Report to Congress

Fiscal Year 2010

November 6, 2010

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

Dear Mr. Secretary:

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

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

In July 2010, Ginnie Mae reached a new milestone by surpassing $1 trillion in outstanding principal balance for the first time in its history. In Fiscal Year 2010, Ginnie Mae guaranteed $413 billion in securities, which represents the corporation's efforts to finance nearly 1.9 million homes for families across the country. Included in this year's volume are significant multifamily projects, primarily apartment buildings that provide affordable rental homes.

Since the onset of the credit crisis, Ginnie Mae has taken an active role in working with other government agencies involved in stabilizing the credit and housing markets. In particular, Ginnie Mae worked closely with the Federal Deposit Insurance Corporation (FDIC) to manage the orderly transition of Ginnie Mae portfolios of depositories placed in FDIC receivership. Additionally, Ginnie Mae published an All Participants Memorandum clarifying its role with regard to loan modifications and the process by which loans may be repurchased from a Ginnie Mae security. For issuers in good standing or non-defaulted issuers, Ginnie Mae is not involved in either the loss mitigation or loan modification process.

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

Sincerely,

Theodore W. Tozer
President

Contents

I. Mission and Purpose

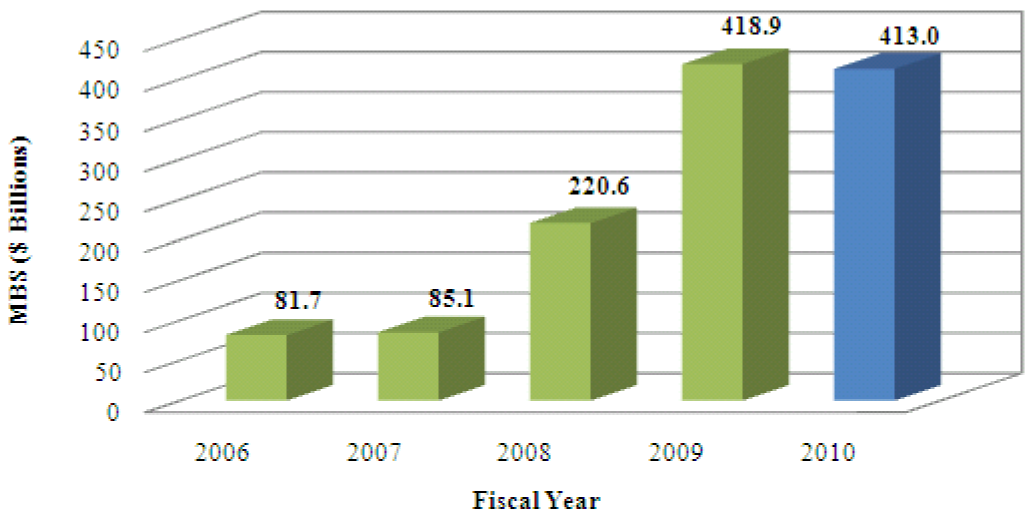
Ginnie Mae's mission and purpose is to bring global capital into the housing finance system—a system that runs through the core of our Nation's economy—while minimizing risk to the taxpayer. For more than 40 years, Ginnie Mae has provided liquidity and stability, serving as the principal financing arm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

Financing Safe and Affordable Housing

At the heart of the debate over the future of our housing finance system is the value our Nation places on quality housing that people can afford and the importance of mortgage products that they can understand. With the capital that it brings to the table, Ginnie Mae is able to support the government's role in promoting and expanding safe and affordable single family and rental homes during all types of economic environments. The advantage of Ginnie Mae's design becomes most apparent during adverse economic circumstances. When capital for mortgage loans is least available, reasonably priced funding is most needed.

The ability to offer the full faith and credit guaranty of the U.S. Government on its MBS is the principal means by which Ginnie Mae expands affordable housing in America. This guaranty attracts capital from many sources across the globe and enables Ginnie Mae to channel it to finance housing in America. Thus, investors' willingness to buy Ginnie Mae MBS during the credit crisis helps to stabilize the Nation's housing market and the broader U.S. economy. The continued demand for these securities provides a steady source of funding for government-backed loans. The securities also enjoy strong pricing in the secondary market and favorable trading spreads, which translate into lower interest rates to borrowers. The Ginnie Mae MBS ensures that mortgage financing is available for homeownership and rental homes regardless of the economic climate. The significant growth in the issuance of Ginnie Mae MBS over the past 5 years is highlighted in Figure 1.

Figure 1: Mortgage-Backed Securities Issuance of Ginnie Mae
Fiscal Years 2006 to 2010



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

Ginnie Mae's History

Ginnie Mae's roots trace to the Great Depression—a time when unprecedented unemployment levels led to loan defaults and home foreclosures on a massive scale. In its aftermath, today's American housing finance system began to take shape. Congress responded to this early housing crisis by passing the National Housing Act of 1934 and creating the Federal Housing Administration (FHA). FHA was charged with increasing the availability of mortgage credit to homebuyers by insuring private lenders against the risk of mortgage default. In 1938, the Federal National Mortgage Association (now known as Fannie Mae) was chartered to buy FHA-insured mortgages. In this organization, the Federal Government had an entity to manage its portfolio of FHA loans. In 1965, Congress established the U.S. Department of Housing and Urban Development (HUD) to focus on housing policy and to consolidate various federal agencies and oversight of programs dealing with housing. Among those agencies was Fannie Mae, which in 1968 was partitioned into two entities: (1) Fannie Mae, to retain responsibility for purchasing “conventional” (non-U.S. Government-guaranteed) mortgages that conforms to specified standards, and (2) the Government National Mortgage Association, now known as Ginnie Mae. This entity was created to provide the full faith and credit guaranty of the U.S. Government for the timely payment of principal and interest on MBS secured by pools of government loans. These loans are insured or guaranteed by FHA, HUD’s Office of Public and Indian Housing (PIH), the U.S. Department of Veterans Affairs’ (VA) Home Loan Program for Veterans, and the U.S. Department of Agriculture’s (USDA) Rural Development Housing and Community Facilities Programs and Rural Development Guaranteed Rural Rental Housing Program (Rural Development)[1].

The creation of Ginnie Mae eliminated the need for the U.S. Treasury to provide funding for various government loan programs. In 1970, Ginnie Mae developed and guaranteed the first-ever MBS, enabling lending institutions to convert individual loans into safe, liquid securities for investors. Now funds could be tapped from investors in the global capital markets to flow into our housing finance system. As such, and continuing today, Ginnie Mae serves as the financing arm of housing-related federal agencies, enabling them to sustain and support their lending programs. Ginnie Mae remains a wholly owned government corporation within HUD, administered by the Secretary of HUD and the President of Ginnie Mae.

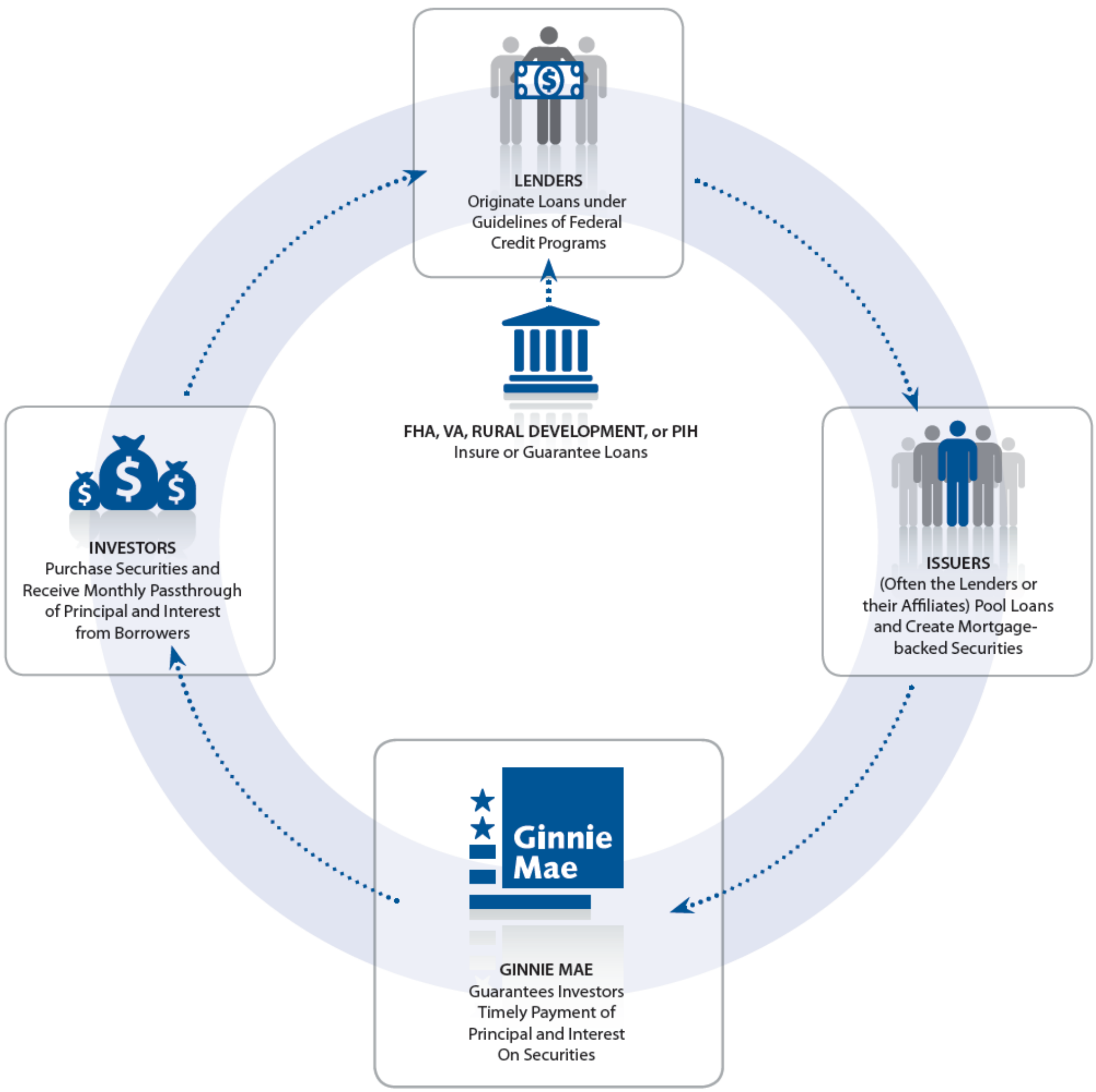
The Role of Ginnie Mae and the Strength of its Business Model

Today, Ginnie Mae continues to partner with qualified mortgage lenders that pool their government-insured or government-guaranteed mortgage loans and issue MBS. Ginnie Mae, in turn, guarantees the performance of the lender who issues the MBS and who continues to service and manage the underlying loans. The Ginnie Mae guaranty, coupled with an expected return higher than U.S. Treasury securities, makes Ginnie Mae securities highly liquid and attractive to domestic and foreign investors of all types. This liquidity is passed on to lenders who then can use the proceeds from issuances to make new mortgage

[1] The Federal Housing Administration (FHA) and the PIH are both administered by HUD. FHA provides mortgage insurance on single family, multifamily, and manufactured homes, and on hospital loans made by FHA-approved lenders throughout the United States and its territories. Borrowers must meet certain requirements established by FHA to qualify for the insurance. PIH seeks to ensure safe, decent, and affordable housing; create opportunities for residents' self-sufficiency and economic independence; and assure fiscal integrity by all program participants. The VA guarantees loans made to qualified American service members. USDA Rural Development runs programs intended to improve the economy and quality of life in rural America. To this end, USDA Rural Development maintains a loan portfolio and administers a variety of program loans, loan guarantees, and grants.

loans available. The ongoing cycle (as depicted in Figure 2) helps to lower financing costs and thus supports accessible and affordable homes for Americans. And because the securities are backed by the full faith and credit of the U.S. Government, capital still flows even during recessionary periods when liquidity stalls in the private market. It is through this sustaining model that Ginnie Mae brings capital into the Nation's housing finance system.

