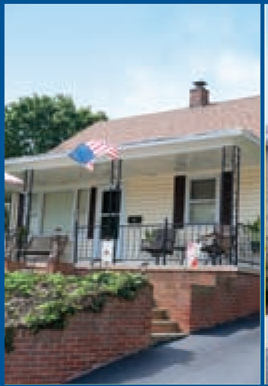
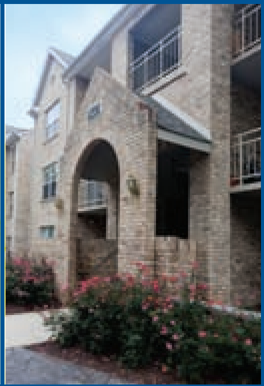
# 2011 ANNUAL REPORT

## Government National Mortgage Association

# Secretary's Message

Throughout its more than 40-year history, Ginnie Mae has remained true to its mission of expanding affordable housing by linking global markets to the Nation's housing markets. Through its mortgage-backed securities (MBS) program, the only one of its kind to carry the full faith and credit of the United States Government, Ginnie Mae has provided a stable source of liquidity for those borrowers seeking to finance their housing needs through government-insured mortgages.

Investors from around the globe are attracted to the stability and dependability of the Ginnie Mae MBS program. In turn, the program's popularity helps to reduce the borrowing costs for homeowners in the United States, and provides opportunities for the financing of affordable housing. Ginnie Mae has provided these benefits while running an efficient and conservative business model that minimizes risk to the U.S. taxpayer. In addition, Ginnie Mae continues to earn profits for the Federal Government and has been a critical element in stabilizing the housing market during turbulent times.

I am proud to be a part of Ginnie Mae's continued success and the stabilizing role it has provided to our Nation's housing system.


51

November 7, 2011

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

Dear Mr. Secretary:

Ginnie Mae has been a cornerstone of the U.S. housing finance system since it was created more than 40 years ago. Our organization attracts private capital to the U.S. housing market and facilitates government-insured financing without imposing undue risk on the taxpayer. We have continued to deliver liquidity to the housing finance system during these periods of economic stress, and remain a strong supplier of capital that finances affordable single-family and rental housing.

It has been a particularly good year for Ginnie Mae. For FY 2011, Ginnie Mae earned excess revenues over expenses (net profit) of nearly $1.2 billion, a remarkable accomplishment given the current economic environment. In fact, nearly every year since its inception, Ginnie Mae has earned money for taxpayers. During these very difficult economic times, Ginnie Mae has remained strong and has not required a federal bailout. Further, it maintains $15.8 billion in retained earnings bolstering its capital position and ensuring that it can effectively navigate the current economic environment.

I truly believe that Ginnie Mae is an excellent example of smart, efficient government. It maintains a disciplined, conservative business model; the corporation is not in the business of originating or investing in mortgage loans directly, nor does it purchase, sell, or issue securities itself. The foundation of Ginnie Mae's business is guaranteeing a simple pass-through mortgage-backed security (MBS). Through this unique guarantor structure, Ginnie Mae does not take on borrower credit risk, but rather, its risk is limited to the performance of its issuers. Essentially, the Ginnie Mae guaranty is in the fourth loss position—behind borrowers and their home equity, the credit enhancement provided by government-insured mortgage programs, and the corporate resources of its issuers. This unique business model has protected Ginnie Mae from losses and allowed it to remain strong throughout the crisis.

Since the onset of the credit crisis in September 2008, Ginnie Mae has guaranteed $1.2 trillion in MBS, enabling it to play a direct role in providing homeownership and housing opportunities for 5.1 million households. Ginnie Mae continued in this role during the past year by providing guarantees on $350.4 billion in securities, representing nearly 1.6 million households across the country. Ginnie Mae's growth is the result of the countercyclical support it has provided to the housing finance system during the housing downturn, and the operational capabilities that enable Ginnie Mae to step in and provide such support when the private market has retreated.

During FY 2011, in an effort to further enhance risk management, Ginnie Mae significantly increased net worth requirements for all issuers across the single-family, multifamily, and HECM programs. Additionally, a base net worth requirement of $10 million was established for issuers of MBS under the new Title I manufactured housing program. Ginnie Mae also added a liquid asset requirement for all issuers across all programs. The liquid asset requirement is critical to ensure that issuers have the funds available to meet investor payment obligations, and to protect Ginnie Mae and the taxpayer from risk. Unlike lenders who issue MBS for the GSEs, Ginnie Mae's issuers must have "skin in the game," and hence strong capital and liquidity, as their potential loss exposure could be higher. Ginnie Mae strongly believes that issuers who retain more capital and liquidity are better positioned to absorb losses.

Ginnie Mae is committed to its simple, but strong business model and has continued to focus on enhancing risk management practices and creating a more customer-centric organization. Ginnie Mae remains unwavering in its commitment to deliver global capital to the U.S. housing finance system.

Sincerely,

Theodore W. Tozer

Mae

# Contents

I. Ginnie Mae's Mission and Purpose ..... 1

II. Executing on the Business Model in Today's Market ..... 10

III. Financial Highlights and Management's Discussion and Analysis ..... 19

IV. Audit Report of Ginnie Mae's FY 2011 Financial Statements ..... 29

# Ginnie Mae's MISSION

*To support affordable housing in America by linking global capital markets to the Nation's housing markets*

# 1 Mission and Purpose

Ginnie Mae's mission and purpose is to bring global capital into the housing finance system—a system that runs through the core of our Nation's economy—while minimizing risk to the taxpayer. For more than 40 years, Ginnie Mae has continually provided liquidity and stability, serving as the principal financing arm for government loans and ensuring that funds can flow into the mortgage market. Today, Ginnie Mae is playing a vital role in our Nation's economic recovery efforts.

Ginnie Mae provides liquidity and stability by ensuring that adequate capital is available for financing affordable single family homes, rental housing, and healthcare facilities even in times of economic stress. As the private sector dramatically retreated in recent years, it was Ginnie Mae that stepped in and continued to facilitate the flow of private capital from global markets to the U.S. housing markets. Not only does it provide an outlet for the sale of government-insured or government-guaranteed loans, its mortgage-backed securities (MBS) offer the explicit full faith and credit guaranty of the United States Government. This guaranty is highly attractive to investors and, to date, has kept demand high for Ginnie Mae MBS. The value that security holders place on guaranteed payments means that Ginnie Mae can ensure a consistent pool of funding for government-insured or government-guaranteed mortgage loans. This supports the economic stabilization efforts of Congress and the Obama Administration by making it possible for banks and financial institutions to continue mortgage lending.

Through these challenging times, Ginnie Mae has demonstrated its ability to be an effective and efficient conduit for bringing capital into the U.S. housing finance system with minimal risk to the taxpayer. It can do so because of a simple but powerful business model, which is inherently risk-averse, and supported by a conservative approach and strong risk management practices. At the foundation of this model is the mortgage pass-through security backed by government-insured or government-guaranteed loans and issued by private lenders. It is these lenders who protect Ginnie Mae and taxpayers from risk; their capital stands in front of the Ginnie Mae guaranty, and they remain financially responsible for the securities they issue. Because the Ginnie Mae guaranty is in the fourth loss position—behind borrowers and their home equity, government-insured or government-guaranteed mortgage programs, and the corporate resources of the issuer—this has meant that even during the current economic downturn, Ginnie Mae has not needed a bailout. It has weathered the storm without any appropriation from general tax revenue or assistance from the U.S. Treasury. Notably, nearly every year since its inception more than 40 years ago, Ginnie Mae's MBS has earned profits for the U.S. Government and has been a critical element in stabilizing markets during turbulent times.

Ginnie Mae has demonstrated its ability to be an effective and efficient conduit for bringing capital into the U.S. housing finance system with minimal risk to the taxpayer.

As the housing crisis continues, the Nation remains embroiled in a debate on the future of its housing finance system. The Administration has introduced plans for housing reform that promote sustainable homeownership and attempt to balance the role of government and private market participants in

housing finance. With its ability to facilitate the flow of capital from all over the world into the U.S. housing system, Ginnie Mae successfully balances the role of the private market with the government and supports the government's role in promoting safe and affordable housing.

## GINNIE MAE'S HISTORY

Ginnie Mae's origins trace back to the Great Depression, when historically high unemployment rates led to an unprecedented wave of loan defaults. The resulting surge in home foreclosures further depressed housing values and the Nation's overall economy. During the Depression, Congress passed the National Housing Act of 1934 (Act), a key component of the New Deal. The Act created the Federal Housing Administration (FHA) to help resuscitate the U.S. housing market and protect lenders from mortgage default. As a national mortgage loan insurance program, it encouraged banks, building and loan associations, and other institutions to make loans because of the insurance against losses provided by the government.

The Act was amended in 1938 to charter the Federal National Mortgage Association (FNMA), or Fannie Mae, whose purpose was to create a secondary mortgage market by purchasing FHA-insured loans from lenders and thus provide liquidity to support the flow of credit. The Fair Housing Act of 1968 subsequently split Fannie Mae into two separate corporations: (1) Fannie Mae, to purchase "conventional" (non-U.S. Government-insured or government-guaranteed) mortgages that conformed to specific underwriting standards, and (2) the Government National Mortgage Association (GNMA), or Ginnie Mae, to focus on providing a guaranty backed by the full faith and credit of the United States for the timely payment of principal and interest on MBS secured by pools of government home loans. These loans are insured or guaranteed, by FHA, the U.S. Department of Housing and Urban Development's Office of Public and Indian Housing (PIH), the U.S. 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 and Rural Development Guaranteed Rural Rental Housing Program (Rural Development, or RD). Ginnie Mae remains a self-financing, wholly owned U.S. Government corporation within HUD.

The creation of Ginnie Mae eliminated the need for the U.S. Treasury to provide funding for Federal Government loan programs, and today, Ginnie Mae remains the primary financing mechanism for all government-insured or government-guaranteed mortgage loans. Historically, with mortgage rates and availability of funds varying by region and due to the fact that it was nearly impossible to sell individual mortgages on the secondary market, banks customarily had to retain mortgages. This obstacle significantly limited the number of new loans that could be originated. To combat this, in 1970 Ginnie Mae developed the very first MBS, which allowed for many loans to be pooled and used as collateral in a security that could be sold in the secondary market. With a guaranty for the timely receipt of principal and interest, investors find these mortgage-backed securities to be attractive investments. The MBS supports housing finance by channeling investment capital from markets all over the globe for use in lending to support neighborhoods across the Nation. Ginnie Mae's role from the beginning has been to provide access to capital for affordable housing.

## THE BUSINESS MODEL TODAY

Ginnie Mae has refined and enhanced its MBS program over the years along with its fundamental, low-risk business model. It only guarantees securities backed by government-insured or government-guaranteed loans and issued by Ginnie Mae approved lenders (whose obligation it is to make timely principal and interest payments to investors in Ginnie Mae securities). This fourth loss position (where Ginnie Mae's guarantee stands behind the homeowner and their equity, the government agency's insurance, and the issuer's resources) minimizes the risk related to the government guaranty on Ginnie Mae securities and ensures that Ginnie Mae does not take on borrower-related credit risk.

