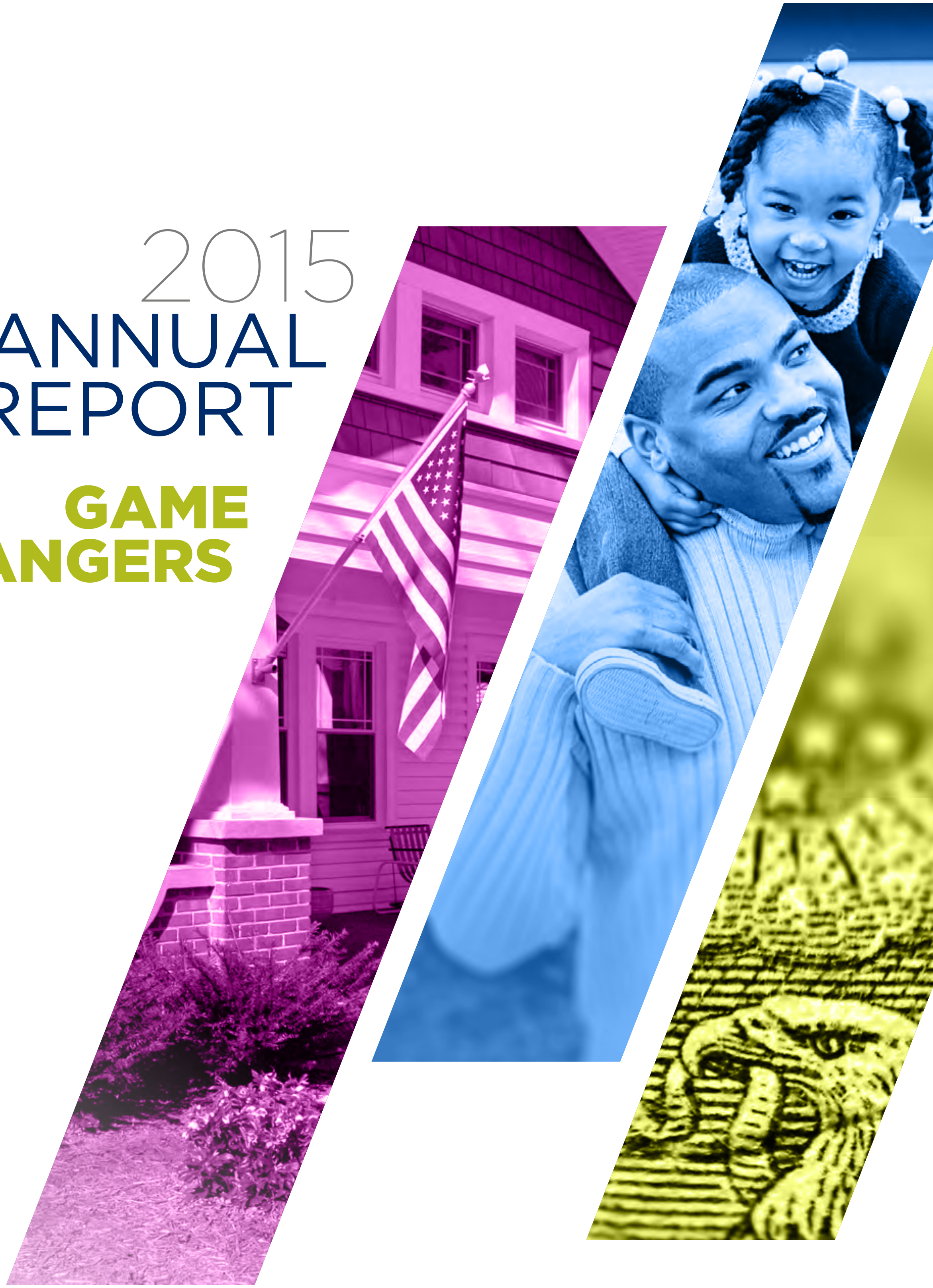
Ginnie Mae
Our Guaranty Matters

2015 ANNUAL REPORT

GAME CHANGERS



Ginnie Mae's mission is to support affordable housing in America by linking global capital markets to the Nation's housing markets.

Secretary's Message

A thriving housing market lays the foundation for our nation's prosperity. It drives growth across the economy, and it provides hardworking families with the stability to build towards a brighter tomorrow.

Since 1968, Ginnie Mae has played an integral role in expanding housing opportunity for the American people. By connecting our nation's housing finance market with investment from around the world, we have helped millions of low- and moderate-income households find an affordable place to call home.

During Fiscal Year 2015, Ginnie Mae guaranteed $436 billion in new mortgage-backed securities (MBS). These transactions supported nearly two million households, representing one-third of all home loans issued during this period. We also grew our MBS portfolio to $1.6 trillion, and returned $2.2 billion in net income to the United States Treasury.

In addition, while Ginnie Mae is focused on practicing responsible risk management, we have also developed new initiatives that will assist more Americans in realizing the dream of homeownership. This includes an innovative partnership with the Federal Home Loan Banks that will provide thousands of small lenders and credit unions across the United States with direct access to capital markets, and allow our partners to offer greater financing options for prospective homebuyers.

In 2016, Ginnie Mae will continue to protect our investors and the American taxpayer, while also modernizing our operations to better meet the demands of our 21st century global economy. Ginnie Mae will maintain its commitment to strengthening our nation's housing market, and to providing more Americans with the opportunity to achieve progress and prosperity.

Julián Castro

Ginnie Mae
Our Guaranty Matters

November 16, 2015

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

Dear Mr. Secretary:

I am pleased to report that during fiscal year 2015, our nation relied on Ginnie Mae as never before, and we delivered. Through our securitization program, we were the primary source of mortgage capital for millions who rely on government supported lending, supporting almost two million households — from low-income people who rent due to economic need, to working families with small down payments, to our military veterans, to seniors needing a range of housing and support services.

The Ginnie Mae program provided essential support to the mortgage insurance programs offered by the Federal Housing Administration, Department of Veterans Affairs, Department of Agriculture Rural Development, and Office of Public and Indian Housing. Through the mortgage-backed securities (MBS) that Ginnie Mae guarantees, we attracted the necessary capital for these agencies and lenders to extend residential mortgages to consumers.

In turn, this capital supported about one in three new home loans, with $436 billion in Ginnie Mae MBS guarantees issued. This represented our second-largest year, and we finished several months as the number one guarantor of residential MBS, underscoring the growing importance of government lending to our nation's housing. At year-end, our portfolio of MBS outstanding had grown to $1.6 trillion. And because we are self-funded, none of this came at any cost to taxpayers; in fact, we returned to the U.S. Treasury $2.2 billion in net income.

The year was marked by a series of game changers, from the changing composition of our Issuer base to the surge in government lending. These and other developments are changing the Ginnie Mae program in fundamental ways. Going forward, to support the market and protect the taxpayer, Ginnie Mae will need to enhance our risk management, modernize our business operations, and improve our in-house capabilities to respond to market changes.

As HUD marks its 50th anniversary, I am proud that Ginnie Mae can play such a vital role in enabling homeownership and rental housing in the United States.

Sincerely,

Theodore W. Tozer, *President*

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INTRODUCTION

During fiscal year 2015 (FY 2015), Ginnie Mae delivered strong results in mission, finances and operations. We enabled some 2 million families to purchase or rent a quality home. We did so by attracting global capital to invest in homeownership and rental housing here in the United States. Indeed, in FY 2015 global investors purchased $436 billion in mortgage-backed securities (MBS) guaranteed by Ginnie Mae, a 44 percent increase over FY 2014 and our second-largest year ever. At year-end, Ginnie Mae MBS outstanding stood at $1.6 trillion, a 5 percent increase over FY 2014. Our MBS continues to command global respect, and be highly liquid and broadly held by a vast array of central banks, sovereign wealth funds and multinational financial institutions.

Our mission remained focused on supporting mortgages insured by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), USDA Rural Development, and the Office of Public and Indian Housing. By providing mortgage capital for these programs, Ginnie Mae supported the growing demographic of citizens who most need our 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. This is our market.

We experienced strong growth in FHA mortgages, in particular, largely due to a reduction in the monthly premium payment charged to homebuyers. Meanwhile, VA mortgages continued to represent a significant share of U.S. mortgages, largely due to attractive financing terms. Combined, FHA/VA mortgages comprised $416 billion of the $436 billion in Ginnie Mae MBS issuances last year.

The FHA and VA mortgage programs address an important public policy goal: assisting creditworthy families who do not have enough savings or home equity for a traditional down payment. The programs guarantee eligible mortgages with minimum down payments ranging from zero to 3 percent of a home's purchase price.

Absent the capital raised through Ginnie Mae MBS, the mortgage programs of the FHA and VA could not function in the current form. By securitizing these loans into MBS explicitly guaranteed by the full faith and credit of the U.S. Treasury – the only MBS to enjoy such a status – Ginnie Mae drives down the cost of mortgage funding and passes along the savings to support affordable housing.

This Annual Report is designed to provide background on Ginnie Mae and our current financial condition for policymakers and other interested parties. To that end, we describe our business in general terms, review our main products and programs, discuss the important developments that occurred within the mortgage market during 2015, and identify their impacts on Ginnie Mae. Then, we discuss how we are responding to these developments and otherwise managing our business to deliver on our mission while protecting the American taxpayer.

01

The Business of Ginnie Mae

Ginnie Mae is a government-owned corporation with a long record of profitability and returning money to the U.S. Treasury. Our risk model requires lenders to take financial responsibility for mortgage defaults before the government guaranty would ever be called upon.

Our single securitization process creates liquidity for residential mortgages insured by other government agencies, such as the FHA and VA. Ginnie Mae creates this liquidity by attracting global investment into a common MBS explicitly backed by the full faith and credit of the U.S. Treasury, the only such MBS to feature this guaranty. Securitization is at the core of Ginnie Mae's business.

Ginnie Mae's self-funding business model and unique securitization platform continue to benefit borrowers, investors and the nation's housing finance system in the following ways:

First, Ginnie Mae securities make mortgage money available to finance home loans and rental housing. Our security is the vehicle through which MBS Issuers access mortgage funds from MBS investors. The government guaranty in Ginnie Mae's MBS ensures that MBS investors receive timely payment of principal and interest on the security. MBS investors are also attracted by the credit quality, liquidity and standardization that characterize Ginnie Mae MBS.

Second, we enable homebuyers to lock in mortgage rates before their loans are closed and securitized. This is possible because our disciplined securitization process supports what is known as the "TBA," or "to be announced," market for agency MBS. Here, MBS investors commit to purchase securities before all the underlying loans are closed, knowing that loans with expected terms will be forthcoming and comply with all federal guidelines. In other words, MBS investors have confidence in Ginnie Mae as the MBS program administrator. Being able to lock in mortgage rates prior to closing is essential for consumers purchasing a home or refinancing their mortgage, so that they know the final cost of their monthly payment before they sign official papers.

Third, Ginnie Mae securitization helps ensure broad availability of long-term, fixed-rate mortgages (FRM). That is because nearly all the mortgages within Ginnie Mae MBS carry even-paying terms that are amortized up to 30 years, and can be refinanced at will. Because mortgage costs are spread out over a long time period, FRM enable homeowners to have lower monthly payments. The fixed nature of these payments protects homeowners against rising mortgage rates. And when mortgage rates fall, FRM allow homeowners to reduce their monthly payments through refinancing, at no penalty.

So how does Ginnie Mae work?

In our business, we partner with hundreds of mortgage lenders that originate government-insured mortgages and issue Ginnie Mae MBS to global investors. See *Figure 1-1* (right). Lenders that want to originate and issue MBS in the Ginnie Mae program must meet capital and liquidity requirements and be subject to ongoing monitoring. These institutions are referred to as "Issuers." These Issuers assemble pools of mortgages with similar terms, package them into a Ginnie Mae MBS, and sell the securities to mortgage investors. In addition to ensuring timely payment of principal and interest to MBS investors, our guaranty does so on terms favorable to the Issuers. For this benefit, Issuers pay Ginnie Mae a guaranty fee.

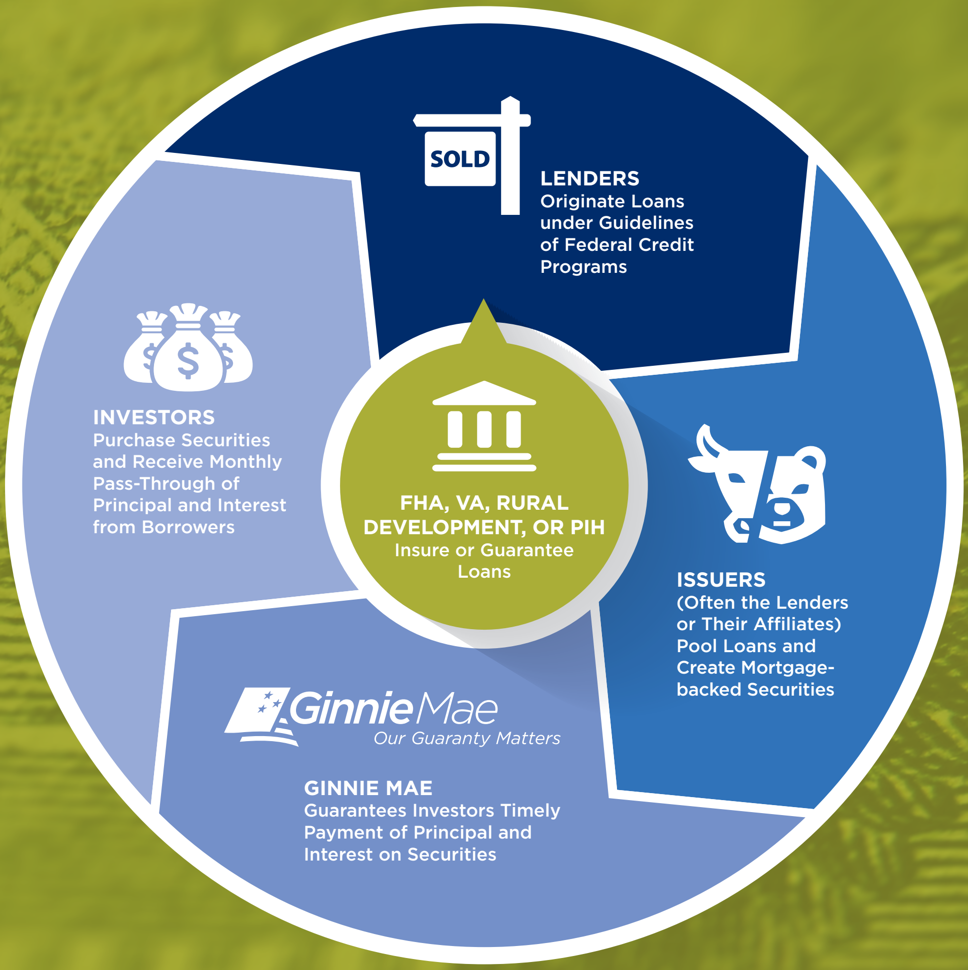
In this business model, Ginnie Mae performs many roles, including approving Issuers, processing monthly payments to investors, supporting the liquidity of Ginnie Mae MBS through enhanced data to investors, providing sophisticated capital market capabilities, and representing investor and Issuer interests as participants in housing policy initiatives. In addition, Ginnie Mae performs another unique and essential role: making sure that Issuers meet their financial obligations to investors, and that any resulting risks are well managed. For instance, when an Issuer fails to meet its obligations, we have authority to transfer its mortgage servicing rights to another, well-performing Issuer.

Importantly, we are unlike Fannie Mae and Freddie Mac. Rather than acquiring, holding and managing credit risk and interest-rate risk, as these entities do, in Ginnie Mae's business model almost all risk is borne by private market participants, enabling them to reap the corresponding profit (or incur the loss).

"In today's mortgage banking market, Ginnie Mae is the ultimate level playing field."

David Spector, President and Chief Operating Officer, PennyMac

FIGURE 1-1: CAPITAL FLOW OF GINNIE MAE GUARANTY SECURITIES



Japanese Embassy hosts Ginnie Mae to commemorate partnership. Shown *(L to R)* are Embassy of Japan's Deputy Ambassador Hiroyasu Izumi, FHA's Ed Golding, Ginnie Mae's Ted Tozer, HUD's Erika Moritzugu, and Japan HFA President Toshio Kato.

The main risk for which we are accountable: protecting the integrity of the government guaranty, which enables investors to invest confidently in Ginnie Mae MBS. Since private financial institutions originate eligible mortgages, pool them into securities, and issue Ginnie Mae MBS to private MBS investors, our risk exposure is limited only to the ability and capacity of MBS Issuers to fulfill their obligations to investors.

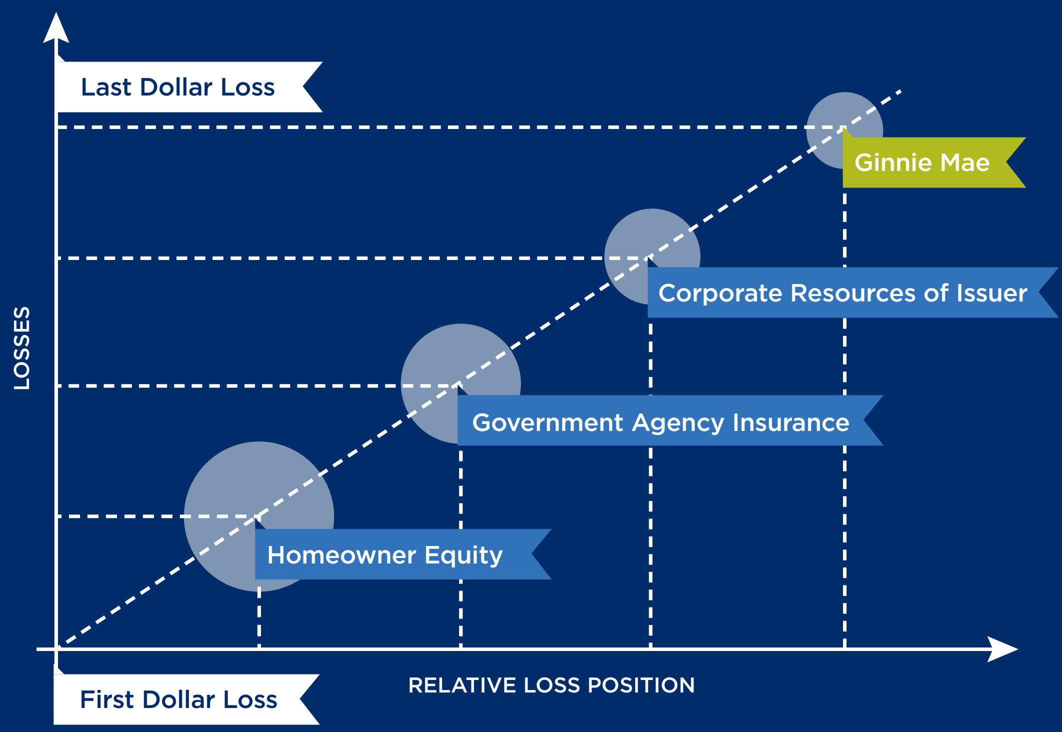
Indeed, as *Figure 1-2* illustrates, three levels of protection must be exhausted before the Ginnie Mae guaranty needs to be utilized: borrower equity in a property; government mortgage insurance; and the capital base of the financial institution issuing Ginnie Mae MBS. Thus, our risk is at the institutional level of an Issuer, and not at the loan level of a mortgage. This business model places Ginnie Mae in a remote position of risk.

Attracting Global Interest. Ginnie Mae's model for supporting mortgage markets continued to attract interest from foreign governments. During the year, HUD, Ginnie Mae and the government of South Korea signed an agreement to conduct joint research on housing and urban development; in meetings in Shanghai and Washington, D.C., Chinese government officials sought Ginnie Mae's perspective on best practices in housing finance; and through an inaugural joint roundtable, Ginnie Mae and the government of Japan held extensive discussions on how to optimize the use of mortgage securitization in supporting homeownership and rental housing in their respective nations.

"Engaging the private sector to join officials from Ginnie Mae and the Japan Housing Finance Agency at the Inaugural Roundtable fostered an environment where a robust discussion ensued on the progress and challenges of enhancing mortgage finance and capital liquidity for both countries."

Faith Schwartz, Senior Vice President, CoreLogic

FIGURE 1-2: PROTECTING THE GINNIE MAE GUARANTY



Ginnie Mae incurs losses on a security when all borrower equity and government insurance resources are exhausted and the issuing institution fails.

Protecting the government guaranty means ensuring that Ginnie Mae issuers have sufficient liquidity and capital to make on-time payments to investors. This is the backbone of the Ginnie Mae MBS program.

Ginnie Mae's securitization program supports America's veterans by attracting capital that enables mortgage lenders to make VA loans.

Ginnie Mae Products and Programs

Ginnie Mae offers solutions that meet the needs of borrowers, lenders and investors while providing flexibility to respond to market changes. Our core product offering is the pass-through security, which comes in the form of two structures, Ginnie Mae II MBS and Ginnie Mae I MBS.

Historically, the Ginnie Mae I Single Issuer MBS was the program of choice for Issuers. In recent years, however, the Ginnie Mae II MBS has generated increased market demand and surpassed the Ginnie Mae I MBS in terms of issuance volume. Ginnie Mae II MBS enable multi-Issuer pools and are key to creating a level playing field for MBS of all Issuers. Loan terms can be more variable, and the MBS can be issued by smaller institutions, as well as multiple institutions within a single security.

The Ginnie Mae MBS also serve as the underlying collateral for multiclass products, such as Real Estate Mortgage Investment Conduits, Callable Trusts, Platinum Securities, and Stripped MBS. Ginnie Mae guarantees the timely payment of principal and interest for these products as well. 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.

Ginnie Mae's security products support these government mortgage programs:

Single Family: The majority of Ginnie Mae securities are backed by single-family loans, primarily through FHA and VA programs. The Single Family Program supports purchase mortgages, loans that are modified to support loss mitigation programs, as well as mortgage refinancing. In FY 2015, Ginnie Mae supported $234 billion in FHA loans and $151 billion in VA loans.

Multifamily: Ginnie Mae's Multifamily MBS Program enables lenders to reduce mortgage rates paid by property owners and developers of apartment buildings, hospitals, nursing homes, assisted-living facilities, and other types of housing. These lower interest rates provide the necessary incentive for many developers to construct or substantially rehabilitate new projects. At the end of FY 2015, Ginnie Mae supported $92 billion in outstanding multifamily loans.

Home Equity Conversion Mortgage (HECM) and MBS (HMBS): Ginnie Mae provides capital and liquidity for FHA reverse mortgages, which allow senior citizens to access home equity. HECM loans can be pooled into HMBS within Ginnie Mae II MBS. They also can serve as collateral for Real Estate Mortgage Investment Conduits (REMICs) backed by HMBS. In FY 2015, Ginnie Mae's HMBS portfolio reached $52 billion.

Manufactured Housing: Ginnie Mae provides financing for, and allows the issuance of, pools of loans insured by the FHA Title I Manufactured Home Loan program for loans that do not include land as collateral.

Game Changers: The Market Environment in 2015

Events during the fiscal year underscored the importance of Ginnie Mae's role in supporting mortgage markets. The reduction in FHA premiums and strength of the VA mortgage program produced a surge in business activity. Additionally, the continued absence of the private-label MBS market encouraged more lenders to utilize Ginnie Mae securitization.

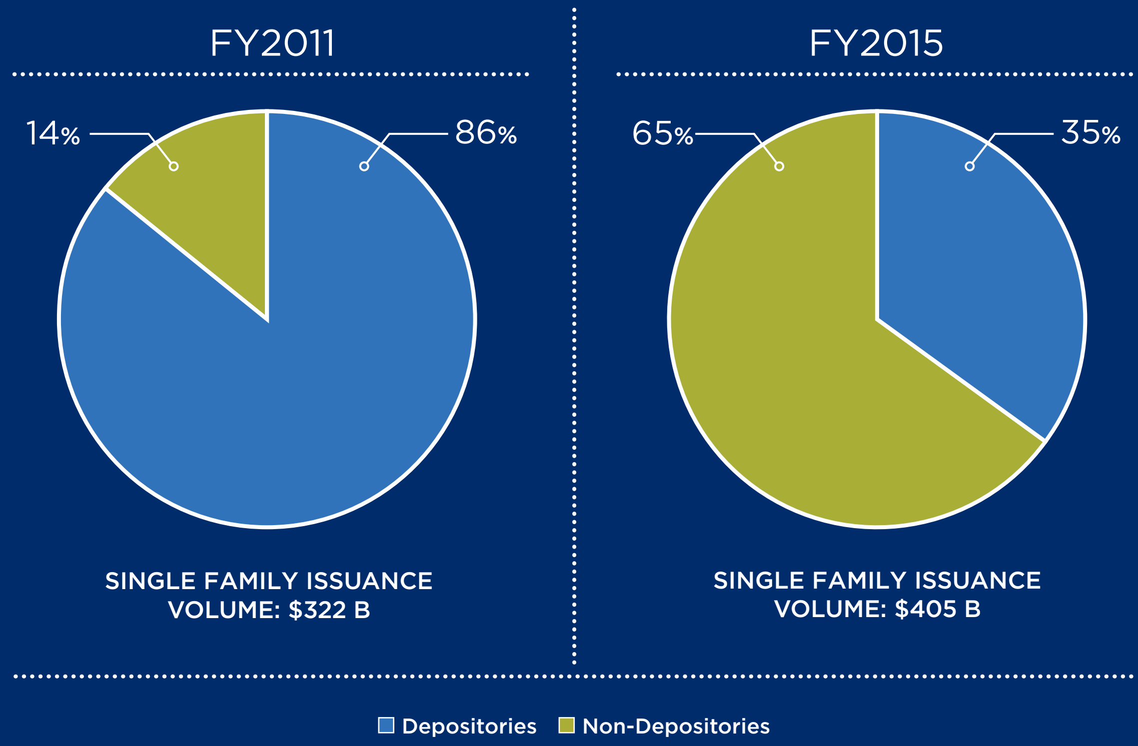
Combined, these trends led to increased business volume, to $436 billion, our second-largest year. Indeed, Ginnie Mae MBS issuances in FY 2015 represented about one-third of the total residential mortgage market for MBS. And we believe that this level of market support is likely to continue for the foreseeable future.

