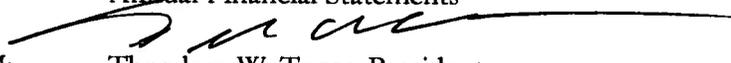




September 16, 2015

Memorandum

SUBJECT: Restatement Notification for Errors on Ginnie Mae's Fiscal Year (FY) 2014
Annual Financial Statements

FROM: 
Theodore W. Tozer, President,
Government National Mortgage Association (Ginnie Mae)

Based on the guidance in the Office of Management and Budget (OMB) Bulletin 15-02, Audit Requirements for Federal Financial Statements, Section 5.5, 5.6, 5.7, 5.8, and 5.9, the Office of the Inspector General (OIG) is required to notify Ginnie Mae if they become aware of a material misstatement(s), whether factual, judgmental, or projected, affecting a previously-issued financial statements and advise the agency's management to determine the specific amount(s) of the material misstatement(s) and the related effect(s) of such on the previously-issued financial statement(s) as soon as reasonably possible.

In the FY 2014 audit opinion, OIG reported two errors in the application of Generally Accepted Accounting Principles (GAAP) which misstated the Ginnie Mae financial statement. The two items were related to Ginnie Mae's (1) accounting for Federal Housing Administration (FHA) reimbursable costs as expense rather than an asset in its books and (2) accounting and disclosure for mortgage escrow funds held in trust by Ginnie Mae's Master Sub Servicer for the borrowers on its defaulted issuers' portfolio.

Based on OIG's notification and related OMB guidance, Ginnie Mae initiated specific tasks to analyze the impact of the misapplication of GAAP associated with FHA reimbursable costs. In addition, Ginnie Mae initiated tasks to analyze the application of GAAP related to mortgage escrow accounts. To obtain definitive guidance on mortgage escrow accounts and resolve the impasse, Ginnie Mae has requested assistance from authoritative accounting bodies. Below is a summary of our efforts:

FHA Reimbursable Costs

Ginnie Mae's action to charge off as paid all expenses incurred to service delinquent loans was too conservative and was a departure from GAAP. Ginnie Mae's overly conservative approach in accounting for these fees was based on reports from well-qualified issuers that FHA reimbursements amounts are substantially reduced when deadlines have been missed. Ginnie Mae's previous Master Sub Servicer had missed deadlines by more than a year, which we believe will substantially reduce the reimbursement rate. Ginnie Mae has asked its new



Servicer to determine the actual reimbursement rate by reviewing claims that have already been paid. The amount of misstatement is currently unknown. Once the reimbursement rate is determined, Ginnie Mae will restate its financials by capitalizing the amount of previously expensed payments expected to be reimbursed by FHA. The impact on Ginnie Mae's 2014 financial statements is that assets and income were understated. We are evaluating impacts to previous period financial statements.

Mortgage Escrow Accounts

Although there are not specific accounting standards for Ginnie Mae escrow accounts addressing whether money held in escrow by the master sub servicers for the payment of future property tax and insurance payments is required to be included on the face of the financial statements or disclosed in the notes to the financial statements, Ginnie Mae will disclose the information in some manner.