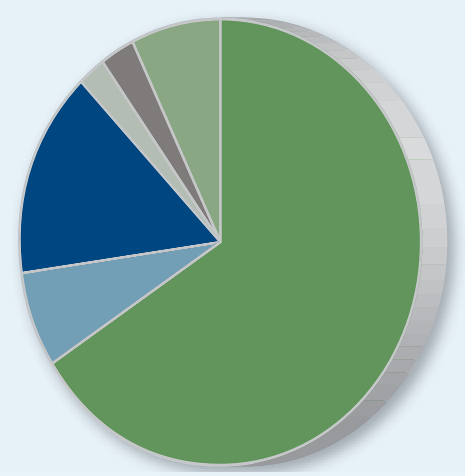
Ginnie Mae partners with qualified mortgage lenders, or "issuers," who pool government-backed mortgage loans and issue MBS.[1] It is the issuers who service and manage the MBS portfolio and the underlying loans. Ginnie Mae, in turn, guarantees the timely payment of principal and interest to the investors who provide the capital and hold the MBS. In exchange, issuers pay Ginnie Mae a guaranty fee from the spread between the interest rate paid by mortgage borrowers and the interest rate paid to MBS investors.

Issuers are qualified institutions, individually approved and closely monitored by Ginnie Mae. They are diverse in size and geography and include mortgage companies, commercial banks, thrifts, credit unions, and state housing finance agencies (HFAs) (see Figure 1).

The Ginnie Mae guaranty, coupled with an expected rate of return higher than U.S. Treasury securities, makes Ginnie Mae MBS highly liquid and attractive to domestic and foreign investors of all types. This liquidity is passed on to lenders who then can use the proceeds from new issuances to make new

### FIGURE 1

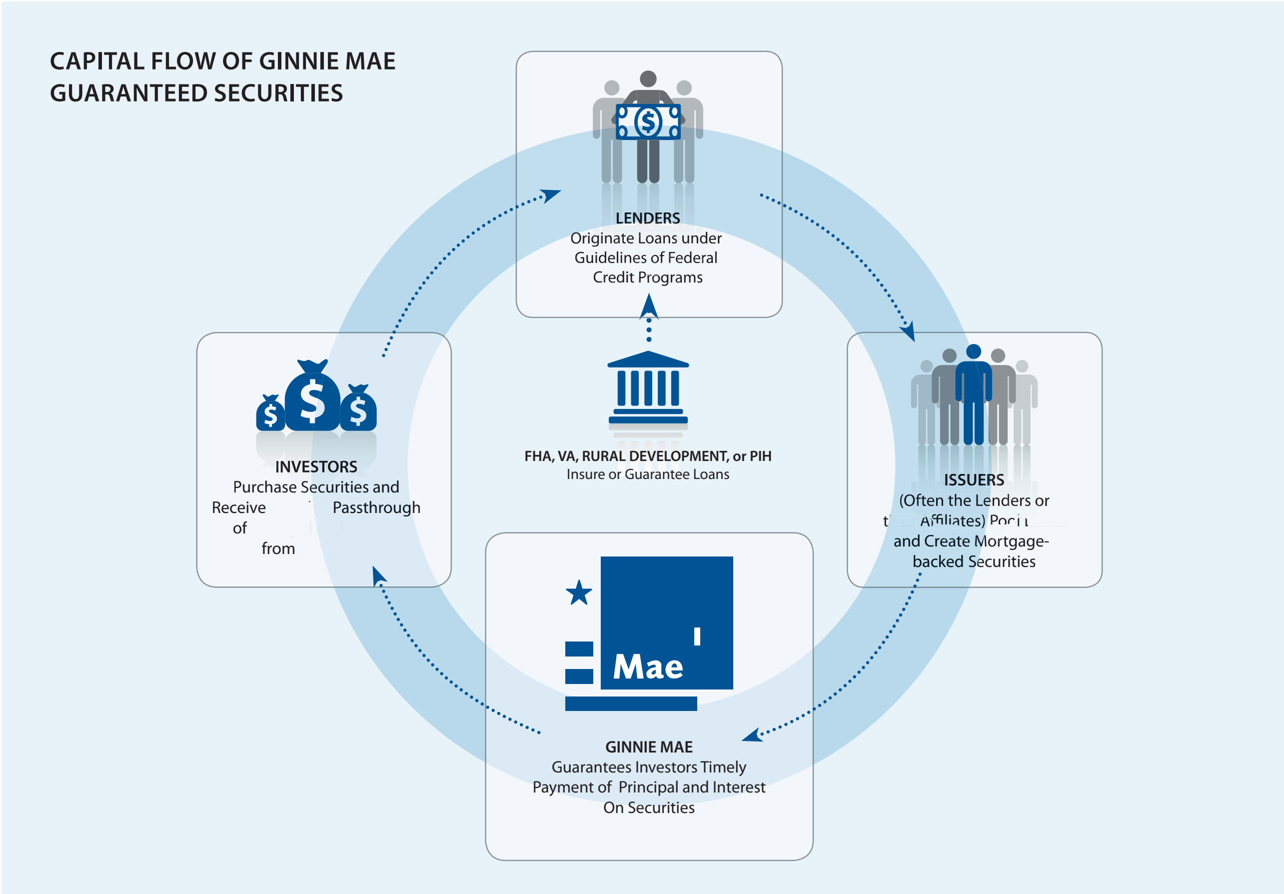
**GINNIE MAE ISSUERS BY INSTITUTION TYPE**
**NUMBER OF ISSUERS BASIS**
*(AS OF SEPTEMBER 30, 2011)*



| | |
|---|---|
| MORTGAGE BANKERS | 66% |
| SAVINGS AND LOANS | 7% |
| COMMERCIAL BANKS | 15% |
| MUTUAL SAVINGS BANKS | 2% |
| CREDIT UNIONS | 3% |
| OTHERS | 7% |

1 *Once Ginnie Mae approves an applicant, commitment authority—the total cumulative dollar amount of new securities that Ginnie Mae will guaranty for the issuer—is granted to the prospective issuer, indicating that it meets Ginnie Mae's eligibility requirements. The issuer can submit pools of loans and issue securities up to its commitment authority amount.*

## FIGURE 2




mortgage loans. The ongoing cycle (as depicted in Figure 2) helps to lower financing costs, which in turn support accessible and affordable homes for Americans. Because the securities are backed by the full faith and credit of the U.S. Government, capital continues to flow even during recessionary periods when liquidity contracts in the private market.

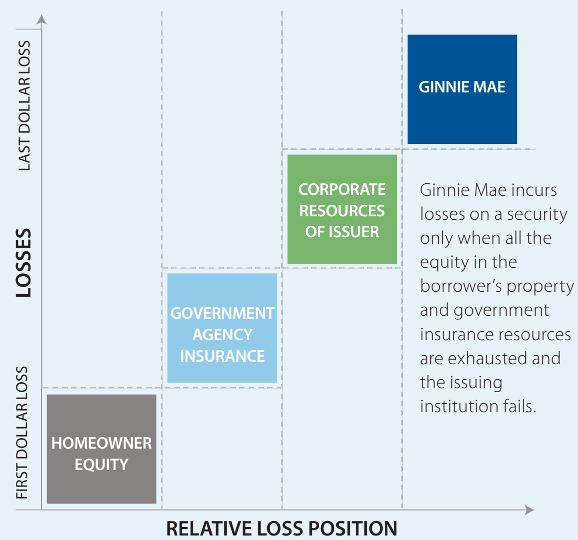
The Ginnie Mae business model significantly limits risk to the taxpayer. The corporation is not in the business of originating or investing in mortgage loans directly, nor does it purchase, sell, or issue securities itself. Only loans insured or guaranteed by U.S. Government agencies can serve as collateral for its securities. Furthermore, it is the private lending institutions that originate eligible loans, pool them into securities, and issue the MBS. Consequently, Ginnie Mae does not assume borrower credit risk; nor does it need to carry long-term debt on its balance sheet. The credit risk on loans in Ginnie Mae securities remains with the issuer of the security and the respective government agency that insures or guarantees the mortgage loans.

The nature of the business model means that credit exposure is limited to counterparty risk, because Ginnie Mae guarantees that an issuer will meet its obligations. Ginnie Mae manages counterparty risk through its issuer approval process and ongoing monitoring procedures, both of which were strengthened during Fiscal Year (FY) 2011, as described in Section II.

The diagram in Figure 3 shows how Ginnie Mae is in the fourth and final loss position in the event of mortgage default. Investors are first protected by borrowers and their home equity, then mortgage insurance issued by a Federal Government agency, and then the issuer's own corporate resources. Only after all of these resources are exhausted does Ginnie Mae step in to make investors whole. Even so, if an issuer fails to meet its obligations, Ginnie Mae does not necessarily suffer a loss. It then assumes control of the pooled mortgage portfolio and manages the servicing of loans in a cost effective manner. It is through investors' confidence in this sustaining model that Ginnie Mae ensures capital is delivered into the Nation's housing finance system.

FIGURE 3

PROTECTING THE GINNIE MAE GUARANTY




## PRODUCTS AND PROGRAMS

Ginnie Mae offers reliable solutions that meet the needs of a broad constituent base and provide sufficient flexibility to respond to market changes. At the core of its business model and product offering menu is the simple pass-through security, which comes in the form of two product structures—Ginnie Mae I MBS and Ginnie Mae II MBS—whose characteristics are summarized in the following table.

| GINNIE MAE I MBS | GINNIE MAE II MBS |
|---|---|
| Single-issuer pools | Single- or multiple-issuer pools |
| Note rates on underlying mortgages are fixed and all the same | Multiple note rates on underlying mortgages—limited to a range of 50 basis points (0.25 to 0.75 above the pass-through interest rate) |
| Acceptable collateral:<br>• To Be Announced (TBA)[2] eligible: Single Family Level Payment Mortgages<br>• Non-TBA eligible: Buydown Mortgages, Graduated Payment Mortgages, Growing Equity Mortgages, Serial Notes, Manufactured Home Loans, Project Loans, Construction Loans | Acceptable collateral:<br>• TBA eligible: Single Family Level Payment Mortgages, including up to 10 percent Buydown Mortgages<br>• Non-TBA eligible: Adjustable-rate Mortgages, Graduated Payment Mortgages, Growing Equity Mortgages, Serial Notes, Manufactured Home Loans, Home Equity Conversion Mortgage (HECM) Loans |
| Timing of payments: 15th of the month | Timing of payments: 20th of the month |
| | Larger pool size |
| | More demographically and geographically diverse |
| | Customizable pools |

2 *As described further in Section II, TBA is a trade contract for the purchase or sale of agency MBS to be delivered at a future agreed-upon date. Because the TBA market is, essentially, based on the fundamental assumption of homogeneity, one MBS pool can be considered to be interchangeable with another, and investors have confidence that the specific pool delivered will meet their needs. Source: SIFMA*

Although Ginnie Mae I MBS historically have dominated the MBS programs, the Ginnie Mae II MBS product accounted for approximately 65 percent of Ginnie Mae's MBS issuance during FY 2011. This is the result of issuers' growing preference for multi-issuer pools, as well as increased investor appetite for larger pools and pools with diverse collateral characteristics.