Figure 2: Capital Flow of Ginnie Mae Guaranteed Securities



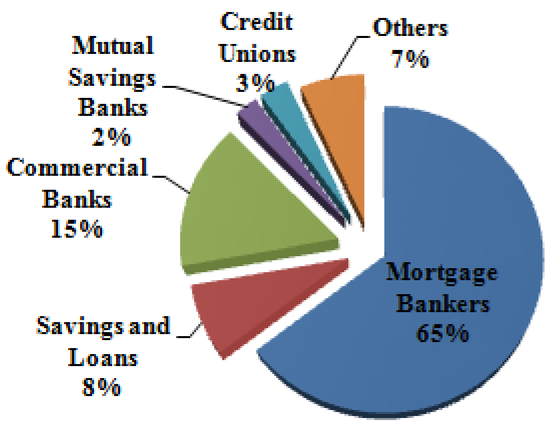
At the same time, Ginnie Mae's fundamental business model significantly limits the taxpayer's exposure to risk. Ginnie Mae's strategy is not to originate or invest in mortgage loans directly, nor does it purchase, sell, or issue securities itself[2]. It does not take on borrower credit risk and does not rely on credit derivative products to hedge; nor does it need to carry long-term debt on its balance sheet. By guaranteeing the servicing performance of the issuer of the MBS, Ginnie Mae insulates itself from the credit risk of the underlying mortgage loans. It ensures that issuers have the expertise and financial strength to perform their obligations in servicing Ginnie Mae MBS.

Because it is the private lending institutions that originate eligible loans, pool them into securities, and issue Ginnie Mae MBS, Ginnie Mae's exposure to risk is limited to the ability and capacity of these issuers to fulfill their obligations as issuers.[3] These institutions are individually approved and constantly monitored by Ginnie Mae. They are diverse in size and geography and include mortgage companies, commercial banks, thrifts, credit unions, and state housing finance agencies (HFAs) (see Figure 3). Through increased interest and outreach efforts, the number of approved Ginnie Mae issuers grew from 367 to 381 during FY 2010, an increase of 4 percent.

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

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

Figure 3: Ginnie Mae Issuers by Institution Type
Number of Issuers Basis (as of September 30, 2010)



Issuer approval and ongoing monitoring processes are a significant component of Ginnie Mae's enterprise risk management efforts and include the evaluation of financial strength, performance, and stability. These processes are sufficiently rigorous to detect unqualified participants, but straightforward enough not to unduly burden smaller, qualified market participants. Once Ginnie Mae approves an applicant, commitment authority[4] is granted to the prospective issuer indicating that it meets Ginnie Mae's eligibility requirements. The issuer can submit pools of loans and issue securities up to its commitment amount.

Ginnie Mae Products and Programs

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

[4] An issuer's commitment authority is the total cumulative dollar amount of new securities that Ginnie Mae will guarantee on behalf of that issuer. See "Revenues—Commitment Fees" in Section III.

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

The Ginnie Mae MBS also serve as the underlying collateral for multiclass products such as Real Estate Mortgage Investment Conduits (REMIC), Callable Trusts, Platinums, and SMBS, for which Ginnie Mae also guarantees the timely payment of principal and interest. These structured transactions allow the private sector to combine and restructure cash flows from Ginnie Mae MBS into securities that meet unique investor requirements for yield, maturity, and call-option protection. They help to increase liquidity in the secondary mortgage market and to attract new sources of capital.

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

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

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

Single Family Program – The majority of Ginnie Mae securities are backed by single family mortgages predominantly originated through FHA and VA loan insurance programs (79.4 percent and 16.2 percent, respectively). More than 99.5 percent of FHA fixed-rate single family loans and 97.0 percent of VA fixed-rate single family loans were placed into Ginnie Mae pools in Fiscal Year (FY) 2010. In its continued response to pressures brought on by the economic crisis, Ginnie Mae implemented a number of important risk management enhancements to its Single Family program during FY 2010. These enhancements are outlined in Section II of this report within a larger discussion of Ginnie Mae's enterprise risk management focus.

HMBS Program – In addition to traditional mortgages, Ginnie Mae's expanding Home Equity Conversion Mortgage (HECM) securities program provides capital and liquidity for FHA-insured reverse mortgages, an increasingly essential financial solution for many senior citizens. HECM loans can be pooled into HECM Mortgage Backed Securities (HMBS) within the Ginnie Mae II MBS program. They can also serve as collateral for REMICs backed by HMBS (H-REMICs), which were introduced in FY 2008.

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

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

Other Targeted Activities – Ginnie Mae's programs also provide capital and create incentives for financial institutions to lend in distressed areas, focusing on homeowners and renters not adequately served by the private market. During FY 2010, Ginnie Mae continued to emphasize its support of housing in the hardest hit states (notably Arizona, California, Florida, and Nevada), which have borne the brunt of recent real estate market turbulence. Ginnie Mae focuses on promoting lending in these and other newly distressed areas—such as those impacted by the 2010 Gulf of Mexico oil spill—through its Targeted Lending Initiative (TLI). This single family program provides incentives for lenders to increase loan volumes in traditionally underserved areas. Established in 1996, the TLI program offers discounts ranging from one to three basis points on Ginnie Mae's six-basis-point guaranty fee, depending on the percentage of TLI-eligible loans within the security. The reduced fee motivates lenders to originate loans in these distressed areas.

Ginnie Mae and the GSEs: Similar but Different Business Models

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

First, Ginnie Mae is wholly owned by the U.S. Government. The GSEs are corporations that are chartered by Congress, but have private stockholders.[5] Furthermore, the Ginnie Mae business model is simple and limits exposure to risk. The GSEs purchase mortgages to hold in their own portfolios or to pool in securities for sale to investors. They may also hold or buy their own securities or securities issued by others. Ginnie Mae, in contrast, does not purchase mortgage loans as part of its regular course of business, nor does it buy, sell, or issue securities. Private lending institutions approved by Ginnie Mae issue the MBS for which Ginnie Mae provides the guaranty. Ginnie Mae only acts as the guarantor on the pools of federally insured or federally guaranteed loans. Fannie Mae and Freddie Mac guarantee the loans themselves, primarily conventional mortgages that meet certain underwriting standards. These mortgages may or may not carry private or government-backed mortgage insurance.

[5] Fannie Mae and Freddie Mac still have private ownership, though each remains under U.S. Department of the Treasury conservatorship that was initiated in September 2008.

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

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

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

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

II. Ginnie Mae's Integral Role in Today's Housing Market

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

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

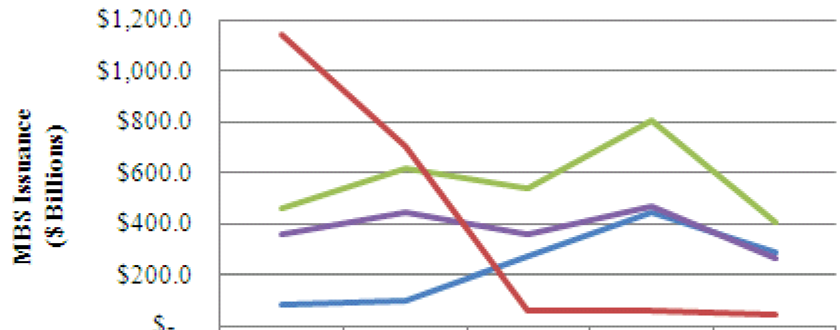
Operating in a Challenging Market Environment

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

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

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

Figure 4: Relative Market Share of Ginnie Mae and GSE Securities[6], 2006 through 2010



	2006	2007	2008	2009	2010
Ginnie Mae	$82.3	$95.5	$269.0	$446.2	$283.8
Fannie Mae	$456.9	$617.7	$542.0	$807.9	$401.2
Freddie Mac	$360.0	$444.3	$357.9	$470.8	$262.9
Non-Agency	$1,145.6	$707.0	$58.0	$60.4	$41.8

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

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

Credit and liquidity also remain problematic within the multifamily sector of the market as owners of apartments, hospitals, and senior housing struggle to obtain financing. Private capital sources such as life insurance companies and many depository institutions have been unable or unwilling to fund projects. The multifamily market has turned to the FHA to insure the performance of the borrower, and to Ginnie Mae to secure the funding

[6] Source: *Inside Mortgage Finance Publications* (MBS issuance figures based on the 12 months of the calendar year for 2006 through 2009, and for the first 9 months of the calendar year for 2010).

through the issuance of Ginnie Mae MBS. While private commercial MBS issuance remained weak during FY 2010, multifamily projects insured by FHA and funded by Ginnie Mae securities remained strong, at $12.3 billion in FY 2010.

Providing Value to Stakeholders—Investors and Issuers Alike

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

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

Attracting a Broad Base of Global Investors

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

Importance of Structured Products

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

Best Execution for Ginnie Mae Products

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

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

Building upon efforts over the past two years to increase data and reporting on the underlying collateral, Ginnie Mae now discloses new originations at the time of securitization, rather than one month after issuance. Additionally, Ginnie Mae was successful in accelerating the timeline for collecting and disseminating the monthly performance reporting to investors by as much as 2 weeks. These types of efforts to respond to market needs are critical to supporting investor confidence in, and a greater appetite for, Ginnie Mae securities, thus making them as valuable as possible.

Building a Broad Base of Issuers

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

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

Multifamily lenders also have become increasingly reliant on Ginnie Mae as financing in the private sector commercial mortgage market also has been hit hard in recent years. During FY 2010, Ginnie Mae supported a number of significant multifamily projects, primarily apartment buildings that provide affordable rental homes. Among the most notable non-apartment multifamily projects was the $167 million[7] Lakeway Regional Medical Center in Lakeway, Texas. The project—the largest proprietary hospital ever insured by HUD—will serve a rapidly growing community previously underserved by hospital services. After private funding was withdrawn, financing was made possible by an FHA loan funded by Ginnie Mae securities that were issued by a multifamily issuer. The

[7] HUD issued commitments for hospital construction projects that used Ginnie Mae securities in conjunction with Section 242 mortgage insurance.

hospital is an eight-story, 270,427 square feet medical facility with a multi-story parking garage and will offer a full continuum of inpatient and outpatient services. The construction phase of the project supported 1,204 full-time jobs, with 564 jobs expected once construction is completed[8].

Enhancing Operations to Add Value to Stakeholders

During FY 2010, two important operational changes were announced that will allow small lenders to more easily and efficiently do business with Ginnie Mae and will help to ease liquidity strains. The first is single loan pooling, which first became available for July 2010 issuances. This eliminated the three-loan minimum requirement for issuing securities in multiple-issuer pools and lowered the minimum dollar amount to $25,000 from $250,000. The ability to securitize a single loan makes it easier for smaller issuers to participate in Ginnie Mae programs. Furthermore, Ginnie Mae announced this year that beginning on November 1, 2010, multiple-issuer pools may be settled throughout the month on a flow basis, rather than on only one day each month. These changes were made possible through technology enhancements to GinnieNET[9] and enable issuers to pool mortgages more flexibly and efficiently. They also allow issuers of all sizes to better manage warehouse lending and other short-term credit lines, significantly reducing the costs of doing business with Ginnie Mae.

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

In October 2009, Ginnie Mae implemented key information technology modernization initiatives that lay the foundation for additional capacity, increase efficiency and reduce

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[8] Full-time employees (FTEs) supported was estimated using the IMPLAN Pro input-output model. The model is used by numerous public and private institutions to examine a variety of economic development issues. Model inputs, including forecasted FTEs and revenues, are taken from hospital financial feasibility studies, examined by independent accountants in accordance with professional standards.

[9] GinnieNET is the front-end system that issuers use to submit loan-level data backing new pools, monthly RPBs, and pool certifications to Ginnie Mae. The system also facilitates the identification of TLI-eligible loans, making it easier for issuers to promote mortgage lending in economically disadvantaged areas.

costs to issuers. In addition to enhancements made to support disclosures and single loan and lower dollar pools, these initiatives include improved industry access and file transmissions through the Enterprise Portal and improved data management through the Enterprise-Wide Operational Data Store (EWODS).

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

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

Ginnie Mae's commitment to modernize its infrastructure is guided by the principle to enhance its technical environment by simplifying processes, promoting flexibility in response to a continuously changing mortgage industry, and lowering operational costs to make it more attractive to do business together with its partners.

Navigating Guarantor Risk

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

Counterparty Risk

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

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

- **Portfolio Quality**, particularly indicators such as early payment defaults, origination comparison ratios, and the percentage of an issuer's loan assets that are delinquent.

- **Financial Health**, including recent audited financial reports, net worth[10], profitability levels, and regulatory relationships.

- **Compliance Reviews**, determining the adequacy of servicing and bond administration system controls, safety and soundness practices, and compliance with Ginnie Mae's requirements.

- **Insurance Matching**, confirming (via an automated verification process) that adequate proof of insurance[11] is in place for all pooled loans.

When issuers were unable to meet their obligations, Ginnie Mae moved quickly to protect investors and taxpayers by removing portfolios from those issuers and assuming responsibility for managing the cash flows to investors and the servicing of the mortgage loans. In FY2010, Ginnie Mae defaulted four issuers. Ginnie Mae also monitors the banks

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

[11] As provided by FHA, PIH, VA, or USDA.

holding custodial funds and document custodians tasked with the safekeeping of key collateral documents.

