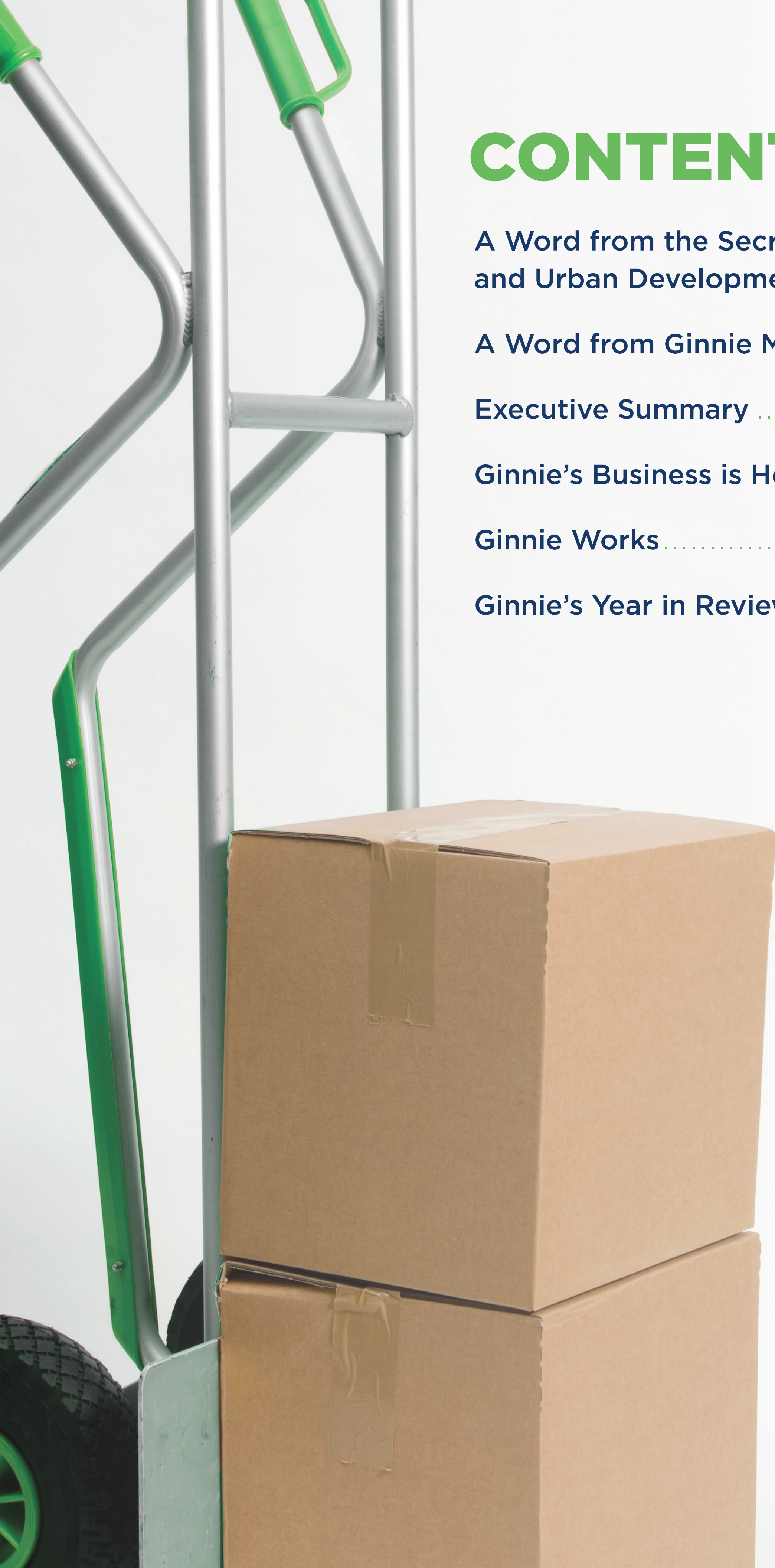
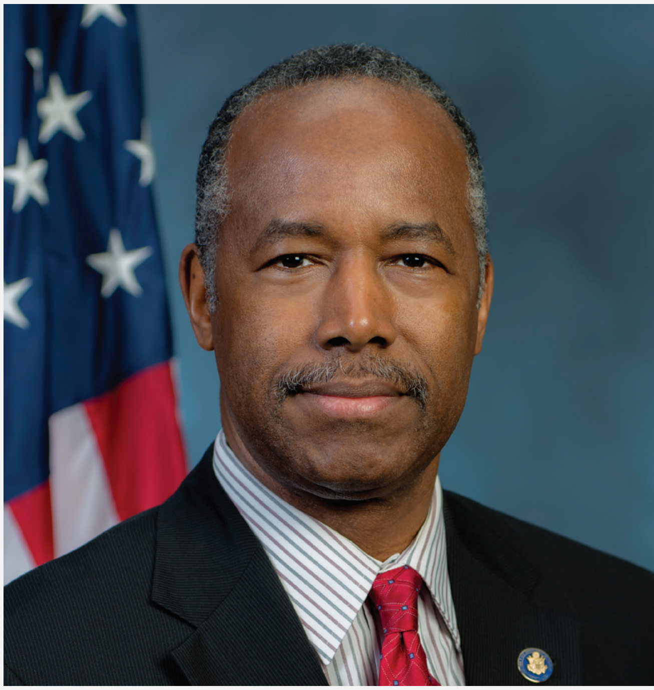
2017 REPORT TO CONGRESS

Ginnie Mae
Our Guaranty Matters



CONTENTS

A WORD FROM THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT



As Ginnie Mae enters its 50th year, its mission remains unchanged—to bring global capital to the housing finance market, a system that runs through the heart of our nation's economy, while minimizing risk to the taxpayer. Ginnie Mae continues to provide liquidity and stability, helping millions of low- and moderate-income households and our nation's veterans find an affordable and safe place to call home.

The Ginnie Mae program remains strong. During Fiscal Year 2017, Ginnie Mae guaranteed $505 billion in new mortgage-backed securities (MBS) and the Ginnie Mae MBS portfolio has grown to $1.87 trillion. Ginnie Mae securities funded 1.4 million single-family home purchases and assisted 1 million first-time home buyers.

Fulfilling the Ginnie Mae mission requires us to ensure that creditworthy borrowers have robust access to mortgage credit. In doing so, we also must create proper controls to protect the American taxpayer and the fiscal integrity of FHA and Ginnie Mae. This year, in partnership with the Department of Veterans Affairs, Ginnie Mae created a task force to ensure that our veterans are not exposed to abusive lending practices like loan churning or repeatedly refinancing a loan. We are committed to eradicating these practices to ensure that all federally insured borrowers are able to obtain low rates that are subsiding the few that are taking advantage of the programs intended benefits. The VA loan program is an earned, veterans benefit, and it must truly be beneficial for our veterans.

"The expertise that has been developed at Ginnie Mae in building a platform capable of handling nearly $2 trillion in mortgages will provide valuable and very relevant insights for the reform discussion."

HUD will be an active participant in the critical and continuing dialogue on housing finance reform. This presents an opportunity for reform that will ensure a well-functioning housing finance system for future generations, one that expands the role of the private sector and reduces taxpayer exposure. The expertise that has been developed at Ginnie Mae in building a platform capable of handling nearly $2 trillion in mortgages will provide valuable and very relevant insights for the reform discussion.

As it looks beyond its first 50 years, Ginnie Mae is creating a next-generation road map and will continue modernizing programs and policies. I'm pleased to report Ginnie Mae is well positioned to continue providing the globally recognized common securitization platform that provides liquidity during both up and down economic cycles and offering more opportunity for Americans to achieve prosperity.

Benjamin S. Carson, Sr.
Secretary
U.S. Department of Housing
and Urban Development

A WORD FROM **GINNIE MAE**

Dear Mr. Secretary:

I am pleased to report that during the 2017 Fiscal Year, Ginnie Mae continued to provide capital to the housing market supported by government lending programs and helped more Americans achieve the goal of homeownership.

Ginnie Mae supports Federal Mortgage Insurance programs through the Federal Housing Administration, Department of Veterans Affairs, Department of Agriculture Rural Development, and the Office of Public and Indian Housing. These programs, together with mortgage-backed securities (MBS) guaranteed by Ginnie Mae, attract global capital to fund mortgages for millions of Americans.

In 2017, Ginnie Mae continued to support the U.S. housing market, with $505 billion in Ginnie Mae MBS guarantees issued. The Ginnie Mae portfolio grew to $1.87 trillion and generated $2.1 billion as deficit reducing offsets for the U.S. Treasury.

Ginnie Mae oversees the government guarantee on our securities with the best and most efficient use of tax payer dollars possible. The Ginnie Mae program works because there are clear and effective guidelines and the program is well-managed and well-policed. We see this as our vital function to ensure that we have an explicit government guarantee that provides, responsibly, liquidity through all economic cycles.

"The Ginnie Mae program works because there are clear and effective guidelines and the program is well-managed and well-policed"

The year ahead brings our 50th year and an initiative to launch a roadmap for modernizing both our technology and our counterparty risk management paradigm, with the launch of the Ginnie 2020 initiative. The future of Ginnie Mae will involve modernizing our program that incorporates technological evolution in the marketplace as well as a more disciplined and holistic approach to counterparty risk management.

Reforming the housing finance ecosystem will present an opportunity to provide insight on the relevant aspects of administering a government guaranty in the discussion on the future of housing finance. Ginnie Mae is incredibly focused and enthusiastic about being responsible stewards of the program and its evolution into a leader in the housing system.

At Ginnie Mae we are committed to doing our part and look forward to working with our government and industry stakeholders as we move into the future.

Sincerely,

Michael R. Bright
Executive Vice President
and Chief Operations Officer

EXECUTIVE **SUMMARY**

"Ginnie Mae's mission is focused on supporting mortgages insured by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), USDA Rural Development, and the Office of Public and Indian Housing (PIH)."

During Fiscal Year 2017 (FY 2017), Ginnie Mae once again delivered strong results in fulfilling our mission, while managing our finances and operations. Our FY 2017 production facilitated worldwide investments that financed the purchases and refinances of owner occupied or rental housing for approximately 2.12 million households, an increase over the 2.08 million U.S. households we served in FY 2016.

The global demand for Ginnie Mae securities remains strong. In FY 2017 global investors purchased $505 billion in newly issued mortgage-backed securities (MBS) guaranteed by Ginnie Mae, a three percent increase over FY 2017, and our largest year ever. At year-end, Ginnie Mae MBS outstanding was $1.87 trillion.

Ginnie Mae's mission is focused on supporting mortgages insured by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), USDA Rural Development, and the Office of Public and Indian Housing (PIH). FHA-insured mortgages accounted for 61.3 percent of FY 2017 loan issuances in Ginnie Mae pools, while VA-guaranteed loans accounted for 32.5 percent of our production, with Rural Development and PIH loans contributing the remainder.

The availability of Ginnie Mae MBS helps provide access to credit for middle and lower income Americans through the federally insured mortgage programs. By securitizing these loans into MBS explicitly guaranteed by the full faith and credit of the U.S. Treasury – the only MBS with the explicit backing of the U.S. government – Ginnie Mae lowers the cost of mortgage funding and passes along the savings to support housing and homeownership in American communities.

For nearly 50 years, Ginnie Mae has provided liquidity and stability through all market cycles, serving as the principal financing arm for government-insured loans and ensuring that mortgage lenders have funds to provide loans to consumers.

This Report to Congress is designed to provide background on Ginnie Mae and our current financial situation for policymakers and other interested parties. It is prepared annually to satisfy applicable legal requirements, in accordance with and pursuant to the provisions of Government Corporation Control Act, 31 U.S.C. Section 9106.

GINNIE'S BUSINESS IS HELPING PEOPLE

Ginnie Mae's securities are backed by the full faith and credit of the U.S. government.

The design features of the Ginnie Mae model significantly limit the taxpayer exposure to risk associated with secondary market transactions. Importantly, we are different than the government-sponsored enterprises (GSEs) in that rather than acquiring, holding and managing credit risk and interest-rate risk, in Ginnie Mae's business model almost all risk is disaggregated to other market participants, including private entities who act as issuers of our securities. Ginnie Mae's federal backstop of MBS greatly increases liquidity and lowers rates for borrowers, but it also places American taxpayers at a remote risk of loss.

Security and Stability

Ginnie Mae partners with hundreds of mortgage lenders, or Issuers, that both originate government-insured mortgages and issue Ginnie Mae MBS to global investors.

Lenders who want to become Ginnie Mae Issuers must meet capital and liquidity requirements and be subject to ongoing monitoring. Once approved, Issuers assemble pools of mortgages with similar terms, package them into a Ginnie Mae MBS, and sell the securities to mortgage investors.

Since private financial institutions originate eligible mortgages, pool them into securities, and issue Ginnie Mae MBS to private investors, three levels of protection must be exhausted before the Ginnie Mae guaranty needs to be utilized.

Specifically:

1. Borrower equity in a property.
2. Government mortgage insurance.
3. The capital base of the financial institution designated as the Issuer for the Ginnie Mae MBS.

Thus, Ginnie Mae's risk is at the institutional level of an Issuer, and not at the loan level of a mortgage. This business model places Ginnie Mae, and the American taxpayer, in a remote position of risk.

The Benefits

Ginnie Mae's unique securitization process allows us to be self-sustaining, benefiting borrowers, investors and the nation's housing finance system in the following ways:

Makes mortgage money available to finance home loans and rental housing. The government guaranty in Ginnie Mae's MBS ensures timely payment of principal and interest to investors—and does so on terms favorable to the Issuers. For this benefit, Issuers pay Ginnie Mae a guaranty fee. MBS investors are also attracted by the credit quality, liquidity and standardization that characterize Ginnie Mae MBS. This allows Ginnie Mae to expand during times of market crisis while other mortgage participants typically withdraw from the market.

Enables homebuyers to lock in mortgage rates before loans close and are securitized. Our disciplined securitization process supports the existence of a "TBA," or "to-be-announced," market for Ginnie Mae MBS. Within a TBA market, investors commit to purchase securities before all the underlying loans are closed, knowing that loans with expected terms will be forthcoming and comply with all federal guidelines. Being able to lock in mortgage rates prior to closing is essential for consumers purchasing a home or refinancing their mortgage—allowing them to know the final cost of their monthly payment before they officially sign papers.

Helps ensure broad availability of long term, fixed-rate mortgages. Ginnie Mae's explicit guarantee and the nature of Ginnie Mae MBS ensure a liquid market, allowing investors to buy and sell positions quickly. That is because nearly all the mortgages within Ginnie Mae MBS carry even- paying terms that are amortized up to 30 years, and can be refinanced at will. Additionally, supporting the issuance of fixed-rate mortgages benefits homeowners. The fixed nature of these payments protects homeowners against rising mortgage rates —and when mortgage rates fall, fixed-rate mortgages allow homeowners to reduce their monthly payments through refinancing at no penalty.

GINNIE **WORKS**

Ginnie Mae plays important roles in the lending process, including:

- Processing monthly payments of principal and interest to investors.
- Supporting the liquidity of Ginnie Mae MBS through enhanced data to investors.
- Providing sophisticated capital market capabilities.
- Approving Issuers.
- Representing investor and Issuer interests as participants in housing policy initiatives.

Ginnie Mae must also insure that Issuers meet their financial obligations to investors, and that any resulting risks are well managed. For instance, when an Issuer fails to meet its obligations, we have authority to transfer its mortgage servicing rights to another, well-performing Issuer. Ginnie Mae only has the authority to make such a transfer if an Issuer fails to meet its obligations and Ginnie Mae removes the Issuer from the program.

Navigating a Changing Home Loan Market

The primary mortgage market is undergoing important changes as participants continue to shift away from traditional banks (depositories) and toward independent mortgage banks (non-depositories, or non-banks as they are also called). Ginnie Mae is changing alongside the marketplace while maintaining the security that has defined Ginnie Mae MBS for more than 50 years.

Unlike traditional banks, non-banks rely on third parties for capital to make and support mortgages. By meeting Ginnie Mae's guidelines and complying with our ongoing monitoring, non-banks can access global capital markets by issuing Ginnie Mae MBS.

Figure 1.1 Composition of Ginnie Mae MBS Issuance Volume (Single Family only) FY 2010 and 2017


FY 2010
FY 2010 Issuance
Volume: $389B
69%
31%
Depositories
Non-Depositories
FY 2017
FY 2017 Issuance
Volume: $474B
24%
76%

For homeowners, the growing prominence of non-banks has been a welcome development: As traditional banks have exited the mortgage lending sector, non-banks have stepped in, ensuring consumer access to government-insured mortgages. Ginnie Mae has benefited as well: With business volumes more widely distributed across more Issuers, non-banks have reduced our risk exposure to the failure of any one institution. (See Figure 1.2.)

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

To manage the risks associated with this growth in non-bank Issuers and Servicers, Ginnie Mae has taken steps to help ensure we have a strong handle on the risks we face. Included in these are the following: the development of a subledger database capable of handling loan level accounting on millions of troubled loans, the creation of Issuer scorecards which rank lenders against their peers in a variety of risk categories, the development of minimum liquidity requirements to ensure that our Issuers have sufficient cash on hand to weather an economic downturn, the development of in-house risk models used to police our Issuer base, a series of guideline changes to clarify

● Issuers who have fallen out of the top 5 since 2011

● Issuers who have risen into the top 5 since 2011

* October 2010 through September of 2011, October 2016 through September 2017

Top 5 Issuers of SF MBS (Issuance in 2011*)

Rank	Issuer Name	$ Amount Issuance	% of Total Issuance
1	Wells Fargo Bank, N.A.	111.6 billion	35%
2	Bank of America	84.9 billion	26%
3	JP Morgan Chase Bank	24.8 billion	8%
4	PHH Mortgage Corp	11.9 billion	4%
5	U.S. Bank	11.2 billion	3%
Total Top 5 Issuers:			76%
Total Issuance 2011		$322.3 billion	

program rules, among other steps. We are currently evaluating ways to enhance these risk management techniques and we expect further meaningful adjustments in the near term.

Ginnie Mae is proud that it has been able to expand to meet such a rapidly changing market environment. The net impact of the transformation – a wholesale change in our Issuer base, the need to support more of the mortgage market, and the resulting new and different risks that have materialized – have combined to redefine Ginnie Mae's operational model. Collectively, these transformational changes present an opportunity for Ginnie Mae to ensure its policies and procedures align to the business of today and incorporate potential future developments.

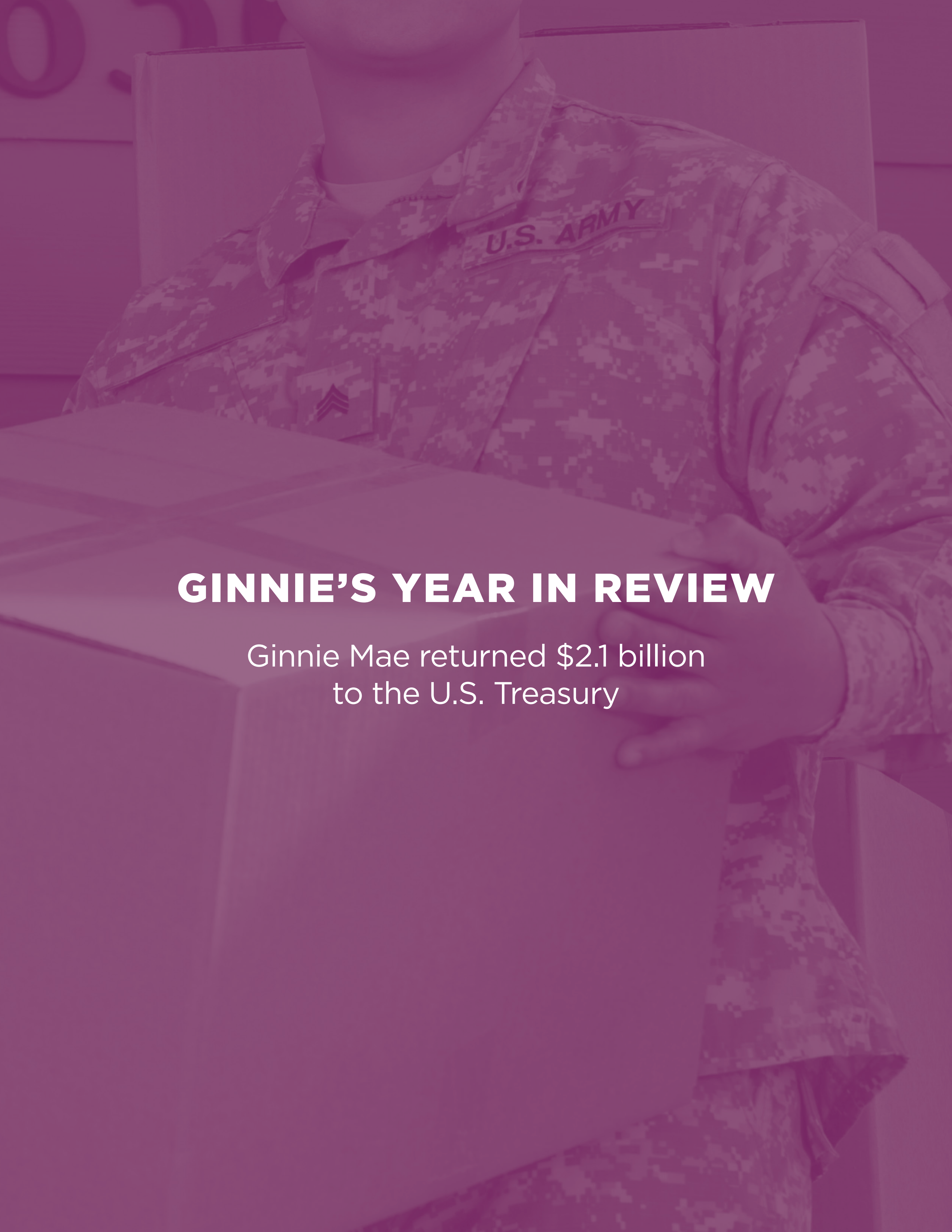
Ginnie Mae is currently engaged in long range planning for the future. We are calling this initiative "Ginnie Mae 2020" and it is the next stage in strategic modernization for Ginnie Mae and the securitization platform. As the name refers, we anticipate implementation of these initiatives by the end of 2020. While we will be officially unveiling the details of this effort early next year, noteworthy initiatives we can highlight include:

- Modernizing the Ginnie Mae program for managing pool collateral to reflect technological advances and to better align program requirements with risk.
- Providing more flexibility within single pools of securitized loans to allow mortgage servicing rights to be managed more efficiently.
- Streamlining platform access, support services, and program requirements, effectively lowering barriers to participation in the Ginnie Mae MBS program.
- Testing and evaluating new methods for connecting the capital markets to the residential finance industry through the Ginnie Mae platform.

Figure 1.2 Top 5 Issuers of Single Family MBS 2011 and 2017

Top 5 Issuers of SF MBS (Issuance in 2017*)

Rank	Issuer Name	$ Amount Issuance	% of Total Issuance
1	PennyMac Loan Services, LLC	52.7 billion	11%
2	Lakeview Loan Servicing, LLC	44.0 billion	9%
3	Wells Fargo Bank, N.A.	41.4 billion	9%
4	Freedom Mortgage Corporation	38.2 billion	8%
5	Quicken Loans Inc.	22.7 billion	5%
Total Top 5 Issuers:			42%
Total Issuance 2017		$474.4 billion	



GINNIE'S YEAR IN REVIEW

Ginnie Mae returned $2.1 billion
to the U.S. Treasury

MANAGEMENT'S DISCUSSION AND ANALYSIS OF **FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is management's discussion and analysis (MD&A) of the financial condition and results of operations of Ginnie Mae for the fiscal year ended September 30, 2017. This MD&A should be read in conjunction with Ginnie Mae's financial statements and related notes, included in this Annual Report, and issued to Congress.

During 2017, Ginnie Mae revised its financial statements previously issued in 2016 to properly record accounts payable and accrued liabilities, allowance for loan loss, deferred revenue and income related to real estate mortgage investment conduits (REMIC) issuances for previously identified errors that were corrected in a period subsequent to the period in which the error originated. All financial information presented herein was revised to reflect the correction of these errors. See Note 2: Restatement, Non-pooled Loans in the 2017 financial statements included in this Annual Report for additional information.

RESTATEMENT OF PRIOR FINANCIAL STATEMENTS AND REMEDIATION UPDATES

The Office of the Inspector General (OIG) issued disclaimers of opinion on Ginnie Mae's financial statements for fiscal years 2017, 2016, 2015, and 2014 primarily as a result of the audit finding relating to Ginnie Mae's non-pooled loans. Ginnie Mae continues to expend significant efforts, which are broad in scope, to develop the necessary infrastructure to remediate this finding.

Ginnie Mae's objective for fiscal year 2017 was to continue remediation efforts associated with the material weaknesses noted by OIG that led to the disclaimer of opinion in prior years. These efforts included, but were not limited to: (i) engaging necessary advisory counterparts to support the development of Ginnie Mae's infrastructure; (ii) working with third-party servicers to develop standardized loan-level reporting detail and implement accounting policies compliant with Generally Accepted Accounting Principles in the United States (U.S. GAAP); (iii) investing in new technologies to track and account for the non-pooled loans; (iv) developing and implementing standard operating procedures for non-pooled assets to comply with existing accounting policies within OCFO; and (v) enhancing the internal controls over financial reporting.
The previous financial statements and corresponding information should no longer be relied upon.

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

Refer to Note 2: Restatement, Non-pooled Loans for details on the restatement of the financial statements for fiscal year 2016.

