Government National Mortgage Association

FY 2012 Report to Congress

Ginnie Mae

Our Guaranty Matters

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

PRESIDENT, GOVERNMENT
NATIONAL MORTGAGE ASSOCIATION

November 13, 2012

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

Dear Secretary Donovan:

On behalf of Ginnie Mae, it is my pleasure to submit its annual report for Fiscal Year 2012. It continues to be my honor to preside over Ginnie Mae, a wholly-owned government corporation that supports affordable housing in America by linking global capital markets to the Nation's housing market. Over the past several years, Ginnie Mae has been providing leadership to our recovering housing market; the liquidity and stability of its program have been acknowledged both domestically and around the world.

Today, Ginnie Mae mortgage-backed securities (MBS) provide the funding for virtually every Federal Housing Administration (FHA), Veterans Affairs (VA), and United States Department of Agriculture (USDA) loan that our country's private lenders originate. Even as public demand has increased for these loans, Ginnie Mae's funding capacity has been successful in keeping pace because the securities it guarantees remain in such high demand from investors. These investors include global money managers, as well as governments attracted to investments that carry the full faith and credit backing of the U.S. Government.

Lenders are able to leverage Ginnie Mae's ability to attract international capital by offering home loans at historically low interest rates. Because of this ability to enable low-cost financing for homeowners, a majority of all capital for U.S. home-purchase activity during the past fiscal year was raised by selling its MBS on global markets.

The countercyclical nature of Ginnie Mae's business means that it enables the government to step up when the private market retreats. To this end, Ginnie Mae has guaranteed $1.7 trillion in MBS since the onset of the housing crisis in 2008, thus directly providing housing opportunities for 7.1 million households. During the past year alone, it guaranteed $388 billion in securities, providing affordable housing to nearly 1.7 million households across the country. Ginnie Mae has also earned excess revenues over expenses (net profit) of $609.6 million and maintained $16.4 billion in retained earnings.

Ginnie Mae's work, however, is not complete. While the housing market appears poised for recovery, Ginnie Mae's stabilizing presence remains critical. It is committed to its business model, the strength and reliability of which belies its simplicity. Ginnie Mae continues to provide a unique balance to a recovering housing finance system, and is a model for successful partnerships between the private market and the government. Ginnie Mae absorbs losses only after all other mortgage safeguards (homeowner equity, mortgage insurance, and lender resources) are exhausted, thus minimizing risk to the taxpayer. Through its business model, Ginnie Mae is positioned to continue working with Congress, federal agencies, and the mortgage industry to develop long-term housing finance solutions that help restore our Nation to economic vitality.

This year, Ginnie Mae worked vigorously to make itself more stakeholder-centric, so that it can better serve the needs of its lenders and investors. This focus has led the organization to enhance the timing, accuracy, and thoroughness of its disclosures to investors, make significant progress in its initiative to upgrade all legacy systems, including pool-issuance infrastructure, and create an Issuer Advisory Group to facilitate a more open communication system between all of its agency partners. In addition, Ginnie Mae also facilitated a series of meetings with representatives from FHA, VA, and USDA, to discuss current industry issues and best practices. Also, the reporting of mortgage insurance premium (MIP) levels on loans in pools has created a substantial economic incentive for lenders to participate in FHA's enhanced streamline refinance program.

Ginnie Mae is also pleased to have been able to substantially increase its staffing levels in 2012. This growth strengthens the organization's commitment to serve all of its stakeholders, including lenders, investors, and Americans who own and rent the properties financed by Ginnie Mae MBS. Recent additions to its team have enabled Ginnie Mae to infuse specialized industry expertise from the private mortgage market and to deliver best-in-class securitization capabilities and operational expertise that continues to attract global capital to the housing finance system. It remains a privilege for Ginnie Mae to successfully serve our Nation in the strengthening of the housing finance system.

Sincerely,

Theodore W. Tozer
President

Contents

SECTION I—THE FOUNDATION OF GINNIE MAE 1
Mission and Purpose 1
Today's Ginnie Mae 2
Ginnie Mae's History and Development of the Mortgage-Backed Security 2
SECTION II—EXECUTING THE BUSINESS MODEL 4
Supporting Mortgage Liquidity and Protecting the Taxpayer 4
Ginnie Mae's Products and Programs 6
Prudent Use of the Strength of the Full Faith and Credit Guaranty 9
Pilot Programs 12
Managing Risk 12
Addressing Operational Risk 14
SECTION III—BUILDING FOR THE FUTURE 15
Operations and Technology 15
Other Technological Enhancements 16
Issuers 16
Investors 17
Engaging Federal Agencies and Other Industry Stakeholders 18
Organizing the Ginnie Mae Team for Long-Term Success 19
SECTION IV—FINANCIAL HIGHLIGHTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS 20
SECTION V—AUDIT REPORT OF GINNIE MAE'S FY 2012 AND FY 2011 FINANCIAL STATEMENTS 35

(THIS PAGE LEFT BLANK INTENTIONALLY)

SECTION I—THE FOUNDATION OF GINNIE MAE

Mission and Purpose

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

Established by Congress in 1968 as a Government-owned corporation, Ginnie Mae's statutory purpose is to ensure that adequate capital is available to finance affordable single family homes and rental housing and to provide liquidity in times of economic stress. Ginnie Mae does not originate mortgage loans, nor does it buy or sell securities or loans for investment purposes. Rather, it guarantees investors the timely payment of principal and interest on securities backed by loans insured or guaranteed by other Federal Government housing agencies.

In doing so, Ginnie Mae stands in a risk-averse position behind three layers of credit enhancement that include borrowers' equity, Federal Government mortgage insurance programs, and the corporate resources of the lender that issued the mortgage-backed security. This unique mission and model serve to help maintain a functioning mortgage market while minimizing taxpayer risk.

The housing crisis has highlighted the importance of government-guaranteed securities when the private market retreats. Ginnie Mae has successfully played a countercyclical role for housing finance in the secondary mortgage markets during the worst economic crisis since the Great Depression.

The strength, simplicity, and agility of Ginnie Mae's business model continue to attract both international and domestic attention. This model has provided an uninterrupted, reliable investment vehicle within the global market, supporting the requirements of investors in mortgage-backed securities (MBS) who rely on Ginnie Mae's safety and soundness. Ginnie Mae is also recognized for its definitive presence and role within the Nation's housing market today and for the role it is ready to play in the future.

In Fiscal Year (FY) 2012, Ginnie Mae reaffirmed its leadership role by sustaining its support of the housing market and continuing to play a vital role in our Nation's economic recovery efforts. Ginnie Mae has established market standards for securities' transparency and disclosure, enhanced risk management and technology, and extended organizational capabilities to meet the needs of the capital markets today and for future success.

Ginnie Mae
Our Guaranty Matters

Today's Ginnie Mae

As the housing market begins to show signs of stabilization, Ginnie Mae's contribution through the crisis is a model for the secondary mortgage market and for national housing policy. Ginnie Mae's fundamental purpose to support affordable housing in America by linking global capital markets to the Nation's housing markets has not changed. The demand for its products and the need for the efficient, low-cost securitization model it provides have increased. As the number of entities issuing Ginnie Mae securities has increased, technology, infrastructure, and staffing expertise have all needed to keep pace in order to meet the expanding information needs of investors and the market. Today's Ginnie Mae has met the market demand and continues to demonstrate leadership in accordance with its mission and purpose.

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

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

The Fair Housing Act of 1968 split Fannie Mae into two separate corporations: (1) the current Fannie Mae, to purchase "conventional" (non-Government-backed) mortgages that conform to specific underwriting standards; and (2) Ginnie Mae, to focus on creating a MBS market by providing a guaranty backed by the full faith and credit of the United States for the timely payment of monthly principal and interest (P&I) on MBS secured by pools of loans guaranteed or insured by the Federal Government. This guaranty is invoked only when an Issuer[1] defaults on its ability to make that timely monthly payment of P&I.

U.S. agencies insuring or guaranteeing the underlying mortgages include: the Federal Housing Administration (FHA), the Department of Housing and Urban Development's (HUD) Office of Public and Indian Housing (PIH), the Department of Veterans Affairs' (VA) Home Loan Program, and the Department of Agriculture's (USDA) Rural Housing Service Single Family, Multifamily, and Community Facilities guaranteed loan programs (Rural Development, or RD). Ginnie Mae remains a self-financing, wholly owned U.S. Government corporation within HUD. Ginnie Mae's creation eliminated the U.S. Treasury's need to provide funding for Federal Government loan programs; and today, Ginnie Mae remains the primary financing mechanism for all Government-insured or Government-guaranteed mortgages.

Historically, mortgage rates and availability of funds varied by region, and individual mortgages were rarely sold on the secondary market. As a result, lenders customarily retained their mortgage loans in portfolios, which limited the number of new loans that could be originated. In 1970, Ginnie Mae addressed these impediments to new loan origination by designing and pioneering the very first MBS, which allowed for many loans to be pooled and used as collateral in a security that could be sold in the secondary market. The explicit Government guaranty of the timely receipt of principal and interest on the behalf of the Issuers made these securities

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

especially attractive to investors. By channeling investment capital from global markets, MBS support housing finance and neighborhoods across the Nation and infuse liquidity into the marketplace.

SECTION II—EXECUTING THE BUSINESS MODEL

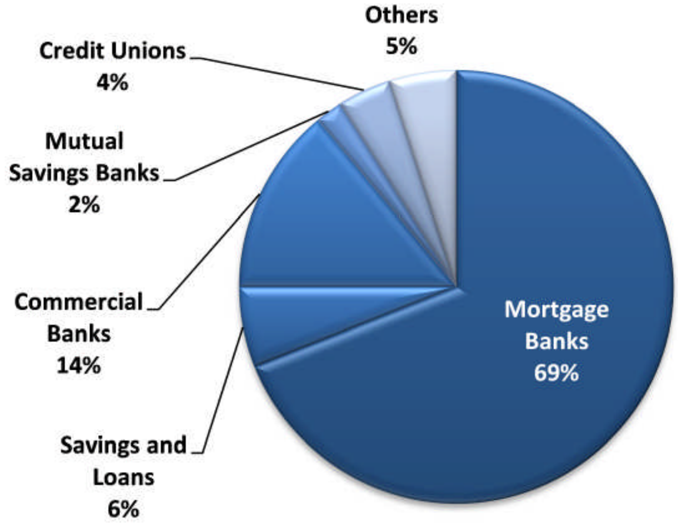
Supporting Mortgage Liquidity and Protecting the Taxpayer

Despite significant changes in the housing market, the traditional Ginnie Mae low-risk business model remains intact. Ginnie Mae guarantees only those securities that are collateralized with loans insured or guaranteed by Federal Government agencies and issued and serviced by qualified mortgage lenders, known as Ginnie Mae Issuers. It is the obligation of Issuers to make timely principal and interest payments to investors in Ginnie Mae securities. Ginnie Mae's guaranty stands in a fourth and final loss position, behind the homeowner's equity, the Government agency's insurance, and the Issuer's resources, thereby minimizing risk to the taxpayer.

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

Issuers are qualified institutions, individually approved and closely monitored by Ginnie Mae. They are diverse in size and geography and include mortgage companies, commercial banks, thrifts, credit unions, and state housing finance agencies (HFA) (see Figure 1).

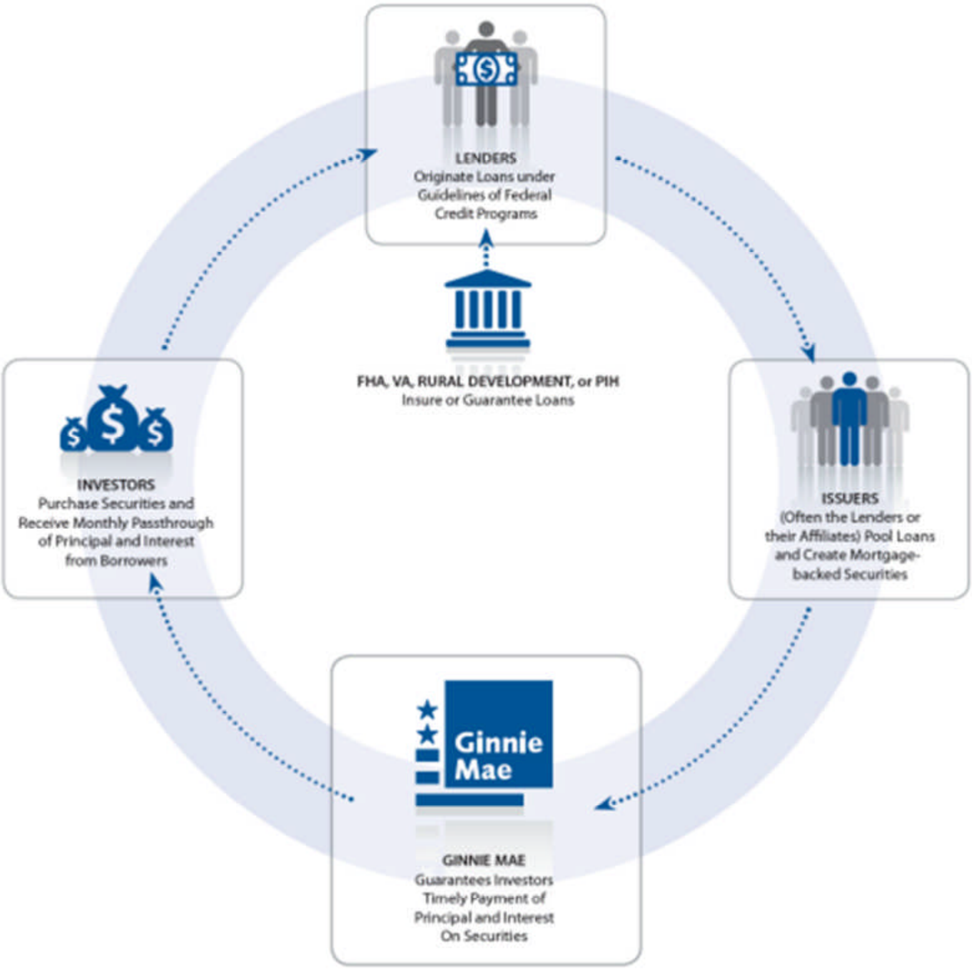
Figure 1 – Ginnie Mae Issuers by Institution Type as of September 30, 2012



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

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

Figure 2 – Capital Flow of Ginnie Mae Guaranty Securities

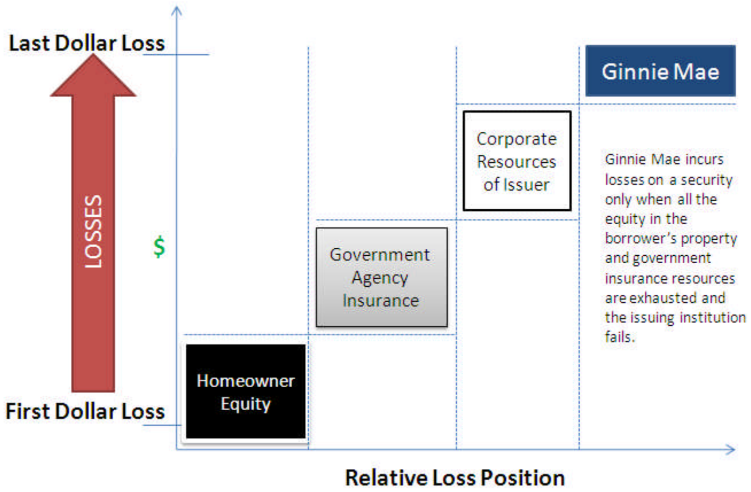


Ginnie Mae is a mono-line business that insures only Issuer performance. There are three levels of protection that must be exhausted before the Ginnie Mae guaranty is at risk: homeowner equity, the insurance provided by the Federal Government agency that insured the loans, and the corporate resources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

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

The nature of the business model means that credit exposure is limited to counterparty risk, because Ginnie Mae guarantees that an Issuer will meet its obligations. Ginnie Mae manages this risk through its Issuer approval process and ongoing monitoring procedures.

Figure 3 – Protecting the Ginnie Mae Guaranty



Ginnie Mae's Products and Programs

Ginnie Mae offers reliable solutions that meet the needs of a broad constituent base and provide sufficient flexibility to respond to market changes. At the core of its business model and product offering menu is the simple pass-through security, which comes in the form of two product structures—Ginnie Mae I MBS and Ginnie Mae II MBS—whose characteristics are summarized in the following table:

Ginnie Mae I MBS	Ginnie Mae II MBS
• Single Issuer pools • Note rates on underlying mortgages are fixed and all the same • Acceptable collateral: ❖ To Be Announced (TBA) eligible: Single Family Level Payment Mortgages ❖ Non-TBA eligible: Buydown Mortgages, Graduated Payment Mortgages, Growing Equity Mortgages, Serial Notes, Manufactured Home Loans, Project Loans, Construction Loans • Timing of payments: 15th day of the month	• Single- or Multiple-Issuer pools • Multiple note rates on underlying mortgages—limited to a range of 50 basis points (0.25 to 0.75 above the pass-through interest rate) • Acceptable collateral: ❖ TBA eligible: Single Family Level Payment Mortgages, including up to 10 percent Buydown Mortgages ❖ Non-TBA eligible: Adjustable-rate Mortgages, Graduated Payment Mortgages, Growing Equity Mortgages, Serial Notes, Manufactured Home Loans, Home Equity Conversion Mortgage (HECM) Loans • Timing of payments: 20th day of the month • Larger pool size • More demographically and geographically diverse • Customizable pools

The Ginnie Mae I Single Issuer MBS is the foundational MBS program. In recent years, however, the Ginnie Mae II MBS product has generated increased demand and surpassed the Ginnie Mae I product in volume. In FY 2012, the Ginnie Mae II program accounted for approximately 78 percent of Ginnie Mae's MBS issuance. This is the result of investors' growing preference for multi-Issuer pools, as well as increased appetite for larger pools with demographically and geographically diverse collateral characteristics.

