Ginnie Mae’s Mission

To support affordable housing in America by linking global capital markets to the nation’s housing markets
SECRETARY’S MESSAGE

For more than 40 years, Ginnie Mae has provided liquidity and stability to our nation’s housing system. Through its mortgage-backed securities (MBS) program—the only one of its kind to carry the full faith and credit of the United States Government—Ginnie Mae serves as the principal financing arm for government loans and ensures that funds can flow into the mortgage market. The strength and dependability of the Ginnie Mae MBS attracts investors from around the globe and allows lenders access to capital, so they can make new mortgage loans that allow for safe and affordable housing for Americans.

Ginnie Mae’s simple model and conservative approach enable it to accomplish its mission of supporting the Federal Government’s role in promoting and expanding housing in America. During the past two years alone, the corporation’s issuance activity during the housing crisis has helped the Obama Administration’s housing stability efforts by circulating nearly $800 billion in liquidity into the U.S. housing mortgage finance market, while generating a profit of more than $1 billion for taxpayers. In July 2010, Ginnie Mae surpassed $1 trillion in remaining principal balance outstanding for the first time in its history.

I congratulate Ginnie Mae on reaching a new milestone this year.
November 6, 2010

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

Dear Mr. Secretary:

In yet another challenging year for the housing finance system, Ginnie Mae continued to provide stability to the capital markets as well as a solid foundation for mortgage finance participants. Ginnie Mae is well positioned to sustain this support based on a number of important program, operational, and risk management enhancements. In meeting the current countercyclical demand for liquidity, Ginnie Mae has served its mission through a disciplined conservative approach that enables it to remain a self-sustaining entity that protects U.S. taxpayer dollars.

The foundation of the Ginnie Mae business model is the simple pass-through security. Ginnie Mae does not actively invest in mortgage-backed securities (MBS) or whole loan portfolios for investment purposes. Therefore, it is not subject to the mark-to-market losses often associated with these assets, nor does it need sophisticated derivatives to hedge interest rate risk. Ginnie Mae MBS offer the full faith and credit guaranty of the United States Government. This is the means by which it attracts capital from global sources and channels it to finance housing nationwide.

In July 2010, Ginnie Mae reached a new milestone by surpassing $1 trillion in outstanding principal balance for the first time in its history. In Fiscal Year 2010, Ginnie Mae guaranteed $413 billion in securities, which represents the corporation’s efforts to finance nearly 1.9 million homes for families across the country. Included in this year’s volume are significant multifamily projects, primarily apartment buildings that provide affordable rental homes.
Since the onset of the credit crisis, Ginnie Mae has taken an active role in working with other government agencies involved in stabilizing the credit and housing markets. In particular, Ginnie Mae worked closely with the Federal Deposit Insurance Corporation (FDIC) to manage the orderly transition of Ginnie Mae portfolios of depositories placed in FDIC receivership. Additionally, Ginnie Mae published an All Participants Memorandum clarifying its role with regard to loan modifications and the process by which loans may be repurchased from a Ginnie Mae security. For issuers in good standing or non-defaulted issuers, Ginnie Mae is not involved in either the loss mitigation or loan modification process.

Ginnie Mae has accumulated substantial reserves over the years and throughout the housing crisis has remained profitable. That is no small accomplishment given the difficulty of the recovery from the prolonged economic turmoil and the instability of the housing market. There is no government or industry MBS market player that is safer and more secure than Ginnie Mae. The Nation’s reliance on Ginnie Mae during the current financial crisis highlights our vital role, mission, and continued support of housing in America.

Sincerely,

Theodore W. Tozer
President
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Mission and Purpose
The Ginnie Mae guaranty attracts capital from many sources across the globe and enables Ginnie Mae to channel it to finance housing in America.

GINNIE MAE’S 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. For more than 40 years, Ginnie Mae has provided liquidity and stability, serving as the principal financing arm for government loans and ensuring that funds can flow into the mortgage market. Ginnie Mae fulfills its mission through a customer-centric business model that delivers effective securitization programs for mortgage lenders and attractive offerings for global investors. The Ginnie Mae mortgage-backed securities (MBS) program is supported by efficient and flexible operations, strong risk management, and a commitment to leadership in human capital management. Its simple model and conservative approach enable it to accomplish its mission while remaining a self-sustaining entity. The Nation’s reliance on Ginnie Mae during the current financial crisis highlights its vital role, mission, and continued support of housing in America.

FINANCING SAFE AND AFFORDABLE HOUSING
At the heart of the debate over the future of our housing finance system is the value our Nation places on quality housing that people can afford and the importance of mortgage products that they can understand. With the capital that it brings to the table, Ginnie Mae is able to support the government’s role in promoting and expanding safe and affordable single family and rental homes during all types of economic environments. The advantage of Ginnie Mae’s design becomes most apparent during adverse economic circumstances. When capital for mortgage loans is least available, reasonably priced funding is most needed. The ability to offer the full faith and credit guaranty of the U.S. Government on its MBS is the principal means by which Ginnie Mae expands affordable housing in America. This guaranty attracts capital from many sources across the globe and enables Ginnie Mae to channel it to finance housing in America. Thus, investors’ willingness to buy Ginnie Mae MBS during the credit crisis helps to stabilize the Nation’s housing market and the broader U.S. economy. The continued demand for these securities provides a steady source of funding for government-backed loans. The securities also enjoy strong pricing in the secondary market and favorable trading spreads, which translate into lower interest rates to borrowers. The Ginnie Mae MBS ensures that mortgage financing is available for homeownership and rental homes regardless of the economic climate. The significant growth in the issuance of Ginnie Mae MBS over the past 5 years is highlighted in Figure 1.

Since 1970, when it pioneered and issued the first MBS, Ginnie Mae has guaranteed approximately $3.7 trillion in MBS, continually providing market liquidity and stability and supplying the financing for government loans that enable access to safe and affordable homes to millions of Americans from all walks of life.

GINNIE MAE’S HISTORY
Ginnie Mae’s roots trace to the Great Depression—a time when unprecedented unemployment levels led to loan defaults and home foreclosures on a massive scale. In its aftermath, today’s American housing finance system began to take shape. Congress responded to this early housing crisis by passing the National Housing Act of 1934 and creating the Federal Housing Administration (FHA). FHA was
In 1970, Ginnie Mae developed and guaranteed the first-ever MBS, enabling lending institutions to convert individual loans into safe, liquid securities for investors.

Figure 1

MORTGAGE-BACKED SECURITIES ISSUANCE OF GINNIE MAE
FISCAL YEARS 2006 TO 2010

The creation of Ginnie Mae eliminated the need for the U.S. Treasury to provide funding for various government loan programs. In 1970, Ginnie Mae developed and guaranteed the first-ever MBS, enabling lending institutions to convert individual loans into safe, liquid securities for investors. Now funds could be tapped from investors in the global capital markets to flow into our housing finance

1 The Federal Housing Administration (FHA) and the PIH are both administered by HUD. FHA provides mortgage insurance on single family, multifamily, and manufactured homes, and on hospital loans made by FHA-approved lenders throughout the United States and its territories. Borrowers must meet certain requirements established by FHA to qualify for the insurance. PIH seeks to ensure safe, decent, and affordable housing; create opportunities for residents’ self-sufficiency and economic independence; and assure fiscal integrity by all program participants. The VA guarantees loans made to qualified American service members. USDA Rural Development runs programs intended to improve the economy and quality of life in rural America. To this end, USDA Rural Development maintains a loan portfolio and administers a variety of program loans, loan guarantees, and grants.
system. As such, and continuing today, Ginnie Mae serves as the financing arm of housing-related federal agencies, enabling them to sustain and support their lending programs. Ginnie Mae remains a wholly owned government corporation within HUD, administered by the Secretary of HUD and the President of Ginnie Mae.

