AUDIT REPORT OF GINNIE MAE'S FY 2016 AND FY 2015 FINANCIAL STATEMENTS

OFFICE of INSPECTOR GENERAL
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Government National Mortgage Association, Washington, DC

Audit of Fiscal Years 2016 and 2015 (Restated) Financial Statements

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2017-FO-0001
November 14, 2016

To: Theodore Tozer, President, Government National Mortgage Association, T

From: Thomas R. McEnanly, Director, Financial Audits Division, GAF

Subject: Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2016 and 2015 (Restated)

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Government National Mortgage Association's fiscal years 2016 and 2015 (restated) financial statements.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 202-402-8216.

Audit Report Number: 2017-FO-0001
Date: November 14, 2016

Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2016 and 2015 (Restated)

Highlights

What We Audited and Why

We were engaged to audit the accompanying financial statements and notes of the Government National Mortgage Association (Ginnie Mae) as of September 30, 2016 and 2015 (restated). The Government Corporation Control Act, as amended, requires the Office of Inspector General to audit the financial statements of Ginnie Mae annually. Additionally, we reviewed restatement adjustments performed in fiscal year 2016 to restate fiscal year 2015 financial statements. This report presents the results of our fiscal years 2016 and 2015 (restated) audits of Ginnie Mae's financial statements, including our report on Ginnie Mae's internal control and test of compliance with selected provisions of laws and regulations that apply to Ginnie Mae.

What We Found

In fiscal year 2016, for the third consecutive year, we were unable to obtain sufficient and appropriate evidence to express an opinion on the fairness of the $ 4.2 billion (net of allowance) in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio as of September 30, 2016. Ginnie Mae also continued to improperly account for the Federal Housing Administration reimbursable costs as an expense instead of capitalizing them. The combination of these unresolved issues for a number of years was both material and pervasive because it impacted multiple financial statement line items across all of Ginnie Mae's basic financial statements. As a result of the scope limitation in our audit work and the effects of material weaknesses in internal control, we have not been able to obtain sufficient and appropriate evidence to provide a basis for an audit opinion on Ginnie Mae's fiscal years 2016 and 2015 (restated) financial statements. A combination of various internal control weaknesses in financial reporting and continued financial management governance issues contributed to these deficiencies. We identified four material weaknesses, one significant deficiency, and one reportable noncompliance with selected provisions of laws and regulations.

What We Recommend

Our audit recommendations are directed toward improving and strengthening Ginnie Mae's governance of its financial operations. New recommendations are presented after each finding. Open recommendations made in previous years are not included on each of the findings in this report.

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U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report

President
Government National Mortgage Association

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Government National Mortgage Association (Ginnie Mae), which comprise the balance sheets as of September 30, 2016 and 2015 (restated), and the related statements of revenues and expenses and changes in investment of the U.S. Government, the cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Ginnie Mae's management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles (GAAP). This responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for (1) evaluating the effectiveness of internal control over financial reporting; (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, including providing reasonable assurance that the broad objectives of the Federal Managers' Financial Integrity Act are met; and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards. However, we were not able to obtain sufficient, appropriate evidence to provide a basis for an audit opinion because of the unresolved matters described in the Basis for Disclaimer of Opinion section below.

Basis for Disclaimer of Opinion

The following unresolved matters are a scope limitation in our audit work that contributed to our disclaimer of opinion on the fiscal year 2016 financial statements. There were no other satisfactory alternative audit procedures that we could adopt to obtain sufficient and appropriate evidence with respect to these unresolved matters. Readers are cautioned that amounts reported in the financial statements and related notes may not be reliable because of these unresolved matters.

- Nonpooled loan assets. In fiscal year 2016, for the third consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets into an auditable state. Therefore, we were unable to audit the $4.2 billion (net of allowance) in nonpooled loan assets reported in Ginnie Mae's financial statements as of September 30, 2016. These assets relate to (1) claims receivable, net ($709 million); (2) mortgage loans held for investment, net ($3.47 billion); (3) accrued interest receivable; net ($19 million); and (4) acquired property, net ($41 million). This condition occurred because Ginnie Mae lacked financial management systems that were capable of handling its loan level transaction accounting requirements. As a result, we were again unable to perform all of the audit procedures needed to obtain sufficient and appropriate evidence. As a result, we determined that our audit scope was insufficient to express an opinion on Ginnie Mae's $4.2 billion in nonpooled loan assets as of September 30, 2016.

- Receivable for reimbursable expenses from FHA. In fiscal year 2016, for the third consecutive year, Ginnie Mae continued to account for Federal Housing Administration (FHA) reimbursable costs as an expense instead of capitalizing the costs as an asset (see finding 2). This practice caused Ginnie Mae's asset and net income line items to be misstated. Due to multiple years of incorrect accounting, we believe the cumulative effect of the errors identified was material. However, we were unable to determine, with sufficient accuracy, a proposed adjustment to correct the errors due to insufficient available data.

- Issue on management representation letter. Ginnie Mae's general counsel refused to sign off on certain matters included in the management representation letter concerning all known actual or possible litigation, claims, and assessments related Ginnie Mae. OIG believes that Ginnie Mae's legal counsel is responsible for and knowledgeable about those matters which form part in Ginnie Mae management's preparation and fair presentation of the financial statements. Due to the legal counsel's refusal to sign off on these matters, which is a scope limitation, we lacked assurance that all known actual or possible litigations, claims and assessments related to Ginnie Mae had been properly accounted for or disclosed in the financial statements in accordance with generally accepted accounting principles.

Disclaimer of Opinion
Because of the significance of the matters described in the Basis for Disclaimer of Opinion section, we have not been able to obtain sufficient and appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Emphasis of Matter
As discussed in note 2 to the financial statements, the fiscal year 2015 financial statements have been restated to correct a number of misstatements. We audited the material restatement adjustments in 2016 and determined that these adjustments were appropriate and had been properly applied except for the restatement related to the reclassification of expenses from recapture (provision) for mortgage loans held for investment and claims receivable to mortgage-backed securities program and other expenses. Ginnie Mae performed restatements in fiscal years 2016 and

2015. We caution our reader that the scope of the fiscal year 2016 restatement audit was limited to the restatement adjustments made in fiscal year 2016 and that restatement adjustments made by Ginnie Mae in fiscal year 2015 to correct fiscal year 2014 financial statements had not been fully audited by the Office of Inspector General (OIG). Our opinion has not been modified with respect to this matter.

Other Matters
Ginnie Mae's Annual Report to Congress contains a wide range of information that is not directly related to the financial statements. This information is presented for additional analysis and is not a required part of the financial statements. Therefore, it has not been subjected to the auditing procedures applied in the audit of the financial statements. As a result, we do not express an opinion on the information or provide assurance on it.

Report on Internal Control Over Financial Reporting and Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Report on Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Ginnie Mae's internal control over financial reporting to determine the appropriate audit procedures for expressing our opinion on the financial statements. However, we did not plan our audit for the purpose of expressing an opinion on the effectiveness of Ginnie Mae's internal control. As a result, we do not express an opinion on the effectiveness of Ginnie Mae's internal control.

A ***deficiency*** in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified five deficiencies in internal control, which are described below. We consider the first four issues to be material weaknesses and the remaining issue to be a significant deficiency.

Material Weaknesses in Financial Reporting

A ***material weakness*** is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of Ginnie Mae's financial statements will not be prevented or detected and corrected on a timely basis.

Material Asset Balances Related to Nonpooled Loans Were Not Auditable
In fiscal year 2016, for the third consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets into an auditable state. Therefore, we were unable to audit the $4.2 billion (net of allowance) in nonpooled loan assets reported in Ginnie Mae's financial statements as of September 30, 2016. These assets relate to (1) claims receivable, net ($709 million); (2) mortgage loans held for investment, net ($3.47 billion); (3) accrued interest

receivable, net ($19 million); and (4) acquired property, net ($41 million). This condition occurred because Ginnie Mae lacked financial management systems that were capable of handling its loan level transaction accounting requirements. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient and appropriate evidence. As a result, we determined that our audit scope was insufficient to express an opinion on Ginnie Mae's $4.2 billion in nonpooled loan assets as of September 30, 2016.

Ginnie Mae's Internal Control Over Financial Reporting Continued To Have Weaknesses
In fiscal year 2015, we reported that Ginnie Mae's internal control over financial reporting was not effective. This condition continued, and some new issues were identified in fiscal year 2016. These material weaknesses in internal controls were issues related to the (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans; (2) accounting for cash in transit; (3) revenue accrual accounting, and (4) several other accounting issues, such as advances, fixed assets, and financial statement note disclosures. The first three issues were repeat findings from prior years, and the last one was new in fiscal year 2016. These conditions occurred because of Ginnie Mae's failure to ensure that (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively and (2) accounting policies and procedures were developed, finalized, and appropriately implemented. As a result, the risk that material misstatements in Ginnie Mae's financial statements would not be prevented or detected in a timely manner increased.

The Allowance for Loan Loss Account Balances Were Unreliable
In fiscal year 2016, we identified accounting issues related to Ginnie Mae's allowance for loan loss accounts. Specifically, we noted that Ginnie Mae improperly (1) accounted for certain nonpooled loan accounting transactions in its allowance for loan loss accounts and (2) booked a provision for loan loss against a nonexisting asset account. Factors that contributed to these issues included (1) the delayed implementation of accounting policies and procedures related to the allowance accounts and (2) the lack of financial management systems capable of handling loan level transactions. Due to a combination of all of these accounting issues, we determined the balance of the allowance for loan loss accounts reported in Ginnie Mae's financial statements to be unreliable.

Progress Had Been Made To Address Ginnie Mae's Financial Management Governance Problems
In fiscal year 2016, Ginnie Mae's executive management began to address the financial management governance problems cited in our fiscal years 2015 and 2014 audit reports. While progress was made this year, more work is needed to fully address the issues cited in our report. Specifically, these problems included issues in (1) keeping the Ginnie Mae Office of the Chief Financial Officer's (OCFO) operations fully functional; (2) ensuring that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; (3) establishing adequate and appropriate accounting policies and procedures and accounting systems; and (4) implementing an effective entitywide governance of the models that are used to generate accounting estimates for financial reporting. Some of these conditions continued because the implementation of the corrective action plans

required more time than anticipated. This issue again contributed to Ginnie Mae's inability to produce auditable financial statements for the third consecutive fiscal year.

Significant Deficiency in Financial Reporting

A ***significant deficiency*** is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Ginnie Mae Did Not Provide Adequate Oversight To Ensure Compliance With Federal Regulations and Guidance
Ginnie Mae did not provide adequate oversight of its pool processing agent for the Integrated Pool Management System (IPMS) to ensure that adequate controls over business processes complied with Federal regulations and guidance. Specifically, (1) IPMS does not have adequate controls that automatically track overrides in the system; (2) IPMS does not have automated controls to prevent a pool processor from making changes to the master data without prior approval; and (3) Ginnie Mae lacked adequate policies and procedures for data management. These conditions occurred because Ginnie Mae did not have policies for monitoring overrides and IPMS does not sufficiently track the use of overrides or generate a report that captures data changes. As a result, Ginnie Mae's data was susceptible to an increased risk of improper use of authority, which could cause financial harm to Ginnie Mae by attaching its guarantee to mortgage-backed securities.

Report on Compliance

We performed tests of Ginnie Mae's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Therefore, we do not express such an opinion. Our tests disclosed one instance of noncompliance with laws and regulations, which is required to be reported in accordance with Government Auditing Standards, issued by the U.S. Comptroller General.

In fiscal year 2016, Ginnie Mae's noncompliance with the Debt Collection Improvement Act (DCIA) of 1996 continued. Specifically, as reported in fiscal year 2015, Ginnie Mae had not remediated its practice of ensuring that all debt collection tools allowed by law had been considered before discharging the uninsured mortgage debts owed to Ginnie Mae. This condition occurred because Ginnie Mae's management continued to take the position that DCIA did not apply to Ginnie Mae; therefore, it did not need to comply with DCIA requirements. As a result, Ginnie Mae may have missed opportunities to collect millions of dollars in debts related to losses on its Mortgage-Backed Securities program. This finding is described in more detail in finding 6.

Management's Response to Findings and Our Evaluation

Management's response to the findings identified in our report and the evaluation of management's comments are presented in appendix A. We did not audit management's response, and, accordingly, we express no opinion on it.

This report is intended for the information and use of the management of Ginnie Mae, the U.S. Department of Housing and Urban Development (HUD), the Office of Management and Budget (OMB), the U.S. Government Accountability Office, and the United States Congress and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited. In addition to the internal control and compliance issues included in this report, other matters involving internal control over financial reporting and Ginnie Mae's operations that are not included in this report will be reported to Ginnie Mae management in a separate management letter.

Thomas R McEnanly for
Randy W. McGinnis
Assistant Inspector General for Audit
November 10, 2016

Material Weakness

Finding 1: Material Asset Balances Related to Nonpooled Loans Were Not Auditable

In fiscal year 2016, for the third consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets into an auditable state. Therefore, we were unable to audit the $4.2 billion (net of allowance) in nonpooled loan assets reported in Ginnie Mae's financial statements as of September 30, 2016. These assets relate to (1) claims receivable, net ($709 million); (2) mortgage loans held for investment, net ($3.47 billion); (3) accrued interest receivable, net ($19 million); and (4) acquired property, net ($41 million). This condition occurred because Ginnie Mae lacked financial management systems that were capable of handling its loan level transaction accounting requirements. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient and appropriate evidence. As a result, we determined that our audit scope was insufficient to express an opinion on Ginnie Mae's $4.2 billion in nonpooled loan assets as of September 30, 2016.

Continued Concerns Regarding the Auditability of the Accounting Data and Records Used To Support Multiple Significant Financial Statement Line Items

In fiscal years 2014 and 2015, we expressed a disclaimer of opinion on the fairness of Ginnie Mae's financial statements due to the lack of accounting data and records at the loan level to validate the amounts reported on its nonpooled loan assets and related accounts. In fiscal year 2016, despite our effort to audit the nonpooled loan asset balances, we were unable to audit them. The progress made by Ginnie Mae to make the nonpooled loan asset balances auditable is provided in detail below.

<u>Ginnie Mae's Subledger Database Solution Had Been Delayed</u>

In February 2016, Ginnie Mae, through its contractor, started pursuing the subledger database (SLDB) solution to address the material weaknesses related to the nonpooled loan assets. Ginnie Mae proposed adding several components to the existing finance platform to capture and organize accounting data needed to support the financial statement balances. Ginnie Mae's proposed timeline targeted July 2016 for OIG to start its preliminary audit work. However, given the limitations faced with (1) procuring and funding the contract[1] and (2) gaining access to available mastersubservicers' (MSS) data, Ginnie Mae experienced delays in providing OIG with the necessary information to begin the audit.

As of October 2016, Ginnie Mae was continuing its SLDB work. Ginnie Mae has reengaged its contractor (after a 2-month break) to continue developing the SLDB solution. Ginnie Mae stated that it is approximately 95 percent completed with its data conversion efforts and is now

[1] The contract relates to Ginnie Mae's financial reporting and audit readiness contractor that assisted in developing its loan level accounting system and related infrastructure.

gathering additional transaction data[2] from the MSSs. Further, the agency has proposed a new target date of March 2017[3] to provide OIG with relevant information to start the preliminary review of its nonpooled loan assets.

<u>HUD OCFO's Efforts to Establish Nonpooled Loan Asset Estimation Methodology Failed</u>
Since the timeline for the SLDB was expected to go beyond the current fiscal year, in April 2016, Ginnie Mae and HUD OCFO changed course and decided to pursue a statistical estimation approach for Ginnie Mae's nonpooled loan assets. The plan was to award a contract in June to develop the methodology and prepare for OIG review by the beginning of August. However, HUD OCFO experienced delays in the procurement process, which resulted in awarding the contract in late August, two months behind its planned date. This delay created a scope limitation, which prevented OIG from conducting an adequate audit during fiscal year 2016. HUD OCFO continues to pursue the statistical estimation methodology. This work will continue into fiscal year 2017, along with the SLDB.

In fiscal year 2016, Ginnie Mae made some progress in remediating the deficiencies cited in our previous audit reports. For example, it developed and conducted compliance reviews of MSSs and augmented the finance office with additional personnel to assist in performing oversight of the MSSs. In addition, Ginnie Mae enhanced its allowance for its loan loss[4] model in an effort to make it GAAP compliant (finding 3). However, without the critical financial management systems, Ginnie Mae continued to face challenges to fully implement all action plans.

Conclusion

Although Ginnie Mae had made efforts to address some of our fiscal years 2014 and 2015 audit issues related to the $4.2 billion in nonpooled loan assets, we noted slow progress in remediating the issues. As a result, we determined that our fiscal year 2016 audit scope was insufficient to express an opinion on Ginnie Mae's financial statements as of September 30, 2016. We will continue to work with Ginnie Mae in resolving these matters during our audit in fiscal year 2017.

Recommendations

Because we are not making further recommendations on this finding this year, audit recommendations made in fiscal year 2014, which are still open, are not repeated in this finding.

2 Ginnie Mae is gathering transaction, operational balance and loan state data.
3 This date is dependent on Ginnie Mae's receipt of the MSS data.
4 Beginning in fiscal year 2015, Ginnie Mae's nonpooled loan assets line items were reported net of allowances on the balance sheet.

Material Weakness

Finding 2: Ginnie Mae's Internal Control Over Financial Reporting Continued To Have Weaknesses

In fiscal year 2015, we reported that Ginnie Mae's internal control over financial reporting was not effective. This condition continued, and some new issues were identified in fiscal year 2016. These material weaknesses in internal controls were issues related to the (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans; (2) accounting for cash in transit; (3) revenue accrual accounting; and (4) several other accounting issues, such as advances, fixed assets, and financial statement note disclosures. The first three issues were repeat findings from prior years, and the last one was new in fiscal year 2016. These conditions occurred because of Ginnie Mae's failure to ensure that (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively and (2) accounting policies and procedures were developed, finalized, and appropriately implemented. As a result, the risk that material misstatements in Ginnie Mae's financial statements would not be prevented or detected increased.

Current-Year Status of Prior-Year Audit Matters

In fiscal year 2016, Ginnie Mae corrected some audit issues identified in our fiscal years 2014 and 2015 audit reports.[5] However, the following material audit issues reported last year and the year before were not resolved in fiscal year 2016. New recommendations made on these issues are included in this finding; however, unresolved audit recommendations made in fiscal years 2014 and 2015 are not reported again in this finding.

<u>FHA's Reimbursable Costs Incurred and Accrued Interest Earned on Nonpooled Loans Were Not Properly Accounted for in Ginnie Mae's Books in Accordance With GAAP</u>
In fiscal years 2014 and 2015, we reported that Ginnie Mae's accounting for FHA reimbursable costs was not in accordance with GAAP. Instead of capitalizing the FHA reimbursable costs as an asset, Ginnie Mae improperly charged the costs to the mortgage-backed securities (MBS) loss liability account. In addition, the accrued interest earned was accounted for only through the date of purchase from the MBS pools, rather than accruing interest for all periods allowed by the insuring agency, which is from the date of default to the date of filing. In 2016, Ginnie Mae's improper accounting for FHA reimbursable costs and accrued interest continued because although Ginnie Mae had updated its accounting policies with respect to these issues, its implementation is not expected until fiscal year 2017.

5 In prior years, we reported an issue related to Ginnie Mae's failure to present escrow balance on the face of the statements. While this issue has not been resolved and we continue to take exception on Ginnie Mae's escrow policy, its significance was diminished in fiscal year 2016 as a result of the mortgage servicing right sale in January 2016.

Issues Related to Ginnie Mae's Accounting for Cash in Transit Continued

In fiscal year 2015, we reported that Ginnie Mae failed to report cash retained by the MSSs in the custodial accounts at the end of the month because it did not consider any cash received by the MSSs as being received until those funds were deposited into Ginnie Mae's account with the U.S. Treasury. In fiscal year 2016,[6] the accounting problem identified in the prior fiscal year audit relating to the custodial account month end cash balance continued. This deficiency occurred because Ginnie Mae did not have final MSSs' custodial accounting policies and procedures in place in fiscal year 2016. This issue caused inconsistent accounting application of the MSSs' custodial accounts process from month to month.

In addition, in fiscal year 2016, we determined that Ginnie Mae failed to record cash in transit related to real estate mortgage investment conduit (REMIC) and commitment fees[7] that were paid to Ginnie Mae's agents. Specifically, Ginnie Mae delayed the booking of the cash transactions until the funds were deposited into Ginnie Mae's account at the U.S. Treasury. Similar to the role of the MSSs, the agents are acting for Ginnie Mae, and any funds collected by the agents on Ginnie Mae's behalf should be treated as cash to Ginnie Mae. This issue occurred because Ginnie Mae did not have policies and procedures to ensure that the cash-in-transit balance was properly accounted for. As a result, Ginnie Mae's cash balance at the end of the reporting period was misstated.

Ginnie Mae's Accrual Accounting and Real Estate Mortgage Investment Conduit Accounting Adjustments Made in Fiscal Year 2015 Were Not Appropriate and Reliable

In fiscal year 2015, we determined that Ginnie Mae did not appropriately defer recognition of REMIC fees in accordance with GAAP. Specifically, it recognized a majority of the guarantee fees collected from REMIC deals as earned revenue during the month in which the deal was issued and the remaining fees as unearned, rather than amortizing the revenues using the incurred cost method. Ginnie Mae agreed to our finding and updated its revenue recognition methodology[8] as well as prepared accounting adjustments to correct the understatement of deferred revenue. In fiscal year 2016, we reviewed Ginnie Mae's analysis and support for the accounting adjustments made and found some issues. These issues included (1) guarantee fee amounts and weighted average maturity reported for certain REMIC deals were not verified, (2) some costs that were used to calculate the revenue recognition ratio should have been excluded, and (3) improper application of the average incurred cost ratio from the 2014 and 2015 invoice data[9] to all of the REMIC deals closed from 1994 to 2013. Ginnie Mae's insufficient review of invoice data, unsupported incurred cost ratio assumption, and improper use of unverified guarantee fees and weighted average maturity data caused the earned and unearned portions of the reported REMIC guarantee fees to be misstated.

While Ginnie Mae modified its revenue recognition methodology in fiscal year 2016 to comply with GAAP, its month end accrual journal entries intended to recognize earned revenue on REMIC deals were improper. At the end of each month, Ginnie Mae did not make proper accrual entries, such as a debit to an asset account (for example, cash or receivable) and a credit to a revenue account, to recognize the REMIC deals that were closed and earned. Instead, Ginnie Mae made a deferred credit entry, such as a debit to a revenue account and credit to deferred credit account, to recognize the unearned portion of the REMIC deals without making the entry to the revenue account on closed REMIC deals. This was Ginnie Mae's practice because REMIC guarantee fees were generally collected the month after the deals were closed. We attributed this issue to Ginnie Mae's lack of oversight. As a result, Ginnie Mae's revenue account was misstated.

Unsupportable Writeoffs of Balances in Advances Against Defaulted MBS Pools

Ginnie Mae wrote off the advances against defaulted MBS pools, net accounts (advances) totaling $248 million (asset) and $171 million (allowance), respectively, without adequate support. In fiscal year 2016, we attempted to review Ginnie Mae's support for the advances writeoff but were unable to validate the accuracy of the information used in its analysis. For example, of $248 million, Ginnie Mae stated that it accounted for $180 million of this balance as realized losses incurred on liquidated loans from fiscal years 2009 through 2016. Ginnie Mae explained that the advances account was incorrectly not charged off against these realized losses. However, we could not validate the accuracy of the $180 million realized losses because this information was either based on rough estimates ($50 million) or MSS accounting reports that we considered unauditable ($130 million). Ginnie Mae could not explain the other $68 million. Additionally, for the past 2 fiscal years, we had not audited Ginnie Mae's advances account due to a lack of reliable loan level information. Therefore, the accuracy of the $248 million advances account balance is also in question.

Ginnie Mae had not kept up with the true balance in its advances accounts for years due to the absence of loan level accounting, poor accounting, and poor record keeping. For expediency, Ginnie Mae senior management decided to writeoff the advances since Ginnie Mae could not independently verify settlement amounts for principal and interest advances, escrow, and corporate advances due to the absence of a loan level accounting system. As a result, Ginnie Mae may have missed its opportunity to recover some of the good advances.

Inadequate System and Processes for Ginnie Mae's Accounting of Fixed Assets

Ginnie Mae did not have an appropriate system, processes, and controls in place for tracking and completely and accurately accounting for its system or software development costs in accordance with GAAP. We found instances in which Ginnie Mae did not review supporting documentation

[6] Ginnie Mae developed a process to capture the cash balance in its MSSs' custodial accounts at the end of each month. We found that Ginnie Mae recorded funds in custodial accounts at the end of each month between October 2015 and June 2016 except for April and May. According to the U.S. Government Accountability Office's Green Book, control activities include accurate and timely recording of transactions. Transactions are promptly recorded to maintain relevance and value to management in controlling operations and making decisions.

[7] Ginnie Mae's agent sent commitment fees to Ginnie Mae 2 business days after it received the funds from an issuer. Ginnie Mae received the fees on July 1, 2016, which indicated that the agent received the fees on June 29, 2016. The report extracted from the Commitment Management System also indicated that the funds were received in June.

[8] Ginnie Mae did not finalize its revenue recognition accounting policy in fiscal year 2016.

[9] Ginnie Mae informed OIG that invoice data were retained for 7 years and, therefore, should have data available to reasonably estimate the recognition ratio over a period greater than 2 years.

to determine the amounts that should be capitalized. In addition, the capitalized amounts for several software in Ginnie Mae's fixed asset register exceeded the capitalized amounts noted in supporting documents. Specifically, we noted instances in which (1) Ginnie Mae capitalized all invoiced costs even though the statements of work indicated that some services provided by the contractors did not meet the capitalization criteria to include training costs and costs incurred during the preliminary project stage, (2) Ginnie Mae did not reclassify costs incurred in fiscal year 2013 for the capitalized portion until fiscal year 2015, and (3) the capitalized balance or book value of an asset from Ginnie Mae's fixed asset register did not agree with the amortization schedule and software project ready-to-use report.