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

Multiclass products are structured for offering in the public markets by "sponsors," who are approved Ginnie Mae securities dealers in the REMIC program, and depositors in the platinum program, who have wide access to global investors. Ginnie Mae increased its Platinum Pool transparency during FY 2012 by enhancing the disclosure of weighted averages and other metrics. By managing the ongoing relationship with investment banks and institutional investors, Ginnie Mae supports multiple products that meet the needs of global capital market participants and attract financing to the U.S. housing market.

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

This wide range of security products supports the diverse single family and multifamily lending initiatives provided by the Government's housing agencies. The underlying loans for the Ginnie Mae I MBS and Ginnie Mae II MBS come from four Ginnie Mae MBS programs, as described below. These programs are designed to serve a variety of loan financing needs and different Issuer origination capabilities. All loans in each of these programs are insured or otherwise guaranteed by the Government, which minimizes risk to Ginnie Mae.

Single Family Program **–** The majority of Ginnie Mae securities are backed by single family mortgages predominantly originated through FHA and VA loan insurance programs (62.8 percent and 32.0 percent, respectively). In FY 2012, 100.0 percent of FHA fixed-rate single family loans and 98.4 percent of VA fixed-rate single family loans were placed into Ginnie Mae pools. As of the end of FY 2012, investors held $1.2 trillion in outstanding single family Ginnie Mae MBS. The Single Family Program supports purchase mortgages, as well as mortgage refinancing.

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

Multifamily Program **–** Ginnie Mae's Multifamily MBS Program enables lenders to reduce mortgage interest rates paid by property owners and developers of apartment buildings, hospitals, nursing homes, assisted living facilities, and other types of housing. These lower interest rates provide the necessary incentive for many developers to construct or substantially rehabilitate new projects. In addition, existing borrowers can now refinance at all-time record low interest rates to keep rents affordable, which is extremely important as the U.S. seeks to boost refinancing levels in the coming years.

The importance of multifamily financing is growing as the population ages, facilities need renovations, and the demand for memory care services increases. Tailored for a variety of property types and financing scenarios, Ginnie Mae's Multifamily MBS Program reaches diverse segments of the U.S. rental housing market and finances projects that stabilize local economies and bring jobs to communities across the country. The sophisticated and flexible structure of the program provides Ginnie Mae with a competitive advantage over other multifamily financing offerings in the industry. This advantage is due to four key characteristics typically attributed to government loan programs: lower interest rates on loans, higher loan-to-value ratio for borrowers, all-in-one construction to permanent loan origination, and an advantageous capital source for health care properties, including nursing homes and hospitals. In FY 2012, Ginnie Mae's Multifamily MBS portfolio increased to $67.4 billion, compared to $58.0 billion in FY 2011, helping to finance 1,583 apartment building loans, 16 hospital loans, and 675 nursing home loans.

Home Equity Conversion Mortgage (HECM) MBS (HMBS) Program – Ginnie Mae's HECM securities program provides capital and liquidity for FHA-insured reverse mortgages. HECM loans can be pooled into HMBS within the Ginnie Mae II MBS program. They also can serve as collateral for REMICs backed by HMBS (H-REMICs). Ginnie Mae had a pioneering role in developing a liquid securities market for reverse mortgages, enabling senior citizens to have access to the equity in their homes during challenging economic times. In FY 2012, Ginnie Mae's HMBS portfolio reached $36.9 billion, compared to $28.7 billion in FY 2011.

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

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

While Issuers depend on the strong pricing and liquid market for Ginnie Mae MBS as a way to maintain the flow of capital for new mortgage loans, investors depend upon the guaranty of timely interest and principal payments. For MBS investors, only Ginnie Mae securities provide payments explicitly backed by the full faith and credit of the U.S. Government. Ginnie Mae securities also continue to trade at a premium relative to Fannie Mae and the Federal Home Loan Mortgage Corporation (Freddie Mac) MBS, reflecting the confidence that investors continue to have in and the demand they have for Ginnie Mae securities.

The full faith and credit guaranty separates Ginnie Mae from all other MBS guarantors, including Fannie Mae and Freddie Mac. As federally chartered secondary market participants, these Government-sponsored enterprises (GSEs) share many similarities with Ginnie Mae. These similarities include continued prominent roles in the secondary mortgage market to provide liquidity, support housing finance opportunities, and guarantee MBS so that investors receive timely payment of principal and interest. Their structure and business models, however, differ in a number of ways, including their guaranty of the loans underlying the MBS.

The key differences between Ginnie Mae and the GSEs are summarized in the following table:

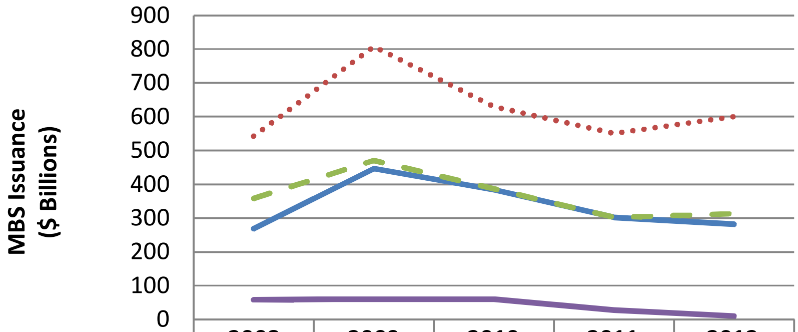
	Ginnie Mae	GSEs
Governance	Wholly owned Government corporation	Under Government conservatorship since September 2008 but remain publicly traded companies (not on NYSE)
Government Guaranty	Explicit guaranty to investors	Implicit guaranty to investors
Business Activities	Does not purchase loans, nor does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

The recovery of the housing market depends on a reliable supply of liquidity that only a strong capital market can provide. The consistent performance of Ginnie Mae's MBS products has been critical to providing this liquidity. Issuers know that Ginnie Mae securities provide attractive pricing and are an important asset class for many investors. The favorable pricing on securities, which is enabled by the Ginnie Mae guaranty, is ultimately passed on to many homeowners and renters in the form of lower interest rates and more attractive leasing terms. In addition, these securities provide the financing necessary for Federal Government-backed loan programs that support safe and affordable housing.

Ginnie Mae's creation of pass-through securities also led to the establishment of the "To Be Announced" (TBA) market, a critical feature of the secondary mortgage market allowing for future lending commitments and valuation. TBA securities enable investors to buy a billion dollars' worth of securities knowing that the terms and conditions of the security are consistent and the underlying mortgage loans are comprised of relatively homogeneous collateral. This innovative process enables lenders to lock in a rate for the mortgages before closing, which facilitates the availability of affordable mortgages to millions of prospective homeowners. Although established many years ago, a significant portion of the volume of MBS traded in the market today continues to be in the form of TBA securities, which are contracts for the purchase or sale of a type of MBS security that will be delivered at a future agreed-upon date. The specific loans, pool numbers, or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade. However, the TBA market uses accepted parameters for loans and pools to be delivered. Ginnie Mae's TBA eligible MBS enables mortgage lenders to sell their primary originations forward by securitizing the mortgages for purchase in the secondary market.

Another segment of the market is the non-agency, or private-label securities market. The issuance of private-label single family MBS remained dormant in 2012. Figure 4 shows the dramatic decline in the private-label market over the past several years and the consistent issuance of agency MBS—those backed by Ginnie Mae and the GSEs. The total issuance of agency MBS during the first three quarters of calendar year 2012 remained at an elevated level of $1,195.2 billion compared to the limited issuance of private-label MBS.

Figure 4 – Market Share of Ginnie Mae and GSE Securities
Calendar Years 2008 through 2012[2]



	2008	2009	2010	2011	2012
Ginnie Mae	$269.0	$446.2	$383.6	$301.7	$282.0
Fannie Mae	$542.0	$807.9	$629.7	$551.0	$600.3
Freddie Mac	$357.9	$470.8	$387.0	$301.8	$312.9
Non-Agency	$58.0	$60.4	$59.9	$27.6	$10.3

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

[2]Source: *Inside MBS & ABS.* MBS issuance figures based on the 12 months of the calendar year for 2008 through 2011, and for the first 9 months of Calendar Year 2012

Pilot Programs

Ginnie Mae is always in search of new ways to support and partner with FHA to assist borrowers, neighborhoods, and taxpayers in times of distress. One way it did so in FY 2012 was to participate for the first time in a FHA Single Family Distressed Asset Sale by contributing approximately 250 loans from defaulted servicer portfolios.

The sales allowed Ginnie Mae Issuers to dispose of their delinquent loans, thereby reducing financial losses by avoiding the long and costly foreclosure process. Ginnie Mae, as the guarantor of the Issuers' MBS, also benefits from Issuers selling delinquent loans easily and efficiently. Increasing liquidity among Issuers reduces the chance that they will default on their payments to MBS investors. This, in turn, reduces the likelihood that Ginnie Mae will be required to make payments to MBS investors in the event an Issuer defaults. As a result, Ginnie Mae recommends that Issuers participate in the FHA Single Family Distressed Asset Sales in order to increase their financial strength.

Typical investors in the FHA Single Family Distressed Asset Sales range from specialized, servicing-focused firms, to medium- to large-sized capital investment firms. These sales also provide investors an opportunity to purchase pools of severely distressed loans at below face value. Borrowers benefit from delays in foreclosure of at least six additional months upon purchase of their mortgage by the investor under terms that are part of the FHA sales agreement with the investor. This foreclosure delay affords the servicer time to work with borrowers to find the most affordable solution that will allow them to stay in their homes. Because the loans are generally sold for less than what the borrower currently owes, the investor has the ability to reduce or modify the loan terms while still making a return on the initial investment. Ultimately, the favorable economics of these transactions are expected to support the housing recovery across the Nation.

Managing Risk

The housing market continues to rely on the countercyclical role of Ginnie Mae, and significant challenges lie ahead. Consequently, maintaining Ginnie Mae's safety and soundness is critical. It is vigorously monitoring its aggregate risk and compliance with its policies and risk management activities.

The Issuer approval and aggressive, ongoing monitoring processes are significant components of Ginnie Mae's enterprise counterparty risk management efforts, which include the routine evaluation of financial strength, performance, and stability. As the housing market changed during the financial crisis, Issuers faced increased financial and operational risks. To further enhance risk management, Ginnie Mae increased the net worth, capital, and liquid asset requirements for all Issuers across Single Family, Multifamily, HECM, and MH programs over the past few years.

During the new Issuer approval process, Ginnie Mae conducts a thorough counterparty review and then carefully monitors Issuer performance during a probationary period following admission to the MBS program. Following successful completion of the probationary period, an

Issuer remains subject to regular performance reviews, and each Issuer's commitment authority amount is reviewed regularly as an additional checkpoint to minimize risk.

Issuers who retain more capital and liquidity are better positioned to absorb losses and are more likely to be able to advance principal and interest payments on delinquent mortgage loans. The liquid asset requirement is critical to ensure that Issuers have the necessary funds available to meet investor payment obligations and to protect Ginnie Mae and the taxpayer from risk.

Ginnie Mae manages the risk associated with its internal operational functions by using an efficient combination of management oversight and technology. Approval for staffing increases has permitted Ginnie Mae to focus on selectively bringing a number of mission-critical operations in house. In FY 2012, quality assurance and other review and monitoring practices were enhanced with internal staff members that provide Ginnie Mae with firsthand knowledge of critical Issuer processes.

Risks to the Ginnie Mae program are mitigated by tested practices that regularly evaluate Issuers and their performance in five key areas:

- **Financial Health –** This includes a review of the Issuer's net worth, liquidity, profitability, and regulatory relationships.

- **Portfolio Quality –** This monitoring includes a particular focus on indicators such as early payment defaults, origination comparison ratios, and the percentage of an Issuer's servicing assets that are delinquent.

- **Onsite Compliance Field Reviews –** These reviews test Issuer and document custodian compliance with program requirements. This review program was updated in FY 2012 to ensure that review procedures are keeping pace with current needs and industry developments. In FY 2012, Ginnie Mae performed compliance field reviews of more than 54.1 percent of its 266 active issuers and 60.4 percent of its 48 active document custodian sites.

- **Onsite Operational Field Reviews –** In FY 2012, Ginnie Mae made use of its expanded resources to launch this new initiative, which strengthens Issuer monitoring and improves management's decision-making capability. These reviews, which are performed by Ginnie Mae personnel, make use of onsite visits and meetings and supplemental analysis. They examine an Issuer's staff, infrastructure, quality assurance, and business practices and provide Ginnie Mae management with a qualitative assessment of an Issuer's fitness to perform successfully in the program. At the conclusion of the reviews, Ginnie Mae provides recommendations to improve operational practices.

- **Insurance Matching –** This analysis confirms (via an automated verification process) that insurance remains in place for all pooled loans. Considerable investment has been made in infrastructure processes dedicated to comparing all loans in each Ginnie Mae security with FHA, VA, RD, and PIH databases on a monthly basis.

Addressing Operational Risk

Ginnie Mae continued to address operational risk in FY 2012 through its comprehensive program of Contract Assessment Reviews (CARs). These reviews assess contractor compliance with the terms and scope of their contracts and remain a critically important tool for minimizing risk by identifying potential control weaknesses and other operational exposure within Ginnie Mae. The 12 CARs completed during FY 2012 covered a range of contracts across virtually every facet of the organization's operations, including master subservicing, pool processing, and field reviews.

In FY 2012, Ginnie Mae also focused on several control structures to enhance risk mitigation and control. These control structures were the Enterprise Risk Policy, delegations of authority, and Lean Six Sigma.

The Enterprise Risk Policy, which is under development, contains guidelines for operational risk governance by setting standards for program areas and process owners to develop appropriate mitigation strategies to address significant operational risks that exceed acceptable operational risk exposure levels or operational risk tolerances. Another control structure, Ginnie Mae's delegations of authority, was made more robust by establishing clear boundaries and individual accountability for financial and other risk-related decisions.

Ginnie Mae began Lean Six Sigma awareness training to promote a process improvement framework with tollgates to manage and execute improvement projects. This effort was carried out to promote a culture of risk management and continuous change focused on improving efficiencies and, more important, to decrease operational risks.

SECTION III—BUILDING FOR THE FUTURE

Through the housing crisis, Ginnie Mae has emerged as a source of strength for the industry. In response to the critical need for its role in the capital market and the demand for its products and services, Ginnie Mae is expanding its organizational capabilities for future success. With emphasis on key functional business lines, including risk and securities administration, information technology (IT), Issuer portfolio management, financial analysis, and human capital, Ginnie Mae is meeting the market needs of today while planning for those of tomorrow.

Operations and Technology

Transparency, standardization, and accountability are foundational components of the Ginnie Mae securitization program. To drive the strong demand and best price for securities, Ginnie Mae consistently provides transparency on key data elements that provide insight on the performance of its securities. Additionally, Ginnie Mae is committed to providing timely and comprehensive information to the marketplace.

In FY 2012, Ginnie Mae announced that it would require delivery of four new data elements: First-Time Homebuyer Indicator, Third-Party Origination Type, upfront Mortgage Insurance Premium (MIP) Rate, and Annual MIP Rate. Improvements in data transparency provide the necessary insight that capital market participants seek when considering Ginnie Mae MBS.

In addition, in FY 2012, Ginnie Mae increased the efficiency of its data disclosure to the capital markets through consolidating and streamlining the release of its disclosures. Monthly disclosure information is now provided on the sixth business day of the month, which matches or exceeds industry standards for timeliness and comprehensiveness.

Realizing the need for greater transparency, Ginnie Mae is moving forward in disclosing data on the loan-level collateral that makes up its MBS. This includes Single Family forward mortgage loan-level information and reverse mortgage (Home Equity Conversion Mortgage MBS – HMBS) loan-level information.

Additionally, in FY 2012 the following foundational work was accomplished:

- Adoption of an alphanumeric pool number format to ensure the availability of pool numbers.
- Continued progress on Ginnie Mae’s enhanced Integrated Pool Management System (IPMS) to modernize technical and business capabilities.
- Publishing of Ginnie Mae’s Consolidated Disclosure Data Dictionary, containing pool-level disclosure definitions, calculations, and descriptions of the data elements related to Ginnie Mae’s Single-Issuer and Multiple-Issuer MBS Pools.
- Improvement of Issuers’ and investors’ abilities to manage loan pipelines and Multiple-Issuer Pool loan package submissions before the finalization of the pool.

Other Technological Enhancements

During FY 2012, Ginnie Mae continued its Enterprise Data Management (EDM) strategy development project, an organizational-wide effort in support of a strategic goal to ensure *"Access to timely, accurate and relevant data to meet both Ginnie Mae's and its stakeholders' needs."* Ginnie Mae's specific goals related to managing its enterprise data assets include:

- Establishing a robust foundation for managing its data;
- Defining a high-level target state architecture and;
- Identifying a multiyear approach to maturing its EDM capabilities.

Ginnie Mae's progress in this effort is being gauged against a transition roadmap—a collection of strategic and tactical activities over a 4-year time span that ensures a manageable progression toward achieving a mature EDM program. Ginnie Mae's current focus is ensuring that the EDM strategy is managed by governing bodies that enforce robust standards and principles.

In FY 2012, the Office of Enterprise Data and Technology Solutions was created to support the EDM strategy. This Office will ensure proper management and governance of Ginnie Mae's IT and data assets. Within this Office, the Enterprise Data Solutions Division has a dedicated focus in managing to the EDM Strategy and enhancing business intelligence. Furthermore, a newly created Project Management Office (PMO) ensures governance and compliance in IT development projects.

One major focus of the EDM Strategy is the alignment with industry standards. In FY 2011, Ginnie Mae agreed to adopt the Mortgage Industry Standards Maintenance Organization (MISMO) standard leveraging the Uniform Loan Delivery Dataset (ULDD) component of the Uniform Mortgage Data Program. Through current outreach and analysis activities, Ginnie Mae is developing its strategy for adopting the MISMO standard to support its unique business model and has begun to engage its Issuers through a stakeholder focus group. The project will drive necessary infrastructure and application changes that will enhance the Issuer experience and, most importantly, expand data standardization, transparency, and quality.

