Ginnie Mae

Report to Congress

Fiscal Year 2008

November 7, 2008

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-9000

PRESIDENT,
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

November 7, 2008

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

Dear Mr. Secretary:

As Ginnie Mae's 40th anniversary year draws to a close, recent market events have demonstrated, more significantly than ever, the value that this organization brings to the mortgage market and, most importantly, to the consumer. We continue to focus on our mission to expand affordable housing in America by promoting homeownership and affordable rental housing through the guarantee of mortgage-backed securities (MBS) backed by government-insured single family and multifamily loans.

After 40 years, Ginnie Mae and its products, with the explicit full faith and credit of the U.S. Government, continue to bring stability and liquidity to the market despite current turmoil. One of the keys to Ginnie Mae's stability is a continued commitment to its original mission. Ginnie Mae has never wavered from that mission and now the country is reaping the benefits of its market discipline—a discipline that clearly is needed right now. And, Ginnie Mae, which pioneered the very first MBS, continues to be a leader in bringing innovation to the mortgage market with new products to meet liquidity needs.

Fiscal Year (FY) 2008 has been a year of tremendous growth for Ginnie Mae and a demonstration of our prominence in the global marketplace. Our portfolio growth this year is testament to our sound business principles. For the first time in 20 years, Ginnie Mae has been the second largest issuer of agency MBS for three consecutive months. Our FY 2008 MBS issuance is almost three times higher than the same period of 2007. Our market share increased significantly to 18.8 percent at the end of FY 2008 from 4.4 percent at the end of FY 2007.[1] The tremendous growth is clearly a reflection of the fact that we are serving the role Congress intended, which is to provide liquidity in times of crisis.

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[1] Source: Inside Mortgage Finance, *Inside MBS and ABS*, April 4, 2008, and October 10, 2008.

In reflecting on Ginnie Mae's 40-year history, I looked back to the conditions in the U.S. economy when the Housing Bill of 1968 was signed by President Lyndon B. Johnson, creating Ginnie Mae. Interestingly, there was widespread concern about the economy then as well. In 1968, the median cost of buying a home was just over $15,000 and homebuyers were paying 7.25 percent on their home loans. A gallon of regular gasoline cost $0.34[2] and a first class stamp was six cents.[3]

Forty years later, the median existing single family home price has reached $215,100[4] and mortgage rates are just over 6 percent[5]; gas now hovers around $3.00 a gallon and a postage stamp costs $0.42.

The more things change, the more they stay the same. One thing certainly that has stayed the same is Ginnie Mae's position as an industry leader in the housing market. Ginnie Mae remains focused on sound business principles and in using its unique position to help homeowners in need of mortgage funding to purchase or remain in their homes. Our commitment to a simple business model that promotes our mission and values safety and security above all else will result in increased revenues for Ginnie Mae. In FY 2008, Ginnie Mae realized $906.2 million of excess revenues over expenses, a remarkable accomplishment in these economic times.

Forty years ago, Ginnie Mae was a leader in providing liquidity; today, that role has even greater importance since it is clear that borrowers still want and need mortgage loans; lenders still want and need a way to increase liquidity to funnel more money into more loans, and investors still want and need a safe haven to channel investments. Ginnie Mae is that safe haven

Ginnie Mae helps consumers by developing innovative ways that ultimately address the financial needs of struggling homeowners. In April, Ginnie Mae immediately added a new multiple-issuer security under the Ginnie Mae II MBS program to accommodate the jumbo loans now insured by the Federal Housing Administration (FHA). Ginnie Mae supports national efforts to increase liquidity by helping borrowers with higher-priced homes through its jumbo loan securitization program. Higher loan limits mean more borrowers can access the safety and security of FHA loans, and more lenders and issuers have a secondary market outlet for these loans.

Ginnie Mae continues to demonstrate its support for the president's economic stimulus package as well as other government initiatives that can help American homeowners or renters

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[2] ForSaleByOwner.com, "1968 vs. 2008: Are Home Sellers Better Off?"
[3] http://en.wikipedia.org/wiki/history_of_the_United_States_Postal_Service_Rates.
[4] Mortgage Bankers Association: http://www.mortgagebankers.org/NewsandMedia/PressCenter/64769.htm.
[5] The Freddie Mac *Primary Mortgage Market Survey* reports the 30-year fixed-rate mortgage as averaging 6.09 percent for the week ending September 25, 2008.

attain affordable housing. Ginnie Mae securities will provide liquidity for FHA's Hope for Homeowners program, which will further FHA's and Ginnie Mae's successful efforts to aid struggling families trapped in mortgages they currently cannot afford. Under the program, certain borrowers facing difficulty making their mortgage payments will be eligible to refinance into more affordable mortgages insured by FHA.

Ginnie Mae has also focused on wide-ranging and comprehensive risk mitigation initiatives to ensure that proper controls and strategies are in place to identify, address, and mitigate risk within the organization. Through the establishment of a risk committee, the appointment of a Chief Risk Officer, and the reconstitution of the issuer review board, we have created a multi-faceted, coordinated, and proactive approach to ensuring that Ginnie Mae securities remain safe and stable.

In addition, Ginnie Mae continued its support of our country's growing senior population by initiating the Home Equity Conversion Mortgage REMIC (H-REMIC) program in January. The H-REMIC follows the successful HMBS program, which has seen more than $1.2 billion in issuances since its initiation last year.

Through sound policies and financial practices, as well as the ability to adapt quickly to the changing needs of the American public, Ginnie Mae has demonstrated the important role it plays in helping to maintain a stable U.S. housing market. Where would the market be today, if there were no Ginnie Mae? Currently Ginnie Mae is providing liquidity for nearly $30 billion dollars a month in mortgage loans. Without this liquidity supported by investor confidence in Ginnie Mae, the housing market and the overall economy would be even more precarious. Much has changed in 40 years. But with a persistent focus on safety, soundness, and innovation to meet our country's evolving housing needs, I am pleased to report that for Ginnie Mae, change is only for the better.

Sincerely,

Joseph J. Murin

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I. MISSION AND PURPOSE

Forty years ago, President Lyndon B. Johnson signed the Housing Bill of 1968 establishing Ginnie Mae. In the decades following, many things have changed, but Ginnie Mae's stability and soundness have remained the same. In today's unprecedented and turbulent market, Ginnie Mae continues steadfastly to fulfill its mission to expand affordable housing in America by linking global capital markets to the nation's housing market. The explicit full faith and credit guarantee of the U.S. Government for timely payment of principal and interest on Ginnie Mae mortgage-backed securities (MBS) attracts global investors, allowing Ginnie Mae to provide liquidity and remain a viable outlet for mortgage lenders in the secondary market. Even in the current credit crisis, Ginnie Mae remains a source of stability in the market.

Since the time that Ginnie Mae created the very first MBS in 1970 and revolutionized the housing finance industry, it has been a cornerstone of the American mortgage market. Ginnie Mae has guaranteed approximately $2.9 trillion in MBS, providing homeownership opportunities for millions of households by guaranteeing securities backed by government-insured loans. Ginnie Mae has been an incredible success story, highlighting the power of the federal government and the private sector working together. On its 40th anniversary, Ginnie Mae's vital role in expanding affordable housing and supporting affordable rental housing continues to be more critical than ever.

Additional information can be found at Ginnie Mae's website at http://www.ginniemae.gov.

Expanding Affordable Housing

Ginnie Mae expands affordable housing by channeling global capital into the nation's housing markets. Currently, it is one of the few secondary market players that still retain the confidence of global investors. Ginnie Mae enables qualified mortgage lenders to sell their mortgage loans at favorable prices in the secondary market and attract new sources of capital, which lowers financing costs and allows them to make more loans at lower rates. This has helped create opportunities for sustainable, affordable housing for American families while increasing the ranks of minority homeowners.

Ginnie Mae, formed as the Government National Mortgage Association, is a wholly owned government corporation within the U.S. Department of Housing and Urban Development (HUD) administered by the Secretary of HUD and the President of Ginnie Mae. In 1970, Ginnie Mae developed and guaranteed the very first MBS. Today, its primary function is to guarantee the timely payment of principal and interest on MBS that are backed by pools of mortgages issued by private mortgage institutions and insured by HUD's Federal Housing Administration (FHA) and the Office of Public and Indian Housing (PIH), the Department of Veterans Affairs' (VA) Home Loan Program for Veterans, and the U.S. Department of Agriculture's (USDA) Rural Development Housing and Community Facilities programs.

Ginnie Mae is not in the business of making or purchasing mortgage loans. Nor does it buy, sell, or issue securities. Accordingly, Ginnie Mae does not use derivatives to hedge or carry long-term debt, or related outstanding securities liabilities, on its balance sheet. Instead, issuers, which are private lending institutions approved by Ginnie Mae, originate eligible government loans, pool them into securities, and issue the Ginnie Mae MBS.

Continued investor demand for Ginnie Mae securities also helps troubled borrowers who are in danger of losing their homes. Ginnie Mae has been quick to respond in creating the securitization products that provide liquidity for FHA programs, thereby helping qualified homeowners to refinance their homes into more affordable products.

Providing Market Liquidity and Product Innovation

Ginnie Mae provides liquidity in the marketplace by guaranteeing MBS, which include eligible government-insured loans originated or purchased by Ginnie Mae-approved private lending institutions. The Ginnie Mae guaranteed securities are sold by broker-dealers to investors around the world. Even in uncertain times, investors are guaranteed payment of interest and principal, in full and on time. This, along with an expected return higher than U.S. Treasury securities, makes Ginnie Mae securities highly liquid and attractive to domestic and foreign investors, who can sell them quickly without significant risk of loss or arbitrage. The benefits of this liquidity are passed on to the lenders who can then make more mortgage loans at more affordable rates. This ongoing cycle provides accessible and affordable housing for Americans. Figure 1 shows the process of creating Ginnie Mae securities.

Ginnie Mae's prudent approach along with its guarantee of timely interest and principal payments stands out even more in FY 2008 than in previous years. This is strongly evident in the tripling of its market share within the past fiscal year[6] at a time when the rest of the industry is struggling. Ginnie Mae's predominant position in the secondary mortgage market continues to draw investors from around the world. Foreign investment continues to be a critical component of Ginnie Mae's ability to provide liquidity to the U.S. housing market. Ginnie Mae's president Joseph Murin continues to build relationships overseas and communicate the desirability of Ginnie Mae securities.

[6] Source: Inside Mortgage Finance, *Inside MBS and ABS*, April 4, 2008, and October 10, 2008.

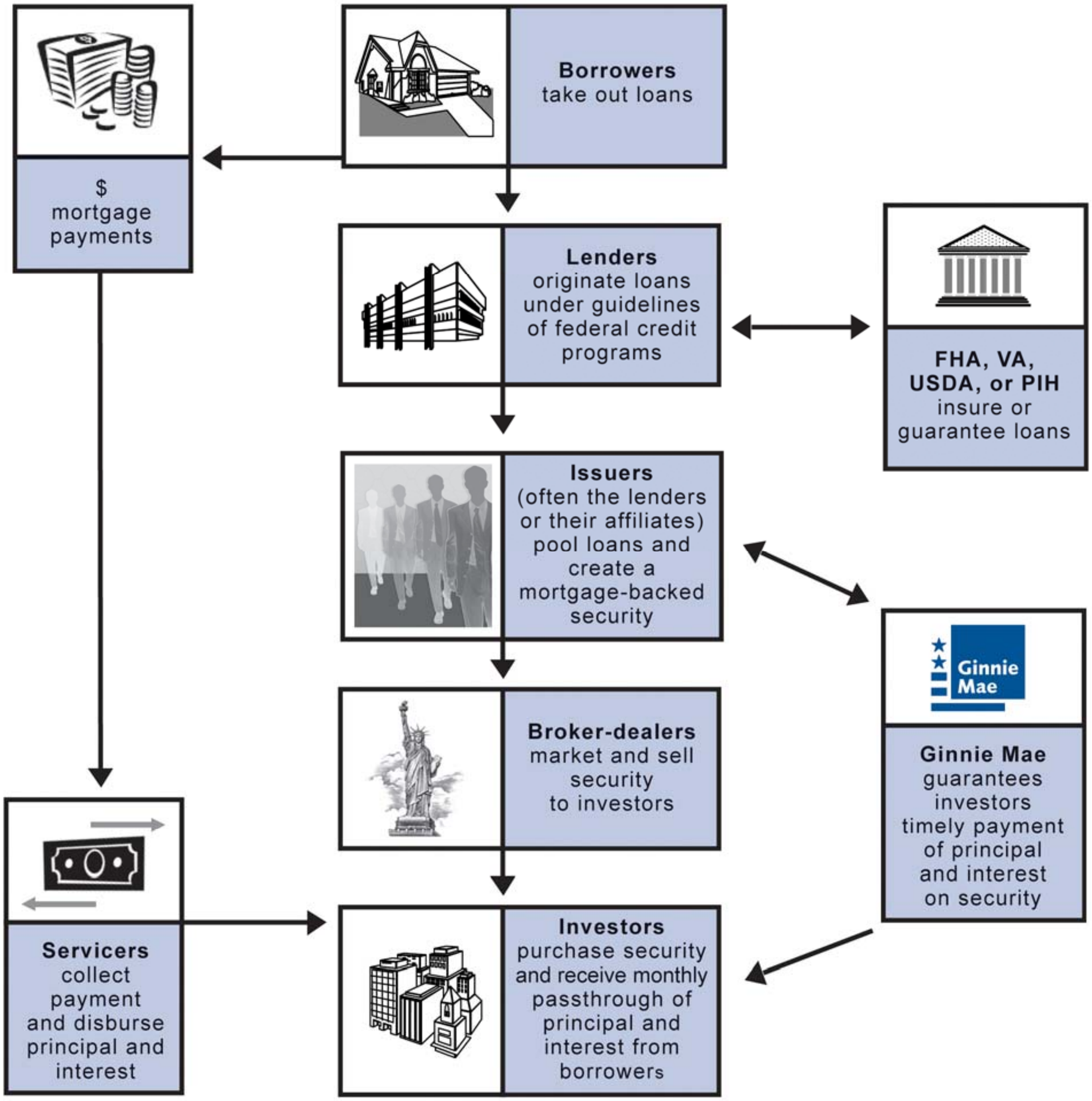


Figure 1: Ginnie Mae Securities Creation Process

Ginnie Mae has a variety of securities tailored to investors with diverse needs. At the core are two MBS products:

- **Ginnie Mae I MBS** require all mortgages in a pool to be of the same type, be issued by the same entity, and have the same fixed interest rate.

