



2001 FINANCIAL STATEMENTS

BALANCE SHEETS

September 30,	2001	2000
(Dollars in thousands)		
Assets:		
Funds with U.S. Treasury	\$2,043,000	\$1,617,600
U.S. Government securities - Note B	6,557,100	6,171,000
Mortgages held for sale, net - Note C	5,700	4,100
Properties held for sale, net - Note D	700	1,700
Accrued interest on U.S. Government securities	83,600	89,300
Accrued fees and other receivables	33,000	32,000
Advances against defaulted Mortgage-Backed Security pools, net - Note E	8,000	-
Claims against HUD/FHA and VA	-	300
Fixed assets - software	8,200	3,200
Total Assets	\$8,739,300	\$7,919,200
Liabilities and Investment of U.S. Government		
Liabilities:		
Reserve for loss on Mortgage-Backed Securities Program - Note F	\$ 535,500	\$ 533,300
Deferred revenue	50,200	41,800
Deferred liabilities and deposits	1,600	1,200
Accounts payable and accrued liabilities	27,800	24,000
Total Liabilities	615,100	600,300
Commitments and Contingencies - Note I		
Investment of U.S. Government	8,124,200	7,318,900
Total Liabilities and Investment of U.S. Government	\$8,739,300	\$7,919,200

See accompanying notes to financial statements.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN INVESTMENTS OF U.S. GOVERNMENT

For the year ended September 30,	2001	2000
(Dollars in thousands)		
Revenues:		
Mortgage-Backed Securities Program income	\$ 438,700	\$ 408,200
Interest income	430,300	415,800
Other income, net	9,500	8,000
Total Revenues	878,500	832,000
Expenses:		
Mortgage-Backed Securities Program expenses	40,100	37,900
Administrative and other expenses	9,300	9,300
Total Expenses	49,400	47,200
Provision for loss on Mortgage-Backed Securities Program - Note F	23,800	22,000
Excess of Revenues Over Expenses	805,300	762,800
Investment of U.S. Government at Beginning of Year	7,318,900	6,556,100
Excess of revenues over expenses	805,300	762,800
Investment of U.S. Government at End of Year	\$8,124,200	\$7,318,900

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

For the year ended September 30,	2001	2000
(Dollars in thousands)		
Cash flows from operating activities:		
Interest received	\$ 436,000	\$ 397,000
Mortgage-Backed Securities Program fees	437,700	406,200
(Recoveries) advances against defaulted Mortgage-Backed Securities Pools	(28,400)	33,300
Mortgage-Backed Securities losses and expenses	(34,300)	(34,900)
Other income received	17,900	13,000
Administrative expenses	(9,300)	(9,300)
Purchases of mortgages/properties, net of disposal	(3,100)	(2,200)
Recoveries from FHA and VA	-	(100)
Net cash provided by operating activities	816,500	803,000
Cash flows from investing activities:		
Purchase of U.S. Treasury Securities, net	(386,100)	(393,000)
Purchase of software	(5,000)	(3,200)
Net cash used by investing activities	(391,100)	(396,200)
Net increase in cash	425,400	406,800
Funds in U.S. Treasury at Beginning of Year	1,617,600	1,210,800
Funds in U.S. Treasury at End of Year	\$2,043,000	\$1,617,600

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS (continued)

For the year ended September 30,	2001	2000
(Dollars in thousands)		
Net excess of revenues over expenses	\$805,300	\$762,800
Adjustments to reconcile net excess of revenues over expenses to net cash provided by operating activities:		
Provision for loss on Mortgage-Backed Securities Program	23,800	22,000
Decrease (increase) in accrued interest	5,700	(18,800)
(Increase) decrease in advances against defaulted Mortgage-Backed Security Pools	(8,000)	26,700
Increase in deferred liabilities and deposits	400	100
Increase (decrease) in accounts payable and accrued liabilities	3,800	(2,000)
Increase in deferred revenue	8,400	5,000
(Decrease) increase in Mortgage-Backed Securities Reserve, net of other assets, relating to operating activities	(22,900)	7,200
Total adjustments	11,200	40,200
Net cash provided by operating activities	\$816,500	\$803,000

See accompanying notes to financial statements.