During FY 2010, the risk management team took the lead in evaluating applicants for issuer status and reviewing continued participation by issuers who are not in compliance with Ginnie Mae standards. This process change separated customer-centric service roles from risk roles, which will provide a more robust evaluation of Ginnie Mae's issuers.

Operational Risk Management

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

Data Analysis

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

Human Capital Management

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

Coordinated Response to the Housing Crisis

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

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

III. Financial Highlights and Management's Discussion and Analysis

Ginnie Mae's financial performance remained strong and stable during FY 2010. The year was marked by an increase in revenue, an increase in expenses, and an increase in assets. Ginnie Mae achieved excess revenues over expenses (net profit) of $541.5 million in FY 2010, compared with $509.6 million in FY 2009. Revenues increased by 54 percent to $1,011.9 million, up from $657.3 million in FY 2009. Total assets increased to $17.1 billion from $15.7 billion in FY 2009.

The outstanding MBS portfolio guaranteed by Ginnie Mae increased by $220.2 billion in FY 2010, which led to increased guaranty fee revenues. In FY 2010, MBS program income, including other revenue sources, increased to $742.9 million, up from $547.8 million in FY 2009. Interest income increased to $269.0 million in FY 2010, up from $109.5 million in FY 2009.

In FY 2010, Ginnie Mae issued $397.9 billion in commitment authority, an 11 percent decrease from FY 2009. The $413.0 billion of MBS issued in FY 2010 represents a 1.4 percent decrease from FY 2009. The outstanding MBS balance of $1,046.2 billion at the end of FY 2010, compared to $826.0 billion in FY 2009, resulted from new issuances exceeding repayments. FY 2010 production provided the capital to finance home purchases, refinances, or rental housing for approximately 1.9 million U.S. households.

Table 1 provides financial highlights of Ginnie Mae over the past 3 years.

Table 1: Ginnie Mae Financial Highlights, Fiscal Years 2008 to 2010

	2010	2009	2008
Balance Sheets Highlights and Liquidity Analysis			
Funds with U.S. Treasury	$ 6,650,500	$ 5,253,800	$ 4,836,300
U.S. Government Securities	$ 3,551,200	$ 9,235,800	$ 9,254,000
Other Assets	$ 6,861,600	$ 1,184,800	$ 798,100
Total Assets	$ 17,063,300	$ 15,674,400	$ 14,888,400
Total Liabilities	$ 2,485,500	$ 1,638,100	$ 1,361,700
Investment of U.S. Government	$ 14,577,800	$ 14,036,300	$ 13,526,700
Total RPB Outstanding (1)	$ 1,046,179,139	$ 826,016,583	$ 576,761,925
LLR (2) and Investment of U.S. Government	$ 15,582,700	$ 14,596,200	$ 14,076,700
Investment of U.S. Government as a Percentage of Average Total Assets	89.06%	91.85%	94.59%
LLR and Investment of U.S. Government as a Percentage of RPB	1.49%	1.77%	2.44%
Capital Adequacy Ratio (3)	1.47%	1.73%	2.38%
Highlights From Statements of Revenues and Expenses & Profitability Ratios Year Ended September 30			
MBS Program Income	$ 742,900	$ 547,800	$ 381,900
Interest Income	$ 269,000	$ 109,500	$ 633,500
Other Revenue Sources	$ -	-	$ 8,800
Total Revenues	$ 1,011,900	$ 657,300	$ 1,015,400
MBS Program Expenses	$ 72,700	$ 55,400	$ 49,000
Administrative Expenses	$ 10,300	$ 8,600	$ 8,800
Fixed Asset Amortization	$ 9,500	$ 5,100	$ 1,200
Total Expenses	$ 92,500	$ 69,100	$ 59,000
Provision for Loss	$ 730,000	$ 78,600	$ 50,200
Total Gains (4)	$ 352,100	$ -	$ -
Excess of Revenues Over Expenses	$ 541,500	$ 509,600	$ 906,200
Total Expense as a Percentage of Average RPB	0.0099%	0.0099%	0.0117%
Provision for Loss as a Percentage of Average RPB	0.0780%	0.0112%	0.0100%

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS, this does not include $16.6 million of GNMA Guaranteed Bonds

(2) Loan Loss Reserve (LLR)

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

(4) Total gains from sale of securities and capitalization on MSR.

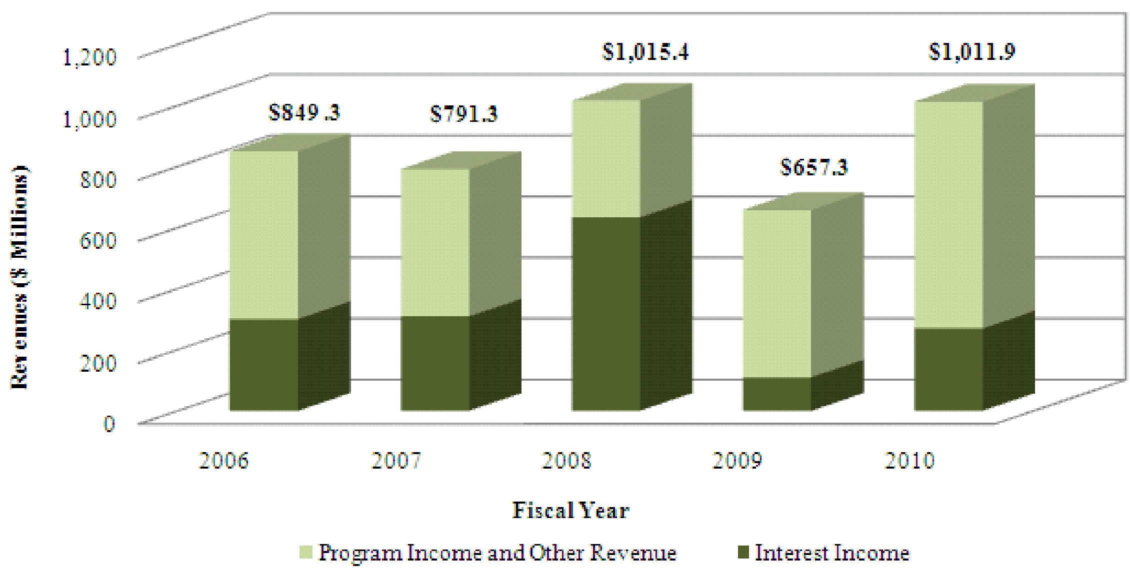
The following discussion provides information relevant to understanding Ginnie Mae's operational results and financial condition. It should be read in conjunction with the financial statements and notes in Section IV of this report. These financial statements have received an unqualified audit opinion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

Revenues

Ginnie Mae receives no appropriations from general tax revenue. Operations are self-financed through a variety of fees. In FY 2010, Ginnie Mae generated total revenue of $1,011.9 million. This included $742.9 million in program income and $269.0 million in interest income from U.S. Treasury securities. It should be noted that Ginnie Mae's cash reserves are being held at the U.S. Treasury.

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

Figure 5: Ginnie Mae Total Revenues, Fiscal Years 2006 to 2010



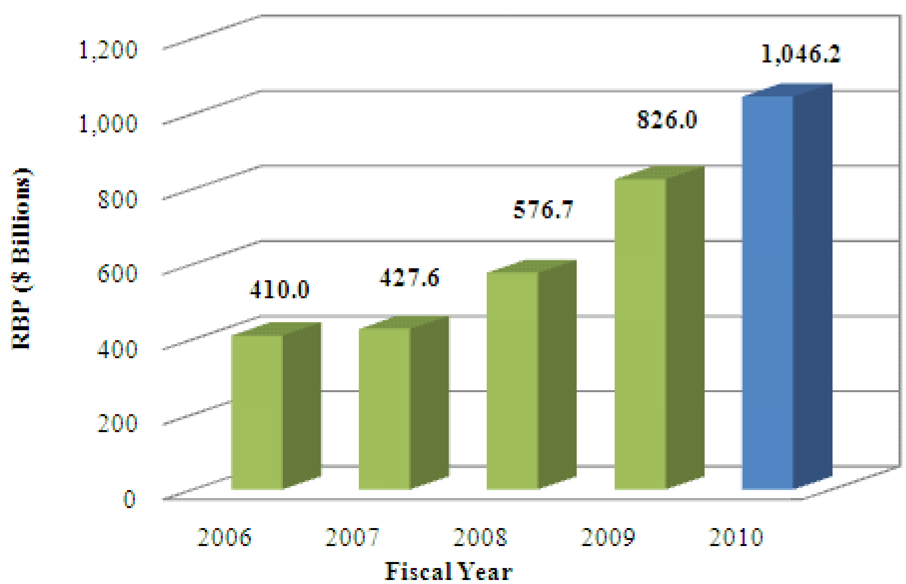
MBS Program Income

MBS program income consists primarily of guaranty fees, commitment fees, and multiclass fees. For FY 2010, MBS program income was concentrated in guaranty fees of $567.8 million, followed by commitment fees of $83.7 million. Combined guaranty fees and commitment fees made up 87.7 percent of total MBS program revenue for FY 2010. Other lesser income sources include new issuer fees, handling fees, and transfer-of-servicing fees.

Guaranty Fees

Guaranty fees are income streams earned for providing Ginnie Mae's guaranty of the full faith and credit of the U.S. Government to investors. These fees are paid over the life of the outstanding securities. Guaranty fees are collected on the aggregate principal balance of the guaranteed securities outstanding in the non-defaulted issuer portfolio. MBS guaranty fees grew 29.6 percent to $567.8 million in FY 2010, up from $438.3 million in FY 2009. This higher guaranty fee income reflects the increase in the MBS portfolio. The outstanding MBS balance at the end of FY 2010 was $1,046.2 billion, compared with $826.0 billion the previous year, as new issuances exceeded repayments (see Figure 6).

Figure 6: Remaining Principal Balance (RPB) Outstanding in the Mortgage-Backed Securities Portfolio, Fiscal Years 2006 to 2010



Commitment Fees

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

Multiclass Revenue

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

Figure 7: Platinum Security Volume, Fiscal Years 2006 to 2010

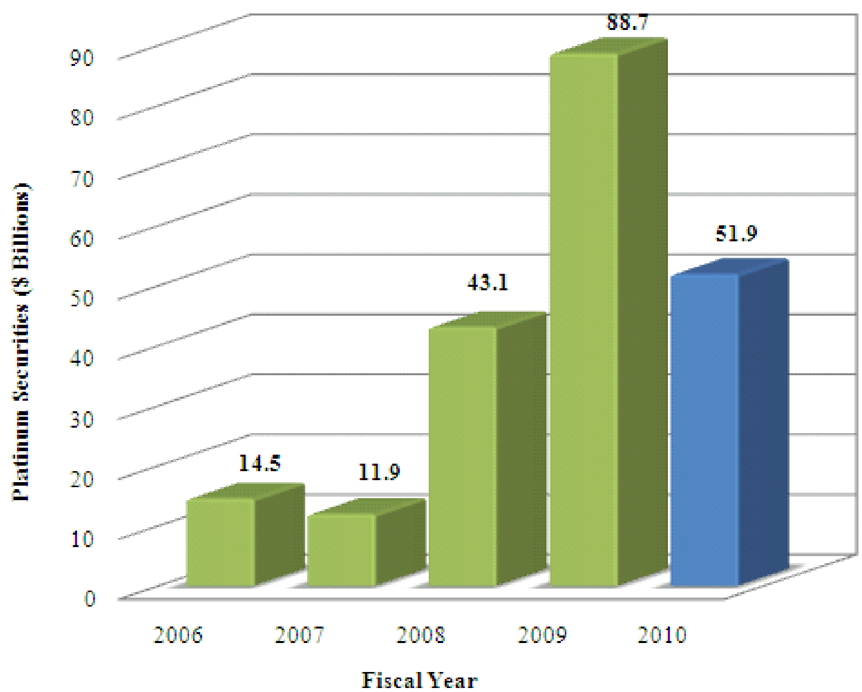
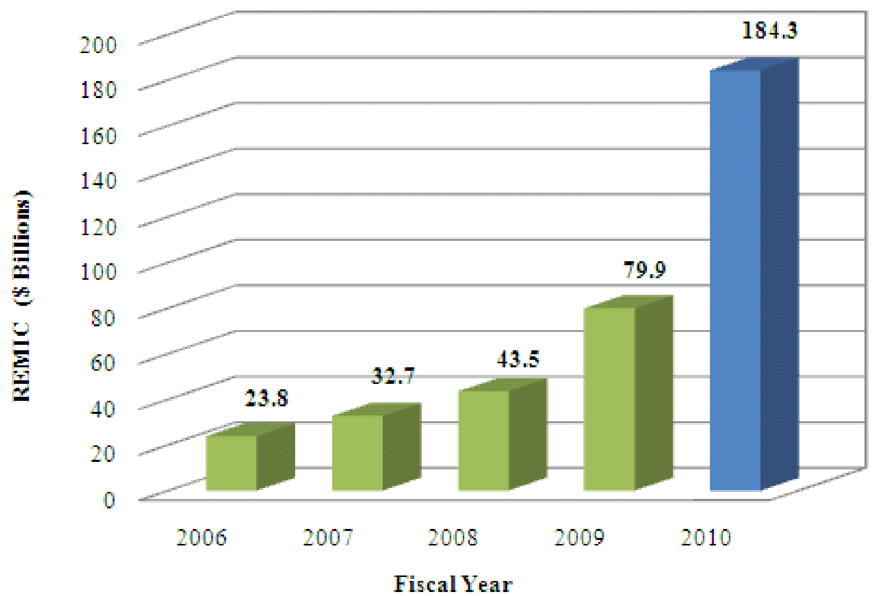


Figure 8: Total Real Estate Mortgage Investment Conduit Volume, Fiscal Years 2006 to 2010



In FY 2010, Ginnie Mae issued $236.2 billion in its multiclass securities program (REMIC and Platinum). The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2010, was $488.7 billion. This reflects a $138.3 billion increase from the $350.4 billion outstanding balance in FY 2009.