THE ROLE OF GINNIE MAE AND THE STRENGTH OF ITS BUSINESS MODEL

Today, Ginnie Mae continues to partner with qualified mortgage lenders that pool their government-insured or government-guaranteed mortgage loans and issue MBS. Ginnie Mae, in turn, guarantees the performance of the lender who issues the MBS and who continues to service and manage the underlying loans. The Ginnie Mae guaranty, coupled with an expected return higher than U.S. Treasury securities, makes Ginnie Mae securities highly liquid and attractive to domestic and foreign investors of all types. This liquidity is passed on to lenders who then can use the proceeds from issuances to make new mortgage loans available. The ongoing cycle (as depicted in Figure 2) helps to lower financing costs and thus supports accessible and affordable homes for Americans. And because the securities are backed by the full faith and credit of the U.S. Government, capital still flows even during recessionary periods when liquidity stalls in the private market. It is through this sustaining model that Ginnie Mae brings capital into the Nation’s housing finance system.

FIGURE 2

CAPITAL FLOW OF GINNIE MAE GUARANTEED SECURITIES

LENDERS
Originate Loans under Guidelines of Federal Credit Programs

INVESTORS
Purchase Securities and Receive Monthly Passthrough of Principal and Interest from Borrowers

ISSUERS
(Often the Lenders or their Affiliates) Pool Loans and Create Mortgage-backed Securities

GINNIE MAE
Guarantees Investors Timely Payment of Principal and Interest On Securities

FHA, VA, RURAL DEVELOPMENT, or PIH
Insure or Guarantee Loans
At the same time, Ginnie Mae’s fundamental business model significantly limits the taxpayer’s exposure to risk. Ginnie Mae’s strategy is not to originate or invest in mortgage loans directly, nor does it purchase, sell, or issue securities itself. It does not take on borrower credit risk and does not rely on credit derivative products to hedge; nor does it need to carry long-term debt on its balance sheet. By guaranteeing the servicing performance of the issuer of the MBS, Ginnie Mae insulates itself from the credit risk of the underlying mortgage loans. It ensures that issuers have the expertise and financial strength to perform their obligations in servicing Ginnie Mae MBS.

Because it is the private lending institutions that originate eligible loans, pool them into securities, and issue Ginnie Mae MBS, Ginnie Mae’s exposure to risk is limited to the ability and capacity of these issuers to fulfill their obligations as issuers. These institutions are individually approved and constantly 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 (HFAs). Through increased interest and outreach efforts, the number of approved Ginnie Mae issuers grew from 367 to 381 during FY 2010, an increase of 4 percent.

Issuer approval and ongoing monitoring processes are a significant component of Ginnie Mae’s enterprise risk management efforts and include the evaluation of financial strength, performance, and stability. These processes are sufficiently rigorous to detect unqualified participants, but straightforward enough not to unduly burden smaller, qualified market participants. Once Ginnie Mae approves an applicant, commitment authority is granted to the prospective issuer indicating that it meets Ginnie Mae’s eligibility requirements. The issuer can submit pools of loans and issue securities up to its commitment amount.

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2 As part of fulfilling its guaranty, Ginnie Mae may be required to purchase whole loans out of MBS pools for defaulted issuers.

3 There are actually three levels of credit protection that must be exhausted before the Ginnie Mae full faith and credit guaranty is at risk. They are borrower equity, federal agency credit insurance, and the capital of the institution that issued the security. Losses are absorbed by these entities before Ginnie Mae pays out on its guaranty.

4 An issuer’s commitment authority is the total cumulative dollar amount of new securities that Ginnie Mae will guarantee on behalf of that issuer. See “Revenues—Commitment Fees” in Section III.
**GINNIE MAE PRODUCTS AND PROGRAMS**

The products that Ginnie Mae guarantees enable a secondary market outlet, and thus financing, for Federal Government loan programs designed to support safe and affordable homes to as large and diverse a set of homeowners and renters as possible. Ginnie Mae guarantees a variety of MBS, at the core of which are two product structures—Ginnie Mae I MBS and Ginnie Mae II MBS—whose characteristics are noted below.

The Ginnie Mae MBS also serve as the underlying collateral for multiclass products such as Real Estate Mortgage Investment Conduits (REMIC), Callable Trusts, Platinums, and 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 protection. They help to increase liquidity in the secondary mortgage market and to attract new sources of capital.

Multiclass products are structured for offering in the public markets by approved Ginnie Mae sponsors who have wide access to global investors. Selected co-sponsors, including minority-owned and small institutions with a diverse reach, also participate in multiclass securities offerings.

Ginnie Mae offers a range of programs to serve a variety of loan and issuer types.

**Single Family Program** – The majority of Ginnie Mae securities are backed by single family mortgages predominantly originated through FHA and VA loan insurance programs (79.4 percent and 16.2 percent, respectively). More than 99.5 percent of FHA fixed-rate single family loans and 97.0 percent of VA fixed-rate single family loans were placed into Ginnie Mae pools in Fiscal Year (FY) 2010. In its continued response to pressures brought on by the economic

<table>
<thead>
<tr>
<th><strong>GINNIE MAE I MBS</strong></th>
<th><strong>GINNIE MAE II MBS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-issuer pools</td>
<td>Single- or multiple-issuer pools</td>
</tr>
<tr>
<td>Note rates on underlying mortgages are fixed and all the same</td>
<td>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)</td>
</tr>
<tr>
<td>Acceptable collateral:</td>
<td>Acceptable collateral:</td>
</tr>
<tr>
<td>• To Be Announced (TBA) eligible: Single Family Level Payment Mortgages</td>
<td>• TBA eligible: Single Family Level Payment Mortgages, including up to 10 percent Buydown Mortgages</td>
</tr>
<tr>
<td>• Non-TBA eligible: Buydown Mortgages, Graduated Payment Mortgages, Growing Equity Mortgages, Serial Notes, Manufactured Home Loans, Project Loans, Construction Loans</td>
<td>• Non-TBA eligible: Adjustable-rate Mortgages, Graduated Payment Mortgages, Growing Equity Mortgages, Serial Notes, Manufactured Home Loans, Home Equity Conversion Mortgage (HECM) Loans</td>
</tr>
<tr>
<td>Timing of payments: 15th of the month</td>
<td>Timing of payments: 20th of the month</td>
</tr>
<tr>
<td>Larger pool size</td>
<td>More demographically and geographically diverse</td>
</tr>
</tbody>
</table>
In addition to traditional mortgages, Ginnie Mae’s expanding Home Equity Conversion Mortgage (HECM) securities program provides capital and liquidity for FHA-insured reverse mortgages, an increasingly essential financial solution for many senior citizens. HECM loans can be pooled into HECM Mortgage Backed Securities (HMBS) within the Ginnie Mae II MBS program. They can also serve as collateral for REMICs backed by HMBS (H-REMICs), which were introduced in FY 2008.

Manufactured Housing (MH) Program – Ginnie Mae’s Manufactured Housing program allows for the issuance of Ginnie Mae pools for loans insured by FHA’s Title I program. This program underwent significant changes in FY 2010, as discussed in Section III of this report.

Multifamily Program – Safe and affordable rental housing is essential for millions of individuals and families. Ginnie Mae’s mission of supporting affordable housing and promoting stable communities extends to ensuring that decent rental homes remain within reach of those who need them. By guaranteeing pools of multifamily loans that are sold to investors in the global capital markets, Ginnie Mae enables lenders to reduce mortgage interest rates paid by developers and property owners of apartment buildings, hospitals, nursing homes, assisted-living facilities, and other structures. These also lend support and bring jobs to communities across the country.

