

## Balance Sheets

(Dollars in thousands)

September 30,	2003	2002
<b>Assets:</b>		
Funds with U.S. Treasury	\$ 2,931,800	\$2,509,100
U.S. Government securities — Note B	7,215,800	6,935,200
Mortgages held for sale, net — Note C	39,200	4,900
Properties held for sale, net — Note D	1,400	800
Accrued interest on U.S. Government securities	62,500	60,400
Accrued fees and other receivables	26,100	31,000
Advances against defaulted Mortgage-Backed Security pools, net — Note E	—	4,400
Fixed assets — software, net of accumulated amortization	8,000	8,800
Other assets — Note A	69,100	—
<b>Total Assets</b>	<b>\$10,353,900</b>	<b>\$9,554,600</b>
<b>Liabilities and Investment of U.S. Government</b>		
<b>Liabilities:</b>		
Reserve for loss on Mortgage-Backed Securities Program — Note F	\$ 519,300	\$ 538,700
Deferred revenue	80,600	65,200
Deferred liabilities and deposits	1,600	1,800
Accounts payable and accrued liabilities	33,300	30,400
Other liabilities — Note A	69,100	—
<b>Total Liabilities</b>	<b>703,900</b>	<b>636,100</b>
<b>Commitments and Contingencies — Notes G, H, and I</b>		
Investment of U.S. Government	9,650,000	8,918,500
<b>Total Liabilities and Investment of U.S. Government</b>	<b>\$10,353,900</b>	<b>\$9,554,600</b>

See accompanying notes to financial statements.

**Statements of Revenues and Expenses and Changes in Investment of U.S. Government**  
(Dollars in thousands)

For the years ended September 30,	2003	2002
<b>Revenues:</b>		
Mortgage-Backed Securities Program income	\$ 406,100	\$ 446,000
Interest income	389,300	398,900
Other income, net	4,200	6,200
<b>Total Revenues</b>	<b>\$ 799,600</b>	<b>\$ 851,100</b>
<b>Expenses:</b>		
Mortgage-Backed Securities Program expenses	55,400	45,600
Administrative expenses	10,300	9,300
Fixed asset amortization	2,400	1,900
<b>Total Expenses</b>	<b>\$ 68,100</b>	<b>\$ 56,800</b>
Provision for loss on Mortgage-Backed Securities Program — Note F	—	—
<b>Excess of Revenues Over Expenses</b>	<b>731,500</b>	<b>794,300</b>
<b>Investment of U.S. Government at Beginning of Year</b>	<b>8,918,500</b>	<b>8,124,200</b>
Excess of revenues over expenses	731,500	794,300
<b>Investment of U.S. Government at End of Year</b>	<b>\$9,650,000</b>	<b>\$8,918,500</b>

See accompanying notes to financial statements

## Statements of Cash Flows

(Dollars in thousands)

For the years ended September 30,	2003	2002
<b>Cash flows from operating activities:</b>		
Interest received	\$ 387,200	\$ 422,100
Mortgage-Backed Securities Program fees	411,000	447,900
Advances against defaulted Mortgage-Backed Security pools	(6,500)	7,900
Mortgage-Backed Securities losses and expenses	(50,600)	(40,100)
Other income received	19,600	21,200
Administrative expenses	(10,300)	(9,300)
Purchases of mortgages/properties, net of disposal	(45,500)	(3,000)
<b>Net cash provided by operating activities</b>	<b>704,900</b>	<b>846,700</b>
<b>Cash flows from investing activities:</b>		
Purchase of U.S. Treasury Securities, net	(280,600)	(378,100)
Purchase of software	(1,600)	(2,500)
<b>Net cash used by investing activities</b>	<b>(282,200)</b>	<b>(380,600)</b>
<b>Net increase in cash</b>	<b>422,700</b>	<b>466,100</b>
<b>Funds with U.S. Treasury at Beginning of Year</b>	<b>2,509,100</b>	<b>2,043,000</b>
<b>Funds with U.S. Treasury at End of Year</b>	<b>\$ 2,931,800</b>	<b>\$ 2,509,100</b>
<b>Net excess of revenues over expenses</b>	<b>731,500</b>	<b>794,300</b>
<b>Adjustments to reconcile net excess of revenues over expenses to net cash provided by operating activities:</b>		
Provision for loss on Mortgage-Backed Securities Program	—	—
(Increase) decrease in accrued interest Federal Investments	(2,100)	23,200
Decrease in advances against defaulted Mortgage-Backed Security pools	4,400	3,600
(Decrease) increase in deferred liabilities and deposits	(200)	200
Increase in accounts payable and accrued liabilities	2,900	2,600
Increase in deferred revenue	15,400	15,000
Increase (decrease) in Mortgage-Backed Securities Reserve, net of other assets, relating to operating activities	(49,400)	5,900
Fixed asset amortization	2,400	1,900
<b>Total adjustments</b>	<b>(26,600)</b>	<b>52,400</b>
<b>Net cash provided by operating activities</b>	<b>\$ 704,900</b>	<b>\$ 846,700</b>

