Government National Mortgage Association, Washington, DC

Audit of Fiscal Year 2019 Financial Statements

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2020-FO-0002
February 7, 2020

To: Seth D. Appleton, Ginnie Mae Principal Executive Vice President, T

From: Sarah Sequeira, Acting Director of Financial Audits Division, GAF

Subject: Audit of the Government National Mortgage Association's Financial Statements for Fiscal Year 2019

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 year 2019 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, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at https://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 202-402-3949.

Audit Report Number: 2020-FO-0002
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Audit of the Government National Mortgage Association's Financial Statements for Fiscal Year 2019

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, 2019. 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 year 2019 audit of Ginnie Mae's financial statements, including our report on Ginnie Mae's internal control and test of compliance with selected provisions of laws, regulations, and contracts that apply to Ginnie Mae.

What We Found

In fiscal year 2019, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of Ginnie Mae's financial statements. Specifically, our work noted significant modeling concerns affecting Ginnie Mae's guaranty asset, guaranty liability, and allowance for loan losses, which prevented us from completing our audit work due to time constraints imposed by the statutory reporting deadlines. These issues concerned the appropriateness and reasonableness of the model methodologies, specifications, and model assumptions, which raised questions about the reliability of the significant accounting estimates produced by these models. Additionally, we were unable to audit the nonpooled loan assets due to (1) documentation challenges to support balances for claims receivable and reimbursable costs and (2) insufficient time to complete necessary audit procedures for mortgage loans held for investment and acquired properties. Given the significance of all of these limitations combined, it is our professional opinion that there may be risks that undetected misstatements that could be material may exist in these statements. Therefore, we deemed our audit scope to be insufficient to express an opinion on Ginnie Mae's fiscal year 2019 financial statements as a whole.

What We Recommend

Our prior-year audit recommendations are directed toward improving and strengthening Ginnie Mae's governance of its financial operations. New recommendations issued in this report are centered around improving modeling governance and internal controls over the nonpooled loan assets portfolio. 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

To the Executive Vice President and Chief Operating Officer,
Government National Mortgage Association

In our audit of the fiscal year 2019 financial statements of the Government National Mortgage Association (Ginnie Mae), we found

- Certain material weaknesses and other limitations on the scope of our work, which resulted in conditions that prevented us from expressing an opinion on the accompanying financial statements as of and for the fiscal year ending September 30, 2019.
- That Ginnie Mae did not have effective internal control over financial reporting as of September 30, 2019. We identified two material weaknesses and one significant deficiency in internal control over financial reporting.
- One instance of reportable noncompliance with provisions of applicable laws, regulations, and contracts that we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)[1] and other information included with the financial statements;[2] (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, and contracts; and (4) agency comments and our evaluation.

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Ginnie Mae, which were comprised of the balance sheet as of September 30, 2019, the related statement of revenues and expenses and changes in investment of the U.S. Government, the statement of cash flows for the year then ended, and notes related to the financial statements.

Management's Responsibility for the Financial Statements

Ginnie Mae's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles (GAAP); (2) preparing, measuring, and presenting the RSI in accordance with U.S. GAAP; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial

1 The RSI consists of management's discussion and analysis.
2 Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

reporting, including 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.

Auditor's Responsibility

Our responsibility is to conduct an audit of Ginnie Mae's financial statements in accordance with government auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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 2019 financial statements. There were no other satisfactory alternative audit procedures that we could adopt to obtain sufficient, appropriate evidence within the statutorily required timeframes with respect to these unresolved matters.

- <u>Modeling concerns impacting guaranty asset, guaranty liability, and allowance for loan loss estimates</u>. In fiscal year 2019, we noted significant modeling concerns affecting guaranty asset ($7.1 billion) and guaranty liability ($8.1 billion) accounts and allowance for loan loss estimates related to mortgage loans held for investment ($144 million) for which we were unable to complete our planned audit work due to time constraints imposed by the statutory reporting deadlines. The modeling concerns relate to appropriateness and reasonableness of the model methodologies, specifications, and model assumptions used in various models, which raised questions about the reliability of the accounting estimates produced by the Ginnie Mae models.

- <u>Adequate support for material asset balances could not be provided in time to be audited</u>. We could not audit $2.6 billion (net of allowance) in nonpooled loan assets (NPA) as of September 30, 2019, in part due to documentation challenges and also, similar to the constraint mentioned above, time constraints imposed by the statutory reporting deadlines. These NPAs relate to (1) reimbursable costs receivable, net ($35 million); (2) claims receivable, net ($173 million); (3) mortgage loans held for investment, including accrued interest, net ($2,359 million); and (4) acquired property, net ($10 million).

  In addition, as discussed in Note 2 - Restatement of Previously Issued Financial Statements, Ginnie Mae made various restatement adjustments and corrections of errors to the NPA accounts related to 13 types of errors and notified us about these adjustments in October 2019. The late notification of the restatement toward the latter part of the audit limited our ability to adequately review the adjustments and corrections of errors and gather sufficient, appropriate evidence to validate the accuracy and propriety of these accounting adjustments and complete the audit within the statutorily required timeframe.

Given the significance and pervasiveness of all of these limitations combined and our inability to perform all of the audit procedures that we considered necessary to reach and support a conclusion, we deemed our audit scope to be insufficient to express an opinion on Ginnie Mae's guaranty asset ($7.1 billion), guaranty liability ($8.1 billion), and NPA ($2.6 billion, net of allowance) and related accounts as of September 30, 2019. The assets (NPA, net of allowance and guaranty assets) and guaranty liability at issue represent 29 percent of Ginnie Mae's total assets and 93 percent of Ginnie Mae's total liabilities, respectively, in the balance sheet as of September 30, 2019. Users of this report are cautioned that amounts reported in the financial statements and related notes may not be reliable because of these unresolved matters.

Disclaimer of Opinion on Financial Statements

Because of the significance of the matters described in the Basis for Disclaimer of Opinion section above, we were 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.

Emphasis of Matter

The following are matters that we draw users' attention to that are presented or disclosed in the financial statements, which we believe are of such importance that it is fundamental to users' understanding of these financial statements.

Single-Year Presentation of Ginnie Mae Financial Statements

We were engaged to audit Ginnie Mae's fiscal year 2019 financial statements and not the prior-year financial statements. Therefore, Ginnie Mae presented single-year financial statements for fiscal year 2019 activity and did not present comparative statements. This independent auditor's report scope is related only to Ginnie Mae's fiscal year 2019 financial statements.

Restatement of Ginnie Mae's Fiscal Year 2018 Financial Statements

As discussed in Ginnie Mae's note 2, Ginnie Mae restated its fiscal year 2018 financial statements. The restatement was the result of implemented corrective actions related to prior-year material weaknesses in the accounting of the NPA portfolio. As a result, Ginnie Mae identified errors in its prior-year financial statements.

Although Ginnie Mae presented only single-year statements, it decided to correct these errors through restatement instead of as an adjustment to its investment of U.S. Government line item in its fiscal year 2019 financial statements. Therefore, the impact of the restatement is evident only in note 2. The investment of U.S. Government beginning of the year line item was adjusted in Ginnie Mae's fiscal year 2019 financial statements; however, the adjustment was not presented separately as an adjustment.

Our opinion was not modified with respect to these matters in fiscal year 2019.

Other Matters

Ginnie Mae's other information contains a wide range of information, some of which is not directly related to the financial statements and consists of information included with the financial statements, other than the RSI and the auditor's report. This information, including the message from the Ginnie Mae Executive Vice President and Chief Operations Officer, is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on Ginnie Mae's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control Over Financial Reporting

In connection with our audit of Ginnie Mae's financial statements, we considered Ginnie Mae's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to Ginnie Mae's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

Ginnie Mae's management is responsible for maintaining effective internal control over financial reporting, including 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.

Auditor's Responsibility

In planning and performing our audit of Ginnie Mae's financial statements as of and for the year ending September 30, 2019, in accordance with U.S. generally accepted government auditing standards, we considered Ginnie Mae's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. Accordingly, we do not express an opinion on Ginnie Mae's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies[3] or material weaknesses.[4] We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations on Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance and management and other personnel, the objectives of which are to provide

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

[4] A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. GAAP and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, and contracts, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements due to fraud or error.

Results of Our Consideration of Internal Control Over Financial Reporting

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified two material weaknesses and one significant deficiency in internal control that are described below.

Material Weaknesses in Financial Reporting

1. Significant Estimates Were Not Reliable, and Adequate Support for Material Asset Balances Could Not Be Provided in Time To Be Audited.
   Ginnie Mae's accounting estimates for guaranty asset, guaranty liability, and mortgage loans held for investment allowance for losses could not be audited. We identified significant concerns regarding the reliability of these material accounting estimates. In addition, we encountered supporting documentation challenges when testing the validity and accuracy of claims receivables and reimbursable cost receivables, which prevented us from completing our audit work. These conditions occurred due to weaknesses in Ginnie Mae's financial management governance, including estimation model governance, and weaknesses in internal controls. Further, these accounts could potentially have undetected misstatements that could be material and pervasive. For mortgage loans held for investment and acquired property, we could not complete our audit of these accounts, partly due to the impact of the late notification of restatement adjustments and correction of errors, and timing of the receipt of the yearend data that we needed to complete our yearend balances testwork to meet statutory timeframes. Therefore, we were unable to express an opinion on Ginnie Mae's $2.6 billion in NPA and related accounts and the $7.1 billion and $8.1 billion in guaranty asset and guaranty liability, respectively, as of September 30, 2019.

2. Ginnie Mae Had Made Progress in Addressing Deficiencies in Its Internal Controls Over Financial Reporting, but Concerns Remained.
   Ginnie Mae continued to make progress in strengthening internal control over financial reporting during fiscal year 2019. However, we identified deficiencies that demonstrated weaknesses in certain internal controls over financial reporting. Specifically, Ginnie Mae (1) was unable to provide assurance on the effectiveness of its internal controls, (2) had

control weaknesses regarding its nonpooled loan assets, and (3) had weaknesses in its data processing controls within its nonpooled assets audit remediation (NPAAR)[5] solution. These conditions occurred because Ginnie Mae (1) did not complete necessary Office of Management and Budget (OMB) Circular A-123 testing, (2) lacked sufficient communication and coordination with its mastersubservicers[6] during the planning and development phase of its subledger database (SLDB), (3) relied on detective controls to validate data from the Office of Enterprise Risk (OER) to SLDB rather than preventive controls, and (4) deferred a significant number of programming code corrections and enhancements. As a result, Ginnie Mae's loan-level data contained errors that were corrected through (1) manual adjustments in fiscal year 2019 totaling $219 million, and (2) restatement of its fiscal year 2018 financial statements by an absolute value of $65.4 million in assets and liabilities and net impact of $19.6 million in its investment of the U.S. Government. These corrections impacted the September 30, 2019, balances for all 23,476 active loans in its NPA portfolio. Until remaining weaknesses are resolved, Ginnie Mae cannot provide assurance that its internal controls can be relied on to prevent and correct misstatements or the risk of material misstatements in its financial statements in a timely manner.

Significant Deficiency in Financial Reporting

Ginnie Mae Was Not in Full Compliance With Federal Information System Controls Requirements for Its Financial Accounting System.

Ginnie Mae was not in full compliance with Federal information system controls requirements for its Ginnie Mae Financial Accounting System (GFAS) and its subledger database (SLDB) component. Our review of the application-level general controls and data management system controls over GFAS and SLDB identified deficiencies with (1) timely remediation of the reported security deficiencies, (2) the access and functionality of the system administrator role assignments, (3) audit logging and monitoring policy and procedures, and (4) its segregation of duties review process and documentation. These deficiencies occurred because (1) Ginnie Mae system policies and procedures did not sufficiently address how to track and remediate deficiencies in a timely manner; (2) most of GFAS' system administrator role assignments were included in the commercial product; (3) Ginnie Mae relied on a log management manual that did not cover or address business application logging; and (4) Ginnie Mae focused on the roles assigned to Office of the Chief Financial Officer (OCFO) staff within the system, as opposed to all roles, when it developed the GFAS segregation of duties procedures. These deficiencies could result in (1) the organization's being exposed to greater risk, (2) the ability to gain unauthorized access, (3) difficulties in holding individuals accountable, and (4) the possibility that a single person could be responsible for diverse and critical functions.

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5 Ginnie Mae developed a new nonpooled assets (NPA) SLDB to support financial accounting and reporting. The new NPA SLDB is used to produce loan-level accounting following GAAP and Federal budgetary accounting guidance. Its output feeds into Ginnie Mae's general ledger and financial statements. The NPA audit remediation solution is commonly referred to as NPAAR.

6 Ginnie Mae engages mastersubservicers to perform servicing responsibilities for its pooled and nonpooled loan portfolios.

Intended Purpose of Report on Internal Control Over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of Ginnie Mae's internal control over financial reporting and the results of our procedures and not to provide an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

In addition to the internal control issues included in this report, other matters involving internal control over financial reporting and Ginnie Mae's operations that are not included in this report will be reported to Ginnie Mae management in a separate management letter.

Report on Compliance With Laws, Regulations, and Contracts

In connection with our audit of Ginnie Mae's financial statements, we tested compliance with selected provisions of applicable laws, regulations, and contracts consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

Ginnie Mae is responsible for complying with laws, regulations, and contracts applicable to Ginnie Mae.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, and contracts applicable to Ginnie Mae that have a direct effect on the determination of material amounts and disclosures in Ginnie Mae's financial statements and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, and contracts applicable to Ginnie Mae.

Results of Our Tests for Compliance With Laws, Regulations, and Contracts

Our tests for compliance with selected provisions of applicable laws, regulations, and contracts disclosed one instance of noncompliance for fiscal year 2019, as noted below, that is reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, and contracts applicable to Ginnie Mae. Accordingly, we do not express such an opinion.

> <u>Noncompliance With Debt Collection Improvement Act</u>
>
> Ginnie Mae's noncompliance with the Debt Collection Improvement Act (DCIA) continued. As reported in the past 4 fiscal years, Ginnie Mae had not remediated its practice of not analyzing 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 continued to take the position that DCIA did not apply to it; 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 debt related to losses in its mortgage-backed securities (MBS) program.

Intended Purpose of Report on Compliance With Laws, Regulations, and Contracts

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, and contracts and the results of that testing and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, and contracts is not suitable for any other purpose.

Auditee Comments and Our Evaluation

Management's response to the findings identified in our report and 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.

Kimberly R. Randall
Deputy Assistant Inspector General for Audit
Washington, DC

February 7, 2020

Material Weakness

Finding 1: Significant Estimates Were Not Reliable, and Adequate Support for Material Asset Balances Could Not Be Provided in Time To Be Audited

Ginnie Mae's accounting estimates for guaranty asset, guaranty liability, and mortgage loans held for investment allowance for loan losses could not be audited. We identified significant concerns regarding the reliability of these material accounting estimates. In addition, we encountered supporting documentation challenges when testing the validity and accuracy of claims receivables and reimbursable costs receivables, which prevented us from completing our audit work. These conditions occurred due to weaknesses in Ginnie Mae's financial management governance, including estimation model governance, and weaknesses in internal controls. Further, these accounts could potentially have undetected misstatements that could be material and pervasive. For mortgage loans held for investment and acquired property, we could not complete our audit on these accounts, partly due to the impact of the late notification of restatement adjustments and correction of errors, and timing of the receipt of the yearend data that we needed to complete our yearend balances testwork to meet statutory timeframes. Therefore, we were unable to express an opinion on Ginnie Mae's $2.6 billion in NPA and related accounts and the $7.1 billion and $8.1 billion in guarantee asset and guarantee liability, respectively, as of September 30, 2019.

Significant Concerns Regarding the Reliability of Ginnie Mae's Accounting Estimates

Ginnie Mae used various models for financial reporting purposes to generate accounting estimates. Our audit noted several significant modeling concerns, which raised questions about the reliability and reasonableness of the accounting estimates produced by the models.

> <u>Concerns With the Model Changes, Specifications, and Assumptions</u>
>
> We noted several concerns with the model specifications and assumptions used by Ginnie Mae. Most importantly, we noted that the revised (current) model lacked a significant variable, cumulative housing price appreciation. This variable is significant in any housing model used in the industry. Additionally, we found that Ginnie Mae models (1) produced unintuitive model coefficients and there was no rationale in its model documentation to support them; (2) previously used macroeconomic variable forecasts related to U.S. housing prices, which were unreasonable and counterintuitive to general economists' consensus; and (3) were not reviewed for proper action when various performance thresholds were breached or when other analysis performed identified potential modeling issues. Related to the probability of prepayment and probability of

default models,[7] they were modified, and Ginnie Mae did not provide sufficiently granular decomposition analysis, which could allow us to assess each major model change.

Concerns Over Undocumented Assumptions
Ginnie Mae did not document the analyses used to determine multiple model assumptions. For example, it did not document the process or analyses used for the loan default cure rate and the reimbursable cost haircut[8] assumptions. For another assumption, Ginnie Mae used an expert opinion; however, it did not document the expert's qualifications or the basis of the stated opinion.

Model Documentation Deficiencies
Ginnie Mae's model documentation was deficient and did not stand on its own. It had out-of-date information, used inconsistent terminology, was incomplete, and contained various errors. For example, in Ginnie Mae's Guaranty Asset Guaranty Obligation Model Methodology White Paper, the equations for prepayments and defaults were out of date and did not capture a change in logic that was implemented to correct erroneous prior model calculations. Additionally, the documentation used inconsistent terminology and lacked specificity around the macroeconomic data used in the model.

Programming Code Best Practices Not Followed
Ginnie Mae did not always follow programming code best practices. Ginnie Mae's models included (1) duplicated code sections and duplicated Statistical Analysis System (SAS)[9] programs, (2) large sections of commented out code,[10] (3) legacy code programs maintained in the same locations as active code, (4) hardcoded macro variables directly within program code, and (5) the use of similar macro names without providing a description of how the macros were different.

We attributed the above conditions to weaknesses in Ginnie Mae's model governance structure and lack of sufficient internal controls. Ginnie Mae's Modeling and Valuation Committee did not conduct adequate scrutiny of the model output before it was booked to the general ledger. Specifically, we noted that Ginnie Mae (1) did not fully decompose major model changes; (2)

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7 The probability of homeowner default model estimates the probability that a loan will become 60 days delinquent over a 1-month horizon. The probability of prepayment model measures the factors that lead a homeowner to voluntarily pay off the mortgage over a 1-month horizon. The output of these models is used by Ginnie Mae to estimate the guarantee asset and guarantee liability, as well as its reserve for loss accounts.

8 As part of the initial data exchange between the SLDB and the reserve for loss model, information on reimbursable costs, including both tax and insurance and corporate advance data as well as actual reimbursements of these advances from insuring agencies, is provided to the reserve for loss modeling team. Using this information, nonreimbursable percentages (haircuts) are calculated for each advance type, mastersubservicer, and insuring agency. These are used throughout the modeling process. Based on the set of advance and claim data available through the SLDB, calculation of the haircut and monthly costs is performed through a SAS program to update at least annually for each agency, mastersubservicer, advance type, and loan status (pre- and post-180 days past due).

9 SAS is a statistical software, which helps access, manage, analyze, and report on data to aid in decision making.

10 Commented out code is old code that is no longer in use, test code that did not make it into the final version of the model, or code that needs to be run only during certain situations.

lacked proper policies and procedures to ensure that appropriate actions were taken when the results of various analyses identified potential modeling issues; and (3) lacked proper controls to verify that model documentation was up to date, especially after model changes were made. Ginnie Mae also did not ensure that model coding best practices were followed and sufficient documentation was available to support the basis of established assumptions.

These modeling concerns can increase the risk that the model is misapplied, is misused, and could produce erroneous output, which is used to prepare significant estimates, resulting in unreliable or inaccurate financial reporting. Specifically, these concerns impact the reliability of Ginnie Mae's estimates of guaranty assets and guaranty liabilities, totaling 21 percent and 93 percent of Ginnie Mae's total assets and liabilities as of September 30, 2019, respectively. Further, these modeling concerns impact the reasonableness and reliability of the allowance for losses recognized for Ginnie Mae's mortgage loans held for investment, which constitute another 7 percent of Ginnie Mae's total assets. In our professional opinion, these concerns are so severe that we could not rely upon the output of the models to develop reasonable estimates. Therefore, we determined it necessary to perform an independent point estimate to determine the likelihood and materiality of misstatements. However, we could not complete an independent point estimate within the statutory timeframe for the fiscal year 2019 audit report.

Challenges in Reviewing Supporting Documentation for Support of Ginnie Mae's Nonpooled Loans

In fiscal year 2019, Ginnie Mae implemented its SLDB, which can perform loan-level accounting that is needed to support financial accounting and reporting of its NPA portfolio, including mortgage loans, acquired properties, and claims receivables. In addition, starting in fiscal year 2019 Ginnie Mae established its opening reimbursable costs balance and had begun capitalizing the reimbursable costs for insured loans in its accounting records.

During the fiscal year 2019 audit, Ginnie Mae represented to us that the NPA accounts were audit ready. As a result, we had planned to conduct a full scope audit of these accounts in fiscal year 2019. However, we were unable to complete our audit work due to a number of challenges we encountered in reviewing the supporting documentation for the NPA. These assets relate to (1) reimbursable costs receivable,[11] net ($35 million); (2) claims receivable, net ($173 million); (3) mortgage loans held for investment, including accrued interest, net ($2,359 million); and (4) acquired property, net ($10 million). Specific documentation challenges are described in detail below:

> <u>Reimbursable Costs and Claims Receivable</u>.
> In our fiscal year 2014 audit, we reported that Ginnie Mae improperly accounted for the reimbursable costs as an expense. Based on our prior recommendations, Ginnie Mae began to capitalize the reimbursable costs on its balance sheet in fiscal year 2019.

[11] The reimbursable costs receivable line items consist of certain costs that are reimbursable through the claims process from the insurers, such as the Federal Housing Administration, the U.S. Department of Veterans Affairs, and the U.S. Department of Agriculture. These costs consist of taxes and insurance and other preforeclosure and foreclosure costs required to preserve the value of the mortgaged property (referred to as corporate advances). At the time of foreclosure, these costs are reclassed to claims receivable.

In our test work of the reimbursable costs receivable and claims receivable, we determined that Ginnie Mae could not provide all of the relevant documentation necessary to support the existence and accuracy of the reimbursable cost and claims receivable balances in time to complete our audit procedures. Specifically, Ginnie Mae was unable to (1) support the taxes, insurance, and corporate advances incurred by its prior mastersubservicers and (2) provide a sufficient audit trail tying the support documentation to the transaction recorded in the balance sheet.

During our site visits with the current mastersubservicers in August and September, we held discussions with representatives of the mastersubservicers and Ginnie Mae regarding issues we had tracing the reimbursable costs invoices to the provided summaries of taxes, insurance, and corporate advances. In late September and October, we communicated to both parties about the missing support for transactions that occurred prior to transition to the current mastersubservicers. According to the mastersubservicers, they do not seek support for the reimbursable costs incurred prior to transition until after the foreclosure is complete and a claim is being filed with the applicable insurer. However, we did not always identify evidence of this effort in the sample of claim files we reviewed. For the support the mastersubservicers did provide, we were not always able to tie it directly to the transactions included in Ginnie Mae's subledger for reimbursable costs and claims receivable. These issues led to one mastersubservicer resubmitting documentation supporting its sample (fully delivered on December 5, 2019) and Ginnie Mae having to work with the other mastersubservicer to determine how to trace detailed support documentation to the summaries because the summaries were missing key information.

While Ginnie Mae performed procedures to verify the reasonableness of the reimbursable costs balances, it did not review the transaction-level detail to support the beginning balances in SLDB. Specifically, Ginnie Mae did not review the vendor-specific invoice-level detail. Ginnie Mae stated that due to legal reasons, it was unable to obtain the specific vendor invoices from the prior mastersubservicers. According to the Financial Accounting Standards Board's Statement of Financial Accounting Concept No. 5, Recognition and Measurement in Financial Statements of Business Enterprises, paragraph 63, for an item to meet recognition criteria to be recorded in the financial statement, it should be measurable and reliable, which includes having information that is faithful, verifiable, and neutral. Therefore, in order for a reimbursable cost to be recognized on the balance sheet, it must have valid support.

In December 2019, we stopped testing the reimbursable costs and claims receivable line items. We determined that Ginnie Mae would not be able to provide sufficient, appropriate documentation in an acceptable timeframe for us to complete the fiscal year 2019 financial statement audit. These documentation issues and the statutory timing for completion of the audit did not allow us to determine whether the costs were supported.