To place Ginnie Mae in context, our portfolio of MBS outstanding ($1.6 trillion) is about the same size as Freddie Mac's ($1.7 trillion). During FY 2015, Ginnie Mae supported more new mortgages than Freddie Mac but fewer than Fannie Mae.

An equally important trend: the primary mortgage market continued to reorganize itself, continuing the shift away from traditional banks and toward independent mortgage banks, or non-banks as they are known. Unlike traditional banks with deposits to provide ready capital and liquidity, non-banks rely on third parties for capital to make and support mortgages. By meeting Ginnie Mae's guidelines and complying with our ongoing monitoring, non-banks can access global capital markets by issuing Ginnie Mae MBS.

Market penetration of non-banks has been so successful that they now represent a majority of Ginnie Mae MBS issuances annually (see *Figure 1-3*). As recently as FY 2011, non-banks represented just 14 percent of the Ginnie Mae Issuer base. During FY 2015, however, that figure jumped to almost two-thirds. Further, we have experienced a general increase in the number of approved MBS Issuers, growing from 379 in FY 2011 to 461 in FY 2015.

FIGURE 1-3: CHANGE IN COMPOSITION OF GINNIE MAE MBS ISSUER* BASE



**Ginnie Mae Issuers are responsible for servicing the securities and the loans backing them; when an original Issuer sells servicing to another entity, the new entity takes on all obligations of the original Issuer.*

"It's crucial that Ginnie Mae be able to efficiently monitor risks presented by this new environment. Quite frankly, without Ginnie Mae, FHA, and VA, we'd have gone into the abyss during the economic crisis. But today, there is optimism about the direction of the housing finance system."

Mark Zandi, Chief Economist, Moody's Analytics

FIGURE 1-4: TOP 5 GINNIE MAE ISSUERS AS PERCENTAGE OF TOTAL SINGLE-FAMILY MBS

FY 2011			FY2015		
RANK	ISSUER	TOTAL VOLUME %	RANK	ISSUER	TOTAL VOLUME %
1	Wells Fargo	35%	1	Wells Fargo	15%
2	Bank of America	26%	2	Freedom Mortgage	8%
3	JP Morgan Chase	8%	3	PennyMac Loan Services	6%
4	PHH Mortgage	4%	4	Quicken Loans	5%
5	US Bank	3%	5	US Bank	4%
	Top 5 Issuers	**76%**		**Top 5 Issuers**	**38%**
Total Single-Family Issuance		**$322.3 billion**	**Total Single-Family Issuance**		**$404.9 billion**

The growing prominence of independent mortgage banks has been the most significant development in the Ginnie Mae business. For homeowners, the impacts have been very positive: as depository institutions have exited the mortgage lending sector, non-banks have stepped in, ensuring consumer access to government-insured mortgages. Ginnie Mae has benefited as well: with business volumes more widely distributed across more Issuers, non-banks have reduced our risk exposure to the failure of any one institution. (See *Figure 1-4.*)

At the same time, monitoring non-banks has affected our staff workload exponentially. There are more institutions to monitor, and the majority of these institutions involve more third parties in their transactions, making oversight more complicated. In contrast to our traditional Issuers, non-banks rely more on credit lines, securitization involving multiple players, and more frequent trading of mortgage servicing rights.

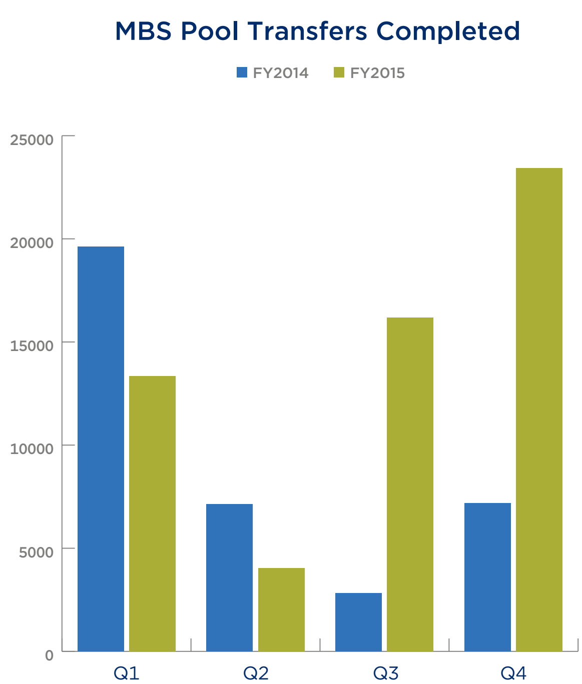
Figure 1-5 illustrates the dynamics at work, where there has been a surge in transfers, or sales, of mortgage servicing rights. We have a program, called the Pools Issued for Immediate Transfer (PIIT), that allows MBS Issuers to transfer mortgage servicing rights when an MBS is issued. These rights require a financial institution to collect monthly principal and interest payments from borrowers and forward these funds to MBS investors.

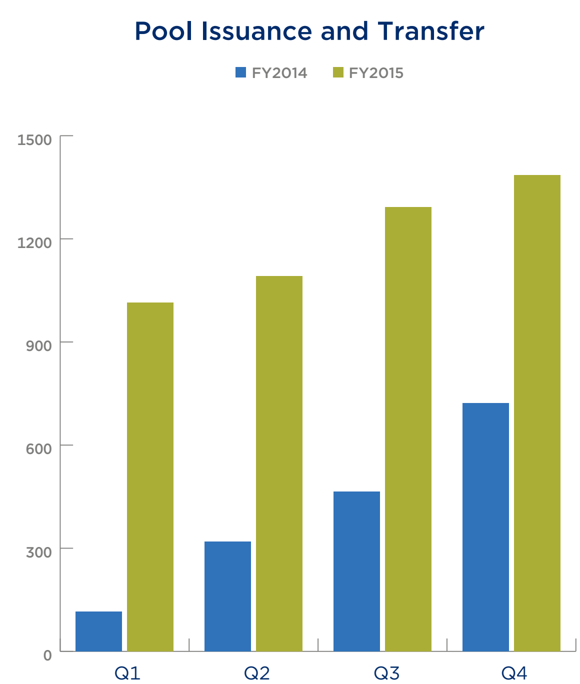
Many traditional banks retain servicing rights, while many non-banks use the PIIT program to sell these rights. This larger volume of sales activity heightens our responsibility to monitor these transactions and ensure the soundness of these organizations and their ability to pay investors in all environments.

As the primary mortgage market has reorganized itself and shifted more toward a business model of independent mortgage banking, Ginnie Mae has modified our business practices to respond appropriately. This means we are managing more and greater risks than before. Ginnie Mae must strengthen our risk management capabilities, modernize our technology and business infrastructure, and allocate our limited resources accordingly.

The net impact of the game changers we are experiencing – a wholesale change in our Issuer base, the need to support more of the mortgage market, and the resulting new and different risks that have materialized – have combined to redefine Ginnie Mae's business model. The view ahead suggests that Ginnie Mae faces a future different from its past.

FIGURE 1-5: SALES OF MORTGAGE SERVICING RIGHTS WITHIN THE POOLS ISSUED FOR IMMEDIATE TRANSFER PROGRAM





Ginnie Mae's Path Forward

Our path forward is multifaceted, and our success relies on furthering ongoing enhancements to our infrastructure, including our data model and cybersecurity, while continuing to innovate how we effectively manage and monitor our counterparties.

When Ginnie Mae was founded in 1968, Congress assumed that our role would remain relatively the same, year in and year out, as would the depository institutions issuing Ginnie Mae MBS. We were given a discretionary budget to fund a small number of in-house staff, along with a mandatory budget that allows us to tap third-party contractors to help manage market cycles.

This design is not well suited for the current business. Thus, within our current operating design, we are taking several actions.

Focusing Our Efforts on Issuers Already in the Program. Given our limited resources, we are prioritizing the success of our 461 existing MBS Issuers ahead of further growing our Issuer base. This will increase resources to support and monitor current Issuers. New Issuers will be screened against best practices such as: a full commitment to the Ginnie Mae business; in-house operating and financial capabilities; regular MBS issuances; a diversified book of business that includes new as well as seasoned loans; and direct management of mortgage servicing rights.

This reallocation is an appropriate response to the large increase we have experienced in active MBS Issuers, the corresponding increase in the number of counterparties to track, and the generally higher business volumes we have been processing.

Further actions we have planned stem from a business reengineering study conducted this past year. The purpose: examine the current state of Issuer management, identify gaps that have arisen as a result of market changes, formulate a plan to address the gaps, and propose an improved organizational structure.

Aligning Resources to the Environment. To remain vigilant in risk management, Ginnie Mae is refining our process to monitor Issuers and changing our organization to apply appropriate risk management in the following areas:

- Data and reporting capability
- Large and/or complex transactions and industry analysis
- Technology systems, including management of system changes
- Project management
- Internal and external training

Ginnie Mae's path forward prioritizes its limited resources to support the success of current Issuers.

One example of how we are proactively managing risk is the Issuer Operational Performance Profile (IOPP) tool, launched in early 2015. The IOPP tool provides Issuers with a framework and methodology to gauge their effectiveness against their peers. The IOPP scorecard measures Issuers on a predetermined set of metrics. The IOPP will also help drive internal consistency in monitoring the business activities across the broader population of Ginnie Mae Issuers.

Investing in Infrastructure. To continue supporting mortgage markets, we have begun to enhance our operating platform and business infrastructure in the following ways:

- Implement a foundation for data architecture based on industry best practices
- Improve data quality by converting to an industry standard
- Modernize the securitization platform to enable more efficient processing
- Invest in cybersecurity

Ginnie Mae is replacing a legacy data model, which will help optimize our business capabilities and enhance Issuer experience. To improve data quality and usability, Ginnie Mae is converting to the Mortgage Industry Standard Maintenance Organization (MISMO) compliant pool delivery dataset, aligning with mortgage industry data exchange standards.

We are also modernizing our securitization platform. We have developed a multiyear blueprint designed to move Ginnie Mae away from legacy technology and better position us for the future. These enhancements will include greater use of cloud computing, virtualization, and compliance with federal mandates for data center consolidation.

Lastly, our infrastructure plans adhere to federal directives and standards for cybersecurity. To this end, our plans will ensure that we have in place people, technologies, processes, and practices to protect our networks and information programs, systems, and data from attack, damage, or unauthorized access. Our program for cybersecurity will require significant investment over the next three years.

Industry Leadership

A key part of how we manage business and plan for the future is seeking input from key stakeholders in housing finance, both within the United States and across the globe. These interactions help Ginnie Mae to better attract global capital for U.S. mortgage markets, as well as enhance our ability to support our business partners.

Ginnie Mae Annual Summit: Game Changers. Each year, we host a summit for our MBS Issuers, policymakers and industry representatives. In 2015, more than 700 attendees participated in sessions that described how much the Ginnie Mae program has changed in recent years. Issuers learned more about best practices in areas such as mortgage servicing rights, updates on government mortgage programs, and predictions for what the future holds for the mortgage industry. And we at Ginnie Mae shared our plans on what changes will be needed to support mortgage markets going forward.

Federal Home Loan Banks. We took action on a priority to provide more community banks with access to the mortgage liquidity that Ginnie Mae makes possible through access to global capital markets. A series of discussions with the Federal Home Loan Banks yielded a new business partnership for Ginnie Mae: the Mortgage Partnership Finance (MPF) program. Through MPF, four Federal Home Loan Banks – Atlanta, Boston, Chicago and Des Moines – can issue Ginnie Mae MBS from pools of government mortgages originated by their member institutions. This design enables many more community banks to originate government mortgages more effectively. And this can be done without a corresponding increase in the number of counterparties for Ginnie Mae to monitor. During the year, the MPF issued its initial series of Ginnie Mae MBS, and is poised for more activity in 2016.

Interagency Leadership and Cooperation. Ginnie Mae continues to foster collaborative relationships with the Federal Housing Finance Agency (FHFA), Consumer Financial Protection Bureau (CFPB), Treasury, FHA, VA and USDA Rural Development. Working with these agencies, Ginnie Mae continues to provide insight, guidance, and expertise on proposed rules and regulations. Cooperating in this manner helps us better monitor how new rules and regulations are likely to impact our guaranty business.

Above left (L to R): Mike Frueh, VA; Richard Green, University of Southern California's Lusk Center for Real Estate; Ted Tozer, Ginnie Mae; and Ed Golding, FHA, discuss risk and mission at the Ginnie Mae Summit.

Ginnie Mae provides industry leadership through close collaboration with key housing finance leaders.

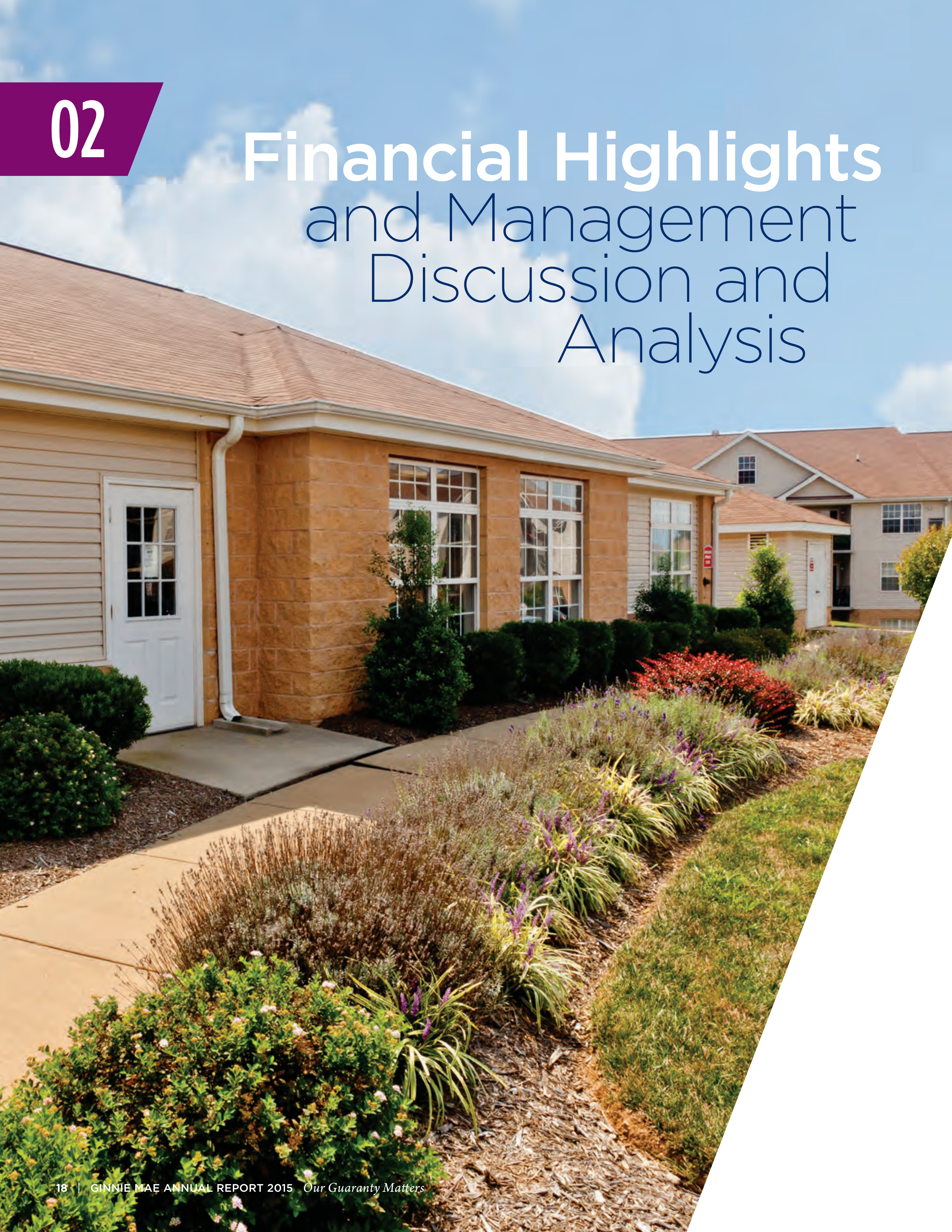
Above left (L to R): Michael Nierenberg, New Residential Investment Corp; Stan Kurland, PennyMac; Shawn Krause, Quicken Loans; Bill Cosgrove, Union Home Mortgage Corp.; and Kevin Watters, JPMorgan Chase, discusss the future of mortgage servicing rights at the Ginnie Mae Summit.
Above right: Michael Drayne of Ginnie Mae talks with Summit attendees.

"When FHA published HUD Mortgagee Letter 2015-01 on January 9, 2015, lowering the annual mortgage insurance premium, we expected to see volume grow rapidly. And it did, at levels we did not expect. Thanks to the seamless ability of Ginnie Mae to scale with our dramatic increase in volume, low- to moderate-income buyers across America benefited, and the nation's housing market did not miss a beat."

Edward Golding, Principal Deputy Assistant Secretary, Office of Housing, U.S. Department of Housing and Urban Development

02

Financial Highlights and Management Discussion and Analysis



RESTATEMENT OF PRIOR FINANCIAL STATEMENTS AND NON-RELIANCE ON PREVIOUS FINANCIAL STATEMENTS

The Office of Inspector General (OIG) has issued disclaimers of opinion on Ginnie Mae's financial statements for fiscal years 2015 and 2014 primarily as a result of the audit finding relating to Ginnie Mae's non-pooled portfolio. Ginnie Mae continues to expend significant efforts, which are broad in scope, to develop the necessary infrastructure to address this finding that is complex in its remediation.

Ginnie Mae began fiscal year 2015 transitioning its entire defaulted Issuer portfolio to two new master sub-servicers ("MSS"). Ginnie Mae's objective for fiscal year 2015 was to investigate multiple courses of action for the needed improvements in the servicing capabilities related to loans in Ginnie Mae-guaranteed portfolios obtained from defaulted Issuers. These efforts included, but were not limited to: (i) the exploration of potential asset disposition strategies to minimize the materiality effect of non-pooled loans not securitized in Ginnie Mae's pools; (ii) the establishment of accounting controls to properly account and track all of the accounting transactions and events in the life cycle of each loan; and (iii) the commencement of an MSS governance initiative. Ginnie Mae has also increased the servicing expertise within its monitoring unit, and will continue to increase the skill level of staff as Ginnie Mae's Salaries and Expenses (S&E) appropriation from Congress allows.

With the additional staffing in the Office of the Chief Financial Officer, enhanced monitoring of counterparty risk and the modernization of Ginnie Mae's technology that is underway, Ginnie Mae is confident about its continued progress in addressing the shortcomings identified by OIG during fiscal year 2016.

Beyond the material weaknesses in financial reporting identified by the OIG, Ginnie Mae identified other errors in Ginnie Mae's accounting. As a result, Ginnie Mae has revised its previously issued financial statements for the year ended September 30, 2014. The previous financial statements and corresponding information should no longer be relied upon.

The remediation process continues to require extensive and complex work, including both employees and external consultants; an ongoing thorough and comprehensive review of Ginnie Mae's accounting policies and practices to ensure compliance with US GAAP, except as otherwise disclosed; and implementation of revised accounting policies.

As part of the remediation process, the restatement of the financial statements for fiscal year 2014 resulted in excess of expenses over revenues of $65.6 million for the year. Despite this loss in operations as a result of multiple restatement adjustments for the year ended September 30, 2014, Ginnie Mae achieved net profit of $2,174.9 million for fiscal year 2015, contributing a combined net of $2,109.3 million in an increase to the Investment of U.S. Government over the two-year period. This net increase reflects Ginnie Mae's continued strong financial position.

Further information on the accounting errors and resulting restatement adjustments is provided in Note 2 to the Financial Statements.

Ginnie Mae Financial Highlights

As stated above, Ginnie Mae continued to post stable financial results during FY 2015. Revenues increased by 23.2 percent to $2,585.6 million, up from $2,098.2 million in FY 2014. Expenses increased to $209 million in FY 2015, compared to $155 million in FY 2014. Ginnie Mae recorded a recapture (a credit to the provision) for MBS loss liability of zero for FY 2015 compared to a recapture of $330.5 million in FY 2014. As shown in Table 1 on the following page, Ginnie Mae achieved results of operations (net profit) of $2,174.9 million, compared with results of operations (net loss) of $65.6 million in FY 2014. Ginnie Mae's loss in operations of $65.6 million in FY 2014, as restated, is primarily driven by the fair value adjustment to the guaranty fee asset, contributing to a loss of $2,199 million, and the amortization of the guaranty liability, an offsetting gain of $558 million. The guaranty asset is an estimate of the future streams of guaranty fees over the life of Ginnie Mae's guaranteed portfolio that Ginnie Mae is expected to receive. The guaranty liability is amortized based on the remaining unpaid principal balance of Ginnie Mae's guaranteed portfolio.

Total assets increased to $27.7 billion from $24.8 billion in FY 2014.

The outstanding MBS portfolio guaranteed by Ginnie Mae increased by $82.3 billion in FY 2015, which led to increased guaranty fee revenues. In FY 2015, MBS guaranty fees increased to $977.7 million, up from $928.3 million in FY 2014. Interest on mortgage loans held for investment decreased to $300.1 million in FY 2015, down from $346.8 million in FY 2014.

In FY 2015, Ginnie Mae issued $505.6 billion in commitment authority, a 76.6 percent increase from FY 2014. The $436.0 billion of MBS issued in FY 2015 represents a 43.1 percent increase from FY 2014. The outstanding MBS balance of $1,608.8 billion at the end of FY 2015, compared to $1,526.5 billion at the end of FY 2014, resulted from new issuances exceeding repayments. FY 2015 production provided the capital to finance home purchases, refinances, or rental housing for approximately 1.94 million U.S. households.

