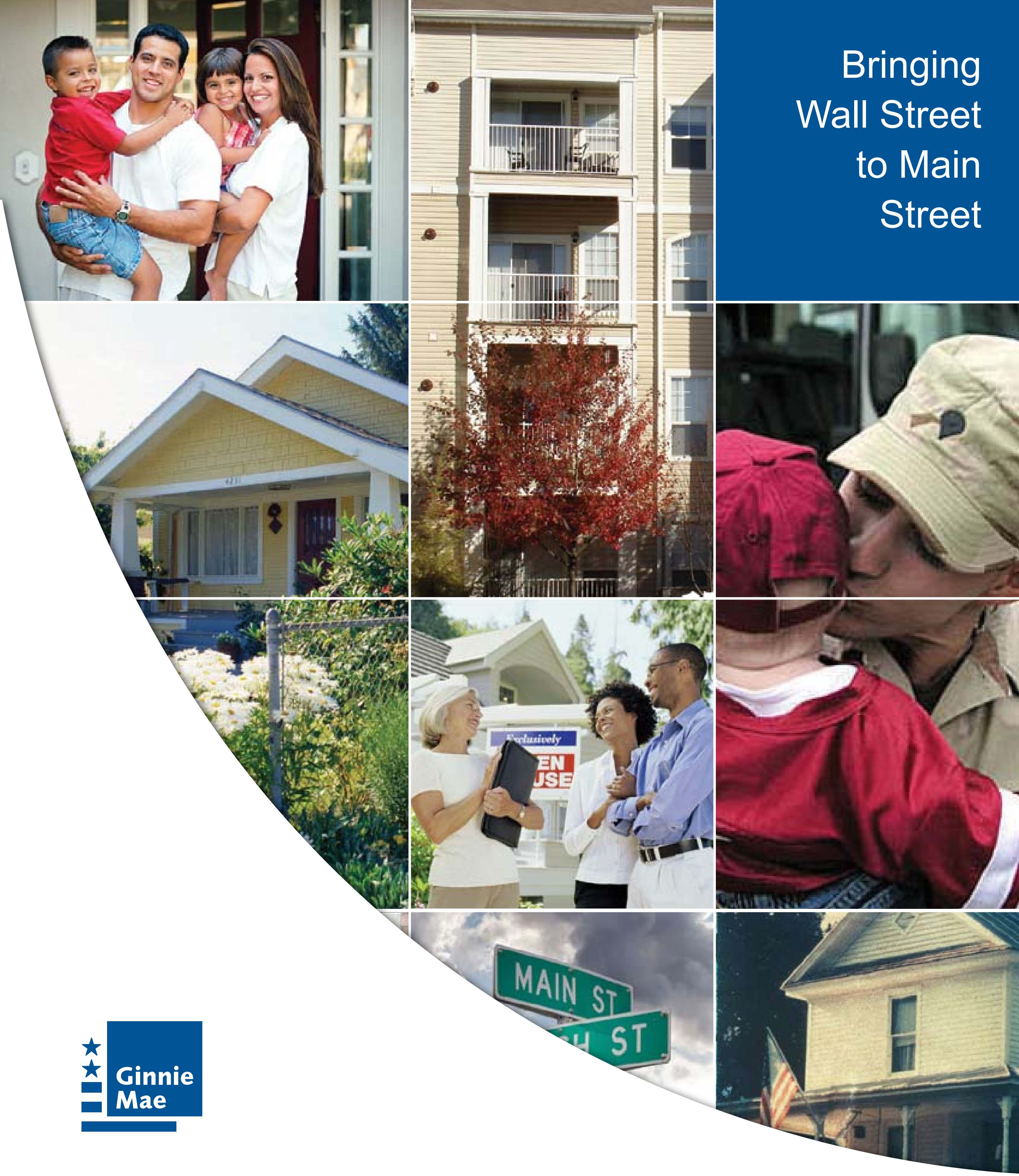
Bringing Wall Street to Main Street



Ginnie Mae

Annual Report 2006

Ginnie Mae's Mission

To expand affordable housing in America by linking global capital markets to the nation's housing markets

Ginnie Mae's Vision

Ginnie Mae is the world's leading financial institution committed to solving America's affordable housing needs

Secretary's Message

Ginnie Mae was established in 1968 and since 1970 has guaranteed more than $2.5 trillion in mortgage-backed securities, helping more than 33 million low- to moderate-income American families gain access to affordable housing opportunities. Through its innovative mortgage-backed securities (MBS), Ginnie Mae has linked global capital markets to the nation's housing markets.

The Ginnie Mae MBS Program—the only one of its kind to carry the full faith and credit of the United States Government—continues to sustain affordable housing by lowering mortgage borrowing costs and providing more opportunities for affordable rental housing. And, today, Ginnie Mae securities are a beacon of stability and dependability to issuers and investors throughout the world.

We are proud to be a part of Ginnie Mae's continued success and supportive role in providing more affordable housing opportunities for American families.

November 13, 2006

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

Dear Mr. Secretary:

Our mission at Ginnie Mae is to support the expansion of affordable housing in America. We promote homeownership and affordable rental housing by guaranteeing mortgage-backed securities issued by originators of government-insured single-family and multifamily mortgages. Since 1970, Ginnie Mae has guaranteed more than $2.5 trillion in mortgage-backed securities, helping more than 33 million Americans achieve their dream of homeownership.

The Ginnie Mae guaranty is backed by the full faith and credit of the United States government. This backing, combined with the flexibility and performance of our corporation's securities, make Ginnie Mae securities a very attractive investment for domestic and international investors alike.

This demand for Ginnie Mae securities means they are traded at higher prices than comparable securities issued and guaranteed by other government-sponsored entities. This pricing advantage allows Ginnie Mae's issuers to offer government-insured loans at reduced interest rates, thus lowering the cost of housing for homebuyers and renters. In this way, Ginnie Mae is well positioned to provide capital markets solutions to help stimulate economic growth, and expand affordable housing.

In recent years, Ginnie Mae has seen a decline in its net securities outstanding. New economic market conditions, however, have begun to reverse this trend. Slower prepayment speeds and a favorable interest rate environment at the end of Fiscal Year (FY) 2006 contributed to seven consecutive months of net outstanding mortgage-backed securities growth for the first time since 2000.

Ginnie Mae's future success is closely linked to that of Federal Housing Administration (FHA). That's why my number-one priority is to be a disciple for FHA modernization. I plan to accomplish this by advancing a two-pronged message: to increase awareness of the improvements that have already been made to the FHA program, and to advocate for legislation that will enable FHA to compete more effectively with the growing number of conventional and subprime loan options. Working together, Ginnie Mae and FHA are uniquely positioned to shrink the homeownership gap and meet other important housing challenges facing our country today.

But FHA modernization is only part of the battle. We also understand that we must remain committed to continually improving our own enterprise. Internal business process improvements and advances in technology during FY 2006, as well as upcoming changes in FY 2007, position us to give our customers added value through reduced processing time and effort, and to seize opportunities that the housing finance (capital) market presents.

These opportunities include significant anticipated growth in the number of Home Equity Conversion Mortgages, which benefit America's seniors. Currently, FHA supplies about 95 percent of all reverse mortgages, which places Ginnie Mae in an ideal position to provide a capital markets outlet for these loans.

Leveraging these opportunities, as well as our partnerships with FHA and other key industry participants, Ginnie Mae is poised to reverse its erosion of housing securities market share of recent years, and redouble its efforts toward introducing new products, expanding affordable housing credit, and shrinking the homeownership gap between minorities and non-minorities, while at the same time providing excellent service to our issuers, investors and other stakeholders.

Sincerely,

Robert M. Couch
President

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I. Overview and Background

Ginnie Mae's mission is to expand affordable housing in America. Housing and homeownership are vital to our nation's well-being. Linking global capital markets to the nation's housing markets, Ginnie Mae accomplishes its mission by providing products and solutions to mortgage lenders and market investors that foster affordable homeownership and rental housing in the United States.

Ginnie Mae was formed by Congress in 1968 as the Government National Mortgage Association. It is a wholly-owned government corporation within the U.S. Department of Housing and Urban Development jointly administered by the Secretary of HUD and the President of Ginnie Mae. In 1970, Ginnie Mae developed and guaranteed the first mortgage-backed securities (MBS). MBS have become the most important financial vehicle in the secondary mortgage market, converting individual mortgages into safe and liquid securities for investors around the world, channeling global capital into American housing markets, thus making more mortgages available.

This report highlights Ginnie Mae's financial and operating performance during Fiscal Year (FY) 2006, as well as Ginnie Mae's achievements, underscoring its critical role in America's housing market.