The Ginnie Mae MBS also serve as the underlying collateral for multiclass products, such as Real Estate Mortgage Investment Conduits (REMICs), Callable Trusts, Platinums, and Stripped Mortgage-Backed Securities (SMBS), for which Ginnie Mae also guarantees the timely payment of principal and interest. These structured transactions allow the private sector to combine and restructure cash flows from Ginnie Mae MBS into securities that meet unique investor requirements for yield, maturity, and call-option features.

Multiclass products are structured for offering in the public markets by approved Ginnie Mae Sponsors in the REMIC program and Depositors in the Platinum program who have wide access to global investors. Selected Co-Sponsors also participate in multiclass securities offerings. By managing the ongoing relationship with investment banks and institutional investors, Ginnie Mae supports multiple products that meet the needs of global capital market participants and attract financing to the U.S. housing market.

The wide range of security products that Ginnie Mae offers support the diverse single family and multifamily lending initiatives provided by the government housing agencies. As an example, during FY 2011 Ginnie Mae allowed the inclusion of acute care facilities in multifamily REMIC transactions. This practice is expected to increase the liquidity of these securities and, in turn, lower financing costs for the hospitals, allowing healthcare cost savings to be passed on to patients.

The underlying loans for the Ginnie Mae I MBS and Ginnie Mae II MBS come from Ginnie Mae's MBS programs, which contain four sources of collateral: the single family program, the multifamily program, the Home Equity Conversion Mortgage (HECM) MBS (HMBS) program, and the manufactured housing program. These programs are designed to serve a variety of loan financing needs and different issuer origination capabilities and are described below. All loans in each of these programs are government-insured or government-guaranteed, which minimizes risk to Ginnie Mae and the taxpayer.

***Single Family Program*** – The majority of Ginnie Mae securities are backed by single family mortgages predominantly originated through FHA and VA loan insurance programs (73.2 percent and 22.6 percent, respectively). In FY 2011, 100.0 percent of FHA fixed-rate single family loans and 98.3 percent of VA fixed-rate single family loans were securitized and made into Ginnie Mae pools by approved issuers. At the end of FY 2011, investors hold $1.1 trillion in outstanding single family Ginnie Mae MBS.

Within the Single Family Program, the Targeted Lending Initiative (TLI) provides incentives for lenders to increase loan volumes in traditionally underserved areas. Established in 1996, the TLI program offers discounts ranging from one

| REMICs | CALLABLE TRUSTS | PLATINUM | SMBS |
|---|---|---|---|
| Investment vehicles reallocate pass-through cash flows from underlying mortgage obligations into a series of different bond classes, known as tranches, which vary based on term and prepayment risk. | Investors can redeem or call a security prior to its maturity date under certain conditions to hedge against fluctuating interest rate environments. | Investors can hold multiple pools of MBS to combine them into a single Ginnie Mae Platinum Certificate. | Custom-designed securities that redirect MBS principal and/or interest cash flows to meet investors' specific objectives. Ginnie Mae guarantees the timely payment of principal and interest on each class of SMBS. |

to three basis points on Ginnie Mae's six-basis-point guaranty fee, depending on the percentage of TLI-eligible loans within the pool or loan package. The reduced fee motivates lenders to originate loans in these distressed areas.

***Multifamily Program*** – Safe and affordable rental housing is essential for millions of individuals and families. Ginnie Mae's mission of supporting affordable housing and promoting stable communities extends to ensuring that decent rental units remain accessible. By guaranteeing pools of multifamily loans that are sold to investors in the global capital markets, Ginnie Mae enables lenders to reduce mortgage interest rates paid by property owners and developers of apartment buildings, hospitals, nursing homes, assisted-living facilities, and other housing options. In addition, these projects stabilize and bring jobs to communities across the country.

During FY 2011, Ginnie Mae reached a milestone when it surpassed $50 billion in outstanding multifamily MBS, helping to finance 1,397 apartment building loans, 21 hospital loans, and 476 nursing home loans. The Ginnie Mae multifamily portfolio includes a $756 million multifamily MBS—backed by the largest-ever multifamily construction loan—to finance a new medical services facility in Trenton, New Jersey. This project provided approximately 4,800 jobs during the construction phase and, when the project is completed, an estimated 2,200 permanent jobs will have been created in this city.

***HMBS Program*** – In addition to traditional mortgages, Ginnie Mae's expanding HECM securities program provides capital and liquidity for FHA-insured reverse mortgages, an essential financial solution for a growing number of senior citizens. HECM loans can be pooled into HECM MBS (HMBS) within the Ginnie Mae II MBS program. They also can serve as collateral for REMICs backed by HMBS (H-REMICs), which were introduced in FY 2008.

Because of Ginnie Mae's pioneering role in developing a liquid securities market outlet for reverse mortgages, an innovative and beneficial loan program was strengthened during a challenging time when other capital markets funding virtually disappeared.

***Manufactured Housing (MH) Program*** – Ginnie Mae's Manufactured Housing program allows the issuance of pools of loans insured by FHA's Title I Manufactured Home Loan Program. This program underwent significant changes last fiscal year in support of the Housing and Economic Recovery Act of 2008. In FY 2011, Ginnie Mae issued new guidance on pooling these loans, increasing its level of risk management within the Ginnie Mae Manufactured Home Loan MBS Programs by requiring higher minimum net worth requirements for institutions participating in the program.

For MBS investors, only Ginnie Mae securities provide payments that are explicitly backed by the full faith and credit of the U.S. Government.

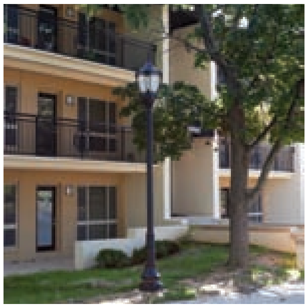
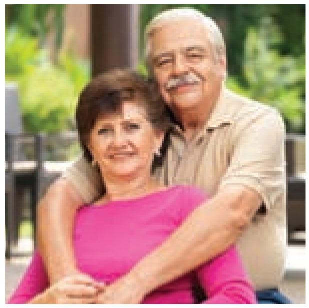
## THE STRENGTH OF THE FULL FAITH AND CREDIT GUARANTY

While issuers depend on the strong pricing and liquid market for Ginnie Mae MBS as a way to maintain the flow of capital for new mortgage loans, investors depend upon the guaranty of timely interest and principal payments. For MBS investors, only Ginnie Mae securities provide payments that are explicitly backed by the full faith and credit of the U.S. Government.[3]

Even amidst the recent turmoil in the government debt markets, Ginnie Mae securities remain strong and have thus retained their value. On August 2, 2011, Moody's confirmed its Aaa long-term U.S. government bond rating with a negative outlook. On August 5, 2011, Standard & Poor's (S&P) lowered its long-term sovereign credit rating on the United States debt from AAA to AA+ with a negative outlook. Subsequent to these actions, there continues to be strong demand and attractive pricing for Ginnie Mae securities. In fact, since the announcement by S&P, the yields required by investors on Ginnie Mae MBS have decreased,[4] meaning that demand and prices on securities have increased. Ginnie Mae securities also continue to trade at a premium relative to

*3 This guaranty is codified in the United States Code at 12 U.S.C. § 1721(g): "The full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection."*

*4 Source: Bloomberg. The Ginnie Mae 30-Year Current Coupon closed at 3.43 percent on August 2, 2011 and decreased to 2.71 percent at the close on September 30, 2011.*

Fannie Mae and Freddie Mac mortgage-backed securities, reflecting the confidence that investors continue to have in Ginnie Mae MBS.

The full faith and credit guaranty separates Ginnie Mae from all other MBS guarantors, including Fannie Mae and Freddie Mac. As federally chartered secondary market participants, these government-sponsored enterprises (GSEs) share many similarities with Ginnie Mae, including prominent roles in the secondary mortgage market to provide liquidity, support housing finance opportunities, and guaranty MBS so that investors receive timely payment of principal and interest. Their structure and business models, however, differ in a number of ways:

- Ginnie Mae is wholly owned by the U.S. Government. The GSEs are corporations that are chartered by Congress, but have private stockholders.[5] Because Ginnie Mae does not have shareholder-driven profitability demands, it can focus on its core mission rather than pursuing ancillary lines of business that might present increased risk.
- The GSEs may purchase mortgages to hold or pool in securities for sale to investors. In addition, they may hold or buy their own securities or securities issued by others. As such, they maintain portfolios whose risk must be managed. Ginnie Mae, by contrast, does not purchase mortgage loans as part of its regular course of business,[6] nor does it buy, sell, or issue securities. Private lending institutions approved by Ginnie Mae issue the MBS for which Ginnie Mae provides the guaranty. Ginnie Mae acts as the guarantor only on the pools of federally insured or federally guaranteed loans.
- The GSEs primarily guaranty the loans, which are principally conventional mortgages that meet certain underwriting standards. These conventional mortgages may or may not carry private mortgage insurance. Ginnie Mae does not guaranty loans; Ginnie Mae guarantees the ability of issuers to meet the requirement of paying security holders principal and interest timely.
- The GSEs are primarily responsible for the risk of loss on their securities. By contrast, in the Ginnie Mae program, issuers are responsible for the securities they issue.

The recovery of the housing market ultimately depends on a reliable supply of liquidity that only a strong secondary market can provide. The consistent performance of Ginnie Mae's MBS products has been critical to providing this liquidity because issuers know that Ginnie Mae securities provide attractive pricing and are an important asset class for many investors. The favorable pricing on securities that is enabled by the Ginnie Mae guaranty is ultimately passed on to many homeowners and renters in the form of lower interest rates and more attractive leasing terms. Furthermore, these securities provide the financing necessary for Federal Government loan programs that support safe and affordable homes.

*5 Fannie Mae and Freddie Mac still have private ownership, although each remains under U.S. Department of the Treasury conservatorship that was initiated in September 2008.*

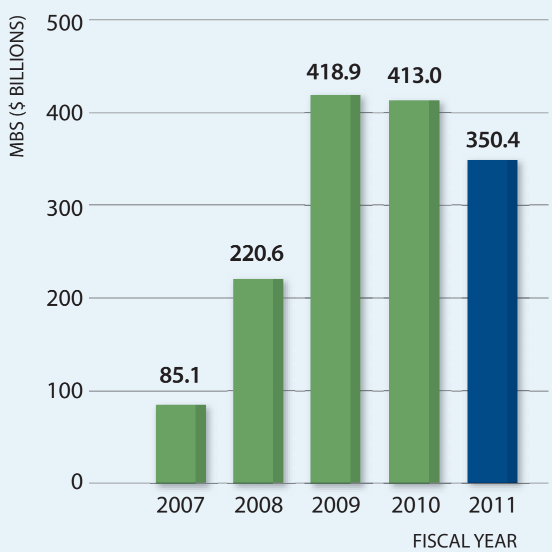
*6 As part of fulfilling its guaranty, Ginnie Mae may be required to purchase whole loans out of MBS pools for defaulted issuers.*

# 2 Executing on the Business Model in Today's Market

The global financial crisis and recession placed tremendous stress on lenders and resulted in a collapse in the value of private-label MBS as investors retreated from the market. Uncertainty and volatility in the economy continued to limit the bulk of investor appetite for all but the most secure investments. This setback in investor confidence perpetuated credit constraints for consumers and businesses alike. Consequently, private capital sources for mortgage lending, particularly private-label securitization and other nongovernment-backed financing sources, have been reduced.