These deficiencies occurred due to Ginnie Mae's inability to track fixed asset activities on a timely basis. Additionally, Ginnie Mae's insufficient review of supporting documents to determine whether costs should be expensed or capitalized contributed to the control deficiency in accounting for its fixed assets. Given the control deficiencies as noted above, we have concerns regarding the reliability of the fixed asset account balance reported in Ginnie Mae's financial statements.

Issues Identified Related to Note Disclosures

Ginnie Mae did not have effective controls over its note disclosures of escrow, outstanding MBS commitment, and indemnification or repurchase agreements and mortgage loans held for investment. Specifically, we identified the following issues:

- Our audit of Ginnie Mae's fiscal year 2016 third quarter financial statements found errors in Ginnie Mae's notes reporting of its escrow balance[10] and outstanding MBS commitment balance.[11] Specifically, we noted that the outstanding MBS commitment balance at the end of June 30, 2016, and September 30, 2015, was misreported by $36 billion and $31 billion, respectively. Additionally, the escrow balance was incorrectly reported by $12 million and $15 million as of June 30, 2016, and September 30, 2015, respectively. In both cases, Ginnie Mae failed to establish effective controls in ensuring the accuracy of the information reported.

- Ginnie Mae failed to adequately analyze the financial reporting impact of new events affecting its business, such as the indemnification and repurchase agreements. In recent years, Ginnie Mae has entered into a number of indemnification and repurchase agreements in connection with servicing portfolio transfer. For example, when the mortgage servicing rights (MSR) was sold in early 2016, an indemnification clause was included in the contract as part of the sale agreement. On another prior year MSR sale, Ginnie Mae entered into a repurchase agreement related to uninsured loans in the pool. As these are considered unusual business arrangements, in both cases, Ginnie Mae failed

10 Ginnie Mae's escrow balance consists of taxes and insurance as well as funds in the unapplied account. An example of unapplied funds is a partial payment received from a borrower. Escrow funds are held in custodial accounts by the MSSs on behalf of Ginnie Mae.

11 Outstanding MBS commitments represent the unused commitment authority granted to the issuers by Ginnie Mae.

to adequately analyze and respond to the financial reporting implications of these agreements in its financial statements.

- Ginnie Mae did not have adequate note disclosure for certain required information on its mortgage loans held for investment (MHI) and the related allowance for loan loss in its notes to the fiscal year 2016 third quarter financial statements. In accordance with Accounting Standards Codification 310-10-50, Ginnie Mae is required to disclose information, such as (1) changes in the accounting policy or allowance methodology from the prior year, (2) activity in the allowance accounts, (3) balance in allowance accounts disaggregated by impairment methodology, (4) description of credit quality indicators, (5) accounting policy and recorded investment for impaired loans, (6) factors considered in determining loan impairment, and (7) the nonaccrual and past due MHI policy. According to Ginnie Mae, it lacked the necessary loan level data to generate all necessary information to fully comply with accounting standards. Ginnie Mae agreed that more work is needed to comply with GAAP in this area as it improves its access to loan level information in fiscal year 2017.

Conclusion

In fiscal year 2016, Ginnie Mae continued to face significant challenges in addressing material weaknesses in its internal control over financial reporting. While Ginnie Mae had taken positive steps to address some of these issues, resolving them may take time due to the complexity and pervasiveness of the issues. For this reason, we will work with Ginnie Mae in fiscal year 2017 as it continues to strengthen its processes and controls with respect to these issues.

Recommendations

We recommend that Ginnie Mae's Chief Financial Officer

2A. Update Ginnie Mae's cash and cash equivalents accounting policies and procedures to ensure that its cash-in-transit balance is properly accounted for.

2B. Review the cash and cash equivalents account and determine the appropriate adjustments needed to correct the misstatement.

2C. Revisit the REMIC accounting adjustments made in fiscal year 2015 based on the points cited in this finding to determine appropriate accounting adjustments. At a minimum, Ginnie Mae should
- Conduct a review of invoice documents for each REMIC deal to determine the appropriate amount of upfront costs that should be included in the incurred cost ratio calculation,
- Review source data to ensure the accuracy of the weighted average maturity data used in its analysis,
- Determine the appropriate incurred cost ratio for REMIC deals from the 1994 to 2013 cohort years based on reasonable and acceptable methodology, and

- Review source data for deals issued between 1994 and 2013 to ensure the accuracy of the guarantee fees data used in its analysis.

2D. Establish and implement policies and procedures to ensure that proper accrual accounting entries are made to record the accounting event related to closed REMIC deals at the end of each month.

2E. Review the revenue account balances based on points cited related to the improper accruals of REMIC deals and determine the appropriate adjustments needed to correct the misstatement.

2F. Reverse the accounting writeoff of the advances accounts. In conjunction with the subledger data solution, conduct a proper analysis to determine whether any of the $248 million balances in the advances accounts are collectible.

2G. Establish and implement policies and procedures to ensure that a subledger is maintained to accurately account for the advances balances at a loan level.

2H. Enhance existing policies and procedures for its fixed assets, to include systems, processes, and controls, to ensure (1) proper review of invoices to determine whether costs are capitalized or expensed in accordance with GAAP, (2) development costs are capitalized when incurred, and (3) book value is consistent across all documents.

2I. Establish and implement controls to ensure that escrow and outstanding MBS commitment balances reported in the financial statements are accurate and complete.

2J. Establish and implement procedures and controls to ensure that indemnification or repurchase agreements (guarantees) are properly accounted for and disclosed in the financial statements in accordance with GAAP.

2K. Establish and implement adequate procedures and controls to ensure that information related to mortgages held for investment and the associated allowance for loan losses are adequately disclosed in the notes to the financial statements in accordance with GAAP.

Material Weakness

Finding 3: The Allowance for Loan Loss Account Balances Were Unreliable

In fiscal year 2016, we identified accounting issues related to Ginnie Mae's allowance for loan loss accounts. Specifically, we noted that Ginnie Mae improperly (1) accounted for certain nonpooled loan accounting transactions in its allowance for loan loss accounts and (2) booked a provision for loan loss against a nonexisting asset account. Factors that contributed to these issues included (1) the delayed implementation of accounting policies and procedures related to the allowance accounts and (2) the lack of financial management systems capable of handling loan level transactions. Due to a combination of all of these accounting issues, we determined the balance of the allowance for loan loss accounts reported in Ginnie Mae's financial statements to be unreliable.

Current-Year Status of Prior-Year Audit Matters

For the past 2 fiscal years, we were unable to audit the MBS loss liability account because Ginnie Mae could not provide all of the relevant information and data needed to audit this account. In July 2015, Ginnie Mae management acknowledged to OIG that the financial model used to estimate loss liability was flawed and not in accordance with GAAP. To address this problem, Ginnie Mae developed a new financial model in fiscal year 2015 to bring its loan loss account into compliance with GAAP. This action resulted in Ginnie Mae's restating its fiscal year 2014 MBS loss liability account by reallocating the entire balance into the allowance for loan loss accounts.[12] This accounting adjustment brought the loss liability account down to zero, which made this account insignificant in the fiscal year 2016 financial statement audit. Given the state of the MBS loss liability account, we shifted our focus in auditing the propriety of the allowance for loan loss accounts in fiscal year 2016. One recommendation from the previous year's audit related to the MBS loss liability account is still open in fiscal year 2016. We summarized below the current-year status of the accounting issues identified in our fiscal year 2015 audit report.

<u>Selected Accounting Transactions Related to Nonpooled Loans Were Again Improperly Accounted for in Ginnie Mae's Books</u>

In fiscal years 2014 and 2015, we reported that Ginnie Mae improperly accounted for certain FHA reimbursable costs as chargeoffs against the loss liability account rather than capitalizing them as an asset. In fiscal year 2016, Ginnie Mae again engaged in improper accounting, but this time instead of charging it against the liability account, the reimbursable costs were charged off against the allowance for loan loss accounts. This condition occurred because Ginnie Mae had not finalized its accounting policies and procedures that govern these accounting transactions.

[12] Ginnie Mae's allowance for loan losses are included in the "Mortgage loans held for investment, net" and "Claims receivable, net" line items.

This issue resulted in the understatement of both the affected asset and allowance accounts, and Ginnie Mae's departure from GAAP in processing these transactions continued.

Provision for Loan Loss Booked Against Nonexisting Asset Account
Ginnie Mae improperly booked a $436 million loan impairment, which is associated with other indebtedness[13] (for example, reimbursable costs). This loan impairment is reported as a contra asset to the MHI account. As the majority of MHI's account balance, as reported in Ginnie Mae's financial statements, is made up of the mortgage loan's unpaid principal balance and excludes other indebtedness, it would not be appropriate for Ginnie Mae to include loan impairments for other indebtedness against the MHI account. In short, we believe there is a mismatch between the respective allowance and asset accounts because the model output (that is, loan loss estimates)[14] pertains to Ginnie Mae's expected losses on the loans' unpaid principal balance and reimbursable costs, while the MHI asset pertains only to the unpaid principal balance of the loans. For example, our review of allowance provision for the third quarter of 2016 found that of $458 million allowance estimates that were reported as contra asset account against the MHI, $436 million (95 percent) of this allowance pertained to other indebtedness. Therefore, to properly report the correct allowance on MHI, Ginnie Mae needs to report only $22 million. We attributed this mismatch issue to a lack of coordination between Ginnie Mae's Office of Enterprise Risk, which is responsible for modeling the loan loss, and Office of Finance, which is responsible for booking the loan loss in its accounting system, in interpreting the modeling output results.

Concerns Over Ginnie Mae's Accounting Policies Related to the Allowance for Loans

In fiscal year 2016, Ginnie Mae made significant efforts in updating all of its accounting policies and procedures. While these efforts are steps in the right direction, we have some concerns regarding Ginnie Mae's draft accounting policies related to the allowance for loans.

Ginnie Mae lacked clarity regarding its accounting policies on the categorization of loans held for investment for loan impairment purposes. With the implementation of a new allowance model, for the first time in fiscal year 2016, Ginnie Mae categorized its loans held for investment into three groups for loan impairment purposes: (1) purchase, noncredit impaired (PNCI),[15] (2) troubled debt restructuring (TDR),[16] and purchase credit impaired (PCI).[17] However, Ginnie Mae's criteria for loan categorization are not defined in the accounting policy, but they are found in its modeling documentation. Ginnie Mae's policy should drive the modeling of the allowance

[13] The other indebtedness includes other receivables that FHA expects to collect from the insuring agency, such as the foreclosure and maintenance costs. As noted in finding 2, Ginnie Mae accounts for these costs as expenses rather than an asset.

[14] When Ginnie Mae is modeling the loan impairments on MHI account, the total indebtedness is comprised of the unpaid principal balance, interest, and other indebtedness.

[15] A loan that is not determined to be individually impaired, for which it is probable that there would be an incurred loss as of the reporting period, is considered PNCI.

[16] A loan is considered to be a TDR when the creditor for economic or legal reasons grants a concession to a debtor that it would not otherwise consider due to the debtor's financial difficulty. Modified loans that are modified after being acquired by Ginnie Mae are classified as TDR.

[17] A loan is considered a PCI loan when there is evidence of credit deterioration after the loan's origination and it is probable, at acquisition, that Ginnie Mae will be unable to collect all contractually required payments receivable.

for loan losses, and it is where we would expect to see management's basis for the grouping of the loans.

Additionally, we questioned Ginnie Mae's categorization of FHA loans as PNCI. In accordance with Accounting Standards Codification 310-10-35-16, a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due (that is, both principal and interest) according to the contract terms of the loan agreement, and insignificant amount of shortfall need not be considered. When a borrower defaults on an FHA-insured loan, Ginnie Mae is made whole on the principal, while only partial reimbursement is made on the interest. For this reason, we believe that loans that meet the loan impairment criteria should be categorized as PCI. Ginnie Mae stated that classifying FHA loans as PNCI was a management decision. It also stated that there were insignificant shortfalls on FHA's accrued interest but could not provide an analysis to OIG to support its position.

Concerns Regarding the Reasonableness of Ginnie Mae's Loan Loss Allowance Model Methodology

We also had concerns regarding the reasonableness of Ginnie Mae's loan loss model methodology, specifically, (1) the TDR model formula used to calculate the loan loss on modified FHA-insured loans, (2) Ginnie Mae's decision to combine the PCI with the TDR loan impairment bucket, and (3) the methodology for estimating the market value of Ginnie Mae's uninsured real estate-owned properties.

- We had concerns regarding the reasonableness of Ginnie Mae's TDR model allowance formula, specifically FHA-insured modified loans in which Ginnie Mae uses the lower of the two variables[18] in determining the expected cash flows for purposes of calculating the loan impairments. We do not believe that it is reasonable and appropriate for Ginnie Mae to use the lower of the two variables because this will result in unnecessary provisioning of an allowance for loan impairments, given FHA's 100 percent loan guarantee on unpaid principal balance. For example, assume Ginnie Mae has a modified FHA-insured loan with $100,000 unpaid principal balance (indebtedness), its present value of expected principal and interest collections on this loan was $80,000, and the recovery amount from insurance claims was $100,000. Using Ginnie Mae's TDR model formula, Ginnie Mae's loan impairment allowance would be $20,000.[19] Under this scenario, it does not make sense for Ginnie Mae to establish a $20,000 loan impairment because under FHA's loan guarantee program, Ginnie Mae is insured for the full amount of the unpaid principal balance of the loan. Therefore, provisioning the $20,000 allowance on a fully insured loan is not reasonable and appropriate.

  As noted earlier, Ginnie Mae categorized its loans into three groups for purposes of calculating loan impairments. However, in Ginnie Mae's loan loss allowance model, the loan impairments for the PCI and TDR loans are combined, and the loan impairments on

[18] The two variables are (1) the present value of expected principal and interest collections and (2) the recovery from insurance claims from the indebtedness.

[19] To calculate the $20,000 allowance, the expected cash flows (which is the lesser of $80,000 present value of principal and interest and $100,000 insurance recovery) is subtracted from the $100,000 indebtedness.

both are calculated the same way even though the severity of the loan impairments on PCI and TDR loans are different according to Ginnie Mae accounting policies. According to Ginnie Mae, the PCI loans are combined with TDR loans because of a lack of historical data from which to base the PCI loan impairments. However, no analysis has been provided to OIG to support Ginnie Mae's position.

- Ginnie Mae's approach in estimating the market value of the uninsured real estate-owned properties needs improvement. In accordance with ASC 310-10-35-22, if a loan is collateral dependent,[20] loan impairments should be measured based on the loan's observable market price or the fair value of the collateral. In estimating the fair value of the collateral, Ginnie Mae estimates the appraised value of the property at origination based on the loan-to-value ratio and then applies house price changes to the derived appraised value at origination. We had concerns with Ginnie Mae's approach of applying a global house price index on all of its properties as it does not take into account location-specific variability. We believe using the most recent appraisal (or broker price opinion) would provide a more reasonable estimation of the value of the uninsured real estate-owned properties.

Conclusion

The allowance for loan loss account represents Ginnie Mae management's best estimates of receivables that are expected to be uncollectible. However, we do not believe that Ginnie Mae's allowance for loan loss accounts reported in its financial statements fairly represents the amount of receivables that are expected to be uncollectible. This condition is due to a combination of accounting issues as cited in this report. Therefore, Ginnie Mae needs to take actions to remediate this problem.

Recommendations

We recommend that Ginnie Mae's Chief Financial Officer

3A. Adjust the reimbursable costs out of the allowance accounts as appropriate.

3B. Exclude the loan impairment allowance on other indebtedness appropriately instead of reporting it as part of loan impairment allowance on MHI account.

3C. Document Ginnie Mae's analysis and support for the categorization of its loans for loan impairment purposes and update accounting policies and procedures based on this analysis.

3D. Modify, as appropriate, the TDR allowance model to ensure production of reasonable and appropriate loss estimates, including allowance estimates on FHA-insured loans.

20 A loan for which the repayment is expected to be provided solely by the underlying collateral.

Material Weakness

Finding 4: Progress Had Been Made To Address Ginnie Mae's Financial Management Governance Problems

In fiscal year 2016, Ginnie Mae's executive management began to address the financial management governance problems cited in our fiscal years 2015 and 2014 audit reports. While progress was made this year, more work is needed to fully address the issues cited in our report.[21] Specifically, these problems included issues in (1) keeping Ginnie Mae OCFO's operations fully functional; (2) ensuring that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; (3) establishing adequate and appropriate accounting policies and procedures and accounting systems; and (4) implementing an effective entitywide governance of the models that are used to generate accounting estimates for financial reporting. These conditions continued because the implementation of the corrective action plans required more time than anticipated. These issues again contributed to Ginnie Mae's inability to produce auditable financial statements for the third consecutive fiscal year.

Ginnie Mae's Executive Management Began to Address Governance Problems

In fiscal year 2015, we reported how Ginnie Mae's executive management's failures in governance adversely impacted its ability to produce auditable financial statements. In fiscal year 2016, we noted that Ginnie Mae had made significant efforts to address some of these issues, but more work is needed for Ginnie Mae to produce auditable financial statements. For example, for the third consecutive year, Ginnie Mae's nonpooled loans assets (NPA) were not yet ready for audit. Ginnie Mae acknowledged that the NPA balances would not be supportable or in accordance with GAAP until the completion of one of the following two remediation efforts; the loan level transaction data or the HUD and Ginnie Mae estimation process. The development of an accounting system to track nonpooled loan assets at the loan level transaction is a multiyear effort. In February, Ginnie Mae was pursuing the subledger database (SLDB) solution to capture loan level events and record related accounting entries to address the material weaknesses related to NPA.[22] Thereafter, Ginnie Mae faced delays in the development of the SLDB due to a lapse in the contract from May through June 2016. Since the timeline for the SLDB was expected to go beyond fiscal year 2016, in April 2016, Ginnie Mae and HUD OCFO changed course and decided to pursue a statistical estimation approach attempting to have the NPA balances ready for audit in fiscal year 2016. Specifically, HUD OCFO indicated that the contract would be awarded in June, the contractor would develop and validate the estimation methodology in July, and the information would be submitted for our review in August.

21 In fiscal year 2016, Ginnie Mae took actions to (1) fill key positions in Ginnie Mae OCFO, but some employees were hired too late in the fiscal year to make a significant impact; (2) develop accounting policies, but most were not finalized; and (3) finalize and implement a model risk management policy, but a key component of the policy will not become effective until 2017.

22 Ginnie Mae engaged a contractor to develop this loan accounting system.

However, HUD OCFO experienced delays in the procurement process, which resulted in the awarding of the contract in late August, 2 months late. HUD OCFO was not transparent in communicating the delays in the procurement process or providing information related to the estimation methodology. There were occasions when HUD OCFO did not provide any updates, despite multiple inquiries having been sent. HUD's failure to carry out its estimation work on time was a factor in the NPA balances not being ready for audit this fiscal year. Recently, Ginnie Mae informed OIG that it had reengaged its financial reporting and audit readiness contractor to assist in developing its loan level accounting system and related infrastructure concurrent with the development of the statistical estimation approach (finding 1).

In July 2016, Ginnie Mae backfilled its executive vice president position, which had been vacant since January 2016. The new executive vice president has more than 25 years of financial services and mortgage industry experience, to include holding executive positions at various financial advisory and mortgage corporations. We believe that placing a person with extensive mortgage industry knowledge and experience in this key position will enable Ginnie Mae to better address governance problems cited in our report.

Ginnie Mae's Office of the Chief Financial Officer Not Fully Functional and Still at Risk of Not Effectively Managing Its Financial Management Operations

Although Ginnie Mae backfilled many of its vacant key positions in fiscal year 2016, it needs time for some of these actions to materialize and to assess their impact on its financial management operations. In fiscal year 2015, we reported that Ginnie Mae failed to hire sufficient personnel to permanently backfill key positions and other vacancies. At the end of fiscal year 2015, there were 12 vacant positions within Ginnie Mae's OCFO. Ginnie Mae had made significant improvements in filling its vacant positions. Specifically, of 12 vacant positions at the beginning of fiscal year 2016, 10 were filled on a rolling basis, 1 was canceled, and 1 remained unfilled in fiscal year 2016. Also, during the fiscal year, Ginnie Mae reorganized its OCFO, which expanded the number of employees from 23 to 28. Of those 28 positions, 4 were vacant[23] at the end of fiscal year 2016, and 1 of the 4 vacancies was the supervisory accountant for financial reporting position.

Although Ginnie Mae was able to fill many of its vacancies, some of the positions were filled too late to make a significant impact in fiscal year 2016. These were the (1) vice president of accounting policy and financial reporting, (2) supervisory accountant for accounting system, (3) supervisory accountant for financial reporting, and (4) internal control accountants. For example, the vice president of accounting policy and financial reporting started in April 2016, and the supervisory accountants started in August 2016; however, these individuals were not fully engaged in their roles as there were other competing priorities, such as the time it took to gain access to Ginnie Mae's systems and get acclimated to Ginnie Mae's complex financial management challenges. In addition, the internal control accountants were hired in March and April 2016 to perform OMB Circular A-123 review among other duties. However, Ginnie Mae decided to outsource the review to a contractor as these individuals did not come onboard early

[23] Of those 4 vacancies, 1 vacancy is the carryover from fiscal year 2015, and 3 vacancies are attributable to Ginnie Mae's reorganization in fiscal year 2016.

enough to conduct the review in-house. Due to procurement issues, Ginnie Mae encountered significant delays in the initiation and timely completion of the A-123 review.

Additionally, while progress was made related to the increase in the number of employees in the OCFO, Ginnie Mae's current staffing level is still significantly lower than its corresponding industry counterparts.[24] Based on the staffing study conducted in fiscal year 2016, Ginnie Mae's staffing level for OCFO should be 118 employees, 86 Federal employees and 32 contractors. To fill the gap in staffing capabilities, Ginnie Mae once again relied on its contractors to perform many core functions, which typically should be performed by Federal employees, to include financial reporting, loan reporting, A-123 review, accounting for fixed assets, economic modeling, and issuer oversight and compliance.

Ginnie Mae Still Vulnerable to the Risk of Changes in Its Business Environment

In fiscal year 2015, we reported that Ginnie Mae was vulnerable to the risk of changes in its business environment. In fiscal year 2016, the vulnerability remained as Ginnie Mae was not able to respond appropriately to several unusual events or mitigate new risks, to include accounting for repurchase agreements, potential issuer defaults, and the writeoff of advances against defaulted MBS pools. This condition was caused by the lack of dedicated and experienced Ginnie Mae OCFO staff to manage these responsibilities. Even though Ginnie Mae hired a vice president for accounting policy and financial reporting, there was no permanent staff dedicated to assist this individual.[25] Without adequate support staff, Ginnie Mae will not be able to research and apply appropriate accounting policies to produce accurate and timely financial statements.

In addition, Ginnie Mae lacked the formal process and protocol to identify, monitor, analyze and evaluate, and respond to issuer defaults. This process gap can lead to Ginnie Mae's failing to properly capture the loss contingencies measured under the MBS program guaranty (reserve for loss) financial statements line item. According to GAAP, Ginnie Mae is required to book a reserve for loss related to potential issuer defaults that are probable and estimable.

Appropriate Accounting Policies and Procedures and Accounting Systems Not in Place To Manage and Control Loan Accounting and Processing of Activities Related to Defaulted Issuers' Portfolio

In fiscal year 2015, we reported that Ginnie Mae did not have appropriate accounting policies and procedures in place even though it hired an audit readiness contractor to review and update all of its accounting policies to ensure that they complied with GAAP. In fiscal year 2016, Ginnie Mae made some progress in updating its accounting policies; however, only 5 of 20 accounting policies were finalized at the end of September 2016. The remaining 15 were in various stages of development: Ginnie Mae management review, audit readiness contractor review, and HUD OCFO final review. Additionally, we take exception to some of Ginnie Mae's accounting policies. Specifically, the following accounting policies were not GAAP compliant:

[24] In fiscal year 2016, Ginnie Mae hired a contractor to conduct an analysis of its staffing level.

[25] An audit readiness contractor was hired to assist the vice president in drafting and finalizing key accounting policies.

- Escrow and other custodial funds: Although Ginnie Mae had updated its escrow accounting policies, we continue to disagree on this issue. It is Ginnie Mae's position that escrow amounts should only be disclosed in the notes to the financial statements. In contrast, GAAP requires the presentation of escrow on the face of the financial statements.

- Investment: Ginnie Mae classifies U.S. Government securities as held-to-maturity securities. Currently, Ginnie Mae only invests in overnight U.S. Government Securities. GAAP requires that short-term, highly liquid investments be classified as cash and cash equivalents. As a result, Ginnie Mae's accounting policy is not in accordance with GAAP.

In addition, while some accounting policies were consistent with GAAP guidance, Ginnie Mae failed to implement them accordingly. Specifically, we identified the following issues:

- Allowance for loan losses: While it is a requirement for Ginnie Mae to capitalize FHA reimbursable costs, it is Ginnie Mae's practice to expense all FHA reimbursable costs instead of booking them as receivables.

- Loan held for investment: Ginnie Mae made an accounting policy election to place all PNCI loans on nonaccrual status when either interest or principal is delinquent for 90 days or more.[26] In addition, Ginnie Mae does not restore a loan from nonaccrual to accrual status. This policy had not been implemented as Ginnie Mae continues to accrue interest on PNCI loans that are more than 90 days delinquent.

- Foreclosures: Ginnie Mae applies the practical expedient[27] in determining the value of its real estate owned properties, while its policy requires it to use the most recent home appraisal performed within the last 6 months.

- Purchased credit impaired loans: Despite having an accounting policy for PCI loans, Ginnie Mae does not follow the requirements. This deficiency is due to the lack of infrastructure and historical data.

The above issues are attributable to (1) delays in filling the vice president for accounting policy and financial reporting and (2) Ginnie Mae's inability to develop standard operating procedures (SOP) to go along with the updated accounting policies. The vice president for accounting policy and financial reporting position was not filled until April 2016, which was too late to make a significant impact in fiscal year 2016. In addition, SOP documents are critical as they provide guidance and instructions for performing specific accounting processes and procedures. However, in fiscal year 2016, Ginnie Mae was able to develop only one SOP, which was not finalized until August 2016, despite receiving assistance from an audit readiness contractor.