Interest Income

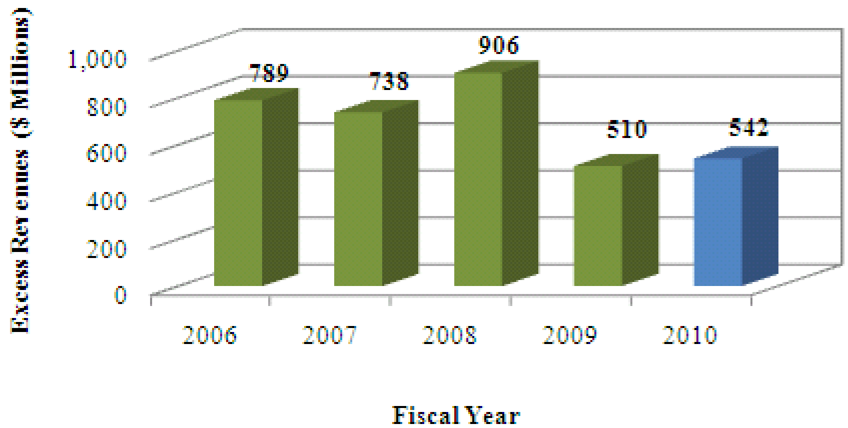
Ginnie Mae invests in U.S. Government securities of varying terms. Ginnie Mae's interest income increased as a percentage of total revenue. In FY 2010, interest income increased to $269.0 million from $109.5 million in FY 2009. The most prominent reason for the increase was due to inflation compensation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

Expenses

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

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

Figure 9: Excess of Revenues over Expenses, Fiscal Years 2006 to 2010



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

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

Table 2: Program/Contractor Expenses, Fiscal Years 2006 to 2010

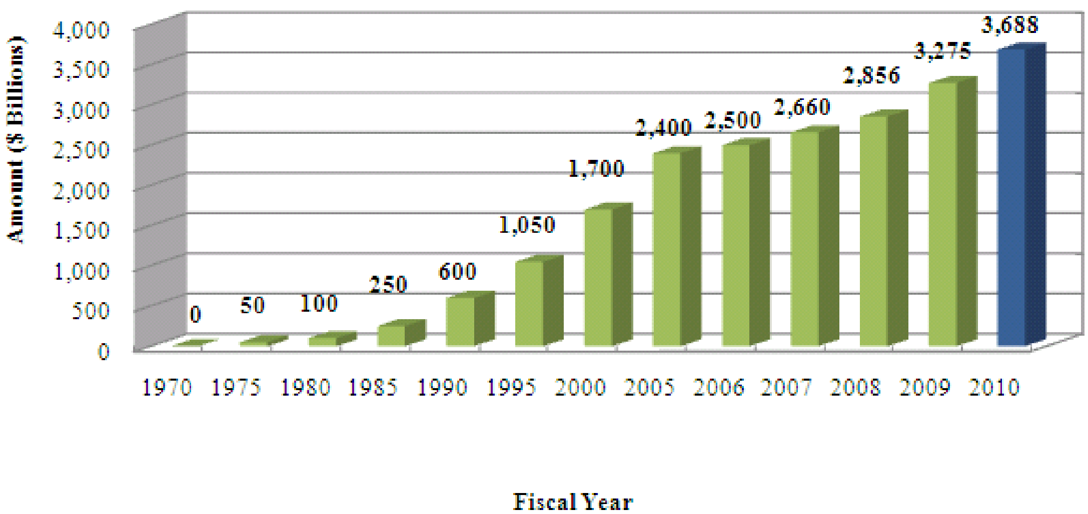
(In Millions)	2010	2009	2008	2007	2006
Central Paying Agent	10.4	7.7	8.0	6.8	8.5
Contract Compliance	0.9	0.3	0.4	0.9	0.2
Federal Reserve	4.8	4.9	2.5	3.2	1.9
Financial Support	1.8	0.8	0.7	0.8	0.6
IT Related & Miscellaneous	8.0	5.4	6.9	4.6	6.8
MBS Information Systems & Compliance	19.2	15.1	15.7	11.9	9.9
Multiclass	17.5	11.0	11.2	8.7	7.9
Multifamily Program	7.7	8.0	2.2	5.0	8.9
Servicemembers Civil Relief Act	2.3	2.2	1.4	0.0	3.0
Total	**72.7**	**55.4**	**49.0**	**41.9**	**47.7**

Credit-related expenses include Ginnie Mae's Provision for Loss and defaulted issuer portfolio costs. Provision for Loss is charged against income in an amount considered appropriate to maintain adequate reserves to absorb potential losses from defaulted issuer portfolios and programs. The Provision for Loss increased to $730.0 million in FY 2010 as compared to $78.6 million in FY 2009. Ginnie Mae defaulted four single family issuers during FY 2010. Ginnie Mae believes that the reserve for loss is adequate to cover any noninsured losses sustained for these issuers and from unknown future losses from the occurrence of periodic defaults.

MBS Issuance and Portfolio Growth

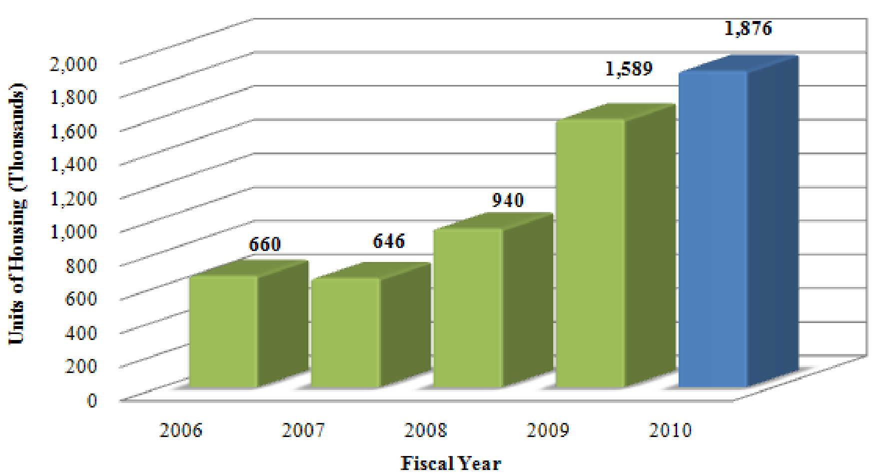
Although demand for government loans remained strong, Ginnie Mae MBS issuance fell slightly by 1.4 percent to $413.0 billion in FY 2010 (as shown in Figure 1 in Section I). In July 2010, Ginnie Mae reached a new milestone by surpassing $1 trillion in remaining principal balance for the first time in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

Figure 10: Cumulative Amount of Ginnie Mae Mortgage-Backed Securities Fiscal Years 1970 to 2010



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

Figure 11: Ginnie Mae-Supported Units of Housing, Fiscal Years 2006 to 2010

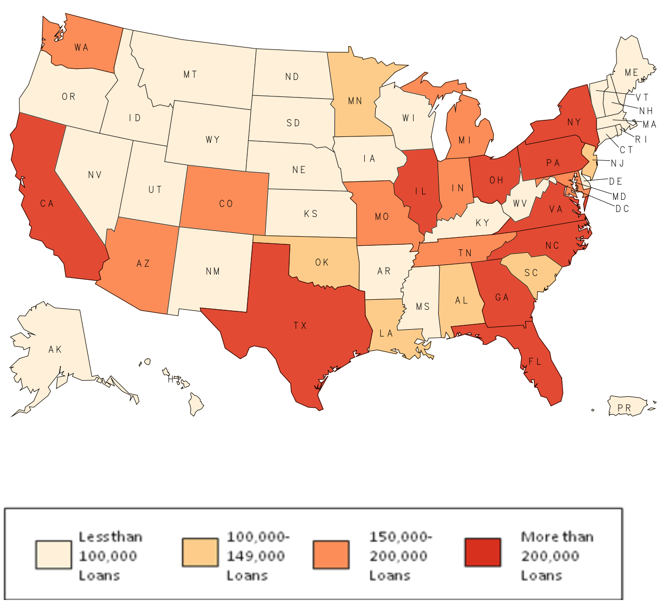


Single Family Program

The vast majority of the mortgages in Ginnie Mae securities are originated through FHA and VA programs. FHA-insured mortgages accounted for 79.4 percent of loans in Ginnie Mae pools, while VA-guaranteed loans accounted for 16.2 percent in FY 2010; Rural Development and PIH loans made up the remaining 4.4 percent. Although other agencies and private issuers can pool FHA-insured loans for their own MBS, almost all of these loans make their way into Ginnie Mae securities. In FY 2010, 99.5 percent of FHA loans and 97.0 percent of VA loans were placed into Ginnie Mae pools, once again exceeding the performance goals set by HUD. These goals include that Ginnie Mae securities contain at least 95 percent of eligible FHA single family fixed-rate loans and 86 percent of VA single family fixed-rate loans. Ginnie Mae exceeded these goals in FY 2010 by 4.5 percentage points and 11.0 percentage points, respectively. In FY 2010, 24.5 percent of pools received TLI credit, exceeding HUD's performance goal that 20 percent of all Ginnie Mae single family pools issued be TLI pools.

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

Figure 12: Geographic Distribution of Single Family Properties Securing Ginnie Mae Securities as of September 30, 2010



State	Loans	Percent of Total SF Loans	RPB ($ Millions)
California	417,924	6.13%	$94,425
Texas	782,796	11.48%	$86,609
Florida	366,642	5.38%	$48,425
Virginia	242,700	3.56%	$47,001
Georgia	315,113	4.62%	$41,468
North Carolina	264,119	3.87%	$34,396
Maryland	156,523	2.30%	$32,808
Washington	165,548	2.43%	$32,724
Ohio	285,044	4.18%	$32,555
New York	205,089	3.01%	$32,335

Note on Loan Modifications

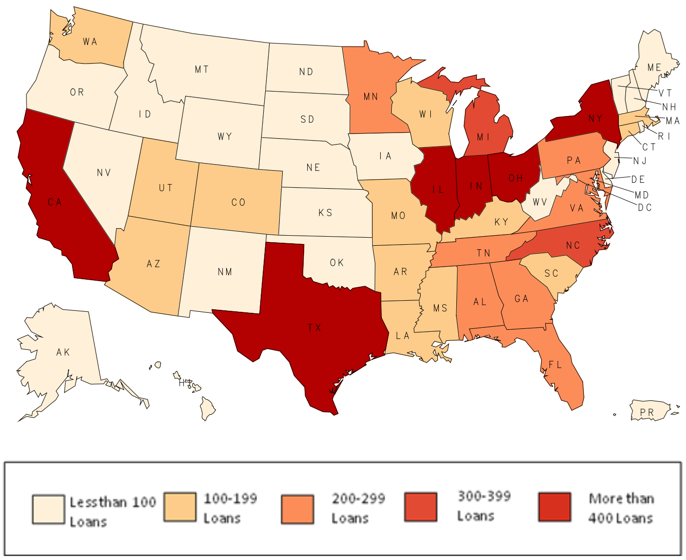
In February 2010, Ginnie Mae issued an All Participants Memorandum clarifying Ginnie Mae's role with regard to loan modifications and summarizing the guidelines for determining when loans can be purchased out of Ginnie Mae securities. Loans backing Ginnie Mae securities generally may be repurchased from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

Multifamily Program

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

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

Figure 13: Geographic Distribution of Multifamily Properties Securing Ginnie Mae Securities as of September 30, 2010



State	Loans	Percent of Total MF Loans	RPB ($ Millions)
Texas	634	6.94%	$4,433
California	603	6.60%	$3,434
Illinois	491	5.37%	$3,272
New York	424	4.64%	$3,197
Ohio	707	7.74%	$2,359
Maryland	250	2.74%	$2,082
Florida	264	2.89%	$1,948
Indiana	427	4.67%	$1,701
Michigan	336	3.68%	$1,630
Minnesota	286	3.13%	$1,590

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

HMBS Program

Significant efforts have been made to help the growing needs and demands in the market for reverse mortgages. With continued investor interest in HECM-backed securities, Ginnie Mae bolstered its HMBS program to improve reporting, disclosure, and quality assurance reviews of the relevant issuers. The unpaid principal balance of HMBS climbed to $18.2 billion in FY 2010 and the number of participations (the funded portions of HECM loans that have been securitized) increased to 421,530. The structured market for HMBS has also seen a huge demand, with the volume of H-REMICS climbing to 20 transactions in FY 2010 versus just one in FY 2009. The structure and support that Ginnie

Mae has brought to this market has increased its liquidity, which translates into better execution on the securities and, ultimately, lower costs for the growing senior population.