FINANCIAL **CONDITION**

Figure 1 Selected Financial Data from Balance Sheets

	At the Year Ended September 30		
(Dollars in millions)	**2017**	**2016 (Restated)**	**2015 (Restated)**
Balance Sheets Data			
Assets			
Cash and cash equivalents	18,990	16,846	14,680
Restricted cash and cash equivalents	658	546	433
Mortgage loans held for investment including accrued interest, net	3,131	3,700	4,400
Guaranty asset	8,256	6,398	6,742
Other assets[1]	607	941	1,148
Total Assets	**31,642**	**28,431**	**27,403**
Liabilities			
Guaranty liability	7,014	6,198	5,661
Liability for loss on mortgage-backed securities program guaranty	269	1	-
Other liabilities	528	541	455
Total Liabilities	**7,811**	**6,740**	**6,116**
Investment of U.S. Government	23,831	21,691	21,287
Total Liabilities and Investment of U.S. Government	**31,642**	**28,431**	**27,403**

[1] *Other assets includes: claims receivable, net; accrued fees and other receivable;, fixed assets, net; acquired property, net; advances, net; and other assets*

In fiscal year 2017 and 2016, Ginnie Mae generated sufficient cash to fund its operations with a steady balance sheet that has adequate liquidity and capital reserves. As highlighted in Figure 1, total assets as of September 30, 2017 increased to $31.6 billion from $28.4 billion (as restated) as of September 30, 2016. Results of operations were $2.1 billion for fiscal year 2017 compared with $0.4 billion (as restated) for fiscal year 2016, mainly driven by U.S. GAAP measured fair value gain on guaranty asset. As of September 30, 2017, Ginnie Mae held cash and cash equivalents of $19.0 billion, an increase of about $2.2 billion from $16.8 billion as of September 30, 2016. Cash and cash equivalents represented 1.01 percent and 0.98 percent of the outstanding Mortgage Backed Securities (MBS) balance, respectively. Ginnie Mae has increased its cash and cash equivalents balances for two straight years since 2015. Mortgage loans held for investment including accrued interest, net was $3.1 billion as of September 30, 2017 compared to $3.7 billion (as restated) as of September 30, 2016. It has steadily been declining since 2013 as loans buy-out activity has decreased and loans get paid down, as a result of scheduled and unscheduled payments, or move to foreclosure. Guaranty asset was $8.3 billion as of September 30, 2017, compared with $6.4 billion as of September 30, 2016, an increase of $1.9 billion from September 30, 2016.

Ginnie Mae issued $529.7 billion in commitment authority in fiscal year 2017, a 23.1 percent increase from $430.4 billion in fiscal year 2016.

LIQUIDITY & CAPITAL **ADEQUACY**

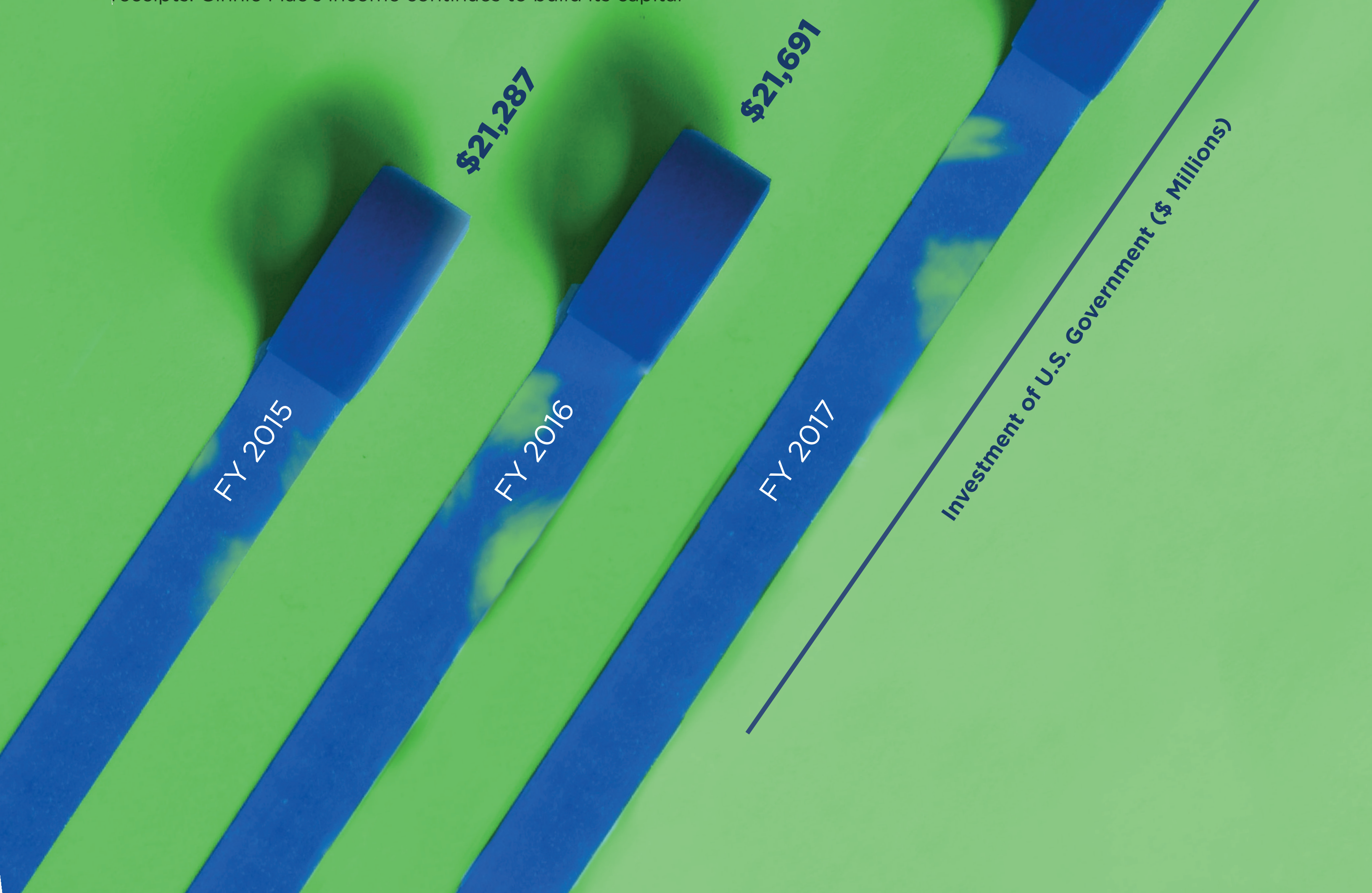
Ginnie Mae's primary sources of revenue are guaranty fees and commitment fees from the issuance of MBS. Ginnie Mae reported $19.6 billion total cash and cash equivalents as of September 30, 2017, of which $19.0 billion and $658.5 million were unrestricted and restricted, respectively. Total cash and cash equivalents increased by approximately $2.2 billion from $17.4 billion as of September 30, 2016.

Unrestricted cash and cash equivalents includes $17.3 billion and $1.7 billion of U.S. Treasury overnight certificates and Funds with U.S. Treasury, respectively as of September 30, 2017, an increase of $1.3 billion and $0.8 billion, respectively, from September 30, 2016.

Ginnie Mae's MBS guaranty is backed by the full faith and credit of the U.S. Government. Currently, Ginnie Mae's activities are self-financed and do not require financial assistance from the U.S. Government. Rather, Ginnie Mae generates income, which increases U.S. Government receipts. Ginnie Mae's income continues to build its capital base, and management believes that the organization should continue maintaining adequate capital reserves to withstand downturns in the housing market that could cause Issuer defaults to increase.

At September 30, 2017, the investment of U.S. Government (U.S. GAAP-based retained earnings) was $23.8 billion, compared with $21.7 billion (as restated) at September 30, 2016. See Figure 2 for the investment of U.S. Government for each of the past three years.

Figure 2 Investment of U.S. Government (U.S. GAAP-based retained earnings) from Fiscal Year 2015 to Fiscal Year 2017



RESULTS OF **OPERATIONS**

Ginnie Mae generated positive results of operations (i.e., net profit) of $2,139.6 million in 2017, compared to positive results of operations of $427.7 million (as restated) in 2016, an increase of $1,711.9 million from 2016. The increase was largely driven by a $1,909.2 million reduction in fair value loss on guaranty asset of $224.4 million in 2017, compared with a fair value loss on guaranty asset of $2,133.6 million in 2016. The change in the fair value of guaranty asset was primarily driven by longer weighted average life of loans, Constant Maturity Treasury (CMT) rate increase, and prepayment rates decrease. Additionally, total expenses decreased by $66.9 million in 2017.

Ginnie Mae generated net positive results of operations for each of the past three years as highlighted in Figure 3.

Figure 3 Selected Financial Data from Statement of Revenues and Changes in Investment of U.S. Government

	For the Year Ended September 30		
(Dollars in millions)	**2017**	**2016 (Restated)**	**2015 (Restated)**
Selected Data from Statement of Revenues and Expenses			
Revenues			
MBS program income[2]	1,462	1,399	1,426
Income on guaranty obligation	1,267	1,252	1,032
Other interest income	164	84	128
Total Revenues	**2,893**	**2,735**	**2,586**
Expenses			
MBS program and other expenses	(216)	(288)	(322)
Administrative expenses	(26)	(27)	(22)
Fixed asset depreciation and amortization	(21)	(15)	(13)
Total Expenses	**(263)**	**(330)**	**(357)**
Total Recapture (Provision) for Losses[3]	(264)	162	589
Total Other Gains (Losses)[4]	(227)	(2,139)	(831)
Results of Operations	**2,139**	**428**	**1,987**

[2] *MBS Program Income includes MBS guaranty fees, interest on mortgage loans held for investment, commitment fees, multiclass fees, and other MBS program income*

[3] *Includes recapture (provision) for mortgage loans held for investment including accrued interest, net, mortgage-backed program guaranty, claims receivable, loss on uncollectible advances, and acquired property*

[4] *Includes gains and losses on guaranty asset, mortgage servicing rights (MSR), and on sale of securities*

Revenues

In 2017, Ginnie Mae earned total revenue of $2.9 billion up from $2.7 billion (as restated) in 2016. Revenue streams for Ginnie Mae mainly consist of MBS program income, income on guaranty obligations and other interest income. Refer to the graph below for total revenues earned by Ginnie Mae within the past three years.

Figure 4 Ginnie Mae's Total Revenues from Fiscal Year 2015 to Fiscal Year 2017

MBS Program Income

MBS program income consists primarily of guaranty fees, interest on mortgage loans held for investment, commitment fees, multiclass fees, and other MBS program income. For 2017, MBS program income was primarily driven by guaranty fees of $1,147.9 million, followed by gross interest on mortgage loans held for investment of $162.9 million, commitment fees of $101.7 million and multiclass fees of $27.3 million. Combined, guaranty fees, interest on mortgage loans held for investment and commitment fees contributed 96.6 percent of total MBS program revenue for 2017.

"MBS program income was primarily driven by guaranty fees of $1,147.9 million, followed by gross interest on mortgage loans held for investment of $162.9 million, commitment fees of $101.7 million and multiclass fees of $27.3 million."

For 2016, MBS program income was primarily driven by guaranty fees of $1,052.5 million, followed by gross interest on mortgage loans held for investment of $206.6 million, and commitment fees of $101.1 million. In total, guaranty fees, interest on mortgage loans held for investment and commitment fees contributed approximately 97.2 percent of total MBS program revenue for 2016.

Guaranty Fees

Guaranty fees are income streams earned for providing Ginnie Mae's guaranty, which is backed by the full faith and credit of the U.S. Government to investors. These fees are received over the life of the outstanding securities. Guaranty fees are collected on the aggregate unpaid principal balance (UPB) of the guaranteed securities outstanding in the non-defaulted Issuer portfolio. MBS guaranty fees grew 9.1 percent to $1,147.9 million in fiscal year 2017, up from $1,052.5 million in 2016. The growth in guaranty fee income reflects an increase in the MBS portfolio. The outstanding MBS portfolio balance at the end of fiscal year 2017 was $1,884.2 billion, compared to $1,728.1 billion as of the end of fiscal year 2016, as new issuances exceeded liquidations (see Figure 5).

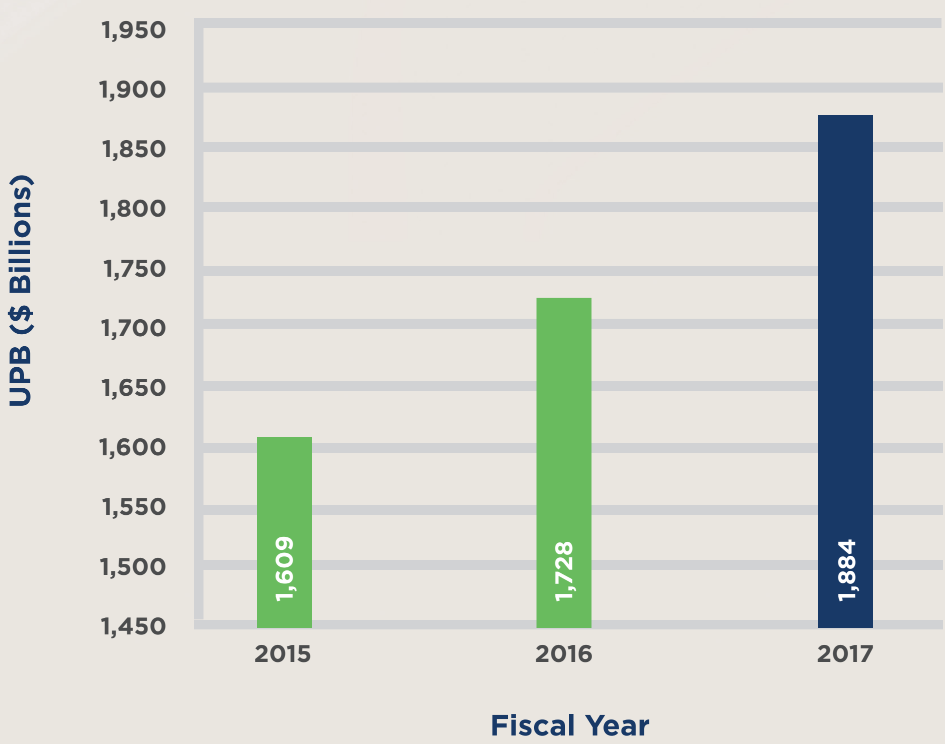
Interest on Mortgage Loans Held for Investment

Ginnie Mae captures interest on mortgage loans held for investment at the contractual rate (gross interest) and records a provision to the extent that it is probable that interest will not be recoverable. In fiscal year 2017, gross interest on mortgage loans held for investment decreased to $162.9 million from $206.6 million (as restated) in fiscal year 2016.

Commitment Fees

Commitment fees are income that Ginnie Mae earns for providing approved Issuers with the authority to pool mortgages into Ginnie Mae MBS. This authority expires at the end of the 12th month from its approval for single family Issuers and 24th month from its approval for multifamily Issuers. Ginnie Mae receives commitment fees as Issuers request commitment authority. Ginnie Mae issued $529.7 billion in commitment authority in fiscal year 2017, a 23.1 percent increase from fiscal year 2016. Ginnie Mae recognizes the commitment fees as earned when Issuers use their commitment authority. The balance is deferred until earned or expired, whichever occurs first. As of September 30, 2017 and 2016, commitment fees deferred totaled $26.2 million and $19.9 million, respectively.

Figure 5 UPB Outstanding in Ginnie Mae's MBS Portfolio from Fiscal Year 2015 to Fiscal Year 2017



“In recent years, Ginnie Mae’s staffing model has been characterized by modest levels of permanent staff complemented by private firms or consultants that provide certain transactional and accounting support services on a contractual basis.”

Multiclass Fees

Multiclass fees are part of MBS program revenue and are composed of REMIC and Platinum program fees. Ginnie Mae guaranteed approximately $7.8 billion in Platinum Certificates in fiscal year 2017, compared to $16.1 billion in Platinum Certificates in fiscal year 2016. Fees earned on Platinum Certificates totaled $7.6 million for fiscal year 2017 compared to $7.4 million for fiscal year 2016. Ginnie Mae guaranteed REMIC issuances of $80.6 billion in fiscal year 2017, compared to $86.4 billion in fiscal year 2016. Fees earned on REMIC securities for fiscal year September 30, 2017 totaled $19.7 million, compared to $20.9 million (as restated) for the fiscal year September 30, 2016. Ginnie Mae recognizes the Modification and Exchange (MX) Combination portion of the REMIC fee in the period it is received. Platinum program fees, as well as the guaranty fee portion of the REMIC fees are deferred and amortized into income evenly over the contractual life of the underlying financial instruments. As of September 30, 2017 and 2016, REMIC and Platinum program fees deferred totaled $435.6 million and $425.7 million (as restated), respectively.

The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2017, was $466.6 billion. This represents a $6.6 billion decrease from the $473.2 billion outstanding balance as of September 30, 2016.

Income on Guaranty Obligations

Ginnie Mae amortizes its guaranty obligation into revenues based on the declining UPB of MBS. In fiscal year 2017, income on guaranty obligations stayed constant at $1.3 billion compared to fiscal year 2016.

Other Interest Income

Ginnie Mae earns interest on the uninvested funds, held in the Financing Fund, which is based on the credit subsidy rate determined in the Credit Subsidy Calculator 2 (CSC2) provided by the Office of Management and Budget (OMB). In fiscal year 2017, Ginnie Mae’s uninvested interest income was $69.5 million compared to $59.3 million in fiscal year 2016.

Ginnie Mae invests the full balance of the Capital Reserve Fund and the Liquidating Fund in U.S. Treasury overnight certificates. Ginnie Mae’s interest income increased in fiscal year 2017 due to an increase of investment in U.S. Treasury overnight certificates as compared to fiscal year 2016. In fiscal year 2017, interest income increased to $94.9 million from $24.8 million in fiscal year 2016.

Expenses

Total expenses declined by 20.3 percent to $263.2 million in fiscal year 2017, compared with $330.2 million (as restated) in fiscal year 2016, a decrease of $67.0 million. Total expenses as a percentage of average UPB of Ginnie Mae guaranteed MBS decreased to 0.015 percent in fiscal year 2017 compared to 0.02 percent in fiscal year 2016.

In recent years, Ginnie Mae's staffing model has been characterized by modest levels of permanent staff complemented by private firms or consultants that provide certain transactional and accounting support services on a contractual basis. This relationship is integral to operational efficiency and will continue to be an important part of Ginnie Mae's approach. In fiscal year 2017, Ginnie Mae's total contractor expenses is at 8.7 percent over total revenue, compared with 11.4 percent in fiscal year 2016.

MBS PROGRAMS, ISSUANCES AND **PORTFOLIO GROWTH**

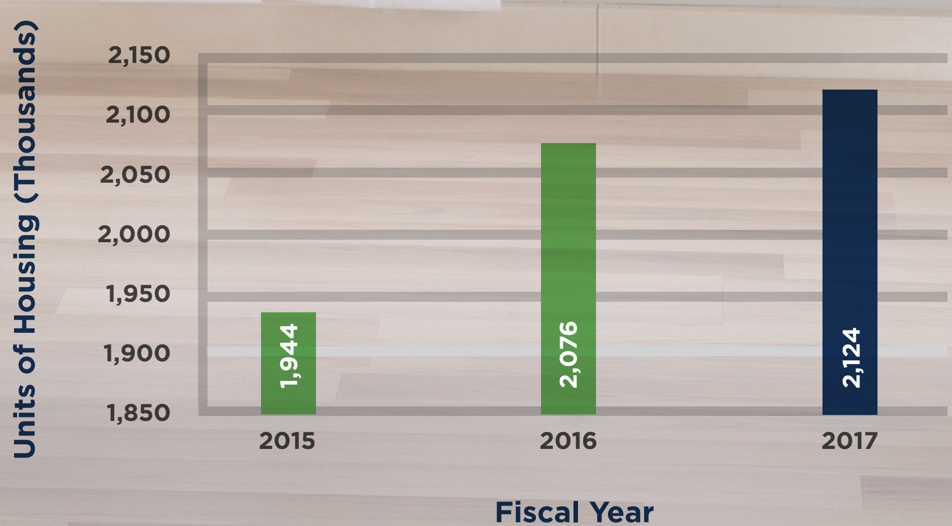
Ginnie Mae MBS issuance increased by 2.9 percent to $504.6 billion in fiscal year 2017, as shown in Figure 6.

Figure 6 Ginnie Mae MBS Issuance from Fiscal Year 2015 to Fiscal Year 2017

The current MBS guarantees outstanding amount is $1.9 trillion, which is a $156.1 billion increase over the amount at the end of fiscal year 2016. Ginnie Mae has guaranteed approximately $6.6 trillion in MBS since its inception.

As shown in Figure 7 below, Ginnie Mae supported approximately 2.1 million units of housing for individuals and families in fiscal year 2017, a 2.3 percent increase from fiscal year 2016. The current total outstanding MBS of $1.9 trillion represents over 10.7 million active loans.

Figure 7 Ginnie Mae - Supported Units of Housing from Fiscal Year 2015 to Fiscal Year 2017



Single Family Program

The vast majority of the mortgages in Ginnie Mae securities are insured by FHA and VA. FHA-insured loans accounted for 60.6 percent of fiscal year 2017 MBS issuances in Ginnie Mae pools, while VA-insured loans accounted for 33.0 percent; Rural Development and PIH loans contributed to the remainder. Comparatively, FHA-insured loans accounted for 62.1 percent of fiscal year 2016 MBS issuances in Ginnie Mae pools, while VA-insured loans accounted for 31.9 percent; Rural Development and PIH loans contributed the remainder.

Although other agencies and private Issuers may pool FHA-insured loans for their own MBS or hold them in portfolio as whole loans, almost all of these loans are financed through Ginnie Mae securities. In fiscal year 2017, 92.9 percent of FHA fixed-rate loans and 98.0 percent of VA fixed-rate loans were placed into Ginnie Mae pools. In fiscal year 2016, 97.5 percent of FHA fixed-rate loans and 98.5 percent of VA fixed-rate loans were placed into Ginnie Mae pools.

Although loans underlying our securities may be concentrated in specific areas, Ginnie Mae has provided homeownership opportunities in every U.S. state and territory. Figure 8 highlights the geographic distribution of single family properties securing Ginnie Mae securities as of September 30, 2017.

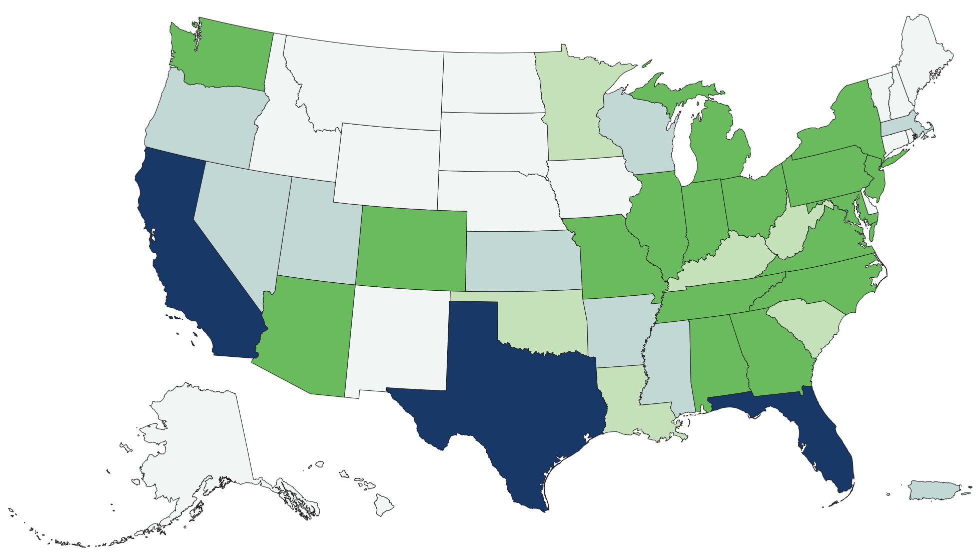


Figure 8 Geographic Distribution of Single Family Properties Securing Ginnie Mae Securities as of September 30, 2017

State	Loans	Percent of Total Loans	RPB
Texas	1,018,712	9.56%	$139,426,816,125
California	752,342	7.06%	$199,575,431,188
Florida	711,179	6.68%	$112,719,651,479
Georgia	473,007	4.44%	$66,361,437,129
Ohio	423,007	3.97%	$47,814,279,650
Virginia	409,930	3.85%	$91,704,460,432
North Carolina	399,188	3.75%	$56,127,894,517
Pennsylvania	380,603	3.57%	$52,561,821,246
Illinois	341,033	3.20%	$48,264,711,719
New York	313,724	2.95%	$58,075,113,652
Top 10 Total	**5,222,725**	**49.03%**	**$872,631,617,138**

Multifamily Program

At the end of fiscal year 2017, Ginnie Mae guaranteed securities that contained 95.6 percent of eligible multifamily FHA loans. The Multifamily Program portfolio increased by $8.6 billion, from $97.2 billion at the end of fiscal year 2016 to $105.8 billion at the end of fiscal year 2017. Figure 9 below shows the geographic distribution of multifamily properties securing Ginnie Mae securities as of September 30, 2017. Since 1971, Ginnie Mae has guaranteed $281.5 billion in multifamily MBS, helping to finance affordable and community-stabilizing multifamily housing developments such as apartment buildings, hospitals, nursing homes, assisted-living facilities, and other housing options across the nation.

State	Loans	Percent of Total Loans	RPB
Texas	1,016	7.40%	$9,125,135,322
Ohio	1,009	7.35%	$4,421,366,576
California	907	6.60%	$7,598,984,756
Indiana	702	5.11%	$4,115,687,952
Illinois	680	4.95%	$5,547,670,427
Michigan	607	4.42%	$3,904,087,610
Florida	562	4.09%	$5,328,663,872
New York	545	3.97%	$8,165,572,263
North Carolina	540	3.93%	$3,758,641,243
Minnesota	450	3.28%	$3,340,891,484
Top 10 Total	**7,018**	**51.09%**	**$55,306,701,505**

In addition, Ginnie Mae's portfolio of Multifamily Rural Development loans, which are loans guaranteed by USDA Rural Development, grew in fiscal year 2017 to an outstanding principal balance of $900.6 million compared to $762.7 million as the end of fiscal year 2016. There were Rural Development loans in 48 states in Ginnie Mae pools at September 30, 2017.

HMBS Program

FHA-insured reverse mortgages are the only loan types that qualify for Ginnie Mae's HMBS program. HMBS issuance in fiscal year 2017 stayed constant with fiscal year 2016 at $9.6 billion. The outstanding principal balance of HMBS as of September 30, 2017 was $55.1 billion as compared to $54.9 billion as of September 30, 2016.