Additionally, Ginnie Mae now publishes Committee on Uniform Securities Identification Procedures (CUSIP) and pool number information on its website for the current month, plus the upcoming three months' of issue production. This improves Issuers' ability to manage their loan pipeline and Multiple Issuer Pool submissions by increasing the efficiency of the TBA forward market with the capital market participants.

These technological and operational enhancement efforts have strengthened Ginnie Mae programs and reduced operational inefficiencies for constituents, serving to increase both Issuer and investor appeal of Ginnie Mae MBS, thereby reducing the cost of America's housing.

Issuers

As part of its strategy to build a diverse and viable Issuer base, Ginnie Mae actively seeks to engage new qualified Issuers. Diversification not only mitigates risk but also helps to further extend the benefits of the full faith and credit guaranty across many different communities. As such, Ginnie Mae has been reaching out to community lenders to directly participate in the Ginnie Mae program.

During FY 2012, Ginnie Mae continued its range of outreach efforts to highlight the benefits of Government-insured or Government-guaranteed mortgage loans and doing business with Ginnie Mae. These efforts have helped Ginnie Mae understand and respond to the questions and needs of mortgage lenders. Whereas two years ago, 90 percent of Ginnie Mae's single family issuance volume came from just 10 Issuers, by the end of FY 2012, 25 Issuers handled 90 percent of that issuance.

Training and education remain key components for new and existing Issuers, and are particularly valuable to those seeking to understand expectations and methods for maximizing their opportunities in the Ginnie Mae program. Webinars and roundtable sessions with Issuers allow for exchanges of information and foster effective implementation of program changes. Additionally, development work began on a standardized, multi-tiered training program that will enable Issuers to conduct business more effectively with Ginnie Mae. These will complement the quarterly business partner outreach calls, which provide a forum for discussing a host of program issues.

Ginnie Mae routinely conducts listening sessions to discuss market issues and industry reaction to program changes. Such meetings provide for a rich exchange of thoughts and suggestions that have enabled Ginnie Mae account executives to become more effective liaisons for program enhancements. Additionally, newly implemented standards for interacting with Issuers enable Ginnie Mae to better capture their business needs and challenges.

Investors

Ginnie Mae retains a broad domestic and international investor base while continually looking for ways to identify, attract, and partner with diverse participants, particularly as global investors have been winding down positions in investments that do not carry explicit U.S. Government backing. In FY 2012, Ginnie Mae's ongoing focus on outreach and education to promote its MBS programs and obtain input from stakeholders benefitted investors and Issuers alike.

For example, Ginnie Mae's executives participated in numerous activities with worldwide capital markets, making several trips abroad to Asia, England, and other European countries to meet with members of the global investment community. These trips afforded Ginnie Mae the opportunity to learn more about investor appetites, hear feedback about Ginnie Mae products, and consider ways to enhance their attractiveness. Key messages and themes that Ginnie Mae continued to communicate to investors included program features and benefits, expanded disclosure information, and enhanced risk management capabilities.

Notably, several foreign delegations traveled to the United States to visit Ginnie Mae to seek a greater understanding of the success of the Ginnie Mae business model. In meeting with housing finance experts from around the world, Ginnie Mae executives provided information on the benefits of the Ginnie Mae MBS program while presenting the strengths of the unique Ginnie Mae business model that leverages the guaranty provided by the Government while minimizing risk to the taxpayer.

Engaging Federal Agencies and Other Industry Stakeholders

Since the onset of the housing crisis, Ginnie Mae has taken an active role with other Government agencies involved in stabilizing the credit and housing markets. In particular, Ginnie Mae has led the Joint Federal Housing Agencies (FHA, VA, RD, and PIH) meetings to ensure that Ginnie Mae's programs, products, and operations adequately support Government housing programs.

Because of its unique position in the industry, Ginnie Mae adds valuable perspective to the decision-making processes of HUD and other Federal agencies as they move in the direction of an improved framework for housing finance. Ginnie Mae's connection with mortgage lenders and investors provides an important vantage point to provide input and insight on issues that impact the housing market. While most Government agencies have an oversight or regulatory role, Ginnie Mae is a business partner of the industry, highly knowledgeable of individual companies, industry sectors, and changes in the way business is being conducted. During FY 2012, Ginnie Mae expanded its ability to act as a conduit of market information between the Government and industry to proactively work with other Government agencies in response to initiatives that improve conditions in the mortgage market. Ginnie Mae also holds discussions with other integral agencies such as the Consumer Financial Protection Board (CFPB), the U.S. Department of the Treasury, the Federal Housing Finance Agency (FHFA), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Federal Reserve to support initiatives to improve housing finance.

During FY 2012, Ginnie Mae served as a direct participant in the CFPB's consultative process for rules under the Dodd-Frank Act, Regulation X, and Regulation Z, among other regulations and statutes. In this capacity, Ginnie Mae consulted with the insuring and guaranteeing agencies of FHA and VA to assure that consumer protection efforts, such as adjustable-rate mortgage notices and service members permanent change of station provisions, are consistent with the requirements of FHA, VA, and RHS and the Ginnie Mae program. Further, Ginnie Mae reviewed proposed rulemaking for potential conflict with the Ginnie Mae guarantee.

In addition, in FY 2012, Ginnie Mae continued to leverage its position in the marketplace to provide assistance to other government agencies and trade associations. It consulted regularly with interested trade associations, including the Mortgage Bankers Association (MBA), the National Association of Home Builders (NAHB), and the National Association of Realtors (NAR). This engagement with multiple housing finance participants has fostered a fluent discourse on critical matters for the successful recovery of the housing market.

Ginnie Mae sits in the middle of the U.S. housing finance market. In conjunction with conducting reviews of Issuer operations and financial results, Ginnie Mae monitors market changes for program adjustments as necessary to fulfill its mission. As an agency within HUD, Ginnie Mae programs ultimately serve borrowers and renters in accordance with fair and prudent lending standards. The connection to serving borrowers, housing agency coordination, executive branch outreach and response, and its direct accountability for an operating program gives Ginnie Mae valuable experience to share with concerned market participants.

Organizing the Ginnie Mae Team for Long-Term Success

In FY 2012, Ginnie Mae reorganized and grew the existing work force by harnessing the institutional knowledge of long-term employees and adding new talent from outside of Ginnie Mae. This blending of staff created both synergy and dynamic change, producing far-reaching policy changes that supplement, enhance, and strengthen the overall composition of the Ginnie Mae team.

Overall, staff size increased during FY 2012 from 85 to 104. An increase in the salary and administrative budget, subject to congressional approval, has been proposed for FY 2013 and FY 2014. The new organizational structure enables Ginnie Mae to bring in-house a number of responsibilities that might have been outsourced to contractors in previous years.

Accordingly, the number of staff managing Issuers grew from 22 to 28. The increase represents both core institutional knowledge and private sector expertise that has created an exceptional pool of talent to manage the growth in the business line. The growth in staffing is also representative of fostering a customer-centric Ginnie Mae. "Personalizing" the business is a core fundamental objective when managing a countercyclical business such as Ginnie Mae's guaranty model. As the leader in successfully delivering liquidity to the secondary mortgage markets, Ginnie Mae envisions a strong role in influencing the industry and receiving input from it. In a rapidly changing and deconsolidating industry, quality monitoring has re-emerged as a critical business competency for Ginnie Mae.

Above all, Ginnie Mae's reorganization reflects an underlying effort to better serve all of its business partners and other stakeholders. By augmenting the institutional knowledge of its capable, existing staff with newly added industry expertise from the marketplace, Ginnie Mae has created a workforce that is delivering best-in-class securitization capabilities and operational expertise that attracts capital to the housing finance system.

The market environment our Nation faces is still uncertain, and the role that Ginnie Mae plays remains critical. The full faith and credit guaranty of the Ginnie Mae MBS keeps capital flowing from around the globe into the U.S. housing finance system and makes affordable mortgage lending possible. This simple but strong business model has enabled a successful balance between the roles of the private market and the Government, thereby reducing risk for the taxpayer. Further, the business model has positioned Ginnie Mae to continue working with Congress, federal agencies, and the industry to develop long-term solutions that meet the needs of stakeholders and help to restore our Nation to economic vitality.

SECTION IV—FINANCIAL HIGHLIGHTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Ginnie Mae continued to post stable financial results during FY 2012. Revenues increased by 17.1 percent to $1,246.6 million, up from $1,064.6 million in FY 2011. Expenses decreased to $86.0 million in FY 2012, compared to $93.7 million in FY 2011. However, Ginnie Mae recognized a provision for MBS loss liability of $431.6 million. As shown in Table 1 on the following page, Ginnie Mae achieved excess revenues over expenses (net profit) of $609.6 million, compared with $1,184.0 million in FY 2011. Total assets increased to $23.7 billion from $18.9 billion in FY 2011.

The outstanding MBS portfolio guaranteed by Ginnie Mae increased by $119.7 billion in FY 2012, which led to increased guaranty fee revenues. In FY 2012, MBS guaranty fees increased to $779.4 million, up from $686.2 million in FY 2011. Interest on mortgage loans held for investment increased to $279.8 million in FY 2012, up from $42.3 million in FY 2011, which was offset by a decrease in U.S. Government securities interest income from $208.1 million in FY 2011 to $81.5 million in FY 2012.

In FY 2012, Ginnie Mae issued $406.3 billion in commitment authority, an 8.0 percent increase from FY 2011. The $388.0 billion of MBS issued in FY 2012 represents a 10.7 percent increase from FY 2011. The outstanding MBS balance of $1,341.4 billion at the end of FY 2012, compared to $1,221.7 billion in FY 2011, resulted from new issuances exceeding repayments. FY 2012 production provided the capital to finance home purchases, refinances, or rental housing for approximately 1.7 million U.S. households.

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

Table 1 – Ginnie Mae Financial Highlights
FYs 2010 to 2012

	2012	2011	2010
(Dollars in Thousands)			
Balance Sheets Highlights and Liquidity Analysis			
Funds with U.S. Treasury	$ 7,075,500	$ 7,210,300	$ 6,650,500
U.S. Government Securities	$ 2,113,600	$ 2,126,800	$ 3,551,200
Other Assets	$ 14,540,500	$ 9,514,000	$ 6,861,600
Total Assets	$ 23,729,600	$ 18,851,100	$ 17,063,300
Total Liabilities	$ 7,358,200	$ 3,089,300	$ 2,485,500
Investment of U.S. Government	$ 16,371,400	$ 15,761,800	$ 14,577,800
Total RPB Outstanding (1)	$ 1,341,404,733	$ 1,221,685,233	$ 1,046,179,139
MBS Loss Liability (2) and Investment of U.S. Government	$ 16,728,800	$ 16,157,600	$ 15,582,700
Investment of U.S. Government as a Percentage of Average Total Assets	76.90%	87.77%	89.06%
MBS Loss Liability and Investment of U.S. Government as a Percentage of RPB	1.25%	1.32%	1.49%
Capital Adequacy Ratio (3)	1.23%	1.30%	1.47%
Highlights From Statements of Revenues and Expenses and Profitability Ratios Year Ended September 30			
MBS Program Income (5)	$ 1,165,100	$ 856,500	$ 742,900
Interest Income - U.S. Government Securities	$ 81,500	$ 208,100	$ 269,000
Total Revenues	$ 1,246,600	$ 1,064,600	$ 1,011,900
MBS Program Expenses	$ (62,900)	$ (72,800)	$ (72,700)
Administrative Expenses	$ (14,100)	$ (11,000)	$ (10,300)
Fixed Asset Amortization	$ (9,000)	$ (9,900)	$ (9,500)
Total Expenses	$ (86,000)	$ (93,700)	$ (92,500)
Total Recapture (Provision) for Losses	$ (431,600)	$ 394,600	$ (730,000)
Total Other Gains/(Losses) (4)	$ (119,400)	$ (181,500)	$ 352,100
Excess of Revenues Over Expenses	$ 609,600	$ 1,184,000	$ 541,500
Total Expense as a Percentage of Average RPB	0.0067%	0.0083%	0.0099%
Total Recapture (Provision) for Losses as a Percentage of Average RPB	0.0337%	0.0348%	(0.0780%)

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS; this does not include $4.1M of GNMA Guaranteed Bonds

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

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

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

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

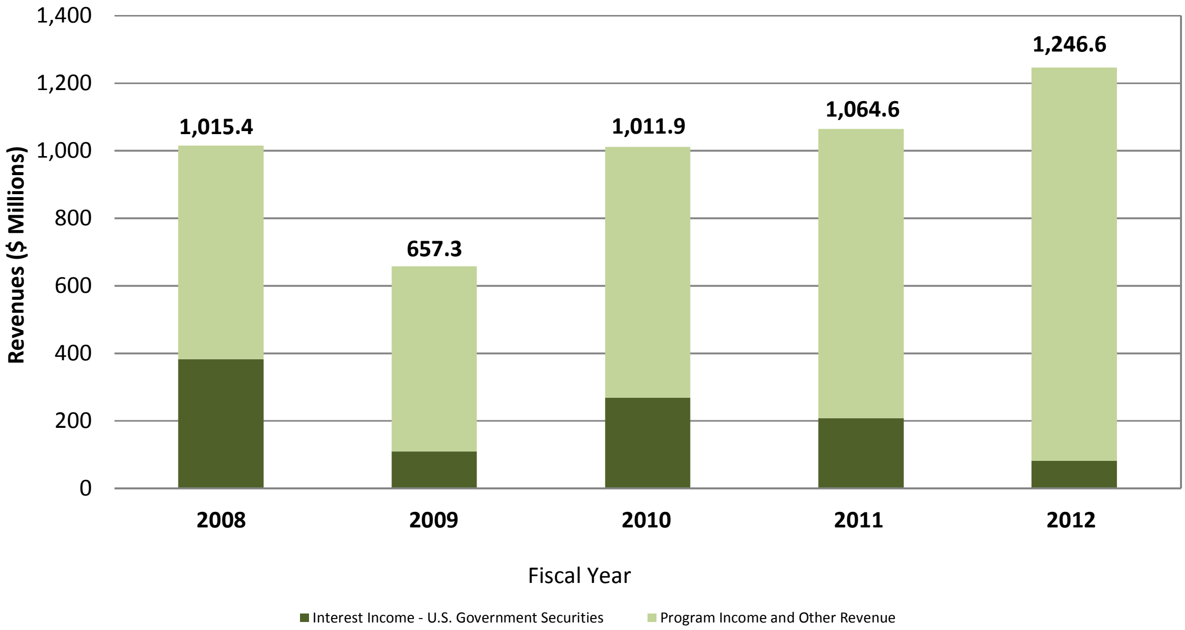
The following discussion provides information relevant to understanding Ginnie Mae's operational results and financial condition. It should be read in conjunction with the financial statements and notes in Section V of this report; the financial statements have received an unqualified audit opinion from Ginnie Mae's independent auditor. Ginnie Mae's operating results are subject to change each year, depending on fluctuations in interest income from its U.S. Government securities and in MBS program income.

Revenues

Ginnie Mae receives no appropriations from general tax revenue. Instead, its operations are self-financed through a variety of fees. In FY 2012, Ginnie Mae generated total revenue of $1,246.6 million. This included $779.4 million in guaranty fee income and $81.5 million in interest income from U.S. Government securities. It should be noted that Ginnie Mae's cash reserves are being held at the U.S. Treasury.

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

Figure 5 – Ginnie Mae Total Revenues
FYs 2008 to 2012



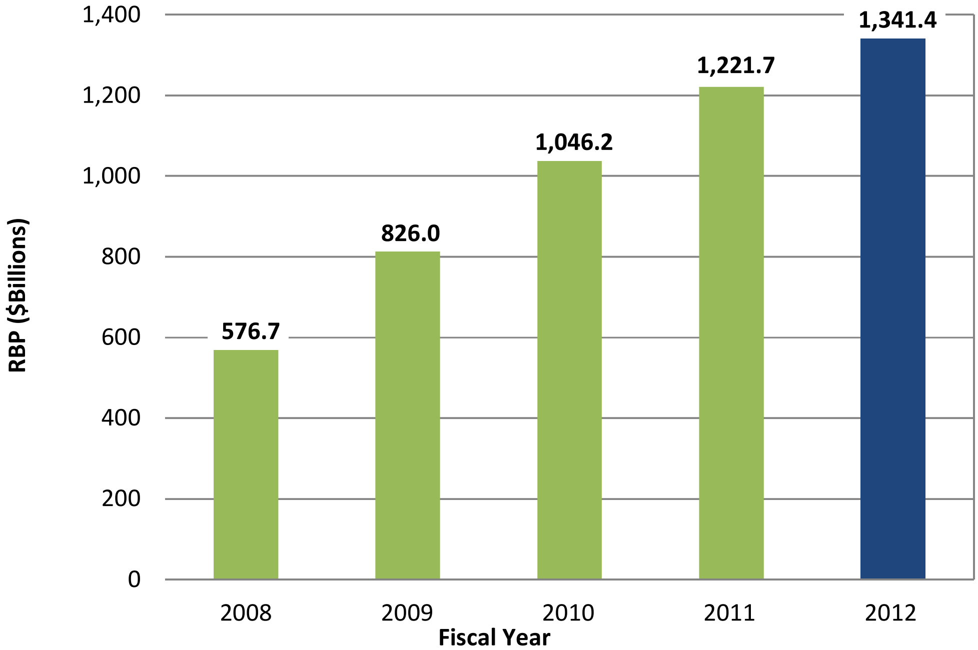
MBS Program Income

MBS program income consists primarily of guaranty fees, commitment fees, and interest on mortgage loans held for investment (HFI). For FY 2012, MBS program income was concentrated in guaranty fees of $779.4 million, followed by interest on mortgage loans HFI of $279.8 million, and commitment fees of $79.1 million. Combined guaranty fees, mortgage loans HFI and commitment fees made up 97.7 percent of total MBS program revenue for FY 2012. Other lesser income sources included multiclass fees, new issuer fees, handling fees, and transfer-of-servicing fees.