- **Ginnie Mae II MBS** are restricted to single family mortgages, but allow multiple-issuer pools to be assembled containing a range of coupons.

These securities drive Ginnie Mae's efforts to create a secondary market for government insured and guaranteed loans, and serve as the underlying collateral for multiclass products such as Real Estate Mortgage Investment Conduits (REMIC), Callable Trusts, Platinums, and Stripped MBS (SMBS), for which Ginnie Mae also guarantees the timely payment of principal and interest. These allow the private sector to combine and restructure cash flows from Ginnie Mae MBS into securities that meet unique investor requirements in connection with yield, maturity, and call-option protection. The intent of the Multiclass Securities Program is to increase liquidity in the secondary mortgage market and to attract new sources of capital for federally insured or guaranteed residential loans.

- **REMICs** are investment vehicles that reallocate the pass-through cash flows from underlying mortgage obligations into a series of different bond classes, known as tranches.

- **Callable Trusts** allow investors the flexibility to redeem or call a security prior to its maturity date under certain conditions, to hedge against fluctuating rate environments.

- **Platinum** securities allow investors who hold multiple pools of MBS to combine them into a single Ginnie Mae Platinum Certificate.

- **SMBS** are custom-designed securities that redirect MBS cash flows to meet investors' specific income needs around interest and principal payments.

These products are put together for offering in the public markets by approved Ginnie Mae Sponsors. These sponsors have wide access to global investors. In addition, selected Co-sponsors, who are often minority and small-sized institutions with a diverse reach, support the securities' offerings.

Since its inception, Ginnie Mae has guaranteed approximately $2.9 trillion in MBS, providing access to affordable housing for millions of low- and moderate-income Americans and creating homeownership opportunities in every U.S. state and territory. Figure 2 shows the cumulative amount of Ginnie Mae MBS from 1970 to 2008.

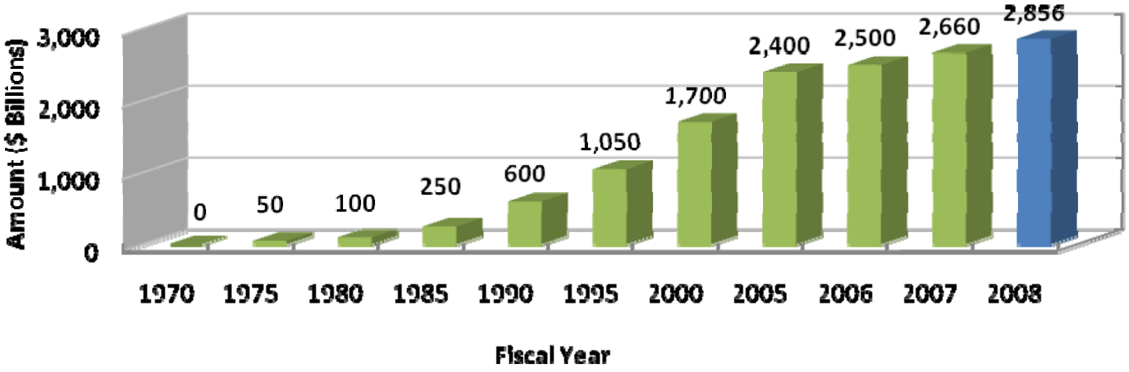
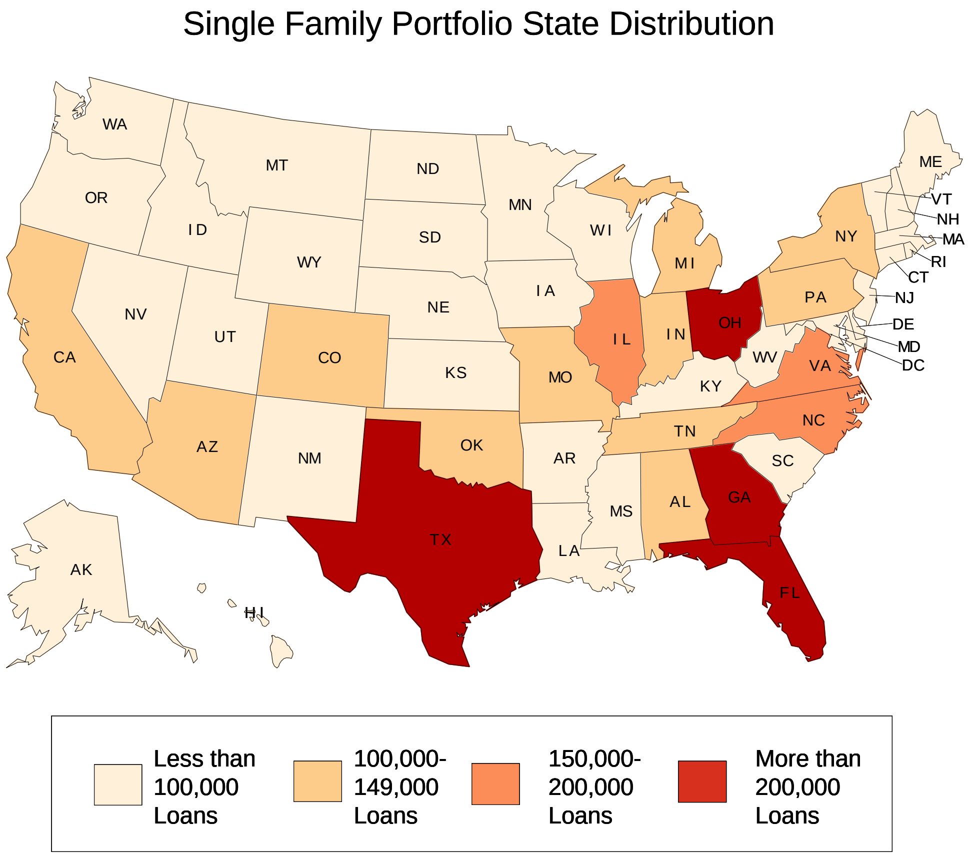


Figure 2: Cumulative Amount of Ginnie Mae MBS (1970-2008)

Single Family

In FY 2008, the vast majority of the mortgages in Ginnie Mae securities were originated through FHA and VA programs, 80.2 percent and 17.2 percent in dollar terms, respectively. Furthermore, Ginnie Mae exceeded its FY 2008 goal to guarantee at least 93.5 percent of eligible FHA single family fixed-rate loans. In total, 96.9 percent of all FHA single family, fixed-rate loans were placed into Ginnie Mae securities. The amount of outstanding single family securities at the end of FY 2008 was $537.3 billion, compared to $389.1 billion at the end of FY 2007.

Ginnie Mae has provided homeownership opportunities in every U.S. state and territory (see Figure 3).



Puerto Rico, Guam, and U.S. Virgin Islands not shown on map.

State	Loans	Percent of Total Loans	RPB ($ Millions)
Texas	625,993	14.0%	$ 60,890
Florida	250,874	5.6%	$ 30,034
Georgia	244,542	5.5%	$ 29,967
Virginia	151,817	3.4%	$ 22,623
California	127,792	2.9%	$ 22,126
North Carolina	189,886	4.2%	$ 22,121
Ohio	203,494	4.5%	$ 21,680
Illinois	155,179	3.5%	$ 19,576
Colorado	121,337	2.7%	$ 19,415
Maryland	99,262	2.2%	$ 16,562

Figure 3: Geographic Distribution of Single Family Properties Securing Ginnie Mae Securities as of September 30, 2008

Within its Single Family program, Ginnie Mae provides incentives for lenders to increase loan volumes in traditionally underserved areas through the Targeted Lending Initiative (TLI) program. 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 security. The reduced fee gives lenders an incentive to originate loans in TLI areas. As of the end of FY 2008, 27.8 percent of all single family pools issued received TLI credit. In FY 2008, more issuers formed TLI pools than in FY 2007.

Multifamily

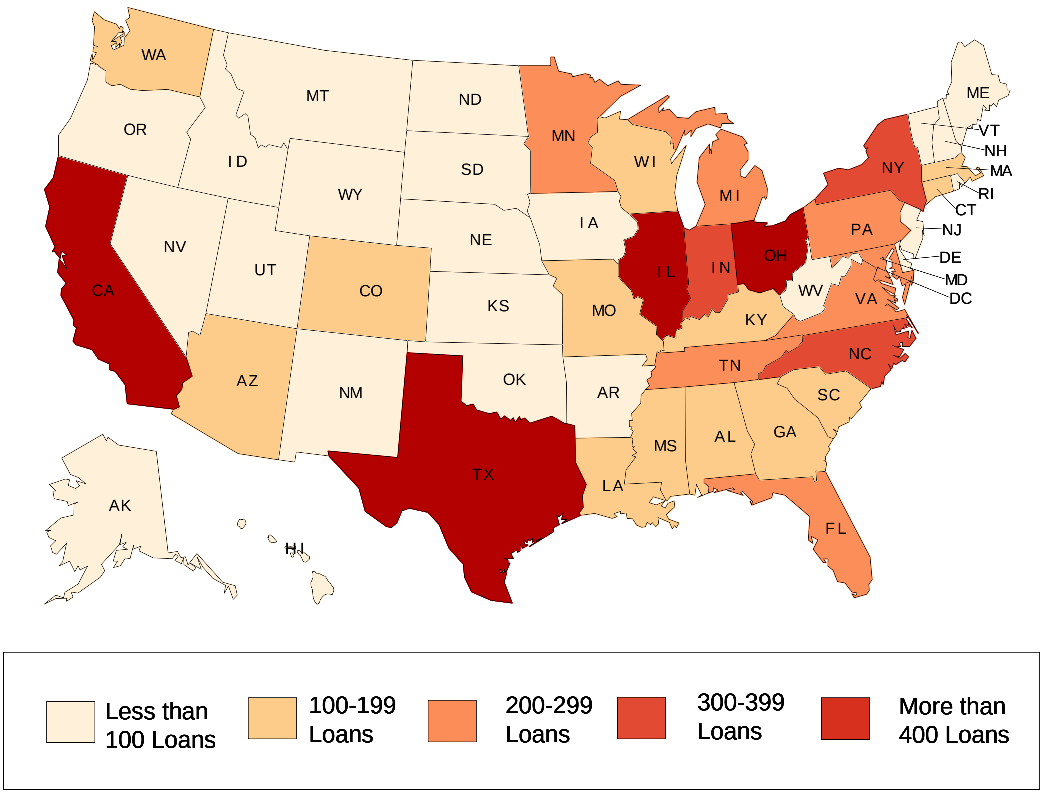
Finding a home does not always mean buying a home. Given the turmoil in the economy and, more specifically, in the mortgage market, decent, affordable and safe rental housing is a critical need for a growing number of American families. According to the most recent report on "The State of the Nation's Housing," the housing downturn is the worst in 50 years. With the growing number of foreclosures, rental housing is becoming more and more important.[7] The crisis is not only affecting new homebuyers, but also long-standing homeowners who were the victims of predatory lending practices and refinanced into products they could not afford. Many of these people will turn to rental housing instead of homeownership.

Just as Ginnie Mae's single family products reduce finance costs for homebuyers, its multifamily products have an analogous impact on maintaining affordable rents for individuals and families. By guaranteeing multifamily pools that are sold to investors in the global capital markets, Ginnie Mae enables lenders to reduce mortgage interest rates paid by developers and multifamily property owners, which, in turn, keep rents affordable. The multifamily program dollar portfolio increased by $1.0 billion in FY 2008, up from $38.4 billion to $39.4 billion, marking the 14th year of growth in the Ginnie Mae's multifamily housing program.

Figure 4 shows the geographic distribution of Multifamily Properties securing Ginnie Mae Securities for FY 2008. Since 1971, Ginnie Mae has guaranteed $103.1 billion in multifamily MBS, helping to finance affordable multifamily housing units including apartment buildings, nursing homes, and assisted-living facilities across the nation.

[7] "The State of the Nation's Housing 2008," Joint Center for Housing Studies at Harvard University," 2008.

Multifamily Portfolio State Distribution



Puerto Rico, Guam, and U.S. Virgin Islands not shown on map.

State	Loans	Percent of Total Loans	RPB ($ Millions)
Texas	562	7.1%	$ 3,687
California	550	6.9%	$ 2,848
Illinois	426	5.4%	$ 2,652
New York	371	4.7%	$ 2,538
Ohio	605	7.6%	$ 2,019
Maryland	218	2.8%	$ 1,799
Virginia	213	2.7%	$ 1,435
Minnesota	270	3.4%	$ 1,404
Florida	205	2.6%	$ 1,384
North Carolina	325	4.1%	$ 1,328

Figure 4: Geographic Distribution of Multifamily Properties Securing Ginnie Mae Securities as of September 30, 2008

II. MARKET ENVIRONMENT

By all accounts, the fiscal year ending September 30, 2008, has been an extraordinary time for global financial markets and for the United States as a whole. Ginnie Mae is operating in an unprecedented market environment that is significantly impacting all players and constituents, from the largest financial institutions to virtually all Americans. The meltdown in the subprime market, increasing delinquencies and foreclosures across all loan types, devaluation of mortgage-related assets, and lack of investor confidence launched a paralyzing credit crisis. Rising food and energy costs combined with increasing unemployment put price pressures on consumers and businesses alike, further weakening spending and confidence. The need of U.S. citizens for safe and affordable housing, with access to capital to finance the purchase of a home, remains vital. Ginnie Mae's predominance in the capital markets and its stability during these turbulent times has never been more important to ensuring that funds flow to the housing market.