Notes to the Financial Statements

September 30, 2001 and 2000

Note A – Organization and Summary of Significant Accounting Policies

The Government National Mortgage Association (Ginnie Mae) was created in 1968 through amendment of Title III of the National Housing Act as a Government corporation within the Department of Housing and Urban Development (HUD). The Mortgage-Backed Securities (MBS) program is Ginnie Mae's primary ongoing activity. The purpose of the program is to increase liquidity in the secondary mortgage market and attract new sources of capital for residential mortgage loans. Through the program, Ginnie Mae guarantees the timely payment of principal and interest on securities backed by pools of mortgages issued by private mortgage institutions. The guaranty is backed by *the full faith and credit of the United States Government*. Ginnie Mae requires that the mortgages be insured or guaranteed by the Federal Housing Administration (FHA), the Rural Housing Service (RHS), (formerly Farmer's Home Administration), the Department of Veterans Affairs (VA), or the HUD Office of Public and Indian Housing (PIH).

These MBS are not assets of Ginnie Mae, nor are the related outstanding securities liabilities; accordingly, neither is reflected on the accompanying balance sheets.

Funds in U.S. Treasury: All of Ginnie Mae's receipts and disbursements are processed by the U.S. Treasury which, in effect, maintains Ginnie Mae's bank accounts. For purposes of the Statements of Cash Flows, Funds in U.S. Treasury are considered cash.

U.S. Government Securities: Ginnie Mae classifies its investments in U.S. Government Securities based on its ability and positive intent to hold them to maturity. Therefore, Ginnie Mae's investment in U.S. Government Securities is recorded at amortized cost. Discounts and premiums are amortized, on a level yield basis, over the life of the related security.

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

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

Advances Against Defaulted MBS Pools: Advances against defaulted MBS pools represent payments made to fulfill Ginnie Mae's guaranty of timely principal and interest payments to the MBS security holders. Such advances are reported net of an allowance for doubtful recoveries to the extent management believes they will not be recovered. The allowance for doubtful recoveries is estimated based on actual and expected recovery experience and is adjusted for FHA, VA and RHS claims that have been filed.

Fixed Assets: Ginnie Mae's fixed assets represent systems (software) that are used to accomplish its mission. Ginnie Mae defers significant software development project costs and amortizes them over a three to five year period beginning with the project's completion. As of September 30, 2001 amortization has not begun, as the software projects have not been completed.

Reserve for Loss on MBS Program: In the operation of its MBS programs, Ginnie Mae estimates the cost of liquidating its existing portfolio of mortgage servicing rights acquired from defaulted issuers and expected issuer defaults. Reserves are established to the extent management believes issuer defaults are probable and FHA, VA and RHS insurance or guaranty are insufficient to recoup Ginnie Mae expenditures. The reserves are increased by provisions charged as an expense in the Statements of Revenue and Expenses and reduced by charge-offs, net of recoveries.

Recognition of Revenues and Expenses: Ginnie Mae receives monthly guaranty fees for each MBS mortgage pool based on a percentage of the pool's outstanding balance. Fees received for Ginnie Mae's guaranty of MBS are recognized as earned. Fees received for commitments to guaranty MBS are recognized when the commitments are granted. Ginnie Mae recognizes as income the major portion of fees related to the issuance of multiclass securities in the period the fees are received, with the balance deferred and amortized over the weighted average life of the underlying mortgages to match the recognition of related administrative expenses. Losses on assets acquired through liquidation and claims against HUD/FHA and VA are recognized when they occur.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B – U.S. Government Securities

The U.S. Government Securities portfolio is held in special market-based U.S. Treasury Securities that are bought and sold at composite prices received from the Federal Reserve Bank of New York. These securities are maintained in book entry form at the Bureau of Public Debt. The coupon rates of Ginnie Mae's holdings as of September 30, 2001, range from 2.4 percent to 7.88 percent.

