held net of an allowance.

*U.S. Government Securities* – Ginnie Mae records the fair value of this asset based on quoted data from the U.S. Bureau of Public Debt.

*Mortgage loans held for investment, net* – Mortgage loans held for investment, net is measured as the unpaid principal balance which Ginnie Mae pays to purchase the loans from a defaulted issuer pool. These loans are reported net of an allowance for loan losses. Ginnie Mae does not account for loans at fair value because the agency receives the entire principal and interest balances through the insurers or borrowers in most instances, except for VA-insured loans.

*Guaranty Asset and Liability* – Ginnie Mae uses the practical expedient to determine the guaranty asset and liability based on the present value of the expected future cash flows from the guaranty fees based on the unpaid principal balance of the outstanding MBSs in the non-defaulted issuer portfolio which results from new issuances of MBSs, scheduled run-offs of MBSs, prepayments and defaults. Subsequently, the guaranty asset and liability is measured by a systematic and rational amortization method. It is not practicable to calculate a fair value on the guaranty asset and liability because there is no market to compare the estimates. Note 3 provides additional information in regards to the guaranty asset and liability.

### **Note 13: MBS Loss Liability**

Ginnie Mae establishes a MBS loss liability on an annual basis. The changes in the MBS loss liability for the years ended September 30, 2013, and 2012 were as follows:

<i>(Dollars in thousands)</i>	Single Family		Multifamily		Manufactured Housing		Total	
<b>MBS Loss Liability</b>								
<b>September 30, 2011</b>	<b>\$</b>	<b>394,200</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>1,600</b>	<b>\$</b>	<b>395,800</b>
Provision for losses		266,500		300		(2,300)		264,500
Charge-offs		(446,200)		(200)		(1,000)		(447,400)
Recoveries		142,000		-		2,500		144,500
<b>MBS Loss Liability</b>								
<b>September 30, 2012</b>	<b>\$</b>	<b>356,500</b>	<b>\$</b>	<b>100</b>	<b>\$</b>	<b>800</b>	<b>\$</b>	<b>357,400</b>
Provision for losses		403,300		(100)		(1,100)		402,100
Charge-offs		(203,200)		-		(800)		(204,000)
Recoveries		143,100		-		1,700		144,800
<b>MBS Loss Liability</b>								
<b>September 30, 2013</b>	<b>\$</b>	<b>699,700</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>600</b>	<b>\$</b>	<b>700,300</b>

Management believes that its MBS loss liability is adequate to cover probable and estimable losses on the MBS program guaranty. Ginnie Mae incurs losses when FHA, USDA, VA, and PIH insurance and guaranty proceeds do not cover losses that result from issuer defaults or in the event loans are uninsured and proceeds do not cover losses from default. During FY 2013, Ginnie Mae defaulted one single family issuer with extinguishment with a portfolio of \$19.7 million and another single family issuer without extinguishment. Ginnie Mae accounted for and included the default in the MBS Loss Liability. As of September 30, 2013, Ginnie Mae's single family and manufactured housing pooled defaulted portfolio had remaining principal balances of \$8.5 billion and \$267 thousand, respectively.

#### Note 14: Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counterparties (for example, issuers and borrowers) engage in similar activities or are susceptible to similar changes in economic conditions that could affect their ability to meet contractual obligations. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers. Concentrations of credit risk are as noted below, as of September 30, 2013:

	Single Family		Multifamily		Manufactured Housing		Home Equity Conversion (HECM/HMBS)	
	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance
<i>(Dollars in billions)</i>								
Largest performing issuers	25	\$ 1,169.6	21	\$ 70.7	1	\$ 0.3	12	\$ 44.6
Other performing issuers	210	\$ 157.1	36	\$ 9.2	2	\$ -	0	\$ -
Defaulted issuers	23	\$ 7.8	0	\$ -	1	\$ -	0	\$ -

Concentrations of credit risk are as noted below, as of September 30, 2012:

	Single Family		Multifamily		Manufactured Housing		Home Equity Conversion (HECM/HMBS)	
	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance
<i>(Dollars in billions)</i>								
Largest performing issuers	25	\$ 1,135.3	19	\$ 58.5	1	\$ 0.3	11	\$ 36.9
Other performing issuers	169	\$ 92.2	37	\$ 9.0	2	\$ -	0	\$ -
Defaulted issuers	22	\$ 11.2	0	\$ -	3	\$ -	0	\$ -