Housing and Mortgage Markets

The crisis that began in the subprime market in late 2006 and 2007 continued into 2008 and moved into all areas of the mortgage market. Delinquencies and foreclosures have risen significantly, home values have fallen, and economic conditions have deteriorated for many homeowners. Foreclosure filings on U.S. properties during the last quarter of FY 2008 rose 71 percent from the same time period in FY 2007.[8] In addition, the Mortgage Bankers Association (MBA) National Delinquency Survey reported the delinquency rate for mortgage loans on one-to-four-unit residential properties at 6.41 percent of all loans outstanding at the end of the second quarter of 2008, up from a 5.21 percent rate at the same time the prior year. Although the delinquency rate increased for all loan types year-over-year, the amount by which FHA and VA loans increased was less than one percent.[9]

Furthermore home prices and home sales for existing and new homes declined over the past year. MBA forecasts for the third quarter of 2008 show that nationally, the median price of an existing single family home fell 5.6 percent from the same time the previous year. Sales of new and existing single family homes fell 12.5 percent. Refinancing activity also has declined. Total mortgage production is anticipated to decline nearly 20 percent for all of 2008, compared to 2007, down to less than $1.9 trillion.[10] These trends also reflect the overall tightening of underwriting standards and lack of available credit for home purchases. Non-agency loans – those that do not meet the standards of the agencies, Ginnie Mae, Fannie Mae, and Freddie Mae, and are sold in the private market – have become increasingly difficult for many homebuyers to

[8] RealtyTrac, *U.S. Foreclosure Market Report*, October 23, 2008.
[9] Source: Mortgage Bankers Association:
http://www.mortgagebankers.org/newsandmedia/presscenter/64769.htm
[10] Mortgage Bankers Association: *Mortgage Finance Forecast*, October 21, 2008.

obtain. The subprime market has virtually dried up but even prime loans above the agency loan limits have become scarce.

Impact on the Capital Markets and Financial Institutions

The impact of the current crisis on the capital markets is unprecedented. Distress over losses on subprime mortgages escalated into widespread financial strains that threatened the stability of banks, other financial institutions, and the capital markets as a whole. As rating agency practices came under scrutiny, investors lost confidence in the credit rating process. This lack of confidence, coupled with rising non-payments, caused demand for securities backed by subprime or nonconforming loans to deteriorate. Although certain depository institutions may be able to hold some mortgage loans on their balance sheets, lenders who had relied primarily on the ability to sell or securitize these loans to obtain funds to make new mortgages had no choice but to stop lending. The ability to create MBS and securitize loans is critical to the flow of capital; but new issuance of non-agency residential MBS decreased by 89 percent to $101.7 billion during FY 2008, a fraction of the $930.2 billion issued during FY 2007.[11] The evaporation of the private-label securitization market has resulted in virtually no capital for nonconforming loans. Potential homeowners once served by the non-government loan market have been left in dire need of financing.

Government Response and Market Share Context

As FY 2008 drew to a close, the government responded to the capital crisis by expanding existing programs, stepping in to lend to or to take over institutions critical to the nation's housing and capital markets, and building a framework for a dramatic restructuring of the entire financial system. In the midst of the largest financial crisis since the Great Depression, Ginnie Mae's stable position in the marketplace and explicit full faith and credit backing by the U.S. Government enables it to support the housing market in this troubled economic time.

For many years since its inception, Ginnie Mae, along with FHA, had been a dominant market player and was key to linking the flow of mortgage funds from the capital markets to American homebuyers. The rise of nonconforming products and the success of private-label securitization in the 1990s led to a drop off in market share and, for nearly 20 years, Ginnie Mae's volume had fallen behind other agencies and issuers. The events of the past two years, however, have turned the market back to the soundness and stability of Ginnie Mae and its products.

The increase in Ginnie Mae issuance is significant and important in the marketplace. While the total volume of all residential MBS issued in FY 2008 fell 33 percent to $1.4 trillion, compared to $2.0 trillion in the previous fiscal year, Ginnie Mae issuance rose 159 percent and is expected to rise even higher through the end of the calendar year 2008. In FY 2008, $220.6 billion of

[11] Source: Inside Mortgage Finance, *Inside MBS & ABS*, April 4, 2008 and October 10, 2008.

Ginnie Mae MBS were issued compared to $85.0 billion in FY 2007, with August 2008 bringing a record-breaking $29 billion alone, the highest rate of issuance in its history. Since the beginning of the third quarter 2008, Ginnie Mae has become the second largest guarantor of all MBS in the marketplace and by the end of FY 2008, Ginnie Mae's market share had more than tripled, from 4.4 percent to 18.8 percent and is expected to grow much stronger in the coming year.[12] Figure 5 shows Ginnie Mae's market share from 1985 to 2008. Furthermore, Ginnie Mae has experienced growth in portfolio, which is defined as the dollar amount of issuances guaranteed by Ginnie Mae, for 30 consecutive months.

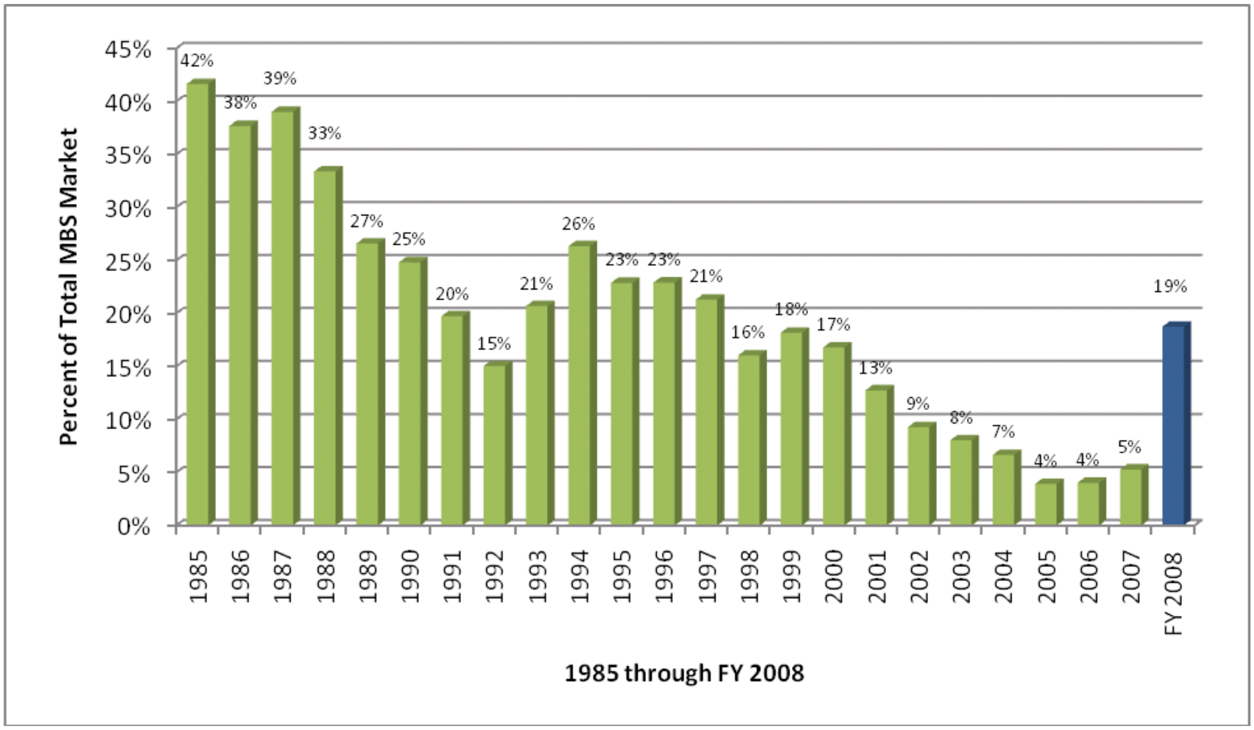


Figure 5: Ginnie Mae Market Share – 1985 to 2008

During FY 2008, the expansion of existing lending programs and Ginnie Mae's role in creating security programs meant that more borrowers had access to the security of FHA loans, and more lenders and issuers had a secondary market outlet for them. The Economic Stimulus Act of 2008 passed in February 2008 allowed government-sponsored enterprise (GSE) and FHA loan limits to increase up to $729,750 in some areas of the country for a period of time, thus allowing for more loans to meet the criteria to be bought by the GSEs and to be eligible for FHA insurance. Ginnie Mae also quickly enabled issuers to securitize FHA jumbo loans, which had a major impact in the capital markets. In the six months of FY 2008 that the higher loan limits were available, Ginnie Mae issuers securitized more than $6.7 billion of FHA jumbo loans.

[12] Ibid.

Also, in May, FHA expanded FHA*Secure* so that it could insure more mortgages, including those for borrowers who were delinquent on their non-FHA adjustable rate mortgages (ARMs) due to a rate reset or extenuating circumstances and to offer new subordinate financing under certain circumstances.

Differences between Ginnie Mae and the GSE's

Given the recent increases in agency market share as a whole and the conservatorship of Freddie Mac and Fannie Mae, it is critical to understand Ginnie Mae's unique position in the industry. Ginnie Mae, Fannie Mae, and Freddie Mac do have similarities in their missions to work in the secondary mortgage market to improve homeownership opportunities for American families. Each guarantees MBS so that investors receive timely payment of principal and interest. There are, however, significant differences in their structure, business models, and security guarantees.

Ginnie Mae is a government corporation within HUD, wholly owned by the government. Fannie Mae and Freddie Mac, commonly known as GSEs, are corporations that were chartered by Congress, but are owned by private stockholders. Originally, Ginnie Mae and Fannie Mae began as one organization, known as the Federal National Mortgage Association (FNMA). In 1968, Congress partitioned FNMA into two entities: Fannie Mae to support the conventional market, and Ginnie Mae to support the market for FHA, VA, USDA, and PIH loans.

Fannie Mae and Freddie Mac are able to purchase mortgages to hold in their own portfolios or to issue securities for sale to investors. Ginnie Mae is not in the business of purchasing mortgage loans, nor does it buy, sell or issue securities. Private lending institutions approved by Ginnie Mae issue the MBS for which Ginnie Mae provides a guarantee. Moreover, Ginnie Mae only guarantees securities for federally insured or guaranteed loans, mainly those from FHA and the VA. Fannie Mae and Freddie Mac guarantee securities that are backed by mortgages that must meet certain standards. They also guarantee bonds that are packaged and sold by others, as long as the underlying mortgages meet their standards.

Although Ginnie Mae, Fannie Mae, and Freddie Mac guarantee MBS for timely payment of principal and interest, Ginnie Mae securities are explicitly backed by the full faith and credit of the U.S. Government. On September 7, 2008, Fannie Mae and Freddie Mac were put under U.S. Treasury conservatorship. As of the end of FY 2008, it remains unclear what effect this will have on the housing market.

III. 2008 Strategic Initiatives

In response to the turmoil in the mortgage market and with its significant volume growth, Ginnie Mae undertook several strategic initiatives during FY 2008 to ensure its own continued stability and soundness. Quickly responding to the need to support homeowners in crisis, Ginnie Mae created security products appealing to investors to ensure liquidity for FHA loan programs. Besides externally focused efforts, Ginnie Mae also directed significant attention on its internal processes, systems, and programs to ensure it had a multifaceted risk management program in place and the ability to operate efficiently to meet the challenges that lie ahead. Internally, Ginnie Mae has leveraged its Business Process Initiative (BPI) to create flexible systems to support increased volumes and other requirements. Human Resource initiatives are ensuring that the staff is adequately trained and has the skills to tackle the toughest challenges.

Risk Management

The rapidly increasing volume that Ginnie Mae experienced this year has increased the need to thoroughly manage risk. To ensure that its securities continue to remain safe and stable, Ginnie Mae initiated a cross-functional approach to enhancing its risk management strategy by establishing an enterprise-wide risk committee, appointing a Chief Risk Officer (CRO), and reconstituting its issuer review board (IRB). Given the challenging state of the mortgage industry, Ginnie Mae's explicit full faith and credit backing of the U.S. Government has increased the number of lenders turning to the organization for safe harbor. Even though its business model inherently limits risk, Ginnie Mae stays focused on maintaining an effective risk management strategy, especially given the growth in volume and market turbulence.

<u>Risk Committee</u>

The risk committee is the primary forum for promoting senior management discussions and decisions regarding corporate risk issues. The CRO chairs the risk committee and is in charge of establishing an overall risk governance structure as well as providing independent evaluation and oversight of all risk management activities.

<u>Issuer Review Board</u>

The reconstituted IRB supports the Office of MBS and the risk committee by reviewing, evaluating, and approving or denying certain MBS program issuer actions or requests. The IRB provides independent input to decision-making concerning issuer requests.

The IRB also has the authority to accept or reject issuer applications, approve or deny commitment authority requests for issuers with certain risk indicators, and provide recommendations to the Executive Vice President and President on a number of areas impacting issuers.

Risk Mitigation Tools

A significant component of the new risk management strategy is to take a more holistic, enterprise-wide approach to looking at and mitigating risk. Ginnie Mae is evaluating all areas of the organization and employing many different strategies to mitigate risk such as new credit analysis tools so that Ginnie Mae can monitor its numerous counterparties to better assess their financial strength, as well as reviewing their cash flow statements. The counterparties with the greatest impact on Ginnie Mae's business are issuers and custodial account institutions. In addition, Ginnie Mae is implementing new tools to identify loans that may cause some financial loss to Ginnie Mae, its issuers, or investors.

Issuer Requirements

In FY 2008, Ginnie Mae announced that it will strengthen its issuer requirements by increasing the minimum net worth requirement to $1 million for all Single Family MBS and HMBS issuers. The change went into effect for all new MBS and HMBS issuers beginning October 1, 2008. All issuers in the Single Family MBS and HMBS programs will be required to meet the new requirement by October 1, 2010. This increase does not apply to the multifamily issuer net worth requirement, which will remain at $500,000.

Additionally, all new issuers will be subject to a one-year probationary period. The probationary period will commence upon the first issuance of a Ginnie Mae MBS, or upon the acquisition of a Ginnie Mae servicing portfolio. During this time, Ginnie Mae will evaluate performance metrics closely, including, but not limited to loan-level insurance statistics, delinquency levels, and early payment defaults. Delinquencies and insurance rates must remain below established thresholds. An onsite review will be conducted within six months from first issuance or acquisition and all findings must be cleared within the given timeframe.

MBS Disclosure Enhancement Project

Ginnie Mae is in the process of implementing enhanced disclosures for securities containing FHA*Secure* and jumbo loans that will be available to investors in December 2008. The enhanced disclosures will provide investors with increased confidence, which will help to achieve optimal pricing, increase liquidity, attract broader range of investors, and enhance the view of Ginnie Mae's securitization programs. Additional data that will be provided at the pool level include FICO scores, loan-to-value (LTV), debt-to-income ratio (DTI), and Metropolitan Statistical Area (MSA).

Federal Housing Initiatives

Ginnie Mae's preeminence in the secondary mortgage market has enabled the federal government to create mortgage products to help distressed homeowners. In spite of the declining market, in the last three months of FY 2008, Ginnie Mae MBS had the second-highest issuance volume of agency and non-agency MBS.[13] The programs discussed below have been made possible because of investors' continuing confidence in Ginnie Mae-guaranteed securities.