The amortized cost and fair values as of September 30, 2001 were as follows:

Dollars in Thousands				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	\$ 440,400	\$ -	\$ -	\$ 440,400
U.S. Treasury Notes	6,116,700	335,000	-	6,451,700
Total	\$6,557,100	\$ 335,000	\$ -	\$6,892,100

The amortized cost and fair values as of September 30, 2000 were as follows:

Dollars in Thousands				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	\$ 457,300	\$ -	\$ -	\$ 457,300
U.S. Treasury Notes	5,713,700	77,800	8,300	5,783,200
Total	\$6,171,000	\$ 77,800	\$ 8,300	\$6,240,500

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government securities at September 30, 2001 by contractual maturity date, were as follows:

Dollars in Thousands			
	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	\$3,219,800	\$3,250,600	2.49%
Due after one year through five years	2,838,500	3,087,400	3.35%
Due after five years through ten years	498,800	554,100	4.02%
Total	\$6,557,100	\$6,892,100	3.00%

The amortized cost, fair value, and annual weighted average interest rates of U.S. Government securities at September 30, 2000 by contractual maturity date, were as follows:

Dollars in Thousands			
	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	\$1,278,100	\$1,274,000	6.41%
Due after one year through five years	3,705,000	3,746,000	6.00%
Due after five years through ten years	1,187,900	1,220,500	5.91%
Total	\$6,171,000	\$6,240,500	6.07%

Note C – Mortgages Held for Sale, Net

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

Dollars in Thousands	September 30,	
	2001	2000
Unpaid principal balance	\$8,800	\$5,900
Allowance for losses	(3,100)	(1,800)
Mortgages held for sale, net	\$5,700	\$4,100

Note D – Properties Held for Sale, Net

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

Dollars in Thousands	September 30,	
	2001	2000
Cost of properties, beginning of year	\$2,500	\$2,300
Additions	1,400	6,400
Dispositions and losses	(2,600)	(6,200)
Cost of properties, end of year	1,300	2,500
Allowances for losses and costs to sell	(600)	(800)
Properties held for sale, net	\$ 700	\$1,700

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

Under its MBS guaranty, Ginnie Mae advanced \$90.6 million in 2001 and \$42.6 million in 2000 against defaulted MBS pools to ensure timely pass-through payments. Recoveries of advances, either from late payment remittances or through FHA insurance or VA guaranty proceeds, were \$62.2 million in 2001 and \$79.4 million in 2000. Advances of \$26.9 million and \$212.6 million were written off in 2001 and 2000, respectively. Unrecovered advances outstanding against defaulted MBS pools, net of allowance for doubtful recoveries, were as follows:

Dollars in Thousands	September 30,	
	2001	2000
Advances against defaulted pools	\$104,400	\$102,900
Allowance for losses	(96,400)	(102,900)
Advances against defaulted pools	\$ 8,000	\$ -

Note F – Reserve for Loss on MBS Program

Ginnie Mae establishes a reserve for losses through a provision charged to operations when, in management's judgment, defaults of issuers of MBS become probable. The reserve for losses is based on an analysis of the MBS portfolio outstanding. In estimating losses, management utilizes a statistically based model that evaluates numerous factors, including, but not limited to, general and regional economic conditions, mortgage characteristics, and actual and expected future default and loan loss experience.