**FIGURE 4**

**MORTGAGE-BACKED SECURITIES ISSUANCE OF GINNIE MAE FISCAL YEARS 2007 TO 2011**




The strength and stability of Ginnie Mae, however, continued to support the Nation's housing finance needs and recovery efforts, providing uninterrupted reliable access to global capital and liquidity to mortgage lenders, despite an uncertain and often chaotic market environment. Since the credit crisis began in September 2008, Ginnie Mae has supplied approximately $1.2 trillion in liquidity to the U.S. housing finance market by supporting the issuance of MBS into the global capital markets. Such issuance has provided capital to finance more than 4.8 million single-family homes and approximately 600,000 multifamily units. As shown in Figure 4, new issuance of Ginnie Mae MBS has remained high in recent years and in FY 2011 totaled approximately $350.4 billion. Furthermore, Ginnie Mae has accumulated substantial reserves, adding to its strength and stability. At the end of FY 2011, the corporation stood with more than $15.8 billion in retained earnings.

Ginnie Mae's remarkable performance and enduring strength largely can be attributed to its efficient business model and the prudent approach taken in executing it. Furthermore, with a focus on creating a more customer-centric organization, enhancing risk management practices, and increasing resources, Ginnie Mae continues to build a unique institution that plays a significant role in today's market.

## MARKET TRENDS

In contrast to the continued demand by investors for Ginnie Mae securities and the importance of the full faith and credit guaranty, the issuance of private-label single family MBS showed only limited signs of returning in 2011. Just $25.6 billion was issued during the first three quarters of the calendar year, compared to approximately $707.0 billion in Calendar Year 2007—the year the economic downturn began. Figure 5 shows the dramatic decline in the private-label market over the past several years, and the consistent issuance of agency MBS—those backed by Ginnie Mae and the GSEs. The total issuance of agency MBS during the first three quarters of Calendar Year 2011 remains at an elevated level of $829.8 billion compared to the significant decline in private-label MBS.

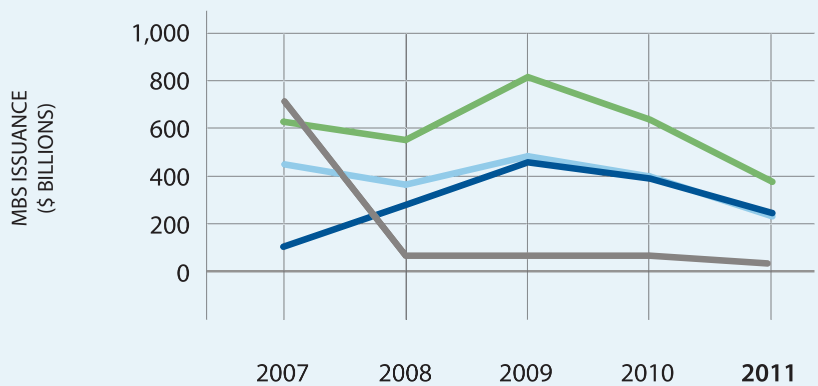
Although Ginnie Mae has maintained a significant share of the MBS market over the past several years, maintaining a high market share is not its goal. Rather, it is a function of Ginnie Mae's countercyclical role as a shock absorber, expanding and contracting as needed in response to the ability of the private market to support mortgage financing.

## PARTNERING WITH STAKEHOLDERS

While its well-established relationships with stakeholders are critical, Ginnie Mae seeks to identify, attract, and retain a diverse set of issuers to be the source of MBS loans and investors to provide the capital to keep funds flowing. It continues to actively listen to stakeholders in order to deliver relevant solutions that meet their needs. In FY 2011, Ginnie Mae implemented several changes that strengthened offerings and enabled more formal, regular, and structured partnerships with stakeholders, including issuers, federal agencies, and other industry participants. In addition, Ginnie Mae also leveraged its unique position in the housing

**FIGURE 5**

**RELATIVE MARKET SHARE OF GINNIE MAE AND GSE SECURITIES[7]**
**CALENDAR YEARS 2007 THROUGH 2011**




| | 2007 | 2008 | 2009 | 2010 | **2011** |
|---|---|---|---|---|---|
| GINNIE MAE | 95.5 | 269.0 | 446.2 | 383.6 | **239.0** |
| FANNIE MAE | 617.7 | 542.0 | 807.9 | 629.7 | **367.8** |
| FREDDIE MAC | 444.3 | 357.9 | 470.8 | 387.0 | **223.0** |
| NON-AGENCY | 707.0 | 58.0 | 60.4 | 59.9 | **25.6** |

7 *Source: Inside MBS & ABS (October 14, 2011), MBS issuance figures based on the 12 months of the calendar year for 2007 through 2010, and for the first 9 months of Calendar Year 2011.*

finance arena and took on an active role in partnering with many housing finance organizations, housing policymakers, and regulators in discussions regarding the stabilization, and future, of the housing market.

### *Issuers*

As part of its strategy to build a diverse and viable issuer base, Ginnie Mae actively seeks to engage new issuers. Diversification not only mitigates risk, but helps to further extend the benefits of the full faith and credit guaranty across communities. As such, Ginnie Mae has been reaching out to community lenders to directly participate in the Ginnie Mae program. During FY 2011, Ginnie Mae launched a range of outreach efforts to highlight the benefits of government-insured or government-guaranteed mortgage loans and doing business with Ginnie Mae. These efforts have helped Ginnie Mae to understand and respond to the questions and needs of mortgage lenders. It also reached out to previous issuers who have not participated in Ginnie Mae's MBS programs recently to work with them to reactivate their status. This outreach proved largely successful during FY 2011, which saw 85 new issuer applications and 39 approvals.

Training and education remain key components for new and existing issuers, and are particularly valuable to those seeking to understand expectations and methods for maximizing their opportunities in the Ginnie Mae program. Roundtable sessions with issuers allow for exchanges of information and fostering effective implementation of program changes. Additionally, a standardized, multi-tiered training program is under development to enable issuers to conduct business more effectively with Ginnie Mae. These will be complemented by quarterly business partner outreach calls, which provide a forum for discussing a host of program issues.

In addition, Ginnie Mae conducts biannual meetings to discuss market issues and program changes. The Office of MBS hosts these forums at major industry conferences, with participation from other divisions including Capital Markets. Such meetings provide for a rich exchange of thoughts and suggestions, which has enabled Ginnie Mae Account Executives to become more effective conduits of information and advocates for program enhancements. Additionally, newly implemented standards for interacting with issuers enable Ginnie Mae to better capture their business needs and challenges. Furthermore, a growth in the number of Account Executives has expanded Ginnie Mae's capacity for customer outreach and its ability to compile enhanced issuer profiles, provide day-to-day assistance, and coordinate evaluations for commitment authority requests. All of this enables Ginnie Mae to focus its attention on areas of foremost concern to its issuers and actively work toward achieving resolutions. The expanded capacity for outreach also has helped maintain a constant assessment of the risks and issues facing an issuer.

### *Investors*

Ginnie Mae retains a broad domestic and international investor base while continually looking for ways to identify, attract, and partner with diverse participants, particularly as global investors have been winding down positions in investments that do not carry explicit U.S. Government backing. In FY 2011, Ginnie Mae's ongoing focus on outreach and education to promote its MBS programs and obtain input from stakeholders benefitted investors and issuers alike. For example, Ginnie Mae's President and Capital Markets executives participated in numerous outreach efforts with Ginnie Mae investors, making several trips abroad to meet with members of the global investment community. These trips afforded Ginnie Mae the opportunity to learn more about investor appetites, hear feedback about Ginnie Mae products, and consider ways to enhance their attractiveness. Key messages and themes that Ginnie Mae continued to communicate to investors included program features and benefits, expanded disclosure information, and enhanced risk management capabilities.

Back in the 1970s, Ginnie Mae's creation of pass-through securities fueled the establishment of the To-Be-Announced (TBA) market. Much of the volume in the agency mortgage-backed securities (MBS) market today is in the form of TBA trading. A TBA is a contract for the purchase or sale of MBS to be delivered at a future agreed-upon date; however, the actual pool numbers or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade. The agencies enable mortgage lenders to sell product forward through primary originations by securitizing the mortgages for purchase in the secondary market. Such securitization allows mortgage lenders to fund their origination pipelines. In addition, the practice of TBA trading increases liquidity to the mortgage markets. As a result, lenders are able to lock in a rate for the mortgages prior to closing.

### *Customer-Centric Improvements for Issuers and Investors*

Transparency, standardization, and accountability, which are foundational components of the Ginnie Mae issuance program, continued in FY 2011 to drive the strong demand and best price for Ginnie Mae securities. The timeframe in which this data is provided to investors is also a key factor. In response to market expectations, Ginnie Mae improved the delivery timeline of data to investors and implemented a number of enhanced pool-level disclosures during FY 2011. These disclosures were designed to provide additional clarity for investors seeking to predict how securities perform and price risks associated with Ginnie Mae MBS.

In order for Ginnie Mae to provide more relevant information to the industry, it expanded the type of data collected at pool issuance. In FY 2011, Ginnie Mae provided access to historical data through the Ginnie Mae website, as well as a faster release of disclosure data in order to meet global investors' needs for greater transparency and to optimize pricing and liquidity in the MBS marketplace. Also significant improvements were made to the distribution of disclosure data on Ginnie Mae's website by publishing daily, weekly, and monthly disclosure information on all pools. In addition, the ability to search for a specific security was added to the Ginnie Mae website. The additional loan-level data has provided greater transparency with respect to the characteristics of the mortgage loans backing Ginnie Mae securities and has helped support efforts to attract global capital.

These efforts to improve disclosures were implemented on new programs and initiatives, which included FHA's Short Refinance and the HECM Saver programs.[8] The results of these initiatives to enhance loan disclosures in securities have been well received in the market. In FY 2011, Ginnie Mae MBS continued to consistently trade with tighter spreads to Treasuries than those of the GSEs and significantly better than private label securities. This translated into comparatively lower interest rates for borrowers, particularly during this housing crisis.

Additions of new data fields to Ginnie Mae's Reporting and Feedback System (RFS) during FY 2011 have enhanced monthly disclosures to investors. Also, RFS's reporting subcomponent, the Ginnie Mae Portfolio Analysis Database System (GPADS), further enables Ginnie Mae's risk managers to perform in-depth analyses and research.