Fostering Affordable Housing Through Capital Markets Solutions

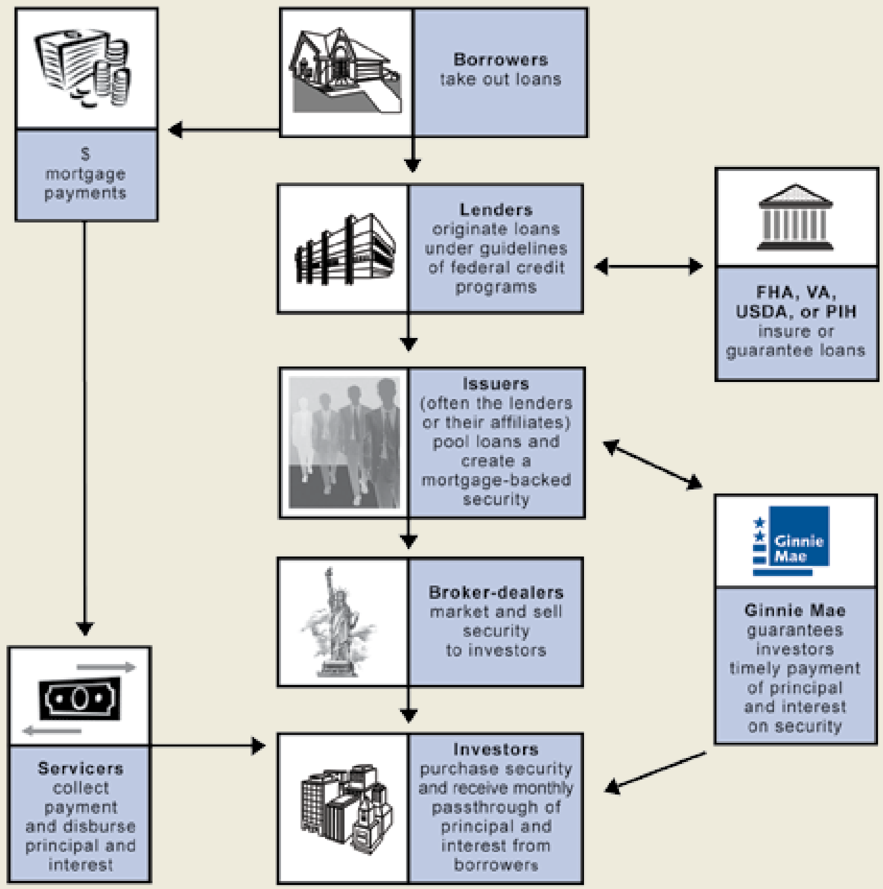
Ginnie Mae promotes homeownership and affordable housing by channeling global capital into the nation's housing finance markets. The Corporation's primary function is to guarantee the timely payment of principal and interest on MBS backed by loans insured by two HUD programs: the Federal Housing Administration (FHA) and the Office of Public and Indian Housing (PIH). In addition, loans guaranteed by the Department of Veterans Affairs' (VA) Home Loan Program for Veterans and Section 538 guaranteed Rural Rental Housing Loans made by the U.S. Department of Agriculture (USDA) Rural Development Housing and Community Facilities Programs are eligible for inclusion in Ginnie Mae MBS. Although a number of private or quasi-government enterprises (such as Fannie Mae and Freddie Mac) also attract global capital by guaranteeing MBS, the Ginnie Mae guaranty has the added benefit of the full faith and credit of the U.S. government.

Ginnie Mae does not make or purchase mortgage loans, nor does it buy, sell, or issue securities. Instead, private lending institutions approved by Ginnie Mae originate eligible government loans, pool them into securities, and issue MBS.

The ability to package these loans into securities, which are subsequently sold by broker-dealers to investors around the world, enables a lender to use the proceeds to make more mortgage loans. Repeating this cycle increases the availability, accessibility, and affordability of mortgage funds for low- to moderate-income Americans.

Figure 1 shows the process of creating Ginnie Mae securities.

Figure 1: Ginnie Mae Securities Creation Process



Ginnie Mae expands affordable housing by enabling lenders to make securitized loans and offer competitive rates. By guaranteeing the timely payment of principal and interest to investors, Ginnie Mae helps lenders get a better price for pooled loans than they would for whole loans sold in the secondary market. These lenders also enjoy better financing costs, so they can offer lower mortgage interest rates to homebuyers.

With a U.S. government guaranty and an expected return that is higher than U.S. Treasury securities, Ginnie Mae provides an MBS vehicle for domestic and foreign investors who prefer the safety and soundness that Ginnie Mae's guaranty offers. The market for Ginnie Mae securities is highly liquid, allowing capital market investors to sell them quickly without significant impact to the market.

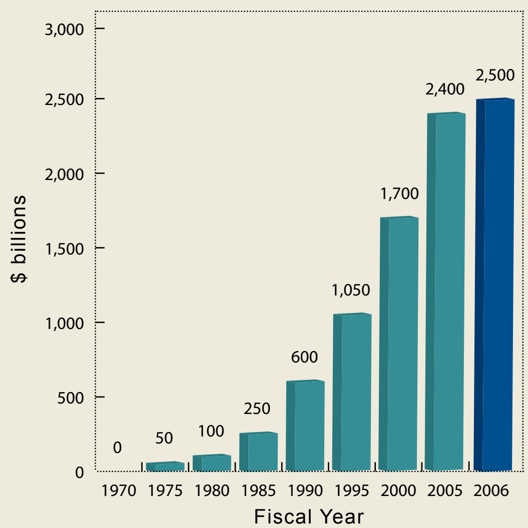
Since its inception, Ginnie Mae has guaranteed more than $2.5 trillion in MBS (see Figure 2), providing access to affordable housing for more than 33 million low- and moderate-income Americans and creating homeownership opportunities in every U.S. state and territory.

This free flow of capital between Wall Street and Main Street has significantly contributed to the current homeownership rate of 69 percent.[1]

Ginnie Mae also fosters safe and affordable rental

[1] *Source: U.S. Census Bureau, Third Quarter 2006 data*

Figure 2: Cumulative Amount of Ginnie Mae Mortgage-Backed Securities (1970-2006)



housing for individuals and families. Its multifamily securities program guarantees timely payment of principal and interest to securities holders. By creating multifamily pools and selling them to capital markets investors, lenders help reduce mortgage interest rates paid by developers which, in turn, keeps rents affordable.

Helping Existing Homeowners

In addition to its critical role in promoting homeownership, Ginnie Mae helps two types of existing homeowners: those in the military and those affected by natural disasters. Ginnie Mae reimburses issuers for interest in excess of 6 percent on loans made to active duty military personnel covered by the Servicemembers Civil Relief Act of 2003. This assistance provides a valuable benefit to military families serving our country at home and abroad.

Ginnie Mae also responds directly to disasters and emergencies. In the aftermath of last year's hurricane season and other natural disasters, Ginnie Mae extended its Targeted Lending Initiative (TLI), which reduced guaranty fees, and therefore mortgage rates paid by borrowers, in the hardest-hit areas.

Seizing Market Opportunities

Operating in a dynamic capital market, Ginnie Mae must innovate to react to trends and demands by issuers, investors and homebuyers. Ginnie Mae's products and programs are responsive to industry conditions, including interest rate fluctuations, supporting the health of the economy in general and housing markets in particular.

Ginnie Mae has a number of successful process and technology initiatives that have allowed Ginnie Mae to leverage market prospects, resulting in more housing opportunities for low- and moderate-income families. Many of these programs are the result of industry feedback solicited through forums and partnerships. During FY 2006, they included new electronic notification capabilities, a robust biometric-based e-authentication system, an improved electronic commerce interface, and more efficient document and records management.

In October 2006, Ginnie Mae announced that it is creating a new securitized product for FHA's popular Home Equity Conversion Mortgages (HECMs). HECM loans allow homeowners age 62 and older to draw on the equity of their home without having to sell and move out. The market opportunity presented by aging baby boomers and the issuers' ability to directly securitize these loans is another part of Ginnie Mae's affordable housing mission. Just as it helped to pioneer MBS, Ginnie Mae supports product initiatives that help homeowners remain in their homes for years to come.

Partnering for Success

Ginnie Mae's mission success is dependent upon its cooperation with business partners throughout the mortgage industry. These include government, and primary and secondary market constituents such as lenders, issuers, broker-dealers, investors, and associations. Ginnie Mae leverages these partnerships for American homeowners by improving its market position and competitiveness.

FHA loans make up more than 65 percent of Ginnie Mae's portfolio; therefore, Ginnie Mae's production should continue to benefit from modernization in the underlying FHA mortgage products. The issuer community was extremely positive about FHA's improvements to the appraisal process and introduction of electronic mortgage insurance in 2006. FHA also introduced regulation changes to allow adjustable rate mortgages (ARMs) to be indexed to the London Interbank Offered Rate (LIBOR), making them more attractive to investors.

Since the inception of these labor-, time-, and money-saving initiatives by FHA in 2006, issuances of Ginnie Mae securities have increased relative to those other entities that guarantee MBS products. As a result, Ginnie Mae has forged an even closer alliance with FHA, rolling out complementary market initiatives to promote homeownership.

Finally, Ginnie Mae also provides tangible support to the federal government and its public policy initiatives. Ginnie Mae's operations are self-funding, and the corporation has consistently earned positive net revenues. Furthermore, through its leadership in the housing and capital markets and its work with HUD, Ginnie Mae contributes significantly to HUD's ability to meet its affordable housing mission.