Management also considers uncertainties related to estimations in the reserve setting process. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights. As Ginnie Mae's defaulted issuer portfolio decreases, original estimates are compared with actual results over time, and the adequacy of the reserve is assessed and if necessary, the reserve is adjusted. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed MBS. Changes in the reserve for the years ended September 30, 2001 and 2000 were as follows:

Dollars in Thousands				
	Single Family	Multifamily	Manufactured Housing	Total
September 30, 1999	\$201,600	\$ 51,200	\$250,500	\$503,300
Recoveries	9,000	5,200	5,000	19,200
Realized Losses	(3,700)	-	(7,500)	(11,200)
Provision	22,000	-	-	22,000
September 30, 2000	\$228,900	\$ 56,400	\$248,000	\$533,300
September 30, 2000	\$228,900	\$ 56,400	\$248,000	\$533,300
Recoveries	10,600	200	4,100	14,900
Realized Losses	(26,000)	(200)	(10,300)	(36,500)
Provision	10,700	1,500	11,600	23,800
September 30, 2001	\$224,200	\$ 57,900	\$253,400	\$535,500

Ginnie Mae incurs losses when FHA and VA insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

The reserve for losses is relieved as estimated losses are realized. To the extent realized losses differ from those previously estimated, Ginnie Mae may elect to increase or decrease its reserve depending on its assessment of risks and losses associated with probable issuer defaults.

Note G – Financial Instruments with Off-Balance Sheet Risk

Ginnie Mae is subject to credit risk for financial instruments not reflected in its balance sheet in the normal course of operations. These financial instruments include guarantees of MBS and commitments to guaranty MBS. The Ginnie Mae guaranteed security is a pass-through security whereby mortgage principal and interest payments, except for servicing and guaranty fees, are

passed through to the security holders, monthly. Mortgage prepayments are also passed through to security holders. As a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk. Ginnie Mae's exposure to credit loss is contingent on the event of non-performance by other parties to the financial instruments. Other than those issuers considered in the reserve for loss on the MBS program (see Note F), Ginnie Mae does not anticipate non-performance by the counterparties.

Ginnie Mae guarantees the timely payment of principal and interest to MBS holders should the issuers fail to do so. The securities are backed by pools of insured or guaranteed FHA, RHS, or VA mortgage loans. On September 30, 2001, the amount of securities outstanding which are guaranteed by Ginnie Mae was \$604.3 billion; however, Ginnie Mae's potential loss is considerably less because the underlying mortgages serve as primary collateral and the FHA, RHS, and VA insurance or guaranty indemnify Ginnie Mae for most losses.

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

Outstanding MBS securities and commitments were as follows:

Dollars in Billions	September 30,	
	2001	2000
Outstanding MBS securities	\$604.3	\$603.5
Outstanding MBS commitments	\$ 42.8	\$ 36.4

Note H – Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counterparties (e.g., issuers and borrowers) engage in similar activities or are susceptible to similar change in economic conditions that could affect their ability to meet contractual obligations. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers as noted below, as of September 30, 2001:

Dollars in Billions	Single Family		Multifamily		Manufactured Housing	
	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Numbers of Issuers	Remaining Principal Balance
Largest performing issuers	20	\$452.1	10	\$ 14.7	1	\$ 0.3
Other performing issuers	208	129.6	61	6.8	5	0.1
Defaulted issuers	15	0.4	2	0.1	16	0.1

During Fiscal Year 2001, Ginnie Mae acquired, when issuers defaulted, five single family and one multifamily issuer portfolios with a remaining principal balance of \$160.2 million, and \$123.7 million respectively.

In Fiscal Year 2001, Ginnie Mae issued a total of \$67.4 billion in its multiclass securities program. The estimated outstanding balance of multiclass securities included in the total MBS securities balance in Note G at September 30, 2001 was \$165.6 billion. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Note I – Commitments and Contingencies

As of September 30, 2001, Ginnie Mae was named in several legal actions, virtually all of which involved claims under the guaranty program. It is not possible to predict the eventual outcome of the various actions; however, in the opinion of management and counsel the resolution of these claims will not result in adverse judgments to such an extent they would materially affect the financial position or results of operations of Ginnie Mae.

Note J – Related Parties

Ginnie Mae is subject to controls established by government corporation control laws (32 U.S.C. 9109) and management controls by the Secretary of HUD and the Director of the Office of Management and Budget (OMB). Such controls could affect Ginnie Mae's financial position or operating results in a manner that differs from those that might have been obtained if Ginnie Mae were autonomous.