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26 FHA insured loans are considered PNCI loans.

27 Ginnie Mae estimates the value of its real estate owned properties using the following data elements: (1) unpaid principal balance, (2) original loan-to-value ratio, (3) home price index at origination, and (4) home price index at recovery.

In fiscal year 2015, we reported that Ginnie Mae did not have an accounting system to track, at a loan level, all of the accounting transactions and events related to its defaulted issuers' portfolio. This system is essential to validate the proper accounting and servicing of all the loans, which includes payments, modifications, foreclosures, and insurance claims with the Federal insuring agencies. In fiscal year 2016, Ginnie Mae began to take actions to address this problem. Specifically, in February 2016, it engaged a contractor to develop a SLDB to capture loan level events and record related accounting entries. Progress was made until the contract expired in April 2016. In July 2016, Ginnie Mae reengaged its financial reporting and audit readiness contractor to assist in developing its loan level accounting system and related infrastructure. No progress was made during the lapse of the contract. Although efforts were made in fiscal year 2016, Ginnie Mae was unable to develop and implement an accounting system that could perform loan level accounting.

Effective Monitoring of the Service Organization Engaged to Perform Operational Processes and Accounting for Ginnie Mae Not in Place

In fiscal year 2015, we reported that Ginnie Mae was not able to complete the majority of its corrective action plans to address the deficiency related to the ineffective monitoring and oversight of its MSSs as a service organization. Ginnie Mae's plans included actions to (1) develop a policy for the appropriate oversight of the MSSs, (2) perform periodic compliance reviews, (3) customize the scope and timing of the Statements on Standards for Attestation Engagement number 16 to better align with Ginnie Mae's processes, (4) develop analytics around the review of the accounting reports, and (5) augment OCFO to assist in performing oversight of the MSSs. In fiscal year 2016, Ginnie Mae continued to face challenges to fully implement all of its action plans. In addition, although Ginnie Mae performed compliance reviews, the review procedures were determined to be inadequate. Specifically, the procedures lacked testing steps to evaluate the following areas: (1) reconciliation of mortgage collateral to securities outstanding, (2) fixed installment control, (3) custodial accounts, (4) collection clearing accounts, (5) escrow disbursement, and (6) loan buyouts. We consider this finding to be an open issue because it was still under remediation at the end of fiscal year 2016.

Ginnie Mae's Entitywide Governance of the Models Not Fully Implemented

In fiscal year 2015, we reported that Ginnie Mae's executive management failed to establish robust processes and controls to ensure that the models produced reasonably accurate accounting estimates for use in its financial statements. In fiscal year 2016, Ginnie Mae established a model risk management policy, which included a framework for model risk governance in response to our recommendation.[28] Ginnie Mae's model risk governance has three components: (1) model owners, (2) independent control, and (3) a model risk management framework. While Ginnie Mae had made significant progress in developing its model risk management framework, two key areas under the third component of this framework have not been implemented. These are (1) developer testing and (2) independent validation. Their full implementation is not expected until September 2016 and July 2017, respectively. In the absence of full implementation of these two key components, Ginnie Mae cannot verify the accuracy, robustness, and stability of its

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28 Ginnie Mae's model risk management policy was developed in accordance with industry leading practices and regulatory guidance from the Board of Governors of the Federal Reserve System, U.S. Department of the Treasury, Office of the Comptroller of the Currency, and Federal Housing Finance Agency.

model before its deployment. Recently, Ginnie Mae detected an assumption error in its issuer buyout model used in the calculation of the guaranty asset and guaranty obligation. This model error resulted in Ginnie Mae restating its 2015 financial statements in its 2016 third quarter financial statements. The restatement included a decrease in the guaranty asset of $274 million, a decrease in the guaranty liability of $90 million, and a net decrease in the investment of the U.S. Government of $184 million.

These deficiencies occurred because Ginnie Mae had not implemented the developer testing and independent validation components. At its current stage, Ginnie Mae's model risk management process cannot verify whether a model is performing as intended. Developer test results must be made available to entities responsible for the model validation process and include relevant internal testing conducted as part of the model development process. Ginnie Mae is in the process of procuring an independent model validation contractor.

Conclusion

Ginnie Mae had made progress in addressing many of the financial management problems that we identified in fiscal years 2015 and 2014; however, more work is needed to produce auditable financial statements. Many conditions we cited in the report continued in fiscal year 2016 because more time will be needed to fully implement the corrective action plans. Ginnie Mae acknowledged that it would require a significant investment in technology, infrastructure, and people spanning multiple years to make its financial statements auditable. As a result, we will continue to monitor Ginnie Mae's progress in resolving these financial management governance deficiencies in fiscal year 2017.

Recommendations

We recommend that Ginnie Mae's Office of Issuer and Portfolio Management, Office of Enterprise Risk, and Office of Chief Financial Officer

4A. Develop and document an issuer default governance framework that includes the identification, monitoring, analysis, evaluation, and response to potential issuer defaults. This process includes an assessment to maximize defaulted issuer assets and minimize losses to Ginnie Mae.

Significant Deficiency

Finding 5: Ginnie Mae Did Not Provide Adequate Oversight Over the Business Process Controls for the Integrated Pool Management System

Ginnie Mae did not provide adequate oversight of its pool processing agent for IPMS to ensure that adequate controls over business processes complied with Federal regulations and guidance. Specifically, IPMS does not have (1) adequate logging controls that automatically track and log the use of overrides in the system and (2) automated controls to prevent a pool processor from making changes to the master[29] data without prior approval. Additionally, the manual reconciliation procedures do not detect changes to master data, and Ginnie Mae lacked adequate policies and procedures for data management. These conditions occurred because Ginnie Mae did not have (1) a policy for the logging, tracking, and monitoring of overrides and IPMS does not sufficiently track the use of overrides or generate an override log or (2) a policy for ongoing monitoring of change activity and IPMS does not generate a change report that captures data changes. Also, management believes that its manual controls are adequate, and ownership of the data in Ginnie Mae's system is unclear and not well defined. Further, there were inadequate oversight and delineation of responsibility for developing policies and procedures to ensure that controls over Ginnie Mae's data existed and were properly documented. As a result, Ginnie Mae's data were susceptible to an increased risk of improper use of authority, which could cause financial harm to Ginnie Mae by attaching the Ginnie Mae guarantee to mortgage-backed securities. The absence of mitigating controls increases the risk of tampering with data when preventive measures are lacking or do not exist to deter changes. Additionally, undocumented policies and procedures threaten the internal controls of an organization and lead to inconsistencies and uncertainty that can hinder Ginnie Mae's ability to identify gaps in its control systems.

Additionally, Ginnie Mae had a contractor to assess the financial management systems to determine whether they complied with section 803(a) of the Federal Financial Management Improvement Act (FFMIA) and OMB Circular A-123, appendix A. The assessment was based on guidance issued by OMB. It stated that six domains[30] were included in the assessment of information technology general controls across Ginnie Mae's financially significant and mixed

[29] Master data are considered critical data that are used consistently throughout the organization, which would include but is not limited to names, addresses, Social Security numbers, account numbers, loan balances, issuer IDs, custodian IDs, etc.

[30] These internal control areas are as follows: entitywide security program and management, access control, application software development and change control, system software, service continuity, and information technology segregation of duties.

use systems.[31] Ginnie Mae noted two material weaknesses, one in the access controls area and the other in the application software development and change control area.

No Adequate System Tracking and Monitoring of Override Use

IPMS does not have adequate logging controls to automatically track and log the use of overrides. The manual process and IPMS' limitations make it difficult to properly and adequately monitor the use of overrides. Specifically, when the failed pool submissions[32] are overridden, the pool processor personnel manually notate the override on the failed edit report and then file the report with the rest of the daily reports. Additionally, logging controls to automatically track and log the use of overrides and show who made the override, what was overridden, and why the override was made do not exist in IPMS. Also, a system-generated override report is not one of the daily reports printed for review because pertinent override information is not captured and tracked in IPMS. The Federal Information System Controls Audit Manual (FISCAM) states that an organization's procedures should provide for the automatic logging of all edit overrides or bypasses and include subsequent routine analysis of these logs to assess their appropriateness and correctness by entity management.[33]

The condition existed because Ginnie Mae did not have a policy covering the logging, tracking, and monitoring of overrides and IPMS does not sufficiently track the use of overrides or generate an override log. As a result, the failure to adequately track and monitor the use of overrides may present opportunities for improper use of authority that can cause financial harm to Ginnie Mae, such as obligating Ginnie Mae for potentially bad or faulty mortgage-backed securities. The potential risk to MBS pool information also increases when mitigating controls are lacking or do not exist.

No Ongoing Monitoring of Master Data Changes

IPMS does not have automated controls to prevent a pool processor from making changes to the master data without prior approval. Additionally, the manual reconciliation procedures do not detect changes to master data. The new pool processing procedures outline the process for making changes to errors that are identified and emphasize the requirement to obtain prior approval before changing the master data. However, this process is a manual one that a processor can potentially bypass. Processing reports are printed and reviewed daily, and manual reconciliations are made by comparing the source system (GinnieNet) with physical copies of source data used for manual inputs and the processing system (IPMS). However, the focus of these reports is on verifying total pools submitted, processed, or released and reviewing exceptions or failure reports. The manual reconciliations do not include the review of a change report that accounts for changes to master data. Specifically, the process does not include a detailed review of the information submitted to ensure that the data input is reconciled with the

[31] GSS, GNET, GMEP, RFS, UFS, and IPMS.

[32] New pools that fail to process correctly in IPMS appear on the failed edits report. The report is reviewed, the failure is researched, and action to either delete or override the pool is taken. The New Pool Processing department's manager may perform a forced release or override either because of a waiver of a Ginnie Mae requirement or a loan modification.

[33] FISCAM – Critical Element BP-4 Master Data Setup and Maintenance is Adequately Controlled

data processed as well as the data output that is released to the Federal Reserve Bank of New York. National Institute of Standards and Technology Special Publication 800-53 states that organizations should regularly analyze audit records for indications of inappropriate or unusual activity.[34]

These conditions exist because there is no policy for the ongoing monitoring of change activity. Additionally, IPMS does not generate a change report that captures data changes because management believes that current manual controls are adequate. This control deficiency increases the risk of tampering with data when preventive measures are lacking or do not exist to deter certain behaviors, especially when perpetrators may be aware of the control gaps. Unauthorized changes, such as loan amount, interest rate, or maturity date of an issuer's information, could cause delay or harm to issuers or Ginnie Mae by obligating them for potentially faulty mortgage-backed securities.

Adequate Policies and Procedures Over Data Management Lacking

Ginnie Mae did not have internal policies and or procedures to address (1) data management specifically related to data strategy, design, definition, quality standard, ownership, and monitoring; (2) reporting strategies that include content and availability consistent with end user's needs, sensitivity and confidentiality of data, and adherence to laws and regulation; (3) the collection of issuers' data and the replication and reporting of issuers' data published for public viewing and outlines the process for reporting the information to the public; (4) master data configuration, to include required and related fields that are excluded from changes; (5) making changes to the master data design, configuration, and those responsible for authorizing and making the changes; and (6) periodic review and scrubbing of stale master data, including how duplicated master data entry is resolved and how unused master records in IPMS are handled. FISCAM requires that policies and procedures for master data be established to ensure that they are appropriately controlled and valid.

These conditions existed because ownership of the data in Ginnie Mae's system is not well defined. In addition, oversight and delineation of responsibility for developing policies and procedures to ensure that controls over Ginnie Mae's data existed and were properly documented was inadequate. The lack of documented controls over operations and processes could hinder Ginnie Mae's ability to identify gaps. An absence of documented policies and procedures threatens the internal controls of an organization and leads to inconsistencies and uncertainty.

Conclusion

Ginnie Mae needs to ensure that its supporting contractor for IPMS has (1) adequate logging controls that automatically track and log the use of overrides in the system, (2) effective controls to prevent a pool processor from making changes to the master data without prior approval, and (3) documented policies and procedures that govern data management. These measures will ensure that proper business process controls are in place and a compliant level of internal controls that govern financial reporting has been implemented.

[34] National Institute of Standards and Technology Special Publication 800-53, REV-4, Security and Privacy Controls for Federal Information Systems and Organizations, Section AU-6 Audit Review, Analysis, and Reporting

Recommendations

We recommend that Ginnie Mae's Chief Financial Officer, in conjunction with the Senior Vice President of the Office of Securities Operations, direct its servicing contractor for IPMS to

5A. Develop an audit tracking tool in IPMS that automatically tracks and logs (1) the type of override used, (2) who performed the override, and (3) the reason for the override. In addition, Ginnie Mae should establish policies and procedures to govern and monitor the use of overrides, which include the timely submission of override reports to Ginnie Mae for review and verification.

5B. Establish policies and procedures for monitoring changes to master data, to include creating and reviewing a change report and establishing controls within IPMS to inform managers of changes to master data. In addition, Ginnie Mae should automate the reconciliation process between IPMS and other interfacing applications or systems to ensure that all pool-level details are compared and that changes are captured and reported in a timely manner.

5C. Develop written policies and procedures for master data and ensure that those policies and procedures are available to all staff. In addition, Ginnie Mae should revise policies and procedures, as needed, to reflect the changes in business processes to ensure that policies and procedures are accurate, complete, and current at all times. This should include when new systems are developed and implemented or other organizational changes occur. Ginnie Mae should also ensure that significant changes to the policies and procedures are properly communicated to all individuals responsible for handling Ginnie Mae's data.

Compliance with Laws and Regulations

Finding 6: Ginnie Mae Did Not Comply with the Debt Collection Improvement Act of 1996

In fiscal year 2016, Ginnie Mae's noncompliance with the Debt Collection Improvement Act (DCIA) of 1996 continued. Specifically, as reported in fiscal year 2015, Ginnie Mae had not remediated its practice of ensuring that all debt collection tools allowed by law had been considered before deciding to discharge certain uninsured mortgage debts owed to Ginnie Mae. This condition occurred because Ginnie Mae's management continued to take the position that DCIA did not apply to Ginnie Mae; therefore, it did not need to comply with DCIA requirements.[35] As a result, Ginnie Mae may have missed opportunities to collect millions of dollars in debts related to losses in its MBS program.

Continued Noncompliance With DCIA

In fiscal year 2015, we determined that Ginnie Mae did not properly analyze the collectability of uninsured mortgage debts owed to it from the MBS program activities. Specifically, Ginnie Mae failed to use debt collection tools allowed by law before deciding to writeoff these debts.[36] Under Ginnie Mae's MBS program, a claim of the U.S. Government for money against the borrower is established when there is a deficiency between the price obtained by Ginnie Mae on the sale of the property and the amount owed on the uninsured mortgage. However, it had been Ginnie Mae's practice to automatically writeoff its claim for the mortgage debt deficiency[37] without proper consideration of whether it was appropriate to do so.

In fiscal year 2016, Ginnie Mae again took the same position that the DCIA requirements did not apply to it. For this reason, Ginnie Mae also did not take any action on OIG's audit recommendation to obtain a legal opinion from the implementing agency, the U.S. Treasury, for a determination of whether Ginnie Mae is required to comply with DCIA. Due to an impasse, this matter was elevated to the next level for a resolution.[38] While it continued to challenge DCIA's applicability to Ginnie Mae, it appeared Ginnie Mae was receptive to OIG's idea of ensuring that the collectability of mortgage debt deficiency is properly analyzed before writing it off. According to Ginnie Mae, it developed a debt collections and writeoffs operational policy

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35 HUD is subject to DCIA. As a component entity, Ginnie Mae reports to HUD.

36 According to 31 U.S.C. (United States Code) 3701(b)(1)(A), the term claim or debt is defined as any amount of funds or property that has been determined by an appropriate official of the Federal Government to be owed to the United States by a person, organization, or entity other than another Federal agency. A claim includes, without limitation, funds owed on account of loans made, insured, or guaranteed by the government, including any deficiency or any difference between the price obtained by the government in the sale of a property and the amount owed to the government on a mortgage on the property.

37 A mortgage deficiency occurs when a mortgage foreclosure sale is less than the price Ginnie Mae paid to purchase the loan out of the pool.

38 OIG submitted its referral memorandum to Ginnie Mae's President on April 21, 2016. As of October 31, 2016, our referral is still under review, and we are awaiting a response.

and submitted it to HUD OCFO in October 2015 for review. This policy is intended to provide guidance to its MSSs in performing loss mitigation and debt collections owed to Ginnie Mae from the borrowers to the extent possible, which is the spirit of what OIG is requesting Ginnie Mae to do. Ginnie Mae explained that HUD OCFO made substantial changes to include DCIA requirements in the policy. As this draft policy was still under review as of October 2016, Ginnie Mae was not able to share this draft policy with OIG for review.

Conclusion

Since we reported this issue in 2015, Ginnie Mae has not established controls to ensure that the collectability of mortgage debt deficiency is properly analyzed before writing it off, which is not only a DCIA requirement, but also a good business practice. For this reason, Ginnie Mae may have forgone the opportunity to recover its claims on many of these debts for at least 2 years. While drafting a debt collections policy is a step in right direction, Ginnie Mae needs to do a better job next year in ensuring that its debt collections and writeoffs operational policy is finalized and properly implemented starting in fiscal year 2017 to mitigate any further foregoing of its claims on these debts.

Recommendation

Because we are not making further recommendations on this finding this year, the audit recommendation made in fiscal year 2015, which was still open, is not repeated in this report.

Scope and Methodology

In accordance with the Government Corporation Control Act, as amended, OIG is responsible for conducting the annual financial statements audit of Ginnie Mae. The scope of this work includes the audit of Ginnie Mae's balance sheets as of September 30, 2016 and 2015 (restated), and the related statements of revenues and expenses and changes in the investment of the U.S. Government and cash flows for the years then ended and the related notes of the financial statements. We conducted the audit in accordance with generally accepted government auditing standards and OMB Bulletin 15-02, as amended, Audit Requirements for Federal Financial Statements.

In fiscal years 2016 and 2015, we were unable to express an opinion on the accompanying financial statements as a result of the limitation in the scope of our audit work. The limitation in our audit scope was due to a number of unresolved audit matters, which are described in detail in the body of this audit report. As reported in fiscal year 2015, these ongoing unresolved matters continued to restrict our ability to obtain sufficient, appropriate audit evidence to form an opinion. Accordingly, we do not express an opinion on the financial statements and notes.

Followup on Prior Audits

Listed below are 30 open recommendations made in previous years' audits and their current status at the end of fiscal year 2016.

Government National Mortgage Association Fiscal Year 2015 and 2014 Financial Statements Audit, 2016-FO-0001

Of 11 audit recommendations in OIG audit report 2016-FO-0001, we concurred on the action plans for eight (two closed and six under remediation) audit recommendations. We referred the remaining three audit recommendations to the departmental audit resolution official because we were not in agreement with Ginnie Mae's management on the actions necessary to correct the deficiencies identified in our report. Our assessment of the current status of the recommendations is presented below.

Government National Mortgage Association Fiscal Year 2014 and 2013 Financial Statements Audit, 2015-FO-0003

Of 19 audit recommendations in OIG audit report 2015-FO-0003, we concurred on the action plans for 13 (seven closed and six under remediation) audit recommendations. We referred the remaining six audit recommendations to the departmental audit resolution official because of a disagreement with Ginnie Mae's management on the actions necessary to correct the deficiencies identified in our report. Our assessment of the current status of the recommendations is presented below.

Fiscal year 2015 recommendations	Classification	Fiscal year 2016 status
2A. Prepare an analysis of all outstanding REMIC deals to determine the cumulative effect of misstatements and make the appropriate adjustments to the financial statements.	Material weakness 2015 Finding 2	Under remediation – Full implementation of the corrective action remains unknown. See material weakness 2016 – finding 2.
2B. Update the accounting policies and procedures related to revenue recognition to reasonably ensure compliance with GAAP.	Material weakness 2015 Finding 2	Under remediation. See material weakness 2016 – finding 2.
2C. Establish and implement policies and procedures to ensure that asset balances in Ginnie Mae's books are appropriately adjusted to account for the timing differences in the collection and remittance of cash from its mastersubservicers.	Material weakness 2015 Finding 2	Under remediation – Full implementation of the corrective action remains unknown. See material weakness 2016 – finding 2.

Fiscal year 2015 recommendations	Classification	Fiscal year 2016 status
2D. Appropriately disclose restricted cash in its financial statements.	Material weakness 2015 Finding 2	Closed.
2E. Provide additional justification to support the reasonableness of the delinquency and foreclosure rates assumptions or create projections for this assumption that are better supported by best practices.	Material weakness 2015 Finding 2	Closed.
We recommend that Ginnie Mae's President		
4A. Ensure that the systems and processes for servicing and financial reporting on Ginnie Mae's defaulted issuers' portfolio are ready and capable of handling loan level accounting.	Material weakness 2015 Finding 4	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2017. See material weakness 2016 – finding 4.
We recommend that the Acting Chief Financial Officer, in coordination with the Chief Risk Officer		
4B. Establish and implement entitywide policies and procedures for an effective model risk management. At a minimum, it should include the following elements: • Controls over model development, implementation and use; • Controls over model validation; • Controls over model documentation; • Controls over evaluation for fitness, selection and validation of third party models; and • Establish adequate structure of responsibilities for model oversight, including evaluation of model data	Material weakness 2015 Finding 4	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2017. See material weakness 2016 – finding 4.

Fiscal year 2015 recommendations	Classification	Fiscal year 2016 status
inputs, assumptions and methodology.		
5A. Segregate duties between individuals collecting, recording, depositing, and reconciling cash, and periodically review the controls over the cash process to ensure proper implementation of compatible functions in its cash operations department.	Significant Deficiency 2015 Finding 5	We did not reach a management decision. Referred to departmental audit resolution official. See significant deficiency 2016 – finding 5.
5B. Conduct ongoing monitoring of change reports to ensure that unauthorized changes are not made to Ginnie Mae's data, and establish a policy regarding ongoing monitoring of change activity that requires performing periodic reviews of change reports.	Significant Deficiency 2015 Finding 5	Under remediation – implementation date remains unknown as we await an update from Ginnie Mae. See significant deficiency 2016 – finding 5.
5C. Automate the approval process to include restricting the capability to make unauthorized changes unless evidence of approval is present or increase the scope of the "Admin Adjustments Report" to include all exceptions and adjustments. Additionally, the contractor review the report for changes, verify that the changes identified in the report coincide with evidence of proper authorization, and ensure changes that are not properly supported are investigated and resolved accordingly.	Significant Deficiency 2015 Finding 5	We did not reach a management decision. Referred to departmental audit resolution official. See significant deficiency 2016 – finding 5.
We recommend that Ginnie Mae's Acting Chief Financial Officer		
6.A Request a legal opinion from the implementing agency, the U.S. Treasury, for a determination of whether Ginnie Mae is required to comply with DCIA.	Compliance with Laws and Regulations 2015 Finding 6	We did not reach a management decision. Referred to departmental audit resolution official. See compliance with laws and regulations 2016 – finding 6.

Fiscal year 2014 recommendations	Classification	Fiscal year 2016 status
1A. Establish and implement policies and procedures to demonstrate how Ginnie Mae provides appropriate accounting and financial reporting oversight of the mastersubservicers to ensure that the mastersubservicers are capable of producing accurate and reliable accounting records and reports.	Material Weakness 2014 Finding 1	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2017. See material weakness 2016 – finding 1.
1B. Establish and implement policies and procedures to properly account for and track at a loan level all of the accounting transactions and events in the life cycle of the loans. This measure is intended to compensate for the servicing system's inability to perform loan level transaction accounting.	Material Weakness 2014 Finding 1	Under remediation –Full implementation of the corrective action plan was not expected until fiscal year 2017. See material weakness 2016 – finding 1.
2A. Establish and implement policies and procedures to ensure that reimbursable costs are tracked and accounted for at the loan level.	Material Weakness 2014 Finding 2	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2017. See material weakness 2016 – finding 2.
2B. Determine the amount of reimbursable costs incurred by Ginnie Mae per loan, report the reimbursable costs incurred as receivables rather than expensing them, and adjust them out of the mortgage-backed securities loss liability account as appropriate.	Material Weakness 2014 Finding 2	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2017. See material weakness 2016 – finding 2.
2C. Restate fiscal year 2013 financial statements to correct the impact of the accounting errors determined in recommendation 2B.	Material Weakness 2014 Finding 2	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2016 – finding 2.
2D. Review and recalculate the appropriate amount of interest accrued on the loans and adjust the accrued interest receivable balances reported as appropriate.	Material Weakness 2014 Finding 2	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2017. See

Fiscal year 2014 recommendations	Classification	Fiscal year 2016 status
		material weakness 2016 – finding 2.
2E. Report the escrow fund balances on the face of the financial statements, including additional disclosure information in the notes, in accordance with generally accepted accounting principles.	Material Weakness 2014 Finding 2	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2016 – finding 2.
2F. Restate fiscal year 2013 financial statements to show escrow fund balances omitted on the face of the financial statements.	Material Weakness 2014 Finding 2	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2016 – finding 2.
2H. Comply with generally accepted accounting principles by (1) presenting investing cash inflows separately from investing cash outflows and (2) reclassifying the presentation of the nonpooled loan assets from cash flow from operating activity section to the cash flow from investing activity section.	Material Weakness 2014 Finding 2	Closed.
3A. Establish and implement policies and procedures for the documentation and validation of Ginnie Mae management assumptions, including foreclosure costs and re-default rates, used in the loss reserve model going forward.	Material Weakness 2014 Finding 3	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2017. See material weakness 2016 – finding 3.
3B. Reevaluate the reasonableness of foreclosure costs and re-default rate management assumptions used in fiscal year 2014, considering the audit points cited in this report; document the results of the reevaluation for OIG's review; and determine the accounting adjustments needed, if any, to the fiscal year 2014 mortgage-backed securities loss liability account as a result of the changes in the management assumptions.	Material Weakness 2014 Finding 3	Closed.

