v. Audit Report of Ginnie Mae's FY 2007 Financial Statements

audit report

Issue Date November 7, 2007	
Audit Case Number 2008-FO-0001	

TO: Thomas R. Weakland, Acting Executive Vice-President, Government National Mortgage Association, T

FROM: Robert McGriff, Director, Financial Audits Division, GAF

SUBJECT: Audit of the Government National Mortgage Association's (Ginnie Mae) Financial Statements for Fiscal Years 2007 and 2006

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 & Company, P.C. to audit the fiscal years 2007 and 2006 financial statements of the Government National Mortgage Association (Ginnie Mae). The contract required that the audit be performed according to Generally Accepted Government Auditing Standards (GAGAS).

Carmichael, Brasher, Tuvell & Company, P.C. is responsible for the attached auditors' report dated November 6, 2007 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 and regulations. Within 60 days of this report, Carmichael, Brasher, Tuvell and Company P.C. expects to issue a separate letter to management dated November 6, 2007 regarding other matters that came to its attention during the audit.

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 a section devoted to Management's Discussion and Analysis (MD&A) of the financial statements and related information. The MD&A is not included with this report. Ginnie Mae plans to separately publish an annual report for fiscal year 2007 that conforms to FASAB standards.

The report contains one significant deficiency in internal control. Three recommendations are new to this year's report. Based on the information provided in management's response to Carmichael, Brasher, Tuvell & Company's audit, we will record decisions in the department's Audit Resolution and Corrective Action Tracking System for these three recommendations.

We appreciate the courtesies and cooperation extended to the Carmichael, Brasher, Tuvell & Company, P.C. and OIG audit staffs during the conduct of the audit.

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Table of Contents

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Carmichael Brasher Tuvell & Company

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' REPORT

To the Acting Executive Vice 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 principal 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, 2007 and 2006, and the related statements of revenues and expenses, investments of the U. S. Government and statement 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, 2007 and 2006; 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.

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 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 by obtaining an understanding of the design effectiveness of its internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls 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*, but not for the purpose of expressing an opinion on the effectiveness of Ginnie Mae's internal control. Accordingly, we do not express an opinion on the effectiveness of Ginnie Mae's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Ginnie Mae's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Ginnie Mae should improve programs compliance and controls regarding monitoring of issuers

- Assure more effective follow up of the automated matching process with insurer loan data
- Communicate the most current and accurate quantitative and qualitative issuers information among Ginnie Mae senior officials to ensure the potential risk for issuer default is minimized
- Segregating incompatible duties to separate MBS's monitoring process from the issuer approval and other securities revenue production process

Additional detail and the related recommendations for this significant deficiency are provided in Appendix A of this report. The full text of management's response is included in Appendix B with our assessment of management's response included at Appendix C.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Ginnie Mae's internal control.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we did identify another matter in internal control that came to our attention during our audit which we will be communicated in writing to management and those charged with governance.

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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations 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.

The results of 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.

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.

RESPONSIBILITIES

Management's Responsibilities

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 2007 and 2006 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); they are not considered applicable at the Ginnie Mae level. 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 the management of U. S. Department of Housing and Urban Development, Ginnie Mae, and others within the organization and 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 6, 2007

APPENDIX A - SIGNIFICANT DEFICIENCY

Ginnie Mae should improve programs compliance and controls regarding monitoring of issuers

Due to conditions in the current economic mortgage and credit environment, improvements and/or changes should be considered by Ginnie Mae's Senior Management to strengthen monitoring in the Mortgage-Backed Securities (MBS) program.

- Assure more effective follow up of the automated matching process with insurer loan data
- Communicate the most current and accurate quantitative and qualitative issuers information among Ginnie Mae senior officials to ensure the potential risk for issuer default is minimized
- Segregating incompatible duties to separate MBS's monitoring process from the issuer approval and other securities revenue production process

MBS has a matching process utilizing FHA and VA databases to assure loans within Ginnie Mae pools are insured. However, a more effective follow up of some issuers with unmatched loans within existing pools should be implemented.

