Ginnie Mae’s Mission
To expand affordable housing in America by linking global capital markets to the nation’s housing markets
SECRETARY’S MESSAGE

Since its creation, nearly 40 years ago, Ginnie Mae has been a beacon of stability, safety, and affordability for millions of American homeowners. The Ginnie Mae mortgage-backed security (MBS), guaranteed by the full faith and credit of the United States Government, is a vital link between the nation’s housing finance markets and the world’s capital markets.

Never has the security and safety of a Ginnie Mae MBS been more important than in the current market environment. Challenges in the housing and mortgage finance sectors are playing a key role in larger credit problems, leading to concerns about the overall economy. Yet, Ginnie Mae securities continue to maintain liquidity in the secondary markets for government loans and lower borrowing costs for homebuyers.

We applaud Ginnie Mae’s efforts to expand affordable housing opportunities for low- and moderate-income Americans.
November 13, 2007

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

Dear Mr. Secretary:

Our mission at Ginnie Mae is to support the expansion of affordable housing in America. We promote homeownership and affordable rental housing by guaranteeing mortgage-backed securities (MBS) issued by originators of government-insured single family and multifamily mortgages. Since 1970, Ginnie Mae has guaranteed more than $2.6 trillion in MBS, thereby, helping Americans achieve their dream of homeownership.

But this has been a challenging year for the housing and mortgage markets. Problems in the subprime market have contributed to broader credit problems: home prices are declining, delinquencies and foreclosures are up, and there are indications that these problems are affecting the overall economy. And yet the markets that Ginnie Mae supports have remained liquid due to the stability provided by our business partners at the Federal Housing Administration (FHA) and the Department of Veterans Affairs, as well as the full faith and credit backing of the U.S. Government for Ginnie Mae securities. Ginnie Mae has also worked closely with the FHA to support FHA Secure, the important initiative that you announced in August to help families stay in their homes. Ginnie Mae is creating a custom security to provide an efficient source of secondary market financing for these loans.

In addition, we have focused on three other major initiatives this year: promoting FHA modernization; developing the Home Equity Conversion Mortgage (HECM) MBS (HMBS), and promoting foreign investment. We have worked, and will continue to work, closely with the FHA to support efforts at modernizing FHA loan programs. FHA and Ginnie Mae will be in a much better position to serve homebuyers with an FHA that has greater flexibility to continue to meet the needs of low- and moderate-income Americans.

In November, we issued the first HMBS, the first such security structure in the industry. The HECM serves the growing senior population by allowing older Americans to use the equity in their homes to meet their retirement needs. The HMBS provides an outlet for these loans and increases the flow of cash to issuers who can increase the number of HECM loan originations. Thanks in part to the guidance and insight of former Ginnie Mae President Robert M. Couch, the HMBS product is now a viable option for lenders to securitize HECM loans backed by the full faith and credit of the U.S. Government.
International investment significantly enhances our ability to support the secondary market for government loans. Recognizing the critical role of foreign investment, Mr. Couch made an unprecedented trip to Asia to promote investment in Ginnie Mae MBS. Despite foreign investor concerns about the state of the U.S. subprime market, Ginnie Mae MBS remain an attractive investment option precisely because of their full faith and credit backing of the U.S. Government.

Our success in creating attractive investment vehicles and providing solutions for the nation's housing needs is evidenced by our portfolio growth this year. While much of the industry is suffering losses, Ginnie Mae's dollar volume of single family MBS increased by 7 percent, and our market share increased significantly. Through sound policies and financial practices, as well as an appreciation for the evolving needs of the American public, Ginnie Mae has demonstrated the important role it plays in helping to maintain a stable U.S. housing market.

Sincerely,

Thomas R. Weakland
Acting Executive Vice President
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I. Mission and Purpose

Ginnie Mae has been a sound and stable player in the housing finance and capital markets since its inception nearly 40 years ago. By providing investors the full faith and credit guarantee of the United States Government for timely payment of principal and interest on mortgage-backed securities (MBS), Ginnie Mae serves a vital role in expanding affordable housing, providing market liquidity and product innovation, and supporting affordable rental housing throughout the nation. Its products and programs enable qualified Americans access to affordable capital regardless of declines in the housing market and economic uncertainty. Additional information can be found on Ginnie Mae’s website at http://www.ginnie Mae.gov.

Expanding Affordable Housing

Ginnie Mae expands affordable housing in America by linking global capital markets to the nation’s housing markets. By providing products and solutions that promote liquidity and stability in the secondary market, Ginnie Mae enables qualified mortgage lenders to sell their mortgage loans at favorable prices and attract new sources of capital. Ultimately, lenders enjoy lower costs of financing so they can in turn offer lower interest rates to qualified homebuyers and developers, thus lowering costs for homeowners and renters.

Ginnie Mae was established by Congress in 1968 as the Government National Mortgage Association. It is a wholly owned government corporation within the U.S. Department of Housing and Urban Development (HUD), administered by the Secretary of HUD and the President of Ginnie Mae. In 1970, Ginnie Mae developed and guaranteed the first MBS. Today, its primary function is to guarantee the timely payment of principal and interest on MBS. Ginnie Mae guarantees securities that are backed by pools of mortgages issued by private mortgage institutions and insured or guaranteed by HUD’s Federal Housing Administration (FHA) and the Office of Public and Indian Housing (PIH), by the Department of Veterans Affairs (VA), and by the U.S. Department of Agriculture (USDA) Rural Development.

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

The ability to package these loan products into securities, which are subsequently sold by broker-dealers to investors around the world, enables a lender to use the proceeds to make more mortgage loans. Repeating this cycle increases
the availability, accessibility and affordability of mortgage funds for low- to moderate-income Americans.

Figure 1 shows the process of creating Ginnie Mae securities.

Providing Market Liquidity and Product Innovation

Ginnie Mae securities are among the most secure investments in the global capital market and are the only MBS carrying the full faith and credit guarantee of the U.S. Government. Even in uncertain times, investors are guaranteed payment of interest and principal, in full and on time. This, along with an expected return higher than U.S. Treasury securities, makes Ginnie Mae securities highly liquid and attractive to domestic and foreign investors, who can sell them quickly without significant risk of loss or arbitrage. Particularly in today’s turbulent mortgage industry, the faith in Ginnie Mae is demonstrated by its anticipated 50 percent increase in market share by calendar year end despite overall market decline.¹

In FY 2007, Ginnie Mae again demonstrated its industry leadership by introducing a new MBS designed specifically for securitizing Home Equity Conversion Mortgages (HECM).

