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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 conduct of the audit.

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Carmichael Brasher Tuvell & Company
CERTIFIED PUBLIC ACCOUNTANTS

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.

GINNIE MAE EMPLOYEES IN FY 2010

PERSHING J. ANDERSON
LINDA D. BLAYLOCK
DAWN A. BROWN
CARLOTTA C. BRYANT
PHILIP H. BUCKLEY
VICTORIA P. CABRERA
TERRY M. CARR
HERBERT G. CARROLL
KATHY C. CHEATHAM
SHALEI CHOI
JANIE R. COUSIN
MARY ANN COVAL
ERNEST E. COWAN
STACY S. CRAWLEY
NUTHAN K. DEODHAR
PATRICIA A. DOUGHERTY
TISA I. EBBA
DAVID L. ELLIS
CLAIRE ERCHENIAN
H. CLAUDE ETIENNE
HELEN E. FAUNCE
BARBARA A. FOREMAN
KIRK D. FREEMAN
KATHLEEN M. GIBBONS

CINDY C. GORMAN MILLER
PATRICK A. HALL
CHRISTOPHER C. HASPEL
MERLENE S. HAWKINS
DEBORAH V. HOLMES
BELINDA A. JACKSON
WENDY R. JOHNSON
DANIEL E. KAHN
CHITRANJAN KHANDPUR
MARY K. KINNEY
CAROLYN L. KORN
JOHN KOZAK
STEPHEN L. LEDBETTER
CHRISTINE L. MARTIN
MARIA M. MCQUEEN
JAMES DION MILHOUSE
SHAROLYN D. MOSES
DEBRA L. MURPHY
L. MICHELLE MURPHY
MICHAEL J. NAJJUM, JR.
MICHAEL D. NARDACCI
MICHAEL R. NIXON
LEONORA D. NOEL
CHERYL W. OWENS

ALISON D. PRICE
GEORGE I. ROSE, JR.
GINA B. SCREEN
ZACHARY SKOCHKO
TAMARA P. SMITH
PAUL R. ST. LAURENT III
SHARON C. STRANGE
LINDSAY L. STURDIVANT
SONYA KEYS SUAREZ
PAUL J. THERUVIPARAMPIL
JAMES A. THOMPSON
THEODORE W. TOZER
SANDRA J. USHER
VICTORIA VARGAS
SMITHA VASANTH
CAROL M. VILSACK
LAKEVIA S. WALLER
RICHARD J. WASHINGTON
THOMAS R. WEAKLAND
EVA E. WHITE
KIMBERLY WOODS
KARMEN L. YOUNG

(AS OF SEPTEMBER 30, 2010)

Mae

U.S. Department of Housing and Urban Development
Washington, DC 20410-9000

www.ginniemae.gov

DECEMBER 2010

EQUAL HOUSING OPPORTUNITY