Mortgage Loans Held for Investment and Acquired Property

We did not complete our audit of the mortgage loans held for investment and acquired property line items. During the audit, we determined that the material and pervasive effects of the modeling issues related to guaranty assets and guaranty liabilities rendered further testing unnecessary, as the outcome of any further testing would not have changed our disclaimer of opinion. In addition, the following factors impaired our ability to complete the work in a timely manner: (1) the corrections of errors and restatement adjustments that Ginnie Mae made in late October 2019 and (2) the timing of the receipt of the yearend data that we needed for our yearend balances audit test work.

In October 2019, Ginnie Mae disclosed that it had identified 13 types of errors in NPA accounts which resulted in the restatement of its fiscal year 2018 financial statements and corrections to its fiscal year 2019 ending balances for NPA accounts. The corrections delayed Ginnie Mae's submission of its fiscal year 2019 yearend data until mid-November 2019, which impacted our ability to select yearend samples, obtain supporting documentation, and complete necessary audit procedures within the required timeframe. See finding 2 for details on the errors that impacted the entire active NPA portfolio.

Before Ginnie Mae disclosed to us its fiscal year 2018 restatement and fiscal year 2019 correction of errors, we had selected a statistical sample of mortgage loans held for investment as of the interim date of June 30, 2019. We designed the statistical sample to estimate the value of mischaracterized loan activity between the fiscal year 2018 ending balance and the June 30, 2019, balance and how often this misstatement took place. We concluded that the restatement and correction of errors that Ginnie Mae conducted after we selected our statistical sample meant that our sample projection could have an unacceptable margin of error and could be inaccurate. As a result, we did not complete all of our planned audit procedures for our sample as of June 30, 2019.

Because of the rapid turnover in acquired property, we did not select an interim sample for testing, as we did not expect an interim sample to be representative of yearend balances. Due to Ginnie Mae's providing yearend data in mid-November for our fiscal year 2019 audit, we were unable to validate the data, select a sample of acquired property records for review, and request and review the pertinent documents before the required audit report issuance date.

As a result of these challenges, we were not able to complete the substantive audit procedures necessary to opine on Ginnie Mae's NPA portfolio totaling $2.6 billion, net.

Current-Year Status of Prior-Year Matters

We first reported concerns regarding the reliability of the allowance for loan loss account balances in fiscal year 2016. Due to the concerns noted above, the account remained out of scope for fiscal year 2019. The following is an update on prior-year matters.

Various Unresolved Allowance for Loan Loss Accounting Issues
In prior years, we disagreed with Ginnie Mae on its categorization of all FHA-insured loans as purchase, not credit impaired. Due to documentation issues we experienced with the claims receivable review, we were not able to validate that the portion not reimbursed during the claims process was immaterial to Ginnie Mae's financial statements. Further, due to our continued concerns with Ginnie Mae's models used in financial reporting, we could not assess Ginnie Mae's progress in addressing prior-years' audit findings in the following areas: accounting treatment for trouble debt restructuring and purchase credit impaired loans, loan impairment and measurement, servicing costs, and foreclosure and maintenance costs.

Ginnie Mae's Entitywide Model Risk Governance Issues Continued
In fiscal year 2016, we began reporting issues with Ginnie Mae's model risk governance. As noted above, we still have concerns in this area. Therefore, the issue remains open.

Ginnie Mae Remained Vulnerable to Risk of Changes in Its Business Environment
In fiscal year 2016, we noted weaknesses in Ginnie Mae's capability to identify, monitor, analyze, evaluate, and appropriately respond to changes in its business environment due to a lack of processes and personnel dedicated to managing these important responsibilities. We are concerned because these weaknesses could lead to Ginnie Mae's failing to properly account for or disclose in its financial statements any operational business transactions or activities that have a financial reporting impact, such as issuer defaults, third-party guarantees, or indemnification agreements.

In fiscal years 2017 and 2018, Ginnie Mae implemented an action plan in response to our audit recommendations regarding accounting for potential issuer defaults. During our fiscal year 2019 audit followup, we assessed Ginnie Mae's progress in addressing prior-year audit recommendations and determined that the vulnerability remained because, while Ginnie Mae was making progress in its corrective action plan, full implementation is not expected until fiscal year 2020.

Conclusion

Given the pervasive effect of these model assumptions and methodologies in estimating the cash flows that drive Ginnie Mae's accounting estimates for the guarantee assets and guarantee liabilities and its allowance for loan losses, in our opinion, the modeling concerns are qualitatively and quantitatively material. Further, documentation challenges prevented us from completing planned audit procedures for Ginnie Mae's NPA portfolio. As a result, we determined that our fiscal year 2019 audit scope was insufficient to express an opinion on Ginnie Mae's financial statements as of September 30, 2019.

Recommendations

We recommend that Ginnie Mae's Chief Financial Officer, in consultation with its Chief Risk Officer,

1A. Test whether a cumulative housing price appreciation (HPA) variable should be added to the probability of prepayment, probability of default, foreclosure timeline, buyout time models, and cure rate assumptions. Ginnie Mae should provide an analysis if it believes that adding an HPA variable would not be appropriate to support its position.

1B. Develop and implement policies and procedures to require a sufficiently granular decomposition analysis that can adequately explain the impact of all the model changes made.

1C. Develop and implement policies and procedures or enhance or clarify, as appropriate, existing policies and procedures that will require additional analyses whenever thresholds are breached or other analyses indicate potential modeling issues.

1D. Document the economic rationale behind unintuitive model coefficients to support that the unintuitive relationships are appropriate.

1E. Document all model assumptions that are undocumented, providing the basis for any assumptions or decisions made when developing each model assumption.

1F. Develop and implement policies and procedures to ensure compliance with model risk management guidance regarding adequate and well-documented model assumptions.

1G. Develop and implement controls that ensure the updating of model documentation when model changes are made.

1H. Improve model documentation by addressing the model documentation deficiencies cited in this report and narrowing or consolidating them into fewer pieces of documentation, as appropriate.

1I. Formalize and define coding best practices within Ginnie Mae's model governance framework.

1J. Apply coding best practices during model development processes and add a control for reviewing model code for compliance with best practices.

We recommend that Ginnie Mae's Chief Financial Officer

1K. Ensure that documentation is maintained to support reimbursable cost receivables recorded on Ginnie Mae's financial statements or write off the reimbursable costs receivables that are not valid or cannot be supported.

1L. Establish audit trails to ensure that supporting documentation can be easily traced and verified to the recorded transactions in the general ledger.

Finding 2: Ginnie Mae Had Made Progress in Addressing Deficiencies in Its Internal Control Over Financial Reporting, but Concerns Remained

Ginnie Mae continued to make progress in strengthening internal control over financial reporting during fiscal year 2019. However, we identified deficiencies that demonstrated weaknesses in certain internal controls over financial reporting. Specifically, Ginnie Mae (1) was unable to provide assurance on the effectiveness of its internal controls, (2) had control weaknesses regarding its nonpooled loan assets, and (3) had weaknesses in its data processing controls within its nonpooled assets audit remediation (NPAAR) solution. These conditions occurred because Ginnie Mae (1) did not complete necessary OMB Circular A-123 testing, (2) lacked sufficient communication and coordination with the mastersubservicers during the planning and development phase of SLDB, (3) relied on detective controls to validate data from the Office of Enterprise Risk (OER) to SLDB rather than preventive controls, and (4) deferred a significant number of programming code corrections and enhancements. As a result, Ginnie Mae's loan-level data contained errors that were corrected through (1) manual adjustments in fiscal year 2019 totaling $219 million, and (2) restatement of its fiscal year 2018 financial statements by an absolute value of $65.4 million in assets and liabilities and net impact of $19.6 million in its investment of the U.S. Government. These corrections impacted the September 30, 2019, balances of all 23,476 active loans in its NPA portfolio. Until remaining weaknesses are resolved, Ginnie Mae cannot provide assurance that its internal controls can be relied upon to prevent and correct misstatements or the risk of material misstatements in its financial statements in a timely manner.

Ginnie Mae Could Not Provide Assurance on the Effectiveness of Its Internal Controls

Ginnie Mae's internal control system was not sufficient to provide reasonable assurance that its financial statements were free of material misstatement. This condition occurred because Ginnie Mae management did not adequately design, test, and implement a functional system of internal controls. Further, management did not adequately monitor the implemented system on an ongoing basis to ensure that the system functioned effectively, modify controls as necessary, design new controls to provide assurance regarding new processes, or provide evidence of awareness in planning for new controls to mitigate emerging future control risks. In May 2019, Ginnie Mae issued an internal control assurance statement to HUD's Chief Financial Officer, providing no assurance as to the soundness of Ginnie Mae's internal controls for fiscal year 2019. In June 2019, Ginnie Mae issued a separate memorandum to us, clarifying that any documents associated with its audit preparedness activities related to the accounting for its nonpooled loan assets should not be relied upon or incorporated into findings in connection with its financial statement audit, as these documents and activities were fragmented and incomplete.

Ginnie Mae asserted that it made progress in fiscal year 2019 on its OMB Circular A-123 program; however, full (organization-wide) implementation was still underway. Accordingly, Ginnie Mae was unable to fully assess the design and operating effectiveness of key internal controls over financial reporting, the effectiveness and efficiency of operations, and its compliance with applicable laws and regulations in accordance with the Federal Managers' Financial Integrity Act, Sections 2 and 4. Ginnie Mae's management elected to refine the internal control approach to establish a consistent, risk-based annual assessment of internal controls and perform a limited-scope OMB Circular A-123 assessment focused on improving program governance and control documentation. This strategy included building a baseline of significant financial reporting business cycles and processes, performing a thorough risk assessment over identified business cycles, and developing an initial rotational testing plan (subject to changes in risk, management priorities, and identified deficiencies) for fiscal years 2019 through 2021. Ginnie Mae also stated that the 5-week government shutdown that ended in January 2019 contributed to its inability to carry out the requirements of OMB Circular A-123.

Ginnie Mae Had Control Weaknesses Over Its Nonpooled Loan Assets

Despite the statement of no assurance on internal controls, Ginnie Mae represented to us that certain controls were in place and operating effectively. Specifically, Ginnie Mae provided two documents describing its internal controls related to nonpooled assets. The first was a level 1 process flow that flowcharted its processes related to nonpooled assets. The last page contained descriptions of 13 key controls identified in the flowcharts. The second was a list of controls performed by the Office of Issuer and Portfolio Management (OIPM) related to nonpooled assets. It identified controls involving the review of information in nine categories: litigation reports, reimbursable expense preapprovals, real estate-owned sales offers, document custodian attestation reports, claims reports, foreclosure reports, mastersubservicer invoice packages, operations end-of-month reports, and compliance reviews of mastersubservicers.

We determined that Ginnie Mae had not implemented all of the stated controls in the two documents. In addition, in some cases, Ginnie Mae personnel stated that they (1) performed the stated controls but did not document that they did or (2) performed activities different from the stated controls.

Level 1 Process Flow

We interviewed Ginnie Mae personnel and reviewed supporting documentation to assess whether Ginnie Mae had implemented the controls documented in the level 1 process flow. We found that Ginnie Mae did not perform some of its controls as written or the written controls did not reflect the controls in place.

For instance, Ginnie Mae's written control number 3 was reconciling the mastersubservicer inventory reports to SLDB monthly generated operational balances. Ginnie Mae's flowchart showed that its Finance department used eight different mastersubservicer reports to perform this task. However, it provided only two of the reports identified in the flowchart and later disclosed that the other reports had been rendered inactive due to the SLDB implementation and it did not rely on the inactive reports. In addition, when explaining its procedures related to this control, Ginnie Mae stated that it reconciled SLDB to the general ledger, not the mastersubservicer reports to the SLDB. Therefore, Ginnie Mae did not perform this control as written, and the written controls did not reflect the controls in place.

OIPM Controls

We interviewed Ginnie Mae personnel and requested supporting documentation to assess whether the documented OIPM controls were in place and being performed. Based on our audit work, the stated OIPM controls over NPA were either insufficiently designed or not in place as described by Ginnie Mae.

Ginnie Mae was unable to provide evidence that OIPM staff implemented all of its stated controls over reviews of (1) litigation reports, (2) document custodian attestation reports, and (3) compliance reviews of mastersubservicers. In other instances, Ginnie Mae was unable to provide evidence that it performed stated controls for both mastersubservicers or claimed that a control was performed but not documented. It also could not demonstrate that it reviewed reports on the mastersubservicers' claims and foreclosure activities.

In addition, Ginnie Mae's review of mastersubservicer invoices for reimbursable costs was insufficient. The mastersubservicers did not submit supporting documents with their invoices for reimbursable costs, and the contracting officer representative looked over the invoices and used his or her judgment to determine whether items appeared to be reasonable. The contracting officer representative might select up to 25 expense items to review per month, based on manpower availability. The Vice President and Senior Advisor of OIPM stated that there was a resource and workload issue, and there were only two staff members who reviewed invoices for each mastersubservicer contract. She further stated that Ginnie Mae was considering hiring a manager to oversee contracting for help with invoice reviews because of the volume and Ginnie Mae's lack of staff resources. These statements support that Ginnie Mae was aware of the deficiency in its review of mastersubservicer reimbursable cost invoices and was considering ways to mitigate this deficiency.

Weaknesses in Ginnie Mae's Data-Processing Controls Led to Recurring Manual Adjustments Throughout the Rollout of the NPAAR Solution

While Ginnie Mae's implementation of the NPAAR solution was an improvement to accurately produce loan-level accounting that followed GAAP and Federal budgetary accounting guidance, we noted some weaknesses. Specifically, we identified issues related to (1) incomplete and inaccurate mastersubservicer data, (2) validation of valuation and policy engagement (VAPE) data, and (3) SLDB programming code corrections and enhancements identified but not yet implemented.

First, monthly master, transaction, and context files that Ginnie Mae receives from the mastersubservicers were not always complete and accurate. Secondly, we noted that Ginnie Mae did not sufficiently validate mastersubservicer data before processing and required a number of manual adjustments at yearend to correct errors. This condition was due to a lack of sufficient communication and coordination between Ginnie Mae and the mastersubservicers during the planning and development phase regarding what data Ginnie Mae needed and what the mastersubservicers should provide. The mastersubservicers and Ginnie Mae had their own separate policies and procedures governing the data sent from each mastersubservicer to the SLDB, leading to inconsistencies within the data. Ginnie Mae performed data quality checks to mitigate the deficiencies in the mastersubservicer data noted above. The data quality check process is a series of predefined data quality rules and checks executed on the incoming mastersubservicer data, and findings of high severity are addressed before moving into the next boundary, the operational data store of the NPAAR solution.[12] The data quality checks identified and addressed the deficiencies in the data provided by the mastersubservicers. Ginnie Mae's policy was to review the appropriateness of the data quality checks on an as-needed basis to determine whether they were still needed, caused more manual adjustments, or their severity level was appropriate.

The OER used data provided by the SLDB and provided incremental chargeoffs, accrued interest receivable adjustments, new allowance balances, new realizable value percentages for taxes and insurance and corporate advances, and new fair market value data for use by the SLDB. The SLDB inbound VAPE data from OER were not sufficiently validated before processing and resulted in many types of manual adjustments. Ginnie Mae relied upon backend detective controls to identify discrepancies with the dollar amounts provided by OER for SLDB processing. Preventive controls were not in place to identify accounting issues before data were provided to the SLDB, which resulted in a large amount of manual adjustments to correct the errors detected.

While Ginnie Mae addressed a number of data processing issues during fiscal year 2019, it also deferred a significant number of programming code corrections and enhancements. Additionally, some business processes were not properly accounted for in SLDB processing. This resulted in incorrect GAAP balances that required manual adjustments to correct the financial data and system corrections and enhancements to prevent future occurrences. Competing priorities delayed the development and implementation of some of the corrections and enhancements needed to reduce manual adjustments. However, manual adjustments were recorded to correct the financial data and the GAAP balances.

These preventive control weaknesses resulted in approximately $219 million in manual adjustments to address potential financial statement errors throughout fiscal year 2019. A high volume of manual adjustments increases the risk of material misstatement due to the higher risk of error associated with manual modifications.

The need for recurring manual adjustments will not be sufficiently reduced until the identified programming code corrections and enhancements are prioritized and implemented. While Ginnie Mae continues to identify insufficient mastersubservicer data and perform manual adjustments to correct the data, risk is still present if these issues and solutions are not managed properly.

Ginnie Mae Restated Its 2018 Financial Statements To Correct Financial Reporting Errors Identified During Fiscal Year 2019

After SLDB went live in February 2019, Ginnie Mae performed reviews and investigated issues, which led to the identification of multiple errors. On October 15, 2019, Ginnie Mae informed us that it had identified 13 different types of errors impacting its fiscal year 2018 financial statement

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[12] Ginnie Mae classified its data quality rules and checks on a scale of 1 to 3. A severity 1 error is defined as a potential material downstream impact on financial numbers during data processing. A severity 2 error is defined as a minimal to negligible material impact on financial numbers during data processing. A severity 3 error is defined as no impact on financial numbers during data processing.

line items related to its NPA. At the end of October 2019, Ginnie Mae restated its fiscal year 2018 financial statements to correct the errors. Ginnie Mae needed to correct data inputs, formulas, and incorrect information, thereby necessitating restatement affecting the following financial statement line items: (1) claims receivable, net; (2) mortgage loans held for investment, including accrued interest, net; (3) reimbursable costs, net; (4) guaranty asset; and (5) guaranty liability. The absolute value impact to these line items as a result of this restatement totaled $65.4 million, and the total net impact to the investment of the U.S. Government was $19.6 million. The corrections involved in this restatement were complex and, when performed so close to yearend, further complicated and increased risk in Ginnie Mae's yearend financial reporting processes.

These corrections also impacted the September 30, 2019, balances of all 23,476 active loans in its NPA portfolio. While Ginnie Mae self-identified these errors, shortcomings in its preventive controls led to this restatement. Multiple errors indicated weaknesses in Ginnie Mae's internal controls over financial reporting and contributed to a lack of assurance regarding the accuracy of financial statements published by Ginnie Mae.

Current-Year Status of Prior-Year Matters

Ginnie Mae's Unsupported Writeoff of Balances in Its Advances Account Not Resolved

In fiscal year 2016, we reported that Ginnie Mae wrote off advances against defaulted MBS pools and net accounts (advances) totaling $248 million (asset) and $171 million (allowance), respectively, without adequate support. As a result, we recommended that Ginnie Mae reverse the writeoff of the advances accounts and conduct an adequate analysis to determine whether any of the balances were collectible in conjunction with Ginnie Mae's SLDB project. In December 2019, Ginnie Mae provided additional documentation on this matter, which it believed supported that the writeoff was appropriate. However, due to the timing of completing the audit, we were unable to complete our review of the documentation. We will evaluate this analysis as part of the fiscal year 2020 audit.

Issues Related to Note Disclosures Not Resolved

In fiscal years 2016 and 2017, we noted concerns with financial statement note disclosures. These issues included Ginnie Mae's inability to disclose certain information regarding mortgage loans held for investment and the related allowance for loan loss, which were required to be disclosed in accordance with GAAP, due to loan-level data information limitations. With the implementation of Ginnie Mae's SLDB in fiscal year 2019, Ginnie Mae disclosed the loan-level information regarding its mortgage loans held for investment and related allowance for loan loss. However, due to the scope limitation identified in finding 1, we were unable to resolve all prior-year note disclosure issues for fiscal year 2019 financial reporting.

Ginnie Mae Working To Implement Effective Monitoring of Its Service Organizations

In fiscal year 2014, we identified weaknesses in Ginnie Mae's monitoring of its service organizations engaged to perform operational processes and accounting. Our audit followup in 2019 determined that Ginnie Mae had not fully implemented action plans for ensuring effective monitoring and oversight of its service organizations. Ginnie Mae repeated to us its plan to complete implementation in fiscal year 2020. Therefore, we consider this finding an open issue at the end of fiscal year 2019.

Conclusion

Ginnie Mae continued to make progress in strengthening internal controls over financial reporting during fiscal year 2019. However, we identified deficiencies that demonstrated weaknesses in certain internal controls over financial reporting. These conditions occurred because Ginnie Mae (1) lacked preventive controls to identify and correct errors before their inclusion in the financial statements and (2) did not complete necessary OMB Circular A-123 testing. Until these deficiencies are resolved, Ginnie Mae cannot provide assurance that its internal controls can be relied upon to prevent and correct misstatements or detect the risk of material misstatements in its financial statements in a timely manner. Further, without sufficient evidence that internal controls are working effectively, Ginnie Mae lacks assurance regarding the attainment of the essential management objectives of (1) reliability of reporting for internal and external use and (2) compliance with applicable laws, regulations, and contracts.

Recommendations

We recommend that Ginnie Mae's Chief Financial Officer

2A. Establish and implement remedial action plans to document the implementation testing of the effectiveness of its internal control over financial reporting in accordance with OMB Circular A-123, appendix A.

2B. Update its internal controls descriptions to reflect controls in place and implement monitoring activities to ensure that it carries out the controls and documents their performance and results.

2C. Resolve the issues identified with the mastersubservicers to improve the data quality and timing of the raw data received for SLDB monthly processing and minimize manual adjustments.

2D. Modify the standing operating procedures for the SLDB data quality checks that address mastersubservicer data deficiencies, data quality rules, and severity levels, to include periodic assessments of the appropriateness of the severity levels.

2E. Review VAPE data validation procedures to improve preventive controls to determine the reasonableness of the inbound VAPE data before SLDB processing.

2F. Implement the planned SLDB code fixes and enhancements to reduce future manual adjustments.

Significant Deficiency

Finding 3: Ginnie Mae Was Not in Full Compliance With Federal Information System Controls Requirements for Its Financial Accounting System

Ginnie Mae was not in full compliance with Federal information system controls requirements for GFAS and its SLDB component. Our review of the application-level general controls and data management system controls over GFAS and SLDB identified deficiencies with (1) timely remediation of the reported security deficiencies, (2) the access and functionality of the system administrator role assignments, (3) audit logging and monitoring policy and procedures, and (4) segregation of duties review process and documentation. These deficiencies occurred because (1) Ginnie Mae system policies and procedures did not sufficiently address how to track and remediate deficiencies in a timely manner; (2) most of GFAS' system administrator role assignments were included in the commercial product;[13] (3) Ginnie Mae relied on a log management manual that did not cover or address business application logging; and (4) Ginnie Mae focused on the roles assigned to OCFO staff within the system, as opposed to all roles, when it developed the GFAS segregation of duties procedures. These deficiencies could result in (1) the organization's being exposed to greater risk, (2) the ability to gain unauthorized access, (3) the entity's inability to thoroughly identify the critical processes and the related information that may be needed, and (4) the possibility that a single person could be responsible for diverse and critical functions.

Security Control Deficiencies Were Not Remediated in a Timely Manner

Ginnie Mae did not remediate three of the four security control deficiencies identified for GFAS in Ginnie Mae's contractor's fiscal year 2018 independent service audit report in a timely manner. This condition occurred because Ginnie Mae's system policies and procedures did not sufficiently address how to track and remediate deficiencies identified in the report in a timely manner in accordance with HUD policy. An organization's negligence or failure to act is harder to defend if it is determined that the organization did not remediate the deficiency within a reasonable timeframe. As a result, the organization can be at greater risk, not only from the exposure to the deficiency, but also from how long it takes to address it.

System Administrator's User Role Assignments' Access and Functionality Were Not Defined and Documented

Ginnie Mae did not ensure that the role assignments providing system administrator-level access in GFAS, which includes the SLDB module, were properly defined and documented and that the potential security risks were identified. The condition occurred because most of GFAS' system administrator role assignments were included in the commercial product. Ginnie Mae also indicated that the system's inherent access was working as expected and did not explore further to understand the types of access and functionalities associated with the system administrator's

13 PeopleSoft financial management suite includes General Ledger, Accounts Payable, Accounts Receivable, Purchasing, and Commitment Controls.

role assignments or assess whether all of the role assignments were necessary for the system administrator role. Servers and applications come with default settings for users and groups, and sometimes those accounts are not established in a secure manner. Therefore, any default setting should be reviewed, and changes should be made when appropriate. Without adequate access control measures in place, powerful capabilities may be available to those who have access to the systems' software and related functions and, therefore, have the capability to view or modify financial information. Improperly modified financial information can cause an organization to make inaccurate financial decisions. Inadequate controls over system access, if exploited, could potentially affect Ginnie Mae's reputation.

Audit Logging and Monitoring Controls Were Not Adequate

GFAS and SLDB have logging capabilities because security and infrastructure type events are logged by Ginnie Mae's contractor.[14] However, Ginnie Mae does not have documented policies or procedures regarding audit logging and monitoring for GFAS and SLDB. The condition exists because Ginnie Mae relied on its log management manual, which did not address business application logging. Employing data management systems to support operational aspects of an application is typical. The completeness and value of the audit trails maintained will be only as good as the entity's ability to thoroughly identify the critical processes and the related information that may be needed. Further, the absence of documented policies and procedures to govern logging and monitoring can make it difficult to hold individuals accountable.