Guaranty Fees

Guaranty fees are income streams earned for providing Ginnie Mae's guaranty of the full faith and credit of the U.S. Government to investors. These fees are paid over the life of the outstanding securities. Guaranty fees are collected on the aggregate principal balance of the guaranteed securities outstanding in the non-defaulted issuer portfolio. MBS guaranty fees grew 13.6 percent to $779.4 million in FY 2012, up from $686.2 million in FY 2011. The growth in guaranty fee income reflects the increase in the MBS portfolio. The outstanding MBS balance at the end of FY 2012 was $1,341.4 billion, compared with $1,221.7 billion as of the end of FY 2011, as new issuances exceeded repayments (see Figure 6).

Figure 6 – Remaining Principal Balance (RPB) Outstanding in the Mortgage-Backed Securities Portfolio FYs 2008 to 2012



Commitment Fees

Commitment fees are income that Ginnie Mae earns for providing approved issuers with the authority to pool mortgages into Ginnie Mae MBS. This authority expires 12 months from its receipt for single family issuers and 24 months from its receipt for multifamily issuers. As of September 30, 2012, commitment fees deferred totaled $23.2 million. Ginnie Mae issued $406.3 billion in commitment authority in FY 2012, an 8.0 percent increase from FY 2011.

Ginnie Mae receives commitment fees as issuers request commitment authority. It recognizes the commitment fees as earned when issuers use their commitment authority. The balance is deferred until earned or expired, whichever occurs first.

Multiclass Revenue

Multiclass revenue is part of MBS program revenue and is composed of REMIC and Platinum program fees. Ginnie Mae issued approximately $35.1 billion in Platinum products in FY 2012 (see Figure 7). Total cash fees for Platinum securities amounted to $11.9 million. Total cash guaranty fees from REMIC securities totaled $29.8 million on $71.6 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.

Figure 7 – Platinum Security Volume
FYs 2008 to 2012

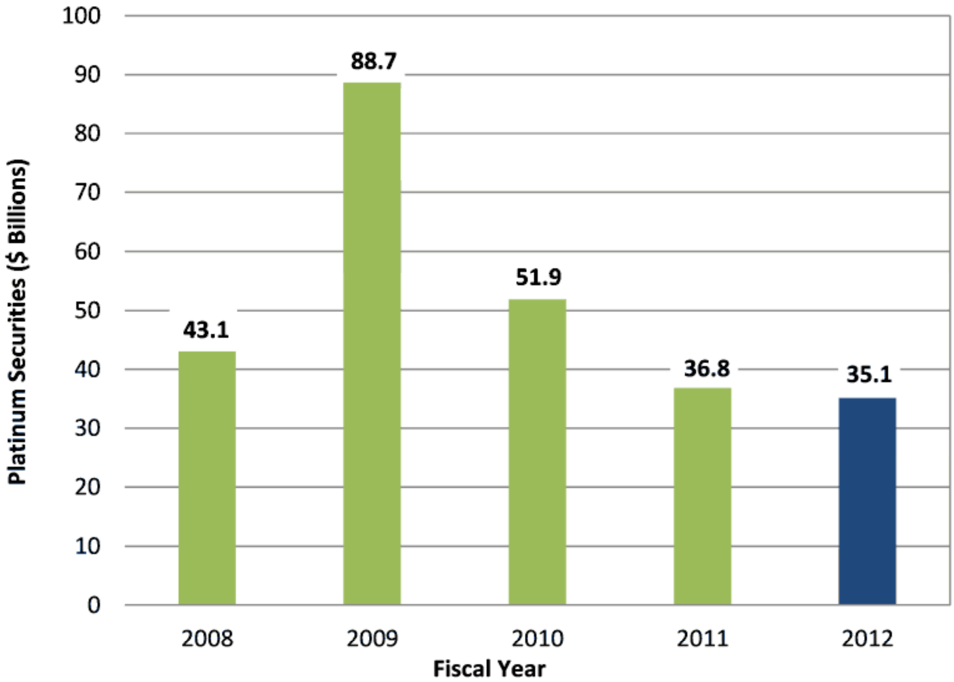
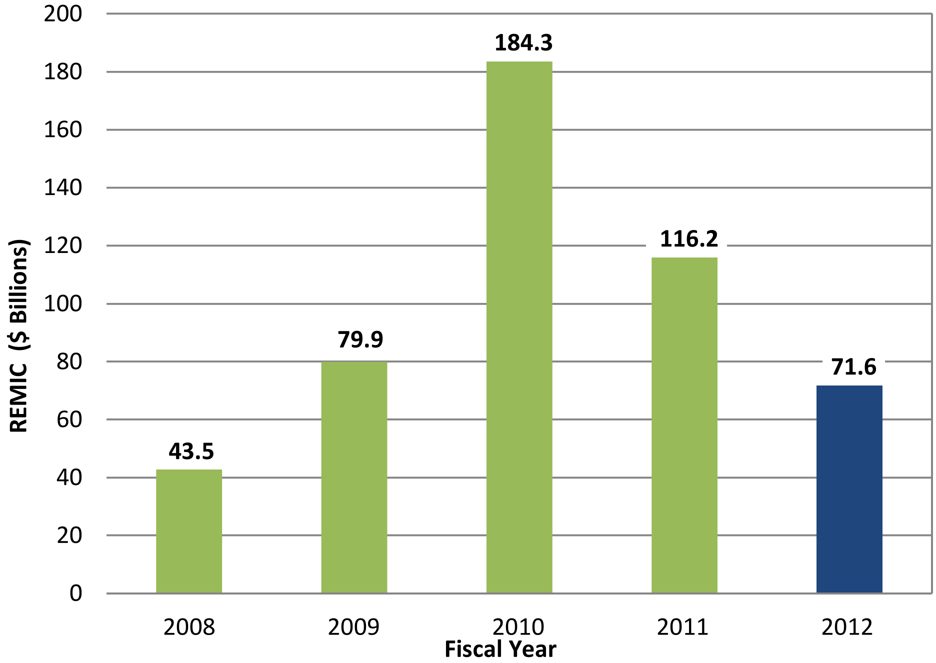


Figure 8 – Total Real Estate Mortgage Investment Conduit Volume
FYs 2008 to 2012



In FY 2012, Ginnie Mae issued $106.7 billion in its multiclass securities program (REMIC and Platinum). The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2012, was $522.5 billion. This represents a $25.0 billion decrease from the $547.5 billion outstanding balance as of the end of FY 2011.

Interest Income

Ginnie Mae invests in U.S. Government securities of varying terms. In FY 2012, Ginnie Mae's interest income decreased as a percentage of total revenue, to $81.5 million as compared to $208.1 million in FY 2011. This sharp decrease resulted primarily from a decrease in the interest rate and a lower investment balance due to the redemption of government securities at the end of FY 2011.

Expenses

Operating expenses in FY 2012 decreased by 8.2 percent to $86.0 million, down from $93.7 million in FY 2011, while total expenses were 6.9 percent of total revenues in FY 2012, down from 8.8 percent in FY 2011.

Ginnie Mae's lower excess revenues over expenses (net profit) of $609.6 million for FY 2012, versus $1,184.0 million for FY 2011 (see Figure 9), were driven by an increase in the provisions for losses.

Figure 9 – Excess of Revenues over Expenses
FYs 2008 to 2012

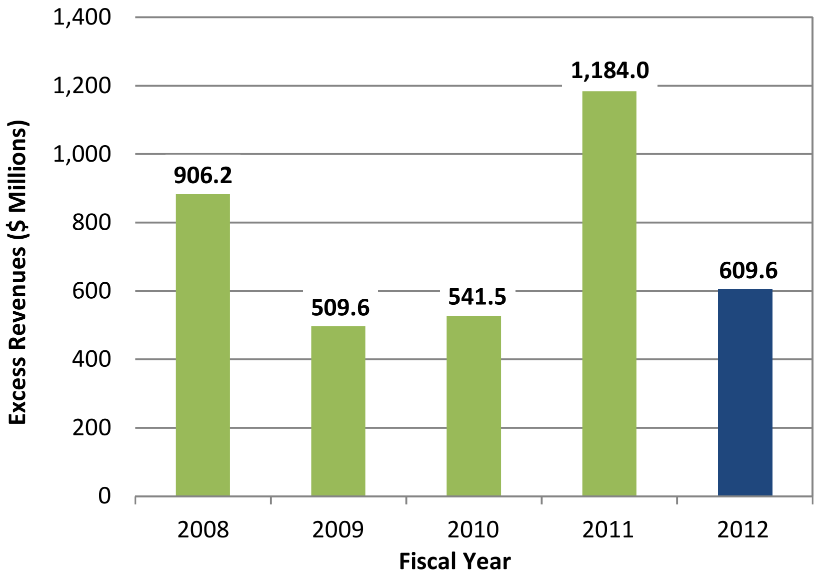


Table 2 presents the expenses related to Ginnie Mae programs and contractors during the last five years. Although issuance volume has increased more than four times, related expenses have been managed well over this timeframe, as shown in the table.

Table 2 – Mortgage-Backed Securities Program Expense
FYs 2008 to 2012

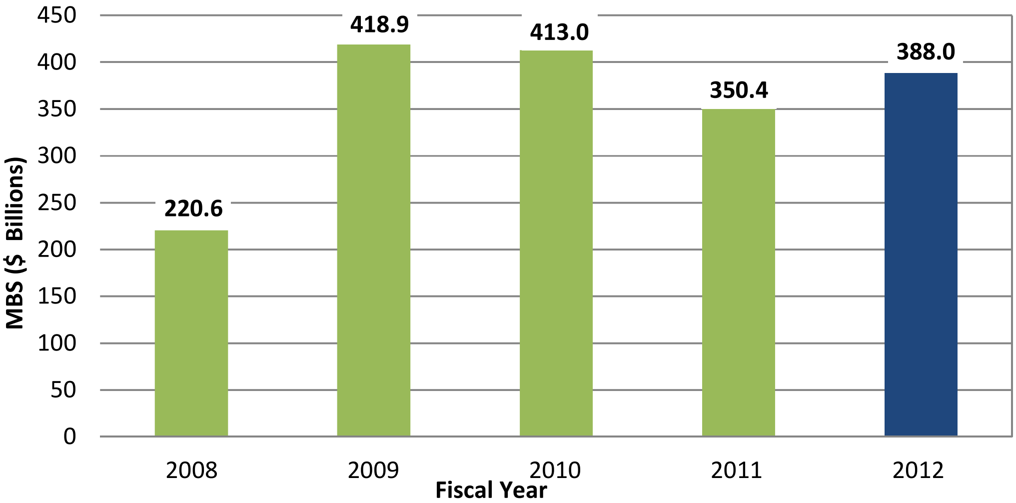
(In Millions)	2012	2011	2010	2009	2008
Central Paying Agent	11.3	9.7	10.4	7.7	8.0
Contract Compliance	1.3	0.9	0.9	0.3	0.4
Federal Reserve	5.2	4.5	4.8	4.9	2.5
Financial Support	1.7	4.9	1.8	0.8	0.7
IT Related & Miscellaneous	3.9	7.6	8.0	5.4	6.9
MBS Information Systems & Compliance	21.4	17.2	19.2	15.1	15.7
Multiclass	11.2	21.2	17.5	11.0	11.2
Multifamily Program	5.8	5.1	7.7	8.0	2.2
Servicemembers Civil Relief Act	1.1	1.7	2.3	2.2	1.4
Total	**62.9**	**72.8**	**72.7**	**55.4**	**49.0**

Credit-related expenses include Ginnie Mae's provision for loss and defaulted issuer portfolio costs. Ginnie Mae completes a MBS loss liability analysis on an annual basis. Based on this analysis in FY 2012, Ginnie Mae recognized $431.6 million in total provisions for losses. This contrasts with a net recapture of $394.6 million in total provisions for losses in FY 2011, which drove a decrease in net profit in FY 2012. Ginnie Mae defaulted one Issuer during FY 2012.

MBS Issuance and Portfolio Growth

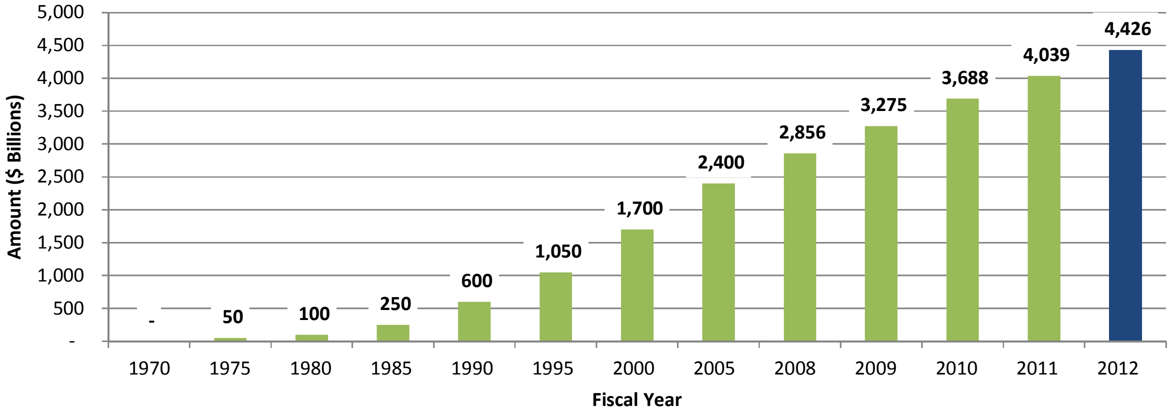
Demand for government loans remained strong, and Ginnie Mae MBS issuance increased by 10.7 percent to $388.0 billion in FY 2012, as shown in Figure 10.

Figure 10 – Ginnie Mae Mortgage-Backed Securities Issuance FYs 2008 to 2012



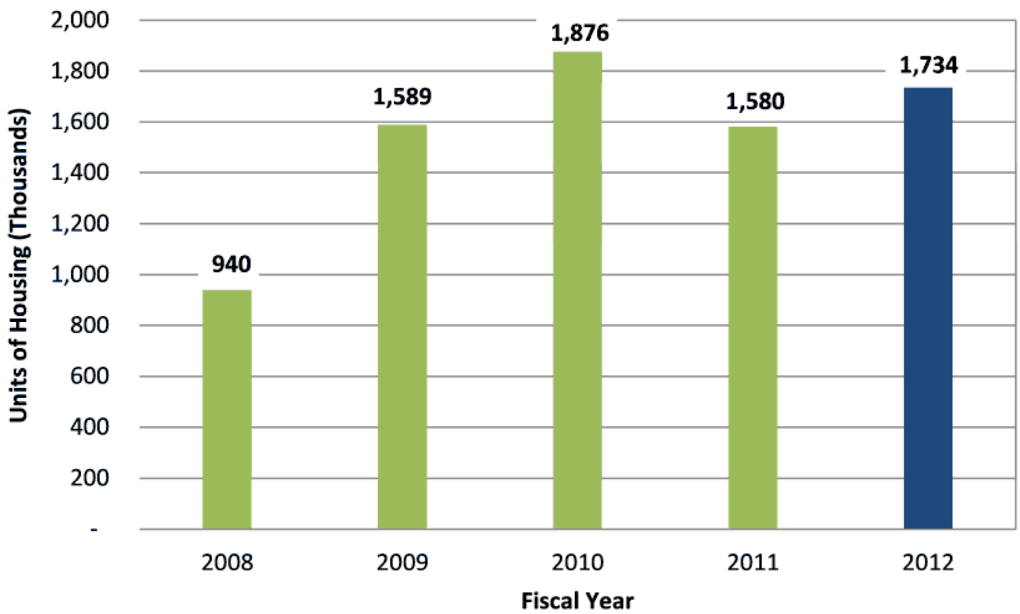
The current outstanding MBS amount stands at $1,341.4 billion, which is a $119.7 billion increase over the amount at the end of FY 2011. The effect of the increase of the portfolio also has changed its character, as evidenced in the average age of the loans. Approximately 16.7 percent of the $4.4 trillion in MBS guaranteed by Ginnie Mae since its inception has been issued in the last two years (see Figure 11).

Figure 11 – Cumulative Amount of Ginnie Mae Mortgage-Backed Securities Issued FYs 1970 to 2012



As shown in Figure 12, Ginnie Mae supported approximately 1.7 million units of housing for individuals and families in FY 2012, a 9.7 percent increase from FY 2011.

Figure 12 – Ginnie Mae-Supported Units of Housing FYs 2008 to 2012

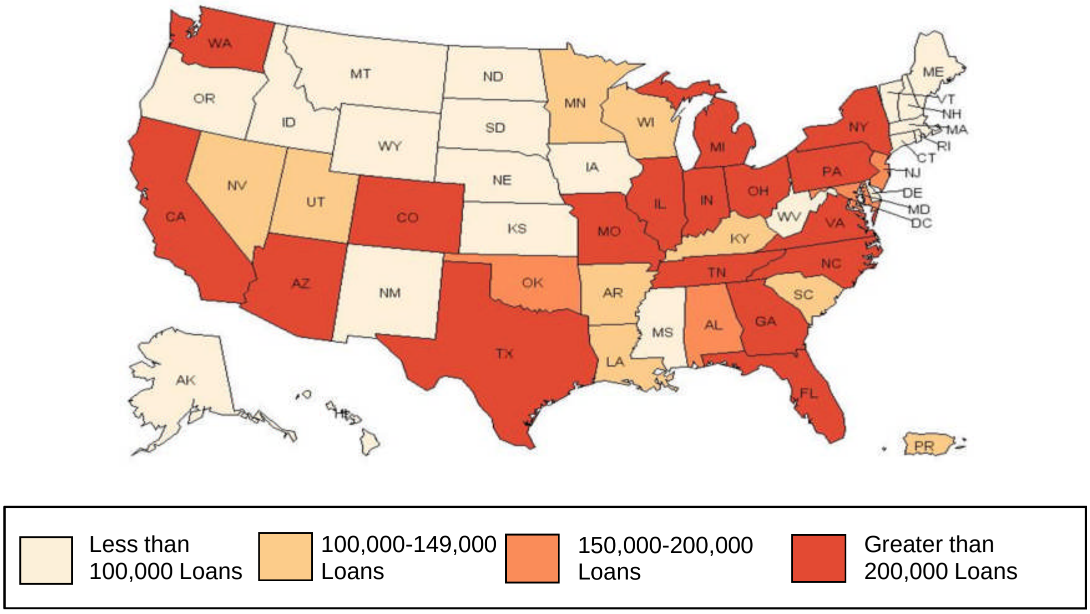


Single Family Program

The vast majority of the mortgages in Ginnie Mae securities are insured by FHA and VA loans. FHA-insured mortgages accounted for 62.8 percent of loans in Ginnie Mae pools, while VA-guaranteed loans accounted for 32.0 percent in FY 2012; Rural Development and PIH loans made up the remainder. Although other agencies and private issuers can pool FHA-insured loans for their own MBS, almost all of these loans make their way into Ginnie Mae securities. In FY 2012, 100.0 percent of FHA fixed loans and 98.4 percent of VA fixed-rate loans were placed into Ginnie Mae pools. In FY 2012, 20.0 percent of single family Ginnie Mae pools received TLI credit.