Other Targeted Activities – Ginnie Mae’s programs also provide capital and create incentives for financial institutions to lend in distressed areas, focusing on homeowners and renters not adequately served by the private market. During FY 2010, Ginnie Mae continued to emphasize its support of housing in the hardest hit states (notably Arizona, California, Florida, and Nevada), which have borne the brunt of recent real estate market turbulence. Ginnie Mae focuses on promoting lending in these and other newly distressed areas—such as those impacted by the 2010 Gulf of Mexico oil spill—through its Targeted Lending Initiative (TLI). This single family program 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 security. The reduced fee motivates lenders to originate loans in these distressed areas.

<table>
<thead>
<tr>
<th>REMICs</th>
<th>CALLABLE TRUSTS</th>
<th>PLATINUM SECURITIES</th>
<th>SMBS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment vehicles that 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.</td>
<td>Allow investors the flexibility to redeem or call a security prior to its maturity date under certain conditions to hedge against fluctuating interest rate environments.</td>
<td>Allow investors who hold multiple pools of MBS to combine them into a single Ginnie Mae Platinum Certificate.</td>
<td>Custom-designed securities that redirect MBS principal and/or interest cash flows to meet investors’ specific objectives. Ginnie Mae guarantees the timely payment of principal and interest on each class of SMBS.</td>
</tr>
</tbody>
</table>
GINNIE MAE AND THE GSES: SIMILAR BUT DIFFERENT BUSINESS MODELS

Although Ginnie Mae shares many of the same characteristics as the government-sponsored enterprises (GSEs)—Fannie Mae and Freddie Mac—it is important to understand Ginnie Mae’s unique position in the industry. Ginnie Mae, Fannie Mae, and Freddie Mac have a number of similarities in their missions. They each work in the secondary mortgage market to provide liquidity and support housing finance opportunities for potential homeowners. Each guarantees MBS so that investors receive timely payment of principal and interest. There are, however, significant differences in their structures, security guarantees, and business models.

First, Ginnie Mae is wholly owned by the U.S. Government. The GSEs are corporations that are chartered by Congress, but have private stockholders. Furthermore, the Ginnie Mae business model is simple and limits exposure to risk. The GSEs purchase mortgages to hold in their own portfolios or to pool in securities for sale to investors. They may also hold or buy their own securities or securities issued by others. Ginnie Mae, in contrast, does not purchase mortgage loans as part of its regular course of business, nor does it buy, sell, or issue securities. Private lending institutions approved by Ginnie Mae issue the MBS for which Ginnie Mae provides the guaranty. Ginnie Mae only acts as the guarantor on the pools of federally insured or federally guaranteed loans. Fannie Mae and Freddie Mac guarantee the loans themselves, primarily conventional mortgages that meet certain underwriting standards. These mortgages may or may not carry private or government-backed mortgage insurance.

In the Ginnie Mae program, the issuers are responsible for the securities they issue, whereas the GSEs are primarily responsible for their securities. The Ginnie Mae issuer must provide the capital to repurchase loans for modifications, as well as make principal and interest pass-through payments for delinquent loans because it is the issuer of record. These requirements mean that private issuers retain a greater financial responsibility for loans included in Ginnie Mae securities as compared to GSE-issued securities.

Ginnie Mae, Fannie Mae, and Freddie Mac guarantee MBS for timely payment of principal and interest. Only Ginnie Mae securities are explicitly backed by the full faith and credit of the U.S. Government.

Despite ongoing stress and uncertainty in the financial markets, Ginnie Mae continues to provide stability, ensuring a steady flow of capital for housing finance and highly attractive investments for the global capital markets.

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

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5 Fannie Mae and Freddie Mac still have private ownership, though each remains under U.S. Department of the Treasury conservatorship that was initiated in September 2008.
Ginnie Mae’s Integral Role in Today’s Housing Market
The focus for Ginnie Mae in FY 2010 was to ensure that the entire organization executes its core strategies and goals of promoting market liquidity, efficient MBS market execution, and prudent and conservative risk management practices.

Ginnie Mae's ability to provide market stability and liquidity and to help America's housing finance system recover from challenging and prolonged economic turmoil is evident in the continued global demand for its securities and the growth of its issuers, programs, and infrastructure. The remaining principal balance (RPB) of Ginnie Mae securities outstanding in the market has risen from $410 billion to more than $1 trillion in less than 5 years. The liquidity Ginnie Mae has brought into the U.S. mortgage market is significant. In FY 2007, as the economic crisis began, annual issuance of Ginnie Mae MBS was $85.1 billion. This grew to more than $220.6 billion in FY 2008, and in each of the past 2 years, issuance activity has helped to circulate well over $400 billion into the housing market. The base of issuers that originate and service the underlying eligible government loans and issue MBS also expanded. This is a result both of mortgage lender interest and of outreach efforts aimed at attracting a diverse range of lending institutions. Such growth has strengthened Ginnie Mae's capacity to fulfill in its role.

To sustain this critical role, the focus for Ginnie Mae in FY 2010 was to ensure that the entire organization executes its core strategies and goals of promoting market liquidity, efficient MBS market execution, and prudent and conservative risk management practices. Because Ginnie Mae is a small organization with a simple mission, it is able to function with a holistic team-based approach across the entire organization. Employees from all areas work in cross-functional teams to ensure that the Offices of Mortgage-Backed Securities, Program Operations, Management Operations, Finance, and Capital Markets, together with executive management and the Chief Risk Officer, work in a coordinated fashion to achieve Ginnie Mae's mission. New industry-seasoned executives, an experienced management team, and the expansion of key staff positions all proved invaluable this year. Furthermore, Ginnie Mae successfully leveraged initiatives from prior years, including new production systems and operational enhancements that make it easier for a broad base of diversified customers to do business with the organization. All these factors better position Ginnie Mae for the future role it will play in the Administration's new housing finance structure and to continue to succeed in achieving its mission.

OPERATING IN A CHALLENGING MARKET ENVIRONMENT

The challenges in housing finance have an impact not just on the mortgage industry, but on the national and global economies as well. Falling home values, high rates of mortgage delinquencies, and the loss of millions of jobs and millions of homes to foreclosure strain families and communities. The economic problems in the United States extend beyond our shores and have led to the erosion of global investors' confidence in all but the most secure investments.

These factors have perpetuated credit constraints for consumers and businesses alike and are further hampering recovery. Uncertainty and volatility in the economy and the aftermath of unnecessary risk-taking limited investor appetites for any MBS other than those insured or guaranteed by the U.S. Government or the GSEs. This resulted in a lack
of private capital and corresponding financing, which is reflected in the low rate of issuance of private-label securities over the past 3 years. In FY 2010, the issuance of private-label MBS was virtually nonexistent, with only $57.6 billion issued, compared to approximately $930.2 billion in FY 2007—the year the crisis began. Figure 4 shows the dramatic decline in the private label market over the past several years, and the significant growth of agency financing.

The total issuance of agency MBS—those issued by Ginnie Mae and the GSEs—during FY 2010 grew to $1.3 trillion from $1.1 trillion in FY 2007. To increase liquidity and stabilize the housing market, the Federal Reserve Bank of New York continued during the first half of the fiscal year with its efforts to purchase newly issued and outstanding agency MBS in the market. About 91 percent of these purchases, which was nearly $1.1 trillion, were for GSE MBS issuance. By contrast, virtually all Ginnie Mae MBS were funded through the private sector, with only $114 billion purchased by the Federal Reserve in support of the housing market.