Issuers are permitted only to pool insured or guaranteed loans (from FHA, USDA, VA or PIH). The insuring and guarantying entities have strict underwriting standards and criteria for quality of collateral. In the event of issuer default, Ginnie Mae assumes the rights and obligations of the issuer and becomes the owner of the MSR asset, which typically is a sale-able asset. In addition, in the event of borrower delinquency in excess of 90 or 120 days for Single Family or Manufactured Housing respectively, Ginnie Mae has the right to repurchase the loan out of the pool and can obtain access to the underlying collateral or insurance claim by pursuing foreclosure.

#### **Note 15: Commitments and Contingencies**

As of September 30, 2013, and as of this report, Ginnie Mae's Office of General Counsel has identified one pending or threatened action or unasserted claim or assessment in which Ginnie Mae's exposure is \$3.0 million, individually, or in the aggregate for similar matters. Additionally, Ginnie Mae's Office of General Counsel has determined that there are no pending or threatened actions or unasserted claims or assessments in which Ginnie Mae's potential loss exceeds \$6.0 million in the aggregate for cases not listed individually or as part of similar cases that could be material to the financial statements. In the opinion of Ginnie Mae's management and Office of General Counsel, the likelihood of an unfavorable outcome is remote in the case. It is the opinion of Ginnie Mae that the disposition or ultimate resolution of the case will not have a material adverse effect on the financial position of Ginnie Mae.

Ginnie Mae has commitments to guaranty MBS, which are off-balance sheet financial instruments. Additional information is discussed in Note 3: Financial Guarantees and Financial Instruments with Off-Balance Sheet Risk.

Ginnie Mae's management recognizes the uncertainties that could occur in regard to potential defaulted issuers and other indirect guarantees (i.e., large issuer portfolio default, lack of proper insurance coverage of defaulted loans, etc.). Additional information is discussed in Note 13: MBS Loss Liability.

## Note 16: Related Parties

Ginnie Mae is subject to controls established by government corporation control laws (31 U.S.C. Chapter 91) and management controls by the Secretary of HUD and the Director of the Office of Management and Budget (OMB). These controls could affect Ginnie Mae's financial position or operating results in a manner that differs from those that might have been obtained if Ginnie Mae were autonomous.

Ginnie Mae was authorized to use \$22.5 million during FY 2013 for personnel (payroll) and non-personnel (travel, training) costs only. During FY 2013, Ginnie Mae incurred \$17.5 million, net, for Salaries and Expenses. Ginnie Mae has no liability for future payments to employees under the CSRS or FERS retirement systems. Ginnie Mae does not account for the assets of CSRS or FERS nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management (OPM) and are allocated to HUD. OPM also accounts for the health and life insurance programs for federal employees and retirees and funds the non-employee portion of these programs' costs.

Cash receipts, disbursements, and investment activities are processed by the U.S. Treasury. Funds with U.S. Treasury represent cash and are treated as such for the Statements of Cash Flow. Ginnie Mae has authority to borrow from the U.S. Treasury to finance operations in lieu of appropriations, if necessary.

Additionally, Ginnie Mae has an intra-entity relationship with the FHA, which is part of HUD. Of the total mortgage loans HFI, net, approximately \$5.3 billion and \$6.2 billion loans were insured by FHA as of September 30, 2013 and 2012, respectively. In addition, Ginnie Mae submits and receives claim proceeds for FHA-insured loans that have been through the foreclosure and short sale process. The breakdown of FHA claims pending payment or pre-submission to FHA is below:

	September 30	
	2013	2012
<i>(Dollars in thousands)</i>		
Foreclosed Property	\$ 479,500	\$ 829,500
Short Sales Claims Receivable	44,100	14,900
Insurance Claims Receivable	8,400	6,500
<b>Total FHA Claims, net</b>	<b>\$ 532,000</b>	<b>\$ 850,900</b>

## Note 17: Credit Reform

The Federal Credit Reform Act of 1990, which became effective on October 1, 1991, was enacted to more accurately measure the cost of federal credit programs and to place the cost of these credit programs on a basis equivalent with other federal spending. Credit reform focuses on credit programs that operate at a loss by providing for appropriated funding, within budgetary



limitations, to subsidize the loss element of the credit program. Negative subsidies, calculated for credit programs operating at a profit, normally result in the return of funds to the U.S. Treasury. OMB specifies the methodology an agency is to follow in accounting for the cash flows of its credit programs.