Ginnie Mae is the first agency to provide a structure, which will set the standard for these securities.

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

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

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

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

• **REMIC** is an investment vehicle that reallocates the pass-through cash flows from underlying mortgage obligations into a series of different bond classes, known as tranches.

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

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

- **Stripped Mortgage-Backed Securities (SMBS)** are custom-designed securities that redirect MBS cash flows to meet investors’ specific income needs around interest and principal payments.

These products are put together for offering in the public markets by designated Ginnie Mae Sponsors. The sponsors represent some of the largest domestic and international financial institutions, who have wide access to global investors. In addition, selected Co-sponsors, who are often minority and small-sized institutions with a diverse reach, support the securities’ offerings. Figure 2 shows a current list of these sponsors.

Since its inception, Ginnie Mae has guaranteed more than $2.6 trillion in MBS (see Figure 3), providing access to affordable housing for low- and moderate-income Americans and creating homeownership opportunities in every U.S. state and territory.

**Supporting Affordable Housing**

Although homeownership is a worthy and important goal, it is not a viable option for all Americans and today’s housing challenges cannot be met through homeownership alone. Decent, affordable, and safe rental housing is a critical element in building economic stability for

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**Ginnie Mae REMIC Sponsors (as of September 30, 2007):**

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<th>Single Family</th>
<th>JPMorgan</th>
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<td>FTN Financial</td>
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| Multifamily                            |                |
| Banc of America                        |                |
| Credit Suisse First Boston             |                |
| Deutsche Bank                         |                |
| Greenwich Capital                      |                |
| JPMorgan                               |                |
| Merrill Lynch                          |                |
| Nomura Securities                      |                |
| Wachovia Capital                       |                |

**Ginnie Mae REMIC Co-Sponsors:**

- Berean Capital
- Blaylock Capital
- CastleOak Securities
- Doley Securities
- Gardner Rich
- Guzman & Company
- Herenton Capital Partners
- Loop Capital
- Myerberg & Company
- Ormes Capital Markets
- Peraza Capital
- Pryor, McClendon, Counts
- SBK Brooks Investment Corp.
- Utendahl Capital Partners
- The Williams Capital Group
individuals and communities throughout America. In many ways, housing may be viewed as a ladder of opportunity with affordable rental housing as the “first rung.” Affordable rental housing has become increasingly important as home prices have risen dramatically in recent years and now as mortgage funds are more difficult to obtain, not all Americans can, or want to, gain quick entry into homeownership.

As of the end of FY 2007, Ginnie Mae guaranteed securities that contained 93 percent of eligible single family fixed rate FHA loans. This resulted in a 1.6 percentage point increase over last year’s 91.4 percent level. Single family securities outstanding increased to $389.1 billion in FY 2007 from $372 billion in FY 2006, thereby meeting the Ginnie Mae target performance goal of 93 percent share of the residential mortgage loans insured or guaranteed by FHA.

Just as Ginnie Mae’s single family products reduce finance costs for homebuyers, its multifamily products have an analogous impact on maintaining affordable rents for individuals and families. By creating multifamily pools that are sold to investors in the global capital markets, lenders help reduce mortgage interest rates paid by developers which, in turn, keep rents affordable. As of the end of FY 2007, Ginnie Mae securities contained 98 percent of eligible multifamily FHA loans that were securitized, 3 percentage points over the 2007 stated target. This number is a 1.1 percentage point increase over last year’s result of 96.9 percent. The multifamily MBS program dollar volume increased by $0.5 billion in FY 2007, up to $38.3 billion from $37.8 billion, marking the 13th year of growth in Ginnie Mae’s multifamily housing program. Since 1971, Ginnie Mae has guaranteed $97.8 billion in multifamily MBS, helping to finance affordable multifamily housing units including apartment buildings, nursing homes and assisted-living facilities across the nation.

As of the end of FY 2007, Ginnie Mae securities contained 92 percent of eligible single family fixed rate VA loans that were securitized, which is 9 percentage points above the target of 83 percent. Ginnie Mae achieved this level in part by guaranteeing securities that provide the best execution from a pricing standpoint. Ginnie Mae also continued to reduce issuers’ back-end processing costs and improved security disclosures.

**Ginnie Mae established the Targeted Lending Initiative (TLI) program in 1996 to provide incentives for lenders to increase loan volumes in traditionally underserved areas. The TLI program offers discounts ranging from one to three basis points on Ginnie Mae’s six basis point guaranty fee, depending on the percentage of TLI-eligible loans within the security. The reduced fee gives lenders an incentive to originate loans in TLI areas. As of the end of FY 2007, 26 percent of all single family pools issued received TLI credit. This result is two percentage points below the target of 28 percent. In**

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**The liquidity and stability that Ginnie Mae provides the mortgage industry help to support Wells Fargo’s mission to provide homeownership opportunities to a broader spectrum of our customers.**

Mary Blue, SVP, Capital Markets, Wells Fargo
FY 2007, fewer issuers formed TLI pools than in FY 2006. This may be due, in part, to the market difficulties faced by many in the mortgage industry, particularly during the second half of the year.

II. Market Environment

The real estate and housing finance markets faced a number of challenges in FY 2007. The meltdown of the subprime market, with the related rising delinquencies and foreclosures and lack of investor confidence across the board, has impacted the economy as a whole. At the same time, changing demographics present the need for affordable capital to a growing and changing population. Ginnie Mae has continued to play a steadfast role and will continue to develop and maintain products and programs that increase sources of capital that finance affordable housing in dynamic markets.

Today’s Economy

The Nation’s economy has been strained by turmoil in housing finance and a tight credit market, and began to slow during FY 2007. The economy also was deeply impacted by sagging business confidence and weaker consumer spending as household wealth declined along with home prices. Furthermore, in the coming year, hybrid adjustable rate mortgages (ARMs) are due to reset in dramatic numbers, with interest rates on approximately $50 billion worth of loans ready for a rate increase in a single month alone. These resets are expected to add greatly to the downward trend of the mortgage market and declining household wealth, and hence to the lack of investor confidence.