Segregation of Duties Review Process and Documentation Were Not Sufficient

We identified several discrepancies within Ginnie Mae's controls over its segregation of duties process and documentation. Specifically, (1) Ginnie Mae's separation of duties procedures for GFAS did not fully address all the GFAS and SLDB roles, (2) documentation of Ginnie Mae's initial assessments for separation of duties conflicts was not sufficient or consistent with its written internal procedures, (3) there were instances of inconsistencies between the access authorization forms and the level of system access granted, (4) the documented change management procedures were not consistent with Ginnie Mae's practices, and (5) Ginnie Mae's review of its monthly User Role Matrix report was insufficient. These conditions occurred because Ginnie Mae focused on the roles assigned to OCFO staff within the system, as opposed to all roles, when it developed the GFAS segregation of duties procedures. Ginnie Mae did not thoroughly review access authorization forms and the initial segregation of duties assessment process, and there were no checks and balances in place to prevent discrepancies between approved access forms and the access granted in the system. Additionally, the configuration management plan[15] was outdated and undergoing review and changes, and the access-role information used in the User Role Matrix report was pulled directly from the system and not compared to the access authorization forms. Effective segregation of duties is crucial to an organization's operations. It is designed to prevent the possibility that a single person could be responsible for diverse and critical functions in such a way that errors or misappropriations could

[14] Security and infrastructure type of events refers to access to and modification of sensitive or critical system resources, such as account logon, synchronization of a replica of an active directory, authentication ticket, etc.

[15] Standardized methods and procedures used for efficient and prompt handling of all production changes to minimize the impact of change-related incidents on service quality and consequently improve the day-to-day operation

occur and not be detected in a timely manner in the normal course of business processes. Thus, limiting the focus or review of segregation to only specific roles could hinder effective segregation. Generally, segregation of duties includes segregating incompatible duties, thereby maintaining formal operating procedures, supervision, and review. Proper documentation should be maintained to reflect current conditions. It should be periodically reviewed and, if appropriate, updated and reissued to reflect changes.

Followup on Information System Control Deficiencies Previously Identified on Ginnie Mae's Oversight of IPMS

In our fiscal year 2018[16] audit, we found that Ginnie Mae's general controls over the Integrated Pool Management System (IPMS)[17] were deficient. Specifically, some utility software was not adequately secured, password controls for some privileged accounts were not enforced, access controls for contractor employees were inadequate, and the review for incompatible duties was not documented.

We issued 12 recommendations to address the issues cited. In March 2019, HUD provided a corrective action plan. As of September 30, 2019, the recommendations remained open. However, Ginnie Mae had recently submitted supporting documentation for our review and assessment to close the recommendations. We agreed with Ginnie Mae's actions taken on 5 of 12 recommendations, which are now closed; 7 remain open.

Followup on Information System Control Deficiencies Previously Identified on Ginnie Mae's Oversight of Its Mastersubservicers

In our fiscal year 2015[18] audit, we found that Ginnie Mae did not provide adequate oversight of one of its single-family mastersubservicers[19] to ensure that adequate business process controls were in place to provide a compliant level of internal controls over financial reporting. Specifically, Ginnie Mae did not have proper segregation of duties regarding cash processes, and management used an ineffective monitoring tool that did not capture all financial data adjustments.

We issued three recommendations to address the issues, and all three remain open. For one recommendation, we did not agree with the corrective actions taken to support closure of the recommendation. For the remaining two recommendations, we did not agree with Ginnie Mae's proposed management decisions on what corrective actions it would take. On March 6, 2017, we issued a referral memorandum to the Acting Deputy Secretary regarding the remaining two recommendations. On September 12, 2018, Ginnie Mae provided additional information in response to the recommendations. We reviewed the information and concluded that it did not

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16 Audit Report 2019-DP-0001, Information System Controls Over the Integrated Pool Management System, issued December 21, 2018

17 IPMS is a Ginnie Mae system maintained by The Bank of New York Mellon. IPMS is a proprietary mainframe application that has three major component subsystems: New Pool Processing, Pool Reporting, and Generalized Mortgage Backed Securities.

18 Audit Report 2016-FO-0001, Audit of Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (Restated), issued November 13, 2015

19 The single-family mastersubservicer provides mortgage servicing and loan default management for the full life cycle of loans in Ginnie Mae's portfolio.

adequately address the recommendations. As of September 30, 2019, all three recommendations remained unresolved.

Conclusion

Ginnie Mae must improve its controls over GFAS and SLDB and its other financial management systems and processes to fully comply with Federal requirements and security controls and prevent (1) the organization from being exposed to greater risk, (2) the ability to gain unauthorized access without adequate controls, (3) the entity's inability to thoroughly identify the critical processes and the related information that may be needed, and (4) the possibility that a single person could be responsible for diverse and critical functions.

Recommendations

Recommendations are included in a separate Office of Inspector General (OIG) report. Therefore, no recommendations are reported here.

Compliance with Laws, Regulations, and Contracts

Finding 4: Noncompliance With the Debt Collection Improvement Act of 1996 Continued

Ginnie Mae's noncompliance with DCIA continued. As reported in the past 4 fiscal years, Ginnie Mae had not remediated its practice of not analyzing the possibility of collecting on certain uninsured mortgage debts owed to Ginnie Mae, using all debt collection tools allowed by law, before discharging them.[20] This condition occurred because Ginnie Mae continued to take the position that DCIA did not apply to Ginnie Mae; therefore, it did not need to comply with DCIA requirements.

Although Ginnie Mae's position regarding DCIA's applicability has remained unchanged for the past 4 years, Ginnie Mae agreed to develop a policy for managing losses on uninsured loans in response to our audit report. This operational policy on debt collection practices has been in development since fiscal year 2015. As of January 2020, Ginnie Mae expected this policy to be issued in fiscal year 2020.

Because of continued disagreement on the applicability of DCIA to Ginnie Mae, we plan to seek guidance and clarification from the U.S. Government Accountability Office on this issue during our fiscal year 2020 audit.

Conclusion

For the fifth consecutive fiscal year, Ginnie Mae has not complied with DCIA. As a result, it may have missed opportunities to collect millions of dollars in debt related to losses on its MBS program.

Recommendations

We are not reporting new recommendations for this finding. The prior-year recommendation for this finding remains outstanding.[21]

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[20] 31 U.S.C. (United States Code) 3711, Collection and Compromise, (g)(9), states that before discharging any delinquent debt owed to any executive, judicial, or legislative agency, the head of such agency must take all appropriate steps to collect such debt, including (as applicable) "(A) administrative offset, (B) tax refund offset, (C) Federal salary offset, (D) referral to private collection contractors, (E) referral to agencies operating a debt collection center, (F) reporting delinquencies to credit reporting bureaus, (G) garnishing the wages of delinquent debtors, and (H) litigation or foreclosure."

[21] Audit Report 2016-FO-0001, issued November 13, 2015, finding 6, recommendation 6A: 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 sheet as of September 30, 2019, and the related statements of revenues and expenses and changes in the investment of the U.S. Government and statement of cash flows for the year 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 19-03, as amended, Audit Requirements for Federal Financial Statements.

In fiscal year 2019, 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. These matters restricted 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 31 prior-year audit recommendations that were open at the beginning of fiscal year 2019 and their current status at the end of fiscal year 2019.

Government National Mortgage Association Fiscal Year 2017 and 2016 (Restated) Financial Statements Audit, 2018-FO-0002

For the one audit recommendation in OIG audit report 2018-FO-0002, we concurred on the action plan for that audit recommendation and closed the recommendation.

Government National Mortgage Association Fiscal Year 2016 and 2015 (Restated) Financial Statements Audit, 2017-FO-0001

Of 12 audit recommendations in OIG audit report 2017-FO-0001, we concurred on the action plans for 10 (3 closed, 5 under OIG's review, 2 under remediation) audit recommendations. We referred the remaining two audit recommendations to the departmental audit resolution official because we were not in agreement with Ginnie Mae's management decisions on the actions necessary to correct the deficiencies. Our assessment of the current status of the recommendations is presented below.

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

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

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

Of 12 audit recommendations in OIG audit report 2015-FO-0003, we concurred on the action plans for 7 (5 under OIG's review and 2 under remediation) audit recommendations. We referred the remaining five audit recommendations to the departmental audit resolution official because of a disagreement with Ginnie Mae's management decision on the actions necessary to correct the deficiencies. Our assessment of the current status of the recommendations is presented below.

Fiscal year 2017 recommendations	Classification	Fiscal year 2019 status
We recommend that Ginnie Mae's Chief Financial Officer		

2A. Require its mission support contractors to submit a capitalization report and other supporting documentation in a timely manner, which would allow Ginnie Mae to record fixed asset activities during the proper period.	Material weakness 2017, finding 2	Closed

Fiscal year 2016 recommendations	Classification	Fiscal year 2019 status
We recommend that Ginnie Mae's Chief Financial Officer		
2D. Establish and implement policies and procedures to ensure that proper accrual accounting entries are made to record the accounting event related to closed REMIC [real estate mortgage investment conduit] deals at the end of each month.	Material weakness 2016, finding 2	Closed
2F. Reverse the accounting writeoff of the advances accounts. In conjunction with the subledger data solution, conduct a proper analysis to determine whether any of the $248 million balances in the advances accounts are collectible.	Material weakness 2016, finding 2	We did not reach a management decision. We previously referred it to departmental audit resolution official for resolution. In December 2019, Ginnie Mae provided additional documentations, but we were unable to complete our review due to time constraints imposed by the statutory reporting deadlines. See material weakness 2019 – finding 2.
2G. Establish and implement policies and procedures to ensure that a subledger is maintained to accurately account for the advances balances at a loan level.	Material weakness 2016, finding 2	Under review – We consider this recommendation open although Ginnie Mae already closed this in e-Case. Due to a scope limitation, we did not complete our audit work to clear the issue in fiscal year 2019.
2H. Enhance existing policies and procedures for its fixed assets, to include systems, processes, and controls, to ensure (1) proper review of invoices to determine whether costs are capitalized or expensed in accordance with GAAP, (2) development costs are capitalized	Material weakness 2016, finding 2	Closed

Fiscal year 2016 recommendations	Classification	Fiscal year 2019 status
when incurred, and (3) book value is consistent across all documents.		
2I. Establish and implement controls to ensure that escrow and outstanding MBS commitment balances reported in the financial statements are accurate and complete.	Material weakness 2016, finding 2	Closed
2J. Establish and implement procedures and controls to ensure that indemnification or repurchase agreements (guarantees) are properly accounted for and disclosed in the financial statements in accordance with GAAP.	Material weakness 2016, finding 2	Under review – We consider this recommendation open, although Ginnie Mae already closed it in e-Case. Due to scope limitation, we did not complete our audit work to clear the issue in fiscal year 2019.
2K. Establish and implement adequate procedures and controls to ensure that information related to mortgages held for investment and the associated allowance for loan losses are adequately disclosed in the notes to the financial statements in accordance with GAAP.	Material weakness 2016, finding 2	Under review – We consider this recommendation open, although Ginnie Mae already closed it in e-Case. Due to scope limitation, we did not complete our audit work to clear the issue in fiscal year 2019.
We recommend that Ginnie Mae's Chief Financial Officer		
3A. Adjust the reimbursable costs out of the allowance accounts as appropriate.	Material weakness 2016, finding 3	Under review – We consider this recommendation open, although Ginnie Mae already closed it in e-Case. Due to scope limitation, we did not complete our audit work to clear the issue in fiscal year 2019.
3B. Exclude the loan impairment allowance on other indebtedness appropriately instead of reporting it as part of loan impairment allowance on MHI [mortgage loans held for investment] account.	Material weakness 2016, finding 3	We did not reach a management decision. We previously referred it to departmental audit resolution official for resolution. In December 2019, Ginnie Mae provided additional documentations, but we were unable to complete our review due to time constraints imposed by the statutory reporting

Fiscal year 2016 recommendations	Classification	Fiscal year 2019 status
		deadlines. See material weakness 2019 – finding 2.
3C. Document Ginnie Mae's analysis and support for the categorization of its loans for loan impairment purposes and update accounting policies and procedures based on this analysis.	Material weakness 2016, finding 3	Under review – We consider this recommendation open, although Ginnie Mae already closed it in e-Case. Due to scope limitation, we did not complete our audit work to clear the issue in fiscal year 2019.
3D. Modify, as appropriate, the trouble debt restructuring (TDR) allowance model to ensure production of reasonable and appropriate loss estimates, including allowance estimates on FHA-insured loans.	Material weakness 2016, finding 3	Under remediation – Ginnie Mae has not fully implemented its corrective action plan.
We recommend that Ginnie Mae's Office of Issuer and Portfolio Management, Office of Enterprise Risk, and Office of Chief Financial Officer		
4A. Develop and document an issuer default governance framework that includes the identification, monitoring, analysis, evaluation, and response to potential issuer defaults. This process includes an assessment to maximize defaulted issuer assets and minimize losses to Ginnie Mae.	Material weakness 2016, finding 4	Under remediation – Ginnie Mae has not fully implemented its corrective action plan. See material weakness 2019 – finding 1.

Fiscal year 2015 recommendations	Classification	Fiscal year 2019 status
We recommend that Ginnie Mae's President		
4A. Ensure that the systems and processes for servicing and financial reporting on Ginnie Mae's defaulted issuers' portfolio are ready and capable of handling loan-level accounting.	Material weakness 2015, finding 4	Under review – We consider this recommendation open, although Ginnie Mae already closed it in e-Case. Due to scope limitation, we did not complete our audit work to clear the issue in fiscal year 2019.

Fiscal year 2015 recommendations	Classification	Fiscal year 2019 status
We recommend that the 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.	Material weakness 2015, finding 4	Under remediation – Ginnie Mae has not fully implemented its corrective action plan. See material weakness 2019 – finding 1.
5A. Segregate duties between individuals collecting, recording, depositing, and reconciling cash, and periodically review the controls over the cash process to ensure proper implementation of compatible functions in its cash operations department.	Significant deficiency 2015, finding 5	We did not reach a management decision. Referred to departmental audit resolution official. See significant deficiency 2019 – finding 3.
5B. Conduct ongoing monitoring of change reports to ensure that unauthorized changes are not made to Ginnie Mae's data and establish a policy regarding ongoing monitoring of change activity that requires performing periodic reviews of change reports.	Significant deficiency 2015, finding 5	Under review – Ginnie Mae has not provided sufficient evidence for our consideration in clearing this audit recommendation.
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	Significant deficiency 2015, finding 5	We did not reach a management decision. Referred to departmental audit resolution official. See significant deficiency 2019 – finding 3.

Fiscal year 2015 recommendations	Classification	Fiscal year 2019 status
with evidence of proper authorization, and ensure changes that are not properly supported are investigated and resolved accordingly.		
We recommend that Ginnie Mae's Chief Financial Officer		
6A. Request a legal opinion from the implementing agency, the U.S. Treasury, for a determination of whether Ginnie Mae is required to comply with DCIA.	Compliance with laws and regulations 2015, finding 6	We did not reach a management decision. Referred to departmental audit resolution official. See compliance with laws and regulations 2019 – finding 4.

Fiscal year 2014 recommendations	Classification	Fiscal year 2019 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 – Ginnie Mae has not fully implemented its corrective action plan. See material weakness 2019 – 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 review – We consider this recommendation open, although Ginnie Mae already closed it in e-Case. Due to scope limitation, we did not complete our audit work to clear the issue in fiscal year 2019.
2A. Establish and implement policies and procedures to ensure that reimbursable costs are tracked and accounted for at the loan level.	Material weakness 2014, finding 2	Under review – We consider this recommendation open, although Ginnie Mae already closed it in e-Case. Due to scope limitation, we did not complete our audit work to clear the issue in fiscal year 2019.
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	Material weakness 2014, finding 2	Under review – We consider this recommendation open, although Ginnie Mae already closed it in e-Case. Due to scope limitation, we did not

Fiscal year 2014 recommendations	Classification	Fiscal year 2019 status
out of the mortgage-backed securities loss liability account as appropriate.		complete our audit work to clear the issue in fiscal year 2019.
2C. Restate fiscal year 2013 financial statements to correct the impact of the accounting errors determined in recommendation 2B.	Material weakness 2014, finding 2	Under review – This was previously referred to the Deputy Secretary, but we later concurred on it after we received a revised management decision in 2018. In 2019, while the implementation of the new SLDB system was supposed to correct the errors, the issue did not clear. We were unable to complete our audit work due to scope limitation. See material weakness 2019 – 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 review – We consider this recommendation open, although Ginnie Mae already closed it in e-Case. Due to scope limitation, we did not complete our audit work to clear the issue in fiscal year 2019
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.
2F. Restate fiscal year 2013 financial statements to show escrow fund balances omitted on the face of the financial statements.	Material weakness 2014, finding 2	We did not reach a management decision. Referred to departmental audit resolution official.
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 – Ginnie Mae has not fully implemented its corrective action plan. See material weakness 2019 – finding 1.
We recommend that Ginnie Mae's President		

Fiscal year 2014 recommendations	Classification	Fiscal year 2019 status
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.
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.
4E. Preparing and implementing a plan, based on the results of the risk assessment in recommendation 4D, that		We did not reach a management decision. Referred to departmental audit resolution official.
4E. (i) Demonstrates HUD OCFO oversight of Ginnie Mae's, as a HUD component, financial management activities;	Material weakness 2014, finding 4	
4E. (ii) Ensures that Ginnie Mae updates its financial management polices to reflect conclusions reached in the financial management risk assessment;	Material weakness 2014, finding 4	
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	Material weakness 2014, finding 4	
4E. (iv) Ensures all of Ginnie Mae's financial management systems, both owned and outsourced, provide the financial information necessary to prepare and support financial statements that comply with generally accepted accounting principles.	Material weakness 2014, finding 4	

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

GinnieMae
Our Guaranty Matters

Office of the President
550 12th Street, SW, Third Floor
Washington, DC 20024
(202) 475-4900

DATE: February 3, 2020

MEMORANDUM FOR: Sarah Sequeira, Assistant Director, Financial Audits Division, HUD OIG

FROM: Seth D. Appleton, Principal Executive Vice President, Ginnie Mae

SUBJECT: Management Response to Fiscal Year (FY) 2019 Audit Report

The Government National Mortgage Association or "Ginnie Mae" appreciates the opportunity to respond to the Office of the Inspector General's (OIG) FY 2019 Audit Report, and we appreciate the important role that the OIG performs on behalf of American taxpayers.

Comment 1

As your report points out, some concerns remain related to the reliability of estimates produced by Ginnie Mae's models and with our accounting of the $2.6 billion non-pooled asset (NPA) portfolio. While Ginnie Mae does not concur with all of the findings and recommendations in the Audit Report, particularly relating to the auditability of our NPA portfolio and internal controls over financial reporting (see *Appendix* for additional details contributing to our difference in opinion), Ginnie Mae appreciates the OIG's efforts in identifying areas of improvement and acknowledging progress made in developing and implementing sound policies and standard operating procedures, remediating previously identified issues noted in our accounting records, assessing the reliability of the underlying NPA data, and in building the loan-level Subledger Database (SLDB) solution to account for those assets.

Comment 2

We are tremendously proud of this year's remediation milestones and financial transformation efforts. FY 2019 marked a significant milestone in our NPA portfolio remediation efforts, with the deployment of the SLDB solution, which comprised of the following activities: (1) processing over 14.5 million transactions from the master subservicers (MSS) loan servicing data, resulting in the generation of 65.5 million entries (representing 46,451 non-pooled assets) in compliance with accounting principles; (2) improving the automated and manual controls over this data processing; (3) stabilizing the new financial close and reporting processes; and (4) validating the financial results, including restated NPA balances.

Additional achievements in this year of transition included: (1) the implementation of controls to mitigate financial statement risks across all relevant Ginnie Mae program offices; (2) the development and execution of new automated and manual standard operating procedures over the NPA assets; and (3) the restatement of the FY 2018 and the production of the FY 2019 financial statements and footnote disclosures consistent with accounting principles on a timely basis.

Ginnie Mae has continued to focus on assessing the quality of the loan data underlying its NPA balance and potential impairment considerations. As of the end of the fiscal year, approximately 94% of the underlying loan data has been fully reconciled between our MSS and collateral files at the document custodian. Through existing MSS and document custodian reporting processes, collaboration and oversight, Ginnie Mae recorded additional reserves for losses arising from any document exceptions.

Ref to OIG Evaluation

Auditee Comments

Comment 3

Furthermore, Ginnie Mae has made demonstrable progress to improve the robustness of its accounting policy governance framework, which included assessment and adoption of new accounting pronouncements. Ginnie Mae diligently completed its annual review and update of 20 accounting policies, all of which were approved by HUD and available for OIG's FY 2019 audit. During FY 2019, Ginnie Mae received concurrence of the OIG on the closure of five audit findings. Additionally, Ginnie Mae closed nine audit findings as a result of remediation efforts related to a variety of weaknesses in financial operations.

While Ginnie Mae will continue to take corrective actions to strengthen its financial operations, Ginnie Mae's financial position remains sound. In addition to extremely strong MBS issuance there was record volume in the platinum program, robust activity in the real estate mortgage investment conduit (REMIC) program, and record revenue from securitization activities in FY 2019. Furthermore, Ginnie Mae made significant strides in modernizing the MBS program and platform. During FY 2019, Ginnie Mae introduced its new portal ("My GinnieMae"), a one-stop-shop for the Ginnie Mae business community; it offers advanced portal features that connects users, promotes collaboration, and shares organizational knowledge. In conjunction with My GinnieMae, a new platinum delivery module and multifamily pool delivery module were both released, facilitating over $47 billion in transactions.

Comment 4

Ginnie Mae is committed to supporting the OIG in its FY 2020 audit efforts and improving the overall audit process, as we experienced a number of challenges with the audit approach and methodology contributing to the disclaimer of opinion. In May 2018 (FY 2018), we delivered results of an extensive set of procedures performed to gain comfort over the completeness and accuracy of opening balances within SLDB, which provided OIG with the opportunity to engage in early audit planning and leveraging work performed by management. In response to delays in communication around OIG's audit approach, we also provided OIG with our own comprehensive audit plan in December 2018 (FY 2019) to aid in the identification of financial statement risks, potential audit procedures, and available audit evidence to meet audit objectives. However, it wasn't until May 2019 that we received OIG's first 2019 NPA sample request. We dedicated significant time and resources to meetings with OIG team members to discuss topics and questions already addressed in prior meetings, facilitating knowledge transfer to new OIG team members, and responding to a high volume of audit requests. We remained proactive in engaging OIG throughout this process. We continued to experience ambiguity and modifications around OIG's audit plan and requests, which presented unnecessary challenges in alignment of resources across program offices to support the audit in a timely manner. Nonetheless, Ginnie Mae fulfilled audit requests for 473 NPA samples (consisting of an estimated 55,000 documents). We were disappointed with the untimely delivery of feedback on completed audit test work, which prevented management from responding with clarification or correcting and implementing necessary changes as needed prior to the audit report being finalized.

Comment 5

Ginnie Mae believes strong coordination among the OIG and Ginnie Mae is critical to successful completion of the FY 2020 audit, with thoughtful improvements needed around communication, planning, and transparency, as Ginnie Mae addresses corrective actions stemming from the FY 2019 audit findings. In FY 2020, Ginnie Mae will focus its efforts on overcoming noted deficiencies, strengthening controls and overall governance, amidst driving various strategic initiatives. We remain dedicated to our core mission of bringing global capital into the housing finance market while minimizing risk to the taxpayer, and will continue to make enhancements to our operating model through innovation, advanced analytics and modernization of technology and infrastructure.

Ref to OIG Evaluation	**Auditee Comments**

Appendix

Ginnie Mae has a difference of opinion with regards to OIG's characterization of below listed themes as certain statements in the OIG's Audit Report could be misleading to the readers:

Comment 6

- *Ginnie Mae being the decision maker to present single year financials:* It's important to note that comparable balances could have been available to OIG for the 2019 audit. Single year presentation of the financials was at the request of the OIG due to time and resource constraints of their team.

Comment 7

- *Management's lack of methodology and communication around gathering MSS data requirements, validation of data, and SLDB functionality ahead of implementation*: As part of the development of the subledger solution, Ginnie Mae management hosted several on-site sessions with the MSS to discuss the needed data fields and their availability, as well as sessions to understand each MSS servicing and business processes and impact on requested data. In addition, Ginnie management has held weekly calls with each MSS to discuss observations and resolution plans on an ongoing basis through FY 2019.