Jumbo Loan Securitization Program

The Economic Stimulus Act of 2008 has temporarily increased the limits on the size of fixed-rate loans that are eligible for FHA insurance. FHA's loan limit for a one-unit property is $362,790 and goes up to $697,696 for loans on four-unit properties, and even higher limits for properties in some high-cost areas of the country. The temporary increase allows for loans of up to $729,750 in some areas of the country. Ginnie Mae's Jumbo Loan program guarantees MBS for these FHA-insured loans.

Ginnie Mae's new multiple-issuer security falls under the Ginnie Mae II MBS Program, which is set up to accommodate jumbo loans. Because of Ginnie Mae's preeminence in the secondary mortgage market, there has been widespread interest in these securities. As a result, the new security enables more borrowers to qualify for safe, affordable loans.

While the increase is only temporary and will expire December 31, 2008, it has had a major impact in the market. In FY 2008, Ginnie Mae guaranteed $6.7 billion in securities. Beginning on January 1, 2009, the conforming loan limit will be permanently raised to the higher of $417,000 or 115 percent of the local median home price not to exceed $625,000.

FHA*Secure* Expansion

In August 2007, President Bush announced FHA*Secure*, a program for loans not previously insured by FHA to now refinance into FHA-insured loans. In May 2008, FHA*Secure* expanded its eligibility requirements to include borrowers who are delinquent on their non-FHA ARMs due to a rate reset or extenuating circumstances. Borrowers who are current in their payments can refinance their non-FHA fixed rate as well as their ARM loans.

Ginnie Mae worked closely with the capital markets industry and quickly responded to the expanded program by creating a new security type within the Ginnie II Program for fixed-rate FHA refinance loans given to delinquent borrowers and fixed rate refinance loans given to borrowers with second liens.

Hope for Homeowners

The Housing and Economic Recovery Act of 2008 authorized a temporary FHA mortgage insurance refinancing program known as Hope for Homeowners (H4H). The initiative is effective from October 1, 2008, through September 30, 2011, and will help distressed homeowners facing foreclosure. With the consent of the loan servicer, a borrower can refinance

[13] Inside Mortgage Finance, *Inside MBS & ABS*, October 10, 2008.

into a new mortgage representing 90 percent of the current value of the property. In many cases, this may involve writing off a fraction of the original mortgage due to declining home prices. Although this may involve some loss for the mortgage holder, the outcome will typically be better than a foreclosure. The program also may serve to stabilize home prices by reducing the number of foreclosed homes on the market.

Again, Ginnie Mae quickly responded by setting up a product under the Ginnie Mae II Program’s multiple-issuer pool type. Ginnie Mae will begin accepting H4H loan packages to be pooled starting with November 1, 2008 issue dates.

Home Equity Conversion Mortgages (HECM)

In continued support of the growing senior population, Ginnie Mae introduced the H-REMIC as a follow on to the HMBS, which was introduced in FY 2007. Transactions closing in May 2008 and thereafter were allowed to include HMBS as eligible collateral for all single family Ginnie Mae REMIC transactions.

HMBS are created as custom pools of HECM loans within the Ginnie Mae II Program. For Ginnie Mae REMIC transactions, HMBS may be included in a separate trust asset group or may be combined with other Ginnie Mae II MBS Securities. This enhancement will improve the marketability of the Ginnie Mae Multiclass Securities Program and increase the investor base for its securities.

Promoting Foreign Investment

Ginnie Mae continues to interest foreign investors despite the market turmoil. With its explicit full faith and credit guarantee of the U.S. Government, Ginnie Mae MBS are considered a good investment overseas. Ginnie Mae continues to foster and strengthen relationships with foreign investors in Asia, a large and important contingent of Ginnie Mae’s investor base.

In September 2008, Ginnie Mae president, Joseph Murin, addressed the Merrill Lynch Japan Conference. This investment conference, which has been held every year since 2004, encourages exchange and dialogue among Japan's leading companies and the world's top investors. Mr. Murin’s presentation on “Restoring Confidence in the U.S. Housing Market” highlighted Ginnie Mae and its role in providing liquidity and stability during the housing crisis. He also covered Ginnie Mae’s guarantee, history, organization, mission, and products.

Mr. Murin also met with Ginnie Mae investors in Japan and China. These productive meetings allowed Mr. Murin to obtain feedback on the Ginnie Mae securities programs, and discuss current issues and new product ideas. As Ginnie Mae’s role in the capital markets continues to grow, it will continue such communications on a regular basis to understand investors’ evolving needs.

Business Process Improvements (BPI) and Technology Enhancements

Ginnie Mae is utilizing industry best practices to modernize its information technology infrastructure in order to achieve a secure, web-based, reusable architecture built upon state of the market technologies.

These technologies will allow Ginnie Mae to better manage its risk; simplify and reduce the cost of maintaining the infrastructure; introduce new products to the marketplace more quickly; and provide staff with better tools to better manage their work, thus creating added capacity as volume increases.

During FY 2008, Ginnie Mae met significant milestones for its information technology modernization efforts. The modernization efforts are designed to help Ginnie Mae meet the needs of its issuer and investor communities and adhere to federal requirements regarding privacy, security of the technology, and the provision of paperless processing.

Ginnie Mae completed the development of the following critical infrastructure improvements and business applications:

- The Enterprise-wide Operational Data Store (EWODS), a core component of its infrastructure rebuild, combines several internal databases into one comprehensive source for information. This will provide Ginnie Mae with greater ability to query and analyze data, thereby improving internal efficiency and enhancing Ginnie Mae's ability to assess the state of the portfolio.

- The new Reporting and Feedback System (RFS). When testing is completed, RFS will be Ginnie Mae's new post-settlement accounting system. RFS will collect and process loan-level data, validate pool-level data, and validate security remaining principal balances based on the loan-level data reported by issuers. RFS will improve data quality, enhance reporting and feedback functionality, support centralized data collection, support more timely disclosure of data to investors, and provide immediate status information to issuers and Ginnie Mae staff. The new system will strengthen edit parameters and enhance business rules on loan-level submission and RPB reporting, thereby improving the quality and availability of MBS information disclosed to external stakeholders and bring Ginnie Mae more in-line with current industry practice.

- The Ginnie Mae Enterprise Portal will provide issuers and Ginnie Mae with a single point of entry to all Ginnie Mae's business applications, By using a single sign-on authentication process, Ginnie Mae will be able to limit what data each issuer can view and secure its data.

Ginnie Mae also introduced enhancements to existing business systems to improve communications with issuers and to establish an operating infrastructure to support other vital components of the modernization effort and to enhance other internal business processes as indicated below:

- **Enhanced Integrated Pool Management System (IPMS):** Initial design work has been completed for the new IPMS. Other processes will be designed in an iterative approach—allowing Ginnie Mae to release each component serially while reducing the impact to the current mission-critical IPMS. The new IPMS, when fully implemented, will increase the efficiency of the platform for pool processing and management tasks such as commitment authority, new pool submissions, pool transfers, pool exception feedback, and design and development work.

- **FEDDEBT System Integration:** This technology is the federal government's system that maintains records about individuals who owe delinquent debt(s). The Office of the CFO leveraged the FEDDEBT System to streamline the cash collection process and improve its ability to track delinquent debt. Ginnie Mae collected more than $6 million of $28 million of debt outstanding within the past fiscal year.

- **Ginnie*NET*:** Ginnie*NET* file formats have been revised to support collection of additional data required by RFS and enhanced data disclosure. Additionally, changes were made to support HECM, FHA*Secure* expansion, jumbo pools, the new FHA loan limits, the H-REMIC and FHA's Hope for Homeowners program.

Ginnie Mae's aggressive efforts to enhance existing systems, develop new systems, and eliminate legacy systems will improve the quantity and quality of information provided to stakeholders, drive down issuer costs, and launch a more flexible systems architecture that can facilitate more rapid development of new products and services.

In FY 2009, Ginnie Mae will complete the rollout of RFS to all issuers; begin expanded data disclosure to investors; and begin development of the various iterations of IPMS. In addition, the legacy post accounting system, MBSIS, will be retired in FY 2009. This will reduce Ginnie Mae costs and increase efficiencies.

Management Operations Initiatives

<u>Human Resources</u>

In FY 2008, Ginnie Mae Human Resource and Management Operations initiatives supported the growing demands on the organization as volumes continued to substantially increase. This support included evaluating infrastructure needs, conducting skill gaps analyses, developing budget justifications and resource projections across multiple fiscal years, and developing and updating succession plans to ensure Ginnie Mae has the ability to support and quickly respond to growing and fast-changing market needs and conditions.

Increasing employees’ access to training and certification programs was effective in supporting enhanced operations and in meeting Ginnie Mae’s strategic goals. The staff in the Offices of Program Operations and Finance participated in annual CPA training and other Certified Educational Units (CEUs) required for job proficiency and IT staff took required CEU courses toward receiving their Project Management certification. In addition, staff throughout the organization was provided with classroom and web-based courses in a diverse area of competencies to maintain and/or enhance their skill levels in areas such as contracting; information technology; loan servicing and securitization; accounting and auditing, and project management and leadership.

Procurement and Contracts

In FY 2008, Ginnie Mae continued its commitment to utilize and/or promote small business utilization with its large contractors whenever possible. Accordingly, 66 percent of contractors that were awarded funds in FY 2008 were small businesses.

IV. Financial Highlights and Management's Discussion and Analysis

At Ginnie Mae, FY 2008 was marked by an increase in revenue, an increase in expenses, and an increase in assets. In FY 2008, revenues increased due to an increase in interest income and an increase in the level of MBS issuance. Ginnie Mae achieved excess revenues over expenses of $906.2 million in FY 2008, compared with $738.3 million in FY 2007. Revenues increased by 28.3 percent to $1,015.4 million from $791.3 million in FY 2007. Total assets increased to $14.9 billion from $13.7 billion in FY 2007.

The outstanding MBS portfolio, which represents the dollar amount of issuances, guaranteed by Ginnie Mae, increased by $135.6 billion in FY 2008, which led to increased guaranty fee revenues. In FY 2008, MBS program income increased to $381.9 million, up from $308.5 million in FY 2007. Interest income increased to $633.5 million in FY 2008 from $482.8 million in FY 2007. Total expenses as a percentage of total revenues decreased from 6.7 percent in FY 2007 to 5.8 percent in FY 2008.

In FY 2008, Ginnie Mae issued $258.3 billion in commitment authority, a 158.8 percent increase from FY 2007. The $220.6 billion of MBS issued in FY 2008 represents a 159.2 percent increase from FY 2007. The outstanding MBS balance of $576.8 billion at the end of FY 2008, compared to $427.6 billion in FY 2007, resulted from new issuances exceeding prepayments. FY 2008 production provided the capital to finance home purchases or refinances, or rental housing, for approximately 940,000 American families.

Ginnie Mae's financial performance remained stable during FY 2008. Excess revenues were invested in U.S. Treasury securities.

To understand Ginnie Mae's recent financial history, see Table 1, which provides three-year financial highlights of the corporation.

September 30	2008	2007	2006
(Dollars in thousands)			
Balance Sheets Highlights and Liquidity Analysis			
Funds with U.S. Treasury	$ 4,836,300	$ 4,432,600	$ 4,056,500
U.S. Government Securities	$ 9,254,000	$ 8,735,900	$ 8,358,100
Total Assets	$ 14,888,400	$ 13,710,700	$ 12,892,700
Total Liabilities	$ 1,361,700	$ 1,090,200	$ 1,010,500
Investment of U.S. Government	$ 13,526,700	$ 12,620,500	$ 11,882,200
Total RPB Outstanding (1)	$ 576,761,925	$ 427,566,299	$ 409,990,230
LLR (2) and Investment of U.S. Government	$ 14,076,700	$ 13,156,300	$ 12,416,700
Investment of U.S. Government as a Percentage of Average Total Assets	94.59%	94.88%	94.95%
LLR and Investment of U.S. Government as a Percentage of RPB	2.44%	3.08%	3.03%
Capital Adequacy Ratio (3)	2.38%	2.98%	2.94%
Highlights From Statements of Revenues and Expenses & Profitability Ratios Year Ended September 30			
MBS Program Income	$ 381,900	$ 308,500	$ 300,300
Interest Income	$ 633,500	$ 482,800	$ 549,000
Total Revenues	$ 1,015,400	$ 791,300	$ 849,300
MBS Program Expenses	$ 49,000	$ 41,900	$ 47,700
Administrative Expenses	$ 8,800	$ 10,600	$ 10,600
Provision for Loss	$ 50,200	$ -	$ -
Total Expenses	$ 59,000	$ 53,000	$ 60,000
Excess of Revenues Over Expenses	$ 906,200	$ 738,300	$ 789,300
Total Expense as a Percentage of Average RPB	0.0117%	0.0127%	0.0146%
Provision for Loss as a Percentage of Average RPB	0.0100%	-	-

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS; this does not include $38.7 million of GNMA Guaranteed Bonds

(2) Loan Loss Reserve (LLR)

(3) LLR and Investment of U.S. Government divided by the sum of Total Assets and Remaining Principal Balance

Table 1: Ginnie Mae Financial Highlights, FY 2006-2008

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 at the end of this report. These financial statements have received an unqualified audit opinion from Ginnie Mae's independent auditor. Ginnie Mae's operating results are subject to fluctuation each year, depending on the frequency and severity of losses resulting from general economic conditions, mortgage market conditions, and defaulting issuers.

Revenues

In FY 2008, Ginnie Mae received an $8.25 million dollar appropriation from general tax revenue. Operations are self-financed through a variety of fees. In FY 2008, Ginnie Mae generated total revenue of $1,015.4 million. This included $381.9 million in program income and $633.5 million in interest income from U.S. Treasury securities. It should be noted that Ginnie Mae is required by the U.S. Treasury Department to invest any excess revenues in U.S. Treasury securities.

Figure 6 shows Ginnie Mae's total annual revenue for the last five years.

