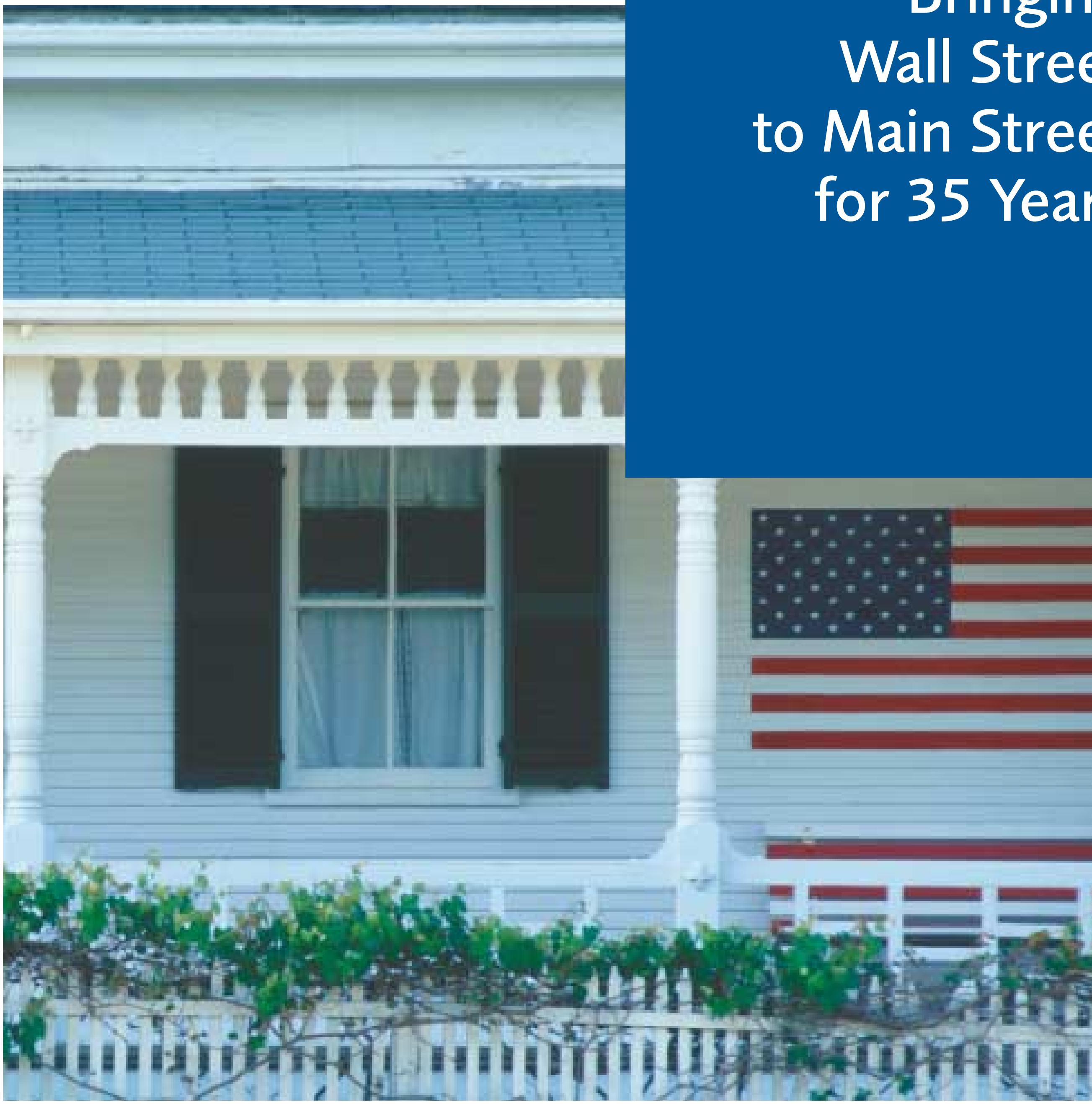
Bringing Wall Street to Main Street for 35 Years



2003 Annual Report

Ginnie Mae

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Secretary's Message

Ginnie Mae: Bringing Wall Street to Main Street

Since 1968, Ginnie Mae has helped more than 30 million low- and moderate-income families find a place to call home. The agency has been able to achieve this remarkable milestone because it offers a unique product—a guarantee backed by the full faith and credit of the United States government.

In fiscal year 2003, the agency issued $215.8 billion in mortgage-backed securities (MBS)—bringing the total MBS issued to more than $2 trillion since the agency's inception.

Ginnie Mae's efforts over the past 35 years have resulted in enhanced returns for investors, increased liquidity for issuers and lowered borrowing rates for home buyers. At the same time, Ginnie Mae has become a beacon of dependability and responsibility within the federal government, accomplishing its mission with minimal risk—and requiring no tax dollars to conduct its operations.

The U.S. Department of Housing and Urban Development is proud to work with Ginnie Mae to continue this tradition of excellence.

Alphonso Jackson
Secretary

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

Dear Mr. Secretary:

I am pleased to present the *Annual Report* and the audited financial statements of the Government National Mortgage Association (Ginnie Mae) for the fiscal year that ended September 30, 2003. Once again, Ginnie Mae received an unqualified opinion from its independent auditors, KPMG LLP, with no findings of material weaknesses or reportable conditions.

Ginnie Mae continues to be a strong and integral part of the Department. In Fiscal Year 2003, which marked Ginnie Mae's 35th anniversary, the agency guaranteed the issuance of $215.8 billion in mortgage-backed securities (MBS), providing capital for the purchase or refinance of approximately 2.4 million homes, including multifamily units. Our net revenues for FY 2003 were $731.5 million. Cumulatively over the past 35 years, we have guaranteed the issuance of $2 trillion in MBS, providing affordable housing for over 30.4 million households. Our balance of outstanding MBS stands at $473.9 billion.

The year 2003 began on a high note: in January, the editors of *The Wall Street Journal* recognized the difference in credit quality between Ginnie Maes and other guarantors of MBS, by giving our securities the "government guaranteed" designation in its financial pages. Ginnie Maes are the only MBS to carry that designation in the nation's financial newspaper of record.

In July 2003, Ginnie Mae made its Ginnie Mae II program more efficient and flexible by reducing the minimum servicing fee from 44 to 19 basis points for issuers of federally-guaranteed mortgages. This lower fee minimum gives issuers more flexibility in assembling mortgages into securities. For investors, this change makes the performance of Ginnie Mae IIs more predictable by halving the range of mortgage rates that can be pooled together. Since the new program was implemented, the proportion of Ginnie Mae IIs in our MBS production has increased 12.5 percent, indicating both increased interest in the program and the market's appreciation for enhanced predictability.

During Fiscal Year 2003, Ginnie Mae made all appropriate operational changes required to successfully introduce a new program, the securitization of hybrid adjustable-rate mortgages (ARMs). On October 1, 2003, Ginnie Mae began to securitize a range of the Department of Veterans Affairs (VA) hybrid mortgages, facilitating the pooling of loans with change dates of three, five, seven and 10 years after origination. The securitization of hybrid Federal Housing Administration (FHA) ARMs is expected in early Fiscal Year 2004. This program is expected to address investor demand for a securitized hybrid ARM investment while benefiting as many as 40,000 families, particularly first-time home buyers and the families of military personnel.

Ginnie Mae's Real Estate Mortgage Investment Conduit (REMIC) product continued to play a major role in increasing liquidity and the availability of mortgage funds to low- and moderate-income and first-time home buyers. I am happy to report that the number of REMIC transactions increased from 86 in Fiscal Year 2002 to a record-high 109 in Fiscal Year 2003.