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

TABLE 1: GINNIE MAE FINANCIAL HIGHLIGHTS *FISCAL YEARS 2013 TO 2015*

	2015	2014 (AS RESTATED)	2013 (AS RESTATED)
BALANCE SHEETS HIGHLIGHTS AND LIQUIDITY ANALYSIS *(DOLLARS IN THOUSANDS)*			
Funds with U.S. Treasury	$ 1,732,600	$ 13,174,600	$ 9,622,400
U.S. Government Securities	$ 12,922,900	$ 150,500	$ 1,810,200
Other	$ 13,014,700	$ 11,482,700	$ 13,587,000
Total Assets	$ 27,670,200	$ 24,807,800	$ 25,019,600
Total Liabilities	$ 6,193,500	$ 5,506,000	$ 8,019,900
Investment of U.S. Government	$ 21,476,700	$ 19,301,800	$ 16,999,700
Total RPB Outstanding (1)	$ 1,608,790,109	$ 1,526,470,159	$ 1,457,108,143
MBS Loss Liability (2) and Investment of U.S. Government	$ 21,476,700	$ 19,301,800	$ 17,700,000
Investment of U.S. Government as a Percentage of Average Total Assets	81.85%	77.47%	69.74%
MBS Loss Liability and Investment of U.S. Government as a Percentage of RPB	1.33%	1.26%	1.21%
Capital Adequacy Ratio (3)	1.31%	1.24%	1.19%
HIGHLIGHTS FROM STATEMENTS OF REVENUES AND EXPENSES AND PROFITABILITY RATIOS *YEAR ENDED SEPTEMBER 30*			
MBS Program Income (4)	$ 1,425,700	$ 1,404,400	$ 1,126,400
Income on Guarantee Obligation	$ 1,031,700	$ 557,800	$ -
Other Interest Income	$ 128,200	$ 136,000	$ 98,700
Total Revenues	$ 2,585,600	$ 2,098,200	$ 1,225,100
Mortgage-Backed Securities Program and Other Expenses	$ (175,700)	$ (119,000)	$ (100,200)
Administrative Expenses	$ (21,600)	$ (20,300)	$ (17,500)
Fixed Asset Amortization	$ (11,700)	$ (15,700)	$ (10,700)
Total Expenses	$ (209,000)	$ (155,000)	$ (128,400)
Total Recapture (Provision) for Losses	$ 472,200	$ 204,400	$ (422,700)
Total Other Gains/(Losses) (5)	$ (673,900)	$ (2,213,200)	$ (45,600)
Results of Operations	$ 2,174,900	$ (65,600)	$ 628,400
Total Expense as a Percentage of Average RPB	0.0133%	0.0104%	0.0092%
Total Recapture (Provision) for Losses as a Percentage of Average RPB	0.0301%	0.0137%	-0.0302%

(1) Remaining Principal Balance (RPB) of Ginnie Mae MBS
(2) Liability for loss on MBS program guaranty (MBS Loss Liability)
(3) MBS Loss Liability and Investment of U.S. Government divided by the sum of Total Assets and Remaining Principal Balance
(4) MBS Program Income includes MBS guaranty fees, interest on mortgage loans held for investment, commitment fees, multiclass fees and other MBS program income
(5) Total Losses from credit impairment of mortgage loans held for investment net and loss on MSR offset by the gain on sale of securities

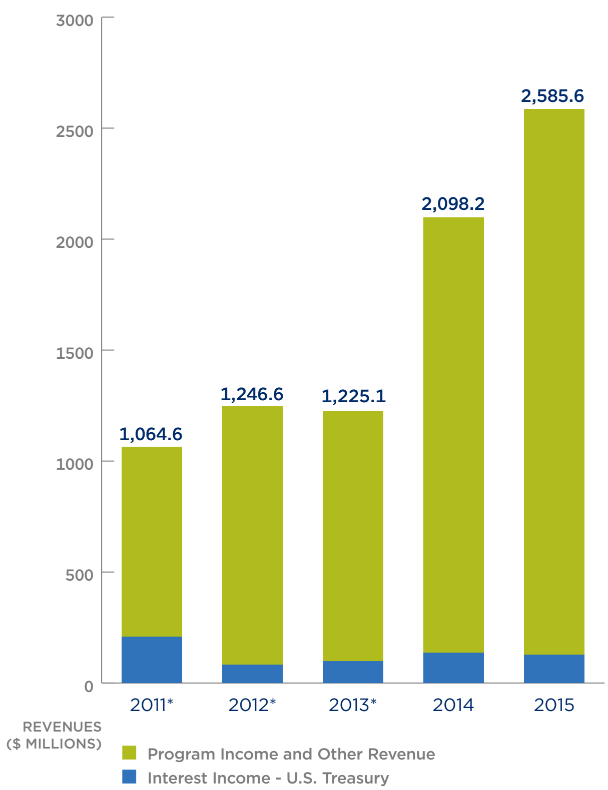
The following discussion provides information relevant to understanding Ginnie Mae's operational results and financial condition. It should be read in conjunction with the financial statements and notes in Section 03 of this report. Ginnie Mae's operating results are subject to change each year, depending on fluctuations in interest income from its U.S. Government securities and in MBS program income, expenses and provisions for losses.

Revenues

Ginnie Mae receives no appropriations from general tax revenue. Instead, its operations are self-financed through a variety of fees. In FY 2015, Ginnie Mae generated total revenue of $2,585.6 million. This included $977.7 million in guaranty fee income and $128.2 million in interest income from the U.S. Treasury. Ginnie Mae's cash reserves are held at the U.S. Treasury.

Figure 2-1 shows Ginnie Mae's total annual revenue for the past five years.

FIGURE 2-1: GINNIE MAE TOTAL REVENUES
FYs 2011 TO 2015



**Fiscal years 2013 and prior not restated*

MBS Program Income

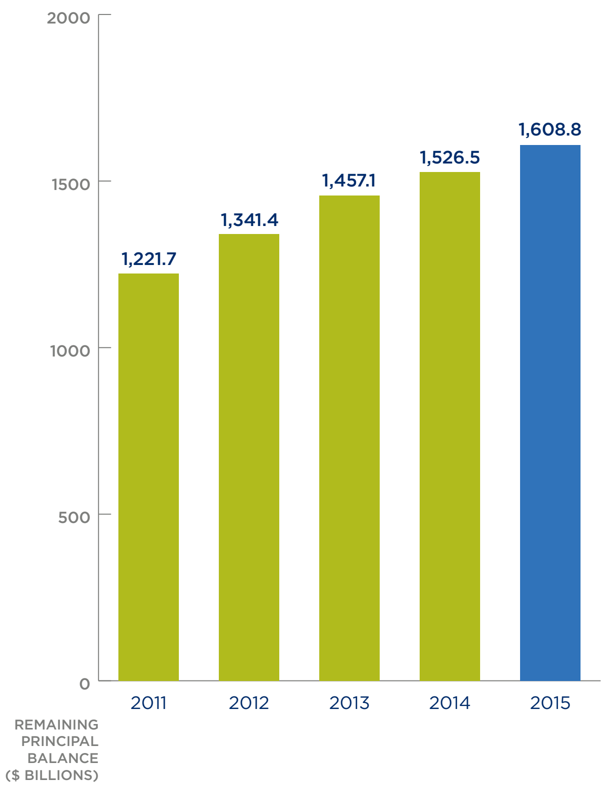
MBS program income consists primarily of guaranty fees, commitment fees, and interest on mortgage loans held for investment (HFI). For FY 2015, MBS program income was concentrated in guaranty fees of $977.7 million, followed by interest on mortgage loans HFI of $300.1 million and commitment fees of $84.9 million. Combined guaranty fees, interest on mortgage loans HFI and commitment fees made up 95.6 percent of total MBS program revenue for FY 2015. Other lesser income sources included multiclass fees, new Issuer fees, handling fees, and transfer-of-servicing fees.

Guaranty Fees

Guaranty fees are income streams earned for providing Ginnie Mae's guaranty of the full faith and credit of the U.S. Government to investors. These fees are paid over the life of the outstanding securities. Guaranty fees are collected on the aggregate principal balance of the guaranteed securities outstanding in the non-defaulted Issuer portfolio. MBS guaranty fees grew 5.3 percent to $977.7 million in FY 2015, up from $928.3 million in FY 2014. The growth in guaranty fee income reflects the increase in the MBS portfolio. The outstanding MBS balance at the end of FY 2015 was $1,608.8 billion, compared with $1,526.5 billion as of the end of FY 2014, as new issuances exceeded repayments (see *Figure 2-2*).

FIGURE 2-2: REMAINING PRINCIPAL BALANCE (RPB) OUTSTANDING IN THE MORTGAGE-BACKED SECURITIES PORTFOLIO

FYs 2011 TO 2015



Commitment Fees

Commitment fees are income that Ginnie Mae earns for providing approved Issuers with the authority to pool mortgages into Ginnie Mae MBS. This authority expires 12 months from its receipt for single family Issuers and 24 months from its receipt for multifamily Issuers. Ginnie Mae receives commitment fees as Issuers request commitment authority. Ginnie Mae issued $505.6 billion in commitment authority in FY 2015, a 76.6 percent increase from FY 2014. It recognizes the commitment fees as earned when Issuers use their commitment authority. The balance is deferred until earned or expired, whichever occurs first. As of September 30, 2015, commitment fees deferred totaled $33.4 million.

Multiclass Revenue

Multiclass revenue is part of MBS program revenue and is composed of REMIC and Platinum program fees. Ginnie Mae guaranteed approximately $5.3 billion in Platinum products in FY 2015. Total cash fees for Platinum securities issued in FY 2015 amounted to $1.6 million. Total cash guaranty fees from REMIC securities totaled $36.9 million on $87.8 billion in issuance of REMIC products. Ginnie Mae recognizes a portion of REMIC and Platinum program fees in the period they are received, with balances deferred and amortized over the remaining life of the financial investment.

In FY 2015, Ginnie Mae guaranteed $93.1 billion of issuance in its multiclass securities program (REMIC and Platinum). The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2015, was $472.7 billion. This represents a $14.4 billion decrease from the $487.1 billion outstanding balance as of the end of FY 2014.

Interest Income

Ginnie Mae earns Interest on Uninvested Funds based on the Federal Credit Reform Act of 1990. Uninvested funds in the financing account consist of the Fund Balance with Treasury and/or offsetting collections that have not been disbursed. Interest income is calculated using the current version of the Credit Subsidy Calculator 2 (CSC2) provided by the Office of Management and Budget (OMB). In FY 2015, Ginnie Mae's uninvested interest income was $127.4 million compared to $123.5 million in FY 2014. The increase was due to collections on FHA claims outstanding for the defaulted portfolios.

Ginnie Mae invests the excess of its accumulated revenue over expenses in U.S. Government securities of varying terms. Ginnie Mae's interest income decreased in FY 2015 due to investment in overnight certificates, compared to FY 2014 when long-term investments matured. In FY 2015 interest income declined by 93.6 percent to $0.8 million from $12.5 million in FY 2014.

Expenses

Operating expenses in FY 2015 increased by 34.8 percent to $209.0 million, up from $155.0 million in FY 2014, while total expenses were 8.1 percent of total revenues in FY 2015, up from 7.4 percent in FY 2014.

Ginnie Mae's higher results of operations (net profit) of $2,174.9 million for FY 2015, versus results of operations (net loss) $65.6 million for FY 2014 (see *Figure 2-3*), were driven by an increase in additional program revenues.

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

Credit-related expenses include Ginnie Mae's provision for loss and defaulted Issuer portfolio costs. Ginnie Mae completes an MBS loss liability analysis on an annual basis. Based on this analysis in FY 2015, Ginnie Mae recorded a recapture (a credit to the provision) for MBS loss liability of zero compared to a recapture of $330.5 million in FY 2014.

FIGURE 2-3: RESULTS OF OPERATIONS
FYs 2011 TO 2015

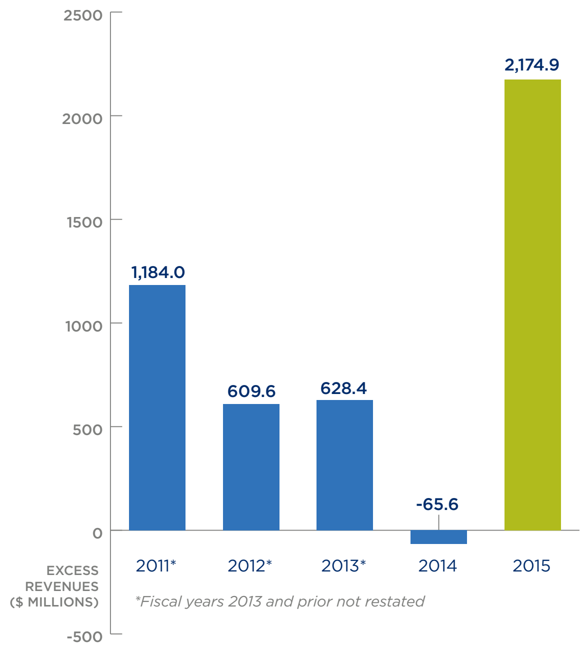


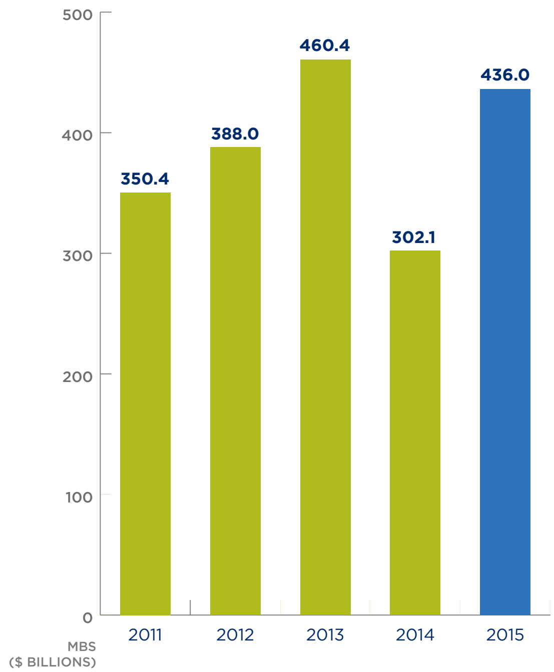
TABLE 2: PROGRAM/CONTRACTOR EXPENSES *FYs 2011-2015*

	2015	2014 *(Restated)*	2013	2012	2011
Central Paying Agent	28.2	28.6	29.0	11.3	9.7
Contract Compliance	–	0.6	0.6	1.3	0.9
Federal Reserve	5.7	6.0	6.0	5.2	4.5
Financial Support	9.7	2.6	2.9	1.7	4.9
IT Related & Miscellaneous	45.1	26.0	15.1	3.9	7.6
MBS Information Systems & Compliance	30.3	23.2	31.4	21.4	17.2
Services Fees Expenses	39.4	17.1	–	–	–
Multiclass	10.4	13.5	11.6	11.2	21.2
Multifamily Program	5.4	0.6	2.7	5.8	5.1
Servicemembers Civil Relief Act	1.5	0.8	0.9	1.1	1.7
TOTAL	**$175.7**	**$119.0**	**$100.2**	**$62.9**	**$72.8**

(In Millions)

FIGURE 2-4: GINNIE MAE MORTGAGE-BACKED SECURITIES ISSUANCE

FYs 2011 TO 2015



MBS Issuance and Portfolio Growth

Ginnie Mae MBS issuance increased by 44.3 percent to $436.0 billion in FY 2015, as shown in *Figure 2-4*.

The current MBS guarantees outstanding amount is $1,608.8 billion, which is an $82.3 billion increase over the amount at the end of FY 2014. The effect of the increase of the portfolio also has changed its character, as evidenced in the average age of the loans. Ginnie Mae has guaranteed approximately $5.6 trillion in MBS since its inception (see *Figure 2-5*).

As shown in *Figure 2-6*, Ginnie Mae supported approximately 1.94 million units of housing for individuals and families in FY 2015, a 20.6 percent increase from FY 2014.

FIGURE 2-5: CUMULATIVE AMOUNT OF GINNIE MAE MORTGAGE-BACKED SECURITIES ISSUED *FYs 1970 TO 2015*

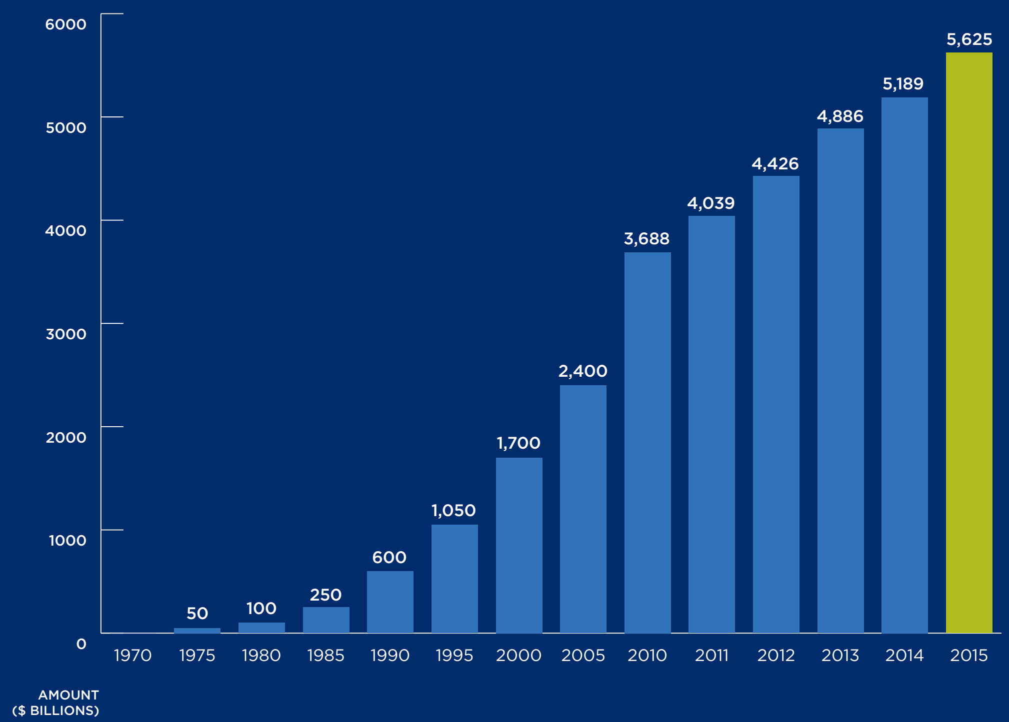


FIGURE 2-6: GINNIE MAE-SUPPORTED UNITS OF HOUSING
FYs 2011 TO 2015

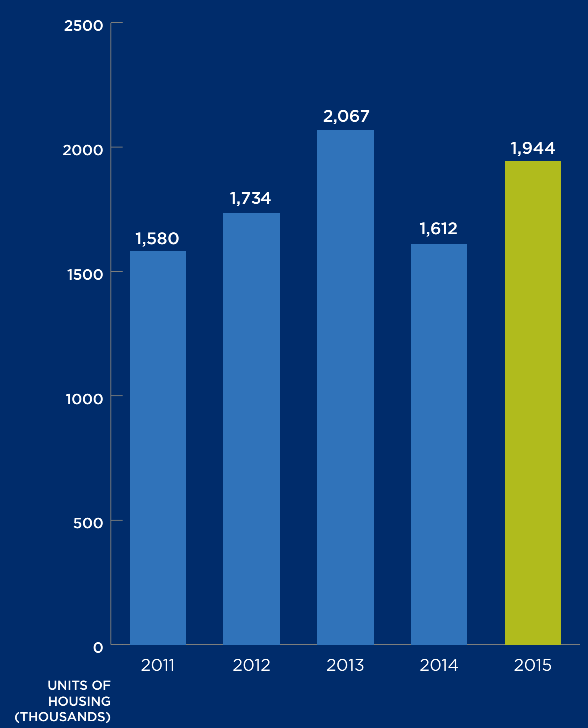
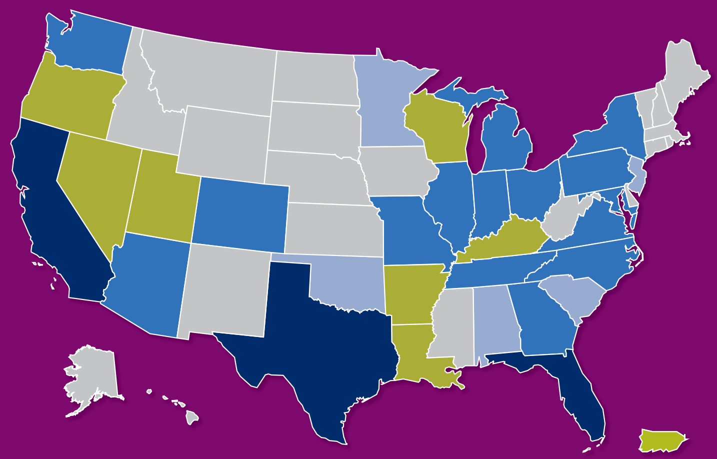


FIGURE 2-7: GEOGRAPHIC DISTRIBUTION OF SINGLE FAMILY PROPERTIES SECURING GINNIE MAE SECURITIES *AS OF SEPTEMBER 30, 2015*



STATE	LOANS	PERCENT OF TOTAL LOANS	RPB (MILLIONS)
TX	968,248	10.11%	$121,121
CA	684,474	7.15%	$164,880
FL	586,125	6.12%	$84,322
GA	415,772	4.34%	$55,001
OH	380,876	3.98%	$42,537
NC	362,076	3.78%	$49,207
VA	358,747	3.75%	$77,800
PA	334,133	3.49%	$45,755
IL	303,750	3.17%	$41,863
NY	283,086	2.96%	$50,570
Top 10 Total	**4,677,287**	**48.86%**	**$733,055**

FEWER THAN 100,000 LOANS

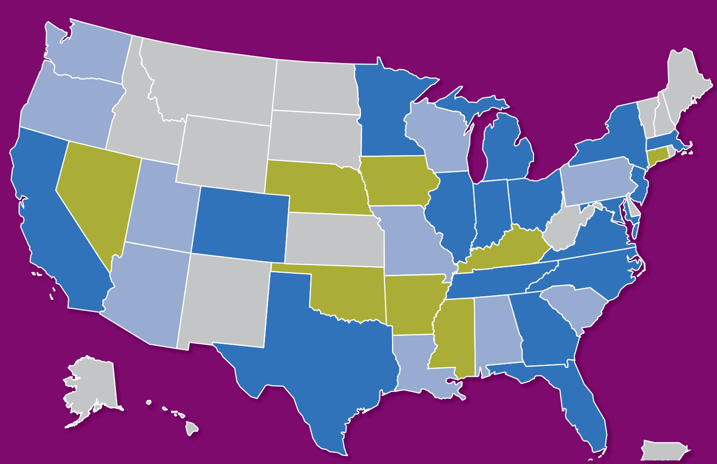
100,000-149,999 LOANS

150,000-200,000 LOANS

200,001-500,000 LOANS

GREATER THAN 500,000 LOANS

FIGURE 2-8: GEOGRAPHIC DISTRIBUTION OF MULTIFAMILY PROPERTIES SECURING GINNIE MAE SECURITIES *AS OF SEPTEMBER 30, 2015*



STATE	LOANS	PERCENT OF TOTAL RPB	RPB (MILLIONS)
NY	531	8.18%	$7,574
TX	874	7.90%	$7,314
CA	849	7.32%	$6,778
IL	661	5.60%	$5,189
FL	464	4.73%	$4,376
OH	932	4.20%	$3,886
MI	565	3.78%	$3,497
IN	655	3.71%	$3,432
MD	298	3.66%	$3,392
MA	330	3.58%	$ 3,316
Top 10 Total	**6,159**	**52.65%**	**$48,755**

LESS THAN $500 M RPB

$500 M-$1,000 M RPB

$1,001 M-$2,000 M RPB

GREATER THAN $2,000 M RPB

Single Family Program

The vast majority of the mortgages in Ginnie Mae securities are insured by FHA and VA. FHA-insured mortgages accounted for 62.1 percent of FY 2015 loan issuances in Ginnie Mae pools, while VA-guaranteed loans accounted for 30.8 percent; Rural Development and PIH loans made up the remainder. Although other agencies and private Issuers may pool FHA-insured loans for their own MBS or hold them in portfolio as whole loans, almost all of these loans make their way into Ginnie Mae securities. In FY 2015, 98.6 percent of FHA fixed loans and 97.3 percent of VA fixed-rate loans were placed into Ginnie Mae pools. In FY 2015, 20.9 percent of single family Ginnie Mae pools received a discounted guarantee fee for the inclusion of a high percentage of loans originated in economically depressed markets.

Although loans underlying its securities may be concentrated in specific areas, Ginnie Mae has provided homeownership opportunities in every U.S. state and territory. *Figure 2-7* highlights the geographic distribution of single family properties securing Ginnie Mae securities as of September 30, 2015.

Multifamily Program

At the end of FY 2015, Ginnie Mae guaranteed securities that contained 99.1 percent of eligible multifamily FHA loans. The Multifamily Program portfolio increased by $4.6 billion, from $87.9 billion at the end of FY 2014 to $92.5 billion at the end of FY 2015, marking the 21st year of consecutive growth.

Figure 2-8 shows the geographic distribution of multifamily properties securing Ginnie Mae securities as of September 30, 2015. Since 1971, Ginnie Mae has guaranteed $239.3 billion in multifamily MBS, helping finance affordable and community-stabilizing multifamily housing developments such as apartment buildings, hospitals, nursing homes, assisted-living facilities, and other housing options across the Nation.

In addition, Ginnie Mae's portfolio of Multifamily Rural Development loans grew in FY 2015 to an outstanding principal balance of $695.8 billion at fiscal year-end. These loans are guaranteed by USDA Rural Development. The number of Multifamily Rural Development programs became more diverse in FY 2015 than in previous years, as new Issuers entered the program. There were Rural Development loans in 45 states in Ginnie Mae pools at September 30, 2015.

HMBS Program

FHA-insured reverse mortgages are the only loan types that qualify for Ginnie Mae's HMBS program. FHA initiated several changes during 2015 to improve the health of its insurance program, which also contributed to an increase in year-over-year HMBS issuance volume. HMBS issuance volume in FY 2015 was $9 billion, which was an increase from $7.1 billion in FY 2014. The outstanding principal balance of HMBS as of September 30, 2015, was $52.3 billion as compared to $48.9 billion as of September 30, 2014.

In FY 2015, 29 H-REMIC transactions ($7.8 billion in total issuance) were issued, an increase from 22 transactions ($4.1 billion) in FY 2014. The structure and support that Ginnie Mae has brought to this market has increased its liquidity, which translates into better pricing on the securities and, ultimately, lower costs for the growing population of senior citizens.