Nevada, Florida and California have been three of the hardest hit states in the country. According to September tracking data, Nevada had one foreclosure filing for every 185 households whereas the national average is one out of every 557 households. In September, 223,538 foreclosures and related filings were reported nationally, almost double the number reported in September 2006. Some sources estimate that foreclosure filings will exceed two million by the end of calendar year 2007. In addition, the National Association of Realtors said home sales will fall more sharply this year than originally forecasted. The revised forecast calls for home sales to fall by 11 percent from last year. Sales of new homes are expected to post their worst year in a decade. Prices for existing homes are expected to fall 1.3 percent by the end of 2007 to a median of $210,200.

Demographic Trends

The current demographic outlook shows major shifts in population trends that will have a significant impact on the mortgage market in the coming years. As the baby boom generation ages, today’s older Americans are expected to comprise a larger share of the population, live longer, and spend more years in retirement than previous generations. As a result, they are often in need of affordable funds to supplement retirement and social security income and to

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3 Ibid.
5 Ibid.
6 Ibid.
8 Ibid.
meet rising health care and other living costs. In addition, minorities and immigrants will continue to gain in numbers and have a large impact on the economy, as well as demand for affordable housing.

For example, the increasing immigrant population, combined with higher than average birth rates and a population that is, on average, ten years younger than the general population, will maintain the historical and recent Hispanic population growth rates in the foreseeable future. In addition to the population growth, Hispanics are experiencing unprecedented purchasing power growth.

Regardless of their economic status, however, studies have shown that minorities and immigrants hold a strikingly high number of subprime and high cost mortgages. As the market for these types of loans has decreased dramatically during the past year, new sources of mortgage funding are needed to meet the housing finance needs of growing populations. FHA and Ginnie Mae are stepping in to fill the void and provide reasonable products and capital to meet these needs.

Ginnie Mae’s Role

In the midst of the troubles facing the U.S. housing market and the related lack of investor confidence, Ginnie Mae’s unique position enables it to offer soundness and stability. As funds have diminished and investors have suffered significant losses in the wake of the subprime market meltdown, Ginnie Mae is recognized within the lending and investment community as a stalwart player. Its guarantee of the full faith and credit of the U.S. Government enables lenders to continue to access capital in order to make affordable mortgage loans and offer investors one of the most secure investment alternatives in the market.

Ginnie Mae is also well-positioned to provide solutions that help to meet the affordable financing needs of the nation’s changing population segments. Section III of this report describes how Ginnie Mae guarantees securities backed by mortgages insured by FHA that allow seniors to draw on the equity in their homes without having to sell them and move out. In addition, as FHA-insured mortgages become a more viable alternative to subprime loans, Ginnie Mae’s ability to guarantee MBS helps to keep mortgage funds available for populations that once turned to non-prime markets.

Market Share Context

Ginnie Mae’s strength and stature in the current market is also demonstrated through the increase in its securities issuance and market share, particularly as the rest of the industry experienced marked declines. The dollar volume of MBS issued in the industry is expected to decline by 9 percent from FY 2006 to FY 2007 as mortgage origination volume continues to fall. Ginnie Mae, however, has seen a 7 percent increase in the original principal balance of single family issuances from a comparable period in FY 2006. In addition, Ginnie Mae’s market share is expected to rise by 50 percent, from 4 percent of the MBS market at the end of calendar year 2006 to 6 percent of the MBS market by the end of calendar year 2007. Ginnie Mae MBS, as well as the multiclass products, are very attractive and some of the most sought after securities in the market.

The increase in FHA loan volume and demand for highly secure, liquid securities has helped to boost issuance of Ginnie Mae MBS and subsequently, Ginnie Mae’s outstanding portfolio. Issuance increased 4.3 percent during FY 2007 with an ending outstanding portfolio balance of $427.6 billion, up from $410 billion in FY 2006. As FY 2007 came to an end, Ginnie Mae has been experiencing 18 consecutive months of portfolio

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12 Ibid.
growth. In addition to rising issuance, the growth in the portfolio has been due to lower runoff. Whereas, the number of foreclosures nationwide have more than doubled during the past year, foreclosures on homes in Ginnie Mae MBS only increased by a factor of one-third over last year’s number.

The number of eligible loans for Ginnie Mae securities is expected to continue to rise as originations of federally insured and guaranteed loans increases. New initiatives, such as FHA Secure and the FHA modernization legislation, along with a decline in subprime lending, will help this trend to continue.

III. Strategic Initiatives

During FY 2007 Ginnie Mae embarked upon several strategic initiatives that responded to market opportunities, supported FHA programs, and addressed internal operations and resources. These included developing HECM securities, supporting FHA modernization and FHA Secure, continuing business process improvements and systems enhancements, and implementing human resource initiatives. These efforts led to an increase in mortgage capital and/or help to lower costs of financing and thus soundly put into action Ginnie Mae’s mission to expand affordable housing.

HECM Mortgage-Backed Securities (HMBS)

Ginnie Mae is introducing the HMBS to enable the securitization of Home Equity Conversion Mortgages (HECM’s), which are offered by lenders and backed by FHA, and are in response to the growing affordable financing needs of the large aging population. HECM loans can be used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income today and/or a line of credit to be repaid when they no longer occupy the home. FHA’s HECM product has dominated the reverse mortgage market with approximately 90 percent market share. The primary goal of Ginnie Mae’s HMBS program is to provide senior citizens with more affordable reverse mortgage borrowing options to support their financial needs during their retirement years. HMBS are guaranteed by the full faith and credit of the U.S. Government.

As a result of an overall decline in birth rates and an overwhelming increase in life expectancy, population aging is considered to be one of the most profound demographic trends of the 21st century. According to the U.S. Census Bureau, the senior population will almost double in the next 20 years, to approximately 64 million people ages 65 and older.13 As the population continues to age, affordable sources of funds to supplement retirement, social security

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income, rising health care costs and living needs are more critical than ever.

This growing population controls unprecedented levels of untapped home equity. Currently, Americans 62 years and older hold an estimated $4.28 trillion in home equity.14 As of second quarter 2007, senior home values are estimated at $5.09 trillion.15 Some projections call for as much as $37 trillion in senior home value by 2030, from which home robust secondary market was needed to facilitate the growth and affordability of reverse mortgages. Ginnie Mae has been at the forefront of creating a standardized security program to help facilitate the secondary market for HECM loans. A Ginnie Mae HMBS, carrying the full faith and credit of the U.S. Government, now provides an attractive investment option. The quality and liquidity of a standardized Ginnie Mae HMBS security structure helps to

“GNMA continues to work with issuers to meet their needs in this very challenging environment. The GNMA staff not only requests input from the issuer community but, makes every attempt to work within the government framework to resolve their issues.”

