2008
Annual Report

Celebrating 40 Years of Financial Stability

Ginnie Mae

Government National Mortgage Association

Ginnie Mae's Mission

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

Secretary's Message

Across this country, many American families are struggling to keep their homes and their access to credit has been severely limited. During these difficult times, Ginnie Mae remains a shining example of a business model that works for the mortgage-backed security industry, the broader economy, and American families who need access to affordable mortgages.

For Fiscal Year 2008, Ginnie Mae issuances were nearly three times higher than the same period of 2007. This substantial increase in volume underscores the important role Ginnie Mae plays in providing stability during this financial crisis.

Throughout its 40-year history, Ginnie Mae has remained true to its mission to expand affordable housing opportunities by linking global capital to the nation's housing markets. Investors look to Ginnie Mae as a safe haven for their capital, and I am proud of its continued commitment to this tradition of excellence.

Congratulations to Ginnie Mae on its 40th Anniversary.

President Lyndon B. Johnson signing the Housing and Urban Development Act of 1968, which created Ginnie Mae.

November 7, 2008

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

Dear Mr. Secretary:

As Ginnie Mae's 40th anniversary year draws to a close, recent market events have demonstrated, more significantly than ever, the value that this organization brings to the mortgage market and, most importantly, to the consumer. We continue to focus on our mission to expand affordable housing in America by promoting homeownership and affordable rental housing through the guarantee of mortgage-backed securities (MBS) backed by government-insured single family and multifamily loans.

After 40 years, Ginnie Mae and its products, with the explicit full faith and credit of the U.S. Government, continue to bring stability and liquidity to the market despite current turmoil. One of the keys to Ginnie Mae's stability is a continued commitment to its original mission. Ginnie Mae has never wavered from that mission and now the country is reaping the benefits of its market discipline—a discipline that clearly is needed right now. And, Ginnie Mae, which pioneered the very first MBS, continues to be a leader in bringing innovation to the mortgage market with new products to meet liquidity needs.

Fiscal Year (FY) 2008 has been a year of tremendous growth for Ginnie Mae and a demonstration of our prominence in the global marketplace. Our portfolio growth this year is testament to our sound business principles. For the first time in 20 years, Ginnie Mae has been the second largest issuer of agency MBS for three consecutive months. Our FY 2008 MBS issuance is almost three times higher than the same period of 2007. Our market share increased significantly to 18.8 percent at the end of FY 2008 from 4.4 percent at the end of FY 2007.[1] The tremendous growth is clearly a reflection of the fact that we are serving the role Congress intended, which is to provide liquidity in times of crisis.

In reflecting on Ginnie Mae's 40-year history, I looked back to the conditions in the U.S. economy when the Housing Bill of 1968 was signed by President Lyndon B. Johnson, creating Ginnie Mae. Interestingly, there was widespread concern about the economy then as well. In 1968, the median cost of buying a home was just over $15,000 and homebuyers were paying 7.25 percent on their home loans. A gallon of gasoline cost $0.34[2] and a first class stamp was six cents.

Forty years later, the median existing single family home price has reached $215,100[3] and mortgage rates are just over 6 percent[4]; gas now hovers around $3.00 a gallon and a postage stamp costs $0.42.

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[1] Source: Inside Mortgage Finance, *Inside MBS and ABS,* April 4, 2008, and October 10, 2008.
[2] ForSaleByOwner.com, "1968 vs. 2008: Are Home Sellers Better Off?"
[3] Mortgage Bankers Association: http://www.mortgagebankers.org/NewsandMedia/PressCenter/64769.htm.
[4] The Freddie Mac *Primary Mortgage Market Survey* reports the 30-year fixed-rate mortgage as averaging 6.09 percent for the week ending September 25, 2008.

The more things change, the more they stay the same. One thing certainly that has stayed the same is Ginnie Mae's position as an industry leader in the housing market. Ginnie Mae remains focused on sound business principles and in using its unique position to help homeowners in need of mortgage funding to purchase or remain in their homes. Our commitment to a simple business model that promotes our mission and values safety and security above all else will result in increased revenues for Ginnie Mae. In FY 2008, Ginnie Mae realized $906.2 million of excess revenues over expenses, a remarkable accomplishment in these economic times.

Forty years ago, Ginnie Mae was a leader in providing liquidity. Today, that role has even greater importance since it is clear that borrowers still want and need mortgage loans, lenders still want and need a way to increase liquidity to funnel more money into more loans, and investors still want and need a safe haven to channel investments. Ginnie Mae is that safe haven.

Ginnie Mae helps consumers by developing innovative products that ultimately address the financial needs of struggling homeowners. In April, Ginnie Mae immediately added a new multiple-issuer security under the Ginnie Mae II MBS program to accommodate the jumbo loans now insured by the Federal Housing Administration (FHA). Ginnie Mae supports national efforts to increase liquidity by helping borrowers with higher-priced homes through its jumbo loan securitization program. Higher loan limits mean more borrowers can access the safety and security of FHA loans, and more lenders and issuers have a secondary market outlet for these loans.

Ginnie Mae continues to demonstrate its support for the President's economic stimulus package as well as other government initiatives that can help American homeowners or renters attain affordable housing. Ginnie Mae securities will provide liquidity for FHA's Hope for Homeowners program, which will further FHA's and Ginnie Mae's successful efforts to aid struggling families trapped in mortgages they currently cannot afford. Under the program, certain borrowers facing difficulty making their mortgage payments will be eligible to refinance into more affordable mortgages insured by FHA.

Ginnie Mae has also focused on wide-ranging and comprehensive risk mitigation initiatives to ensure that proper controls and strategies are in place to identify, address, and mitigate risk within the organization. Through the establishment of a risk committee, the appointment of a Chief Risk Officer, and the reconstitution of the issuer review board, we have created a multifaceted, coordinated, and proactive approach to ensuring that Ginnie Mae securities remain safe and stable.

In addition, Ginnie Mae continued its support of our country's growing senior population by initiating the Home Equity Conversion Mortgage REMIC (H-REMIC) program in January. The H-REMIC follows the successful HMBS program, which has seen more than $1.2 billion in issuances since its initiation last year.

Through sound policies and financial practices, as well as the ability to adapt quickly to the changing needs of the American public, Ginnie Mae has demonstrated the important role it plays in helping to maintain a stable U.S. housing market. Where would the market be today, if there were no Ginnie Mae? Currently Ginnie Mae is providing liquidity for nearly $30 billion a month in mortgage loans. Without this liquidity supported by investor confidence in Ginnie Mae, the housing market and the overall economy would be even more precarious. Much has changed in 40 years. But with a persistent focus on safety, soundness, and innovation to meet our country's evolving housing needs, I am pleased to report that for Ginnie Mae, change is only for the better.

Sincerely,

Joseph J. Murin
President

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I. Mission and Purpose

Forty years ago, President Lyndon B. Johnson signed the housing bill of 1968 establishing Ginnie Mae. In the decades following, many things have changed, but Ginnie Mae's stability and soundness have remained the same. In today's unprecedented and turbulent market, Ginnie Mae continues steadfastly to fulfill its mission to expand affordable housing in America by linking global capital markets to the nation's housing market. The explicit full faith and credit guarantee of the U.S. Government for timely payment of principal and interest on Ginnie Mae mortgage-backed securities (MBS) attracts global investors, allowing Ginnie Mae to provide liquidity and remain a viable outlet for mortgage lenders in the secondary market. Even in the current credit crisis, Ginnie Mae remains a source of stability in the market.

Since the time that Ginnie Mae created the very first MBS in 1970 and revolutionized the housing finance industry, it has been a cornerstone of the American mortgage market. Ginnie Mae has guaranteed approximately $2.9 trillion in MBS, providing homeownership opportunities for millions of households by guaranteeing securities backed by government-insured loans. Ginnie Mae has been an incredible success story, highlighting the power of the federal government and the private sector working together. On its 40th Anniversary, Ginnie Mae's vital role in expanding affordable housing and supporting affordable rental housing continues to be more critical than ever.

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

Expanding Affordable Housing

Ginnie Mae expands affordable housing by channeling global capital into the nation's housing markets. Currently, it is one of the few secondary market players that still retain the confidence of global investors. Ginnie Mae enables qualified mortgage lenders to sell their mortgage loans at favorable prices in the secondary market and attract new sources of capital, which lowers financing costs and allows them to make more loans at lower rates. This has helped create opportunities for sustainable, affordable housing for American families while increasing the ranks of minority homeowners.