MH Program

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

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

Financial Models

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

In FY 2010, PFAM was used to estimate Ginnie Mae's credit subsidy rate based on historical loan performance data, economic measures, and program and policy assumptions. Every year, Ginnie Mae obtains loan-level data that supports detailed segmentation of loans according to key risk indicators, including loan type, loan size, loan-to-value ratio, and region. Changing economic conditions related to interest rates, housing values, population demographics, consumer prices, and income levels are accommodated by updating key economic drivers within PFAM's econometric functionality.
Ginnie Mae's expertise in understanding and managing risks associated with its MBS guaranty business are accommodated by adjusting management assumption drivers within the model.

Cash flows for income and expenses associated with Ginnie Mae's MBS guaranty business were estimated by simulating loan-level performance for the existing book of business and forecasted new business. The simulated loan-level performance was used to forecast the effects on defaulted portfolios managed by Ginnie Mae. The model's cash flow output was used to estimate the net present value of Ginnie Mae's future cash flows from the outstanding guaranty portfolio at the end of FY 2010 and estimated new business for 30 years into the future. Ginnie Mae updates this model with the recent economic and financial data.

Liquidity and Capital Adequacy

Ginnie Mae's primary sources of cash are MBS and multiclass guaranty fee income, commitment fee income, and interest income. After accounting for expenses and other factors, on September 30, 2010, Ginnie Mae reported $6.6 billion in funds with the U.S. Treasury, compared to $5.3 billion on September 30, 2009.

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

Of the $3.6 billion balance of the U.S. Government securities portfolio, maturities are spread over time to ensure that Ginnie Mae has a ready source of funds to meet various liquidity needs. Emergency liquidity needs are met through short-term maturities. As such, $239.5 million was held in overnight certificates.

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

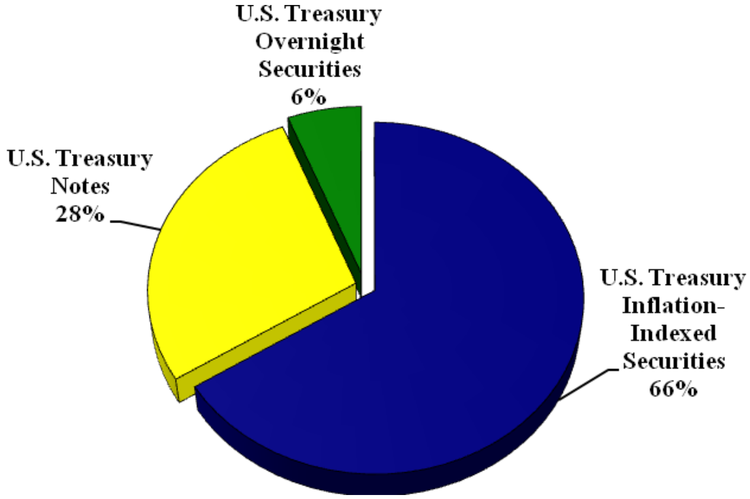
Table 3: Composition of U.S. Treasury Securities as of September 30 (Percentage of Total)

Maturity	2010	2009
Due within 1 year	6%	31%
Due in 1-5 years	94%	63%
Due in 5-10 years	0%*	6%

***Securities were liquated to purchase loans from the portfolios of defaulted issuers in FY 2010.**

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

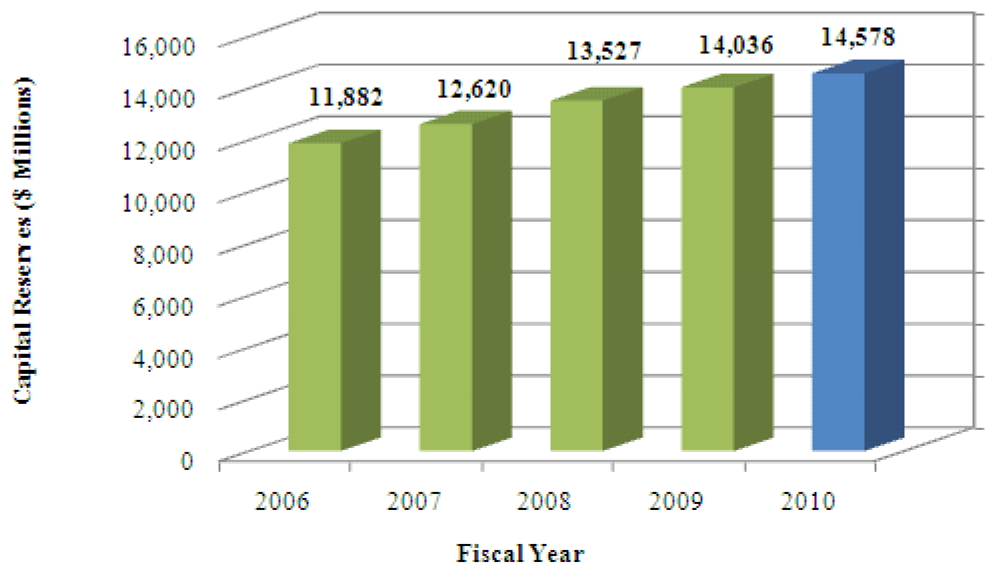
Figure 14: Components of Investment in U.S. Government Securities, September 30, 2010



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

As of September 30, 2010, the investment of the U.S. Government (retained earnings) was $14.6 billion after establishing reserves for losses on credit activities, compared with $14.0 billion as of September 30, 2009. To assess the strength of its capital position, Ginnie Mae uses a “stress test” methodology that measures the organization’s ability to withstand severe economic conditions. Figure 15 shows Ginnie Mae’s capital reserves as of September 30, 2010, for each of the past 5 years.

Figure 15: Capital Reserves, Fiscal Years 2006 to 2010



Risk Management and Systems of Internal Controls

As described in Section II of this report, Ginnie Mae continues to enhance its automated systems and business processes to increase operational efficiency and reduce business risk. An Internal Controls Manager oversees internal controls for the organization, including contractor assessments, Office of Management and Budget’s (OMB) Circular A-123, (Management’s Responsibility for Internal Control) assessments, and other internal control and risk management activities. The audits, reviews, and monitoring of all issuers and major contractors that Ginnie Mae conducts enable Ginnie Mae to strengthen its internal controls and minimize risks that would negatively impact financial and operating results.

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

Finally, Ginnie Mae assesses the effectiveness of its internal controls over financial reporting, which includes the reliability of financial reporting and financial management systems, in accordance with the requirements of OMB Circular A-123,Appendix A. Safeguarding assets is a subset of all of these objectives. Internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. No material weaknesses were found in the design or operation of the internal controls over financial reporting. Based on these results, Ginnie Mae can provide reasonable assurance that its internal controls over financial reporting were operating effectively as of June 30, 2010.

IV. Audit Report of Ginnie Mae's FY 2010 Financial Statements

audit report

Issue Date
November 5, 2010
Audit Case Number
2011-FO-0001

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

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

SUBJECT: Audit of Government National Mortgage Association's (Ginnie Mae) Financial Statements for Fiscal Years 2010 and 2009

In accordance with the Government Corporation Control Act as amended (31 U.S.C. 9105), the Office of Inspector General engaged the independent certified public accounting firm of Carmichael, Brasher, Tuvell, and Company, P. C. (CBTC) to audit the fiscal year 2010 and 2009 financial statements of Ginnie Mae. The contract required that the audit be performed according to generally accepted government auditing standards (GAGAS).

CBTC is responsible for the attached Independent Auditors' Report dated November 5, 2010 and the conclusions expressed in the report. Accordingly, we do not express an opinion on Ginnie Mae's financial statements or conclusions on Ginnie Mae's internal controls or compliance with laws, regulations and government-wide policies.

This report includes both the Independent Auditors' Report and Ginnie Mae's principal financial statements. Under Federal Accounting Standards Advisory Board (FASAB) standards, a general-purpose federal financial report should include as required supplementary information (RSI) a section devoted to Management's Discussion and Analysis (MD&A). The MD&A is not included in this report. Ginnie Mae plans to separately publish an annual report for fiscal year 2010 that conforms to FASAB standards.

CBTC's report on internal control did not identify deficiencies in internal control over financial reporting that might be considered significant deficiencies or material weaknesses. However, within 60 days of this report, CBTC expects to issue a separate letter to management dated November 5, 2010 regarding other less significant matters that came to its attention during the audit.

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

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Table of Contents

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INDEPENDENT AUDITORS' REPORT

To the President
Government National Mortgage Association

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

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

We have audited the accompanying balance sheets of Ginnie Mae as of September 30, 2010 and 2009, and the related statements of revenues and expenses, investments of the U. S. Government and statements of cash flows for the years then ended. These financial statements are the responsibility of Ginnie Mae's management. Our responsibility is to express an opinion on these financial statements based on our audit.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ginnie Mae as of September 30, 2010 and 2009; and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes A and C, Ginnie Mae currently classifies acquired loans as Mortgages held for investment where, in the previous year's financial statements, acquired loans were classified as Mortgages held for sale. Accrued interest related to Mortgages held for investment is discussed in Note A. Beginning in fiscal year 2010, Ginnie Mae recognized and recorded the fair value of Mortgage Servicing Rights as an asset and a gain to earnings. As discussed in Notes A and F, this initial recognition was caused by the default of two issuers.

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

REPORT ON INTERNAL CONTROL

In planning and performing our audit, we considered Ginnie Mae's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, but not for the purpose of expressing an opinion on the effectiveness of Ginnie Mae's internal control 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. Accordingly, we do not provide an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting.

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 organization's financial statements will not be prevented, or detected and corrected on a timely basis. A ***significant deficiency*** is a deficiency, or a 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we did identify other matters in internal control that came to our attention during our audit which will be communicated to the management of Ginnie Mae and those charged with governance in a separate letter, dated November 5, 2010. During fiscal year 2009, a significant deficiency was reported which has been resolved as detailed in Appendix A- Status of Prior Year Findings and Recommendations.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of Ginnie Mae is responsible for complying with laws and regulations applicable to government corporations. As part of obtaining reasonable assurance about whether Ginnie Mae's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, which could have a direct and material effect on the determination of financial statement amounts, and certain other laws, regulations and government-wide policies specified in OMB Bulletin No. 07-04, as applicable to government corporations. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to Ginnie Mae.

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

Our tests of compliance with the laws and regulations discussed in the preceding paragraph disclosed no instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards or OMB Bulletin No. 07-04, as applicable to government corporations. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

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

MANAGEMENTS' RESPONSIBLITIES

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

Management is responsible for the financial statements, including:

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

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

AUDITORS' RESPONSIBILITIES

Our responsibility is to express an opinion on the fiscal year 2010 and 2009 financial statements of Ginnie Mae based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to audits contained in Government Auditing Standards and OMB Bulletin No. 07-04, as applicable to government corporations. Those standards and OMB Bulletin No. 07-04 require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

An audit includes:

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

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

DISTRIBUTION

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

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

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

Atlanta, Georgia
November 5, 2010

APPENDIX A – STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

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

Prior Year Finding/Recommendation	Type	Fiscal Year 2010 Status
Matching Process Ginnie Mae's Acting Vice-President should review and strengthen the completeness and timeliness of the automated pool collateral matching process as well as follow-up on unmatched loans with issuers.	Significant deficiency	Resolved. Ginnie Mae has implemented a monthly match to terminated process to improve and put into production what had previously been a yearly, ad hoc process.
Segregation of Duties Ginnie Mae's Acting Vice-President should segregate issuer monitoring duties from MBS program functions to enhance independent management control over issuers.	Significant deficiency	Resolved. Ginnie Mae created a Risk Committee and a Chief Risk Officer (CRO) to enhance oversight and independent management control. The hiring of the CRO during late FY 2009 resolved the conflict of interest issue.