Ted Tozer, Senior Vice President, National City Mortgage

equity figures are derived, assuming historical appreciation and taking into account the demographic shift as baby boomers begin to turn 62. Currently, the average home equity in a senior-owned household is estimated to be over $230,000.16 Reverse mortgages can help turn equity into cash to meet their daily living and other financing needs.

Securitization

Until now, there has been a limited secondary market for reverse mortgages. With very few investors, complicated security structures, and growing consumer appetite, a foster a liquid, robust secondary market, which will in turn increase the availability of capital and drive down the costs of reverse mortgages for seniors.

The HMBS is a new class of Ginnie Mae security backed by FHA insured HECM loans under the umbrella of the Ginnie Mae II Custom Program. Ginnie Mae approved issuers can pool HECM loan draws, servicing fees, and mortgage insurance premium (MIP) advances, and securitize these balances into an HMBS. The HMBS is an accrual class pass-through security. As such, it does not have a payment schedule but rather accrues interest on the securitized principal until such time that payoffs are received. The HMBS is sold to investors as a stand-alone security or, beginning in FY 2008, can be used as collateral for a Ginnie Mae REMIC.

Since Ginnie Mae securities are traded actively in the global capital markets, there is strong confidence that a robust secondary market will generate significant liquidity, which will benefit the senior homeowner. Ginnie Mae’s research indicates that the securitization of HECM loans can result in a savings of 50 basis points or more for the borrower. On an average HECM loan of $118,000, this savings

15 Ibid.
16 Ibid.
amounts to over $10,000 over a 10-year period, the average life of a HECM.

Due to the lack of historical performance information on HECM loans, Ginnie Mae will offer disclosure at origination that goes beyond what is currently offered for either Ginnie Mae I or Ginnie Mae II securities. This disclosure will include (1) demographic statistics on HECM mortgagors, such as age and gender; and (2) key loan characteristics, such as the ratio of available credit remaining to the principal limit, and the ratio of the outstanding balance to the maximum claim amount.

Next Steps
In FY 2008, it is planned that Ginnie Mae sponsors will be able to use the HMBS as collateral for REMICs.

Ginnie Mae and FHA Modernization
Supporting the Expanding Homeownership Act of 2007, also known as “FHA modernization” continues to be a top priority for Ginnie Mae. FHA modernization is designed to make government-insured loan products competitive with the private sector and make affordable housing available to more Americans than today. It will provide a safe, fair, and affordable FHA alternative to the subprime market. Given the lack of mortgage fund availability and ARM loans resets, FHA modernization will provide a welcome option to many American families. As the organization that facilitates the securitization of FHA loans, Ginnie Mae will play a critical role in ensuring continued liquidity of the government-insured mortgage market.

At the end of FY 2007, the FHA modernization legislation before Congress contained components that include the following provisions:

• Enables FHA to increase its loan limits to meet the needs of a broader cross section of consumers. Because of current limits, FHA financing is not a viable option for borrowers in high cost housing markets. Greater availability of FHA financing will limit the use of more exotic loans that often create problems for borrowers when they adjust.

• Provides FHA the flexibility to reduce the minimum 3 percent down payment requirement giving borrowers more options to control the amount of their down payment and mortgage payment based on their immediate and long-term needs.

• Eliminates the cap on the number of reverse mortgages FHA can insure and sets a national loan limit at the GSE conforming rate so that all seniors have access to the same loan amounts.

• Permits seniors to purchase a home and obtain a HECM in one transaction.

In today’s difficult mortgage market environment Ginnie Mae and its government partners play a more and more critical role in providing affordable homeownership opportunities to Americans. With a full faith and credit backing of the U.S. Government, investors can feel secure that loans guaranteed by Ginnie Mae will be a safe investment. Particularly in today’s uncertain marketplace, Ginnie Mae offers investors certainty of the timely payment of principal and interest regardless of the status of the underlying collateral. Coupled with FHA’s
modernization efforts, Ginnie Mae is an attractive option for investors who have been unnerved by recent events in the U.S. housing market.

**Securitization**

Ginnie Mae has worked closely with the FHA to support its modernization efforts and to ensure it can support capital market solutions that will provide an ongoing flow of funds.

**Next Steps**

Ginnie Mae will continue to support FHA modernization efforts to ensure that changes to its loan programs are reflected in the securities that represent FHA loan collateral.

**Ginnie Mae and FHASecure**

On August 31, 2007, President Bush announced that FHA was unveiling a new plan called FHASecure that allows families with strong credit histories who have been making timely mortgage payments before their loan reset, but are now in default, to qualify for refinancing under the FHA insured mortgage program.

With its full faith and credit government guarantee, Ginnie Mae will be able to use its MBS program for new loans offered through FHASecure. Ginnie Mae stands ready to serve a critical role in improving liquidity and addressing the current credit crisis by continuing to facilitate the flow of capital for credit-worthy borrowers who cannot obtain prime loans. Ginnie Mae is in a unique position to provide assistance to struggling American homeowners – potentially 60,000 to 80,000 according to FHA estimates – who are unable to meet adjusting mortgage payments.

The program is effective immediately and through December 31, 2008. Loan limits will match existing FHA geographical maximum mortgage limits as well as current FHA maximum loan-to-value limits. The refinance will cover existing first lien, purchase money seconds, closing costs, prepaid expenses, points, late charges, arrearage, and other costs.

Ginnie Mae will create a new security backed by fixed rate FHASecure loans. The new security will be a multiple-

issuer pool type under the Ginnie Mae II Mortgage-Backed Securities Program, and will be available for pool issuances beginning December 1, 2007.

**Promoting Foreign Investment**

Ginnie Mae strives to lower the cost of borrowing to homeowners and multifamily providers by increasing its attractiveness to sources of capital. Foreign investors, to whom the full faith and credit guarantee is of great value, represent a significant part of the demand for Ginnie Mae securities. Relative to yields on U.S. Treasury securities, Ginnie Mae MBS are a desirable alternative investment for foreign investors seeking to maximize return with minimum credit risk.