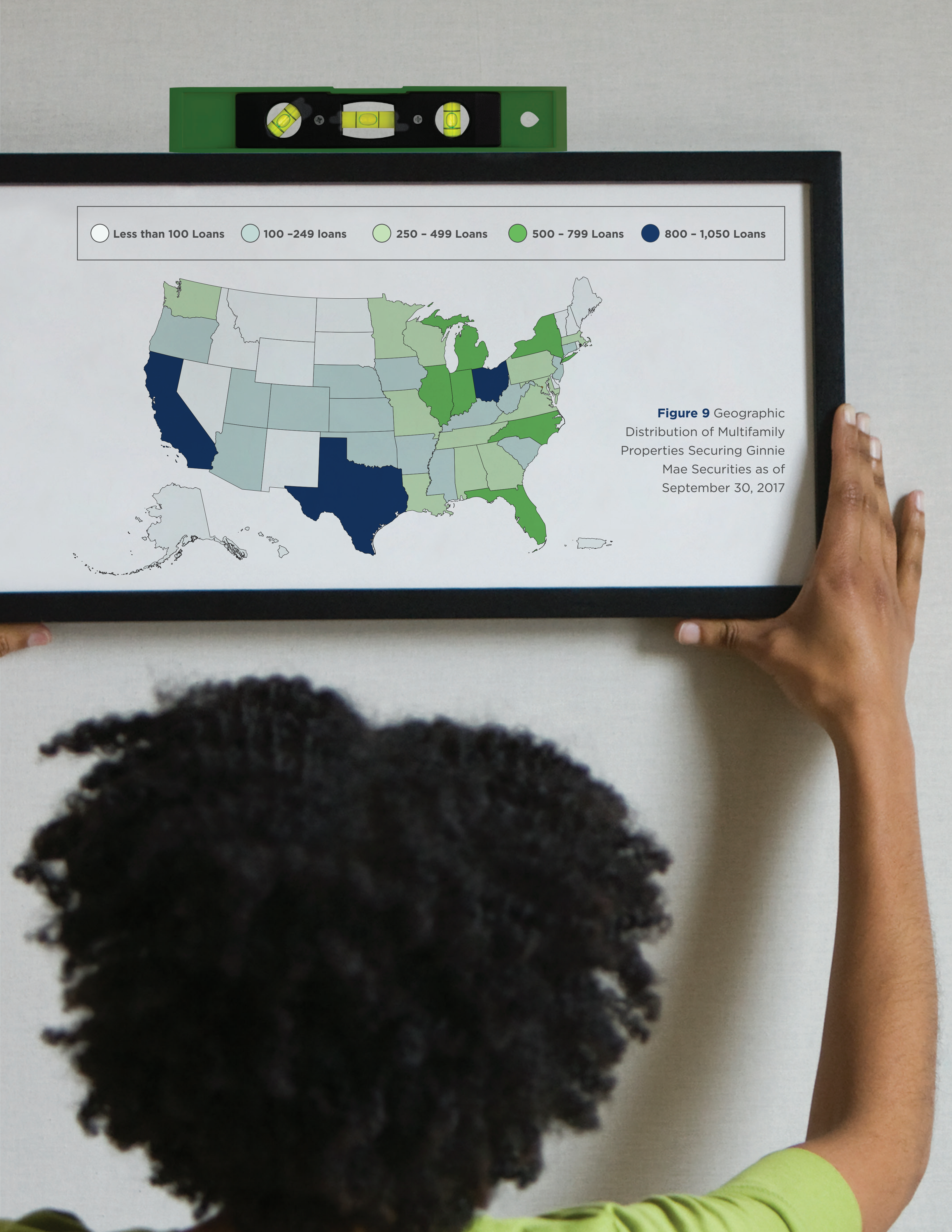


Figure 9 Geographic Distribution of Multifamily Properties Securing Ginnie Mae Securities as of September 30, 2017

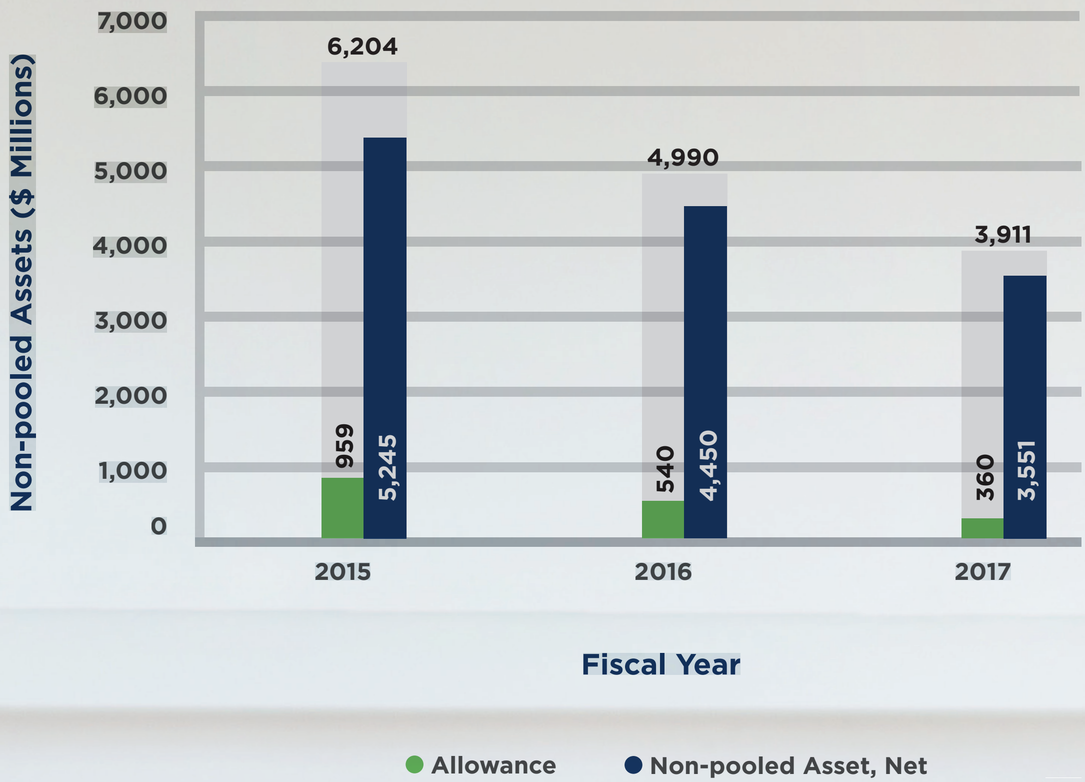
Manufactured Housing Program

The Manufactured Housing program's UPB was $277 million at the end of fiscal year 2017, an increase from $268.9 million at the end of fiscal year 2016.

Non-pooled Assets

Figure 10 below indicates the declining trend in the balance on our non-pooled assets the primary contributor for OIG's disclaimer of opinion for fiscal years 2016, 2015, and 2014. As highlighted, this balance declined to $3.6 billion as of the end of 2017 from $4.5 billion (as restated) in fiscal year 2016. The decline is mainly due to both scheduled and unscheduled payments, decrease in loans buy-out activity and defaults that result in the transfer of the loan to either claims or acquired property (see Figure 10).

Figure 10
Trend for Non-pooled Assets and Related Allowance



Off-Balance Sheet Arrangements

Ginnie Mae enters into commitments to guarantee future MBS issuances in the normal course of business which are not recognized on the balance sheets. These commitments end when the securities are issued or the commitment period expires, 12 months or 24 months for single family and multifamily Issuers, respectively. MBS commitments were $121.0 billion in fiscal year 2017 compared to $96.0 billion in fiscal year 2016. These outstanding commitments are not representative of Ginnie Mae's actual risk due in part to Ginnie Mae's ability to limit an Issuer's credit authority at Ginnie Mae's sole discretion. If all outstanding MBS commitments were utilized, the fair value of the guaranty obligation would not exceed $568.2 million and $352.8 million at September 30, 2017 and 2016, respectively.

Ginnie Mae's highest potential off-balance sheet exposure to credit losses is related to the outstanding principal balance of our MBS held by third parties, which was $1.9 trillion and $1.7 trillion at September 30, 2017 and 2016, respectively. The maximum exposure is not a representation of Ginnie Mae's actual exposure as it does not consider the impact of insurance, recourse or the recovery Ginnie Mae would receive by exercising Ginnie Mae's right to the underlying collateral. Ginnie Mae recognized guaranty obligation of $7.0 billion and $6.2 billion at September 30, 2017 and 2016, respectively related to this portfolio.

Aggregate Contractual Obligations

Ginnie Mae makes certain representations and warranties and indemnification clauses associated with Purchase and Sales Agreements (PSAs) that are enforceable and legally binding. These agreements may require Ginnie to repurchase loans that were previously sold to a third party or to indemnify the purchaser for losses if the loans are modified or not insured by the FHA, VA, USDA, or PIH. At September 30, 2017 and 2016, Ginnie Mae recorded $54.0 thousand and $74.0 thousand as a contingent liability to account for these agreements.

RISK **DISCLOSURES**

Model Risk

Model risk is the potential for adverse results from decisions based on incorrect model inputs and outputs. Ginnie Mae's Office of Enterprise Risk Management (OER) uses models to determine the value of, and measurement of risk related to, guaranty asset and related guaranty obligation, MSR, allowance for loan losses for mortgage held for investment including accrued interest receivable, claims, advances and other contingent liabilities. OER is responsible for developing, testing, and implementing the models. See Note 3: Summary of Significant Accounting Policies and Practices in the financial statements for valuations that are based on model.

Counterparty Credit Risk

Counterparty credit risk is the risk of loss arising from the default of an Issuer or other counterparty which may include, but is not limited to, trustees, mortgage servicers, custodial depository and other financial institutions and document custodians. Ginnie Mae considers several factors as part of the counterparty credit risk assessment process, including the Issuer's financial and operational vulnerability, credit analysis, and other evidence of probability of default, such as known regulatory activity, interest rates and other economic conditions.

As of September 30, 2017, Ginnie Mae estimated potential losses up to $268.4 million related to three Issuers identified as probable of defaulting, as compared to $1.4 million (as restated) due to one Issuer identified as of September 30, 2016. This year, Ginnie Mae also estimated potential losses up to $84.2

million related to 12 Issuers that were identified to have a reasonable possibility of defaulting. A triggering event to recognize a potential loss may be either the Issuer's probability of default or the loan's probability of default. Ginnie Mae was unable to determine a reasonable estimate for reasonably possible losses on pooled loans at September 30, 2016, and for multifamily loans at September 30, 2017. Refer to Note 15: Reserve for Loss for further information on estimated losses associated with Issuer defaults.

When the president declares a major disaster, Ginnie Mae has the discretion to provide Issuers with optional, special assistance. As of October 2017, Ginnie Mae began to accept Issuer applications for qualifying portfolios impacted by the major disasters declared by the president due to Hurricanes Harvey, Irma, or Maria (the Hurricanes). The expanded loan buyout authority supports Issuers offering relief to borrowers impacted by the Hurricanes, e.g., late fee waivers, forbearance periods, loan modifications, and foreclosure moratoriums. The loan buyout authority expires on March 31, 2018. Ginnie Mae is still assessing the counterparty credit risk arising from such an arrangement with affected Issuers as of the date of this report.

Concentration Risk

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. This concentration of credit risk may be the result of several factors, including but not limited to geographic or insurer concentration within the portfolio.

In the aftermath of the Hurricanes, the Federal Emergency Management Agency (FEMA) issued Individuals and Households, Public assistance, and Hazard Mitigation program declarations for these disasters. Ginnie Mae's exposure to its MBS Portfolio, by the Hurricanes, is summarized in the following table (Figure 11). The information discloses the number of loans and unpaid principal balance amounts with potential exposure to the presidentially declared disaster areas.

Figure 11 Ginnie Mae MBS Aggregate Hurricane Exposure as of September 30, 2017

	Pooled Loans	% of Total Pooled Loans	UPB (in millions)	% of Total UPB
Hurricane Harvey	274,402	2.49%	$40,534	2.15%
Hurricane Irma	678,914	6.17%	112,476	5.96%
Hurricane Maria	137,045	1.24%	13,862	0.73%
Total Exposure	**1,090,361**	**9.90%**	**166,872**	**8.84%**
Ginnie Mae Total Outstanding	**11,008,220**	**100%**	**$1,887,221**	**100%**

Non-pooled loans impacted by the hurricanes presented below is based on total geographical region (i.e., by state and territory) and represent the potential maximum exposure to Ginnie Mae, which is not representative of specific FEMA disaster declared zones within the states and territories. Ginnie Mae is gathering specific impact information within disaster declared zones for actual exposure. The table below discloses Ginnie Mae's aggregate hurricane exposure as of September 30, 2017, not the actual damage.

Figure 12 Ginnie Mae's Non-Pooled Loans Impacted

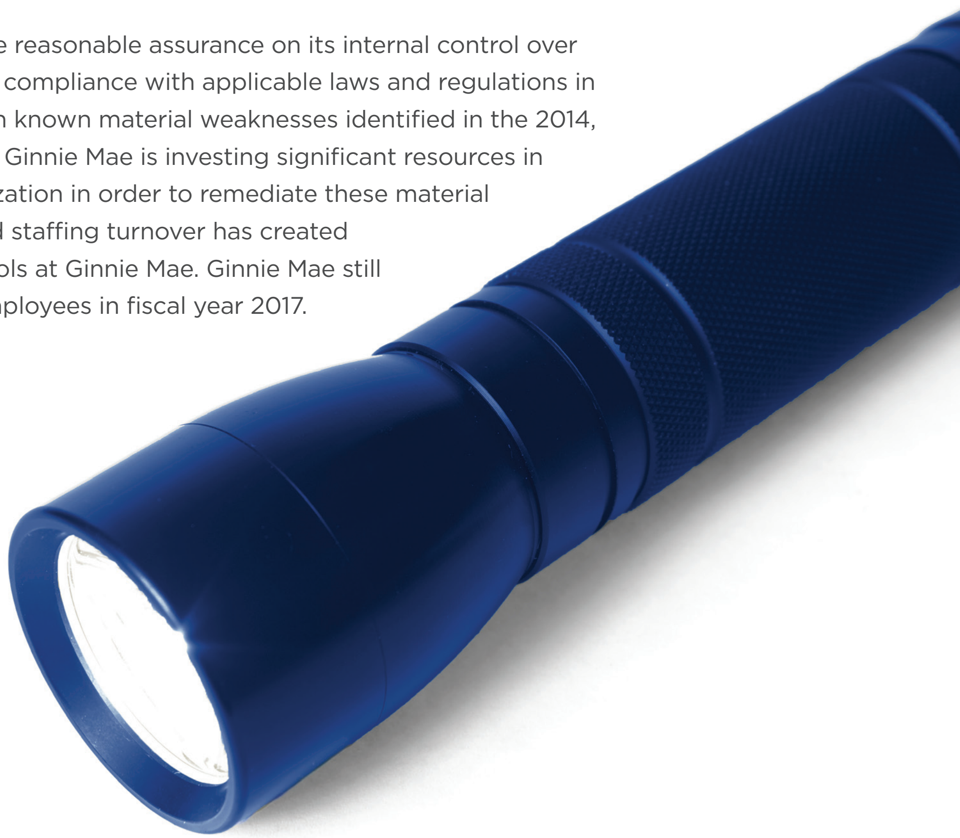
	Non-Pooled Loans	% of Total Non-Pooled Loans	UPB (in millions)	% of Total UPB
Hurricane Harvey	551	2.23%	$57	1.75%
Hurricane Irma	7,662	31.04%	886	27.05%
Hurricane Maria	3	0.01%	-	-
Total Exposure	**8,216**	**33.28%**	**943**	**28.80%**
Ginnie Mae Total Outstanding	**24,685**	**100%**	**$3,276**	**100%**

As of date of issuance of this Annual Report, the estimated potential loss to Ginnie Mae resulting from the Hurricanes was still being assessed.

Internal Controls

Ginnie Mae reviews and manages an internal controls framework for the organization, including internal controls assessments in accordance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. The audits, reviews, and monitoring of all Issuers and major contractors that Ginnie Mae conducts enable Ginnie Mae to strengthen its internal controls and minimize risks that would negatively impact financial and operating results.

For fiscal year 2017, Ginnie Mae cannot provide reasonable assurance on its internal control over effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, given known material weaknesses identified in the 2014, 2015, and 2016 OIG financial statement audits. Ginnie Mae is investing significant resources in transforming its financial management organization in order to remediate these material weaknesses. The lack of staffing resources and staffing turnover has created substantial risk to maintaining adequate controls at Ginnie Mae. Ginnie Mae still faces challenges in recruiting and retaining employees in fiscal year 2017.



AUDIT REPORT OF GINNIE MAE'S FY 2017 AND FY 2016 FINANCIAL STATEMENTS

Government National Mortgage Association, Washington, DC

Audit of Fiscal Years 2017 and 2016 (Restated) Financial Statements

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2018-FO-0002
November 14, 2017

To:	Michael Bright, Acting President, Government National Mortgage Association, T
From:	Thomas R. McEnanly, Director, Financial Audits Division, GAF
Subject:	Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2017 and 2016 (Restated)

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Government National Mortgage Association's fiscal years 2017 and 2016 (restated) financial statements.

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

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

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

Audit Report Number: 2018-FO-0002
Date: November 14, 2017

Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2017 and 2016 (Restated)

Highlights

What We Audited and Why

We were engaged to audit the accompanying financial statements and notes of the Government National Mortgage Association (Ginnie Mae) as of September 30, 2017 and 2016 (restated). The Government Corporation Control Act, as amended, requires the Office of Inspector General to audit the financial statements of Ginnie Mae annually. Additionally, we reviewed restatement adjustments performed in fiscal year 2017 to restate fiscal year 2016 financial statements. This report presents the results of our fiscal years 2017 and 2016 (restated) audits of Ginnie Mae's financial statements, including our report on Ginnie Mae's internal control and test of compliance with selected provisions of laws and regulations that apply to Ginnie Mae.

What We Found

In fiscal year 2017, for the fourth consecutive year, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the $3.6 billion (net of allowance) in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio as of September 30, 2017. Ginnie Mae also continued to improperly account for Federal Housing Administration reimbursable costs as an expense instead of capitalizing them. Additionally, critical information needed to perform the audit was not provided to us in sufficient time to audit the guaranty asset and guaranty liability financial statement line items. The combination of these unresolved issues for a number of years was both material and pervasive because it impacted multiple financial statement line items across all of Ginnie Mae's basic financial statements. As a result of the scope limitation in our audit work and the effects of material weaknesses in internal control, we have not been able to obtain sufficient, appropriate evidence to provide a basis for an audit opinion on Ginnie Mae's fiscal years 2017 and 2016 (restated) financial statements. Based on the results of our work, we identified four material weaknesses, one significant deficiency, and one reportable noncompliance with selected provisions of laws and regulations.

What We Recommend

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

Table of Contents

Independent Auditor's Report

Acting President
Government National Mortgage Association

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Government National Mortgage Association (Ginnie Mae), which comprise the balance sheets as of September 30, 2017 and 2016 (restated), and the related statements of revenues and expenses and changes in investment of the U.S. Government, the cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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

Auditor's Responsibility

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

Basis for Disclaimer of Opinion

The following unresolved matters are scope limitations in our audit work that contributed to our disclaimer of opinion on the fiscal year 2017 financial statements. There were no other satisfactory alternative audit procedures that we could adopt to obtain sufficient, appropriate evidence with respect to these unresolved matters. Readers are cautioned that amounts reported in the financial statements and related notes may not be reliable because of these unresolved matters.

- Nonpooled loan assets. In fiscal year 2017, for the fourth consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets (NPA) into an auditable state. Therefore, we were unable to audit the $3.6 billion (net of allowance) in NPA reported in Ginnie Mae's financial statements as of September 30, 2017. These assets relate to (1) claims receivable, net ($375 million); (2) mortgage loans held for investment including accrued interest, net ($3.13 billion); and (3) acquired property, net ($45 million). Although efforts were underway to develop financial management systems that are capable of handling loan-level transaction accounting, this condition occurred because these systems were still not in place in 2017. In addition, the critical accounting policies and procedures, which dictate how the nonpooled loan assets and related accounts will be recorded in the financial statements, were not in place. Thus, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to render an opinion on the nonpooled loans assets. As a result, we deemed our audit scope insufficient to express an opinion on Ginnie Mae's $3.6 billion in NPA and related accounts as of September 30, 2017.

- Receivable for reimbursable expenses from FHA. In fiscal year 2017, for the fourth consecutive year, Ginnie Mae continued to account for Federal Housing Administration (FHA) reimbursable costs as an expense instead of capitalizing the costs as an asset. This practice caused Ginnie Mae's asset and net income line items to be misstated. Due to multiple years of incorrect accounting, we believe the cumulative effect of the errors identified was material. However, we were unable to determine with sufficient accuracy a proposed adjustment to correct the errors due to insufficient available data.

- Guaranty asset and guaranty liability. Ginnie Mae's guaranty asset and guaranty liability line items are carried at $8.3 billion and $7 billion, respectively, which represents 26 percent and 90 percent of Ginnie Mae's assets and liabilities, respectively. The information needed to audit these financial statement line items was not provided to us in sufficient time to allow us to perform all of the planned audit procedures considered necessary to obtain reasonable assurance on the fairness of these account balances.

Disclaimer of Opinion

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

Emphasis of Matter

As discussed in note 2 to the financial statements, the fiscal year 2016 financial statements have been restated to correct a number of misstatements. The note includes three primary restatement adjustment categories for fiscal year 2016. As part of our fiscal year 2017 audit of Ginnie Mae, we determined that these adjustments were appropriate and had been properly applied except for one restatement related to the allowance for loan loss accounts. We cannot opine on this restatement as the allowance for loan loss account balances continues to be unreliable (finding 3). Ginnie Mae has performed restatements of fiscal years 2014, 2015, and 2016 financial statements. We caution readers that the scope of our audit on those restatement adjustments was limited. For those prior-year restatement adjustments that we have not audited, we will audit them when all of Ginnie Mae's basic financial statements are in an auditable state, which is not expected by Ginnie Mae until fiscal year 2018. Our opinion has not been modified with respect to these matters in fiscal year 2017.

Other Matters

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

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

Report on Internal Control Over Financial Reporting

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

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

Material Weaknesses in Financial Reporting

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

<u>Material Nonpooled Loan Asset Balances Were Not Auditable</u>

In fiscal year 2017, for the fourth consecutive year, Ginnie Mae could not bring its material asset balances related to its NPA into an auditable state. Therefore, we were unable to audit the $3.6 billion (net of allowance) in NPA reported in Ginnie Mae's financial statements as of September 30, 2017. These assets relate to (1) claims receivable, net ($375 million); (2) mortgage loans held for investment, including accrued interest, net ($3.13 billion); and (3) acquired property, net ($45 million). Although efforts were underway to develop financial management systems that are capable of handling loan-level transaction accounting, this condition occurred because these systems were still not in place in 2017. In addition, the critical accounting policies and procedures, which dictate how the NPA and related accounts will be recorded in the financial statements, were not in place. Thus, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to render an opinion. As a result, we deemed our audit scope insufficient to express an opinion on Ginnie Mae's $3.6 billion in nonpooled loan assets and related accounts as of September 30, 2017.

Ginnie Mae's Internal Control Over Financial Reporting Continued To Have Weaknesses
In fiscal year 2016, we reported that Ginnie Mae's internal control over financial reporting was not effective. This condition continued in fiscal year 2017, and one new issue was identified. These material weaknesses in internal controls were issues related to (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans; (2) accounting issues related to cash in transit, revenue recognition, fixed assets, advances, and note disclosures; and (3) accounts payable accrual. The first two issues are repeat findings from prior years, and the last one was new in fiscal year 2017. These conditions occurred because of Ginnie Mae's did not ensure that (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively and (2) accounting policies and procedures were developed, finalized, and appropriately implemented. As a result, the risk that material misstatements in Ginnie Mae's financial statements would not be prevented or detected increased.

Allowance for Loan Loss Account Balances Continued To Be Unreliable
In fiscal year 2017, as reported in previous years, the various underlying accounting issues we reported regarding Ginnie Mae's loan loss account balances continued. In addition, Ginnie Mae self-identified another allowance for loan loss issue this year. Specifically, this issue was in regard to how the servicing costs and certain foreclosure and maintenance costs were improperly considered in Ginnie Mae's allowance for loan loss estimation. Factors that contributed to these issues included (1) the delayed implementation of key accounting policies and procedures related to nonpooled loan assets and related accounts, including the allowance for loan loss and FHA reimbursable costs, and (2) the lack of financial management systems capable of handling loan-level accounting. Due to a combination of these accounting issues, we determined that the balance of the allowance for loan loss accounts reported in Ginnie Mae's financial statements as of September 30, 2017, was unreliable.

Progress Made in Addressing Ginnie Mae's Financial Management Governance Problems
Ginnie Mae's executive management effort in addressing the financial management governance problems cited in our fiscal years 2014, 2015, and 2016 audit reports continued to be a work in progress at the end of fiscal year 2017. While some progress was made this year, more work is needed to fully address the issues cited in our report. Specifically, these problems included issues in (1) keeping Ginnie Mae Office of the Chief Financial Officer's (OCFO) operations fully functional; (2) ensuring that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; (3) establishing adequate and appropriate accounting policies and procedures and accounting systems; and (4) implementing an effective entitywide governance of the models used to generate accounting estimates for financial reporting. Some of these conditions continued because the implementation of the corrective action plans took longer than anticipated and,

therefore, contributed to Ginnie Mae's inability to produce auditable financial statements for the fourth consecutive fiscal year.

Significant Deficiency in Financial Reporting

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

Ginnie Mae Was Not in Full Compliance With Federal Information System Controls Requirements for GFAS

Ginnie Mae was not in full compliance with Federal information system controls requirements for its Ginnie Mae Financial Accounting System (GFAS). Our review of general and application controls over GFAS identified deficiencies with (1) the budget override function, (2) outdated system software, (3) user accounts that were not disabled in a timely manner, and (4) a lack of policies and procedures for its business processing application controls. These deficiencies occurred because Ginnie Mae (1) did not know that the override functionality was allowed by system default, (2) had limited funding and resources and prioritized system enhancements, (3) did not have a sufficient user account review process, and (4) did not develop specific policies and procedures for its business processes. These deficiencies could (1) provide opportunities for users to misuse or overextend their authority, (2) expose the system to known vulnerabilities, (3) subject the system to unauthorized access for malicious purposes, and (4) threaten the internal controls of the organization.

Report on Compliance

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

In fiscal year 2017, Ginnie Mae's noncompliance with the Debt Collection Improvement Act (DCIA) of 1996 continued. Specifically, as reported in fiscal years 2015 and 2016, 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's management continued to take the position that DCIA did not apply to Ginnie Mae; therefore, it did not need to comply with DCIA requirements. As a result, Ginnie Mae may have missed opportunities to collect millions of dollars in debts related to losses in its mortgage-backed securities (MBS) program. This finding is described in more detail in finding 6.