Manufactured Housing Program

The Manufactured Housing program's remaining principal balance was $281.8 million at the end of FY 2015, an increase from $279.2 million at the end of FY 2014.

Ginnie Mae's MBS guaranty activities operate at no cost to the U.S. Government. Rather, Ginnie Mae returns a profit, which reduces the U.S. Government budget deficit.

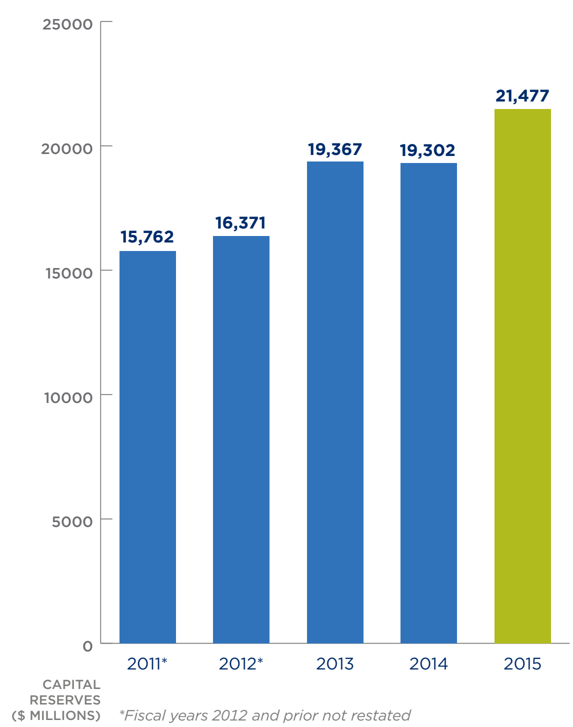
Liquidity and Capital Adequacy

Ginnie Mae's primary sources of cash are MBS and multiclass guaranty fee income, and commitment fee income. After accounting for expenses and other factors, on September 30, 2015, Ginnie Mae reported approximately $1.7 billion in funds with the U.S. Treasury, compared to $13.2 billion on September 30, 2014. During FY 2013, Ginnie Mae received approval from the Office of Management and Budget 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 began to invest the full balance of the Capital Reserve Fund, approximately $12.8 billion in FY 2015.

Ginnie Mae's MBS guaranty activities operate at no cost to the U.S. Government. Rather, Ginnie Mae returns a profit, which reduces the U.S. Government's budget deficit. Ginnie Mae's net income continues to build its capital base, and its management believes that the organization maintains adequate capital reserves to withstand downturns in the housing market that could cause Issuer defaults to increase.

As of September 30, 2015, the investment of the U.S. Government (GAAP-based retained earnings) was $21.5 billion, compared with $19.3 billion as of September 30, 2014. *Figure 2-9* shows Ginnie Mae's capital reserves as of September 30, 2015, for each of the past five years.

FIGURE 2-9: CAPITAL RESERVES
FYs 2011 TO 2015



Risk Management and Systems of Internal Controls

Ginnie Mae reviews and manages an internal controls framework for the organization, including internal controls assessments in accordance with OMB Circular A-123, Appendix A, and other internal control and risk management activities. The audits, reviews, and monitoring of all Issuers and major contractors that Ginnie Mae conducts enable Ginnie Mae to strengthen its internal controls and minimize risks that would negatively impact financial and operating results.

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

03

Audit Report

of Ginnie Mae’s FY 2015 and FY 2014 Financial Statements

Government National Mortgage Association, Washington, DC

Audit of Fiscal Years 2015 and 2014 (Restated) Financial Statements

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2016-FO-0001
November 13, 2015

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

Thomas R. McEnanly

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

Subject: Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (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 2015 and 2014 (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: 2016-FO-0001
Date: November 13, 2015

Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (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, 2015 and 2014 (restated). The Government Corporation Control Act, as amended, requires the Office of Inspector General to audit the financial statements of Ginnie Mae annually. This report presents the results of our fiscal years 2015 and 2014 (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 are applicable to Ginnie Mae.

What We Found

In fiscal year 2015, for the second consecutive year, we were unable to obtain sufficient appropriate evidence to express an opinion on the fairness of the $ 5.4 billion (net of allowance) in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio as of September 30, 2015. Ginnie Mae also continued to improperly account for the Federal Housing Administration reimbursable costs as an expense instead of capitalizing them. Further, in October 2015, Ginnie Mae made $720 million ($2,367 million increase on prior period adjustments and $1,647 million decrease in the results of operations) in net restatement adjustments to correct its fiscal year 2014 financial statements which we were unable to review for accuracy and appropriateness due to Ginnie Mae's late notification of the adjustments to OIG. The combination of the unresolved issues in fiscal year 2014 and restatement adjustments made in fiscal year 2015 were both material and pervasive because they 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 appropriate evidence to provide a basis for an audit opinion on Ginnie Mae's fiscal years 2015 and 2014 (restated) statements. A combination of various 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 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, 2015 and 2014 (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 paragraph 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 2015 financial statements. There were no other satisfactory alternative audit procedures that we could adopt to obtain sufficient 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. For the second year, in fiscal year 2015, we were unable to obtain sufficient appropriate evidence to express an opinion on the fairness of the $5.4 billion (net of allowance) in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio. A number of balance sheet line items made up the $5.4 billion in nonpooled loan assets, which represented 19 percent of the total assets. These were (1) mortgage loans held for investment, net ($4,353 million); (2) advances against defaulted mortgage backed security pools, net ($119 million); (3) claims receivable, net ($814 million); (4) accrued interest receivable, net ($48 million); and (5) acquired properties, net ($30 million). The previous contractors maintained Ginnie Mae's accounting records and the supporting data. However, those records did not completely transfer to Ginnie Mae when it changed servicing contractors in August 2014. As a result, Ginnie Mae was unable to provide appropriate supporting documentation and data to enable us to audit the existence, completeness and accuracy of these asset balances. Because of this limitation in our audit scope, we were unable to determine whether any adjustments may be necessary with respect to these nonpooled loan assets.

- Receivable for reimbursable expenses from FHA. As reported in the previous year, Ginnie Mae continued to improperly account for Federal Housing Administration (FHA) reimbursable costs as expense instead of capitalizing the costs as asset in fiscal year 2015. 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 were material. However, we were unable to determine with sufficient accuracy a proposed adjustment to correct the errors due to insufficient available data.

- Restatement adjustments to fiscal year 2014 financial statements. As discussed in Note 2 to the financial statements, Ginnie Mae made $2.4 billion (fiscal year 2014 prior period adjustments) and $1.7 billion (fiscal year 2014 results of operations adjustments) in accounting adjustments. According to Ginnie Mae, it needed these adjustments to correct the errors in fiscal year 2014 on multiple financial statement line items; specifically, fund balance with Treasury, guaranty liability, liability for loss on mortgage-backed securities (MBS) program guaranty, fixed assets, multiclass fees, servicing fees and expenses. These adjustments affected the reported balances in Ginnie Mae's balance sheet, statement of cash flows, and statement of revenues and expenses and changes in investment of U.S. Government. On October 23, 2015, Ginnie Mae notified the OIG about these adjustments. Due to the late notification of the adjustments, this condition limited our ability to adequately review them and gather sufficient appropriate evidence to validate the accuracy and propriety of these accounting adjustments.

Disclaimer of Opinion

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

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.

Other Information

In September 2015, OIG and Ginnie Mae published restatement memorandums to notify report users about the material misstatements identified during our fiscal year 2014 audit. In October 2015, Ginnie Mae performed a restatement to correct the fiscal year 2014 financial statements. However, Ginnie Mae made this restatement to correct the additional accounting errors identified in fiscal year 2015. Those issues included in the September 2015 restatement memorandums had not been addressed. Accordingly, an additional restatement may occur at a later time.

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. 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. 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.

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 that 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

Material Asset Balances Related to Nonpooled Loans Were Not Auditable

In fiscal year 2015, Ginnie Mae again failed to bring its material asset balances related to nonpooled loans, including the related accounts, into an auditable state. For this reason, we deemed last year's audit matters to be unresolved, and we were unable to audit the $5.4 billion (net of allowance) in nonpooled loan assets reported in Ginnie Mae's financial statements as of September 30, 2015. These asset accounts included (1) mortgage loans held for investment, net ($4,353 million); (2) advances against defaulted mortgage backed security pools, net ($119 million); (3) claims receivable, net ($814 million); (4) accrued interest receivable, net ($48 million); and (5) acquired properties, net ($30 million). This condition occurred because Ginnie Mae's executive management did not ensure that Ginnie Mae's or its mastersubservicers' financial management systems were capable of meeting Ginnie Mae's loan-level transaction accounting requirements to comply with GAAP. These deficiencies resulted in Ginnie Mae's producing unauditable financial statements with materially misstated asset balances.

Given the current state of Ginnie Mae's accounting systems and records, we again were unable to perform all of the audit procedures that we determined to be necessary for obtaining sufficient appropriate evidence. As a result, our audit scope was insufficient to express an opinion on Ginnie Mae's $5.4 billion in nonpooled loan assets as of September 30, 2015.

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

In fiscal year 2014, we reported that Ginnie Mae's internal control over financial reporting was not effective. This condition continued in fiscal year 2015. These material weaknesses in internal controls were issues related to the (1) improper accounting for FHA reimbursable costs and accrued interest earned on nonpooled loans, (2) nonreporting of escrow deposits held in trust by Ginnie Mae for the borrowers in its financial statements, (3) improper classification and presentation of financial information in Ginnie Mae's statement of cash flows, (4) improper revenue recognition of multi-class guarantee fees, (5) improper accounting for the month-end's custodial account balances, (6) omission of the required footnote disclosure, and (7) use of an unreasonable assumption in estimating the valuation of its mortgage servicing rights portfolio. The first three issues were repeat findings from our fiscal year 2014 audit, and the remaining four issues were new in fiscal year 2015. This occurred because of executive management's failure to ensure that (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively; (2) serious staffing problems within Ginnie Mae's Office of the Chief Financial Officer (OCFO) were addressed (see finding 4); and (3) accounting policies, procedures, and systems were in place to track accounting transactions and events at a loan level. As a result of these deficiencies, Ginnie Mae failed to prevent or detect material misstatements in its financial statements.

The Mortgage-Backed Security Liabilities for Loss Account Balance Remained Unreliable

In fiscal year 2015, Ginnie Mae's executive management confirmed our concerns last year about the reliability of the yearend balance in its mortgage-backed securities loss liability account in a representation letter provided to OIG this year. Specific issues posed in the fiscal year 2014 audit report were related to (1) improper accounting treatment of selected accounting transactions on nonpooled loans in the mortgage-backed securities loss liability account and (2) a lack of evidence to support the reasonableness of key management assumptions used in the loss reserve model. Factors that contributed to the issue included the adoption of an inappropriate loan accounting policy and a lack of in-depth analysis to validate the reasonableness of the management assumptions. Considering the impact of these issues and their significance, for the second year, we deemed the mortgage-backed securities loss liability account to be unreliable.

Ongoing Financial Management Governance Problems Contributed to Ginnie Mae's Inability To Produce Auditable Financial Statements

In fiscal year 2015, Ginnie Mae's executive management failed to make significant improvements in addressing the financial management governance problems we cited in our fiscal year 2014 audit report and regressed in some areas. Specifically, these problems included a failure to (1) backfill key positions in the Ginnie Mae OCFO; (2) ensure emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; and (3) establish adequate and appropriate accounting policies and procedures and accounting systems. In addition, for the first time in fiscal year 2015, we found Ginnie Mae's entity wide governance of the models used to generate accounting estimates for financial reporting was ineffective. We believe this occurred because (1) Ginnie Mae's President and Executive Vice President failed to set the appropriate "tone at the top" by delaying needed changes in its accounting operations and (2) Ginnie Mae was overwhelmed by the difficult and complex financial management challenges encountered during the year, coupled with the lack of adequate senior accounting and financial staff to manage these problems. These failures in governance by Ginnie Mae's executive management contributed to its failure to prevent or detect material misstatements and impaired Ginnie Mae's ability to produce auditable financial statements.

Significant Deficiency in Financial Reporting

Ginnie Mae Did Not Provide Adequate Oversight of Its Mastersubservicer To Ensure Compliance With Federal Regulations and Guidance

Ginnie Mae did not provide adequate oversight of one of its single-family mastersubservicers to ensure that adequate business process controls were in place to provide a compliant level of internal controls over financial reporting. Specifically, (1) it did not have proper segregation of duties regarding cash processes, (2) ongoing monitoring was not in place to review change activities by individuals in the loan administration department with access to and change capability for master data for approximately 21,000 loans; and (3) management used an ineffective monitoring tool that did not capture all financial data adjustments. These conditions occurred because (1) the contractor believed that the risk of wrongful acts was mitigated through its use of security cameras, access restrictions, and background checks; (2) management did not have a policy and process to perform periodic monitoring or review reports to ensure that unauthorized changes were not made; (3) the approval process for adjustments was not automated within the contractor's primary financial system that houses all loan transactions; and (4) the report that was used to monitor financial data changes did not allow for a meaningful review because it did not capture all financial data adjustments. As a result, Ginnie Mae's data were susceptible to unauthorized access and tampering which increased Ginnie Mae's risk of undetected misstatements in the financial statements.

Additional information about the control deficiencies is presented in more detail in the body of this report.

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 that is required to be reported in accordance with Government Auditing Standards, issued by the U.S. Comptroller General.

Ginnie Mae did not comply with 31 U.S.C. (United States Code) 3711(g)(9) which requires that appropriate steps be taken to maximize the collection of the debts to the agency before discharging them. During the audit, we determined that Ginnie Mae did not take all steps necessary to maximize collection of MBS program debts by failing to analyze the possibility of collecting these debts before writing them off. This condition occurred because Ginnie Mae's executive management decided to not pursue the MBS program debts since it believed that the Debt Collection Improvement Act (DCIA) did not apply to Ginnie Mae; and therefore it did not need to comply with DCIA requirements. 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 operation that are not included in this report will be reported to Ginnie Mae management in a separate management letter.

Randy W McGinnis

Randy W. McGinnis
Assistant Inspector General for Audit
November 12, 2015

Material Weakness

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

In fiscal year 2015, Ginnie Mae again failed to bring its material asset balances related to nonpooled loans, including the related accounts, into an auditable state. For this reason, we deemed last year's audit matters to be unresolved, and we were unable to audit the $5.4 billion[1] (net of allowance) in nonpooled loan assets reported in Ginnie Mae's financial statements as of September 30, 2015. These asset accounts included (1) mortgage loans held for investment, net ($4,353 million); (2) advances against defaulted mortgage backed security pools, net ($119 million); (3) claims receivable, net ($814 million); (4)accrued interest receivable, net ($48 million); and (5) acquired properties, net ($30 million). This condition occurred because Ginnie Mae's executive management[2] did not ensure that Ginnie Mae's or its mastersubservicers' financial management systems were capable of meeting Ginnie Mae's loan-level transaction accounting requirements to comply with GAAP. These deficiencies resulted in Ginnie Mae producing unauditable financial statements with materially misstated asset balances. Given the current state of Ginnie Mae's accounting systems and records, we were again unable to perform all of the audit procedures that we determined to be necessary for obtaining sufficient, appropriate evidence. As a result, our audit scope was insufficient to express an opinion on Ginnie Mae's $5.4 billion in nonpooled loan assets as of September 30, 2015.

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

In fiscal year 2014, we expressed a disclaimer of opinion on the fairness of the $6.6 billion (gross) in nonpooled loan assets due to a lack of accounting data and accounting records at a loan level to validate the amounts reported for existence, completeness, and accuracy.

In fiscal year 2015, we had planned to continue our work to close out audit issues identified in the fiscal year 2014 audit. Additionally, we developed our procedures for Ginnie Mae's fiscal year 2015 financial statements audit and began work in all aspects of the engagement, including nonpooled loan assets. After several months of intense review of the loan data, Ginnie Mae's executive management acknowledged the magnitude of the problem and the effort needed to address the accounting and systems issues related to its defaulted issuers' portfolio. As a result,

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1 The $5.4 billion in nonpooled loan assets represented 19 percent of Ginnie Mae's total assets as of September 30, 2015, and was above our materiality threshold.

2 Ginnie Mae's executive management consists of the Office of the President and Executive Vice President which is led by Theodore W. Tozer, President, and Mary K. Kinney, Executive Vice President and Chief Operating Officer. The office directs the global development of policy and provides enterprise-wide oversight of all operational support related to Ginnie Mae's current and future business.

in July 2015, Ginnie Mae provided us a representation letter[3] stating that it was not ready for OIG to audit its nonpooled loan assets in fiscal year 2015. We suspended audit activities regarding the nonpooled loan assets, including the related accounts, in response to Ginnie Mae's request.

In conjunction with its statement, Ginnie Mae announced its plan to sell much of its defaulted issuers portfolio, subject to OMB authority, market capacity, and specific loan conditions. Ginnie Mae was evaluating its portfolio disposition options and the path forward activities associated with this asset disposition plan. Ginnie Mae's timeline, as of September 2015, showed that the asset disposition would occur in fiscal year 2016.

Conclusion

As reported in our fiscal year 2014 audit, Ginnie Mae was unable to provide sufficient, appropriate evidence to support the $5.4 billion in nonpooled loan assets. As a result, our fiscal year 2015 audit scope was insufficient to express an opinion as of September 30, 2015. We will continue to work with Ginnie Mae in resolving these matters during our fiscal year 2016 audit.

Recommendation

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

3 Interim management representation letter, dated July 27, 2015. Ginnie Mae provided a revised letter on September 8, 2015.

Material Weakness

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

In fiscal year 2014, we reported that Ginnie Mae's internal control over financial reporting was not effective. This condition continued in fiscal year 2015. These material weaknesses in internal controls were issues related to the (1) improper accounting for FHA reimbursable costs and accrued interest earned on nonpooled loans, (2) nonreporting of escrow deposits held in trust by Ginnie Mae for the borrowers in its financial statements, (3) improper classification and presentation of financial information in Ginnie Mae's statement of cash flows, (4) improper revenue recognition of multi-class guarantee fees, (5) improper accounting for the month-end's custodial account balances, (6) omission of the required footnote disclosure and (7) the use of an unreasonable assumption in estimating the valuation of its mortgage servicing rights portfolio. The first three issues were repeat findings from last year's audit, and the remaining four issues were new in fiscal year 2015. This condition occurred because of executive management's failure to ensure that (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively; (2) serious staffing problems within Ginnie Mae OCFO were addressed (see finding 4); and (3) accounting policies, procedures, and systems were in place to track accounting transactions and events at a loan level. As a result of these, Ginnie Mae failed to prevent or detect material misstatements in its financial statements.

Current-Year Status of Prior-Year Audit Matters

In fiscal year 2015, Ginnie Mae corrected one audit issue related to the presentation order of its assets and liabilities noted in our fiscal year 2014 audit report. However, the other material audit issues reported last year that were not resolved in fiscal year 2015 are noted below. Since we are not making additional recommendations this year, audit recommendations made in fiscal year 2014 are not reported again in this report.

- <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 (repeat finding)</u>. In fiscal year 2014, we reported that Ginnie Mae improperly accounted for the FHA reimbursable costs as an expense.[4] These costs were charged to the mortgage-backed securities loss liability account instead of being capitalized as an asset. In addition, Ginnie Mae's accrued interest earned was accounted for only though the date of purchase from the mortgage-backed securities 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 fiscal year 2015, Ginnie Mae had not changed its accounting policies and

[4] Government National Mortgage Association Fiscal Years 2014 and 2013 Financial Statements Audit, 2015-FO-0003.

procedures[5] and, therefore, continued to not process these transactions in accordance with GAAP. The same issues applied to accrued interest revenue.

- Escrow deposits held in trust by Ginnie Mae for the borrowers of the loans in its defaulted issuers' portfolio were not reported in the financial statements as required by GAAP (repeat finding). In fiscal year 2014, we reported that Ginnie Mae failed to report the balance of the mortgage escrow funds in its financial statements. Last year, Ginnie Mae did not agree with OIG's conclusion about the accounting treatment of escrows and continued to disagree with OIG this year on the presentation of escrows on the face of the statements. As a result, there was some progress made to correct this issue at the end of fiscal year 2015. Ginnie Mae disclosed escrow deposits existing at fiscal year 2014 and fiscal year 2015 in a footnote to its fiscal year 2015 financial statements. Ginnie Mae believed the inclusion of the escrow information in the note disclosure would be sufficient and consistent with existing industry practices of issuers following GAAP guidance.

- The classification and presentation of financial information in Ginnie Mae's statement of cash flows was improper (repeat finding). In fiscal year 2014, Ginnie Mae's statement of cash flows was not presented in accordance with GAAP. Specifically, Ginnie Mae did not present the investing cash inflows separately from investing cash outflows. Additionally, there were a number of investing activity cash flows related to nonpooled loan assets that were presented incorrectly in the operating activity cash flows section of the statement. In accordance with Accounting Standards Codification 230-10-45-26, investing cash inflows must be reported separately from investing cash outflows. Ginnie Mae's practice of reporting the "net" cash flows from its investing activities was a departure from GAAP.

Recognition of Revenues From Real Estate Mortgage Investment Conduit Deals Was Improper (New Finding)

Ginnie Mae did not appropriately defer recognition of the real estate mortgage investment conduit (REMIC) fees in accordance with Accounting Standards Codification 605-20-25-3. Specifically, it recognized a majority of the guarantee fees collected from multiclass 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, which was a departure from GAAP. This practice had been in effect since the early 1990s and was not consistent with Accounting Standards Codification 605-20-25-3, which requires that revenues be recognized over the contract period in proportion to the expected incurred costs.

The REMIC fees received during the month in which the deal was issued represent an advance collection of guarantee fees, which are expected earnings for the life of the REMIC. Accordingly, the revenues should be appropriately amortized over a contract period rather than

[5] Although Ginnie Mae attempted to reconcile accounting activities at the loan level and asked its mastersubservicers to review claims paid by insuring agencies to determine reimbursable rates, these efforts were in the early stages, and their completion was not expected until fiscal year 2016.

being recognized as revenue in the month in which cash was received. Considering the cumulative effect of the errors, we determined that Ginnie Mae's equity, revenue, and liability accounts were materially misstated. This condition occurred because Ginnie Mae's revenue recognition accounting policy did not comply with GAAP due to a misinterpretation of the requirements.

Ginnie Mae acknowledged the GAAP departure in its revenue recognition accounting policy after we brought the matter to its attention. Ginnie Mae will update its revenue recognition accounting policies and procedures to ensure compliance with GAAP going forward.

Timing Differences in the Cash Collections Were Not Appropriately Adjusted in Ginnie Mae's Books (New Finding)

Ginnie Mae did not capture the cash balances in its mastersubservicers (MSSs) custodial accounts at the end of each month because it believed that cash collected by the MSS was only considered received when cash was deposited into its fund balance with Treasury account. Similarly, Ginnie Mae also postponed adjusting its loan asset balance until cash was deposited into its fund balance with Treasury account. According to GAAP, cash includes not only currency on hand, but also demand deposits with banks or other financial institutions. All charges and credits to those accounts are cash receipts or payments to the entity owning the account.

As a service provider, MSS is processing accounting transactions (for example, collection of principal and interest and insurance claims proceeds) for Ginnie Mae. Since the work performed by the MSSs is an extension of Ginnie Mae's business operations, these cash collections should be appropriately captured in Ginnie Mae's books based on when the MSSs received the cash and not when Ginnie Mae received it from the MSSs. Accordingly, Ginnie Mae should appropriately make an adjusting entry to recognize the cash collection in the appropriate accounting period. This is especially true when Ginnie Mae does not receive the funds collected by the MSS near month-end closeout until the following month due to timing differences. Based on the current practice, Ginnie Mae's period-end cash and nonpooled loan asset account balances may not be fairly stated due to the timing differences in recording cash.

Restrictions Related to the Use or Withdrawal of Cash Was Not Properly Disclosed (New Finding)

Ginnie Mae did not appropriately disclose restrictions regarding withdrawal or use for certain cash included in its fund balance with the Treasury account. In accordance with GAAP, the provision of any restrictions should be described in a note to the financial statements. For example, of $6 billion in the fund balance in the Treasury account as of June 30, 2015, (1) Ginnie Mae had $370 million in offsetting collections temporarily precluded from obligations, (2) $24 million of this amount was for mortgage-backed securities unclaimed funds,[6] and (3) $0.3 million was in a suspense account. It is misleading to report Ginnie Mae's fund balance with the Treasury account balance without the restriction disclosure.

6 As the mortgage-backed securities unclaimed funds represent money owed to mortgage-backed securities certificate holders that could not be located by Ginnie Mae servicers, the $24 million should be appropriately disclosed as a restricted asset because it does not belong to Ginnie Mae and is not available for use in Ginnie Mae's operations.