Increasing foreign demand for Ginnie Mae securities impacts security performance and pricing. As the price of Ginnie Mae securities increases, issuers can offer the underlying mortgages at lower interest rates and/or lower financing costs, which translates to lower costs for homebuyers and renters.

In March 2007, former Ginnie Mae President, Robert M. Couch, who led Ginnie Mae through May 2007, traveled to Asia to generate investor demand for Ginnie Mae MBS and to educate Asian investors on the new Ginnie Mae HMBS. During that period, he spoke with 29 banks, insurance companies, securities firms, and pension funds located in Hong Kong, Macau, Taipei, Beijing and Tokyo. Of the 29 organizations, 11 were central banks or national monetary authorities. During the presentations Mr. Couch focused on:

- The history of Ginnie Mae and the U.S. Government programs that are eligible for Ginnie Mae securities
• An update on the recent performance of Ginnie Mae securities

• The effect of the subprime market problems on the performance of Ginnie Mae securities

• The usefulness of Ginnie Mae securities in managing a portfolio that is subject to the Basel II capital standards

• The reasons an investor might be willing to accept a slightly lower yield on a Ginnie Mae MBS especially during times of turmoil due to the full faith and credit of the U.S. Government

• A description of the new Ginnie Mae security, the HMBS.

Overall, the organizations expressed a lot of interest in Ginnie Mae MBS and particularly, the new HMBS.

In July 2007, the Honorable Alphonso Jackson, U.S. Secretary of Housing and Urban Development (HUD), conducted a 5-day tour to Hong Kong, Macau and Beijing. The visit was part of the Strategic Economic Dialogue that began between China and the U.S. in Washington, D.C., in May 2007. Last year, President Bush and Chinese President Hu Jintao agreed to create the Strategic Economic Dialogue to provide an overarching framework for discussing ongoing and diverse economic challenges.

Secretary Jackson discussed his vision of the two countries working together to build affordable housing and affordable rental housing, and economically benefiting each other through investment in the MBS market. Secretary Jackson discussed the benefits of investing in Ginnie Mae MBS, which have the full faith and credit of the U.S. Government behind them. In 2002, the total Chinese investment in U.S. agency mortgage-backed securities was just over $100 million. By June 2006, this number had grown to over $107 billion — a nearly 1,000-fold increase in less than 5 years. The Chinese economy is benefiting from high-yielding, safe investments in U.S. mortgage-backed securities. American homeowners are benefiting from lower interest rates on mortgage loans resulting from greater Chinese demand for these securities.

**VA Loan Limit**

Active duty military and veteran families, who are growing in number, present today’s housing market with their own needs. Those who serve, and have served, our country at home and abroad are often under financial strain, particularly when they are called to duty. Many also live in high-cost housing areas, but have been shut out of being able to obtain a VA loan due to Ginnie Mae loan limits. For example, although 10 percent of the nation’s veterans live in California, less than one percent of the VA loans in the Ginnie Mae securities portfolio issued during the last two years were to California veterans, because loan limits were below most house prices in the state.

To address the needs of the men and women who have or are serving our Nation, effective on September 1, 2007, Ginnie Mae eliminated the restriction on the size of mortgage loans guaranteed by the VA that can be used as collateral for Ginnie Mae securities. Previously, Ginnie Mae limited the size of VA-guaranteed loans that can back Ginnie Mae MBS to the conforming loan limit, which is currently $417,000 for most areas. Furthermore, by reimbursing issuers for interest in excess of 6 percent on loans made to active duty military personnel covered by the Servicemembers Civil Relief Act of 2003, Ginnie Mae provides lenders with an incentive to lend to those who serve our country. Ginnie Mae expects that these changes will expand the availability of low-cost financing and increase homeownership opportunities for America’s veterans and their families, particularly in high-cost areas. Ginnie Mae will continue

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to require that the amount of the borrower’s cash down payment, plus the amount of the available VA guarantee, be equal to at least 25 percent of the lesser of the purchase price or the Certificate of Reasonable Value.

**Business Process Improvements (BPI) and System Enhancements**

During FY 2007, Ginnie Mae made significant strides in its information technology modernization efforts, which are designed to help it meet the needs of its issuer and investor communities.

Ginnie Mae completed the first phase of development on the Enterprise-Wide Operational Data Store, a core component of its infrastructure rebuild, which will ultimately combine several internal databases into one comprehensive source for information. In addition, the organization has completed software development on the new Reporting and Feedback System (RFS). When testing is completed, RFS will be Ginnie Mae’s new post-settlement system. RFS will collect and process loan-level data, validate pool-level data, and validate remaining principal balances securities based on the loan-level data reported by issuers. RFS will improve data quality, enhance reporting and feedback functionality, support centralized data collection, support timelier disclosure of data to investors, and provide immediate status information to issuers and Ginnie Mae staff. The new system will strengthen edit parameters and enhance business rules on loan-level submission and Remaining Principal Balance (RPB) reporting, thereby improving the quality and availability of MBS information disclosed to external stakeholders and bring Ginnie Mae more in-line with current industry practice.

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

- **E-notification System**: This system was upgraded to provide operational notices and exceptions to issuers and document custodians. This system was expanded to include additional notifications.

- **Enhanced Integrated Pool Management System (IPMS)**: Design work has started on enhancements to the IPMS, which, when implemented, will increase the efficiency of the platform for pool processing and the efficiency of performing management tasks such as commitment authority, new pool submissions, pool transfers, pool exception feedback, and design and development work.

- **New Web Portal**: Design work started on a new web portal, which will provide a single, secure entry point for all issuers and document custodians.
accessing Ginnie Mae’s business applications, data, and documentation.

• Ginnie’s Financial and Accounting System (GFAS): The Office of the Chief Financial Officer (CFO) created new reports in GFAS to enhance the effectiveness and efficiency of financial reporting. One key report provides contract detail from the system’s purchasing module, which will allow for better monitoring of contract spending. In addition, a system generated data file is used that provides payment information to disburse funds through the new U.S. Treasury Secure Payment System (SPS).

• Policy and Financial Analysis Model (PFAM): The Office of the CFO updated this model with the most recent economic and financial data from Global Insight, a key industry source of economic and financial data. Among other things, this model is used to predict future default rates for single and multifamily issuers.

• FEDDEBT System Integration, the federal government system that maintains records about individuals who owe delinquent debt(s): The Office of the CFO leveraged the FEDDEBT System to streamline the cash collection process and improve its ability to track delinquent debt. More than $3 million of $30 million of debt outstanding has been collected within the past fiscal year.