Management's Response to Findings and Our Evaluation

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

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

Kimberly R. Randall

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

November 9, 2017

Material Weaknesses

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

Fiscal year 2017 was the fourth consecutive year in which Ginnie Mae could not bring its material asset balances related to its NPA and related accounts into an auditable state. Therefore, we were unable to audit the $3.6 billion (net of allowance) in NPA reported in Ginnie Mae's financial statements as of September 30, 2017. These assets relate to (1) claims receivable, net ($375 million); (2) mortgage loans held for investment, including accrued interest, net ($3.13 billion); and (3) acquired property, net ($45 million). Although efforts are underway to develop financial management systems that are capable of handling loan-level transaction accounting, this condition occurred because these systems were not in place in 2017. In addition, the critical accounting policies and procedures, which dictate how the NPA and related accounts will be recorded in the financial statements, were not in place. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence. As a result, we deemed our audit scope to be insufficient to express an opinion on Ginnie Mae's $3.6 billion in NPA and related accounts as of September 30, 2017.

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

In March 2017, in preparation for our full scope audit of Ginnie Mae we asked Ginnie Mae to provide us with its work plan for the auditability of its NPA and related accounts. This documentation was to include a schedule of when GAAP balances for all in-scope financial statement line items would be available for our review. In April 2017, Ginnie Mae told us that while it was able to determine the operational balances on various NPA and related accounts, it could not produce GAAP balances on these various accounts in time for us to audit them in fiscal year 2017. Therefore, we excluded these Ginnie Mae financial statement line items from the audit scope for our fiscal year 2017 audit. The progress made by Ginnie Mae to make the NPA and related accounts auditable is provided in detail below.

<u>Ginnie Mae's Subledger Database Solution Was in Progress</u>

In fiscal year 2016, Ginnie Mae anticipated that its NPA would be auditable by March 2017. In conjunction with our fiscal year 2017 audit of the NPA, we performed an initial review of sample loan files to validate the completeness test performed by Ginnie Mae's contractor on the NPA loan population and transactions. Our testing found that the accrued interest was not included in the scope of Ginnie Mae's compeleteness test because its test covered only accounting transactions related to the unpaid principal balance. We concluded that we could not rely on Ginnie Mae's NPA verification process if the accrued interest was not addressed. We asked Ginnie Mae for a work plan that defined the auditablility of NPA and to indicate when these GAAP balances would be ready for our review.

In April 2017, we received a timeline from Ginnie Mae which indicated the availability of subledger database (SLDB) operational accounting data by June 2017 and GAAP opening balances by August 2017. However, according to Ginnie Mae, it could not provide a definite date for the availability of the NPA GAAP balances, as these were dependent on the master subservicers (MSS) providing the required data for loan-level accounting and subsequent enhancements to the allowance for loan loss model being completed on time. This was in addition to other operational accounting processes that Ginnie Mae needs to complete, which included the rolling forward of principal and interest, adjusting entries, and other accounting procedures.

In August 2017, Ginnie Mae provided us with a fiscal yearend update on its SLDB progress. Ginnie Mae indicated that although it received all of the MSS data as expected in June 2017, it still needed to reconcile operational accounting results to cash, MSS accounting reports, the general ledger, and MSS operational reporting data. According to Ginnie Mae, the unpaid principal balance and accrued interest will be Ginnie Mae's first priority for tie-outs. Additionally, Ginnie Mae needs to address any reconciling items with the MSS and incorporate any enhancements. For example, we noted miscalculation of the accrued interest on the loans being serviced by one of the Ginnie Mae MSS's. Ginnie Mae needs to process the correction in the SLDB to clear the accrued interest reconciling items. In addition, Ginnie Mae had not finalized any of the NPA and related accounts' accounting policies and procedures (finding 4).[1] Taking all of this into consideration, Ginnie Mae stated that the SLDB would not be available for our review until June 2018.

<u>HUD OCFO's Efforts To Estimate Nonpooled Loan Assets Did Not Materialize in 2017</u>
In 2016, HUD OCFO pursued a separate strategy of estimating the value of Ginnie Mae's NPA using a statistical estimation method. However, OCFO's plans did not materialize, partly due to significant delays in the acquisition planning process for the statistical estimation work. At the end of our fiscal year 2016 audit, OCFO confirmed that it would continue this effort in fiscal year 2017.

In 2017, during our audit followup, we determined that HUD had not made any progress in the statistical estimation work acquisition. In March 2017, OCFO told us it wanted to keep its options open on this alternate approach for NPA; however, OCFO could not provide us with a timetable for the work plan. In October 2017, OCFO again confirmed that the NPA estimation work was still under consideration. However, according to the acting Deputy Chief Financial Officer, given recent leadership transitions within this group, the final plan and prioritization of this issue, including audit remediation, would be decided by the next leadership team.

Conclusion

Ginnie Mae's efforts to bring the $3.6 billion, net NPA and related accounts, into an auditable state remained a work in progress in fiscal year 2017. While there was an effort to clear up the issue, Ginnie Mae fell short of completing the work needed to remediate the issues at the end of

[1] Ginnie Mae suggested that we could use the system process flows for the time being since the NPA accounting policies and procedures will not be completed and finalized until the SLDB goes live.

fiscal year 2017.[2] As a result, certain material balance sheet items were unauditable, and we determined that our fiscal year 2017 audit scope would be insufficient to express an opinion on Ginnie Mae's financial statements as of September 30, 2017. We will continue to work with Ginnie Mae to resolve these matters during our audit in fiscal year 2018.

Recommendations

We do not have new audit recommendations on this finding this year. Open prior-year audit recommendations still stand but are not repeated in this finding.

[2] According to Ginnie Mae, while it was unable to complete the work needed to remediate the issues at the end of fiscal year 2017 due to the dependency on MSS data, Ginnie Mae met critical interim milestones that include: 1) receipt of MSS data through September 2017; 2) processing of all received data through the subledger; and 3) establishment of a new monthly MSS data submission process. In addition, Ginnie Mae provided a demonstration of the subledger to the OIG to show the functionality that supports a drill-down to the loan level.

Material Weaknesses

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

For fiscal year 2016, we reported that Ginnie Mae's internal control over financial reporting was not effective. This condition continued, and one new issue was identified in fiscal year 2017. The material weaknesses in internal control were issues related to (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans; (2) accounting issues related to cash in transit, revenue recognition, fixed assets, advances, and note disclosures; and (3) accounts payable accrual. The first two issues are repeat findings from prior years, and the last one was new in fiscal year 2017. These conditions occurred because of Ginnie Mae's did not ensure that (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively and (2) accounting policies and procedures were developed, finalized, and appropriately implemented. As a result, the risk that material misstatements in Ginnie Mae's financial statements would not be prevented or detected increased.

Current-Year Status of Prior-Year Audit Matters

In fiscal year 2017, Ginnie Mae corrected some prior-year audit issues. However, there were still a number of material prior-year audit issues that were not resolved in fiscal year 2017. We made one new audit recommendation in this report. Unresolved audit recommendations made in fiscal years 2014, 2015, and 2016 still stand but are not reported again in this report.

<u>Ginnie Mae Did Not Follow GAAP Regarding FHA's Reimbursable Costs Incurred and Accrued Interest Earned on Nonpooled Loans</u>

For the past 3 fiscal years, we have reported that Ginnie Mae did not properly account for its FHA reimbursable costs in accordance with GAAP. Specifically, Ginnie Mae charged FHA reimbursable costs as expenses instead of capitalizing them. In addition, accrual of interest earned on nonpooled loans was not properly recognized for all periods allowed by the insuring agency. These accounting issues continued in fiscal year 2017 because, according to Ginnie Mae, it lacked the necessary data to correct these issues and fully comply with GAAP.

<u>Issues Related to Ginnie Mae's Accounting for Cash in Transit Continued</u>

In fiscal year 2016, we reported that Ginnie Mae failed to record cash in transit related to real estate mortgage investment conduit (REMIC) and commitment fees that were paid to Ginnie Mae's agents and funds held by MSS's. In fiscal year 2017, Ginnie Mae established procedures to account for cash in transit associated with REMIC and the MSS's but not for commitment fees. Specifically, Ginnie Mae continued to delay the booking of the cash transactions until the funds were deposited into Ginnie Mae's account at the U.S. Treasury. However, the agents are acting for Ginnie Mae, and any funds collected by the agents on Ginnie Mae's behalf should be treated as cash to Ginnie Mae. This issue occurred because Ginnie Mae continued to lack policies and procedures to ensure that the cash-in-transit balance was properly accounted for. As a result, Ginnie Mae's cash balance at the end of the reporting period was misstated. Since this issue was still under remediation at the end of fiscal year 2017, we consider this finding to be an open issue.

Ginnie Mae's Real Estate Mortgage Investment Conduit Accounting Adjustments Made in Fiscal Year 2017 Were Not Supportable

In fiscal year 2016, we determined that Ginnie Mae did not make proper accrual entries to recognize the REMIC deals that were closed. Specifically, Ginnie Mae made a deferred credit entry, such as a debit to a revenue account and credit to a deferred revenue account, to recognize the unearned portion of the REMIC deals without making the entry to the revenue account on closed REMIC deals. This was Ginnie Mae's practice because REMIC guarantee fees were generally collected the month after the deals were closed. In fiscal year 2017, Ginnie Mae updated its procedures to record REMIC guarantee fees during the period in which the deals were closed to resolve this deficiency. While Ginnie Mae's practice has been modified, as of September 30, 2017, Ginnie Mae was not able to finalize its accounting policies and procedures related to this area. Therefore, we consider this finding to be an open issue.[3]

Additionally, in fiscal year 2016, we concurred with Ginnie Mae's application of the incurred cost method to recognize its REMIC revenue based on the information presented to us at that time. In fiscal year 2017, we conducted additional analysis to obtain indepth knowledge of the REMIC program and determined that the incurred cost method was not appropriate. Based on our analysis and understanding of the REMIC program, we determined and Ginnie Mae concurred that the straight-line method is the appropriate revenue recognition method to use. Therefore, in June 2017, Ginnie Mae informed us of its plan to revise its policies and procedures to reflect this change.[4] This change resulted in a restatement of the fiscal year 2016 ending balance in the following accounts: a decrease in investment in the U.S. Government (retained earnings) and an increase in deferred revenue of $133.4 million.[5] While Ginnie Mae restated its balance based on the revised revenue recognition methodology, we identified errors related to Ginnie Mae's calculation. Specifically, Ginnie Mae's listing of active and closed REMIC deals in determining deferred and earned revenue did not agree with source documents. Ginnie Mae acknowledged the defect in its calculation and agreed to make additional adjustments. We also determined that Ginnie Mae had not addressed a data reliability issue identified in the prior year, related to guarantee fees received in the revised calculation.[6]

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[3] Audit recommendation 2017-FO-0001-2D. See the Followup on Prior Audits section for more details.

[4] As of September 30, 2017, these policies and procedures had not been finalized

[5] Ginnie Mae calculated the restatement amount for REMIC.

[6] Issues with the weighted average maturity and guaranty fee data were identified in the prior-year audit report. In its revised deferred and earned revenue calculation, Ginnie Mae addressed the weighted average maturity issue but not the guaranty fee issue.

Ginnie Mae's Unsupportable Writeoffs of Balances in Advances Against Defaulted MBS Pools Continued To Be an Issue

In fiscal year 2016, we reported that Ginnie Mae wrote off the advances against defaulted MBS pools and net accounts (advances) totaling $248 million (asset) and $171 million (allowance), respectively, without adequate support. For this reason, we recommended that Ginnie Mae reverse the writeoff of the advances accounts and conduct a proper analysis to determine whether any of the $248 million balances in the advances accounts are collectible in conjunction with Ginnie Mae's subledger database effort.[7] During our fiscal year 2017 audit followup, Ginnie Mae did not want to implement our audit recommendation, and after further discussion we could not reach a resolution on this accounting issue. As a result, we referred the matter to the acting Ginnie Mae President on March 31, 2017, and to the acting HUD Deputy Secretary on August 24, 2017. As of October 2017, we were awaiting a response from the HUD Deputy Secretary's office.

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

In fiscal year 2016, we reported that Ginnie Mae did not have appropriate systems, processes, and controls in place for tracking and completely and accurately accounting for its system or software development costs in accordance with GAAP. In fiscal year 2017, the underlying issues supporting this finding had not been remediated, including the prior-year audit recommendation.[8] These issues included Ginnie Mae not (1) performing adequate reviews to determine appropriateness of capitalized costs, (2) matching capitalized costs with the supporting documentation, and (3) booking capitalized costs in a timely manner. These deficiencies occurred because Ginnie Mae did not provide adequate monitoring of the accounting responsibilities delegated to its vendors with respect to reviewing and determining the appropriate amount of invoiced costs to capitalize or expense. Additionally, Ginnie Mae did not require its vendors to submit the capitalization report in a timely manner, which would allow Ginnie Mae to book the activity during the proper period. Considering the control deficiencies noted above, concerns regarding the reliability of the fixed assets account balances as reported in Ginnie Mae's financial statements continued.

Issues Identified Related to Note Disclosures

In fiscal year 2016, we reported that Ginnie Mae did not have adequate note disclosures for required information on its mortgage loans held for investment (MHI) and the related allowance for loan loss. The required MHI note disclosure issue continued in 2017. Specifically, Ginnie Mae again could not disclose in accordance with GAAP the following: changes in accounting policy or allowance methodology, activity in allowance accounts, allowance accounts disaggregated by impairment methodology, description of credit quality indicators, accounting policy and recorded investment for impaired loans, factors considered in determining loan impairment, and nonaccrual and past-due MHI policy. Ginnie Mae did not resolve any of these shortcomings this year. Ginnie Mae stated that it lacked the necessary loan-level accounting data to fully comply with GAAP.

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7 Audit recommendation number 2017-FO-0001-2F. See the Followup on Prior Audits section for more details.

8 Audit recommendation 2017-FO-0001-2H. See the Followup on Prior Audits section for more details.

In 2016, we cited Ginnie Mae for not properly disclosing indemnification and repurchase agreements and recommended that it establish and implement procedures and controls to ensure that the recurrence of any of these similar accounting events would be properly accounted for and disclosed in the financial statements in accordance with GAAP. In fiscal year 2017, although Ginnie Mae disclosed these transactions in its financial statements and notes, control mechanisms were still not in place because the policies and procedures designed to capture these accounting events had not been finalized. Therefore, we considered this an open issue at the end of fiscal year 2017.

Controls Over Processing of Accrual Reversal Entries

In fiscal year 2017, Ginnie Mae performed a restatement to correct a prior-year issue related to its failure to fully execute the reversal accrual entry made in the previous month. It has been Ginnie Mae's practice to fully reverse an accrual entry at the beginning of each month for any accrual entry made in the previous month. This is done to ensure that negative expenses established at the beginning of the month as a result of the reversal accrual entry are closed out against positive expenses established when full payment of accrued expenses is made. However, Ginnie Mae did not follow its procedures and failed to fully reverse the August 2015 accrual entry in September 2015, which left a $12.1 million negative liability balance. In May 2017, Ginnie Mae performed a restatement to correct the error. The error resulted in the overstatement of accounts payable and understatement of Investment in the U.S. Government (retained earnings) by $12.1 million.

Considering the restatement made by Ginnie Mae in the third quarter of 2017 to correct the partial reversal entry made in the prior year, our expectation is that this issue is not likely to recur. However, in our interim audit, we found another incidence in which Ginnie Mae again failed to fully execute the reversal accrual entry made in April 2017. Specifically, Ginnie Mae should have processed a reversal entry for $36.8 million in May 2017. Instead, it processed only a partial reversal entry of $30.1 million. This left a $6.7 million negative liability balance at the end of May 2017.[9] This deficiency occurred because Ginnie Mae personnel responsible for the action failed to follow Ginnie Mae's reversal accounting procedures. This error resulted in the liability and expense accounts being overstated at month end. Although the error was corrected in June 2017, Ginnie Mae's internal control system failed to prevent or detect the error in the normal course of business.

Conclusion

In fiscal year 2017, Ginnie Mae continued to face significant challenges in addressing material weaknesses in its internal control over financial reporting. While Ginnie Mae had taken some positive steps to address some of these issues, resolving them may take considerable time due to the complexity and pervasiveness of the issues. For this reason, we will continue to work with Ginnie Mae in fiscal year 2018 as it continues to strengthen its processes and controls with respect to these issues.

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9 According to Ginnie Mae, it corrected the error in June 2017. The delay in detecting the error showed that the detective control, which was supposed to occur in May, did not work.

Recommendation

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

Finding 3: Allowance for Loan Loss Account Balances Continued to be Unreliable

As reported in previous years and again in fiscal year 2017, the various underlying accounting issues regarding Ginnie Mae's loan loss account balances continued. In addition, Ginnie Mae self-identified another allowance for loan loss issue this fiscal year. Specifically, this issue was in regard to how the servicing costs and certain foreclosure and maintenance costs were improperly considered in Ginnie Mae's allowance for loan loss estimation. Factors that contributed to these issues included the (1) delayed implementation of key accounting policies and procedures related to NPA and related accounts, including the allowance for loan loss and FHA reimbursable costs, and (2) lack of financial management systems capable of handling loan-level accounting. Due to a combination of these accounting issues, we determined that the balance of the allowance for loan loss accounts reported in Ginnie Mae's financial statements, as of September 30, 2017, was unreliable.

Current-Year Status of Prior-Year Audit Matters

Our concerns regarding the reliability of the allowance for loan loss account was first reported in fiscal year 2016. Like the NPA in finding 1, Ginnie Mae was also not ready for us to audit the allowance for loan loss account in fiscal year 2017. Therefore, this finding provides only current-year updates on the issues identified last year as noted below.

<u>Improper charging off of reimbursable costs to the allowance account was corrected</u>. In fiscal year 2016, we reported that Ginnie Mae improperly charged off reimbursable costs against the allowance for loan loss account. In fiscal year 2017, although we noted that Ginnie Mae had stopped charging off the reimbursable cost to the allowance account, which addressed the accounting issue reported in 2016, Ginnie Mae continued to not account for the reimbursable costs in accordance with GAAP by continuing to charge them as expenses instead of capitalizing them as receivables (finding 1). This has been a reportable accounting issue since fiscal year 2014. Additionally, during our fiscal year 2017 audit followup, we determined that none of the action plans on this finding in our fiscal year 2016 audit report[10] had been fully implemented. Therefore, we considered this an open issue at the end of fiscal year 2017.

<u>Provisions for loan losses were booked against nonexisting asset accounts</u>. In fiscal year 2016, we reported that Ginnie Mae improperly booked a $436 million loan impairment, which was associated with other indebtedness[11] (for example, reimbursable costs). During our fiscal year

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10 Audit recommendation 2017-FO-0001-3A. See the Followup on Prior Audits section for more details.

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

2017 audit followup, we reviewed actions taken in response to this finding and determined that Ginnie Mae continued the same practice in 2017. Additionally, Ginnie Mae did not want to implement our audit recommendation[12] regarding this accounting issue despite further discussion, and a management decision could not be reached. As a result, we referred the matter to the acting Ginnie Mae President on June 15, 2017, and to the acting HUD Deputy Secretary on August 24, 2017. As of October 2017, we were awaiting a response from the HUD Deputy Secretary's office.

We had concerns regarding Ginnie Mae's accounting policies related to the allowance for loans. Due to deficiencies in Ginnie Mae's existing accounting policies and procedures related to allowance for loan loss in fiscal year 2016, we also questioned Ginnie Mae's bases for how the grouping of the MHI loans into three groups[13] was determined by management as well the basis for the categorization of FHA loans as purchase, noncredit impaired (PNCI).

In fiscal year 2017, Ginnie Mae provided us its troubled debt restructuring and purchase credit impaired white papers, which was Ginnie Mae's support for the categorization of the loans into three groups as well as the basis for the categorization of FHA loans as PNCI. We reviewed the white papers and determined that the categorization analyses provided in the white papers were insufficient because the documentation lacked the loan-level support needed for us to review and opine on the reasonableness of Ginnie Mae's analyses and conclusions.

In addition, we again questioned Ginnie Mae's categorization of FHA impaired loans as PNCI. In its white papers, Ginnie Mae did not consider delinquent FHA-insured acquired loans as purchase credit impared (PCI) because the unpaid principal balance and the majority of the delinquent accrued interest were deemed collectible according to the FHA insurance reimbursement guidelines. We disagree with Ginnie Mae on this issue because GAAP[14] requires recovery of all amounts due and not just a majority and only an insignificant shortfall would be considered an exception to this requirement. Ginnie Mae had not provided to us its analysis to support that the amount of accrued interest that was deemed uncollectible was insignificant. Therefore, since Ginnie Mae was not made whole on the the contractually obligated interest according to the loan agreement, we believe, according to GAAP, that these loans meet the impairment criteria and, therefore, should be categorized as PCI.

We also followed up on all of the fiscal year 2016 audit recommendations associated with this finding and found that not all of the steps agreed to in the corrective action plan have been fully implemented.[15] Therefore, we consider this an open issue at the end of fiscal year 2017.

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[12] Audit recommendation 2017-FO-0001-3B. See the Followup on Prior Audits section for more details.

[13] The three groups are (1) purchase, noncredit impaired (PNCI), troubled debt restructuring (TDR), and purchase credit impaired (PCI).

[14] In accordance with Accounting Standards Codification 310-10-35-16, a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect **all** (emphasis added) amounts due (that is, both principal and interest) according to terms of the loan agreement.

[15] Audit recommendation 2017-FO-0001-3C. See the Followup on Prior Audits section for more details.

Concerns on the reasonableness of Ginnie Mae's loan loss allowance model methodology. In fiscal year 2016, we questioned a number of methodologies used in the loan loss model. Specifically, these issues included the (1) use of the lower of the two variables in determining the expected cash flows for purposes of calculating the loan impairments, (2) basis for combining the PCI and troubled debt restructuring (TDR) loans despite the varying severity of the impairments on these loans according to Ginnie Mae's accounting policies, and (3) use of the global house price index in estimating the market value of uninsured real estate-owed properties.

In 2017, the three loan loss model methodology issues identified in our fiscal year 2016 audit report were not fully addressed this fiscal year.

- In 2016, we reported that for FHA-insured modified loans, Ginnie Mae's TDR model used the lower of the two variables (such as present value of expected principal and interest collections or recovery from insurance claims from the indebtedness) in determining the expected cash flows for purposes of calculating the loan impairment, which we believe was not proper. In fiscal year 2017, Ginnie Mae revised its TDR model to use the present value of expected cash flows rather than the lower of the two variables. Ginnie Mae's calculation of the present value of expected cash flows includes principal recoveries, debenture interest, and foreclosure and maintenance costs based on FHA's guidelines. As a result of this model change, Ginnie Mae restated the allowance account in fiscal year 2017. However, we were unable to review the allowance adjustment made this year since this line item, along with other NPA assets, was not part of the audit scope in our fiscal year 2017 audit. Therefore, we consider this an open issue, and we will follow up in fiscal year 2018.

- The second issue was about the loan impairment on TDR and PCI being combined and calculated the same way, even though the severity of the loan impairments on PCI and TDR are different. In 2017, no action was taken on this issue, and Ginnie Mae continued to report combined loan impairments on TDR and PCI. We will follow up with Ginnie Mae on this issue in fscal year 2018.

- The final issue was the use of the global house price index to estimate the market value of uninsured real-estated owned properties. In 2017, this practice continued. Ginnie Mae explained that due to data limitations from the MSS's, it could not obtain a complete population or calculate the estimated sales costs or the fair market value of the properties.

Treatment of servicing costs and foreclosure costs in the allowance model was incorrect. In 2017, Ginnie Mae informed us of the changes in its consideration of the servicing costs and foreclosure and maintenance costs in the allowance for loan loss model. In previous years, the model consided servicing and foreclosure and maintenance costs as part of Ginnie Mae's total receivables in the model. These two model considerations, according to Ginnie Mae, were not appropriate and not in accordance with GAAP because service costs are period costs that should be expensed as they are incurred. Additionally, Ginnie Mae used to apply foreclosure and maintenance costs to all of the loans instead of just applying them to defaulted loans. For these reasons, in June 2017, Ginnie Mae took actions to modify the allowance for loan loss model to remove the impact of the servicing costs and foreclosure and maintenance costs to make the model GAAP compliant.[16] However, in August 2017, we did not see the impact of these changes during our third quarter assessment review. Ginnie Mae explained that the model changes had not been reflected in the third quarter 2017 financial statement because (1) there were shortcomings in producing allowance for loan loss balances separately for principal and accrued interest and (2) there was not enough time to rerun the old allowance for loan loss model. In the fourth quarter of 2017, Ginnie Mae booked a restatement to correct the allowance for loan loss due to these noncompliant GAAP issues related to servicing costs and certain foreclosure and maintenance costs noted above.

Conclusion

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

Recommendations

Because we are not making further recommendations on this finding this fiscal year, open audit recommendations made in fiscal year 2016 are not repeated in this finding.

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[16] Ginnie Mae removed the foreclosure and maintenance costs from the model in response to OIG's finding in fiscal year 2016, Audit Report 2017-FO-0001, Material Weakness 3.

Material Weakness

Finding 4: Progress Made in Addressing Ginnie Mae's Financial Management Governance Problems

Ginnie Mae's executive management's effort to address the financial management governance problems cited in our fiscal years 2014, 2015, and 2016 audit reports continued to be a work in progress at the end of fiscal year 2017. While some progress had been made, more work is needed to fully address the issues cited in our report.[17] Specifically, these problems included issues with (1) keeping Ginnie Mae OCFO's operations fully functional; (2) ensuring that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; (3) establishing adequate and appropriate accounting policies and procedures and accounting systems; and (4) implementing an effective entitywide governance of the estimation models, which are used to generate accounting estimates for financial reporting. These conditions continued because implementation of the corrective action plans took longer than anticipated, which contributed to Ginnie Mae's inability to produce auditable financial statements for the fourth consecutive fiscal year.

Ginnie Mae's Executive Management Continued Its Effort To Address Governance Problems

In fiscal year 2017, we continued to note Ginnie Mae management's commitment to addressing the financial management governance problems cited in our fiscal year 2016 audit reports. The same commitment was echoed by the new acting Ginnie Mae President and new executive vice president when they assumed their positions in July 2017.[18] Although Ginnie Mae had made significant efforts to address some of the financial management issues, more work is needed for Ginnie Mae to produce auditable financial statements. For example, for the fourth consecutive year, Ginnie Mae's NPA was not auditable. Ginnie Mae continued to work on the subledger database project to support GAAP-compliant account balances that we could audit (finding 1). The subledger database is one of the components that will help make Ginnie Mae's NPA auditable. Another component is the creation and implementation of the corresponding accounting policies and procedures that support how the accounting transactions are processed and reported. In fiscal year 2017, the former vice president for accounting policy and reporting left Ginnie Mae. The former vice president's tenure with Ginnie Mae was less than a year. Given the vice president's responsibility in reviewing and evaluating Ginnie Mae's accounting policies and procedures, we consider the vice president's role as an integral component of Ginnie

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

[18] In fiscal year 2017, the former Ginnie Mae executive vice president, a career employee, was reassigned to another position within HUD and was replaced by two political appointees as executive vice presidents. One of the executive vice presidents was later promoted to the acting Ginnie Mae President position in August 2017.