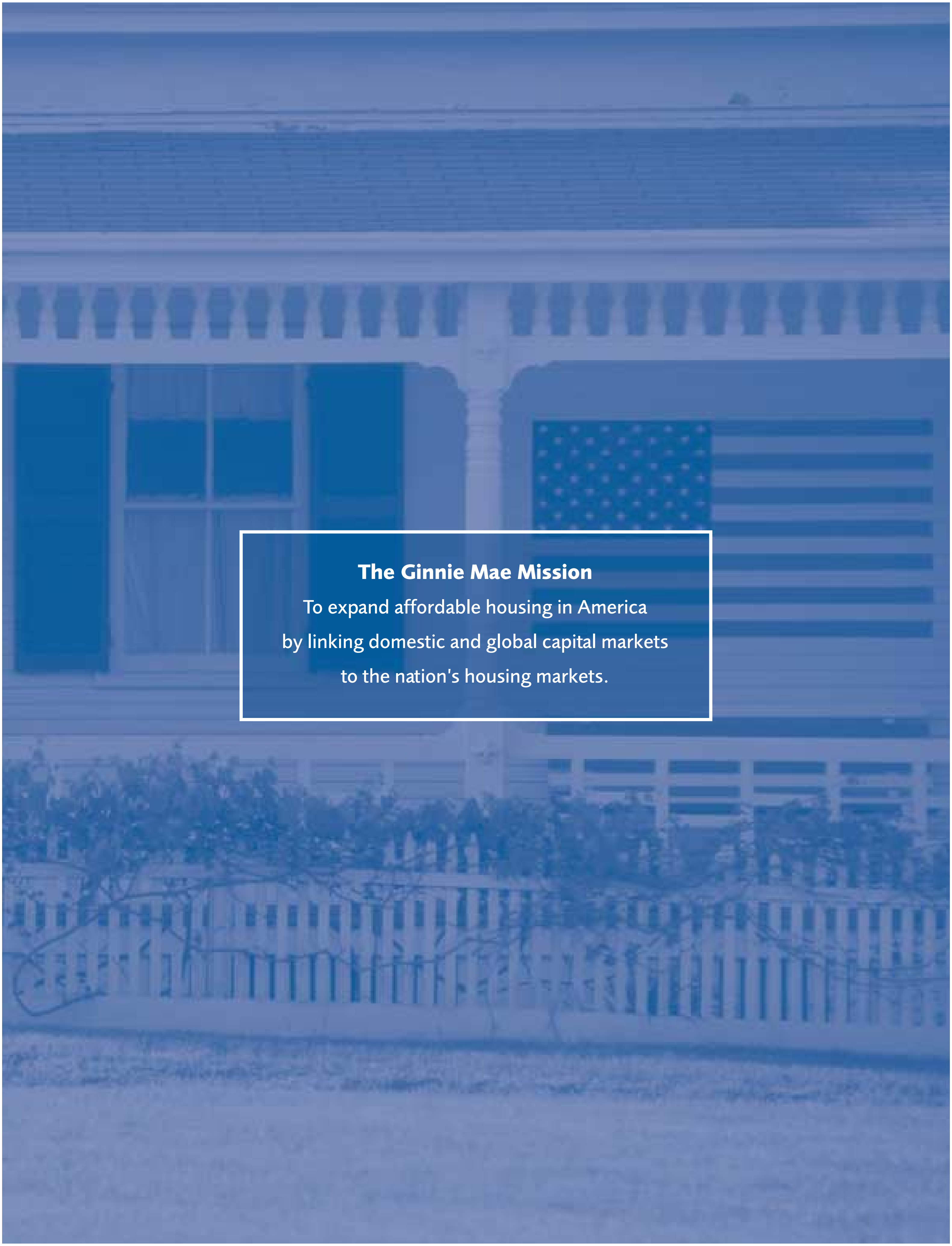
All the changes listed above follow and build upon improvements made in Fiscal Year 2002, which, by eliminating red tape and streamlining internal processes, will save our business partners millions of dollars every year.

As the dominant government agency securitizing residential mortgages, we are proud of Ginnie Mae's long record of prudent fiscal decision-making and transparency. For more than 35 years, Ginnie Mae has been an entirely self-financed operation, generating income for the government exceeding $731.5 million in Fiscal Year 2003.

Most of all, we are proud to help make the dream of homeownership a reality for so many millions of low- and moderate-income American families. We look forward to continuing this tradition in Fiscal Year 2004 and beyond.

Sincerely,

Ronald A. Rosenfeld
President
Ginnie Mae



The Ginnie Mae Mission

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

I Overview of Ginnie Mae

The Government National Mortgage Association (Ginnie Mae) was created in 1968 through an amendment to the National Housing Act. Ginnie Mae is a wholly-owned government corporation within the U.S. Department of Housing and Urban Development (HUD), and is administered by the Secretary of HUD and the President of Ginnie Mae.

Ginnie Mae expands affordable housing options in America through increasing liquidity in the secondary mortgage market by channeling global capital markets into the nation's housing markets. Specifically, Ginnie Mae guarantees the timely payment of principal and interest on securities issued by private institutions and backed by pools of federally-insured or guaranteed mortgage loans (mortgage-backed securities or MBS), a process that helps ensure a more stable lending environment, lower mortgage rates, and ultimately makes more mortgages available to more low- to moderate-income families.

In Fiscal Year 2003, securities guaranteed by Ginnie Mae financed 92.6 percent of all eligible loans insured or guaranteed by the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA). Ginnie Mae securities also financed eligible loans insured or guaranteed by the Rural Housing Service (RHS) and HUD's Office of Public and Indian Housing (PIH).

Ginnie Mae is a self-financed government corporation and, as such, receives no funds from general tax revenues. Operations are financed by a variety of fees. Its guaranty and commitment fees, for example, which are paid by participating issuers, generate approximately 92 percent of Ginnie Mae's fee income. Other fees paid to the agency include new issuer fees, handling fees, and transfer of servicing fees.

Ginnie Mae's mission and goals, as well as its programs, products, and initiatives for Fiscal Year 2003, are described in the following pages.

Ginnie Mae issued $215.8 billion in mortgage-backed securities (MBS) in fiscal year 2003. Over the past 35 years, Ginnie Mae has guaranteed the issuance of more than $2 trillion in mortgage-backed securities, helping more than 30 million American families gain access to affordable housing.


STOCK EXCHANG

Corporate Goals

Ginnie Mae's vision of making affordable housing available to more Americans is reflected within the agency's three overarching goals:

Excellence in Customer Service

To provide excellent service to its customers, including issuers, investors, and other stakeholders.

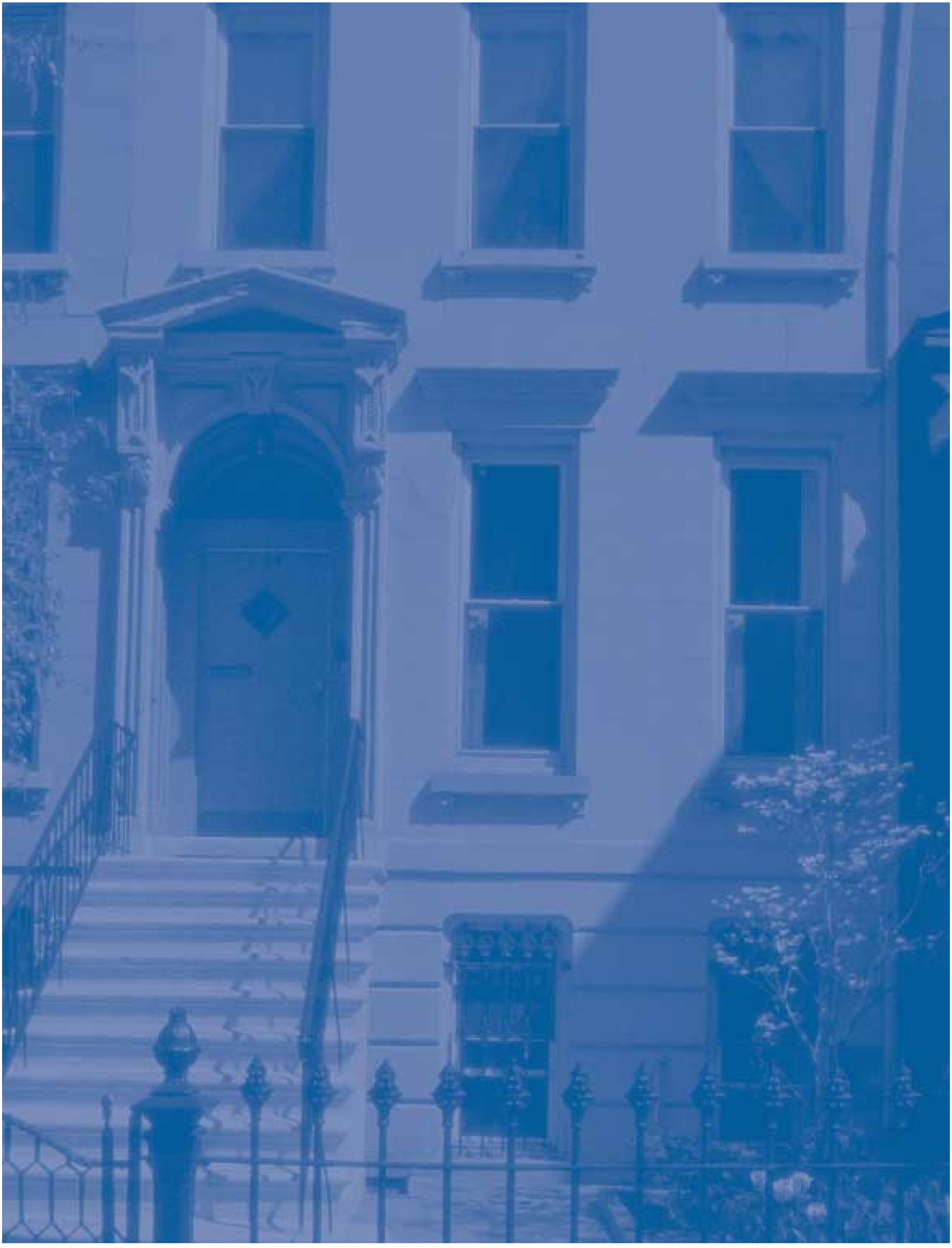
Leadership Role in the Industry

To lead the industry in increasing affordable homeownership by introducing new products and expanding affordable mortgage credit.