Fiscal year 2014 recommendations	Classification	Fiscal year 2016 status
3C. Determine Ginnie Mae's foreclosure cost reimbursement rate and take this information into account when developing its foreclosure cost management assumptions.	Material Weakness 2014 Finding 3	Closed.
3D. Perform a validation of the FHA foreclosure cost assumption amount used in fiscal year 2014, document the results of the validation, and determine whether an adjustment to the fiscal year 2014 financial statements is warranted based on the updated foreclosure cost management assumption.	Material Weakness 2014 Finding 3	Closed.
3E. Perform a separate reserve for loss estimate analysis on reperforming nonpooled loans and, based on the results of this analysis, establish separate loss reserve estimates on reperforming nonpooled loans.	Material Weakness 2014 Finding 3	Closed.
We recommend that Ginnie Mae's President	Material Weakness 2014	
4A. Work with HUD's Chief Financial Officer to ensure that Ginnie Mae has a sufficient number of appropriately skilled and experienced staff in place to perform the required financial management duties by filling the vacancies of key personnel that oversee the work in OCFO.	Material Weakness 2014 Finding 4	Closed.
4B. Work with HUD's Chief Financial Officer to design and implement a compliant financial management governance structure.	Material Weakness 2014 Finding 4	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2016 – finding 4.
4C. Review and update Ginnie Mae's bylaws and delegations of authority to correspond to the current	Material Weakness 2014 Finding 4	Closed.

Fiscal year 2014 recommendations	Classification	Fiscal year 2016 status
organizational structure and agency mission requirements.		
We recommend that the HUD Chief Financial Officer, in accordance with provisions of the Chief Financial Officers Act of 1990, assist Ginnie Mae to implement a compliant financial management governance structure by		
4D. Overseeing a comprehensive risk assessment of Ginnie Mae's financial management governance.	Material Weakness 2014 Finding 4	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2016 – finding 4.
4E. Preparing and implementing a plan, based on the results of the risk assessment in recommendation 4D, that	Material Weakness 2014 Finding 4	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2016 – finding 4.
4E.i) Demonstrates HUD OCFO oversight of Ginnie Mae's, as a HUD component, financial management activities;		
4E.ii) Ensures that Ginnie Mae updates its financial management polices to reflect conclusions reached in the financial management risk assessment;		
4E.iii) Provides complete, reliable, consistent and timely information for defaulted issuers' pooled and non-pooled loans, prepared on a uniform basis for preparation of Ginnie Mae financial statements, management reporting, and cost reporting; and		
4E.iv) Ensures all of Ginnie Mae's financial management systems, both owned and outsourced, provide the financial information necessary to prepare and support financial statements that comply with generally accepted accounting principles.		

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
2F	$248,016,624
Totals	**$248,016,624**

1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation **Auditee Comments**

GinnieMae
Our Guaranty Matters

Office of the President
425 3rd Street, SW, Fifth Floor
Washington, DC 20024
(202) 475-4900

November 8, 2016

TO: Thomas R. McEnanly
Financial Audits Division Director, GAF

FROM: Keith Donzell
Chief Financial Officer

SUBJECT: Management Response to Fiscal Year (FY) 2016 Audit Report

Comment 1

Ginnie Mae appreciates the opportunity to comment on the Office of the Inspector General's (OIG) FY 2016 Audit Report. We are grateful for your recognition of the progress we have made in addressing the material weaknesses related to non-pooled loans and to our financial management governance.

Comment 2

Ginnie Mae is committed to remediate all the audit findings. We acknowledge that while we have different interpretations of the remediation approach to certain complex matters, we are confident that we will reach a mutually satisfactory resolution of those matters.

As the OIG Report confirms, remediation of complex matters requires a multi-year effort which is occurring during a challenging period for Ginnie Mae, a time in which human resources are constrained and numerous competing priorities exist.

Comment 3

Ginnie Mae would like to specifically respond to the disclaimer associated to OIG's material issue regarding Ginnie Mae's management representation letter (MRL). While it did not co-sign the Ginnie Mae MRL, the Office of Procurement, Finance and Administrative Law of the Office of General Counsel (OGC) provided the required legal representation letter. Furthermore, management has represented in its MRL that it has disclosed to the OIG the litigation, claims and assessment matters disclosed in the legal representation letter and that the effects of all such matters have been accounted for and disclosed in accordance with U.S. GAAP.

Again, thank you for acknowledging the progress we have made and the technical solutions we have identified that will put us on a solid path forward. We look forward to strengthening our financial management operations and maintaining the confidence of all our stakeholders.

Mailing Address
451 Seventh Street SW, B-133
Washington, DC 20410

OIG Evaluation of Auditee Comments

Comments 1 and 2 Ginnie Mae agreed with the OIG audit findings. In addition, Ginnie Mae acknowledged its commitment to remediate all OIG audit issues. We recognized Ginnie Mae's efforts toward its multi-year effort to remediate audit issues in a challenging environment. We will continue to work with Ginnie Mae in resolving these matters in fiscal year 2017. We would like to thank Ginnie Mae for the cooperation and assistance extended to us during the audit.

Comment 3 OIG believes that Ginnie Mae's legal counsel is responsible for and knowledgeable about all known actual or possible litigation, claims, and assessments related to Ginnie Mae. Therefore, without Ginnie Mae's legal counsel acknowledgement on the correctness of the matters included in the legal representations provided to OIG in the management representation letter raises significant concerns and constitutes a scope limitation in our audit work.

Appendix C

Ginnie Mae's Fiscal Years 2016 and 2015 (Restated) Financial Statements and Notes

Balance Sheets

	September 30, 2016	September 30, 2015 As Restated*
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	$ 16,846,100	$ 14,680,600
Restricted cash and cash equivalents	546,600	432,800
Accrued fees and other receivables	87,000	92,100
Claims receivable, net*	709,400	814,200
Advances, net	20,900	118,800
Mortgage loans held for investment, net*	3,470,000	4,352,600
Accrued interest receivable, net*	18,600	47,700
Acquired property, net*	41,200	30,300
Fixed assets, net	82,900	62,300
Mortgage servicing rights	-	29,600
Guaranty asset	6,397,600	6,742,200
Other assets	200	400
Total Assets	**$ 28,220,500**	**$ 27,403,600**
Liabilities and Investment of U.S. Government:		
Liabilities:		
Accounts payable and accrued liabilities	$ 114,800	$ 135,800
Deferred liabilities and deposits	300	300
Deferred revenue	312,200	319,700
Liability for loss on mortgage-backed securities program guaranty	1,000	-
Liability for representations and warranties	1,500	-
Guaranty liability	6,198,400	5,661,300
Total Liabilities	**$ 6,628,200**	**$ 6,117,100**
Commitments and Contingencies	$ -	$ -
Investment of U.S. Government	$ 21,592,300	$ 21,286,500
Total Liabilities and Investment of U.S. Government	**$ 28,220,500**	**$ 27,403,600**

* See Note 2 (Restatement) discussion

The accompanying notes are an integral part of these financial statements.

Statements of Revenues and Expenses and Changes in Investment of U.S. Government

	For the year ended, September 30, 2016	For the year ended, September 30, 2015 As Restated*
	(Dollars in thousands)	
Revenues:		
Interest Income		
Interest income on mortgage loans held for investment*	$ 340,900	$ 300,100
Other interest income	84,100	128,200
Income on guaranty obligation	1,252,000	1,031,700
Mortgage-backed securities guaranty fees	1,052,500	977,700
Commitment fees	101,100	85,900
Multiclass fees	33,200	32,300
Mortgage-backed securities program and other income	10,100	29,700
Total Revenues	$ **2,873,900**	$ **2,585,600**
Expenses:		
Administrative expenses	$ (27,000)	$ (21,500)
Fixed asset amortization	(15,700)	(13,900)
Mortgage-backed securities program and other expenses	(289,100)	(321,700)
Total Expenses	$ **(331,800)**	$ **(357,100)**
Recapture (provision):		
Recapture (provision) for mortgage loans held for investment*	$ 99,500	$ 690,200
Recapture (provision) for mortgage-backed program guaranty	(1,000)	-
Recapture (provision) for claims receivable*	(75,500)	(27,500)
Recapture (provision) for loss on uncollectible advances	(88,500)	(45,300)
Recapture (provision) for acquired property*	(32,200)	(28,500)
Total Recapture (Provision)	$ **(97,700)**	$ **588,900**
Gain (Loss):		
Gain (Loss) on guaranty asset	$ (2,133,600)	$ (814,500)
Gain (Loss) on mortgage servicing rights	(4,100)	(15,000)
Gain (Loss) other	(900)	(1,100)
Total Other Gains / (Losses)	$ **(2,138,600)**	$ **(830,600)**
Results of Operations	$ **305,800**	$ **1,986,800**
Investment of U.S. Government at Beginning of Year	21,286,500	19,301,800
Adjustment to Investment of U.S. Government	-	(2,100)
Investment of U.S. Government at Beginning of Year, Restated*	21,286,500	19,299,700
Investment of U.S. Government at End of Year	$ **21,592,300**	$ **21,286,500**

* See Note 2 (Restatement) discussion

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

	For the year ended, September 30, 2016	For the year ended, September 30, 2015 As Restated*
	(Dollars in thousands)	
Cash Flow from Operating Activities		
Results of Operations	$ **305,800**	$ **1,986,800**
Adjustments to reconcile Results of Operations to Net Cash (used for) provided by Operating Activities:		
Amortization expense	15,700	13,900
Recapture (provision) for mortgage loans held for investment*	(99,500)	(690,200)
Recapture (provision) for mortgage-backed program guaranty	1,000	-
Recapture (provision) for claims receivable*	75,500	27,500
Recapture (provision) for loss on uncollectible advances	88,500	45,300
Recapture (provision) for acquired property*	32,200	28,500
Other expenses	3,500	-
Changes in operating assets and liabilities:		
Restricted cash and cash equivalents	(113,800)	(137,400)
Accrued fees and other receivables	(4,700)	(4,200)
Claims receivable, net*	687,500	(30,800)
Advances, net	213,200	345,100
Accrued interest receivable, net*	(148,900)	(128,700)
Bank of America settlement receivable	-	200,000
Mortgage servicing rights	29,600	15,000
Guaranty asset	344,500	(779,100)
Other assets	200	(300)
Accounts payable and accrued liabilities	(20,700)	26,600
Deferred revenue	(7,500)	17,500
Ocala Funding settlement liability	-	(14,900)
Liability for representations and warranties	1,500	-
Guaranty liability	537,000	568,900
Net cash (used for) provided by operating activities	$ **1,940,600**	$ **1,489,500**
Cash Flow from Investing Activities		
Proceeds from repayments and sales of loans acquired as held for investment*	$ 281,100	$ 223,100
Proceeds from the dispositions of acquired property and preforeclosure sales*	47,800	46,500
Purchases of loans held for investment	(67,700)	(418,100)
Purchases of fixed assets	(36,300)	(26,100)
Net cash (used for) provided by investing activities	$ **224,900**	$ **(174,600)**
Cash Flow from Financing Activities		
Net cash (used for) provided by financing activities	$ **-**	$ **-**
Net change in Cash and cash equivalents	2,165,500	1,314,900
Cash and cash equivalents, beginning of the year	14,680,600	13,365,700
Cash and cash equivalents, end of the year	$ **16,846,100**	$ **14,680,600**
Supplemental Disclosure of Non-Cash Activities		
Transfers from mortgage loans held for investment to claims receivable, net; accrued interest, net; and advances, net	689,700	542,800
Transfers from mortgage loans held for investments to acquired properties	90,200	102,300
Disposal of acquired properties	9,800	(9,800)

* See Note 2 (Restatement) discussion

The accompanying notes are an integral part of these financial statements.

Note 1: Entity and Mission

The Government National Mortgage Association (Ginnie Mae) was created in 1968, through an amendment of Title III of the National Housing Act as a wholly owned government corporation within the United States (U.S.) Department of Housing and Urban Development (HUD). The Mortgage-Backed Securities (MBS) program is Ginnie Mae's primary ongoing activity. Its purpose is to increase liquidity in the secondary mortgage market and attract new sources of capital for residential mortgage loans from worldwide investors. By providing mortgage capital for the MBS program, Ginnie Mae supports the growing demographic of citizens who most need Ginnie Mae's help: lower-income households who rent due to economic need; young professionals with unestablished credit histories; hardworking families who struggle to come up with a down payment; and senior citizens who need a wide range of housing and support services. Although loans underlying securities may be concentrated in specific areas, Ginnie Mae has provided home ownership opportunities in every U.S. state and territory.

Through the program, Ginnie Mae guarantees the timely payment of principal and interest on securities backed by pools of mortgages issued by private institutions. This guaranty is backed by the full faith and credit of the U.S. Government. Ginnie Mae requires that the mortgages, used as collateral, are insured or guaranteed by the U.S. Federal Housing Administration (FHA), another government entity within HUD, the U.S. Department of Agriculture (USDA), the Department of Veterans Affairs (VA), or the Office of Public and Indian Housing (PIH). These mortgage loans are not assets of Ginnie Mae, nor are the related outstanding securities liabilities. Accordingly, neither is reflected on the accompanying Balance Sheets.

To ensure that adequate capital continues to flow to the mortgage markets, Ginnie Mae offers reliable solutions that meet the needs of a broad constituent base and provide sufficient flexibility to respond to market changes. At the core of its business model and its product offering menu is the simple pass-through security, which comes in the form of two product structures - Ginnie Mae I MBS and Ginnie Mae II MBS. Each Ginnie Mae product structure has specific characteristics regarding pool types, note rates, collateral and payment dates.

Ginnie Mae I MBS are modified pass-through mortgage-backed securities on which registered holders receive separate principal and interest payments on each of their certificates. Ginnie Mae I MBS are based on single-family pools and are Ginnie Mae's most heavily-traded MBS product. The underlying mortgages generally have the same or similar maturities and the same interest rate on the mortgages.

Ginnie Mae II MBS are modified pass-through mortgage-backed securities for which registered holders receive an aggregate principal and interest payment from a central paying agent. Ginnie Mae II MBS provide more liquidity and greater flexibility with respect to loan characteristics. Multiple-issuer as well as single-issuer pools are permitted under the program. The Ginnie Mae II MBS allows small issuers who do not meet the dollar requirements of the Ginnie Mae I MBS program to participate in the secondary mortgage market. In addition, the Ginnie Mae II MBS permits the securitization of adjustable rate mortgages (ARMs).

The underlying source of loans for the Ginnie Mae I MBS and Ginnie Mae II MBS comes from Ginnie Mae's following four main programs, which serve a variety of loan financing needs and different issuer origination capabilities:

- ***Single Family Program*** – The majority of Ginnie Mae securities are backed by single family mortgages used to purchase, construct, or renovate single family homes predominantly originated through FHA and VA loan insurance programs.
- ***Multifamily Program*** – Ginnie Mae insures securities backed by FHA and USDA insured loans for the purchase, construction, and renovation of apartment buildings, hospitals, nursing homes, and assisted living facilities.
- ***Home Equity Conversion Mortgage (HECM) MBS (HMBS) Program –*** Ginnie Mae's HECM securities program provides a MBS platform available for lenders to raise capital and liquidity for FHA-insured reverse mortgages. HECM loans are securitized separately from regular single family mortgages due to their unique cash flow and fee structure. HECM loans can be pooled into HMBS within the Ginnie Mae II MBS program.
- ***Manufactured Housing Program –*** Ginnie Mae's Manufactured Housing program allows the issuance of pools of loans insured by FHA's Title I Manufactured Home Loan Program.

Note 2: Restatement

Restatement of Prior Financial Statements: Ginnie Mae has revised its previously issued financial statements for the year ended September 30, 2015 (referred to as "the restatement"). The financial information contained in the 2016 financial statements supersedes the previously issued financial statements for 2015. The previous financial statements and corresponding information should no longer be relied upon.

Following Ginnie Mae's issuance of the 2015 annual report, the Office of the Inspector General (OIG) issued Management Letters and Notifications of Finding and Recommendation recommending adjustments of certain financial statement line items and citing internal control weaknesses over Fixed Assets, the Guaranty Asset and Guaranty Liability model, Multiclass Fees, as well as amounts disclosed for Escrow funds balances and MBS commitment outstanding. As a result, Ginnie Mae performed an internal accounting assessment, reviewing the current accounting practices and subsequently identified additional areas where U.S. Generally Accepted Accounting Principles (U.S. GAAP) were misapplied as noted below.

The overall impact of Ginnie Mae's restatements on the financial statements as of and for the year ended September 30, 2015, was a total decrease in "Investment of U.S. Government at End of Year" of $190 million. This amount includes the following:

- $188 million prior period adjustment, resulting in a net decrease in the 2015 "Results of Operations"; and

- $2 million prior period adjustment, resulting in a net decrease in the 2015 beginning balance of "Investment of U.S. Government".

Ginnie Mae has classified the restatement adjustments into nine primary categories. The effects of these adjustments on the previously issued financial statements for the year ended September 30, 2015, are listed in the "Impact of Restatement on Financial Statements" section of this note. Three out of the nine restatement categories have an impact on the Investment of U.S. Government in 2015.

Restatements that impact "Investment of U.S. Government":

Guaranty Asset and Guaranty Liability: Ginnie Mae identified accounting errors associated with a modeling input ("issuer buyout") used to measure the guaranty asset and guaranty liability. Issuer buyout constitutes the removal of a loan out of the pool due to loan delinquency, foreclosure with claim payment, or loss mitigation. Ginnie Mae incorrectly used an issuer buyout timeline that was not reflective of actual issuer buyout behavior. The guaranty asset and guaranty liability were restated to reflect enhancements to the issuer buyout assumption. The impact of correcting this error resulted in:

- A decrease in "Guaranty assets" of $274.3 million as of September 30, 2015;
- A decrease in "Guaranty obligation" of $90.3 million as of September 30, 2015; and
- A net decrease in "Results of Operations" of $184.0 million for the year ended September 30, 2015.

Multiclass Fees and Deferred Revenue: Ginnie Mae identified accounting errors associated with the recognition of multiclass fees and related accruals. Ginnie Mae incorrectly included expenses not associated with the specific Real Estate Mortgage Investment Conduits (REMICs) issuances to determine certain up-front costs, which resulted in Ginnie Mae overstating multiclass fee earned and understating deferred fees upon issuance. In addition, Deposits in Transit for multiclass fees paid to Ginnie Mae's agents but not yet deposited to Ginnie Mae's account at the U.S. Treasury, were not recognized as of September 30, 2015. The impact of correcting these errors resulted in:

- An increase in "Cash and cash equivalents" of $3.9 million as of September 30, 2015;
- A decrease in "Accrued fees and other receivables" of $0.8 million as of September 30, 2015;
- An increase of "Deferred Revenue" of $13.8 million as of September 30, 2015;
- A net decrease in "Results of Operations" of $1.0 million for the year ended September 30, 2015; and
- A net decrease in the 2015 "Investment in U.S. Government at Beginning of Year" of $9.7 million.

Fixed Assets, net: Ginnie Mae identified accounting errors associated with its accounting treatment of internally developed software, hardware/software purchases, leases, software

licenses, and decommissioned assets. For internally developed software and hardware/software purchases, certain expenditures that did not meet the capitalization criteria per Ginnie Mae's accounting policy were capitalized in error. For leases, a lease agreement was improperly treated as an operating lease instead of a capital lease. For software licenses, the cost of a licensing arrangement was incorrectly applied as an expense instead of a fixed asset. For decommissioned assets, the carrying value of the assets was not removed from the "Fixed Assets, net" balance. Given that fixed assets are shown net of depreciation, the effect of this last error has no impact on the financial statements. The cumulative impact of correcting these errors resulted in:

- An increase in "Fixed assets" of $5.8 million; and an increase in "Accumulated amortization" of $1.1 million; resulting in an increase to "Fixed Assets, net" of $4.7 million as of September 30, 2015;
- A net decrease in "Results of Operations" of $2.9 million for the year ended September 30, 2015; and
- A net increase in the 2015 "Investment in U.S. Government at Beginning of Year" of $7.6 million.

Restatements that do not impact "Investment of U.S. Government":

Outstanding MBS Commitments: Ginnie Mae identified an error in the off-balance sheet disclosure of outstanding MBS commitments. Ginnie Mae used an incorrect report to determine the cumulative outstanding MBS commitment balance. As a result, the disclosure for outstanding MBS commitments balance at September 30, 2015 was understated by $31 billion.

This error has no impact on the "Investment of U.S Government" ending balance as of September 30, 2015.

Cash and Cash Equivalents: Ginnie Mae implemented OIG's recommendation to merge "Funds with U.S. Treasury" and "Cash and other monetary assets" and change the financial statement captions to "Cash and cash equivalents."

Additionally, Ginnie Mae implemented the OIG's recommendation regarding the presentation of its overnight securities as "Cash and cash equivalents" instead of "U.S. Government securities." Accordingly, Ginnie Mae has elected to change its accounting policy to present its investments in overnight certificates as cash equivalents. Ginnie Mae believes the presentation of cash equivalents is preferable given the highly liquid nature of these securities. The impact of this change resulted in:

- An increase in "Cash and cash equivalents" of $12.9 billion as of September 30, 2015;
- A decrease in "U.S. Government securities" of $12.9 billion as of September 30, 2015.

The cumulative effect of these changes has no impact on the "Investment of U.S. Government" ending balance as of September 30, 2015.

Recapture (provision) for mortgage loans held for investment and Recapture (provision) for claims receivable: Ginnie Mae identified accounting errors associated with the classification of certain expenses, which were improperly included in the recapture (provision) accounts for mortgage loans held for investment and claims receivable. The impact of correcting this error resulted in:

- A decrease in "Provision for mortgage loans held for investment" of $140.9 million for the year ended September 30, 2015;
- A decrease in "Provision for claims receivable" of $4.3 million for the year ended September 30, 2015; and
- An increase in "Mortgage-backed securities program and other expenses" of $145.2 million for the year ended September 30, 2015.

This error has no impact on the "Investment of U.S Government" ending balance as of September 30, 2015.

Restricted Cash and Cash Equivalents: Ginnie Mae enhanced its presentation of principal and interest payments that were not received or cashed by security holders (unclaimed funds) as "Restricted cash and cash equivalents" instead of "Cash and cash equivalents". The impact of this change resulted in:

- A decrease in "Cash and cash equivalents" of $23.4 million as of September 30, 2015; and
- An increase in "Restricted cash and cash equivalents" of $23.4 million as of September 30, 2015.

This change has no impact on the "Investment of U.S Government" ending balance as of September 30, 2015.

Escrow Funds (Held in Trust for Investors or Mortgagors): Ginnie Mae identified an error in the disclosure of off-balance sheet escrow funds. Certain funds held in trust for the borrower were improperly omitted. As a result, escrow funds disclosed as of September 30, 2015 was understated by $14.9 million.

This error has no impact on the "Investment of U.S Government" ending balance as of September 30, 2015.

Commitment Fees: Ginnie Mae identified accounting errors associated with the recognition of funds returned to the General Fund of the U.S. Treasury as a result of canceled spending authority. Ginnie Mae incorrectly recorded the cancelation of these funds against commitment fee revenue instead of other gain (loss) in the 2015 Statement of Revenues and Expenses and Changes in Investment of U.S. Government. The impact of correcting this error resulted in:

- An increase in "Commitment Fees" of $1.1 million for the year ended September 30, 2015; and

- An increase in "Gain (Loss) other" of $1.1 million for the year ended September 30, 2015.

This error has no impact on the "Investment of U.S Government" ending balance as of September 30, 2015.

Impact of Restatement on Financial Statements: The following tables show the impact of the restatement on each individual line item presented in the Balance Sheets and the Statements of Revenues and Expenses and Changes in Investment of U.S. Government for 2015. Restatement adjustment amounts in the following table may differ from above slightly due to rounding.

IMPACT OF RESTATEMENT ON FINANCIAL STATEMENTS:

Balance Sheet

	For the Year Ended September 30, 2015	Adjustment	2015 As Restated
Assets:			
Cash and cash equivalents	$ 1,777,100	$ 12,903,500	$ 14,680,600
Restricted cash and cash equivalents	409,400	23,400	432,800
U.S. Government securities	12,922,900	(12,922,900)	-
Accrued fees and other receivables	92,900	(800)	92,100
Claims receivable, net*	814,200	-	814,200
Advances, net	118,800	-	118,800
Mortgage loans held for investment, net*	4,352,600	-	4,352,600
Accrued interest receivable, net*	47,700	-	47,700
Acquired property, net*	30,300	-	30,300
Fixed assets, net	57,600	4,700	62,300
Mortgage servicing rights	29,600	-	29,600
Guaranty asset	7,016,500	(274,300)	6,742,200
Other assets	600	(200)	400
Total Assets	$ 27,670,200	$ (266,600)	$ 27,403,600
Liabilities and Investment of U.S. Government:			
Liabilities:			
Accounts payable and accrued liabilities	$ 135,700	$ 100	$ 135,800
Deferred liabilities and deposits	300	-	300
Deferred revenue	305,900	13,800	319,700
Guaranty Liability	5,751,600	(90,300)	5,661,300
Total Liabilities	$ 6,193,500	$ (76,400)	$ 6,117,100
Commitments and Contingencies	$ -	$ -	$ -
Investment of U.S. Government	$ 21,476,700	$ (190,200)	$ 21,286,500
Total Liabilities and Investment of U.S. Government	$ 27,670,200	$ (266,600)	$ 27,403,600

** See Note 2: Restatement–Non-pooled loans discussion*

Statement of Revenues and Expenses and Changes in Investment of U.S. Government

	For the Year Ended September 30, 2015	Adjustment	2015 As Restated
Revenues:			
Interest Income			
Interest income on mortgage loans held for investment*	$ 300,100	$ -	$ 300,100
Other interest income	128,200	-	128,200
Income on guaranty obligation	1,031,700	-	1,031,700
Mortgage-backed securities guaranty fees	977,700	-	977,700
Commitment fees	84,900	1,000	85,900
Multiclass fees	33,300	(1,000)	32,300
Mortgage-backed securities program and other income	29,700	-	29,700
Total Revenues	$ 2,585,600	$ -	$ 2,585,600
Expenses:			
Administrative expenses	$ (21,600)	$ 100	$ (21,500)
Fixed asset amortization	(11,700)	(2,200)	(13,900)
Mortgage-backed securities program and other expenses	(175,700)	(146,000)	(321,700)
Total Expenses	$ (209,000)	$ (148,100)	$ (357,100)
Recapture (provision):			
Recapture (provision) for mortgage loans held for investment*	$ 549,300	$ 140,900	$ 690,200
Recapture (provision) for mortgage-backed program guaranty	-	-	-
Recapture (provision) for claims receivable*	(31,800)	4,300	(27,500)
Recapture (provision) for loss on uncollectible advances	(45,300)	-	(45,300)
Recapture (provision) on acquired property*	(28,500)	-	(28,500)
Total Recapture (Provision)	$ 443,700	$ 145,200	$ 588,900
Gain (Loss):			
Gain (Loss) on guaranty asset	$ (630,400)	$ (184,100)	$ (814,500)
Gain (Loss) on mortgage servicing rights	(15,000)	-	(15,000)
Gain (Loss) other	-	(1,100)	(1,100)
Total Other Gains / (Losses)	$ (645,400)	$ (185,200)	$ (830,600)
Results of Operations	$ 2,174,900	$ (188,100)	$ 1,986,800
Investment of U.S. Government at Beginning of Year	19,301,800	-	19,301,800
Adjustment to Investment of U.S. Government	-	(2,100)	(2,100)
Investment of U.S. Government at Beginning of Year, Restated*	19,301,800	(2,100)	19,299,700
Investment of U.S. Government at End of Year	$ 21,476,700	$ (190,200)	$ 21,286,500

** See Note 2: Restatement–Non-pooled loans discussion*

Non-pooled Loans: In 2015, the OIG issued a disclaimer of opinion on Ginnie Mae's financial statements. The OIG's audit results focused primarily on Ginnie Mae's non-pooled loans portfolio that were acquired from defaulted Issuers, which totaled $4.2 billion and $5.2 billion, net, as of September 30, 2016 and 2015, respectively. As mortgage servicing is not a core activity for Ginnie Mae, Ginnie Mae contracts with master sub-servicers (MSS) to provide the servicing of defaulted Issuers' mortgage loans. Ginnie Mae informed the OIG that these non-pooled loan portfolio balances were un-auditable for the 2015 Financial Statements and that it would require a significant investment in technology, infrastructure, and people spanning multiple years.