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*8 More information on these programs can be accessed at www.hud.gov.*

Ginnie Mae continued to develop programs that better serve issuers, provide greater value to investors, and further protect taxpayers. Creating operational efficiencies and improving the ease with which issuers do business with Ginnie Mae remained a priority in FY 2011.

Meanwhile, Ginnie Mae continued to develop programs that better serve issuers, provide greater value to investors, and further protect taxpayers. Creating operational efficiencies and improving the ease with which issuers do business with Ginnie Mae remained a priority in FY 2011. For example, Ginnie Mae provided issuers with the capability to issue securities on a daily basis, thereby improving their financial efficiency. When widespread liquidity constraints limited access to warehouse lines for many issuers, Ginnie Mae developed capabilities to offset the limited amount of short-term financing available to small, nondepository issuers. In the prior fiscal year, Ginnie Mae made key changes to ease warehouse line pressure and improve lender efficiency. As these pressures persisted, faster and smaller pooling grew increasingly important for issuers. The ability to issue Ginnie Mae securities as frequently as once per day has greatly alleviated the strain associated with ever-present liquidity limitations. Furthermore, in an effort to support the origination capabilities of a diverse issuer base, in FY 2011 Ginnie Mae developed a new security program for manufactured housing that has increased liquidity for this type of property and supports affordable housing for millions of families.

In FY 2011, Ginnie Mae revised its MBS buyout policy to help address investors' expectations and to continue to support the loss mitigation efforts of FHA. In direct response to the current housing crisis, FHA recently issued a mortgagee letter[9] identifying the circumstances under which a borrower must successfully complete a trial payment plan prior to a lender executing a permanent loan modification. Loans that have completed the required three-month trial payment program will now be eligible to be bought out from Ginnie Mae pools by the issuer, and the newly modified loan can be re-pooled immediately into Ginnie Mae MBS. With the new loan modification guidelines, borrowers' efforts to remain in their homes under permanently modified loan terms are more likely to be successful after a trial payment plan has been completed. Including modified loans from borrowers that have demonstrated the ability to sustain their loan

9 *FHA Mortgagee Letter 2011-28, issued August 15, 2011. The effective date of this letter is October 1, 2011.*

payments should support the performance of Ginnie Mae securities by reducing prepayments in securities issued with the permanently modified loans.

Ginnie Mae also seeks to enhance its customers' experiences through initiatives that improve technology, operations, and governance. In FY 2011, it agreed to adopt the Uniform Loan Delivery Dataset (ULDD) component of the Uniform Mortgage Data Program, which will promote needed standardization by adjusting inconsistent single family loan delivery file formats to the industry-standard Mortgage Industry Standards Maintenance Organization model. This project will establish the framework for a robust corporate data strategy that will provide a roadmap to enhance existing enterprise databases, expand data integrity, and establish governance standards for data management. Furthermore, the strategy will drive necessary infrastructure enhancements to support issuers' and other end-users' reporting needs.

### *Federal Agencies and Other Industry Participants*

Since the onset of the housing crisis, Ginnie Mae has taken an active role with other government agencies involved in stabilizing the credit and housing markets. In particular, it has collaborated regularly with FHA, VA, RD, and PIH to ensure Ginnie Mae's programs, products, and operations adequately support government housing programs. Helping single family and multifamily mortgage lenders meet the housing finance needs of both borrowers and developers alike is the core mission of these agencies. Ginnie Mae's function in ensuring sufficient financing from the capital markets for government loans is critical to their success.

Due to its unique position in the industry, Ginnie Mae adds valuable perspective to the decision-making processes of HUD and other federal agencies. Ginnie Mae's connection with mortgage lenders and investors provides an important vantage point to provide input and insight on issues that impact the housing market. During FY 2011, Ginnie Mae worked to expand its capability to pro-actively work with FHA and other government partners in response to initiatives that improve conditions in the mortgage market. A recent example of this new cooperation was Ginnie Mae's coordination with FHA in that agency's piloting of a new program designed to convert at-risk conventional loans into FHA loans, increasing the likelihood that borrowers at risk of foreclosure will be able to remain in their homes.

Also in FY 2011, Ginnie Mae held ongoing discussions with agencies such as VA, USDA, the Treasury Department, the National Economic Council (NEC), and regulatory bodies, notably the Federal Housing Finance Agency (FHFA), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC). Additionally, Ginnie Mae collaborated with the Treasury Department, NEC, FDIC, and within HUD on policies to address the financial crisis in the housing market.

During FY 2011, Ginnie Mae actively participated in the mortgage industry's servicing compensation assessment, particularly as it relates to securities. It also contributed to an interagency group reviewing servicing standards and a working group of document custodians and issuers, and continued to regularly interface with mortgage service bureaus. Such collaborative efforts helped Ginnie Mae stay abreast of emerging market developments. Ginnie Mae's unique vantage point and involvement with the industry at these levels contributed to the discussion and design of programs to improve the Nation's housing finance system.

## MANAGING RISK

Ginnie Mae has made it a priority to foster a culture that identifies and effectively manages risk. In fact, risk management practices have enabled the organization not only to weather the housing market downturn of the past several years, but to thrive. Ginnie Mae's Chief Risk Officer (CRO), in conjunction with the Office of MBS, monitors aggregate risk and compliance with policies and has oversight of risk management activities. Three risks areas—counterparty risk, operational risk, and improving risk analysis on data—remain Ginnie Mae's primary emphasis, with significant changes made across all of them during FY 2011.

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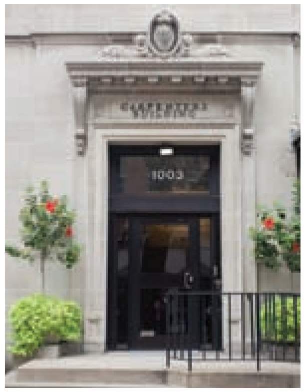
### *Counterparty Risk*

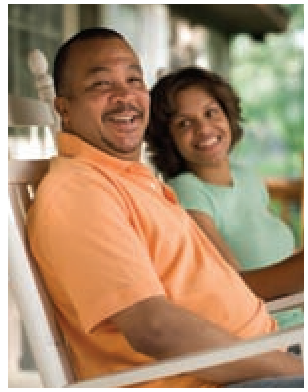
As the market changed during the crisis, issuers faced increased financial and operational risks. As a result, in an effort to further enhance risk management, Ginnie Mae increased the net worth, capital, and liquid asset requirements for all issuers across single family, multifamily, HECM, and Manufactured Housing programs in FY 2011. Ginnie Mae believes issuers who retain more capital and liquidity are better positioned to absorb losses and more likely to be able to advance principal and interest payments on delinquent mortgage loans.

The liquid asset requirement, introduced as a requirement in FY 2011, is critical to ensure that issuers have the funds available to meet investor payment obligations and to protect Ginnie Mae and the taxpayer from risk. Unlike lenders who issue MBS for the GSEs, Ginnie Mae's issuers must have "skin in the game," and hence strong capital and liquidity, as their potential loss exposure could be higher.

Most notably in FY 2011, Ginnie Mae increased the base net worth requirements for single family participants from \$1 million to \$2.5 million. For multifamily participants, the base net worth requirement was increased from \$500,000 to \$1 million. Meanwhile, issuers of HECM securities had their base net worth requirements increased from \$1 million to \$5 million, and base net worth requirements were established at \$10 million for the manufactured housing program. The manufactured housing program and HECM program require more capital as these issuers expose Ginnie Mae to greater risk. In addition to base net worth requirements, issuers are required to meet additional net worth conditions in proportion to outstanding security and commitment authority amounts.

Issuer approval and aggressive, ongoing monitoring processes are a significant component of Ginnie Mae's enterprise risk management efforts, which include the routine evaluation of financial strength, performance, and stability. During the new issuer approval process, Ginnie Mae conducts a thorough counterparty review and then carefully monitors issuer performance during a probationary period following admission to the program. Even after an issuer successfully completes the probationary period, it remains subject to





regular performance reviews. Each issuer's commitment authority amount is now being reviewed multiple times each year as an additional checkpoint to minimize risk.

Risks to the Ginnie Mae program are mitigated by tested practices that regularly evaluate issuers in four key areas:

- **Financial Health** – The issuer's net worth, liquidity, profitability, and regulatory relationships are reviewed.
- **Portfolio Quality** – This monitoring includes a particular focus on indicators such as early payment defaults, origination comparison ratios, and the percentage of an issuer's servicing assets that are delinquent.
- **Compliance Reviews** – These reviews determine the adequacy of servicing and reporting practices, and compliance with Ginnie Mae's requirements. In FY 2011, Ginnie Mae performed on-site reviews of more than 50 percent of its approximately 150 active issuers. The field review process is currently being re-engineered to help ensure that it is fully reflective of an issuer's counterparty risk.
- **Insurance Matching** – This analysis confirms (via an automated verification process) that insurance is, and remains, in place for all pooled loans. Considerable investment has been made in infrastructure processes dedicated to comparing all loans in each Ginnie Mae security with FHA, VA, RD, and PIH databases on a monthly basis.

Although Account Executives in the Office of MBS are responsible for much of the issuer review process, supplemental review and remediation efforts are conducted by the MBS Monitoring Division. Issuers who fail to adhere to Ginnie Mae standards may be placed under stricter review status, and may be required to report at regular intervals on steps taken to regain compliance. On occasion, other special arrangements are employed to ensure that Ginnie Mae is adequately protected.

Broader assessments of counterparty risk are undertaken by the CRO on a regular basis; they can include conducting financial reviews of issuers that go beyond compliance with baseline requirements. The CRO also reviews the adequacy of the monitoring activities, and oversees the consideration and disposition of policy change proposals.

Ginnie Mae routinely re-examines and strengthens its risk management techniques. For example, Ginnie Mae is currently in the process of implementing a suite of predictive analytic tools designed to monitor issuers and identify trends in their performance and status. Several new technology solutions focused on enterprise counterparty risk management are under consideration as well.

### *Operational Risk*

Ginnie Mae manages the risk associated with its internal operational functions by using an efficient combination of management oversight and technology. Approvals for staffing increases will permit Ginnie Mae to focus on selectively bringing a number of mission-critical operations in-house. Quality assurance and other review and monitoring practices can be enhanced when managed by internal staff members.

A number of technology infrastructure initiatives, as noted herein, were also put into motion this year to mitigate operational risk, streamline the business, and improve process efficiency. While these initiatives are in their early stages, they are geared toward enhancing the operational capabilities that Ginnie Mae performs as a guarantor. Phased and strategic enterprise architecture enhancements, in coordination with Ginnie Mae's existing Business Process Improvement (BPI) initiative, will allow for localized operational risk governance within individual business units, with ultimate accountability to Ginnie Mae's senior leadership team.