Although loans underlying its securities may be concentrated in specific areas, Ginnie Mae has provided homeownership opportunities in every U.S. state and territory. Figure 13 highlights the geographic distribution of single family properties securing Ginnie Mae securities as of September 30, 2012.

Figure 13 – Geographic Distribution of Single Family Properties Securing Ginnie Mae Securities as of September 30, 2012



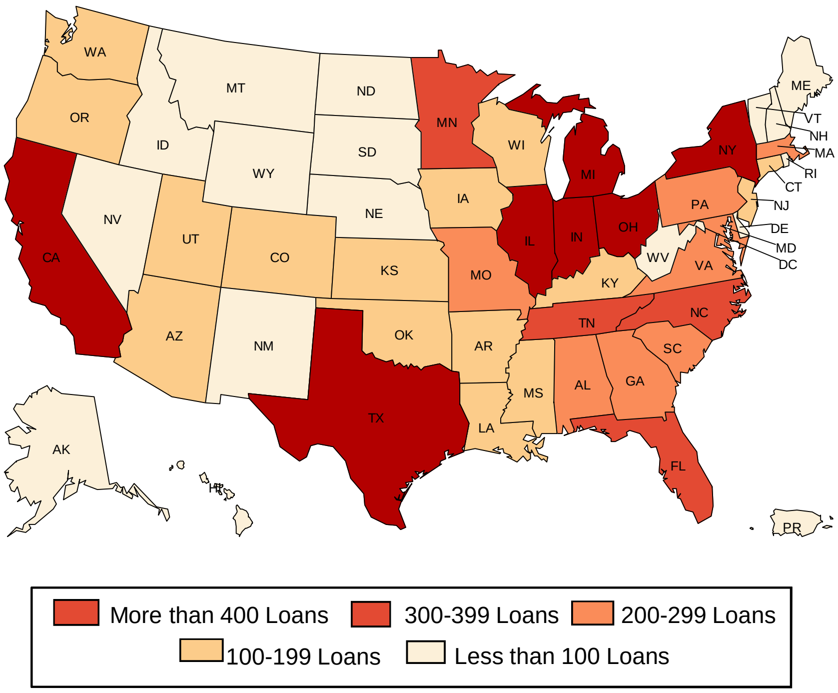
State	Loans	Percent of Total Loans	RPB (millions)
Texas	884,717	10.68%	$103,032
California	636,439	7.68%	$147,509
Florida	460,127	5.56%	$62,009
Georgia	359,604	4.34%	$47,110
Ohio	329,023	3.97%	$37,635
North Carolina	309,657	3.74%	$41,439
Virginia	298,617	3.61%	$62,287
Pennsylvania	279,472	3.37%	$38,993
Illinois	260,173	3.14%	$36,662
New York	247,305	2.99%	$43,174
TOP 10 STATES	**4,065,134**	**49.08%**	**$619,850**

Multifamily Program

At the end of FY 2012, Ginnie Mae guaranteed securities that contained 99.2 percent of eligible multifamily FHA loans. The Multifamily Program portfolio increased by $9.4 billion, from $58.0 billion at the end of FY 2011 to $67.4 billion at the end of FY 2012, marking the 18th year of consecutive growth.

Figure 14 shows the geographic distribution of multifamily properties securing Ginnie Mae securities as of September 30, 2012. Since 1971, Ginnie Mae has guaranteed $165.2 billion in multifamily MBS, helping to finance affordable and community-stabilizing multifamily housing developments across the Nation.

Figure 14 – Geographic Distribution of Multifamily Properties Securing Ginnie Mae Securities as of September 30, 2012



State	Loans	Percent of Total Loans	RPB (millions)
Ohio	807	7.60%	$3,047
Texas	736	6.93%	$5,824
California	683	6.43%	$4,507
Illinois	548	5.16%	$4,104
Indiana	530	4.99%	$2,411
New York	469	4.42%	$4,793
Michigan	421	3.96%	$2,186
North Carolina	375	3.53%	$2,035
Florida	330	3.11%	$2,685
Minnesota	326	3.07%	$2,094
TOP 10 STATES	5,225	49.20%	$33,686

In addition, Ginnie Mae's portfolio of Multifamily Rural Development loans grew in FY 2012 to an outstanding principal balance of $498.2 million at fiscal year-end. These loans are guaranteed through the USDA's RD. The number of Multifamily Rural Development programs became more diverse in FY 2012 than in previous years, as new issuers entered the program. There were Rural Development loans from eight issuers in 44 states in Ginnie Mae pools by the end of FY 2012.

HMBS Program

Significant efforts have been made to help meet the growing needs and demands in the market for reverse mortgages. With continued investor interest in HECM-backed securities, Ginnie Mae bolstered its HMBS program by improving its reporting, disclosure, and quality assurance reviews of the relevant issuers. The unpaid principal balance of HMBS climbed to $36.9 billion in FY 2012, and the number of participations (the funded portions of HECM loans that have been securitized) increased to 2,018,984. Demand in the structured market for HMBS remains strong; 25 H-REMIC transactions were issued in FY 2012, up from 20 in FY 2011. The structure and support that Ginnie Mae has brought to this market has increased its liquidity, which translates into better execution on the securities and, ultimately, lower costs for the growing population of senior citizens.

MH Program

Three issuers are currently approved to issue manufactured housing securities under Ginnie Mae's MH program since its relaunch in June 2010. The MH program's remaining principal balance was $276.6 million by the end of FY 2012, up from $275.9 million at the end of the FY 2011.

Financial Models

Ginnie Mae's portfolio and financial analysis methodology allows Ginnie Mae to evaluate its financial condition in terms of cash flow, capital adequacy, and budget projections. The methodology applies an array of economic and financial scenarios modified by policy or programmatic decisions. It then incorporates Ginnie Mae's inherent operating risks with modeling that employs economic, financial, and policy variables to assess risks and overall performance.

During FY 2012, Ginnie Mae continued initiatives to improve its modeling capabilities. These initiatives included an in-house estimation of default and prepayment rates that were specific to mortgages insured by the VA. These estimates were obtained by computing empirical default and voluntary prepayment rates for FHA and VA mortgages and by utilizing a broader range of data elements in the estimation process than had been used in previous years. In addition, Ginnie Mae began estimating empirical default and voluntary prepayment rates for mortgages pooled specifically by defaulted Issuers, where obtaining these estimates was facilitated by utilizing new sources of data.

Additionally, Ginnie Mae expanded its use of rigorous econometric analysis to refine projections of future Issuer default frequencies within the methodology. As part of this analysis, Ginnie Mae will review the efficacy of using nonlinear regressions, such as logistic regressions, to estimate the probability of Issuer financial distress. In order to pursue the econometric analysis, Ginnie Mae has increased the number and variety of data products to which it has access, through both acquisition and data license subscription. In support of this year's analytical and research initiatives, Ginnie Mae plans a series of significant enhancements of its computer hardware, software, and data infrastructure during FY 2013. These enhancements include investment in new computer servers that are designed to support high-performance computing, as well as acquisition of licenses for high-end statistical and analytical software.

Liquidity and Capital Adequacy

Ginnie Mae’s primary sources of cash are MBS and multiclass guaranty fee income, and commitment fee income. After accounting for expenses and other factors, on September 30, 2012, Ginnie Mae reported approximately $7.1 billion in funds with the U.S. Treasury, compared to $7.2 billion on September 30, 2011.

In addition to the funds with the U.S. Treasury, Ginnie Mae’s investment in U.S. Government securities was $2.1 billion as of September 30, 2012, substantially unchanged since September 30, 2011. As the servicer, Ginnie Mae assesses loans to determine whether the loan should be purchased out of the pool. Ginnie Mae will purchase mortgage loans out of the pool when: mortgage loans are uninsured by the FHA, USDA, VA or PIH; mortgage loans were previously insured but insurance is currently denied (collectively with (a.), referred to as uninsured mortgage loans); and, mortgage loans that are insured but are delinquent for more than 90 and 120 days based on management discretion for manufactured housing and single family loans, respectively. In total, Ginnie Mae bought out $705.0 million in loans, primarily for the single family defaulted portfolio. These acquired mortgage loans are subsequently categorized as mortgages held for investment.

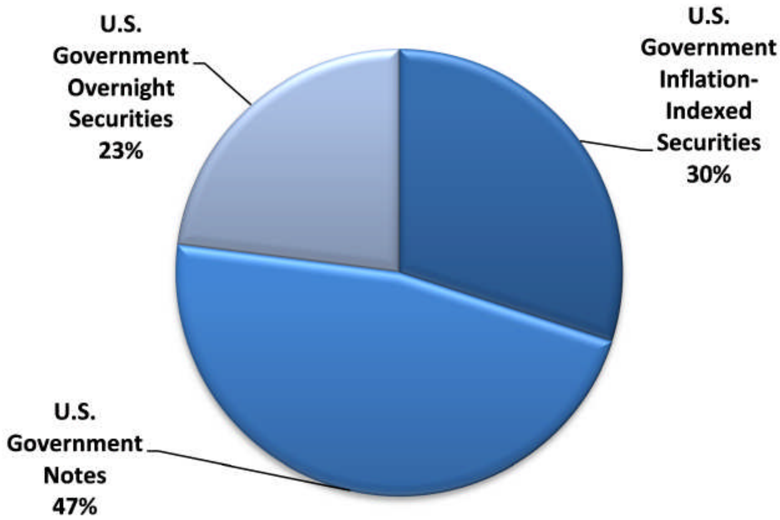
Table 3 shows the fair value composition and maturity of Ginnie Mae’s U.S. Government securities as of September 30, 2012 and 2011.

Table 3 – Composition of U.S. Government Securities as of September 30, 2011 and 2012 (Percentage of Total)

Maturity	2012	2011
Due within 1 year	23%	0%
Due in 1-5 years	77%	100%
Due in 5-10 years	0%	0%

Figure 15 illustrates the components of Ginnie Mae's Investments in U.S. Government securities as of September 30, 2012.

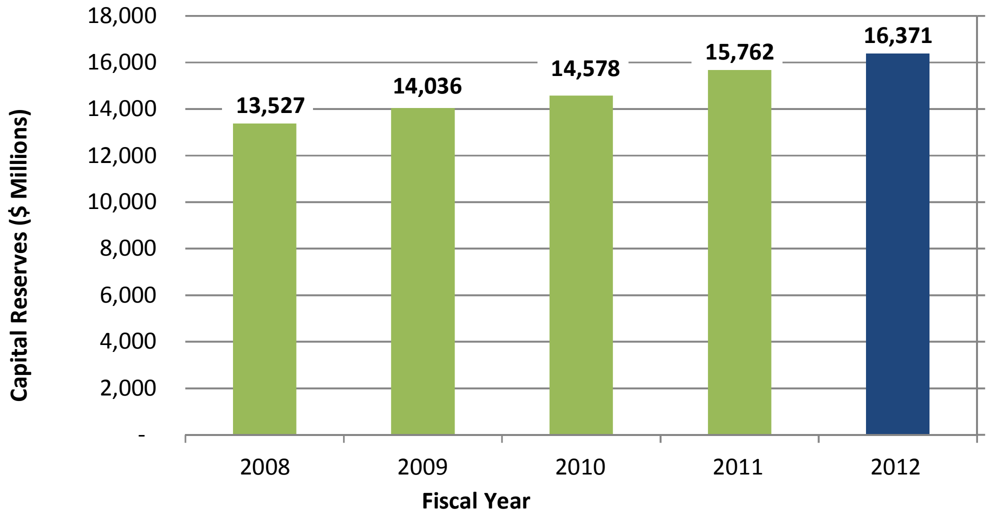
Figure 15 – Components of Investment in U.S. Government Securities as of September 30, 2012



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

As of September 30, 2012, the investment of the U.S. Government (GAAP-based retained earnings) was $16.4 billion, compared with $15.8 billion as of September 30, 2011. Figure 16 shows Ginnie Mae's capital reserves as of September 30, 2012, for each of the past five years.

Figure 16 – Capital Reserves
FYs 2008 to 2012



Risk Management and Systems of Internal Controls

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

Ginnie Mae management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Manager's Financial Integrity Act (FMFIA). Ginnie Mae can provide reasonable assurance that its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations meet FMFIA objectives.

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

SECTION V—AUDIT REPORT OF GINNIE MAE'S FY 2012 AND FY 2011 FINANCIAL STATEMENTS

OFFICE OF AUDIT
FINANCIAL AUDITS DIVISION
WASHINGTON, DC

Government National Mortgage Association
Fiscal Years 2012 and 2011
Financial Statements Audit

2013-FO-0001 NOVEMBER 7, 2012

Issue Date: November 7, 2012

Audit Report Number: 2013-FO-0001

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

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

SUBJECT: Audit of the Government National Mortgage Association's (Ginnie Mae) Financial Statements for Fiscal Years 2012 and 2011

In accordance with the Government Corporation Control Act as amended (31 U.S.C. 9105), the Office of Inspector General engaged the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the fiscal years 2012 and 2011 financial statements of the Government National Mortgage Association (Ginnie Mae). The contract required that the audit be performed according to Generally Accepted Government Auditing Standards (U.S. GAGAS). Ginnie Mae's fiscal year 2011 financial statements were audited by Clifton Gunderson[1]; whose report dated November 7, 2011 expressed an unqualified opinion on those financial statements.

In connection with the contract, we reviewed CLA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. GAGAS, was neither intended to enable us to express an opinion nor do we express an opinion on GNMA's financial statements, internal controls or conclusions on compliance with laws and regulations. CLA is responsible for the attached auditor's report dated November 7, 2012 and the conclusions expressed in the report. Our review disclosed no instances where CLA did not comply, in all material respects, with U.S. GAGAS.

This report includes both the Independent Auditors' Report and Ginnie Mae's principal financial statements. Under Federal Accounting Standards Advisory Board (FASAB) standards, a general-purpose federal financial report should include as required supplementary information (RSI) a section devoted to Management's Discussion and Analysis (MD&A) of the financial statements and related information. The MD&A is not included with this report. Ginnie Mae plans to separately publish a Report to Congress for fiscal year 2012 that conforms to FASAB standards.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision,

[1] In early 2012, Clifton Gunderson LLP merged with another firm and became CliftonLarsonAllen LLP.

please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

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

Within 60 days of this report, CLA expects to issue a separate letter to management dated November 7, 2012 regarding other matters that came to its attention during the audit.

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

TABLE OF CONTENTS

OIG Transmittal Memorandum…………………………………………………………...1

Independent Auditor's Report…………………………………………………………….4

Appendix A: Management's Response……………………………………………..9

Appendix B: Status of Prior Year Recommendations………………………………..10

Financial Statements……………………………………………………………………..11

Balance Sheets………………………………………………………………......12

Statement of Revenues and Expenses and Changes in Investment of U.S. Government……………………………………………………………......13

Statement of Cash Flows……………………………………………………......14

Notes to the Financial Statements……………………………………………………….15

CliftonLarsonAllen LLP

www.cliftonlarsonallen.com

INDEPENDENT AUDITOR'S REPORT

Inspector General
United States Department of Housing and Urban Development

President
Government National Mortgage Association

We have audited the accompanying balance sheets of the Government National Mortgage Association (Ginnie Mae), a wholly-owned government corporation within the United States Department of Housing and Urban Development (HUD), as of September 30, 2012 and 2011, and the related statements of revenues and expenses and changes in investment of U.S. Government, and cash flows ("financial statements") for the years then ended. The objective of our audit was to express an opinion on the fairness of these financial statements. In connection with our audit, we also considered the internal control over financial reporting and considered Ginnie Mae's compliance with laws and regulations. In our audit, we found:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S.);
- No material weaknesses in internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations; and
- No instances of reportable noncompliance with selected provisions of laws and regulations tested or other matters.

The following sections and Exhibits discuss in more detail: (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis (MD&A), and other accompanying information, (3) our responsibility for the audit, (4) management's responsibility for the financial statements, (5) Ginnie Mae's response, and (6) the current status of prior year findings and recommendations.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ginnie Mae as of September 30, 2012 and 2011, and the results of its operations; changes in investment of U.S. Government; and its cash flows for the years then ended in conformity with accounting principles generally accepted in the U.S.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

As discussed in Note H regarding the MBS Loss Liability, Ginnie Mae has not completed the final certification and recertification of approximately 20,000 loans following the default of a major issuer in August 2009 and which were required to be recertified within one year based on Ginnie Mae guidelines. Ginnie Mae has implemented a corrective action plan to complete the final certification, which is ongoing. In FY2012, a separate task group, under the direction of the HUD Office of General Counsel, has identified a group of loans that could suggest a high risk of loss to Ginnie Mae. Ginnie Mae has adjusted its MBS Loss Liability and Allowance for Loss against Mortgages Held for Investment for the additional potential risk of loss from these loans.