• GinnieNET: This system was modified to provide web-based access for our issuers to reduce system operating costs within their infrastructures and to create paperless pools for multifamily pool processing.

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

Next Steps

In early FY 2008, Ginnie Mae will begin integrated testing of the new web portal and the Reporting and Feedback System, and Enterprise-wide Operational Data Store (EWODS). Development and deployment of the initial phases of IPMS are anticipated to take place in 2008.

Human Resource Initiatives

Ginnie Mae continues to support government-wide initiatives to increase productivity and reduce the cost of doing business. Our Human Resource initiatives focus on ensuring a highly trained workforce, reducing organizational complexity, and eliminating single-person dependencies. To accomplish these goals, Ginnie Mae continues to implement the following initiatives:

• Succession Planning: This initiative focuses on expanding employee competencies and ensuring that clear plans are in place to manage critical business needs.

• Core Competency Training: This training focuses on reducing skill gaps in every job category to increase
productivity. Training needs are now tied to specific job requirements with the goal of attaining 100 percent productivity from every employee.

• Enhanced Performance Management System: This system is used by all employees and ensures that each one’s performance goals and objectives are tied directly to Ginnie Mae’s mission and goals.

The ongoing Human Resource initiatives ensure that Ginnie Mae continues to run smoothly and efficiently despite vacancies, reassignments, and other disruptions. This is a critical component to ensuring that issuers, investors, and other stakeholders always receive the best service and responsiveness from Ginnie Mae without increasing the cost to the taxpayer. Ginnie Mae’s motivated, productive, and well-trained workforce adds to the feeling of security investors and issuers have in continuing to do business with Ginnie Mae. This is particularly relevant as Ginnie Mae increases its MBS volume and operations to accommodate increasing volume from FHA initiatives and the removal of the VA loan limit.

Next Steps
Ginnie Mae will continue to focus on Human Resource initiatives to ensure its workforce is trained, motivated, productive, and efficient.

Industry Cooperation
All of the projects initiated to date have relied heavily on the input provided by Ginnie Mae’s key stakeholders. It is anticipated that next year will entail even more involvement and cooperation with issuers, document custodians, and other critical partners.

IV. Financial Highlights and Management’s Discussion and Analysis

At Ginnie Mae, FY 2007 was marked by a decrease in revenue, a decrease in expenses, and an increase in assets. In FY 2007, revenues decreased due to a decline in interest income. Ginnie Mae achieved excess revenues over expenses of $738.3 million in FY 2007, compared with $789.3 million in FY 2006. Revenues decreased by 6.8 percent to $791.3 million, down from $849.3 million in FY 2006. Total assets increased to $13.7 billion, up from $12.9 billion in FY 2006.

The outstanding MBS portfolio increased by $17.6 billion in FY 2007, which led to increased guaranty fee revenues. In FY 2007, MBS program income increased to $308.5 million, up from $300.3 million in FY 2006. However, interest income decreased to $482.8 in FY 2007 from $549 million in FY 2006. Total expenses as a percentage of total revenues decreased from 7.1 percent in FY 2006 to 6.7 percent in FY 2007.

In FY 2007, Ginnie Mae issued $99.8 billion in commitment authority, a 56.4 percent increase from FY 2006. The $85.1 billion of MBS issued in FY 2007 represents a 4.3 percent increase from FY 2006. The outstanding MBS balance of $427.6 billion at the end of FY 2007, compared to $410 billion in FY 2006, resulted from new issuances exceeding prepayments. FY 2007 production provided the capital to finance home purchases or refinances, or rental housing, for approximately 646,000 American families.

Ginnie Mae’s financial performance remained stable during FY 2007. Excess revenues were invested in
U.S. Treasury securities. To date, Ginnie Mae’s operations have been financed by earning capital and, as a result, Ginnie Mae has not needed to obtain funds through federal appropriations.

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

The following discussion provides information relevant to understanding Ginnie Mae’s operational results and financial condition. It should be read in conjunction with the financial statements and notes at the end of this report. These financial statements have received an unqualified audit opinion from Ginnie Mae’s independent auditor. Ginnie Mae’s operating results are subject to fluctuation each year, depending on the frequency and severity of losses resulting from general economic conditions, mortgage market conditions, and defaulting issuers.

Revenues

Ginnie Mae receives no appropriations from general tax revenue. Operations are self-financed through a variety of fees. In FY 2007, Ginnie Mae generated total revenue of $791.3 million. This included $308.5 million in program income and $482.8 million in interest income from U.S. Treasury securities. It should be noted that Ginnie Mae is required by the U.S. Treasury Department to invest any excess revenues in U.S. Treasury securities.

Figure 4 shows Ginnie Mae’s total annual revenue for the last five years.

![Figure 4: Ginnie Mae Revenues, FY 2003 – 2007](image-url)
Table 1: Ginnie Mae Financial Highlights, FY 2005 - 2007

<table>
<thead>
<tr>
<th>September 30</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheets Highlights and Liquidity Analysis</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds with U.S. Treasury</td>
<td>$4,432,600</td>
<td>$4,056,500</td>
<td>$3,711,400</td>
</tr>
<tr>
<td>U.S. Government Securities</td>
<td>$8,735,900</td>
<td>$8,358,100</td>
<td>$7,921,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$13,710,700</td>
<td>$12,892,700</td>
<td>$12,134,600</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$1,090,200</td>
<td>$1,010,500</td>
<td>$1,041,700</td>
</tr>
<tr>
<td>Investment of U.S. Government</td>
<td>$12,620,500</td>
<td>$11,882,200</td>
<td>$11,092,900</td>
</tr>
<tr>
<td>Total RPB Outstanding (1)</td>
<td>$427,566,299</td>
<td>$409,990,230</td>
<td>$412,303,791</td>
</tr>
<tr>
<td>LLR (2) and Investment of U.S. Government</td>
<td>$13,156,300</td>
<td>$12,416,700</td>
<td>$11,631,400</td>
</tr>
<tr>
<td>Investment of U.S. Government as a Percentage of Average Total Assets</td>
<td>98.91%</td>
<td>94.95%</td>
<td>94.22%</td>
</tr>
<tr>
<td>LLR and Investment of U.S. Government as a Percentage of RPB</td>
<td>3.08%</td>
<td>3.03%</td>
<td>2.82%</td>
</tr>
<tr>
<td>Capital Adequacy Ratio (3)</td>
<td>2.98%</td>
<td>2.94%</td>
<td>2.74%</td>
</tr>
</tbody>
</table>