We Had Concerns Regarding the Valuation of Mortgage Servicing Rights Due to an Unreasonable Assumption (New Finding)

In estimating the fair market value of its mortgage servicing rights portfolio, Ginnie Mae used an assumption that we believe was unreasonable; specifically, the delinquency and bankruptcy rates assumption.[7] For example, in determining the cash flows for each group of loans in its servicing portfolio, Ginnie Mae's projection of the portfolio's delinquency and bankruptcy rates was based on the current rate rather than the historical rate. We believe that using a current rate as its forward projection was unreasonable because this methodology did not take into account modeling best practices of estimating losses based on historical performance. Additionally, using the current rate may not be an appropriate projection of future behavior as it fails to account for seasonality or changes in economic conditions. This condition occurred because Ginnie Mae's Risk Committee approved using the current rate, which is based solely on management judgment and not on reasonable assumptions. Ginnie Mae could not provide an analysis or documentation to support that its assumption methodology was appropriate and the best information available to it at that time. We brought this matter to Ginnie Mae's attention during the audit and it agreed to take actions to correct this deficiency.

Conclusion

In fiscal year 2015, Ginnie Mae continued to have material weaknesses in its internal control over financial reporting, which contributed to its inability to produce reliable financial information. Ginnie Mae's ability to produce materially accurate financial information was again limited by its executive management's failure to ensure that staffing gaps created by the loss of several key staff members in OCFO in the past 2 fiscal years were filled in a timely manner. The staffing problems caused Ginnie Mae to not have sufficient resources to meet its required financial management responsibilities.

Recommendations

We recommend that Ginnie Mae's Acting Chief Financial Officer

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.

2B. Update the accounting policies and procedures related to revenue recognition to reasonably ensure compliance with GAAP.

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.

2D. Appropriately disclose restricted cash in its financial statements.

We recommend that Ginnie Mae's Acting Chief Financial Officer, in coordination with the Chief Risk Officer

[7] These rates have a material effect on the mortgage servicing rights output.

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

Finding 3: The Mortgage-Backed Securities Loss Liability Account Balance Remained Unreliable

In fiscal year 2015, Ginnie Mae's executive management confirmed our concerns about the reliability of its mortgage-backed securities loss liability account in a representation letter. Specific issues posed in the fiscal year 2014 audit report were related to (1) improper accounting treatment of selected accounting transactions on nonpooled loans in the mortgage-backed securities loss liability account and (2) a lack of evidence to support the reasonableness of key management assumptions used in the loss reserve model. Factors that contributed to the issue included the adoption of an inappropriate loan accounting policy and a lack of in-depth analysis to validate the reasonableness of the management assumptions. Considering the impact of these issues and their significance, for the second year, we deemed the mortgage-backed securities loss liability account to be unreliable.

Current-Year Status of Prior-Year Audit Matters

In our fiscal year 2015 audit, we planned to conduct our audit follow-up, but Ginnie Mae was unable to provide all of the relevant information and data needed to complete our audit follow-up work and to audit the loss liability yearend account balance. In its September 2015 memorandum, Ginnie Mae's executive management stated to OIG that the loss liability account was not in an auditable state and requested that OIG suspend its audit activities in this area. Additionally, efforts to review and update Ginnie Mae's accounting policies and procedures, including model methodology and assumptions, were ongoing. The current status of the issues reported in fiscal year 2014 is provided in detail below.

- <u>Selected accounting transactions related to nonpooled loans were improperly accounted for in the mortgage-backed securities loss liability account (repeat finding)</u>. In fiscal year 2014, we reported that Ginnie Mae's accounting for certain FHA reimbursable costs were reported as a charge-off to the loss liability account instead of being capitalized as an asset. As a result, the reported balances in the affected asset and loss liability accounts were both understated. We recommended that Ginnie Mae conduct an analysis to determine the amount of adjustments needed to correct the error. Ginnie Mae acknowledged that its accounting for the FHA reimbursable costs in prior years was a departure from GAAP. In fiscal year 2015, in response to our finding, Ginnie Mae asked its new mastersubservicers to analyze claims filed on its FHA reimbursable costs that had been paid to determine its historical reimbursement rate. As of September 2015, this work was ongoing. Additionally, Ginnie Mae had not changed its accounting policies and procedures in fiscal year 2015 and, therefore, continued to not process these transactions in accordance with GAAP.

- Ginnie Mae had an inadequate basis for supporting the reasonableness of certain management assumptions in the loss liability model (repeat finding). In fiscal year 2014, we reported that Ginnie Mae lacked evidence to support the reasonableness of the foreclosure costs and redefault rate management assumptions used in the loss liability model. Both the foreclosure costs and redefault rate assumptions were critical to the development of the loss estimates, in which a minimal change in these assumptions could produce significant fluctuations in its estimates. Thus, it is crucial that these assumptions be based on a careful and well-documented analysis of Ginnie Mae's loans. In making estimates, however, Ginnie Mae relied on the information supplied by third-party sources without performing proper validations to ensure that the third-party data were sufficiently reliable to produce a reasonable estimate.

In fiscal year 2015, Ginnie Mae developed corrective action plans to address many of the modeling issues cited in our fiscal year 2014 audit report.[8] However, the actions needed to implement the plans were in an early stage at the end of fiscal year 2015. Their full implementation was not expected until fiscal year 2016. Additionally, Ginnie Mae was developing a new model in fiscal year 2015. Ginnie Mae stated that this new model was needed because (1) the model used in previous years and developed by the previous contractor was not GAAP compliant and (2) there was no knowledge transfer provided when Ginnie Mae moved to a new contractor. This new model will not be available for our review until after mid-October of 2015. Considering all of these factors, we cannot rely on the fairness of the numbers reported by Ginnie Mae.

Conclusion

Although Ginnie Mae attempted to address some fiscal year 2014 audit concerns, the yearend balance in its mortgage-backed securities loss liability account remained unauditable since it had made little progress in its remediation work in this area. Since Ginnie Mae's action plans were not expected to be fully implemented until fiscal year 2016, we will continue to follow up with this audit matter in our fiscal year 2016 audit.

Recommendation

Because this is repeat finding and we are not making further recommendations this year, audit recommendations made in the previous year are not repeated in this report.

[8] OIG generally agreed on the plan of actions proposed by Ginnie Mae except for one recommendation in which Ginnie Mae suggested using the fiscal year 2015 model to rerun the fiscal year 2014 loss liability number.

Material Weakness

Finding 4: Ongoing Financial Management Governance Problems Contributed to Ginnie Mae's Inability To Produce Auditable Financial Statements

In fiscal year 2015, Ginnie Mae's executive management failed to make significant improvements[9] in addressing the financial management governance problems cited in our fiscal year 2014 audit report and regressed in some areas. Specifically, these problems included a failure to (1) backfill key positions in Ginnie Mae OCFO; (2) ensure that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; and (3) establish adequate and appropriate accounting policies and procedures and accounting systems. In addition, for the first time in fiscal year 2015, we found that Ginnie Mae's entitywide governance of the models, which are used to generate accounting estimates for financial reporting, was ineffective. We believe this condition occurred because (1) Ginnie Mae's President and Executive Vice President failed to set the appropriate tone at the top by delaying needed changes in its accounting operations and (2) Ginnie Mae was overwhelmed by the difficult and complex financial management challenges encountered during the year, coupled with the lack of adequate senior accounting and financial staff to manage these problems. These failures in governance by Ginnie Mae's executive management contributed to its failure to prevent or detect material misstatements and impaired Ginnie Mae's ability to produce auditable financial statements.

Ginnie Mae's Executive Management's Failures in Governance Continued

In fiscal year 2014, we reported how Ginnie Mae's executive management's failures in governance adversely impacted its ability to produce auditable financial statements. While efforts were made to address these, we believe that in fiscal year 2015, its progress regressed in some areas because of its executive management's inaction on many issues. For example, despite spending more than $7 million of the $18 million budgeted on audit readiness, Ginnie Mae again failed to make the necessary changes in its accounting policies and procedures and as a result continued to account for the FHA reimbursable costs on a cash basis of accounting (see finding 2). Further, additional financial statement line items were identified as not being ready for audit and key accounting policies, procedures, and controls over the models were undefined. In addition, Ginnie Mae's executive management refused to adopt appropriate accounting principles for escrow reporting or issue an appropriate restatement notification so stakeholders would know that Ginnie Mae's fiscal year 2011 through fiscal year 2014 financial statements contained errors and should not be relied on.

[9] Ginnie Mae developed corrective action plans in the third quarter of 2015, but its full implementation is not expected until fiscal year 2016.

Ginnie Mae's executive leadership's lack of candor and transparency in responding to the financial management challenges greatly detracted from the organization's financial reporting obligations. In fiscal year 2015, Ginnie Mae's financial management did not communicate difficulties or changes in direction, which resulted in financial reports and information that were usually late, of inadequate or unacceptable quality, or not provided at all. For example, Ginnie Mae often provided audit evidence, trial balances, and fourth quarter financial statements days after the agreed-upon dates and in a condition that required multiple efforts to resolve the discrepancies. Ginnie Mae also did not properly coordinate the timing of its discovery of material accounting errors due to misapplication of GAAP, which resulted in the billions of dollars of restatement adjustments to its fiscal year 2014 financial statements after the fiscal yearend. On October 23, 2015, Ginnie Mae notified OIG about these adjustments. On October 28 and November 4, 2015, Ginnie Mae provided HUD two additional restatement or error correction adjustment entries for HUD's consolidated financial statements. The late notification of the adjustments limited our ability to adequately review them and gather sufficient appropriate evidence to validate the accuracy and propriety of these accounting adjustments. The net result of Ginnie Mae's executive management's failure to recognize its governance weaknesses in a timely manner was that Ginnie Mae was unable to meet the needs and expectations of HUD and its other stakeholders.

Ginnie Mae's Office of the Chief Financial Officer Remained Unable to Adequately Manage Its Financial Management Operations (Repeat Finding)

In fiscal year 2014, we reported that Ginnie Mae's executive management failed to ensure that key positions in OCFO were staffed by experienced personnel with the appropriate skills. Although efforts[10] were made to address this issue during fiscal year 2015, Ginnie Mae failed to hire sufficient personnel to permanently backfill key positions and other vacancies by the end of fiscal year. For example, of eight[11] vacant positions at the beginning of fiscal year 2015, only three[12] had been filled at the end of fiscal year 2015. Overall, the number of vacancies had increased from 8 to 11[13] at the end of fiscal year 2015.

Also, there are six positions that we considered key because of their significant financial reporting roles within Ginnie Mae's OCFO. These are the (1) chief financial officer, (2) vice president of accounting policy and financial reporting,[14] (3) controller, (4) internal controls manager, (5) accounting supervisor, and (6) economic modeling director. As of September 30, 2015, the reconstituted position of the deputy chief financial officer had not been filled, leaving this position vacant for almost 2 years. The economic modeling director and three accounting supervisor positions were also unfilled. Although the controller position was filled, this action

10 These efforts included (1) restructuring its OCFO (2) hiring contractors to perform needed accounting services as a temporary solution to its staffing turnover problems, and (3) posting job announcements for some key positions in OCFO.

11 The eight vacant positions include three key positions (deputy chief financial officer, controller and internal controls manager).

12 Ginnie Mae filled the positions of the budget director, internal controls manager and controller in December 2014, February 2015, and September 2015, respectively.

13 This number considers the additional staffing needed as a result of the August 2015 reorganization.

14 Ginnie Mae repurposed the deputy chief financial officer position to the vice president of accounting policy and financial reporting as a result of the reorganization.

occurred too late in September 2015 to make a significant impact in fiscal year 2015. To compound these staffing problems, in April 2015, Ginnie Mae lost its chief financial officer who had been on the job for only a year. Although the positions of the chief financial officer (acting capacity) and the internal controls manager were filled in April 2015 and February 2015 respectively, these individuals were unable to fully function in their intended roles because of competing work priorities.

Additionally, although Ginnie Mae received substantial help from its audit-readiness contractors and guidance from HUD's OCFO, this assistance failed to adequately address the accounting challenges facing Ginnie Mae this year. As a result, we saw little improvement in Ginnie Mae's accounting operations in fiscal year 2015. For example, Ginnie Mae was unable to provide to HUD OCFO auditable financial information to support its unpaid obligations and related allotment activity on HUD's consolidated statement of budgetary resources in fiscal year 2015. The deficiency was due to inadequate staff resources allocated to implementing the budgetary module in the Ginnie Mae Financial Accounting System, no senior accounting staff in place to review and monitor activity, inadequate segregation of duties, and incomplete implementation of budgetary accounting in the general ledger. We believe that these challenges and the condition that Ginnie Mae was in at the beginning of fiscal year 2015, were too overwhelming for Ginnie Mae to overcome.

According to Ginnie Mae, the difficulty in backfilling the key positions was due to constraints inherent in the prolonged human resources recruitment process. For example, Ginnie Mae officials stated that the average hiring time for a general schedule staff position and executive position was 140 and 180 business days, respectively. Additionally, Ginnie Mae explained that there was a frequent need for compensation considerations and negotiations to compete with other agencies for "top professional talent." Ginnie Mae concluded that this constraint was a factor contributing to Ginnie Mae's human resources recruitment challenges.

Ginnie Mae Remained Vulnerable to the Risk of Changes in Its Business Environment (Repeat Finding)

In fiscal year 2014, we reported that Ginnie Mae's executive management failed to ensure that the OCFO responded to the risk of changes in its business environment. Although we noted efforts in fiscal year 2015 to strengthen its OMB Circular A-123 risk assessment process with assistance from the contractor, we believe that Ginnie Mae remained vulnerable to risk of changes in its business environment because it lacked the dedicated and experienced Ginnie Mae OCFO staff to manage these responsibilities. The loss of institutional knowledge and experienced staff is difficult to replace in any organization, and without timely replacements, it creates challenges in producing accurate and timely financial statements and managing and monitoring its operations. Adding to this burden, Ginnie Mae's OCFO had not recovered from the serious staffing turnover that began in fiscal year 2013. As a result, executive management should intensify its efforts to fill the vacancies in Ginnie Mae OCFO, especially in the Controller's Division.

Ginnie Mae Did Not Have Appropriate Accounting Policies and Procedures and Accounting Systems in Place to Manage and Control the Loan Accounting and Processing of the Activities Related to Its Defaulted Issuers' Portfolio (Repeat Finding)

In fiscal year 2014, we reported that Ginnie Mae's executive management failed to ensure that appropriate accounting policies and procedures and accounting systems were in place. Although Ginnie Mae had developed action plans to address the issue in fiscal year 2015, the plans were developed so late in the year that they remained an open issue and continued to be a work in progress at the end of this fiscal year. According to Ginnie Mae, in fiscal year 2015, it focused its efforts on updating its accounting policies and procedures to ensure that they were GAAP-compliant. As a result, a total of 24 accounting policies had been drafted as of the end of October 2015. However, Ginnie Mae still needs to ensure its staff (1) follows through on implementing these accounting policies and procedures, and (2) is trained on these policies and procedures.

In December 2014, Ginnie Mae hired an audit-readiness contractor to review all of its accounting policies and procedures to ensure that they were aligned with Ginnie Mae's current business processes and that the accounting policies complied with GAAP. At the end of fiscal year 2015, Ginnie Mae's efforts to review and update its policies and procedures were ongoing and their completion date was not expected until fiscal year 2016.

Additionally, Ginnie Mae had made no improvements in its accounting systems and did not require its mastersubservicers to make changes that would properly account for and track, at a loan level, all of the accounting transactions and events related to its defaulted issuers' portfolio in fiscal year 2015. Exploring a shared services solution by leveraging the data and systems capabilities of its mastersubservicers was a strategy under consideration by Ginnie Mae in fiscal year 2015. Its full implementation was not expected until fiscal year 2016. We have reservations about the success of this plan because only one of the two mastersubservicers has the capability to perform loan-level accounting. Additionally, we believe that Ginnie Mae's strategy of not developing an accounting system that can perform loan-level accounting is a mistake because we believe Ginnie Mae may be avoiding rather than addressing the problem. This strategy was noted (1) when Ginnie Mae announced its plans in July 2015 to dispose of its entire defaulted issuers' portfolio, and (2) after learning that Ginnie Mae did not want to take over any future defaulted issuers.

Effective Monitoring of the Service Organization Engaged To Perform Operational Processes and Accounting for Ginnie Mae Was Not in Place (Repeat Finding)

In fiscal year 2014, we reported that Ginnie Mae's executive management failed to ensure that the accounting and reporting activities of the mastersubservicers as a service organization were effectively monitored. In fiscal year 2015, Ginnie Mae developed its corrective action plans to address the monitoring oversight deficiency. Ginnie Mae's plans included actions to (1) develop a policy for the appropriate oversight of the mastersubservicers, (2) perform periodic compliance reviews, (3) customize the scope and timing of the Statements on Standards for Attestation Engagements 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 mastersubservicers. However, the majority of these action plans were not expected to be completed until fiscal year 2016. We consider this finding an open issue because it was still under remediation at the end of fiscal year 2015.

Ginnie Mae's Entitywide Governance of the Models Was Ineffective (New Finding)

In fiscal year 2015, 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. This deficiency was evidenced by Ginnie Mae's inability to provide documentation to support its estimation processes and controls related to the mortgage servicing rights, liability for loss on MBS program, guaranty assets, and guaranty liability accounts. For example, Ginnie Mae's entire model estimation process was undocumented, to include assumption development, review and approval, how the model assumptions were entered, and the assignments of those individuals responsible for each step in the process. The lack of documentation indicate a much larger problem in Ginnie Mae's model risk governance.

In addition to the insufficient model documentation, the office responsible for the oversight of the models lacked evidence to support that it effectively oversaw the model risk and the contractor that developed, tested and used the models. Ginnie Mae asserted that there was a review or oversight at several points in the modeling process; however, we could not validate the controls performed because there was no audit trail and management's approval was verbal and not properly documented. For example, important events, such as the Risk Committee meeting[15] and the discussions with the chief risk officer, were not appropriately documented to support the decisions made. Also, most of the controls were manual processes, which were less reliable and more difficult to document than automated processes.

We attributed these model governance problems to a combination of factors: (1) the shortened contractor timeline that led Ginnie Mae's modeling contractor to deprioritize creating sufficient documentation, (2) the lack of overall governance and controls guidance at the entity level, which made it impossible for the contractor to create processes and controls in line with the organizational governance environment; and (3) the failure to negotiate appropriate transparency and documentation with the third-party, proprietary model vendor.

[15] The Risk Committee is made up of Ginnie Mae's management staff members at the vice president level and above, who make decisions on the model estimation process such as approval of model methodology or assumptions.

Conclusion

Ginnie Mae attempted to address the financial management governance problems that we identified fiscal year 2014 but failed to resolve them. This failure was because Ginnie Mae's full implementation of many of its corrective action plans was not expected until fiscal year 2016. Additionally, we believe that Ginnie Mae's executive management was unable to successfully overcome the complex challenges it encountered during the year due to its inability to effectively marshal the available resources and the lack of adequate senior accounting and financial staff to manage its many problems. Ginnie Mae acknowledged that the issues raised in this report were years in the making and stated that it was committed to fixing these problems but implementing the needed changes was taking much longer to complete than anticipated. As a result, we will continue to monitor Ginnie Mae's progress in resolving these financial management governance deficiencies in fiscal year 2016.

Recommendations

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.

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 inputs, assumptions and methodology.

Significant Deficiency

Finding 5: Ginnie Mae Did Not Provide Adequate Oversight of Its Mastersubservicer To Ensure Compliance With Federal Regulations and Guidance

Ginnie Mae did not provide adequate oversight of one of its single-family mastersubservicers[16] to ensure that adequate business process controls were in place to provide a compliant level of internal controls over financial reporting. Specifically, (1) it did not have proper segregation of duties regarding cash processes, (2) ongoing monitoring was not in place to review change activities made by individuals in the loan administration department with access to and change capability for master data for approximately 21,000 loans, and (3) management used an ineffective monitoring tool that did not capture all financial data adjustments. These conditions occurred because (1) the contractor believed that the risk of wrongful acts was mitigated through its use of security cameras, access restrictions, and background checks; (2) management did not have a policy and process to perform periodic monitoring or review reports to ensure that unauthorized changes were not made; and (3) the approval process for adjustments was not automated within the contractor's primary financial system that houses all loan transactions; and (4) the report that was used to monitor financial data changes did not allow for a meaningful review because it did not capture all financial data adjustments. As a result, Ginnie Mae's data were susceptible to unauthorized access and tampering, which increased its risk of undetected misstatements in the financial statements.

Lack of Segregation of Duties Within The Cash Operations Department

There was no segregation of duties regarding cash processes. The contractor's cash operations department was responsible for the collection, deposit, recording, and reconciliation of checks that were rejected by a third party, who managed the payment lockbox.[17] Specifically, the duties of collecting, recording, depositing, and reconciling cash were shared among different individuals within cash operations rather than segregated as required by OMB Circular A-123, Implementation Guide, and the Federal Information System Controls Audit Manual (FISCAM).[18] The guides state that persons should be prevented from having uncontrolled access to both cash receipts and records and that work responsibilities should be segregated so that one individual does not control all critical stages of a process.

This condition existed because the contractor believed that the risk of wrongful acts by its employees was minimized through its use of security cameras, access restrictions to the cash

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16 The single-family mastersubservicer provides mortgage servicing and loan default management for the full life cycle of loans to Ginnie Mae.

17 This third party is responsible for collecting and posting borrowers' payments on behalf of Ginnie Mae's contractor, and has been instructed by the contractor to remit unprocessed checks that meet pre-established criteria to it for evaluation and processing.

18 Appendix A of OMB Circular A-123 and FISCAM III.4 IS General Controls – Segregation of Duties.

room, and employee background checks. Also, the contractor's cash operations policy did not address the segregation of duties. While the cash room was secured and access was restricted to only authorized personnel, preventive controls over the process did not exist. As a result, significant control over cash transactions by cash operations alone may have allowed errors, irregularities, and mismanagement of funds to occur and go undetected. In addition, having cash operations solely responsible for cash activities could mean a failure to prevent wrongful acts or catch data entry mistakes in a timely manner, which could result in misstatements on Ginnie Mae's financial statements.

Lack of Ongoing Monitoring of Change Activity Regarding Master Data

Individuals in the loan administration department had access to and change capabilities for master data for approximately 21,000 loans. Master data included borrowers' names, property addresses, Social Security numbers, and loan information. Additionally, the information technology (IT) support administrators could give themselves access to make changes to master data. However, management did not have a policy or process in place to review potentially unauthorized change activity. 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.[19]

These conditions existed because neither management of the loan administration team nor management of the IT support team performed periodic monitoring or reviewed change reports to ensure that their staff did not make unauthorized changes to master data. Also, there was no policy for ongoing monitoring of change activity, and management did not perform periodic reviews of change reports. This control deficiency allowed the system administrators to have a higher security access level than needed, and without a review, this access could go undetected. The opportunity to tamper with data increases when there are no mitigating controls to prevent or deter certain behaviors. In addition, unauthorized changes to borrowers' information could harm borrowers if changes are not discovered in a timely manner.

Ineffective Monitoring Tool in Place To Capture Financial Data Changes

A flaw in the design of internal controls monitoring tools for cash receipt could allow cash operations staff to bypass the manual approval process and make undetected transactional adjustments to borrowers' financial data. Adjustments to borrowers' financial data were submitted and approved outside the financial system. These requests were submitted on paper to the treasurer, who reviewed, approved, and manually signed off on the request. The cash operations staff then entered the adjustment into the financial system after receiving the approved form. Further, the treasurer reviewed financial data adjustment activity monthly, which was outside the normal course of daily business activity, using the system-generated "Admin Adjustment Report." FISCAM states that an organization should have an effective monitoring capability that allows changes to data records to be recorded and reviewed.[20] Accordingly, the National Institute of Standards and Technology guidelines state that an organization should regularly review and analyze audit records for indications of inappropriate or

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[19] 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.

[20] FISCAM – Critical Element BP-4, Master Data Setup and Maintenance Is Adequately Controlled.

unusual activity and investigate suspicious activity or suspected violations. However, the report that the treasurer used was not an effective monitoring tool because it did not capture changes or adjustments that were posted during that monthly period. For example, there was one adjustment request during the period January through May 2015. The request was approved and entered into the system in January, but the change did not appear in the January "Admin Adjustment Report." The limitation of the report diminished the monitoring process and invalidated management's ability to conduct a meaningful review. A report that captures posted changes or adjustments would allow management a reasonable basis for comparing exceptions identified on the report to authorizations granted for the changes.

This condition existed because (1) the process for submitting and approving requests for adjustments to borrowers' financial data was not automated in the financial system and (2) the scope of financial-related changes captured in the "Admin Adjustments Report" was limited and did not encompass all adjustments that could occur. Because the contractor did not have an effective monitoring capability in place, it could not adequately analyze audit records for indications of inappropriate activity regarding Ginnie Mae borrowers' financial data. This deficiency increased the potential for a staff member to bypass the manual approval and make changes that could go undetected on the "Admin Adjustments Report" because there was no automated check for approval of changes. Unauthorized changes to data could be harmful to borrowers and Ginnie Mae.