As shown in Figure 4, Ginnie Mae has had a growing and important share of the overall market for MBS issuance, reaching 29 percent of agency and non-agency for the 2010 calendar year to date. In fact, during the month of July, Ginnie Mae’s share of the MBS market reached a high of 34 percent. While greater market share is not one of Ginnie Mae’s goals, it is a reminder of its countercyclical role as a shock absorber in the market, expanding and contracting

**FIGURE 4**

**RELATIVE MARKET SHARE OF GINNIE MAE AND GSE SECURITIES6**
**2006 THROUGH 2010**

<table>
<thead>
<tr>
<th>Year</th>
<th>GINNIE MAE</th>
<th>FANNIE MAE</th>
<th>FREDDIE MAC</th>
<th>NON-AGENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>82.3</td>
<td>456.9</td>
<td>360.0</td>
<td>1,145.6</td>
</tr>
<tr>
<td>2007</td>
<td>95.5</td>
<td>617.7</td>
<td>444.3</td>
<td>707.0</td>
</tr>
<tr>
<td>2008</td>
<td>269.0</td>
<td>542.0</td>
<td>357.9</td>
<td>58.0</td>
</tr>
<tr>
<td>2009</td>
<td>446.2</td>
<td>807.9</td>
<td>470.8</td>
<td>60.4</td>
</tr>
<tr>
<td>2010</td>
<td>283.8</td>
<td>401.2</td>
<td>262.9</td>
<td>41.8</td>
</tr>
</tbody>
</table>

*In 2009, Fannie Mae securitized a large number of its portfolio, thus creating a spike in their issuance volume.

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6 Source: Inside Mortgage Finance Publications (MBS issuance figures based on the 12 months of the calendar year for 2006 through 2009, and for the first 9 months of the calendar year for 2010).
Bringing Global Capital into the American Housing Finance System

as needed in response to the ability of the private market to support mortgage financing.

Credit and liquidity also remain problematic within the multifamily sector of the market as owners of apartments, hospitals, and senior housing struggle to obtain financing. Private capital sources such as life insurance companies and many depository institutions have been unable or unwilling to fund projects. The multifamily market has turned to the FHA to insure the performance of the borrower, and to Ginnie Mae to secure the funding through the issuance of Ginnie Mae MBS. While private commercial MBS issuance remained weak during FY 2010, multifamily projects insured by FHA and funded by Ginnie Mae securities remained strong, at $12.3 billion in FY 2010.

PROVIDING VALUE TO STAKEHOLDERS— INVESTORS AND ISSUERS ALIKE

The steep decline of the housing market in recent years placed tremendous stress on lenders, including Ginnie Mae’s issuers, and led to the retreat of investors from the market. As it has before in troubled times, Ginnie Mae has stepped into the market space previously dominated by others to ensure that core customers—issuers and investors—are well served. And in serving these customers and other stakeholders, Ginnie Mae demonstrates its leadership in providing capital and liquidity. In this way, Ginnie Mae supports the Administration in bringing housing stability to American homeowners and renters.

More than ever, Ginnie Mae is focused on solutions and effective program offerings that provide sufficient flexibility to respond to market changes and that meet the evolving needs of its stakeholders. Over the past several years, Ginnie Mae has made significant upgrades to its technology infrastructure to streamline business with its customers and allow all participants to more quickly and efficiently address the demands from the surge in volume. Together with expanded enterprise-wide risk management practices, these efforts have strengthened Ginnie Mae programs and reduced operational inefficiencies for constituents, serving to increase both issuer and investor appeal of Ginnie Mae MBS.

In their move from Baltimore to Hartford County, Maryland, Robert and Judy purchased a house with almost no money down. Through the VA, Robert and Judy secured a 30-year mortgage that was placed in an MBS backed by Ginnie Mae’s full faith and credit guarantee.
**Attracting a Broad Base of Global Investors**

Ginnie Mae’s principal commitment to providing liquidity and capital requires that it ensure a broad base of investors is available, and that investors continue to have high confidence in Ginnie Mae securities. It is critical that Ginnie Mae understand the appetites and needs of a global investor community in order to sustain a robust market. During FY 2010, Ginnie Mae executives and its Capital Markets group enhanced outreach to current and potential MBS investors through one-on-one meetings and keynote speaking platforms at conferences and events around the globe. These engagements included a trip to Asia to meet with foreign investors, whose sustained demand for the safety and security of Ginnie Mae MBS provides a significant amount of capital to the U.S. housing market. Additional marketing activities are underway with both large and non-traditional domestic fixed-income investors to generate more interest and understand investor needs.

**Importance of Structured Products**

Structured products also play a role in attracting a broad investor base. Different types of investors are attracted to different exposures on the yield curve, and Ginnie Mae’s REMIC products are easily tailored to meet these diverse needs. Platinum securities are particularly appealing to foreign investors who desire to invest large amounts of funds in Ginnie Mae MBS in an efficient manner. In addition, Callable Trusts allow securities dealers to customize government-guaranteed MBS to hedge against interest rate volatility. The volume of structured transactions issued each month saw unprecedented growth during FY 2010, and Ginnie Mae became a dominant producer of such products in the securities market. On average, 17 structured transactions per month were issued, compared to between seven and eight per month just a few years ago.

**Best Execution for Ginnie Mae Products**

Another key goal for Ginnie Mae is to ensure that its MBS obtain the best execution price possible and sustain their value. Ginnie Mae MBS consistently trade with tighter spreads to Treasury than those of the GSEs and significantly better than private-label securities. This directly contributes to government loan borrowers obtaining the lowest interest rates possible.

Transparency and full disclosure are critical elements in attaining best execution. This fiscal year, Ginnie Mae put into place technology enhancements coupled with policy and process improvements that enabled it to report data to the market sooner than ever before and to include new disclosure elements. Ginnie Mae’s Reporting and Feedback System (RFS) now standardizes and significantly streamlines the monthly reporting process for issuers and further reduces the time frame in which information is disclosed to investors. The Pool Delivery System enables detailed loan-level data at pooling, which is available to investors for pricing purposes. Issuers can process loan-level and pool-level data with enhanced edit and exception processing. This improves the quality of data available to investors as completeness and accuracy controls are strengthened.

Building upon efforts over the past two years to increase data and reporting on the underlying collateral, Ginnie Mae now discloses new originations at the time of securitization, rather than one month after issuance. Additionally, Ginnie Mae was successful in accelerating the timeline for collecting and disseminating the monthly performance reporting to investors by as much as two weeks. These types of efforts to respond to market needs are critical to supporting investor confidence in, and a greater appetite for, Ginnie Mae securities, thus making them as valuable as possible.

As it has before in troubled times, Ginnie Mae has stepped into the market space previously dominated by others to ensure that core customers—issuers and investors—are well served.
Building a Broad Base of Issuers

Attracting and retaining a diverse base of solid and sound issuers is an equally critical component of fulfilling Ginnie Mae’s mission. With the retreat of the private securities market, and limited outlets to which issuers can sell loans they originate, many institutions are expressing interest in becoming Ginnie Mae issuers. During FY2010, Ginnie Mae received 78 new issuer applications. Ginnie Mae, however, has chosen to expand its issuer base in a controlled and prudent manner. It is coupling increased institutional safety and soundness standards with operational enhancements that allow it to do business more easily with a wider array of market participants.

Ginnie Mae continues to increase its efforts to attract a broader base of participants. It is working to expand opportunities for credit unions, regional and smaller banks, and state Housing Finance Authorities (HFAs) to issue securities directly, rather than delivering their loans to aggregators. These efforts have included several outreach activities, including holding information sessions at key industry conferences, working with industry associations such as the American Bankers Association and the Independent Community Bankers Association, and conducting training seminars. Ginnie Mae hosted roundtable discussions at prominent industry events during FY 2010—notably at the Mortgage Bankers Association’s Annual Secondary Market Conference—in an effort to educate potential issuers about the requirements and expectations of being a Ginnie Mae issuer.