II. Mission and Goals

Ginnie Mae provides opportunities for both affordable homeownership and rental housing. By securitizing pools of mortgages as MBS, Ginnie Mae enables qualified mortgage lenders to access international capital markets. Lenders can then sell the securities at prices that allow them to offer loans to qualified homebuyers and developers at lower interest rates, thus lowering costs for homeowners and renters.

In addition to new innovations in providing a secondary market for government loans, Ginnie Mae seeks to increase the amount of capital available for mortgage lending in America, shrink the homeownership gap, support affordable rental housing, support underserved markets, and reach out to industry partners.

Providing a Secondary Market for Government Loans

Since its inception, Ginnie Mae has developed a variety of securities tailored to investors with diverse needs. At the core are two MBS products:

Ginnie Mae I MBS require all mortgages in a pool to be of the same type (e.g., single-family or multifamily), to be issued by the same issuer, and to have the same fixed interest rate. The minimum pool size is $1 million.

Ginnie Mae II MBS are restricted to single-family mortgages, but allow multiple-issuer pools to be assembled, which in turn creates larger and more geographically diverse pools as well as the securitization of smaller portfolios. Unlike Ginnie Mae I MBS, a range of coupons is permitted in a Ginnie II MBS pool. The minimum pool size is $250,000 per issuer for multilender pools and $1 million for single-lender pools.

These securities drive Ginnie Mae's efforts to create a secondary market for government loans, and serve as the underlying collateral for multiclass products such as Real Estate Mortgage Investment Conduits (REMICs), Callable Trusts, Platinums, and Interest Only (I/O)/ Principal Only (P/O) Strips:

REMICs are an investment vehicle that reallocates the pass-through cash flows from its underlying mortgage obligations into a series of different bond classes, known as tranches. REMICs offer greater investment flexibility, with each designed according to specific investor needs. This flexibility significantly broadens the investor base, which in turn creates greater demand for Ginnie Mae MBS. This demand improves pricing, resulting in lower interest rates and lower homeownership costs.

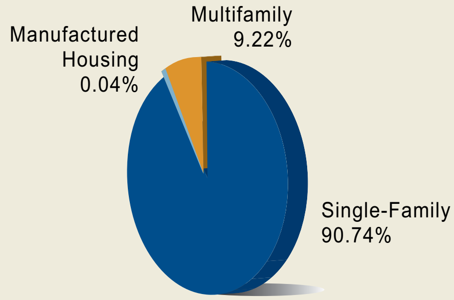
Callable Trusts allow investors the flexibility to redeem or call a security prior to its maturity date, under certain conditions, to hedge against fluctuating rate environments. At issuance, investors know what the redemption criteria are and what the call price will be.

Platinum securities provide MBS holders with greater market and operating efficiencies. Investors who hold multiple pools of MBS can combine new or existing MBS into a single Ginnie Mae Platinum Certificate. Once a Platinum Certificate has been created, it can be used efficiently in structured finance transactions, repurchase transactions, and general trading. Platinum securities simplify the administrative burden for investors, which typically results in better pricing for the issuer and lower costs to homeowners.

Stripped Mortgage-Backed Securities (SMBS) are custom-designed securities that redirect MBS cash flows to meet investors' specific income needs. Investors can receive all interest or all principal based on their needs. Separate I/O and P/O tranches are created to meet the objectives of a broad range of investors.

The majority of Ginnie Mae securities in FY 2006 were backed by single-family mortgages, as reflected in Figure 3 below:

Figure 3: Types of Loans in Ginnie Mae Issuer Pools, FY 2006



During FY 2006, Ginnie Mae aimed to securitize at least 90 percent of eligible single-family fixed-rate FHA loans and eligible FHA multifamily mortgages into guaranteed securities. Due to the increasing value of Ginnie Mae securities, these goals were exceeded. Ginnie Mae guaranteed securities representing 91.4 percent of eligible single-family fixed rate FHA mortgages and 96.9 percent of eligible FHA multifamily mortgages in FY 2006, which together helped house 660 thousand families.

Increasing the Amount of Capital Available for Mortgage Lending in America

The strength and transparency of Ginnie Mae MBS increasingly attracts foreign investors to Ginnie Mae securities. These investors are especially attracted to the full faith and credit backing the Ginnie Mae securities. The growing demand from foreign investors fuels the expansion of available capital for mortgage lending in the United States, supporting Ginnie Mae's mission.

Shrinking the Homeownership Gap

Shortly after taking office in 2001, President Bush challenged the nation to create 5.5 million minority homeowners by the end of this decade. Since the announcement of that goal, from mid-2002, an estimated 3.48 million minority families have joined the ranks of homeowners, if households who left homeownership are not deducted. To meet the President's goal, the secondary mortgage markets, particularly those for loans secured by homes of low- to moderate-income families, must continue to operate efficiently.

The homeownership gap must be addressed, and Ginnie Mae is committed to this challenge. As of the fourth quarter of 2005, the homeownership rate among non-minority families stood at 76 percent, compared to 50 percent among Hispanics and 48 percent for African Americans.[2] Since its inception in 1968, Ginnie Mae has been instrumental in solving capital shortages and gaps in the housing finance market and will continue to play an active role in the future.

Supporting Affordable Housing Beyond Homeownership

Although homeownership is a worthy and important goal, Ginnie Mae understands that today's housing challenges cannot be met through homeownership alone. The need for decent, affordable, and safe rental housing is a critical element in building economic stability for individuals and communities throughout America. In many ways, housing may be viewed as a ladder of opportunity with affordable rental housing as the "first rung." Affordable rental housing has become increasingly important as home prices have risen dramatically in recent years, making it more difficult for many Americans to gain quick entry into this market.

Just as Ginnie Mae's single-family products reduce finance costs for homebuyers, its multifamily products have an analogous impact on maintaining affordable rents. Ginnie Mae's multifamily business is meeting this need by attracting global capital for affordable rental housing, increasing from 8.55 to 9.22 percent of outstanding MBS.

In FY 2006, Ginnie Mae announced that the USDA Rural Development Section 538 guaranteed loans are eligible as collateral backing Ginnie Mae multifamily securities. These loans are used to revitalize section 515 loans, which serve key affordable housing needs in rural housing markets across the country.

Supporting the Underserved

Ginnie Mae's TLI program is a useful tool for encouraging mortgage lending in many underserved and disaster-ravaged communities. Currently, more than 17,000 census tracts are targeted by the TLI program. The program includes areas selected by HUD as Urban and Rural Empowerment Zones, Urban and Rural Enterprise Communities, Urban and Renewal Communities; areas defined by HUD as underserved; and census tracts with Native American populations. Under the TLI, Ginnie Mae reduces its guaranty fee by as much as 50 percent, from 6 basis points to as little as 3 basis points, when approved issuers originate or purchase mortgage loans in underserved areas. Reducing the guaranty fee lowers the lender's expenses, providing an incentive to make more loans. During FY 2006, 78,000 loans fell into the TLI program. This accounts for 14.4 percent of single-family issuances, a number that continues to grow.

Under the TLI program, Ginnie Mae responded to the devastating 2005 hurricane season by expanding TLI coverage to all areas that the Federal Emergency Management Agency (FEMA) declared eligible for individual assistance. This aid became available to hurricane and other natural disaster victims for 48 months beginning October 1, 2005. By using its products and programs in a flexible and cooperative way, Ginnie Mae demonstrates agility and purpose in sustaining safe and affordable housing for all Americans.

[2] *Source: U.S. Census Bureau*

Reaching Out to Fellow Affordable Housing Proponents

Another Ginnie Mae goal is expanding its affordable housing partnerships. By working with those who have already made inroads and established relationships of trust within a number of minority, new immigrant, and other underserved communities, Ginnie Mae aims to improve its outreach into these groups.

In addition, Ginnie Mae's website provides an impressive array of educational tools and assistance including a mortgage calculator.

III. Outlook: Market Strategies and Initiatives

Through its capital markets solutions, internal business process improvements, and technological advances during FY 2006, Ginnie Mae was able to meet capital market benchmarks and industry best practices. Seizing opportunities presented by the capital markets, as well as adding value to its customers through reduced processing time and effort, have made Ginnie Mae more attractive to investors. Some of Ginnie Mae's most promising opportunities stem from anticipated FHA modernization,

demographic trends, and increasing industry cooperation, all of which are expected to increase the volume of Ginnie Mae securities.

FHA Modernization

Ginnie Mae relies on FHA for a majority of the loans in securities it guarantees. Ginnie Mae's volume, therefore, is linked closely to FHA's volume. FHA modernization—including enhancements made during the past fiscal year and those proposed—is encouraging.

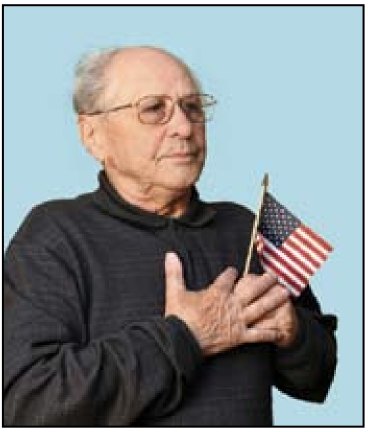
Recognizing the need to adapt to meet the demands of the current marketplace, FHA has streamlined its mortgage loan process. Its new appraisal protocol makes obtaining property valuations just as simple as getting appraisals for conventional loans. FHA's Lender Insurance Program permits lenders with acceptable default and claim rates to endorse their own FHA loans without a pre-endorsement review by FHA. These enhancements have cut processing time by as much as one-third and reduced insuring expense by as much as 25 percent, making it easier for lenders to offer affordable FHA financing to more American families.