Comment 8

- *NPA balances not being in an auditable state:* Management believes the NPA accounts are in an auditable state, as Ginnie Mae provided supporting documentation with detailed SLDB data as an audit trail for the NPA related transactions. However, due to documentation challenges encountered as a result of changes to audit requests (i.e., additional data required additional time and effort to obtain and reconcile for OIG), the OIG was not able to audit the NPA accounts under the statutory required timeline.

Comment 9

- *Management not providing transaction detail in time for OIG's year-end testing, which led to OIG not being able to complete their audit within the statutory reporting deadline:* Transaction details for year-end were provided within HUD and Treasury financial reporting deadlines and ahead of the communicated timeline that OIG noted would be the start of their year-end procedures.

Comment 10

- *Management's adjustments to year-end reported balances described as errors and control deficiencies*: Existing controls in fact enabled identification, assessment, and recording of adjustments ahead of year-end close/reporting and OIG's communicated year-end testing period. As part of ongoing control activities during FY 2019, Ginnie Mae monitored and tracked potential exceptions and associated impact to financial reporting. When the potential exceptions were considered material to the financial statements, manual adjustments to arrive at appropriate US GAAP amounts were recorded.

OIG Evaluation of Auditee Comments

Comment 1 In our comments 6 through 10 below, we evaluated the additional details in the appendix of Ginnie Mae's response to our report.

Comment 2 We agree that Ginnie Mae has made significant progress toward resolving the material weaknesses related to its nonpooled assets (NPA) portfolio and continued its overall financial transformation efforts. However, because of the challenges reported in the Basis for Disclaimer section of the independent auditor's report, we were unable to complete all audit procedures that we deemed necessary to express an opinion on the fair presentation of the NPA portfolio in Ginnie Mae's financial statements. We are committed to working with Ginnie Mae toward resolution of our concerns and Ginnie Mae's financial transformation efforts.

Comment 3 As noted in the report, of the 31 prior-year audit recommendations that were open at the beginning of fiscal year 2019, we concurred on closing 4 of them. Of the remaining 27 open recommendations, we ultimately referred 10 to the Deputy Secretary for resolution, Ginnie Mae closed 10 of the remaining 12 while these were under our review, and Ginnie Mae was actively implementing action plans on the remaining 5.

Comment 4 Ginnie Mae expressed that it experienced a number of challenges with our audit approach and methodology, and had concerns that it provided information to us throughout fiscal years 2018 and 2019 that it believed we had not leveraged for our audit of fiscal year 2019. Additional details are important to provide context to the complexity of the environment under audit. Fiscal year 2019 marked the first year in several years that Ginnie Mae represented that its NPA portfolio was ready for audit. Ginnie Mae developed and implemented the SLDB in December 2018, which went live in February 2019, to resolve the material weaknesses associated with the NPA accounts. In order for us to obtain a thorough understanding of the NPA data and systems, processes, and internal controls, Ginnie Mae held several meetings and walkthroughs, and provided responses to questions, as part of our planning process. This is not unusual for a financial statement audit, particularly a first-time audit of a $2.6 billion loan portfolio that consisted of more than 20,000 loans. These steps were necessary for us, the independent auditor, to obtain a thorough understanding of the significant business processes that were involved in the reporting of a material financial statement line item.

Ginnie Mae conducted audit preparedness activities that resulted in assertion memorandums, which were provided to us in May 2018, that included scope, methodology, and results of the preparedness activities, but it was not until March 2019 that Ginnie Mae provided the results of procedures performed over the reimbursable costs receivable line item. We had identified this line item as high risk when conducting our risk assessment procedures, and had selected the line item as one to assess during our audit.

We included the financial statement line item memorandums in our planning process and determined that we could place only minimal reliance on the procedures that Ginnie Mae conducted. This was because the procedures primarily consisted of assessing the reasonableness of balances through analytical procedures, or included limited transaction-level testing, if any. Further, our risk assessment procedures identified as high risk a number of financial statement line items that Ginnie Mae had included in the memorandums. Assessing a line item as high risk indicates that a higher level of testing is required. As such, the Government Accountability Office (GAO) Financial Audit Manual (FAM) dictates that we not rely solely on analytical procedures when testing a line item, such as those performed by Ginnie Mae. These audit standards require that we perform substantive tests of details at a level that would reduce audit risk to an acceptable level, which is how we proceeded with our audit to ensure that we complied with the GAO FAM and generally accepted government auditing standards (GAGAS).

In regard to the comprehensive audit plan provided by Ginnie Mae, we must conduct an independent audit in order to be compliant with GAGAS. Therefore, we are required to independently develop our audit strategy and plan based on our risk assessment results. Further, to maintain our independence and the integrity of our audit strategy and plan and prevent predictability of the planned procedures, we are not to disclose to the auditee details of our strategy, plan, and test procedures.

As we moved into the internal control and testing phases of the audit, we determined that because the SLDB had not gone live until February 2019, we were unable to obtain data, conduct analyses, and select test samples earlier than the go-live date. Once Ginnie Mae provided the requested data, we performed several steps necessary to assess data quality before selecting statistical samples. Our data quality assessment identified discrepancies that Ginnie Mae needed to reconcile before we could conduct sample selection. After Ginnie Mae reconciled those discrepancies considered material, we completed data analyses and provided a test sample to Ginnie Mae.

Throughout the audit, we held biweekly status meetings with Ginnie Mae, which included discussions of challenges we were encountering as the audit progressed and descriptions of deficiencies that we had identified to date. In addition, we issued formal Notifications of Findings and Recommendations to Ginnie Mae management that detailed deficiencies we had identified, and requested management's comments for our consideration before we issued the draft audit report.

Comment 5 We look forward to working with Ginnie Mae during the fiscal year 2020 audit to resolve the audit challenges we encountered during the fiscal year 2019 audit.

Comment 6 In the Emphasis of Matter section of the independent auditor's report, we stated that Ginnie Mae presented single-year financial statements. This disclosure was intended to inform the reader that the statements presented are for single year instead of comparative years, as prior year presentations have shown. We were initially engaged to audit Ginnie Mae's fiscal years 2019 and 2018, comparatively. As the audit progressed, we discussed with HUD and Ginnie Mae the audit challenges that we were encountering and the options in how to proceed. Ultimately, Ginnie Mae and OIG agreed to present and audit only the fiscal year 2019 financial statements. Therefore, we represented in this report that we were engaged to audit only the fiscal year 2019 financial statements.

Comment 7 We acknowledge that Ginnie Mae held meetings and conducted onsite sessions designed to understand the mastersubservicers' servicing and business processes, and to communicate Ginnie Mae's data needs. Our statement that the mastersubservicers and Ginnie Mae have their own separate policies and procedures governing the data sent from the mastersubservicer to the SLDB was intended to note key weaknesses in the communication and coordination between Ginnie Mae and its mastersubservicers. One mastersubservicer told us that if Ginnie Mae had clearly defined the intent of SLDB and explained how the system would process the loan-level servicing data, the mastersubservicer would have been better able to provide more complete and accurate data. We believe that improved communication and coordination would have resulted in more complete and accurate mastersubservicer data and minimized the manual adjustments. Ginnie Mae continuing the weekly calls with each mastersubservicer to discuss observations and resolution plans should improve the data quality and minimize manual adjustments in the future.

Comment 8 Ginnie Mae management represented to us in November 2018 that the NPA accounts were ready for audit during fiscal year 2019. However, the documentation provided for the NPA accounts was not sufficient and appropriate to support transactions and balances that we needed to test, and this hindrance prevented us from being able to readily trace the provided summary support to the corresponding transaction or balance. Further, Ginnie Mae misunderstood our document request for reimbursable costs and provided only support related to the current mastersubservicers' activities and did not include support related to activities performed by the previous mastersubservicers. Our request for support documentation was related to beginning balance testwork; therefore, we requested support for transactions to date. Because the fiscal year 2019 audit was the first year that the NPA portfolio was potentially auditable, our beginning balance testwork included testing all transactions included in the balance as of September 30, 2018.

We discussed these challenges with Ginnie Mae and the mastersubservicers in August and September 2019. In October 2019, one mastersubservicer agreed that it needed to resubmit the supporting documents for the reimbursable cost sample in a manner that was complete and traceable (see finding 1). However, the mastersubservicer subsequently determined that it could not provide the necessary records until December 5, 2019, approximately 6 weeks after it agreed to resubmit the information. We revised the report to clarify our initial statement regarding NPA balances not being in an auditable state.

Comment 9 Ginnie Mae had based its comments on a timeline with a report issuance date of February 28, 2020. While Ginnie Mae provided the yearend data before November 19, 2019, the date we had planned to start the yearend procedures, the timeline was subsequently accelerated to February 7, 2020, to ensure that HUD's consolidated financial statements, which incorporate Ginnie Mae's financial statements, would be substantively included in the governmentwide financial statements issued by the U.S. Government Accountability Office on or about March 1, 2020.

On October 3, 2019, we requested that Ginnie Mae provide yearend data by October 28, 2019, but Ginnie Mae did not provide the complete information until November 15, 2019. Once provided, we determined that Ginnie Mae had not included all information that we needed to validate the data, and did not do so until November 20, 2019. In order to start yearend procedures, we needed to review and analyze the yearend data to determine the appropriate sampling method and sample size necessary to complete required audit procedures. Our yearend audit procedures required that Ginnie Mae and its mastersubservicers provide sufficient, appropriate documentation for us to review operational and GAAP balances associated with the NPA accounts. Because of the amount of time the mastersubservicers needed to provide the documentation necessary for us to review our test samples, we determined that the reporting deadline of February 7, 2020, did not allow a reasonable timeframe to complete the required procedures before the report issuance deadline.

Comment 10 To address Ginnie Mae's concern, we modified the report to clarify that errors that resulted in multiple yearend adjustments were due to shortcomings in Ginnie Mae's preventive controls. These multiple adjustments, especially when performed so close to yearend, could increase Ginnie Mae's financial reporting risks.

Appendix B

Ginnie Mae's Fiscal Year 2019 Financial Statements and Notes

Government National Mortgage Association

Balance Sheet		
	September 30, 2019	
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	$	22,846,725
Restricted cash and cash equivalents		872,843
Accrued fees and other receivables		114,599
Reimbursable costs receivable, net		35,193
Claims receivable, net		173,415
Advances, net		836
Mortgage loans held for investment including accrued interest, net		2,359,367
Acquired property, net		9,945
Fixed assets, net		80,987
Mortgage servicing rights		1,268
Guaranty asset		7,112,988
Other assets		341
Total Assets	**$**	**33,608,507**
Liabilities and Investment of U.S. Government:		
Liabilities:		
Accounts payable and accrued liabilities	$	92,355
Deferred liabilities and deposits		5,456
Deferred revenue		479,460
Liability for loss on mortgage-backed securities program guaranty		6,675
Liability for representations and warranties		62
Guaranty liability		8,082,919
Total Liabilities	**$**	**8,666,927**
Commitments and Contingencies (See Note 18)		
Investment of U.S. Government	$	24,941,580
Total Liabilities and Investment of U.S. Government	**$**	**33,608,507**

The accompanying notes are an integral part to these financial statements

Statement of Revenues and Expenses and Changes in Investment of U.S. Government		
		For the year ended September 30, 2019
		(Dollars in thousands)
Revenues:		
Interest Income		
Interest income on mortgage loans held for investment	$	110,323
Other interest income		371,414
Income on guaranty obligation		1,294,139
Mortgage-backed securities guaranty fees		1,317,983
Commitment fees		93,160
Multiclass fees		31,492
Mortgage-backed securities program and other income		6,323
Total Revenues	**$**	**3,224,834**
Expenses:		
Administrative expenses	$	(28,573)
Fixed asset depreciation and amortization		(21,257)
Mortgage-backed securities program and other expenses		(235,660)
Total Expenses	**$**	**(285,490)**
Recapture (provision):		
Recapture (provision) for mortgage loans held for investment including accrued interest, net	$	57,963
Recapture (provision) for mortgage-backed program guaranty		43,329
Recapture (provision) for reimbursable cost		1,359
Recapture (provision) for claims receivable		(56,674)
Recapture (provision) for loss on uncollectible advances		(50)
Total Recapture (Provision)	**$**	**45,927**
Other Gain (Loss):		
Gain (loss) on guaranty asset	$	(3,540,600)
Gain (loss) on mortgage servicing rights		325
Gain (loss) other		18,167
Income (expense) on acquired property, net		(9,443)
Total Other Gains / (Losses)	**$**	**(3,531,551)**
Results of Operations	$	(546,280)
Investment of U.S. Government at Beginning of Period	$	25,487,860
Investment of U.S. Government at End of Period	**$**	**24,941,580**

The accompanying notes are an integral part to these financial statements

Statement of Cash Flows		
	For the year ended September 30, 2019	
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Results of Operations	**$**	**(546,280)**
Adjustments to reconcile results of operations to net cash (used for) provided by operating activities:		
Depreciation and amortization expense		21,257
Provision (recapture) for mortgage loans held for investment including accrued interest, net		(57,963)
Provision (recapture) for mortgage-backed program guaranty		(43,329)
Provision (recapture) for reimbursable costs		(1,359)
Provision (recapture) for claims receivable		56,674
Provision (recapture) for loss on uncollectible advances		50
Income (expense) on acquired property, net		9,443
(Gain)/loss on guaranty asset		3,540,600
(Gain)/loss on mortgage servicing rights		(325)
(Gain)/loss on liability for representations and warranties		(117)
Income on guaranty obligation		(1,294,139)
Interest income on mortgage loans held for investment		(2,013)
Other income		-
Changes in operating assets and liabilities:		
Restricted cash and cash equivalents		(115,419)
Accrued fees and other receivables		(5,165)
Claims receivable, net		155,792
Advances, net		(769)
Reimbursable costs receivable, net		(5,418)
Mortgage loans held for investment including accrued interest, net		1,305
Other assets		(2,429)
Accounts payable and accrued liabilities		18,479
Deferred liabilities and deposits		5,048
Deferred revenue		8,393
Net cash provided by operating activities	**$**	**1,742,316**
Cash Flows from Investing Activities		
Proceeds from repayments and sales of mortgage loans acquired as held for investment	$	209,667
Proceeds from the dispositions of acquired property and preforeclosure sales		28,064
Purchases of loans held for investment including accrued interest, net		(7,300)
Purchases of fixed assets		(16,483)
Net cash provided by investing activities	**$**	**213,948**
Cash Flows from Financing Activities		
Net cash (used for) provided by financing activities	$	-
Net change in cash and cash equivalents		1,956,264
Cash and cash equivalents, beginning of the period		20,890,461
Cash and cash equivalents, end of the period	**$**	**22,846,725**
Supplemental Disclosure of Non-Cash Activities		
Transfers from mortgage loans held for investment including accrued interest, net to foreclosed loans, net, and claims receivable, net	$	76,682
Transfers from mortgage loans held for investment including accrued interest, net to acquired property, net		24,302

The accompanying notes are an integral part to these financial statements

Note 1: Entity and Mission

The Government National Mortgage Association (Ginnie Mae) was created in 1968, through an amendment of Title III of the National Housing Act as a wholly owned United States (U.S.) government corporation within the U.S. Department of Housing and Urban Development (HUD). Ginnie Mae is a government corporation and, therefore, is exempt from both federal and state taxes. Ginnie Mae guarantees the timely payment of principal and interest (P&I) on Mortgage-Backed Securities (MBS) backed by federally insured or guaranteed residential loans to its MBS investors. The guarantee, which is backed by the full faith and credit of the U.S. government, increases liquidity in the secondary mortgage market and attracts new sources of capital for residential mortgage loans from investors. Ginnie Mae's role in the market enables qualified borrowers to have reliable access to a variety of mortgage products. Ginnie Mae's primary market is the U.S. and Territories housing market.

Through the MBS program, Ginnie Mae supports:

- First-time home buyers;
- low and moderate-income households;
- borrowers in rural, or other areas, where credit access is limited;
- young professionals with unestablished credit histories;
- borrowers with lower credit scores;
- working families with little, or no, down payment;
- borrowers with higher debt to income ratios;
- the construction and renovation of multifamily housing;
- senior citizens who need housing and support services; and
- military veterans who have served the country.

Ginnie Mae requires all mortgages to be insured or guaranteed by government agencies, including the Federal Housing Administration (FHA), the Office of Public and Indian Housing (PIH), the U.S. Department of Agriculture's Rural Development Agency (RD), and the U.S. Department of Veterans Affairs (VA). Ginnie Mae neither originates, purchases, or guarantees direct loans.

Ginnie Mae offers two single-class securities product structures – Ginnie Mae I MBS and Ginnie Mae II MBS:

- Ginnie Mae I MBS are pass-through securities providing monthly P&I payments to each investor. They are single-family, multifamily, or manufactured housing pools of mortgages with similar maturities and interest rates offered by a single issuer.

- Ginnie Mae II MBS are similar to Ginnie Mae I MBS, but allow multiple-issuer and single-issuer pools. They permit the securitization of adjustable rate mortgages (ARMs), manufactured home loans, and home equity conversion mortgages (HECM), and allows small issuers unable to meet the dollar requirements of the Ginnie Mae I MBS program to participate in the secondary mortgage market.

Ginnie Mae offers two multiclass securities product structures – Platinum Securities and Real Estate Mortgage Investment Conduits (REMIC) Securities:

- Ginnie Mae Platinum Securities is formed by combining Ginnie Mae MBS securities into a new single security. Platinum Securities can be constructed from both fixed rate and Ginnie Mae ARM Securities. They provide MBS investors with greater market and operating efficiencies, and may be used in structured financings, repurchase transactions, and general trading.
- REMIC Securities direct underlying MBS principal and interest payments to classes with different principal balances, interest rates, average lives, prepayment characteristics and final maturities. REMIC Securities allow issuers to have more flexibility for creating securities to meet the needs of a variety of investors. Principal and interest payments are divided into varying payment steams to create classes with different expected maturities, differing levels of seniority or subordination or other characteristics.

Ginnie Mae established the following four programs to support both Ginnie Mae I and II MBS, which serve a variety of loan financing needs and different issuer origination capabilities:

- ***Single-Family Program –*** consists of single-family mortgages originated for the purchase, construction, or renovation of single-family homes originated through FHA, VA, RD, and PIH loan insurance programs;
- ***Multifamily Program –*** consists of FHA and RD insured loans originated for the purchase, construction, or renovation of apartment buildings, hospitals, nursing homes, and assisted living facilities;
- ***HECM Mortgage-Backed Securities (HMBS Program) –*** consists of reverse mortgage loans insured by FHA; and
- ***Manufactured Housing Program –*** allows the issuance of pools of loans insured by FHA's Title I Manufactured Home Loan Program.

Note 2: Restatement of Previously Issued Financial Statements

Overview

The Office of the Inspector General for the U.S. Department of Housing and Urban Development (OIG), Ginnie Mae's auditor, issued a report disclaiming an opinion on Ginnie Mae's financial statements for the fiscal year ended September 30, 2018 and identified four material weaknesses in Ginnie Mae's internal controls over financial reporting. The report cited issues with accounting for the non-pooled loan assets (NPAs) acquired from Ginnie Mae's defaulted issuers' portfolio in accordance with requirements of U.S. Generally Accepted Accounting Principles (U.S. GAAP). These issues were associated with the lack of proper infrastructure to account for those assets which would require a significant investment in technology, and personnel, in order to remediate this finding.

Ginnie Mae's remediation efforts, associated with the material weaknesses noted by OIG that led to the disclaimer of opinion in the prior year, included: (i) developing accounting policies to govern the reporting of non-pooled loans compliant with U.S. GAAP; (ii) developing financial architecture, including business requirement documents, for non-pooled loans called Subledger

Database (SLDB), a non-pooled assets reporting tool to standardize reporting of loan level information; and (iii) enhancing the internal controls over financial reporting.

The remediation project culminated with the launch of Ginnie Mae’s loan accounting subledger database in January 2019. This new tool provides Ginnie Mae with the capability to translate loan servicing data into loan-level accounting entries in an integrated subledger to support appropriate accounting treatment for mortgage loans in accordance with U.S. GAAP and Ginnie Mae’s accounting policies. The implementation of the subledger database required significant enhancements to Ginnie Mae’s models and modeling processes, new interfaces and protocols for data processing and movement, and far-reaching changes to the way Ginnie Mae personnel performs the critical accounting, reporting, data processing, technology support and oversight tasks required to track and report the complex non-pooled asset portfolio. For a description of our significant accounting policies, see Note 3: Summary of Significant Accounting Policies and Practices.

Summary of Restatement Adjustments

We have classified our restatement adjustments into the four primary categories shown below:

- Correction of errors resulting from adoption or implementation of accounting policies compliant with U.S. GAAP.
- Correction of errors for capitalization of reimbursable costs previously expensed, and certain other operational balance adjustments.
- Correction of errors for improper assumptions and inputs used in the valuation of allowance accounts.
- Correction of errors for improper assumptions used in accounting estimates for the valuation of Liability for Loss on Mortgage-Backed Securities Program Guaranty, Guaranty Asset, and Guaranty Liability.

Correction of errors resulting from adoption or implementation of accounting policies compliant with U.S. GAAP: The primary changes that Ginnie Mae implemented which resulted in restatement as a result of improper application of U.S. GAAP are as follows:

- Ginnie Mae implemented a new accounting policy to charge off accrued interest and principal for mortgage loans held for investment (HFI) when Ginnie Mae believes collectability of interest or principal is not reasonably assured. Ginnie Mae’s policy is to charge off confirmed losses against the asset (loan) and allowance for loan losses to either fair market value or net recoverable value when the asset is greater than 180 days delinquent.
- Ginnie Mae implemented a new accounting policy for non-accrual status on mortgage loans held for investment. Ginnie Mae’s policy is to place uninsured loans on non-accrual status, whereby interest is no longer accrued, once P&I are greater than 90 days or more past due and Ginnie Mae believes collectability of payments is not reasonably assured. Insured loans that are greater than 90 days or more past due are placed on modified accrual

status, whereby interest is accrued at the rate recoverable from the insurer. While a loan is on non-accrual, Ginnie Mae has elected to apply subsequent cash receipts for uninsured loans to the carrying value of the loan based on the cost recovery method.

- Ginnie Mae implemented a new accounting policy to write-down the unrecoverable portion of reimbursable costs (see also correction of error to capitalize reimbursable costs in "Correction of an error for capitalization of costs previously expensed" section below).
- Ginnie Mae implemented a new accounting policy to measure acquired property initially at its fair value, net of estimated costs to sell, and to subsequently measure it at the lower of its carrying value or fair value less estimated costs to sell.
- Ginnie Mae implemented a new accounting policy to recognize impairment of troubled debt restructuring (TDR) loans. Ginnie Mae measures the impairment on loans restructured in a TDR based on the excess of the recorded investment in the loan over the present value of the expected future cash flows discounted at the loan's original effective interest rate.

The portion of the restatement resulting from the above corrections of an error for adoption or implementation of accounting policies compliant with U.S. GAAP on the balance sheet as of September 30, 2018 are as follows:

Financial Statement Line Item	**Increase/(Decrease)** *(Dollars in thousands)*
Balance Sheet as of September 30, 2018 *(as restated)*	
Mortgage loans held for investment including accrued interest, net	$ (166,276)
Reimbursable cost receivable, net	(46,142)
Claims receivable, net	(108,562)
Acquired property, net	(35,203)
Deferred revenue	73
Investment of U.S. Government	(356,256)

Correction of errors for capitalization of reimbursable costs previously expensed, and certain other operational balance adjustments: Ginnie Mae had previously incorrectly expensed costs incurred and expected to be reimbursed associated with funds advanced by Ginnie Mae to cover corporate advances (i.e., expenses during the foreclosure process) and tax and insurance shortfalls. Ginnie Mae implemented a new policy to identify and capitalize costs expected to be reimbursed and to report the receivable net of allowance for amounts that management believes will not be collected. In addition, Ginnie Mae determined that certain non-pooled asset balances required operational adjustments associated with improved loan level information from the MSS. The portion of the restatement resulting from the above correction of errors on the balance sheet as of September 30, 2018 are as follows:

Financial Statement Line Item		Increase/(Decrease) *(Dollars in thousands)*
Balance Sheet as of September 30, 2018 *(as restated)*		
Mortgage loans held for investment including accrued interest, net	$	(4,214)
Reimbursable cost receivable, net		92,992
Claims receivable, net		141,008
Acquired property, net		21,084
Accrued fees and other receivables		2,525
Accounts payable		2,169
Investment of U.S. Government		251,226

Correction of errors for changes in modeling used in the valuation of allowance accounts: As a result of new accounting policies implemented by Ginnie Mae, an allowance account is no longer maintained for acquired property, as these assets are now initially recognized at fair value, net of estimated costs to sell, and subsequently measured at the lower of carrying value or fair value less estimated costs to sell. Accordingly, adjustments were required to remove the previously maintained allowance.