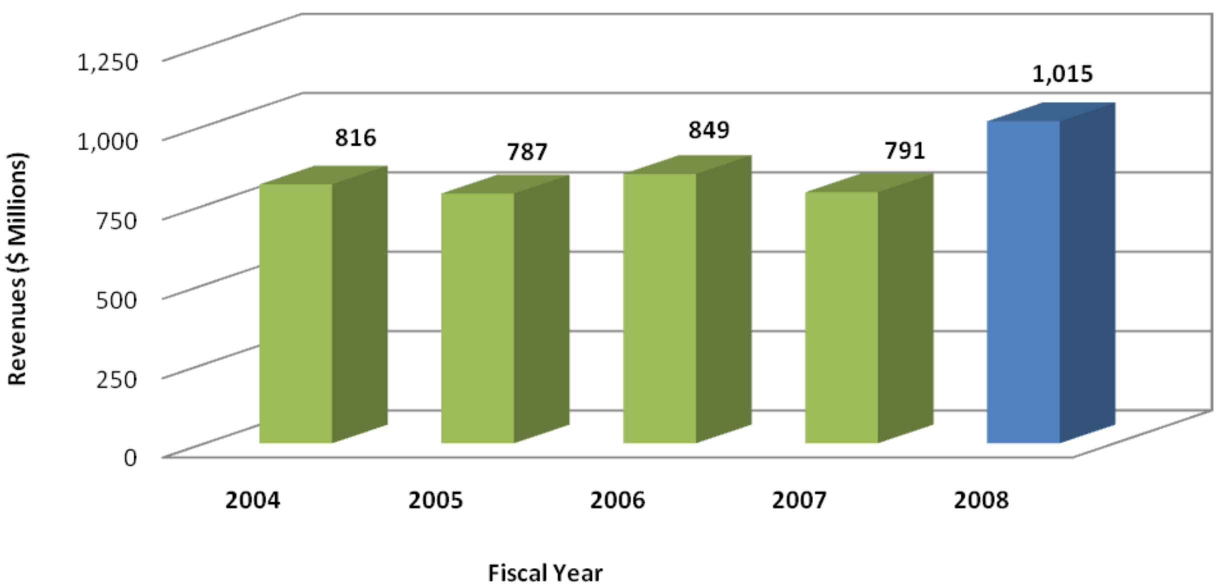


Figure 6: Ginnie Mae Revenues, FY 2004 – 2008

MBS Program Income

MBS program income consists primarily of guaranty fees, commitment fees, and multiclass fees. For FY 2008, MBS program income was concentrated in guaranty fees of $306.8 million, followed by commitment fees of $45.5 million. Combined guaranty fees and commitment fees made up 92.2 percent of total MBS program revenues for FY 2008. Other lesser income sources include new issuer fees, handling fees, and transfer-of-servicing fees. MBS program income increased in FY 2008 due to the increase in the MBS portfolio and MBS issuances.

Guaranty Fees

Guaranty fees are income streams earned for providing Ginnie Mae's guarantee 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 12.4 percent to $306.8 million in FY 2008, from $272.9 million in FY 2007. These higher guaranty fees reflect the increase in the MBS portfolio. The outstanding MBS balance at the end of FY 2008 was $576.8 billion, compared with $427.6 billion the previous year, as new issuances exceed repayments (see Figure 7).

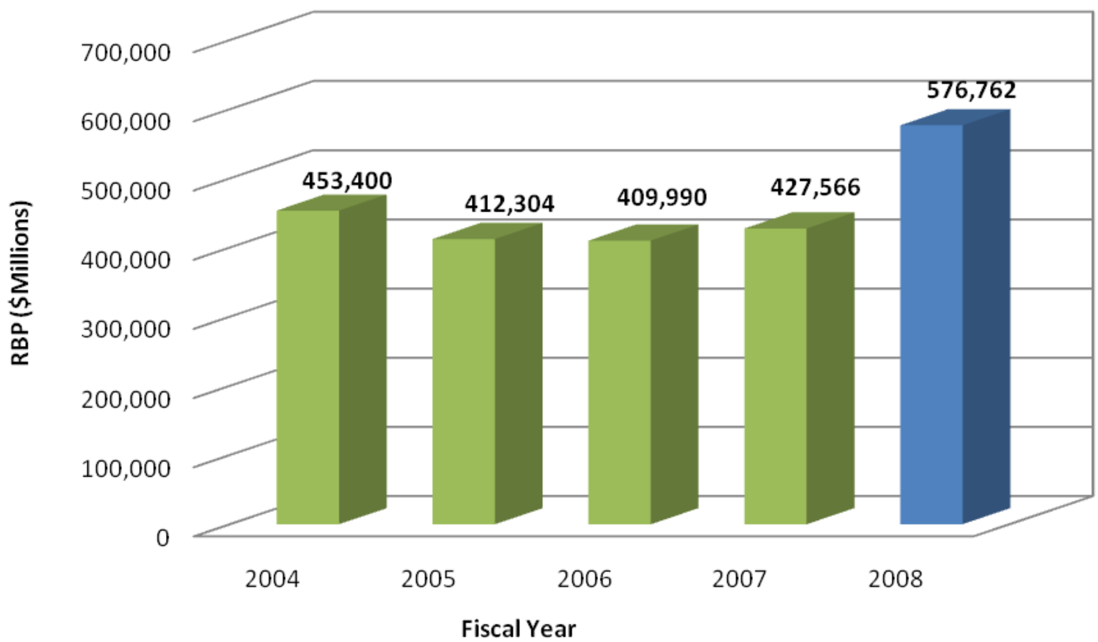


Figure 7: Remaining Principal Balance (RPB) Outstanding in the MBS Portfolio

Commitment Fees

Commitment fees are income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae MBS. This authority expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority, and recognizes the commitment fees as earned when 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. As of September 30, 2008, commitment fees deferred totaled $13.6 million. Ginnie Mae issued $258.3 billion in commitment authority in FY 2008, a 158.8 percent increase from FY 2007.

Multiclass Revenue

Multiclass revenue is part of MBS program revenue, and is composed of REMIC and Platinum program fees. Ginnie Mae issued approximately $43.1 billion in Platinum products in FY 2008. Total cash fees for Platinum securities amounted to $8.9 million. Guaranty fees from REMIC securities totaled $15.7 million on $43.4 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 2008, Ginnie Mae issued $86.4 billion in its multiclass securities program (REMICs, Stripped MBS, and Platinums). The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2008, was $253.1 billion. This reflects a $52.1 billion increase from the $201 billion outstanding balance in FY 2007.

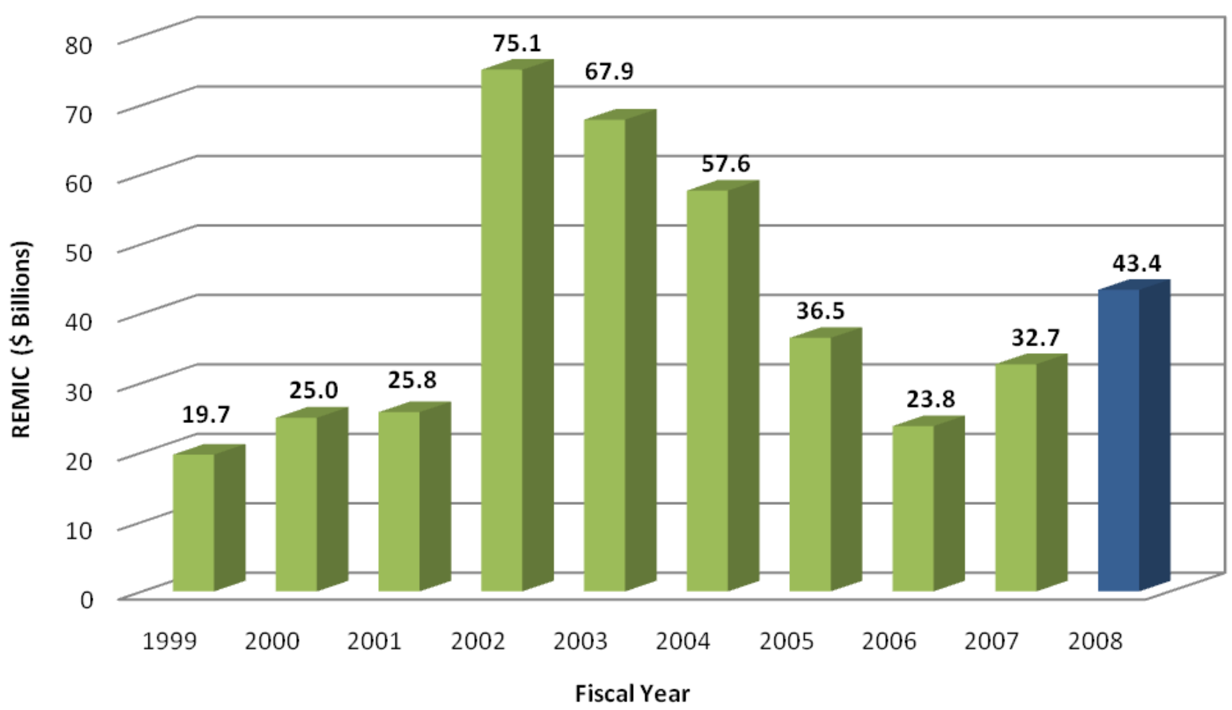


Figure 8: Total REMIC Volume, 1999 – 2008

Interest Income

Ginnie Mae invests the excess of its accumulated revenue over expenses in U.S. Government securities. Ginnie Mae guaranty fee income has increased this year and interest income has increased as a percentage of total revenue. In FY 2008, interest income increased 31.2 percent to $633.5 million from $482.8 million in FY 2007.

Expenses

Management exercised prudent expense control during FY 2008. Operating expenses in FY 2008 increased by 11.3 percent to $59 million from $53 million in FY 2007. Total expenses were 5.8 percent of total revenues in FY 2008, down from 6.7 percent in FY 2007. The increase in MBS program income and the increase in operating expenses resulted in higher excess revenues over expenses of $906.2 million for FY 2008 versus $738.3 million for FY 2007 (see Figure 9).

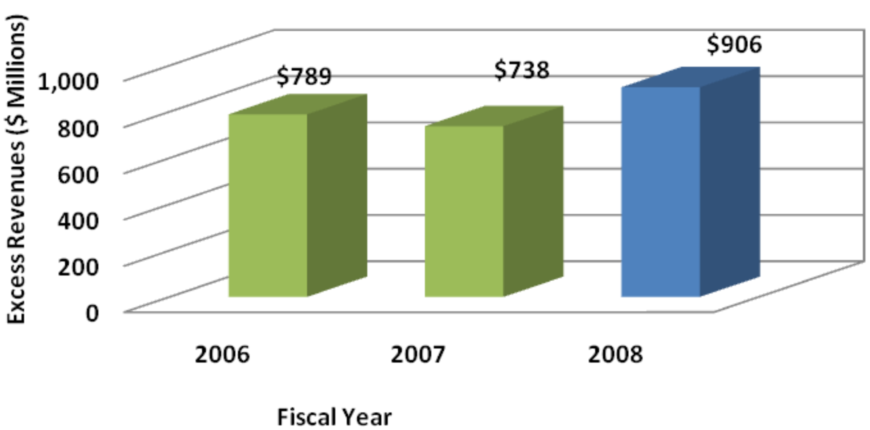


Figure 9: Excess of Revenue over Expenses

To support U.S. military personnel called into action, Ginnie Mae reimburses the interest on loans to service members who have FHA or VA mortgages with interest rates in excess of 6 percent. In FY 2008, this expense totaled $1.4 million; an increase over FY 2007 related expenses.

Table 2 represents the expenses related to program/contractors used by Ginnie Mae during the last five years. This chart demonstrates that Ginnie Mae has successfully managed its expenses over this period of time.

(In Millions)	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
Central Paying Agent	8.0	6.8	8.5	9.3	12.9
Contract Compliance	0.4	0.9	0.2	0.8	0.2
Federal Reserve	2.5	3.2	1.9	2.8	2.1
Financial Support	0.7	0.8	0.6	0.7	0.8
IT Related & Miscellaneous	6.9	4.6	6.8	3.0	4.2
Mortgage Backed-Securities Information Systems Compliance	15.7	11.9	9.9	17.0	13.4
Multiclass	11.2	8.7	7.9	9.5	10.0
Multifamily Program	2.2	5.0	8.9	11.1	7.8
Service-members Civil Relief Act	1.4	0.0	3.0	4.1	11.9
	49.0	**41.9**	**47.7**	**58.3**	**63.3**

Table 2: Program/Contractor Expenses

Credit-Related Expenses

Credit-related expenses include Ginnie Mae's Provision for Loss and defaulted issuer portfolio costs. Provision for Loss is charged against income in an amount considered appropriate to maintain adequate reserves to absorb potential losses from defaulted issuer portfolios and programs. Ginnie Mae defaulted 3 single family issuers during FY 2008. Ginnie Mae believes that the reserve for loss estimate is adequate to cover any noninsured loss sustained for these issuers and from unknown future losses from the occurrence of periodic defaults.

Financial Models

Ginnie Mae's Policy and Financial Analysis Model (PFAM) allows Ginnie Mae to evaluate its financial condition in terms of cash flow, capital adequacy, and budget projections. The model does this using an array of economic and financial scenarios modified by policy or programmatic decisions. PFAM incorporates Ginnie Mae's inherent operating risks with modeling that employs economic, financial, and policy variables to assess risks and overall performance.

In FY 2008, PFAM was used to estimate Ginnie Mae's credit subsidy rate based on historical loan performance data, economic measures, and program and policy assumptions. Every year, Ginnie Mae works with FHA, USDA, and VA to obtain loan-level data. The data supports detailed segmentation of loans according to key risk indicators, including loan type, loan size, loan-to-value ratio, and region. Changing economic conditions related to interest rates, housing values, population demographics, consumer prices, and income levels are accommodated by updating key economic drivers within PFAM's econometric functionality. Ginnie Mae's expertise in understanding and managing risks associated with its MBS guarantee business are accommodated by adjusting management assumption drivers within the model.

Cash flows for income and expenses associated with Ginnie Mae's MBS guarantee business were estimated by simulating loan level performance for the existing book of business and forecasted new business. The simulated loan level performance was used to forecast the effects on defaulted portfolios managed by Ginnie Mae and levels of new issuer defaults. The model's cash flow output was used to estimate the net present value of Ginnie Mae's future cash flows from the outstanding guarantee portfolio at the end of FY 2008 and estimated new business for 30 years into the future.

Ginnie Mae updated this model with economic and financial data from Global Insight, a key industry source of economic and financial data. Among other things, this model is used to predict future default rates for single and multifamily issuers.