Simplifying the process for lenders gives FHA a new opportunity to serve homebuyers who do not qualify for prime, conventional financing by offering them an alternative. Proposed legislation would further enhance FHA's ability to serve low- and moderate- income homebuyers by, among other things:

- raising loan limits to equal those of local median home prices;
- allowing greater flexibility with respect to downpayments, including zero-percent-down loans;
- creating risk-based mortgage insurance premiums; and
- allowing for more innovative loan concepts, to keep pace with private market developments (e.g., 40-year mortgages).

Ginnie Mae is committed to supporting FHA in its efforts to modernize.

Recognizing Market and Demographic Trends



America's aging population makes Home Equity Conversion Mortgages (HECMs) an increasingly attractive product for lenders, and Ginnie Mae has a capital markets solution to support this population (and prospective Ginnie Mae-qualified lenders). HECMs allow homeowners aged 62 and older to tap into their home equity without repaying the money as long as they live in their homes. These "reverse mortgages" help more senior homeowners enjoy a better quality of life by allowing them to retain their homes and use their home's accumulated wealth to help with health care costs and other expenses.

Currently, FHA insures approximately 95 percent of all reverse mortgages. This allows Ginnie Mae-qualified lenders to help underserved and elderly borrowers while tapping into a safe, secure, and guaranteed capital markets solution. Ginnie Mae's securitization of HECMs will reduce costs to seniors by allowing lenders to offer loans at lower-than-market interest rates. The securitization also has the potential to awaken the "sleeping giant" of demand for such products among retiring baby boomers.

By focusing on senior housing, Ginnie Mae is well positioned to serve the needs of a major demographic sub-group that is predicted to explode in the coming years. As the Government Accountability Office (GAO) said in 2006:

"In the 21st Century, older Americans are expected to comprise a larger share of the population, live longer, and spend more years in retirement than previous generations… [The] share of population age 65 and older is projected to increase from 12.4 percent in 2000 to 19.6 percent in 2030 and continue to grow through 2050… Equity in the primary residence has not historically been viewed by retirees as a source of consumable wealth, except in the case of financial emergencies. Reverse mortgages are expected to become more attractive."[3]

Enterprise Modernization

Thanks to an enterprise-wide Business Process Improvement (BPI) initiative, Ginnie Mae created an operational blueprint for modernizing its infrastructure. By executing this plan, Ginnie Mae is poised to support new homeownership opportunities presented by FHA modernization, demographic trends, and other market changes that are expected to increase the attractiveness of FHA loans. Specifically, Ginnie Mae has addressed pool processing, reporting, and biometric technologies.

Efforts to improve Ginnie Mae's processes have resulted in a one-day, or 25 percent, reduction in pool processing time for all Ginnie Mae II single-family, multiple issuer pool (MIP) packages submitted electronically. Through cooperation with the Federal Reserve, the pool processing time for new MIP securities has been reduced from four business days (with delivery of the security to the Federal Reserve on the fifth business day) to three business days (with delivery on the fourth business day). Among other benefits, this reduces lenders' warehouse line expenses, enabling issuers to offer lower finance costs to borrowers.

Ginnie Mae also is replacing its legacy MBS Information System with an improved reporting feedback system that allows the Corporation to increase the efficiency of collecting collateral data. Once the new system is in place, Ginnie Mae will accelerate its reporting cycle and consolidate the reporting of pool- and loan-level data.

Ginnie Mae will continue to align itself with industry best practices. This includes the use of biometric technologies for user authentication, which went into production in GinnieNET during FY 2006. This is just one example of Ginnie Mae's commitment to leveraging technology and industry best practices to strengthen security and improve the quality of data it provides to its stakeholders and customers. These capital market participants can then streamline their business with Ginnie Mae, making it easier to originate, pool, and securitize government insured or guaranteed loans.

[3] *Source: "Baby Boom Generation," Government Accountability Office Report, July 2006.*

Increasing Sources of Capital

Ginnie Mae, by increasing its attractiveness to sources of capital, strives to lower the cost of borrowing to homeowners. Foreign investors, to whom the full faith and credit guaranty is of great value, represent a significant part of the demand for Ginnie Mae securities. Relative to yields on U.S. Department of the Treasury (U.S. Treasury) securities, Ginnie Mae MBS are a desirable alternative investment for foreign investors seeking to maximize their return with minimum credit risk.

Increasing foreign demand for Ginnie Mae securities impacts security performance and pricing. As the price of Ginnie Mae securities increases, issuers can offer the underlying mortgages at lower interest rates and/or financing costs, which translates to lower costs for homebuyers and renters.

Increasing Industry Cooperation

To make the most of industry trends, Ginnie Mae takes an industry partnership approach in all its work, focusing on efficiency and reducing costs. Quarterly industry meetings allow Ginnie Mae to better understand market needs and ensure that its efforts to promote affordable housing are aligned with initiatives elsewhere in the industry.

Ginnie Mae's commitment to industry cooperation is further manifested in its effort to create and lead a government housing workgroup within the Mortgage Industry Standards Maintenance Organization, a group that develops, promotes, and maintains voluntary electronic commerce standards for the housing finance industry. Once formalized, this subcommittee will consist of representatives from Ginnie Mae, FHA, VA, USDA Rural Development, and PIH. This coalition will establish data protocols to further standardize information exchange in the housing finance industry.

Ginnie Mae continues to forge relationships with a broad range of industry partners. Examples include its dealings with the Mortgage Bankers Association of America and the establishment of relationships with the National Council of State Housing Agencies, America's Community Bankers, Securities Industry and Financial Markets Association (SIFMA), American Securitization Forum (ASF), and numerous Wall Street investment houses.

IV. Financial Highlights and Management's Discussion and Analysis

At Ginnie Mae, FY 2006 was marked by an increase in revenue, a decrease in expenses, and an increase in assets. Revenues related to MBS decreased because of the reduced level of MBS issuance. Ginnie Mae achieved excess revenues over expenses of $789.3 million in FY 2006, compared with $705.2 million in FY 2005. Revenues increased by 8 percent to $849 million, up from $787 million in FY 2005. Total assets increased by 6.2 percent to $12.9 billion, from $12.1 billion in FY 2005.

The outstanding MBS portfolio decreased by $2.3 billion in FY 2006, which led to decreased guaranty fee revenues. In FY 2006, MBS program income declined to $300.3 million, down from $327.5 million in FY 2005. However, interest income increased from $458.8 million in FY 2005 to $549 million in FY 2006. Total expenses as a percentage of total revenues decreased from 9.1 percent in FY 2005 to 7.1 percent in FY 2006.

Ginnie Mae issued $63.8 billion in commitment authority in FY 2006, a 43.3 percent decrease from FY 2005. The $81.7 billion of MBS issued in FY 2006 represents a 9 percent decrease from FY 2005. The outstanding MBS balance of $410 billion at the end of FY 2006, compared to $412.3 billion the previous year, resulted from repayments exceeding new issuances. FY 2006 production provided the capital to finance the home purchases or refinancings, or provided rental housing, for approximately 660 thousand American families.

Ginnie Mae's financial performance remained stable during FY 2006. Excess revenues were invested in U.S. Treasury securities. Ginnie Mae's operations are funded by program fees earned. As a result, Ginnie Mae has not needed to obtain funds through federal appropriations.

To understand Ginnie Mae's recent financial history, see Table 1, which provides three-year financial highlights of the Corporation.

Table 1: Ginnie Mae Financial Highlights, FY 2004 - 2006

September 30	2006	2005	2004
(Dollars in thousands)			
Balance Sheets Highlights and Liquidity Analysis			
Funds with U.S. Treasury	$ 4,056,500	$ 3,711,400	$ 3,355,100
U.S. Government Securities	$ 8.358,100	$ 7,921,000	$ 7,539,800
Total Assets	$ 12,892,700	$ 12,134,600	$ 11,411,300
Total Liabilities	$ 1,010,500	$ 1,041,700	$ 1,023,600
Investment of U.S. Government	$ 11,882,200	$ 11,092,900	$ 10,387,700
Total RPB Outstanding (1)	$ 409,990,230	$ 412,303,791	$ 453,421,816
LLR (2) and Investment of U.S. Government	$ 12,416,700	$ 11,631,400	$ 10,906,400
Investment of U.S. Government as a Percentage of Average Total Assets	94.95%	94.22%	95.45%
LLR and Investment of U.S. Government as a Percentage of RPB	3.03%	2.82%	2.41%
Capital Adequacy Ratio (3)	2.94%	2.74%	2.35%
Highlights From Statements of Revenues and Expenses & Profitability Ratios Years Ended September 30			
MBS Program Income	$ 300,300	$ 327,500	$ 372,800
Interest Income	$ 549,000	$ 458,800	$ 442,700
Total Revenues	$ 849,300	$ 786,500	$ 815,500
MBS Program Expenses	$ 47,700	$ 58,300	$ 63,300
Administrative Expenses	$ 10,600	$ 10,600	$ 10,600
Provision for Loss	$ –	$ 10,000	$ –
Total Expenses	$ 60,000	$ 71,300	$ 77,800
Excess of Revenues over Expenses	$ 789,300	$ 705,200	$ 737,700
Total Expense as a Percentage of Average RPB	0.0146%	0.0165%	0.0168%
Provision for Loss as a Percentage of Average RPB	–	0.0023%	–

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS. In addition, there were $66.9 million of Ginnie Mae Guaranteed Bonds.