Ginnie Mae's credit activities have historically operated at a profit. Ginnie Mae has not incurred borrowings or received appropriations to finance its credit operations. As of September 30, 2013, the U.S. Government has an investment of \$17.0 billion in Ginnie Mae. Pursuant to the statutory provisions under which Ginnie Mae operates, its net earnings are used to build sound reserves. In the opinion of management and HUD's general counsel, Ginnie Mae is not subject to the Federal Credit Reform Act.

**Note 18: Subsequent Event**

Ginnie Mae management has evaluated potential subsequent events through November 25, 2013, the date through which the financial statements were made available to be issued. Based on the evaluation, Ginnie Mae management identified no subsequent events.



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# Ginnie Mae Employees in Fiscal Year 2013

*As of September 30, 2013*

Caroline Abreu	Merlene S. Hawkins	Alison D. Price
Kim C. Adams	Dionne Holmes	Ana C. Rocha
Serena A. Agoro-Menyang	Roy R. Hormuth	George I. Rose, Jr.
Pershing J. Anderson	Jennifer E. Iba	Luis A. Saucedo
Tawana L. Anderson	Belinda A. Jackson	Stephanie A. Schader
Linda Blaylock	Nicole C. Jackson	Gina B. Screen
Dan Boling	Erica J. Johnson	Yvonne Sewell
Omar E. Bouaichi	Linda G. Johnson	Karen D. Sharp
Danielle Bromberek	Wendy R. Johnson	Ann B. Shearer
Philip H. Buckley	Valerie L. Johnson-Philson	Susan Skiles
Jennifer S. Burke	Dan E. Kahn	Zachary Skochko
Victoria P. Cabrera	Gregory A. Keith	Tamara P. Smith
Regina Chase	Chitranjan (CK) Khandpur	Stewart M. Spettel
Kathy C. Cheatham	Mary K. Kinney	Paul R. St. Laurent, III
Wendy Chi	Carolyn L. Korn	John F. Staudt
Shalei Choi	Jude G. Koval	Sharon C. Strange
Barbara M. Cooper-Jones	John Kozak	Sonya K. Suarez
Janie R. Cousin	Krishna Kundu	Akvile Sweetman
Mary Ann Coval	Zhihong (Helen) Lai	Paul J. Theruviparampil
John Crump	Alven Lam	Brenda Y. Thomas
Juanita Cruz-Latimer	Daniel Levy	James A. Thompson
John T. Daugherty	Sabra Loewus	Tamara Togans
Nuthan K. Deodhar	Christine L. Martin	Theodore W. Tozer
Michael R. Drayne	Leslie A. Meaux	Sandra J. Usher
Kimberly B. Eaglin	James Dion Milhouse	Victoria Vargas
Tisa I. Ebba	Rene R. Mondoneda	Smitha Vasanth
Claire R. Erchenian	Naiqi (Sherry) Morrison	Carol M. Vilsack
Claude H. Etienne	Sharolyn D. Moses	Larry E. Wagner
Helen E. (Liz) Faunce	Mitra S. Motlagh	LeKevia S. Waller
Ylanda Ford	Debra L. Murphy	Richard J. Washington
Barbara A. Foreman	L Michelle Murphy	Thomas R. Weakland
John F. Getchis	Michael J. Najjum, Jr.	Keri L. Weaver
Kathleen M Gibbons	Michael D. Nardacci	Eva E. White
Cindy C. Gorman-Miller	Carol T. Nguyen	Anderson S. Williams
Khari A. Grant	Michael R. Nixon	Kimberly Woods
Patrick J. Hagerty	Leonora D. Noel	Karmen L. Young
Patrick A. Hall	Cedric M. Parish	



Ginnie Mae's mission is to support affordable housing in America by linking global capital markets to the Nation's housing markets.

U.S. Department of Housing and Urban Development  
Washington, DC 20410-9000

[www.ginniemae.gov](http://www.ginniemae.gov)



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