See accompanying notes to financial statements

# Notes to the Financial Statements

## September 30, 2003 and 2002

### 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. The purpose of the program 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. The guaranty is backed by the full faith and credit of the United States government. Ginnie Mae requires that the mortgages be insured or guaranteed by the Federal Housing Administration (FHA), the Rural Housing Service (RHS) (formerly Farmer's Home Administration), 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. For purposes of the Statements of Cash Flows, 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 positive 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.

### Mortgages Held for Sale

Mortgages held for sale, which are purchased out of MBS pools, are carried at the lower of cost or fair value, with any unrealized losses included in current period earnings. The related allowance for loss is established to reduce the carrying value of mortgages held for sale to their estimated fair value, which is based on the amount Ginnie Mae expects to realize in cash upon sale of the mortgages.

### Properties Held for Sale

Foreclosed assets are recorded at the lower of cost or fair value, less estimated costs to sell. The related allowance for loss is established to reduce the property carrying value to fair value, less costs to sell. Property related expenses incurred during the holding period are included in MBS program expenses.

### Advances Against Defaulted MBS Pools

Advances against defaulted MBS pools represent payments made to fulfill Ginnie Mae's guaranty of timely principal and interest payments to the 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, VA, and RHS claims that have been filed.

### 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.

### Reserve for Loss on MBS Program

In the operation of its MBS programs, Ginnie Mae estimates the cost of liquidating its existing portfolio of mortgage servicing rights acquired from defaulted issuers and expected issuer defaults. Reserves are established to the extent management believes issuer defaults are probable and FHA, VA, and RHS insurance or guaranty are insufficient to recoup Ginnie Mae expenditures. The reserves are increased by provisions charged as an expense in the Statements of Revenue 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 guaranty 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 acquired through liquidation and claims against HUD/FHA and VA are recognized when they occur.

### FIN 45

The Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, an interpretation of FASB Statements No. 5, 57, and 107, and Rescission of FASB Interpretation No. 34, in November 2002. FIN 45 clarifies the requirements of FASB Statement No. 5, *Accounting for Contingencies*, relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 requires that upon issuance of a guarantee, the entity (i.e., the guarantor) must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements that end after December 15, 2002. FIN 45's provisions for initial recognition and measurement are to be applied on a prospective basis only to guarantees issued or modified after December 31, 2002. The guarantor's previous accounting for guarantees that were issued before the date of FIN 45's initial application may not be revised or restated to reflect the effect of the recognition and measurement provisions of FIN 45. We have completed an evaluation of our guarantees for disclosures required by FIN 45, and have disclosed an asset and liability of \$69.1 million. There is no impact of adopting FIN 45 on the net financial position.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and 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 and Treasury Notes. The coupon rates of Ginnie Mae's holdings as of September 30, 2003, range from 0.95 percent to 7.88 percent, and as of September 30, 2002, the range was from 1.9 percent to 7.88 percent.

The amortized cost and fair values as of September 30, 2003, were as follows:

Dollars in Thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	\$1,411,700	\$ —	\$ —	\$1,411,700
U.S. Treasury Notes	5,804,100	417,700	—	6,221,800
	<b>\$7,215,800</b>	<b>\$417,700</b>	<b>\$ —</b>	<b>\$7,633,500</b>

The amortized cost and fair value as of September 30, 2002, were as follows:

Dollars in Thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	\$ 592,000	\$ —	\$ —	\$ 592,000
U.S. Treasury Notes	6,343,200	542,400	—	6,885,600
	<b>\$6,935,200</b>	<b>\$542,400</b>	<b>\$ —</b>	<b>\$7,477,600</b>

The amortized cost, fair value, and annual weighted average interest rates of U.S. government securities at September 30, 2003, by contractual maturity date, were as follows:

<i>Dollars in Thousands</i>	Weighted Average Interest Amortized Cost	Fair Value	Rate
Due within one year	\$2,181,700	\$2,208,300	0.97%
Due after one year through five years	1,995,500	2,209,900	1.60%
Due after five years through ten years	3,038,600	3,215,300	1.83%
	<b>\$7,215,800</b>	<b>\$7,633,500</b>	<b>1.51%</b>

The amortized cost, fair value, and annual weighted average interest rates of U.S. government securities at September 30, 2002, by contractual maturity date, were as follows:

<i>Dollars in Thousands</i>	Amortized Cost	Weighted Average Interest Fair Value	Rate
Due within one year	\$2,167,200	\$2,182,300	1.61%
Due after one year through five years	2,763,200	3,095,400	1.97%
Due after five years through ten years	2,004,800	2,199,900	2.12%
	<b>\$6,935,200</b>	<b>\$7,477,600</b>	<b>1.91%</b>

### Note C – Mortgages Held for Sale, Net

Ginnie Mae acquires certain mortgages from defaulted issuers' portfolios to bring the pools into conformity with MBS program requirements. Ginnie Mae acquires mortgages ineligible to remain in pools when servicing rights are sold. Mortgages held for sale were as follows:

<i>Dollars in Thousands</i>	September 30,	
	2003	2002
Unpaid principal balance	\$52,400	\$8,000
Allowance for losses	(13,200)	(3,100)
<b>Mortgages held for sale, net</b>	<b>\$39,200</b>	<b>\$4,900</b>

#### Note D – Properties Held for Sale, Net

Ginnie Mae acquires residential properties by foreclosure out of the defaulted issuer portfolios in order to comply with MBS program requirements. Balances and activity in the properties held for sale were as follows:

<i>Dollars in Thousands</i>	September 30,	
	2003	2002
Cost of properties, beginning of year	\$2,100	\$1,300
Additions	5,800	4,900
Dispositions and losses	(4,000)	(4,100)
Cost of properties, end of year	3,900	2,100
Allowances for losses and costs to sell	(2,500)	(1,300)
<b>Properties held for sale, net</b>	<b>\$1,400</b>	<b>\$ 800</b>

#### Note E – Advances Against Defaulted Mortgage-Backed Security Pools, Net

Under its MBS guaranty, Ginnie Mae advanced \$39.8 million in Fiscal Year 2003, and \$63.2 million in Fiscal Year, 2002 against defaulted MBS pools to ensure timely pass-through payments. Recoveries of advances, either from late payment remittances or through FHA insurance or VA guaranty proceeds were \$40.3 million in Fiscal Year 2003, and \$71.0 million in Fiscal Year 2002. No advances were written off in Fiscal Years 2003 and 2002.

<i>Dollars in Thousands</i>	September 30,	
	2003	2002
Advances against defaulted pools	\$102,784	\$96,900
Allowance for losses	(102,784)	(92,500)
Advances against defaulted pools	\$ —	\$ 4,400



## Note F – Reserve for Loss on MBS Program

Ginnie Mae establishes a reserve for losses through a provision charged to operations, when in management's judgment, defaults of issuers of MBS 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 estimations 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 por-

tion of the portfolios and the sale of servicing rights. As Ginnie Mae's defaulted issuer portfolio decreases, original estimates are compared with actual results over time, and the adequacy of the reserve is assessed, and if necessary, the reserve is adjusted. 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, 2003 and 2002 are illustrated in the chart below.

Ginnie Mae incurs loss when FHA and VA insurance and guarantees 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.

<i>Dollars in Thousands</i>	Single Family	Multifamily	Manufactured Housing	Total
September 30, 2001	\$224,200	\$57,900	\$253,400	\$535,500
Recoveries	7,400	200	3,400	11,000
Realized losses	(2,000)	(400)	(5,400)	(7,800)
Provision	—	—	—	—
September 30, 2002	\$229,600	\$57,700	\$251,400	\$538,700
Recoveries	5,500	400	2,500	8,400
Realized losses	(17,100)	(700)	(10,000)	(27,800)
Provision	—	—	—	—
September 30, 2003	\$218,000	\$57,400	\$243,900	\$519,300

**Note G – 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 guaranty 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 structure of the security, Ginnie Mae bears no interest rate or liquidity risk. Ginnie Mae’s exposure to credit loss is contingent on the event of non-performance by other parties to the financial instruments. Other than those issuers considered in the reserve for loss on the MBS program (see Note F), Ginnie Mae does not anticipate non-performance 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, RHS, or VA mortgage loans. On September 30, 2003, the amount of securities outstanding, which are guaranteed by Ginnie Mae was \$473.9 billion, and it includes \$109.6 million of Ginnie Mae Guaranteed Bonds. However, Ginnie Mae’s potential loss is considerably less because the underlying mortgages serve as primary collateral, and the FHA, RHS, and VA insurance or guaranty indemnifies Ginnie Mae for most losses.