Mae's financial management governance and in helping Ginnie Mae address a number of NPA-related issues.

Therefore, Ginnie Mae's senior management should make backfilling the vice president position a high priority in fiscal year 2018. If the position is not backfilled for the long term, Ginnie Mae has not provided us a formal plan on how it intends to address the leadership gap within Ginnie Mae's OCFO for this position. However, in the near term, we have seen how Ginnie Mae has struggled in completing all of the work necessary in drafting and finalizing several accounting policies and procedures that were outstanding for the past few years.

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

In 2015, we reported a number of vacancies in key positions and other accounting positions within OCFO, leaving Ginnie Mae at risk of not effectively managing its financial management operations. In 2016, although Ginnie Mae had made progress by backfilling many of those key positions, they were filled too late in the fiscal year to make a significant impact. We also noted that at least four OCFO positions were still unfilled at the end of fiscal year 2016. In 2017, we followed up to determine whether backfilling various key positions last year materialized this year. We found that Ginnie Mae encountered yet another setback in its staffing because it failed to retain staff in four positions,[19] including the vice president for accounting policy and financial reporting, which was filled in fiscal year 2016. In fact, the number of vacant staff positions within OCFO had increased from four at the end of fiscal year 2016 to nine at the end of fiscal year 2017. For this reason, our assessment of Ginnie Mae on this issue did not change this fiscal year.

Given these continuing staffing challenges, we recognized how Ginnie Mae struggled in accomplishing many of its current-year initiatives related to OMB Circular A-123 work, review, and finalization of the accounting policies and procedures, and Federal financial reporting. For example,

- In fiscal year 2017, Ginnie Mae made plans to perform an A-123 review in house. However, due to resource constraints within OCFO and across Ginnie Mae, it was forced to significantly reduce the scope of its A-123 review.

- The vice president of accounting policy and financial reporting[20] left Ginnie Mae after having been on the job less than 1 year. In 2017, the former vice president identified an accounting practice[21] that Ginnie Mae had adopted which was not in accordance with GAAP. We attributed the correction of this accounting issue, which resulted in a restatement, to the former vice president because Ginnie Mae would have continued the

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[19] In fiscal year 2017, key personnel left Ginnie Mae from the following four positions, which had been filled in fiscal year 2016: (1) vice president for accounting policy and financial reporting, (2) system accountant, (3) treasury accountant, and (4) general ledger accountant.

[20] As a key person responsible for reviewing and developing accounting policies and procedures, we considered the vice president an integral component of Ginnie Mae's financial management governance structure.

[21] This accounting practice is related to the accounting for servicing costs in the allowance for the loan loss model.

practice if she had not identified the issue. Additionally, since the vice president's departure, we noted a slowdown in the submission of the accounting policies and procedures to HUD OCFO for review. Ginnie Mae was unable to submit six accounting policies related to nonpooled loans for HUD OCFO review due to a lack of accounting procedures. Reviewing and approving accounting policies and procedures were some of the key responsibilities assigned to the former vice president. We also noted that Ginnie Mae was not able to submit five of seven completed policies for HUD OCFO review until August 2017.

- Another staffing-related issue was the $1.62 billion error we identified in connection with Ginnie Mae's Federal financial reporting of its anticipated collections.[22] We attributed this accounting error partly to the strain put on one individual to take on the dual roles of the budget officer and supervisory accountant in OCFO. To backfill the supervisory accountant for Federal financial reporting position in 2016, in October 2017, Ginnie Mae reassigned its budget officer to take on this role while continuing to act in the capacity of a budget officer.[23]

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

In fiscal year 2016, we reported that Ginnie Mae remained vulnerable to the risk of changes in its business environment because it lacked (1) a formal process and protocol to identify, monitor, analyze and evaluate, and respond to issuer defaults and (2) dedicated and experienced Ginnie Mae OCFO staff to manage these responsibilities. According to GAAP, Ginnie Mae is required to book a reserve for loss related to potential issuer defaults that are probable and estimable. Without the formal protocol and dedicated staff to manage these responsibilities, Ginnie Mae lacks assurance that it will properly capture and report the loss contingencies in accordance with GAAP. In fiscal year 2017, we assessed Ginnie Mae's progress in addressing our prior-year audit recommendations. We determined that the vulnerability remained because the framework was still being developed and its full implementation is not expected until fiscal year 2019. Additionally, as noted earlier, Ginnie Mae lost its vice president for accounting policy and reporting.[24] Therefore, we considered this an open issue at the end of fiscal year 2017.

Ginnie Mae Lacked Appropriate Accounting Policies and Procedures and Accounting Systems for Its Defaulted Issuers' Portfolio

In fiscal year 2017, Ginnie Mae continued to make little progress in finalizing its accounting policies and procedures, an issue we reported in prior years. As of September 2017, the number of accounting policies and procedures that were finalized from fiscal year 2016 to 2017 changed from 5 to 7, out of 20 accounting policies and procedures. For the remaining 13 that were not yet finalized, 6 were under HUD OCFO's review, and the remaining 7 were still a work in progress (6 of the 7 were NPA related). According to Ginnie Mae, the accounting policies for the six NPA items that were in progress had been completed but could not be submitted to HUD

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22 Details of this issue were discussed in a separate OIG audit report.

23 The reassignment took place in October 2016, and Ginnie Mae was not able to backfill the budget officer position until August 2017.

24 In our FY 2016 audit report, 2017-FO-0001, we noted the importance of Ginnie Mae vice president for accounting policy and reporting's role in managing risks associated with changes in its business environment.

OCFO for review until the corresponding accounting procedures were developed. Ginnie Mae was waiting for the subledger database project to be completed before drafting the corresponding accounting procedures. This condition occurred because Ginnie Mae's priority in fiscal year 2017 was to complete the development of the subledger database to make the NPA auditable before focusing on completing the accounting procedures.

Further, Ginnie Mae did not have a system capable of performing loan-level accounting in place at the end of fiscal year 2017. This level of detail is essential to validate the proper accounting and servicing of all loans, including payments, modifications, foreclosures, and insurance claims with Federal insuring agencies. In February 2016, Ginnie Mae had planned to develop a subledger database system capable of capturing loan-level events and related accounting entries. However, the project was halted when the contract expired in 2016, and the work did not continue until Ginnie Mae reengaged its contractor in July 2016. Ginnie Mae's contractor continued its SLDB effort in 2017 but fell short of completing all required work. Ginnie Mae and its contractor underestimated the time and effort it would take to develop this accounting system. Ginnie Mae expects to implement this system by June 2018.

Ginnie Mae Lacked Effective Monitoring of the Service Organizations Engaged To Perform Operational Processes and Accounting

In fiscal years 2015 and 2016, we reported that Ginnie Mae was not able to complete the majority of its corrective action plans to address the deficiency related to the ineffective monitoring and oversight of its MSS's as service organizations. Ginnie Mae's plans included actions to (1) develop a policy for the appropriate oversight of the MSS's, (2) perform periodic compliance reviews, (3) customize the scope and timing of the Statements on Standards for Attestation Engagement (SSAE) number 16[25] to better align with Ginnie Mae's processes, (4) develop analytics around the review of the accounting reports, and (5) augment OCFO to assist in performing oversight of the MSS's.

In fiscal year 2017, we followed up on Ginnie Mae's progress in implementing the action plans. As of September 2017, three of five items in its action plans had not been fully implemented. Specifically, Ginnie Mae had not (1) finalized its MSS oversight policy, (2) finalized its analytics around the review of accounting reports, and (3) performed the required number of compliance reviews in fiscal year 2017. Ginnie Mae completed only one of four compliance reviews it planned for fiscal year 2017. Other areas of concern related to compliance reviews included a lack of action in addressing the inadequacy of Ginnie Mae's existing compliance review procedures, which we identified in 2016.[26] We did not identify any action being taken to address this issue in fiscal year 2017. Also in 2017, we determined that Ginnie Mae did not have a process for evaluating whether corrective action plans, developed as a result of the compliance reviews, were adequate and sufficient. As a result, we noted that a number of the same issues from 2016 compliance reviews were reported again in 2017, such as timeframes for foreclosure,

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[25] In the prior year, corrective action plans discussed the SSAE16 review. Since the implementation of the plans, the American Institute of Certified Public Accountants established new review standards, SSAE 18.

[26] In fiscal year 2016, we found that the review procedures lacked testing steps to evaluate the following areas: (1) reconciliation of mortgage collateral to securities outstanding, (2) fixed installment control, (3) custodial accounts, (4) collection clearing accounts, (5) escrow disbursement, and (6) loan buyouts.

bankruptcy, and claims. Taking all of these open issues into consideration, we considered this finding an open issue at the end of fiscal year 2017.

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

In fiscal year 2016, we reported two key areas of the model risk management governance framework that had not been implemented, which included developer testing and independent validation. In 2017, we reviewed the status of these two key components. Ginnie Mae informed us that the developer testing was implemented in September 2016 but it did not have time to fully implement the independent validation piece in July 2017 as planned. Its revised implementation is now January 2018. In conjunction with our fiscal year 2017 audit followup, we noted that Ginnie Mae did not conduct adequate model developer testing in 2016 for its guarantee asset and guarantee liability cash flow model. Specifically, Ginnie Mae lacked clearly defined criteria for monitoring and evaluating its test results. Moreover, we noted conclusions from 2016 model developer testing that were not properly supported with documented analysis. We also identified instances in which 2016 model developer test results stated incorrect conclusions. Further, actual 2016 model developer testing was not as thorough as explained and documented. Ginnie Mae agreed with our findings and implemented changes to its 2017 model developer testing in early September 2017. We did not receive the new test results until late September. Ginnie Mae indicated that the 2017 test results provided a more updated assessment of the model performance than the 2016 model developer testing. However, we still had concerns when we reviewed the new test results.

In the absence of full implementation of the developer testing and independent validation components of the policy, Ginnie Mae could not verify the accuracy, robustness, and stability of its models before deployment. The model risk management governance framework material weakness has existed since fiscal year 2015 with only partial implementation of our recommendations.

Conclusion

Ginnie Mae continued to make progress in addressing many of the financial management problems that we identified in fiscal years 2014, 2015, and 2016; however, more work is needed to produce auditable financial statements. Many conditions continued in fiscal year 2017 because more time is needed to fully implement the corrective action plans. Ginnie Mae acknowledged that it would require a significant investment in technology, infrastructure, and personnel spanning multiple years to make its financial statements auditable. As a result, we will continue to monitor Ginnie Mae's progress in resolving these financial management governance deficiencies in fiscal year 2018.

Recommendations

Because we are not making further recommendations on this finding this fiscal year, the open audit recommendations made in prior years are not repeated in this report.

Significant Deficiency

Finding 5: Ginnie Mae Was Not in Full Compliance With Federal Information System Controls Requirements for GFAS

Ginnie Mae was not in full compliance with federal information system controls requirements for its Ginnie Mae Financial Accounting System (GFAS). Our review of general and application controls over GFAS identified deficiencies with (1) the budget override function, (2) outdated system software, (3) user accounts that were not disabled within a timely manner, and (4) a lack of policies and procedures for its business processing application controls. These deficiencies occurred because Ginnie Mae (1) did not know that the override functionality was allowed by system default, (2) had limited funding and resources and prioritized system enhancements, (3) did not have a sufficient user account review process, and (4) did not develop specific policies and procedures over its business processes. As a result, these deficiencies could (1) provide opportunities for a user to misuse or over extend their authority; (2) expose the system to known vulnerabilities; (3) subject the system to unauthorized access for malicious purposes; and (4) threaten the internal controls of the organization. In addition, we assessed the status of the department's actions to address information system control deficiencies identified in previous audit reports.

Controls Over the Budget Override Function Were Inadequate

Controls over the commitment control module in GFAS are inadequate. Specifically, a budget override function that allows users to bypass budget warnings is configured in GFAS and available to end users. In addition, management did not have a process in place to periodically review the audit logs for possible use of the override function. This condition occurred because Ginnie Mae did not know that the override functionality was allowed by system default. As a result, the failure to adequately establish preventive and mitigating controls may present opportunities for users to misuse or overextend their authority.

Ginnie Mae's Financial Accounting System Had Been Outdated for 3 Years

Ginnie Mae operated GFAS with outdated system software for 3 years. Specifically, the extended software support on GFAS ended in August 2013, and Ginnie Mae did not upgrade GFAS software to an appropriately supported version until November 2016. There were some software defects that existed within the outdated software that Ginnie Mae used, and improvements to those defects were not available until the software was upgraded. This condition occurred because of limited funding, limited resources, and performing maintenance to the existing Peoplesoft software to address Federal Financial Management Improvement Act compliance was Ginnie Mae's priority. As a result, software that was not promptly updated prior to November 2016 could have left GFAS exposed to known vulnerabilities. These security vulnerabilities could have resulted in unauthorized disclosure of information, modification, or a disruption of service. In addition, the use of outdated software could have potentially allowed an attacker to obtain sensitive accounting information, vendor information, and financial information stored in GFAS.

User Accounts for the Ginnie Mae Financial Accounting System Were Not Always Disabled in a Timely Manner

User accounts for GFAS were not always disabled in a timely manner. Specifically, we identified instances in which unused or inactive GFAS user accounts remained in active status and were not disabled, even after going beyond the inactivity period required for an account to be disabled. HUD's security policy requires that system user accounts be disabled after 90 days of inactivity. There were a few user accounts that were in active status, although they had not been used for more than 90 days, and the user accounts were not disabled during the GFAS user account recertification process conducted to remove access for users who no longer need it. This condition occurred because the user account review process was not sufficient to ensure that continued account access was maintained as necessary and appropriate actions were taken in a timely manner. As a result, continued access to a user account beyond the required time of inactivity or after the business need has expired can subject the system to unauthorized and malicious activity. Attackers can potentially discover and exploit legitimate but inactive user accounts. This allows attackers to impersonate users, thereby making the discovery of attackers or unauthorized users' behaviors difficult to identify. Ginnie Mae disabled the user accounts that we identified during the audit.

Ginnie Mae Lacked Adequate Policies and Procedures for Its Business Process Application Controls

Ginnie Mae lacked adequate policies and procedures for its financial accounting system's business process controls. The development of written policies and procedures for day-to-day processes is an effective way to maintain a strong system of internal controls, guide an organization's daily operations and processes, and provide clarity when dealing with accountability. Specifically, regarding its financial accounting system, GFAS, Ginnie Mae did not provide policies or procedures that (1) addressed data management specifically related to data strategy, design, quality standards, ownership, and monitoring; (2) detailed controls over source documents, input file collection, and preparation; (3) included the content and availability of reports; (4) addressed master data maintenance; and (5) addressed master data configuration. These conditions existed because Ginnie Mae's contractor believed that the existence of the information in other forms of system documentation might have been sufficient as it did not have formal policies or procedures. A lack of documented controls over operations and processes may hinder Ginnie Mae's ability to identify control gaps in its financial accounting system's functionality that could allow and contribute to more informed decision making regarding its business processes.

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

In an audit we conducted in fiscal years 2016,[27] we found that Ginnie Mae did not provide adequate oversight of its pool processing agent for its Integrated Pool Management System

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[27] Audit Report 2017-FO-0001 "Audit of Government National Mortgage Association's Financial Statement for Fiscal Years 2016 and 2015 (Restated)," issued November 14, 2016.

(IPMS)[28] to ensure that adequate controls over business processes complied with Federal regulations and guidance. Specifically, IPMS did not have adequate logging controls that automatically tracked and logged the use of overrides in the system, and IPMS did not have automated controls to prevent a pool processor from making changes to the master[29] data without prior approval. Additionally, the manual reconciliation procedures did not detect changes to master data, and Ginnie Mae lacked adequate policies and procedures over data management.

We issued three recommendations to address the issues cited. As of September 30, 2017, Ginnie Mae had not completed the corrective actions.

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

In an audit we conducted in fiscal years 2015,[30] we found that Ginnie Mae did not provide adequate oversight of one of its single-family mastersubservicers[31] 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 identified. Ginnie Mae has completed actions to address one of the recommendations. For the remaining two recommendations, we did not agree with Ginnie Mae's proposed management decisions. On March 6, 2017, a referral memo was issued to the Acting Deputy Secretary regarding the remaining two recommendations. We have not received any additional information related to the two outstanding recommendations.

Conclusion

Ginnie Mae must improve its internal controls over GFAS and its other financial management systems and processes to fully comply with Federal requirements and security policies to prevent (1) opportunities for users to misuse or overextend their authority, (2) exposing the system to known vulnerabilities, (3) subjecting the system to unauthorized and malicious activity, and (4) threatening the internal controls of the organization.

Recommendations

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

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[28] The Integrated Pool Management System (IPMS) is a Ginnie Mae system maintained by The Bank of New York Mellon (BNYM). IPMS is a proprietary mainframe application that has three major component subsystems: New Pool Processing, Pool Reporting and Generalized Mortgage Backed Securities.

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

[30] 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.

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

Compliance With Laws and Regulations

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

In fiscal year 2017, Ginnie Mae's noncompliance with DCIA continued. Specifically, as reported in fiscal years 2015 and 2016, 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's management continued to take the position that DCIA did not apply to Ginnie Mae; therefore, it did not need to comply with DCIA requirements.[32] As a result, Ginnie Mae may have missed opportunities to collect millions of dollars in debts related to losses on its MBS program.

Ginnie Mae's Noncompliance With DCIA Continued

In fiscal year 2016, we determined that Ginnie Mae did not properly analyze the collectability of uninsured mortgage debts owed to it from MBS program activities. Specifically, Ginnie Mae failed to use debt collection tools allowed by law before deciding to write off these debts.[33] Under Ginnie Mae's MBS program, a claim of the U.S. Government for money against the borrower is established when there is a deficiency between the price obtained by Ginnie Mae on the sale of the property and the amount owed on the uninsured mortgage. However, it had been Ginnie Mae's practice to automatically write off its claim for the mortgage debt deficiency without proper consideration of whether it was appropriate to do so. While Ginnie Mae continued to challenge DCIA's applicability, in 2016, we also noted that Ginnie Mae was receptive to the idea of ensuring that there was a proper review conducted on the mortgage deficiency debt before writing it off. Ginnie Mae informed us last year that it was developing a policy on MSS loss mitigation and debt collection practices, which is the spirit of what we had requested of Ginnie Mae.

In fiscal year 2017, we followed up on the status of the MSS's loss mitigation and debt collection practices policy. According to Ginnie Mae, as of October 2017, this policy had not been finalized because the HUD Office of General Counsel and Ginnie Mae's General Counsel had a disagreement on this draft policy. With respect to the applicability of DCIA, Ginnie Mae continued to take the same position as in previous years that DCIA requirements did not apply to Ginnie Mae. For this reason, no action has been taken on our audit recommendation to obtain a

32 HUD is subject to DCIA, and Ginnie Mae is an entity under HUD; therefore, it should be required to comply with DCIA.

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

legal opinion from the implementing agency, the U.S. Treasury, for a determination of whether Ginnie Mae is required to comply with DCIA. Due to an impasse, this matter was again elevated to the Deputy Secretary for resolution. We submitted the referral memorandum to Ginnie Mae's President on April 21, 2016, and to HUD's then acting Deputy Secretary on March 6, 2017. As of October 31, 2017, our referral was still under review, and we are awaiting a response. Considering Ginnie Mae's lack of progress in addressing the DCIA issue since we reported this issue in fiscal year 2015, we concluded that Ginnie Mae's noncompliance with DCIA continued.

Conclusion

In fiscal year 2017, Ginnie Mae made no progress in addressing the DCIA issue reported in our audit reports in the past two years.[34] For this reason, Ginnie Mae may have lost the opportunity to recover claims on many of the debts owed to Ginnie Mae for the past several years. To protect Ginnie Mae's interest, it should take immediate action to mitigate any further foregoing of its claims on these debts.

Recommendations

We are not making additional recommendations. The fiscal year 2015 audit recommendation remains open.

[34] Before inclusion in the audit report, in the fiscal year 2014 management letter, we reported that Ginnie Mae did not have policies and procedures for effectively managing delinquent loan debts and loan writeoffs.

Scope and Methodology

In accordance with the Government Corporation Control Act, as amended, OIG is responsible for conducting the annual financial statements audit of Ginnie Mae. The scope of this work includes the audit of Ginnie Mae's balance sheets as of September 30, 2017 and 2016 (restated), and the related statements of revenues and expenses and changes in the investment of the U.S. Government and cash flows for the years then ended and the related notes of the financial statements. We conducted the audit in accordance with generally accepted government auditing standards and OMB Bulletin 17-03, as amended, Audit Requirements for Federal Financial Statements.

In fiscal years 2017 and 2016, we were unable to express an opinion on the accompanying financial statements as a result of the limitation in the scope of our audit work. The limitation in our audit scope was due to a number of unresolved audit matters, which are described in detail in the body of this audit report. As reported in fiscal year 2016, these ongoing unresolved matters continued to restrict our ability to obtain sufficient, appropriate audit evidence to form an opinion. Accordingly, we do not express an opinion on the financial statements and notes.

Followup on Prior Audits

Listed below are 40 open recommendations made in previous years' audits and their current status at the end of fiscal year 2017.

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

Of 19 audit recommendations in OIG audit report 2017-FO-0001, we concurred on the action plans for 17 (3 closed and 14 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 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 nine audit recommendations in OIG audit report 2016-FO-0001, we concurred on the action plans for six (one closed and five under remediation) audit recommendations. We referred the remaining three audit recommendations to the departmental audit resolution official because we were not in agreement with Ginnie Mae's management on the actions necessary to correct the deficiencies. 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 6 (0 closed and 6 under remediation) audit recommendations. We referred the remaining six audit recommendations to the departmental audit resolution official because of a disagreement with Ginnie Mae's management on the actions necessary to correct the deficiencies. Our assessment of the current status of the recommendations is presented below.

Fiscal year 2016 recommendations	Classification	Fiscal year 2017 status
We recommend that Ginnie Mae's Chief Financial Officer		
2A. Update Ginnie Mae's cash and cash equivalents accounting policies and procedures to ensure that its cash-in-transit balance is properly accounted for.	Material weakness 2016, finding 2	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2018. See material weakness 2017 – finding 2
2B. Review the cash and cash equivalents account and determine the appropriate adjustments needed to correct the misstatement.	Material weakness 2016, finding 2	Closed.

Fiscal year 2016 recommendations	Classification	Fiscal year 2017 status
2C. Revisit the REMIC accounting adjustments made in fiscal year 2015 based on the points cited in this finding to determine appropriate accounting adjustments. At a minimum, Ginnie Mae should • Conduct a review of invoice documents for each REMIC deal to determine the appropriate amount of upfront costs that should be included in the incurred cost ratio calculation, • Review source data to ensure the accuracy of the weighted average maturity data used in its analysis, • Determine the appropriate incurred cost ratio for REMIC deals from the 1994 to 2013 cohort years based on reasonable and acceptable methodology, and • Review source data for deals issued between 1994 and 2013 to ensure the accuracy of the guarantee fees data used in its analysis.	Material weakness 2016, finding 2	Closed.
2D. Establish and implement policies and procedures to ensure that proper accrual accounting entries are made to record the accounting event related to closed REMIC deals at the end of each month.	Material weakness 2016, finding 2	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2018. See material weakness 2017 – finding 2
2E. Review the revenue account balances based on points cited related to the improper accruals of REMIC deals and determine the appropriate adjustments needed to correct the misstatement.	Material weakness 2016, finding 2	Closed.
2F. Reverse the accounting writeoff of the advances accounts. In conjunction with the subledger data solution,	Material weakness 2016, finding 2	We did not reach a management decision. Referred to departmental audit resolution official. See

Fiscal year 2016 recommendations	Classification	Fiscal year 2017 status
conduct a proper analysis to determine whether any of the $248 million balances in the advances accounts are collectible.		material weakness 2017 – 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 remediation – Full implementation of the corrective action plan was not expected until fiscal year 2018. See material weakness 2017 – finding 2
2H. Enhance existing policies and procedures for its fixed assets, to include systems, processes, and controls, to ensure (1) proper review of invoices to determine whether costs are capitalized or expensed in accordance with GAAP, (2) development costs are capitalized when incurred, and (3) book value is consistent across all documents.	Material weakness 2016, finding 2	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2018. See material weakness 2017 – finding 2
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	Under remediation – Full implementation of the corrective action plan was not expected until fiscal year 2018. See material weakness 2017 – finding 2
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 remediation – implementation date remains unknown. See material weakness 2017 – finding 2
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 remediation – Full implementation of the corrective action plan was not expected until fiscal year 2018. See material weakness 2017 – finding 2
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 remediation – Full implementation of the corrective action plan was not expected until fiscal year 2018. See material weakness 2017 – finding 3

Fiscal year 2016 recommendations	Classification	Fiscal year 2017 status
3B. Exclude the loan impairment allowance on other indebtedness appropriately instead of reporting it as part of loan impairment allowance on MHI account.	Material weakness 2016, finding 3	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2017 – finding 3.
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 remediation – Full implementation of the corrective action plan was not expected until fiscal year 2018. See material weakness 2017 – finding 3
3D. Modify, as appropriate, the 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 – Full implementation of the corrective action plan was not expected until fiscal year 2018. See material weakness 2017 – finding 3
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 – Full implementation of the corrective action plan was not expected until fiscal year 2019. See material weakness 2017 – finding 4
We recommend that Ginnie Mae's Chief Financial Officer, in conjunction with the Senior Vice President of the Office of Securities Operations, direct its servicing contractor for IPMS to		
5A. Develop an audit tracking tool in IPMS that automatically tracks and logs (1) the type of override used, (2) who performed the override, and (3) the reason for the override. In addition, Ginnie Mae should establish policies and procedures to govern and monitor the use of overrides, which include the timely submission of override reports to Ginnie Mae for review and verification.	Significant deficiency 2016, finding 5	Under remediation – Final action target date (FATD) on this recommendation was 9/30/2017 and is now past due and no new FATD was established.
5B. Establish policies and procedures for monitoring changes to master data, to include creating and reviewing a	Significant deficiency 2016, finding 5	Under remediation – Final action target date (FATD) on this recommendation was 9/30/2017

Fiscal year 2016 recommendations	Classification	Fiscal year 2017 status
change report and establishing controls within IPMS to inform managers of changes to master data. In addition, Ginnie Mae should automate the reconciliation process between IPMS and other interfacing applications or systems to ensure that all pool-level details are compared and that changes are captured and reported in a timely manner.		and is now past due and no new FATD was established.
5C. Develop written policies and procedures for master data and ensure that those policies and procedures are available to all staff. In addition, Ginnie Mae should revise policies and procedures, as needed, to reflect the changes in business processes to ensure that policies and procedures are accurate, complete, and current at all times. This should include when new systems are developed and implemented or other organizational changes occur. Ginnie Mae should also ensure that significant changes to the policies and procedures are properly communicated to all individuals responsible for handling Ginnie Mae's data.	Significant deficiency 2016, finding 5	Under remediation – Final action target date (FATD) on this recommendation was 9/30/2017 and is now past due and no new FATD was established.