PFAM is a stand-alone application that resides on a single server that does not connect to any other system. All the security measures according to the Government security standard are fully considered. The System Security Plan, Risk Assessment, Self Assessment and Private Impact Assessment were implemented on the system and completed at the end of FY 2008.

Liquidity and Capital Adequacy

Ginnie Mae's primary sources of cash are MBS and multiclass guaranty fee income, commitment fee income, and interest income. After accounting for expenses and other factors, on September 30, 2008, Ginnie Mae reported $4.8 billion in funds with the U.S. Treasury, compared to $4.4 billion on September 30, 2007.

In addition to the funds with the U.S. Treasury, Ginnie Mae's investment in U.S. government securities was $9.3 billion as of September 30, 2008. Of this amount, $2.3 billion was held in overnight certificates. The balance of the portfolio's maturities is spread over time to ensure that Ginnie Mae has a ready source of funds to meet various liquidity needs. Emergency liquidity needs are met through short-term maturities.

Table 3 shows the fair value composition and maturity of Ginnie Mae's Treasury securities as of September 30, 2008 and 2007.

Maturity	2008	2007
Due within 1 year	33%	32%
Due in 1-5 years	54%	43%
Due in 5-10 years	13%	25%

Table 3: Composition of Treasury Securities as of September 30 (Percentage of Total)

Figure 10 illustrates the components of Ginnie Mae's Investments in U.S. Government Securities as of September 30, 2008.

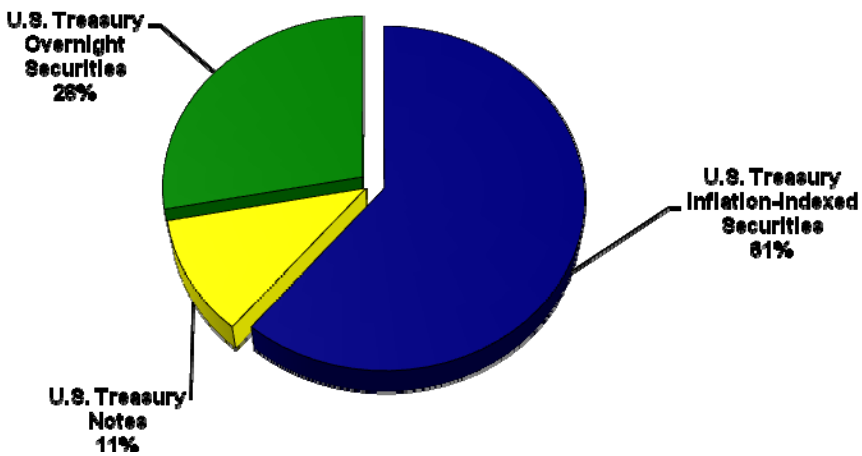


Figure 10: Components of Investment in U.S. Government Securities, September 30, 2008

Ginnie Mae's MBS guarantee activities have historically operated at no cost to the government. Ginnie Mae's net income continues to build the agency's capital base. Management believes the corporation maintains adequate capital reserves to withstand downturns in the housing market that could cause issuer defaults to increase.

As of September 30, 2008, the Investment of U.S. Government was $13.5 billion after establishing reserves for losses on credit activities, compared with $12.6 billion as of September 30, 2007. To assess the strength of its capital position, Ginnie Mae uses a "stress test" methodology that measures Ginnie Mae's ability to withstand severe economic conditions. Figure 11 shows Ginnie Mae's capital reserves (Investment of U.S. Government) as of September 30, 2008, for the last five years.

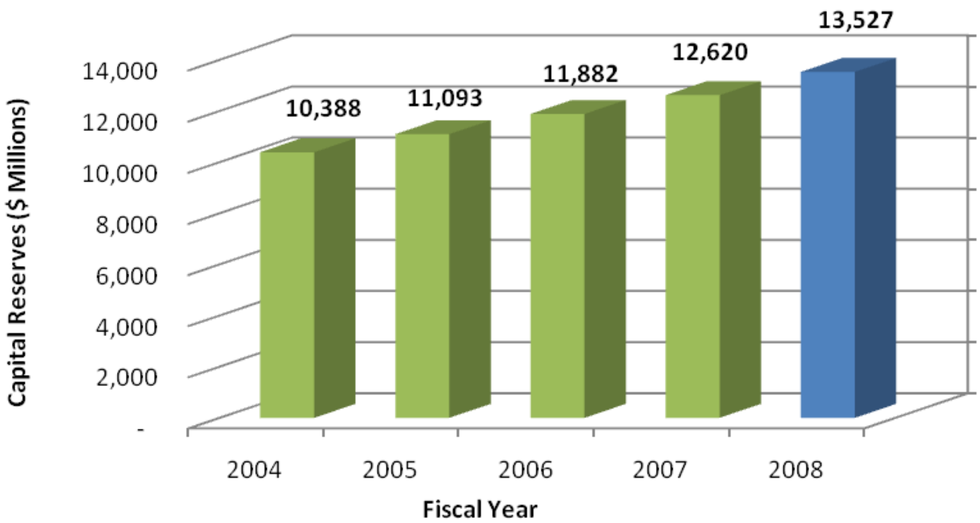


Figure 11: Capital Reserves (Investment of U.S. Government)

Risk Management and Systems of Internal Controls

Ginnie Mae continues to enhance its automated systems and business processes to increase its operational efficiency and reduce its business risk. During FY 2008, Ginnie Mae created a position to oversee internal controls for the organization. The Internal Controls Manager oversees contract compliance reviews, Appendix A of OMB Circular A-123 review, and other internal control and risk management activities.

Ginnie Mae continued periodic reviews of all master sub-servicers and major contractors to ensure compliance with the terms and conditions of their contracts. In addition, the audits and reviews enable Ginnie Mae to strengthen its internal controls and minimize risks. Furthermore, Ginnie Mae actively monitors its issuers to minimize fraud and default risk, which would negatively impact financial and operating results.

Ginnie Mae's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Manager's Financial Integrity Act (FMFIA). Ginnie Mae is able to provide reasonable assurance that its internal controls and financial management systems meet the objectives of FMFIA.

Ginnie Mae assessed the effectiveness of its internal controls over financial reporting, which includes over the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Safeguarding assets is a subset of all of these objectives. Internal control should be designed to provide reasonable assurance regarding prevention of 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 as of June 30, 2008.

Securitization Issuance

As shown in Figure 12, Ginnie Mae supported approximately 940,000 units of housing for American families in FY 2008, a 45.5 percent increase from FY 2007.

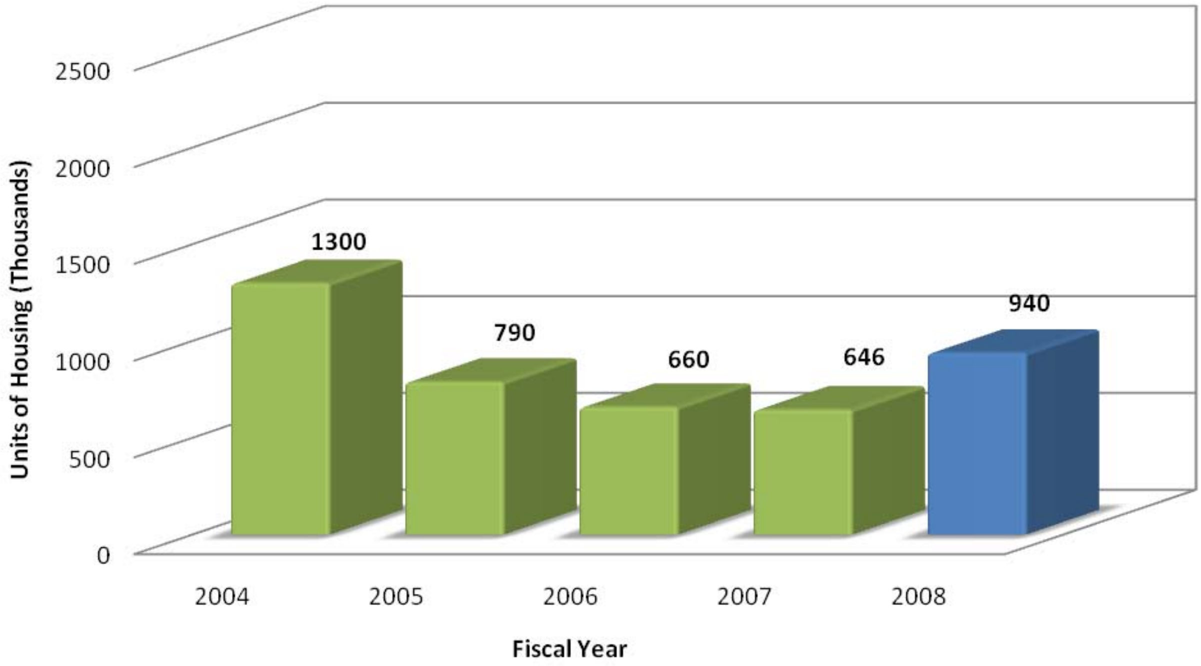


Figure 12: Ginnie Mae-Supported Units of Housing, FY 2004-2008

The dollar value of MBS issuance is reflected in Figure 13, which shows Ginnie Mae issued $220.6 billion in MBS in FY 2008. Clearly, over time, Ginnie Mae has had a dramatic impact on expanding homeowner and rental opportunities in the U.S.

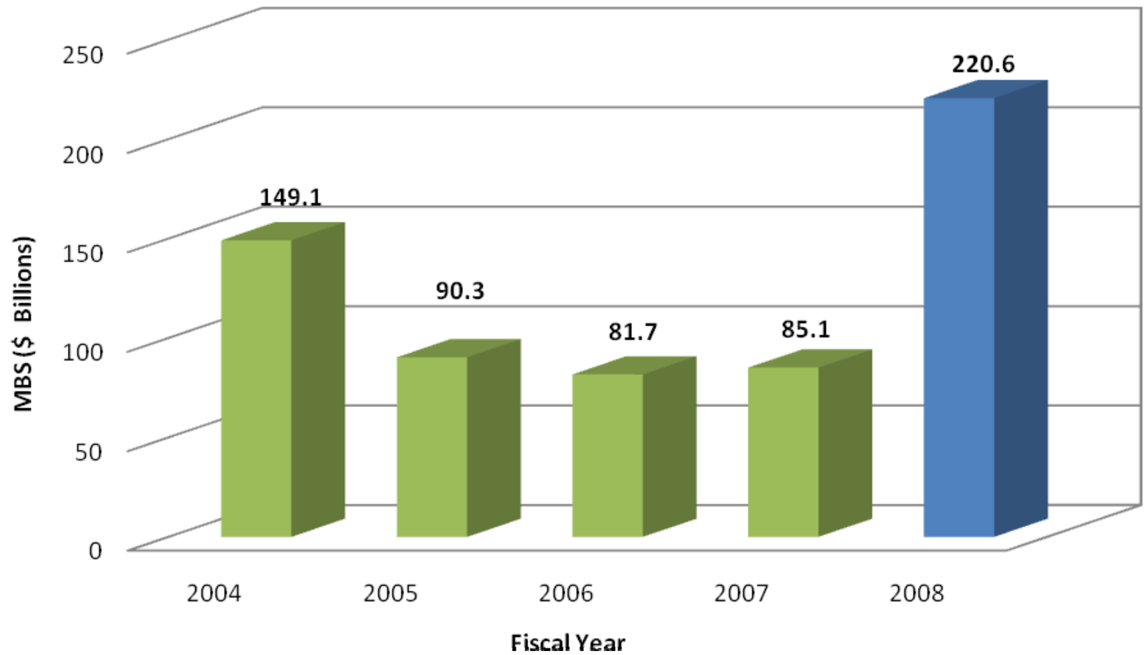


Figure 13: MBS Issuance of Ginnie Mae, FY 2004-2008

V. Audit Report of Ginnie Mae's FY 2008 Financial Statements

audit report

Issue Date	
November 7, 2008	
Audit Case Number	
2009-FO-0001	

TO: Joseph J. Murin, President, Government National Mortgage Association, T

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

SUBJECT: Audit of Government National Mortgage Association's (Ginnie Mae) Financial Statements for Fiscal Years 2008 and 2007

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 Carmichael, Brasher, Tuvell and Company, P. C. (CBTC) to audit the fiscal year 2008 and 2007 financial statements of Ginnie Mae. The contract required that the audit be performed according to generally accepted government auditing standards (GAGAS).

CBTC is responsible for the attached auditors' report dated November 4, 2008 and the conclusions expressed in the report. Accordingly, we do not express an opinion on Ginnie Mae's financial statements or conclusions on Ginnie Mae's internal controls or compliance with laws, regulations and government-wide policies. Within 60 days of this report, CBTC expects to issue a separate letter to management dated November 4, 2008 regarding other matters that came to its attention during the audit.

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). The MD&A is not included with this report. Ginnie Mae plans to separately publish an annual report for fiscal year 2008 that conforms to FASAB standards.

The report contains one significant deficiency in Ginnie Mae's internal controls and one reportable instance of noncompliance with laws and regulations. The significant deficiency was carried over from previous year's audit. The report contains one new recommendation. Within 120 days of the report issue date, Ginnie Mae is required to provide its final management decision which included a corrective action plan for each recommendation. As part of the audit resolution process, we will record new recommendation(s) in the Department's Audit Resolution and Corrective Action Tracking System (ARCATS). We will also endeavor to work with Ginnie Mae to reach a mutually acceptable management decision prior to the mandated deadline. The proposed management decision and corrective action plan will be reviewed and evaluated by CBTC with concurrence from the OIG.

We appreciate the courtesies and cooperation extended to the CBTC and OIG audit staffs during the conduct of the audit.

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Carmichael Brasher Tuvell & Company

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the President
Government National Mortgage Association

The Government National Mortgage Association (Ginnie Mae's) financial statements are subject to the annual reporting requirements of the Chief Financial Officers Act of 1990 which requires an annual report to Congress on their financial status and any other information needed to fairly present the financial position and results of operations. Ginnie Mae is a wholly owned government corporation within the U.S. Department of Housing and Urban Development (HUD). In accordance with the Government Corporations Control Act, as amended (31 U.S.C. 9105), we audited Ginnie Mae's financial statements.

The objectives of the audit are to express an opinion on the fair presentation of Ginnie Mae's financial statements, obtain an understanding of Ginnie Mae's internal control, and test compliance with laws and regulations that could have a direct and material effect on the financial statements.