Integrity and Excellence in Financial Management

To manage financial risk by providing accurate and timely financial information to support management decisions, while maintaining effective stewardship and control over its funds.

Ginnie Mae believes that adhering to these goals will help it meet its mission and achieve its vision, while responding effectively to the needs of the American public and the mortgage industry.



III Organization and Technology

As part of its commitment to excellence in customer service, in Fiscal Year 2003 Ginnie Mae continued to streamline and improve program and product services as well as outreach to issuers and other participants. Ginnie Mae has also implemented several initiatives to improve the quality of service provided to its partners, stakeholders, and ultimately, the American public. These initiatives focused on the following areas:

Performance Measurement

Ginnie Mae's commitment to performance measurement continues to strengthen its compliance with the Government Performance and Results Act. Ultimately, this continual assessment allows Ginnie Mae to link its mission to its programs.

- In Fiscal Year 2003, Ginnie Mae had a goal to securitize at least 85 percent of FHA and VA single family insured or guaranteed loans. Despite significant competition for the product, over 92 percent of all FHA and VA loans were actually placed into Ginnie Mae securities.
- The Ginnie Mae multifamily portfolio had a record year of growth, and successfully exceeded its program market share target of 80 percent by securitizing 91 percent of eligible FHA multifamily mortgages.
- Ginnie Mae's multi-class securities issuance volume of $106.1 billion in Fiscal Year 2003, exceeded the $80.9 billion target by more than 31 percent.

Contractor Oversight

Ginnie Mae works with a variety of private sector firms to provide critical operations support to its MBS programs. In doing so, Ginnie Mae strives continuously to improve contractor oversight to enhance operations, minimize risk, and increase value.

Communication

Recognizing the integral role of private sector partners, Ginnie Mae continually seeks new ways to build and enhance relationships that help meet organizational goals and business needs. The agency also works to communicate new programs and initiatives to its non-contractor business partners, with the ultimate goal of increasing their utilization.

Training

Rapid changes in the marketplace require ongoing training and education for staff and business partners to ensure that knowledgeable and motivated people continue to support Ginnie Mae's goals. Issuers and Ginnie Mae staff are trained on Ginnie Mae business applications and processes semi-annually, as well as on an as-needed basis when enhancements are incorporated into Ginnie Mae systems. Ginnie Mae sponsors all such training for new issuers participating in Ginnie Mae's MBS programs.

Capital Markets Participants

Ginnie Mae has undertaken several new initiatives to broaden outreach to capital markets and create a more efficient model for its broker/dealer and trustee business partners.

Leveraging Cross-Cutting Initiatives

Ginnie Mae is committed to working within HUD and with other federal entities such as FHA, VA, RHS, and PIH, as well as with other public and private organizations, to leverage cross-cutting programs in support of better housing and economic development for low- and moderate-income American families. Examples include the following:

- Ginnie Mae's Portfolio Analysis Database System (GPADS) is a tool that enhances risk management capabilities for federal government mortgage programs administered by FHA, VA, and RHS.
- Ginnie Mae is developing 3- and 5-year adjustable rate mortgage (ARM) securities for FHA and VA 3- and 5- year ARM loans, as well as 7- and 10-year ARM securities for FHA 7- and 10-year ARM loans that will be implemented in Fiscal Year 2004.

Organizational Structure

Ginnie Mae's organizational structure focuses resources on mitigating and managing business risks, providing improved customer service to issuers, and improving contractor oversight.

The following is a brief description of Ginnie Mae's program offices as structured at the end of Fiscal Year 2003:

The Office of the President

The Office of the President is headed by the President of Ginnie Mae, who is appointed by the President of the United States, confirmed by the Senate, and reports to the Secretary of HUD. The President directs the development of policy, providing oversight of Ginnie Mae's current and future business and ensuring that organizational performance is consistent with established departmental and organizational goals and objectives.

The Executive Vice President (EVP), also in the Office of the President, functions as the Chief Operating Officer, managing daily operations associated with the administration of the Ginnie Mae program and otherwise assisting the President. The EVP has concurrent authority with the President.

With the support of designated line staff, the Office of the President provides advisory and analytical support on a variety of matters, including programmatic risk, economic analyses, policy development coordination, and international activities.

The Office of Mortgage-Backed Securities

The Office of Mortgage-Backed Securities manages and executes the Single Family, Multifamily, and Manufactured Housing programs. The office administers policies governing eligibility of securities issuers and the manner in which they perform their responsibilities in Ginnie Mae programs. The office also is working with the Office of Capital Markets to develop new single class MBS and manages all contract resources related to MBS program oversight and monitoring. The office operates three divisions, as follows:

The Single Family/Manufactured Housing Division manages the Single Family and Manufactured Housing programs, and represents Ginnie Mae in the residential mortgage lending community. The division markets Ginnie Mae programs, identifies and recruits new issuers and ensures the satisfaction of program participants. The division also identifies, evaluates, and approves new issuers; evaluates and approves commitment authority and transfers of servicing requests; resolves concerns regarding continued eligibility to participate as an issuer of single class securities; provides ongoing training for participants, issuers, contractors and Ginnie Mae staff related to the Single Family MBS programs; and coordinates with the MBS Monitoring Division to manage Ginnie Mae programs more effectively.

The Multifamily Division manages and markets the Multifamily program, and represents Ginnie Mae in the commercial mortgage lending community. The division also identifies, evaluates, and approves new issuers and ensures the satisfaction of program participants; evaluates and approves commitment authority and transfers of servicing requests; resolves concerns regarding continued eligibility to participate as an issuer of single class securities; provides ongoing training for participants, issuers, contractors and Ginnie Mae staff related to the Multifamily MBS program; and coordinates with the MBS Monitoring Division to manage Ginnie Mae programs more effectively.

The MBS Monitoring Division ensures compliance with Ginnie Mae programs. The division also oversees activities related to marketing and managing assets acquired by Ginnie Mae in the event of issuer default, designating resources necessary to acquire the servicing rights of defaulted portfolios and managing the servicing of defaulted assets. The division participates in the development and review of policies and procedures for the Single Family, Manufactured Housing, and Multifamily MBS programs.

The Office of Capital Markets

The Office of Capital Markets acts as a single point of contact for investors and MBS dealers. It administers the Ginnie Mae Multiclass Securities portfolio, which includes the Ginnie Mae Real Estate Mortgage Investment Conduit (REMIC) and Platinum programs, collects summary data on all multiclass transactions, and conducts analyses on the impact of the multiclass program on the Ginnie Mae, VA, and FHA programs' financial costs. The office also conducts market and benchmark analysis to assess historical trends and gauge future performance of Ginnie Mae securities, provides capital market policy guidance with respect to the valuation of all securities guaranteed by Ginnie Mae, and provides new product development and management for all capital markets projects.

The Office of Management Operations

The Office of Management Operations develops and implements enterprise-wide management policies and procedures that ensure the availability of resources needed to assist program areas in achieving the organization's mission. These responsibilities are carried out in three divisions:

The Administrative Management Division manages all administrative support and human resources and staff development activities for Ginnie Mae. These activities include facilities management, administrative matters, and coordination of all HUD departmental management initiatives. The division also formulates, tracks, and coordinates budget information for all administrative categories and develops internal policies for administering all HUD policies and procedures related to these categories.