(2) Loan Loss Reserve (LLR)

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

The following discussion provides information that is relevant to understanding Ginnie Mae's operational results and financial condition. It should be read in conjunction with the financial statements and notes at the end of this report. These financial statements have received an unqualified audit opinion from Ginnie Mae's independent auditor and Inspector General. Ginnie Mae's operating esults are subject to fluctuation each year, depending on the frequency and severity of losses resulting from general economic conditions, mortgage market conditions, and defaulting issuers.

Revenues

Ginnie Mae receives no appropriations from general tax revenues. Its operations are self-financed through a variety of fees. In FY 2006, Ginnie Mae generated total revenue of $849.3 million. This included $300.3 million in program income and $549 million in interest income from U.S. Treasury securities. It should be noted that Ginnie Mae is required by the U.S. Treasury to invest any excess revenues in U.S. Treasury securities.

Figure 4 shows Ginnie Mae's total annual revenues for the last five years.

MBS Program Income

MBS program income consists primarily of guaranty fees, commitment fees, and multiclass fees. For FY 2006, MBS program income was concentrated in guaranty fees of $268.6 million, followed by commitment fees of $18.1 million. Combined guaranty fees and commitment fees made up 95.5 percent of total MBS program revenues for FY 2006. Other lesser income sources include new issuer fees and transfer-of-servicing fees. MBS program income decreased in FY 2006 due to the decline in the MBS portfolio and MBS issuance.

Guaranty Fees

Guaranty fees are income streams earned for providing Ginnie Mae's guaranty of the full faith and credit of the U.S. government to investors. These fees are recognized over the life of the outstanding securities.

Guaranty fees are collected on the aggregate principal of the guaranteed securities outstanding in the non-

Figure 4: Ginnie Mae Revenues, FY 2002 – 2006

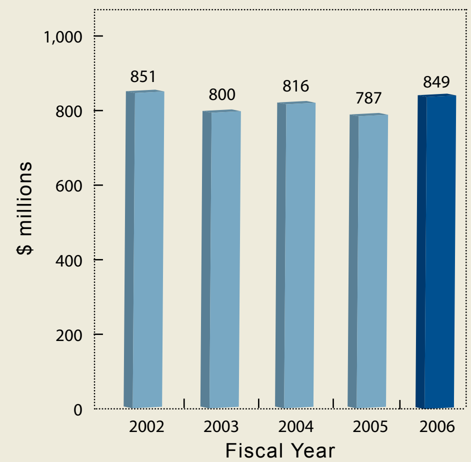
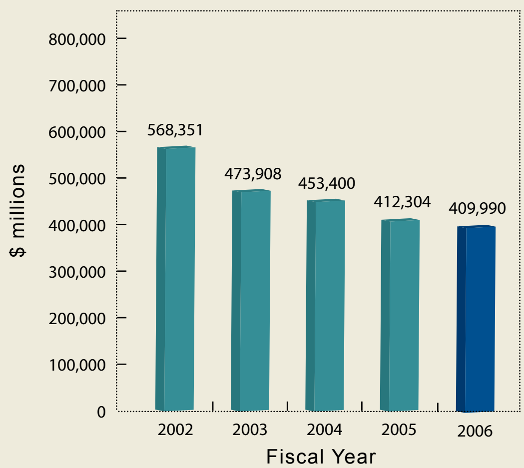


Figure 5: Remaining Principal Balance (RPB) Outstanding in the MBS Portfolio



defaulted issuer portfolio. MBS guaranty fees fell 9.4 percent to $268.6 million in FY 2006, from $285.5 million in FY 2005. These lower guaranty fees reflect the decline in the MBS portfolio. The outstanding MBS balance at the end of FY 2006 was $410 billion, compared with $412.3 billion the previous year, as repayments exceeded new issuances (see Figure 5).

Commitment Fees

Commitment fees are income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae MBS. This authority expires 12 months from issuance for single-family issuers and

24 months from issuance for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority, and recognizes the commitment fees as earned when 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. As of September 30, 2006, total commitment fees deferred totaled $4.4 million.

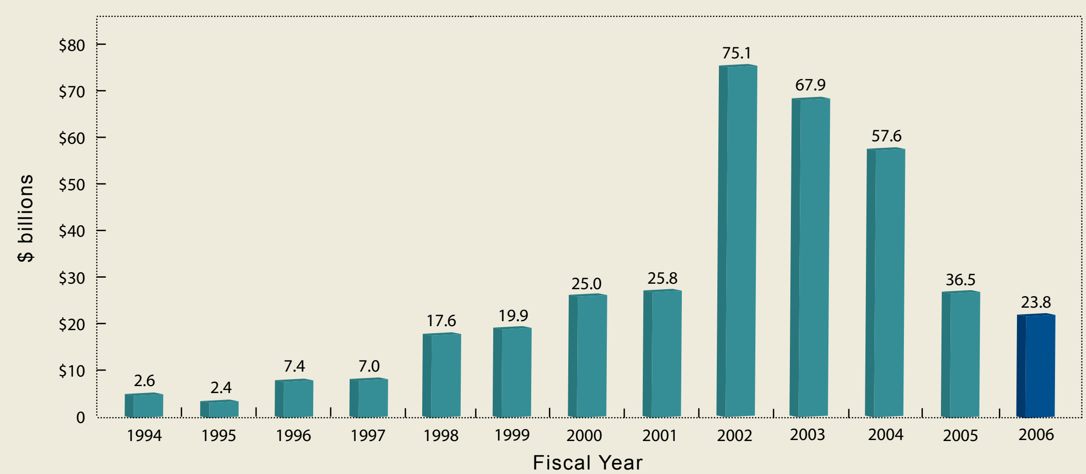
Commitment fees realized decreased to $18.1 million in FY 2006 from $19.4 million in FY 2005 because of diminished MBS issuance. Ginnie Mae issued $63.8 billion in commitment authority in FY 2006, a 43.3 percent decrease from FY 2005.

Multiclass Revenue

Multiclass revenue is part of MBS program revenues, and is composed of REMIC, SMBS, and Platinum program fees. Approximately $14.5 billion in Platinum products were issued in FY 2006. Total cash fees for Platinum securities amounted to $3.5 million, representing a 27.9 percent decrease in fee income from the previous year, due to lower Platinum product issuance. Guaranty fees from REMIC securities totaled $10 million on $23.8 billion in issuance for these products. Ginnie Mae recognizes a portion of the REMIC, Callable Trust, and Platinum program fees in the period they are received, with the balance deferred and amortized over the remaining life of the financial investment.

In FY 2006, $23.8 billion in REMIC securities were issued (see Figure 6). The outstanding balance of multiclass securities in the total MBS balance on September 30, 2006, was $198.7 billion. This reflects an $11.1 billion increase from the $187.6 billion outstanding balance in FY 2005.

Figure 6: REMIC Issuance, 1994 – 2006



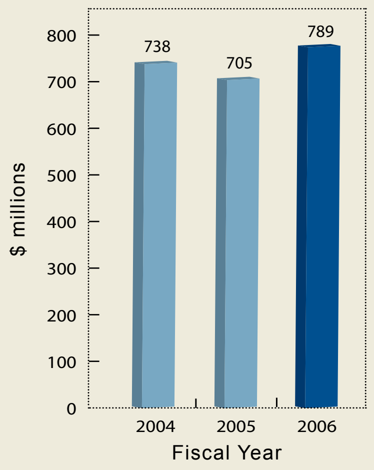
Interest Income

Ginnie Mae invests the excess of its accumulated revenues over expenses in U.S. government securities. As Ginnie Mae guaranty fee income has decreased over the past two years, interest income has steadily increased as a percentage of revenue. In FY 2006, interest income rose by 19.7 percent to $549 million, from $458.8 million in FY 2005. This increase was the result of interest rates that were higher than those in FY 2005, and an increased average amount of Treasury securities held during FY 2006 as compared to FY 2005.

Expenses

Management exercised prudent expense control during FY 2006. Operating expenses decreased by 15.8 percent to $60 million, from $71.3 million in the prior year. Total expenses were 7.1 percent of total revenues in FY 2006, down from 9.1 percent in FY 2005. The increase in related income and the decrease in operating expenses were sufficient to offset the decrease in MBS program revenues, resulting in higher excess revenues over expenses of $789.3 million for FY 2006 versus $705.2 million for FY 2005 (see Figure 7).