Multifamily lenders also have become increasingly reliant on Ginnie Mae as financing in the private sector commercial mortgage market also has been hit hard in recent years. During FY 2010, Ginnie Mae supported a number of significant multifamily projects, primarily apartment buildings that provide affordable rental homes. Among the most notable non-apartment multifamily projects was the $167 million Lakeway regional Medical Center in Lakeway, Texas. The project—the largest proprietary hospital ever insured by HUD—will serve a rapidly growing community previously underserved by hospital services. After private funding was withdrawn, financing was made possible by an FHA loan funded by Ginnie Mae securities that were issued by a multifamily issuer. The hospital is an eight-story, 270,427 square feet medical facility with a multi-story parking garage and will offer a full continuum of inpatient and outpatient services. The construction phase of the project supported 1,204 full-time jobs, with 564 jobs expected once construction is completed.8

7 HUD issued commitments for hospital construction projects that used Ginnie Mae securities in conjunction with Section 242 mortgage insurance.
8 Full-time employees (FTEs) supported was estimated using the IMPLAN Pro input-output model. The model is used by numerous public and private institutions to examine a variety of economic development issues. Model inputs, including forecasted FTEs and revenues, are taken from hospital financial feasibility studies, examined by independent accountants in accordance with professional standards.
Enhancing Operations to Add Value to Stakeholders

During FY 2010, two important operational changes were announced that will allow small lenders to more easily and efficiently do business with Ginnie Mae and will help to ease liquidity strains. The first is single loan pooling, which first became available for July 2010 issuances. This eliminated the three-loan minimum requirement for issuing securities in multiple-issuer pools and lowered the minimum dollar amount to $25,000 from $250,000. The ability to securitize a single loan makes it easier for smaller issuers to participate in Ginnie Mae programs. Furthermore, Ginnie Mae announced this year that beginning on November 1, 2010, multiple-issuer pools may be settled throughout the month on a flow basis, rather than on only one day each month. These changes were made possible through technology enhancements to GinnieNeT and enable issuers to pool mortgages more flexibly and efficiently. They also allow issuers of all sizes to better manage warehouse lending and other short-term credit lines, significantly reducing the costs of doing business with Ginnie Mae.

Over the past several years, Ginnie Mae made other significant upgrades to its technology infrastructure to streamline business with its customers. Investments in technology enhancements and operational process automation help position Ginnie Mae to accommodate the growth in issuer volume and will enable Ginnie Mae to develop and deploy additional capability to support the issuer and investor community beyond FY 2010.

In October 2009, Ginnie Mae implemented key information technology modernization initiatives that lay the foundation for additional capacity, increase efficiency and reduce costs to issuers. In addition to enhancements made to support disclosures and single loan and lower dollar pools, these initiatives include improved industry access and file transmissions through the Enterprise Portal and improved data management through the Enterprise-Wide Operational Data Store (EWODS).

The Ginnie Mae Enterprise Portal is a centralized access point established between Ginnie Mae and its business partners to foster collaboration, improve communications, and will deliver other planned business process and technology improvements in the future. Throughout FY 2010, a number of Ginnie Mae’s systems became available through the portal, with more scheduled to come online in the near future.

EWODS serves as Ginnie Mae’s central data repository and is at the core of the underlying efforts to centralize the management of its most important asset—data. The successful consolidation of data has eliminated the need for multiple databases, improved data integrity and, in addition to reducing overall operating costs, enables the organization greater transparency into business operations and operational and programmatic risks.

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9 GinnieNeT is the front-end system that issuers use to submit loan-level data backing new pools, monthly RPBs, and pool certifications to Ginnie Mae. The system also facilitates the identification of TLI-eligible loans, making it easier for issuers to promote mortgage lending in economically disadvantaged areas.
Ginnie Mae’s commitment to modernize its infrastructure is guided by the principle to enhance its technical environment by simplifying processes, promoting flexibility in response to a continuously changing mortgage industry, and lowering operational costs to make it more attractive to do business together with its partners.

**NAVIGATING GUARANTOR RISK**

Ginnie Mae embraces a culture of enterprise risk management and has taken broad steps to enhance its enterprise-wide view of risk in light of the increasingly significant role it plays in the secondary market. During this fiscal year, the Chief Risk Officer (CRO) expanded the existing staff to assist Ginnie Mae in identifying and evaluating risk and supporting the process of making reasoned decisions as to when the acceptance of certain risk is appropriate to the mission. The team evaluates risk on an enterprise-wide basis, thereby ensuring that Ginnie Mae responses to risk are well coordinated and holistic. The CRO reports directly to the Executive Vice President of Ginnie Mae and has identified three primary areas of focus for the organization: counterparty risk, operational risk, and data analysis.

**Counterparty Risk**

A fundamental focus in Ginnie Mae programs is on those who issue and administer the securities and who are responsible for servicing the mortgage loans and advancing principal and interest payments in the event of borrower default. As the guarantor of the securities, Ginnie Mae steps in to service the underlying loans, and to make investors whole if an issuer fails to pass through required principal and interest. As such, Ginnie Mae must effectively approve and monitor these institutions. 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 program. Even after an issuer successfully completes the probationary period, it remains subject to regular performance reviews. Issuers support this due diligence, as it reflects an accepted market performance standard and enhances the quality and value of Ginnie Mae MBS.

On an ongoing basis, Ginnie Mae actively monitors issuers to minimize fraud and default risk, which would negatively impact financial and operating results. Regular reviews of issuers are conducted in four key areas:

- **Portfolio Quality**, particularly indicators such as early payment defaults, origination comparison ratios, and the percentage of an issuer’s loan assets that are delinquent.
- **Financial Health**, including recent audited financial reports, net worth, profitability levels, and regulatory relationships.
- **Compliance Reviews**, determining the adequacy of servicing and bond administration system controls, safety and soundness practices, and compliance with Ginnie Mae’s requirements.
- **Insurance Matching**, confirming (via an automated verification process) that adequate proof of insurance is in place for all pooled loans.

When issuers were unable to meet their obligations, Ginnie Mae moved quickly to protect investors and taxpayers by removing portfolios from those issuers and assuming responsibility for managing the cash flows to investors and the servicing of the mortgage loans. In FY2010, Ginnie Mae defaulted four issuers. Ginnie Mae also monitors the banks holding custodial funds and document custodians tasked with the safekeeping of key collateral documents.

During FY 2010, the risk management team took the lead in evaluating applicants for issuer status and reviewing continued participation by issuers who are not in compliance

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10 In February 2010, Ginnie Mae issued an All Participants Memorandum reminding issuers of minimum net worth requirements established in 2008. These requirements include a minimum net worth of $1 million for all Single Family MBS and HMBS issuers and $500,000 for multifamily issuers. The requirement applies to all new issuers joining the program after October 1, 2008, and for all existing issuers as of October 1, 2010.

11 As provided by FHA, PIH, VA, or USDA.
In the summer of 2008, when home prices were high and lenders were asking for large down payments, Mehnaz and Steve had almost concluded they would be unable to buy a house in Washington, D.C. Frustrated, the pair, both of whom had owned homes in the past, heard about loan programs offered by the U.S. Government. Finding that they were eligible for such loans, they agreed to a 30-year mortgage, securitized by a Ginnie Mae issuer and insured by FHA. They purchased their home in August 2008.

with Ginnie Mae standards. This process change separated customer-centric service roles from risk roles, which will provide a more robust evaluation of Ginnie Mae’s issuers.

**Operational Risk Management**

Historically, the staffing model has been to maintain a small employee staff with significant use of contractors to support the business processes. To mitigate risks associated with this model, Ginnie Mae has expanded the contractor assessment program to identify weaknesses that may exist in current processes, to improve efficiency, and to ensure that Ginnie Mae will continue to be able to operate timely and effectively. Ginnie Mae conducts regularly scheduled reviews of all master subservicers and major contractors to ensure compliance with the terms and conditions of their contracts. These reviews also ensure that adequate internal controls exist within the contractor’s current operating environment to minimize risk to Ginnie Mae.