Additionally, Ginnie Mae identified modeling changes which impacted the allowance for loan losses associated with updated loan-level data and examination of assumptions to apply new accounting policies.

The portion of the restatement resulting from the above correction of errors for improper assumptions used in the valuation of allowance accounts on the balance sheet as of September 30, 2018 are as follows:

Financial Statement Line Item		Increase/(Decrease) *(Dollars in thousands)*
Balance Sheet as of September 30, 2018 ***(as restated)***		
Mortgage loans held for investment including accrued interest, net	$	37,161
Claims receivable, net		6,222
Acquired property, net		9,531
Investment of U.S. Government		52,914

Correction of errors for improper assumptions used in accounting estimates for the valuation of Liability for Loss on Mortgage-Backed Securities Program Guaranty, Guaranty Asset and Guaranty Liability: The loss liability methodology was updated to include tax and insurance advances and delinquent interest in assumptions for indebtedness and recovery. These amounts were previously excluded when calculating contingent liabilities for losses due to probable MBS issuer default.

Additionally, management self-identified that the HECM cash flow horizon used in the modeling of HMBS Guaranty Asset and Guaranty Liability as of September 30, 2018 was improper, resulting in a change from a 15 to 19 year HECM cash flow horizon.

The portion of the restatement resulting from the above correction of errors for improper assumptions used in accounting estimates for the valuation of Liability for Loss on MBS Program

Guaranty, Guaranty Asset, and Guaranty Liability on the balance sheet as of September 30, 2018 are as follows:

Financial Statement Line Item	Increase/(Decrease) *(Dollars in thousands)*	
Balance Sheet as of September 30, 2018 *(as restated)*		
Liability for loss on mortgage-backed securities program guaranty	$	28,712
Liability for representations and warranties		118
Guaranty Asset		1,925
Guaranty Liability		231
Investment of U.S. Government		(27,136)

Financial Statement Impact

The following table displays the net impact of restatement adjustments in the previously issued Balance Sheet as of September 30, 2018.

	As of September 30, 2018 As Previously Reported	Adjustment (Dollars in thousands)	As Revised
Mortgage loans held for investment including accrued interest, net	$ 2,735,824	$ (133,329)	$ 2,602,495
Reimbursable costs receivable, net	–	46,850	46,850
Claims receivable, net	253,577	38,668	292,245
Acquired property, net	25,453	(4,588)	20,865
Accrued fees and other receivables	106,909	2,525	109,434
Guaranty Asset	9,007,952	1,925	9,009,877
Other Non NPA financial statement line items	21,734,973	-	21,734,973
Total Assets	**$ 33,864,688**	**$ (47,949)**	**$ 33,816,739**
Accounts payable	$ 71,707	$ 2,169	$ 73,876
Liability for loss on mortgage-backed securities program guaranty	21,293	28,712	50,005
Liability for representations and warranties	61	118	179
Deferred revenue	470,993	73	471,066
Guaranty Liability	7,733,115	231	7,733,346
Other Non NPA financial statement line items	407	-	407
Total Liabilities	**$ 8,297,576**	**$ 31,303**	**$ 8,328,879**
Investment of U.S. Government	$ 25,567,112	$ (79,252)	$ 25,487,860
Total Liabilities and Investment of U.S. Government	**$ 33,864,688**	**$ (47,949)**	**$ 33,816,739**

Note 3: Summary of Significant Accounting Policies and Practices

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

Basis of Presentation: Ginnie Mae's functional currency is U.S. dollars and the accompanying financial statements have been prepared in that currency. The financial statements conform to U.S. GAAP, except as otherwise indicated.

Going Concern: The accompanying financial statements are prepared on a going concern basis and do not include any adjustments that might result from uncertainty about Ginnie Mae's ability to continue as a going concern.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses for the periods presented, and the related disclosures in the accompanying notes. Ginnie Mae evaluates these estimates and judgments on an ongoing basis and bases its estimates on experience, historical, current and expected future conditions, third-party evaluations, and various other assumptions that Ginnie Mae believes are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment with respect to commitments and contingencies.

Ginnie Mae has made significant estimates in a variety of areas including, but not limited to, fixed assets, valuation of certain financial instruments, such as mortgage servicing rights (MSR), acquired property, allowance for loss on mortgage loans held for investment including accrued interest, claims and other loan receivables, guaranty assets, guaranty obligations, liability for representations and warranties, and the liability for loss on MBS program guarantee. Actual results could differ from those estimates.

Ginnie Mae monitors the models and estimation methods it uses in developing significant estimates, and incorporates enhancements to techniques, assumptions, information and underlying data when management determines such refinements will improve the quality of estimated amounts. During the year ended September 30, 2019, Ginnie Mae updated certain models used to estimate the guaranty asset and guaranty obligations. These refinements resulted in a significant change in the estimated fair value of the guaranty asset, which decreased from approximately $9.0 billion at September 30, 2018 to approximately $7.1 billion at September 30, 2019, with a corresponding charge to loss on guaranty asset of approximately $3.5 billion (offset by new issuances during the year). See Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure for additional information.

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

Cash and Cash Equivalents: Ginnie Mae's cash and cash equivalents consists of cash held by the U.S. Treasury (Funds with U.S. Treasury), cash that is held by the MSS and the Trustee and Administrator of securities on Ginnie Mae's behalf but has not yet been transferred to Ginnie Mae (Deposits in transit), as well as U.S. Treasury short-term investments (securities issued with an original maturity date of three months or less). Cash receipts, disbursements, and investment activities are processed by U.S. Department of Treasury (U.S. Treasury). All cash not classified as restricted cash is accessible in the event of an issuer default, termination and extinguishment[1] (defined as any failure or inability of the issuer to perform its responsibilities under the Ginnie Mae MBS programs).

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

Deposits in transit include principal, interest, and other payments collected by the MSS and the Trustee and Administrator of securities, on Ginnie Mae's behalf, in custodial accounts that have not yet been received by Ginnie Mae at the end of the reporting period.

Ginnie Mae's U.S. Treasury short-term investments consist of one-day overnight certificates that are issued with a stated rate of interest to be applied to their par value with a maturity date of the next business day. These overnight certificates are measured at cost, which approximates fair value. Interest income on such securities is presented within "Other interest income" in the Statement of Revenues and Expenses and Changes in Investment of U.S. Government.

Restricted Cash and Cash Equivalents: Cash and cash equivalents are classified as restricted when the cash is unavailable for withdrawal or usage. Restrictions may include legally restricted deposits, contracts entered into with others, or the entity's statements of intention with regard to particular deposits. Restricted cash balances are recorded in a separate line item as restricted cash and cash equivalents. Ginnie Mae received approval from the Office of Management and Budget (OMB) to invest certain portions of restricted cash in U.S. Treasury short-term investments and Ginnie Mae is entitled to the interest income earned on these investments. Restricted cash and cash equivalents also include P&I payments that were not collected by security holders and unclassified funds.

Escrow Funds (Held in Trust for MBS Certificate Holders or Mortgagors): Escrow funds are held in trust for payments of mortgagors' taxes, insurance and related items, or other fiduciary funds. This amount is $26.3 million at September 30, 2019. Escrow funds are not owned or controlled by Ginnie Mae and are therefore not included in total assets or liabilities on Ginnie Mae's Balance Sheet.

Reimbursable Costs Receivable, Net: Costs incurred on both pooled and non-pooled loans expected to be reimbursed are recorded as reimbursable costs receivable, and reported net of allowance for amounts that management believes will not be collected. Reimbursable costs arise

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[1] *Extinguishment occurs when defaulted issuer's right, title, and interest in the pooled mortgages is taken over by Ginnie Mae. Note that Ginnie Mae is not required to take over the right, title, and interest from issuers after default.*

when insufficient escrow funds are available to make scheduled tax and insurance payments for loans serviced by Ginnie Mae, and Ginnie Mae advances funds to cover the shortfall to preserve a first lien position on the underlying collateral. In addition, Ginnie Mae advances funds to cover servicing related expenses in order to preserve the value of the underlying collateral. The allowance for reimbursable costs is estimated based on historical loss experience, which includes expected collections from the mortgagors, proceeds from the sale of the property, and reimbursements collected from third-party insurers or guarantors such as FHA, VA, RD, and PIH.

Accrued Fees and Other Receivables: Ginnie Mae's accrued fees and other receivables primarily include accrued guaranty fees. Guaranty fees are discussed in Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure.

Ginnie Mae is a designated recipient agency for criminal restitution payments as a result of court order in connection with criminal proceedings against certain defendants, primarily for fraud and false claims. U.S. District Courts are responsible for receipting payments, disbursing restitution to victims, and tracking the debt. Ginnie Mae has determined that these receivables are not probable of collection and have no net realizable value. This assessment is based on Ginnie Mae's position in the recovery hierarchy for debts from defendants, its historical experience with collections on these accounts, and the overall historical experience for the U.S. Government in collecting on this category of receivable.

Claims Receivable, Net: Claims receivable represents receivables from conveyed properties and payments owed to Ginnie Mae from insuring or guaranteeing agencies (FHA, VA, RD, and PIH). Claims receivable consists of two primary components:

Short sale claims receivable: As an alternative to foreclosure, a property may be sold for an agreed-upon price, at which the net proceeds fall short of the debts secured by liens against the property. Accordingly, short sale proceeds are often insufficient to fully pay off the mortgage. Ginnie Mae's MSS analyze mortgage loans for factors such as delinquency, appraised value of the property collateralizing the loan, and market locale of the underlying property to identify loans that may be short sale eligible. Short sale transactions are analyzed and approved by the Office of Issuer and Portfolio Management (OIPM) at Ginnie Mae. For FHA insured loans where 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 delinquent interest payments at the debenture rate (less the first two months of delinquent interest). FHA is the largest insurer for Ginnie Mae. Short sales on VA, RD, and PIH guaranteed loans follow a similar process in which the claims receivable amount is determined in accordance with the respective agency guidelines. Ginnie Mae records a short sale claims receivable while it awaits repayment of the shortfall amount from the insuring or guaranteeing agencies.

Once the claims receivable is established, Ginnie Mae periodically assesses its collectability by utilizing statistical models, which incorporate expected recovery based on the underlying insuring or guaranteeing agency guidelines, and Ginnie Mae's historical loss experience. Ginnie Mae records an allowance for short sale claims that represents the expected unrecoverable amounts within the portfolio. Short sale claims less the allowance for short sale claims is the amount that Ginnie Mae determines to be collectible.

Foreclosed property: Ginnie Mae records foreclosed property when the MSS receives title to a residential real estate property that has completed the foreclosure process in its respective legal jurisdiction, or when the mortgagor conveys all interest in the property to Ginnie Mae through its MSS to satisfy the loan through completion of a deed in lieu of foreclosure process or similar legal agreement. These properties differ from acquired properties as Ginnie Mae intends to convey the property to an insuring or guaranteeing agency, instead of marketing and selling the properties through the MSS. The claimed asset is measured based on the amount of the loan outstanding balance expected to be recovered from the insuring or guaranteeing agency.

Once the claims receivable is established, Ginnie Mae periodically assesses its collectability by utilizing statistical models, which incorporate expected recovery based on the underlying insuring or guaranteeing agency guidelines and Ginnie Mae's historical loss experience. Ginnie Mae records an allowance for foreclosed property claims that represents the expected unrecoverable amounts within the portfolio. Foreclosed property claims less the allowance for foreclosed property claims is the amount that Ginnie Mae determines to be collectible.

Once losses are confirmed, Ginnie Mae charges off any uncollectable amounts against the corresponding allowance.

Advances, Net: Advances represent pass-through payments made to the MSS or issuers to fulfill Ginnie Mae's guarantee of timely P&I payments to MBS security holders, including payments made to active and non-defaulted issuers under a Ginnie Mae approved disaster relief program extended to support issuers impacted by natural disasters. Ginnie Mae reports advances net of an allowance to the extent that management believes advances will not be collected. The allowance is calculated based on expected recovery amounts from any mortgage insurance or guarantee per established insurance or guarantor rates, Ginnie Mae's collectability experience, and other economic factors.

Mortgage Loans Held for Investment Including Accrued Interest, Net: When a Ginnie Mae issuer defaults, and is terminated and extinguished, Ginnie Mae steps into the role of the issuer and assumes all servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed portfolio, including making timely pass-through payments. Ginnie Mae utilizes the MSS to service these portfolios. There are currently two MSS that service the terminated and extinguished issuer portfolios of pooled and non-pooled loans.

In its role as issuer, Ginnie Mae assesses individual loans within its pooled portfolio to determine whether the loan must be purchased out of the pool. Ginnie Mae must purchase mortgage loans out of the MBS pool when the mortgage loans are ineligible for insurance or guarantee by the FHA, RD, VA, or PIH, as well as loans that have been modified beyond the trial modification period. Additionally, Ginnie Mae has the option to purchase mortgage loans out of the MBS pool when the mortgage loans are insured or guaranteed but are delinquent for more than 90 days.

Mortgage Loans Held For Investment: Ginnie Mae has the intent and ability to hold acquired loans for the foreseeable future or until maturity, therefore, the mortgage loans are classified as HFI. Ginnie Mae reports the carrying value of HFI loans on the Balance Sheet at the unpaid principal balance (UPB) along with accrued interest, net of cost basis adjustments, and net of allowance for loan losses including accrued interest, as required by U.S. GAAP. In the event that Ginnie Mae clearly identifies mortgage loans that it intends to sell, as well as develops a formal marketing strategy or plan of sale, Ginnie Mae will reclassify the applicable loans from HFI to held for sale (HFS). For loans which Ginnie Mae initially classified as HFI and subsequently transfers to HFS, those loans would be recognized at the lower of cost or fair value until sold, with any related cash flows classified as operating activities. At September 30, 2019, Ginnie Mae had no loans classified as HFS.

Accrued interest receivable**:** Ginnie Mae accrues interest on mortgage loans HFI at the contractual rate and records an allowance on accrued interest to the extent interest is uncollectible for conventional loans, and to the extent interest is recoverable per insurance guidelines for insured or guaranteed loans.

Non-accrual and Modified Accrual: U.S. GAAP requires Ginnie Mae to have a policy that establishes when a loan is placed on non-accrual status, the method of recording payments received while a loan is on non-accrual status, and the criteria for resuming accrual of interest. Ginnie Mae's policy is to place uninsured loans on non-accrual status once either principal or interest is greater than 90 days past due (DPD) and Ginnie Mae believes collectability of payments is not reasonably assured. For uninsured loans placed on non-accrual status, interest previously accrued but not collected becomes a part of Ginnie Mae's recorded investment, and is assessed for impairment under Accounting Standards Codification (ASC) 450-20: *Contingencies – Loss Contingencies* for whole loans, and under ASC 310-10: *Receivables – Overall* for loans deemed to be impaired. While a loan is on non-accrual status, Ginnie Mae has elected to apply any cash received for uninsured loans to the carrying value of the loan based on the cost recovery method.

In accordance with the policy, once insured loans are greater than 90 days, they are placed on modified accrual status, whereby interest is accrued at the rate recoverable from the insurer. Only loans for which Ginnie has discontinued the accrual of interest are considered non-accrual loans (i.e. uninsured loans 90 days past due for which no interest is accrued). Insured loans 90 days past due are still accruing interest, although the rate may differ from the contractual rate based on the level of coverage provided by the applicable insurer/guarantor (i.e. modified accrual). For insured loans placed on modified accrual status, interest previously recognized at the contractual rate is not reversed but becomes a part of Ginnie Mae's recorded investment, and is assessed for impairment under ASC 450-20 for whole loans, and under ASC 310-10 for loans deemed to be impaired. For FHA insured loans on modified accrual status, cash receipts are applied in accordance with the P&I amortization schedule due, to the extent of the coverage provided by FHA insurance. For loans insured or guaranteed by other insurers/guarantors (RD, VA, or PIH), Ginnie Mae has elected to apply cash received to the carrying value of the loan based on the cost recovery method.

Loans can be returned to accrual status if Ginnie Mae is able to determine that all P&I amounts contractually due are reasonably assured of repayment within a reasonable period and there is a sustained period of reperformance.

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

For large groups of homogeneous loans that are collectively evaluated (pursuant to requirements in ASC 450-20), Ginnie Mae establishes the allowance for loan losses and records an allowance against both principal and interest. When Ginnie Mae determines that it is probable a credit loss will occur and that loss can be reasonably estimated, Ginnie Mae recognizes the estimated amount of the incurred loss in the allowance for loan losses. Ginnie Mae aggregates its mortgage loans based on common risk characteristics, primarily by the type of insurance or guarantee (FHA, VA, RD, PIH) associated with the loan, as each has a different recovery rate. Ginnie Mae also categorizes uninsured loans separately from insured loans. The allowance for loan losses estimate is calculated using statistical models that are based on historical loan performance and insurance or guarantee recoveries. The estimate also includes qualitative factors, where applicable.

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

Charge off: Ginnie Mae charges off accrued interest and UPB when it believes collectability of interest or principal is not reasonably assured. Ginnie Mae's policy is to charge off confirmed losses against the loan and allowance for loan losses to either fair market value or net recoverable value when the asset is at or greater than 180 days delinquent.

Recoveries: Ginnie Mae records recoveries of uninsured loans previously charged-off when cash is received from the borrower related to P&I in excess of the recorded investment. For insured loans, Ginnie Mae records recoveries of previously charged-off accrued interest amounts when cash is received from the borrower related to interest in excess of the recorded interest receivable. Recoveries of loans previously charged off are recognized as an increase to the allowance for loan losses when payment is received.

Impaired Loans: Ginnie Mae considers a loan to be impaired when, based on current information, it is probable that amounts due, including interest, will not be received in accordance with the contractual terms of the loan agreement (pursuant to requirements under ASC 310-10: *Receivables – Overall*). Ginnie Mae's impaired loans include those restructured in TDR and purchased credit impaired (PCI) loans. For impaired loans, Ginnie Mae measures impairment based on the present value of expected future cash flows. Ginnie Mae's expectation of future cash flows incorporates, among other items, estimated probabilities of default and prepayment based on a number of economic factors as well as the characteristics of a loan. Additionally, Ginnie Mae considers the estimated value of the collateral, as reduced by estimated disposition costs, and estimated proceeds from insurance and similar sources, if applicable.

***Troubled Debt Restructuring*:** To avoid foreclosure, the MSS, on behalf of Ginnie Mae, may offer concessions to help mortgagors who have fallen into financial difficulties with their mortgages. Various concessions may be provided through modification, including:

- A delay in payment that is more than insignificant;
- A reduction in the contractual interest rate that is lower than the market interest rate at the time of modification;
- Interest forbearance for a period of time for uncollected interest amounts, that is more than insignificant;
- Principal forbearance that is more than insignificant; and
- Discharge of the mortgagor's obligation due to filing of Chapter 7 bankruptcy.

Ginnie Mae considers these modifications concessions granted to mortgagors experiencing financial difficulties and classifies these loans as TDRs consistent with ASC 310-40: *Receivables – Troubled Debt Restructuring by Creditors.* Ginnie Mae measures the impairment on these loans restructured in a TDR based on the excess of the recorded investment in the loan over the present value of the expected future cash flows, discounted at the loan's original effective interest rate.

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

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

For loans that are delinquent and uninsured, or guaranteed or insured by VA, RD, or PIH, Ginnie Mae concludes that it is probable that it will not collect all contractually required payments receivable. Accordingly, these loans are considered PCI. Historically, Ginnie Mae has not applied the full PCI requirements under U.S. GAAP to these loans, because Ginnie Mae has determined that non-compliance with the full PCI requirements does not, on its own, preclude the financial statements as a whole from being materially compliant with U.S. GAAP. Currently, upon acquisition, the PCI loans are recorded at UPB plus accrued interest, less allowance. Ginnie Mae measures subsequent impairment on these loans based on the present value of expected future cash flows.

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

Ginnie Mae initially measures acquired property at its fair value, net of estimated costs to sell. At acquisition, a loss is charged-off against the allowance for loan losses account when the recorded investment in the loan exceeds the fair value, net of estimated cost to sell, of the acquired property. Conversely, any excess recovery of the fair value less estimated costs to sell over the recorded investment in the loan is recognized first to recover any forgone, contractually due P&I, and recognized in income (expense) on acquired property in the Statement of Revenue and Expenses and Changes in Investment of U.S. Government.

Ginnie Mae subsequently measures acquired property at the lower of its carrying value or fair value less estimated costs to sell. Any subsequent write-downs to fair value, net of estimated costs to sell, from its carrying value (i.e., holding period write-downs) are recognized through a valuation allowance with an offsetting charge to income (expense) on acquired property. Any subsequent increase in fair value, net of estimated costs to sell, up to the cumulative loss previously recognized through the valuation allowance are recognized in income (expense) on acquired property in the Statement of Revenue and Expenses and Changes in Investment of U.S. Government.

Ginnie Mae records gains and losses on sales of acquired property as the difference between the net sales proceeds and the carrying value of the property, less amounts recoverable from the insuring or guaranteeing agency. These gains and losses are recognized through income (expense) on acquired property on the Statement of Revenues and Expenses and Changes in Investment of U.S. Government.

Subsequent material development and improvement costs for acquired property are capitalized. Other post-foreclosure costs are expensed as incurred to income (expense) on acquired property on the Statement of Revenues and Expenses and Changes in Investment of U.S. Government.

Fixed Assets, Net: Ginnie Mae's fixed assets consist of leased assets, hardware, and software that is used to accomplish its mission. Ginnie Mae capitalizes costs based on guidance in ASC 350-40: *Intangibles – Goodwill and Other – Internal-Use Software* and ASC 360: *Property, Plant and Equipment*. Additions to fixed assets consist of improvements, new purchased items, and betterments. Purchased software is recorded at cost and amortized using the straight-line method over its estimated useful life.

The capitalization of software development costs is governed by ASC 350-40: *Intangibles – Goodwill and Other – Internal-Use Software* if the software is for internal use. After the technological feasibility of the software has been established at the beginning of application development, software development costs, which primarily include salaries and related payroll costs and costs of independent contractors incurred during development, are capitalized. Research and development costs incurred prior to application development (for internal-use software), are expensed as incurred. Software development costs are amortized on a program-by-program basis using a straight-line method commencing on the date when ready for use. Ginnie Mae did not develop software to be marketed in 2019.

Ginnie Mae depreciates its hardware assets using the straight-line basis over a three- to five-year period beginning when the assets are placed in service. Expenditures for ordinary repairs and maintenance are charged to expense as incurred.

Ginnie Mae amortizes its software assets using the straight-line basis over a three- to five-year period beginning when the assets are ready for its intended use. Ginnie Mae's OCFO and Office of Securities Operations (OSO) shall determine and periodically reassesses the estimated useful life over which the capitalized costs will be amortized. Ginnie Mae assesses the recoverability of the carrying value of its long-lived assets, including finite-lived intangible assets, whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Ginnie Mae evaluates the recoverability of such assets based on the expectations of undiscounted cash flows from such assets. If the sum of the expected future undiscounted cash flows were less than the carrying amount of the asset, a loss would be recognized for the difference between the fair value and the carrying amount. See Note 14: Fixed Assets, Net for additional information.

Fair Value Option: The fair value option under ASC 820: *Fair Value Measurements* allows certain financial assets and liabilities, such as acquired loans, to be reported at fair value (with unrealized gains and losses reported in the Statement of Revenues and Expenses and Changes in Investment of U.S. Government and related cash flows classified as operating activities). The fair value option was elected by Ginnie Mae for the guaranty asset.

Mortgage Servicing Rights: MSR represent Ginnie Mae's rights and obligations to service mortgage loans underlying a terminated and extinguished issuer's entire Ginnie Mae guaranteed pooled-loan portfolio. Ginnie Mae contracts with multiple MSS to provide the servicing of its pooled mortgage loans. The servicing functions typically performed by Ginnie Mae's MSS include: collecting and remitting loan payments, responding to mortgagor inquiries, reporting P&I payments, 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 interest portion of each monthly installment of P&I actually collected by MSS on the pooled mortgage loans. The servicing fee is calculated based on the servicing fee percentage, embedded in the note rate. Ginnie Mae pays a sub-servicing expense to the MSS in consideration for servicing the loans.