We have audited the accompanying balance sheets of Ginnie Mae as of September 30, 2008 and 2007, and the related statements of revenues and expenses, investments of the U. S. Government and statements of cash flows for the years then ended. These financial statements are the responsibility of Ginnie Mae's management. Our responsibility is to express an opinion on these financial statements based on our audit.

OPINION ON 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, 2008 and 2007; and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis of Results of Operations and Financial Position is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

REPORT ON INTERNAL CONTROL

In planning and performing our audit, we considered Ginnie Mae's internal control over financial reporting by obtaining an understanding of the design effectiveness of its internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, *Audit Requirements for Federal 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Ginnie Mae's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Ginnie Mae should strengthen monitoring and management controls in regard to the Mortgage-based Security (MBS) program

- Continue to assure more effective follow up of the automated matching process with insurer loan data
- Eliminate independence issues within the MBS to ensure transparency within Ginnie Mae

Additional detail and the related recommendations for this significant deficiency are provided in Appendix A of this report. The full text of management's response is included in Appendix B with our assessment of management's response included at Appendix C. The current status of prior year findings and recommendations is included in Appendix D.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Ginnie Mae's internal control.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we did identify other matters in internal control that came to our attention during our audit which we will be communicated in writing to management and those charged with governance.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of Ginnie Mae is responsible for complying with laws and regulations applicable to government corporations. As part of obtaining reasonable assurance about whether Ginnie Mae's financial statements are free of 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, and certain other laws, regulations and government-wide policies specified in OMB Bulletin No. 07-04, as applicable to government corporations. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to Ginnie Mae. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Our tests of compliance with certain provisions of laws, regulations and government-wide policies discussed in the preceding paragraph disclosed the following instance of noncompliance required to be reported under U.S. generally accepted government auditing standards and OMB audit guidance.

> **The Federal Information Security Management Act (FISMA**),
> Subchapter III, Paragraph 3544(b), states "Each agency shall develop, document, and implement an agency-wide information security program…to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source, that includes establishing a process for planning, implementing, evaluating, and documenting remedial action to address any deficiencies in the information security policies, procedures, and practices of the agency."
>
> Our review of Ginnie Mae's information system security controls over the Integrated Portfolio Management System (IPMS), which is managed and controlled by a Ginnie Mae contractor, disclosed that Ginnie Mae lacks assurance with IPMS that critical Information Technology general control elements are operating effectively to reduce agency information system risk .

Except as noted above, our tests of compliance with the laws and regulations discussed in the preceding paragraph disclosed no other instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards or OMB Bulletin No. 07-04, as applicable to government corporations.

Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

RESPONSIBILITIES

Management's Responsibilities

The Government Management Reform Act of 1994 (GMRA) requires each federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, Ginnie Mae prepares annual financial statements. Ginnie Mae is a wholly owned government corporation within the U. S. Department of Housing and Urban Development (HUD).

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparation of the Management's Discussion and Analysis; and
- Complying with laws and regulations.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2008 and 2007 financial statements of Ginnie Mae based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to audits contained in Government Auditing Standards and OMB Bulletin No. 07-04, as applicable to government corporations. Those standards and OMB Bulletin No. 07-04 require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Our audit was not designed to test the requirements of OMB Bulletin No. 07-04 relating to the Federal Financial Management Improvement Act of 1996 (FFMIA). Compliance with FFMIA will be evaluated and reported on by the HUD Office of Inspector General (OIG) in connection with their audit of the consolidated financial statements of HUD. Our audit was also not designed to test the requirements of the Federal Credit Reform Act of 1990, because Statement of Federal Financial Accounting Standards No. 2, Accounting for Direct Loans and Loan Guarantees, has not been considered in preparing these financial statements.

An audit includes:

- Examining on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

DISTRIBUTION

This communication is intended solely for the information and use of HUD-OIG, the management of U. S. Department of Housing and Urban Development, Ginnie Mae, and others within the organization, the OMB, the Government Accountability Office and the U. S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

CARMICHAEL, BRASHER, TUVELL & COMPANY, P.C.

Carmichael, Brasher, Tuvell + Co., P.C.

Atlanta, Georgia
November 4, 2008

APPENDIX A - SIGNIFICANT DEFICIENCY

Ginnie Mae should strengthen monitoring and management controls in regard to MBS program

Due to conditions in the current economic mortgage and credit environment, improvements and/or changes should be considered by Ginnie Mae's Senior Management to strengthen monitoring and management in regard to the Mortgage-Backed Securities (MBS) program.

- Assure more effective follow up of the automated matching process with insurer loan data (significant deficiency in prior year continuing during current year)
- Eliminate any independence issues whether real or perceived to ensure transparency (new)

MBS has improved its matching process during the current year and has begun a more effective follow up of issuers with unmatched loans within existing pools.

Ginnie Mae implemented a monthly match to terminated loan process to improve and put into production what had previously been a yearly, ad hoc process. However, a number of other important improvements for identifying high risk, including timely and complete follow-up of unmatched exception loans are not predicted to be in place until fiscal year 2009. Furthermore, the HUD-OIG issued several findings during the current fiscal year that disclosed numerous control issues within Ginnie Mae's matching process.

In 2007, our audit identified a potential conflict of interest issue between issuer approval and issuer monitoring functions within Ginnie Mae's Office of MBS. This issue was reported as a significant deficiency in last year's Independent Auditors' report. In fiscal year 2008, Ginnie Mae created a Risk Committee and a Chief Risk Officer (CRO) to enhance oversight and to provide independent management control of the MBS program. The creation of the CRO during FY 2008 resolved the conflict of interest issue identified during FY 2007. However, in fiscal year 2008, the former SVP-MBS left the agency and the new CRO became the acting SVP-MBS which causes an appearance of conflict to re-occur.

- OMB Circular No. A-123 *Management's Responsibility for Internal Control*, (A-123) as revised December 21, 2004, "…specifically addresses internal control over financial reporting; operational program controls and financial reporting often overlap." Additionally, Section I states that "Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner." Also, within the circular's attachment, Section IV, *Assessing Internal Control*, it states, "Agency managers should continuously monitor and improve the effectiveness of internal controls associated with their programs."
- Federal as well as private sector internal control guidance requires a separation of performance monitoring and revenue producing business duties. GAO's Standards for Internal Control in Federal Government published in November 1999, Subsection "Segregation of Duties," states: "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud."

Recommendations to Ginnie Mae's President that address the significant deficiency described above include:

1. Continue strengthening the completeness, timeliness, and controls of the automated pool collateral matching process as well as follow-up on unmatched loans with issuers data (repeat from prior year).

2. Eliminate any independence issues whether real or perceived to ensure management transparency (new).

APPENDIX B - MANAGEMENT'S RESPONSE TO RECOMMENDATIONS

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-9000

PRESIDENT, GOVERNMENT
NATIONAL MORTGAGE ASSOCIATION

October 31, 2008

Mr. Ben W. Carmichael, Jr., CPA
Carmichael Brasher Tuvell & Company
1647 Mount Vernon Road
Atlanta, GA 30338

Re: Response to CBTC's Fiscal Year 2008 Ginnie Mae Audit Report

Dear Mr. Carmichael:

It is my pleasure to present to you Ginnie Mae's management response to Carmichael, Brasher, Tuvell & Company's ("CBTC") audit report on Ginnie Mae's financial statements for Fiscal Year 2008.

We are pleased that CBTC has acknowledged Ginnie Mae for its financial statement presentation on its FY 2008 financial audit. Ginnie Mae is also pleased to note that there were no material weaknesses.

In CBTC's Internal Control Report, one significant deficiency in the area of mortgage-backed securities ("MBS") was identified. CBTC recommended that Ginnie Mae improve its program compliance and controls regarding the monitoring of Ginnie Mae issuers. Ginnie Mae is committed to improving its MBS monitoring process that will better assure issuer program compliance. Ginnie Mae will be taking the following steps to address CBTC's concerns:

- Ginnie Mae will take quicker action regarding non-compliant issuers; and
- Ginnie Mae will strengthen controls related to appropriate separation of duties.

If you have any questions regarding Ginnie Mae's response, you may contact me at 202-708-0926.

Sincerely,

Joseph J. Murin

www.hud.gov espanol.hud.gov

APPENDIX C - CBTC'S ASSESSMENT OF MANAGEMENT'S RESPONSE TO RECOMMENDATIONS

CBTC has reviewed Ginnie Mae management's response to the reported significant deficiency made in connection with our audit of Ginnie Mae's 2008 Financial Statements, which is included as Appendix B. Our assessment of management's response is discussed below.

> We believe management's proposed actions are responsive to our recommendations. However, this significant deficiency will remain open until after CBTC has reviewed the effectiveness of Ginnie Mae's new monitoring matching process in regard to MBS programs, the timeliness of action taken by management in regard to noncompliant issuers and the elimination of independence issues within the MBS.

APPENDIX D – STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Our assessment of the current status of significant deficiency identified in prior year audit is presented below.

Prior Year Finding/Recommendation	Type	Fiscal Year 2007 Status
1.a Communication Ginnie Mae's Acting Vice-President should institute timely and regular communications among Senior Officials of an Issuer Risk Assessment Committee regarding issuer performance and issuer review to recognize the current risk and the possibility of a potential misstatement in Ginnie Mae's overall financial statements.	Significant deficiency	Resolved. Ginnie Mae corrected by the implementation of a risk committee which includes senior management from differing Ginnie Mae departments.
1.b. Matching Process Ginnie Mae's Acting Vice-President should review and strengthen the completeness and timeliness of the automated pool collateral matching process as well as follow-up on unmatched loans with issuers.	Significant deficiency	Partially resolved. Ginnie Mae has implemented a monthly match to terminated process to improve and put into production what had previously been a yearly, ad hoc process. However, a number of other important improvements for identifying high risk, including timely and complete follow-up of unmatched exception loans are not predicted to be in place until fiscal year 2009. This deficiency continues to be reported as a significant deficiency during 2008.
1.c. Segregation of Duties Ginnie Mae's Acting Vice-President should segregate issuer monitoring duties from MBS program functions to enhance independent management control over issuers.	Significant deficiency	Resolved. Ginnie Mae created a Risk Committee and a Chief Risk Officer (CRO) to enhance oversight and independent management control. The creation of the CRO during FY 2008 resolved the conflict of interest issue.

Ginnie Mae's FY 2008 Financial Statements

Balance Sheets		
September 30	**2008**	**2007**
(Dollars in thousands)		
Assets:		
Funds with U.S. Treasury	$ 4,836,300	$ 4,432,600
U.S. Government securities--Note B	9,254,000	8,735,900
Mortgages held for sale, net--Note C	21,400	19,000
Properties held for sale, net--Note D	4,700	3,200
Accrued interest on U.S. Government securities	36,400	53,200
Accrued fees and other receivables	25,900	23,300
Advances against defaulted Mortgage-Backed Security pools, net-Note E	2,700	1,000
Fixed assets--software, net of accumulated amortization--Note A	26,800	16,500
Other assets--Note A	680,200	426,000
Total Assets	$ 14,888,400	$ 13,710,700
Liabilities and Investment of U.S. Government:		
Liabilities:		
Reserve for loss on Mortgage-Backed Securities Program--Note F	$ 550,000	$ 535,800
Deferred revenue	90,000	75,600
Deferred liabilities and deposits	2,400	11,100
Accounts payable and accrued liabilities	39,100	41,700
Other liabilities--Note A	680,200	426,000
Total Liabilities	$ 1,361,700	$ 1,090,200
Commitments and Contingencies--Notes G, H, and I		
Investment of U.S. Government	13,526,700	12,620,500
Total Liabilities and Investment of U.S. Government	$ 14,888,400	$ 13,710,700

The accompanying notes are an integral part of these financial statements.

Statements of Revenues and Expenses and Changes in Investment of U.S. Government		
For the Years Ended September 30	**2008**	**2007**
(Dollars in thousands)		
Revenues:		
Mortgage-Backed Securities Program income	$ 373,100	$ 308,500
Interest income	633,500	482,800
Other revenue source	8,800	-
Total Revenues	1,015,400	$ 791,300
Expenses:		
Mortgage-Backed Securities Program expenses	$ 49,000	$ 41,900
Administrative expenses	8,800	10,600
Fixed asset amortization	1,200	500
Total Expenses	$ 59,000	$ 53,000
Provision for loss on Mortgage-Backed Securities Program--Note F	50,200	-
Excess of Revenues over Expenses	$ 906,200	$ 738,300
Investment of U.S. Government at Beginning of Year	12,620,500	11,882,200
Excess of revenues over expenses	906,200	738,300
Returned to U.S. Treasury		-
Investment of U.S. Government at End of Year	$ 13,526,700	$ 12,620,500

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows		
For the Years Ended September 30	**2008**	**2007**
(Dollars in thousands)		
Cash Flow from Operating Activities		
Net Excess of revenues over expenses	$ 906,200	$ 738,300
Adjustments to Reconcile Net Excess of Revenues Over Expenses to Net Cash from (used for) Operating Activities		
Depreciation & amortization	1,200	500
Decrease / increase in accrued interest Federal investments	16,800	3,000
Increase / decrease in advances against defaulted MBS pools	(1,700)	800
Decrease / increase in deferred liabilities and deposits	(8,700)	8,900
Decrease / increase in accounts payable and accrued liabilities	(2,600)	4,400
Increase / decrease in deferred revenue	14,400	2,800
Increase / decrease in MBS Reserve, net of other assets relating to operating activities	7,700	5,700
Total Adjustments	27,100	26,100
Net Cash from (used for) Operating Activities	$ 933,300	$ 764,400
Cash Flow from Investing Activities		
Purchase of U.S. Treasury Securities, net	(518,100)	(377,700)
Purchase of software	(11,500)	(10,600)
Net Cash from (used for) Investing Activities	$ (529,600)	$ (388,300)
Cash Flow from Financing Activities		
Financing activities	-	-
Net Cash from (used for) Financing Activities	-	-
Net increase in cash & cash equivalents	403,700	376,100
Cash & cash equivalents - beginning of period	4,432,600	4,056,500
Cash & cash equivalents - end of period	$ 4,836,300	$ 4,432,600

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

September 30, 2008 and 2007

Note A: Organization and Summary of Significant Accounting Policies

The Government National Mortgage Association (Ginnie Mae) was created in 1968 through amendment of Title III of the National Housing Act as a government corporation within the 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 mortgage 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 Federal Housing Administration (FHA), 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.