The Information Management Division develops, manages, and enforces federally-mandated and enterprise-sanctioned information management policies and procedures consistent with Chapter 35, Title 44, United States Code, the Clinger-Cohen Act, the Information Management Reform Act, and other applicable information technology (IT) laws and regulations. These responsibilities are manifested in activities associated with the development and maintenance of Ginnie Mae's Enterprise Architecture (EA). Ginnie Mae's EA enables its business strategy to align with its investment in IT-based services. The division leads the organization's reengineering of business processes and manages the evolution of the IT infrastructures to ensure more productive, efficient, and valuable use of information within the enterprise.

The Procurement Management Division develops and implements internal policies and procedures that ensure effective procurement planning and oversight. The division provides technical support and training to the program areas on acquisition regulations and procedures from requirements development through contract performance monitoring. The division serves as Ginnie Mae's liaison with the Department's Chief Procurement Officer and other entities on all acquisition matters. This division also manages and implements Ginnie Mae's Small Business Contracting Program.

The Office of Program Operations

The Office of Program Operations manages the day-to-day processing of pools, security issuance, payment of principal and interest, and reporting information to the public on outstanding Ginnie Mae securities. The office maintains and updates instructions to Ginnie Mae program participants on MBS program requirements, as well as identifying and ensuring satisfactory execution of all program requirements for Ginnie Mae and its business partners. The office has quality control responsibility for day-to-day operations and the development of new initiatives and is the Ginnie Mae liaison with The Bond Market Association and the Federal Reserve Bank on ongoing and new operational issues.

The Office of Finance

The Office of Finance maintains financial and budget management and operational controls, ensures compliance with the reporting requirements of the Federal Financial Managers' Integrity Act and the Chief Financial Officers Act, manages the investment of Ginnie Mae funds, and oversees the management of financial models. The office coordinates internal and external audits, maintains necessary internal controls, and minimizes financial risks to Ginnie Mae. The office is also the liaison between Ginnie Mae and HUD's Inspector General, the Office of Management and Budget (OMB), the General Accounting Office (GAO), the U.S. Department of the Treasury, and the U.S. Congress for budget, reporting, and audit matters. These functions are primarily carried out by the following three divisions:

The Budget Division formulates, prepares, and submits the Ginnie Mae portion of the budget of the President of the United States, including the congressional justifications and the Operating Plan.

The Controller's Division manages technical accounting and provides financial reporting services to Ginnie Mae, HUD, the U.S. Department of the Treasury, and OMB, ensuring that Ginnie Mae's policies and procedures adhere to accounting principles generally accepted in the United States.

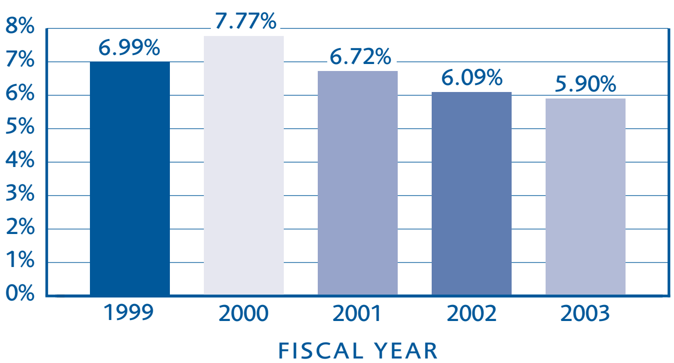
The Treasurer's Division manages cash assets, including receiving and disbursing funds, managing the investment portfolio, and preparing vouchers and a Daily Cash Flow Report.

IV

Selected Programs and Recent Initiatives

Ginnie Mae's principal product has been the MBS, a concept the agency pioneered in 1970. Ginnie Mae MBS are created when government-insured or guaranteed mortgage loans are pooled by eligible issuers. Commonly referred to as "pass-through" certificates, these MBS entitle investors to an undivided interest in the underlying mortgage loan pool. An investor thus receives a pro rata share of the interest (net of servicing and guaranty fees) and principal on the underlying mortgage loans. Through its MBS program, Ginnie Mae increases the liquidity and efficiency of mortgage loan funding, making more capital available to low- and moderate-income homeowners at competitive interest rates. The following chart represents the average rates on Ginnie Mae MBS originated during the past five years:

Average Rates on Ginnie Mae MBS



Ginnie Mae has two primary MBS programs: Ginnie Mae I and Ginnie Mae II.

Ginnie Mae I MBS

Ginnie Mae I MBS are based on single-issuer pools. The underlying mortgages generally have the same or similar maturities and the same interest on the mortgages. Single family Ginnie Mae I pools have a 50 basis point (0.5 percent) guaranty and servicing fee. Payments are made to holders on the 15th day of each month.

Securitization provisions for Ginnie Mae I MBS are established in the Ginnie Mae MBS Guide (Ginnie Mae Handbook 5500.3), which can be found on Ginnie Mae's website, www.ginniemae.gov.

Ginnie Mae II MBS

Ginnie Mae II MBS are a useful tool for "pipeline management," providing issuers with additional flexibility and liquidity. Ginnie Mae II MBS permit greater flexibility with respect to loan characteristics, for example, coupon rates on the underlying mortgages can vary between 25 and 75 basis points above the interest rate on the pool.

Both multiple-issuer and single-issuer pools are permitted in the Ginnie Mae II program, which also allows smaller issuers who do not meet minimum dollar requirements of Ginnie Mae I to participate in the secondary mortgage market. Ginnie Mae II MBS have a central paying and transfer agent that collects payments from all issuers, making one consolidated payment on the 20th day of each month to each security holder.

An issuer may participate in the Ginnie Mae II program either by issuing custom, single-issuer pools or by joining multiple-issuer pools. (A custom pool has a single issuer, which originates and administers the entire pool, while a multiple-issuer pool typically combines loans with similar characteristics.) The resulting pool backs a single MBS issue, and each participant is responsible for administering mortgage loans that contribute to the pool. Securitization provisions are established in the Ginnie Mae MBS Guide (Ginnie Mae Handbook 5500.3), which can be found on Ginnie Mae's website, www.ginniemae.gov.

Changes to the Ginnie Mae II Program

Working closely with both the issuer and investor communities, Ginnie Mae restructured its Ginnie Mae II MBS program on July 1, 2003. The goal was to create a more efficient program by increasing flexibility and eliminating the need to accumulate volatile excess mortgage servicing. A more efficient Ginnie Mae II security was thought to improve the product's pricing and further enhance the competitiveness of Ginnie Mae's MBS programs.

The new changes have succeeded in achieving Ginnie Mae's goal. The Weighted Average Spread for loans in Ginnie Mae II pools has dropped from 74 basis points in June, to 49 basis points in September, meaning that issuers have been able to reduce exposure to servicing right valuation volatility (by reducing excess servicing) while increasing up-front earnings.

The implementation of the changes has not resulted in a pricing downside for issuers. Ginnie Mae has not noticed any material change in the pricing of Ginnie Mae II securities relative to Ginnie Mae I securities since the announcement of the changes in January.

Ginnie Mae believes that the pricing spread between Ginnie Mae I and Ginnie Mae II MBS will tighten over time (everything else being equal), as investors develop a performance history for improved Ginnie Mae II pools. Investors are also expected to find that the reduced note rate/security rate spreads will also slow prepayment speeds relative to the previous Ginnie Mae II pools. In the current interest rate environment, the slower prepayment speed performance should improve Ginnie Mae II pools and make them more attractive to investors, thereby increasing demand.

Multiclass Programs

REMICs direct principal and interest payments from underlying MBS to classes with different principal balances, interest rates, average lives, prepayment characteristics, and final maturities.

Unlike traditional pass-throughs, the principal and interest payments in REMICs are not passed through to investors pro rata, but rather, are divided into varying payment streams to create classes with different expected maturities, different levels of seniority or subordination or other differing characteristics. The assets underlying REMIC securities can be either other MBS or whole mortgage loans.

REMICs allow issuers to create securities with short, intermediate, and long-term maturities, flexibility that in turn allows issuers to expand the MBS market to fit the needs of a variety of investors.

Ginnie Mae Platinum Securities provide investors with greater operating efficiency, allowing holders of multiple MBS to combine them into a single platinum certificate. Ginnie Mae Platinum Securities can be used in structured finance transactions and repurchase transactions, as well as in general trading.

Program Highlights and Trends

Ginnie Mae issued $222.4 billion in new MBS commitment authority in Fiscal Year 2003, a 24.3 percent increase from Fiscal Year 2002. This increase was fueled by the significant drop in interest rates, which in turn fueled mortgage refinancing and encouraged the proliferation of independent mortgage brokers. The growth in non-bank affiliated mortgage conduits can be seen in the graph below, which indicates that "other" non-banking MBS participants accounted for approximately 31.1 percent of the market in Fiscal Years 2003 and 2002.