Fiscal year 2015 recommendations	Classification	Fiscal year 2017 status
2A. Prepare an analysis of all outstanding REMIC deals to determine the cumulative effect of misstatements and make the appropriate adjustments to the financial statements.	Material weakness 2015, finding 2	Closed.
2B. Update the accounting policies and procedures related to revenue recognition to reasonably ensure compliance with GAAP.	Material weakness 2015, finding 2	Under remediation – Final action target date (FATD) on this recommendation was initially 9/30/2016 and then changed to 3/8/2017. It is now past due, and no new FATD was established. See material weakness 2017 – finding 2

Fiscal year 2015 recommendations	Classification	Fiscal year 2017 status
2C. Establish and implement policies and procedures to ensure that asset balances in Ginnie Mae's books are appropriately adjusted to account for the timing differences in the collection and remittance of cash from its master subservicers.	Material weakness 2015, finding 2	Under remediation – FATD on this recommendation was initially 9/30/2016 and then changed to 3/10/2017. It is now past due, and no new FATD was established. See material weakness 2017 – finding 2
We recommend that Ginnie Mae's President		
4A. Ensure that the systems and processes for servicing and financial reporting on Ginnie Mae's defaulted issuers' portfolio are ready and capable of handling loan level accounting.	Material weakness 2015, finding 4	Under remediation – FATD on this recommendation was initially 12/31/2016 and then changed to 4/30/2018. See material weakness 2017 – finding 4
We recommend that the Acting Chief Financial Officer, in coordination with the Chief Risk Officer		
4B. Establish and implement entitywide policies and procedures for an effective model risk management. At a minimum, it should include the following elements: • Controls over model development, implementation and use; • Controls over model validation; • Controls over model documentation; • Controls over evaluation for fitness, selection and validation of third party models; and • Establish adequate structure of responsibilities for model oversight, including evaluation of model data inputs, assumptions and methodology.	Material weakness 2015, finding 4	Under remediation – FATD on this recommendation was initially 12/31/2016 and then changed to 6/30/2017. It is now past due, and no new FATD was established. See material weakness 2017 – finding 4
5A. Segregate duties between individuals collecting, recording, depositing, and reconciling cash, and periodically review the controls over the cash process to ensure proper implementation of compatible functions in its cash operations department.	Significant deficiency 2015, finding 5	We did not reach a management decision. Referred to departmental audit resolution official. See significant deficiency 2016 – finding 5.

Fiscal year 2015 recommendations	Classification	Fiscal year 2017 status
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	OIG has not validated Ginnie Mae's full implementation of its corrective action plan.
5C. Automate the approval process to include restricting the capability to make unauthorized changes unless evidence of approval is present or increase the scope of the "Admin Adjustments Report" to include all exceptions and adjustments. Additionally, the contractor review the report for changes, verify that the changes identified in the report coincide with evidence of proper authorization, and ensure changes that are not properly supported are investigated and resolved accordingly.	Significant deficiency 2015, finding 5	We did not reach a management decision. Referred to departmental audit resolution official. See significant deficiency 2017 – finding 5.
We recommend that Ginnie Mae's Acting Chief Financial Officer		
6.A Request a legal opinion from the implementing agency, the U.S. Treasury, for a determination of whether Ginnie Mae is required to comply with DCIA.	Compliance with laws and regulations 2015, finding 6	We did not reach a management decision. Referred to departmental audit resolution official. See compliance with laws and regulations 2017 – finding 6.

Fiscal year 2014 recommendations	Classification	Fiscal year 2017 status
1A. Establish and implement policies and procedures to demonstrate how Ginnie Mae provides appropriate accounting and financial reporting oversight of the master subservicers to ensure that the master subservicers are capable of producing accurate and reliable accounting records and reports.	Material weakness 2014, finding 1	Under remediation – FATD on this recommendation was 9/30/2016 and is now past due as no new FATD was established. See material weakness 2017 – finding 1

Fiscal year 2014 recommendations	Classification	Fiscal year 2017 status
1B. Establish and implement policies and procedures to properly account for and track at a loan level all of the accounting transactions and events in the life cycle of the loans. This measure is intended to compensate for the servicing system's inability to perform loan level transaction accounting.	Material weakness 2014, finding 1	Under remediation – FATD on this recommendation was 12/31/2016 and is now past due as no new FATD was established. See material weakness 2017 – finding 1
2A. Establish and implement policies and procedures to ensure that reimbursable costs are tracked and accounted for at the loan level.	Material weakness 2014, finding 2	Under remediation – FATD on this recommendation was 12/31/2016 and is now past due as no new FATD was established. See material weakness 2017 – finding 2
2B. Determine the amount of reimbursable costs incurred by Ginnie Mae per loan, report the reimbursable costs incurred as receivables rather than expensing them, and adjust them out of the mortgage-based securities loss liability account as appropriate.	Material weakness 2014, finding 2	Under remediation – FATD on this recommendation was 9/30/2016 and is now past due as no new FATD was established. See material weakness 2017 – finding 2
2C. Restate fiscal year 2013 financial statements to correct the impact of the accounting errors determined in recommendation 2B.	Material weakness 2014, finding 2	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2017 – finding 2.
2D. Review and recalculate the appropriate amount of interest accrued on the loans and adjust the accrued interest receivable balances reported as appropriate.	Material weakness 2014, finding 2	Under remediation – FATD on this recommendation was 12/31/2016 and is now past due as no new FATD was established. See material weakness 2017 – finding 2
2E. Report the escrow fund balances on the face of the financial statements, including additional disclosure information in the notes, in accordance with generally accepted accounting principles.	Material weakness 2014, finding 2	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2017 – finding 2.
2F. Restate fiscal year 2013 financial statements to show escrow fund balances omitted on the face of the financial statements.	Material weakness 2014, finding 2	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2017 – finding 2.
3A. Establish and implement policies and procedures for the documentation	Material weakness 2014,	Under remediation – FATD on this recommendation was 6/30/2016

Fiscal year 2014 recommendations	Classification	Fiscal year 2017 status
and validation of Ginnie Mae management assumptions, including foreclosure costs and re-default rates, used in the loss reserve model going forward.	finding 3	and is now past due as no new FATD was established. See material weakness 2017 – finding 3
We recommend that Ginnie Mae's President		
4B. Work with HUD's Chief Financial Officer to design and implement a compliant financial management governance structure.	Material weakness 2014, finding 4	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2017 – finding 4.
We recommend that the HUD Chief Financial Officer, in accordance with provisions of the Chief Financial Officers Act of 1990, assist Ginnie Mae to implement a compliant financial management governance structure by		
4D. Overseeing a comprehensive risk assessment of Ginnie Mae's financial management governance.	Material weakness 2014, finding 4	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2017 – finding 4.
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. See material weakness 2017 – finding 4.
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 non-pooled 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	Material weakness 2014, finding 4	

Fiscal year 2014 recommendations	Classification	Fiscal year 2017 status
that comply with generally accepted accounting principles.		

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

Ginnie Mae

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

November 8, 2017

To: Thomas R. McEnanly
Director of Financial Audits Division, GAF

From: Michael Bright, Acting President
Maren Kasper, Executive Vice President

Subject: Management Response to Fiscal Year (FY) 2017 Audit Report

Ginnie Mae is grateful for the opportunity to respond to the findings noted in the Office of the Inspector General's (OIG) FY 2017 Audit Report.

Ginnie Mae management appreciates the OIG's efforts in identifying areas of improvement in both our financial and accounting operations. In FY 2017, Ginnie Mae continued its focus on implementing revised accounting policies, developing relevant standard operating procedures, strengthening our internal controls over financial reporting, and remediating previously identified issues noted in our accounting reports. Furthermore, we continue to make significant progress in assessing the quality of the underlying non-pooled assets data and in building the loan level subledger database to account for those assets. We look forward to delivering trustworthy results in FY 2018, as we work to remediate findings and improve Ginnie Mae's accounting standards.

Comment 1

In FY 2017, we successfully upgraded our general ledger application, automated federal and non-federal financial statements preparation, and enhanced analytics over financial results. Importantly, for the first time, we were able to produce quarterly financial statements, as a best practice, despite not being required to file quarterly financial statements. Ginnie Mae addressed several OIG observations, and through effective internal oversight, self-identified and corrected other areas where U.S. General Accounting Principles (U.S. GAAP) were historically misapplied.

As acknowledged by OIG throughout the Audit Report, Ginnie Mae continued to expend considerable effort towards remediating material weaknesses related to non-pooled loans. As part of this complex and extensive project to resolve the identified material weaknesses, Ginnie Mae faces numerous challenges especially with regards to the implementation of the subledger database solution due to dependencies on the availability of the underlying loan data from external sources. However, we met some interim milestones towards achieving our goal and look forward to delivering a comprehensive solution in FY 2018.

We are committed to demonstrating progress towards the transformation of our financial management organization to remediate material weaknesses and to strengthening our financial management governance. We believe such developments and the proper management of our business to deliver on our mission while protecting Ginnie Mae, HUD, the American tax payer, and other interested parties reflects our fiscal responsibility. We look forward to OIG's cooperation in the FY 2018 audit as we achieve target milestones in relation to our remediation efforts.

OIG Evaluation of Auditee Comments

Comments 1 OIG accepts the response of concurrence with the findings and recommendations. We recognize Ginnie Mae's continued efforts to remediate the audit issues in a challenging environment. We will continue to work with Ginnie Mae in resolving these matters in fiscal year 2018, and we thank Ginnie Mae for the cooperation and assistance extended to us during the audit.

Appendix B

Ginnie Mae's Fiscal Years 2017 and 2016 (Restated) Financial Statements and Notes

Balance Sheets		
	September 30,	
	2017	2016 (Restated)
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	$ 18,989,691	$ 16,846,125
Restricted cash and cash equivalents	658,527	546,606
Accrued fees and other receivables	98,465	87,015
Claims receivable, net*	374,749	709,361
Advances, net	38	20,914
Mortgage loans held for investment including accrued interest, net*	3,130,975	3,699,749
Acquired property, net*	45,080	41,186
Fixed assets, net	88,056	82,896
Mortgage servicing rights	-	35
Guaranty asset	8,256,092	6,397,614
Other assets	411	165
Total Assets	**$ 31,642,084**	**$ 28,431,666**
Liabilities and Investment of U.S. Government:		
Liabilities:		
Accounts payable and accrued liabilities	$ 65,945	$ 94,603
Deferred liabilities and deposits	444	334
Deferred revenue	461,862	445,625
Liability for loss on mortgage-backed securities program guaranty	268,443	1,386
Liability for representations and warranties	54	74
Mortgage servicing rights	48	-
Guaranty liability	7,014,376	6,198,353
Total Liabilities	**$ 7,811,172**	**$ 6,740,375**
Commitments and Contingencies (See Note 17)		
Investment of U.S. Government	$ 23,830,912	$ 21,691,291
Total Liabilities and Investment of U.S. Government	**$ 31,642,084**	**$ 28,431,666**

* See Note 2: Restatement, Non-Pooled Loans

The accompanying notes are an integral part to these financial statements

Statements of Revenues and Expenses and Changes in Investment of U.S. Government		
	For the year ended September 30,	
	2017	2016 (Restated)
	(Dollars in thousands)	
Revenues:		
Interest Income		
Interest income on mortgage loans held for investment*	$ 162,899	$ 206,617
Other interest income	164,433	84,092
Income on guaranty obligation	1,266,867	1,252,035
Mortgage-backed securities guaranty fees	1,147,866	1,052,509
Commitment fees	101,771	101,099
Multiclass fees	27,304	28,408
Mortgage-backed securities program and other income	22,313	10,143
Total Revenues	**$ 2,893,453**	**$2,734,903**
Expenses:		
Administrative expenses	$ (26,461)	$ (26,878)
Fixed asset depreciation and amortization	(20,538)	(15,686)
Mortgage-backed securities program and other expenses	(216,239)	(287,627)
Total Expenses	**$ (263,238)**	**$ (330,191)**
Recapture (provision):		
Recapture (provision) for mortgage loans held for investment including accrued interest*	$ 113,706	$ 347,300
Recapture (provision) for mortgage-backed program guaranty	(267,057)	(1,386)
Recapture (provision) for claims receivable*	(62,173)	(75,543)
Recapture (provision) for loss on uncollectible advances	(15)	(76,387)
Recapture (provision) for acquired property*	(47,948)	(32,170)
Total Recapture (Provision)	**$ (263,487)**	**$ 161,814**
Other Gain (Loss):		
Gain (Loss) on guaranty asset	$ (224,411)	$ (2,133,594)
Gain (Loss) on mortgage servicing rights	(83)	(4,081)
Gain (Loss) other	(2,613)	(1,138)
Total Other Gains / (Losses)	**$ (227,107)**	**$ (2,138,813)**
Results of Operations	**$ 2,139,621**	**$ 427,713**
Investment of U.S. Government at Beginning of Period	$ 21,691,291	$ 21,286,533
Adjustment to Investment of U.S. Government	-	(22,955)
Investment of U.S. Government at Beginning of Period, Restated	$ 21,691,291	$ 21,263,578
Investment of U.S. Government at End of Period	**$ 23,830,912**	**$ 21,691,291**

* See Note 2: Restatement, Non-Pooled Loans

The accompanying notes are an integral part to these financial statements

Statements of Cash Flows				
	For the year ended September 30,			
		2017		2016 (Restated)
	(Dollars in thousands)			
Cash Flows from Operating Activities				
Results of Operations	**$**	**2,139,621**	**$**	**427,713**
Adjustments to reconcile results of operations to Net cash (used for) provided by operating activities:				
Depreciation and amortization expense		20,538		15,686
Loss on disposal of fixed assets		-		5
Provision (Recapture) for mortgage loans held for investment*		(113,706)		(347,300)
Provision (Recapture) for mortgage-backed program guaranty		267,057		1,386
Provision (Recapture) for claims receivable*		62,173		75,543
Provision (Recapture) for loss on uncollectible advances		15		76,387
Provision (Recapture) for acquired property*		47,948		32,170
Other expenses		-		3,500
(Gain)/loss on guaranty asset		224,411		2,133,594
(Gain)/loss on mortgage servicing rights		83		4,081
(Gain)/loss on liability for representations and warranties		(19)		74
(Income) on guaranty obligation		(1,266,867)		(1,252,035)
Changes in operating assets and liabilities:				
Restricted cash and cash equivalents		(111,921)		(113,832)
Accrued fees and other receivables		(11,448)		(4,658)
Claims receivable, net*		620,598		687,549
Advances, net		20,860		225,367
Mortgage loans held for investment including accrued interest, net*		(8,073)		(14,659)
Mortgage servicing rights		-		25,528
Other assets		(247)		247
Accounts payable and accrued liabilities		(28,659)		(32,961)
Deferred liabilities and deposits		110		8
Deferred revenue		16,238		(2,713)
Net cash (used for) provided by operating activities	**$**	**1,878,712**	**$**	**1,940,680**
Cash Flows from Investing Activities				
Proceeds from repayments and sales of mortgage loans acquired as held for investment*		247,572		281,140
Proceeds from the dispositions of acquired property and preforeclosure sales*		67,897		47,769
Purchases of loans held for investment*		(24,917)		(67,735)
Purchases of fixed assets		(25,698)		(36,313)
Net cash (used for) provided by investing activities	**$**	**264,854**	**$**	**224,861**
Cash Flows from Financing Activities				
Net cash (used for) provided by financing activities		-		-
Net change in Cash and cash equivalents		2,143,566		2,165,541
Cash and cash equivalents, beginning of the period		**16,846,125**		**14,680,584**
Cash and cash equivalents, end of the period	**$**	**18,989,691**	**$**	**16,846,125**

Supplemental Disclosure of Non-Cash Activities				
Transfers from mortgage loans held for investment including accrued interest, net to advances, net, and claims receivable*, net	$	348,160	$	861,572
Transfers from mortgage loans held for investments including accrued interest to acquired property, net*	$	119,738	$	90,221
Disposal of acquired properties*	$	-	$	9,781

* See Note 2: Restatement, Non-pooled Loans.

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, it is exempt from both federal and state taxes. Ginnie Mae guarantees investors the timely payment of principal and interest (P&I) on Mortgage Backed Securities (MBS) backed by federally insured or guaranteed residential loans. 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.

Through the MBS program, Ginnie Mae supports:
- lower-income households;
- young professionals with unestablished credit histories;
- working families with little or no down payment; and
- senior citizens who need housing and support services.

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 (USDA), and the U.S. Department of Veterans Affairs (VA).

Ginnie Mae offers two 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 exclusively single-family or multifamily 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.

The underlying sources of loans for both the Ginnie Mae I and II MBS are the following four programs, 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, USDA, and PIH loan insurance programs;

- ***Multifamily Program –*** made up of FHA and USDA insured loans for the purchase, construction, or renovation of apartment buildings, hospitals, nursing homes, and assisted living facilities;

- ***HECM Program –*** provides an MBS platform for Ginnie Mae's issuers to raise capital and liquidity for FHA-insured reverse mortgages. HECM loans have unique cash flows and fees structure. HECM loans can be pooled into HECM mortgage-backed securities (HMBS) within the Ginnie Mae II MBS program; and

- ***Manufactured Housing Program –*** allows the issuance of pools of loans insured by FHA's Title I Manufactured Home Loan Program.

Note 2: Restatement, Non-Pooled Loans

Restatement of prior financial statements: Ginnie Mae has revised its previously issued financial statements for the year ended September 30, 2016 (referred to as "the restatement"). The financial information contained in the fiscal year 2017 financial statements supersedes the previously issued financial statements for 2016. The previously issued financial statements and corresponding information should no longer be relied upon.

Following Ginnie Mae's issuance of the 2016 annual report, Ginnie Mae performed an internal accounting assessment, reviewing the current accounting practices and subsequently identified that U.S. Generally Accepted Accounting Principles (U.S. GAAP) were misapplied in the areas of accounts payable and related accruals and the allowance for loan losses. Ginnie Mae also addressed modeling errors associated with the allowance for loan losses for impaired loans in response to the 2016 audit finding and recommendation from Ginnie Mae's auditor, Office of Inspector General (OIG). Additionally, certain revisions were made to the revenue recognition practice applied to fees received in connection with Real Estate Mortgage Investment Conduits (REMIC) issuances based on findings and recommendations from the OIG.

Ginnie Mae has revised its previously issued financial statements and corresponding information for fiscal year 2016 to address these errors.

The overall impact of restatements on Ginnie Mae's financial statements as of and for the year ended September 30, 2016, was a total net increase in "Investment of U.S. Government at End of Year" of $99.0 million. This amount includes the following:

- Total net decrease of $23.0 million in 2016 beginning balance of "Investment of U.S. Government" resulting from prior period adjustments; and
- Total net increase of $122.0 million in "Result of Operations" for the year ended September 30, 2016.

Ginnie Mae classified the restatement adjustments into four primary categories. These adjustments on the previously issued financial statements for the year ended September 30, 2016 are listed in the "Impact of restatement on financial statements" section of this note. Three of the four categories have an impact on the Investment of U.S. Government in 2016. Adjustments that do not impact Investment of U.S. Government are listed in the "Change in presentation that does not impact Investment of U.S. Government" section of this note.

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

Accounts payable and accrued liabilities: Ginnie Mae identified accounting errors associated with accounts payable and the related accruals as part of improving and standardizing processes and upgrading the accounting software. Ginnie Mae put in place a system to reconcile outstanding payables and noted that there were invalid historical balances in the account and an expense accrual entry that was not reversed. The impact of correcting these errors resulted in:

- A decrease in "Accounts payable and accrued liabilities" of $20.3 million as of September 30, 2016;
- An increase in "Results of Operations" of $12.2 million for the twelve months ended September 30, 2016; and
- An increase in the 2016 "Investment in U.S. Government at Beginning of Year" of $8.1 million.

Multiclass fees and deferred revenue: Ginnie Mae made certain revisions to the revenue recognition practice applied to fees received in connection with REMIC issuances based on recommendation from OIG such that REMIC fees received upon issuance are deferred and amortized into income evenly over the contractual life of the security. In prior years, and consistent with previous OIG recommendation, Ginnie Mae recognized a proportion of REMIC related fees received at the time of issuance based on the economics of the transaction and services provided in connection with issuing the REMIC security (i.e., due diligence and on-going administration). In addition, deposits in transit for multiclass fees paid to Ginnie Mae's agents but not yet deposited to Ginnie Mae's account at the U.S. Treasury were not recognized as of September 30, 2016. The impact of correcting these errors resulted in:

- An increase in "Deferred revenue" of $133.4 million as of September 30, 2016;
- A net decrease in "Results of Operations" of $4.8 million for the twelve months ended September 30, 2016; and
- A decrease in the 2016 "Investment in U.S. Government at Beginning of Year" of $128.6 million.

Allowance for loan losses: During fiscal year 2017, modeling errors associated with the allowance for loan losses for impaired loans, repurchase liabilities, and contingent liabilities were identified. As a result, Ginnie Mae implemented an updated methodology for its accounting for allowances for loan losses to be in accordance with the guidance prescribed by the Financial Accounting Standards Board (FASB) under ASC 310-10: *Receivables - Overall* and ASC 450-20: *Contingencies - Loss Contingencies*. These methodology changes also addressed self-identified errors related to inappropriate inclusion of certain model inputs and to reflect insurance recoveries more appropriately. The impact of the methodology changes and correction of errors resulted in:

- An increase in “Mortgage loans held for investment including accrued interest, net” of $211.1 million, which includes an increase of $66.4 million related to accrued interest, as of September 30, 2016;
- An increase in “Liability for loss on mortgage-backed securities program guaranty” of $0.4 million as of September 30, 2016;
- A decrease in “Liability for representations and warranties” of $1.4 million as of September 30, 2016;
- An increase in “Results of Operations” of $114.6 million for the year ended September 30, 2016; and
- A net increase in the fiscal year 2016 beginning balance of “Results of Operations” of $97.5 million.

Change in presentation that does not impact “Investment of U.S. Government”:

Additionally, Ginnie Mae changed the presentation of “Accrued interest receivable, net” to be reported under “Mortgage loans held for investment including accrued interest, net.”

The impact of the change in presentation resulted in:

- A decrease in “Accrued interest receivable, net” of $85.0 million as of September 30, 2016;
- An increase in “Mortgage loans held for investment including accrued interest, net” of $85.0 million as of September 30, 2016;
- A decrease in “Recapture (provision) for loss on accrued interest” of $113.0 million as of September 30, 2016; and
- An increase in “Recapture (provision) for mortgage loans held for investment including accrued interest” of $113.0 million as of September 30, 2016.

To reflect this change in presentation, financial statement line item “Mortgage loans held for investments, net” was renamed to “Mortgage loans held for investment including accrued interest, net”. Refer to Note 3: Summary of Significant Accounting Policies and Practices for details relating to this reclassification.

The cumulative effect of this change had no impact on the “Investment of U.S. Government” ending balance as of September 30, 2016.

Impact of restatement of financial statements: The following tables show the impact of the restatement on each individual line item presented on the Balance Sheets and the Statements of Revenues and Expenses and Changes in Investment of U.S. Government for 2016. Restatement adjustment amounts in the following table may slightly differ from above due to rounding.