As discussed in Note K, Commitments and Contingencies, Ginnie Mae defaulted an issuer with a portfolio of $42 billion of Ginnie Mae-insured Mortgage Backed Securities following the issuer's bankruptcy in 2012. Ginnie Mae has elected to not cancel the servicer's rights to service the insured portfolio, pending the successful sale of the portfolio to a third party. As of the date of this report, a buyer had been selected but the sale had not been approved by the bankruptcy court nor has the sale closed. In the event the sale is not completed, Ginnie Mae has executed an agreement with the defaulted issuer to continue to service the underlying mortgages and securities on behalf of Ginnie Mae. Ginnie Mae believes the likelihood of the sale not being consummated is remote, and accordingly, has made no adjustment to the accompanying financial statements to reflect any effect on their financial position that might be incurred if a sale of the portfolio is unsuccessful.

Report on Internal Control

In planning and performing our audit, we considered Ginnie Mae's internal control over financial reporting and compliance (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ginnie Mae's internal control. Accordingly, we do not express an opinion on the effectiveness of Ginnie Mae's internal control.

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

We noted certain matters that we reported to Ginnie Mae management in a separate letter dated October 31, 2012.

Report on Compliance

In connection with our audit, we performed tests of Ginnie Mae's compliance with certain provisions of laws and regulations. The results of our tests disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin No. 07-04 *Audit Requirements for Federal Financial Statements,* as amended (OMB Bulletin 07-04).

However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

Status of Prior Year's Control Deficiencies

We have reviewed the status of Ginnie Mae's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditor's Report, dated November 2, 2011. The status of the prior year findings and recommendations is presented in Exhibit A.

Other Information

Accounting principles generally accepted in the U.S. require that Ginnie Mae's Management Discussion and Analysis (MD&A) found in Section IV be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the OMB. We have applied certain limited procedures to the MD&A in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The information in Sections I through IV (pages 2-35) is presented for purposes of additional analyses and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Management's Responsibility for the Financial Statements

Ginnie Mae management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the U.S., (2) designing, implementing, and

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

maintaining internal control to provide reasonable assurance that the broad control objectives of the Federal Manager's Financial Integrity Act (FMFIA) are met, (3) ensuring that Ginnie Mae's financial management systems substantially comply with Federal requirements, and (4) complying with other applicable laws and regulations.

Auditor's Responsibility

We are responsible for conducting our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the U.S. We are also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB Bulletin 07-04 requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Annual Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the appropriateness of the accounting policies used and the reasonableness of significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding of Ginnie Mae and its operations, including its internal control related to financial reporting (including safeguarding of assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority); (5) evaluated the effectiveness of the design of internal control; (6) tested the operating effectiveness of relevant internal controls over financial reporting and compliance; (7) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA; and (8) tested compliance with selected provisions of certain laws and regulations. The procedures selected depend on the auditors' judgment, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. We believe we obtained sufficient and appropriate audit evidence on which to base our conclusions.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to Ginnie Mae. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 07-04 that we deemed applicable to Ginnie Mae's financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Agency Comments and our Evaluation

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

This report is intended solely for the information and use of Ginnie Mae's management, the HUD Office of Inspector General, OMB, the U.S. 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.

CliftonLarsonAllen LLP

Arlington, Virginia
October 31, 2012

Ginnie Mae
Management's Response
Appendix A

Ginnie Mae
OFFICE OF THE PRESIDENT

November 6, 2012

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

Dear Mr. Von Elm:

Thank you for the opportunity to review and comment on CliftonLarsonAllen's (CLA) draft Independent Auditor's Report on Ginnie Mae's financial statement for Fiscal Year (FY) 2012.

We appreciate CLA's acknowledgement that: i) Ginnie Mae's financial statements, in all material respects, the financial position of Ginnie Mae as of September 30, 2012 and 2011, and the results of our operations; ii) changes in investing of U.S. Government; and iii)our cash flows for the years then ended are in conformity with accounting principles generally accepted in the United States of America. Additionally, we appreciate CLA's acknowledgement that for FY 2012, the audit disclosed no material weaknesses in internal controls over financial reporting (including safeguarding of assets), and no instance of noncompliance with laws and regulations.

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

Sincerely,

Mary K. Kinney

Mary K. Kinney
Executive Vice President

Ginnie Mae
Status of Prior Year Recommendations
Appendix B

Our assessment of the current status of the recommendations related to significant deficiencies identified in the prior year audit is presented below:

Prior Year Finding	Prior Year Recommendations	Current Year Status
1. Need to Improve Compliance Control to Ensure the Safety, Completeness and Validity of Collateral Loan Files	1a. We recommended that Ginnie Mae's Acting Vice President for MBS hold the master sub-servicer accountable for delays by requiring an acceptable written timeline for final review/certification of the loan documentation/pools	1a. Partially resolved - management letter comment
2. Strengthen Internal Control over Risk-Based Issuer and Document Custodian Reviews to Improve the Effectiveness of Counterparty Monitoring and Oversight	2a. Ginnie Mae's Acting Vice President for MBS should increase its oversight and monitoring of field reviews performed on issuers and document custodians to ensure the reviews meet management's objectives and are adequately and completely performed and properly documented. 2b. Ginnie Mae Executive Vice President should allocate resource within MBS and Risk Management Division to accelerate the update to the Issuer and Document Custodian Risk Based Review Procedures Manual within the second fiscal quarter of 2012 if possible, so that the new updated reviews are performed in second half of 2012 to eliminate this deficiency.	2a. Resolved 2b. Resolved

GINNIE MAE
FISCAL YEAR 2012
FINANCIAL
STATEMENTS

Ginnie Mae Fiscal Year 2012 Financial Statements

Balance Sheets				
As of September 30		**2012**		**2011**
(Dollars in thousands)				
Assets:				
Funds with U.S. Treasury	$	7,075,500	$	7,210,300
U.S. Government securities		2,113,600		2,126,800
Accrued interest on U.S. Government securities		10,300		11,800
Accrued fees and other receivables, net		66,300		62,500
Fixed assets--software, net of accumulated amortization		40,100		31,100
Mortgage loans held for investment		6,866,500		6,350,300
Less: Allowance for mortgage loans held for investment		(177,400)		
Mortgage loans held for investment, net		6,689,100		6,350,300
Accrued interest on mortgage loans held for investment		88,600		83,400
Advances against defaulted mortgage-backed security pools		1,092,800		873,700
Less: Allowance for uncollectible advances		(174,000)		(220,500)
Advances against defaulted mortgage-backed security pools, net		918,800		653,200
Short sale claims receivables		36,800		38,600
Less: Allowance for uncollectible short sale claims receivables		(15,700)		(6,300)
Short sale claims receivables, net		21,100		32,300
Properties held for sale		15,500		7,400
Less: Allowance for losses on properties held for sale		(3,900)		(4,000)
Properties held for sale, net		11,600		3,400
Mortgage servicing rights		60,700		110,900
Guaranty asset		6,633,900		2,175,100
Total Assets	$	23,729,600	$	18,851,100
Liabilities and Investment of U.S. Government:				
Liabilities:				
Liability for loss on mortgage-backed securities program guaranty		357,400		395,800
Deferred revenue		134,400		117,400
Deferred liabilities and deposits		(2,700)		35,700
Accounts payable and accrued liabilities		235,200		365,300
Guaranty liability		6,633,900		2,175,100
Total Liabilities	$	7,358,200	$	3,089,300
Commitments and Contingencies				
Investment of U.S. Government		16,371,400		15,761,800
Total Liabilities and Investment of U.S. Government	$	23,729,600	$	18,851,100

See the accompanying notes to the financial statements.

Statements of Revenues and Expenses and Changes in Investment of U.S. Government				
For the Years Ended September 30		**2012**		**2011**
(Dollars in thousands)				
Revenues:				
Mortgage-backed securities guaranty fees	$	779,400	$	686,200
Interest income - mortgage loans held for investment		279,800		42,300
Interest income - US Government securities		81,500		208,100
Commitment fees		79,100		74,000
Multiclass fees		25,000		52,500
Other mortgage-backed securities program income		1,800		1,500
Total Revenues	$	1,246,600	$	1,064,600
Expenses:				
Mortgage-backed securities program expenses		(62,900)		(72,800)
Administrative expenses		(14,100)		(11,000)
Fixed asset amortization		(9,000)		(9,900)
Total Expenses	$	(86,000)	$	(93,700)
Recapture (Provision) for loss on properties held for sale		(9,200)		2,900
Recapture (Provision) for loss mortgage loans held for investment		(158,100)		-
Recapture (Provision) for loss on mortgage-backed securities liability		(264,500)		407,000
Recapture (Provision) for loss on short sale claims and other receivables		(16,900)		(6,800)
Recapture (Provision) for loss on uncollectible advances		17,100		(8,500)
Total Recapture (Provision)	$	(431,600)	$	394,600
Gain on disposition of investment		12,500		24,000
Gain on acquisition mortgage servicing rights				
Less: Loss on credit impairment of mortgage loans HFI, net		(81,700)		(178,700)
Less: Loss on mortgage servicing rights		(50,200)		(26,800)
Total Other Gains / (Losses)	$	(119,400)	$	(181,500)
Excess of Revenues over Expenses		609,600		1,184,000
Investment of U.S. Government at Beginning of Year		15,761,800		14,577,800
Returned to U.S. Treasury		-		-
Investment of U.S. Government at End of Year	$	16,371,400	$	15,761,800

See the accompanying notes to the financial statements.

Statements of Cash Flows

For the Years Ended September 30	2012	2011
(Dollars in thousands)		
Cash Flow from Operating Activities		
Net Excess of Revenues over Expenses	**$ 609,600**	**$ 1,184,000**
Adjustments to reconcile Net Excess of Revenues Over Expenses to Net Cash from Operating Activities:		
Amortization	9,000	9,900
Decrease / increase in accrued interest on U.S. Government securities	1,500	8,600
Increase / decrease in accrued interest on mortgage loans held for investment	(5,200)	97,900
Increase / decrease in advances against defaulted MBS pools, net	(265,600)	188,900
Decrease / increase in mortgage servicing rights	50,200	26,800
Increase / decrease in deferred revenue	17,000	3,500
Decrease / increase in deferred liabilities and deposits	(38,400)	34,500
Decrease in accounts payable and accrued liabilities	(130,100)	103,600
Increase / decrease in accrued fees and other receivables	(3,800)	(7,600)
Decrease / increase in short sale claims receivables, net	11,200	(32,300)
Increase / decrease in properties held for sale, net	(8,200)	38,900
Decrease / increase in liability for loss on MBS program guaranty	(38,400)	(609,100)
Net Cash from Operating Activities	**$ 208,800**	**$ 1,047,600**
Cash Flow from Investing Activities		
Increase / decrease in mortgage loans held for investment, net	**(338,800)**	**(1,907,000)**
Sale / purchase of U.S. Government securities, net	**13,200**	**1,424,400**
Purchase / sale of software	**(18,000)**	**(5,200)**
Net Cash (used for) from Investing Activities	**$ (343,600)**	**$ (487,800)**
Cash Flow from Financing Activities		
Financing activities	-	-
Net Cash from Financing Activities	$ -	$ -
Net increase (decrease) in cash & cash equivalents	**(134,800)**	**559,800**
Cash & cash equivalents - beginning of period	**7,210,300**	**6,650,500**
Cash & cash equivalents - end of period	**$ 7,075,500**	**$ 7,210,300**

Supplemental Schedule of Non-Cash Activities

For the Years Ended September 30	2012	2011
(Dollars in thousands)		
Transfer of Advances against Defaulted MBS pools to Mortgage Loans Held for Investment	$ 705,007	$ 2,175,500
Transfer from Mortgage Loans Held for Investment to Properties Held for Sale	$ 25,500	$ 148,900

See the accompanying notes to the financial statements.

Notes to the Financial Statements

September 30, 2012 and 2011

Note A: Organization and Summary of Significant Accounting Policies
The Government National Mortgage Association (Ginnie Mae) was created in 1968, through an amendment of Title III of the National Housing Act as a government corporation within the Department of Housing and Urban Development (HUD). The Mortgage-Backed Securities (MBS) program is Ginnie Mae's primary ongoing activity. Its purpose is to increase liquidity in the secondary mortgage market and attract new sources of capital for residential mortgage loans. Through the program, Ginnie Mae guarantees the timely payment of principal and interest on securities backed by pools of mortgages issued by private institutions. This guaranty is backed by the *full faith and credit of the U.S. Government*. Ginnie Mae requires that the mortgages be insured or guaranteed by the 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.

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

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

- ***Single Family Program* –** The majority of Ginnie Mae securities are backed by single family mortgages predominantly originated through FHA and VA loan insurance programs.

- ***Multifamily Program* –** Ginnie Mae insures securities backed by FHA and USDA purchase and refinance loans for the purchase, construction, and renovation of apartment buildings, hospitals, nursing homes, and assisted living facilities.

- ***HMBS Program* –** Ginnie Mae's Home Equity Conversion Mortgage (HECM) securities program provides capital and liquidity for FHA-insured reverse mortgages. HECM loans are insured separately from regular single family mortgages due to their unique cash flow and fee structure. HECM loans can be pooled into HECM Mortgage Backed Securities (HMBS) within the Ginnie Mae II MBS program.

- ***Manufactured Housing Program*** – Ginnie Mae's Manufactured Housing program allows the issuance of pools of loans insured by FHA's Title I Manufactured Home Loan Program.

Basis of Presentation: The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

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. For purposes of the Statements of Cash Flow, Funds with U.S. Treasury are considered cash.

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

Fixed Assets: Ginnie Mae's fixed assets represent systems (software) that are used to accomplish its mission. Ginnie Mae capitalizes significant software development project costs based on guidance in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 350-40 *Intangibles—Goodwill and Other – Internal-Use Software* (ASC 350-40) Ginnie Mae capitalizes costs equal to or exceeding $100,000 and amortizes them over a three- to five-year period beginning with the project's completion on a straight-line basis.

Mortgage Loans Held for Investment (HFI): When a Ginnie Mae issuer defaults, Ginnie Mae is required to step into the role of the issuer and make the timely pass-through payments to investors, and subsequently, acquires the servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed, pooled loan portfolio of the defaulted issuer. Ginnie Mae utilizes contractors known as Master Subservicers (MSS) to perform servicing responsibilities related to defaulted issuers. There are currently two MSSs for Single Family and one MSS for Manufactured Housing defaulted issuers. These MSSs currently service 100% of all non-pooled loans.

As the servicer, Ginnie Mae assesses loans to determine whether the loan should be purchased out of the pool. Ginnie Mae will purchase mortgage loans out of the pool when:

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

Ginnie Mae assesses the collectability of mortgage loans bought out of the pools of defaulted portfolios. During FY 2012, the majority of mortgage loans were bought out due to borrower delinquency of more than 120 days. Ginnie Mae evaluates the collectability of all loans and considers a loan as credit impaired at acquisition when there is evidence of credit deterioration subsequent to the loan's origination and it is probable, at acquisition, that Ginnie Mae will be unable to collect all contractually required payments receivable. Ginnie Mae considers guarantees and insurance from FHA, USDA, VA and PIH in determining whether it is probable that Ginnie Mae will collect all amounts due according to the contractual terms.

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

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

Ginnie Mae has the ability and the intent to hold these acquired loans for the foreseeable future or until maturity according to policy; therefore, Ginnie Mae classifies the mortgage loans as held for investment (HFI). The mortgage loans HFI are reported net of allowance for loan losses. Mortgage loans HFI also includes mortgage loans that are undergoing the foreclosure process and loans which management identified to be sold as a short sale. Upon completion of the foreclosure process, when Ginnie Mae acquires the title of the underlying properties, these properties are either conveyed to the insuring agency (or are in the process of being conveyed) for claim and are reported as advances against defaulted MBS pools, or are classified as properties held for sale. Upon completion of the short sale, when the underlying property is sold, the remaining balances for claim are reported to short sales claims receivable.

Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios. The allowance for loss on mortgage loans HFI represents management's estimate of probable credit losses inherent in Ginnie Mae's mortgage loan portfolio. The allowance for loss on mortgage loans HFI is netted against the balance of mortgage loans HFI, representing the net realizable value of these loans.

Accrued Interest Mortgage Loans Held for Investment: Ginnie Mae records accrued interest on mortgage loans HFI for interest which Ginnie Mae determines that the ultimate collectability is probable. For FHA insured loans, Ginnie Mae recognizes interest income on an accrual basis at the debenture rate for the number of months allowed under the insuring agency's timeline. After the allowed timeline, Ginnie Mae considers these loans to be non-performing as the collection of interest is not reasonably assured, and places these loans on nonaccrual status. Ginnie Mae has assessed the collectability of non-FHA and uninsured loans and determined that these loans are non-performing and hence, are placed on nonaccrual status. Ginnie Mae recognizes interest income for loans on nonaccrual status when cash is received.

Advances Against Defaulted MBS Pools: Advances against defaulted MBS pools represent payments made to fulfill Ginnie Mae's guaranty of timely principal and interest payments to MBS security holders. Such advances are reported net of an allowance for uncollectible advances to the extent management believes they will not be recovered. Principal and interest receivable for foreclosed properties that have been conveyed to the insuring agency or are in the process of being conveyed to the insuring agency are reported in the advance category while Ginnie Mae is awaiting payment of the receivable. These claims are reported net of allowance. The allowance for uncollectible advances is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. Other factors considered in the estimate include market analysis and appraised value of the loans.

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

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

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

Mortgage Servicing Rights: Mortgage Servicing Rights (MSR) represent Ginnie Mae's right and obligation to service mortgage loans in mortgage backed securities obtained from defaulted issuers. Ginnie Mae contracts with multiple MSSs to provide the servicing of its mortgage loans. The servicing functions typically performed by Ginnie Mae's MSSs include: collecting and remitting loan payments, responding to borrower inquiries, accounting for principal and interest, holding custodial funds for payment of property taxes and insurance premiums, counseling delinquent mortgagors, supervising foreclosures and property dispositions, and generally administering the loans. Ginnie Mae receives a weighted average servicing fee annually on the remaining outstanding principal balances of the loans. These servicing fees are included in and collected from the monthly payments made by the borrowers. Ginnie Mae pays a servicing expense to the MSSs in consideration for servicing the loans.