Figure 7: Excess of Revenues over Expenses



To support U.S. military personnel called into action, Ginnie Mae reimburses the interest on loans to service members who have FHA or VA mortgages with interest rates in excess of 6 percent. This expense totaled approximately $3 million in FY 2006, which represents a decline over FY 2005 related expenses of $4.1 million.

Table 2 represents the expenses related to the major functions of Ginnie Mae during the last four years. This chart demonstrates that Ginnie Mae has successfully managed its contractor expenses over this period of time.

Credit-Related Expenses

Credit-related expenses include Ginnie Mae's Provision for Loss and defaulted issuer portfolio costs. Provision for Loss is charged against income in an amount considered appropriate to maintain adequate reserves to absorb potential losses from defaulted issuer portfolios and programs. Ginnie Mae defaulted two issuers during FY 2006. Both of these defaults resulted in relatively small, negotiated settlements, with Ginnie Mae suffering no losses to date.

Financial Models

Ginnie Mae's Policy and Financial Analysis Model (PFAM) allows Ginnie Mae to evaluate its financial condition in terms of cash flow, capital adequacy, and budget projections. The model does this under an array of

Table 2: Contractor Expenses, FY 2003-2006

(Dollars In Millions)	2006	2005	2004	2003
Central Paying Agent	$ 8.5	$ 9.3	$ 12.9	$ 12.0
Contract Compliance	$ 0.2	$ 0.8	$ 0.2	$ 0.8
Federal Reserve	$ 1.9	$ 2.8	$ 2.1	$ 0.0
Financial Support	$ 0.6	$ 0.7	$ 0.8	$ 1.7
IT Related & Miscellaneous	$ 6.8	$ 3.0	$ 4.2	$ 6.5
Mortgage Backed Securities Information Systems Compliance	$ 9.9	$ 17.0	$ 13.4	$ 12.1
Multiclass	$ 7.9	$ 9.5	$ 10.0	$ 8.4
Multifamily Program	$ 8.9	$ 11.1	$ 7.8	$ 4.0
Servicemembers Civil Relief Act	$ 3.0	$ 4.1	$ 11.9	$ 9.9
Total	**$ 47.7**	**$ 58.3**	**$ 63.3**	**$ 55.4**

economic and financial scenarios modified by policy or programmatic decisions. PFAM incorporates Ginnie Mae's inherent operating risks with modeling that employs economic, financial, and policy variables to assess risks and overall performance.

In FY 2006, PFAM was used to estimate Ginnie Mae's credit subsidy rate based on historical loan performance data, economic measures, and program and policy assumptions. Changing interest rates, housing values, and issuers' desire to hold FHA and VA mortgages were accommodated by adjusting assumptions in PFAM's "major drivers" feature. The model's cash flow output was used to estimate the net present value of Ginnie Mae's future cash flows from the outstanding guaranty portfolio as of September 30, 2006.

Every year, Ginnie Mae works with FHA, USDA, and VA to obtain loan-level data. The data supports detailed segmentation of loans according to key risk indicators, including loan type, loan size, loan-to-value ratio, and region.

Liquidity and Capital Adequacy

Ginnie Mae's primary sources of cash are MBS and multiclass guaranty fee income, commitment fee income, and interest income. As of September 30, 2006, Ginnie Mae reported $4.1 billion in funds with the U.S. Treasury, compared to $3.7 billion on September 30, 2005, after accounting for expenses and other factors.

In addition to the funds with the U.S. Treasury, Ginnie Mae's investment in U.S. government securities was $8.4 billion as of September 30, 2006. Of this amount, $1.3 billion was held in overnight certificates. The balance of the portfolio's maturities is spread over time to ensure that Ginnie Mae has a ready source of funds to meet various liquidity needs. Emergency liquidity needs are met through short-term maturities.

Table 3 describes the fair value composition and maturity of Ginnie Mae's Treasury securities as of September 30, 2005 and 2006.

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

Maturity	2006	2005
Due within 1 year	21%	25%
Due in 1–5 years	24%	18%
Due in 5–10 years	55%	57%

Figure 8: Components of Investment in U.S. Government Securities, September 30, 2006

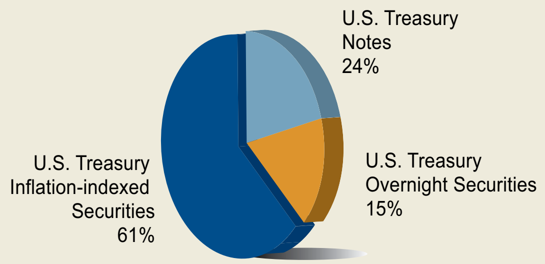
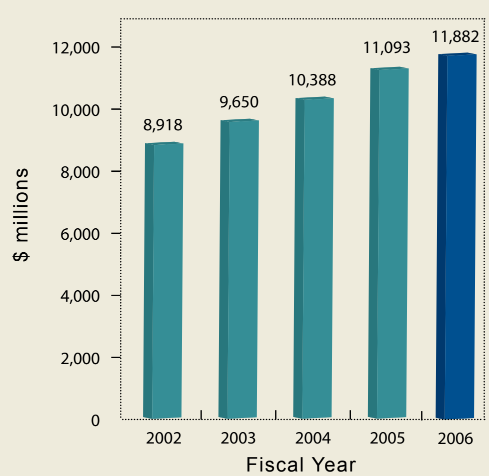


Figure 8 illustrates the components of Ginnie Mae's investments in U.S. go ernment securities as of September 30, 2006.

Ginnie Mae's MBS guaranty activities have historically operated at a profit. Ginnie Mae's net income continues to build the agency's capital base. Management believes the corporation maintains adequate capital reserves to withstand downturns in the housing market that could cause issuer defaults to increase.

As of September 30, 2006, the investment of U.S. government was $11.9 billion after establishing reserves for losses on credit activities, compared with $11.1 billion as of September 30, 2005. Over the past three years, Ginnie Mae has increased its capital adequacy ratio (investment of U.S. government, plus loan loss reserv as a percentage of total assets and remaining principal balance (RPB)) from 2.1 percent to 2.94 percent. To assess the strength of its capital position, Ginnie Mae uses a "stress test" methodology that measures the agency's ability to withstand severe economic conditions. Figure 9 shows Ginnie Mae's capital reserves (investment of U.S. government) as of September 30, for the last five years.

Figure 9: Capital Reserves (Investment of U.S. Govenment)

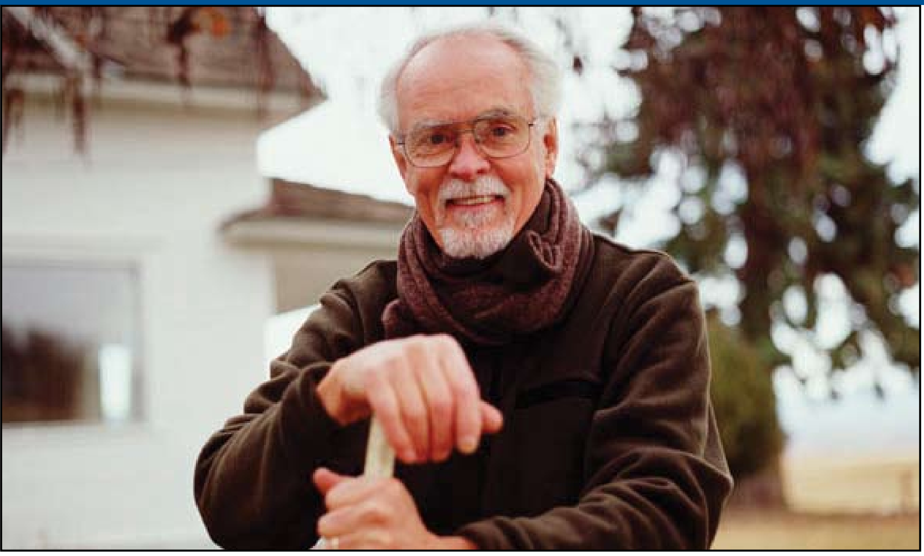


Risk Management and Systems of Internal Controls

Ginnie Mae continues to enhance its systems and business processes to increase its operational efficiency and reduce its business risk. During FY 2006, Ginnie Mae continued periodic reviews of all master subservicers and major contractors to ensure compliance with the terms and conditions of their contracts. Through these audits and reviews, Ginnie Mae is able to further strengthen its internal controls and minimize risks. Furthermore, Ginnie Mae actively monitors its issuers to minimize fraud and default risk, which would negatively impact financial and operating results.

Ginnie Mae's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Manager's Financial Integrity Act (FMFIA). Ginnie Mae is able to provide reasonable assurance that its internal controls and financial management systems meet the objectives of FMFIA.

Ginnie Mae assessed the effectiveness of internal control over the effectiveness and efficiency of operations, and compliance with applicable laws and regulations, in accordance with Office of Management and Budget (OMB) Circular A-123. Based on the results of this evaluation, Ginnie Mae can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations is in compliance with applicable



consistent information for decision makers and the public.

The following sections further describe the PeopleSoft modules and GFAS functionality that will be leveraged to support Ginnie Mae's core financial business processes.