Of the actual $215.8 billion of MBS guaranteed, more than $208.7 billion was backed by single family mortgages, $7.1 billion by multifamily construction and project loans, and $13.7 million by manufactured housing loans.

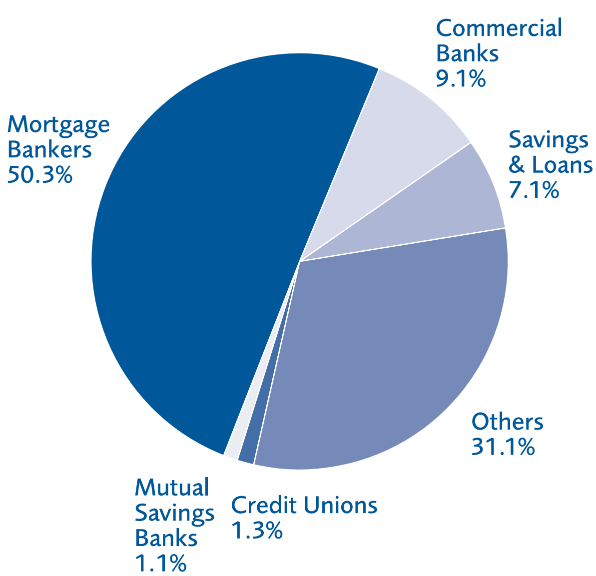
Delinquency ratios for MBS-pooled mortgages decreased in the Single Family and Manufactured Housing programs.[1] From the end of Fiscal Year 2002, to the end of Fiscal Year 2003, the three-month delinquency rate in the Single Family program decreased from 1.06 percent to 0.69 percent, while the three-month delinquency rate in the Manufactured Housing program decreased from 7.42 percent to 6.9 percent.

The total outstanding MBS balance at the end of Fiscal Year 2003 was $473.9 billion, as compared to $568.4 billion at the end of the previous fiscal year. This drop was primarily because repayments exceeded new issuances.

Asset Management

As of September 30, 2003, Ginnie Mae held $37 million in single family mortgage assets. There were no asset acquisitions due to defaults in Fiscal Year 2003. Due to a sale of servicing rights in Fiscal Year 2003, along with normal portfolio run-off resulting from the refinancing of Ginnie Mae-held mortgages, Ginnie Mae's single family portfolio decreased by $263 million from Fiscal Year 2002.

MBS Program Participants



[1]Ginnie Mae continues to monitor issues through GPADS for unusual fluctuations in portfolio delinquency rates.

Issuer Defaults

By Program Type, During Fiscal Year

(Dollars in Millions)

Program Type	1999	2000	2001	2002	2003
Single Family	$108.00	$52.10	$160.20	$ —	$ —
Multifamily	—	0.70	123.70	—	—
Manufactured Housing	0.30	—	—	—	—
Total	$108.30	$52.80	$283.90	$ —	$ —

The above table details issuer defaults.

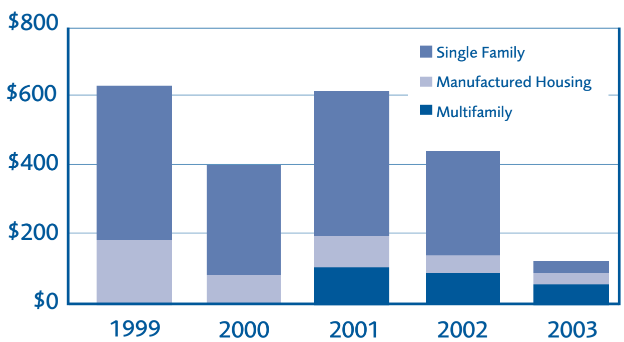
Fiscal Year 2003 saw no multifamily issuer defaults. Overall, the acquired multifamily portfolio represents 0.21 percent of the total multifamily RPB outstanding.

At the end of Fiscal Year 2003, Ginnie Mae had a manufactured housing portfolio of $31 million, compared to $49 million at the end of Fiscal Year 2002. (Ginnie Mae did not acquire any manufactured housing portfolios in either year.) The acquired manufactured housing portfolio decreased by $18 million, or 38 percent, from Fiscal Year 2002.

The following chart illustrates the overall management of Ginnie Mae's defaulted portfolio for single family, multifamily, and manufactured housing for Fiscal Years 1999 through 2003:

Management of Defaulted Portfolio

(Dollars in Millions)



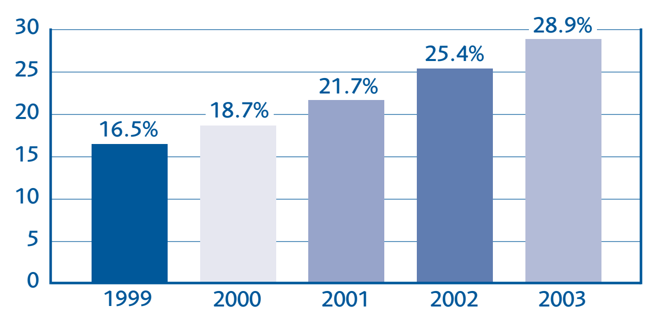
Multifamily Programs

Since the inception of the Multifamily MBS program, Ginnie Mae has guaranteed the issuance of approximately $65 billion in multifamily securities. Outstanding securities in the multifamily program increased in Fiscal Year 2003 by 13.8 percent, to a record $28.9 billion outstanding as of September 30, 2003.

Multifamily RPB has grown 75 percent over the last five years. The following chart represents the growth of the Multifamily MBS program:

Multifamily MBS Outstanding

(Dollars in Billions)



Multiclass Program

Multiclass security activities are divided into principal product segments: REMIC Securities and Platinum Securities. Ginnie Mae multiclass security volume was 13 percent lower than the record volume posted in Fiscal Year 2002. Although REMIC volume decreased to $67.9 billion from $75.1 billion, the number of transactions increased from 86 to a record 109 transactions.

Ginnie Mae also continued to build a strong position in REMIC issuance on a global basis by continuing to offer the flexibility of the modifiable and exchangeable (MX) option to its REMIC sponsor group. Investors today have the option to exchange REMIC securities for MX securities that more closely match their investment requirements.

The Ginnie Mae Platinum transaction volume also declined in Fiscal Year 2003, from its Fiscal Year 2002 record high. Platinum transactions decreased 20 percent to $38.2 billion. Cash Platinum fees totaled $15.3 million for Fiscal Year 2003.

Recent Initiatives

In response to a rapidly changing mortgage finance market, Ginnie Mae has increased efforts to bring new or improved products to the marketplace, with the objective of gradually reworking its business mix to increase the number of product sponsors, as well as the stability of volume growth. Ginnie Mae will continue to introduce new lines and expand existing products to attract and retain customers and meet its mission. Examples of recent Ginnie Mae initiatives follow:

Ginnie Mae II

The Ginnie Mae II program was restructured in Fiscal Year 2003, as described on page 11.

Multifamily

The Ginnie Mae Multifamily program undertook a number of new initiatives in Fiscal Year 2003, including the following:

- Construction loans began to be used as a new type of collateral for Ginnie Mae REMICs;
- Procedures for converting construction loan pools to project loan pools were revised; and
- A framework was designed to disclose multifamily pool level delinquency data, allowing investors to make more informed decisions about Ginnie Mae multifamily MBS.

REMICs & Platinum Securities

Ginnie Mae analyzed operational enhancements desired by the broker/dealer community, providing Ginnie Mae with clear direction on IT solutions that enhance the interaction with and image of Ginnie Mae within the capital markets community. Specifically, Ginnie Mae ported gRex, the multiclass bulletin board, to the web and granted access to the REMIC

Database via Ginnie Mae's e-access website. These new web-based capabilities enable automated submission and communication of multiclass transactions (i.e. REMICs and Platinums), providing a more effective means to manage stakeholder relationships and enhance the printing of offering statements.

Other improvements included the following:

- Ginnie Mae added two new sponsors to its multiclass program. To date, the agency has approved 18 sponsors to issue multiclass securities with a Ginnie Mae guarantee;
- Ginnie Mae created a more efficient process for the creation of Platinum securities by reducing the settlement cycle from four to two days; and
- Ginnie Mae announced an initiative to provide enhanced disclosures on loans that back its MBS to provide investors with better information with which to forecast the performance of Ginnie Mae securities.