**Highlights From Statements of Revenues and Expenses & Profitability Ratios Years Ended September 30**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBS Program Income</td>
<td>$308,500</td>
<td>$300,300</td>
<td>$327,500</td>
</tr>
<tr>
<td>Interest Income</td>
<td>$482,800</td>
<td>$549,000</td>
<td>$458,800</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$791,300</td>
<td>$849,300</td>
<td>$786,500</td>
</tr>
<tr>
<td>MBS Program Expenses</td>
<td>$41,900</td>
<td>$47,700</td>
<td>$58,300</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>$10,600</td>
<td>$10,600</td>
<td>$10,600</td>
</tr>
<tr>
<td>Provision for Loss</td>
<td>–</td>
<td>–</td>
<td>$10,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$53,000</td>
<td>$60,000</td>
<td>$71,300</td>
</tr>
<tr>
<td>Excess of Revenues over Expenses</td>
<td>$738,300</td>
<td>$789,300</td>
<td>$705,200</td>
</tr>
<tr>
<td>Total Expense as a Percentage of Average RPB</td>
<td>0.0127%</td>
<td>0.0146%</td>
<td>0.0165%</td>
</tr>
<tr>
<td>Provision for Loss as a Percentage of Average RPB</td>
<td>–</td>
<td>–</td>
<td>0.0023%</td>
</tr>
</tbody>
</table>

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBSs, and in addition $52.8 million of GNMA Guaranteed Bonds

(2) Loan Loss Reserve (LLR)

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

MBS program income consists primarily of guaranty fees, commitment fees, and multiclass fees. For FY 2007, MBS program income was concentrated in guaranty fees of $272.9 million, followed by commitment fees of $17.4 million. Combined guaranty fees and commitment fees made up 94.1 percent of total MBS program revenues for FY 2007. Other lesser income sources include new issuer fees, handling fees, and transfer-of-servicing fees. MBS program income increased in FY 2007 due to the increase in the MBS portfolio and MBS issuances.

**Guaranty Fees**

Guaranty fees are income streams earned for providing Ginnie Mae’s guarantee of the full faith and credit of the U.S. Government to investors. These fees are paid over the life of the outstanding securities.

Guaranty fees are collected on the aggregate principal balance of the guaranteed securities outstanding in the non-defaulted issuer portfolio. MBS guaranty fees grew 1.6 percent to $272.9 million in FY 2007, from $268.6 million in FY 2006. These higher guaranty fees reflect the increase in the MBS portfolio. The outstanding MBS balance at the end of FY 2007 was $427.6 billion, compared with $410 billion the previous year, as new issuances exceed repayments (see Figure 5).

**Commitment Fees**

Commitment fees are income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae MBS. This authority expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority, and recognizes the commitment fees as earned when issuers use their commitment authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired commitment authority are not returned to issuers. As of September 30, 2007, total commitment fees deferred totaled $6.9 million. Ginnie Mae issued $99.8 billion in commitment authority in FY 2007, a 56.4 percent increase from FY 2006.

**Multiclass Revenue**

Multiclass revenue is part of MBS program revenue, and is composed of REMIC and Platinum program fees. Ginnie Mae issued approximately $11.9 billion in Platinum products in FY 2007. Total cash fees for Platinum securities amounted to $2.9 million, representing a 17.1 percent decrease in fee income from the previous year. Guaranty
fees from REMIC securities totaled $11.7 million on $32.7 billion in issuance of REMIC products (see Figure 6). Ginnie Mae recognizes a portion of REMIC, Callable Trust, and Platinum program fees in the period they are received, with balances deferred and amortized over the remaining life of the financial investment.

In FY 2007, Ginnie Mae issued $44.6 billion in its multiclass securities program (REMICS, Stripped MBS, and Platinums). The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2007, was $201 billion. This reflects a $2.3 billion increase from the $198.7 billion outstanding balance in FY 2006.

**Interest Income**

Ginnie Mae invests the excess of its accumulated revenue over expenses in U.S. Government securities. Ginnie Mae guaranty fee income has increased this year, however, interest income has decreased as a percentage of total revenue. In FY 2007, interest income declined by 12.1 percent to $482.8 million from $549 million in FY 2006. This decrease was the result of lower interest on U.S. Treasury securities held during FY 2007 as compared to FY 2006.

**Expenses**

Management exercised prudent expense control during FY 2007. Operating expenses in FY 2007 decreased by 11.7 percent to $53 million from $60 million in FY 2006. Total expenses were 6.7 percent of total revenues in FY 2007, down from 7.1 percent in FY 2006. The increase in MBS program income and the decrease in operating expenses were not sufficient to offset the decrease in interest income, resulting in lower excess revenues over expenses of $738.3 million for FY 2007 versus $789.3 million for FY 2006 (see Figure 7).
To support U.S. military personnel called into action, Ginnie Mae reimburses the interest on loans to service members who have FHA or VA mortgages with interest rates in excess of 6 percent. This expense was minimal in FY 2007, which represents a decline over FY 2006 related expenses of $3 million.

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

Credit-Related Expenses
Credit-related expenses include Ginnie Mae’s Provision for Loss and defaulted issuer portfolio costs. Provision for Loss is charged against income in an amount considered appropriate to maintain adequate reserves to absorb potential losses from defaulted issuer portfolios and programs. Ginnie Mae defaulted five single family issuers during FY 2007. Ginnie Mae believes that the reserve for loss estimate is adequate to cover any uninsured loss sustained for these issuers and from unknown future losses from the occurrence of periodic defaults.