MBS has policies and procedures in place that include an annual issuer review and monitoring business process that help ensure each issuer is complying with MBS financial and performance requirements. However, results from some MBS reviews were not provided and/or communicated to Ginnie Mae Senior officials in a complete and timely manner to minimize the risk of issuer default.

MBS is responsible for approval of new issuers, issuer loan commitment authority, new MBS pool issuance, issuer compliance contractor review targeting, and monitoring of issuer review compliance with MBS program performance requirements results. A potential conflict of interest or independence may exist because issuer monitoring has not been separated from the issuer approval/business expansion processes.

- OMB Circular No. A-123 *Management's Responsibility for Internal Control*, (A-123) as revised December 21, 2004, "…specifically addresses internal control over financial reporting; operational program controls and financial reporting often overlap." Additionally, Section I states that "Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner." Also, within the circular's attachment, Section IV, *Assessing Internal Control,* it states, "Agency managers should continuously monitor and improve the effectiveness of internal controls associated with their programs.
- Federal as well as private sector internal control guidance requires a separation of performance monitoring and revenue producing business duties. GAO's Standards for Internal Control in Federal Government published in November 1999, Subsection "Segregation of Duties," states: "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud."

Recommendations to Ginnie Mae's Acting Executive Vice-President that address the significant deficiency described above include:

1. Institute timely and regular communications among Senior Officials or an Issuer Risk Assessment Committee regarding issuer performance and issuer review to recognize the current risk and the possibility of a potential misstatement Ginnie Mae's overall financial statements.
2. Reviewing and strengthening the completeness and timeliness of the automated pool collateral matching process as well as follow-up on unmatched loans with issuers.
3. Segregating issuer monitoring duties from MBS program functions to enhance independent management control over issuers.

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APPENDIX B - MANAGEMENT'S RESPONSE TO RECOMMENDATIONS

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-9000

GOVERNMENT NATIONAL
MORTGAGE ASSOCIATION

November 2, 2007

Mr. Ben W. Carmichael, Jr., CPA
Carmichael, Brasher, Tuvell & Company
1647 Mount Vernon Road
Atlanta, GA 30338

Re: Response to CBTC's Fiscal Year 2007 Ginnie Mae Audit Report

Dear Mr. Carmichael:

It is my pleasure to present to you Ginnie Mae's management response to Carmichael, Brasher, Tuvell & Company's ("CBTC") audit report on Ginnie Mae's financial statements for Fiscal Year 2007.

We are pleased that CBTC has acknowledged Ginnie Mae for its financial statement presentation on its FY 2007 financial audit. Ginnie Mae is also pleased to note that there were no material weaknesses.

In CBTC's Internal Control Report, it identified one significant deficiency in the area of mortgage-backed securities ("MBS"). CBTC recommended that Ginnie Mae improve its program compliance and controls regarding the monitoring of Ginnie Mae issuers. Ginnie Mae is committed to improving its MBS monitoring process that will better assure issuer program compliance. Ginnie Mae will be taking the following steps to address CBTC's concerns:

- Ginnie Mae will institute a new reporting process where Ginnie Mae senior management will be provided information to improve communication on issuers that are not in compliance with Ginnie Mae program requirements;
- Ginnie Mae will take quicker action regarding non-compliant issuers; and
- Ginnie Mae will strengthen controls related to appropriate separation of duties.

If you have any questions regarding Ginnie Mae's response, you may contact me at 202-475-4915.

Sincerely,

Thomas R. Weakland

Thomas R. Weakland
Acting Executive Vice President

www.hud.gov espanol.hud.gov

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APPENDIX C - CBTC'S ASSESSMENT OF MANAGEMENT'S RESPONSE TO RECOMMENDATIONS

CBTC has reviewed Ginnie Mae management's response to the reported significant deficiency made in connection with our audit of Ginnie Mae's 2007 Financial Statements, which is included as Appendix B. Our assessment of management's response is discussed below.

> We believe management's proposed actions are responsive to our recommendations. However, this significant deficiency will remain open until after CBTC has reviewed the effectiveness of Ginnie Mae's new reporting process, the timeliness of action taken by management in regard to noncompliant issuers, and the strengthening of controls related to appropriate segregation of duties.