Ginnie Mae, formed as the Government National Mortgage Association, is a wholly owned government corporation within the U.S. Department of Housing and Urban Development (HUD) administered by the Secretary of HUD and the President of Ginnie Mae. In 1970, Ginnie Mae developed and guaranteed the very first MBS. Today, its primary function is to guarantee the timely payment of principal and interest on MBS that are backed by pools of mortgages originated by private mortgage institutions and insured by HUD's Federal Housing Administration (FHA) and the Office of Public and Indian Housing (PIH), the Department of Veterans Affairs' (VA) Home Loan Program for Veterans, and the U.S. Department of Agriculture's (USDA) Rural Development Housing and Community Facilities programs.

Ginnie Mae is not in the business of making or purchasing mortgage loans. Nor does it buy, sell, or issue securities. Accordingly, Ginnie Mae does not use derivatives to hedge or carry long-term debt, or related outstanding securities liabilities, on its balance sheet. Instead, issuers, which are private lending institutions approved by Ginnie Mae, originate eligible government loans, pool them into securities, and issue the Ginnie Mae MBS.

Continued investor demand for Ginnie Mae securities also helps troubled borrowers who are in danger of losing

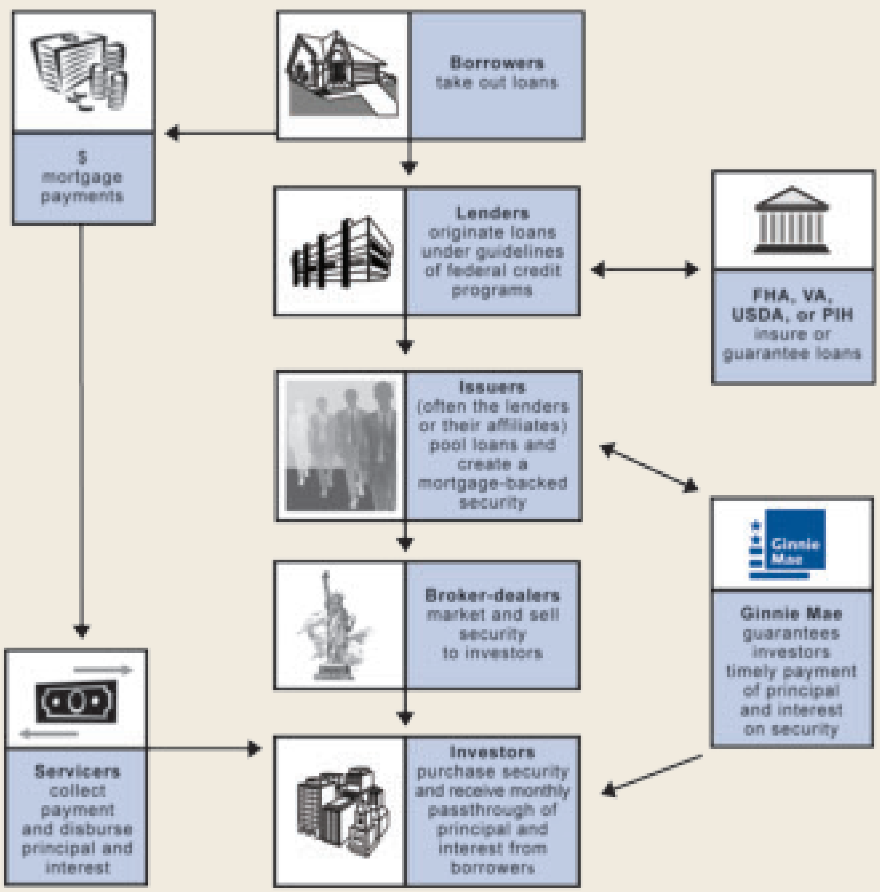
their homes. Ginnie Mae has been quick to respond in creating the securitization products that provide liquidity for FHA programs, thereby helping qualified homeowners to refinance their homes into more affordable products.

Providing Market Liquidity and Product Innovation

Ginnie Mae provides liquidity in the marketplace by guaranteeing MBS, which include eligible government-insured loans originated or purchased by Ginnie Mae-approved private lending institutions. The Ginnie Mae guaranteed securities are sold by broker-dealers to investors around the world. Even in uncertain times, investors are guaranteed payment of interest and principal, in full and on time. This, along with an expected return higher than U.S. Treasury securities, makes Ginnie Mae securities highly liquid and attractive to domestic and foreign investors, who can sell them quickly without significant risk of loss or arbitrage. The benefits of this liquidity are passed on to the lenders who can then make more mortgage loans at more affordable rates. This ongoing cycle provides accessible and affordable housing for Americans. Figure 1 shows the process of creating Ginnie Mae securities.

The benefits of Ginnie Mae's prudent approach along with its guarantee of timely interest and principal payments

Figure 1: Ginnie Mae Securities Creation Process



stands out even more in FY 2008 than in previous years. This is strongly evident in the tripling of its market share within the past fiscal year[5] at a time when the rest of the industry was struggling. Ginnie Mae's predominant position in the secondary mortgage market continues to draw investors from around the world. Foreign investment continues to be a critical component of Ginnie Mae's ability to provide liquidity to the U.S. housing market. Ginnie Mae's president Joseph Murin continues to build relationships overseas and communicate the desirability of Ginnie Mae securities.

Ginnie Mae has 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, be issued by the same entity, and have the same fixed interest rate.

- **Ginnie Mae II MBS** are restricted to single family mortgages, but allow multiple-issuer pools to be assembled containing a range of coupons.

These securities drive Ginnie Mae's efforts to create a secondary market for government-insured and -guaranteed loans, and serve as the underlying collateral for multiclass products such as Real Estate Mortgage Investment Conduits (REMIC), Callable Trusts, Platinums, and Stripped MBS (SMBS), for which Ginnie Mae also guarantees the timely payment of principal and interest. These allow the private sector to combine and restructure cash flows from Ginnie Mae MBS into securities that meet unique investor requirements in connection with yield, maturity, and call-option protection. The intent of the Multiclass Securities Program is to increase liquidity in the secondary mortgage market and to attract new sources of capital for federally insured or guaranteed residential loans.

- **REMICs** are investment vehicles that reallocate the pass-through cash flows from underlying mortgage obligations into a series of different bond classes, known as tranches.

- **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.

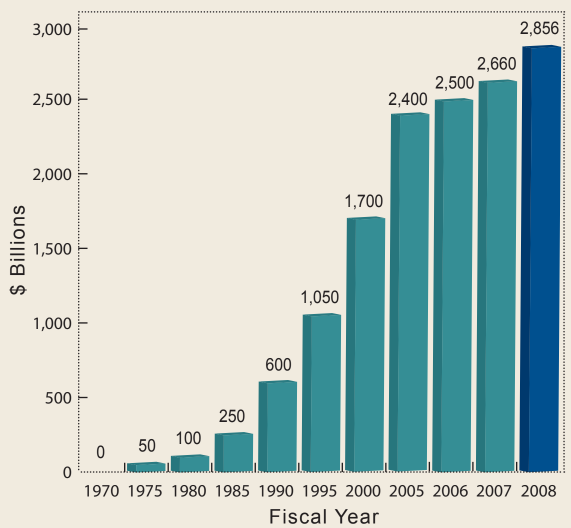
- **Platinum** securities allow investors who hold multiple pools of MBS to combine them into a single Ginnie Mae Platinum Certificate.

- **SMBS** are custom-designed securities that redirect MBS cash flows to meet investors' specific objectives. Ginnie Mae guarantees the timely payment of principal and interest on each class of SMBS.

These products are put together for offering in the public markets by approved Ginnie Mae Sponsors. These sponsors have wide access to global investors. In addition, selected Co-sponsors, who are often minority and small-sized institutions with a diverse reach, support the securities' offerings.

Since its inception, Ginnie Mae has guaranteed approximately $2.9 trillion in MBS, providing access to affordable housing for millions of low- and moderate-income Americans and creating homeownership opportunities in every U.S. state and territory. Figure 2 shows the cumulative amount of Ginnie Mae MBS from 1970 to 2008.

Figure 2: Cumulative Amount of Ginnie Mae Mortgage-Backed Securities, FY 1970 – 2008



[5] Source: Inside Mortgage Finance, *Inside MBS and ABS,* April 4, 2008, and October 10, 2008.