Ginnie Mae is continuing its remediation activities to refine loan-level transaction reporting to comply with U.S. GAAP for the non-pooled loan portfolio to be auditable. These efforts include, but are not limited to: (i) engaging necessary advisory counterparts to support the development of Ginnie Mae's infrastructure; (ii) bolstering staff in the Office of the Chief Financial Officer (OCFO); (iii) working with third-party servicers to develop standardized loan-level reporting detail; (iv) establishing accounting policies compliant with U.S. GAAP; (v) performing assessments for every financial statement line item to assess departures from U.S. GAAP; (vi) resolving exceptions, which may entail investing in new technologies in order to track and account for the non-pooled loans portfolio; (vii) developing standard operating procedures to comply with Ginnie Mae's new accounting policies within OCFO; and (viii) enhancing the internal controls over financial reporting. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

As noted above, the remediation process continues to require extensive and complex work, including both employees and external consultants. However, Ginnie Mae is confident in its ability to show continued progress through fiscal year 2017 in addressing the shortcomings identified by both management and OIG.

The non-pooled loan portfolio balances, however, remain un-auditable for the 2016 Financial Statements. As a result of data limitations and non-compliance with certain U.S. GAAP guidance, Ginnie Mae was not able to comply with certain disclosure requirements. Refer to the respective notes for the non-pooled loans (and related financial statement line items) listed below for departures from U.S. GAAP and omitted disclosures. Management will assess these financial statement line items and related disclosures in fiscal year 2017 for restatement:

Balance Sheets:

- Claims receivable, net
- Mortgage loans held for investment, net
- Accrued interest receivable, net
- Acquired property, net

Statements of Revenues and Expenses and Changes in Investment of U.S. Government:

- Interest income on mortgage loans held for investment

- Recapture (provision) for mortgage loans held for investment
- Recapture (provision) for claims receivable
- Recapture (provision) for acquired property

Statements of Cash Flows:

- Provision (recapture) for mortgage loans held for investment
- Provision (recapture) for claims receivable
- Provision (recapture) for acquired property
- Change in claims receivable, net
- Change in accrued interest receivable, net
- Proceeds from repayments and sales of loans acquired as held for investment
- Proceeds from the dispositions of acquired property and pre-foreclosure sales
- Purchases of loans held for investment
- Transfers from mortgage loans held for investment to claims receivable, net; accrued interest, net; and advances against defaulted mortgage-backed security pools, net
- Transfers from mortgage loans held for investment to acquired properties
- Disposal of acquired properties

Other

- Reimbursable costs receivable, net

Note 3: Summary of Significant Accounting Policies

The following disclosures pertain to current practices followed by Ginnie Mae in accordance with its accounting policies, except as otherwise indicated.

Basis of Presentation: The accompanying financial statements have been prepared in accordance with U.S. GAAP established by the Financial Accounting Standards Board (FASB), except as otherwise disclosed.

Reclassification: Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect: (a) the reported amounts of assets and liabilities at the date of the financial statements, (b) the reported amounts of revenues and expenses during the reporting periods, and (c) the related disclosures in the accompanying notes. Ginnie Mae has made significant estimates in a variety of areas including, but not limited to, valuation of certain financial instruments, assets (such as mortgage servicing rights (MSR), acquired property, allowance for mortgage loans held for investment (HFI), and guaranty assets), and liabilities (such as guaranty obligations and the liability for loss on mortgage-backed securities program guaranty). Actual results could differ from those estimates.

Fair Value Measurement: Ginnie Mae uses fair value measurements for the initial recording of certain assets and liabilities, periodic re-measurement of certain assets on a recurring and non-recurring basis, and certain disclosures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Ginnie Mae bases its fair value measurements on an exit price that maximizes the use of observable inputs and minimizes the use of unobservable inputs.

In determining fair value, Ginnie Mae uses various valuation techniques. The inputs to the valuation technique are categorized into a three-level hierarchy, as described below:

Level 1	Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Cash and Cash Equivalents: Ginnie Mae's cash and cash equivalents consists of cash held by the U.S. Treasury Department (Funds with U.S. Treasury), cash that is held by the MSS, and Trustee and Administrator of securities on Ginnie Mae's behalf but has not yet been transferred to Ginnie Mae (Deposits in Transit), as well as U.S. Treasury short-term investments (securities issued with an original maturity date of three months or less). Cash receipts, disbursements, and investment activities are processed by Treasury. All cash not classified as restricted cash is accessible in the event of an Issuer default (defined as any failure or inability of the issuer to perform its responsibilities under the Ginnie Mae MBS programs).

Funds with U.S. Treasury represent the available budget spending authority of Ginnie Mae according to the U.S Treasury Department and is the aggregate amount of Ginnie Mae's accounts with the U.S. Treasury Department.

Deposits in Transit include principal, interest, and other payments held by the MSS and Trustee and Administrator of securities, in custodial accounts that have not yet been received by Ginnie Mae at the end of the reporting period.

Ginnie Mae's investments consist of one-day overnight certificates that are issued with a stated rate of interest to be applied to their par value with a maturity date of the next business day. These

overnight certificates are measured at cost, which approximates fair value. Interest income on such securities is presented within Other interest income in the Statements of Revenues and Expenses and Changes in Investment of U.S. Government.

Restricted Cash and Cash Equivalents: Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreement, regulatory requirement, or unless approved by Congress are recorded as restricted cash and cash equivalents. Ginnie Mae received approval from The Office of Management and Budget (OMB) to invest restricted cash in U.S. Treasury securities and Ginnie Mae is entitled to the interest income earned on these investments. Restricted cash also includes principal and interest payments that were not cashed by security holders and unclassified funds.

Escrow Funds (Held in Trust for Investors or Mortgagors): Escrow funds are held in trust for underpayments and overpayments of principal and interest, and payments of mortgagors' taxes, insurance and related items, or other fiduciary funds. These amounts were estimated to be $49.3 million and $103.4 million as of September 30, 2016 and 2015, respectively. Escrow funds are not owned by Ginnie Mae and are therefore not included in total assets or total liabilities on Ginnie Mae's Balance Sheet.

Reimbursable Costs Receivable: As detailed above, escrow funds are held in trust for payments of mortgagors' taxes and insurance for pooled loans and non-pooled loans. Where insufficient funds are available to make scheduled tax and insurance payments, Ginnie Mae is required to advance funds to cover the shortfall to preserve a first lien position in the property. In addition, Ginnie Mae may advance funds to cover foreclosure costs and other expenses in order to preserve the value of the underlying asset during the foreclosure process. For costs incurred on both pooled and non-pooled loans that are expected to be reimbursed, a receivable should be recorded. The receivable for reimbursable costs is reported net of an allowance to the extent that management believes that they will not be collected. The allowance is estimated based on historical loss experience of future collections from the borrowers, proceeds from the sale of the property, or recoveries from third-party insurers such as FHA, USDA, VA, and PIH.

Due to lack of data availability as of September 30, 2016, Ginnie Mae was unable to reclassify such costs as a receivable. These costs have been previously expensed. Management will assess for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans.

Accrued Fees and Other Receivables: Ginnie Mae's accrued fees and other receivables include accrued guaranty fees, accrued interest on uninvested funds, and miscellaneous program receivables. The accrued guarantee fees are discussed in the Financial Guarantees section.

Claims Receivable, net: Claims receivable represents receivables from conveyed properties and payments owed to Ginnie Mae from insuring agencies (FHA, VA, USDA and PIH). These receivables consist of three components:

Short Sales Claims Receivable: As an alternative to foreclosure, a property may be sold for its appraised value even if the sale results in what is referred to as a short sale where the proceeds are not sufficient to fully pay off the mortgage. Ginnie Mae's MSS analyze mortgage loans (HFI) for factors such as delinquency, appraised value of the property collateralizing the loan and market locale of the underlying property to identify loans that may be short sale eligible. For uninsured loans, these transactions are analyzed and approved by the Office of Issuer and Portfolio Management (OIPM) at Ginnie Mae. For FHA insured loans, for which the underlying property was sold in a short sale, the FHA, which is the largest insurer for Ginnie Mae, typically pays Ginnie Mae the difference between the proceeds received from the sale and the total contractual amount of the mortgage loan and delinquent interest payments at the debenture rate (less the first two months of delinquent month's interest). Ginnie Mae records a short sale claims receivable while it awaits repayment of this amount from the insurer. For short sales claims receivable for which Ginnie Mae believes that full collection is not probable, Ginnie Mae records an allowance for short sales claims receivable. This allowance represents the incurred loss within the portfolio and incorporates expected recovery based on the underlying insuring agency guidelines and historical loss experience. The short sales receivable less the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible. Once the submitted claim is processed by the insuring agency, U.S. GAAP requires Ginnie Mae to record a charge-off to the allowance for claims receivable for any shortfall between the claim receivable and recovered amounts from the insurer.

Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above. Due to lack of data availability as of September 30, 2016, Ginnie Mae was unable to obtain updated claims receivable balances from the MSS as of period end. Refer to Note 10: Claims Receivable for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans.

Foreclosed Property: Ginnie Mae records foreclosed property when the MSS receives title to a property that has completed the foreclosure process in its respective legal jurisdiction, or the borrower conveys all interest in the residential real estate property to the MSS to satisfy the loan through completion of a deed in lieu of foreclosure process or similar legal agreement. These properties differ from Acquired Properties as Ginnie Mae intends to convey the property to an insuring agency, instead of marketing and selling the properties through the MSS. At conveyance, the asset is measured based on the amount of the loan outstanding (principal and interest) expected to be recovered from the guarantor. Once the claims receivable is established, Ginnie Mae periodically assesses its collectability by utilizing statistical models and Ginnie Mae's most recent historical loss experience. Ginnie Mae records an allowance for foreclosed property that represents the incurred losses within the portfolio. The aggregate of the foreclosed property and the allowance for foreclosed property is the amount that Ginnie Mae determines to be collectible.

Once the submitted claim is processed by the insuring agency, U.S. GAAP requires Ginnie Mae to record a charge-off to the allowance for claims receivable for any shortfall between the claim receivable and recovered amounts from the insurer.

Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above. Due to lack of data availability as of September 30, 2016, Ginnie Mae was unable to obtain updated foreclosed properties balances from the MSS as of period end. Refer to Note 10: Claims Receivable for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans.

Insurance Claims Receivable: Ginnie Mae records a receivable for insurance claims that have been submitted to an insuring agency for claim, but have not been paid as of the end of the reporting period. Because it is a receivable backed by the full faith of the U.S. government, which represents settled claims and approved future collection of cash from the insuring agency, Ginnie Mae expects full reimbursement. As a result, no allowance is calculated on this receivable.

Advances, net: Advances represent loan pass-through payments made to fulfill Ginnie Mae's guaranty of timely principal and interest payments to MBS security holders. Per U.S. GAAP, Ginnie Mae is required to report advances net of an allowance to the extent that management believes that they will not be collected. The allowance is estimated based on historical loss experience of future collections from the borrowers, proceeds from the sale of the property, or recoveries from third-party insurers such as FHA, USDA, VA, and PIH.

Once Ginnie Mae purchases the loans from the pools, the associated advances are reclassified to the appropriate asset class.

Mortgage Loans Held for Investment, net: When a Ginnie Mae Issuer defaults, Ginnie Mae is required to step into the role of the Issuer and make the timely pass-through payments to investors, and subsequently, assumes the servicing rights and obligations of the Issuer's entire Ginnie Mae guaranteed, pooled loan portfolio. Ginnie Mae utilizes MSS to service these portfolios. There are currently two MSS for Single Family defaulted Issuers that service of the defaulted Issuer portfolio (of pooled and non-pooled loans). For the years ended September 30, 2016 and 2015, there were no Manufactured Housing or Multifamily loans being serviced by the MSS.

In its role as servicer, Ginnie Mae assesses individual loans within its pooled portfolio to determine whether the loan must be purchased out of the pool. Ginnie Mae must purchase mortgage loans out of the MBS pool when the mortgage loans are ineligible for insurance by the FHA, USDA, VA, or PIH. Ginnie Mae has the option to purchase mortgage loans out of the MBS pool when the mortgage loans are insured but are delinquent for more than 90 days for manufactured housing and single family loans. Ginnie Mae has historically elected to buy loans out at 120 days delinquent for operational purposes.

Ginnie Mae has the ability and the intent to hold these acquired loans for the foreseeable future or until maturity. Therefore, the mortgage loans are classified as HFI and reported on the balance sheets at their unpaid principal balance (UPB), net of charge-offs, and net of allowance for loan losses, as required by U.S. GAAP. Ginnie Mae is developing the capability to potentially sell certain loans currently recognized on Ginnie Mae's Balance Sheets. Once the loans are clearly identified for sale, Ginnie Mae will reclassify the applicable loans from HFI to held for sale (HFS). For loans which Ginnie Mae initially classifies as HFI and subsequently transfers to HFS, those loans would be recognized at the lower of cost or fair value until sold, with any related cash flows classified as operating activities. As of September 30, 2016 and 2015, Ginnie Mae has no loans classified as HFS.

Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above. Due to lack of data availability as of September 30, 2016, Ginnie Mae was unable to obtain updated HFI loans balances from the MSS as of period end. Refer to Note 9: Mortgage Loans for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans.

Purchased Credit-Impaired (PCI) Loans: Ginnie Mae evaluates the collectability of all purchased loans and assesses whether there is evidence of credit deterioration subsequent to the loan's origination and if it is probable, at acquisition, that Ginnie Mae will be unable to collect all contractually required payments receivable. Ginnie Mae considers guarantees and insurance from FHA, USDA, VA, and PIH in determining whether it is probable that Ginnie Mae will collect all amounts due according to the contractual terms. Per U.S. GAAP, Ginnie Mae is required to record realized losses on loans purchased when, upon purchase, the fair value is less than the acquisition cost of the loan. Additionally, U.S. GAAP requires Ginnie Mae to accrue and recognize the difference between the initial investment of the loan and the undiscounted expected cash flows (accretable yield) as interest income on a level-yield basis over the expected life of the loan.

For the loans insured by FHA, which is Ginnie Mae's largest insurer, Ginnie Mae expects to collect the full amount of the UPB and debenture rate interest (only for months allowed in the insuring agency's timeline), when the insurer reimburses Ginnie Mae subsequent to filing a claim. As a result, these loans are accounted for under Accounting Standards Codification (ASC) 310-20, Receivables – Nonrefundable Fees and Other Costs. In accordance with ASC 310-20-30-5, these loans are recorded at the UPB plus accrued interest, which is the amount Ginnie Mae pays to repurchase these loans. Accordingly, Ginnie Mae recognizes interest income on these loans on an accrual basis less an allowance to arrive at the debenture rate for the number of months allowed under the insuring agency's timeline.

Ginnie Mae is unable to comply the U.S. GAAP requirements for PCI loans as it has not historically applied PCI guidance due to the lack of fair value measurements of PCI loans upon acquisition. Additionally, due to the lack of data availability as of September 30, 2016, Ginnie Mae was unable to obtain updated HFI loans balances from the MSS as of period end. Refer to Note 9: Mortgage Loans for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans.

Allowance for Loan Losses: Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios to determine the estimated uncollectible portion of the recorded investment on the loans when (1) available information as of each balance sheet date indicates that it is probable a loss has occurred and (2) the amount of the loss can be reasonably estimated.

For large groups of homogeneous loans that are collectively evaluated (ASC 450-20), Ginnie Mae establishes the allowance for loan losses on the HFI loan portfolio for both principal and interest payments similar to loss contingencies. When Ginnie Mae determines that it is probable a credit loss will occur and that loss can be reasonably estimated, Ginnie Mae recognizes the estimable amount of the incurred loss in the allowance for loan losses. Ginnie Mae aggregates its mortgage loans based on common risk characteristics, primarily by the type of insurance (FHA, VA, USDA, and uninsured) backing the loan, as each has a different recovery rate. The allowance for loan losses estimate is calculated using statistical models that are based on historical charge offs and insurance recoveries and includes qualitative and environmental factors, where applicable.

This allowance for loss on mortgage loans HFI represents management's estimate of probable credit losses inherent in Ginnie Mae's mortgage loan portfolio. The allowance is netted against the recorded investment on mortgage loans HFI.

Ginnie Mae considers a loan to be impaired when, based on current information, it is probable that amounts due, including interest, will not be received in accordance with the contractual terms of the loan agreement. Ginnie Mae measures impairment based on the present value of expected future cash flows.

Per U.S. GAAP, Ginnie Mae is required to measure impairment based on the fair value of the underlying collateral less cost to sell when Ginnie Mae determines that foreclosure is probable or if the repayment of the loan is expected to be provided solely by the sale of underlying collateral (e.g.uninsured loans).

Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above. Due to lack of data availability as of September 30, 2016, Ginnie Mae was unable to obtain updated HFI loans balances from the MSS as of period end. Refer to Note 9: Mortgage Loans for further details.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans.

Charge-Off: U.S. GAAP requires Ginnie Mae to have a policy that determines when a charge-off is recorded for the losses that are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency or underlying collateral upon foreclosure, or other liquidation (such as deed-in-lieu of foreclosure).

Due to lack of data availability, Ginnie Mae was unable to fully comply with the U.S. GAAP requirements outlined above. Refer to Note 9: Mortgage Loans for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans.

Troubled Debt Restructuring (TDR): To avoid foreclosure, the MSS on behalf of Ginnie Mae, may modify loans to help borrowers who have fallen into financial difficulties with their mortgages. Methods of modifying loans may include offering concessions and restructuring the terms of the loan to alleviate the burden of the borrower. Various concessions may be provided including:

- A trial period where the expected permanent modification will change amounts due at the original contract rate;
- A delay in payment that is more than insignificant;
- A reduction in the contractual interest rate;
- Interest forbearance for a period of time for uncollected interest amounts, that is more than insignificant;
- Principal forbearance that is more than insignificant; and
- Discharge of the borrower's obligation due to filing of Chapter 7 bankruptcy.

Ginnie Mae considers these modifications a concession to borrowers experiencing financial difficulties and therefore classifies these loans as TDRs consistent with ASC 310-40, *Troubled Debt Restructuring by Creditors*. Ginnie Mae measures the impairment on these loans restructured in a TDR based on the excess of the recorded investment in the loan over the present value of the expected future cash flows discounted at the loan's original effective interest rate. Per U.S. GAAP, if foreclosure is probable, Ginnie Mae is required to measure the impairment as the difference between the loan's recorded investment and the fair value of the underlying property, less cost to sell, and adjust for estimated insurance or other proceeds that Ginnie Mae would expect to receive, consistent with the measurement of impairment on impaired loans per ASC 310-10 as noted above.

Due to lack of data availability as of September 30, 2016, Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above. Refer to the Note 9: Mortgage Loans for further details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans.

Accrued Interest Receivable, net: U.S. GAAP requires Ginnie Mae to have a policy that establishes when a loan is placed on nonaccrual status, the method of recording payments received while a loan is on nonaccrual and criteria for resuming accrual of interest.

Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above. Due to lack of data availability, Ginnie Mae is unable to fully comply with the U.S. GAAP requirements outlined above. Refer to Note 9: Mortgage Loans for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans.

Acquired Property, net: Ginnie Mae recognizes acquired property when Ginnie Mae obtains marketable title to the underlying property that has completed the foreclosure process or the borrower conveys all interest in the residential real estate property to Ginnie Mae to satisfy the loan through a completion of a deed in lieu of foreclosure or through similar legal agreement. These assets differ from "foreclosed property" as they are not conveyed to the insuring agencies and Ginnie Mae will hold the title while the properties are being marketed for sale by the MSS.

U.S. GAAP requires acquired property to be initially measured at its fair value, net of estimated costs to sell. At acquisition, a loss is required to be charged-off against the Allowance for loan loss when the recorded investment in the loan exceeds the fair value, net of estimated costs to sell, of the acquired property. Conversely, any excess recovery of the fair value less estimated costs to sell over the recorded investments in the loan is required to be recognized first to recover any forgone, contractually due principal and interest, then to Recapture Income (Expense) on Acquired Property in the Statements of Revenue and Expenses and Changes in Investment of the U.S. Government.

U.S. GAAP requires acquired property to be subsequently measured at the lower of its carrying value or fair value, net of estimated costs to sell. Any subsequent write-downs to fair value, net of estimated costs to sell, from its carrying value, i.e., holding period write-downs, should be recognized through a valuation allowance with an offsetting charge to Income (expense) on Acquired Property. Any subsequent increase in fair value, net of estimated costs to sell, above the carrying value, i.e., holding period gains, are required to be recognized in Income (expense) on Acquired Property in the Statements of Revenue and Expenses and Changes in Investment of the U.S. Government up to the cumulative loss previously recognized through the valuation allowance.

U.S. GAAP requires Ginnie Mae to record gains and losses on sales of acquired property as the difference between the net sales proceeds of the sale of the property and the carrying value of the property and to recognize those through Gain (Loss) other on the Statements of Revenues and Expenses and Changes in Investment of the U.S. Government.

U.S. GAAP requires material development and improvement costs for acquired property to be capitalized into the balance. Other post-foreclosure costs are required to be expensed as incurred to Other Expenses on the Statements of Revenues and Expenses and Changes in Investment of the U.S. Government.

Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above. Due to lack of data availability as of September 30, 2016, Ginnie Mae was unable to obtain updated acquired property balances from the MSS as of period end. Refer to the Note 11: Acquired Property for details on Ginnie Mae's current practices.

Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans.

Fixed Assets, net: Ginnie Mae's fixed assets consist of leases and computer systems hardware and software that are used to accomplish its mission. Ginnie Mae capitalizes costs based on guidance in ASC 840 *Leases*, ASC 350-40 *Intangibles—Goodwill and Other—Internal-Use Software*, and ASC 360 *Property, Plant and Equipment*. Ginnie Mae amortizes the capitalized costs over a three to five-year period beginning from the project's completion on a straight-line basis. Expenditures for improvements that significantly enhance the life of an asset are capitalized. Expenditures for ordinary repairs and maintenance are charged to expense as incurred.

Fair Value Option: The fair value option allows certain financial assets, such as acquired loans, to be reported at fair value (with unrealized gains and losses reported in the Statements of Revenues and Expenses and Changes in Investment of U.S. Government and related cash flows classified as operating activities). The fair value option was elected by Ginnie Mae for the Guaranty Asset, please refer to "Guaranty Asset and Guaranty Liability" above. The fair value option was not elected by Ginnie Mae for any recognized loans on its Balance Sheets for 2016 and 2015. Ginnie Mae reserves the right to elect the fair value option for newly acquired loans in future periods.

Mortgage Servicing Rights: Mortgage Servicing Rights represent Ginnie Mae's rights and obligations to service mortgage loans underlying a defaulted Issuer's entire Ginnie Mae guaranteed pooled-loan portfolio. Ginnie Mae contracts with multiple MSS to provide the servicing of its pooled mortgage loans. The servicing functions typically performed by Ginnie Mae's MSS include: collecting and remitting loan payments, responding to borrower inquiries, accounting for principal and interest, holding custodial funds for payment of property taxes and insurance premiums, counseling delinquent mortgagors, supervising foreclosures and property dispositions, and generally administering the loans. Ginnie Mae receives a monthly servicing fee based on the remaining outstanding principal balances

of the loans. These servicing fees are included in and collected from payments made by the borrowers. Ginnie Mae pays a sub-servicing expense to the MSS in consideration for servicing the loans.

Ginnie Mae records a servicing asset (or liability) each time it takes over a defaulted Issuer's Ginnie Mae guaranteed pooled-loan portfolio. The balance of the MSR represents the benefits of servicing that are expected to be more (or less) than adequate compensation to a sub-servicer for performing the servicing. The determination of adequate compensation is a market notion and is made independent to Ginnie Mae's cost of servicing. Accordingly, Ginnie Mae's determination of adequate compensation is based on compensation demanded in the marketplace. Typically, the benefits of servicing are expected to be more than adequate compensation for performing the servicing, and the contract results in a servicing asset. However, if the benefits of servicing are not expected to adequately compensate for performing the servicing, the contract results in a servicing liability.