## INCREASING AND ENHANCING RESOURCES

While the sharp increase in volume and issuers over the past several years has not created significant operational challenges, Ginnie Mae nevertheless remains in search of better ways to streamline processes, improve efficiency and structure, and perfect working conditions for high-performing individuals. To this end, management goals continue to emphasize succession planning and training, as well as career and professional development. Staff size increased during FY 2011 from 70 to 85, a 21 percent increase over FY 2010, when the staff size increased from 61 to 70 (a nearly 15 percent increase from FY 2009). An increase in the salary and administrative budget, subject to congressional approval, has been proposed for FY 2012 and FY 2013.

Although Ginnie Mae has embarked on a multiyear hiring initiative designed to appropriately staff the organization and bring key functions in-house, it continues to rely on contractors in a variety of areas. This reliance highlights the need for focus on designing, developing, and implementing a contracting environment that better leverages these resources and Ginnie Mae staff. Every information technology contractor is required to be appropriately certified and accredited; for example, they must meet security control and access requirements established by the Office of Management and Budget (OMB). Meeting these requirements mitigates Ginnie Mae's risk as it does business with its various business partners.

The market environment our Nation faces is still uncertain and the role that Ginnie Mae plays remains critical. The full faith and credit guaranty provided on the Ginnie Mae MBS keeps capital flowing from around the globe into the U.S. housing finance system and makes affordable mortgage lending still possible. The simple but strong business model has enabled a successful balance between the roles of the private market and the government, thereby reducing risk for the taxpayer. Further, the business model has positioned Ginnie Mae to continue working with Congress, federal agencies, and the industry to develop long-term solutions that meet the needs of stakeholders and that help to restore our Nation to economic vitality.

# 3 Financial Highlights and Management's Discussion and Analysis

Ginnie Mae's financial performance remained strong and stable during FY 2011. As shown in Table 1 on the following page, Ginnie Mae achieved excess revenues over expenses (net profit) of $1,184.0 million, compared with $541.5 million in FY 2010. Revenues increased by 5.2 percent to $1,064.6 million, up from $1,011.9 million in FY 2010. Total assets increased to $18.9 billion from $17.1 billion in FY 2010.

The outstanding MBS portfolio guaranteed by Ginnie Mae increased by $175.5 billion in FY 2011, which led to increased guaranty fee revenues. In FY 2011, MBS program income, including other revenue sources, increased to $856.5 million, up from $742.9 million in FY 2010. Interest income decreased to $208.1 million in FY 2011, down from $269.0 million in FY 2010.

In FY 2011, Ginnie Mae issued $376.1 billion in commitment authority, a 5.5 percent decrease from FY 2010. The $350.4 billion of MBS issued in FY 2011 represents a 15.1 percent decrease from FY 2010. The outstanding MBS balance of $1,221.7 billion at the end of FY 2011, compared to $1,046.2 billion in FY 2010, resulted from new issuances exceeding repayments. FY 2011 production provided the capital to finance home purchases, refinances, or rental housing for approximately 1.6 million U.S. households.

Table 1 also provides financial highlights of Ginnie Mae over the past three years.

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 in Section IV of this report; the financial statements have received an unqualified audit opinion from Ginnie Mae's independent auditor. Ginnie Mae's operating results are subject to change each year, depending on fluctuations in interest income from its U.S. Treasury securities and MBS program income.

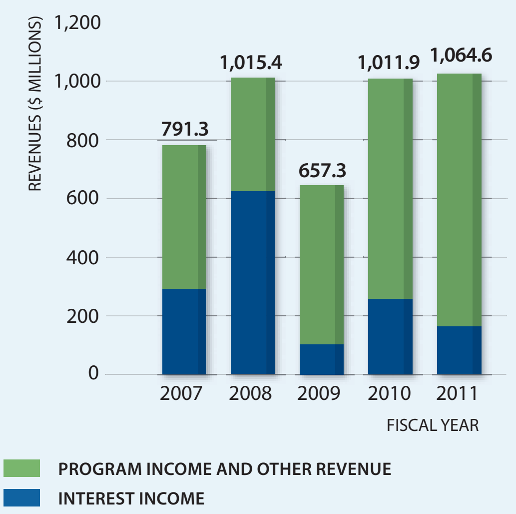
## REVENUES

Ginnie Mae receives no appropriations from general tax revenue. Instead, its operations are self-financed through a variety of fees. In FY 2011, Ginnie Mae generated total revenue of $1,064.6 million. This included $856.5 million in program income and $208.1 million in interest income from U.S. Treasury securities. It should be noted that Ginnie Mae's cash reserves are being held at the U.S. Treasury.

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

**FIGURE 6**

**GINNIE MAE TOTAL REVENUES FISCAL YEARS 2007 TO 2011**



## TABLE 1: GINNIE MAE FINANCIAL HIGHLIGHTS, FISCAL YEARS 2009 TO 2011

| SEPTEMBER 30 | 2011 | 2010 | 2009 |
|---|---|---|---|
| *(Dollars in thousands)* | | | |
| **Balance Sheets Highlights and Liquidity Analysis** | | | |
| Funds with U.S. Treasury | $ 7,210,300 | $ 6,650,500 | $ 5,253,800 |
| U.S. Government Securities | $ 2,126,800 | $ 3,551,200 | $ 9,235,800 |
| Other Assets | $ 9,514,000 | $ 6,861,600 | $ 1,184,800 |
| Total Assets | $ 18,851,100 | $ 17,063,300 | $ 15,674,400 |
| Total Liabilities | $ 3,089,300 | $ 2,485,500 | $ 1,638,100 |
| Investment of U.S. Government | $ 15,761,800 | $ 14,577,800 | $ 14,036,300 |
| Total RPB Outstanding (1) | $ 1,221,685,233 | $ 1,046,179,139 | $ 826,016,583 |
| LLR (2) and Investment of U.S. Government | $ 16,157,600 | $ 15,582,700 | $ 14,596,200 |
| Investment of U.S. Goverment as a Percentage of Average Total Assets | 87.77% | 89.06% | 91.85% |
| LLR and Investment of U.S. Government as a Percentage of RPB | 1.32% | 1.49% | 1.77% |
| Capital Adequacy Ratio (3) | 1.30% | 1.47% | 1.73% |
| **Highlights From Statements of Revenues and Expenses & Profitability Ratios Year Ended September 30** | | | |
| MBS Program Income | $ 856,500 | $ 742,900 | $ 547,800 |
| Interest Income | $ 208,100 | $ 269,000 | $ 109,500 |
| Total Revenues | $ 1,064,600 | $ 1,011,900 | $ 657,300 |
| MBS Program Expenses | $ 72,800 | $ 72,700 | $ 55,400 |
| Administrative Expenses | $ 11,000 | $ 10,300 | $ 8,600 |
| Fixed Asset Amortization | $ 9,900 | $ 9,500 | $ 5,100 |
| Total Expenses | $ 93,700 | $ 92,500 | $ 69,100 |
| Recapture of Provision (Provision for Losses) | $ 394,600 | $ (730,000) | $ (78,600) |
| Total Gains (Losses) (4) | $ (181,500) | $ 352,100 | $ - |
| Excess of Revenues Over Expenses | $ 1,184,000 | $ 541,500 | $ 509,600 |
| Total Expense as a Percentage of Average RPB | 0.0083% | 0.0099% | 0.0099% |
| Recapture (Provision) for Loss as a Percentage of Average RPB | 0.0348% | (0.0780%) | (0.0112%) |

*(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS; this does not include $8.8M 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*
*(4) Total Losses from credit impairment of mortgage loans held for investment, net and loss on MSR offset by the gain on sale of securities*

### *MBS Program Income*

MBS program income consists primarily of guaranty fees, commitment fees, and multiclass fees. For FY 2011, MBS program income was concentrated in guaranty fees of $686.2 million, followed by commitment fees of $74.0 million. Combined guaranty fees and commitment fees made up 88.8 percent of total MBS program revenue for FY 2011. Other lesser income sources included new issuer fees, handling fees, and transfer-of-servicing fees.

### *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 paid over the life of the outstanding securities. Guaranty fees are collected on the aggregate principal balance of the guaranteed securities outstanding in the nondefaulted issuer portfolio. MBS guaranty fees grew 20.9 percent to $686.2 million in FY 2011, up from $567.8 million in FY 2010. The growth in guaranty fee income reflects the increase in the MBS portfolio. The outstanding MBS balance at the end of FY 2011 was $1,221.7 billion, compared with $1,046.2 billion as of the end of FY 2010, as new issuances exceeded repayments (see Figure 7).

### *Commitment Fees*

Commitment fees are income that Ginnie Mae earns for providing approved issuers with the authority to pool mortgages into Ginnie Mae MBS. This authority expires 12 months from its receipt for single family issuers and 24 months from its receipt for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority. It recognizes the commitment fees as earned when issuers use their commitment authority. The balance is deferred until earned or expired, whichever occurs first. As of September 30, 2011, commitment fees deferred totaled $20.2 million. Ginnie Mae issued $376.1 billion in commitment authority in FY 2011, a 5.5 percent decrease from FY 2010.

### *Multiclass Revenue*

Multiclass revenue is part of MBS program revenue and is composed of REMIC and Platinum program fees. Ginnie Mae issued approximately $36.8 billion in Platinum products in FY 2011 (see Figure 8). Total cash fees for Platinum securities amounted to $8.9 million. Total cash guaranty fees from REMIC securities totaled $46.7 million on $116.2 billion in issuance of REMIC products (see Figure 9). Ginnie Mae recognizes a portion of REMIC,

**FIGURE 7**

**REMAINING PRINCIPAL BALANCE (RPB) OUTSTANDING IN THE MORTGAGE-BACKED SECURITIES PORTFOLIO FISCAL YEARS 2007 TO 2011**

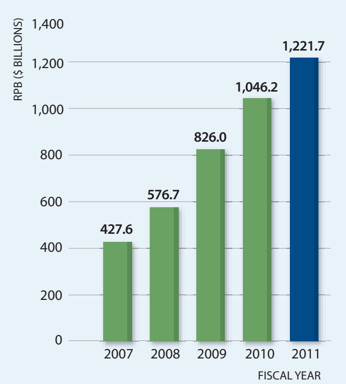



**FIGURE 8**

**PLATINUM SECURITIES VOLUME FISCAL YEARS 2007 TO 2011**

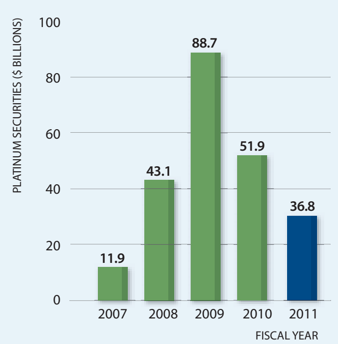
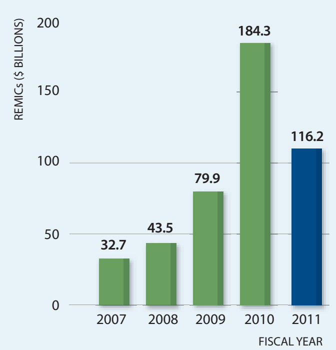



**FIGURE 9**

**TOTAL REAL ESTATE MORTGAGE INVESTMENT CONDUIT VOLUME FISCAL YEARS 2007 TO 2011**



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 2011, Ginnie Mae issued $153.0 billion in its multiclass securities program (REMIC and Platinum). The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2011, was $547.5 billion. This represents a $58.8 billion increase from the $488.7 billion outstanding balance as of the end of FY 2010.