In accordance with ASC 860: *Transfers and Servicing,* Ginnie Mae records a servicing asset (or liability) each time it takes over a terminated and extinguished issuer's Ginnie Mae guaranteed pooled-loan portfolio. The MSR asset (or liability) represents the benefits (or costs) of servicing that are expected to be more (or less) than adequate compensation to a servicer for performing the servicing. The determination of adequate compensation is a market notion and is made independent to Ginnie Mae's cost of servicing. Accordingly, Ginnie Mae's determination of adequate compensation is based on compensation demanded in the marketplace. Typically, the benefits of servicing are expected to be more than adequate compensation for performing the servicing, and the contract results in a servicing asset. However, if the benefits of servicing are not expected to adequately compensate for performing the servicing, the contract results in a servicing liability.

Ginnie Mae reports MSR at fair value to better reflect the potential net realizable or market value that could be realized from the disposition of the MSR asset or the settlement of a future MSR liability. Consistent with ASC 820: *Fair Value Measurements,* to determine the fair value of the MSR, Ginnie Mae uses a valuation model that calculates the present value of estimated future net servicing income. The model factors in key economic assumptions and inputs including prepayment rates, costs to service the loans, 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 terminated and extinguished issuers' portfolio including credit losses. The discount rate is used to estimate the present value of the projected cash flows in order to estimate the fair value of the MSR. The discount rate assumptions reflect the market's required rate of return adjusted for the relative risk of the asset type. Upon acquisition, Ginnie Mae measures its MSR at fair value and subsequently re-measures the MSR assets or liabilities with changes in the fair value recorded in the Statement of Revenues and Expenses and Changes in Investment of U.S. Government.

Financial Guarantees: Ginnie Mae's financial guaranty obligates Ginnie Mae to stand ready, over the term of the guaranty, to advance funds to cover any shortfall of P&I to the MBS holders in the event of an issuer default.

Ginnie Mae, as guarantor, follows the guidance in ASC 460: *Guarantees,* for its accounting and disclosure of its guarantees. ASC 460 requires the guarantor to consider the requirements of ASC 450-20: *Contingencies – Loss Contingencies* in assessing whether a contingent loss needs to be accrued for the guaranty obligation. In the event that, at the inception of the guaranty, Ginnie Mae is required to recognize a contingent liability under ASC 450, the liability to be initially recognized for that guaranty shall be the greater of the non-contingent guaranty liability determined under ASC 460, or the contingent liability determined in accordance with ASC 450. It is unusual at the inception of the guaranty for the contingent liability amount to exceed the non-contingent amount.

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

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

Ginnie Mae subsequently amortizes the guaranty obligations on a quarterly basis as the outstanding UPB of the guaranteed MBS declines. In addition, the guaranty asset is recorded at fair value subsequent to initial measurement with changes in fair value recorded through the Statement of Revenues and Expenses and Changes in Investment of U.S. Government. Ginnie Mae elected to apply the fair value option to the guarantee asset in line with its peers.

Accounts Payable and Accrued liabilities: Ginnie Mae's accounts payable and accrued liabilities generally include obligations for items that have entered into the operating cycle, such as accrued compensated absences and other payables. Amounts incurred by Ginnie Mae, but not yet paid at year-end, are recognized as accounts payable and accrued liabilities.

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

Other*:* Includes payables for fees incurred in the acquisition of services provided by MSS and third-party vendors and unclaimed securities holders' payments. Ginnie Mae uses estimates and judgments, as required under U.S. GAAP, to accrue for expenses when incurred, regardless of whether expenses were paid as of quarter-end.

Deferred Revenue: The classification of deferred revenue depends on the reason the revenue has not yet been recognized. Amounts received from a customer that are expected to be recognized as revenue upon completion of performance obligations are classified as deferred revenue prior to recognition in the Statement of Revenues and Expenses and Changes in Investment of U.S. Government. This includes commitment and multiclass fees received as issuers request commitment authority or issue multiclass products, respectively. Amounts are recognized into income over a period of time or at a point in time depending on when the performance obligation is fulfilled.

Liability for Loss on Mortgage-Backed Securities Program Guaranty: U.S. GAAP requires Ginnie Mae to recognize a loss contingency that arises from the following:

- 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 P&I payments to MBS certificate holders. However, if an issuer defaults, Ginnie Mae ensures the contractual payments to MBS certificate holders are made. When assessing whether an issuer may default, Ginnie takes into consideration various factors including the issuer's financial and operational vulnerability, a qualitative and quantitative corporate credit analysis, and other evidence of the issuer's potential default (e.g. known regulatory investigations or actions).

- The obligation that Ginnie Mae has to the Multifamily MBS issuers to reimburse them for applicable losses in the event of a loan default, pursuant to the Multifamily guaranty agreement.

The contingent aspect of the guaranty obligation is measured initially and in subsequent periods under ASC 450-20: *Contingencies – Loss Contingencies*.

Refer to Note 16: Reserve for Loss for details on Ginnie Mae's current practice.

Liability for Representations and Warranties (Repurchase Liability): Ginnie Mae may enter into business transactions and agreements, such as the sale of an MSR or loan portfolio, which provide certain representations and warranties associated with the underlying loans. If there is a breach of these contractual obligations, Ginnie Mae may be required to repurchase certain loans or provide other compensation. Ginnie Mae recognizes a loss contingency that arises from these obligations when it is probable that Ginnie Mae will be required to repurchase loans or provide other compensation. Repurchase liabilities are measured initially and in subsequent periods under ASC 450-20: *Contingencies – Loss Contingencies.*

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

- Interest income on mortgage loans held for investment – Ginnie Mae accrues interest for performing loans at the contractual interest rate of the underlying mortgage.
- Other interest income – Ginnie Mae earns interest income on U.S. Government securities related to U.S. Treasury overnight certificates and on uninvested funds in the Financing Fund. Prior to 2018, Ginnie Mae earned and collected interest on uninvested funds, which was calculated using the applicable version of the Credit Subsidy Calculator 2 (CSC2) provided by the OMB. In September 2018, the U.S. Treasury clarified rules regarding the collection of interest on uninvested funds in the Financing Account. Based on additional conversations with, and clarifications from, U.S. Treasury, Ginnie Mae was not entitled to earn interest on uninvested funds without a signed borrowing agreement in accordance with the Federal Credit Reform Act of 1990. Ginnie Mae is in ongoing discussions with OMB and its legal counsel on whether the Financing Account is fully subject to the provisions of the Federal Credit Reform Act of 1990. As resolution of the matter between Ginnie Mae and OMB is pending, U.S. Treasury and Ginnie Mae agreed that Ginnie Mae will not earn and collect interest on uninvested funds until the matter is resolved. Due to U.S. Treasury's new criteria for earning and collecting interest on uninvested funds, no interest income was recognized in fiscal year 2019 as revenue recognition criterion per ASC 605 were not fully met. At present, there is uncertainty regarding applicability of Federal Credit Reform Act of 1990 to Ginnie Mae, and whether Ginnie Mae would be required to pay or be able to earn such interest in the future.
- Income on guaranty obligation – Ginnie Mae amortizes its guaranty obligation into revenues based on the remaining UPB of the related MBS pools.

- MBS guaranty fees – Ginnie Mae receives monthly guaranty fees for each MBS mortgage pool, based on a percentage of the pool's UPB. Fees received for Ginnie Mae's guaranty of MBS are recognized as earned.
- Commitment fees – Ginnie Mae receives commitment fees as issuers request commitment authority to issue Ginnie Mae MBS. Commitment fees related to approved commitment authority are recognized in income as issuers use their commitment authority, with the remaining balance deferred until earned or expired, whichever occurs first. Fees from expired commitment authority are not returned to issuers and are recognized as income.
- Multiclass fees – Ginnie Mae receives one-time upfront fees related to the issuance of multiclass products. Multiclass products include Real Estate Mortgage Investment Conduit (REMICs) and Platinum Certificates. The fees received for REMICs consist of a guaranty fee and may include a modification and exchange (MX) combination fee. The guaranty fee is paid by the sponsor and is based upon the total principal balance of the deal. The MX combination fee allows the sponsor to combine REMIC and/or MX securities at the time of issuance. Any permitted combinations by the sponsor are set forth in the combination schedule to an offering circular supplement. The guaranty fee is deferred and amortized into income evenly over the contractual life of the security. The MX combination fee, on the other hand, is recognized immediately in earnings (i.e., upon the combination of REMIC and/or MX securities). The fees received for Platinum Certificates are deferred and amortized into income evenly over the contractual life of the security.
- MBS program and other income – Ginnie Mae recognizes income through fees related to new issuer applications, transfers of issuer responsibilities, and mortgage servicing fees.

Ginnie Mae's expenses are classified into three groups:

- Administrative expenses – The main components of the administrative expenses are payroll expenses, travel and training expenses, benefit expenses, and other operating expenses.
- Fixed assets depreciation and amortization – Depreciation and amortization consists of depreciation on acquired, leased, and in-use hardware; and amortization of capitalized software acquired, leased, and in-use, by Ginnie Mae. Fixed assets are depreciated and amortized, on a straight-line basis, over a three to five-year period.
- MBS program and other expenses – The main components of the MBS program and other expenses are multiclass expenses, MBS information systems and compliance expenses, sub-servicing expenses, asset management expenses, and pool processing and central paying agent expenses.

Amounts recognized as expenses represent actual or, when actuals are not available, estimates of costs incurred during the normal course of Ginnie Mae's operations.

Securitization and Guarantee Activities: Ginnie Mae's primary business activity is to guarantee the timely payment of P&I on securities backed by pools of mortgages issued by private institutions. Unlike substantially all of the securitization market, the issuance of Ginnie Mae guaranteed MBS is not completed through a trust vehicle. Rather Ginnie Mae approves issuers to pool loans and issues Ginnie Mae guaranteed MBS. Additionally, for federal income tax purposes, the Ginnie Mae pool is considered a grantor trust. As such, each of these "virtual trusts" are considered individual legal entities for consolidation purposes and are considered variable interest entities (VIEs) in accordance with ASC 810: *Consolidations*.

Variable Interest Entities Model:

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

Ginnie Mae's involvement with legal entities that are VIEs is limited to providing a guaranty on interest payments and principal returns to MBS holders of the Ginnie Mae virtual trusts. Ginnie Mae is not the primary beneficiary of the Ginnie Mae virtual trusts as it does not have the power to control the significant activities of the trusts. Other than its guaranty, Ginnie Mae does not provide, nor is it required to provide, any type of financial or other support to these entities. The guaranty fee receivable represents compensation for taking on the risk of providing the guaranty to MBS certificate holders for the timely payment of P&I in the event of issuers' default. Ginnie Mae's maximum potential exposure to loss under these guarantees is primarily comprised of the amount of outstanding MBS and commitments and does not consider loss recoverable from the FHA, VA, RD, and PIH.

The following table presents assets and liabilities that relate to Ginnie Mae's interest in VIEs at September 30, 2019:

	September 30, 2019 *(Dollars in thousands)*
Guaranty asset	$ 7,112,988
Guaranty fee receivable	112,000
Total	**$ 7,224,988**
Guaranty liability	8,082,918
Liability for loss on mortgage-backed securities program guaranty	6,675
Total	**$ 8,089,593**
Maximum exposure to loss:	
Outstanding MBS securities	$ 2,092,829,000
Outstanding MBS commitments	115,780,755
Total	**$ 2,208,609,755**

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

Recently Adopted Accounting Pronouncements

The following table displays information about recent accounting pronouncements that have recently been adopted or are yet to be adopted.

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
Codification Improvements (ASU 2018-09) *Issued July 2018*	• Since the FASB Accounting Standards Codification was established in September 2009 as the source of authoritative GAAP to be applied by nongovernmental entities, stakeholders have provided suggestions for minor corrections and clarifications. The Codification describes the FASB's procedure for responding to submissions, which involves the staff analyzing and processing the submissions and including any resulting changes to the Codification in maintenance updates or in an Accounting Standards Update. • Amendments to Subtopic 820-10, Fair Value Measurement	Effective October 2018 Adopted in October 2018	Ginnie Mae current approach and techniques are consistent with clarified guidance. Accordingly, there was no change in fair value measurement approach or technique since the adoption

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
Technical Corrections and Improvements (ASU 2016-19) *Issued December 2016* The amendment to Subtopic 350-40, Intangibles – Goodwill and Other Internal-Use Software	• Adds a reference to guidance to use when accounting for internal-use software licensed from third parties within the scope of Subtopic 350-40 • A software license within 350-40 shall be accounted for as the acquisition of an intangible asset and the incurrence of a liability (that is, to the extent that all or a portion of the software licensing fees are not paid on or before the acquisition date of the license) by the licensee • The intangible asset acquired shall be recognized and measured in accordance with paragraphs 350-30-25-1 and 350-30-30-1, respectively	Effective October 2018 Adopted in October 2018	Ginnie Mae current approach and techniques are consistent with clarified guidance. Accordingly, there was no impact since the adoption

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01) *Issued January 2016*	• The update will require entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception • The update doesn't change the guidance for classifying and measuring investments in debt securities and loans • The update eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. • Entities will have to record changes in instrument-specific credit risk for financial liabilities measured under the fair value option in other comprehensive income	Effective October 2019 Adopted in June 2019	Ginnie Mae current approach and techniques are consistent with clarified guidance. Accordingly, there was no impact on Balance sheet or Statement of Revenues and Expenses and Changes in Investment of U.S. Government since the adoption.

Recent Accounting Pronouncements Not Yet Adopted

Other Accounting Standards Update (ASU) not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on Ginnie Mae's financial position and/or results of operations.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Revenue from Contracts with Customers (ASU 2014-09) *Issued May 2014*	• Requires that revenue from contracts with customers be recognized upon transfer of control of goods or services in the amount reflective of the consideration expected to be received • Requires additional disclosures about revenue and contract costs. • May be adopted retrospectively or a modified, cumulative effect approach	Effective October 2019	The adoption of the guidance in Topic 606 will be applied retrospectively. Ginnie Mae is currently assessing the impact of the new guidance by evaluating our contracts, identifying our performance obligations, determining when the performance obligations are satisfied to allow us to recognize revenue and determining the amount of revenue to recognize. We will determine if the adoption of the guidance in Topic 606 has a material effect on our consolidated financial statements and our disclosures.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Technical Corrections and Improvements (ASU 2016-20) *Issued December 2016* Amendment to Topic 606, Revenue from Contracts with Customers	• The amendments in this update clarify that guarantee fees within the scope of Topic 460 (other than product or service warranties) are not within the scope of Topic 606 • The amendments in this update clarify that when performing impairment testing, an entity should (a) consider expected contract renewals and extensions and (b) include both the amount of consideration it already has received, but has not recognized as revenue and the amount it expects to receive in the future	Effective October 2019	The adoption of the guidance in Topic 606 will be applied retrospectively. Ginnie Mae is currently assessing the impact of the new guidance by evaluating our contracts, identifying our performance obligations, determining when the performance obligations are satisfied to allow us to recognize revenue and determining the amount of revenue to recognize. We will determine if the adoption of the guidance in Topic 606 has a material effect on our consolidated financial statements and our disclosures.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing (ASU 2016-10) *Issued April 2016*	• The amendments in this update do not change the core principle of the guidance in Topic 606 • The amendments clarify the following two aspects of Topic 606: (1) identifying performance obligations and (2) the licensing implementation guidance, while retaining the related principles for those areas	Effective October 2019	The adoption of the guidance in Topic 606 will be applied retrospectively. Ginnie Mae is currently assessing the impact of the new guidance by evaluating our contracts, identifying our performance obligations, determining when the performance obligations are satisfied to allow us to recognize revenue and determining the amount of revenue to recognize. We will determine if the adoption of the guidance in Topic 606 has a material effect on our consolidated financial statements and our disclosures.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Statement of Cash Flows (ASU 2016-18) *Issued November 2016*	• The guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows • As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows	Effective October 2019	The adoption of ASU 2016-18 will present in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows.

Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13) *Issued August 2018*	• The amendment modifies the disclosure requirements on fair value measurements under ASC 820 based on concepts in the Concepts Statement, including the consideration of costs and benefits. • The following disclosure requirements were removed from ASC 820: o The amount and of and reasons for transfers between L1 and L2 of the fair value hierarchy o The policy for timing of transfers between levels o The valuation process for L3 fair value measurements o For non-public entities, the changes in unrealized gains and losses for the period included in earnings for recurring L3 fair value measurements held at the end of the reporting period • The following disclosure requirements were modified in Topic 820: o In lieu of a roll forward for Level 3 fair value measurement, a non-public entity is required to disclose transfers into and out of Level 3 assets and liabilities o For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing	Effective October 2019	Ginnie Mae current accounting for fair value measurements is not affected by this standard update. Certain disclosure requirements, which would not affect Ginnie Mae in the current year, will be updated in Ginnie Mae's fair value policy once the standard updated is effective.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
	to the entity or announced the timing publicly • The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date		
Statement of cash flows (ASU 2016-15) *Issued August 2016*	• Guidance clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows • Guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows • The new guidance addresses the classification of cash flows related to the following transactions: o Debt prepayment or extinguishment costs o Settlement of zero-coupon debt instruments o Contingent consideration payments o Proceeds from the settlement of insurance claims o Proceeds from the settlement of corporate-owned life insurance o Distributions received from equity method investees • Beneficial interests in securitization transactions	Effective October 2019	The adoption of ASU 2016-15 will not have significant impact to Ginnie Mae Financial Statements.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (ASU 2017-05) *Issued February 2017*	• The guidance clarifies scope and application of ASC 610-20 on the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales o The ASU applies to nonfinancial assets, including real estate, ships and intellectual property, and clarifies that the derecognition of all businesses is in the scope of ASC 810. It also defines an in substance nonfinancial asset	Effective October 2019	Ginnie Mae is currently evaluating the potential impact on its financial statements
Leases (ASU 2016-02) *Issued February 2016*	• The guidance requires lessees to put most leases on their balance sheet but recognize expenses on their income statements in a manner similar to today's accounting • The guidance also eliminates today's real estate-specific provisions for all entities • The guidance also eliminates today's real estate-specific provisions for all entities • For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases • All entities classify leases to determine how to recognize lease-related revenue and expense. Classification continues to affect lessors' balance sheet	Effective October 2020	Ginnie Mae is currently evaluating the potential impact on its financial statements

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Leases (ASU 2018-01) *Issued January 2018*	• The Update provides an optional transition practical expedient to not evaluate, under ASC 842, existing or expired land easements that were not previously accounted for as leases under ASC 840, Leases • An entity that elects this practical expedient should evaluate new or modified land easements under ASC 842 beginning at the date that the entity adopts ASC 842 • An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in ASC 842 to assess whether they meet the definition of a lease	Effective upon adoption of the amendments in ASU 2016-02 ASU 2016-02 is effective October 2020	Ginnie Mae is currently evaluating the potential impact on its financial statements

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Leases - Codification Improvements (ASU 2019-01) *Issued March 2019*	• The amendments in this Update include the following items brought to the Board's attention through those interactions with stakeholders: 1. Determining the fair value of the underlying asset by lessors that are not manufacturers or dealers commencement, those lessors will be required to apply the definition of fair value (exit price) in Topic 820 2. Presentation on the statement of cash flows—sales-type and direct financing leases 3. Transition disclosures related to Topic 250, Accounting Changes and Error Corrections	Effective upon adoption of the amendments in ASU 2016-02 ASU 2016-02 is effective October 2020	Ginnie Mae is currently evaluating the potential impact on its financial statements

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Intangibles – Goodwill and Other – Internal-Use Software (ASU 2018-15) *Issued August 2018*	• The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal – use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments in this update require an entity in a hosting arrangement that is service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Costs to develop or obtain internal-use software that cannot be capitalized under Subtopic 350-40, such as training costs and certain data conversion costs, also cannot be capitalized for a hosting arrangement that is a service contract	Effective October 2021; early adoption is permitted	Ginnie Mae is currently evaluating the potential impact on its financial statements

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Financial Instruments – Credit Losses (ASU 2016-13) *Issued June 2016*	• The guidance changes the impairment model for most financial assets and other instruments • For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally results in the earlier recognition of allowances for losses • For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities • Entities will have to disclose significantly more information, including information they use to track credit quality by year of origination for most financing receivables	Effective October 2023	Ginnie Mae is currently evaluating the potential impact on its financial statements
Financial Instruments - Credit Losses, Derivatives and Hedging, and Financial Instruments (ASU 2019-04) *Issued April 2019*	• The amendments clarify the scope of the credit losses standard and address issues related to accrued interest receivable balances, recoveries, variable interest rates, and prepayments, among other topics	Effective October 2023	Ginnie Mae is currently evaluating the potential impact on its financial statements

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Financial Instruments - Credit Losses - Targeted Transition Relief (ASU 2019-05) *Issued May 2019*	• The amendments in this Update provide entities that have certain instruments within the scope of Subtopic 326-20, Financial Instruments - Credit Losses - Measured at Amortized Cost, with an option to irrevocably elect the fair value option in Subtopic 825-10, Financial Instruments - Overall, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326.	Effective upon adoption of the amendments in ASU 2016-02 ASU 2016-13 is effective October 2023	Ginnie Mae is currently evaluating the potential impact on its financial statements

Note 4: Cash and Cash Equivalents

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

Cash and cash equivalents – unrestricted and restricted – include the following at September 30, 2019:

	September 30, 2019		
	Unrestricted	Restricted	Total
	(Dollars in thousands)		
Funds with U.S. Treasury [(1)]	$ 7,024,255	$ 849,514	$ 7,873,769
Deposit in Transit:			
Cash held by MSS [(2)]	31,735	-	31,735
Cash held by Trustee and Administrator of securities [(3)]	7,004	-	7,004
U.S. Treasury short-term investments [(4)]	15,783,730	23,329	15,807,059
Total	**$ 22,846,724**	**$ 872,842**	**$ 23,719,567**

(1) This amount represents Ginnie Mae's account balance with the U.S. Treasury. It includes cash and cash equivalents that are restricted by Congress, which Ginnie Mae cannot spend without approval from the legislative body, as well as cash and cash equivalents that are restricted temporarily, until Ginnie Mae determines the appropriate allocation for cash received.

(2) This amount represents cash collected by the MSS for Ginnie Mae but not yet received by Ginnie Mae.
(3) This amount represents cash collected by the Trustee and Administrator of securities for Ginnie Mae, but not yet received by Ginnie Mae.
(4) This amount represents investments in overnight certificates. It includes restricted cash and cash equivalents owed to MBS certificate holders that cannot be distributed to an MBS certificate holder by the administrator of the securities. There is no statute of limitations stating when the MBS certificate holder can claim this cash.

Funds with U.S. Treasury: Ginnie Mae's cash receipts and disbursements are processed by U.S. Treasury. Cash held by U.S. Treasury represents the available budget spending authority of Ginnie Mae (obligated and unobligated balances available to finance allowable expenditures). The restricted balances represent amounts restricted for use for specific purposes. Prior to 2018, Ginnie Mae earned and collected interest on uninvested funds in the Financing Fund, which was calculated using the applicable version of the CSC2 provided by the OMB. In 2019, no interest income or liability was recorded due to uncertainty in determining whether Ginnie Mae was authorized to receive or refund this payment from the U.S. Treasury. See Note 3: Summary of Significant Accounting Policies and Practices for details on other interest income from uninvested funds.

Deposits in Transit:

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

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

U.S. Treasury short-term investments: U.S. Treasury securities are bought and sold at composite prices received from the Federal Reserve Bank of New York. These securities are maintained in book-entry form at the Bureau of Public Debt and include U.S. Treasury overnight certificates, U.S. Treasury notes, and U.S. Treasury inflation-indexed securities (reflecting inflation compensation). Ginnie Mae has approval from the OMB to establish a Capital Reserve Fund, which can be invested in overnight U.S. Government securities. As a result of the OMB approval, Ginnie Mae invested the full balance of the Capital Reserve Fund of approximately $15.7 billion and the Liquidating Fund of approximately $125.3 million in overnight U.S. Government securities at September 30, 2019. Ginnie Mae only held overnight certificates at September 30, 2019. The U.S. Treasury short-term investments balance includes $23.3 million of restricted cash related to unclaimed MBS security holder payments at September 30, 2019. U.S. Treasury securities are carried at cost, which approximates fair value.

Note 5: Restricted Cash and Cash Equivalents

Cash and cash equivalents are classified as restricted when the cash is unavailable for withdrawal or usage. Restrictions may include legally restricted deposits, contracts entered into with others, or Ginnie Mae's statements of intention with regard to particular deposits. The balance consists of the following:

- Unclaimed security holder payments: Money owed to MBS certificate holders who cannot be located by the administrator of Ginnie Mae MBS securities.
- Unapplied deposits: Cash received by Ginnie Mae held in a suspense account until the appropriate application is determined.
- Fund balances precluded from obligation: Unobligated money within the Programs Fund balance that is restricted by Congress and cannot be utilized unless there is approval by the legislative body.
- Liability for investor passthrough payments: Cash from unremitted P&I collections sent to Ginnie Mae, that Ginnie Mae has an obligation to pass through to MBS holders.