Ginnie Mae reports MSR at fair value to better reflect the potential net realizable or market value that could be ultimately realized from the disposition of the MSR asset or the settlement of a future MSR liability as Ginnie Mae does not intend to hold its MSR assets long term. To determine the fair value of the MSR, Ginnie Mae uses a valuation model that calculates the present value of estimated future net servicing income. The model factors in key economic assumptions and inputs including prepayment rates, cost to service a loan, contractual servicing fee income, ancillary income, escrow account earnings, and the discount rate. In addition, the MSR also takes into account future expected cash flows for loans underlying the defaulted Issuers' portfolio including credit losses. The discount rate is used to estimate the present value of the projected cash flows in order to estimate the fair value of the MSR. The discount rate assumptions reflect the market's required rate of return adjusted for the relative risk of the asset type. This approach consists of projecting servicing cash flows and estimating the present value of these cash flows using discount rates. Upon acquisition, Ginnie Mae measures its MSR at fair value and subsequently re-measures the MSR assets or liabilities with changes in the fair value recorded in the Statements of Revenues and Expenses and Changes in Investment of U.S. Government. During 2016, Ginnie Mae implemented a strategy to sell agency MSR asset with the intent of reducing exposure to interest rate movements and credit losses.

Ginnie Mae may enter into business transactions and agreements, which provide certain representations and warranties associated with the underlying loan portfolios. If there is a breach of these contractual obligations, Ginnie Mae may be required to repurchase certain loans. For those instances, Ginnie Mae will assess the risk of loss for such claims and record a liability if the loss is probable and estimable.

Compensated Absences: Under the Accrued Unfunded Leave and Federal Employees Compensation Act (FECA), annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken. Compensated absences are included with accounts payable and accrued liabilities.

Financial Guarantees: Ginnie Mae's guarantee obligates Ginnie Mae to stand ready, over the term of the guarantee, to advance funds to cover any shortfall of principal and interest to the MBS holders in the event of an Issuer default.

Ginnie Mae, as guarantor, follows the guidance in ASC 460, *Guarantees,* for its accounting and disclosure of its guarantees. At inception of the guaranty, Ginnie Mae recognizes a liability, the "guarantee obligation" at fair value. Ginnie Mae applies the practical expedient in ASC 460, which allows for the guaranty obligation to be recognized at inception based on the premium received or receivable by the guarantor, provided the guaranty is issued in a standalone arm's length transaction with an unrelated party. The fair value of the guarantee obligation is calculated as the discounted cash flows of the expected future premiums from guarantee fees over the expected life of the mortgage pools. The estimated fair value included certain assumptions such as future UPB, prepayment speeds and default rates.

Additionally, as the guaranty is issued in a standalone transaction for a premium, Ginnie Mae records a guaranty asset as the offsetting entry for the guaranty liability. Thus, there is no net impact from the initial recording of the guaranty obligation and asset on the net financial position of Ginnie Mae.

Ginnie Mae subsequently amortizes the guarantee obligations using a systematic and rational amortization method. Ginnie Mae's amortization is adjusted on a quarterly basis as the UPB of the guaranteed MBSs outstanding in the non-defaulted issuer portfolio declines. In addition, the guarantee assets are recorded at fair value subsequent to initial measurement with changes in fair value recorded through the Statement of Revenues and Expenses and Changes in Investment of U.S. Government.

Liability for Loss on Mortgage-Backed Securities Program Guaranty: Liability for loss on mortgage-backed securities program guaranty is a loss contingency that arises from the guaranty obligation that Ginnie Mae has to the MBS holders as a result of a probable Issuer default. The Issuers have the obligation to make timely principal and interest payments to investors, however, in the event whereby the Issuer defaults, Ginnie Mae steps in and continues to make the contractual payments to investors. The contingent aspect of the guarantee obligation is measured initially and in subsequent periods under ASC 450-20, *Contingencies – Loss Contingencies.*

Ginnie Mae's Office of Enterprise Risk (OER) utilizes the Issuer Risk Grade model to assist in the analysis of potential defaults. The Issuer Risk Grade model assigns each Issuer an internal risk grade using an internally developed proprietary risk-rating methodology. The objective of the methodology is to identify those Ginnie Mae Issuers that display an elevated likelihood of default relative to their peers. To this end, the methodology assigns each active Issuer a risk grade ranging from 1-8, with 1 representing a low probability of default and 8 representing an elevated probability of default. As the risk grade rating approaches an elevated probability of default, Ginnie Mae further evaluates the financial condition of the Issuer and considers whether an accrual of the loss contingency is required.

Recognition of Revenues and Expenses: Ginnie Mae recognizes revenue from the following sources:

- Interest income on mortgage loans HFI – Ginnie Mae accrues interest income for performing loans at the note rate of the underlying mortgage. Interest income on mortgage loans HFI includes the effect of the allowance for interest income that is deemed uncollectible.
- Other interest income – Ginnie Mae earns interest income on U.S. Government Securities related to U.S. Treasury overnight certificates. In addition Ginnie Mae earns interest on the uninvested funds, held in the Financing Fund, which is based on the 20-year Consumer Price Index rate for the year.
- Income on guaranty obligation – Ginnie Mae amortizes its guarantee obligation into revenues based on the change in the UPB of loans relative to their original liability.
- Mortgage-backed securities guaranty fees – 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.
- Commitment fees – Ginnie Mae receives commitment fees as Issuers request commitment authority to issue Ginnie Mae MBS. Commitment fees related to approved commitment authority are recognized in income as Issuers use their commitment authority, with the remaining balance deferred until earned or expired, whichever occurs first. Fees from expired commitment authority are recognized as income and are not returned to Issuers.
- Multiclass fees – Ginnie Mae receives one-time upfront fees related to the issuance of multiclass products. Multiclass products include REMICs and Platinum Certificates. A portion of the fees associated with REMICs are recognized as revenue at inception based on the proportion of upfront costs incurred in relation to the total cost expected to be incurred over the contractual life of the security. Remaining fees associated with REMICs are deferred and amortized into income evenly over the contractual life of the security, in conjunction with the recognition of servicing fees paid to the third-party administrator. Fees associated with Platinum securities are recognized as revenue over the service period on a straight line basis as Ginnie Mae does not incur upfront cost for restructuring these securities.
- MBS program and other income – Ginnie Mae recognizes income through fees related to New Issuer Applications, Transfers of Issuer Responsibilities and Mortgage Servicing Fees.

Ginnie Mae's expenses are classified into three groups: MBS program and other expenses, administrative expenses, and fixed asset amortization. The main components of the MBS program and other expense line item are multiclass expenses, MBS information systems and compliance expenses, sub-servicing expenses, asset management expenses, and pool processing and central paying agent expenses.

Securitization and Guarantee Activities: Ginnie Mae's primary business activity is to guarantee the timely payment of principal and interest on securities backed by pools of mortgages issued by private institutions. Unlike substantially all of the securitization market, the issuance of Ginnie Mae MBS is not completed through a trust vehicle. Also, Ginnie Mae is not the legal issuer. Rather Ginnie Mae approves issuers to pool loans, assign rights to the loans to Ginnie Mae through a pool custodian, and issue Ginnie Mae MBS. Federal charters grant Ginnie Mae the ability to isolate pools of mortgage loans without the use of a trust or legal entity. Additionally, for federal income tax purposes, the Ginnie Mae pool is considered to be a grantor trust. As such each of these "virtual trusts" are considered individual legal entities for consolidation purposes and are considered VIEs.

Variable Interest Entities (VIE) Model

For entities in which Ginnie Mae has a variable interest, Ginnie Mae determines whether, if by design, (i) the entity has equity investors who, as a group, lack the characteristics of a controlling financial interest, (ii) the entity does not have sufficient equity at risk to finance its expected activities without additional subordinated financial support from other parties or (iii) the entity is structured with non-substantive voting rights. If an entity has at least one of these characteristics, it is considered a VIE, and is consolidated by its primary beneficiary. The primary beneficiary is the party that (i) has the power to direct the activities of the entity that most significantly impact the entity's economic performance; and (ii) has the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the entity. Only one reporting entity, if any, is expected to be identified as the primary beneficiary of a VIE. Ginnie Mae reassesses its initial evaluation of whether an entity is a VIE upon occurrence of certain reconsideration events.

Ginnie Mae's involvement with legal entities that are VIEs is limited to providing a guarantee on principal and interest returns to MBS holders of the Ginnie Mae virtual trusts. Ginnie Mae is not the primary beneficiary of the Ginnie Mae virtual trusts as it does not have the power to control the significant activities of the trusts. Other than its guarantee, Ginnie Mae does not provide, nor is it required to provide, any type of financial or other support to these entities. The guaranty fee receivable represents compensation for taking on the risk of providing the guaranty to MBS investors for the timely payment of principal and interest in the event of Issuers' default.

The following table represents the amounts of the assets and liabilities that relate to Ginnie Mae's interest in VIEs as of September 30, 2016, and 2015:

	September 30,	
(Dollars in thousands)	2016	2015
Guaranty Asset	$ 6,397,600	$ 6,742,200
Guaranty Fee Receivable	$ 87,000	$ 81,000
Total	**$ 6,484,600**	**$ 6,823,200**
Guaranty Liability	$ 6,198,400	$ 5,661,300
Total	**$ 6,198,400**	**$ 5,661,300**
Maximum exposure to loss	**$1,728,000,000**	**$1,609,000,000**

Refer to Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Risk for further details.

Recently Adopted Accounting Guidance: The following provides a brief description of recently adopted accounting pronouncements and their effect on Ginnie Mae's financial statements:

Standard	**Description**	**Effective Date and/or Date of Adoption**	**Effect on the financial statements**
Accounting Standards Update (ASU) 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (Topic 310)	The FASB issued guidance to clarify that a creditor should reclassify a mortgage loan to acquired property when it obtains legal title or completes a deed in lieu of foreclosure or similar legal agreement. Additionally, creditors will be required to disclose the amount of foreclosed residential real estate property they hold and the recorded investment in loans collateralized by residential property that is in the process of foreclosure.	Effective for annual periods beginning after December 15, 2014 and interim periods within annual periods beginning after December 15, 2015. Date of Adoption: Ginnie Mae is undergoing remediation related to its accounting for loans. Date of adoption will be determined based on the results.	U.S. GAAP requires an entity to reclassify a mortgage loan to acquired property when it obtains legal title or completes a deed in lieu of foreclosure or similar legal agreement. The property should be recorded based on its fair value less costs to sell. Current Ginnie Mae's approach is not in compliance with U.S. GAAP (refer to Note 11: Acquired Property). Ginnie Mae is evaluating the impact of the adoption of this amendment on its financial statements.

Recent Accounting Guidance: The following provides a brief description of recent accounting pronouncements that could affect Ginnie Mae's financial statements:

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ASU 2015-14, ASU 2016-08, ASU 2016-10, , and ASU 2016-12	The amendment requires entities to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 defers the effective date of ASU 2014-09 for all entities by one-year. ASU 2016-08 discusses principal versus agent considerations (reporting revenue gross versus net). ASU 2016-10 discusses identification of performance obligations and licensing. ASU 2016-11 discusses the rescission of Securities and Exchange Commission (SEC) guidance. ASU 2016-12 discusses narrow scope improvements and practical expedients.	Effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2018.	Ginnie Mae is evaluating the impact that the adoption of this amendment will have on its financial statements.
ASU 2015-02, Amendments to the Consolidation Analysis (Topic 810)	The amendment removes the specialized consolidation model relating to limited partnerships and similar entities. The amendment also eliminates certain of the conditions for evaluating whether fees paid to a decision maker or service provider represent a variable interest.	Effective for annual periods ending after December 15, 2016 and interim periods beginning after December 15, 2016.	Ginnie Mae is evaluating the impact that the adoption of this standard will have on its financial statements.
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825-10)	The FASB issued guidance which makes certain amendments to the recognition, measurement, and presentation of financial assets and financial liabilities, as well as amendments to certain disclosure requirements relating to the fair value of financial instruments.	Effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2018.	Ginnie Mae is evaluating the impact that the adoption of this amendment will have on its financial statements.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
ASU 2016-02, Leases (Topic 842)	The FASB issued clarified guidance surrounding the definition of a lease and recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases.	Effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2018.	Ginnie Mae is evaluating the impact that the adoption of this standard will have on its financial statements.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326)	The FASB issued a new credit loss standard that changes the impairment model for most financial assets and certain other instruments. The standard adds an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. The standard requires an entity to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The allowance represents the portion of the amortized cost basis the entity doesn't expect to collect. The standard also eliminates the current accounting model for purchased credit impaired loans and debt securities. Instead, entities will gross up the initial amortized cost for purchased financial assets with credit deterioration based on the purchase price and estimated credit losses.	Effective for annual periods beginning after December 15, 2020 and interim periods within annual periods beginning after December 15, 2021.	Ginnie Mae is evaluating the impact that the adoption of this standard will have on its financial statements.

Other recent accounting pronouncements have been deemed not applicable or not material to the financial statements as presented.

Note 4: Cash and cash equivalents

Cash and cash equivalents consist of funds held by Treasury, funds held by the MSS, funds held by Trustee and Administrator of securities, and U.S. Treasury short-term investments. Cash and cash equivalents – unrestricted and restricted – include the following at September 30, 2016 and 2015:

(Dollars in thousands)	As of September 30, 2016 Unrestricted	Restricted	Total
Cash and cash equivalents held by Treasury[(1)]	$ 856,300	$ 523,000	$ 1,379,300
Cash and cash equivalents held by MSS[(2)]	51,500	-	51,500
Cash and cash equivalents held by Trustee and administrator of securities[(3)]	8,200	-	8,200
U.S. Treasury short-term investments[(4)]	15,930,100	23,600	$ 15,953,700
Total	**$ 16,846,100**	**$ 546,600**	**$ 17,392,700**

(Dollars in thousands)	As of September 30, 2015 Unrestricted	Restricted	Total
Cash and cash equivalents held by Treasury[(1)]	$ 1,732,600	$ 409,400	$ 2,142,000
Cash and cash equivalents held by MSS[(2)]	44,500	-	44,500
Cash and cash equivalents held by Trustee and administrator of securities[(3)]	3,900	-	3,900
U.S. Treasury short-term investments[(4)]	12,899,600	23,400	12,923,000
Total	**$ 14,680,600**	**$ 432,800**	**$ 15,113,400**

[(1)] This amount represents Ginnie Mae's account balance with the U.S. Treasury. It includes cash and cash equivalents that are restricted by Congress, which Ginnie Mae cannot spend without approval from Congress, as well as cash and cash equivalents that are restricted temporarily, until Ginnie Mae determines the appropriate allocation for cash received.
[(2)] This amount represents cash collected by the MSS for Ginnie Mae but not yet received by Ginnie Mae (Deposits in transit).
[(3)] This amount represents cash collected by Trustee for Ginnie Mae but not yet received by Ginnie Mae (Deposits in transit).
[(4)] This amount represents investments in overnight certificates. It includes restricted cash and cash equivalents owed to MBS certificate holders that cannot be located by the administrator of the securities. There is no statute of limitations stating when the investor can claim this cash.

Cash held by Treasury: Ginnie Mae's cash receipts and disbursements are processed by Treasury. Cash held by Treasury represents the available budget spending authority of Ginnie Mae (obligated and unobligated balances available to finance allowable expenditures). The restricted balances represent amounts restricted for use by Ginnie Mae to certain activities.

Cash held by the MSS: There may be a time lag between when the MSS receives cash collections on behalf of Ginnie Mae such as principal, interest, and insurance claims proceeds, and when cash collections are transferred to Ginnie Mae. Ginnie Mae records an increase in cash and cash equivalents for receipts collected by the MSS, but not yet received by Ginnie Mae at the end of the reporting period.

Cash held by Trustee and Administrator of securities: There may be a time lag between when the Trustee and Administrator of securities receives cash collections for commitment fees and multiclass fees, respectively, on behalf of Ginnie Mae, and when cash collections are transferred to Ginnie Mae. Ginnie Mae records an increase in cash and cash equivalents for receipts collected by the Trustee, but not yet received by Ginnie Mae at the end of the reporting period.

U.S. Treasury short term investments: The U.S. Treasury Securities 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 and include U.S. Treasury overnight certificates, U.S. Treasury notes, and U.S. Treasury inflation-indexed securities (reflecting inflation compensation). Ginnie Mae has approval from the OMB to establish a Capital Reserve Fund, which has the ability to invest in overnight U.S. Government Securities. As a result of the OMB approval, Ginnie Mae invested the full balance of the Capital Reserve Fund approximately $15.8 billion and $12.8 billion, and the Liquidating fund approximately, $151.2 million and $150.7 million, as of September 30, 2016 and 2015, respectively, in overnight U.S. Government securities. As of September 30, 2016 and 2015, Ginnie Mae only holds overnight certificates. The U.S. Treasury short-term investments balance includes $23.6 million and $23.4 million of restricted cash related to unclaimed MBS security holder payments, as of September 30, 2016 and 2015, respectively. The U.S. Treasury Securities are carried at cost, which approximates its fair value.

Note 5: Restricted Cash and cash equivalents

Restricted cash and cash equivalents represents monies that are restricted to the withdrawal or usage of certain activities. The restricted cash balance consists of the following:

- Unclaimed security holder payments: Money owed to MBS certificate holders that cannot be located by the administrator of the Ginnie Mae MBS securities.
- Unapplied deposits-non-government: Cash received by Ginnie Mae held in a suspense account until the appropriate application is determined. These amounts while in the suspense account are not a part of Ginnie Mae's available cash balance.
- Collections precluded from obligation: Unobligated money within the Programs Fund balance that is restricted by Congress and cannot be utilized unless there is approval by Congress.

The balance of restricted cash and cash equivalents as of September 30, 2016 and 2015 were as follows:

(Dollars in thousands)	September 30, 2016	2015
Unclaimed security holder payments	$ 23,600	$ 23,400
Unapplied deposits-non-government	300	300
Collections precluded from obligation	522,700	409,100
Total	**$ 546,600**	**$ 432,800**

Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Risk (As Restated)

Ginnie Mae receives a guaranty fee from Issuers, which is calculated based on the UPB of outstanding MBS in the defaulted and non-defaulted Issuers' pooled portfolio. This guaranty fee represents compensation for taking on the risk of providing the guaranty to MBS investors for the timely payment of principal and interest in the event of Issuers' default. Ginnie Mae only guarantees securities created by approved Issuers and backed by mortgages insured by other federal programs. The underlying source of loans for the Ginnie Mae I MBS and Ginnie Mae II MBS comes from Ginnie Mae's four main MBS programs, the Single Family, Multifamily, HMBS and Manufactured Housing Programs, which serve a variety of loan financing needs and different issuer origination capabilities. Please see Note 1: Entity and Mission for more information on each program.

Ginnie Mae recognizes a guaranty asset upon issuance of a guaranty for the expected present value of these guaranty fees. The guaranty asset recognized on the Balance Sheets is $6.4 billion and $6.7 billion as of September 30, 2016 and 2015, respectively. The guaranty obligation represents the non-contingent guaranty obligation for Ginnie Mae's obligation to stand ready to perform on the guaranty. The guaranty obligation recognized on the Balance Sheets is $6.2 billion and $5.7 billion as of September 30, 2016 and 2015, respectively. After the initial measurement, the guaranty asset is recorded at fair value and the guarantee obligation is amortized based on the remaining UPB of the MBS pools. The difference in accounting for the guaranty asset and guaranty obligation subsequent to initial recognition may cause volatility in reported earnings due to different measurement attributes in reporting related financial asset (using projected economic exposures such as interest rate and prepayment speeds) and financial liability (using actual payoffs and paydowns). Refer to Note 12: Fair Value Measurement for discussion surrounding the volatility reflected in the Statements of Revenues and Expenses and Changes in Investment of U.S. Government as a result of changes in assumptions used in estimating the fair value of the guaranty asset.

For the guaranty asset and guaranty obligation recognized on the Balance Sheets, Ginnie Mae's maximum potential exposure under these guarantees is primarily comprised of the amount of MBS securities outstanding. At September 30, 2016 and 2015, the amount of securities outstanding, which is guaranteed by Ginnie Mae, was $1.7 trillion and $1.6 trillion, respectively. However, Ginnie Mae's potential loss is considerably less due to the financial strength of its Issuers. Additionally, in the event of default of an Issuer, the underlying mortgages serve as primary collateral, and FHA, USDA, VA, and PIH insurance or guaranty indemnifies Ginnie Mae for most losses.

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 curtailments are also passed through to security holders. As a result of the security's structure, Ginnie Mae bears no interest rate risk. Ginnie Mae's exposure to credit loss is contingent on the nonperformance of Ginnie Mae Issuers. Other than those Issuers considered in the Liability for loss on mortgage-backed securities program guaranty on the Balance Sheet, Ginnie Mae

does not anticipate nonperformance by its other counterparties. Generally, terms of the guarantee range from 15 to 30 years, with a maximum term capped at 40 years.

Ginnie Mae is also subject to credit risk for its outstanding commitments to guarantee MBS, which are not reflected on its Balance Sheets. These commitments are an unrecognized MBS commitment for financial statement purposes. During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee future MBS. The commitment ends when the securities are issued or the commitment period expires, which is 12 months from its receipt for single family Issuers and 24 months from its receipt for multifamily Issuers. Ginnie Mae's risk related to outstanding commitments is much less than for the outstanding balance of MBS commitments due in part to Ginnie Mae's ability to limit commitment authority granted to individual MBS Issuers. Outstanding MBS and commitments were as follows:

	September 30,	
(Dollars in billions)	2016	2015
Outstanding MBS	$ 1,728	$ 1,609
Outstanding MBS Commitments	96	160
Total	**$ 1,824**	**$ 1,769**

If all outstanding MBS commitments were utilized, Ginnie Mae's corresponding guaranty liability at fair value, its obligation to stand ready to perform on these securities, would not exceed $352.8 million and $630.7 million as of September 30, 2016 and 2015, respectively.

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

For fiscal years ended September 30, 2016 and 2015, multiclass security program issuances totaled $102.5 billion and $93.1 billion, respectively. The estimated outstanding balance of multiclass securities included in the outstanding MBS balance was $473.2 billion and $472.7 billion as of September 30, 2016 and 2015, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Note 7: Mortgage Servicing Rights

The following table presents activity for MSR for the years ended September 30, 2016 and 2015:

(Dollars in thousands)	September 30, 2016	2015
Balance, October 1, 2015	$ 29,600	$ 44,600
Additions	-	-
Dispositions	(25,500)	-
Loss on Disposition of MSR	(300)	-
Changes in fair value due to:		
Changes in valuation inputs or assumptions used in valuation model	(3,800)	(15,000)
Other changes in fair value		-
Balance, September 30, 2016[1]	**$ -**	**$ 29,600**

[1] *The September 30, 2016 balance of $35 thousand is not shown due to rounding*

During 2016, Ginnie Mae entered into agreements to sell all of its MSR to their MSS. Under the purchase and sale agreement, Ginnie Mae sold, transferred, conveyed, and assigned to the purchasers all servicing rights, advances, custodial funds and escrow funds. The purchasers assumed all contractual duties, obligations and liabilities of Ginnie Mae. Ginnie Mae provided representations and warranties under the MSR purchase and sale agreements that may require Ginnie Mae to repurchase uninsured FHA, VA, USDA and PIH mortgage loans identified by the purchaser as of and after the sale date. As of September 30, 2016, there was no liability for representations and warranties related to the MSR sale.

The transaction was accounted for as a sale of non-financial assets as substantially all risks and rewards of ownership have irrevocably passed to the purchaser. Total cash proceeds of the sale amounted to $25.5 million, which resulted in a loss of $0.3 million. As of September 30, 2016 and 2015, the UPB of the MSR for the total portfolio was $15.2 million and $4.3 billion, respectively.

Subsequent to the sale of all the MSRs during the fiscal year, another Issuer of Ginnie Mae securities defaulted. This resulted in Ginnie Mae assuming the servicing rights and obligations of the defaulted Issuer and recorded an MSR asset valued at approximately $35 thousand as of September 30, 2016.

The following table presents the components of servicing income for the years ended September 30, 2016 and 2015:

(Dollars in thousands)	September 30, 2016	2015
Servicing fee income	$ 3,700	$ 23,600
Sub-servicing expenses	(30,600)	(39,400)
Net servicing loss	**$ (26,900)**	**$ (15,800)**

Note 8: Advances, net

When a Ginnie Mae Issuer defaults, Ginnie Mae is contractually required to step into the role of Issuer. In this role, Ginnie Mae assumes the rights and obligations of the defaulted Issuer's entire Ginnie Mae guaranteed pooled-loan portfolio and is responsible for making timely principal and interest payments to the MBS holders.

To facilitate servicing of the pooled-loan portfolio, Ginnie Mae utilizes two MSS to service the loans associated with the defaulted portfolios and has provided advances to these MSS to ensure that the portfolio can cover investor payments on the appropriate dates. When the full amount of principal and interest due to MBS security holders is not paid by the borrowers by the required payment date, Ginnie Mae will advance the funds to the MSS to cover the shortfall or for loan purchases if mortgages need to be purchased out of the pool. These advances are reported net of an allowance based on management's expectations of future collections of the advances from the borrowers, proceeds from the sale of the property, or recoveries from third-party insurers such as FHA, USDA, VA, and PIH.

Effective January 1, 2016, Ginnie Mae sold the MSR of its defaulted issuer pooled portfolios for approximately $4 billion in UPB, to its currently approved MSS. As part of the MSR sale, Ginnie Mae received a cash payment from the MSS in March 2016 as a settlement of outstanding advance balances. The rights and responsibilities of future collections of principal and interest and other expenses for these pooled loans transferred to the MSS upon the completion of the sale. As such, all remaining balances in the Advance, including allowances, were removed. Refer to Note 7: MSR for further discussion on MSR sale.