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

Outstanding MBS securities and commitments were as follows:

<i>Dollars in Billions</i>	September 30,	
	2003	2002
Outstanding MBS securities	\$473.9	\$568.4
Outstanding MBS commitments	\$ 46.4	\$ 43.2

<i>Dollars in Billions</i>	Single Family		Multifamily		Manufactured Housing	
	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance
Largest performing issuers	20	\$364.6	10	\$19.0	1	\$0.2
Other performing issuers	188	80.0	61	9.9	4	0.1
Defaulted issuers	5	0.0	2	0.1	10	0.0

#### Note H – Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counterparties (e.g., issuers and borrowers) engage in similar activities, or are susceptible to similar change 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 above, as of September 30, 2003.

During Fiscal Year 2003, there were no new defaults. Single family, multifamily, and manufactured housing defaulted issuers had remaining principal balances of \$37.4 million, \$61.6 million, and \$30.6 million respectively, as of September 30, 2003.

In Fiscal Year 2003, Ginnie Mae issued a total of \$106.1 billion in its multiclass securities program. The estimated outstanding balance of multiclass securities included in the total MBS securities balance in Note G as of September 30, 2003, was \$182.9 billion. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

#### Note I – Commitments and Contingencies

As of September 30, 2003, Ginnie Mae was named in several legal actions, virtually all of which involved claims under the guaranty program. It is not possible to predict the eventual outcome of the various actions; however, in the opinion of management and counsel, the resolution of these claims will not result in adverse judgments to such an extent they would materially affect the financial position or results of operations of Ginnie Mae.

#### Note J – 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). Such 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.

HUD provides Ginnie Mae, without charge, use of office space and equipment. Ginnie Mae reimbursed HUD \$10.3 million in Fiscal Year 2003, and \$9.3 million in Fiscal Year 2002, for administrative expenses allocated to Ginnie Mae, including payroll and payroll-related costs.

Payroll-related costs for which Ginnie Mae reimbursed HUD included matching contributions to the Civil Service Retirement System (CSRS), and the Federal Employees' Retirement System (FERS). Although Ginnie Mae funds a portion of pension benefits under

these programs, it has no liability for future payments to employees under these programs and 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 the costs of such programs.

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 K – Fair Value of Financial Instruments**

The table on the following page shows the fair value of financial instruments to which Ginnie Mae has a contractual obligation to deliver, or a contractual right to receive cash from another entity as of September 30, 2003 and 2002.

The fair value of Ginnie Mae's largest asset, 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 guaranty 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 value 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 United States of America, since to do so would record revenue prior to realization. The fair value of unrecognized financial instruments decreased from Fiscal Year 2002 to Fiscal Year 2003, and is primarily attributable to the impact of interest rate volatility.

Dollars in Thousands	September 30, 2003		September 30, 2002	
	Cost	Fair Value	Cost	Fair Value
Funds with U.S. Treasury	\$2,931,800	\$2,931,800	\$2,509,100	\$2,509,100
U.S. Government securities	7,215,800	7,633,500	6,935,200	7,477,600
Advance against MBS pools	—	—	4,400	4,400
Other assets	129,200	129,200	97,100	97,100
Unrecognized financial instruments	—	1,194,000	—	1,366,000
Other liabilities	115,500	115,500	97,400	97,400

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 sale of its financial instruments could differ, perhaps materially, from the amounts shown above.

#### Note L – Credit Reform

The primary purpose of the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs, and to place the cost of such credit programs on a basis equivalent with other Federal spending. Credit reform focuses on those 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, nor does it anticipate the need to receive such funding. As of September 30, 2003, Ginnie Mae had reserves of \$9.7 billion held in the U.S. Treasury. Pursuant to the statutory provisions under which Ginnie Mae operates, its net earnings are used to build sound reserves. In the opinion of management, Ginnie Mae is in compliance with OMB implementation requirements for the Federal Credit Reform Act, as applicable to government corporations.

## Ginnie Mae Employees

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U.S. Department of Housing and Urban Development  
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