### *Interest Income*

Ginnie Mae invests in U.S. Government securities of varying terms. In FY 2011, Ginnie Mae's interest income decreased as a percentage of total revenue, from $208.1 million as compared to $269.0 million in FY 2010. The most prominent reason for the decrease was due to the redemption of Treasury Inflation Indexed Securities.

## EXPENSES

Management exercised prudent expense control during FY 2011. While operating expenses in FY 2011 increased by 1.3 percent to $93.7 million, up from $92.5 million in FY 2010, total expenses were 8.8 percent of total revenues in FY 2011, down from 9.1 percent in FY 2010.

Ginnie Mae's higher excess revenues over expenses (net profit) of $1,184.0 million for FY 2011 versus $541.5 million for FY 2010 were driven by the recapture of Provision for Loss due to a decrease in the Reserve for Loss on MBS Program Guaranty (see Figure 10). Ginnie Mae believes that the Reserve for Loss on MBS Program Guaranty is adequate to cover probable and estimable guaranty related losses.

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 2011, this expense totaled $1.7 million, a decrease from FY 2010 related expenses.

Table 2 presents the expenses related to Ginnie Mae programs and contractors during the last five years. Although issuance volume has increased more than four times, related expenses have been managed well over this time, as shown in the table.

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. There was a recapture of the Provision for Loss on MBS Program Guaranty

**TABLE 2: MORTGAGE-BACKED SECURITES PROGRAM EXPENSE, FISCAL YEARS 2007 TO 2011**

| ($ MILLIONS) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Central Paying Agent | 9.7 | 10.4 | 7.7 | 8.0 | 6.8 |
| Contract Compliance | 0.9 | 0.9 | 0.3 | 0.4 | 0.9 |
| Federal Reserve | 4.5 | 4.8 | 4.9 | 2.5 | 3.2 |
| Financial Support | 4.9 | 1.8 | 0.8 | 0.7 | 0.8 |
| IT Related & Miscellaneous | 7.6 | 8.0 | 5.4 | 6.9 | 4.6 |
| MBS Information Systems & Compliance | 17.2 | 19.2 | 15.1 | 15.7 | 11.9 |
| Multiclass | 21.2 | 17.5 | 11.0 | 11.2 | 8.7 |
| Multifamily Program | 5.1 | 7.7 | 8.0 | 2.2 | 5.0 |
| Servicemembers Civil Relief Act | 1.7 | 2.3 | 2.2 | 1.4 | 0.0 |
| **TOTAL** | **72.8** | **72.7** | **55.4** | **49.0** | **41.9** |

of $394.6 million in FY 2011 as compared to a Provision of $730.0 million in FY 2010. Ginnie Mae defaulted one single family issuer during FY 2011. Ginnie Mae believes that the Reserve for Loss on MBS Program Guaranty is adequate to cover probable and estimable guaranty related losses.

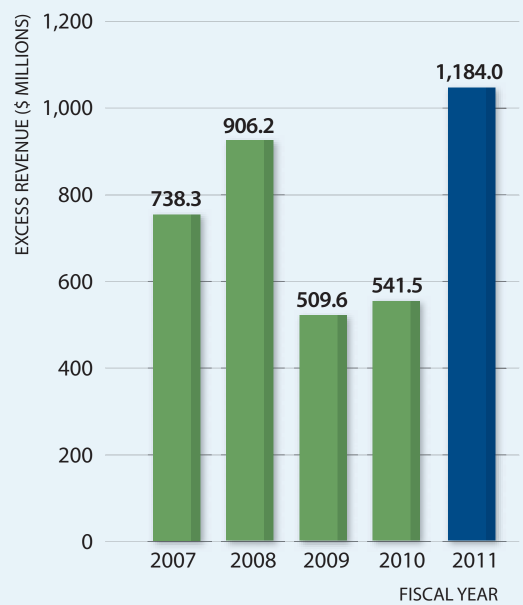
## MBS ISSUANCE AND PORTFOLIO GROWTH

Although demand for government loans remained strong, Ginnie Mae MBS issuance decreased by 15.1 percent to $350.4 billion in FY 2011 (as shown in Figure 4 in Section I). The current outstanding MBS amount stands at $1,221.7 billion, which is a $175.5 billion increase over the amount at the end of FY 2010. The effect of the increase of the portfolio also has changed its character, shifting the overall age of the loans. Approximately 18.9 percent of the $4.0 trillion in MBS guaranteed by Ginnie Mae since its inception has been issued in the last two years (see Figure 11).

As shown in Figure 12, Ginnie Mae supported approximately 1.6 million units of housing for individuals and families in FY 2011, a 15.8 percent decrease from FY 2010, which is in line with the decrease in MBS issued.

### FIGURE 10

**EXCESS OF REVENUES OVER EXPENSES FISCAL YEARS 2007 TO 2011**




### FIGURE 11

**CUMULATIVE AMOUNT OF GINNIE MAE MORTGAGE-BACKED SECURITIES, FISCAL YEARS 1970 TO 2011**

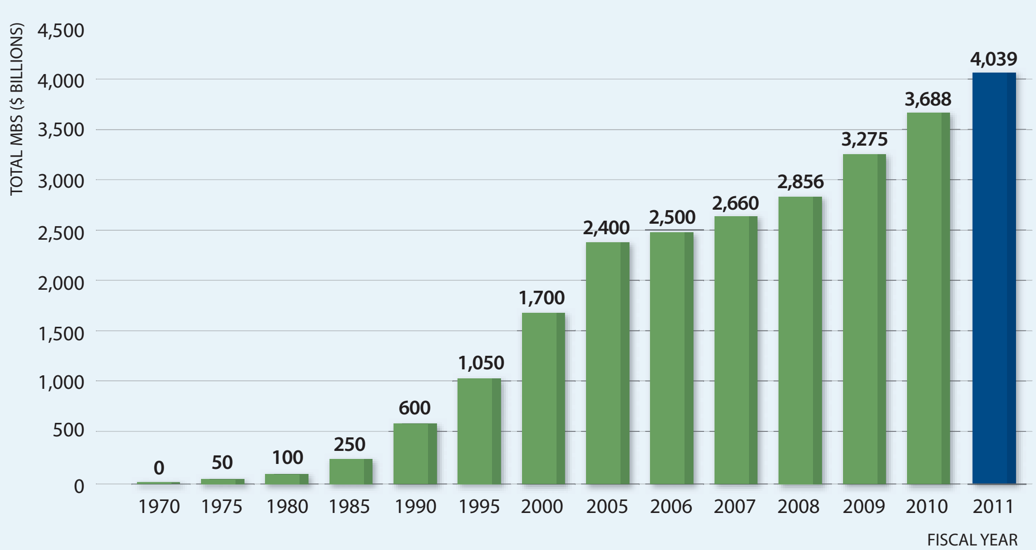
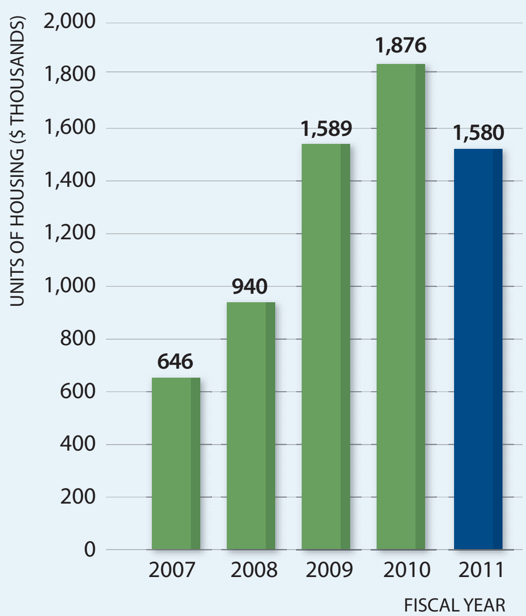


**FIGURE 12**

**GINNIE MAE SUPPORTED UNITS OF HOUSING**
**FISCAL YEARS 2007 TO 2011**




## SINGLE FAMILY PROGRAM

The vast majority of the mortgages in Ginnie Mae securities are insured by FHA and VA loans. FHA-insured mortgages accounted for 73.2 percent of loans in Ginnie Mae pools, while VA-guaranteed loans accounted for 22.6 percent in FY 2011; Rural Development and PIH loans made up the remainder. Although other agencies and private issuers can pool FHA-insured loans for their own MBS, almost all of these loans make their way into Ginnie Mae securities. In FY 2011, 100.0 percent of FHA fixed loans and 98.3 percent of VA fixed-rate loans were placed into Ginnie Mae pools. In FY 2011, 23.0 percent of pools received TLI credit.

Although loans underlying its securities are concentrated in specific areas, Ginnie Mae has provided homeownership opportunities in every U.S. state and territory. Figure 13 highlights the geographic distribution of single family properties securing Ginnie Mae securities as of September 30, 2011.

## MULTIFAMILY PROGRAM

At the end of FY 2011, Ginnie Mae guaranteed securities that contained 98.6 percent of eligible multifamily FHA loans. The Multifamily Program portfolio increased by $8.3 billion, from $49.7 billion at the end of FY 2010 to $58.0 billion at the end of FY 2011, marking the 17th year of consecutive growth.

Figure 14 shows the geographic distribution of multifamily properties securing Ginnie Mae securities as of September 30, 2011. Since 1971, Ginnie Mae has guaranteed $142.6 billion in multifamily MBS, helping to finance affordable and community-stabilizing multifamily housing developments across the Nation.

In addition, Ginnie Mae's portfolio of Multifamily Rural Development loans grew in FY 2011 to an outstanding principal balance of $422.9 million at fiscal year end. These loans are guaranteed through the USDA's RD. The number of Multifamily Rural Development programs became more diverse in FY 2011 than in previous years, as new issuers entered the program. There were Rural Development loans from nine issuers in 42 states in Ginnie Mae pools by the end of FY 2011.