Balance Sheet						
	September 30, 2016		**Adjustments**		**September 30, 2016 (Restated)**	
			(Dollars in thousands)			
Assets:						
Cash and cash equivalents	$	16,846,125			$	16,846,125
Restricted cash and cash equivalents		546,606				546,606
Accrued fees and other receivables		87,015				87,015
Claims receivable, net*		709,361				709,361
Advances, net		20,914				20,914
Mortgage loans held for investment including accrued interest, net		3,470,016		229,733		3,699,749
Accrued interest receivable, net		18,648		(18,648)		-
Acquired property, net*		41,186				41,186
Fixed assets, net		82,896				82,896
Mortgage servicing rights		35				35
Guaranty asset		6,397,614				6,397,614
Other assets		165				165
Total Assets	**$**	**28,220,581**	**$**	**211,085**	**$**	**28,431,666**
Liabilities and Investment of U.S. Government:						
Liabilities:						
Accounts payable and accrued liabilities	$	114,884		(20,281)	$	94,603
Deferred liabilities and deposits		334				334
Deferred revenue		312,201		133,424		445,625
Liability for loss on mortgage-backed securities program guaranty		976		410		1,386
Liability for representations and warranties		1,539		(1,465)		74
Guaranty liability		6,198,353				6,198,353
Total Liabilities	**$**	**6,628,287**	**$**	**112,088**	**$**	**6,740,375**
Commitments and Contingencies (See Note 17)						
Investment of U.S. Government	$	21,592,294		98,997	$	21,691,291
Total Liabilities and Investment of U.S. Government	**$**	**28,220,581**	**$**	**211,085**	**$**	**28,431,666**

** See Non-pooled loans section*

Statements of Revenues and Expenses and Changes in Investment of U.S. Government			
	For the Year Ended September 30,		
	2016	Adjustments	2016 (Restated)
	(Dollars in thousands)		
Revenues:			
Interest Income			
Interest income on mortgage loans held for investment*	$ 206,617		$ 206,617
Other interest income	84,092		84,092
Income on guaranty obligation	1,252,035		1,252,035
Mortgage-backed securities guaranty fees	1,052,509		1,052,509
Commitment fees	101,099		101,099
Multiclass fees	3,199	(4,791)	28,408
Mortgage-backed securities program and other income	10,143		10,143
Total Revenues	**$ 2,739,694**	**$ (4,791)**	**$ 2,734,903**
Expenses:			
Administrative expenses	$ (26,878)		$ (26,878)
Fixed asset depreciation and amortization	(15,686)		(15,686)
Mortgage-backed securities program and other expenses	(289,092)	1,465	(287,627)
Total Expenses	**$ (331,656)**	**$ 1,465**	**$ (330,191)**
Recapture (provision):			
Recapture (provision) for mortgage loans held for investment including accrued interest*	$ 99,465	247,835	$ 347,300
Recapture (provision) for loss on accrued interest receivable*	34,288	(134,288)	-
Recapture (provision) for mortgage-backed program guaranty	(976)	(410)	(1,386)
Recapture (provision) for claims receivable*	(75,543)		(75,543)
Recapture (provision) for loss on uncollectible advances	(88,529)	12,142	(76,387)
Recapture (provision) for acquired property*	(32,170)		(32,170)
Total Recapture (Provision)	**$ 36,535**	**$ 125,279**	**$ 161,814**
Other Gain (Loss):			
Gain (Loss) on guaranty asset	$ (2,133,594)		$ (2,133,594)
Gain (Loss) on mortgage servicing rights	(4,081)		(4,081)
Gain (Loss) other	(1,138)		(1,138)
Total Other Gains / (Losses)	**$ (2,138,813)**	**$ -**	**$ (2,138,813)**
Results of Operations	**$ 305,761**	**$ 121,952**	**$ 427,713**
Investment of U.S. Government at Beginning of Period	21,286,533		21,286,533
Adjustment to Investment of U.S. Government	-	(22,955)	(22,955)
Investment of U.S. Government at Beginning of Period, Restated	21,286,533	(22,955)	21,263,578
Investment of U.S. Government at End of Period	**$ 21,592,294**	**$ 98,997**	**$ 21,691,291**

** See Non-pooled loans section*

Non-pooled loans: The OIG issued a disclaimer of opinion on Ginnie Mae's 2016 financial statements. The OIG's audit results focused primarily on Ginnie Mae's non-pooled loans portfolio that were acquired from defaulted issuers, which totaled $3.6 billion and $4.5 billion (restated), net, as of September 30, 2017 and 2016, respectively. As mortgage servicing is not a core activity for Ginnie Mae, it contracted with master sub-servicers (MSS) to provide the servicing of defaulted issuers' mortgage loans. Due to data limitations, Ginnie Mae was unable to report these non-pooled loan portfolio balances in compliance with U.S. GAAP requirements in the fiscal years 2017 and 2016 Financial Statements, and determined that it would require a significant investment in technology, infrastructure, and personnel, spanning multiple years to address this situation.

Ginnie Mae's objective for fiscal year 2017 was to continue remediation efforts associated with the material weaknesses noted by OIG that led to the disclaimer of opinion in the prior year. These efforts included, but were not limited to: (i) engaging necessary advisory counterparts to support the development of Ginnie Mae's accounting and modeling infrastructure; (ii) working with third-party servicers to develop standardized loan-level reporting detail and implement accounting policies compliant with U.S. GAAP; (iii) investing in new technologies to track and account for the non-pooled loans; (iv) developing and implementing standard operating procedures for non-pooled assets to comply with existing accounting policies; and (v) enhancing the internal controls over financial reporting.

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

Ginnie Mae is undertaking both short-term and long-term initiatives to improve the non-pooled loan portfolio balances. The balances, however, remain non-compliant with U.S. GAAP for the fiscal year 2017 Financial Statements and the comparative periods presented. Refer to the respective notes for the non-pooled loans (and related financial statement line items) listed below for departures from U.S. GAAP and omitted disclosures due to data constraints. Management will assess these financial statement line items and related disclosures during fiscal year 2018 for restatement:

Balance Sheets:

- Claims receivable, net**;**
- Mortgage loans held for investment including accrued interest, net; and
- Acquired property, net.

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

- Interest income on mortgage loans held for investment;
- Recapture (provision) for mortgage loans held for investment including accrued interest;
- Recapture (provision) for claims receivable; and
- Recapture (provision) for acquired property.

Statements of Cash Flows:

- Provision (recapture) for mortgage loans held for investment including accrued interest;
- Provision (recapture) for claims receivable;
- Provision (recapture) for acquired property;
- Change in claims receivable, net;
- Change in mortgage loans held for investment including accrued interest, net;
- Proceeds from repayments and sales of mortgage loans acquired as held for investment;
- Proceeds from the dispositions of acquired property and preforeclosure sales;
- Purchases of mortgage loans held for investment;
- Transfers from mortgage loans held for investment including accrued interest, net to advances, net, and claims receivable, net;
- Transfers from mortgage loans held for investment including accrued interest, net to acquired property, net; and
- Disposal of acquired properties.

Other:

- Reimbursable costs receivable, net; and
- Income (expenses) on acquired property.

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.

Reclassification: Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.

During fiscal year 2017, Ginnie Mae changed presentation of its "Mortgage loans held for investment, net" and "Accrued interest receivable, net" on the Balance Sheets to reflect the balance as a single financial statement line item "Mortgage loans held for investments including accrued interest, net." The change was meant to align presentation with its impairment allowance methodology. The change in presentation resulted in the reclassification of the entire balance of "Accrued interest receivable, net" at September 30, 2017, and $18.6 million (as published in 2016, $85.0 million as restated) at September 30, 2016 to "Mortgage loans held for investment including accrued interest, net," respectively.

The prior period reflects reclassifications to conform to the current year presentation. Such reclassifications had no impact on Total Assets, Results of Operations, and Cash Flows from Operating Activities. See Note 2: Restatement, Non-pooled Loans.

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, 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, valuation of certain financial instruments, such as mortgage servicing rights, 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 mortgage-backed securities program guarantee. Actual results could differ from those estimates.

In September 2017, certain Ginnie Mae and other issuers' properties were impacted by three hurricanes; Harvey, Irma, and Maria. Hurricane Harvey impacted properties located in U.S states of Texas (TX) and Louisiana (LA) while hurricane Irma affected properties mainly located in the states of Florida (FL) and Georgia (GA), with minimal damage to South Carolina (SC) and North Carolina (NC). Hurricane Maria impacted properties located in the U.S. territories of Puerto Rico (PR) and U.S. Virgin Islands (VI).

In the aftermath of these hurricanes, the Federal Emergency Management Agency (FEMA) issued Individuals and Households, Public Assistance, and Hazard Mitigation program declarations for these disasters. In October 2017, subsequent to the date of these financial statements, Ginnie Mae notified issuers of its plans to authorize and issue advances to eligible impacted issuers, who offer relief programs to borrowers affected by the hurricanes. Interest will be levied on advances to issuers until full payment is received to settle the outstanding advances. These advances are expected to be issued monthly, beginning October 2017. The expected period for these advances is 90 days. This arrangement is likely to increase Ginnie Mae's risk of loss if advanced amounts, including accrued interest, are irrecoverable. As of date of issue of these financial statements, a total of $411.0 thousand had been advanced to issuers under this program. Ginnie Mae will assess recoverability of the full balance at the end of each reporting period starting first quarter of fiscal year 2018. See Note 20: Subsequent Events for more information.

Due to close proximity of the hurricanes occurrence to fiscal year 2017 year-end and date of issuance of these financial statements, Ginnie Mae was unable to assess and quantify the impact of the hurricanes. The following financial statement line items are expected to be impacted:

- Claims receivable, net
- Advances, net
- Mortgage loans held for investment including accrued interest, net
- Acquired property, net
- Mortgage servicing rights
- Guaranty asset, and
- Guaranty liability

Accordingly, the fiscal year 2017 financial statements exclude effects of estimated losses or allowances arising directly from the hurricanes impact. See Note 16: Concentrations of Credit Risk for additional details.

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 Treasury. All cash not classified as restricted cash is accessible in the event of an issuer default (defined as any failure or inability of the issuer to perform its responsibilities under the Ginnie Mae MBS programs).

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

Deposits in transit include principal, interest, and other payments held 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 Statements of Revenues and Expenses and Changes in Investment of U.S. Government.

Restricted Cash and Cash Equivalents: Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreement, regulatory requirement, or by Congress are recorded as restricted cash and cash equivalents. Ginnie Mae received approval from the Office of Management and Budget (OMB) to invest restricted cash in U.S. Treasury 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. These amounts were $38.7 million and $49.3 million (estimated) at September 30, 2017 and 2016, respectively. 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 Sheets.

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

Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above due to lack of data at September 30, 2017 and 2016. Accordingly, Ginnie Mae was unable to reclassify such costs as a receivable and record the corresponding allowance. These costs are currently expensed. Management will assess the related financial statement line items for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-pooled Loans.

Accrued Fees and Other Receivables: Ginnie Mae's accrued fees and other receivables primarily include accrued guaranty fees and accrued interest on uninvested funds. Guaranty fees are discussed in Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure. Interest income on uninvested funds is discussed in Note 4: Cash and Cash Equivalents.

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

> ***Short sales claims receivable:*** As an alternative to foreclosure, a property may be sold for 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 always 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, for which the underlying property was sold in a short sale, the FHA, which is the largest insurer for Ginnie Mae, typically pays Ginnie Mae the difference between the proceeds received from the sale and the total contractual amount of the mortgage loan and delinquent interest payments at the debenture rate (less the first two months of delinquent month's interest). Ginnie Mae records a short sale claims receivable while it awaits repayment of this amount from the insuring agencies. Short sales on VA, USDA, and PIH insured loans follow a similar process in which the claims receivable amount is determined in accordance with the respective agency guidelines.

Ginnie Mae will recognize an allowance for uncollectable amounts against short sale claim receivables when it believes the collection of the full receivable is doubtful. This allowance represents the incurred loss within the portfolio and incorporates expected recovery based on the underlying insuring agency guidelines and historical loss experience. The short sales receivable less the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible. Once claims are collected, U.S. GAAP requires Ginnie Mae to charge-off any uncollectable amounts against the allowance for short sale claims receivables.

Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above. Due to lack of required claims receivable data from MSS at September 30, 2017, Ginnie Mae was unable to obtain updated claims receivable balances from the MSS at period end. Refer to Note 10: Claims Receivable for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote and related financial statement line items for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-pooled Loans.

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 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 (P&I) expected to be recovered from the insuring agency. Once the claims receivable is established, Ginnie Mae periodically assesses its collectability by utilizing statistical models and Ginnie Mae's most recent historical loss experience. Ginnie Mae records an allowance for foreclosed property that represents the incurred losses within the portfolio. Foreclosed property less the allowance for foreclosed property is the amount that Ginnie Mae determines to be collectible.

Once losses are confirmed, U.S. GAAP requires Ginnie Mae to charge-off any uncollectable amounts against the allowance.

Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above. Due to lack of required foreclosed property data from MSS at September 30, 2017, Ginnie Mae was unable to obtain updated foreclosed properties balances from the MSS at period end. Refer to Note 10: Claims Receivable for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote and related financial statement line item for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-pooled Loans.

Insurance claims receivable from FHA: These insurance claims are approved FHA claims as of the end of the reporting period. As these are settled claims and are approved collections of cash from FHA, no allowance is recognized.

As of the date of issuing these financial statements, the potential impact of hurricanes Harvey, Irma, and Maria on the claims receivable, net balance was still being assessed by Ginnie Mae. Accordingly, the claims receivable, net balance as of September 30, 2017 excludes effects of these hurricanes.

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 per established insurance rates, Ginnie Mae's collectability experience, and other economic factors.

Once Ginnie Mae purchases loans from the pools, the associated advances are recorded within the appropriate asset class along with the mortgage loan balance.

As of the date of issuing these financial statements, the potential impact of hurricanes Harvey, Irma, and Maria on the advances, net balance was still being assessed by Ginnie Mae. Accordingly, the advances, net balance as of September 30, 2017 excludes effects of these hurricanes.

Mortgage Loans Held for Investment Including Accrued Interest, Net: When a Ginnie Mae issuer defaults, 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 MSS to service these portfolios. There are currently two MSS for defaulted issuers that service the defaulted issuer portfolio (of pooled and non-pooled loans). As of September 30, 2017 and 2016, Mortgage loans held for investment including accrued interest included only single-family loans.

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

As of the date of issuing these financial statements, the potential impact of hurricanes Harvey, Irma, and Maria on the mortgage loans held for investment including accrued interest balance, and related allowance, was still being assessed by Ginnie Mae. Accordingly, the mortgage loans held for investment including accrued interest, net balance as of September 30, 2017 excludes effects of these hurricanes.

Mortgage loans held for investments (HFI): Ginnie Mae has the ability and the intent 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 Sheets 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 decides to sell the loans currently recognized on Ginnie Mae's Balance Sheets, 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, 2017 and 2016, Ginnie Mae had no loans classified as HFS.

Due to lack of required HFI data from MSS at September 30, 2017, Ginnie Mae was unable to obtain updated HFI balances to comply with U.S. GAAP reporting requirements at period end. Refer to Note 9: Mortgage Loans Held for Investment Including Accrued Interest, Net for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote and related financial statement line items for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-pooled Loans.

***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 that it is probable that interest will not be recoverable per insurance guidelines for insured loans and is uncollectable for conventional loans. U.S. GAAP requires Ginnie Mae to have a policy that establishes when a loan is placed on nonaccrual status, the method of recording payments received while a loan is on nonaccrual status, and the criteria for resuming accrual of interest.

Ginnie Mae's policy is to place uninsured loans on nonaccrual status once principal and interest are 90 days or more past due and Ginnie Mae believes collectability of payments is not reasonably assured. While a loan is on nonaccrual, 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 90 days or more past due, they are placed on modified accrual status, whereby interest is accrued at the rate recoverable from the insurer. For the insured loans on modified accrual status, cash receipts are applied in accordance with the principal and interest amortization schedule.

Loans can be returned to accrual status if Ginnie Mae is able to determine that all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period and there is a sustained period of reperformance. If a loan is modified, during the trial modification period, interest income is recognized when cash is received.

Due to lack of data availability at September 30, 2017, Ginnie Mae is unable to fully comply with its policy requirements outlined above. Refer to Note 9: Mortgage Loans Held for Investment Including Accrued Interest, Net for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote and related financial statement line items for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-pooled Loans.

Allowance for loan losses: Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios to determine the estimated uncollectible portion of the recorded investment on the loans when (1) available information 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 Accounting Standards Codification (ASC) 450-20: *Contingencies – Loss Contingencies*), Ginnie Mae establishes the allowance for loan losses and records an allowance against both P&I payments similar to loss contingencies. When Ginnie Mae determines that it is probable a credit loss will occur and that loss can be reasonably estimated, Ginnie Mae recognizes the 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 (FHA, VA, USDA, 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 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.

Ginnie Mae considers a loan to be impaired when, based on current information, it is probable that amounts due, including interest, will not be recovered in accordance with the contractual terms of the loan agreement (pursuant to requirements under ASC: 310-10 *Receivables - Overall*). Ginnie Mae measures impairment based on the present value of expected future cash flows.

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

Due to lack of required data at September 30, 2017, Ginnie Mae was unable to obtain updated fair value of the underlying collateral to fully comply with U.S. GAAP requirements for impaired loans outlined above. Refer to Note 9: Mortgage Loans Held for Investment Including Accrued Interest, Net for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote and related financial statement line items for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-pooled Loans.

Charge-off: U.S. GAAP requires Ginnie Mae to have a policy for the recognition of charge-offs in the period in which losses are confirmed and the loans are deemed uncollectible. Due to lack of loan-level transaction data at September 30, 2017, Ginnie Mae was unable to fully comply with U.S. GAAP. Refer to Note 9: Mortgage Loans Held for Investment Including Accrued Interest, Net for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote and related financial statement line items for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-pooled Loans.

Troubled debt restructuring (TDR)**:** To avoid foreclosure, the MSS, on behalf of Ginnie Mae, may modify loans to help mortgagors who have fallen into financial difficulties with their mortgages. Methods of modifying loans may include offering concessions and restructuring the terms of the loan to alleviate the burden of the mortgagor. Various concessions may be provided 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 a concession 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. Per U.S. GAAP, if foreclosure is probable, Ginnie Mae is required to measure the impairment as the difference between the loan's recorded investment and the fair value of the underlying property, less estimated cost to sell, and adjust for estimated insurance or other proceeds that Ginnie Mae would expect to receive, consistent with the measurement of impairment on impaired loans per ASC 310.

Ginnie Mae is unable to fully comply with U.S. GAAP requirements outlined above, due to lack of required loan data from MSS at September 30, 2017. Refer to Note 9: Mortgage Loans Held for Investment Including Accrued Interest, Net for further details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote and related financial statement line items for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-pooled Loans.

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

For the loans insured by the FHA, which is Ginnie Mae's largest insurer, Ginnie Mae expects to collect the full amount of the UPB and debenture rate interest (only for months allowed in the insuring agency's timeline), when the insuring agency reimburses Ginnie Mae subsequent to filing a claim. 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.

Due to lack of required data from MSS at September 30, 2017, Ginnie Mae was unable to apply PCI guidance to fully comply with U.S. GAAP requirements outlined above. Refer to Note 9: Mortgage Loans Held for Investment Including Accrued Interest, Net for details on Ginnie Mae's current practice.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote and related financial statement line items for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-pooled Loans.

As of the date of issuing these financial statements, the potential impact of hurricanes Harvey, Irma, and Maria on the Mortgage loans held for investment including accrued interest and related allowance was still being assessed by Ginnie Mae. Accordingly, the Mortgage loans held for investment including accrued interest, net balance as of September 30, 2017 excludes effects of these hurricanes.

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 agencies and Ginnie Mae will hold the title while the properties are being marketed for sale by the MSS.

U.S. GAAP requires acquired property to be initially measured at its fair value, net of estimated costs to sell. At acquisition, a loss is required to be charged-off against the allowance for loan 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 required to be recognized first to recover any forgone, contractually due P&I, and should be recognized in income (expense) on acquired property in the Statements of Revenue and Expenses and Changes in Investment of U.S. Government.

U.S. GAAP requires acquired property to be subsequently measured 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) should be recognized through a valuation allowance with an offsetting charge to income (expense) on acquired property. Any subsequent increase in fair value, net of estimated costs to sell, up to the cumulative loss previously recognized through the valuation allowance should be recognized in income (expense) on acquired property in the Statements of Revenue and Expenses and Changes in Investment of U.S. Government.

U.S. GAAP requires Ginnie Mae to record 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 agency. These gains and losses should be recognized through income (expense) on acquired property on the Statements of Revenues and Expenses and Changes in Investment of U.S. Government.

U.S. GAAP requires subsequent material development and improvement costs for acquired property to be capitalized. Other post-foreclosure costs should be expensed as incurred to income (expense) on acquired property on the Statements of Revenues and Expenses and Changes in Investment of U.S. Government.

Due to lack of data at September 30, 2017, Ginnie Mae was unable to obtain updated property fair values from the MSS to fully comply with U.S. GAAP requirements outlined above. Refer to Note 11: Acquired Property, Net for details on Ginnie Mae's current practices.

Ginnie Mae is refining its loan level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote and related financial statement line items for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-pooled Loans.

Some of Ginnie Mae's acquired properties are located in hurricane impact areas, whose condition had not yet been assessed as of date when these financial statements were issued due to close proximity of the hurricanes occurrence to fiscal year 2017 year-end and date of issuance of these financial statements. Accordingly, the potential impact of hurricanes Harvey, Irma, and Maria on the acquired properties, net balance is excluded from the balance as of September 30, 2017. See Note 16: Concentrations of Credit Risk for additional details.

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 985-20: *Software - Costs of Software to Be Sold, Leased, or Marketed* if the software is to be sold, leased or otherwise marketed, or 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 (for software to be marketed), or at the beginning of application development (for internal-use software), 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 commencing on the date placed in service (for internal use software). Ginnie Mae did not develop software to be marketed in either 2017 or 2016.

Ginnie Mae amortizes its fixed 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 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 13: 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 Statements of Revenues and Expenses and Changes in Investment of U.S. Government and related cash flows classified as operating activities). The fair value option was elected by Ginnie Mae for the guaranty asset. Refer to Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure for further details.

Mortgage Servicing Rights: Mortgage servicing rights (MSR) represent Ginnie Mae's rights and obligations to service mortgage loans underlying a defaulted issuer's entire Ginnie Mae guaranteed pooled-loan portfolio. Ginnie Mae contracts with multiple MSS to provide the servicing of its pooled mortgage loans. The servicing functions typically performed by Ginnie Mae's MSS include: collecting and remitting loan payments, responding to mortgagor inquiries, accounting for P&I, holding custodial funds for payment of property taxes and insurance premiums, counseling delinquent mortgagors, supervising foreclosures and property dispositions, and generally administering the loans. Ginnie Mae receives a monthly servicing fee based on the remaining UPBs of the loans. These servicing fees are included in and collected from payments made by the mortgagor. 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 defaulted issuer's Ginnie Mae guaranteed pooled-loan portfolio. The MSR assets (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 ultimately realized from the disposition of the MSR asset or the settlement of a future MSR liability as Ginnie Mae does not intend to hold its MSRs long term. 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 defaulted issuers' portfolio including credit losses. The discount rate is used to estimate the present value of the projected cash flows in order to estimate the fair value of the MSR. The discount rate assumptions reflect the market's required rate of return adjusted for the relative risk of the asset type. Upon acquisition, Ginnie Mae measures its MSR at fair value and subsequently re-measures the MSR assets or liabilities with changes in the fair value recorded in the Statements of Revenues and Expenses and Changes in Investment of U.S. Government. During 2016, Ginnie Mae sold the MSR assets for its then defaulted Issuer portfolio with the intent of reducing exposure to interest rate movements and credit losses.

As of the date of issuing these financial statements, the potential impact of hurricanes Harvey, Irma, and Maria on the MSR balance was still being assessed by Ginnie Mae. Accordingly, the MSR balance as of September 30, 2017 excludes effects of these hurricanes.

Financial Guarantees: Ginnie Mae's financial guarantee obligates Ginnie Mae to stand ready, over the term of the guarantee 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 guarantee obligation. In the event that, at the inception of the guarantee, Ginnie Mae is required to recognize a contingent liability under ASC 450, the liability to be initially recognized for that guarantee shall be the greater of the non-contingent guarantee liability determined under ASC 460, or the contingent liability determined in accordance with ASC 450. It is unusual at the inception of the guarantee for the contingent liability amount to exceed the non-contingent amount.

At inception of the guarantee, Ginnie Mae recognizes the guaranty obligation at fair value. When measuring the guarantee 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 experience, and default rates.

Additionally, as the guarantee 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 UPB of the guaranteed MBSs outstanding in the guaranteed portfolio 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.

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 Sheets.

Other: Includes payables for fees incurred in the acquisition of services provided by MSSs and third-party vendors and unclaimed securities holders' payments for non-pooled assets. 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 year-end.

Deferred Revenue and Liabilities: 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 performance obligation is fulfilled.

Cash collected that would have to be returned is classified as deferred liability. This includes unapplied deposits and cash received but transferred back to MSS for pass through to investors.

Liability for Loss on Mortgage-Backed Securities Program Guaranty: U.S. GAAP requires Ginnie Mae to recognize a loss contingency that arises from the guaranty obligation that Ginnie Mae has to the MBS holders as a result of a probable issuer and/or loan default. The issuers have the obligation to make timely P&I payments to MBS certificate holders, however, if an issuer and/or loan defaults, Ginnie Mae ensures the contractual payments to MBS certificate holders are made. The contingent aspect of the guaranty obligation is measured initially and in subsequent periods under ASC 450-20: *Contingencies – Loss Contingencies*.

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

Ginnie Mae is unable to fully comply with U.S. GAAP requirements for multifamily loans. Refer to Note 15: Reserve for Loss for details on Ginnie Mae's current practice. Ginnie Mae is refining its liability for loss on multifamily loans to comply with U.S. GAAP. Management will assess the information presented within this footnote and related financial statement line items for restatement in fiscal year 2018.

Due to close proximity of the hurricanes occurrence to fiscal year 2017 year-end and date of issuance of these financial statements, Ginnie Mae was unable to assess and quantify the impact of the hurricane on the liability for loss on MBS program. Ginnie Mae is still gathering data necessary to assess the impact of the hurricanes on Ginnie Mae's financial statements. Accordingly, the liability balance excludes effects of these hurricanes as of September 30, 2017.

Liability for Representations and Warranties (Repurchase Liability): Ginnie Mae may enter into business transactions and agreements, such as the sale of a 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.

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

- Interest income on mortgage loans HFI – 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. In addition, Ginnie Mae earns interest on the uninvested funds, held in the Financing Fund, which is based on the credit subsidy rate determined in the Credit Subsidy Calculator 2 (CSC2) provided by the OMB.

- Income on guaranty obligation – Ginnie Mae amortizes its guaranty obligation into revenues based on the change in the UPB of loans relative to their original liability.

- MBS guaranty fees – Ginnie Mae receives monthly guarantee 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 recognized as income and are not returned to issuers.

- Multiclass fees – Ginnie Mae receives one-time upfront fees related to the issuance of multiclass products. Multiclass products include REMICs and Platinum Certificates. The fees received for REMICs consists of guarantee fee and modification and exchange (MX) Combination fee. The guarantee 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 guarantee 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 on capitalized software acquired, leased, and in-use, by Ginnie Mae. Fixed assets is 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 expense 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 guarantee 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 guarantee, Ginnie Mae does not provide, nor is it required to provide, any type of financial or other support to these entities. The guaranty fee receivable represents compensation for taking on the risk of providing the guarantee 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, USDA, and PIH.

The following table presents assets and liabilities that relate to Ginnie Mae's interest in VIEs at September 30, 2017 and 2016:

	September 30,			
	2017		2016	
	(Dollars in thousands)			
Guaranty asset	$	8,256,092	$	6,397,614
Guaranty fee receivable		98,000		87,000
Total	**$**	**8,354,092**	**$**	**6,484,614**
Guaranty liability	$	7,014,376	$	6,198,353
Maximum exposure to loss:				
Outstanding MBS securities	$	1,884,163,811	$	1,728,091,577
Outstanding MBS commitments		120,883,790		95,578,409
Total	**$**	**2,005,047,601**	**$**	**1,823,669,986**

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

Recently Adopted Accounting Pronouncements

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*	• Editorial and minor changes were made to the standards that are not expected to affect current accounting practice or result in any significant costs.	Effective immediately upon issuance. Adoption: N/A. No Adoption was required, as the updates to the standards were editorial and meant to improve readability.	There was no impact on the financial statements as the updates to the standards were editorial and meant to improve readability.