Single Family

In FY 2008, the vast majority of the mortgages in Ginnie Mae securities were originated through FHA and VA programs, 80.2 percent and 17.2 percent in dollar terms, respectively. Furthermore, Ginnie Mae exceeded its FY 2008 goal to guarantee securities that contained at least 93.5 percent of eligible FHA single family fixed-rate loans. In total, 96.9 percent of all FHA single family, fixed-rate loans were placed into Ginnie Mae securities. The amount of outstanding single family securities at the end of FY 2008 was $537.3 billion, compared to $389.1 billion at the end of FY 2007.

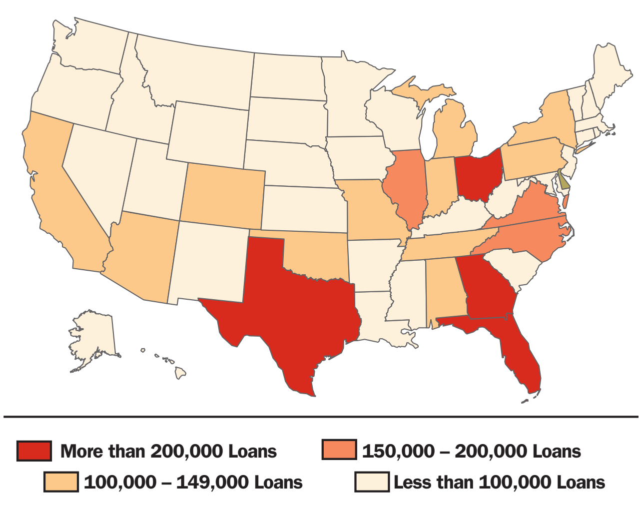
Ginnie Mae has provided homeownership opportunities in every U.S. state and territory. Figure 3 highlights the geographic distribution of single family properties securing Ginnie Mae securities as of September 30, 2008.

Within its Single Family Program, Ginnie Mae provides incentives for lenders to increase loan volumes in traditionally underserved areas through the Targeted Lending Initiative (TLI) program. Established in 1996, the TLI program offers discounts ranging from one to three basis points on Ginnie Mae's six basis point guaranty fee, depending on the percentage of TLI eligible loans within the security. The reduced fee gives lenders an incentive to originate loans in TLI areas. As of the end of FY 2008, 27.8 percent of all single family pools issued received TLI credit. In FY 2008, more issuers formed TLI pools than in FY 2007.

Multifamily

Finding a home does not always mean buying a home. Given the turmoil in the economy and, more specifically, in the mortgage market, decent, affordable, and safe rental housing is a critical need for a growing number of American families. According to the most recent report on "The State of the Nation's Housing," the housing downturn is the worst in 50 years. With the growing number of foreclosures, rental housing is becoming more and more important.[6] The crisis is not only affecting new homebuyers, but also long-standing homeowners who were the victims of predatory lending practices and refinanced into products they could not afford. Many of these people will turn to rental housing instead of homeownership.

Figure 3: Geographic Distribution of Single Family Properties Securing Ginnie Mae Securities as of September 30, 2008



State	Loans	Percent of Total Loans	RPB ($ Millions)
Texas	625,993	14.0%	$60,890
Florida	250,874	5.6%	$30,034
Georgia	244,542	5.5%	$29,967
Virginia	151,817	3.4%	$22,623
California	127,792	2.9%	$22,126
North Carolina	189,886	4.2%	$22,121
Ohio	203,494	4.5%	$21,680
Illinois	155,179	3.5%	$19,576
Colorado	121,337	2.7%	$19,415
Maryland	99,262	2.2%	$16,562

[6] "The State of the Nation's Housing 2008," Joint Center for Housing Studies at Harvard University, 2008.

Just as Ginnie Mae's single family products reduce finance costs for homebuyers, its multifamily products have an analogous impact on maintaining affordable rents for individuals and families. By guaranteeing multifamily pools that are sold to investors in the global capital markets, Ginnie Mae enables lenders to reduce mortgage interest rates paid by developers and multifamily property owners, which, in turn, keep rents affordable. As of the end of FY 2008, Ginnie Mae guaranteed securities that contained 96.4 percent of eligible multifamily FHA loans. This result is a 1.4 percentage point increase over the goal of 95 percent. The Multifamily Program portfolio increased by $1.0 billion in FY 2008, up from $38.4 billion to $39.4 billion, marking the 14th year of growth in Ginnie Mae's multifamily housing program.

Figure 4 shows the geographic distribution of multifamily properties securing Ginnie Mae securities as of September 30, 2008. Since 1971, Ginnie Mae has guaranteed $103.1 billion in multifamily MBS, helping to finance affordable multifamily housing units including apartment buildings, nursing homes, and assisted-living facilities across the nation.

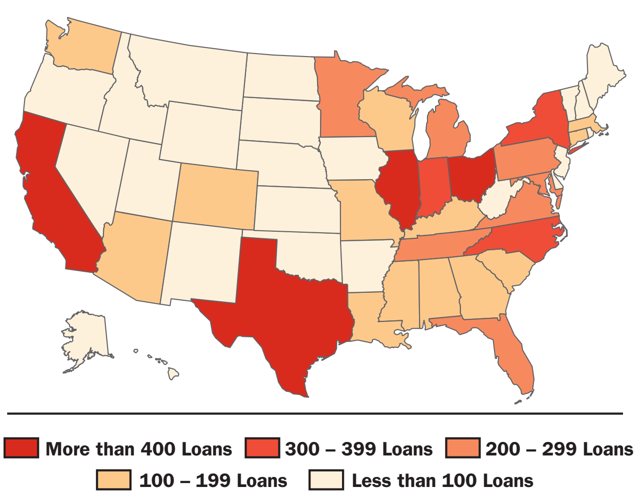
II. Market Environment

By all accounts, the fiscal year ending September 30, 2008, has been an extraordinary time for global financial markets and for the United States as a whole. Ginnie Mae is operating in an unprecedented market environment that is significantly impacting all players and constituents, from the largest financial institutions to virtually all Americans. The meltdown in the subprime market, increasing delinquencies and foreclosures across all loan types, devaluation of mortgage-related assets, and lack of investor confidence launched a paralyzing credit crisis. Rising food and energy costs combined with increasing unemployment put price pressures on consumers and businesses alike, further weakening spending and confidence. The need of U.S. citizens for safe and affordable housing, with access to capital to finance the purchase of a home, remains vital. Ginnie Mae's predominance in the capital markets and its stability during these turbulent times has never been more important to ensuring that funds flow to the housing market.

Housing and Mortgage Markets

The crisis that began in the subprime market in late 2006 and 2007 continued into 2008 and moved into all areas of the mortgage market. Delinquencies and foreclosures have risen significantly, home values have fallen, and economic conditions have deteriorated for many homeowners. Foreclosure filings on U.S. properties during the last quarter of FY 2008 rose 71 percent from the same time period in FY 2007.[7] In addition, the Mortgage Bankers

Figure 4: Geographic Distribution of Multifamily Properties Securing Ginnie Mae Securities as of September 30, 2008



State	Loans	Percent of Total Loans	RPB ($ Millions)
Texas	562	7.1%	$3,687
California	550	6.9%	$2,848
Illinois	426	5.4%	$2,652
New York	371	4.7%	$2,538
Ohio	605	7.6%	$2,019
Maryland	218	2.8%	$1,799
Virginia	213	2.7%	$1,435
Minnesota	270	3.4%	$1,404
Florida	205	2.6%	$1,384
North Carolina	325	4.1%	$1,328

[7] RealtyTrac, *U.S. Foreclosure Market Report,* October 23, 2008.

Association (MBA) National Delinquency Survey reported the delinquency rate for mortgage loans on one-to-four-unit residential properties at 6.41 percent of all loans outstanding at the end of the second quarter of 2008, up from a 5.21 percent rate at the same time the prior year. Although the delinquency rate increased for all loan types year-over-year, the amount by which FHA and VA loans increased was less than one percent.[8]

Furthermore, home prices and home sales for existing and new homes declined over the past year. MBA forecasts for the third quarter of 2008 show that nationally, the median price of an existing single family home fell 5.6 percent from the same time the previous year. Sales of new and existing single family homes fell 12.5 percent. Refinancing activity also has declined. Total mortgage production is anticipated to decline nearly 20 percent for all of 2008, compared to 2007, down to less than $1.9 trillion.[9] These trends also reflect the overall tightening of underwriting standards and lack of available credit for home purchases. Non-agency loans – those that do not meet the standards of the agencies (Ginnie Mae, Fannie Mae, and Freddie Mae) and are sold in the private market – have become increasingly difficult for many homebuyers to obtain. The subprime market has virtually dried up but even prime loans above the agency loan limits have become scarce.