New Standards for Reporting Loan Information Improvement

Ginnie Mae has successfully implemented a standard format that issuers must follow when reporting case number/loan number information on FHA, VA, RHS, and PIH insured/guaranteed loans to Ginnie Mae. This has helped Ginnie Mae streamline the reporting process for its business applications, thereby reducing the number of erroneous case numbers/loan numbers submitted.

Information Technology Initiatives

Ginnie Mae continued to enhance its information technology infrastructure in Fiscal Year 2003, integrating state-of-the-art solutions into its operational infrastructure and streamlining its business procedures by reducing processing time and costs for both Ginnie Mae and its customers.

Enterprise Architecture

Ginnie Mae completed an Enterprise Architecture modernization plan and Business Process Improvement Plan that will result in a more cost-effective and streamlined operating environment upon implementation. The plan identified a recommended course of action to help Ginnie Mae modernize its operating environment, establishing the framework for Ginnie Mae's e-government initiatives that will increase its value to business partners. This strengthens Ginnie Mae's ability to improve its performance in a dynamic secondary market where immediate access to information is paramount to success.

Continuity of Operations Plan (COOP)

Throughout the year, Ginnie Mae organized, supported, and participated in ongoing internal and HUD departmental COOP planning, training, and drills to practice execution of the Ginnie Mae COOP. Specifically, during the August 2003 power outage in the northeastern region of the United States, Ginnie Mae activated its COOP to ensure that Ginnie Mae's pass-through payments were distributed to investors without interruption.

e-Commerce

Ginnie Mae and business partners continue to benefit from web technologies. Ginnie Mae has implemented several e-commerce efforts to improve customer service and accomplish established missions, goals, and objectives. Ginnie Mae reengineered the method by which stakeholders access information and migrated from hard copy mailings to electronic dissemination of exception reports to issuers.

GinnieNET

GinnieNET is Ginnie Mae's primary information network for conducting business with its customers. Ginnie Mae made several enhancements to GinnieNET, which streamlined processing for its customers, as follows:

- Automated the process to enable issuers to transmit construction loan draws via GinnieNET;
- Provided issuers with capability to import pool information to make the recertification process more efficient; and
- Enhanced GinnieNET to support new products, such as the Ginnie II changes and Hybrid ARMS program.

View to the Future

In Fiscal Year 2003, Ginnie Mae continued to facilitate increased homeownership in urban areas through the success of its programs.

As it moves into Fiscal Year 2004, Ginnie Mae will develop and implement policies and procedures that improve program efficiency and customer service, and ultimately, make its programs more attractive to investors.

For example, building upon its work in Fiscal Year 2003, Ginnie Mae plans to implement a new hybrid ARM program. This program will allow Ginnie Mae to securitize a range of hybrid mortgages, facilitating the pooling of loans with interest rate adjustment dates 3, 5, 7, and 10 years after origination. During this fiscal year, Ginnie Mae made all appropriate operational changes required for the securitization of the hybrid ARM program.

This program will help meet Ginnie Mae goals in several different ways: first, the mortgage itself is an excellent product for the low- and moderate-income borrowers served by government lending programs; secondly, Ginnie Mae understands that there is a definite investor appetite for a product that provides investors with the consistency of a fixed-rate security along with interest rate protection; finally, the hybrid ARM securitization positions Ginnie Mae to more effectively meet future demands. The last three years have seen record levels of fixed-rate mortgage originations because of historically low interest rates. However, if rates begin to climb, Ginnie Mae expects a large percentage of borrowers to choose adjustable rate mortgages. With the implementation of this new program, Ginnie Mae will be well positioned to adjust to this change.

Management's Discussion and Analysis of Financial Position and Results of Operations

Financial Highlights of 2003

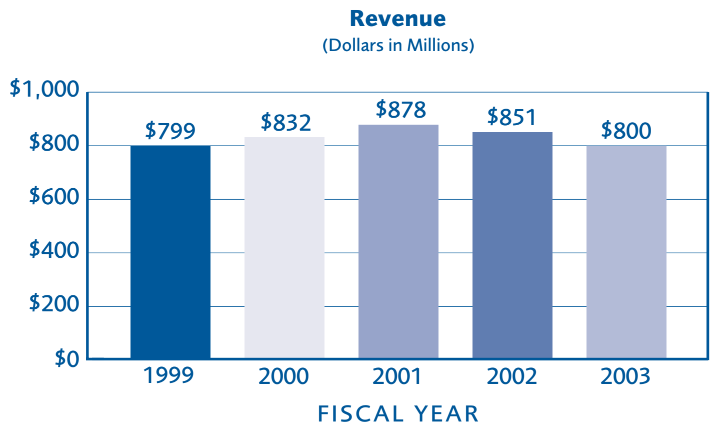
Fiscal Year 2003 was marked by a decrease in revenue and an increase in assets. While assets increased, revenues related to interest income decreased as a result of the low interest rate environment. Ginnie Mae had a net income of $731.5 million, an 8 percent decrease from $794.3 million in Fiscal Year 2002. Revenues decreased by 6.1 percent, to $799.6 million from $851.1 million in Fiscal Year 2002, and total assets increased 8.4 percent, to $10.4 billion from $9.6 billion in Fiscal Year 2002.

Ginnie Mae provided the market with important services and contributed to a stable environment. The outstanding MBS portfolio decreased, which generated decreased guaranty fee revenues. In Fiscal Year 2003, MBS program income declined to $406.1 million from $446 million in Fiscal Year 2002. Total expenses as a percentage of total revenues increased from 6.7 percent in Fiscal Year 2002 to 8.5 percent in Fiscal Year 2003.

Ginnie Mae issued $222.4 billion in commitment authority in Fiscal Year 2003, a 24.3 percent increase from Fiscal Year 2002. The $215.8 billion of MBS issued in Fiscal Year 2003 represented a 23.4 percent increase from Fiscal Year 2002. The outstanding MBS balance at the end of Fiscal Year 2003 was $473.9 billion, compared to $568.4 billion the previous year because repayments exceeded new issuances. Fiscal Year 2003 production provided the capital to finance the purchase or refinance of homes for approximately two million American families.

Ginnie Mae's financial performance moderated during Fiscal Year 2003 with a decline in revenue in comparison to Fiscal Year 2002. Excess revenues over expenses are invested in U.S. government securities. To date, Ginnie Mae's earnings and fund balance have provided the capital to finance its operations, and as a result, Ginnie Mae has not needed to obtain funds through federal appropriations.

The following chart illustrates Ginnie Mae's revenue in the past five years:



To assist readers in understanding Ginnie Mae's recent financial history, the table on the following page provides three-year financial highlights of the corporation.

Results of Operations

Ginnie Mae believes that the following discussion will provide the reader with information that is relevant to an assessment and understanding of Ginnie Mae's financial condition and results of operations. The discussion should be read in conjunction with the financial statements and notes thereto. Ginnie Mae's operating results are subject to fluctuation each year, depending on the frequency and severity of losses resulting from general economic conditions, mortgage market conditions, and terminating issuers.

MBS Program Income

MBS program income includes Guaranty Fees, Multiclass Fees, New Issuer Fees, Commitment Fees, Handling Fees, and Transfer of Servicing Fees. Guaranty Fees and Commitment Fees comprise approximately 92 percent of total MBS program revenues. Guaranty Fees represent income streams earned by providing Ginnie Mae's guaranty of *the full faith and credit of the United States government* to MBS issuers. These income streams are recognized over the life of the outstanding MBS. Commitment Fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae MBS. The authority Ginnie Mae provides expires 12 months from issuance for single family issuers, and 24 months from issuance for multifamily issuers. Ginnie Mae receives Commitment Fees as issuers request Commitment Authority, and recognizes the Commitment Fees as earned as issuers use their Commitment Authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired Commitment Authority are not returned to issuers. As of September 30, 2003, total Commitment Fees deferred equaled $8.7 million.