Audit Report of Ginnie Mae's Fiscal Year 2010 Financial Statements

Ginnie Mae's Fiscal Year 2010 Financial Statements

Balance Sheets				
September 30		**2010**		**2009**
(Dollars in thousands)				
Assets:				
Funds with U.S. Treasury	$	6,650,500	$	5,253,800
U.S. Government securities		3,551,200		9,235,800
Accrued interest on U.S. Government securities		20,400		41,300
Accrued fees and other receivables		54,900		44,600
Fixed assets--software, net of accumulated amortization		35,800		39,800
Mortgages held for investment, net		4,443,300		-
Mortgages held for sale, net		-		32,000
Accrued interest mortgages held for investment, net		181,300		-
Advances against defaulted Mortgage-Backed Security pools, net		842,100		120,100
Properties held for sale, net		42,300		4,500
Mortgage servicing rights		137,700		-
Other assets		1,103,800		902,500
Total Assets	$	17,063,300	$	15,674,400
Liabilities and Investment of U.S. Government:				
Liabilities:				
Reserve for loss on Mortgage-Backed Securities Program	$	1,004,900	$	559,900
Deferred revenue		113,900		114,400
Deferred liabilities and deposits		1,200		2,600
Accounts payable and accrued liabilities		261,700		58,700
Other liabilities		1,103,800		902,500
Total Liabilities	$	2,485,500	$	1,638,100
Commitments and Contingencies				
Investment of U.S. Government		14,577,800		14,036,300
Total Liabilities and Investment of U.S. Government	$	17,063,300	$	15,674,400

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

Statements of Revenues and Expenses and Changes in Investment of U.S. Government				
For the Years Ended September 30		**2010**		**2009**
(Dollars in thousands)				
Revenues:				
Mortgage-Backed Securities Program income	$	742,900	$	547,800
Interest income		269,000		109,500
Total Revenues	$	1,011,900	$	657,300
Expenses:				
Mortgage-Backed Securities Program expenses	$	72,700	$	55,400
Administrative expenses		10,300		8,600
Fixed asset amortization		9,500		5,100
Total Expenses	$	92,500	$	69,100
Provision for loss on Mortgage-Backed Securities Program		730,000		78,600
Total Provision	$	730,000	$	78,600
Gain on disposition of investment		214,400		-
Gain on mortgage servicing rights		137,700		-
Total Gains/Losses	$	352,100	$	-
Excess of Revenues over Expenses		541,500		509,600
Investment of U.S. Government at Beginning of Year		14,036,300		13,526,700
Returned to U.S. Treasury		-		-
Investment of U.S. Government at End of Year	$	14,577,800	$	14,036,300

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

Statements of Cash Flows				
For the Years Ended September 30		**2010**		**2009**
(Dollars in thousands)				
Cash Flow from Operating Activities				
Net Excess of revenues over expenses	$	541,500	$	509,600
Adjustments to Reconcile Net Excess of Revenues Over Expenses to Net Cash from (used for) Operating Activities				
Depreciation & amortization		9,500		5,100
Decrease / increase in accrued interest on U.S. Government securities		20,900		(4,900)
Increase / decrease in mortgages and accrued interest mortgages		(4,592,600)		-
Increase / decrease in advances against defaulted MBS pools		(722,000)		(117,400)
Increase / decrease in mortgage servicing rights		(137,700)		-
Decrease / increase in deferred revenue		(500)		24,400
Decrease / increase in deferred liabilities and deposits		(1,400)		200
Increase / decrease in accounts payable and accrued liabilities		203,000		19,600
Increase / decrease in MBS Reserve, net of other assets relating to operating activities		396,900		(19,200)
Total Adjustments		(4,823,900)		(92,200)
Net Cash use for (from) Operating Activities	$	(4,282,400)	$	417,400
Cash Flow from Investing Activities				
Sale / purchase of U.S. Treasury Securities, net		5,684,600		18,200
Purchase / sale of software		(5,500)		(18,100)
Net Cash from (used for) Investing Activities	$	5,679,100	$	100
Cash Flow from Financing Activities				
Financing activities		-		-
Net Cash from (used for) Financing Activities	$	-		-
Net increase in cash & cash equivalents		1,396,700		417,500
Cash & cash equivalents - beginning of period		5,253,800		4,836,300
Cash & cash equivalents - end of period	$	6,650,500	$	5,253,800

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

Notes to the Financial Statements

September 30, 2010 and 2009

Note A: Organization and Summary of Significant Accounting Policies

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

Funds with U.S. Treasury: All of Ginnie Mae's receipts and disbursements are processed by the U.S. Treasury, which in effect maintains Ginnie Mae's bank accounts. Of the $6.7 billion in Funds with U.S. Treasury, $5.4 billion is in the Reserve Receipt Account, which is a noninterest-bearing account at the U.S. Treasury. For purposes of the Statement of Cash Flow, Funds with U.S. Treasury are considered cash.

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

Fixed Assets: Ginnie Mae's fixed assets represent systems (software) that are used to accomplish its mission. Ginnie Mae defers significant software development project costs and amortizes them over a three- to five-year period beginning with the project's completion. As of September 30, 2010, and September 30, 2009, Ginnie Mae's Fixed Assets – Software balance was $64.3 million, with accumulated amortization of $28.5 million, and $58.8 million, with accumulated amortization of $19.0 million, respectively.

Mortgage Loans Held for Investment: Ginnie Mae generally acquires mortgage loans with the ability and the intent to hold them for the foreseeable future or until maturity; therefore, Ginnie Mae classifies the loans as held for investment (HFI).

Ginnie Mae reports HFI loans at their outstanding unpaid principal balance adjusted for any deferred and unamortized cost basis adjustments, including purchase premiums, discounts and/or other cost basis adjustments. Ginnie Mae recognizes interest income on HFI loans on an accrual basis using the interest method, unless it determines the ultimate collection of contractual principal or interest payments in full is not reasonably assured. Ginnie Mae reflects the revenue, net of allowance, at the amount determined to be collectible as the mortgage loans should be guaranteed or insured.

Prior to fiscal year 2010, Ginnie Mae classified the loans it acquired as held for sale (HFS). During fiscal year 2010, Ginnie Mae determined the intent and ability to hold the loans for the foreseeable future or until maturity. As such, all of Ginnie Mae's acquired loans have been reclassified from HFS to HFI as of the fiscal year ended September 30, 2010.

Allowance for Loan Losses: The allowance for loan losses represents management's estimate of probable losses inherent in Ginnie Mae's mortgage loan portfolio. The allowance for loan losses represents the estimated probable credit losses in loans. Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and to assess the overall collectability of the portfolios. The allowance on certain homogeneous loan portfolios is based on aggregated evaluations. Cash recovered on previously charged off amounts is recorded as a recovery to these accounts.

Accrued Interest Mortgages Held for Investment: Ginnie Mae records accrued interest on mortgages held for investment net of an allowance for loss. The allowance for loss is established to reduce the accrued interest to the amount estimated to be collectible. As of September 30, 2010, Ginnie Mae's Accrued Interest Mortgages HFI balance, net was $181.3 million – Accrued Interest Mortgages HFI balance, gross was $308.4 million, with allowance for loss of $127.1 million.

Advances against Defaulted MBS Pools: Advances against defaulted MBS pools represent payments made to fulfill Ginnie Mae's guarantee of timely principal and interest payments to MBS security holders. Such advances are reported net of an allowance for doubtful recoveries to the extent management believes they will not be recovered. The allowance for doubtful recoveries is estimated based on actual and expected recovery experience and is adjusted for FHA, USDA, VA, and PIH claims that have been filed. Properties that are undergoing the foreclosure process and being conveyed to the agency insuring the mortgage are reported under the advance category as Ginnie Mae is awaiting repayment of its receivable.

Properties Held for Sale: Properties held for sale represent assets that have been foreclosed upon and repossessed. These properties are included on Ginnie Mae's Balance Sheet when physical possession of the collateral is taken and when foreclosure proceedings have taken place. Properties held for sale are recorded and subsequently carried at the lower of the unpaid principal balance at the time of repossession or foreclosure or the fair value of the asset less estimated costs to sell. Property-related expenses incurred during the holding period are included in MBS program expenses.

Mortgage Servicing Rights: Mortgage servicing rights (MSRs) represent Ginnie Mae's right to service mortgage loans in mortgage backed securities, obtained from issuers upon default. Ginnie Mae records a mortgage servicing asset on its Balance Sheet when the present value of the estimated compensation for mortgage servicing activities exceeds adequate compensation for such servicing activities. Ginnie Mae considers adequate compensation to be the amount of compensation that would be required by a substitute master sub-servicer should one be required. Market information is used to determine adequate compensation for these services.

Ginnie Mae currently has contracted multiple master sub-servicers to handle the servicing of its mortgage loans. The servicing functions typically performed by Ginnie Mae's master sub-servicer include: collecting and remitting loan payments, responding to borrower inquiries, accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums, counseling delinquent mortgagors, supervising foreclosures and property dispositions, and generally administering the loans. Ginnie Mae pays a servicing fee to the master sub-servicers in consideration for their servicing of the loans.

Ginnie Mae receives a weighted average servicing fee of approximately 40 basis points annually on the remaining outstanding principal balances of the loans. The servicing fees are collected from the monthly payments made by the borrowers.

Ginnie Mae initially recognized an MSR at amortized cost during fiscal year 2009 and subsequently to account for the MSR at fair value in fiscal year 2010. Upon Ginnie Mae's assumption of the servicing rights associated with an issuer defaulted August 4, 2009, it was determined that the fair value could not be determined due to the close proximity to the end of fiscal year 2009. The close proximity to year end in addition to reliance on third parties did not allow sufficient time to retrieve the pertinent information to determine the fair value of the potential servicing asset. The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 860-50-30-8 states that if it is not practicable to initially measure a servicing asset or servicing liability at fair value, an entity shall initially recognize the servicing asset or servicing liability in accordance with ASC 860-10-35-7, and shall include it in a class subsequently measured using the amortization method. ASC 860-10-35-7 clarifies that if it is not practicable to estimate the fair values of assets, the servicer shall record those assets at zero. As such, at the date of assumption of the servicing rights, Ginnie Mae recorded an MSR of zero and measured the asset at amortized cost.

Ginnie Mae measures its MSRs at fair value with changes in fair value recorded in servicing income (see Note F for more information regarding the initial recording of Ginnie Mae's MSRs). Ginnie Mae estimates the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. This is accomplished through a valuation approach that factors in prepayment risk and consists of projecting servicing cash flows under multiple interest rate scenarios and discounting these cash flows using risk-adjusted discount rates. The key economic assumptions used in valuations of MSRs include weighted-average lives and prepayment rates of the MSRs. The discount rate is used to discount expected cash flows in order to derive the fair value of the MSRs. The discount rate assumptions reflect the market's required rate of return adjusted for the relative risk of the asset type. Discount rates assumptions are derived from a range of observed discount rate assumptions in the industry to which a risk premium is added in order to account for current credit conditions. These variables can, and generally do, change from period to period as market conditions and projected interest rates change, and could have an adverse impact on the value of the MSRs and could result in a corresponding reduction in servicing income.

Fair Value: Ginnie Mae measures the fair value of its financial instruments in accordance with accounting guidance 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's MSRs are carried at fair value in accordance with applicable accounting guidance.

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 1assets 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. This category includes mortgage servicing rights.

Reserve for Loss on MBS Program: Reserves are established to the extent management believes issuer defaults are probable and FHA, USDA, VA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures. The reserves are increased by provisions recorded as an expense in the Statements of Revenues and Expenses and reduced by charge-offs, net of recoveries.

Recognition of Revenues and Expenses: Ginnie Mae receives monthly guaranty fees for each MBS mortgage pool, based on a percentage of the pool's outstanding balance. Fees received for Ginnie Mae's guarantee of MBS are recognized as earned. Ginnie Mae receives commitment fees as issuers request commitment authority, and recognizes the commitment fees as income as issuers use their commitment authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired commitment authority are not returned to issuers. Ginnie Mae recognizes as income the major portion of fees related to the issuance of multiclass securities in the period the fees are received, with the balance deferred and amortized over the weighted average life of the underlying mortgages to match the recognition of related administrative expenses. Losses on assets assumed through liquidation and claims against FHA, USDA, VA, and PIH are recognized when they occur.