Ginnie Mae records a servicing asset or liability each time it takes over a defaulted issuer's Ginnie Mae-guaranteed portfolio. The balance of the MSR represents the present value of the estimated compensation for mortgage servicing activities that exceeds the fair market cost for such servicing activities. Ginnie Mae considers its fair market cost to be the amount of compensation that would be required by a substitute MSS should one be required. Market information is used to determine the fair market cost for these services.

Ginnie Mae has elected the fair value option for the MSRs to better reflect the potential net realizable or market value that could be ultimately realized from the disposition of the MSR asset or the settlement of a future MSR liability. Upon acquisition, Ginnie Mae measures its MSRs at fair value and subsequently re-measures the assets or liabilities with changes in the fair value recorded in the Statements of Revenues and Expenses.

Fair Value: Ginnie Mae measures the fair value of its financial instruments in accordance with FASB ASC Topic 820, *Fair Value Measurement* (ASC 820) that requires an entity to base fair value on exit price and maximize the use of observable inputs and minimize the use of unobservable inputs to determine the exit price. Accounting guidance defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include securities with quoted prices that are traded less frequently than exchange-traded instruments that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

The MBS loss liability is established to the extent management believes losses due to issuer defaults are probable and estimable and servicing income and FHA, USDA, VA, and PIH insurance proceeds do not fully cover Ginnie Mae servicing and loan acquisition related costs. The MBS Loss Liability is a liability account on the Balance Sheet. Ginnie Mae recognizes the loss by recording a charge to the provision for loss on MBS program guaranty on the Statements of Revenue and Expenses. Ginnie Mae records charge-offs as a reduction to the MBS loss liability account when losses are confirmed and records recoveries as a credit to the MBS loss liability account. Accordingly, the MBS loss liability is increased by provisions recorded as an expense in the Statements of Revenues and Expenses and reduced by charge-offs, net of recoveries. Among other losses and recoveries, miscellaneous expenses related to foreclosure are not capitalized on the Balance Sheet and are charged off against the MBS loss liability and recoveries of these expenses through the claims process are shown as recoveries against the MBS loss liability.

Financial Guarantees: Ginnie Mae, as guarantor, follows the guidance in ASC Topic 460, *Guarantees* (ASC 460), for its accounting for, and disclosure of, the issuance of certain types of guarantees. ASC 460 requires that upon issuance of a guaranty, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guaranty. The issuance of a guaranty under the MBS program obligates Ginnie Mae to stand ready to perform over the term of the guaranty in the event that the specified triggering events or conditions occur.

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

Ginnie Mae provides the guaranty of principal and interest payments to MBS holders in the event of issuer default and, in exchange, receives guaranty fees from the issuers. Ginnie Mae receives guaranty fees from the issuers on the unpaid principal balance of the outstanding MBSs in the non-defaulted issuer portfolio. These fees are paid on a monthly basis over the period that the guaranty is provided. As Ginnie Mae does not receive guaranty fees at inception of the guaranty, Ginnie Mae determines the initial measurement of the guaranty liability based on the expected present value cash flows to be received for the guaranty fee. Subsequently, the guaranty liability is measured by a systematic and rational amortization method.

Additionally, as the guaranty is issued in a standalone transaction for a premium, Ginnie Mae records a guaranty asset for the guaranty fees as the offsetting entry for the guaranty liability. The guaranty asset is calculated based on the present value of the expected future cash flows from the guaranty fees based on the unpaid principal balance of the outstanding MBSs in the non-defaulted issuer portfolio. Thus, there is no impact due to the guaranty liability and asset on the net financial position of Ginnie Mae.

In FY 2012, the model for the valuation of Ginnie Mae's guaranty-fee asset and ASC 460 liability was updated to utilize FHA's actuarially reviewed prepayment and default econometric model to predict loan behavior and more accurately capture the probability that loans will remain in Ginnie Mae pools.

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 guaranty 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. Additionally, Ginnie Mae receives one-time upfront fees related to the issuance of multiclass products. These multiclass fees are recognized as revenue over the service period in proportion to the costs expected to be incurred.

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

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

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

Adoption of New Accounting Standard: Ginnie Mae adopted the new accounting standard, FASB Accounting Standards Update (ASU) 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which was effective for annual reporting periods ending on or after December 15, 2011 for information that Ginnie Mae has available. The adoption of ASU 2010-20 did not affect the financial statement results as it only amended and enhanced the disclosure requirements about the credit quality of financing receivables and the allowance for credit losses.

Note B: U.S. Government Securities

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

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

The amortized cost and fair values as of September 30, 2011, were as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	$ -	$ -	$ -	$ -
U.S. Treasury Notes	994,100	44,400	-	1,038,500
U.S. Treasury Inflation-Indexed Securities	1,132,700	56,300	-	1,189,000
Total	**$ 2,126,800**	**$ 100,700**	**$ -**	**$ 2,227,500**

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

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

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government securities at September 30, 2011, by contractual maturity date, were as follows:

(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	$ -	$ -	
Due after one year through five years	2,126,800	2,227,500	0.16%
Due after five years through ten years	-	-	
Total	**$ 2,126,800**	**$ 2,227,500**	**0.16%**

The U.S. Government securities portfolio is held in special market-based U.S. Treasury securities that are bought and sold at composite prices received from the Federal Reserve Bank of New York. These securities are maintained in book-entry form at the Bureau of Public Debt and include overnight certificates, U.S. Treasury notes, and U.S. Treasury inflation-indexed securities (reflecting inflation compensation). The coupon rates of Ginnie Mae's holdings, with a maturity of greater than one year, as of September 30, 2012, range from 1.88 percent to 2.00 percent. As of September 30, 2011, they ranged from 0.63 percent to 2.00 percent.

Although sales of investments are rare, Ginnie Mae liquidated one of its U.S. Government securities within one year of maturity. The par value of the security sold was $520.6 million and the realized gain on the sale was $12.5 million. These funds were used to repurchase mortgage loans held for investment from defaulted issuer MBS pools. See note on mortgage loans HFI regarding loan repurchases.

Note C: Mortgage Loans Held for Investment, Net

Mortgage loans HFI, net as of September 30, 2012 and 2011 were as follows:

	September 30	
(Dollars in thousands)	**2012**	**2011**
Single Family Mortgages	$ 6,866,500	$ 6,350,300
Single Family Mortgages Allowance for Loss	(177,400)	-
Single Family Mortgages HFI, net	**$ 6,689,100**	**$ 6,350,300**

	September 30	
(Dollars in thousands)	**2012**	**2011**
Manufactured Housing Mortgages	$ -	$ -
Manufactured Housing Mortgages Allowance for Loss	-	-
Manufactured Housing Mortgages HFI, net	**$ -**	**$ -**

	September 30	
(Dollars in thousands)	**2012**	**2011**
Total Mortgage Loans HFI	$ 6,866,500	$ 6,350,300
Total Mortgage Loans HFI Allowance for Loss	(177,400)	-
Total Mortgage Loans HFI, net	**$ 6,689,100**	**$ 6,350,300**

During FY 2012, Ginnie Mae purchased $705.0 million in mortgages loans out of pools, primarily in the single family defaulted portfolio and categorized these mortgage loans as HFI. Ginnie Mae utilizes the non-pooled valuation and allowance methodology to evaluate mortgage loans HFI on an individual basis. Items evaluated to determine impairment include insurance status and probable recovery amount based on experience and industry studies. As of September 30, 2012, there are no multifamily mortgage loans HFI. Manufactured housing mortgage loans HFI have a Remaining Principal Balance (RPB) of $1.0 million and have been written down to $0; as these are delinquent past 90 days and considered credit impaired, these are placed on a nonaccrual status.

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

As discussed in Note A, Ginnie Mae records accrued interest on mortgage loans HFI for interest which Ginnie Mae determines that the ultimate collectability is probable. For FHA insured loans, Ginnie Mae recognizes interest income on an accrual basis at the debenture rate for the number of months allowed under the insuring agency's timeline. After the allowed timeline, Ginnie Mae considers these loans to be non-performing as the collection of interest is not reasonably assured, and places these loans on nonaccrual status. Thus, it is important to note that FHA insured mortgage loans HFI that are greater than 90 days delinquent continue to accrue interest during the timeline for which the insurer will reimburse Ginnie Mae. Ginnie Mae has assessed the collectability of non-FHA and uninsured loans; these loans are non-performing and hence, are placed on nonaccrual status at the time of purchase. In fiscal years 2012 and 2011, Ginnie Mae recorded $279.8 and $42.3 million, respectively, in interest income on mortgage loans HFI.

Note D: Advances Against Defaulted MBS Pools, Net

The advances against defaulted MBS pools balance is $918.8 million in FY 2012 and $653.2 million in FY 2011. This account represents pass-through payments to MBS investors on pooled loans, loans in post foreclosure which have not been submitted to an insuring agency for claim, and insurance claims filed with insuring agencies but not paid. Of the total net advances of $918.8 million, $59.7 million represents pass-through payments to MBS investors on pooled loans, $852.6 million of the balance is loans in post foreclosure which have not been submitted to an insuring agency for claim, and $6.5 million represents insurance claims filed with insuring agencies but not paid. The comparative information is displayed in the table below.

	September 30			
(Dollars in thousands)	2012		2011	
Post Foreclosure/Preclaim	$	852,600	$	583,400
Advances	$	59,700	$	67,700
Insurance claims filed	$	6,500	$	2,100
Advances against defaulted MBS pools, net	**$**	**918,800**	**$**	**653,200**

Note E: Properties Held for Sale, Net

Properties held for sale represent assets that Ginnie Mae has received the title of the underlying collateral (e.g., completely foreclosed upon and repossessed) and intends to sell the collateral. Properties held for sale, net consists of the foreclosed and repossessed property received in full satisfaction of a loan, net of a valuation allowance for declines in the fair value of foreclosed properties less estimated costs to sell. The properties are appraised by independent entities on a regular basis. During FY 2012, $25.5 million of loans were repurchased out of pools and transferred from other asset categories, and categorized as properties held for sale. The properties held for sale balance is composed primarily of single family collateral.

Balances and activity for these acquired properties were as follows:

(Dollars in thousands)	September 30 2012		September 30 2011	
Balance of properties, beginning of year	$	7,400	$	49,200
Additions		25,500		148,900
Dispositions and Losses		(17,400)		(190,700)
Balance of properties, end of year	$	15,500	$	7,400
Valuation Allowance		(3,900)		(4,000)
Properties held for sale, net	**$**	**11,600**	**$**	**3,400**

Note F: Mortgage Servicing Rights
The following table presents activity for residential first mortgage MSRs:

(Dollars in thousands)	September 30 2012	
Balance, October 1, 2011	$	110,900
Additions		-
Changes in Fair Value		(50,200)
Balance, September 30, 2012	**$**	**60,700**

(Dollars in thousands)	September 30 2011	
Balance, October 1, 2010	$	137,700
Additions		-
Changes in Fair Value		(26,800)
Balance, September 30, 2011	**$**	**110,900**

Ginnie Mae uses a valuation model that calculates the present value of estimated future net servicing income to determine the fair value of MSRs, which factors in prepayment risk. This approach consists of projecting servicing cash flows under multiple interest rate scenarios and discounting these cash flows using risk-adjusted discount rates. The decrease in MSR value is directly attributed to changes in fair value during the fiscal year.

The key economic assumptions used in valuations of MSRs include weighted-average lives and prepayment rates of the MSRs. The discount rate is used to discount expected cash flows in order to derive the fair value of the MSRs. The discount rate assumptions reflect the market's required rate of return adjusted for the relative risk of the asset type. Discount rates assumptions are derived from a range of observed discount rate assumptions in the industry to which a risk premium is added in order to account for current credit conditions. These variables can, and generally do, change from period to period as market conditions and projected interest rates change, and could have an adverse impact on the value of the MSRs and could result in a corresponding reduction in servicing income.

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

(Dollars in thousands)	September 30 2012		September 30 2011	
Valuation at period end:				
Fair value (thousands)	$	60,700	$	110,900
Weighted- average life (years)		2.43		3.97
Prepayment rates assumptions:				
Rate assumption		32.89%		20.62%
Impact on fair value of a 10% adverse change		(4,420)		(6,245)
Impact on fair value of a 20% adverse change		(8,339)		(11,875)
Discount rate assumptions:				
Rate assumption		12.52%		12.50%
Impact on fair value of a 10% adverse change		(1,398)		(3,740)
Impact on fair value of a 20% adverse change		(2,735)		(7,251)

These sensitivities are hypothetical and should be considered with caution. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., increased market interest rates may result in lower prepayments and increased credit losses) that could magnify or counteract the sensitivities. Further, these sensitivities show only the change in the asset balances and do not show any expected change in the fair value of the instruments used to manage the interest rates and prepayment risks associated with these assets. The primary risk of Ginnie Mae's MSRs is interest rate risk and the resulting impact on prepayments. A significant decline in interest rates could lead to higher than expected prepayments that could reduce the value of the MSRs.

Ginnie Mae collected $57.0 million and $73.0 million in mortgage servicing fees for the years ended September 30, 2012 and 2011, respectively. This amount is recorded as a recovery in the MBS loss liability.

Note G: Fair Value Measurements

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

<u>Recurring Changes in Fair Value</u>

The following table presents for each of these fair value measurement hierarchy levels, Ginnie Mae's assets that are measured at fair value on a recurring basis subsequent to initial recognition, including financial instruments for which Ginnie Mae has elected the fair value option:

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

(Dollars in thousands)	September 30, 2011 Level 1	Level 2	Level 3	Total
Assets				
Mortgage Servicing Rights	-	-	110,900	110,900
Total Assets at Fair Value	$ -	$ -	$ 110,900	$ 110,900

Total assets measured at fair value on a recurring basis and classified as Level 3 were $60.7 million or less than 1% of Total Assets, and $110.9 million or less than 1% of Total Assets, on the Balance Sheets as of September 30, 2012 and 2011, respectively.

The following table presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2012 and 2011:

(Dollars in thousands)	MSRs
Assets:	
October 1, 2011	$ 110,900
Net realized losses included in Excess of Revenue over Expenses (1)	(50,200)
September 30, 2012	**$ 60,700**
Unrealized gains(losses) still held	-
Assets:	
October 1, 2010	$ 137,700
Net realized losses included in Excess of Revenue over Expenses (1)	(26,800)
September 30, 2011	**$ 110,900**
Unrealized gains(losses) still held	-

(1) Net realized/ unrealized gains (losses) included in Excess of Revenue over Expenses represent the periodic fair value changes of the MSR

The table below summarizes gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in excess of revenue over expenses for the fiscal year ended 2012 and 2011 for Level 3 assets:

	Total Gains and Losses on MSR	
(Dollars in thousands)	**2012**	**2011**
Classification of gains and losses (realized/unrealized) included in Excess of Revenue over Expenses for the period:		
Loss on MSR	50,200	26,800
Total	**$ 50,200**	**$ 26,800**

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis, as well as the basis for classifying these assets and liabilities as Level 1, Level 2 or Level 3. The estimated fair value was calculated using certain facts and assumptions, which vary depending on the specific financial instrument:

Mortgage Servicing Rights **–** Ginnie Mae elected the fair value option for its MSRs and they are recorded on the Balance Sheets at fair value on a recurring basis. Ginnie Mae measures the fair value of MSRs based on the present value of expected cash flows of the underlying mortgage assets using management's best estimates of certain key assumptions, which include prepayment speeds, forward yield curves, adequate compensation, and discount rates commensurate with the risks involved. Changes in anticipated prepayment speeds, in particular, result in fluctuations in the estimated fair values of the servicing rights. If actual prepayment experience differs from the anticipated rates used in the model, this may result in a material change in the fair value. MSRs are classified within Level 3 of the valuation hierarchy because significant inputs are unobservable.

Nonrecurring Changes in Fair Value

The following tables display assets measured on the Balance Sheets at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when Ginnie Mae evaluates for impairment), and the gains or losses recognized for these assets and liabilities for the years ended September 30, 2012 and 2011, as a result of fair value measurements:

(Dollars in thousands)	September 30, 2012 Level 1	Level 2	Level 3	Total Losses
Assets:				
Properties held for sale			$ 11,600	-

(Dollars in thousands)	September 30, 2011 Level 1	Level 2	Level 3	Total Losses
Assets:				
Properties held for sale			$ 3,400	-

The estimated fair value was calculated using certain facts and assumptions, which vary depending on the specific financial instrument. The same valuation methodologies are used to estimate the fair value of financial instruments not carried at fair value but disclosed as part of the fair value of financial instruments:

Properties Held for Sale, net – Properties held for sale, net represents foreclosed property received in full satisfaction of a loan, which Ginnie Mae intends to sell, net of a valuation allowance. Properties held for sale is initially recorded on the Balance Sheets at its fair value less its estimated cost to sell. Subsequent to initial measurement, the properties held for sale are reported at the lower of the carrying amount or fair value less estimated cost to sell. The fair value estimate is based on relevant current and historical factors available at the time of valuation. Acquired property is classified within Level 3 of the valuation hierarchy because significant inputs are unobservable.

Fair Value of Financial Instruments

The following table displays the carrying value and estimated fair value of Ginnie Mae's financial instruments as of September 30, 2012 and 2011. The fair value of financial instruments disclosed in the table includes commitments to guaranty MBS, which are off-balance sheet financial instruments as described in Note I. The fair values of these commitments are presented as "unrecognized MBS commitment."