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Ginnie Mae's FY 2007 Financial Statements

Balance Sheets

September 30		2007		2006
(Dollars in Thousands)				
Assets:				
Funds with U.S. Treasury	$	4,432,600	$	4,056,500
U.S. Government securities--Note B		8,735,900		8,358,100
Mortgages held for sale, net--Note C		19,000		23,000
Properties held for sale, net--Note D		3,200		2,600
Accrued interest on U.S. Government securities		53,200		56,200
Accrued fees and other receivables		23,300		24,300
Advances against defaulted Mortgage-Backed Security pools, net--Note E		1,000		1,800
Fixed assets--software, net of accumulated amortization		16,500		6,500
Other assets--Note A		426,000		363,700
Total Assets	$	13,710,700	$	12,892,700
Liabilities and Investment of U.S. Government				
Liabilities:				
Reserve for loss on Mortgage-Backed Securities Program--Note F	$	535,800	$	534,500
Deferred revenue		75,600		72,800
Deferred liabilities and deposits		11,100		2,200
Accounts payable and accrued liabilities		41,700		37,300
Other liabilities--Note A		426,000		363,700
Total Liabilities	$	1,090,200	$	1,010,500
Commitments and Contingencies--Notes G, H, and I				
Investment of U.S. Government		12,620,500		11,882,200
Total Liabilities and Investment of U.S. Government	$	13,710,700	$	12,892,700

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	2007	2006
(Dollars in Thousands)		
Revenues:		
Mortgage-Backed Securities Program income	$ 308,500	$ 300,300
Interest income	482,800	549,000
Other income, net	-	-
Total Revenues	$ 791,300	$ 849,300
Expenses:		
Mortgage-Backed Securities Program expenses	$ 41,900	$ 47,700
Administrative expenses	10,600	10,600
Fixed asset amortization	500	1,700
Total Expenses	$ 53,000	$ 60,000
Provision for loss on Mortgage-Backed Securities Program--Note F	-	-
Excess of Revenues over Expenses	$ 738,300	$ 789,300
Investment of U.S. Government at Beginning of Year	11,882,200	11,092,900
Excess of revenues over expenses	738,300	789,300
Returned to U.S. Treasury	-	-

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

Statements of Cash Flows

For the Years Ended September 30	2007	2006
(Dollars in Thousands)		
Cash Flow from Operating Activities:		
Net excess of revenues over expenses	$ 738,300	$ 789,300
Adjustments to Reconcile Net Excess of Revenues Over Expenses to Net Cash from (used for) Operating Activities:		
Depreciation & amortization	500	1,700
Decrease / increase in accrued interest Federal investments	3,000	(6,500)
Decrease / increase in advances against defaulted MBS pools	800	600
Increase / decrease in deferred liabilities and deposits	8,900	500
Increase / decrease in accounts payable and accrued liabilities	4,400	(5,100)
Increase / decrease in deferred revenue	2,800	(3,900)
Increase / decrease in MBS Reserve, net of other assets relating to operating activities	5,700	11,600
Total Adjustments	26,100	(1,100)
Net Cash from (used for) Operating Activities	$ 764,400	$ 788,200
Cash Flow from Investing Activities		
Purchase of U.S. Treasury Securities, net	(377,700)	(437,100)
Purchase of software	(10,600)	(6,000)
Net Cash from (used for) Investing Activities	$ (388,300)	$ (443,100)
Cash Flow from Financing Activities:		
Financing activities	-	-
Net Cash from (used for) Financing Activities	-	-
Net increase in cash & cash equivalents	376,100	345,100
Cash & cash equivalents - beginning of period	4,056,500	3,711,400
Cash & cash equivalents - end of period	$ 4,432,600	$ 4,056,500

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

Notes to the Financial Statements

September 30, 2007 and 2006

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 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. Of the $4.4 billion in Funds with U.S. Treasury, $3 billion is in the Reserve Receipt Account, which is a non-interest-bearing account at the U.S. Treasury. 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 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, and 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 cost 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 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, 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 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 acquired through liquidation and claims against FHA, VA, and RHS are recognized when they occur.

Statements of Cash Flows: Ginnie Mae changed the presentation of the Statements of Cash Flows for clarity purposes effective FY 2007. The statements are prepared on an indirect basis.