Statements of Cash Flows: Ginnie Mae prepares the Statements of Cash Flows on an indirect basis. For purposes of the Statements of Cash Flows, Funds with U.S. Treasury are considered cash.

Guarantees: The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) topic 460, *Guarantees* (ASC 460), formerly known as (FASB) Interpretation No. 45 (FIN 45), clarifies the requirements of accounting for *Contingencies* (ASC 450), relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. ASC 450 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. Ginnie Mae has computed the fair value of its guaranty based on the life of the mortgage-backed securities and their underlying loans. Based on this evaluation, Ginnie Mae has disclosed an asset and liability of $1,103.8 million as of September 30, 2010, and $902.5 million as of September 30, 2009, categorized as other assets and other liabilities. There is no impact on the net financial position of Ginnie Mae due to ASC 450.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets, liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B: U.S. Government Securities

The U.S. Government securities portfolio is held in special market-based U.S. Treasury securities that are bought and sold at composite prices received from the Federal Reserve Bank of New York. These securities are maintained in book-entry form at the Bureau of Public Debt and are made up of overnight certificates, U.S. Treasury notes, and U.S. Treasury inflation-indexed securities (reflecting inflation compensation). The coupon rates of Ginnie Mae's holdings, with a maturity of greater than one year, as of September 30, 2010, range from 0.63 percent to 3.38 percent. As of September 30, 2009, they ranged from 0.63 percent to 3.63 percent.

The amortized cost and fair values as of September 30, 2010, were as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	$ 239,500	$ -	$ -	$ 239,500
U.S. Treasury Notes	991,900	45,300	-	1,037,200
U.S. Treasury Inflation-Indexed Securities	2,319,800	121,300	-	2,441,100
Total	**$ 3,551,200**	**$ 166,600**	**$ -**	**$ 3,717,800**

The amortized cost and fair values as of September 30, 2009, were as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	$ 1,825,700	$ -	$ -	$ 1,825,700
U.S. Treasury Notes	1,489,600	5,200	(1,300)	1,493,500
U.S. Treasury Inflation-Indexed Securities	5,920,500	248,900	-	6,169,400
Total	**$ 9,235,800**	**$ 254,100**	**$ (1,300)**	**$ 9,488,600**

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government securities at September 30, 2010, by contractual maturity date, were as follows:

(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	$ 239,500	$ 239,500	0.12%
Due after one year through five years	3,311,700	3,478,300	0.07%
Due after five years through ten years	-	-	-
Total	**$ 3,551,200**	**$ 3,717,800**	**0.05%**

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government securities at September 30, 2009, by contractual maturity date, were as follows:

(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	$ 2,893,200	$ 2,899,700	0.21%
Due after one year through five years	5,771,800	5,995,100	1.03%
Due after five years through ten years	570,800	593,800	1.15%
Total	**$ 9,235,800**	**$ 9,488,600**	**0.79%**

Note C: Mortgage Loans Held for Investment, net

Ginnie Mae acquires certain mortgages from defaulted issuers' portfolios to effectively manage the portfolio. Ginnie Mae owns single family mortgage loans, which are secured by four or fewer residential dwelling units, multifamily mortgage loans, which are secured by five or more residential dwelling units and manufactured housing loans which fall under FHA's Title I program. Ginnie Mae classifies these loans as HFI and reports the HFI loans at the unpaid principal balance outstanding, net of unamortized premiums and discounts, other cost basis adjustments, and an allowance for loan losses.

During fiscal year 2010, Ginnie Mae bought out loans in order to complete modifications in accordance with FHA guidelines. In addition, following guidelines outlined in the Ginnie Mae MBS Guide, a large number of loans were repurchased out of pools due to delinquencies of greater than 120 days. Ginnie Mae acquires mortgages ineligible to remain in pools when servicing rights are sold. In total, Ginnie Mae bought out $4.5 billion in mortgages loans, primarily for the single family defaulted portfolio. These acquired mortgage loans are categorized as mortgages HFI.

Mortgages HFI net of the allowance for loan losses as of September 30, 2010 and 2009 were as follows:

	September 30	
(Dollars in thousands)	**2010**	**2009**
Single Family Mortgages	$ 4,496,300	$ -
Single Family Mortgages Allowance for Loss	(53,000)	-
Single Family Mortgages HFI, net	**$ 4,443,300**	**$ -**

	September 30	
(Dollars in thousands)	**2010**	**2009**
Multifamily Mortgages	$ -	$ -
Multifamily Mortgages Allowance for Loss	-	-
Multifamily Mortgages HFI, net	**$ -**	**$ -**

	September 30	
(Dollars in thousands)	**2010**	**2009**
Manufactured Housing Mortgages	$ 3,000	$ -
Manufactured Housing Mortgages Allowance for Loss	(3,000)	-
Manufactured Housing Mortgages HFI, net	**$ -**	**$ -**

Prior to fiscal year 2010, Ginnie Mae classified the loans it acquired as held for sale (HFS). As of the fiscal year ended September 30, 2009, Ginnie Mae had mortgages held for sale with an unpaid principal balance of $48.6 million less an allowance for losses of $16.6 million for a net mortgages held for sale balance of $32.0 million. During fiscal year 2010, Ginnie Mae determined the intent and ability to hold the loans for the foreseeable future or until maturity. As such, all of Ginnie Mae's acquired loans have been reclassified from HFS to HFI as of the fiscal year ended September 30, 2010.

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

Under its MBS guaranty, Ginnie Mae advanced $2.3 billion in fiscal year 2010 and $305.4 million in fiscal year 2009 against defaulted MBS pools to ensure timely pass-through payments. Properties that are undergoing the foreclosure process and being conveyed to the insuring agency of the mortgage are reported under the advance category as Ginnie Mae is awaiting repayment of its receivable. Recoveries of advances, either from late payment remittances or through insurance or guarantee proceeds, were $1.4 billion in fiscal year 2010 and $115.3 million in fiscal year

2009. There were $0.4 million advances written off in fiscal year 2010 and $1.6 million fiscal year 2009.

(Dollars in thousands)	September 30			
	2010		2009	
Advances against defaulted pools	$	1,054,300	$	210,100
Allowance for losses		(212,200)		(90,000)
Advances against defaulted pools	**$**	**842,100**	**$**	**120,100**

During fiscal year 2010, Ginnie Mae defaulted four single family issuers with portfolios of $1.3 billion, $181.1 million, $128.0 million and $28.6 million. The increase in advances is directly related to the larger defaulted portfolio as well as the number of claims pending. Ginnie Mae believes the allowance for losses for advances is adequate to cover any potential losses related to advances against defaulted pools.

Note E: Properties Held for Sale, Net

Properties held for sale represent assets that have been repossessed and foreclosed and are included on Ginnie Mae's Balance Sheets when physical possession of the collateral is taken and when foreclosure proceedings have taken place. During fiscal year 2010, following guidelines outlined in the Ginnie Mae MBS Guide, $118.7 million of loans were repurchased out of pools, primarily for the defaulted single family portfolio. Balances and activity in these acquired properties were as follows:

(Dollars in thousands)	September 30			
	2010		2009	
Cost of properties, beginning of year	$	16,600	$	16,400
Additions		118,700		9,300
Dispositions and Losses		(86,100)		(9,100)
Cost of properties, end of year	$	49,200	$	16,600
Allowance for losses and costs to sell		(6,900)		(12,100)
Properties held for sale, net	**$**	**42,300**	**$**	**4,500**

Subsequent to the prior year end, an error, which was not material to the financial statements taken as a whole, was discovered in the September 30, 2009 balance in Properties Held for Sale. As such, the balances for the years ended September 30, 2010 and 2009 will not be comparable as the error was not adjusted until fiscal year 2010.

Note F: Mortgage Servicing Rights

ASC 860-50, Servicing Assets and Liabilities ("ASC 860-50", formerly FASB No. 156, *Accounting for Servicing of Financial Assets: an Amendment of FASB No. 140*) provides guidance over the accounting for the right to service a financial asset. ASC 860-50-25-1 states that an entity shall recognize and initially measure at fair value, if practicable, a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in (among other situations) an acquisition or assumption of a servicing obligation that does not relate to financial assets of the servicer or its consolidated affiliates.

On August 4, 2009, a large Ginnie Mae issuer ceased the majority of its operations and was subsequently unable to service its loans. As a result of the terms of the servicing agreement, Ginnie Mae assumed the servicing rights related to the portfolio of Ginnie Mae MBS. The servicing rights were assumed with no consideration transferred and the loans related to the assumed servicing rights are currently serviced by one of the Ginnie Mae master sub-servicers. The loans for which the assumed servicing rights relate to consisted of approximately 184,000 loans with an outstanding principal balance as of August 4, 2009 of $26.2 billion. As of September 30, 2010, the portfolio consisted of approximately 128,000 loans with an outstanding principal balance of $17.7 billion. The weighted average remaining term of the loans is 26.3 years. The weighted average servicing fees (as a percentage of total unpaid balance) and coupon on the loan portfolio are 0.37% and 5.97% respectively.

Upon Ginnie Mae's assumption of the servicing rights from this issuer, it was determined that the fair value could not be determined due to the close proximity to the end of fiscal year 2009. The close proximity to year end in addition to reliance on third parties did not allow sufficient time to retrieve the pertinent information to determine the fair value of the potential servicing asset.

ASC 860-50-30-8 states that if it is not practicable to initially measure a servicing asset or servicing liability at fair value, an entity shall initially recognize the servicing asset or servicing liability in accordance with ASC 860-10-35-7, and shall include it in a class subsequently measured using the amortization method. ASC 860-10-35-7 clarifies that if it is not practicable to estimate the fair values of assets, the servicer shall record those assets at zero. As it was not practical to initially measure a servicing asset or liability at fair value, Ginnie Mae initially recognized the MSR at zero and subsequently measured the asset using the amortization method.

During fiscal year 2010, information was received that was not previously available which resulted in the measurement of the servicing asset no longer being impracticable. As a result of the valuation of the servicing asset being practicable, Ginnie Mae recorded the MSR on September 30, 2010. Although the information required to calculate the fair value of the servicing asset became practicable and available during fiscal year 2010, the entry was not recorded until year end as the MSR was carried at fair value, therefore any changes during the year would have been recorded in the Statements of Revenues and Expenses.

Ginnie Mae defaulted an issuer on December 17, 2009 and as a result, obtained the servicing rights of the loans related to Ginnie Mae MBS issuances. The servicing rights were assumed with no consideration transferred. The loans for which the assumed servicing rights relate to consisted of approximately 6,800 loans with an outstanding unpaid balance as of December 17, 2009 of approximately $1.3 billion. At September 30, 2010 the portfolio consisted of approximately 5,700 loans with an outstanding portfolio balance of $1.1 billion. The weighted average remaining term of the loans is 28.5 years. The weighted average servicing fees (as a percentage of total unpaid balance) and coupon on the loan portfolio are 0.44% and 5.63% respectively.

Upon Ginnie Mae's assumption of the MSR, it was determined that the fair value could be determined, and thus the fair value of the MSR was recorded on September 30, 2010. Ginnie Mae made the election upon assumption of the servicing rights to subsequently measure the MSR at fair value. Although the information required to calculate the fair value of the MSR became practicable and available during fiscal year 2010, the entry was not required until year end as the MSR is carried at fair value; therefore, changes during the year have been recorded in the Statement of Revenues and Expenses.

Current Treatment of MSRs

At the beginning of the fiscal year 2010, Ginnie Mae made the irrevocable election to subsequently measure its MSRs at fair value instead of at amortized cost. ASC 860-50-35-3 permits such election at the beginning of a fiscal year, granted that such election cannot be subsequently changed. As such, subsequent changes in fair value will be recorded in the Statements of Revenues and Expenses.

Ginnie Mae recognized a gain on the assumption of MSR of $137.7 million and $0.0 million for the fiscal year 2010 and fiscal year 2009, respectively.

The following table presents activity for residential first mortgage MSRs:

	September 30
(Dollars in thousands)	2010
Balance, October 1, 2009	$ -
Additions/Sales	
Issuer defaulted August 4, 2009	128,500
Issuer defaulted December 17, 2009	9,200
Impact of customer payments	
Other changes in market value	
Balance, September 30, 2010	**$ 137,700**

The net amount of $137.7 million is included in a table in Note G: Fair Value Measurements. Ginnie Mae uses a valuation model that calculates the present value of estimated future net servicing income to determine the fair value of MSRs, which factors in prepayment risk. This approach consists of projecting servicing cash flows under multiple interest rate scenarios and discounting these cash flows using risk-adjusted discount rates. The key economic assumptions used in valuations of MSRs include weighted-average lives and prepayment rates of the MSRs.