HUD provides Ginnie Mae, without charge, use of office space and equipment. Ginnie Mae reimbursed HUD \$9.3 million in both 2001 and 2000 for administrative expenses allocated to Ginnie Mae including payroll and payroll-related costs.

Payroll-related costs for which Ginnie Mae reimbursed HUD included matching contributions to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). Although Ginnie Mae funds a portion of pension benefits under these programs, it has no liability for future payments to employees under these programs and does not account for the assets of CSRS or FERS, nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management (OPM) and are allocated to HUD. OPM also accounts for the health and life insurance programs for Federal employees and retirees and funds the non-employee portion of the costs of such programs.

Cash receipts, disbursements, and investment activities are processed by the U.S. Treasury. Funds in the U.S. Treasury represent cash currently available to finance purchase commitments and pay current liabilities. Ginnie Mae has authority to borrow from the U.S. Treasury to finance operations in lieu of appropriations if necessary.

Note K – Fair Value of Financial Instruments

The following table shows the fair value of financial instruments to which Ginnie Mae has a contractual obligation to deliver or a contractual right to receive cash from another entity as of September 30, 2001 and 2000:

Dollars in Thousands	September 30,			
	2001		2000	
	Cost	Fair Value	Cost	Fair Value
Funds in U.S. Treasury	\$2,043,000	\$2,043,000	\$1,617,600	\$1,617,600
U.S. Government securities	6,557,100	6,892,100	6,171,000	6,240,500
Advance against MBS pools	8,000	8,000	-	-
Other assets	123,000	123,000	127,400	127,400
Unrecognized financial instruments	-	1,748,300	-	1,890,151
Other liabilities	79,600	79,600	67,000	67,000

The fair value of Ginnie Mae's largest asset, U.S. Government Securities, is estimated based on quoted market prices for securities of similar maturity. The fair values of funds in U.S. treasury, advances against MBS pools, other assets and other liabilities are not materially different from their carrying values.

Unrecognized financial instruments comprise the net fair value of the fee Ginnie Mae receives for the guaranty of timely payment of principal and interest. The value was derived by discounting the estimated future net cash flows relating to Ginnie Mae guaranteed MBS outstanding. The assumptions and estimates used in calculating the fair value of unrecognized financial instruments are based on management's evaluation of economic conditions and, therefore, are not subject to precise quantification.

These discounted cash flows consist of estimated future guaranty fees, taking into account estimated prepayments, in excess of 1) projected losses relating to the MBS program, including projected losses on defaulted pools of MBS, and 2) projected administrative expenses. The discount rate approximates an interest rate for risk-free instruments of a type and duration similar to the Ginnie Mae guaranty. The fair value of Ginnie Mae's guaranty recognizes the present value of future fees, which are not recognized under generally accepted accounting principles since to do so would record revenue prior to realization. The fair value of unrecognized financial instruments decreased from 2000 to 2001, and is primarily attributable to the impact of interest rate volatility.

Ginnie Mae's standing as a Federal government corporation whose guaranty carries *the full faith and credit of the U.S. Government* makes it difficult to determine what the fair value of its financial instruments would be in the private market. Accordingly, the amount Ginnie Mae would realize upon sale of its financial instruments could differ, perhaps materially, from the amounts shown above.

Note L – Credit Reform

The primary purpose of the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. Credit

Reform focuses on those credit programs that operate at a loss by providing for appropriated funding, within budgetary limitations, to subsidize the loss element of the credit program. Negative subsidies, calculated for credit programs operating at a profit, normally result in the return of funds to Treasury. OMB specifies the methodology an agency is to follow in accounting for the cash flows of its credit programs.

Ginnie Mae's credit activities have historically operated at a profit. Ginnie Mae has not incurred borrowings or received appropriations to finance its credit operations nor does it anticipate the need to receive such funding. As of September 30, 2001, Ginnie Mae had an Investment in U.S. Government of \$8.1 billion after establishing reserves for potential losses on its credit activities. Pursuant to the statutory provisions under which Ginnie Mae operates, its net earnings are used to build sound reserves. In the opinion of management, Ginnie Mae is in compliance with OMB implementation requirements for the Federal Credit Reform Act, as applicable to government corporations.