(Dollars in thousands)	September 30, 2012 Carrying Value		September 30, 2012 Fair Value		September 30, 2011 Carrying Value		September 30, 2011 Fair Value	
Financial Assets:								
Funds with U.S. Treasury	$	7,075,500	$	7,075,500	$	7,210,300	$	7,210,300
U.S. Government securities	$	2,113,600	$	2,183,800	$	2,126,800	$	2,227,500
Mortgages held for investment, net	$	6,689,100	$	6,689,100	$	6,350,300	$	6,350,300
Advances against defaulted MBS Pools, net	$	918,800	$	918,800	$	653,200	$	653,200
Short sales claims receivable, net	$	21,100	$	21,100	$	32,300	$	32,300
Properties held for sale, net	$	11,600	$	11,600	$	3,400	$	3,400
Mortgage servicing rights	$	60,700	$	60,700	$	110,900	$	110,900
Guaranty asset	$	6,633,900	$	6,633,900	$	2,175,100	$	2,175,100
Financial Liabilities:								
Guaranty liability	$	6,633,900	$	6,633,900	$	2,175,100	$	2,175,100
Unrecognized financial instruments:								
Unrecognized MBS commitments	$	601,700	$	601,700	$	213,900	$	213,900

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

The valuation techniques for the line items disclosed in the above table, including funds with U.S. Treasury, advances against defaulted MBS pools, and short sales claims receivable have a carrying amount which approximates fair value due to the short-term nature and low credit risk inherent in them. These line items are discussed in Note A and other applicable disclosures contained in the Notes to the Financial Statements. Mortgage loans HFI are reported net of allowance for loan losses. The disclosures related to mortgage loans HFI are discussed in Notes A and C. The following are valuation techniques for items not subject to the fair value hierarchy either because they are not measured at fair value other than for the purpose of the above table or because they are only measured at fair value at inception:

U.S. Government Securities – Ginnie Mae recognizes the fair value as the carrying value for the line items in the table except for U.S. Government Securities which is based on Treasury values as of September 30.

Guaranty Asset and Liability – Ginnie Mae uses the practical expedient to determine the guaranty asset and liability based on the present value of the expected future cash flows from the guaranty fees based on the unpaid principal balance of the outstanding MBSs in the non-defaulted issuer portfolio which results from new issuances of MBSs, scheduled run-offs of

MBSs, prepayments and defaults. Subsequently, the guaranty asset and liability is measured by a systematic and rational amortization method.

In FY 2012, the model was updated to rely heavily on FHA's actuarially reviewed prepayment and default econometric model to predict loan behavior and more accurately captures the probability that loans will remain in Ginnie Mae pools.

Unrecognized MBS Commitment – During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the securities are issued or the commitment period expires. Ginnie Mae's risk related to outstanding commitments is much less than for the outstanding balance of MBS commitments. Outstanding MBS commitments as of September 30, 2012 and September 30, 2011 were $115.7 billion and $102.6 billion, respectively. If the outstanding MBS commitments were utilized in FY 2012, Ginnie Mae's corresponding guaranty liability, its obligation to stand ready to perform on these securities, would be approximately $601.7 million as of September 30, 2012 and $213.9 million as of September 30, 2011. These are shown as unrecognized MBS commitments.

Note H: Allowances for Losses and MBS Loss Liability

Ginnie Mae establishes allowances for losses and a MBS loss liability on an annual basis. The main components of the total estimated credit losses are discussed below.

Ginnie Mae records actual losses on its financing receivables, which may be for all or part of a particular advance, mortgage loan, properties held for sale or claims receivable as a charge/deduction (debit) against the allowance. The related asset balance is charged off (credited) in the period in which the principal and/or interest portion are deemed uncollectible. Ginnie Mae deems the loans to be uncollectible and records a charge-off when Ginnie Mae has ceased all collection efforts of receiving payment or collateral for the outstanding debt.

<u>Allowance for Uncollectible Advances</u>

Under its MBS guaranty, Ginnie Mae makes payments (advances) to fulfill its guaranty of timely principal and interest payments to investors for pooled mortgage loans when an issuer defaults. Ginnie Mae establishes an allowance for uncollectible advances and records a corresponding provision for loss from uncollectible advances to reflect the estimates of losses when Ginnie Mae deems a portion of the advances recorded are uncollectible. Principal and interest receivable for foreclosed properties that have been conveyed or are in the process of being conveyed to the insuring agency are also reported in Advances and reported net of allowance. The allowance for uncollectible advances is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. Other factors include market analysis and appraised value of the loans.

<u>Allowance for Loss on Mortgage Loans HFI</u>

Ginnie Mae establishes an allowance for loss on mortgage loans HFI for the estimated uncollectible portion of the principal balance of the loan. This means evaluating whether all of the contractual payments will be collected as scheduled according to the contractual terms. Additionally, Ginnie Mae incorporates the probable recovery amount from mortgage insurance (e.g., FHA, USDA, VA, or PIH) based on established insurance rates. To make this evaluation, Ginnie Mae reviews the delinquency of mortgage loans, industry benchmarks, as well as the established rates of insurance recoveries from insurers.

Allowance for Loss Short Sales Claims Receivable
As an alternative to foreclosure, borrowers may sell the property for its appraised value even if such a sale results in a short sale where the proceeds are not sufficient to pay off the mortgage. For FHA insured loans where the underlying property was sold in a short sale, the insurer typically pays Ginnie Mae the differences between the proceeds received from the sale and the total contractual amount of the mortgage loan and interest at the debenture rate. Ginnie Mae records a short sale claims receivable while it awaits repayment of this amount from the insurer. For non-FHA insured loans for which Ginnie Mae receives less than the difference as described, and allowance for short sale claim receivable is recorded for the portion of the balance estimated to be uncollectible. The allowance for short sales claims receivable is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the short sales receivable and the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible.

MBS Loss Liability
Ginnie Mae establishes a MBS loss liability through a provision charged to operations when, in management's judgment, losses associated with existing defaulted issuers or new issuer defaults are probable and estimable. In estimating losses, management utilizes a statistically-based model that evaluates numerous factors, including, but not limited to, general and regional economic conditions, mortgage characteristics, and actual and expected future default and loan loss experience. Ginnie Mae also analyzes the ability of the borrowers to pay as well as the recovery amount from mortgage insurance when estimating valuations of the mortgage-related assets and liabilities. Ginnie Mae's MBS loss liability is made up of three components:

A. Liability for currently defaulted issuers' pooled loans - loss contingency that arises from the guaranty obligation that Ginnie Mae has to the MBS holders subsequent to issuer default. Ginnie Mae is obligated to make timely principal and interest payments to investors subsequent to issuer default even if Ginnie Mae is unable to collect payments for the underlying loans from the homeowners or insuring agencies. Accordingly, Ginnie Mae records a loss liability contingency that arises from the net present value of cash outflows being in excess of cash inflows as related to the defaulted issuer pooled loans.
B. Liability for currently defaulted issuers' non-pooled loans – loss contingency related to any non-recoverable foreclosure costs that arise from the mortgage loans HFI and properties held for sale. Ginnie Mae records the net present value for the estimated non-recoverable costs that arise as part of the guaranty fulfillment for the MBS program.
C. Liability for probable issuer defaults – loss contingency that arises from the guaranty obligation that Ginnie Mae has to the MBS holders as a result of a probable issuer default. The issuers have the obligation to make timely principal and interest payments to investors, however, in the event whereby the issuer defaults, Ginnie Mae steps in and continues to make the contractual payments to investors. Ginnie Mae estimates the

amount of liability by determining the net present value of cash outflows and inflows for issuers that are determined to be probable defaults. For the issuers who are identified as probable defaults, Ginnie Mae records a contingent liability for the estimated amount of the cash flows in the loss liability.

Management also considers uncertainties related to estimates in the loss liability setting process. When losses are confirmed and realized on the defaulted issuers' portfolios, Ginnie Mae records the amounts as charged-off (debit) to the loss liability. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios which are recorded as a recovery (credit) to the loss liability. As Ginnie Mae's defaulted issuer portfolio changes, original estimates are compared with actual results over time and the loss liability's adequacy is assessed and adjusted as necessary. Typically, Ginnie Mae performs this assessment of the overall model on an annual basis.

In August 2009, Ginnie Mae defaulted a large issuer and assumed responsibility for its portfolio of 30,174 loans which is managed by a MSS. Ginnie Mae was required to certify the loans by August 2010 in accordance with its policies. However, Ginnie Mae subsequently discovered that the portfolio contained numerous documentation deficiencies.

To resolve the deficiencies, the MSS, on behalf of Ginnie Mae, engaged a third contractor specifically to remediate the documentation deficiencies during FY 2012. Ginnie Mae also worked with the U.S. Department of Housing and Urban Development (HUD) Office of General Counsel (OGC) to assess which types of document deficiencies are likely to present a high risk of loss to HUD, either through lack of insurance coverage or collateral deficiencies.

Based on the remediation process, Ginnie Mae reported approximately 20,000 loans from this issuer with a remaining principal balance of approximately $2.8 billion, had custodial documentation deficiencies preventing certification. Of these 20,000 loans, approximately 731 loans were identified by the OGC as having deficiencies that may lead to an increased risk of loss to Ginnie Mae. The remaining principal balance associated with the 731 loans is approximately $103 million. As a result of the risk related to the 731 loans, Ginnie Mae recorded an additional Provision for MBS Loss Liability and corresponding provision of approximately $7.8 million which is included in the table below. Ginnie Mae also recorded an additional Allowance for mortgage loans held for investment and corresponding provision of approximately $40.6 million.

Changes in the MBS loss liability for the years ended September 30, 2012, and 2011 were as follows:

(Dollars in thousands)	Single Family	Multifamily	Manufactured Housing	Total
MBS Loss Liability September 30, 2010	**$ 886,100**	**$ 61,300**	**$ 57,500**	**$ 1,004,900**
Provision for losses	(287,400)	(61,300)	(58,300)	(407,000)
Charge-offs	(296,200)	-	(1,300)	(297,500)
Recoveries	91,700	-	3,700	95,400
MBS Loss Liability September 30, 2011	**$ 394,200**	**$ -**	**$ 1,600**	**$ 395,800**
Provision for losses	266,500	300	(2,300)	264,500
Charge-offs	(446,200)	(200)	(1,000)	(447,400)
Recoveries	142,000	-	2,500	144,500
MBS Loss Liability September 30, 2012	**$ 356,500**	**$ 100**	**$ 800**	**$ 357,400**

Management believes that its MBS loss liability is adequate to cover probable and estimable losses on the MBS program guaranty. Ginnie Mae incurs losses when FHA, USDA, VA, and PIH insurance and guaranty proceeds do not cover losses that result from issuer defaults or in the event loans are uninsured and proceeds do not cover losses from default.
During FY 2012, Ginnie Mae defaulted one single family issuer and one multifamily issuer without extinguishment. There is no financial impact because the defaults are without extinguishment. Additionally, Ginnie Mae defaulted one single family issuer in FY 2012 which was previously accounted for and included in the MBS Loss Liability as a recognized subsequent event in the FY 2011 financial statements. Ginnie Mae believes that the MBS loss liability is adequate to cover probable and estimable guaranty related losses

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

Ginnie Mae guarantees the timely payment of principal and interest to MBS investors in the event of issuer default and, in exchange, receives guaranty fees from the issuers. The guarantees are assessed annually. The guaranty fee is calculated based on the unpaid principal balance of outstanding MBS in the non-defaulted issuer portfolio and is Ginnie Mae's compensation for taking on the risk of providing the guaranty. The MBS securities are backed by pools of insured or guaranteed FHA, USDA, VA, or PIH mortgage loans. Ginnie Mae recognizes a guaranty asset upon issuance of a guaranty and also recognizes a non-contingent guaranty liability for its obligation to stand ready to perform on these guarantees. The guaranty liability recognized on the Balance Sheets is $6,633.9 million and $2,175.1 million as of September 30, 2012 and 2011, respectively. In addition to the guaranty liability, Ginnie Mae recognizes a MBS loss liability, which is contingent liability for estimable and probable losses in relation to these guarantees (i.e., MBS Loss Liability).

For those guarantees recognized on the Balance Sheets, Ginnie Mae's maximum potential exposure under these guarantees is primarily comprised of the amount of MBS securities outstanding. On September 30, 2012, the amount of securities outstanding, which is guaranteed by Ginnie Mae, was $1.3 trillion, including $4.1 million of Ginnie Mae-guaranteed bonds. However, Ginnie Mae's potential loss is considerably less because of the financial strength of its issuers. Additionally, in the event of default, the underlying mortgages serve as primary collateral, and FHA, USDA, VA, and PIH insurance or guaranty indemnifies Ginnie Mae for most losses. The Ginnie Mae guaranteed security is a pass-through security whereby mortgage principal and interest payments, except for servicing and guaranty fees, are passed through to the security holders monthly. Mortgage prepayments are also passed through to security holders. As a result of the security's structure, Ginnie Mae bears no interest rate or liquidity risk. Ginnie Mae's exposure to credit loss is contingent on the nonperformance of Ginnie Mae issuers. Other than those issuers considered in the MBS loss liability, Ginnie Mae does not anticipate nonperformance by its other counterparties.

Ginnie Mae is also subject to credit risk for its outstanding commitments to guarantee MBS which are not reflected in its Balance Sheets in the normal course of operations. During the mortgage closing period and prior to granting its guaranty, 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 guarantee commitments is much less than for the commitment amount authorized, 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)	2012	2011
Outstanding MBS	$ 1,341.4	$ 1,221.7
Outstanding MBS Commitments	$ 115.7	$ 102.6

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

In FY 2012, Ginnie Mae issued a total of $106.7 billion in its multiclass securities program. The estimated outstanding balance of multiclass securities included in the outstanding MBS balance as of September 30, 2012, was $522.5 billion. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Note J: Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counterparties (for example, issuers and borrowers) engage in similar activities or are susceptible to similar changes in economic conditions that could affect their ability to meet contractual obligations. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers. It is important to note that many of Ginnie Mae's largest performing issuers are regulated institutions and as such are subjected to regulation and reviews by other government entities in addition to monitoring by Ginnie Mae.

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

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

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

As of September 30, 2012, Ginnie Mae's single family and manufactured housing pooled defaulted portfolio had remaining principal balances of $11.2 billion and $651 thousand, respectively**.**

Note K: Commitments and Contingencies

As of September 30, 2012, and as of this report, Ginnie Mae's Office of General Counsel has identified one pending or threatened action or unasserted claim or assessment in which Ginnie Mae's exposure is $1.0 million, individually, or in the aggregate for similar matters. Additionally, Ginnie Mae's Office of General Counsel has determined that there are no pending or threatened actions or unasserted claims or assessments in which Ginnie Mae's potential loss exceeds $3.0 million in the aggregate for cases not listed individually or as part of similar cases that could be material to the financial statements. In the opinion of Ginnie Mae's management and Office of General Counsel the likelihood of an unfavorable outcome is remote in the case. It is the opinion of Ginnie Mae that the disposition or ultimate resolution of the case will not have a material adverse effect on the financial position of Ginnie Mae. Ginnie Mae's management recognizes the uncertainties that could occur in regard to potential defaulted issuers and other indirect guarantees (i.e., large issuer portfolio default, lack of proper insurance coverage of defaulted loans, etc.).

During FY 2012, Ginnie Mae defaulted one single family issuer with a portfolio of $41.1 billion without extinguishment. The issuer was approximately 3.0% of the Ginnie Mae portfolio. The default occurred as the result of the issuer's bankruptcy. Ginnie Mae expects the bankruptcy sale and transfer of portfolio servicing to another issuer to occur during FY 2013. Additionally, Ginnie Mae currently has an Interim Service Agreement in place to mitigate any potential risk if the bankruptcy sale and servicing transfer does not occur as expected. Ginnie Mae has not disclosed a dollar amount related to a corresponding asset or liability associated with the default because the likelihood of a loss is not probable.

Note L: Related Parties

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

Ginnie Mae was authorized to use $19.5 million during FY 2012 for personnel (payroll) and non-personnel (travel, training) costs only. During FY 2012, Ginnie Mae incurred $14.1 million, net, for Salaries and Expenses. Ginnie Mae has no liability for future payments to employees under the CSRS or FERS retirement systems. Ginnie Mae does not account for the assets of CSRS or FERS nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management (OPM) and are allocated to HUD. OPM also accounts for the health and life insurance programs for federal employees and retirees and funds the non-employee portion of these programs' costs.

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

Additionally, Ginnie Mae has an intra-entity relationship with the FHA, which is part of HUD. Of the total mortgage loans HFI, net, approximately $6.2 billion and $5.9 billion loans were insured by FHA as of September 30, 2012 and 2011, respectively. In addition, Ginnie Mae submits and receives claim proceeds for FHA-insured loans that have been through the foreclosure and short sale process. The breakdown of FHA claims pending payment or pre-submission to FHA is below:

	September 30			
(Dollars in thousands)	2012		2011	
Post Foreclosure/Preclaim	$	829,500	$	568,300
Short Sales Claims Receivable	$	14,900	$	25,600
Insurance claims filed	$	6,500	$	2,100
Total FHA Claims, net	**$**	**850,900**	**$**	**596,000**

Note M: 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, 2012, the U.S. Government has an investment of $16.4 billion in Ginnie Mae. Pursuant to the statutory provisions under which Ginnie Mae operates, its net earnings are used to build sound reserves. In the opinion of management and HUD's general counsel, Ginnie Mae is not subject to the Federal Credit Reform Act.

Note N: Subsequent Event
Ginnie Mae management has evaluated potential subsequent events through October 31, 2012, the date through which the financial statements were made available to be issued. Based on the evaluation, Ginnie Mae management identified one subsequent event. On September 28, 2012, Ginnie Mae approved a Transfer of Servicing Agreement between two issuers. The transfer is scheduled to occur on November 1, 2012. Ginnie Mae identified the issuer, who transferred their servicing rights to the other Ginnie Mae approved issuer in this transaction, as a probable risk of default during the MBS Loss Liability analysis. However, as a result of the Transfer of Servicing Agreement, Ginnie Mae no longer assesses the risk of default as probable. Accordingly, no liability related to this issuer has been included in the MBS loss liability calculation. Any estimate of this liability would be insignificant.