Restricted cash and cash equivalents balance has increased from prior year primarily driven by the funds balance precluded from the discretionary collection of multiclass/commitment fees during fiscal year 2019. The balance of restricted cash and cash equivalents at September 30, 2019 were as follows:

	September 30, 2019 *(Dollars in thousands)*
Unclaimed security holder payments	$ 23,329
Unapplied deposits	839
Fund balances precluded from obligation	844,081
Liability for investor pay off	4,594
Total	**$ 872,843**

Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure

Ginnie Mae receives guaranty fees, which are calculated based on the UPB of outstanding MBS in the defaulted and non-defaulted issuers' pooled portfolio. A guaranty fee represents compensation for guaranteeing the timely payment of P&I to the MBS certificate holders in the event of issuers' default. Ginnie Mae only guarantees securities created by approved issuers and backed by mortgages insured by other federal agencies. The underlying source of loans for the Ginnie Mae I MBS and Ginnie Mae II MBS comes from Ginnie Mae's four main MBS programs (the single family, multifamily, HMBS, and manufactured housing programs) which serve a variety of loan financing needs and different issuer origination capabilities. Refer to Note 1: Entity and Mission for more information on each program.

Ginnie Mae recognizes a guaranty asset upon issuance of a guarantee for the expected present value of the guaranty fees. The guaranty asset recognized on the Balance Sheet is $7.1 billion at September 30, 2019. The guaranty obligation represents the non-contingent liability for Ginnie Mae's obligation to stand ready to perform on its guarantee. The guaranty obligation recognized on the Balance Sheet is $8.1 billion at September 30, 2019. After the initial measurement, the guaranty asset is recorded at fair value and the guaranty obligation is amortized based on the remaining UPB of the MBS pools. The difference in measurement for the guaranty asset and guaranty obligation subsequent to initial recognition may cause volatility in reported earnings due to different measurement attributes in reporting the related financial asset (using projected economic exposures such as interest rates and prepayments) and the financial liability (using actual payoffs and paydowns). Refer to Note 13: Fair Value Measurement for discussion surrounding the volatility reflected in the Statement of Revenues and Expenses and Changes in Investment of U.S. Government as a result of changes in assumptions used in estimating the fair value of the guaranty asset.

For the guaranty asset and guaranty liability recognized on the Balance Sheet, Ginnie Mae's maximum potential exposure under these guarantees is primarily comprised of the UPB of MBS securities and outstanding commitments, and does not consider loss recoverable from other agencies. At September 30, 2019, the UPB of Ginnie Mae's MBS securities amounted to $2.1 trillion. It should be noted, however, that Ginnie Mae's potential loss is considerably less due to the financial strength of its issuers. In addition, the value of the underlying collateral and the insurance provided by insuring or guaranteeing agencies indemnify Ginnie Mae for most losses.

The Ginnie Mae guaranteed security is a pass-through security whereby mortgage P&I payments (or curtailments) are passed through to the MBS certificate holders monthly. Exposure to credit loss is primarily contingent on the nonperformance of Ginnie Mae issuers. Ginnie Mae does not anticipate nonperformance by the issuers other than those considered probable of default reflected in the liability for loss on mortgage backed securities guaranty program line item on the Balance Sheet, or considered reasonably possible of default as disclosed in Note 16: Reserve for Loss. Generally, terms of the guarantee range from 15 to 30 years for single family programs. For multifamily programs, the maximum guarantee term is capped at 40 years plus the applicable construction period. For HMBS programs, the maximum guarantee term is 50 years from the issuance of the security. Refer to Note 16: Reserve for Loss for discussion of contingent and non-contingent guaranty liability.

Ginnie Mae is also subject to credit risk for its outstanding commitments to guarantee MBS, which are not recognized on its Balance Sheet. These commitments represent Ginnie Mae's guarantee of future MBS issuances. The commitment ends when the securities are issued or the commitment period expires, which is the last day of the month that is 12 months after the authority is approved for single family issuers and on the last day of the month that is 24 months after the authority is approved for multifamily issuers. Ginnie Mae's risk related to outstanding commitments is significantly lower than the outstanding balance of MBS securities 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, 2019 *(Dollars in billions)*
Outstanding MBS securities	$	2,093
Outstanding MBS commitments		116
Total	$	**2,209**

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

For the year ended September 30, 2019, multiclass security program issuances totaled $128.3 billion. The estimated outstanding balance of multiclass securities included in the outstanding MBS balance was $543.0 billion at September 30, 2019. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS collateral.

Note 7: Mortgage Servicing Rights

Upon Ginnie Mae's assumption of defaulted issuers' entire Ginnie Mae guaranteed pooled-loan portfolio, Ginnie Mae assumes the servicing rights and servicing obligations associated with servicing those portfolios. Ginnie Mae is entitled to retain servicing fee as compensation for its servicing and administrative duties.

During 2019, Ginnie Mae acquired additional MSRs related to defaulted issuers. The fair value of Ginnie Mae's capitalized MSRs was $1.3 million at September 30, 2019. The MSRs correspond to UPB of $218 million as of September 30, 2019.

The following table summarizes the changes in capitalized MSRs for the year ended September 30, 2019:

	For the year ended September30, 2019 *(Dollars in thousands)*
Beginning balance, October 1, 2018	$ 943
Additions [(1)]	1,501
Dispositions[(1)]	-
Changes in fair value due to:	
Changes in valuation inputs or assumptions used in valuation mode	(1,176)
Other changes in fair value	-
Ending balance, September 30, 2019	**$ 1,268**

(1) During the third quarter of 2019, Ginnie Mae extinguished and terminated one defaulted issuer from its Single-Family MBS approved issuer status and on the same day, Ginnie Mae entered into a Purchase and Sale Agreement with a separate issuer for the sale of the Single-Family MBS MSRs. The additions and disposition amounts related to this transaction are not included in the table above.

For the year ended September 30, 2019, Ginnie Mae earned $870.7 thousand related to servicing fee income, which is included in MBS program and other income.

Note 8: Reimbursable Costs, Net

Costs incurred on both pooled and non-pooled loans expected to be reimbursed are recorded as reimbursable costs receivable and reported net of allowance for amounts that management believes will not be collected. Reimbursable costs arise when insufficient escrow funds are available to make scheduled tax and insurance payments for loans serviced by Ginnie Mae, and Ginnie Mae advances funds to cover the shortfall to preserve a first lien position on the underlying collateral. In addition, Ginnie Mae advances funds to cover servicing related expenses in order to preserve the value of the underlying collateral. The allowance for reimbursable costs is estimated based on historical loss experience, which includes expected collections from the mortgagors, proceeds from the sale of the property, and reimbursements collected from third-party insurers or guarantors such as FHA, VA, RD, and PIH.

The following table presents reimbursable costs and related allowance amounts, by loan insurance type, at September 30, 2019:

	September 30, 2019 (Dollars in Thousands)				
	FHA	VA	RD	Conventional	Total
Reimbursable costs	$ 36,663	$ 2,562	$ 1,038	$ 72	$ 40,335
Allowance for reimbursable costs	(3,834)	(880)	(389)	(39)	(5,142)
Reimbursable costs, net	**$ 33,829**	**$ 1,682**	**$ 649**	**$ 33**	**$ 35,193**

Note 9: Advances, Net

Advances include payments made to MSS to cover any shortfalls to investors resulting from mortgagors defaulting on their mortgage payments. Advances are reported net of an allowance, which is based on management's expectations of future collections from issuers, mortgagors, or recoverability from insuring and guaranteeing agencies such as FHA, VA, RD, and PIH.

During the year ended September 30, 2019, three issuers defaulted, and were subsequently terminated and extinguished. Ginnie Mae assumed the servicing rights and obligations of the issuer and advanced funds to the MSS throughout 2019 to cover P&I not yet paid by mortgagors, but due to the MBS investors.

The net carrying value of the advances balance is $835.7 thousand at September 30, 2019, as disclosed in the table below:

	September 30, 2019 *(Dollars in thousands)*
Advances	$ 918
Allowance for uncollectible advances	(82)
Advances, net	**$ 836**

Changes in the allowance for advances for the year ended September 30, 2019, are presented below:

	For the year ended September30, 2019 *(Dollars in thousands)*
Beginning balance, October 1, 2018	$ (32)
Provision for uncollectible advances	(50)
Charge offs	-
Recoveries	-
Ending balance, September 30, 2019	**$ (82)**

Note 10: Mortgage Loans Held for Investment Including Accrued Interest, Net

Ginnie Mae classifies loans as either HFS or HFI. At September 30, 2019, Ginnie Mae's loan portfolio did not include any HFS loans. During the year of 2019, Ginnie Mae extinguished and terminated one defaulted issuer from its HMBS approved issuer status and on the same day, Ginnie Mae entered into a Purchase and Sale Agreement (PSA) with a separate issuer for the sale of the HMBS portfolio, resulting in a $1.3 million gain recorded in the Gain/(Loss) other line item in the Statement of Revenues and Expenses and Changes in Investment of U.S. Government. Ginnie Mae has no continuing involvement in the transferred financial assets. Ginnie Mae reports the carrying value of HFI loans at the recorded investment of the mortgage loan, which represents the UPB and accrued interest, net of cost basis adjustments, and net of allowance for loan losses including allowance for accrued interest receivable.

The tables below present the carrying value of HFI loans including accrued interest broken down by underlying insuring agencies at September 30, 2019:

	September 30, 2019 (Dollars in thousands)				
	Conventional	**FHA**	**VA**	**RD**	**Total**
Mortgage loans held for investment UPB	$ 132,824	$ 2,202,471	$ 105,171	$ 44,221	$ 2,484,687
Accrued interest receivable	1,197	16,865	737	184	18,983
Allowance for loan losses	(4,404)	(133,644)	(3,954)	(2,301)	(144,303)
Net mortgage loans held for investment including accrued interest, net	**$ 129,617**	**$ 2,085,692**	**$ 101,954**	**$ 42,104**	**$ 2,359,367**

Credit Quality Indicators

Ginnie Mae's HFI loans are periodically evaluated for impairment in accordance with guidance in ASC 450-20: *Contingencies – Loss Contingencies* or ASC 310-10: *Receivables – Overall*. Ginnie Mae's credit risk exposure on its HFI mortgage loans portfolio is limited by the underlying guarantee or insurance on loans, which may include FHA, RD, VA, and PIH.

When estimating defaults, prepayments and recoveries, Ginnie Mae considers a number of indicators including macro-economic factors such as interest rates, home price indices, and mortgage delinquency rates. In addition, Ginnie Mae considers a number of credit quality indicators such as loan-to-value (LTV) ratios at origination and current delinquency status as of the end of the reporting period. Other characteristics include age of loan, insuring agency, credit score, and spread of mortgage rate to relevant market rate.

The following tables present the recorded investment[1] for mortgage loans by original LTV ratio at September 30, 2019:

	September 30, 2019			
	Less than 80%	80-100%	Greater than 100%	Total
	(Dollars in thousands)			
Conventional	$ 8,926	$ 120,477	$ 4,618	$ 134,021
FHA	146,653	2,031,849	40,834	2,219,336
VA	7,219	77,225	21,464	105,908
RD	1,285	31,632	11,488	44,405
Total	**$ 164,083**	**$ 2,261,183**	**$ 78,404**	**$ 2,503,670**

(1) Recorded investment represents the total UPB along with accrued interest for mortgage loans held for investment.

Aging Analysis

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

	September 30, 2019								
	One Month Delinquent	Two Months Delinquent	Three Months Delinquent	Four Months or more Delinquent	Total Delinquent	Current	Total	Loans Over 90 Days Delinquent and Accruing Interest[2]	Recorded Investment in Non-accrual loans[3]
	(Dollars in Thousands)								
Conventional	$ 11,966	$ 4,573	$ 1,316	$ 13,169	$ 31,024	$ 102,997	$ 134,021	$ -	$ 24,209
FHA	278,484	99,555	28,046	317,092	723,177	1,496,159	2,219,336	317,092	-
VA	11,596	4,398	2,853	24,964	43,811	62,097	105,908	24,964	-
RD	5,466	3,586	653	8,571	18,276	26,129	44,405	8,571	-
Total	**$ 307,512**	**$ 112,112**	**$ 32,868**	**$ 363,796**	**$ 816,288**	**$ 1,687,382**	**$ 2,503,670**	**$ 350,627**	**$ 24,209**

(2) Interest income on insured or guaranteed loans that are over 90 days delinquent is recognized subject to Ginnie Mae's non-accrual policy as discussed in Note 3: Summary of Significant Accounting Policies and Practices.

(3) Refer to Ginnie Mae's non-accrual policy as discussed in Note 3: Summary of Significant Accounting Policies and Practices.

Impaired Loans

Ginnie Mae's impaired loans include the following categories:

- TDR loans
- PCI loans

The table below presents the recorded investment, related allowance, UPB, average recorded investment, and total interest income recognized for impaired mortgage loans at September 30, 2019:

	September 30, 2019 Recorded Investment	Related Allowance	Unpaid Principal Balance	Average Recorded Investment	Total Interest Income Recognized[4]
	(Dollars in thousands)				
With related allowance recorded:					
Conventional	$ 48,219	$ (3,198)	$ 47,942	$ 50,235	$ 2,439
FHA	1,509,771	(130,258)	1,501,899	1,559,886	67,862
VA	71,269	(3,953)	70,945	73,737	3,387
RD	28,791	(2,301)	28,664	30,119	1,562
Total impaired loans with related allowance recorded	$ 1,658,050	$ (139,710)	$ 1,649,450	$ 1,713,977	$ 75,250
With no related allowance recorded[5]:					
Conventional	$ 15,280	$ -	$ 14,925	$ 17,642	$ 479
FHA	319,074	-	314,281	363,332	12,723
VA	34,638	-	34,226	43,858	1,727
RD	15,614	-	15,557	19,214	898
Total impaired loans with no related allowance recorded	$ 384,606	$ -	$ 378,989	$ 444,046	$ 15,827
Total impaired loans[6]	**$ 2,042,656**	**$ (139,710)**	**$ 2,028,439**	**$ 2,158,023**	**$ 91,077**

*(4) Interest income on impaired loans is recognized subject to Ginnie Mae's non-accrual policy (as applicable), as discussed in Note 3: Summary of Significant Accounting Policies and Practices. *

(5) The amount recoverable from insurer/guarantor or fair value of the collateral value equals or exceeds the recorded investment of the impaired loan and, as such, no valuation allowance is recorded.

(6) The recorded investment, related allowance, and UPB for TDRs was $1,988.6 million, $139.0 million, and $1,974.8 million, respectively, at September 30, 2019. The recorded investment, related allowance, and UPB for PCI loans was $54.1 million, $0.7 million, and $53.6 million, respectively, at September 30, 2019.

Troubled Debt Restructuring

A restructuring of a debt constitutes a TDR if Ginnie Mae, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Additionally, Ginnie Mae considers Chapter 7 Bankruptcies which result in a discharge to the borrower as TDRs because the borrower is undergoing financial difficulty or insolvency and concessions are made to the borrower. Ginnie Mae assesses loans to determine whether they meet the criteria of TDR upon trial modification, as applicable.

Ginnie Mae's loan modification programs may result in various types of concessions (including a combination of concessions) such as term extensions and interest rate reductions (lower than what the mortgagor would receive in the market at the time of the modification). Ginnie Mae considers these modifications a concession to mortgagors experiencing financial difficulties and therefore classifies these loans as TDRs. The average term extension granted by Ginnie Mae was 118 months for the year ended September 30, 2019. The average interest rate reduction was 1.1 percentage points for the year ended September 30, 2019.

The following table presents the number of loans, recorded investment, related allowance and UPB of loans newly classified(7) as a TDR during the year ended September 30, 2019:

	September 30, 2019	
	Number of Loans	**Recorded Investment(8)**
	(Dollars in thousands)	
Conventional	13	$ 1,376
FHA	171	21,965
VA	9	1,205
RD	8	686
Total	**201**	**$ 25,232**

(7) Loans classified as a TDR in one period may be modified again in a subsequent period. In such cases, the subsequent modification would not be reflected in the table since the loan would already have been classified as a TDR.

(8) There is not a material difference between the recorded investment in loans pre- and post-modification based on the nature of Ginnie Mae's modification programs which do not include principal and past-due interest forgiveness. As such, amounts represent post-modification recorded investment

The table below presents the number of loans and total recorded investment for the loans that entered a TDR in the preceding twelve months and for which there was a payment default during the period. For purposes of this disclosure, Ginnie Mae defines TDR loans that had a payment default as modifications that became two months or more delinquent subsequent to modification during the period:

	September 30, 2019	
	Number of Loans	**Recorded Investment(8)**
	(Dollars in thousands)	
Conventional	13	$ 1,376
FHA	154	19,790
VA	8	1,194
RD	8	686
Total	**183**	**$ 23,046**

Purchased Credit Impaired Loans

Upon acquisition, if the purchased loan is delinquent and uninsured, or guaranteed or insured by VA, RD, or PIH, Ginnie Mae concludes that it is probable that it will not collect all contractually required payments receivable. Accordingly, these loans are considered PCI mortgage loans.

Historically, Ginnie Mae has not applied the PCI guidance to its loans purchased with evidence of credit deterioration since Ginnie Mae has determined that non-compliance with the full PCI requirements outlined in ASC 310-30 does not, on its own, preclude the financial statements as a whole from being materially compliant with U.S. GAAP. Currently, upon acquisition, the PCI loans are recorded at UPB and accrued interest, less allowance. Ginnie Mae measures subsequent impairment on these loans based on the present value of expected future cash flows. Refer to Note 3: Summary of Significant Accounting Policies and Practices for U.S. GAAP requirements.

Ginnie Mae does not consider delinquent FHA guaranteed or insured acquired loans as PCI due to the extent of coverage provided per the FHA insurance guidelines. The FHA insurance is inseparable from the underlying loan and remains with the loan upon transfer or disposition.

For the year ended September 30, 2019, there were $820.2 thousand of purchases of loans classified as PCI.

Foreclosures in Process

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

Physical possession of residential real estate property is achieved when either the creditor obtains legal title to the residential real estate property upon completion of a foreclosure or the mortgagor conveys all interest in the residential real estate property through completion of a deed in lieu of foreclosure in order to satisfy that loan.

The recorded investment of Foreclosure in Process loans was $160.3 million as of September 30, 2019. Although the foreclosure process has begun for these loans, Ginnie Mae believes that a portion of these loans will not complete the foreclosure process due to Ginnie Mae's loss mitigation activities.

Allowance for Loan Losses

Ginnie Mae maintains an allowance for probable incurred losses related to non-pooled mortgage loans. The allowance for loan losses involves significant management judgment and estimates of credit losses inherent in the mortgage loan portfolio. The allowance for loan losses is intended to reduce the carrying value of Ginnie Mae's HFI and related accrued interest for probable credit losses embedded in the loan portfolio at the balance sheet date. HFI and accrued interest are reported net of the allowance on the Balance Sheet.

Ginnie Mae relies on MSS for information to assess mortgagors' ability to pay based on current economic environment assessment, and potential insurance recoveries as determinants in the statistical models that evaluate potential HFI recoveries. For the collective allowance, homogeneous pools of mortgage loans are defined on common characteristics such as age, geographic region, and insurance type, among others.

The projections of losses are built based on actual loan performance data and performance of similar loans, current economic environment, and, when appropriate, management judgment. Ginnie Mae monitors its projections of claim recoveries regularly to validate reasonableness. Ginnie Mae validates and updates its models and assumptions to capture changes in Ginnie Mae's servicing experience and changes in government policies and programs. In determining Ginnie Mae's loan loss reserves, Ginnie Mae also considers macroeconomic and other factors that may affect the performance of the loans in Ginnie Mae's portfolio, including house price changes. Ginnie Mae uses probability of default and probability of prepayment models which employ logistic regressions to calculate dynamic default and prepayment probabilities based on criteria described above.

The following table displays the total recorded investment and allowance for loan losses by allowance methodology at September 30, 2019:

	September 30, 2019 *(Dollars in thousands)*
Recorded investment:	
Collectively evaluated	$ 461,014
Individually evaluated	1,988,580
Purchase credit impaired	54,076
Total recorded investment in loans	**$ 2,503,670**
Ending balance of the allowance for loan losses:	
Collectively evaluated	$ (4,593)
Individually evaluated	(138,977)
Purchase credit impaired	(733)
Total allowance for loan losses	**$ (144,303)**
Net Investment in mortgage loans HFI	**$ (2,359,367)**

The following table presents changes in Ginnie Mae's allowance for loan losses during the year ended September 30, 2019:

	For the year ended September 30, 2019 *(Dollars in thousands)*
Beginning balance	$ (209,051)
Recapture (provision) for loan losses	57,963
Charge offs	11,754
Recoveries	(4,969)
Ending balance	**$ (144,303)**

Ginnie Mae's charge offs may include write downs recorded when the mortgage loan receivables are transferred between certain asset classes.

Note 11: Claims Receivable, Net

Claims receivable are balances owed to Ginnie Mae from insuring or guaranteeing agencies (FHA, VA, RD, and PIH) related to conveyed properties and short-sales. Short sales receivable represents payments owed to Ginnie Mae for shortfalls covered by insuring or guaranteeing agencies for properties where the net proceeds from a short sale fall short of the debts secured by liens against the property, in accordance with the respective agency guidelines. Foreclosed property claims receivable represents amounts Ginnie Mae expects to receive by conveying the foreclosed property title to the insuring or guaranteeing agency for properties where Ginnie Mae has received title by completion of foreclosure, deed-in-lieu of foreclosure, or through a similar legal agreement. Ginnie Mae records an allowance that represents the expected unrecoverable amounts within the portfolio for claims receivable. The receivable balance, net of the allowance, represents the amounts that Ginnie Mae determines to be collectible.

The following table presents Ginnie Mae's claims receivable and related allowance, by type of claim, at September 30, 2019:

	September 30, 2019			
	FHA	**VA**	**RD**	**Total**
	(Dollars in thousands)			
Foreclosed property claims receivable[1]	$ 191,984	$ 6,836	$ 5,367	$ 204,187
Short sale claims receivable[2]	2,515	474	30	3,019
Allowance for claims receivable	(31,327)	(1,740)	(724)	(33,791)
Claims receivable, net	**$ 163,172**	**$ 5,570**	**$ 4,673**	**$ 173,415**

(1) Foreclosed property claims receivable represents reimbursements owed to Ginnie Mae by insuring or guaranteeing agencies (which may include FHA, VA, RD, and PIH) for foreclosed property.

(2) Short sale claims receivable are amounts reimbursable to Ginnie Mae from the insuring or guaranteeing agencies (which may include FHA, VA, RD, and PIH) for properties sold to avoid foreclosure where the proceeds received are insufficient to fully satisfy the remaining balances of the mortgages.

The foreclosed property claims and short sale claims allowance balances are estimated based on underlying insuring or guaranteeing agency guidelines, and historical collectability experience.

The allowance for claims receivable includes effects of charge offs and recoveries. A claims receivable is recognized for the amount recoverable from the insurers and any excess amounts not recoverable are charged off against the allowance for loan losses. The amount of claims receivable, not reimbursed by insuring or guaranteeing agencies, is charged off against the allowance for claims receivable. If the claim proceeds received exceed the claims receivable's carrying amount, Ginnie Mae will apply the excess to amounts previously charged-off (i.e., recovery) with any residual amounts recognized as a gain.

Note 12: Acquired Property, Net

Ginnie Mae recognizes acquired property when marketable title to the underlying property is obtained and the property has completed the foreclosure process, or the mortgagor conveys all interest in the residential real estate property to Ginnie Mae to satisfy the loan through the completion of a foreclosure or a deed in lieu of foreclosure or other similar legal agreement. The acquired properties are typically either RD insured, VA insured or uninsured conventional loans[1]. Acquired properties are assets that Ginnie Mae intends to sell and is actively marketing through the MSS.

Activity for acquired properties is presented in the table below:

	For the year ended 30, 2019 *(Dollars in thousands)*
Beginning balance – acquired properties	$ 24,651
Additions	23,355
Dispositions	(36,669)
Ending balance – acquired properties	**$ 11,337**
Beginning balance – valuation allowance	(3,786)
Change in valuation allowance	2,394
Ending balance – valuation allowance	**$ (1,392)**
Ending balance – acquired properties, net	**$ 9,945**

Note 13: Fair Value Measurement

ASC 820: *Fair Value Measurements* 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.