Impact on the Capital Markets and Financial Institutions

The impact of the current crisis on the capital markets is unprecedented. Distress over losses on subprime mortgages escalated into widespread financial strains that threatened the stability of banks, other financial institutions, and the capital markets as a whole. As rating agency practices came under scrutiny, investors lost confidence in the credit rating process. This lack of confidence, coupled with rising non-payments, caused demand for securities backed by subprime or nonconforming loans to deteriorate. Although certain depository institutions may be able to hold some mortgage loans on their balance sheets, lenders who had relied primarily on the ability to sell or securitize these loans to obtain funds to make new mortgages had no choice but to stop lending. The ability to create MBS and securitize

loans is critical to the flow of capital; but new issuance of non-agency residential MBS decreased by 89 percent to $101.7 billion during FY 2008, a fraction of the $930.2 billion issued during FY 2007.[10] The evaporation of the private-label securitization market has resulted in virtually no capital for nonconforming loans. Potential homeowners once served by the non-government loan market have been left in dire need of financing.

Government Response and Market Share Context

As FY 2008 drew to a close, the government responded to the capital crisis by expanding existing programs, stepping in to lend to or to take over institutions critical to the nation's housing and capital markets, and building a framework for a dramatic restructuring of the entire financial system. In the midst of the largest financial crisis since the Great Depression, Ginnie Mae's stable position in the marketplace and explicit full faith and credit backing by the U.S. Government enables it to support the housing market in this troubled economic time.

For many years since its inception, Ginnie Mae, along with FHA, had been a dominant market player and was key to linking the flow of mortgage funds from the capital markets to American homebuyers. The rise of nonconforming products and the success of private-label securitization in the 1990s led to a drop off in market share and, for nearly 20 years, Ginnie Mae's volume had fallen behind other agencies and issuers. The events of the past two years,

[8] Source: Mortgage Bankers Association: http://www.mortgagebankers.org/newsandmedia/presscenter/64769.htm

[9] Mortgage Bankers Association: *Mortgage Finance Forecast,* October 21, 2008.

[10] Source: Inside Mortgage Finance, *Inside MBS & ABS,* April 4, 2008 and October 10, 2008.

however, have turned the market back to the soundness and stability of Ginnie Mae and its products.

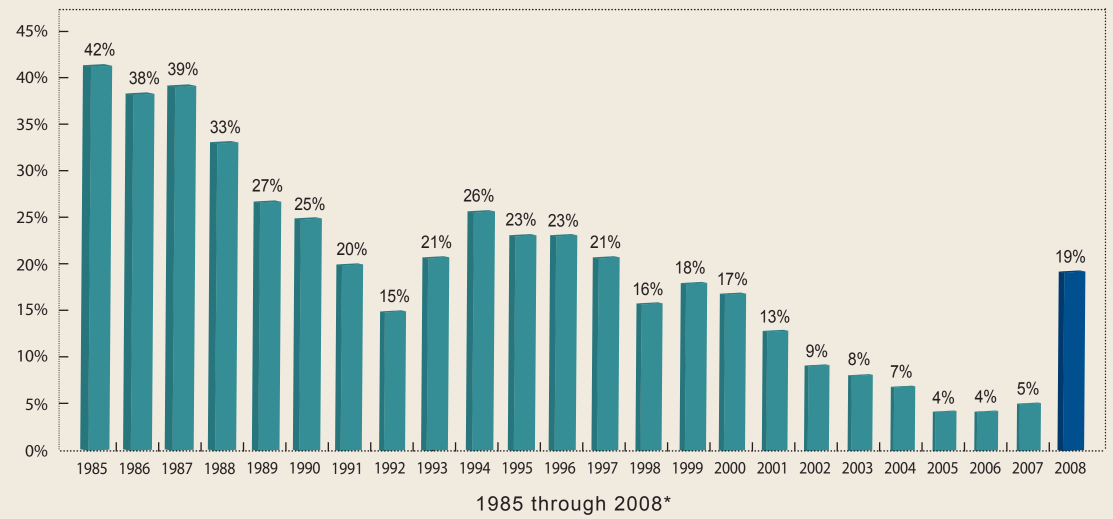
The increase in Ginnie Mae issuance is significant and important in the marketplace. While the total volume of all residential MBS issued in FY 2008 fell 33 percent to $1.4 trillion, compared to $2.0 trillion in the previous fiscal year, Ginnie Mae issuance rose 159 percent and is expected to rise even higher through the end of the calendar year 2008. In FY 2008, $220.6 billion of Ginnie Mae MBS were issued compared to $85.1 billion in FY 2007, with August 2008 bringing a record-breaking $29 billion alone, the highest rate of issuance in its history. Since the beginning of the third quarter 2008, Ginnie Mae has become the second largest guarantor of all MBS in the marketplace. By the end of FY 2008, Ginnie Mae's market share had more than tripled to 18.8 percent from 4.4 percent at the end of FY 2007, and is expected to grow much stronger in the coming year.[11] Figure 5 shows Ginnie Mae's market share from 1985 to 2008. Furthermore, Ginnie Mae has experienced growth in portfolio, which is defined as the dollar amount of issuances guaranteed by Ginnie Mae, for 30 consecutive months.

"The undeniable strength and global acceptance of Ginnie Mae MBS have allowed us to continue to serve our customers reliably and affordably in the midst of the most turbulent markets we have seen in a quarter century."

John Gibbons
Executive Vice President
Capital Markets, Wells Fargo

During FY 2008, the expansion of existing lending programs and Ginnie Mae's role in creating security programs meant that more borrowers had access to the security of FHA loans, and more lenders and issuers had a secondary market outlet for them. The Economic Stimulus Act of 2008 passed in February 2008 allowed government-sponsored enterprise (GSE) and FHA loan limits to increase up to $729,750 in some areas of the country for a period of time, thus allowing for more loans to meet the criteria to be bought by the GSEs and to be eligible for FHA insurance. Ginnie Mae also quickly enabled issuers to securitize FHA jumbo loans, which had a major impact in the capital markets. In the six months of FY 2008 that the higher loan limits were available, Ginnie Mae issuers securitized more than $6.7 billion of FHA jumbo loans.

Figure 5: Ginnie Mae Market Share, 1985 through 2008



[11] Ibid.

* Market share figures based on MBS issuance volume for the 12 months of the calendar year shown, except for 2008, which is based on the first 9 months of calendar year 2008.

Also, in May, FHA expanded FHA*Secure* so that it could insure more mortgages, including those for borrowers who were delinquent on their non-FHA adjustable rate mortgages (ARMs) due to a rate reset or extenuating circumstances and to offer new subordinate financing under certain circumstances.

Differences between Ginnie Mae and the GSEs

Given the recent increases in agency market share as a whole and the conservatorship of Freddie Mac and Fannie Mae, it is critical to understand Ginnie Mae's unique position in the industry. Ginnie Mae, Fannie Mae, and Freddie Mac do have similarities in their missions to work in the secondary mortgage market to improve homeownership opportunities for American families. Each guarantees MBS so that investors receive timely payment of principal and interest. There are, however, significant differences in their structure, business models, and security guarantees.

Ginnie Mae is a government corporation within HUD, wholly owned by the government. Fannie Mae and Freddie Mac, commonly known as GSEs, are corporations that were chartered by Congress, but are owned by private stockholders. Originally, Ginnie Mae and Fannie Mae began as one organization, known as the Federal National Mortgage Association (FNMA). In 1968, Congress partitioned FNMA into two entities: Fannie Mae to support the conventional market, and Ginnie Mae to support the market for FHA, VA, USDA, and PIH loans.

Fannie Mae and Freddie Mac are able to purchase mortgages to hold in their own portfolios or to issue securities for sale to investors. Ginnie Mae is not in the business of purchasing mortgage loans, nor does it buy, sell or issue securities. Private lending institutions, approved by Ginnie Mae, issue the MBS for which Ginnie Mae provides a guarantee. Moreover, Ginnie Mae only guarantees securities for federally insured or guaranteed loans, mainly those from FHA and the VA. Fannie Mae and Freddie Mac guarantee securities that are backed by mortgages that must meet certain standards. They also guarantee bonds that are packaged and sold by others, as long as the underlying mortgages meet their standards.

Although Ginnie Mae, Fannie Mae, and Freddie Mac guarantee MBS for timely payment of principal and interest, Ginnie Mae securities are explicitly backed by the full faith and credit of the U.S. Government. On September 7, 2008, Fannie Mae and Freddie Mac were put under U.S. Treasury conservatorship. As of the end of FY 2008, it remains unclear what effect this will have on the housing market.