Three-Year Financial Highlights

(Dollars in thousands)

September 30,	2003	2002	2001
Balance Sheets Highlights and Liquidity Analysis			
Funds with U.S. Treasury	$ 2,931,800	$ 2,509,100	$ 2,043,000
U.S. Government Securities	$ 7,215,800	$ 6,935,200	$ 6,557,100
Total Assets	$ 10,353,900	$ 9,554,600	$ 8,739,300
Total Liabilities	$ 703,900	$ 636,100	$ 615,100
Investment of U.S. Government	$ 9,650,000	$ 8,918,500	$ 8,124,200
Total RPB Outstanding (1)	$473,907,979	$568,351,015	$604,308,600
LLR (2) and Investment of U.S. Government	$ 10,169,300	$ 9,457,200	$ 8,659,700
Investment of U.S. Government as a percentage of			
Total Assets	96.94%	97.50%	97.54 %
LLR and Investment of U.S. Government as a percentage			
of RPB	2.15%	1.66%	1.43 %
Capital Adequacy Ratio (3)	2.10%	1.64%	1.41%
Highlights from Statements of Revenues and Expenses & Profitability Ratios (Years ended September 30)			
MBS Program Income	$ 406,100	$ 446,000	$438,700
Interest Income	$ 389,300	$ 398,900	$430,300
Total Revenues	$ 799,600	$ 851,100	$878,500
MBS Program Expenses	$ 55,400	$ 45,600	$ 40,100
Administrative Expenses	$ 10,300	$ 9,300	$ 9,300
Provision for Loss	$ —	$ —	$ 23,800
Total Expenses	$ 68,100	$ 56,800	$ 49,400
Excess of Revenues over Expenses	$ 731,500	$ 794,300	$805,300
Total Expense as a percentage of Average RPB	0.0131%	0.0097%	0.0082%
Provision for Loss as a percentage of Average RPB	—	—	0.0039

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS, including $109 million of GNMA Guaranteed Bonds

(2) Loan Loss Reserve (LLR)

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

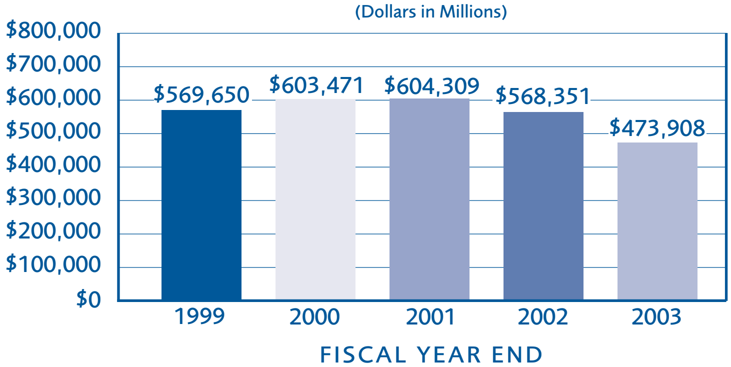
Commitment Fees realized increased from $35.5 million in Fiscal Year 2002, to $44.3 million in Fiscal Year 2003. This increase resulted from an increase in MBS issuance activity. New commitments issued by Ginnie Mae amounted to $222.4 billion during Fiscal Year 2003, a 24.3 percent increase from Fiscal Year 2002.

A decline in the MBS portfolio was responsible for the decrease in MBS program income. MBS Guaranty Fees decreased 10.4 percent to $337.5 million in Fiscal Year 2003, from $376.5 million in Fiscal Year 2002. Guaranty Fees are collected on the aggregate principal balance of the guaranteed securities outstanding of the non-defaulted issuer portfolio.

The following chart represents the remaining principal balance outstanding of the MBS portfolio as of September 30:

Remaining Principal Balance Outstanding of the MBS Portfolio

(Dollars in Millions)



Interest Income

Ginnie Mae invests the excess of its accumulated revenues over expenses only in U.S. government securities, as mandated by the U.S. Department of the Treasury. Typically, interest income has steadily increased in prior years. For Fiscal Year 2003, interest income decreased 2.4 percent to $389.3 million from $398.9 million in Fiscal Year 2002. This decrease was directly related to a much lower prevailing interest rate throughout Fiscal Year 2003.

Multiclass Revenue

Multiclass revenue is part of the MBS program revenues, and is composed of REMIC and Platinum program fees. Miscellaneous income, also a component of the MBS program revenues, is earned from the Ginnie Mae II portfolio. Ginnie Mae issued approximately $38.2 billion in Platinum products in Fiscal Year 2003. Total cash fees for Platinum securities amounted to $15.3 million, representing a 29.8 percent decrease in fee income from the previous year. Guaranty Fees from REMIC securities amounted to $22.6 million on $67.9 billion in issuance for those products. Ginnie Mae recognizes a portion of the REMIC, Callable Trust, and Platinum program fees in the period the fees are received, with the balance deferred and amortized as Other Income over the remaining life of the financial investment.

In Fiscal Year 2003, Ginnie Mae issued a total of $106.1 billion in its multiclass securities (REMICs and Platinums) program. The estimated outstanding balance of multiclass securities included in the total MBS securities balance as of September 30, 2003, was $182.9 billion. This was a decrease from the outstanding balance in Fiscal Year 2002 of $214.4 billion due to the runoff in the underlying MBS.

Ginnie Mae Expenses

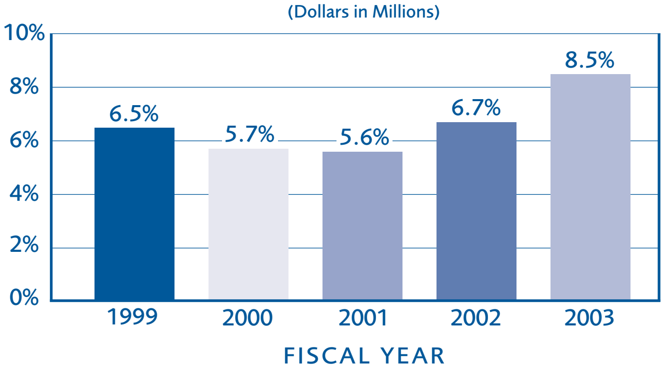
Total expenses are incurred to carry out Ginnie Mae's programs and initiatives. These costs include contractor services, personnel, compensation, printing, and other administrative functions. Total expenses increased from $56.8 million in Fiscal Year 2002, to $68.1 million in Fiscal Year 2003, representing an increase of 19.9 percent.

The increase in expenses is attributable to the interest Ginnie Mae provides to Soldiers and Sailors and to growth in the Multifamily program which repays the 1 percent not funded in the FHA claim reimbursement. Expenses as a percentage of total revenues have ranged over the last five years from 5.6 percent to 8.5 percent. Additionally, total expenses as a percentage of average RPB grew over the last five years from 0.0093 percent to 0.0131 percent.

The following chart depicts MBS program and administrative expenses as a percentage of gross revenues:

Expenses as a Percentage of Gross Revenues

(Dollars in Millions)



Credit Related Expenses

Credit related expenses include Ginnie Mae's Provision for Loss and defaulted issuer portfolio costs. The Provision for Loss is charged against income in an amount considered appropriate to maintain reserves for losses at levels management determines adequate to absorb potential losses from defaulted issuer portfolios and program losses. Based on management's assessment of reserve adequacy, no Provision for Loss was made in Fiscal Years 2003 and 2002.

Financial Models

Ginnie Mae's Policy and Financial Analysis Model (PFAM) is a comprehensive model that allows Ginnie Mae to evaluate its financial condition, in terms of cash flows, capital resource adequacy, and budget projections under an array of economic and financial scenarios modified by policy or programmatic decisions. The PFAM incorporates Ginnie Mae's inherent operations-based risks with modeling that employs economic, financial, and policy variables to generate output that assesses these risks and overall performance.

The information from PFAM supports Ginnie Mae management in key financial decisions, such as allocating reserves against future losses. This model also aids the preparation of Ginnie Mae's budget through the estimation of the credit subsidy rate for each of Ginnie Mae's programs.

The current version of PFAM was formally accepted by OMB in Fiscal Year 2002, and used exclusively for the first time in Fiscal Year 2003. It includes a well-designed and self-documenting database that supports the model and streamlines the process of data updates while reducing turnaround time. This relational database is also a vital feature, because it enables expanded reporting capabilities such as drill-down graphs and charts, and grants the user meaningful access to the wealth of data available in the model.

The model was adjusted during Fiscal Year 2003 to reflect Ginnie Mae's revised policy regarding the fee charged by issuers/servicers of pools of Ginnie Mae II securities to improve the efficiency of the pricing of these instruments. Issuers/servicers can now reduce the fee charged for servicing to as low as 19 basis points on these pools. In order to capture the effect of this policy change, the PFAM Cash Flow model engine was modified to enable the user to estimate the impact of issuers/servicers taking the option to reduce the fee on the performance of those issuers/servicers and ultimately on the performance of Ginnie Mae.