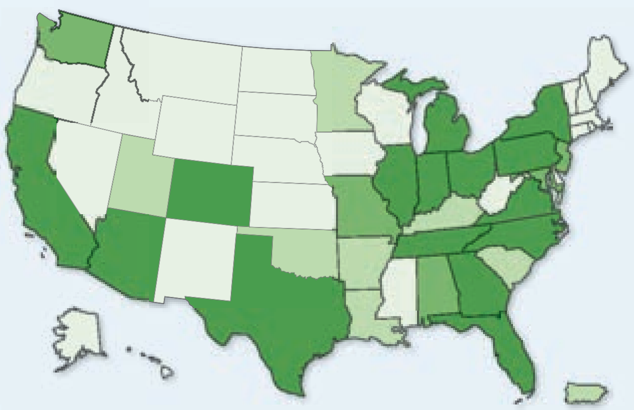
## HMBS PROGRAM

Significant efforts have been made to help the growing needs and demands in the market for reverse mortgages. With continued investor interest in HECM-backed securities, Ginnie Mae bolstered its HMBS program to improve reporting, disclosure, and quality assurance reviews of the relevant issuers. The unpaid principal balance of HMBS climbed to $28.7 billion in FY 2011, and the number of participations (the funded portions of HECM loans that have been securitized) increased to 1,044,374. Demand in the structured market for HMBS remains strong; 20 H-REMICS transactions were issued in FY 2011, the same as in FY 2010. The structure and support that Ginnie Mae has brought to this market has increased its liquidity, which translates into better execution on the securities and, ultimately, lower costs for the growing population of senior citizens.

## FIGURE 13

### GEOGRAPHIC DISTRIBUTION OF SINGLE FAMILY PROPERTIES SECURING GINNIE MAE SECURITIES

*AS OF SEPTEMBER 30, 2011*



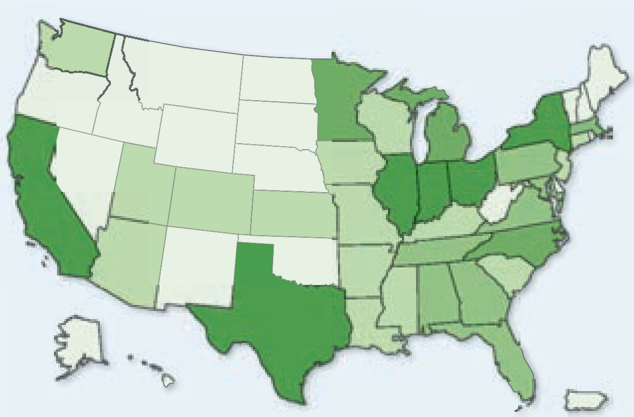
| STATE | LOANS | PERCENT OF TOTAL SF LOANS | RPB ($ MILLIONS) |
|---|---|---|---|
| California | 540,580 | 7.04% | $125,178 |
| Texas | 839,680 | 10.94% | $95,591 |
| Virgina | 276,257 | 3.60% | $56,208 |
| Florida | 418,555 | 5.45% | $55,970 |
| Georgia | 340,822 | 4.44% | $44,494 |
| New York | 231,580 | 3.02% | $39,074 |
| Maryland | 178,649 | 2.33% | $38,733 |
| North Carolina | 290,045 | 3.78% | $38,501 |
| Washington | 189,408 | 2.47% | $37,858 |
| Colorado | 204,923 | 2.67% | $36,378 |

LESS THAN 100,000 LOANS
100,000-149,000 LOANS
150,000-200,000 LOANS
MORE THAN 200,000 LOANS

## FIGURE 14

### GEOGRAPHIC DISTRIBUTION OF MULTIFAMILY PROPERTIES SECURING GINNIE MAE SECURITIES

*AS OF SEPTEMBER 30, 2011*



| STATE | LOANS | PERCENT OF TOTAL MF LOANS | RPB ($ MILLIONS) |
|---|---|---|---|
| Texas | 671 | 6.83% | $4,961 |
| New York | 455 | 4.63% | $4,289 |
| California | 636 | 6.47% | $3,830 |
| Illinois | 511 | 5.20% | $3,546 |
| Ohio | 733 | 7.46% | $2,547 |
| Florida | 297 | 3.02% | $2,348 |
| Maryland | 241 | 2.45% | $2,254 |
| Indiana | 471 | 4.79% | $2,066 |
| Michigan | 471 | 3.90% | $1,968 |
| North Carolina | 350 | 3.56% | $1,777 |

LESS THAN 100 LOANS
100-199 LOANS
200-299 LOANS
300-399 LOANS
MORE THAN 400 LOANS

## MH PROGRAM

In June 2010, Ginnie Mae announced a new Manufactured Housing MBS program for Title I mortgage loans and began accepting applications for participation in the program. For nearly 20 years, Ginnie Mae's MH program has been small, as the organization has had a moratorium on new issuers. Issuers that were approved to issue manufactured housing securities under previous MH programs have been required to reapply for participation in the new program. The MH program's remaining principal balance was $275.9 million by the end of FY 2011, up from $220.1 million at the end of the prior fiscal year.

## 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 by using an array of 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 2011, 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 obtains loan-level data that supports detailed segmentation of loans according to key risk indicators. Changing economic conditions, including house price forecasts, drive the forecasts of Ginnie Mae's financial condition and help measure its assets and liabilities. Ginnie Mae's expertise in understanding and managing risks associated with its MBS guaranty business are accommodated by adjusting management assumption drivers within the model.

Cash flows for income and expenses associated with Ginnie Mae's MBS guaranty business were estimated by simulating performance for the existing book of business and forecasted new business. The simulated performance was used to forecast the effects on defaulted portfolios managed by Ginnie Mae. 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 at the end of FY 2011 and estimated new business for 30 years into the future. Ginnie Mae updates this model with the recent economic and financial data.

## 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, 2011, Ginnie Mae reported $7.2 billion in funds with the U.S. Treasury, compared to $6.7 billion on September 30, 2010.

In addition to the funds with the U.S. Treasury, Ginnie Mae's investment in U.S. Government securities was $2.1 billion as of September 30, 2011 versus $3.6 billion as of September 30, 2010. The decrease was due to Ginnie Mae's liquidation of a $1.0 billion security in order to fund loan repurchases from defaulted issuer pools. Following guidelines outlined in the Ginnie Mae MBS Guide, a large number of loans were repurchased out of pools due to delinquencies of greater than 120 days. In addition, Ginnie Mae repurchased loans in order to complete modifications in accordance with FHA guidelines. In total, Ginnie Mae bought out $2.2 billion in government-insured or government-guaranteed mortgage loans, primarily for the single family defaulted portfolio. These acquired mortgage loans are categorized as mortgages held for investment.

Table 3 shows the fair value composition and maturity of Ginnie Mae's U.S. Treasury securities as of September 30, 2011, and as of that day in 2010.

### TABLE 3: COMPOSITION OF U.S. TREASURY SECURITIES AS OF SEPTEMBER 30 (PERCENTAGE OF TOTAL)

| MATURITY | 2011 | 2010 |
|---|---|---|
| Due within 1 year | 0% | 6% |
| Due in 1-5 years | 100% | 94% |
| Due in 5-10 years | 0% | 0% |

Figure 15 illustrates the components of Ginnie Mae's Investments in U.S. Government securities as of September 30, 2011.

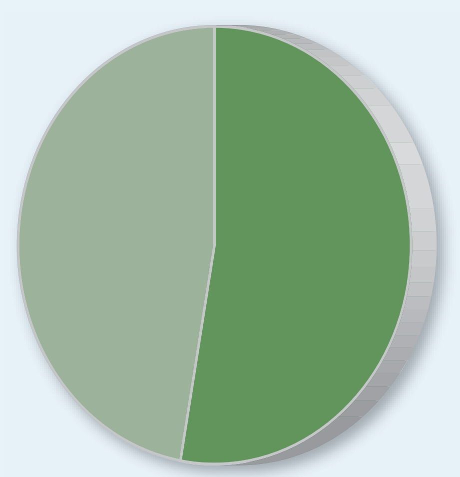
Ginnie Mae's MBS guaranty activities historically have operated at no cost to the U.S. Government. Ginnie Mae's net income continues to build its capital base. Ginnie Mae management believes that the organization maintains adequate capital reserves to withstand downturns in the housing market that could cause issuer defaults to increase.

As of September 30, 2011, the investment of the U.S. Government (retained earnings) was $15.8 billion after establishing reserves for losses on credit activities, compared with $14.6 billion as of September 30, 2010. Figure 16 shows Ginnie Mae's capital reserves as of September 30, 2011, for each of the past five years.

Ginnie Mae's MBS guaranty activities historically have operated at no cost to the U.S. Government. Ginnie Mae's net income continues to build its capital base. Ginnie Mae management believes that the organization maintains adequate capital reserves to withstand downturns in the housing market that could cause issuer defaults to increase.

**FIGURE 15**

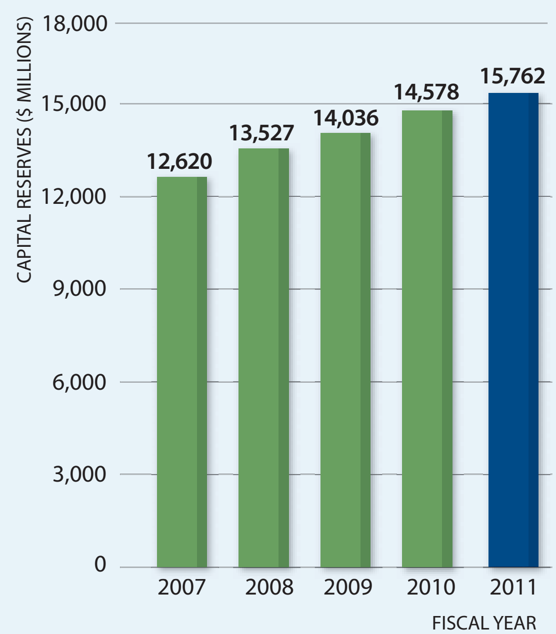
**COMPONENTS OF INVESTMENT IN U.S. GOVERNMENT SECURITIES**
*SEPTEMBER 30, 2011*



| | |
|---|---|
| U.S. TREASURY NOTES | 47% |
| U.S. TREASURY INFLATION-INDEXED SECURITIES | 53% |

**FIGURE 16**

**CAPITAL RESERVES FISCAL YEARS 2007 TO 2011**



## RISK MANAGEMENT AND SYSTEMS OF INTERNAL CONTROLS

As described in Section II of this report, Ginnie Mae continues to enhance its automated systems and business processes to increase operational efficiency and reduce business risk. An Internal Controls Manager oversees internal controls for the organization, including contractor assessments, OMB Circular A-123 (Management's Responsibility for Internal Control) assessments, and other internal control and risk management activities. The audits, reviews, and monitoring of all issuers and major contractors that Ginnie Mae conducts enable Ginnie Mae to strengthen its internal controls and minimize risks that would negatively impact financial and operating results.

The audits, reviews, and monitoring of all issuers and major contractors that Ginnie Mae conducts enable Ginnie Mae to strengthen its internal controls and minimizes risk that would negatively impact financial and operating results.

Ginnie Mae management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Manager's Financial Integrity Act (FMFIA). Ginnie Mae can provide reasonable assurance that its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations meet FMFIA objectives.

Finally, Ginnie Mae assesses the effectiveness of its internal controls over financial reporting, including the reliability of financial reporting and financial management systems, in accordance with the requirements of OMB Circular A-123, Appendix A. Safeguarding assets is a subset of all of these objectives. Internal controls should be designed to provide reasonable assurance regarding prevention 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, 2011.