III. Strategic Initiatives

In response to the turmoil in the mortgage market and with its significant volume growth, Ginnie Mae undertook several strategic initiatives during FY 2008 to ensure its own continued stability and soundness. Quickly responding to the need to support homeowners in crisis, Ginnie Mae created security products appealing to investors to ensure liquidity for FHA loan programs. Besides externally focused efforts, Ginnie Mae also directed significant attention on its internal processes, systems, and programs to ensure it had a multifaceted risk management program in place and the ability to operate efficiently to meet the challenges that lie ahead. Internally, Ginnie Mae

has leveraged its Business Process Initiative (BPI) to create flexible systems to support increased volumes and other requirements. Human Resource initiatives are ensuring that the staff is adequately trained and has the skills to tackle the toughest challenges.

Risk Management

The rapidly increasing volume that Ginnie Mae experienced this year has increased the need to thoroughly manage risk. To ensure that its securities continue to remain safe and stable, Ginnie Mae initiated a cross-functional approach to enhancing its risk management strategy by establishing an enterprise-wide risk committee, appointing a Chief Risk Officer (CRO), and reconstituting its Issuer Review Board (IRB). Given the challenging state of the mortgage industry, Ginnie Mae's explicit full faith and credit backing of the U.S. Government has increased the number of lenders turning to the organization for safe harbor. Even though its business model inherently limits risk, Ginnie Mae stays focused on maintaining an effective risk management strategy, especially given the growth in volume and market turbulence.

Risk Committee

The risk committee is the primary forum for promoting senior management discussions and decisions regarding corporate risk issues. The CRO chairs the risk committee and is in charge of establishing an overall risk governance structure as well as providing independent evaluation and oversight of all risk management activities.

Issuer Review Board

The reconstituted IRB supports the Office of MBS and the risk committee by reviewing, evaluating, and approving or denying certain MBS program issuer actions or requests. The IRB provides independent input to decision-making concerning issuer requests.

The IRB also has the authority to accept or reject issuer applications, approve or deny commitment authority requests for issuers with certain risk indicators, and provide recommendations to the Executive Vice President and President on a number of areas impacting issuers.

Risk Mitigation Tools

A significant component of the new risk management strategy is to take a more holistic, enterprise-wide approach to looking at and mitigating risk. Ginnie Mae is evaluating all areas of the organization and employing many different strategies to mitigate risk, such as new credit analysis tools, so that Ginnie Mae can monitor its numerous counterparties to better assess their financial strength, as well as reviewing their cash flow statements. The counterparties with the greatest impact on Ginnie Mae's business are issuers and custodial account institutions. In addition, Ginnie Mae is implementing new tools to identify loans that may cause some financial loss to Ginnie Mae, its issuers, or investors.

Issuer Requirements

In FY 2008, Ginnie Mae announced that it will strengthen its issuer requirements by increasing the minimum net worth requirement to $1 million for all Single Family MBS and HMBS issuers. The change went into effect for all new MBS and HMBS issuers beginning October 1, 2008. All issuers in the Single Family MBS and HMBS programs will be required to meet the new requirement by October 1, 2010. This increase does not apply to the multifamily issuer net worth requirement, which will remain at $500,000.

Additionally, all new issuers will be subject to a one-year probationary period. The probationary period will commence upon the first issuance of a Ginnie Mae MBS, or upon the acquisition of a Ginnie Mae servicing portfolio. During this time, Ginnie Mae will evaluate performance metrics closely, including, but not limited to loan-level insurance statistics, delinquency levels, and early payment defaults. Delinquencies and insurance rates must remain below established thresholds. An onsite review will be conducted within six months from first issuance or acquisition and all findings must be cleared within the given timeframe.

MBS Disclosure Enhancement Project

Ginnie Mae is in the process of implementing enhanced disclosures for securities containing FHA*Secure* and jumbo loans that will be available to investors in December 2008. The enhanced disclosures will provide investors with increased confidence, which will help to achieve optimal pricing, increase liquidity, attract a broader range of investors, and enhance the view of Ginnie Mae's securitization programs. Additional data that will be provided at the pool level include FICO score, loan-to-value (LTV) ratio, debt-to-income (DTI) ratio, and Metropolitan Statistical Area (MSA).

Federal Housing Initiatives

Ginnie Mae's preeminence in the secondary mortgage market has enabled the federal government to create mortgage products to help distressed homeowners. In spite of the declining market, in the last three months of FY 2008, Ginnie Mae MBS had the second-highest issuance volume of agency and non-agency MBS.[12] The programs discussed below have been made possible because of investors' continuing confidence in Ginnie Mae-guaranteed securities.

Jumbo Loan Securitization Program

The Economic Stimulus Act of 2008 has temporarily increased the limits on the size of fixed-rate loans that are eligible for FHA insurance. FHA's loan limit for a one-unit property is $362,790 and goes up to $697,696 for loans on four-unit properties, and even higher limits for properties in some high-cost areas of the country. The temporary increase allows for loans of up to $729,750 in some areas of the country. Ginnie Mae's Jumbo Loan program guarantees MBS for these FHA-insured loans.

Ginnie Mae's new multiple-issuer security falls under the Ginnie Mae II MBS Program, which is set up to accommodate jumbo loans. Because of Ginnie Mae's preeminence in the secondary mortgage market, there has been widespread interest in these securities. As a result, the new security enables more borrowers to qualify for safe, affordable loans.

While the increase is only temporary and will expire December 31, 2008, it has had a major impact in the market. In FY 2008, Ginnie Mae guaranteed $6.7 billion in securities. Beginning on January 1, 2009, the conforming loan limit will be permanently raised to the higher of $417,000 or 115 percent of the local median home price not to exceed $625,000.

"Ginnie Mae's market presence and stability allow Bank of America the opportunity to provide safe and sound liquidity to the secondary housing market. As one of the nation's leading Ginnie Mae issuers, we succeed in a large part because of Ginnie Mae's liquidity, and the customer-centered commitment that Ginnie brings to the business."

Allen Jones, Senior Vice President and Government Lending Enterprise Executive, Bank of America

FHA*Secure* Expansion

In August 2007, President Bush announced FHA*Secure*, a program for loans not previously insured by FHA to now refinance into FHA-insured loans. In May 2008, FHA*Secure* expanded its eligibility requirements to include borrowers who are delinquent on their non-FHA ARMs due to a rate reset or extenuating circumstances. Borrowers who are current in their payments can refinance their non-FHA fixed rate as well as their ARM loans.

Ginnie Mae worked closely with the capital markets industry and quickly responded to the expanded program

[12] Inside Mortgage Finance, Inside *MBS & ABS,* October 10, 2008.

by creating a new security type within the Ginnie Mae II Program for fixed-rate FHA refinance loans given to delinquent borrowers and fixed-rate refinance loans given to borrowers with second liens.

Hope for Homeowners

The Housing and Economic Recovery Act of 2008 authorized a temporary FHA mortgage insurance refinancing program known as Hope for Homeowners (H4H). The initiative is effective from October 1, 2008, through September 30, 2011, and will help distressed homeowners facing foreclosure. With the consent of the loan servicer, a borrower can refinance into a new mortgage representing 90 percent of the current value of the property. In many cases, this may involve writing off a fraction of the original mortgage due to declining home prices. Although this may involve some loss for the mortgage holder, the outcome will typically be better than a foreclosure. The program also may serve to stabilize home prices by reducing the number of foreclosed homes on the market.

Again, Ginnie Mae quickly responded by setting up a product under the Ginnie Mae II Program's multiple-issuer pool type. Ginnie Mae will begin accepting H4H loan packages to be pooled starting with November 1, 2008, issue dates.

Home Equity Conversion Mortgages (HECM)

In continued support of the growing senior population, Ginnie Mae introduced the H-REMIC as a follow on to the HMBS, which was introduced in FY 2007. Transactions closing in May 2008 and thereafter were allowed to include HMBS as eligible collateral for all single family Ginnie Mae REMIC transactions.

HMBS are created as custom pools of HECM loans within the Ginnie Mae II Program. For Ginnie Mae REMIC transactions, HMBS may be included in a separate trust asset group or may be combined with other Ginnie Mae II MBS Securities. This enhancement will improve the marketability of the Ginnie Mae Multiclass Securities Program and increase the investor base for its securities.

Promoting Foreign Investment

Ginnie Mae continues to interest foreign investors despite the market turmoil. With its explicit full faith and credit guarantee of the U.S. Government, Ginnie Mae MBS are considered a good investment overseas. Ginnie Mae continues to foster and strengthen relationships with foreign investors in Asia, a large and important contingent of Ginnie Mae's investor base.