Key economic assumptions used in determining the fair value of MSRs are as follows:

	September 30, 2010	
(Dollars in thousands)	Issuer Defaulted August 4, 2009	Issuer Defaulted December 17, 2009
Valuation at period end:		
Fair value (thousands)	$ 128,500	$ 9,200
Weighted- average life (years)	2.77	2.80
Prepayment rates assumptions:		
Rate assumption	29.92%	29.43%
Impact on fair value of a 10% adverse change	(8,400)	(600)
Impact on fair value of a 20% adverse change	(15,800)	(1,100)
Discount rate assumptions:		
Rate assumption	12.51%	12.50%
Impact on fair value of a 10% adverse change	(3,400)	(200)
Impact on fair value of a 20% adverse change	(6,700)	(500)

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

Ginnie Mae collected $93.7 million in mortgage servicing fees for these portfolios for the year ended September 30, 2010. This amount is recorded as a recovery in the Reserve for Loss.

Note G: Fair Value Measurements

Fair value measurement guidance defines fair value, establishes a framework for measuring fair value and expands disclosures around fair value measurements. This guidance applies whenever other accounting pronouncements require or permit assets or liabilities to be measured at fair value. The guidance establishes a three- level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority, Level 1, to measurements based on unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority, Level 3, to measurements based on unobservable inputs. Assets and liabilities with limited observable inputs or observable inputs for similar assets or liabilities are classified as Level 2 measurements.

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

	September 30, 2010			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Mortgage Servicing Rights	$ -	$ -	$ 137,700	$ 137,700
Total Assets at Fair Value	-	-	137,700	137,700

	September 30, 2009			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Mortgage Servicing Rights	$ -	$ -	$ -	$ -
Total Assets at Fair Value	-	-	-	-

Level 3 assets comprised 100% of Total assets measured at fair value as of September 30, 2010.

The following table presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

(Dollars in thousands)	MSRs
October 1, 2009	$ -
Net realized/unrealized gains(losses) included in:	
Earnings	137,700
Other Comprehensive Income	-
Transfers in and/or out of Level 3	-
Purchases, issuances and settlements	-
September 30, 2010	**$ 137,700**
Unrealized gains (losses) still held	-

The table below summarizes gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in earnings for Level 3 assets:

(Dollars in thousands)	Total Gains and Losses MSR
Classification of gains and losses (realized/unrealized) included in earnings for the period:	
Gain on MSR	137,700
Total	**$ 137,700**

Determination of Fair Value

The following is a description of the valuation methodologies used for instruments for which fair value is presented. The estimated fair value was calculated using certain facts and assumptions, which vary depending on the specific financial instrument.

U.S Treasury Overnight Certificates – reported at fair value utilizing Level 1 inputs from readily observable data in active secondary federal investing markets. The U.S. Treasury's Bureau of Public Debt provides the analysis as to valuation.

U.S Treasury Notes – reported at fair value utilizing Level 1 inputs from readily observable data in active secondary federal investing markets. The U.S. Treasury's Bureau of Public Debt provides the analysis as to valuation.

U.S Treasury Inflation-Indexed Securities – reported at fair value utilizing Level 1 inputs from readily observable data in active secondary federal investing markets. The U.S. Treasury's Bureau of Public Debt provides the analysis as to valuation.

Mortgage Servicing Rights – MSRs do not trade in an active, open market with observable prices. Accordingly, Ginnie Mae utilizes a valuation model that calculates the present value of estimated future net servicing income. The valuation inputs are largely unobservable; therefore, MSRs are classified within Level 3 of the valuation hierarchy.

Note H: Reserve for Losses on MBS Program

Ginnie Mae establishes a reserve for losses through a provision charged to operations when, in management's judgment, defaults of MBS issuers become probable. The reserve for losses is based on an analysis of the MBS portfolio outstanding. In estimating losses, management utilizes a statistically-based model that evaluates numerous factors, including, but not limited to, general and regional economic conditions, mortgage characteristics, and actual and expected future default and loan loss experience.

Management also considers uncertainties related to estimates in the reserve setting process. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights. As Ginnie Mae's defaulted issuer portfolio changes, original estimates are compared with actual results over time and the reserve's adequacy is assessed. If necessary, the reserve is adjusted. In fiscal year 2010, an adjustment of $730 million was made to the reserve. Management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed MBS. Changes in the reserve for the years ended September 30, 2010, and 2009 were as follows:

(Dollars in thousands)	Single Family	Multifamily	Manufactured Housing	Total
September 30, 2008 Reserve for Loss	**$ 437,200**	**$ 58,800**	**$ 54,000**	**$ 550,000**
Recoveries	20,000	50	8,200	28,250
Realized Losses	(90,500)	(150)	(6,300)	(96,950)
Provision	78,600	-	-	78,600
September 30, 2009 Reserve for Loss	**$ 445,300**	**$ 58,700**	**$ 55,900**	**$ 559,900**
Recoveries	261,500	123,700	4,900	390,100
Realized Losses	(541,800)	(122,600)	(10,700)	(675,100)
Provision	721,100	1,500	7,400	730,000
September 30, 2010 Reserve for Loss	**$ 886,100**	**$ 61,300**	**$ 57,500**	**$ 1,004,900**

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

During fiscal year 2010, Ginnie Mae defaulted four single family issuers with portfolios of $1.3 billion, $181.1 million, $128.0 million, and $28.6 million, respectively. Ginnie Mae believes that the reserve for loss estimate is adequate to cover any noninsured losses sustained for these issuers and from unknown future losses from the occurrence of periodic defaults.

During fiscal year 2010, Ginnie Mae defaulted one multifamily issuer; however, Ginnie Mae did not seize nor acquire the portfolio.

Note I: Financial Instruments with Off-Balance Sheet Risk

Ginnie Mae is subject to credit risk for financial instruments not reflected in its Balance Sheet in the normal course of operations. These financial instruments include guarantees of MBS and commitments to guarantee MBS. The Ginnie Mae guaranteed security is a pass-through security whereby mortgage principal and interest payments, except for servicing and guaranty fees, are passed through to the security holders monthly. Mortgage prepayments are also passed through to security holders. As a result of the security's structure, Ginnie Mae bears no interest rate or liquidity risk. Ginnie Mae's exposure to credit loss is contingent on the nonperformance of Ginnie Mae issuers. Other than those issuers considered in the reserve for loss on the MBS program (see Note H), Ginnie Mae does not anticipate nonperformance by the counterparties.

Ginnie Mae guarantees the timely payment of principal and interest to MBS holders should the issuers fail to do so. The securities are backed by pools of insured or guaranteed FHA, USDA, VA, or PIH mortgage loans. On September 30, 2010, the amount of securities outstanding, which is guaranteed by Ginnie Mae, was $1.0 trillion, including $16.6 million of Ginnie Mae-guaranteed bonds. However, Ginnie Mae's potential loss is considerably less because of the financial strength of our issuers. Additionally, in the event of default, the underlying mortgages serve as primary collateral, and FHA, USDA, VA, and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guarantee, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the securities are issued or the commitment period expires. Ginnie Mae's risk related to outstanding commitments is much less than for outstanding securities, due in part to Ginnie Mae's ability to limit commitment authority granted to individual MBS issuers.

Outstanding MBS and commitments were as follows:

	September 30	
(Dollars in billions)	2010	2009
Outstanding MBS	$ 1,046.2	$ 826.0
Outstanding MBS Commitments	$ 80.0	$ 98.5

Note J: Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counterparties (for example, issuers and borrowers) engage in similar activities or are susceptible to similar changes in economic conditions that could affect their ability to meet contractual obligations. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers as noted below, as of September 30, 2010:

	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	26	$ 924.9	15	$ 42.0	1	$ 0.2	8	$ 17.2
Other performing issuers	119	$ 35.2	42	$ 7.8	2	$ -	0	$ -
Defaulted issuers	20	$ 19.2	1	$ -	5	$ -	0	$ -

As of September 30, 2010, Ginnie Mae's single family, multifamily, and manufactured housing defaulted portfolio had remaining principal balances of $19.2 billion, $145.0 thousand, and $3.4 million, respectively**.**

In fiscal year 2010, Ginnie Mae issued a total of $236.2 billion in its multiclass securities program. The estimated outstanding balance of multiclass securities included in the total MBS securities balance in Note I as of September 30, 2010, was $488.7 billion**.** These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Note K: Commitments and Contingencies

As of September 30, 2010, Ginnie Mae's Office of General Counsel has identified three pending or threatened actions and no other unasserted claims or assessments as of this report involving a potential liability of $100,000 or more, individually, or in the aggregate for similar matters for $300,000 or more. In the opinion of Ginnie Mae's management and Office of General Counsel the likelihood of an unfavorable outcome is remote in the three cases. It is the opinion of Ginnie Mae that the disposition or ultimate resolution of these cases will not have a material adverse effect on the financial position of Ginnie Mae.

Ginnie Mae's management recognizes the uncertainties that could occur in regard to potential defaulted issuers and other indirect guarantees.

Note L: Related Parties

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

Ginnie Mae was authorized by Congress to use $11.1 million during fiscal year 2010 for payroll and payroll-related costs only. During fiscal year 2010, Ginnie Mae incurred $9.6 million, net, for Salaries and Expenses including payroll and payroll-related costs. This covered the payroll-related costs to HUD including the contributions to the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Ginnie Mae has no liability for future payments to employees under the retirement systems. Ginnie Mae does not account for the assets of CSRS or FERS nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management (OPM) and are allocated to HUD. OPM also accounts for the health and life insurance programs for federal employees and retirees and funds the non-employee portion of these programs' costs.

Cash receipts, disbursements, and investment activities are processed by the U.S. Treasury. Funds with U.S. Treasury represent cash currently available to finance purchase commitments and pay current liabilities. Ginnie Mae has authority to borrow from the U.S. Treasury to finance operations in lieu of appropriations, if necessary.

Note M: Fair Value of Financial Instruments

The following table shows the fair value of the financial instruments to which Ginnie Mae has a contractual obligation to deliver cash to, or a contractual right to receive cash from, another entity as of September 30, 2010, and 2009:

	September 30, 2010			September 30, 2009	
(Dollars in thousands)	Cost	Fair Value		Cost	Fair Value
Funds with U.S. Treasury	$ 6,650,500	$ 6,650,500		$ 5,253,800	$ 5,253,800
U.S. Government Securities	$ 3,551,200	$ 3,717,800		$ 9,235,800	$ 9,488,600
Mortgages held for investment, net	$ 4,443,300	$ 4,443,300		-	-
Advances against defaulted MBS Pools, net	$ 842,100	$ 842,100		$ 120,100	$ 120,100
Other assets	$ 298,900	$ 298,900		$ 122,400	$ 122,400
Mortgage servicing rights	$ 137,700	$ 137,700		-	-
Unrecognized financial instruments	-	$ 2,775,000		-	$ 4,139,000
Other liabilities	$ 376,800	$ 376,800		$ 175,700	$ 175,700

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

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

These discounted cash flows consist of estimated future guaranty fees, taking into account estimated prepayments, in excess of: (1) projected losses relating to the MBS program, including projected losses on defaulted pools of MBS; and (2) projected administrative expenses. The discount rate approximates an interest rate for risk-free instruments of a type and duration similar to the Ginnie Mae guaranty. The fair value of Ginnie Mae's guaranty recognizes the present value of future fees, which are not recognized under accounting principles generally accepted in the U.S., since to do so would record revenue prior to realization. The fair value of unrecognized financial instruments decreased from fiscal year 2010 to fiscal year 2009.

Ginnie Mae's standing as a federal government corporation whose guaranty carries the full faith and credit of the U.S. Government makes it difficult to determine what the fair value of its financial instruments would be in the private market. Accordingly, the amount Ginnie Mae would realize upon the sale of its financial instruments could differ, perhaps materially, from the amounts shown above.

Note N: 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, 2010, Ginnie Mae had an investment of U.S. Government of $14.6 billion. 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 O: Subsequent Events

Ginnie Mae management has evaluated subsequent events through November 5, 2010, the date through which the financial statements were made available.

As of October 31, 2010, Ginnie Mae has repurchased approximately $499 million of loans out of Single Family defaulted MBS pools. Ginnie Mae management has determined that the repurchase will not have a material adverse effect on the financial position of Ginnie Mae.