**Data Analysis**

In addition, the CRO and senior executives are working to expand the information available to Ginnie Mae and its ability to conduct sophisticated market analyses of that information. Ginnie Mae brought on new staff with expertise in financial analysis and risk management, accessed new sources of information and analytical tools, and is working closely with FHA, other government entities, and market participants to coordinate information sharing. These efforts are supported by the technology investments and operational enhancements that have been made to bolster the organization’s ability to store, archive, and report on mission-critical data, as noted above in this report.

**Human Capital Management**

Ginnie Mae executives are working diligently with the HUD Secretary, the Office of Management and Budget, and Congress to enhance staffing throughout Ginnie Mae. This effort is being made to address the reality of Ginnie Mae’s increased responsibilities in the secondary market, and corresponding operational risks. In FY 2010, Ginnie Mae staff increased from 61 to 70, allowing Ginnie Mae to increase its contact with business partners, to bring
additional financial and analytical expertise in-house, and to provide for succession planning for its most senior executives. Growing and strengthening the workforce is critical, yet requires attentive change management. Ginnie Mae is focused on managing and integrating the valuable institutional knowledge of seasoned staff with the different experiences and perspectives that new resources bring to the organization. The union of old and new should prove to be rich and rewarding for Ginnie Mae, its human capital, and the customers it serves.

**COORDINATED RESPONSE TO THE HOUSING CRISIS**
Since the onset of the housing crisis, Ginnie Mae has taken an active role in working with other government agencies involved in stabilizing the credit and housing markets. This includes relationships within HUD, as well as with chartered government agencies, such as the Treasury Department and National Economic Council (NEC), and other regulatory bodies, notably the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC). In particular, Ginnie Mae worked closely with FDIC to manage the orderly transition of Ginnie Mae portfolios of depositories placed in FDIC receivership. Additionally, Ginnie Mae collaborated with the Treasury Department, NEC, and FDIC on legislation to address the financial crisis in the housing market.

Ginnie Mae also maintains productive relationships with the FHA, VA and administrators of other government loan programs. These efforts have been both formal at committee levels, in conjunction with the HUD Secretary, as well as informal in sharing market intelligence and credit risk management observations. In order to work together to mitigate unintended consequences of programmatic changes, Ginnie Mae also fostered cooperative efforts with Rural Development when USDA’s program was undergoing recent structural change and with VA as the servicing industry has been over burdened in the current difficult environment. Further, the regular interagency communication provides greater insight into counterparty performance and stability to better direct valuable surveillance and monitoring resources.
Financial Highlights and Management’s Discussion and Analysis
Ginnie Mae’s financial performance remained strong and stable during FY 2010.

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 IV 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 change each year, depending on fluctuations in interest income from its U.S. Treasury securities and MBS program income.

REVENUES
Ginnie Mae receives no appropriations from general tax revenue. Operations are self-financed through a variety of fees. In FY 2010, Ginnie Mae generated total revenue of $1,011.9 million. This included $742.9 million in program income and $269.0 million in interest income from U.S. Treasury 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 5 years.

MBS PROGRAM INCOME
MBS program income consists primarily of guaranty fees, commitment fees, and multiclass fees. For FY 2010, MBS program income was concentrated in guaranty fees of $567.8 million, followed by commitment fees of $83.7 million. Combined guaranty fees and commitment fees made up 87.7 percent of total MBS program revenue for FY 2010. Other lesser income sources include new issuer fees, handling fees, and transfer-of-servicing fees.
TABLE 1: GINNIE MAE FINANCIAL HIGHLIGHTS, FISCAL YEARS 2008 TO 2010

<table>
<thead>
<tr>
<th>SEPTEMBER 30</th>
<th>2010</th>
<th>2009</th>
<th>2008</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>$6,650,500</td>
<td>$5,253,800</td>
<td>$4,836,300</td>
</tr>
<tr>
<td>U.S. Government Securities</td>
<td>$3,551,200</td>
<td>$9,235,800</td>
<td>$9,254,000</td>
</tr>
<tr>
<td>Other Assets</td>
<td>$6,861,600</td>
<td>$1,184,800</td>
<td>$798,100</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$17,063,300</td>
<td>$15,674,400</td>
<td>$14,888,400</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$2,485,500</td>
<td>$1,638,100</td>
<td>$1,361,700</td>
</tr>
<tr>
<td>Investment of U.S. Government</td>
<td>$14,577,800</td>
<td>$14,036,300</td>
<td>$13,526,700</td>
</tr>
<tr>
<td>Total RPB Outstanding (1)</td>
<td>$1,046,179,139</td>
<td>$826,016,583</td>
<td>$576,761,925</td>
</tr>
<tr>
<td>LLR (2) and Investment of U.S. Government</td>
<td>$15,582,700</td>
<td>$14,596,200</td>
<td>$14,076,700</td>
</tr>
<tr>
<td>Investment of U.S. Government as a Percentage of Average Total Assets</td>
<td>89.06%</td>
<td>91.85%</td>
<td>94.59%</td>
</tr>
<tr>
<td>LLR and Investment of U.S. Government as a Percentage of RPB</td>
<td>1.49%</td>
<td>1.77%</td>
<td>2.44%</td>
</tr>
<tr>
<td>Capital Adequacy Ratio (3)</td>
<td>1.47%</td>
<td>1.73%</td>
<td>2.38%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBS Program Income</td>
<td>$742,900</td>
<td>$547,800</td>
<td>$381,900</td>
</tr>
<tr>
<td>Interest Income</td>
<td>$269,000</td>
<td>$109,500</td>
<td>$633,500</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$1,011,900</td>
<td>$657,300</td>
<td>$1,015,400</td>
</tr>
<tr>
<td>MBS Program Expenses</td>
<td>$72,700</td>
<td>$55,400</td>
<td>$49,000</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>$10,300</td>
<td>$8,600</td>
<td>$8,800</td>
</tr>
<tr>
<td>Fixed Asset Amortization</td>
<td>$9,500</td>
<td>$5,100</td>
<td>$1,200</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$92,500</td>
<td>$69,100</td>
<td>$59,000</td>
</tr>
<tr>
<td>Provision for Loss</td>
<td>$730,000</td>
<td>$78,600</td>
<td>$50,200</td>
</tr>
<tr>
<td>Total Gains (4)</td>
<td>$352,100</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Excess of Revenues Over Expenses</td>
<td>$541,500</td>
<td>$509,600</td>
<td>$906,200</td>
</tr>
<tr>
<td>Total Expense as a Percentage of Average RPB</td>
<td>0.0099%</td>
<td>0.0099%</td>
<td>0.0117%</td>
</tr>
<tr>
<td>Provision for Loss as a Percentage of Average RPB</td>
<td>0.0780%</td>
<td>0.0112%</td>
<td>0.0100%</td>
</tr>
</tbody>
</table>

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS, this does not include $16.6 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
(4) Total gains from sale of securities and capitalization on MSR.
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 29.6 percent to $567.8 million in FY 2010, up from $438.3 million in FY 2009. This higher guaranty fee income reflects the increase in the MBS portfolio. The outstanding MBS balance at the end of FY 2010 was $1,046.2 billion, compared with $826.0 billion the previous year, as new issuances exceeded repayments (see Figure 6).

Commitment Fees

Commitment fees are income that Ginnie Mae earns for providing approved issuers with the authority to pool mortgages into Ginnie Mae MBS. This authority expires 12 months from its receipt for single family issuers and 24 months from its receipt for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority. It recognizes the commitment fees as earned when issuers use their commitment authority. The balance is deferred until earned or expired, whichever occurs first. As of September 30, 2010, commitment fees deferred totaled $19.9 million. Ginnie Mae issued $397.9 billion in commitment authority in FY 2010, an 11 percent decrease from FY 2009.
Multiclass Revenue

Multiclass revenue is part of MBS program revenue and is composed of REMIC and Platinum program fees. Ginnie Mae issued approximately $51.9 billion in Platinum products in FY 2010 (see Figure 7). Total cash fees for Platinum securities amounted to $11.8 million. Total cash guaranty fees from REMIC securities totaled $57.4 million on $184.3 billion in issuance of REMIC products (see Figure 8). Ginnie Mae recognizes a portion of REMIC, Callable Trust, and Platinum program fees in the period they are received, with balances deferred and amortized over the remaining life of the financial investment.

