OFFICE OF AUDIT
FINANCIAL AUDITS DIVISION
WASHINGTON, DC

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

2014-FO-0001

December 6, 2013

Issue Date: December 6, 2013

Audit Report Number: 2014-FO-0001

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

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

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

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

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

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

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

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

Issue Date: December 6, 2013

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

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

December 6, 2013

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

Highlights

Audit Report 2014-FO-0001

What We Audited and Why

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

What We Recommend

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

What We Found

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

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CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Inspector General
United States Department of Housing and Urban Development

President
Government National Mortgage Association

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

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

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

Report on the Financial Statements

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

Management's Responsibilities

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

Auditors' Responsibilities

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

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

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

Opinion on the Financial Statements

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

Other Matters

<u>*Other Information*</u>

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

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

Report on Internal Control over Financial Reporting

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

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

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

<u>Inaccurate Accounting Reporting from Master Subservicer</u>

> As a result of its routine contractor monitoring process and other special reviews, Ginnie Mae identified that the accounting reports provided by their largest master loan subservicer for use in its financial reporting were inadequately supported and contained inaccurate data. They also found untimely processing and posting of certain loan servicing events. Specifically, these reviews found:
>
> - Inadequate controls over the completeness and accuracy of the loan data reported on the accounting reports
> - Untimely billing for loan servicing expenses
> - Untimely recording of claims/write-offs
> - Interest curtailment due to untimely filing
>
> Ginnie Mae's Office of the Chief Financial Officer (OCFO) worked to develop alternative reports from the master subservicer's primary loan servicing system to properly support the related balances in their financial statements.

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

Report on Compliance

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

Management's Responsibility for Internal Control and Compliance

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

Auditors' Responsibilities

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

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

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

Management's Response to Findings

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Arlington, Virginia
November 25, 2013

EXHIBIT A
Significant Deficiency

Inaccurate Accounting Reporting from Master Subservicer

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

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

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

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

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

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

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

- BAC did not submit requests for reimbursement to insuring agencies on behalf of Ginnie Mae for supplemental foreclosure expenses timely

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

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

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

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

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

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

EXHIBIT A
Significant Deficiency

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

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

Recommendations

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

1a. Obtain a corrective action plan from BAC with critical milestones to document how all information is to be provided, supported, and reconciled to the appropriate underlying information system.

1b. Review the projected workload requirements with BAC, evaluate the remaining impact of ongoing delays in recording servicing activity, and document the anticipated effect on future financial reporting.

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

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

EXHIBIT B
Management's Response

Ginnie Mae
Our Guaranty Matters

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

December 3, 2013

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

Dear Mr. Von Elm:

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

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

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

Sincerely,

Theodore W. Tozer
President

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

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Government National Mortgage Association

Financial Statements for the fiscal years ended

September 30, 2013 and 2012

Government National Mortgage Association

Financial Statements

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

See the accompanying notes to the financial statements.

Government National Mortgage Association

Financial Statements

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

See the accompanying notes to the financial statements.

Government National Mortgage Association

Financial Statements

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

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

See the accompanying notes to the financial statements.

Notes to the Financial Statements

September 30, 2013 and 2012

Note 1: Organization and Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Once Ginnie Mae purchases the loans from the pools after the 90 and 120 day delinquency thresholds for Manufactured Housing and Single Family loans, respectively, the loans are reclassified as Mortgage Loans Held for Investment (HFI) below. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency or underlying collateral upon foreclosure.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 2: U.S. Government Securities

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

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

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

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

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

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

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

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

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

Although sales of investments are rare, Ginnie Mae liquidated one of its U.S. Government securities within one year of maturity in FY 2012. The par value of the security sold was $520.6 million and the realized gain on the sale was $12.5 million. These funds were used to repurchase mortgage loans held for investment from defaulted issuer MBS pools. There were no sales of investments prior to maturity in FY 2013.

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

Note 3: Financial Guarantees and Financial Instruments with Off-Balance Sheet Risk
Ginnie Mae receives a guaranty fee from issuers which is calculated based on the unpaid principal balance of outstanding MBS in the non-defaulted issuer portfolio. It is Ginnie Mae's compensation for taking on the risk of providing the guaranty to MBS investors for the timely payment of principal and interest in the event of issuer default.

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

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

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

(Dollars in billions)	September 30 2013		2012	
Outstanding MBS	$	1,457.0	$	1,341.4
Outstanding MBS Commitments	$	118.1	$	115.7

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

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

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

Note 4: Mortgage Servicing Rights

The following table presents activity for residential first mortgage MSRs:

(Dollars in thousands)	September 30 2013	
Balance, October 1, 2012	$	60,700
Additions		-
Changes in Fair Value		4,400
Balance, September 30, 2013	**$**	**65,100**

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

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

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

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

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

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

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

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

Note 5: Advances Against Defaulted MBS Pools

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

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

Note 6: Ginnie Mae Defaulted Issuer Loan Portfolio Profile

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

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

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

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

Note 7: Mortgage Loans Held for Investment, Net

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

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

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

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

Note 8: Foreclosed Property, Net

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

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

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

Note 9: Short Sale Claims Receivable, Net

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

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

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

Note 10: Insurance Claims Receivable

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

Note 11: Properties Held for Sale, Net

Balances and activity for these acquired properties were as follows:

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

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

Note 12: Fair Value Measurements

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

Recurring Changes in Fair Value

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

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

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

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

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

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

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

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

Nonrecurring Changes in Fair Value

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

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

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

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

Fair Value of Financial Instruments

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

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

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

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

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

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

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

Note 13: MBS Loss Liability

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

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

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

Note 14: Concentrations of Credit Risk

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

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

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

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

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

Note 15: Commitments and Contingencies

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

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

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

Note 16: Related Parties

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

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

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

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

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

Note 17: Credit Reform

The Federal Credit Reform Act of 1990, which became effective on October 1, 1991, was enacted to more accurately measure the cost of federal credit programs and to place the cost of these credit programs on a basis equivalent with other federal spending. Credit reform focuses on credit programs that operate at a loss by providing for appropriated funding, within budgetary limitations, to subsidize the loss element of the credit program. Negative subsidies, calculated for credit programs operating at a profit, normally result in the return of funds to the U.S. Treasury. OMB specifies the methodology an agency is to follow in accounting for the cash flows of its credit programs.

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

Note 18: Subsequent Event

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