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 guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. We have computed the fair value of our guarantee based on the life of the mortgage-backed securities and their underlying loans. Based on this evaluation we have disclosed an asset and liability of $425.9 million as of September 30, 2007 and $363.7 million as of September 30, 2006 categorized as other assets and other liabilities, see Note A. There is no impact on the net financial position of Ginnie Mae due to FIN 45.

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 as of September 30, 2007, range from 0.88 percent to 4.625 percent. As of September 30, 2006, they ranged from 0.88 percent to 6.50 percent.

The amortized cost and fair values as of September 30, 2007, were as follows:

(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	$ 1,214,100	$ -	$ -	$ 1,214,100
U.S. Treasury Notes	2,294,900	8,600	(2,900)	2,300,600
U.S. Treasury inflation-Indexed Securities	5,226,900	-	(589,800)	4,637,100

The amortized cost and fair values as of September 30, 2006, were as follows:

(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	$ 1,262,400	$ -	$ -	$ 1,262,400
U.S. Treasury Notes	1,994,100	2,900	(14,000)	1,983,000
U.S. Treasury inflation-Indexed Securities	5,101,600	108,800	(67,800)	5,142,600

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government Securities at September 30, 2007, by contractual maturity date, were as follows:

(Dollars in Thousands)	Amortized Cost	Value	Weighted Average Interest Ratio
Due within one year	$ 2,612,100	$ 2,616,100	3.12%
Due after one year through five years	3,768,800	3,468,100	2.62%
Due after five years through ten years	2,355,000	2,067,600	2.20%

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government securities at September 30, 2006, by contractual maturity date, were as follows:

(Dollars in Thousands)	Amortized Cost	Fair Value	Weighted Average Interest Ratio
Due within one year	$ 1,762,300	$ 1,763,500	5.11%
Due after one year through five years	2,026,000	1,990,500	4.13%
Due after five years through ten years	4,569,800	4,634,000	2.33%

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:

(Dollars in Thousands)	September 30	
	2007	2006
Unpaid principal balance	$ 23,600	$ 29,100
Allowance for losses	(4,600)	(6,100)

Note D: Properties Held for Sale, Net

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

	September 30			
(Dollars in Thousands)	2007		2006	
Cost of properties, beginning of year	$	11,300	$	10,400
Additions		7,200		6,000
Dispositions and Losses		(4,600)		(5,100)
Cost of properties, end of year	$	13,900	$	11,300
Allowance for losses and costs to sell		(10,700)		(8,700)

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

Under its MBS guaranty, Ginnie Mae advanced $30.4 million in FY 2007, and $30 million in FY 2006 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 $31.1 million in FY 2007 and $30.4 million in FY 2006. There were no advances written off in FY 2007 and FY 2006. There were no advances associated with RHS in FY 2007 or FY 2006.

	September 30			
(Dollars in Thousands)	2007		2006	
Advances against defaulted pools	$	15,900	$	13,100
Allowance for losses		(14,900)		(11,300)

Note F: 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 decreases, original estimates are compared with actual results over time, and the reserve's adequacy 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. During fiscal year 2007, Ginnie Mae reallocated the distribution of the reserves between each of the programs. Changes in the reserve for the years ended September 30, 2007, and 2006 were as follows:

(Dollars in Thousands)	Single Family	Multifamily	Manufactured	
September 30, 2005 Reserve for Loss	$ 238,300	$ 58,600	$ 241,600	$ 538,500
Recoveries	4,800	250	7,100	12,150
Realized Losses	(5,200)	-	(11,000)	(16,200)
Provision	-	-	-	-
September 30, 2006 Reserve for Loss	$ 237,900	$ 58,850	$ 237,700	$ 534,450
Reallocation between programs	$ 187,800	$ (100)	$ (187,700)	$ -
Recoveries	7,900	100	6,700	14,700
Realized Losses	(7,200)	(50)	(6,100)	(13,350)
Provision	-	-	-	-

Ginnie Mae incurs losses when FHA, VA, and RHS 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 guaranties; (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.

Five single family issuers defaulted during FY 2007. Ginnie Mae believes that the reserve for loss estimate is adequate to cover any noninsured loss sustained for these issuers and from unknown future losses from the occurrence of periodic defaults.