Independent Auditors' Report



2001 M Street, NW
Washington, DC 20036

To the Inspector General
U.S. Department of Housing and Urban Development:

We have audited the accompanying financial statements of the Government National Mortgage Association (Ginnie Mae) as of and for the years ended September 30, 2001 and 2000. The objective of our audits was to express an opinion on the fair presentation of Ginnie Mae's financial statements. In connection with our audits, we also considered Ginnie Mae's internal control over financial reporting and tested Ginnie Mae's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

Summary

As stated below in our opinion on the financial statements, we concluded that Ginnie Mae's financial statements as of and for the years ended September 30, 2001 and 2000, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined in the internal control over financial reporting section of this report.

The results of our tests of compliance with laws and regulations disclosed no instances of non-compliance that are required to be reported herein under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as applicable to government corporations.

The following sections discuss our opinion on Ginnie Mae's financial statements, our consideration of Ginnie Mae's internal control over financial reporting, our tests of Ginnie Mae's compliance with certain provisions of applicable laws and regulations and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Ginnie Mae, as of September 30, 2001 and 2000, and the related statements of revenues and expenses and changes in investment of U.S. government and of cash flows for the years then ended.

The Office of Inspector General (OIG) is required to conduct an annual audit of Ginnie Mae under the provisions of the Chief Financial Officers (CFO) Act of 1990. To fulfill that responsibility, OIG contracted with the independent certified public accounting firm of KPMG LLP to conduct the audit for the year ended September 30, 2001. The complete OIG report (2002-FO-0001) is included in the separate management report Ginnie Mae prepared pursuant to the CFO Act which is available upon request from Ginnie Mae.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ginnie Mae as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weakness as defined above.

We noted other matters involving internal control and its operation, which have been reported to Ginnie Mae's management in a separate letter.

Compliance with Laws and Regulations

The results of our tests of compliance with the laws and regulations described in the Responsibilities section of this report, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02, as applicable to government corporations.

There are matters currently under investigation by the Office of Inspector General that include alleged fraudulent activities which have been perpetrated against Ginnie Mae by issuers. Management represents that Ginnie Mae has fully reserved for the potential losses from these activities. However, the ultimate resolution of these matters cannot be presently determined.

Responsibilities

Management's Responsibilities. The Chief Financial Officers (CFO) Act of 1990 requires federal agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations. To meet the CFO Act reporting requirements, Ginnie Mae prepares annual financial statements. Ginnie Mae is wholly owned government corporation within the U.S. Department of Housing and Urban Development (HUD).

Management is responsible for:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting; and
- Complying with applicable laws and regulations.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2001 and 2000 financial statements of Ginnie Mae based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards

applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02, as applicable to government corporations. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Our audits were not designed to test the requirements of OMB Bulletin No. 01-02 for performance measures reported in the Management's Discussion and Analysis of Financial Positions and Results of Operations, and relating to the Federal Financial Management Improvement Act (FFMIA); they are not considered applicable at the Ginnie Mae level. FFMIA and performance measures requirements will be reviewed and reported on at the HUD consolidated level. Our audits were also not designed to test the requirements of the Federal Credit Reform Act of 1990, because Statement of Federal Financial Accounting Standards No. 2, Accounting for Direct Loans and Loan Guarantees, has not been considered in preparing these financial statements.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2001 audit, we considered Ginnie Mae's internal control over financial reporting by obtaining an understanding of Ginnie Mae's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and Government Auditing Standards. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on internal controls over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether Ginnie Mae's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain provisions of other laws and regulations specified in OMB Bulletin. No. 01-02. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Distribution

This report is intended solely for the information and use of the HUD Office of Inspector General, the management of HUD and Ginnie Mae, OMB and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 14, 2002

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