Subsequent to the MSR sale, another Ginnie Mae Issuer defaulted and Ginnie Mae assumed the servicing rights and obligations of the Issuer's entire Ginnie Mae portfolio. Concurrently, Ginnie Mae executed a Purchase and Sales Agreement (PSA) with an approved Issuer to sell the assumed MSR. Concurrent to the sale of MSR, the defaulted Issuer had a custodial fund balance of $20.9 million that was designated to fund the pass-through payment to the MBS holders which, due to pending bankruptcy proceedings, has not been released. To ensure timely pass-through payments due to the MBS security holders, Ginnie Mae made an advance payment to the new Issuer in the amount of the unreleased custodial fund balance. Ginnie Mae is currently working with the Bankruptcy Trustee to obtain release of the custodial funds. Once bankruptcy proceedings have concluded, Ginnie Mae expects to collect the full amount of the advance payment and therefore, no allowance was deemed necessary as of September 30, 2016. The net carrying value of advances balance is $20.9 million as of September 30, 2016, and $118.8 million as of September 30, 2015, as follows:

(Dollars in thousands)	September 30, 2016	2015
Advances	$ 20,900	$ 272,500
Allowance for Uncollectible Advances	-	(153,700)
Advances, net	**$ 20,900**	**$ 118,800**

The following table displays changes in Ginnie Mae's allowance for advances for the year ended September 30, 2016 and 2015:

	September 30,	
(Dollars in thousands)	2016	2015
Beginning balance	$ (153,700)	$ (110,700)
Provision (recapture) for credit losses	(88,500)	(45,300)
Charge-offs	243,100	3,000
Recoveries	(900)	(700)
Ending balance	**$ -**	**$ (153,700)**

Note 9: Mortgage Loans

Upon Ginnie Mae Issuers default, Ginnie Mae steps into the role of the Issuer and makes payments of Principle and Interest (P&I) to its investors, and subsequently, assumes the servicing rights and obligations of the defaulted Issuer's entire, guaranteed, pooled loan portfolio. If a borrower is delinquent for more than 90 days, Ginnie Mae may purchase the delinquent loan out of the pool. Ginnie Mae's historical business practice is to purchase loans out of the pool after they are delinquent for 120 days or more. Additionally, Ginnie Mae must purchase loans out of the pool if they are uninsured by the FHA, USDA, VA, or PIH[1].

Upon acquisition, Ginnie Mae classifies a loan as either HFS or HFI. As of September 30, 2016 and 2015, Ginnie Mae's loan portfolio did not include any loans HFS. The HFI portfolio consists of loans purchased from defaulted Issuers pools, reported at their outstanding UPB, net of allowance. Historically, Ginnie Mae's HFI portfolio contained single family, multifamily, manufactured housing and HECM loans. However, as of September 30, 2016 and 2015, the HFI portfolio included only single family loans.

Ginnie Mae measures HFI loans using amortized cost. The loans are periodically evaluated for impairment in accordance with guidance in ASC 450-20, or ASC 310-10-35. Ginnie Mae's credit risk on the mortgage loans HFI is limited by the underlying insurance on loans, which may include FHA, USDA, VA and PIH.

[1] Ginnie Mae did not have any mortgage loans insured by PIH as of September 30, 2016 and 2015. However, PIH-insured mortgage loans may exist within MBS pools.

The tables below present the recorded investment[2] in mortgage loans and related allowance for loan losses balance broken down by underlying insurance agencies as of September 30, 2016 and 2015:

	As of September 30, 2016				
(Dollars in thousands)	Conventional	FHA	VA	USDA	Total
Total unpaid principal balance	$ 220,900	$ 3,356,100	$ 222,500	$ 83,700	$ 3,883,200
Allowance for loan losses on mortgage loans held for investment	(48,400)	(299,400)	(37,100)	(28,300)	(413,200)
Total Mortgage Loans, net	$ 172,500	$ 3,056,700	$ 185,400	$ 55,400	$ 3,470,000

	As of September 30, 2015				
(Dollars in thousands)	Conventional	FHA	VA	USDA	Total
Total unpaid principal balance	$ 261,200	$ 4,199,300	$ 301,000	$ 102,000	$ 4,863,500
Allowance for loan losses on mortgage loans held for investment	(54,600)	(394,100)	(35,900)	(26,300)	(510,900)
Total Mortgage Loans, net	$ 206,600	$ 3,805,200	$ 265,100	$ 75,700	$ 4,352,600

For the years ended September 30, 2016 and 2015, Ginnie Mae purchased $67.7 million and $418.1 million, respectively, of mortgage loans in MBS pools from defaulted Issuers that were classified as HFI.

Additionally, during fiscal year 2016, Ginnie Mae repurchased 77 uninsured loans for approximately $10.9 million, with an aggregate UPB of approximately $10.7 million, as a part of an indemnification agreement. The repurchased loans were recorded in Mortgages HFI, net of related allowance.

Due to the data limitation, Ginnie Mae is unable to identify the correct HFI loan population, and thus is not compliant with U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

Accrued Interest Receivable

Ginnie Mae's current practice is to recognize interest income at the contractual rate and to record an allowance to the extent that it is probable that interest will not be received, regardless of the delinquency status of a loan. Ginnie Mae does not comply with U.S. GAAP requirements for interest income recognition. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

The following table displays accrued interest and related allowance as of September 30, 2016 and 2015:

	September 30,	
(Dollars in thousands)	2016	2015
Accrued interest on mortgage loans	$ 207,200	$ 370,300
Allowance for accrued interest on mortgage loans held for investment	(188,500)	(322,600)
Accrued interest receivable, net	**$ 18,600**	**$ 47,700**

[2] Recorded investment is a dollar amount of a loan recorded on Ginnie Mae's consolidated balance sheets, excluding any allowance, such as the allowance for loan losses. Recorded investment excludes accrued interest.

The following table displays changes in Ginnie Mae's allowance for accrued interest for the year ended September 30, 2016 and 2015:

	September 30,	
(Dollars in thousands)	2016	2015
Beginning balance	$ (322,600)	$ (360,200)
Recapture (Provision) for credit losses	134,300	37,600
Charge-offs	3,200	2,000
Recoveries	(3,400)	(2,000)
Ending balance	**$ (188,500)**	**$ (322,600)**

Credit Quality Indicators

When estimating defaults, prepayments and recovery, Ginnie Mae looks at a number of credit quality indicators. This includes an estimated current loan-to-value (LTV) ratio in the models using a Home Price Index (HPI) based methodology. Every loan in the allowance population has its original loan-to-value ratio, its UPB and its original principal balance (OPB). HPI information is collected regionally from the Federal Housing Finance Agency (FHFA) HPI quarterly data which is published in March, June, September and December of each year. This information is then used to generate an estimated original home value. The current home value is estimated based on the estimated original home value and HPI. The current loan-to-value ratio is estimated based on the UPB and the estimated current home value in each quarter. In addition to LTV ratios, Ginnie Mae considers other loan characteristics, such as the current delinquency status and recent payment history over the past twelve months.

The following tables display recorded investment in mortgage loans by estimated current LTV[3] ratio as of September 30, 2016 and 2015, respectively:

	As of September 30, 2016 Estimated Current LTV Ratio			
(Dollars in thousands)	Less than 80%	80-100%	greater than 100%	Total
Conventional	$ 154,600	$ 56,300	$ 10,000	$ 220,900
FHA	1,790,300	1,248,300	317,500	3,356,100
VA	110,700	83,900	27,900	222,500
USDA	37,300	38,500	7,900	83,700
Total recorded investment in loans HFI	**$ 2,092,900**	**$ 1,427,000**	**$ 363,300**	**$ 3,883,200**

[3] LTV ratio is based on the UPB of the loans as of September 30, 2016 and 2015 divided by the estimated current value of the property

	As of September 30, 2015 Estimated Current LTV Ratio			
(Dollars in thousands)	Less than 80%	80-100%	greater than 100%	Total
Conventional	$ 167,300	$ 83,300	$ 10,600	$ 261,200
FHA	2,066,800	1,865,000	267,500	4,199,300
VA	136,600	135,500	28,900	301,000
USDA	32,700	62,100	7,200	102,000
Total recorded investment in loans HFI	**$ 2,403,400**	**$ 2,145,900**	**$ 314,200**	**$ 4,863,500**

Impaired Loans

Ginnie Mae considers a loan to be impaired when, based on current information, it is probable that amounts due, including interest, will not be received in accordance with the contractual terms of the loan agreement. Ginnie Mae assesses its portfolios based on the delinquency status of the mortgage loans held in each portfolio. Ginnie Mae's impaired loans include the following categories:

- Loans modified in troubled debt restructure (TDR)
- PCI Loans

For the impaired loans, Ginnie Mae measures impairment based on the present value of expected future cash flows. Due to data limitation, Ginnie Mae is unable to identify the correct TDR loan population, and thus is not compliant with U.S. GAAP. For PCI loans, impairment measurement methodology followed by Ginnie Mae is not in compliance with U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

The table below displays the recorded investment and the UPB of impaired mortgage loans as of September 30, 2016 and 2015:

	As of September 30, 2016			
(Dollars in thousands)	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
Conventional	785	$ 115,200	$ 44,900	$ 115,200
FHA	17,070	2,347,900	247,500	2,347,900
VA	1,305	222,500	37,100	222,500
USDA	757	83,700	28,300	83,700
Total	**19,917**	**$ 2,769,300**	**$ 357,800**	**$ 2,769,300**
	As of September 30, 2015			
(Dollars in thousands)	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
Conventional	782	$ 115,200	$ 37,700	$ 115,200
FHA	18,016	2,566,400	285,500	2,566,400
VA	1,752	302,000	35,900	302,000
USDA	949	102,000	26,300	102,000
Total	**21,499**	**$ 3,085,600**	**$ 385,400**	**$ 3,085,600**

Due to the data limitations, Ginnie Mae is unable to disclose the average carrying value, interest income and interest income recognized using a cash-basis method of accounting for impaired mortgage loans, as required by U.S. GAAP.

Troubled Debt Restructuring (TDR)

A restructuring of a debt constitutes a TDR if Ginnie Mae for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

The substantial majority of the loan modifications that Ginnie Mae completes result in term extensions, interest rate reductions (lower than what the borrower would receive in the market at the time of the modification) or a combination of both. Ginnie Mae considers these modifications a concession to borrowers experiencing financial difficulties and therefore classifies these loans as TDRs.

Currently, Ginnie Mae classifies loans as TDRs (based on the definition above) when the borrower enters into a permanent modification. For these loans, Ginnie Mae measures impairment based on the present value of expected future cash flows.

Due to data limitation, Ginnie Mae is unable to identify the correct TDR loan population, and thus is not compliant with U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

The following table displays recorded investment in loans restructured in a TDR for the years ended September 30, 2016 and 2015:

	As of September 30, 2016			
(Dollars in thousands)	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
Conventional	383	$ 59,800	$ 22,400	$ 59,800
FHA	17,070	2,347,900	247,500	2,347,900
VA	627	113,100	16,100	113,100
USDA	258	32,200	9,200	32,200
Total TDR's	**18,338**	**$ 2,553,000**	**$ 295,200**	**$ 2,553,000**

	As of September 30, 2015			
(Dollars in thousands)	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
Conventional	475	$ 71,600	$ 21,500	$ 71,600
FHA	18,016	2,566,400	285,500	2,566,400
VA	733	138,900	13,800	138,900
USDA	130	16,100	3,700	16,100
Total TDR's	**19,354**	**$ 2,793,000**	**$ 324,500**	**$ 2,793,000**

Due to the data limitations, Ginnie Mae is unable to disclose quantitative information about modifications (i.e. pre-modification vs. post-modification recorded investment) for the loans modified in a TDR, as required by U.S.GAAP.

The table below shows the total recorded investment and the UPB as of September 30, 2016 and 2015 for the loans that entered a TDR in the preceding 12 months:

	As of September 30, 2016		As of September 30, 2015	
(Dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Conventional	86	$ 15,700	90	$ 14,300
FHA	2,911	424,200	1,635	233,600
VA	121	24,200	96	20,000
USDA	71	9,700	15	2,200
Total	**3,189**	**$ 473,800**	**1,836**	**$ 270,100**

The table below shows the total recorded investment and the UPB as of September 30, 2016 and 2015 for the loans that entered a TDR in the preceding 12 months and subsequently defaulted:

	As of September 30, 2016		As of September 30, 2015	
(Dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Conventional	14	$ 3,000	17	$ 3,100
FHA	452	$ 68,000	247	36,200
VA	23	$ 4,900	21	4,500
USDA	11	$ 1,600	2	200
Total	**500**	**$ 77,500**	**287**	**$ 44,000**

Purchased Credit-Impaired Loans

When a mortgage loan is purchased out of the pool, it is considered credit impaired at acquisition, if there is evidence of credit deterioration subsequent to the loan's purchase and it is probable that Ginnie Mae will be unable to collect all contractually required payments receivable (ignoring insignificant delays in contractual payments).

Upon acquisition, if the purchased loan is delinquent and uninsured or insured by VA or USDA, Ginnie Mae determines that it is probable that they will be unable to collect all contractually required payments receivable. Accordingly, these loans are considered to be PCI mortgage loans. Historically, Ginnie Mae has not applied the PCI guidance to its non-FHA loans purchased with evidence of credit deterioration. Ginnie Mae measures these loans based on the present value of expected future cash flows, which is a departure from U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

Ginnie Mae does not consider delinquent FHA insured acquired loans as PCI because the UPB and a portion of the delinquent, accrued interest are deemed collectible due to the FHA insurance reimbursement guidelines. The FHA insurance is inseparable from the underlying loan and travels with the loan.

Since Ginnie Mae has historically never fully applied the PCI guidance to its non-FHA mortgage loans purchased with evidence of credit deterioration, limited data was available for disclosures required by

U.S. GAAP. Thus Ginnie Mae is not fully compliant with U.S. GAAP disclosure requirements for PCI disclosures.

The table below displays the recorded investment and the UPB of PCI mortgage loans as of September 30, 2016 and 2015:

	As of September 30, 2016			
(Dollars in Thousands)	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
Conventional	402	$ 55,400	$ 22,500	$ 55,400
VA	678	109,400	21,000	109,400
USDA	499	51,500	19,000	51,500
Total	**1,579**	**$ 216,300**	**62,500**	**$ 216,300**

	As of September 30, 2015			
(Dollars in Thousands)	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
Conventional	307	$ 43,500	$ 16,200	$ 43,500
VA	1,019	163,100	22,200	163,100
USDA	819	86,000	22,600	86,000
Total	**2,145**	**$ 292,600**	**$ 61,000**	**$ 292,600**

The following table presents the recorded investment and the UPB of PCI loans acquired during 12 month ended September 30, 2016 and 2015:

	As of September 30, 2016			
(Dollars in thousands)	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
Conventional	3	$ 200	$ 100	$ 200
VA	16	1,700	300	1,700
USDA	-	-	-	-
Total PCI	**19**	**$ 1,900**	**$ 400**	**$ 1,900**

	As of September 30, 2015			
(Dollars in thousands)	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
Conventional	12	$ 1,500	$ 500	$ 1,500
VA	183	25,700	2,500	25,700
USDA	157	14,500	4,600	14,500
Total PCI	**352**	**$ 41,700**	**$ 7,600**	**$ 41,700**

Due to its current approach, Ginnie Mae does not have the data to disclose the accretable yield for PCI mortgage loans. Additionally, Ginnie Mae does not have the data to disclose the contractually required payments receivable, cash flows expected to be collected, and fair value at the acquisition date for the loans acquired during the period.

Non-accrual Loans

Ginnie Mae's current practice is to recognize interest income at the full contractual rate on all mortgage loans regardless of delinquency status. Ginnie Mae records an allowance if it is probable that the interest will not be fully collectible. Therefore, a process for placing loans on non-accrual does not currently exist.

Ginnie Mae does not comply with U.S. GAAP requirements for placing loans on non-accrual. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

The following tables display an aging analysis of the total recorded investment in Ginnie Mae's HFI mortgage loans:

	As of September 30, 2016							
(Dollars in thousands)	One Month Delinquent	Two Months Delinquent	Three Months Delinquent	Four Months or More Delinquent	Total Delinquent	Current	Total	Loans Over 90 Days Delinquent and Accruing Interest
Conventional	$ 19,000	$ 5,600	$ 3,300	$ 38,300	$ 66,200	$ 154,700	$ 220,900	$ 41,600
FHA	415,100	113,800	57,600	980,500	1,567,000	1,789,100	3,356,100	1,038,100
VA	21,900	8,400	4,000	101,600	135,900	86,600	222,500	105,600
USDA	10,800	2,800	2,900	34,000	50,500	33,200	83,700	36,900
Total	**$ 466,800**	**$ 130,600**	**$ 67,800**	**$ 1,154,400**	**$ 1,819,600**	**$ 2,063,600**	**$ 3,883,200**	**$ 1,222,200**

	As of September 30, 2015							
(Dollars in thousands)	One Month Delinquent	Two Months Delinquent	Three Months Delinquent	Four Months or More Delinquent	Total Delinquent	Current	Total	Loans Over 90 Days Delinquent and Accruing Interest
Conventional	$ 21,400	$ 7,900	$ 2,600	$ 63,200	$ 95,100	$ 166,100	$ 261,200	$ 65,800
FHA	354,400	164,000	81,200	1,925,400	2,525,000	1,674,300	4,199,300	2,006,600
VA	17,400	10,600	5,600	183,400	217,000	84,000	301,000	189,000
USDA	5,900	3,700	2,000	69,600	81,200	20,800	102,000	71,600
Total	**$ 399,100**	**$ 186,200**	**$ 91,400**	**$ 2,241,600**	**$ 2,918,300**	**$ 1,945,200**	**$ 4,863,500**	**$ 2,333,000**

Foreclosures in Process

In January 2014, the FASB issued ASU 2014-04, *Receivables- Troubled Debt Restructurings by Creditors (Subtopic 310-40).* The objective of the amendments in this update was to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs. Under ASU 2014-04, physical possession of residential real estate property is achieved when either the creditor obtains legal title to the residential real estate property upon completion of a foreclosure or the borrower conveys all interest in the residential real estate property through completion of a deed in lieu of foreclosure in order to satisfy that loan.

The guidance set forth in ASU 2014-04 is consistent with the Ginnie Mae's current practice for reclassifying residential mortgage loans from "Foreclosure in Process" to a receivable. ASU 2014-04 requires additional disclosure for the recorded investment in mortgage loans collateralized by residential real estate that are in the process of foreclosure.

Ginnie Mae accounts for the mortgage loans as Foreclosure in Process if the foreclosure has been filed but not completed (typically, loans are foreclosed subsequent to Ginnie Mae purchasing the loans out of the pool). Although foreclosure has been filed, the foreclosure process has not been completed and Ginnie Mae has not received physical possession of the underlying property, and accordingly, Foreclosure in Process Loans are accounted for similar to mortgage loans HFI and are reported as a part of the HFI portfolio.

Ginnie Mae does not record impairment based on the fair value of the underlying collateral less cost to sell when determined that foreclosure is probable for uninsured loans and thus, does not comply with U.S. GAAP requirements. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

The table below displays the recorded investment of mortgage loans secured by real estate for which formal foreclosure proceedings are in process as of September 30, 2016 and 2015:

	As of September 30, 2015							
(Dollars in thousands)	One Month Delinquent	Two Months Delinquent	Three Months Delinquent	Four Months or More Delinquent	Total Delinquent	Current	Total	Loans Over 90 Days Delinquent and Accruing Interest
Conventional	$ 21,400	$ 7,900	$ 2,600	$ 63,200	$ 95,100	$ 166,100	$ 261,200	$ 65,800
FHA	354,400	164,000	81,200	1,925,400	2,525,000	1,674,300	4,199,300	2,006,600
VA	17,400	10,600	5,600	183,400	217,000	84,000	301,000	189,000
USDA	5,900	3,700	2,000	69,600	81,200	20,800	102,000	71,600
Total	**$ 399,100**	**$ 186,200**	**$ 91,400**	**$ 2,241,600**	**$ 2,918,300**	**$ 1,945,200**	**$ 4,863,500**	**$ 2,333,000**

Allowance for Loan Loss

Ginnie Mae maintains an allowance for probable losses incurred related to mortgage loans classified as HFI.

The collective allowance for loan losses is established on mortgage loans HFI portfolio for both interest and principal payments. Ginnie Mae relies on reports received from its MSS to obtain information about borrowers' ability to pay. Ginnie Mae considers that information as well as current economic environment and potential recovery amounts including credit enhancements related to insurance guarantees from different government agencies when determining the amount of loss that can be reasonably estimated. The calculation uses statistical models that evaluate a variety of factors affecting collectability. The homogeneous pools of single-family loans are determined based on common loan characteristics such as LTV ratios, loan product type, insurance type, and geographic region.

The projections are built based on actual loan performance data, current business practices, and management judgment. Ginnie Mae monitors their projections of claim recoveries regularly to validate reasonableness. Ginnie Mae validate and update their models and assumptions to capture changes in our servicing experience and changes in government policies and programs. In determining Ginnie Mae's loan loss reserves, they also consider macroeconomic and other factors that affect the quality of the loans in their portfolio, including regional housing trends, applicable home price indices, and unemployment trends.

In fiscal year 2015, Ginnie Mae developed new methodology to estimate losses net of insurance coverage for the non-pooled assets, enhancing loan performance modeling for Ginnie Mae loans. The probability of default and probability of prepayment models employ logistic regressions to calculate dynamic default and prepayment probabilities based on actual loan performance data for the Ginnie Mae loan population and macroeconomic conditions.

The allowance for loan loss involves significant management judgment and estimates of credit losses inherent in the mortgage loan portfolio. The allowance for loan losses is intended to adjust the carrying value of Ginnie Mae's mortgage loan assets to reflect probable credit losses embedded in the loan portfolio as of the balance sheet date.

For impaired loans (TDR and PCI loans), Ginnie Mae measures impairment based on the present value of expected future cash flows. Ginnie Mae's expectation of future cash flows incorporates, among other items, estimated probabilities of default and prepayment based on a number of economic factors as well as the characteristics of a loan. Additionally, Ginnie Mae considers the value of the collateral, as reduced by estimated disposition costs, and estimated proceeds from insurance and similar sources, if applicable.

The following table displays the allowance for loan losses and recorded investment in the HFI mortgage loan portfolio by impairment or reserve methodology, as of September 30, 2016 and 2015.

	September 30,	
(Dollars in Thousands)	2016	2015
Recorded investment:		
Collectively evaluated	$ 1,113,900	$ 1,777,900
Individually evaluated	2,553,000	2,793,000
Purchase credit impaired	216,300	292,600
Total recorded investment in loans	$ 3,883,200	$ 4,863,500
Ending balance of the allowance for loan losses		
Collectively evaluated	$ 55,500	$ 125,400
Individually evaluated	295,200	324,500
Purchase credit impaired	62,500	61,000
Total allowance for loan losses	$ 413,200	$ 510,900
Net Investment in mortgage loans HFI	**$ 3,470,000**	**$ 4,352,600**

The following table displays changes in Ginnie Mae's allowance for loan losses during the year ended September 30, 2016 and 2015:

	September 30,	
(Dollars in thousands)	2016	2015
Beginning balance	$ 510,900	$ 1,204,500
Provision (recapture) for credit losses	(99,500)	(690,200)
Charge-offs	(6,400)	(4,100)
Recoveries	8,200	700
Ending balance	**$ 413,200**	**$ 510,900**

Ginnie Mae's charge offs may include write downs recorded when the receivables are transferred to a different asset class. Ginnie Mae's recoveries may include miscellaneous adjustments and charge offs reversals. Ginnie Mae does not have a consistent methodology for recording charge offs and recoveries. As such, Ginnie Mae's current practice is not in compliance with U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

Ginnie Mae is in the process of refining its loan-level transaction reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans for the non-pooled assets list of out of scope line items.

Note 10: Claims Receivable

The detail of Ginnie Mae's claims receivable balance from insuring agencies is shown in the table below:

(Dollars in thousands)	As of September 30, 2016 Foreclosed Property Claims(1)	Short Sale Claims(2)	Insurance Claims(3)	Total
Claims Receivable	$ 679,100	$ 129,500	$ 6,900	$ 815,500
Allowance for Claims Receivable	(83,400)	(22,700)	-	(106,100)
Claims Receivable, net	**$ 595,700**	**$ 106,800**	**$ 6,900**	**$ 709,400**

(1) Foreclosed property claims receivable represents reimbursements owed to Ginnie Mae by insuring agencies (which may include FHA, VA, USDA, and PIH). Properties have been conveyed, except for USDA insured loans, as the USDA requires that the properties are sold before filing a claim for the shortfall.
(2) Short sale claims receivable consists of repayments owed to Ginnie Mae by insuring agencies (which may include FHA, VA, USDA, and PIH).
(3) Insurance claims are approved claims from the FHA.

(Dollars in thousands)	As of September 30, 2015 Foreclosed Property Claims(1)	Short Sale Claims(2)	Insurance Claims(3)	Total
Claims Receivable	$ 836,400	$ 80,500	$ 200	$ 917,100
Allowance for Claims Receivable	(67,100)	(35,800)	-	(102,900)
Claims Receivable, net	**$ 769,300**	**$ 44,700**	**$ 200**	**$ 814,200**

(1) Foreclosed property claims receivable represents reimbursements owed to Ginnie Mae by insuring agencies (which may include FHA, VA, USDA, and PIH). Properties have been conveyed, except for USDA insured loans, as the USDA requires that the properties are sold before filing a claim for the shortfall.
(2) Short sale claims receivable consists of repayments owed to Ginnie Mae by insuring agencies (which may include FHA, VA, USDA, and PIH).
(3) Insurance claims are approved claims from the FHA.

On a monthly basis, Ginnie Mae obtains claims receivable balances from the MSSs that service the loans. The foreclosed property claims and short sale claims allowance balances are estimated based on expected recoveries from insuring agencies. For the years ended September 30, 2016 and 2015, the outstanding foreclosed property and short sale claims receivable balances include claims on single family loan properties only. There is no allowance on insurance claims receivable because it represents settled claims and approved future collections of cash from FHA.