In FY 2010, Ginnie Mae issued $236.2 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, 2010, was $488.7 billion. This reflects a $138.3 billion increase from the $350.4 billion outstanding balance in FY 2009.

Interest Income

Ginnie Mae invests in U.S. Government securities of varying terms. Ginnie Mae’s interest income increased as a percentage of total revenue. In FY 2010, interest income increased to $269.0 million from $109.5 million in FY 2009. The most prominent reason for the increase was due to inflation compensation for the Treasury Inflation Indexed Securities.

EXPENSES

Management exercised prudent expense control during FY 2010. Operating expenses in FY 2010 increased by 34 percent to $92.5 million, up from $69.1 million in FY 2009. Total expenses were 9 percent of total revenues in FY 2010, down from 11 percent in FY 2009.

Ginnie Mae’s higher excess revenues over expenses (net profit) of $541.5 million for FY 2010 versus $509.6 million for FY 2009 was driven by the significant increase in interest income and program income (see Figure 9).

To support U.S. military personnel called into action, Ginnie Mae reimburses the interest on loans to service members who have FHA or VA mortgages with interest rates in excess of 6 percent. In FY 2010, this expense totaled $2.3 million; an increase from FY 2009 related expenses.

Table 2 presents the expenses related to Ginnie Mae programs and contractors during the last five years. Although issuance volume has grown more than fourfold,
related expenses have been managed well over this time, as demonstrated in the table.

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. The Provision for Loss increased to $730.0 million in FY 2010 as compared to $78.6 million in FY 2009. Ginnie Mae defaulted four single family issuers during FY 2010. Ginnie Mae believes that the reserve for loss is adequate to cover any uninsured losses sustained for these issuers and from unknown future losses from the occurrence of periodic defaults.

**MBS ISSUANCE AND PORTFOLIO GROWTH**

Although demand for government loans remained strong, Ginnie Mae MBS issuance fell slightly by 1.4 percent to $413.0 billion in FY 2010 (as shown in Figure 1 in Section I). In July 2010, Ginnie Mae reached a new milestone by surpassing $1 trillion in remaining principal balance for the first time in its history. The current outstanding amount stands at $1,046.2 billion, which is a $220.2 billion increase over the amount at the end of FY 2009, and has been driven heavily by the increase in FHA volume. The effect of the increase of the portfolio also has changed its character, shifting the overall age of the loans. Almost 23 percent of the $3.7 trillion in MBS guaranteed by Ginnie Mae since its inception has been issued in the last 2 years (see Figure 10).

As shown in Figure 11, Ginnie Mae supported approximately 1.9 million units of housing for individuals and families in FY 2010, an 18 percent increase from FY 2009. Clearly, Ginnie Mae has made a significant impact on the availability of homeownership and rental opportunities.

**SINGLE FAMILY PROGRAM**

The vast majority of the mortgages in Ginnie Mae securities are originated through FHA and VA programs. FHA-insured mortgages accounted for 79.4 percent of loans in Ginnie Mae pools, while VA-guaranteed loans accounted for 16.2 percent in FY 2010; Rural Development and PIH loans made up the remaining 4.4 percent. 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 2010, 99.5 percent of FHA loans and 97.0 percent of VA loans were placed into Ginnie Mae pools, once again exceeding the performance goals set by HUD. These goals include that Ginnie Mae securities contain at least 95 percent of eligible FHA single family fixed-rate loans and

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**TABLE 2: PROGRAM/CONTRACTOR EXPENSES, FISCAL YEARS 2006 TO 2010**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Paying Agent</td>
<td>10.4</td>
<td>7.7</td>
<td>8.0</td>
<td>6.8</td>
<td>8.5</td>
</tr>
<tr>
<td>Contract Compliance</td>
<td>0.9</td>
<td>0.3</td>
<td>0.4</td>
<td>0.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Federal Reserve</td>
<td>4.8</td>
<td>4.9</td>
<td>2.5</td>
<td>3.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Financial Support</td>
<td>1.8</td>
<td>0.8</td>
<td>0.7</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>IT Related &amp; Miscellaneous</td>
<td>8.0</td>
<td>5.4</td>
<td>6.9</td>
<td>4.6</td>
<td>6.8</td>
</tr>
<tr>
<td>MBS Information Systems &amp; Compliance</td>
<td>19.2</td>
<td>15.1</td>
<td>15.7</td>
<td>11.9</td>
<td>9.9</td>
</tr>
<tr>
<td>Multiclass</td>
<td>17.5</td>
<td>11.0</td>
<td>11.2</td>
<td>8.7</td>
<td>7.9</td>
</tr>
<tr>
<td>Multifamily Program</td>
<td>7.7</td>
<td>8.0</td>
<td>2.2</td>
<td>5.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Servicemembers Civil Relief Act</td>
<td>2.3</td>
<td>2.2</td>
<td>1.4</td>
<td>0.0</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>72.7</strong></td>
<td><strong>55.4</strong></td>
<td><strong>49.0</strong></td>
<td><strong>41.9</strong></td>
<td><strong>47.7</strong></td>
</tr>
</tbody>
</table>
86 percent of VA single family fixed-rate loans. Ginnie Mae exceeded these goals in FY 2010 by 4.5 percentage points and 11.0 percentage points, respectively. In FY 2010, 24.5 percent of pools received TLI credit, exceeding HUD's performance goal that 20 percent of all Ginnie Mae single family pools issued be TLI pools.

Although loans underlying its securities are concentrated in specific areas, Ginnie Mae has provided homeownership opportunities in every U.S. state and territory. Figure 12 highlights the geographic distribution of single family properties securing Ginnie Mae securities as of September 30, 2010.

**Note on Loan Modifications**

In February 2010, Ginnie Mae issued an All Participants Memorandum clarifying Ginnie Mae’s role with regard to loan modifications and summarizing the guidelines for determining when loans can be purchased out of Ginnie Mae securities. Loans backing Ginnie Mae securities generally may be repurchased from a pool only if the borrower fails to make any payment for 3 consecutive months. Under the FHA’s Home Affordable Modification Program (HAMP) loans may be purchased out of a pool if the borrower is approved for a trial modification and the loan is in a continuous period of default for more than 90 days. Ginnie Mae, however, is not involved in either the loss mitigation or loan modification process. Ginnie Mae does not modify loans, nor does it determine a borrower’s eligibility for loan modification or loss mitigation. Eligibility for these programs remains at the discretion of the servicer of the mortgage loans and the government agencies overseeing the various programs.

**MULTIFAMILY PROGRAM**

As of the end of FY 2010, Ginnie Mae guaranteed securities that contained 98 percent of eligible multifamily FHA loans. This result is a 3 percentage point increase over HUD’s performance goal that at least 95 percent of eligible multifamily mortgages be placed into Ginnie Mae pools. In FY 2010, the Multifamily Program portfolio increased by $7.9 billion, from $41.8 billion to $49.7 billion, marking
16 years of consecutive growth in Ginnie Mae’s multifamily housing program.

Figure 13 shows the geographic distribution of multifamily properties securing Ginnie Mae securities as of September 30, 2010. Since 1971, Ginnie Mae has guaranteed $123.2 billion in multifamily MBS, helping to finance affordable and community-stabilizing multifamily housing developments across the nation.