Funds with U.S. Treasury: All of Ginnie Mae's receipts and disbursements are processed by the U.S. Treasury, which in effect maintains Ginnie Mae's bank accounts. Of the $4.8 billion in Funds with U.S. Treasury, $3.5 billion is in the Reserve Receipt Account, which is a non-interest-bearing account at the U.S. Treasury. For purposes of the Statement of Cash Flow, Funds with U.S. Treasury are considered cash.

U.S. Government Securities: Ginnie Mae classifies its investments in U.S. Government Securities based on its ability and intent to hold them to maturity. Therefore, Ginnie Mae's investment in U.S. Government Securities is recorded at amortized cost. Discounts and premiums are amortized, on a level yield basis, over the life of the related security.

Mortgages Held for Sale: Mortgages held for sale, which are purchased out of MBS pools, are carried at the lower of cost or fair value, and with any unrealized losses included in current period earnings. The related allowance for loss is established to reduce the carrying value of mortgages held for sale to their estimated fair value, which is based on the amount Ginnie Mae expects to realize in cash upon sale of the mortgages.

Properties Held for Sale: Foreclosed assets are recorded at the lower of cost or fair value, less estimated costs to sell. The related allowance for loss is established to reduce the property carrying value to fair value, less cost to sell. Property related expenses incurred during the holding period are included in MBS program expenses.

Advances against Defaulted MBS Pools: Advances against defaulted MBS pools represent payments made to fulfill Ginnie Mae's guarantee of timely principal and interest payments to MBS security holders. Such advances are reported net of an allowance for doubtful recoveries to the extent management believes they will not be recovered. The allowance for doubtful recoveries is estimated based on actual and expected recovery experience, and is adjusted for FHA, VA, and USDA claims that have been filed.

Fixed Assets: Ginnie Mae's fixed assets represent systems (software) that are used to accomplish its mission. Ginnie Mae defers significant software development project costs, and amortizes them over a three- to five-year period beginning with the project's completion. As of September 30, 2008 and September 30, 2007, Ginnie Mae's Fixed Assets – Software balance was $40.8 million, with accumulated amortization of $14.0 million, and $29.3 million, with accumulated amortization of $12.8 million, respectively.

Reserve for Loss on MBS Program: In the operation of its MBS programs, Ginnie Mae estimates the cost of liquidating its existing portfolio of mortgage servicing rights acquired from defaulted issuers and expected issuer defaults. Reserves are established to the extent management believes issuer defaults are probable and FHA, VA, and USDA insurance or guarantee are insufficient to recoup Ginnie Mae expenditures. The reserves are increased by provisions charged as an expense in the Statements of Revenues and Expenses, and reduced by charge-offs, net of recoveries.

Recognition of Revenues and Expenses: Ginnie Mae 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 guarantee of MBS are recognized as earned. 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. Ginnie Mae recognizes as income the major portion of fees related to the issuance of multiclass securities in the period the fees are received, with the balance deferred and amortized over the weighted average life of the underlying mortgages to match the recognition of related administrative expenses. Losses on assets acquired through liquidation and claims against FHA, VA, and USDA are recognized when they occur.

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.

FIN 45: The Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees,* *Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107, and Rescission of FASB Interpretation No. 34*, in November 2002. FIN 45 clarifies the requirements of FASB Statement No. 5, *Accounting for Contingencies*, relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. We have computed the fair value of our guarantee based on the life of the mortgage-backed securities and their underlying loans. Based on this evaluation we have disclosed an asset and liability of $680.2 million as of September 30, 2008 and $425.9 million as of September 30, 2007 categorized as other assets and other liabilities, see Note A. There is no impact on the net financial position of Ginnie Mae due to FIN 45.

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 assets, liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B: U.S. Government Securities

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 are made up of overnight certificates, U.S. Treasury notes, and U.S. Treasury inflation-indexed securities (reflecting inflation compensation). The coupon rates of Ginnie Mae's holdings as of September 30, 2008, range from 0.63 percent to 4.5 percent. As of September 30, 2007, they ranged from 0.88 percent to 4.625 percent.

The amortized cost and fair values as of September 30, 2008, were as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	$ 2,313,500	$ -	$ -	$ 2,313,500
U.S. Treasury Notes	898,800	17,400	-	916,200
U.S. Treasury Inflation-Indexed Securities	6,041,700	-	(897,400)	5,144,300
Total	**$ 9,254,000**	**$ 17,400**	**$ (897,400)**	**$ 8,374,000**

The amortized cost and fair values as of September 30, 2007, were as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	$ 1,214,100	$ -	$ -	$ 1,214,100
U.S. Treasury Notes	2,294,900	8,600	(2,900)	2,300,600
U.S. Treasury Inflation-Indexed Securities	5,226,900	-	(589,800)	4,637,100
Total	**$ 8,735,900**	**$ 8,600**	**$ (592,700)**	**$ 8,151,800**

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government securities at September 30, 2008, by contractual maturity date, were as follows:

(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	$ 2,713,000	$ 2,718,200	0.48%
Due after one year through five years	5,244,600	4,559,100	1.91%
Due after five years through ten years	1,296,400	1,096,700	2.05%
Total	**$ 9,254,000**	**$ 8,374,000**	**1.47%**

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government securities at September 30, 2007, by contractual maturity date, were as follows:

(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	$ 2,612,100	$ 2,616,100	3.12%
Due after one year through five years	3,768,800	3,468,100	2.62%
Due after five years through ten years	2,355,000	2,067,600	2.20%
Total	**$ 8,735,900**	**$ 8,151,800**	**2.98%**

Note C: Mortgages Held for Sale, Net

Ginnie Mae acquires certain mortgages from defaulted issuers' portfolios to bring the pools into conformity with MBS program requirements. Ginnie Mae acquires mortgages ineligible to remain in pools when servicing rights are sold. Mortgages held for sale were as follows:

(Dollars in thousands)	September 30	
	2008	2007
Unpaid principal balance	$ 37,900	$ 23,600
Allowance for losses	(16,500)	(4,600)
Mortgages held for sale, net	**$ 21,400**	**$ 19,000**

Note D: Properties Held for Sale, Net

Ginnie Mae acquires residential properties by foreclosure out of the defaulted issuer portfolios to comply with MBS program requirements. Balances and activity in properties held for sale were as follows:

(Dollars in thousands)	September 30			
	2008		2007	
Cost of properties, beginning of year	$	13,900	$	11,300
Additions		8,200		7,200
Dispositions and Losses		(5,700)		(4,600)
Cost of properties, end of year	$	16,400	$	13,900
Allowance for losses and costs to sell		(11,700)		(10,700)
Properties held for sale, net	**$**	**4,700**	**$**	**3,200**

Note E: Advances against Defaulted Mortgage-Backed Security Pools, Net

Under its MBS guaranty, Ginnie Mae advanced $58.8 million in FY 2008, and $30.4 million in FY 2007 against defaulted MBS pools to ensure timely pass-through payments. Recoveries of advances, either from late payment remittances or through FHA insurance or VA guarantee proceeds, were $37.8 million in FY 2008 and $31.1 million in FY 2007. There were $18.5 million advances written off in FY 2008 but no advances written off in FY 2007. There were no advances associated with USDA in FY 2008 or FY 2007.

(Dollars in thousands)	September 30			
	2008		2007	
Advances against defaulted pools	$	18,400	$	15,900
Allowance for losses		(15,700)		(14,900)
Advances against defaulted pools	**$**	**2,700**	**$**	**1,000**

Note F: Reserve for Losses on MBS Program

Ginnie Mae establishes a reserve for losses through a provision charged to operations, when, in management's judgment, defaults of MBS issuers become probable. The reserve for losses is based on an analysis of the MBS portfolio outstanding. 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. Management also considers uncertainties related to estimates in the reserve setting process. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights. As Ginnie Mae's defaulted issuer portfolio decreases, original estimates are compared with actual results over time, and the reserve's adequacy is assessed, and if necessary, the reserve is adjusted. In FY 2008, an adjustment of $50.2 million was made to the reserve. Management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed MBS. Changes in the reserve for the years ended September 30, 2008, and 2007 were as follows:

(Dollars in thousands)	Single Family	Multifamily	Manufactured Housing	Total
September 30, 2006 Reserve for Loss	$ 237,900	$ 58,850	$ 237,700	$ 534,450
Reallocation between programs	$ 187,800	$ (100)	$ (187,700)	-
Recoveries	7,900	100	6,700	14,700
Realized Losses	(7,200)	(50)	(6,100)	(13,350)
Provision	-	-	-	-
September 30, 2007 Reserve for Loss	$ 426,400	$ 58,800	$ 50,600	$ 535,800
Recoveries	4,100	-	7,800	11,900
Realized Losses	(43,500)	-	(4,400)	(47,900)
Provision	50,200	-	-	50,200
September 30, 2008 Reserve for Loss	**$ 437,200**	**$ 58,800**	**$ 54,000**	**$ 550,000**

Ginnie Mae incurs losses when principal FHA, VA, and USDA insurance and guaranty do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees; (2) ineligible mortgages included in defaulted Ginnie Mae pools; (3) improper use of proceeds by an issuer; and (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

Three single family issuers defaulted during FY 2008. Ginnie Mae believes that the reserve for loss estimate is adequate to cover any noninsured loss sustained for these issuers and from unknown future losses from the occurrence of periodic defaults.

Note G: Financial Instruments with Off-Balance Sheet Risk

Ginnie Mae is subject to credit risk for financial instruments not reflected in its balance sheet in the normal course of operations. These financial instruments include guarantees of MBS and commitments to guarantee MBS. 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 by other parties to the financial instruments. Other than those issuers considered in the reserve for loss on the MBS program (see Note F), Ginnie Mae does not anticipate nonperformance by the counterparties.

Ginnie Mae guarantees the timely payment of principal and interest to MBS holders should the issuers fail to do so. The securities are backed by pools of insured or guaranteed FHA, USDA, or VA mortgage loans. On September 30, 2008, the amount of securities outstanding, which is guaranteed by Ginnie Mae, was $576.8 billion, including $38.7 million of Ginnie Mae guaranteed bonds. However, Ginnie Mae's potential loss is considerably less because the underlying mortgages serve as primary collateral, and FHA, VA, and USDA insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guarantee, Ginnie Mae enters into commitments to guarantee 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 outstanding securities, 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	
(Dollars in billions)	2008	2007
Outstanding MBS	$ 576.8	$ 427.6
Outstanding MBS Commitments	$ 71.2	$ 35.8

Note H: Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counterparties (e.g., 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 as noted below, as of September 30, 2008:

	Single Family		Multifamily		Manufactured Housing	
(Dollars in billions)	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance
Largest performing issuers	20	$ 513.0	10	$ 27.9	1	$ -
Other performing issuers	97	$ 23.5	49	$ 11.5	2	$ 0.1
Defaulted issuers	14	$ 0.4	3	$ -	7	$ -

As of September 30, 2008, Ginnie Mae's single family, multifamily, and manufactured housing defaulted portfolio had remaining principal balances of $358.5 million, $25.6 million, and $9.6 million, respectively.

In FY 2008, Ginnie Mae issued a total of $86.4 billion in its multiclass securities program. The estimated outstanding balance of multiclass securities included in the total MBS securities balance in Note G as of September 30, 2008, was $253.1 billion. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Note I: Commitments and Contingencies

As of September 30, 2008, Ginnie Mae has no legal actions pending. However, Ginnie Mae's management recognizes the uncertainties that could occur in regard to potential default issuers and other indirect guarantees. (See Note A, Note F, and Note M.)

Note J: 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 appropriated $8.25 million in FY 2008 for payroll and payroll-related costs only. In FY 2007, Ginnie Mae reimbursed HUD $10.6 million for Salaries and Expenses (travel, furniture, and supplies, etc.), including payroll and payroll-related costs. The FY 2008 appropriation covered the payroll-related costs to HUD including the contributions to the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Ginnie Mae has no liability for future payments to employees under the 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 currently available to finance purchase commitments and pay current liabilities. Ginnie Mae has authority to borrow from the U.S. Treasury to finance operations in lieu of appropriations, if necessary.

Note K: Fair Value of Financial Instruments

The following table shows the fair value of financial instruments to which Ginnie Mae has a contractual obligation to deliver cash to, or a contractual right to receive cash from, another entity as of September 30, 2008, and 2007:

	September 30, 2008		September 30, 2007	
(Dollars in thousands)	Cost	Fair Value	Cost	Fair Value
Funds with U.S. Treasury	$ 4,836,300	$ 4,836,300	$ 4,432,600	$ 4,432,600
U.S. Government Securities	9,254,000	8,374,000	8,735,900	8,151,800
Advances against Defaulted MBS Pools	2,700	2,700	1,000	1,000
Other assets	$ 88,400	$ 88,400	98,700	98,700
Unrecognized financial instruments	-	2,412,000	-	1,643,000
Other liabilities	$ 131,500	$ 131,500	128,400	128,400

The fair value of Ginnie Mae's largest asset, U.S. Government securities, is estimated based on quoted market prices for securities of similar maturity. The fair values of Funds with U.S. Treasury, advances against MBS pools, other assets, and other liabilities are not materially different from their carrying values.

Unrecognized financial instruments comprise the net fair value of the fee Ginnie Mae receives for the guarantee of timely payment of principal and interest. The value was derived by discounting the estimated future net cash flows relating to Ginnie Mae guaranteed MBS outstanding. The assumptions and estimates used in calculating the fair values of unrecognized financial instruments are based on management's evaluation of economic conditions, and, therefore, are not subject to precise quantification.

These discounted cash flows consist of estimated future guaranty fees, taking into account estimated prepayments, in excess of: (1) projected losses relating to the MBS program, including projected losses on defaulted pools of MBS; and (2) projected administrative expenses. The discount rate approximates an interest rate for risk-free instruments of a type and duration similar to the Ginnie Mae guaranty. The fair value of Ginnie Mae's guaranty recognizes the present value of future fees, which are not recognized under accounting principles generally accepted in the U.S., since to do so would record revenue prior to realization. The fair value of unrecognized financial instruments increased from FY 2007 to FY 2008, and is primarily attributable to the impact of interest rate volatility.

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. Accordingly, the amount Ginnie Mae would realize upon sale of its financial instruments could differ, perhaps materially, from the amounts shown above.

Note L: 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, 2008, Ginnie Mae had reserves of $13.5 billion held in the U.S. Treasury. 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.