General Ledger: General Ledger is the core of GFAS and is fully integrated with the A/R, A/P, and Purchasing modules. The General Ledger application contains two separate ledgers to track and report on actual transactional activity, as well as budget activity. General Ledger allows users to enter transactional data directly into the Actuals ledger, as well as accepts transactions from the A/R, A/P, and Purchasing subsystems. The system's review pages enable users to trace entries back to the source system to research detailed transaction history. In addition, the system delivers numerous financial reports and allows users to create financial or management inquiries or reports.

General Ledger contains a separate ledger for budget data, allowing Ginnie Mae to record and track its budget authority. The system's reporting functionality enables the analysis of actuals versus budgeted activity and assists with formulating the upcoming fiscal year's budget request.

Accounts Receivable: The A/R module is used to record cash receipts and related accounting information. The application assists with the maintenance, tracking, and collection of cash from Ginnie Mae's operations. This module provides reports that allow users to reconcile deposits with the U.S. Treasury and reconcile investments with the Bureau of Public Debt. The A/R module seamlessly integrates with the General Ledger application.

Accounts Payable: The A/P module provides tools to manage transaction processing from invoice to payment. It enables the management of disbursements while keeping

laws and regulations. As of September 30, 2006, Ginnie Mae was operating effectively and no material weaknesses were found in the design or operation of its internal controls.

In addition, Ginnie Mae assessed the effectiveness of internal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. No material weaknesses were found in the design or operation of the internal control over financial reporting. Based on these results, Ginnie Mae can provide reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2006.

New Internal Financial and Accounting System

In FY 2006, Ginnie Mae implemented PeopleSoft Financials, a commercial off-the-shelf financial management system that includes the General Ledger, Accounts Payable (A/P), Accounts Receivable (A/R), and Purchasing modules. This system, known as Ginnie's Financial and Accounting System (GFAS), allows the Corporation to track and report financial data, provide financial information significant to the management of Ginnie Mae, and meet the reporting requirements of OMB, the U.S. Treasury, and the GAO. GFAS processes and records financial transactions effectively and efficiently, and provides complete, timely, reliable, and strong controls on vendor creation, payment certification, and reconciliation. This module is fully integrated with Purchasing and directly transfers contractual expense information to create vouchers in A/P. As a subsystem of the General Ledger, financial information from A/P transfers directly to General Ledger.

Purchasing: The Purchasing module tracks contract transactions and spending limits for multiple line items across multiple option periods. It streamlines the procure-to-pay process by capturing contractual expenses and integrating with the A/P module to generate payment vouchers. The contractual disbursement data from A/P is loaded into the General Ledger.

Securitization Issuance

As shown in Figure 10, Ginnie Mae supported 660 thousand units of housing for low- and moderate-income American families in FY 2006, a 16.4 percent decline from FY 2005.

During FY 2006, the aggregate dollar amount of mortgages originated in the United States declined by 11 percent when compared to FY 2005.

The dollar value of this decline is reflected in Figure 11, which shows Ginnie Mae guaranteed $81.7 billion in MBS in FY 2006. Although there has been a three-year trend of lower MBS issuance, the cumulative amount of both single-family and multifamily Ginnie Mae securities issued since Ginnie Mae's securitization program began in 1970 is $2.57 trillion. This demonstrates Ginnie Mae's significant impact on expanding homeowner and rental opportunities over this period.

Single-Family

In FY 2006, the vast majority of the mortgages in Ginnie Mae securities were originated through FHA and VA programs (66.1 percent and 31 percent in dollar terms, respectively). Ginnie Mae exceeded its FY 2006 goal to guarantee at least 90 percent of eligible FHA single-family fixed-rate loans. In total, 91.4 percent of all FHA single-family fixed-rate loans were placed into Ginnie Mae securities.

Figure 10: Ginnie Mae Supported Units of Housing FY 2002 – 2006

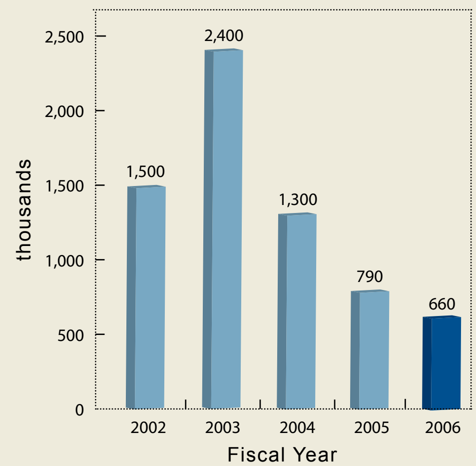
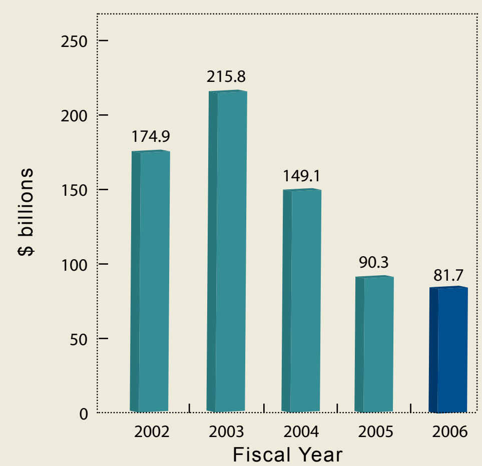
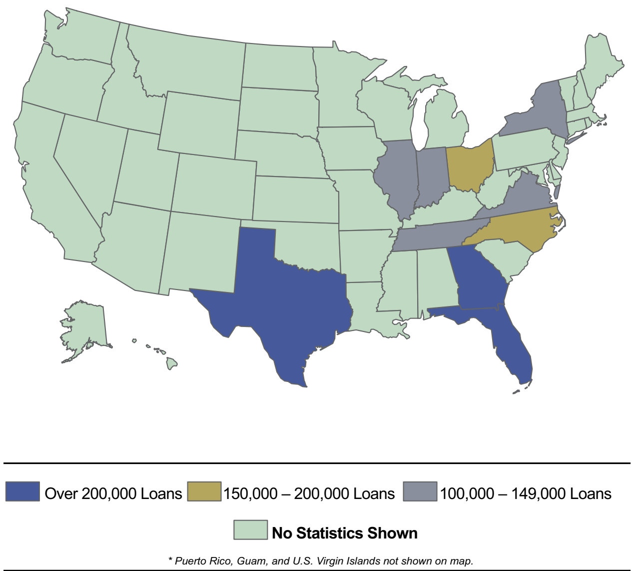


Figure 11: Value of MBS Guaranteed by Ginnie Mae FY 2002 – 2006



The amount of outstanding single-family securities at the end of FY 2006 was $372 billion, compared to $376.5 billion at the end of the previous year. This decline was primarily due to mortgage repayments exceeding new issuance. Repayments exceeded new issuances because existing FHA and VA homeowners refinanced their mortgages or moved to homes that are no longer eligible for FHA and VA mortgages due to increasing home prices.

Figure 12: Geographic Distribution of Single-Family Properties Securing Ginnie Mae Securities



State	Loans	Percent Total Loans	RPB
Texas	572,982	15.1%	$49,351,065,789
Florida	229,757	6.1%	$21,329,255,200
Georgia	202,851	5.4%	$21,900,061,732
Ohio	160,088	4.2%	$15,630,093,773
North Carolina	158,356	4.2%	$16,263,652,247
Virginia	137,636	3.6%	$15,139,633,458
Illinois	124,847	3.3%	$13,494,876,516
Indiana	120,774	3.2%	$11,019,459,645
New York	120,646	3.2%	$10,886,374,739
Tennessee	117,356	3.1%	$10,867,131,811

Ginnie Mae has increased homeownership opportunities in every U.S. state and territory. The map in Figure 12 shows the areas with the highest concentrations of single-family loans in Ginnie Mae-guaranteed securities at the end of FY 2006.

Multifamily

Ginnie Mae placed 96.9 percent of eligible FHA multifamily mortgages into its securities during FY 2006, exceeding its goal of 90 percent. Ginnie Mae has continued to streamline the multifamily program, enhancing its efficiency as a securitization vehicle and making the program more attractive to investors. Ginnie Mae's multifamily issuances fell by 6.2 percent from $8.5 billion in FY 2005 to $8 billion in FY 2006. The multifamily program's RPB, however, increased by 7.4 percent, from $35.3 billion to $37.8 billion by September 30, 2006. Ginnie Mae securities guarantee longer-term income streams to investors than other securities backed by mortgages without prepayment penalties.