Ginnie Mae's charge offs may include write downs recorded when the receivables are transferred to a different asset class. Ginnie Mae's recoveries may include miscellaneous adjustments and charge offs reversals. Ginnie Mae does not have a consistent methodology for recording charge offs and recoveries. As such, Ginnie Mae's current practice for reporting claims receivable is not in compliance with U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

The following table displays changes in Ginnie Mae's allowance for claims receivable for the year ended September 30, 2016 and 2015:

	As of September 30, 2016			As of September 30, 2015		
(Dollars in thousands)	Foreclosed Property Claims	Short Sale Claims	Total	Foreclosed Property Claims	Short Sale Claims	Total
Beginning balance	$ (67,100)	$ (35,800)	$ (102,900)	$ (38,500)	$ (27,700)	$ (66,200)
Provision (recapture) for credit losse	(71,200)	(4,300)	(75,500)	(6,500)	(21,000)	(27,500)
Charge-offs	62,900	20,600	83,500	(22,100)	17,900	(4,200)
Recoveries	(8,000)	(3,200)	(11,200)	-	(5,000)	(5,000)
Ending balance	**$ (83,400)**	**$ (22,700)**	**$ (106,100)**	**$ (67,100)**	**$ (35,800)**	**$ (102,900)**

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans for the non-pooled assets list of out of scope line items.

Note 11: Acquired Property

Ginnie Mae records acquired property when the MSS obtains marketable title to the underlying property that has completed the foreclosure process in the respective state. The acquired properties are typically either USDA insured or uninsured conventional loans. FHA and VA insured loans are usually classified as foreclosed property and are conveyed to the insuring agency. Upon acquisition of the acquired property through foreclosure, the acquired properties are classified as held for sale (HFS) as Ginnie Mae intends to sell those properties and is actively marketing those properties for sale shortly thereafter through the MSS.

Ginnie Mae does not obtain fair values for acquired properties or calculate the estimated cost to sell or expected recoveries from credit enhancements upon initial recognition or in subsequent periods.

Ginnie Mae initially recognizes acquired property at UPB plus accrued interest and is presented net of a valuation allowance on the Balance Sheet. The valuation allowance is adjusted through the Provision (Recapture) of Acquired Property in the Statements of Revenue and Expenses and Changes in Investment of the U.S. Government. The valuation allowance is designed to approximate the expected cash flows that Ginnie Mae will not receive upon sale of the property.

The net acquired property balance is adjusted via changes in the valuation allowance as of the end of each reporting period.

Ginnie Mae expenses all post-foreclosure expenses in the period incurred in Other Expenses in the Statements of Revenue and Expenses and Changes in Investment of the U.S. Government.

Upon disposition of an acquired property, Ginnie Mae charges off against the acquired property valuation allowance the difference between the property sales proceeds and the carrying value of the acquired property.

Balances and activity for acquired properties are presented in the table below:

	September 30,	
(Dollars in thousands)	2016	2015
Acquired Properties, beginning balance	$ 52,600	$ 16,000
Additions	98,700	86,300
Dispositions	(66,800)	(49,700)
Acquired Properties, ending balance	84,500	52,600
Valuation allowance, beginning balance	(22,300)	(3,200)
Change in valuation allowance	(21,000)	(19,100)
Valuation allowance, ending balance	(43,300)	(22,300)
Acquired Properties, ending balance, net	**$ 41,200**	**$ 30,300**

Ginnie Mae's current practice for reporting property values is a departure from U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for restatement in fiscal year 2017. Please refer to Note 2: Restatement-Non-pooled Loans for the non-pooled assets list of out of scope line items.

Note 12: Fair Value Measurement

The accounting guidance for the fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value, and sets forth disclosure requirements regarding fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

We use fair value measurements for the initial recognition of assets and liabilities and periodic re-measurement of certain assets and liabilities on a recurring or non-recurring basis.

Assets Measured at Fair Value on a Recurring Basis: The following tables present the fair value measurement hierarchy level for Ginnie Mae's assets that are measured at fair value on a recurring basis subsequent to initial recognition:

	September 30, 2016			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Mortgage Servicing Rights[1]	$ -	$ -	$ -	$ -
Guaranty Asset			6,397,600	6,397,600
Total Assets at Fair Value	**$ -**	**$ -**	**$ 6,397,600**	**$ 6,397,600**

(1) The September 30, 2016 balance of $35 thousand is not shown due to rounding

	September 30, 2015			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Mortgage Servicing Rights	$ -	$ -	$ 29,600	$ 29,600
Guaranty Asset*		-	- 6,742,200	6,742,200
Total Assets at Fair Value	**$ -**	**$ -**	**$ 6,771,800**	**$ 6,771,800**

* See Note 2 (Restatement)

Mortgage Servicing Rights – Ginnie Mae measures the fair value of MSR based on the present value of expected cash flows of the underlying mortgage assets using management's best estimates of certain key assumptions, which include prepayment speeds, forward yield curves, adequate compensation, and discount rates commensurate with the risks involved. Changes in anticipated prepayment speeds, in particular, result in fluctuations in the estimated fair values of the servicing rights. If actual prepayment experience differs from the anticipated rates used in the model, this may result in a material change in the fair value. Note 3: Summary of Significant Accounting Policies contains additional details with regards to specific fair value assumptions of MSR.

The significant unobservable inputs used in estimating the fair value measurement of our Level 3 MSR assets and financing liabilities include assumptions for underlying loan constant prepayment rates and delinquency rates, as well as discount rates. We review the various inputs used to determine the fair value of our MSR and perform procedures to validate their reasonableness. In reviewing the estimated fair values of our Level 3 MSR, we use internal models and our own estimates of prepayment and delinquency rates on the loans underlying our MSR.

The table below provides valuation techniques, the range and weighted average of significant unobservable inputs and impacts of key economic assumptions used in determining the fair value of Ginnie Mae's Mortgage Servicing Right assets valued on a recurring basis:

(Dollars in thousands)	September 30, 2016	September 30, 2015
Valuation at period end:		
Fair value[(1)]	$ -	$ 29,600
Weighted- average life (years)	3.96	3.62
Prepayment rates assumptions:		
Weighted Average Rate assumption	20.72%	21.94%
Weighted Average Minimum	14.28%	10.20%
Weighted Average Maximum	30.78%	23.40%
Impact on fair value of a 10% adverse change	-	(2,400)
Impact on fair value of a 20% adverse change	-	(4,600)
Discount rate assumptions:		
Weighted Average Rate assumption	10.54%	10.68%
Weighted Average Minimum	10.54%	10.60%
Weighted Average Maximum	10.54%	13.20%
Impact on fair value of a 10% adverse change	-	(800)
Impact on fair value of a 20% adverse change	-	(1,600)

(1) *The September 30, 2016 balance of $35 thousand is not shown due to rounding*

These sensitivities are hypothetical and should be considered with caution. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., increased market interest rates may result in lower prepayments and increased credit losses) that could magnify or counteract the sensitivities.

Guaranty asset (as Restated) – The fair value option provides Ginnie Mae an option to elect fair value as an alternative measurement for selected financial assets and financial liabilities not otherwise reported at fair value. Ginnie Mae has elected the fair value option for the guaranty asset and its value is determined based on the present value of the expected future cash flows from the guaranty fees based on the UPB of the outstanding MBS in the defaulted and non-defaulted pooled Issuer portfolio, which results from new issuances of MBS, scheduled run-offs of MBS, prepayments and defaults.

Ginnie Mae provides the guarantee of principal and interest payments to MBS holders in the event of Issuer default and, in exchange, receives monthly guaranty fees from the Issuers on the UPB of the outstanding MBS in the defaulted and non-defaulted Issuer pooled portfolio. Accordingly, the fair value of the guarantee asset is based on the expected present value of these fees, taking into account anticipated defaults and prepayments.

The table below provides valuation techniques and assumptions used in determining fair values of Guaranty Assets:

(Dollars in thousands)	September 30, 2016	September 30, 2015*
Valuation at period end:		
Fair value	$ 6,397,600	$ 6,742,200
Prepayment rate assumptions:		
Weighted Average Rate assumption	41.96%	33.37%
Weighted Average Minimum	0.02%	0.00%
Weighted Average Maximum	98.51%	99.67%
Default rate assumptions:		
Weighted Average Rate assumption	26.40%	27.60%
Weighted Average Minimum	0.00%	0.00%
Weighted Average Maximum	99.97%	99.63%
Discount rate assumptions:		
Weighted Average Rate assumption	1.25%	1.50%
Weighted Average Minimum	0.26%	0.05%
Weighted Average Maximum	2.04%	2.49%

* See Note 2 (Restatement)

These significant unobservable inputs change according to macroeconomic market conditions. Significant increases (decreases) in discount rate, constant prepayment rate, or constant default rate in isolation would result in a lower (higher) fair value measurement. The constant prepayment rate represents the percentage of the mortgage pool's outstanding principal balances assumed to be paid off prematurely in each period and is based on historical prepayment rates and future market expectations. The constant default rate is the annualized rate of default on a pool of mortgages and represents the percentage of the pool's outstanding principal balances that are in default.

The following table presents a reconciliation measured at fair value on a recurring basis using significant unobservable inputs for the years ended September 30, 2016 and 2015:

(Dollars in thousands)	September 30, 2016 Mortgage Servicing Rights	September 30, 2016 Guaranty Asset
Balance, October 1, 2015	$ 29,600	$ 6,742,200
Total realized and unrealized gains/(losses) included in net income:	(4,100) (1)	(2,133,600) (2)
Proceeds from Sale of MSRs	(25,500)	-
Issuances	-	1,789,000
Balance, September 30, 2016[(3)]	**$ -**	**$ 6,397,600**

(1) *Includes loss of $(3,800) from change in fair value prior to the sale of the MSR.*
(2) *Includes realized gains (losses) due to payoffs and paydowns and unrealized gains (losses) of $976 million from change in fair value on remaining guarantees at the end of the reporting period.*
(3) *The September 30, 2016 balance of $35 thousand is not shown due to rounding*

(Dollars in thousands)	September 30, 2015* Mortgage Servicing Rights	Guaranty Asset
Balance, October 1, 2014	$ 44,600	$ 5,963,100
Total realized and unrealized gains/(losses) included in net	(15,000)	(814,500)
Proceeds from Sale of MSRs	-	-
Issuances	-	1,593,600
Balance, September 30, 2015	**$ 29,600**	**$ 6,742,200**

* See Note 2 (Restatement)

Ginnie Mae records transfers between Level 1, Level 2 and Level 3, if any, at the beginning of the period. There were no transfers between Level 1, Level 2 and Level 3 during the years ended September 30, 2016 and 2015. Gains and losses on Mortgage Servicing Rights and Guarantee Assets are recorded in the Gain (loss) on mortgage servicing rights and Gain (loss) on guaranty asset line items, respectively, in the Statement of Revenue and Expenses and Changes in Investment of U.S. Government.

Assets Measured at Fair Value on a Nonrecurring Basis: The following tables display assets measured on the Balance Sheets at fair value on a nonrecurring basis for the years ended September 30, 2016 and 2015:

	September 30, 2016			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Acquired Property, net	$ -	$ -	$ 41,200	$ 41,200
Total Assets at Fair Value	**$ -**	**$ -**	**$ 41,200**	**$ 41,200**

	September 30, 2015			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Acquired Property, net	$ -	$ -	$ 30,300	$ 30,300
Total Assets at Fair Value	**$ -**	**$ -**	**$ 30,300**	**$ 30,300**

As noted in Note 11: Acquired Property, Ginnie Mae's current practice for reporting acquired property is a departure from U.S. GAAP and the amounts presented in the table above do not reflect the properties' fair value, as Ginnie Mae does not obtain fair values for acquired properties or calculate the estimated cost to sell upon initial recognition or in subsequent periods. Instead, Ginnie Mae initially recognizes acquired property at UPB plus accrued interest and is presented net of a valuation allowance on the Balance Sheet. The valuation allowance calculated by Ginnie Mae is designed to approximate the expected cash flows that Ginnie Mae will not receive upon sale of the property. Refer to Note 3: Summary of Significant Accounting Policies for requirements under U.S. GAAP.

As a result, Ginnie Mae is not able to disclose the valuation technique and significant unobservable inputs used in the fair value measurements for acquired property. Acquired property is classified within Level 3 of the valuation hierarchy because significant inputs are unobservable. Refer to Note 11: Acquired Property for further details on Ginnie Mae's current practice.

Note 13: Fixed Assets (As Restated)

The tables below show the total balance of hardware and software as of September 30, 2016 and 2015, net of the accumulated amortization:

	As of September 30, 2016		
(Dollars in thousands)	Hardware	Software	Total
Cost, beginning balance	$ 5,000	$ 145,300	$ 150,300
Additions	-	36,300	36,300
Disposals	-	-	-
Cost, ending balance	$ 5,000	$ 181,600	$ 186,600
Accumulated amortization, beginning balance	$ (1,700)	$ (86,300)	$ (88,000)
Amortization	(700)	(15,000)	(15,700)
Disposals	-	-	-
Accumulated amortization, ending balance	$ (2,400)	$(101,300)	$(103,700)
Fixed Assets, net	**$ 2,600**	**$ 80,300**	**$ 82,900**

	As of September 30, 2015		
(Dollars in thousands)	Hardware	Software	Total
Cost, beginning balance	$ 4,900	$ 123,900	$ 128,800
Additions	100	26,000	26,100
Disposals	-	(4,600)	(4,600)
Cost, ending balance	$ 5,000	$ 145,300	$ 150,300
Accumulated amortization, beginning balance	$ (900)	$ (77,800)	$ (78,700)
Amortization	(800)	(13,100)	(13,900)
Disposals	-	4,600	4,600
Accumulated amortization, ending balance	$ (1,700)	$ (86,300)	$ (88,000)
Fixed Assets, net*	**$ 3,300**	**$ 59,000**	**$ 62,300**

*See Note 2: Restatement

Assets recorded under capital leases (hardware) as of September 30, 2016 and 2015 were $0.1 million and $0.4 million, respectively. These assets are recorded net of accumulated amortization of $1.1 million and $0.8 million as of September 30, 2016 and 2015, respectively. The charge to income resulting from amortization of assets recorded under capital leases is included in Fixed Assets Amortization on the Statements of Revenues and Expenses and Changes in Investment of U.S. Government.

There are no remaining future lease payments for either operating leases or capital leases.

Note 14: Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include the following as of September 30, 2016 and 2015:

	September 30,	
(Dollars in thousands)	2016	2015
Accounts Payable-trade	$ 89,000	$ 111,800
Salaries and benefits payable	800	600
Unclaimed Securities Holder Payments	23,600	23,400
Accrued unfunded leave	1,400	-
Accounts payable and accrued liabilities	**$ 114,800**	**$ 135,800**

Note 15: Reserve for Loss

As Ginnie Mae guarantees investors the timely payment of principal and interest on MBS backed by federally insured or guaranteed loans (mainly loans insured by FHA, VA, USDA and PIH), Ginnie Mae is susceptible to credit losses. Due to multiple U.S. GAAP requirements related to accounting for credit losses, Ginnie Mae's financial statements recognize credit losses associated with its guaranty in multiple line items (as further outlined below):

- *Liability for non-defaulted Issuers' pooled loans*: Upon issuance of a guaranty, Ginnie Mae recognizes a liability based on the premium received or receivable (i.e. present value of guarantee fee expected to be collected under the guaranty) within the financial statement line item "Guaranty liability." The issuance of a guaranty under the MBS program obligates Ginnie Mae to stand ready to perform over the term of the guaranty in the event that specified triggering events or conditions occur.
- *Liability for probable Issuer defaults pooled loans:* The loss contingency arises from the guaranty obligation that Ginnie Mae has to the MBS holders as a result of a probable Issuer default. The Issuers have the obligation to make timely principal and interest payments to investors, however, in the event whereby the Issuer defaults, Ginnie Mae steps in and continues to make the contractual payments to investors. Ginnie Mae performs a qualitative and quantitative risk grade analysis to determine if a liability (and a loss) should be recognized. Ginnie Mae recognizes this liability if it is probable that a liability had been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. As of September 30, 2016 and 2015, liability for loss contingencies presented within Liability for loss on mortgage-backed securities program guaranty was $1 million and zero, respectively. Since Ginnie Mae does not have a process in place to assess for Issuer Default that is reasonably possible, Ginnie Mae is not able to disclose those contingencies for which there is a reasonable possibility that a loss due to Issuer default may have been incurred at the date of the financial statements.
- *Liability for currently defaulted Issuers' pooled loans*: Ginnie Mae records a servicing asset (or liability) each time it takes over a defaulted Issuer's Ginnie Mae guaranteed portfolio (see "Mortgage servicing rights" financial statement line item). Ginnie Mae's servicing asset is recorded at fair value based upon the present value of the expected future net cash flows related to servicing these loans. Ginnie Mae's cash flow model incorporates a number of factors (see MSR section in Note 3: Summary of Significant Accounting Policies, for further analysis) including delinquencies and expectation of credit losses that management believes are consistent with the assumptions other similar market participants use in valuing the mortgage servicing right. Thus, estimated credit losses for defaulted Issuers' pooled loans are incorporated within the servicing asset (or liability value).
- *Allowance for defaulted Issuers' non-pooled loans:* When Ginnie Mae purchases loans out of a pool, it recognizes the loan on its balance sheets along with the corresponding incurred loss (i.e., "Allowance for loan loss" within the financial statement as "Mortgage loans held for investment, net" and "Accrued interest receivable, net" and "Claims receivable, net").
- *Liability for representations and warranties:* Ginnie Mae performs an assessment of any representations and warranties associated with the purchase and sale agreement. These representations and warranties may require Ginnie Mae to buy back previously sold loans from the third-party or reimburse the buyer for losses per the contractual terms of the purchase and sale agreement. As of September 30, 2016, Ginnie Mae recorded $1.5 million to account for representations and warranties under an existing loan purchase and sale agreement that may require Ginnie Mae to repurchase mortgage loans that are modified or that are not insured or guaranteed by the FHA, VA, USDA, or PIH identified by the purchaser as of and after the sale date. This amount is presented in Liability for representations and warranties on the Balance Sheet.

Note 16: Concentrations of Credit Risk

Credit risk is the risk of loss arising from the failure or inability of Issuers to meet their obligations. Concentrations of credit risk exist when a significant number of Issuers are susceptible to similar changes in economic conditions that could affect their ability to meet contractual obligations. Generally, Ginnie Mae's MBS pools are diversified among Issuers. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among Issuers.

The table below summarizes concentrations of credit risk by Issuers and loan type as of September 30, 2016:

	Single Family		Multifamily		Manufactured Housing		Home Equity Conversion (HECM/HMBS)	
(Dollars in billions)	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance
Largest performing issuers	25	$ 1,226.2	23	$ 86.7	1	$ 0.3	16	$ 54.9
Other performing issuers	283	$ 351.7	31	$ 10.7	1	$ 0.0	0	$ -
Defaulted issuers	1	$ 0.0	0	$ -	0	$ -	0	$ -

The table below summarizes concentrations of credit risk by Issuer and loan type as of September 30, 2015:

(Dollars in billions)	Single Family		Multifamily		Manufactured Housing		Home Equity Conversion (HECM/HMBS)	
	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance	Number of Issuers	Remaining Principal Balance
Largest performing issuers	25	$ 1,167.3	22	$ 82.2	1	$ 0.3	14	$ 52.3
Other performing issuers	261	$ 294.4	30	$ 10.4	1	$ -	-	$ -
Defaulted issuers	16	$ 4.2	-	$ -	-	$ -	-	$ -

Issuers are only permitted to pool insured or guaranteed loans (from FHA, USDA, VA or PIH). Ginnie Mae incorporates the probable recovery amount from mortgage insurance based on established insurance rates and Ginnie Mae historical recovery experience. The insuring and guarantying entities have strict underwriting standards and criteria for quality of collateral. Mortgage loans insured by FHA get full recovery of the UPB, including all delinquent interest at the HUD debenture rate with exception of the first two months since default. USDA, VA and PIH insured loans are not fully recoverable. In addition, Ginnie Mae guarantees a small number of conventional loans which are uninsured. The loan balance and related allowance for loan losses balance broken down by portfolio segment and underlying insurance agencies as of September 30, 2016 and 2015 are presented in the table in Note 9: Mortgage Loans.

In the event of an Issuer default, Ginnie Mae assumes the rights and obligations of the Issuer and becomes the owner of the MSR asset, which typically is a salable asset. When Ginnie Mae assumes the role of the defaulted issuer, it has the option to purchase loans out of the pool when it is 90 days delinquent. However, Ginnie Mae has historically elected to buy Single Family and Manufacturing Housing loans out at 120 days delinquent. Upon repurchasing the loan out of the pool, Ginnie Mae obtains access to the underlying collateral or insurance claim by pursuing loss mitigation activities.

Note 17: Contingencies and Commitments

From time to time, Ginnie Mae can be a party to pending or threatened legal actions and proceedings which arise in the ordinary course of business. Ginnie Mae reviews relevant information about all pending legal actions and proceedings for the purpose of evaluating and revising contingencies, accruals, and disclosures.

Legal actions and proceedings resolution are subject to many uncertainties and cannot be predicted with absolute accuracy. Ginnie Mae establishes accruals for matters when a loss is probable and the amount of the loss can be reasonably estimated. For legal actions or proceedings where it is not reasonably possible that a loss may be incurred, or where Ginnie Mae is not currently able to estimate the reasonably possible loss or range of loss, Ginnie Mae does not establish an accrual.

As of September 30, 2016 and 2015, and as of the date of this report, Ginnie Mae's Office of General Counsel has identified one pending or threatened action. In the opinion of Ginnie Mae's management

and Office of General Counsel the likelihood of an unfavorable outcome is remote and therefore no accrual has been established. It is the opinion of Ginnie Mae's management that the disposition or ultimate resolution of the case will not have a material adverse effect on the financial position of Ginnie Mae. No other asserted or unasserted claims or assessments in which Ginnie Mae's exposure is $1.0 million or greater, individually, or in the aggregate for similar matters have been identified. Additionally, Ginnie Mae's Office of General Counsel has determined that there are no pending or threatened actions or unasserted claims or assessments in which Ginnie Mae's potential loss exceeds $2.0 million in the aggregate for cases not listed individually or as part of similar cases that could be material to the financial statements.

Ginnie Mae has commitments to guaranty MBS, which are off-balance sheet financial instruments. Additional information is provided in Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Risk.

Ginnie Mae's management recognizes the uncertainties that could occur in regard to potential defaulted Issuers and other indirect guarantees, such as large Issuer portfolio default, lack of proper insurance coverage of defaulted loans, etc. Additional information is discussed in Note 15: Reserve for Loss.

Note 18: Related Parties

Ginnie Mae is a self-financing, wholly owned U.S. Government corporation within HUD. Ginnie Mae is subject to controls established by government corporation control laws (31 U.S.C. Chapter 91) and management controls by the Secretary of HUD and the Director of the OMB. These 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. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed if Ginnie Mae had been operated as an independent organization.

Ginnie Mae was authorized to use $33.2 million and $23.0 million during the year ended September 30, 2016 and 2015, respectively, for personnel (payroll) and non-personnel (travel and training) costs only. During the year ended September 30, 2016 and 2015, Ginnie Mae incurred $25.5 million and $21.6 million, respectively, for these costs, which are included in Administrative expenses. Ginnie Mae has authority to borrow from Treasury to finance operations in lieu of appropriations, if necessary. Ginnie Mae did not borrow funds for the years ended September 30, 2016 and 2015.

Additionally, Ginnie Mae has an intra-entity relationship with the FHA, which is part of HUD. All transactions between Ginnie Mae and FHA have occurred in the normal course of business. Of the total mortgage loans HFI, approximately $3.4 billion and $4.2 billion of loans were insured by FHA as of September 30, 2016 and 2015, respectively. In addition, Ginnie Mae submits and receives claim proceeds for FHA-insured loans that have been through the foreclosure and short sale process. The breakdown of FHA claims pending payment or pre-submission to FHA is below:

(Dollars in thousands)	September 30, 2016		September 30, 2015	
Foreclosed Property Claims Receivable	$	652,900	$	840,000
Short Sales Claims Receivable		114,000		71,000
Insurance Claims Receivable		6,900		200
Total FHA Claims, gross	**$**	**773,800**	**$**	**911,200**

Pension Benefits and Savings Plan: Eligible Ginnie Mae employees are covered by the federal government retirement plans, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Although Ginnie Mae contributes a portion of pension benefits for eligible employees, it does not account for the assets of either retirement system. Ginnie Mae also does not have actuarial data for accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by the Office of Personnel Management (OPM) and are allocated to HUD.

Under the Federal Thrift Savings Plan (TSP), Ginnie Mae provides FERS employees with an automatic contribution of 1 percent of pay and an additional matching contribution up to 4 percent of pay. CSRS employees also can contribute to the TSP, but they do not receive matching contributions. During the year ended September 30, 2016 and 2015, Ginnie Mae contributed $2.8 million and $2.4 million, respectively, in pension and savings benefits for eligible employees.

Post-Retirement Benefits Other Than Pensions: Ginnie Mae has no postretirement health insurance liability since all eligible employees are covered by the Federal Employees Health Benefits (FEHB) program. The FEHB is administered and accounted for by the OPM. In addition, OPM pays the employer share of the retiree's health insurance premium.

Note 19: Credit Reform

The Federal Credit Reform Act of 1990, which became effective on October 1, 1991, was enacted to more accurately account and budget for the cost of federal credit programs and to place the cost of these credit programs on a basis equivalent with other federal spending. Credit reform focuses on credit programs that operate at a loss by providing for appropriated funding, within budgetary limitations, to subsidize the loss element of the credit program.

Credit programs that operate at a profit result in negative subsidies. 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. As of September 30, 2016 and 2015, the U.S. Government has an investment in Ginnie Mae of $21.6 billion and $21.3 billion, respectively. Pursuant to the statutory provisions under which Ginnie Mae operates, its net earnings are used to build sound reserves. In the opinion of management and HUD's general counsel, Ginnie Mae is not subject to the Federal Credit Reform Act.

Note 20: Subsequent Events

Ginnie Mae's management has evaluated events and transactions occurring after September 30, 2016, the balance sheet date, through November 10, 2016, the date which the financial statements were made available to be issued. Ginnie Mae concluded that no events or transactions have occurred that would require disclosure in the financial statements for the year ended September 30, 2016.

Ginnie Mae

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