In September 2008, Ginnie Mae president, Joseph Murin, addressed the Merrill Lynch Japan Conference. This investment conference, which has been held every year since 2004, encourages exchange and dialogue among Japan's leading companies and the world's top investors.

Mr. Murin's presentation on "Restoring Confidence in the U.S. Housing Market" highlighted Ginnie Mae and its role in providing liquidity and stability during the housing crisis. He also covered Ginnie Mae's guarantee, history, organization, mission, and products.

Mr. Murin also met with Ginnie Mae investors in Japan and China. These productive meetings allowed Mr. Murin to obtain feedback on the Ginnie Mae securities programs, and discuss current issues and new product ideas. As Ginnie Mae's role in the capital markets continues to grow, it will continue such communications on a regular basis to understand investors' evolving needs.

Business Process Improvements (BPI) and Technology Enhancements

Ginnie Mae is utilizing industry best practices to modernize its information technology infrastructure in order to achieve a secure, web-based, reusable architecture built upon state of the market technologies.

These technologies will allow Ginnie Mae to better manage its risk; simplify and reduce the cost of maintaining the infrastructure; introduce new products to the marketplace more quickly; and provide staff with better tools to better manage their work, thus creating added capacity as volume increases.

During FY 2008, Ginnie Mae met significant milestones for its information technology modernization efforts. The modernization efforts are designed to help Ginnie Mae meet the needs of its issuer and investor communities and adhere to federal requirements regarding privacy, security of the technology, and the provision of paperless processing.

Ginnie Mae completed the development of the following critical infrastructure improvements and business applications:

- **The Enterprise-wide Operational Data Store (EWODS),** a core component of its infrastructure rebuild, combines several internal databases into one comprehensive source for information. This will provide Ginnie Mae with greater ability to query and analyze data, thereby improving internal efficiency and enhancing Ginnie Mae's ability to assess the state of the portfolio.

- **The new Reporting and Feedback System (RFS).** When testing is completed, RFS will be Ginnie Mae's new post-settlement accounting system. RFS will collect and process loan-level data, validate pool-level data, and validate security remaining principal balances based on the loan-level data reported by issuers. RFS will improve data quality, enhance reporting and feedback functionality, support centralized data collection, support more timely disclosure of data to investors, and provide immediate status information to issuers and Ginnie Mae staff. The new system will strengthen edit parameters and enhance business rules on loan-level submission and RPB reporting, thereby improving the quality and availability of MBS information disclosed to external stakeholders and bring Ginnie Mae more in-line with current industry practice.

- **The Ginnie Mae Enterprise Portal** will provide issuers and Ginnie Mae with a single point of entry to all Ginnie Mae's business applications. By using a single sign-on authentication process, Ginnie Mae will be able to limit what data each issuer can view and secure its data.

Ginnie Mae also introduced enhancements to existing business systems to improve communications with issuers and to establish an operating infrastructure to support other vital components of the modernization effort and to enhance other internal business processes as indicated below:

- **Enhanced Integrated Pool Management System (IPMS):** Initial design work has been completed for the new IPMS. Other processes will be designed in an iterative approach—allowing Ginnie Mae to release each component serially while reducing the impact to the current mission-critical IPMS. The new IPMS, when fully implemented, will increase the efficiency of the platform for pool processing and management tasks such as commitment authority, new pool submissions, pool transfers, pool exception feedback, and design and development work.

- **FEDDEBT System Integration:** This technology is the federal government's system that maintains records about individuals who owe delinquent debt(s). The Office of the CFO leveraged the FEDDEBT System to streamline the cash collection process and improve its ability to track delinquent debt. Ginnie Mae collected more than $6 million of $28 million of debt outstanding within the past fiscal year.

- **Ginnie*NET*:** Ginnie*NET* file formats have been revised to support collection of additional data required by RFS and enhanced data disclosure. Additionally, changes were made to support HECM, FHA*Secure* expansion, jumbo pools, the new FHA loan limits, the H-REMIC and FHA's Hope for Homeowners program.

Ginnie Mae's aggressive efforts to enhance existing systems, develop new systems, and eliminate legacy systems will improve the quantity and quality of information provided to stakeholders, drive down issuer costs, and launch a more flexible systems architecture that can facilitate more rapid development of new products and services.

In FY 2009, Ginnie Mae will complete the rollout of RFS to all issuers, begin expanded data disclosure to investors, and begin development of the various iterations of IPMS. In addition, the legacy post accounting system, MBSIS, will be retired in FY 2009. This will reduce Ginnie Mae costs and increase efficiencies.

Management Operations Initiatives

Human Resources

In FY 2008, Ginnie Mae Human Resource and Management Operations initiatives supported the growing demands on the organization as volumes continued to substantially increase. This support included evaluating infrastructure needs, conducting skill gaps analyses, developing budget justifications and resource projections across multiple fiscal years, and developing and updating succession plans to ensure Ginnie Mae has the ability to support and quickly respond to growing and fast-changing market needs and conditions.

Increasing employees' access to training and certification programs was effective in supporting enhanced operations and in meeting Ginnie Mae's strategic goals. The staff in the Offices of Program Operations and Finance participated in annual CPA training and other Certified Educational Units (CEUs) required for job proficiency and IT staff took required CEU courses toward receiving their Project Management certification. In addition, staff throughout the organization was provided with classroom and web-based courses in a diverse area of competencies to maintain and/or enhance skill levels in areas such as contracting; information technology;

loan servicing and securitization; accounting and auditing; and project management and leadership.

Procurement and Contracts
In FY 2008, Ginnie Mae continued its commitment to utilize and/or promote small business utilization with its large contractors whenever possible. Accordingly, 66 percent of contractors that were awarded funds in FY 2008 were small businesses.

IV. Financial Highlights and Management's Discussion and Analysis

At Ginnie Mae, FY 2008 was marked by an increase in revenue, an increase in expenses, and an increase in assets. In FY 2008, revenues increased due to an increase in interest income and an increase in the level of MBS issuance. Ginnie Mae achieved excess revenues over expenses of $906.2 million in FY 2008, compared with $738.3 million in FY 2007. Revenues increased by 28.3 percent to $1,015.4 million from $791.3 million in FY 2007. Total assets increased to $14.9 billion from $13.7 billion in FY 2007.

The outstanding MBS portfolio guaranteed by Ginnie Mae increased by $149.2 billion in FY 2008, which led to increased guaranty fee revenues. In FY 2008, MBS program income increased to $381.9 million, up from $308.5 million in FY 2007. Interest income increased to $633.5 million in FY 2008 from $482.8 million in FY 2007. Total expenses as a percentage of total revenues decreased from 6.7 percent in FY 2007 to 5.8 percent in FY 2008.

In FY 2008, Ginnie Mae issued $258.3 billion in commitment authority, a 158.8 percent increase from FY 2007. The $220.6 billion of MBS issued in FY 2008 represents a 159.2 percent increase from FY 2007. The outstanding MBS balance of $576.8 billion at the end of FY 2008, compared to $427.6 billion in FY 2007, resulted from new issuances exceeding prepayments. FY 2008 production provided the capital to finance home purchases or refinances, or rental housing, for approximately 940,000 American families.

Ginnie Mae's financial performance remained stable during FY 2008. Excess revenues were invested in U.S. Treasury securities.

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

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

Table 1: Ginnie Mae Financial Highlights, FY 2006 – 2008

September 30	2008	2007	2006
(Dollars in thousands)			
Balance Sheets Highlights and Liquidity Analysis			
Funds with U.S. Treasury	$ 4,836,300	$ 4,432,600	$ 4,056,500
U.S. Government Securities	$ 9,254,000	$ 8,735,900	$ 8,358,100
Total Assets	$ 14,888,400	$ 13,710,700	$ 12,892,700
Total Liabilities	$ 1,361,700	$ 1,090,200	$ 1,010,500
Investment of U.S. Government	$ 13,526,700	$ 12,620,500	$ 11,882,200
Total RPB Outstanding (1)	$ 576,761,925	$ 427,566,299	$ 409,990,230
LLR (2) and Investment of U.S. Government	$ 14,076,700	$ 13,156,300	$ 12,416,700
Investment of U.S. Government as a Percentage of Average Total Assets	94.59%	94.88%	94.95%
LLR and Investment of U.S. Government as a Percentage of RPB	2.44%	3.08%	3.03%
Capital Adequacy Ratio (3)	2.38%	2.98%	2.94%
Highlights From Statements of Revenues and Expenses & Profitability Ratios Years Ended September 30			
MBS Program Income	$ 381,900	$ 308,500	$ 300,300
Interest Income	$ 633,500	$ 482,800	$ 549,000
Total Revenues	$ 1,015,400	$ 791,300	$ 849,300
MBS Program Expenses	$ 49,000	$ 41,900	$ 47,700
Administrative Expenses	$ 8,800	$ 10,600	$ 10,600
Provision for Loss	$ 50,200	$ –	$ –
Total Expenses	$ 59,000	$ 53,000	$ 60,000
Excess of Revenues over Expenses	$ 906,200	$ 738,300	$ 789,300
Total Expense as a Percentage of Average RPB	0.0117%	0.0127%	0.0146%
Provision for Loss as a Percentage of Average RPB	0.0100%	–	–

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS. This does not include $38.7 million of GNMA guaranteed bonds.