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 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 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 nonperformance by the counter parties.

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, 2007, the amount of securities outstanding, which is guaranteed by Ginnie Mae, was $427.6 billion, including $52.8 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 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)	2007	2006
Outstanding MBS	$ 427.6	$ 410.0
Outstanding MBS Commitments	$ 35.8	$ 22.8

Note H: Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counter parties (e.g., 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, 2007:

(Dollars in Billions)	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	$358.0			1	$0.1
Other performing issuers	125	$ 30.9			2	-
				-		-

As of September 30, 2007, Ginnie Mae's single family, multifamily, and manufactured housing defaulted portfolio had remaining principal balances of $ 196.1 million, $ 33.4 million, and $ 13.8 million, respectively.

In FY 2007, Ginnie Mae issued a total of $ 44.6 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, 2007, was $201 billion. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Note I: Commitments, Contingencies and Uncertainties

As of September 30, 2007, Ginnie Mae has no legal actions pending. However, Ginnie Mae's management recognizes the uncertainties that could occur in regard to potential default issuers and other indirect guarantees. (See Note A, Note F, and Note M.)

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). 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 reimbursed HUD $10.6 million in FY 2007, and $10.6 million in FY 2006, for administrative expenses (office space, etc.), including payroll and payroll-related costs. Payroll-related costs reimbursed to 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 them. 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 nonemployee 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 K: Fair Value of Financial Instruments

The following table shows the fair value of 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, 2007, and 2006:

	September 30, 2007		September 30, 2006	
(Dollars in Thousands)	Cost	Fair Value	Cost	Fair Value
Funds with U.S. Treasury	$ 4,432,600	$ 4,432,600	$ 4,056,500	$ 4,056,500
U.S. Government Securities	8,735,900	8,151,800	8,358,100	8,388,000
Advances against Defaulted MBS Pools	1,000	1,000	1,800	1,800
Other assets	98,700	98,700	106,100	106,100
Unrecognized financial instruments	-	1,643,000	-	1,306,000
Other liabilities	128,400	128,400	112,300	112,300

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 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 increased from FY 2006 to FY 2007, and is primarily attributable to the impact of interest rate volatility.

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 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, 2007, Ginnie Mae had reserves of $12.6 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, and HUD's general counsel, Ginnie Mae is not subject to the Federal Credit Reform Act.

Note M: Subsequent Events

On October 25, 2007, Ginnie Mae defaulted a single family issuer with a portfolio of $235 million. Estimated losses on this default are not readily determinable and management believes that the reserve for loss estimate of $535.8 million (Note F) is adequate to cover any losses incurred by Ginnie Mae due to this default.

On August 1, 2007, Ginnie Mae defaulted a single family issuer. On September 20, 2007, the U.S. Bankruptcy Court approved the agreement to allow until October 9, 2007, for this defaulted issuer to find a buyer agreeable to Ginnie Mae to transfer the portfolio. The defaulted issuer found a buyer on October 9, 2007. Per the agreement, the defaulted issuer will reimburse Ginnie Mae for all costs associated with the default. On November 2, 2007, the transfer of the portfolio to the buyer occurred.

Ginnie Mae

Ginnie Mae Employees in FY 2007

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Pershing J. Anderson
Karen P. Beddoe
Damasque J. Blagburn
Linda D. Blaylock
Dawn A. Brown
Carlotta C. Bryant
Philip H. Buckley
Justin D. Burch
Jennifer S. Burke
Terry M. Carr
Herbert G. Carroll
Dan Cira
Janie R. Cousin
Ernest E. Cowan
Corey Coward
Nutan K. Deodhar
Patricia A. Dougherty
Tisa I. Ebba
David L. Ellis
Helen E. Faunce
Barbara A. Foreman
Theodore B. Foster
Kirk D. Freeman
Michael J. Frenz
Guillermo J. Godoy
Cindy C. Gorman
Jeannette Hackett
Merlene S. Hawkins
Deborah V. Holmes
Paul A. Imbraguglio
Eva E. Johnson
Wesley E. Jones
Daniel E. Kahn
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As of September 30, 2007

Ginnie Mae®

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