Ginnie Mae uses fair value measurements for the initial recognition of assets and liabilities and periodic re-measurement of certain assets and liabilities on a recurring or non-recurring basis. In determining fair value, Ginnie Mae uses various valuation techniques. The inputs to the valuation techniques are categorized into a three-level hierarchy, as described below:

Level 1 Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are

[1] *Properties from foreclosed FHA insured loans are usually conveyed to the insuring agency subsequent to foreclosure.*

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.

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

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Assets:				
Guaranty asset	$ -	$ -	$ 7,112,988	$ 7,112,988
Mortgage servicing rights	-	-	1,268	1,268
Total Assets at Fair Value	$ -	$ -	**$ 7,114,256**	**$ 7,114,256**

Mortgage Servicing Rights – Ginnie Mae measures the fair value of MSR based on the present value of expected cash flows from servicing the underlying mortgage assets. An MSR asset represents the benefits of servicing which are expected to be more than adequate compensation to Ginnie Mae for performing the servicing related to these loans. A servicing liability is recorded when the benefits of servicing are not expected to adequately compensate Ginnie Mae for performing the servicing. The determination of adequate compensation is a market notion and is made independent to Ginnie Mae's cost of servicing. Accordingly, Ginnie Mae's determination of adequate compensation is based on compensation demanded in the marketplace. The significant unobservable inputs used in estimating the fair value of Ginnie Mae's Level 3 MSR assets and liabilities include management's best estimates of certain key assumptions, which include prepayment experience, forward yield curves, adequate compensation, delinquency rates, and discount rates commensurate with the risks involved. Changes in anticipated prepayment experience, in particular, result in fluctuations in the estimated fair values of the servicing rights. If actual prepayment experience differs from the anticipated rates used in the model, this may result in a material change in the fair value. Note 3: Summary of Significant Accounting Policies and Practices contains additional details with regards to specific fair value assumptions of MSR.

Ginnie Mae reviews the various inputs used to determine the fair value of the MSRs and performs procedures to validate their reasonableness. In reviewing the estimated fair values of the Level 3 MSRs, Ginnie Mae uses internal models and key assumptions on the loans underlying the MSR.

The table below presents 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 MSR assets valued on a recurring basis:

		September 30, 2019 (Dollars in thousands)
Valuation at period end:		
Fair value	$	1,268
Weighted- average life (years)		**4.91**
Prepayment rates assumptions:		
Weighted average rate assumption		18.16%
Weighted average minimum		9.16%
Weighted average maximum		28.23%
Impact on fair value of a 10% adverse change		(60)
Impact on fair value of a 20% adverse change		(114)
Discount rate assumptions:		
Weighted average rate assumption		11.48%
Weighted average minimum		10.77%
Weighted average maximum		13.00%
Impact on fair value of a 10% adverse change		(35)
Impact on fair value of a 20% adverse change		(68)

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 (i.e., increased market interest rates may result in lower prepayments and increased credit losses) that could magnify or counteract the sensitivities.

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

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

The table below presents valuation techniques and assumptions used in determining fair values of guaranty assets:

		September 30, 2019 *(Dollars in millions)*
Valuation at period end:		
Fair value	$	7,113
Prepayment rates assumptions:		
Weighted average rate assumption		62.25%
Weighted average minimum		0.05%
Weighted average maximum		99.72%
Default rate assumptions:		
Weighted average rate assumption		13.11%
Weighted average minimum		0.00%
Weighted average maximum		99.69%
Discount rate assumptions:		
Weighted average rate assumption		2.38%
Weighted average minimum		2.38%
Weighted average maximum		2.56%

These significant unobservable inputs change according to macroeconomic market conditions. Significant increases (decreases) in the discount rate, cumulative prepayment rate, or cumulative default rate in isolation would result in a lower (higher) fair value measurement. The cumulative prepayment rate represents the percentage of the mortgage pool's UPB assumed to be paid off prematurely on a voluntary basis over the remaining life and is based on historical prepayment rates and future market expectations. The cumulative default rate represents the percentage of the pool's UPB that would be eliminated prematurely due to mortgage default over the remaining life of the pool. The discount rate used for guaranty asset valuation represents an estimate of the cost of financing for Ginnie Mae and is determined considering Ginnie Mae's overall estimated cost of financing. Increases in the discount rate results in lower fair values of the guaranty asset.

The tables below present a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs as of September 30, 2019:

	For the year ended September 30, 2019			
	Mortgage Servicing Rights		Guaranty Asset	
	(Dollars in thousands)			
Beginning balance	$	943	$	9,009,877
Total realized and unrealized gains/(losses) included in net income:				
Acquisition of MSR		1,501		-
Changes in fair value		(1,176)		(3,540,600)
Issuances		-		1,643,711
Ending balance	**$**	**1,268**	**$**	**7,112,988**

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 year ended

September 30, 2019. Gains and losses on guaranty assets and MSR are recorded in the Gain (loss) on guaranty asset and Gain (loss) on mortgage servicing rights line items, respectively, in the Statement of Revenue and Expenses and Changes in Investment of U.S. Government.

Assets Measured at Fair Value on a Nonrecurring Basis:

Ginnie Mae holds certain assets (acquired properties and MHI loans) that are measured at fair value, but on a nonrecurring basis (e.g., impairment, quarterly valuation).

Acquired Properties: Ginnie Mae initially measures acquired properties at their fair value, net of estimated costs to sell. Ginnie Mae subsequently measures acquired properties at the lower of its carrying value or fair value less estimated costs to sell. Subsequent valuation measurements are periodically performed up until the sale of the property.

Mortgage Loans Held for Investment: Ginnie Mae reports the carrying value of HFI loans on the Balance Sheet at the UPB along with accrued interest, net of cost basis adjustments, and net of allowance for loan losses including accrued interest, as required by U.S. GAAP. Ginnie Mae periodically evaluates its MHI portfolio for uninsured loans that are at or greater than 180 DPD in order to write down the recorded investment to fair market value of the underlying collateral less estimated costs to sell.

The following tables present the fair value measurement hierarchy level for Ginnie Mae's assets and liabilities that are measured at fair value on a nonrecurring basis at September 30, 2019:

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Acquired property, net	$ -	$ -	$ 9,945	$ 9,945
Mortgage Loans Held for Investment, net	$ -	$ -	$ 17,675	$ 17,675

For both acquired properties and conventional MHI loans at or greater than 180 DPD Ginnie Mae applies a valuation waterfall methodology in estimating the fair value of those properties

Note 14: Fixed Assets, Net

Fixed assets are carried at cost, less accumulated depreciation and amortization. The table below presents the total balance of hardware and software as of September 30, 2019, net of the accumulated depreciation and amortization:

	For the year ended September 30, 2019					
	Hardware		Software		Total	
Cost	*(Dollars in thousands)*					
Beginning balance	$	1,642	$	223,702	$	225,344
Additions		37		16,112		16,483
Disposals		-		-		-
Ending balance	**$**	**2,013**	**$**	**239,814**	**$**	**241,827**
Accumulated depreciation and amortization						
Beginning balance – accumulated depreciation and amortization	$	(923)	$	(138,660)	$	(139,583)
Depreciation and amortization		(267)		(20,990)		(21,251)
Disposals		-		-		-
Ending balance – accumulated depreciation and amortization	$	(1,190)	$	(159,650)	$	(160,840)
Ending balance – fixed assets, net	**$**	**823**	**$**	**80,164**	**$**	**80,987**

There were no assets under capital lease as of September 30, 2019.

Ginnie Mae recorded total depreciation and amortization expense of $21.3 million for the year ended September 30, 2019. Based on the current amount of hardware and software subject to depreciation and amortization, the estimated depreciation and amortization expense over the next five years is as follows: 2020 – $19.5 million; 2021 – $15.5 million; 2022 – $9.1 million; 2023 – $6.4 million; and 2024 – $1.6 million.

There were no intangible assets with indefinite lives as of September 30, 2019. The weighted average life of intangible assets (i.e., software) subject to amortization was 4.8 years. The remaining weighted average life of intangible assets subject to amortization was 3.2 years.

No impairment of long-lived assets, including capitalized software, was recorded for the year ended September 30, 2019.

Note 15: Short-Term Liabilities and Deferred Revenue

Short-term liabilities include accounts payable and accrued liabilities, which consisted of the following at September 30, 2019:

	September 30, 2019 (Dollars in thousands)	
Accounts payable	$	66,102
Unclaimed securities holder payments		23,329
Accrued unfunded leave		1,856
Salaries and benefits payable		1,067
Total	**$**	**92.355**

Accounts payable and accrued liabilities balance is carried at cost, which approximates its fair value at the respective balance sheet dates.

Deferred revenue included the following at September 30, 2019:

	September 30, 2019 (Dollars in thousands)	
Deferred revenue – multiclass fees	$	456,191
Deferred revenue – commitment fees		23,208
Deferred revenue – other		61
Total	**$**	**479,460**

Note 16: Reserve for Loss

As Ginnie Mae guarantees the MBS certificate holder's timely payment of P&I on MBS backed by federally insured or guaranteed loans (mainly loans insured or guaranteed by FHA, VA, RD, and PIH), Ginnie Mae is susceptible to credit losses. Due to the various U.S. GAAP requirements related to accounting for credit losses, Ginnie Mae's financial statements recognize credit losses in multiple financial statement line items, as further outlined below:

- *Non-defaulted issuer and guaranty liability:* The issuance of a guaranty under the MBS program obligates Ginnie Mae to stand ready to perform under the terms of the guaranty. As a result, a non-contingent and/or contingent liability may be recognized as discussed below:

  Non-contingent liability

  Upon issuance of a guaranty, Ginnie Mae determines a non-contingent liability based on the present value of guaranty fees expected to be collected under the guaranty, within the financial statement line item "Guaranty liability" on the Balance Sheet (see Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure). Upon issuance of a guaranty, the greater of the non-contingent guarantee liability under ASC 460 or contingent liability under ASC 450 is recognized. Typically, the non-contingent liability amount exceeds contingent liability and, thus, is recorded at inception of a guaranty.

Contingent liability

As noted in Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure, Ginnie Mae receives compensation in exchange for its guaranty of timely P&I payments to the MBS certificate holders in the event of an issuer default.

Ginnie Mae records a contingent liability when it is probable that a loss event will occur and the amount of the loss or a range of loss can be reasonably estimated. The contingent liability is measured initially and in subsequent periods under ASC 450: *Contingencies – Loss Contingencies*. Once it is determined that a loss event is probable to occur, Ginnie Mae estimates the probable losses in the underlying loan portfolio to calculate the loss contingency, which is recorded on the Balance Sheet as "Liability for loss on MBS program guaranty". Where it is only reasonably possible that a loss event may occur, a contingent liability is not recorded, but is disclosed.

Determining a contingent liability requires considerable management judgment including the evaluation of the likelihood that future events will confirm the loss. When assessing whether it is probable that a loss event will occur, management takes into consideration various factors including the issuer's financial and operational vulnerability, a qualitative and quantitative corporate credit analysis, other evidence of potential default (e.g., known regulatory investigations or actions), interest rates, and general economic conditions.

The loss event for estimating a contingent liability depends on the type of underlying loans in the issuer's portfolio. A contingent liability for Single Family and HECM loans is triggered when the issuer is probable of defaulting. A contingent liability for multifamily loans may be triggered when either the issuer is probable of defaulting or the borrower is probable of defaulting.

At September 30, 2019, no Ginnie Mae issuer was considered probable of defaulting. In addition, Ginnie Mae estimated potential losses up to $683.8 million, related to reasonably possible losses on pooled Single Family and HECM loans in the event of issuer defaults.

At September 30, 2019, the contingent liability related to pooled Multifamily loans probable of defaulting was $6.7 million. Ginnie Mae cannot determine an estimate for reasonably possible contingent liability for multifamily loan defaults as of September 30, 2019, because there is not a specific loan performance indicator that can be used to accurately reflect the reasonably default likelihood for those loans that are not considered probable of default.

- *Defaulted issuer, pooled loans, and allowance for P&I advances:* In the event an issuer cannot fulfill its responsibilities under the applicable MBS program, pass-through payments made by Ginnie Mae to satisfy its guaranty of timely P&I payment to MBS certificate holders are presented in "Advances, net" in the Balance Sheet. Advances are reported net of an allowance, which is based on management's expectations of future collections of advanced funds from the mortgagors, proceeds from the sale of the property, or recoveries from third-party insurers or guarantors such as FHA, RD, VA, and PIH.

- *Defaulted and extinguished issuer, pooled forward mortgage loans, and mortgage servicing rights:* When a Ginnie Mae issuer is declared in default, terminated and extinguished, Ginnie Mae steps into the role of issuer and assumes all rights and obligations of the terminated and extinguished issuer's entire Ginnie Mae guaranteed pooled-loan portfolio. Ginnie Mae records a servicing asset (or liability) each time it takes over a terminated and extinguished issuer's Ginnie Mae guaranteed portfolio (see "Mortgage servicing rights" financial statement line item on the Balance Sheet and Note 7: Mortgage Servicing Rights). Ginnie Mae's servicing asset (or liability) is recorded at fair value based on the present value of the expected future net cash flows from servicing, which are expected to be greater (or less) than adequate compensation for performing the servicing related to these loans. The determination of adequate compensation is a market notion and is made independent of Ginnie Mae's cost of servicing. Accordingly, Ginnie Mae's determination of adequate compensation is based on compensation demanded in the marketplace. Ginnie Mae's cash flow model incorporates a number of factors (see Mortgage Servicing Rights section in Note 3: Summary of Significant Accounting Policies and Practices, for further information) including delinquencies and expectation of credit losses that management believes are consistent with the assumptions other similar market participants use in valuing the MSR. Thus, estimated credit losses for terminated and extinguished issuers' pooled loans are incorporated within the servicing asset (or liability).

- *Defaulted and extinguished issuer, non-pooled mortgage loans, and allowance for loan loss:* As Ginnie Mae purchases forward mortgage loans out of a pool, it recognizes the loans on its Balance Sheet along with the corresponding estimated incurred loss (i.e., allowance for loan losses) within the Balance Sheet as "Mortgage loans held for investment including accrued interest, net"). Costs incurred on non-pooled loans expected to be reimbursed are recorded as Reimbursable costs receivable and reported net of allowance for amounts that management believes will not be collected.

- *Liability for representations and warranties:* Ginnie Mae performs an assessment of all existing representations and warranties and indemnification clauses associated with Purchase and Sale Agreements (PSAs) that are enforceable and legally binding. These clauses may require Ginnie Mae to repurchase loans previously sold to a third party or indemnify the purchaser for losses per the contractual terms of the PSA. On September 30, 2019, Ginnie Mae recorded $61.4 thousand as a contingent liability for representations and warranties under an existing PSA that requires Ginnie Mae to repurchase mortgage loans that are not insured by the FHA or guaranteed by the VA, RD, or PIH as identified by the purchaser as of or after the sale date. This amount is presented in "Liability for representations and warranties" on the Balance Sheet.

Note 17: Concentration of Credit Risk

Issuer concentration

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

The table below summarize concentrations of credit risk by active issuers and loan type at September 30, 2019:

	September 30, 2019							
	Single Family		Multifamily		Manufactured Housing		Home Equity Conversion (HECM/HMBS)	
	Number of Issuers	Unpaid Principal Balance	Number of Issuers	Unpaid Principal Balance	Number of Issuers	Unpaid Principal Balance	Number of Issuers	Unpaid Principal Balance
	(Dollars in billions)							
Largest performing Issuers	30	$ 1,590.5	6	$ 60.6	-	$ -	-	$ -
Other performing Issuers	277	$ 327.9	48	$ 62.5	3	$ 0.3	14	$ 54.1

Largest performing issuers are defined based on the total portfolio size and, for single family issuers, includes issuers with total loans above 75,000. For multifamily issuers, largest performing issuers are defined as issuers with a total UPB of $5 billion or more. Other performing issuers include manufactured housing and HMBS issuers whose portfolios are outside the defined thresholds for single family and multifamily issuers.

Issuers are only permitted to pool insured or guaranteed loans (from FHA, RD, VA, or PIH). The insuring or guaranteeing agencies have strict underwriting standards and criteria for quality of collateral. Mortgage loans insured by the FHA receive full recovery of the UPB, including all delinquent interest accrued at the HUD debenture rate since default with the exception of the first two months. RD, VA, and PIH guaranteed loans are not fully recoverable. The loan balance and related allowance for loan loss balance broken down by portfolio segment and underlying insuring or guaranteeing agencies at September 30, 2019 are presented in Note 10: Mortgage Loans Held for Investment Including Accrued Interest, Net.

In the event of an issuer default, termination and extinguishment, Ginnie Mae assumes the rights and obligations of that issuer and becomes the owner of the MSR liability or asset, which typically is salable. Ginnie Mae has the option or requirement to purchase loans out of the pool if certain criteria are satisfied. Upon purchase of the loan out of the pool, Ginnie Mae acquires all lender rights, privileges, and responsibilities. This includes certain collateral rights and ability to claim FHA, RD, VA, or PIH insured or guaranteed loan loss recoveries.

Ginnie Mae's portfolio of issuers include both traditional banks (depositories) and independent mortgage institutions (non-depositories, or non-banks). As of September 30, 2019, the distribution of Ginnie Mae's business volumes among these two categories was as follows:

	September 30, 2019		
	Total Number of Issuers	Total Issuances (Dollars in millions)	As Percentage of Total Issuance
Depositories	95	78,698	17.82%
Non-depositories	283	362,930	82.18%
Total active issuers	**378**	**441,628**	**100.00%**

As more non-banks issue Ginnie Mae's securities, the cost and complexity of monitoring increases as the majority of these institutions involve more third parties in their transactions, making oversight more complicated. In contrast to traditional bank issuers, non-banks rely more on credit lines, securitization involving multiple players, and more frequent trading of MSR. Regardless, Ginnie Mae's issuer composition greatly reduces the risk of exposure to the failure of any one institution.

Counterparty credit risk

Counterparty credit risk is the risk that issuers will be unable to fulfill their contractual pass through obligations to investors. As Ginnie Mae guarantees investors the timely payment of P&I on MBS backed by federally insured or guaranteed residential loans, the entity's primary risk is that issuers will fail to perform their obligations under the guaranty agreement (i.e., make payment to investors on time), either due to a lack of financial resources or operational inability. Ginnie Mae manages its exposure to counterparty credit risk through financial monitoring, risk modeling at issuer level, credit reviews, and operational monitoring. Financial monitoring includes exposure limit analysis and analysis of projected losses against core capital reserves. Risk modeling at entity level is performed through Ginnie Mae's focus on the riskiest segment of issuer base and regular monitoring of issuers on a watch list. Credit reviews are performed and considered in determining, for example, respective issuer's commitment authority limits, whether issuers can transfer pools to other approved issuers without impacting issuers credit profiles of issuers involved, etc. Operational monitoring encompasses compliance reviews, assessments of delinquency levels and trending, due diligence reviews before, during, or after transfer of servicing.

Mortgage loan servicing

Ginnie Mae relies on two MSS (i.e., service organizations) to provide servicing functions that are critical to its business. The size of Ginnie Mae's pooled and non-pooled portfolio is almost evenly split between both organizations. Significant reliance is placed on the servicing data and accounting reports provided by the service organizations. Ginnie Mae could be adversely impacted if the MSS' lack appropriate controls, experience a failure in their controls, or experience a disruption in service including legal or regulatory action. Ginnie Mae manages this risk by establishing contractual requirements, ongoing reviews of the service organizations, and requiring the service organizations to provide attestation reports over internal controls.

Note 18: Commitments and Contingencies

Lease, purchase, and other commitments

Ginnie Mae may lease facilities, hardware, and software under agreements that could require the agency to pay rental fees, insurance, maintenance, and other costs. As at September 30, 2019, Ginnie Mae did not have any active and open lease contracts related to rental expense or hardware and software.

As of September 30, 2019, Ginnie Mae had approved and committed to make $1.5 billion in payments under contracts with its various vendors for fiscal year 2019 and beyond. Some contract terms with its vendors are in excess of one year.

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

Legal

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

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

The table below shows the approximate number of plaintiffs and claimants who had claims pending against Ginnie Mae at the beginning of fiscal year, the number of claims disposed of during that year, the year's filings and the claims pending at the end of year ending September 30, 2019 (eliminating duplicate filings).

	September 30,2019 Case Count
Pending at beginning of year	1
Disposed	(1)
Filed	1
Pending at September 30	**1**

The status of cases against Ginnie Mae as of September 30, 2019, are described below.

Claim for wrongful dismissal from Ginnie Mae program (First Mortgage Corp. versus Government National Mortgage Association, Civil Action No. 5:2017-cv-01225 JGB) (C.D. Cal.): First Mortgage Corp., a former Ginnie Mae issuer, filed a claim against Ginnie Mae alleging wrongful dismissal from the Ginnie Mae's programs afforded to issuers. Prior to the termination of the issuer by Ginnie Mae, Ginnie Mae asserted that all standard procedures, including violation notification to the former issuer, were appropriately followed. The case against Ginnie Mae was dismissed on January 4, 2018. First Mortgage Corp., however, refiled the case in a new court, Court of Federal Claims on 7/16/2018. *(First Mortgage Corp. versus Government National Mortgage Association, Fed. Cl. No. 18-288C).* The complainant is seeking $150.0 million from Ginnie Mae. The case refiled was dismissed on February 22, 2019. On June 24, 2019, First Mortgage filed its Opening Brief in support of its appeal. Ginnie Mae will file a responsive brief in support of the district court's dismissal of the suit.

No other asserted or unasserted claims or assessments in which Ginnie Mae's exposure is $490.0 thousand or greater, individually, or in the aggregate for similar matters have been identified. Additionally, Ginnie Mae's 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 $979.0 thousand in the aggregate for cases not listed individually or as part of similar cases that could be material to the financial statements.

Ginnie Mae's management recognizes the uncertainties that could occur in regard to potential terminated and extinguished issuers and other indirect guarantees, such as large issuer portfolio default, terminated and extinguished, lack of proper insurance coverage of terminated and extinguished loans, etc. Additional information is discussed in Note 16: Reserve for Loss.

Note 19: Related Parties

Ginnie Mae, a wholly owned U.S. Government corporation within HUD, is subject to controls established by government corporation control laws (31 U.S.C. Chapter 91) and management controls by the Secretary of HUD and the Director of the OMB. These controls could affect Ginnie Mae's financial position or operating results in a manner that differs from those that might have been obtained if Ginnie Mae were autonomous. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed if Ginnie Mae had been operating as an independent organization.

Ginnie Mae was authorized to use $27.0 million during the year ended September 30, 2019 for personnel (payroll) and non-personnel (travel, training, and other administration) costs only. For the year ended September 30, 2019, Ginnie Mae incurred $28.3 million for these costs, which are included in administrative expenses on the Statement of Revenue and Expenses and Changes in Investment of U.S. Government. Ginnie Mae has authority to borrow from Treasury to finance operations in lieu of appropriations, if necessary. Ginnie Mae did not borrow funds for the year ended September 30, 2019.

Additionally, Ginnie Mae has an intra-entity relationship with the FHA, which is part of HUD. All transactions between Ginnie Mae and FHA have occurred in the normal course of business. Of the total mortgage loans HFI, approximately $2.2 billion of loans were insured by the FHA at

September 30, 2019, respectively. In addition, Ginnie Mae submits and receives claim proceeds for FHA-insured loans that have completed the foreclosure and short sale process.

After the Short Sale and Foreclosed Property Claims Receivable are established, on an ongoing basis, the recoverability of the receivables is assessed under GAAP guidance. The allowance for claims receivable is calculated using statistical models based on expected recovery per underlying insuring agency guidelines and Ginnie Mae's most recent historical recovery experience.

The breakdown of FHA claims pending payment or pre-submission to FHA is below:

	September 30, 2019 *(Dollars in thousands)*
Foreclosed property claims receivable	$ 191,984
Short sales claims receivable	2,515
Allowance for claims receivable	(31,327)
Total FHA claims	**$ 163,172**

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

Under the Federal Thrift Savings Plan (TSP), Ginnie Mae provides FERS employees with an automatic contribution of 1% of pay and an additional matching contribution up to 4% of pay. CSRS employees also can contribute to the TSP, but they do not receive matching contributions. For the year ended September 30, 2019, Ginnie Mae contributed $3.1 million in pension and savings benefits for eligible employees.

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

Note 20: 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. Ginnie Mae has not incurred borrowings or received appropriations to finance its credit operations. At September 30, 2019, the Investment of U.S. Government account has a balance of $25.0 billion. Federal statute allows Ginnie Mae to accumulate and retain revenues in excess of expenses 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 21: Subsequent Events

Ginnie Mae has evaluated subsequent events through the filing of this annual financial statements as of February 7, 2020, and determined that there have been no events that have occurred that would require adjustments to our disclosures.