Conclusion

Ginnie Mae needs to ensure that its mastersubservicer provides proper segregation of duties for its cash operations, continuous monitoring of change activity for master data, and an effective monitoring tool to capture data changes. Ginnie Mae must improve its controls over its mastersubservicer to ensure that it complies with Federal requirements and its own security policies to prevent an increased risk of unauthorized disclosure or modification of data.

Recommendations

We recommend that Ginnie Mae's Chief Financial Officer, in conjunction with the Senior Vice President of Issuer and Portfolio Management, direct its mastersubservicer contractor to:

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.

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.

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.

Compliance with Laws and Regulations

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

Ginnie Mae did not take all steps necessary to maximize collection of MBS program debts[21] as required by DCIA.[22] Specifically, it failed to analyze the possibility of collecting on certain uninsured mortgage debts owed to Ginnie Mae, using all debt collection tools allowed by law, before discharging them. This condition occurred because Ginnie Mae's executive management decided to not pursue the MBS program debts because it believed 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 MBS program.

Missed Opportunities To Recover Millions of Dollars in Delinquent Debts Through Other Debt Collection Tools

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 write off these debts. According to 31 U.S.C. 3711(a), there is a mandate for Federal agencies[23] to try to collect the debts owed to the U.S. Government arising from the activities of the agency. Additionally, 31 U.S.C 3711(g)(9) requires that appropriate steps be taken to maximize the collection of the debts before discharging them. 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 was Ginnie Mae's practice to automatically write off its claim for the mortgage debt deficiency without proper consideration of whether it was appropriate to do so. This practice is not in accordance with DCIA, which states that all nontax debts owed to the agency must be given due consideration by ensuring that all collection tools available have been used before deciding to write off the debts.

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[21] According to 31 U.S.C. 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.

[22] According to 31 U.S.C. 3711(g)(9), before discharging any delinquent debt owed to any executive, judicial, or legislative agency, the head of such agency should take all appropriate steps to collect such debt, including (as applicable) administrative offset, tax refund offset, Federal salary offset, referral to private collection contractors, referral to agencies operating a debt collection center, reporting delinquencies to credit reporting bureaus, garnishing the wages of delinquent debts, and litigation or foreclosure.

[23] According to 31 U.S.C. 3701(a)(4), executive, judicial, or legislative agency means a department, agency, court, court administrative office, or instrumentality in the executive, judicial, or legislative branch of government, including government corporations.

In 1996, Congress passed DCIA in response to a steady increase in the amount of delinquent nontax debt owed to the United States and concern that appropriate actions were not being taken to collect this delinquent debt.

How Debts Owed to Ginnie Mae Arose

Under the MBS program, Ginnie Mae's primary source of claims for mortgage debts comes from the acquisition of delinquent mortgage loans out of the defaulted issuers' portfolio. When a Ginnie Mae issuer defaults, Ginnie Mae is required to step into the role of an issuer and servicer. In its role as a servicer, Ginnie Mae purchases mortgage loans from the mortgage-backed securities pool for its unpaid principal balance. When these mortgage loans are uninsured and there are no remedies available to cure the delinquency, Ginnie Mae forecloses on the property and then sells it. When the property is sold for less than the unpaid principal balance, the difference is a deficiency claim that is owed to Ginnie Mae. In this scenario, Ginnie Mae may have remaining legal interest in the shortage subject to State laws. Accordingly, if legal interest exists and it is cost effective to do so, Ginnie Mae should pursue its collection efforts using debt collection methods provided under DCIA. However, as noted earlier, it had been Ginnie Mae's practice for years to automatically write off and close out any deficiency claim after the sale of the property without due consideration for other debt collection strategies as required by DCIA. For example, during our audit,[24] we identified 94 loans with a remaining receivable balance of $7.84[25] million that had been written off and closed out as of March 31, 2014, without proper consideration of whether these debts might be collectible using other debt collection strategies. Since this practice had been going on for years, we believe that the actual dollar loss suffered by Ginnie Mae for not appropriately pursuing collection action on these debts may have been far greater than the limited sample cited in this report.

This condition occurred because Ginnie Mae's executive management decided to not pursue the mortgage debt deficiency from its MBS program because it believed that DCIA did not apply to Ginnie Mae; therefore, it did not need to comply with DCIA requirements. According to Ginnie Mae, its statutory authority granted it explicit authority to manage its debts, and this authority had not been repealed or superseded by DCIA.

Conclusion

Ginnie Mae lacked the necessary controls over its debt collection procedures to reasonably ensure compliance with DCIA. As the likelihood of possible recovery of the shortage in mortgage debts varies according State laws, requirements, and other factors, Ginnie Mae should take appropriate actions to determine whether it is cost effective to pursue collection before deciding to discharge debts.

Recommendation

We recommend that Ginnie Mae's Acting Chief Financial Officer

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[24] We began our DCIA compliance review in fiscal year 2014. However, we did not report any DCIA compliance issue in fiscal year 2014 since our analysis and further research on the applicability of DCIA to Ginnie Mae was not completed until fiscal year 2015.

[25] The scope of our audit for these transactions was limited to 6 months due to a lack of data.

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.

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, 2015 and 2014, 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 2015 and 2014, 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 2014, 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 open recommendations made in previous years' audits and their current status at the end of fiscal year 2015.

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

Of 20 audit recommendations in OIG audit report 2015-FO-003, we concurred on the action plans for 11 (1 closed and 10 under remediation) audit recommendations. We referred the remaining nine 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 2014 recommendations	Classification	Fiscal year 2015 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 2016. See material weakness 2015 – 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 2016. See material weakness 2015 – finding 1.
2A. Establish and implement policies and procedures to	Material weakness 2014 Finding 2	Under remediation – Full implementation of the

ensure that reimbursable costs are tracked and accounted for at the loan level.		corrective action plan was not expected until fiscal year 2016. See material weakness 2015 – 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 2016. See material weakness 2015 – 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 2015 – 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 2016. See material weakness 2015 – 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 2015 – finding 2.
2F. Restate fiscal year 2013 financial statements to show escrow fund balances omitted on the face of the financial	Material weakness 2014 Finding 2	We did not reach a management decision. Referred to departmental audit resolution official. See

statements.		material weakness 2015 – finding 2.
2G. Properly present and classify the financial information in the balance sheet in accordance with generally accepted accounting principles.	Material weakness 2014 Finding 2	Closed
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 the cash flow from the operating activity section to the cash flow from the investing activity section.	Material weakness 2014 Finding 2	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2016. See material weakness 2015 – finding 2.
3A. Establish and implement policies and procedures for the documentation and validation of Ginnie Mae management assumptions, including foreclosure costs and redefault 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 2016. See material weakness 2015 – finding 3.
3B. Reevaluate the reasonableness of foreclosure costs and redefault 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	Material weakness 2014 Finding 3	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2015 – finding 3.

mortgage-backed securities loss liability account as a result of the changes in the management assumptions.		
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	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2016. See material weakness 2015 – finding 3.
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	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2015 – finding 3.
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	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2015 – finding 3.
We recommend that Ginnie Mae's President		
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	Material weakness 2014 Finding 4	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2016. See material weakness 2015 – finding 4.

by filling the vacancies of key personnel that oversee the work in OCFO.		
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 2015 – finding 4.
4C. Review and update Ginnie Mae's bylaws and delegations of authority to correspond to the current organizational structure and agency mission requirements.	Material weakness 2014 Finding 4	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2016. See material weakness 2015 – finding 4.
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 2015 – finding 4.
4E. Preparing and implementing a plan, based on the results of the risk assessment in recommendation 4D, that		
4E.i) Demonstrates HUD OCFO oversight of Ginnie Mae's, as a HUD component, financial management activities;	Material weakness 2014 Finding 4	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2015 – finding 4.

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 nonpooled loans, prepared on a uniform basis for preparation of Ginnie Mae financial statements, management reporting, and cost reporting; and 4E.iv) Ensures that 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

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

Ginnie Mae

Office of the Chief Financial Officer
550 12th Street, SW, Third Floor
Washington, DC 20024
(202) 475-4914

November 9, 2015

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

FROM: Thomas R. Weakland
Chief Financial Officer (Acting), TP

SUBJECT: Management Response to Fiscal Year (FY) 2015 Audit Report

Ginnie Mae appreciates the opportunity to comment on the Office of the Inspector General's (OIG) FY2015 Audit Report.

Comment 1

We are actively working to address the challenges identified by OIG and acknowledge that these findings were not fully remediated by the end of the fiscal year. Through the dedication of our staff, we were able to complete some corrective actions but they were implemented too late in the audit cycle for your validation.

Comment 2

In addition, through our efforts to address the challenges, it has become evident to fully remediate all of the concerns of the OIG will require a significant investment in technology, infrastructure, and people spanning multiple years. Executive management remains committed to remediating the audit findings.

Ginnie Mae assures the OIG that we understand our responsibility to raise our standard of financial management governance. We look forward to working with the OIG to strengthen our financial management operation and maintain the confidence of our MBS investors.

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 findings. In addition, it stated that it was committed to remediating these audit findings. Ginnie Mae also acknowledged that it needs a significant investment in technology, infrastructure, and people spanning multiple years to be able to remediate all of OIG's concerns identified in this report.

We recognized some of the efforts made and the constraints that confronted Ginnie Mae in addressing these challenges in fiscal year 2015. Ginnie Mae's acknowledgement of the magnitude and significance of the problems is a step in the right direction. We commend Ginnie Mae for its commitment to remediating these problems, and we will continue to work with it in resolving these matters in fiscal year 2016.

Appendix B

Ginnie Mae's Fiscal Years 2015 and 2014 (Restated) Financial Statements and Notes

Government National Mortgage Association

Financial Statements for the fiscal years ended September 30, 2015 and 2014 (As Restated)

Government National Mortgage Association
Financial Statements

Balance Sheets		
	As of September 30,	
	2015*	2014 As Restated
	(Dollars in thousands)	
Assets:		
Funds with U.S. Treasury	$ 1,732,600	$ 13,174,600
Cash and other monetary assets	44,500	37,400
Restricted cash	409,400	295,400
U.S. Government securities	12,922,900	150,500
Accrued fees and other receivables	92,900	78,100
Claims receivable, net*	814,200	574,400
Advances against defaulted mortgage-backed security pools, net*	118,800	81,400
Mortgage loans held for investment, net*	4,352,600	4,112,500
Accrued interest receivable, net*	47,700	40,500
Acquired property, net*	30,300	12,800
Bank of America settlement receivable	-	200,000
Fixed assets, net	57,600	42,400
Mortgage servicing rights	29,600	44,600
Guaranty asset	7,016,500	5,963,100
Other assets	600	100
Total Assets	$ 27,670,200	$ 24,807,800
Liabilities and Investment of U.S. Government:		
Liabilities:		
Accounts payable and accrued liabilities	$ 135,700	$ 109,000
Deferred liabilities and deposits	300	300
Deferred revenue	305,900	289,400
Ocala Funding settlement liability	-	14,900
Guaranty liability	5,751,600	5,092,400
Total Liabilities	$ 6,193,500	$ 5,506,000
Commitments and Contingencies		
Investment of U.S. Government	$ 21,476,700	$ 19,301,800
Total Liabilities and Investment of U.S. Government	27,670,200	$ 24,807,800

** See Note 2 for out of scope 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 Years Ended	
	2015*	2014 As Restated
	(Dollars in thousands)	
Revenues:		
Interest Income		
Interest income on mortgage loans held for investment*	$ 300,100	$ 346,800
Other interest income	128,200	136,000
Income on guaranty obligation	1,031,700	557,800
Mortgage-backed securities guaranty fees	977,700	928,300
Commitment fees	84,900	60,700
Multiclass fees	33,300	36,900
Mortgage-backed securities program and other income	29,700	31,700
Total Revenues	$ 2,585,600	$ 2,098,200
Expenses:		
Administrative expenses	$ (21,600)	$ (20,300)
Mortgage-backed securities program and other expenses	(175,700)	(119,000)
Fixed asset amortization	(11,700)	(15,700)
Total Expenses	$ (209,000)	$ (155,000)
Recapture (provision) for mortgage loans held for investment*	$ 549,300	$ (155,400)
Recapture (provision) for mortgage-backed program guaranty*	-	330,500
Recapture (provision) for claims receivable*	(31,800)	(21,600)
Recapture (provision) for loss on uncollectible advances*	(45,300)	50,900
Total Recapture (Provision)	$ 472,200	$ 204,400
Gain (Loss) on disposition of investment	$ -	$ 17,100
Acquired property income (expenses)*	(28,500)	(10,400)
Gain (Loss) on guaranty asset	(630,400)	(2,199,400)
Gain (Loss) on mortgage servicing rights	(15,000)	(20,500)
Total Other Gains / (Losses)	$ (673,900)	$ (2,213,200)
Results of Operations	2,174,900	(65,600)
Investment of U.S. Government at Beginning of Year	19,301,800	16,999,700
Adjustment to Investment of U.S. Government	-	2,367,700
Investment of U.S. Government at Beginning of Year, Restated*	19,301,800	19,367,400
Investment of U.S. Government at End of Year	$ 21,476,700	$ 19,301,800

** See Note 2 for out of scope discussion.*

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

Statements of Cash Flows

	For the Years Ended September 30, 2015	2014 As Restated*
	(Dollars in thousands)	
Cash Flow from Operating Activities		
Net Excess of Revenues over Expenses	**2,174,896**	**$ (65,691)**
Adjustments to reconcile Results of Operations to Net Cash (used in) provided by Operating Activities:		
Amortization expense	11,681	15,688
Recapture (provision) for mortgage loans held for investment	(549,264)	155,414
Gain (loss) on acquired property	28,519	10,396
Changes in operating assets and liabilities:		
Cash and other monetary assets	(7,159)	(37,354)
Restricted cash	(114,019)	(295,428)
U.S. Government securities	(12,772,360)	1,659,698
Accrued interest on U.S. Government securities	-	10,388
Accrued fees and other receivables	(14,804)	(2,021)
Claims receivable, net	(239,841)	(23,226)
Advances against defaulted mortgage-backed security pools, net	(37,355)	17,730
Accrued interest receivable, net	(7,262)	4,455
Bank of America settlement receivable	200,000	(200,000)
Mortgage servicing rights	14,984	20,503
Guaranty asset	(1,053,396)	1,049,862
Other assets	(313)	(97)
Accounts payable and accrued liabilities	26,702	(58,216)
Deferred liabilities and deposits	7	(28)
Deferred revenue	16,446	1,001
Ocala Funding settlement liability	(14,900)	14,900
Liability for loss on mortgage-backed securities program guaranty	-	(326,639)
Guaranty liability	659,167	591,775
Net cash (used for) provided by operating activities	**$ (11,678,271)**	**$ 2,543,109**
Cash Flow from Investing Activities		
Proceeds from repayments and sales of loans acquired as held for investment*	212,796	1,025,816
Proceeds from the dispositions of acquired property and preforeclosure sales*	50,387	216
Purchases of fixed assets	(26,902)	(17,000)
Net cash (used for) provided by investing activities	**$ 236,281**	**$ 1,009,032**
Cash Flow from Financing Activities		
Net cash (used for) provided by financing activities	**$ -**	**$ -**
Net change in Funds with U.S. Treasury	$ (11,441,990)	$ 3,552,141
Funds with U.S. Treasury, beginning of the year	13,174,566	9,622,425
Funds with U.S. Treasury, end of the year	$ 1,732,576	$ 13,174,566
Supplemental Disclosure of Non-Cash Activities		
Transfers of Advances against Defaulted MBS pools to Mortgage Loans Held for Investment	395,998	488,900
Transfers from Mortgage Loans Held for Investments to Acquired Properties	86,220	20,200

* See Note 2.

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

Notes to the Financial Statements

September 30, 2015 and 2014 (As Restated)

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 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. 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 be 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 MBS 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.

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 purchase and refinance mortgages used to purchase, construct, or renovate single family loans predominantly originated through FHA and VA loan insurance programs.
- ***Multifamily Program*** – Ginnie Mae insures securities backed by FHA and USDA insured purchase and refinance loans for the purchase, construction, and renovation of apartment buildings, hospitals, nursing homes, and assisted living facilities.
- ***HMBS Program*** **–** Ginnie Mae's Home Equity Conversion Mortgage (HECM) securities program provides the only 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 HECM Mortgage-Backed Securities (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, 2014 (referred to as "the restatement"). The financial information contained in the fiscal year 2015 financial statements supersedes the previously issued financial statements for fiscal year 2014. The previous financial statements and corresponding information should no longer be relied upon.

On September 16, 2015, Ginnie Mae issued a public restatement notification concluding that Ginnie Mae misapplied accounting principles generally accepted in the United States (US GAAP) and materially misstated the financial statements in specified areas including accounting for reimbursable cost and the accounting and disclosure of mortgage escrow funds held in trust by Ginnie Mae's master sub-servicer (MSS). Following the issuance of this restatement notification Ginnie Mae performed an internal accounting assessment, reviewing the current accounting practices, and in conjunction with the Office of the Inspector General (OIG) subsequently identified additional areas where US GAAP was misapplied which were not captured in the original restatement notification. The remediation efforts to correct all of the identified accounting errors which began in fiscal year 2015 will continue throughout fiscal year 2016. The financial statement line items identified in the "Out of Scope" section below are items which Ginnie Mae continues to assess due to their complexity and will be evaluated during fiscal year 2016 and restated to the extent required at that time.

The overall impact of Ginnie Mae's restatements on the fiscal year 2015 financial statements was a total increase in "Investment of U.S. Government at Beginning of Year" of $720.3 million. This amount includes:

- a $2,367.7 million prior period adjustment, resulting in a net increase in the fiscal year 2014 beginning balance of "Investment of U.S. Government"; and
- a $1,647.4 million prior period adjustment, resulting in a net decrease in the fiscal year 2014 ending balance of "Investment of U.S. Government".

Ginnie Mae has classified the restatement adjustments into seven primary categories. The effects of these adjustments on the previously issued financial statements for the year ended September 30, 2014 are listed in the tables below in the "Impact of Restatement on Financial Statements" section of this note. Three out of the seven restatements have an impact on Investment of U.S. Government in fiscal year 2014:

> **Guaranty Liability:** Ginnie Mae identified accounting errors associated with the accounting for guaranty liabilities. Ginnie Mae incorrectly accounted for the guarantee liability after the inception of the guarantee liability on a fair value basis by incorrectly applying the US GAAP practical expedient, which allows for guarantee liability to be measured and recognized at inception at the amount of premium received or receivable. This error resulted in recognizing the guarantee liability at the same amount recognized for the guaranty asset after the inception of the guarantee. The guaranty liability was restated to account for the guaranty liability on an amortized basis. The cumulative effect of these errors is a $2,512.3 million increase in the "Investment of U.S. Government" beginning balance for the fiscal year ended September 30,

2014. In the year 2014, this also resulted in the creation of a “Loss on Guaranty Assets” and “Income on Guaranty Obligation” account on the ‘Statement of Revenues and Expenses and Changes in Investment of U.S. Government’, of $2,199.4 million and $557.8 million, respectively, for the year ended September 30, 2014.

The cumulative effect of these errors is an $870.7 million increase in the “Investment of U.S. Government at End of Year” for the year ended September 30, 2014.

Multiclass Fee Accounting: Ginnie Mae identified accounting errors associated with the recognition of multiclass fees. Ginnie Mae incorrectly recognized multiclass fees as revenue before the earnings process was complete. The impact of correcting these errors resulted in a decrease of “Multiclass Fees” and an increase of “Deferred Revenue” of $11.4 million and $160.6 million, respectively for the year ended September 30, 2014. The cumulative effect of these errors is a $149.2 million reduction in the “Investment of U.S. Government” beginning balance for the fiscal year ended September 30, 2014.

Fixed Assets: Ginnie Mae identified accounting errors associated with its accounting treatment of expenses associated with internally developed software and hardware purchases. Ginnie Mae incorrectly recognized some internally developed software and hardware expenses in the period incurred instead of capitalizing the costs. Additionally, certain expenditures that did not meet the capitalization criteria per Ginnie Mae’s accounting policy were capitalized in error and some software projects, which were completed and in use were not being amortized. The impact of correcting these errors resulted in an increase in “Fixed Assets, net of Accumulated Depreciation” of $10.1 million, a decrease in “Mortgage backed securities program expense” of $9.5 million, and an increase of “Fixed Asset Amortization” of $4.0 million for the year ended September 2014. The cumulative impact of these errors is a $4.6 million increase in the “Investment in U.S Government” beginning balance for the fiscal year ended September 30, 2014.

Mortgage Servicing Fees: Ginnie Mae identified accounting errors associated with the closing entries for mortgage servicing fees. Ginnie Mae incorrectly transferred the balances of the MBS Service Fee income account and the Service Fee expense account to a “Recapture (Provision) for Loss on Mortgage-Backed Securities Liability” account for the difference. The impact of correcting these errors resulted in an increase of “MBS Service Fees” of $26.1 million and an increase of “Service fees expense” of $17.0 million, which are reflected in “Mortgage–backed securities program and other income” and “Mortgage-backed securities program and other expenses”, respectively, in the Statements of Revenues and Expenses and Changes in Investment of U.S. Government for the year ended September 30, 2014. The cumulative effect of these errors has no impact on the “Results of Operations” for the year ended September 30, 2014 or on the “Investment of the U.S. Government” beginning balance for the fiscal year ended September 30, 2014.

Cash and Other Monetary Assets: Ginnie Mae identified accounting errors associated with the classification of deposits in transit in the amount of $37.4 million. Ginnie Mae incorrectly classified these deposits in transit from the MSS on its Balance Sheet as part of the accounts listed below for the year ended September 30, 2014. These deposits received by the MSS should have been recorded as “Cash and Other Monetary Assets” on the Balance Sheet. As a result of this error, Ginnie Mae has reclassified a total of $37.4 million resulting in an increase in “Cash and Other Monetary Assets” and a decrease in the following accounts and amounts for the year ended September 30, 2014.:

a. $12.9 million from “Accrued Interest Receivable, net”
b. $17.7 million from “Mortgage loans held for investment, net”
c. $5.0 million from “Claims Receivable, net”
d. $0.4 million from “Advances against defaulted mortgage-backed security pools, net”
e. $1.4 million from “Acquired Property, net”

The cumulative effect of these errors has no impact on the “Results of Operations” for the year ended September 30, 2014 or on the “Investment of the U.S. Government” beginning balance for the fiscal year ended September 30, 2014.

Restricted Cash: Ginnie Mae identified accounting errors associated with the classification of restricted cash in the amount of $295.4 million. Ginnie Mae incorrectly classified this cash on its Balance Sheet as part of “Funds with US Treasury” for the year ended September 30, 2014. This cash, which use is restricted, should have been recorded as “Restricted Cash” on the Balance Sheet. As a result of this error, Ginnie Mae has reclassified a total of $295.4 million resulting in a decrease in “Funds with U.S. Treasury” and an increase in “Restricted Cash” as of September 30, 2014.

The cumulative effect of these errors has no impact on the “Results of Operations” for the year ended September 30, 2014 or on the “Investment of the U.S. Government” beginning balance for the fiscal year ended September 30, 2014.

Liability for loss on mortgage-backed securities program guaranty (MBS Loss Liability): The MBS Loss Liability in fiscal year 2014 was not presented in compliance with US GAAP as it included a liability related to estimated incurred foreclosure related losses for mortgage loans HFI and claims receivable. As these estimated incurred foreclosure related losses are related to loans recognized on Ginnie Mae’s Balance Sheet, the impact of correcting these errors resulted in a decrease of the “MBS Loss Liability” of $735.0 million and an increase of “Mortgage loans held for investment, net” and “Claims receivable, net” of $713.0 million and $22.0 million, respectively; as well as an increase of the “Recapture for mortgage-backed program guaranty” of $224.6 million and an increase of the “Provision for mortgage loans held for investment” and “Provision” for claims receivable” of $217.9 million and $6.7 million, respectively, for the year ended September 2014.

The cumulative effect of this error has no impact on the “Results of Operations” for the year ended September 30, 2014 or on the “Investment of the U.S. Government” beginning balance for the fiscal year ended September 30, 2014.

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 fiscal year 2014.