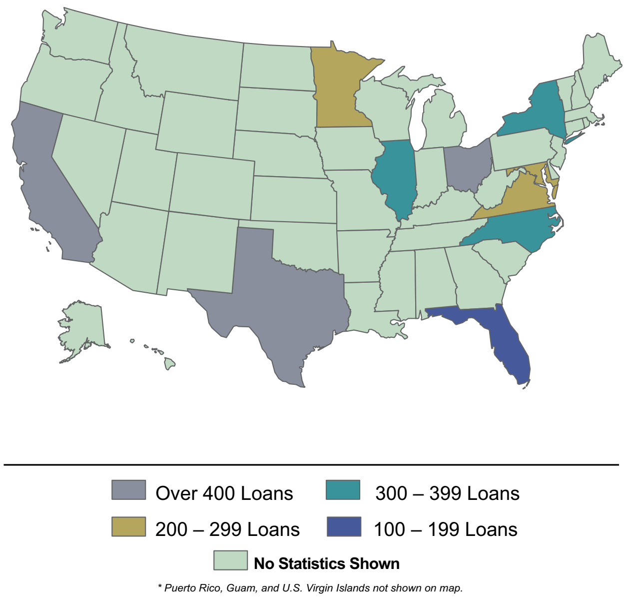
Ginnie Mae has created affordable rental housing for low- to moderate-income families in every state. The map in Figure 13 shows the areas with the highest concentrations of multifamily loans in Ginnie Mae-guaranteed securities as of September 30, 2006.

Examining Market Share Context

As depicted in Figure 5 and discussed above, Ginnie Mae's outstanding portfolio has declined from $473.9 billion in FY 2003 to $410 billion in FY 2006, and its market share has fallen relative to other entities that guarantee MBS. At one level, this might be construed as a positive development for borrowers, many of whom have had the opportunity to "graduate" from their FHA-insured loans as soon as the home equity they have accumulated has allowed them to refinance into conventional loans without monthly mortgage insurance.

At another level, however, the trend is more troubling in that first-time homebuyers may not know that FHA mortgages may be the right option for them. Ginnie Mae can counter this trend by supporting further

Figure 13: Geographic Distribution of Multifamily Properties Securing Ginnie Mae Securities



State	Total Loans	Percent Total Loans	RPB
Texas	536	7.4%	$3,542,079,603
California	566	7.8%	$3,064,252,862
Illinois	381	5.2%	$2,463,780,667
New York	349	4.8%	$2,385,803,713
Ohio	492	6.8%	$1,861,126,618
Maryland	214	2.9%	$1,690,968,931
Virginia	236	3.2%	$1,667,192,188
Minnesota	258	3.5%	$1,483,899,862
Florida	187	2.6%	$1,300,114,758
North Carolina	300	4.1%	$1,261,604,067

FHA modernization, which is necessary to make FHA loans more competitive and appealing to both first-time homebuyers and issuers.

Market conditions that limited fixed-rate loans and the appeal of multiclass securities also factored into a drop in the volume of MBS, and REMIC and Platinum securities issued. However, Ginnie Mae securities remain an attractive investment. Ginnie Mae has experienced positive portfolio growth since February 2006. During FY 2006, the portfolio's liquidation rate declined due to stable or increasing interest rates during the year, while origination volume stabilized between 2005 and 2006. The result has been seven consecutive months of net portfolio growth. In addition, the number of eligible loans for Ginnie Mae securities began to rise in the second half of FY 2006 as the interest rate environment changed and FHA originations increased. This increase lifted Ginnie Mae's net outstandings, a trend that is expected to continue.

Addressing GAO Findings

In October 2005, GAO released a report in which it found that "despite its declining share of the overall MBS market, Ginnie Mae continues to serve its key public policy goal of providing a strong secondary market outlet for federally insured and guaranteed housing loans."[4]

The report expressed concern, however, that further declines in Ginnie Mae's volume could have potential implications for borrowers, the liquidity of its securities, and federal revenues. Ginnie Mae has already taken steps to address some of the challenges identified in the report. These include expanding its product mix to reach more borrowers and disclosing more information on loans underlying securities to help investors improve their investment analysis. In addition, Ginnie Mae will continue to focus on improving its data integrity and internal controls, and will ensure that it has sufficient staff capabilities to plan, monitor, and manage its contracts.

[4] *Source: "Ginnie Mae is meeting its mission but faces challenges in a changing marketplace," GAO Report, October 2005.*

Security Performance

Ginnie Mae securities traditionally trade at market prices that are higher than equivalent Fannie Mae and Freddie Mac securities. This is the result of two factors.

First, unlike Fannie Mae and Freddie Mac securities, the Ginnie Mae guaranty carries the full faith and credit backing of the U.S. government. This is particularly important for foreign investors, and increases the intrinsic value of Ginnie Mae securities.

Second, the limited supply of Ginnie Mae securities creates a scarcity effect. This, combined with the demand for government-backed securities that yield higher returns than U.S. Treasury securities, often results in Ginnie Mae securities being sold at a premium.

Key Business Process Improvement (BPI) Implementations and Operational Readiness

As part of its commitment to partnering with industry and enacting enterprise improvements, Ginnie Mae solicited feedback and suggestions from issuers and other external stakeholders. In response to these suggestions, Ginnie Mae has implemented a number of BPI initiatives designed to help it meet the needs of its issuer and investor communities. Ginnie Mae is executing a broad strategy designed to remove its legacy systems, roll out products faster, reduce costs, and eliminate redundancies.

New e-Notification functionality became available to Ginnie Mae's business partners in September 2006. This provides pre-collection notifications in electronic, downloadable reports to issuers. In addition, monthly principal and interest pre-collection notices have been fully automated online, rendering paper copies and cumbersome faxes obsolete.

Ginnie Mae is also prepared to improve the speed and efficiency of its transactions with its issuer partners. In September 2006, Ginnie Mae enhanced its electronic commerce interface. The new web-based GinnieNET Version 7.0 application allows for the electronic pooling of both single-family and multifamily loans via the Internet. This represents a significant improvement over the prior version of GinnieNET, which only accommodated the electronic pooling of single-family loans, while the multifamily pooling process remained a hybrid of automation and paper. The new version is available to issuers and document custodians effective for pools with an issue date of October 1, 2006, and later. The rollout of GinnieNET 7.0 will enable Ginnie Mae to further reduce the electronic processing times for multifamily securities.

Finally, Ginnie Mae recently published an updated Document Custodian Manual in its Mortgage Backed Securities Guide, devoting considerable attention to requirements and challenges frequently faced by issuers. An online version of the manual includes an enhanced question and answer section designed to assist issuers in resolving problems that arise.

Through solicitation of feedback from the industry, Ginnie Mae has consistently demonstrated its commitment to continuous improvement and an ability to meet changing market needs.

Supporting Rural Development

During FY 2006, to accommodate the securitization of USDA Rural Development Section 538/515 loans, Ginnie Mae modified its small loans (LS) pool type by eliminating the $1.5 million maximum loan amount and permitting loan terms of up to 40 years. In addition, the minimum pool size for LS[5] loans was reduced to $100,000 from $250,000. This change was necessary for Ginnie Mae to be able to guarantee securities with multiple small loans on older, rural properties. There are currently around 1,500 properties eligible for this kind of securitization, and this change is expected to have a positive impact on otherwise underserved rural communities.

Issuer Defaults and Consolidation

Ginnie Mae defaulted two issuers during FY 2006. Both resulted in relatively small, negotiated settlements, with Ginnie Mae suffering no losses to date and receiving

[5] LS pools are designed for small-project mortgages. A loan may be placed in an LS pool if it has not been modified subsequent to final endorsement, is secured by a lien on a small project developed under FHA's Small Loan Processing Procedures, and has a first scheduled payment date no more than 24 months before the issue date of the securities.

payment from the servicer to cover administrative costs of servicing transfer.

Market conditions and mortgage banking trends during the past year have impacted a number of Ginnie Mae's issuer partners. Most prominent among these was the announced sale of Washington Mutual's government servicing portfolio to Wells Fargo. This transaction, combined with Wells Fargo's earlier acquisition of Reilly Mortgage, a top-five Ginnie Mae multifamily issuer, has given Wells Fargo, the largest Ginnie Mae issuer prior to these acquisitions, an even larger share of the total outstanding government portfolio.

IRS Ruling

Many borrowers rely on downpayment-assistance programs to provide part or the entire 3 percent downpayment required for FHA-insured mortgages. An Internal Revenue Service ruling in FY 2006 has the potential of seriously disrupting borrowers' access to these services. The ruling disqualifies nonprofit downpayment-assistance programs for tax exemptions if they transfer money from the seller to the buyer. "In the last decade, these nonprofits have helped about 600,000 families buy homes without saving the 3 percent downpayment that the Federal Housing Administration, or FHA, requires."[6] The ultimate impact of this ruling is not yet clear. However, it certainly carries the potential to significantly curtail FHA's, and by extension, Ginnie Mae's, ability to serve low- and moderate-income homebuyers with limited downpayment funds.

Investing in Human Capital

Effective the new fiscal year, October 1, 2006, all employee and management performance metrics are being tied to Department goals. The metrics now cascade from strategic plans and Department goals. This allows all Ginnie Mae personnel to see exactly how their work ties into Ginnie Mae's broader mission and objectives.

A HUD task force has been seeking to develop a strong, well-prepared work force and has addressed all core competencies in each position. Training was developed and implemented to address skill gaps and identify future leaders. As a result, Ginnie Mae has developed plans to ensure all personnel receive appropriate training. Furthermore, Ginnie Mae achieved a major human capital accomplishment by submitting the succession plans to HUD.

[6] *Source: Holden Lewis, "IRS Ruling Endangers Down-Payment Charities" Bankrate.com.*

Ginnie Mae