In addition, Ginnie Mae’s portfolio of Multifamily Rural Development loans grew in FY 2010 to an outstanding principal balance of $339.1 million at fiscal year end. These loans are guaranteed through the U.S. Department of Agriculture’s Rural Development Guaranteed Rural Rental Housing Program. The number of Multifamily Rural Development program became more diverse in FY 2010 than in previous years, as new issuers entered the program. There were Rural Development loans from 9 issuers in 37 states in Ginnie Mae pools by the end of FY 2010.
**FIGURE 12**

**GEOGRAPHIC DISTRIBUTION OF SINGLE FAMILY PROPERTIES SECURING GINNIE MAE SECURITIES**

*AS OF SEPTEMBER 30, 2010*

<table>
<thead>
<tr>
<th>STATE</th>
<th>LOANS</th>
<th>PERCENT OF TOTAL SF LOANS</th>
<th>RPB ($ MILLIONS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>417,924</td>
<td>6.13%</td>
<td>$94,425</td>
</tr>
<tr>
<td>Texas</td>
<td>782,796</td>
<td>11.48%</td>
<td>$86,609</td>
</tr>
<tr>
<td>Florida</td>
<td>366,642</td>
<td>5.38%</td>
<td>$48,425</td>
</tr>
<tr>
<td>Virginia</td>
<td>242,700</td>
<td>3.56%</td>
<td>$47,001</td>
</tr>
<tr>
<td>Georgia</td>
<td>315,113</td>
<td>4.62%</td>
<td>$41,468</td>
</tr>
<tr>
<td>North Carolina</td>
<td>264,119</td>
<td>3.87%</td>
<td>$34,396</td>
</tr>
<tr>
<td>Maryland</td>
<td>156,523</td>
<td>2.30%</td>
<td>$32,808</td>
</tr>
<tr>
<td>Washington</td>
<td>165,548</td>
<td>2.43%</td>
<td>$32,724</td>
</tr>
<tr>
<td>Ohio</td>
<td>280,044</td>
<td>4.18%</td>
<td>$32,555</td>
</tr>
<tr>
<td>New York</td>
<td>205,089</td>
<td>3.01%</td>
<td>$32,335</td>
</tr>
</tbody>
</table>

**FIGURE 13**

**GEOGRAPHIC DISTRIBUTION OF MULTIFAMILY PROPERTIES SECURING GINNIE MAE SECURITIES**

*AS OF SEPTEMBER 30, 2010*

<table>
<thead>
<tr>
<th>STATE</th>
<th>LOANS</th>
<th>PERCENT OF TOTAL MF LOANS</th>
<th>RPB ($ MILLIONS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>634</td>
<td>6.94%</td>
<td>$4,433</td>
</tr>
<tr>
<td>California</td>
<td>603</td>
<td>6.60%</td>
<td>$3,434</td>
</tr>
<tr>
<td>Illinois</td>
<td>491</td>
<td>5.37%</td>
<td>$3,272</td>
</tr>
<tr>
<td>New York</td>
<td>424</td>
<td>4.64%</td>
<td>$3,197</td>
</tr>
<tr>
<td>Ohio</td>
<td>707</td>
<td>7.74%</td>
<td>$2,359</td>
</tr>
<tr>
<td>Maryland</td>
<td>250</td>
<td>2.74%</td>
<td>$2,082</td>
</tr>
<tr>
<td>Florida</td>
<td>264</td>
<td>2.89%</td>
<td>$1,948</td>
</tr>
<tr>
<td>Indiana</td>
<td>427</td>
<td>4.67%</td>
<td>$1,701</td>
</tr>
<tr>
<td>Michigan</td>
<td>336</td>
<td>3.68%</td>
<td>$1,630</td>
</tr>
<tr>
<td>Minnesota</td>
<td>286</td>
<td>3.13%</td>
<td>$1,590</td>
</tr>
</tbody>
</table>
Bringing Global Capital into the American Housing Finance System

HMBS PROGRAM

Significant efforts have been made to help 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 to improve reporting, disclosure, and quality assurance reviews of the relevant issuers. The unpaid principal balance of HMBS climbed to $18.2 billion in FY 2010 and the number of participations (the funded portions of HECM loans that have been securitized) increased to 421,530. The structured market for HMBS has also seen a huge demand, with the volume of H-REMICs climbing to 20 transactions in FY 2010 versus just one in FY 2009. 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 senior population.

MH PROGRAM

In June, Ginnie Mae announced a new Manufactured Housing MBS program for Title I mortgage loans and began accepting applications for participation in the program. For nearly 20 years, Ginnie Mae’s MH program has been small, as the organization had a moratorium on new issuers. Issuers that were approved to issue manufactured housing securities under previous Manufactured Housing programs are required to reapply in order to participate in the new program. The new MH MBS program is being implemented in conjunction with recent changes to FHA’s Title I Program for manufactured housing and the Housing and Recovery Act of 2008.

The MH program remaining principal balance was $220.1 million by the end of FY 2010, down from $228.1 million at the end of the prior fiscal year.

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 by 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 2010, 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 obtains loan-level data that 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 guaranty business are accommodated by adjusting management assumption drivers within the model.

Cash flows for income and expenses associated with Ginnie Mae’s MBS guaranty 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. The model’s cash flow output was used to estimate the net present value of Ginnie Mae’s future cash flows from the outstanding guaranty portfolio at the end of FY 2010 and estimated new business for 30 years into the future. Ginnie Mae updates this model with the recent economic and financial data.

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, 2010, Ginnie Mae reported $6.7 billion in funds with the U.S. Treasury, compared to $5.3 billion on September 30, 2009.

In addition to the funds with the U.S. Treasury, Ginnie Mae’s investment in U.S. Government securities was $3.6 billion as of September 30, 2010 versus $9.2 billion as of September 30, 2009. The decrease was due to Ginnie Mae’s liquidation of
approximately $6.0 billion in securities in order to fund loan repurchases from defaulted issuer pools. Following guidelines outlined in the Ginnie Mae MBS Guide, a large number of loans were repurchased out of pools due to delinquencies of greater than 120 days. In addition, Ginnie Mae repurchased loans in order to complete modifications in accordance with FHA guidelines. In total, Ginnie Mae bought out $4.5 billion in mortgages loans, primarily for the single family defaulted portfolio. These acquired mortgage loans are categorized as mortgages held for investment. This action will save Ginnie Mae approximately $95 million a year.

Of the $3.6 billion balance of the U.S. Government securities portfolio, maturities are 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. As such, $239.5 million was held in overnight certificates.

Table 3 shows the fair value composition and maturity of Ginnie Mae’s U.S. Treasury securities as of September 30, 2010, and as of that day in 2009.

Figure 14 illustrates the components of Ginnie Mae’s Investments in U.S. Government securities as of September 30, 2010.

Ginnie Mae’s MBS guaranty activities historically have operated at no cost to the U.S. Government. Ginnie Mae’s net income continues to build its 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, 2010, the investment of the U.S. Government (retained earnings) was $14.6 billion after establishing reserves for losses on credit activities, compared with $14.0 billion as of September 30, 2009. To assess the strength of its capital position, Ginnie Mae uses a “stress test” methodology that measures the organization’s ability to withstand severe economic conditions. Figure 15 shows Ginnie Mae’s capital reserves as of September 30, 2010, for each of the past 5 years.
RISK MANAGEMENT AND SYSTEMS OF INTERNAL CONTROLS

As described in Section II of this report, Ginnie Mae continues to enhance its automated systems and business processes to increase operational efficiency and reduce business risk. An Internal Controls Manager oversees internal controls for the organization, including contractor assessments, Office of Management and Budget’s (OMB) Circular A-123, (Management’s Responsibility for Internal Control) assessments, 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, which includes 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 as of June 30, 2010.

To assess the strength of its capital position, Ginnie Mae uses a “stress test” methodology that measures the organization’s ability to withstand severe economic conditions.