Table 2: Program/Contractor Expenses, FY 2004–2007

<table>
<thead>
<tr>
<th>(Dollars In Millions)</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Paying Agent</td>
<td>$ 6.8</td>
<td>$ 8.5</td>
<td>$ 9.3</td>
<td>$ 12.9</td>
</tr>
<tr>
<td>Contract Compliance</td>
<td>$ 0.9</td>
<td>$ 0.2</td>
<td>$ 0.8</td>
<td>$ 0.2</td>
</tr>
<tr>
<td>Federal Reserve</td>
<td>$ 3.2</td>
<td>$ 1.9</td>
<td>$ 2.8</td>
<td>$ 2.1</td>
</tr>
<tr>
<td>Financial Support</td>
<td>$ 0.8</td>
<td>$ 0.6</td>
<td>$ 0.7</td>
<td>$ 0.8</td>
</tr>
<tr>
<td>IT Related &amp; Miscellaneous</td>
<td>$ 4.6</td>
<td>$ 6.8</td>
<td>$ 3.0</td>
<td>$ 4.2</td>
</tr>
<tr>
<td>Mortgage Backed Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information Systems Compliance</td>
<td>$ 11.9</td>
<td>$ 9.9</td>
<td>$ 17.0</td>
<td>$ 13.4</td>
</tr>
<tr>
<td>Multiclass</td>
<td>$ 8.7</td>
<td>$ 7.9</td>
<td>$ 9.5</td>
<td>$ 10.0</td>
</tr>
<tr>
<td>Multifamily Program</td>
<td>$ 5.0</td>
<td>$ 8.9</td>
<td>$ 11.1</td>
<td>$ 7.8</td>
</tr>
<tr>
<td>Servicemembers Civil Relief Act</td>
<td>$ 0.0</td>
<td>$ 3.0</td>
<td>$ 4.1</td>
<td>$ 11.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 41.9</td>
<td>$ 47.7</td>
<td>$ 58.3</td>
<td>$ 63.3</td>
</tr>
</tbody>
</table>
Financial Models

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

In FY 2007, PFAM was used to estimate Ginnie Mae's credit subsidy rate based on historical loan performance data, economic measures, and program and policy assumptions. Every year, Ginnie Mae works with FHA, USDA, and VA to obtain loan-level data. The data supports detailed segmentation of loans according to key risk indicators, including loan type, loan size, loan-to-value ratio, and region. Changing economic conditions related to interest rates, housing values, population demographics, consumer prices, and income levels are accommodated by updating key economic drivers within PFAM's econometric functionality. Ginnie Mae's expertise in understanding and managing risks associated with its MBS guarantee business are accommodated by adjusting management assumption drivers within the model.

Cash flows for income and expenses associated with Ginnie Mae's MBS guarantee business were estimated by simulating loan level performance for the existing book of business and forecasted new business. The simulated loan level performance was used to forecast the effects on defaulted portfolios managed by Ginnie Mae and levels of new issuer defaults. The model's cash flow output was used to estimate the net present value of Ginnie Mae's future cash flows from the outstanding guarantee portfolio at the end of FY 2007 and estimated new business for 30 years into the future.

Liquidity and Capital Adequacy

Ginnie Mae's primary sources of cash are MBS and multiclass guaranty fee income, commitment fee income, and interest income. After accounting for expenses and other factors, on September 30, 2007, Ginnie Mae reported $4.4 billion in funds with the U.S. Treasury, compared to $4.1 billion on September 30, 2006.

In addition to the funds with the U.S. Treasury, Ginnie Mae’s investment in U.S. Government securities was $8.7 billion as of September 30, 2007. Of this amount, $1.2 billion was held in overnight certificates. The balance of the portfolio’s maturities is spread over time to ensure that Ginnie Mae has a ready source of funds to meet various liquidity needs. Emergency liquidity needs are met through short-term maturities.

Table 3 describes the fair value composition and maturity of Ginnie Mae’s Treasury securities as of September 30, 2007 and 2006.

<table>
<thead>
<tr>
<th>Maturity</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due within 1 year</td>
<td>32%</td>
<td>21%</td>
</tr>
<tr>
<td>Due in 1–5 years</td>
<td>43%</td>
<td>24%</td>
</tr>
<tr>
<td>Due in 5–10 years</td>
<td>25%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Figure 8 illustrates the components of Ginnie Mae’s Investments in U.S. Government Securities as of September 30, 2007.

Ginnie Mae's MBS guarantee activities have historically operated at a profit. Ginnie Mae's net income continues to build the agency's capital base. Management believes the corporation maintains adequate capital reserves to
withstand downturns in the housing market that could cause issuer defaults to increase. As of September 30, 2007, the Investment of U.S. Government was $12.6 billion after establishing reserves for losses on credit activities, compared with $11.9 billion as of September 30, 2006. Over the past three years, Ginnie Mae has increased its capital adequacy ratio (Investment of U.S. Government securities plus loan loss reserve divided by the sum of total assets and remaining principal balance) to 2.98 percent in FY 2007 from 2.74 percent in FY 2005. To assess the strength of its capital position, Ginnie Mae uses a “stress test” methodology that measures Ginnie Mae’s ability to withstand severe economic conditions. Figure 9 shows Ginnie Mae’s capital reserves (Investment of U.S. Government) as of September 30, 2007, for the last five years.

**Risk Management and Systems of Internal Controls**

Ginnie Mae continues to enhance its automated systems and business processes to increase its operational efficiency and reduce its business risk. During FY 2007, Ginnie Mae continued periodic reviews of all master subservicers and major contractors to ensure compliance with the terms and conditions of their contracts. In addition, the audits and reviews enable Ginnie Mae to strengthen its internal controls and minimize risks. Furthermore, Ginnie Mae actively monitors its issuers to minimize fraud and default risk, which would negatively impact financial and operating results.

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

Ginnie Mae assessed the effectiveness of internal controls over the effectiveness and efficiency of operations, and compliance with applicable laws and regulations, in accordance with Office of Management and Budget (OMB) Circular A-123. Based on the results of this evaluation, Ginnie Mae can provide reasonable assurance that its internal controls over the effectiveness and efficiency of operations are in compliance with applicable laws and regulations. As of September 30, 2007, Ginnie Mae was operating effectively and no material weaknesses were found in the design or operation of its internal controls.

In addition, Ginnie Mae assessed the effectiveness of its internal controls over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. No material weaknesses were found in the design or operation of the internal controls over financial reporting. Based on these results, Ginnie Mae can provide reasonable assurance that
its internal controls over financial reporting were operating effectively as of June 30, 2007.

Securitization Issuance
As shown in Figure 10, Ginnie Mae supported 646,000 units of housing for low- and moderate-income American families in FY 2007, a 2 percent decline from FY 2006. The dollar value of MBS issuance is reflected in Figure 11, which shows Ginnie Mae issued $85.1 billion in MBS in FY 2007. Clearly, over time Ginnie Mae has had a dramatic impact on expanding homeowner and rental opportunities in the U.S.