Balance Sheets			
	As of September 30,		
	2014	Adjustment	2014 As Restated
Assets:			
Funds with U.S. Treasury	$ 13,470,000	$ (295,400)	$ 13,174,600
Cash and other monetary assets	-	37,400	37,400
Restricted cash	-	295,400	295,400
U.S. Government securities	150,500	-	150,500
Accrued fees and other receivables	78,100	-	78,100
Claims receivable, net*	601,400	(27,000)	574,400
Advances against defaulted mortgage-backed security pools, net*	81,800	(400)	81,400
Mortgage loans held for investment, net*	4,843,500	(731,000)	4,112,500
Accrued interest receivable, net*	53,400	(12,900)	40,500
Acquired property, net*	14,200	(1,400)	12,800
Bank of America settlement receivable	200,000	-	200,000
Fixed assets, net	32,300	10,100	42,400
Mortgage servicing rights	44,600	-	44,600
Guaranty asset	5,963,100	-	5,963,100
Other assets	-	100	100
Total Assets	$ 25,532,900	$ (725,100)	$ 24,807,800
Liabilities and Investment of U.S. Government:			
Liabilities:			
Accounts payable and accrued liabilities	$ 109,000	$ -	$ 109,000
Deferred liabilities and deposits	300	-	300
Deferred revenue	128,800	160,600	289,400
Ocala Funding settlement liability	14,900	-	14,900
Liability for loss on mortgage-backed securities program guaranty*	735,400	(735,400)	-
Guaranty liability	5,963,100	(870,700)	5,092,400
Total Liabilities	$ 6,951,500	$ (1,445,500)	$ 5,506,000
Commitments and Contingencies			
Investment of U.S. Government	18,581,400	$ 720,400	$ 19,301,800
Total Liabilities and Investment of U.S. Government	$ 25,532,900	$ (725,100)	$ 24,807,800

Statements of Revenues and Expenses and Changes in Investment of U.S. Government			
	For the Years Ended September 30,		
	2014	Adjustment	2014 As Restated
Revenues:			
Interest Income			
Interest income on mortgage loans held for investment*	$ 346,800	$ -	$ 346,800
Other interest income	136,000	-	136,000
Income on guaranty obligation	-	557,800	557,800
Mortgage-backed securities guaranty fees	928,300	-	928,300
Commitment fees	60,700	-	60,700
Multiclass fees	48,300	(11,400)	36,900
Mortgage-backed securities program and other income	5,600	26,100	31,700
Total Revenues	$ 1,525,700	$ 572,500	$ 2,098,200
Expenses:			
Administrative expenses	$ (20,300)	$ -	$ (20,300)
Mortgage-backed securities program and other expenses	(111,600)	(7,400)	(119,000)
Fixed asset amortization	(11,700)	(4,000)	(15,700)
Total Expenses	$ (143,600)	$ (11,400)	$ (155,000)
Recapture (provision) for mortgage loans held for investment*	$ 62,500	$ (217,900)	$ (155,400)
Recapture (provision) for mortgage-backed program guaranty*	115,000	215,500	330,500
Recapture (provision) for claims receivable*	(14,800)	(6,800)	(21,600)
Recapture (provision) for loss on uncollectible advances*	50,900	-	50,900
Total Recapture (Provision)	$ 213,600	$ (9,200)	$ 204,400
Gain (Loss) on disposition of investment	$ 17,100	$ -	$ 17,100
Acquired property income (expenses)*	(10,400)	-	(10,400)
Gain (Loss) on guaranty asset	-	(2,199,400)	(2,199,400)
Gain (Loss) on mortgage servicing rights	(20,500)	-	(20,500)
Total Other Gains / (Losses)	$ (13,800)	$ (2,199,400)	$ (2,213,200)
Results of Operations	$ 1,581,700	$ (1,647,300)	(65,600)
Investment of U.S. Government at Beginning of Year	-	16,999,700	16,999,700
Adjustment to Investment of U.S. Government	-	2,367,700	2,367,700
Investment of U.S. Government at Beginning of Year, Restated*	16,999,700	2,367,700	19,367,400
Investment of U.S. Government at End of Year	$ 18,581,400	$ 720,400	$ 19,301,800

Out of Scope: In fiscal year 2014, 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-defaulted Issuers portfolio that were seized from defaulted Issuers, which were $5.4 billion and $4.8 billion, net, as of September 30, 2015 and 2014, respectively. As mortgage servicing is not a core activity for Ginnie Mae, we contract with master sub-servicers (MSS) to provide the servicing of our defaulted Issuers' mortgage loans. In 2014, Ginnie Mae transferred the loan balances to two new MSS. Ginnie Mae informed the OIG that these non-pooled loan portfolio balances were not auditable for the fiscal year 2015 Financial Statements, as we continue to work with the new MSS to obtain loan level data needed to comply with US GAAP requirements.

The following non-pooled loans (and related line items) are considered out of scope for the 2015 audit:

Balance sheet:

- Claims receivable, net
- Advances against defaulted mortgage-backed security pools, 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 mortgage-backed program guaranty
- Recapture (provision) for claims receivable
- Recapture (provision) for loss on uncollectible advances
- Gain (loss) on acquired property

Statements of cash flows:

- Recapture (provision) for mortgage loans held for investment
- Gain (loss) on acquired property
- Change in accrued interest receivable, net
- Change in claims receivable, net
- Change in advances against defaulted mortgage-backed security pools, net
- Change in liability for loss on mortgage-backed securities program guaranty
- Proceeds from repayments and sales of loans acquired as held for investment
- Net cash used in the dispositions of acquired property and pre-foreclosure sales
- Transfer of Advances on Defaulted MBS pools to Mortgage Loans Held for Investment
- Transfer from Mortgage Loans Held for Investment to Acquired Properties

Note 3: Summary of Significant Accounting Policies

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) established by the Financial Accounting Standards Board (FASB), except as otherwise disclosed.

Use of Estimates: The preparation of financial statements in conformity with 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 period, and 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 and assets (such as mortgage servicing rights, properties held for sale, and fixed assets – software, allowance for loan losses and reserve for guarantee assets), and liabilities (such as guarantee obligations, accruals for payments of contracts and miscellaneous expenses related to maintaining mortgage assets, and litigation-related obligations), including establishing the MBS loss liability. While Ginnie Mae believes its estimates and assumptions are reasonable based on historical experience and other factors, 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 and periodic re-measurement of certain assets on a recurring or non-recurring basis in accordance with Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement (ASC 820). This guidance requires Ginnie Mae to base fair value on exit price and maximize the use of observable inputs and minimize the use of unobservable inputs to determine the exit price. ASC 820 defines fair value 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 categorizes its financial instruments, based on the priority of inputs to the valuation technique, 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.

Funds with U.S. Treasury: All Ginnie Mae receipts and disbursements are processed by the U.S. Treasury Department, which in effect maintains Ginnie Mae's bank accounts. Entity cash may be restricted for specific purposes and while deposited in Treasury, such amounts are separately classified as restricted cash. All funds not classified as restricted cash are accessible in the event of a default. For purposes of the Statements of Cash Flows, Funds with U.S. Treasury are considered cash.

Cash and Other Monetary Assets (As Restated): Cash and other monetary assets consist of cash that is received by the MSS on Ginnie Mae's behalf, but has not yet been transferred to Ginnie Mae.

Restricted Cash (As Restated): Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreement or regulatory agency are recorded as restricted cash. Certain Ginnie Mae collections are restricted as Ginnie Mae is not authorized to spend these amounts within the Programs fund balance without approval from Congress. Restricted cash also includes funds received that are temporarily being placed in a suspense account until Ginnie Mae determines the appropriate application.

Escrow: The balance of the escrow funds held by Ginnie Mae through its MSS was estimated to be $88.5 million as of September 30, 2015. The balance of the escrow funds was $87.7 million as of September 30, 2014. Escrow balances are not a part of Ginnie Mae's available cash balance.

U.S. Government Securities: U.S. Government Securities are classified as held for investment (HFI) as Ginnie Mae has both the ability and the intent to hold them until their maturity, and accordingly, they are carried at amortized cost. In fiscal year 2015, U.S. Government Securities consisted mainly of U.S. Treasury short-term securities are one-day overnight certificates that are issued with a stated rate of interest to be applied to their par amount with a maturity date on the next business day. These overnight certificates are measured at amortized cost which approximates fair value. Interest income on such securities is presented on the Statements of Revenues and Expenses and Changes in Investment of U.S. Government Discounts and premiums are amortized, on a level yield basis, over the life of the related security. Purchases and sales of U.S. Government securities are recorded on trade date.

Accrued Fees and Other Receivables: Ginnie Mae's Accrued Fees and Other Receivables line item includes accrued guarantee fees and miscellaneous program receivables. The accrued guarantee fees are discussed in the Financial Guarantees section below. There is no allowance related to the miscellaneous program receivables because they are receivables with the U.S. Government.

Claims Receivable: Claims receivable consists 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 pay off the mortgage. Ginnie Mae's MSS analyze mortgage loans HFI for factors such as delinquency, appraised value of the loan, and market in locale of the loan 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 at Ginnie Mae. For FHA insured loans, for which the underlying property was sold in a short sale, the FHA typically pays Ginnie Mae the difference between the proceeds received from the sale and the total contractual amount of the mortgage loan and interest at the debenture rate (less the first two months of delinquent 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 collection is not probable, Ginnie Mae records an allowance for short sales claims receivable. The allowance for short sales claims receivable represents the incurred loss within the portfolio and incorporates expected recovery based on the underlying insuring agency guidelines. The aggregate of the short sales receivable and the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible. Ginnie Mae is to record a charge-off when a claim is deemed to be uncollectible which is currently estimated to be when the receipt of claims in full satisfaction of a loan from an insuring agency is processed. Management is currently addressing current and historic short sales claims receivable accounting practices for potential restatement.

> **Foreclosed Property**: Ginnie Mae records foreclosed property when a MSS receives title to a property which has completed the foreclosure process in the respective state. These properties

differ from properties held for sale because they will be conveyed to an insuring agency, and not sold by the MSS. The asset is measured as the principal and interest of a loan which is in the process of being conveyed to an insuring agency, net of an allowance. The allowance for foreclosed property represents the incurred loss within the portfolio and incorporates expected recovery based on the underlying insuring agency guidelines. The aggregate of the foreclosed property and the allowance for foreclosed property is the amount that Ginnie Mae determines to be collectible. Ginnie Mae is to record a charge-off when a claim is deemed to be uncollectible which is currently estimated to be when the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency is processed. Management is currently addressing current and historic foreclosed property accounting practices for potential restatement.

Insurance Claims Receivable: Ginnie Mae records a receivable for insurance claims which 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 Federal Receivable, Ginnie Mae expects full reimbursement. As a result, no allowance is calculated on this receivable.

Advances Against Defaulted MBS Pools: Advances against defaulted MBS pools represent pass-through payments made to fulfill Ginnie Mae's guaranty of timely principal and interest payments to MBS security holders. The advances are reported net of an allowance to the extent that management believes that they will not be collected. The allowance is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA and PIH. Other factors considered in the estimate include market analysis and appraised value of the loans. These loans are still accruing interest because they have not reached the required delinquency thresholds to be purchased from the defaulted Issuer pools.

Once Ginnie Mae purchases the loans from the pools the loans are reclassified as Mortgage Loans HFI. Please refer to the Mortgage Loans HFI section for further detail on the corresponding accounting. Any advances that are not ultimately recovered are recorded as a charge-off when deemed uncollectible which is currently estimated to be when the receipt of claims proceeds from an insuring agency is processed or underlying collateral is sold upon foreclosure. Management is currently addressing current and historic accounting practices for potential restatement.

Mortgage Loans Held for Investment: 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 of the defaulted Issuer. Ginnie Mae utilizes MSS to service these portfolios. There are currently two MSS for Single Family defaulted Issuers. These MSS currently service 100% of all non-pooled loans. During fiscal year 2014, Ginnie Mae changed the two servicers for the Single Family portfolios. For the year ended September 30, 2015, there were no loans being serviced by MSS for Manufactured Housing or Multifamily non-pooled loans, as there were no defaulted Issuers.

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 as required by the Ginnie Mae MBS Guide. Ginnie Mae must purchase mortgage loans out of the MBS pool when:

- Mortgage loans are uninsured by the FHA, USDA, VA or PIH
- Mortgage loans were previously insured but insurance is currently denied (collectively with the above, referred to as uninsured mortgage loans)

Ginnie Mae has the option to purchase mortgage loans out of the MBS pool when:

- Mortgage loans are insured but are delinquent for more than 90 days based on management discretion for manufactured housing and single family loans, respectively.

For the years ended September 30, 2015 and 2014, the majority of purchased mortgage loans were bought out of the pool due to borrower delinquency of more than three months.

Ginnie Mae has the ability and the intent to hold these acquired loans for the foreseeable future or until maturity. Therefore, Ginnie Mae classifies the mortgage loans as HFI. The mortgage loans HFI are reported net of allowance for loan losses.

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.

For FHA insured loans, Ginnie Mae expects to collect the full amount of the unpaid principal balance 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 ASC Subtopic 310-20, *Receivables – Nonrefundable Fees and Other Costs*. In accordance with ASC 310-20-30-5, these loans are recorded at the unpaid principal balance which is the amount Ginnie Mae pays to repurchase these loans. Accordingly, Ginnie Mae recognizes interest income on these loans on an accrual basis at the debenture rate for the number of months allowed under the insuring agency's timeline.

Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios for the estimated uncollectible portion of the principal balance of the loan. As a part of this assessment, Ginnie Mae incorporates the probable recovery amount from mortgage insurance (e.g., FHA, USDA, VA, or PIH) based on established insurance rates. Additionally, Ginnie Mae reviews the delinquency of mortgage loans, industry benchmarks, as well as the established rates of insurance recoveries from insurers. Ginnie Mae records an allowance for the estimated uncollectible amount. The 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 for loss on mortgage loans HFI is netted against the balance of mortgage loans HFI.

Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses 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.

The fair value option was not elected by Ginnie Mae for any recognized loans on its Balance Sheet in 2015 and 2014. 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 Statement of Revenues and Expenses). Ginnie Mae reserves the right to elect the fair value option for newly acquired loans in future periods. As the fair value option was not elected and Ginnie Mae has the ability and the intent to hold these acquired loans for the foreseeable future or until maturity, the mortgage loans were classified as loans HFI and reported at amortized cost (net of allowance for loan losses).

Management is currently pursuing marketing activities to potentially sell loans currently recognized on Ginnie Mae's Balance Sheet. Once a plan of sale is developed and loans are clearly identified for sale, Ginnie Mae will reclassify the applicable loans from HFI to HFS (held for sale). For loans which Ginnie Mae initially classifies as held for investment and subsequently transfers to HFS, those loans should be recognized at the lower of cost or fair value until sold. As of the year ended September 30, 2015 and 2014, Ginnie Mae has no loans classified as HFS.

Please note that management is currently assessing current and historic loan accounting for potential restatement.

Acquired Property: Acquired property represents assets for which Ginnie Mae has received the title to the underlying collateral (e.g. completely foreclosed upon and repossessed) and intends to sell the collateral. For instances in which Ginnie Mae does not convey the property to the insuring agency, Ginnie Mae holds the title until the property is sold. As the properties are available for immediate sale in their current condition and are actively marketed for sale, they are to be recorded at the fair value of the asset less the estimated cost to sell with subsequent declines in the fair value below the initial acquired property cost basis recorded through the use of a valuation allowance. The acquired property balance is being reviewed by Ginnie Mae is currently performing an assessment related to the recognition and measurement as compared to US GAAP requirements. Currently, Ginnie Mae does not have access to broker price opinions or other fair value data for acquired properties. An assessment of the data required to perform this analysis is underway.

Fixed Assets: Ginnie Mae's fixed assets consist of computer systems hardware and software that are used to accomplish its mission. Ginnie Mae capitalizes software development project and hardware costs based on guidance in the ASC Subtopic 350-40 *Intangibles—Goodwill and Other – Internal-Use Software* (ASC 350-40) and ASC 360 *Property, Plant and Equipment*. Ginnie Mae amortizes 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 functionality of an asset are capitalized. Expenditures for ordinary repairs and maintenance are charged to expense as incurred.

Mortgage Servicing Rights: Mortgage Servicing Rights (MSR) represent Ginnie Mae's right and obligation to service mortgage loans in mortgage backed securities obtained from defaulted Issuers. Ginnie Mae contracts with multiple MSS's to provide the servicing of its 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 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 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 should be 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 to a substitute MSS for performing the servicing, and the contract results in a servicing asset. However, if the benefits of servicing are not expected to adequately compensate a substitute MSS 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. To determine the fair value of the MSRs 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 MSRs. 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 MSRs at fair value and subsequently re-measures the 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.

Financial Guarantees (As Restated): Ginnie Mae, as guarantor, follows the guidance in FASB Accounting Standards Codification (ASC) Topic 460, *Guarantees* (ASC 460), for its accounting, and disclosure, relating to the issuance of certain types of guarantees. ASC 460 requires that upon issuance of a guaranty, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guaranty. 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 the specified triggering events or conditions occur. Ginnie Mae will advance funds to investors and will service an Issuer's portfolio in the event of their default.

At inception of the guaranty, Ginnie Mae recognizes a liability for the guaranty it provides on MBS issued by third-party Issuers. Ginnie Mae applies the practical expedient in ASC 460, which allows the guaranty liability 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.

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

Liability for Loss on MBS Program Guaranty: Liability for loss on MBS program guaranty (MBS loss liability) represents the 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 is measured under ASC Subtopic 450-20, *Contingencies – Loss Contingencies*.

Ginnie Mae's Office of Enterprise Risk (ERO) utilizes CorporateWatch to assist in the analysis of potential defaults. CorporateWatch 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. A higher probability of default would arise from an observed weakness in an entity's financial health. Those Issuers with an elevated probability of default are assigned an internal risk grade of 7 or 8 and are automatically included in Risk Category I of the Watch List. ERO prepares written financial reviews on all Issuers appearing in Risk Category I of Watch List to assess the level of on-going monitoring needed to ensure that these Issuers remain viable Ginnie Mae counterparties or to take other mitigation actions.

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

- Guaranty Fees – Ginnie 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.
- Interest Income – Mortgage Loans HFI – Ginnie Mae earns interest income on an accrual basis at the debenture rate for the number of months allowed under the insuring agency's timeline.
- Interest Income – U.S. Government Securities – Ginnie Mae earns interest income on U.S. Government Securities related to U.S. Treasury Overnight Certificates, Treasury Notes, and Treasury Inflation-Index Securities.
- Commitment Fees – Ginnie Mae receives commitment fees as Issuers request commitment authority. Commitment fees related to approved commitment authority are recognized as income as Issuers use their commitment authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired commitment authority are not returned to Issuers.
- Multiclass Fees (As Restated) – Ginnie Mae receives one-time upfront fees related to the issuance of multiclass products. These multiclass fees are recognized as revenue over the service period in proportion to the costs expected to be incurred.
- Other MBS Program Income – Ginnie Mae also 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 expenses, administrative expenses, and fixed asset amortization. The main components of the MBS program expense line item are multiclass expenses, MBS information systems and compliance expenses, sub-servicing expenses, and pool processing and central paying agent expenses.

Statements of Cash Flows (As Restated): Ginnie Mae prepares the Statements of Cash Flows on an indirect basis. For purposes of the Statements of Cash Flows, Funds with U.S. Treasury are considered cash. Ginnie Mae classifies cash flows from operations related to its programs and overall business operations (i.e., accrued interest, deferred revenue and liabilities, and accounts payable) as operating activities. Ginnie Mae classifies cash flows from securities that Ginnie Mae intends to hold for investment (i.e., mortgage loans HFI) and capital expenditures as investing activities. Ginnie Mae classifies cash flows from any non-federal transactions necessary to finance or fund the operations of the agency, of which there were none in 2015 and 2014, as financing activities. Management determines the cash flow classification at the date of purchase of a loan, whether it intends to sell (operating activity) or hold the loan for the foreseeable future (investing activity).

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

Standard	**Description**	**Date of Adoption**	**Effect on the financial statements**
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	We are evaluating the impact that the adoption of this amendment will have on our financial statements
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	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.	Effective for annual periods beginning after December 15, 2017 and interim periods beginning after 15 December 2017	We are evaluating the impact that the adoption of this amendment will have on our financial statements
ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (Topics 860)	The amendment requires repurchase-to-maturity transactions to be accounted for as a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty	Effective for annual periods beginning after 15 December 2014 and interim periods beginning after 15 December 2015	Ginnie Mae does not enter into any repurchase transactions. This update does not have any financial statement impact.

ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (Topic 310)	The amendment requires that a mortgage loan be derecognized and a separate receive be recognized upon foreclosure if certain conditions are met. If those conditions are met and such a receivable is recognized, the receivable should be measured based on the amount of principal and interest related to the loan expected to be recovered from the guarantor	Effective for annual periods ending after 15 December 2015 and interim periods beginning after 15 December 2015	We are evaluating the impact that the adoption of this amendment will have on our financial statements

Note 4: U.S. Government Securities

The U.S. Government securities portfolio is held in special market-based U.S. Treasury securities that are bought and sold at composite prices received from the Federal Reserve Bank of New York. These securities are maintained in book-entry form at the Bureau of Public Debt and include U.S. Treasury overnight certificates, U.S. Treasury notes, and U.S. Treasury inflation-indexed securities (reflecting inflation compensation).

In fiscal year 2013, Ginnie Mae received approval from the Office of Management and Budget ("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, in fiscal year 2015, Ginnie Mae began to invest the full balance of the Capital Reserve Fund, approximately $12.8 billion and for the liquidating fund, approximately $150.7 million, as of September 30, 2015, in overnight U.S. Government securities.

All Ginnie Mae's long-term securities were either matured or sold close to maturity during the year ended September 30, 2014, resulting in a realized gain of $17.1 million. As of September 30, 2015, Ginnie Mae only holds overnight certificates.

Included in the U.S. Government securities balance are amounts related to unclaimed security holder payments that are invested by Ginnie Mae. This represents cash owed to Ginnie Mae mortgage-backed security certificate holders that cannot be located. This balance was $23.3 million and $23.2 million as of September 30, 2015 and 2014, respectively.

Interest income from U.S. Government Securities is included in Other interest income on the Statements of Revenues and Expenses and Changes in Investment of U.S. Government. Also included in Other interest income is interest earned on the uninvested funds, held in the Financing Fund, which is based on the 20 year Consumer Price Index rate for the fiscal year.

The amortized cost and fair values as of September 30, 2015, were as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	$ 12,922,900	$ -	$ -	$ 12,922,900
U.S. Treasury Notes	-	-	-	-
U.S. Treasury Inflation-Indexed Securities	-	-	-	-
Total	**$ 12,922,900**	**$ -**	**$ -**	**$ 12,922,900**

The amortized cost and fair values as of September 30, 2014 were, as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Overnight Certificates	$ 150,500	$ -	$ -	$ 150,500
U.S. Treasury Notes	-	-	-	-
U.S. Treasury Inflation-Indexed Securities	-	-	-	-
Total	**$ 150,500**	**$ -**	**$ -**	**$ 150,500**

The amortized cost, fair value, and monthly weighted average interest rates of U.S. Government securities at September 30, 2015, by contractual maturity date, were as follows:

(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	$ 12,922,900	$ 12,922,900	0.01%
Due after one year through five years	-	-	-
Due after five years through ten years	-	-	-
Due after ten years	-	-	-
Total	**$ 12,922,900**	**$ 12,922,900**	**0.01%**

The amortized cost, fair value, and monthly weighted average interest rates of U.S. Government securities at September 30, 2014, by contractual maturity date, were as follows:

(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Interest Rate
Due within one year	$ 150,500	$ 150,500	0.03%
Due after one year through five years	-	-	-
Due after five years through ten years	-	-	-
Due after ten years	-	-	-
Total	**$ 150,500**	**$ 150,500**	**0.03%**

Note 5: 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 unpaid principal balance of outstanding MBS in the defaulted and non-defaulted Issuers' 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 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 Sheet is $7,016 million and $5,963 million as of September 30, 2015 and 2014, respectively. The guaranty liability represents the non-contingent guaranty liability for Ginnie Mae's obligation to stand ready to perform on the guaranty. The guaranty liability recognized on the Balance Sheet is $5,752 million and $5,092 million as of September 30, 2015 and 2014, respectively. After the initial measurement, the guaranty asset is recorded at fair value and the guarantee liability is amortized based on the remaining unpaid principal of the MBS pools. The difference in accounting will cause volatility in the revenues and expenses from the guaranty asset and guaranty obligation as opposed to previous years in which the guaranty liability was incorrectly accounted for on a fair value basis in line with the guaranty asset. In addition, to produce an accurate reflection of activity in previous years, the initial fair values of the guaranty asset and liability would need to be reproduced. This was not performed due to operational constraints in a short time frame and management will assess the information presented within this footnote for restatement in fiscal year 2016.