(2) Loan Loss Reserve (LLR).

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

Revenues

In FY 2008, Ginnie Mae received an $8.25 million appropriation from general tax revenue. Operations, other than salaries, are self-financed through a variety of fees. In FY 2008, Ginnie Mae generated total revenue of $1,015.4 million. This included $381.9 million in program income and $633.5 million in interest income from U.S. Treasury securities. It should be noted that Ginnie Mae is required by the U.S. Treasury Department to invest any excess revenues in U.S. Treasury securities.

Figure 6 shows Ginnie Mae's total annual revenue for the last five years.

MBS Program Income

MBS program income consists primarily of guaranty fees, commitment fees, and multiclass fees. For FY 2008, MBS program income was concentrated in guaranty fees of $306.8 million, followed by commitment fees of $45.5 million. Combined guaranty fees and commitment fees made up 92.2 percent of total MBS program revenues for FY 2008. Other lesser income sources include new issuer fees, handling fees, and transfer-of-servicing fees. MBS program income increased in FY 2008 due to the increase in the MBS portfolio and MBS issuances.

Guaranty Fees

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

Guaranty fees are collected on the aggregate principal balance of the guaranteed securities outstanding in the non-defaulted issuer portfolio. MBS guaranty fees grew 12.4 percent to $306.8 million in FY 2008, from $272.9 million in FY 2007. These higher guaranty fees reflect the increase in the MBS portfolio. The outstanding MBS balance at the end of FY 2008 was $576.8 billion, compared with $427.6 billion the previous year, as new issuances exceed repayments (see Figure 7).

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

Figure 6: Ginnie Mae Revenues, FY 2004 – 2008

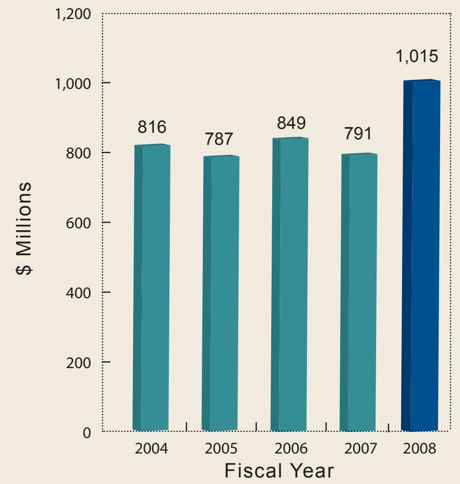
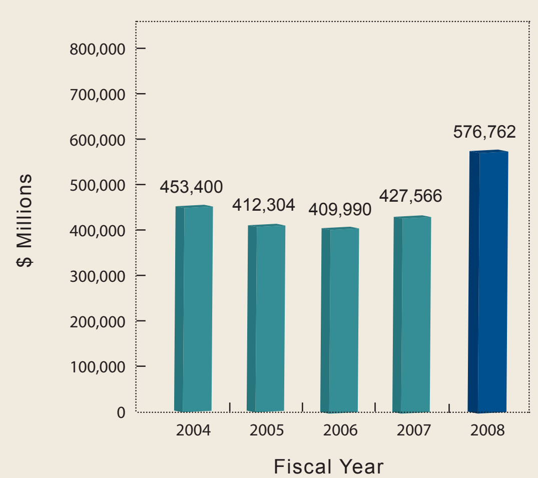


Figure 7: Remaining Principal Balance (RPB) Outstanding in the MBS Portfolio, FY 2004 – 2008



occurs first. Fees from expired commitment authority are not returned to issuers. As of September 30, 2008, commitment fees deferred totaled $13.6 million. Ginnie Mae issued $258.3 billion in commitment authority in FY 2008, a 158.8 percent increase from FY 2007.

Multiclass Revenue

Multiclass revenue is part of MBS program revenue, and is composed of REMIC and Platinum program fees. Ginnie Mae issued approximately $43.0 billion in Platinum products in FY 2008. Total cash fees for Platinum securities amounted to $8.9 million. Guaranty fees from REMIC securities totaled $15.7 million on $43.4 billion in issuance of REMIC products (see Figure 8). Ginnie Mae recognizes a portion of REMIC, Callable Trust, and Platinum program fees in the period they are received, with balances deferred and amortized over the remaining life of the financial investment.

In FY 2008, Ginnie Mae issued $86.4 billion in its multiclass securities program (REMICs, Stripped MBS, and Platinums). The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2008, was $254.1 billion. This reflects a $53.1 billion increase from the $201 billion outstanding balance in FY 2007.

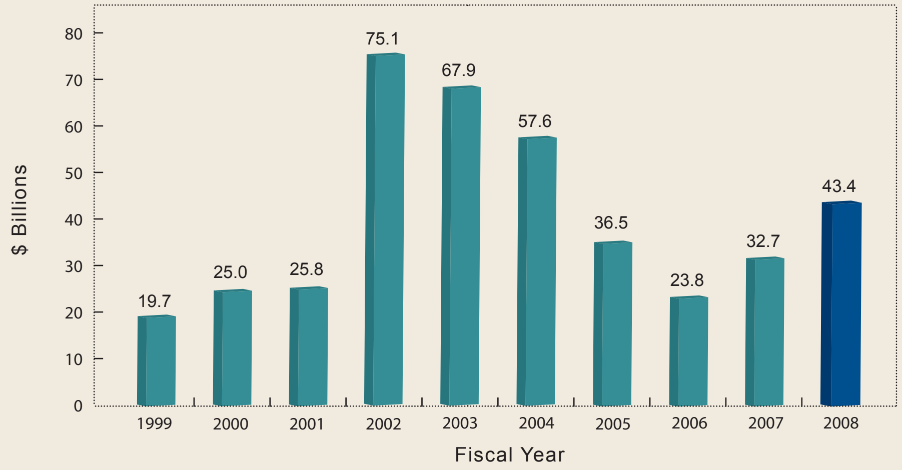
Interest Income

Ginnie Mae invests the excess of its accumulated revenue over expenses in U.S. Government securities. Ginnie Mae guaranty fee income has increased this year and interest income has increased as a percentage of total revenue. In FY 2008, interest income increased 31.2 percent to $633.5 million from $482.8 million in FY 2007.

Expenses

Management exercised prudent expense control during FY 2008. Operating expenses in FY 2008 increased by 11.3 percent to $59 million from $53 million in FY 2007. Total expenses were 5.8 percent of total revenues in FY 2008, down from 6.7 percent in FY 2007. The increase in MBS program income and the increase in operating expenses resulted in higher excess revenues

Figure 8: Total REMIC Volume, FY 1999 – 2008



over expenses of $906.2 million for FY 2008 versus $738.3 million for FY 2007 (see Figure 9).

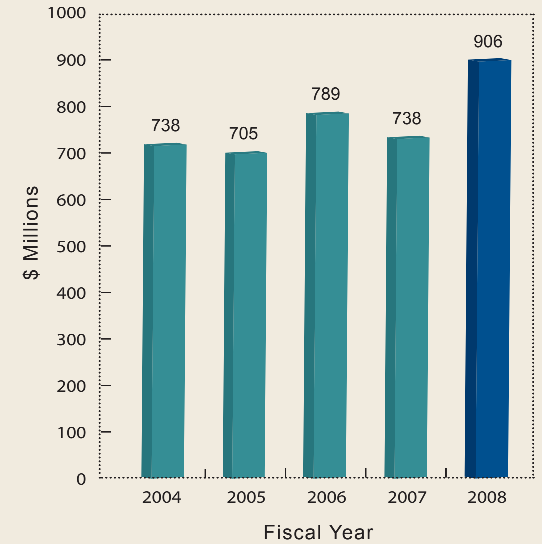
To support U.S. military personnel called into action, Ginnie Mae reimburses the interest on loans to service members who have FHA or VA mortgages with interest rates in excess of 6 percent. In FY 2008, this expense totaled $1.4 million, an increase over FY 2007 related expenses.