The database that supports the model calculation engines stores all forecast data generated by the PFAM over time in response to changes in policy and economic variables, defined as scenarios. Storage of the key scenarios used to support official analyses for Ginnie Mae, such as budget preparation, credit subsidy estimation, portfolio wind-down analyses, and the reserve for loss calculation is required by Ginnie Mae in order to fully document the processes by which these estimates were derived. As the model has seasoned and these forecast scenarios are retained, the volume of data stored in the repository has grown substantially. During Fiscal Year 2003, Ginnie Mae initiated a comprehensive review of the data storage mechanisms supporting the PFAM calculation engines to identify areas where data storage procedures could be streamlined, both to make the model's online operations more efficient, and to improve data management capacity, including enhancing the efficiency of backup and recovery and data quality and integrity assurance routines. As a result of these changes, the model operates more efficiently, and interactions between the application and the database are now as much as 40 percent more efficient than those measured before the enhancements.

As is done each year, Ginnie Mae worked with FHA and VA to obtain the most current and comprehensive loan level data. These data supported detailed segmentation of loans according to key risk indicators, including loan type, loan size, loan-to-value ratio, and region, enabling Ginnie Mae to map the current risk profile of the collateral supporting its guaranteed MBS.

Ginnie Mae obtained the most current economic forecast, as well as a range of alternative scenarios, to support Ginnie Mae's use of stress testing in risk management and capital adequacy demonstration. Policy forecasts were updated in coordination with key professionals and documentation from Ginnie Mae, FHA, and VA.

Liquidity

Ginnie Mae's role in supporting expanded affordable housing in the United States through secondary market vehicles is ongoing through the use of the guaranty of the *full faith and credit of the United States government.* Liquid assets further Ginnie Mae's initiatives, and these initiatives, which are driven by the development of new secondary market vehicles, the timely payment of pass-throughs to security holders, and general operations. Through successful cash management, program management, and commitment to cost containment, *Ginnie Mae has not been required to obtain appropriations or other debt financing services.*

The table below describes the fair value composition and maturity of Ginnie Mae's Treasury securities as of September 30, 2003:

Composition of Treasury Securities

(Percent of Total)

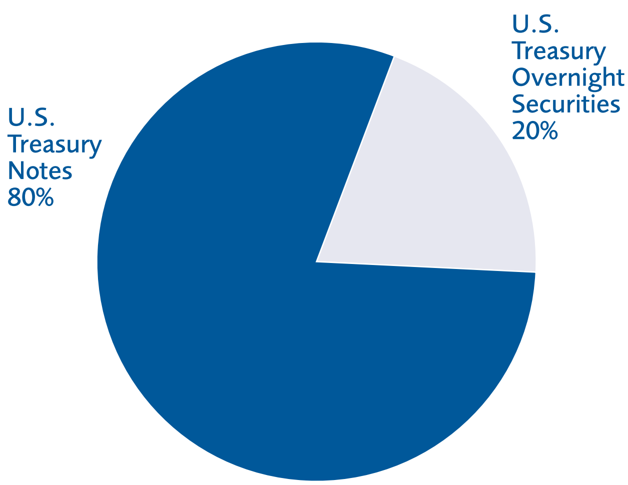
Maturity	2003	2002
Due within 1 year	30%	29%
Due in 1-5 years	28%	42%
Due in 5-10 years	42%	29%

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, 2003, Ginnie Mae reported Funds with the U.S. Treasury of $2.9 billion compared with $2.5 billion on September 30, 2002. The increase in Funds with the U.S. Treasury is influenced by the Credit Reform Act of 1990. This act requires that Ginnie Mae segregate funds held with the U.S. Treasury between Liquidating and Financing accounts. Funds received from activity originating prior to Fiscal Year 1992, are accounted for in the Liquidating accounts, while funds received from MBS fees for activity originating after Fiscal Year 1992, are maintained in the Financing accounts. For credit reform purposes, funds in the Financing account are deposited into an interest-bearing account with the U.S. Treasury.

In addition to the Funds with the U.S. Treasury, Ginnie Mae's investments totaled $7.2 billion in Fiscal Year 2003, compared with $6.9 billion in the prior year. Of the $7.2 billion investment balance as of September 30, 2003, $1.4 billion was held in overnight certificates. The balance of the portfolio's maturities are spread over time to ensure that Ginnie Mae has a ready source of funds to meet various liquidity needs. Emergency liquidity needs are met through short-term maturities.

The following chart illustrates the components of Ginnie Mae's Investments in U.S. government Securities as of September 30, 2003:

Components of Investment in U.S. Government Securities



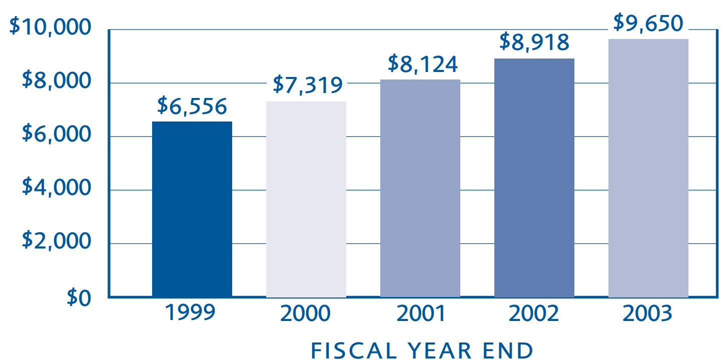
Capital Adequacy

Ginnie Mae's activities involving the guaranty of MBS have historically operated at a profit. Ginnie Mae has never had to exercise its authority to borrow funds from the U.S. Treasury to finance its operations. Ginnie Mae's net income continues to build and strengthen the Corporation's capital base and programs. Ginnie Mae believes it maintains adequate capital reserves to withstand downturns in the housing market that could cause severe issuer defaults. Ginnie Mae's capital is backed by *the full faith and credit guaranty of the United States government.*

As of September 30, 2003, Ginnie Mae had an Investment of U.S. government balance of $9.7 billion after establishing reserves for losses on its credit activities, compared with $8.9 billion as of September 30, 2002. Ginnie Mae's net income is used to build reserves which it believes to be sound. Over the past three years, Ginnie Mae has increased its capital adequacy ratio (Investment of U.S. government plus loan loss reserve as a percentage of total assets and RPB) from 1.6 percent to 2.1 percent. To assess the strength of its capital position, Ginnie Mae uses a "stress test" methodology that measures Ginnie Mae's ability to withstand severe economic conditions.

The following chart describes Ginnie Mae's Capital Reserves (Investment of U.S. government) as of September 30 for the last five years:

Capital Reserves
(Investment of U.S. Government)
(Dollars in Millions)



Risk Management

Ginnie Mae continues to enhance its automated systems and business processes to increase the efficiency of its operations and to reduce its business risk. During Fiscal Year 2003, Ginnie Mae continued periodic reviews of all master subservicers and major contractors to assure compliance with the terms and conditions of their contracts with Ginnie Mae. Additionally, the audits and reviews provided Ginnie Mae with a mechanism for continuing to strengthen its internal controls and minimizing risks.

New Accounting Standards

In November 2002, the Financial Accounting Standard Board (FASB) issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 will primarily apply to Ginnie Mae guaranteed MBS issued to investors on or after January 1, 2003. It will require that we recognize the fair value of our guarantee on MBS as an asset and the fair value of our guarantee obligations as a liability. Under FIN 45, we will amortize our guarantee asset and liability amounts equally over the estimated life of the loans underlying the MBS as an adjustment to Guaranty Fee income. There will be no effect on Ginnie Mae's Guaranty Fee income or equity from adopting this accounting rule, because the guaranty asset and liability will be equal under FIN 45.

OMB Circulars A-123, Management Accountability and Control, and A-127, Financial Management Systems — Management Comments on Systems of Internal Controls

Ginnie Mae management maintains and depends on a system of internal administrative and accounting controls that, in its opinion, provides reasonable assurance that transactions are properly authorized and recorded, permits preparation of financial statements in conformity with generally accepted accounting principles, and ensures that Ginnie Mae's assets are safeguarded. The system of internal and accounting controls includes policies and procedures for the execution, documentation, and recording of transactions and an organizational structure that provides for effective segregation of duties and responsibilities.

Ginnie Mae management believes that this internal assessment meets the intent of OMB's internal control review requirements outlined in OMB Circular A-123, *Management Accountability and Control*, and OMB Circular A-127, *Financial Management Systems*.

Management believes that it is in compliance with the reasonable assurance standards of sections 2 and 4 of the *Federal Managers' Financial Integrity Act of 1982*.