For the guarantee asset and liability recognized on the Balance Sheet, Ginnie Mae's maximum potential exposure under these guarantees is primarily comprised of the amount of MBS securities outstanding. On September 30, 2015 and 2014, the amount of securities outstanding, which is guaranteed by Ginnie Mae, was $1.6 trillion and $1.5 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 prepayments are also passed through to security holders. As a result of the security's structure, Ginnie Mae bears no interest rate or liquidity risk. Ginnie Mae's exposure to credit loss is contingent on the nonperformance of Ginnie Mae Issuers. Other than those Issuers considered in the MBS loss liability, Ginnie Mae does not anticipate nonperformance by its other counterparties. The approximate term of the guarantee is 15-30 years. The maximum term is 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. The fair values of 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 guaranty 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)	2015	2014
Outstanding MBS	$ 1,609	$ 1,527
Outstanding MBS Commitments	$ 129	$ 98

If all outstanding MBS commitments were utilized as of September 30, 2015, Ginnie Mae's corresponding guaranty liability, its obligation to stand ready to perform on these securities, would be approximately $566.8 million as of September 30, 2015, and $401.0 million as of September 30, 2014.

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

In its multiclass securities program, Ginnie Mae issued a total of $93.1 billion as of September 30, 2015, and $113.7 billion as of September 30, 2014. The estimated outstanding balance of multiclass securities included in the outstanding MBS balance was $472.7 billion and $487.1 billion as of September 30, 2015, and September 30, 2014, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Management will assess the information presented within this footnote for restatement in fiscal year 2016. Please refer to "Note 2 (Out-of-Scope)".

Note 6: Mortgage Servicing Rights (As Restated)

The following table presents activity for residential first mortgage MSRs for the years ended September 30, 2015 and 2014:

	September 30	
(Dollars in thousands)	2015	
Balance, October 1, 2014	$	44,600
Additions		-
Dispositions		-
Changes in fair value due to:		
Changes in valuation inputs or assumptions used in valuation model		(15,000)
Other changes in fair value		-
Balance, September 30, 2015	**$**	**29,600**

	September 30	
(Dollars in thousands)	2014	
Balance, October 1, 2013	$	65,100
Additions		-
Dispositions		-
Changes in fair value due to:		
Changes in valuation inputs or assumptions used in valuation model		(20,500)
Other changes in fair value		-
Balance, September 30, 2014	**$**	**44,600**

The Unpaid Principal Balance (UPB) of the MSRs for the total portfolio was $4.3 billion and $5.6 billion as of September 30, 2015 and September 30, 2014, respectively.

The amounts reflected in the table above can, and generally do, change from period to period as market conditions and projected interest rates change, and could have an adverse impact on the value of the MSRs and could result in a corresponding reduction in servicing income. The decrease in MSR value is attributable to sale of pooled loans, increase in prepayments, realization of servicing cash flows, market demands, higher cost of servicing, and higher delinquency and foreclosure rates, and other fair value drivers.

The following table presents the components of servicing income for the years ended September 30, 2015 and 2014:

	September 30			
(Dollars in thousands)		2015		2014 As Restated *
Servicing fee income	$	23,600	$	26,100
Sub-servicing expenses		(39,400)		(17,000)
Net servicing gain/(loss)	$	(15,800)	$	9,100

* See Note 2 (Restatement)

Servicing fee income and sub-servicing expenses are recorded in mortgage-backed securities program and other income and mortgage-backed securities program and other expenses, respectively, in the

Statements of Revenues and Expenses and Changes in Investment of U.S. Government. One of the primary risks associated with Ginnie Mae's MSRs is interest rate risk and the resulting impact on prepayments. A significant decline in interest rates could lead to higher−than−expected prepayments that could reduce the value of the MSRs.

Note 7: Advances Against Defaulted MBS Pools

The net carrying value of advances against defaulted MBS pools balance is $118.8 million as of September 30, 2015, and $81.8 million as of September 30, 2014, as follows:

	September 30			
(Dollars in thousands)	2015		2014	
Advances against defaulted MBS pools	$	272,500	$	192,100
Allowance for Uncollectible Advances		(153,700)		(110,700)
Advances against defaulted MBS pools, net	**$**	**118,800**	**$**	**81,400**

Management will assess the information presented within this footnote for restatement in fiscal year 2016. Please refer to "Note 2 (Out-of-Scope)".

Note 8: Mortgage Loans

Mortgage loans HFI consists of loans purchased from defaulted Issuer pools. As of September 30, 2015 and 2014, the mortgage loans HFI portfolio included only single family loans. As of September 30, 2015 and 2014, Ginnie Mae's loan portfolio did not include any loans held for sale.

Mortgage loans HFI, net as of September 30, 2015 and 2014, were as follows:

Table 8.1: Mortgage Loans

	September 30			
(Dollars in thousands)	2015		2014	
Total Mortgage Loans HFI	$	4,863,500	$	5,294,700
Total Mortgage Loans HFI Allowance for loss		(510,900)		(1,182,200)
Total Mortgage Loans HFI, net	$	4,352,600	$	4,112,500

During 2015 and 2014, Ginnie Mae purchased $422.8 million and $488.9 million, respectively, of mortgage loans in MBS pools from defaulted Issuers that were classified as HFI.

In the years ended September 30, 2015 and 2014, Ginnie Mae recorded $300.1 million and $346.8 million, respectively, in interest income on mortgage loans HFI.

Allowance for Loan Loss

Ginnie Mae maintains an allowance for loan losses for probable losses incurred related to loans classified as HFI. The allowance for loan loss involves significant management judgment and is based on historical delinquency, modification, default and loss severity data. In 2015, Ginnie Mae enhanced its process for determining its loss allowance and expects further enhancement in 2016.

Ginnie Mae's credit risk on the mortgage loans HFI is limited by the underlying insurance on loans provided by FHA, USDA, and VA. The table below presents the loan balance by the underlying insurer as of September 30, 2015 and 2014:

Table 8.2: Mortgage Loans by underlying insurer:

	As of September 30, 2015			
(Dollars in thousands)	**Conventional**	**FHA**	**Non-FHA Insured[(1)]**	**Total**
Mortgage Loans, HFI	$ 261,200	$ 4,198,200	$ 404,100	$ 4,863,500
Allowance for loan losses on mortgage loans, HFI	(49,000)	(394,200)	(67,700)	(510,900)
Total Mortgage Loans, HFI, net	$ 212,200	$ 3,804,000	$ 336,400	$ 4,352,600

(1) Non-FHA Insured loans includes loans insured by VA, USDA and PIH

The payment status of mortgage loans HFI is shown in the table below:

Table 8.3: Mortgage Loans HFI by Payment Status

As of September 30, 2015 (Dollars in thousands)								
One Month Past Due	**Two Months Past Due**	**Three Months Past Due**	**Four Months or More Past Due**	**Total Delinquent**	**Current**	**Total**	**Loans Over 120 Days Delinquent and Accruing Interest**	**UPB of nonaccrual loans [(1)]**
$ 399,000	$ 186,200	$ 91,400	$ 2,242,500	$ 2,919,100	$ 1,944,400	$ 863,500	$ 2,242,500	$ -

(1) Although all loans (regardless of payment status) accrue interest, the corresponding allowance recognizes our incurred loss (for interest receivable) as of period end. The allowance estimate for interest receivable considers insurance type (FHA and VA)

Management will assess the information presented within this footnote for restatement in fiscal year 2016. Please refer to "Note 2 (Out-of-Scope)".

Note 9: Claims Receivable

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

	As of September 30, 2015			
(Dollars in thousands)	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**

	As of September 30, 2014			
(Dollars in thousands)	Foreclosed Property Claims(1)	Short Sale Claims(2)	Insurance Claims(3)	Total
Claims Receivable	$ 615,800	$ 45,100	$ 1,800	$ 662,700
Allowance for Claims Receivable	(60,600)	(27,700)	-	$ (88,300)
Claims Receivable, Net	**$ 555,200**	**$ 17,400**	**$ 1,800**	**$ 574,400**

(1) Foreclosed property claims receivable represents reimbursements owed to Ginnie Mae by insuring agencies (FHA, VA, USDA and PIH) for conveyed foreclosed properties.

(2) Short sale claims receivable consists of repayments owed to Ginnie Mae by insuring agencies (FHA, VA, USDA, PIH) for losses on the short sale of insured delinquent loan properties.

(3) Insurance claims are approved claims from the FHA as of the last three days of the month

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, 2015 and 2014, 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.

Management will assess the information presented within this footnote for restatement in fiscal year 2016. Please refer to "Note 2 (Out-of-Scope)".

Note 10: Acquired Property, Net (As Restated)

Acquired properties, also known as real-estate owned (REO), consists of foreclosed property for which Ginnie Mae has the intention to hold for sale as the properties are actively marketed by Ginnie Mae's MSS for sale.

Balances and activity for acquired properties is presented in the table below.

	September 30	
(Dollars in thousands)	2015	2014 As Restated *
Acquired Properties, beginning balance	$ 16,000	$ 29,600
Additions	86,300	20,200
Dispositions and Losses	(49,700)	(33,800)
Acquired Properties, ending balance	52,600	16,000
Valuation allowance, beginning balance	(3,200)	(6,200)
Change in valuation allowance	(19,100)	3,000
Valuation allowance, ending balance	(22,300)	(3,200)
Acquired Properties, ending balance, Net	**$ 30,300**	**$ 12,800**

* See Note 2 (Restatement)

When Ginnie Mae obtains receipt of the real estate, the acquired property should be recorded at fair value less cost to sell. Subsequent declines in fair value should be recorded through the use of a valuation allowance. Due to lack of data availability, Ginnie Mae was unable to obtain fair values as of period end.

Management will assess the information presented within this footnote for restatement in fiscal year 2016. Please refer to "Note 2 (Out-of-Scope)".

Note 11: 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 recording 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 table presents 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.

Table 11.1: Assets measured at fair value on a recurring basis:

(Dollars in thousands)	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Mortgage Servicing Rights	$ -	$ -	$ 29,600	$ 29,600
Guaranty Assets	-	-	7,016,500	7,016,500
Total Assets at Fair Value	$ -	$ -	$ 7,046,100	$ 7,046,100

(Dollars in thousands)	September 30, 2014			
	Level 1	Level 2	Level 3	Total
Mortgage Servicing Rights	$ -	$ -	$ 44,600	$ 44,600
Guaranty Assets	-	-	5,963,100	5,963,100
Total Assets at Fair Value	$ -	$ -	$ 6,007,700	$ 6,007,700

Mortgage Servicing Rights – Ginnie Mae measures the fair value of MSRs 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 5: Mortgage Servicing Rights" contains additional details with regards to specific fair value assumptions of MSRs.

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.

Guaranty asset – Ginnie Mae determines the guaranty asset based on the present value of the expected future cash flows from the guaranty fees based on the unpaid principal balance of the outstanding MBS in the non-defaulted 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 unpaid principal balance of the outstanding MBS in the defaulted and non-defaulted Issuer 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, 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 assets valued on a recurring basis:

Table 11.2: Assumptions used in determining fair value of Mortgage Servicing Rights

	September 30	
	Mortgage Servicing Rights	
(Dollars in thousands)	2015	2014
Valuation at period end:		
Fair value (thousands)	$ 29,600	$ 44,600
Weighted- average life (years)	3.62	4.14
Prepayment rates assumptions:		
Weighted Average Rate assumption	21.94%	19.91%
Weighted Average Minimum	10.20%	12.01%
Weighted Average Maximum	23.40%	23.38%
Impact on fair value of a 10% adverse change	(2,400)	(2,600)
Impact on fair value of a 20% adverse change	(4,600)	(5,000)
Discount rate assumptions:		
Weighted Average Rate assumption	10.68%	12.58%
Weighted Average Minimum	10.60%	12.50%
Weighted Average Maximum	13.20%	15.00%
Impact on fair value of a 10% adverse change	(800)	(1,700)
Impact on fair value of a 20% adverse change	(1,600)	(3,200)

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.

Table 11.3: Assumptions used in determining fair value of Guaranty Asset

	September 30
	Guaranty Asset
(Dollars in millions)	2015
Valuation at period end:	
Fair value (millions)	$ 7,016
Discount rate assumptions:	
Weighted Average Rate assumption	1.50%
Weighted Average Minimum	0.05%
Weighted Average Maximum	2.49%

Significant increases/(decreases) in the discount rate in isolation would result in a significantly (lower) higher fair value measurement.

The following table presents a reconciliation measured at fair value on a recurring basis using significant unobservable inputs for the years ended September 30, 2015 and 2014:

Table 11.4 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	September 30	
	2015	
(Dollars in thousands)	Mortgage Servicing Rights	Guaranty Asset
Balance, October 1, 2014	$ 44,600	$ 5,963,100
Gains/(losses) included in net income:		
Realized gains/(losses)	-	-
Unrealized gains/(losses)	(15,000)	(630,400)
Total net gains/(losses) included in net income	(15,000)	(630,400)
Issuances	-	1,683,800
Balance, September 30, 2015	**$ 29,600**	**$ 7,016,500**

	September 30	
	2014	
(Dollars in thousands)	Mortgage Servicing Rights	Guaranty Asset
Balance, October 1, 2013	$ 65,100	$ 7,012,900
Gains/(losses) included in net income:		
Realized gains/(losses)	-	-
Unrealized gains/(losses)	(20,500)	(2,199,400)
Total net gains/(losses) included in net income	(20,500)	(2,199,400)
Issuances	-	1,149,600
Balance, September 30, 2014	**$ 44,600**	**$ 5,963,100**

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 fiscal years ended September 30, 2015 and September 30, 2014.

Assets Measured at Fair Value on a Nonrecurring Basis

The following table displays the asset measured on the Balance Sheets at fair value on a nonrecurring basis; that is, the asset that is not measured at fair value on an ongoing basis but is subject to fair value adjustments in certain circumstances (e.g., when Ginnie Mae evaluates for impairment), and the gains or losses recognized for these assets and liabilities for the years ended September 30, 2015 and 2014, are as a result of fair value measurements:

Table 11.5 Assets Measured at Fair Value on a Nonrecurring Basis

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

	September 30, 2014			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Acquired Properties, net	$ -	$ -	$ 12,800	$ 12,800
Total Assets at Fair Value	$ -	$ -	$ 12,800	$ 12,800

"Properties held for sale, net" represents foreclosed property received in full satisfaction of a loan that Ginnie Mae intends to sell, net of a valuation allowance. The properties held for sale are reported at the lower of the carrying amount or fair value less estimated cost to sell. The fair value estimate is based on relevant current and historical factors available at the time of valuation. Acquired property is classified within Level 3 of the valuation hierarchy because significant inputs are unobservable.

Management will assess the information presented within this footnote for restatement in fiscal year 2016. Please refer to "Note 2 (Out-of-Scope)".

Note 12: Fixed Assets (As Restated)

The table below shows the total balance of hardware and software as of September 30, 2015 and September 30, 2014 as restated, net of the accumulated amortization:

(Dollars in thousands)	Hardware	Software	Total
Cost October 1, 2014	$ 4,100	$ 113,500	$ 117,600
Additions	100	26,800	26,900
Cost September 30, 2015	$ 4,200	$ 140,300	$ 144,500
Accumulated amortization October 1, 2014	$ (900)	$ (74,300)	$ (75,200)
Amortization	(800)	(10,900)	(11,700)
Accumulated amortization September 30, 2015	$ (1,700)	$ (85,200)	$ (86,900)
Net 2	$,500	$ 55,100	$ 57,600

(Dollars in thousands)	Hardware	Software	Total
Cost October 1, 2013	$ 1,400	$ 99,200	$ 100,600
Additions	2,700	14,300	17,000
Cost September 30, 2014	$ 4,100	$ 113,500	$ 117,600
Accumulated amortization October 1, 2013	$ (200)	$ (59,300)	$ (59,500)
Amortization	(700)	(15,000)	(15,700)
Accumulated amortization September 30, 2014	$ (900)	$ (74,300)	$ (75,200)
Net 3	$,200	$ 39,200	$ 42,400

Note 13: 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, and RD), Ginnie Mae is susceptible to credit losses. Due to multiple US GAAP requirements related to accounting for credit losses, Ginnie Mae's financial statements recognize credit losses associated with its guarantee 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 for the fair value of the obligation it assumes 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 the specified triggering events or conditions occur.
- *Liability for probable Issuer defaults pooled loans:* The financial statement line item "MBS Loss liability" represents the 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. As of the end of fiscal year 2015 and 2014, the information available indicates that it is not probable and reasonably estimable that an Issuer will default and Ginnie

Mae will incur losses greater than the guarantee obligation currently recognized. Therefore, there is no liability for loss contingencies recognized.

- *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 2015 and 2014 cash flow model incorporates a number of factors (see Footnote 2 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 currently defaulted Issuers' non-pooled loans:* When Ginnie Mae purchases loans out of a pool, it recognizes the loan on its balance sheet along with the corresponding incurred loss i.e. "Allowance for loan loss" within the financial statement line items "Advances against defaulted mortgage-backed security pools, net", "Mortgage loans HFI, net" and "Accrued interest receivable, net".

The MBS Loss Liability in fiscal year 2014 was not presented in compliance with US GAAP as it also included a liability related to estimated incurred foreclosure-related losses for mortgage loans HFI and claims receivable. This line item was restated and the incurred losses were reallocated within the allowance for mortgage loans HFI and claims receivable.

Please note that management is currently assessing current and historic loan accounting for potential restatement. Please refer to "Note 2 (Out-of-Scope)".

Note 14: Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counterparties (for example, Issuers and borrowers) engage in similar activities or 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 and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among Issuers. Concentrations of credit risk are as noted below, as of September 30, 2015:

	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	$ 1,167.3	22	$ 82.2	1	$ 0.3	14	$ 52.3
Other performing issuers	261	$ 294.4	30	$ 10.4	1	$ 0.0	0	$ -
Defaulted issuers	16	$ 4.2	0	$ -	0	$ -	0	$ -

Concentrations of credit risk are as noted below, as of September 30, 2014:

(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	$ 1,163.5	20	$ 75.9	1	$ 0.3	14	$ 48.9
Other performing issuers	237	$ 222.3	33	$ 12.1	2	$ -	0	$ -
Defaulted issuers	18	$ 5.6	0	$ -	0	$ -	0	$ -

Issuers are permitted only to pool insured or guaranteed loans (from FHA, USDA, VA or PIH). The insuring and guarantying entities have strict underwriting standards and criteria for quality of collateral. In the event of Issuer default, Ginnie Mae assumes the rights and obligations of the Issuer and becomes the owner of the MSR asset, which typically is a saleable asset. In addition, in the event of borrower delinquency in excess of 90 or 120 days for Single Family or Manufactured Housing respectively, Ginnie Mae has the right to repurchase the loan out of the pool and can obtain access to the underlying collateral or insurance claim by pursuing foreclosure.

Note 15: Contingencies

As of September 30, 2015, and as of this report, Ginnie Mae's Office of General Counsel has identified one pending or threatened action and no other asserted or unasserted claims or assessments in which Ginnie Mae's exposure is $1.0 million, individually, or in the aggregate for similar matters. 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. In the opinion of Ginnie Mae's management and Office of General Counsel the likelihood of an unfavorable outcome is remote. 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.

In fiscal year 2014, the Department of Justice, on behalf of Ginnie Mae, among others, entered into a settlement agreement with Bank of America. The settlement agreement addressed the contractual legal claims of Ginnie Mae against Bank of America and Countrywide relating to the performance of Bank of America and Countrywide under the MSS contract with Ginnie Mae. Pursuant to the settlement agreement, Ginnie Mae received $200.0 million in 2015. This settlement amount represents that mutual agreement of Ginnie Mae and Bank of America to resolve the contractual claims of Ginnie Mae.

Additionally, Taylor, Bean & Whitaker (TBW), a defaulted Ginnie Mae Issuer, made three corporate advances totaling roughly $78.0 million on its Ginnie Mae portfolio using money from Ocala Funding (Ocala), its financing affiliate. On July 8, 2014, Ocala filed a lawsuit under the Bankruptcy Code 11 U.S.C. § § 105,541,544, 550 and 551 which permits Ocala, the debtor, to raise claims under state law. The claims that Ocala asserts arise under Florida Uniform Fraudulent Transfers Act. Ocala claims that Ginnie Mae was a direct transferee of the fraudulent transfers and therefore is liable to return the funds. Parties engaged in settlement negotiations and the agreement was reached in principle to settle the lawsuit. Ginnie Mae paid Ocala $14.9 million in 2015 in exchange for Ocala releasing its claims against Ginnie Mae.

Ginnie Mae has commitments to guaranty MBS, which are off-balance sheet financial instruments. Additional information is provided in "Note 5: 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 13: MBS Loss Liability."

Note 16: Related Parties

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 Office of Management and Budget (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.

Ginnie Mae was authorized to use $23.0 million during the year ended September 30, 2015 for personnel (payroll) and non-personnel (travel, training) costs only. During the year ended September 30, 2015, Ginnie Mae incurred $21.6 million for Salaries and Expenses. Ginnie Mae has no liability for future payments to employees under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Ginnie Mae does not account for the assets of CSRS or FERS nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management (OPM) and are allocated to HUD. OPM also accounts for the health and life insurance programs for federal employees and retirees and funds the non-employee portion of these programs' costs.

Cash receipts, disbursements, and investment activities are processed by the U.S. Treasury. Funds with U.S. Treasury represent cash and are treated as such for the Statements of Cash Flow. Ginnie Mae has authority to borrow from the U.S. Treasury to finance operations in lieu of appropriations, if necessary.

Additionally, Ginnie Mae has an intra-entity relationship with the FHA, which is part of HUD. Of the total mortgage loans HFI, net, approximately $4.2 billion and $5.4 billion of loans were insured by FHA as of September 30, 2015 and 2014, 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:

	September 30	
(Dollars in thousands)	2015	2014
Foreclosed Property Claims Receivable	$ 840,000	$ 493,600
Short Sales Claims Receivable	71,000	6,500
Insurance Claims Receivable	200	1,800
Total FHA Claims, net	**$ 911,200**	**$ 501,900**

Note 17: 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, 2015, the U.S. Government has an investment of $21.5 billion in Ginnie Mae. 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 18: Subsequent Events

Ginnie Mae has evaluated potential subsequent events through November 12, 2015, the date through which the financial statements were made available to be issued. Based on the evaluation, Ginnie Mae identified no subsequent events.

Ginnie Mae Employees in Fiscal Year 2015

(as of September 30, 2015)

Office of the President
Theodore W. (Ted) Tozer
Katrina Miodek

Office of the Executive Vice President
Mary Kinney
Susan Ayers

Office of Chief Financial Officer
Thomas Weakland

Governance & Compliance Staff
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Larry Wagner

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Danielle Bromberek
Kathy Cheatham
Mary Ann Coval
Claire Erchenian
Carol Nguyen

Treasury Division
Linda Blaylock
Helen Faunce

Budget Division
Tisa Ebba
Broenna Miller
Myron Watson

Office of Management Operations
Deborah Hernandez
DaVonne Bolton

Administrative Management Division
Kim Adams
Linda Johnson
Valerie Johnson-Philson
James Milhouse
Kimberly Woods

Procurement Management Division
Eva White
Wendy Johnson
Christine Martin
James Mills

Communications & Congressional Relations Division
Cynthia Adcock
Jennifer Iba
Gina Screen
Danielle Walton
Leah Logan

Office of Issuer & Portfolio Management
Michael Drayne
Kathleen Gibbons
Caroline Gorman-Miller
Angel Hernandez
Sheerese Lawson
Stephanie Schader
Luis Saucedo

Single-Family Division
Roy Hormuth
Susan Carrol
Donna Curran
Patrick Durant
Brad Frye
Jonathan Hughes
Harlan Jones
Sharon Joseph
John Kozak
Thomas Mason
Cedric Parish
Ana Rocha
Tamara Smith
Akvile Sweetman
Richard Washington Sr.
Anderson Williams

Multifamily Division
Philip Buckley
Jennifer Burke
Michelle Murphy

Monitoring and Asset Management Division
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Caroline Abreu
Khari Grant
Rene Mondonedo Sr.
Sharolyn Moses
Leonora Noel
Susan Skiles
John Staudt
Paul St. Laurent Sr.
Sharon Strange
Marcus Valentine

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Carol Vilsack

Program Administration Division
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Ann Shearer
Brad Dunn
Juanita Cruz-Latimer
Merlene Hawkins
Mitra Motlagh
Yvonne Sewell
Tamika Walls

Operations Division
Stewart Spettel Sr.
Patrick Hagerty Sr.
Debra Murphy

Product & Process Development Division
Belinda Jackson
Regina Chase
LaWanda Dates
Katrice Murray
Nana Farshad
Jeffrey Pesarik
Benita Hampton

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John Getchis
Shalei Choi
Daniel Kahn
Alven Lam
Tia Medina
William Hughes
Christopher Feathers

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Barbara Foreman

Project Management Office
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Technology Management Division
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Pershing Anderson
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Ylanda Ford
DeMarcus Henry
Chitranjan Khandpur
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Dionne Holmes
Nicole Jackson
Sherri Morrison
Christopher Hester
Jacqueline Townsend

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Gregory Keith
Serena Agoro-Menyang

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Patrick Hall, Patrick
Helen Lai, Helen
Rodney Carter
Marilys Diaz
Ananth Mahavi
Matt McGovern

Operational Risk Analysis Division
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Jason Kim
Verita Powers
Jason Leecost

Our Guaranty Matters

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