Table 2 represents the expenses related to program/contractors used by Ginnie Mae during the last five years. This chart demonstrates that Ginnie Mae has successfully managed its 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 three single family issuers during FY 2008. 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.

Figure 9: Excess of Revenues over Expenses, FY 2004 – 2008



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 using an array of economic and financial scenarios modified by

Table 2: Program/Contractor Expenses, FY 2004 – 2008

	2008	2007	2006	2005	2004
(Dollars In Millions)					
Central Paying Agent	$ 8.0	$ 6.8	$ 8.5	$ 9.3	$ 12.9
Contract Compliance	$ 0.4	$ 0.9	$ 0.2	$ 0.8	$ 0.2
Federal Reserve	$ 2.5	$ 3.2	$ 1.9	$ 2.8	$ 2.1
Financial Support	$ 0.7	$ 0.8	$ 0.6	$ 0.7	$ 0.8
IT Related & Miscellaneous	$ 6.9	$ 4.6	$ 6.8	$ 3.0	$ 4.2
Mortgage-backed Securities Information Systems Compliance	$ 15.7	$ 11.9	$ 9.9	$ 17.0	$ 13.4
Multiclass	$ 11.2	$ 8.7	$ 7.9	$ 9.5	$ 10.0
Multifamily Program	$ 2.2	$ 5.0	$ 8.9	$ 11.1	$ 7.8
Servicemembers Civil Relief Act	$ 1.4	$ 0.0	$ 3.0	$ 4.1	$ 11.9
Total	**$ 49.0**	**$ 41.9**	**$ 47.7**	**$ 58.3**	**$ 63.3**

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 2008, PFAM was used to estimate Ginnie Mae's credit subsidy rate based on historical loan performance data, economic measures, and program and policy assumptions. Every year, Ginnie Mae 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. Changing economic conditions related to interest rates, housing values, population demographics, consumer prices, and income levels are accommodated by updating key economic drivers within PFAM's econometric functionality. Ginnie Mae's expertise in understanding and managing risks associated with its MBS guarantee business are accommodated by adjusting management assumption drivers within the model.

Cash flows for income and expenses associated with Ginnie Mae's MBS guarantee business were estimated by simulating loan-level performance for the existing book of business and forecasted new business. The simulated loan-level performance was used to forecast the effects on defaulted portfolios managed by Ginnie Mae and levels of new issuer defaults. The model's cash flow output was used to estimate the net present value of Ginnie Mae's future cash flows from the outstanding guarantee portfolio at the end of FY 2008 and estimated new business for 30 years into the future.

Ginnie Mae updated this model with economic and financial data from Global Insight, a key industry source of economic and financial data. Among other things, this model is used to predict future default rates for single and multifamily issuers.

PFAM is a stand-alone application that resides on a single server that does not connect to any other system. All the security measures according to the Government security standard are fully considered. The System Security Plan, Risk Assessment, Self Assessment and Private Impact Assessment were implemented on the system and completed at the end of FY 2008.

Liquidity and Capital Adequacy

Ginnie Mae's primary sources of cash are MBS and multiclass guaranty fee income, commitment fee income, and interest income. After accounting for expenses and other factors, on September 30, 2008, Ginnie Mae reported \$4.8 billion in funds with the U.S. Treasury, compared to \$4.4 billion on September 30, 2007.

In addition to the funds with the U.S. Treasury, Ginnie Mae's investment in U.S. government securities

was \$9.3 billion as of September 30, 2008. Of this amount, \$2.3 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 shows the fair value composition and maturity of Ginnie Mae's Treasury securities as of September 30, 2008 and 2007.

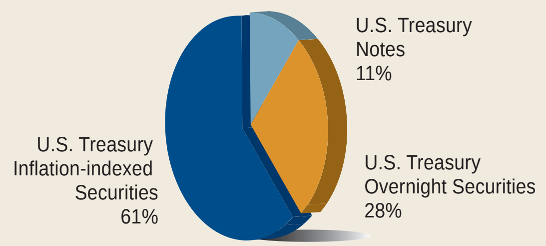
Table 3: Composition of Treasury Securities as of September 30 (Percentage of Total)

Maturity	2008	2007
Due within 1 year	33%	32%
Due in 1–5 years	54%	43%
Due in 5–10 years	13%	25%

Figure 10 illustrates the components of Ginnie Mae's Investments in U.S. Government Securities as of September 30, 2008.

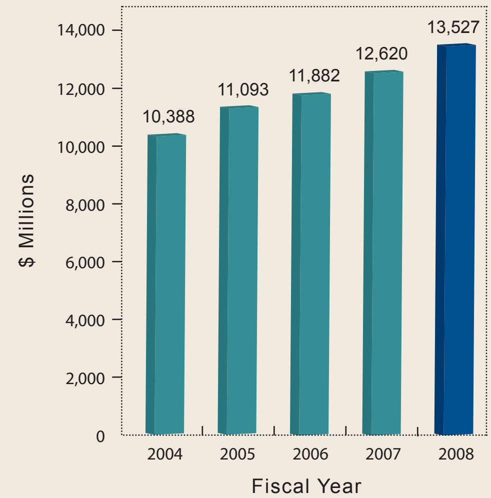
Ginnie Mae's MBS guarantee activities have historically operated at no cost to the government. Ginnie Mae's net income continues to build its capital base. Management believes the corporation maintains adequate capital reserves to withstand downturns in the housing market that could cause issuer defaults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

Figure 10: Components of Investment in U.S. Government Securities, September 30, 2008



As of September 30, 2008, the Investment of U.S. Government was $13.5 billion after establishing reserves for losses on credit activities, compared with $12.6 billion as of September 30, 2007. To assess the strength of its capital position, Ginnie Mae uses a "stress test" methodology that measures Ginnie Mae's ability to withstand severe economic conditions. Figure 11 shows Ginnie Mae's capital reserves (Investment of U.S. Government) as of September 30, 2008, for the last five years.

Figure 11: Capital Reserves (Investment of U.S. Government), FY 2004 – 2008



Risk Management and Systems of Internal Controls

Ginnie Mae continues to enhance its automated systems and business processes to increase its operational efficiency and reduce its business risk. During FY 2008, Ginnie Mae created a position to oversee internal controls for the organization. The Internal Controls Manager oversees contract compliance reviews, Appendix A of OMB Circular A-123 review, and other internal control and risk management activities.

Ginnie Mae continued periodic reviews of all master sub-servicers and major contractors to ensure compliance with the terms and conditions of their contracts. In addition, the audits and reviews enable Ginnie Mae to 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 its internal controls over financial reporting, which includes the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Safeguarding assets is a subset of all of these objectives. Internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use or disposition of assets. No material weaknesses were found in the design or operation of the internal controls over financial reporting. Based on these results, Ginnie Mae can provide reasonable assurance that its internal controls over financial reporting were operating effectively as of June 30, 2008.

Securitization Issuance

As shown in Figure 12, Ginnie Mae supported approximately 940,000 units of housing for American families in FY 2008, a 45.5 percent increase from FY 2007.

The dollar value of MBS issuance is reflected in Figure 13, which shows Ginnie Mae issued $220.6 billion in MBS in FY 2008. Clearly, over time, Ginnie Mae has had a dramatic impact on expanding homeownership and rental opportunities in the U.S.

Figure 12: Ginnie Mae Supported Units of Housing, FY 2004 – 2008

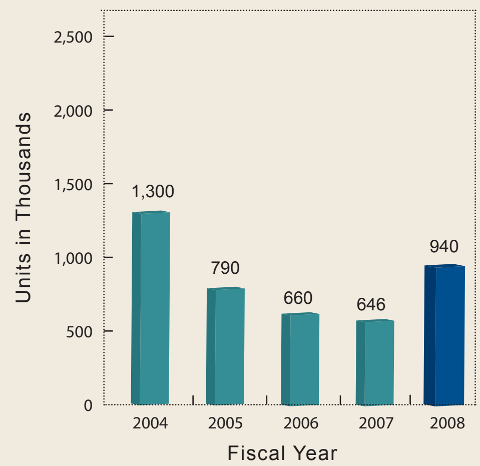


Figure 13: MBS Issuance of Ginnie Mae, FY 2004 – 2008