Notes to Financial Statements *(continued)*

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
Amendments to Topic 825, Financial Instruments, Subtopic 310-40, Receivables—Troubled Debt Restructurings			
Technical Corrections and Improvements (ASU 2016-19) *Issued December 2016* Amendment to Subtopic 860-20, Transfers and Servicing—Sales of Financial Assets,	• Aligns implementation guidance in paragraph 860-20-55-41 with its corresponding guidance in paragraph 860-20-25-11. • Amendment clarifies the considerations that should be included in an analysis to determine whether a transferor once again has effective control over transferred financial assets.	Effective immediately and prospectively. No adoption required, as Ginnie Mae has always taken into account clarified considerations to determine whether a transferor gained effective control over transferred financial assets.	There was no impact on Ginnie Mae's financial statements as it has always taken into account clarified considerations to determine whether a transferor gained effective control over transferred financial assets
Going concern (ASU 2014-15) *Issued August 2014*	• Guidance requires management of all entities to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued (or available to be issued when applicable). • Management will be required to make this evaluation for both annual and interim reporting periods, if applicable. • Management will have to make certain disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the entity's ability to continue as a going concern. • The assessment will be similar to the one auditors perform under auditing standards.	Effective September 2017. Adopted in June 2017.	Ginnie Mae performed, and continues to monitor, the going concern assessment and concluded that there is no substantial doubt about Ginnie Mae's ability to continue as a going concern.

Recent Accounting Pronouncements Not Yet Adopted

Any Accounting Standard Updates (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
Consolidation (ASU 2015-02) *Issued February 2015*	• The guidance removes the specialized consolidation model relating to limited partnerships and similar entities. • The guidance also eliminates certain of the conditions for evaluating whether fees paid to a decision maker or service provider represent a variable interest.	Effective October 2017.	Ginnie Mae is currently evaluating the potential impact on its financial statements.
Consolidation – Interests held through related parties under common control (ASU 2016-17) *Issued October 2016*	• A single decision maker evaluating whether it is the primary beneficiary of a variable interest entity will consider its indirect interests held by related parties that are under common control on a proportionate basis. • Under the guidance the FASB issued last year, the decision maker had to consider those interests in their entirety. • The new guidance could change consolidation conclusions for entities that have already adopted last year's amendments to the consolidation guidance when a decision maker and its related parties holding an interest in the VIE are under common control.	Effective October 2017.	Ginnie Mae is currently evaluating the potential impact on its financial statements.
Technical Corrections and Improvements (ASU 2016-19) *Issued December 2016*	• Clarifies the difference between a *valuation approach* and a *valuation technique* when applying the guidance in that Topic. • Amendment also requires an entity to disclose when there has been a change in either or both a *valuation approach* and/or a *valuation technique*.	Effective October 2017.	Ginnie Mae is currently evaluating the potential impact on its financial statements.

Notes to Financial Statements *(continued)*

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
The amendment to Topic 820, Fair Value Measurement			
Technical Corrections and Improvements (ASU 2016-19) *Issued December 2016* Amendment to Subtopic 860-50, Transfers and Servicing—Servicing Assets and Liabilities	• Adds guidance that existed in AICPA Statement of 5 Position 01-6, *Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others,* on the accounting for the sale of servicing rights when the transferor retains loans that was omitted from the Accounting Standards Codification.	Effective October 2017.	Ginnie Mae is currently evaluating the potential impact on its 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 that is within the scope of Subtopic 350-40. • A software license within the scope of this Subtopic (internal-use software, proceeds of computer software developed or obtained for internal use that is marketed, new internal-use software developed or obtained that replaces previously existing internal-use software, computer software that consists of more than one component or module) 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.	Ginnie Mae is currently evaluating the potential impact on its financial statements.

Notes to Financial Statements *(continued)*

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.	Ginnie Mae is currently evaluating the potential impact on its 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.	Ginnie Mae is currently evaluating the potential impact on its 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.	Ginnie Mae is currently evaluating the potential impact on its financial statements.
Financial Instruments – Recognition and Measurement of Financial Assets and	• The guidance will require entities to measure equity investments that do not result in consolidation and are not accounted for under the equity	Effective October 2019.	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 Liabilities (ASU 2016-01) *Issued January 2016*	method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. • The standard doesn't change the guidance for classifying and measuring investments in debt securities and loans. • Entities will have to record changes in instrument-specific credit risk for financial liabilities measured under the fair value option in other comprehensive income.		
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.	Ginnie Mae is currently evaluating the potential impact on its financial statements.
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	Effective October 2019.	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**
	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 o Beneficial interests in securitization transactions		
Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (ASU 2017-05) *Issued February 2017*	• The guidance clarifies the 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. • The ASU applies to nonfinancial assets, including real estate (e.g., buildings, land, windmills, solar farms), 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.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Leases (ASU 2016-02) *Issued February 2016*	• The guidance requires lessees to put most leases on their balance sheets 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. • 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 what lessors record on the balance sheet.	Effective October 2020.	Ginnie Mae is currently evaluating the potential impact on its financial statements.
Financial Instruments – Credit Losses (ASU 2016-13) *Issued June 2016*	• The guidance changes the impairment model for most financial assets and certain other instruments. Virtually all entities will be affected. • 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 will result 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	Effective October 2021.	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
	credit quality by year of origination for most financing receivables.		

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

Note 4: Cash and Cash Equivalents

Cash and cash equivalents consist of funds with U.S. Treasury, deposits in transit, and U.S. Treasury short-term investments. Cash and cash equivalents – unrestricted and restricted – include the following at September 30, 2017 and 2016:

	September 30, 2017		
	Unrestricted	Restricted	Total
	(Dollars in thousands)		
Funds with U.S. Treasury[(1)]	$ 1,697,167	$ 634,828	$ 2,331,995
Deposit in Transit:			
Cash held by MSS[(2)]	35,887	-	35,887
Cash held by Trustee and Administrator of securities[(3)]	4,352	-	4,352
U.S. Treasury short-term investments[(4)]	17,252,285	23,699	17,275,984
Total	**$ 18,989,691**	**$ 658,527**	**$ 19,648,218**

	September 30, 2016		
	Unrestricted	Restricted	Total
	(Dollars in thousands)		
Funds with U.S. Treasury[(1)]	$ 856,358	$ 522,983	$ 1,379,341
Deposit in Transit:			
Cash held by MSS[(2)]	51,463	-	51,463
Cash held by Trustee and Administrator of securities[(3)]	8,213	-	8,213
U.S. Treasury short-term investments[(4)]	15,930,091	23,623	15,953,714
Total	**$ 16,846,125**	**$ 546,606**	**$ 17,392,731**

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 Treasury. Cash held by Treasury represents the available budget spending authority of Ginnie Mae (obligated and unobligated balances available to finance allowable expenditures). The restricted balances represent amounts restricted for use for specific purposes. Ginnie Mae earns interest on uninvested funds based on the Federal Credit Reform Act of 1990. Uninvested funds in the Financing Fund consist of Funds with U.S. Treasury and/or offsetting collections that have not been disbursed. Interest income is calculated using the current version of the CSC2 provided by the OMB.

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 has the ability to invest in overnight U.S. Government securities. As a result of the OMB approval, Ginnie Mae invested the full balance of the Capital Reserve Fund approximately $17.1 billion and $15.8 billion, and the Liquidating Fund approximately $152.3 million and $151.2 million at September 30, 2017 and 2016, respectively, in overnight U.S. Government securities. At September 30, 2017 and 2016, Ginnie Mae only held overnight certificates. The U.S. Treasury short-term investments balance includes a $23.7 million and $23.6 million of restricted cash related to unclaimed MBS security holder payments, at September 30, 2017 and 2016, respectively. U.S. Treasury securities are carried at cost, which approximates fair value.

Note 5: Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represent monies that are restricted to the withdrawal or usage for certain activities. 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.

- Collections precluded from obligation: Unobligated money within the Programs Fund balance that is restricted by Congress and cannot be utilized unless there is approval by the legislative body.

The balance of restricted cash and cash equivalents at September 30, 2017 and 2016 were as follows:

	September 30, 2017	September 30, 2016
	(Dollars in thousands)	
Unclaimed security holder payments	$ 23,699	$ 23,623
Unapplied deposits	335	334
Collections precluded from obligation	634,493	522,649
Total	**$ 658,527**	**$ 546,606**

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

Ginnie Mae receives a guarantee fee from issuers, which is calculated based on the UPB of outstanding MBS in the defaulted and non-defaulted issuers' pooled portfolio. This guaranty fee represents compensation for guaranteeing the timely payment of P&I to the MBS certificate holders in the event of issuer's 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 these guaranty fees. The guaranty asset recognized on the Balance Sheets is $8.3 billion and $6.4 billion at September 30, 2017 and 2016, respectively. 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 Sheets is $7.0 billion and $6.2 billion at September 30, 2017 and 2016, respectively. 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 related financial asset (using projected economic exposures such as interest rates and prepayments) and financial liability (using actual payoffs and paydowns). Refer to Note 12: Fair Value Measurement for discussion surrounding the volatility reflected in the Statements of Revenues and Expenses and Changes in Investment of U.S. Government as a result of changes in assumptions used in estimating the fair value of the guaranty asset.

For the guaranty asset and guaranty liability recognized on the Balance Sheets, 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, 2017 and 2016, the UPB of Ginnie Mae's MBS securities amounted to $1.9 trillion and $1.7 trillion, respectively. 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 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. As a result of the structure of the securities, Ginnie Mae bears no interest rate risk. 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 on the liability for loss on mortgage backed securities guaranty program line item on the Balance Sheets, or considered reasonably possible of default as disclosed in Note 15: Reserve for Loss. Generally, terms of the guarantee range from 15 to 30 years, with a maximum term capped at 40 years. Refer to Note 15: 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 Sheets. 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 commitments due in part to Ginnie Mae's ability to limit commitment authority granted to individual MBS issuers. Outstanding MBS and commitments were as follows:

	September 30,	
	2017	**2016**
	(Dollars in billions)	
Outstanding MBS securities	$ 1,884	$ 1,728
Outstanding MBS commitments	121	96
Total	**$ 2,005**	**$ 1,824**

If all outstanding MBS commitments were utilized, Ginnie Mae's corresponding guaranty obligation at fair value, would not exceed $568.2 million and $352.8 million at September 30, 2017 and 2016, respectively.

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 restructured 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 fiscal years ended September 30, 2017 and 2016, multiclass security program issuances totaled $88.4 billion and $102.5 billion, respectively. The estimated outstanding balance of multiclass securities included in the outstanding MBS balance was $466.6 billion and $473.2 billion at September 30, 2017 and 2016, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Note 7: Mortgage Servicing Rights

The following table presents the MSR activities for the fiscal years ended September 30, 2017 and 2016:

	For fiscal years ended September 30,	
	2017	2016
	(Dollars in thousands)	
Beginning balance, October 1	$ 35	$ 29,644
Additions	-	35
Dispositions	-	(25,527)
Loss on disposition of MSR	-	(324)
Changes in fair value due to:		
Changes in valuation inputs or assumptions used in valuation model	(83)	(3,793)
Other changes in fair value	-	-
Ending balance, September 30	**$ (48)**	**$ 35**

During fiscal year 2016, Ginnie Mae sold all its MSR to its MSS for $25.5 million, which resulted in a loss of $0.3 million. As part of the sale, Ginnie Mae transferred, conveyed, and assigned all servicing rights, advances, custodial funds and escrow funds to the buyer. The transaction was accounted for as a sale of non-financial assets as legal title and substantially all risks and rewards of ownership irrevocably passed to its MSS. Ginnie Mae agreed to reimburse the purchaser for any actual losses resulting from inaccuracy of any representation or warranty or from any missing or defective loan documents, as well as repurchase any uninsured mortgage loans identified by the purchaser after the sale, through to January 1, 2019. At September 30, 2017, there was no liability for representations and warranties related to the MSR sale.

Subsequent to MSR sale, Ginnie Mae assumed the servicing rights and obligations of a defaulted issuer and recorded a MSR asset valued at approximately $35.0 thousand at September 30, 2016. The servicing rights and obligations are recorded as a MSR liability of approximately $48.0 thousand at September 30, 2017. As of September 30, 2017 and 2016, the UPB of the MSR for the total portfolio was $12.6 million and $15.2 million, respectively.

The following table presents net servicing expenses, which are included in Mortgage backed securities program and other expenses, for the fiscal years ended September 30, 2017 and 2016:

	For fiscal years ended September 30,			
	2017		2016	
	(Dollars in thousands)			
Servicing fee income	$	43	$	3,694
Servicing expenses[1]		(17,741)		(30,602)
Servicing expenses, net	**$**	**(17,698)**	**$**	**(26,908)**

[1] *The servicing expenses are related to both pooled loans and non-pooled loans.*

Due to close proximity of the hurricanes occurrence to fiscal year 2017 year-end and date of issuance of these financial statements, Ginnie Mae was unable to assess and quantify the impact of the hurricanes on the MSR balance. As of date when these financial statements were issued, Ginnie Mae is still gathering data necessary to assess the impact of the hurricanes on Ginnie Mae's financial statements. Accordingly, the MSR balance excludes effects of these hurricanes as of September 30, 2017.

Note 8: Advances, Net

Advances include payments made to MSS to cover any shortfalls to investors resulting from mortgagors defaulting on their mortgage payments and to active issuers under special assistance programs of which Ginnie Mae may assist issuer(s) with pass through payments to investors if issuer has a qualifying portfolio. Advances are reported net of an allowance, which is based on management's expectations of future collections from mortgagors, or recoverability from third-party insurers such as FHA.

Effective January 1, 2016, Ginnie Mae sold the MSR of its outstanding defaulted issuer portfolios of approximately $4.0 billion in UPB to its MSS. As part of the MSR sale, Ginnie Mae received a cash settlement from the MSS in March 2016 for the outstanding advance balances. Ginnie Mae wrote off the remaining carrying balance of advances in accordance with U.S. GAAP. The rights and responsibilities of future collections of P&I and other expenses for these defaulted issuer portfolios transferred to the MSS upon the completion of the sale. Refer to Note 7: MSR for further discussion on MSR sale.

In March 2016, a Ginnie Mae issuer defaulted and Ginnie Mae executed a purchase and sales agreement (PSA) with an approved issuer to sell the assumed MSR. Concurrent with the sale of the MSR, the defaulted issuer had a custodial fund balance of $20.9 million that was designated to fund the pass-through payments to the MBS certificate holders which, due to pending bankruptcy proceedings of the defaulted issuer, was not released to Ginnie Mae. To ensure timely pass-through payments due to the MBS certificate holders, Ginnie Mae advanced the amount held in the unreleased custodial funds account to the new issuer. Ginnie Mae received $20.9 million that was previously held in bankruptcy during fiscal year 2017.

In September 2016, a Ginnie Mae issuer defaulted and Ginnie Mae assumed the servicing rights and obligations of the defaulted issuer. Ginnie Mae advanced funds to the MSS throughout 2017 to cover P&I not yet paid by mortgagors, but due to the MBS investors.

The net carrying value of advances balance is $38.0 thousand and $20.9 million at September 30, 2017 and 2016, respectively, as disclosed in the table below:

	September 30,			
	2017		2016 (Restated)	
	(Dollars in thousands)			
Advances	$	53	$	20,914
Allowance for Uncollectible Advances		(15)		-
Advances, net	**$**	**38**	**$**	**20,914**

Changes in the allowance for advances for the fiscal years ended September 30, 2017 and 2016 are presented below:

	For fiscal years ended September 30,			
	2017		2016 (Restated)	
	(Dollars in thousands)			
Beginning balance, October 1	$	-	$	(153,699)
Recapture (provision) for uncollectible advances		(15)		(76,386)
Charge-offs		-		230,986
Recoveries		-		(901)
Ending balance, September 30	**$**	**(15)**	**$**	**-**

Due to close proximity of the hurricanes occurrence to fiscal year 2017 year-end and date of issuance of these financial statements, Ginnie Mae was unable to assess and quantify the impact of the hurricane on the advances, net. Ginnie Mae is still gathering data necessary to assess the impact of the hurricanes on Ginnie Mae's financial statements. Accordingly, the advances, net balance excludes effects of these hurricanes as of September 30, 2017. See Note 16: Concentrations of Credit Risk for additional details.

Note 9: Mortgage Loans Held for Investment Including Accrued Interest, Net

Upon Ginnie Mae issuers default, Ginnie Mae steps into the role of the issuer and makes payments of principal and interest (P&I) to its MBS certificate holders, and subsequently, assumes the servicing rights and obligations of the defaulted issuer's entire guaranteed pooled loan portfolio. If a mortgagor is delinquent for more than 90 days, Ginnie Mae may purchase the delinquent loan out of the pool. Additionally, Ginnie Mae must purchase loans out of the pool if they are uninsured by the FHA, USDA, VA, or PIH[1] or were modified.

Upon acquisition, Ginnie Mae classifies a loan as either HFS or HFI. At September 30, 2017 and 2016, Ginnie Mae's loan portfolio did not include any HFS loans. The HFI portfolio consists of loans purchased from defaulted issuers' pools, and reports the carrying value of HFI loans at the recorded investment of mortgage loan, which represents the UPB along with accrued interest, net of cost basis adjustments, and net of allowance for loan losses including allowance for accrued interest receivable.

These HFI loans are periodically evaluated for impairment in accordance with guidance in ASC 450-20: *Contingencies – Loss Contingencies* or ASC 310-10-35: *Receivables - Overall*. Ginnie Mae's credit risk exposure on its HFI mortgage loans portfolio is limited by the underlying insurance on loans, which may include FHA, USDA, VA, and PIH.

For the fiscal years ended September 30, 2017 and 2016, Ginnie Mae purchased $479.0 thousand and $10.9 million of mortgage loans held for investment including accrued interest, respectively, out of the MBS pools from defaulted issuers.

Due to the data limitation, Ginnie Mae is unable to identify the correct HFI loan population to comply with U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies and Practices for U.S. GAAP requirements.

Regarding accrued interest, Ginnie Mae's current practice is to recognize interest income at the contractual rate and to record an allowance to the extent that it is probable that interest will not be received.

Due to data limitations, Ginnie Mae is unable to appropriately record interest on FHA-insured delinquent loans at the debenture rate, or rate per relevant insuring agency guidelines, as applicable, and place uninsured loans on non-accrual. Therefore, accrued interest is not reported in accordance with U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies and Practices for U.S. GAAP requirements.

[1] *Ginnie Mae did not have any mortgage loans insured by PIH at September 30, 2017 and 2016. However, PIH-insured mortgage loans may exist within MBS pools.*

Notes to Financial Statements *(continued)*

The tables below presents the carrying value of mortgage loans held for investment including accrued interest broken down by underlying insurance agencies at September 30, 2017 and 2016:

	September 30, 2017				
	Conventional	FHA	VA (Dollars in thousands)	USDA	Total
Mortgage loans held for investment UPB	$ 186,667	$ 2,859,731	$ 164,507	$ 64,899	$ 3,275,804
Accrued interest receivable	6,160	107,452	10,938	3,936	128,486
Allowance for loan losses	(38,882)	(197,548)	(25,106)	(11,779)	(273,315)
Total mortgage loans held for investment including accrued interest, net	**$ 153,945**	**$ 2,769,635**	**$ 150,339**	**$ 57,056**	**$ 3,130,975**

	September 30, 2016				
	Conventional	FHA	VA (Dollars in thousands)	USDA	Total
Mortgage loans held for investment UPB	$ 220,790	$ 3,356,163	$ 222,469	$ 83,666	$ 3,883,088
Accrued interest receivable	7,507	174,841	18,564	6,395	207,307
Allowance for loan losses	(46,962)	(286,866)	(39,545)	(17,273)	(390,646)
Total mortgage loans held for investment including accrued interest, net	**$ 181,335**	**$ 3,244,138**	**$ 201,488**	**$ 72,788**	**$ 3,699,749**

Refer to Note 2: Restatement, Non-Pooled Loans for details on restatement of mortgage loans held for investment including accrued interest, net.

Credit Quality Indicators

When estimating defaults, prepayments and recovery, Ginnie Mae considers a number of indicators including macro-economic factors such as interest rates, home price indices, and unemployment rates. In addition, Ginnie Mae considers a number of credit quality indicators such as loan-to-value (LTV) ratios, current delinquency status, and recent payment history over the past twelve months.

The following tables present the UPB for mortgage loans by estimated current LTV[3] ratio at September 30, 2017 and 2016, respectively:

	September 30, 2017			
	Less than 80%	80-100% (Dollars in thousands)	Greater than 100%	Total
Conventional	$ 157,953	$ 22,696	$ 6,018	$ 186,667
FHA	2,104,470	647,259	108,002	2,859,731
VA	107,554	43,217	13,736	164,507
USDA	43,860	16,718	4,321	64,899
Total UPB of loans HFI	**$ 2,413,837**	**$ 729,890**	**$ 132,077**	**$ 3,275,804**

	September 30, 2016							
		Less than 80%		80-100%		Greater than 100%		Total
				(Dollars in thousands)				
Conventional	$	154,506	$	56,306	$	9,978	$	220,790
FHA		1,790,274		1,248,408		317,481		3,356,163
VA		110,693		83,873		27,903		222,469
USDA		37,260		38,522		7,884		83,666
Total UPB of loans HFI	**$**	**2,092,733**	**$**	**1,427,109**	**$**	**363,246**	**$**	**3,883,088**

Impaired Loans

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

- TDR loans
- PCI loans

Ginnie Mae measures impairment based on the present value of expected future cash flows. Due to data limitations, Ginnie Mae is unable to identify the correct TDR loan population, and thus is not compliant with U.S. GAAP. Additionally, Ginnie Mae has historically never fully applied the PCI guidance, primarily due to the constraints in obtaining fair values for initial measurement of PCI loans. Thus, PCI loan balances are not reported in compliance with U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies for U.S. GAAP requirements.

The table below presents the recorded investment[2] and the UPB of impaired mortgage loans at September 30, 2017 and 2016:

	September 30, 2017						
	Number of Loans		Recorded Investment		Related Allowance		Unpaid Principal Balance
			(Dollars in thousands)				
Conventional	739	$	109,877	$	35,237	$	105,492
FHA	17,120		2,360,855		113,455		2,324,172
VA	987		175,445		25,107		164,507
USDA	590		68,836		11,780		64,899
Total	**19,436**	**$**	**2,715,013**	**$**	**185,579**	**$**	**2,659,070**

[2] *Recorded investment represents the total UPB along with accrued interest for mortgage loans held for investment.*

	September 30, 2016						
	Number of Loans		Recorded Investment		Related Allowance		Unpaid Principal Balance
			(Dollars in thousands)				
Conventional	799	$	122,421	$	41,744	$	116,956
FHA	18,127		2,553,796		137,209		2,511,179
VA	1,305		241,033		39,545		222,469
USDA	757		90,061		17,273		83,666
Total	**20,988**	**$**	**3,007,311**	**$**	**235,771**	**$**	**2,934,270**

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

Management will assess the related financial statement line items and disclosures for restatement in future fiscal years. Refer to Note 2: Restatement, Non-Pooled Loans.

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.

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

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

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

Notes to Financial Statements *(continued)*

The following table presents the recorded investment in loans modified in a TDR at September 30, 2017 and 2016:

	September 30, 2017			
	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
		(Dollars in thousands)		
Conventional	410	$ 64,430	$ 19,112	$ 63,358
FHA	17,120	2,360,855	113,455	2,324,172
VA	612	113,133	8,383	110,795
USDA	252	32,527	3,419	31,746
Total TDRs	**18,394**	**$ 2,570,945**	**$ 144,369**	**$ 2,530,071**

	September 30, 2016			
	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
		(Dollars in thousands)		
Conventional	414	$ 65,555	$ 19,957	$ 64,476
FHA	18,127	2,553,796	137,209	2,511,179
VA	704	133,129	11,710	129,630
USDA	276	35,490	3,649	34,689
Total TDRs	**19,521**	**$ 2,787,970**	**$ 172,525**	**$ 2,739,974**

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

The table below presents the total recorded investment at September 30, 2017 and 2016 for the loans that entered a TDR in the preceding 12 months and for which there was a payment default during the period:

	September 30, 2017		September 30, 2016	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
		(Dollars in thousands)		
Conventional	14	$ 2,503	15	$ 3,476
FHA	494	69,876	461	70,693
VA	28	5,840	23	4,983
USDA	22	3,291	11	1,579
Total	**558**	**$ 81,510**	**510**	**$ 80,731**

Management will assess the related financial statement line items and disclosures for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-Pooled Loans.

Purchased Credit-Impaired Loans

Upon acquisition, if the purchased loan is delinquent and uninsured, or insured by VA, USDA, 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 due to data and infrastructure constraints. Currently, upon acquisition, the PCI loans are recorded at UPB, 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 insured acquired loans as PCI because the UPB and the majority of the delinquent accrued interest are deemed collectible per the FHA insurance reimbursement guidelines. The FHA insurance is inseparable from the underlying loan and remains with the loan upon transfer or disposition.

The tables below presents the recorded investment and the UPB of PCI mortgage loans at September 30, 2017 and 2016:

	At September 30, 2017			
	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
		(Dollars in Thousands)		
Conventional	329	$ 45,447	$ 16,125	$ 42,134
VA	375	62,312	16,724	53,712
USDA	338	36,309	8,361	33,153
Total	**1,042**	**$ 144,068**	**$ 41,210**	**$ 128,999**

	September 30, 2016			
	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
		(Dollars in Thousands)		
Conventional	385	$ 56,866	$ 21,787	$ 52,480
VA	601	107,904	27,835	92,839
USDA	481	54,571	13,624	48,977
Total	**1,467**	**$ 219,341**	**$ 63,246**	**$ 194,296**

For the fiscal year ended September 30, 2017, there were no purchases of loans classified as PCI.

Notes to Financial Statements *(continued)*

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

	September 30, 2016			
	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
	(Dollars in thousands)			
Conventional	3	$ 252	$ 73	$ 249
VA	16	1,694	47	1,687
USDA	-	-	-	-
Total PCI	**19**	**$ 1,946**	**$ 120**	**$ 1,936**

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

Management will assess the related financial statement line items and disclosures for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-Pooled Loans.

Non-accrual Loans

Ginnie Mae's current practice is to recognize interest income at the full contractual rate on all mortgage loans regardless of delinquency status. Ginnie Mae records an allowance if it is probable that the interest will not be fully collectible. Therefore, a process for placing loans on non-accrual status does not currently exist, thus Ginnie Mae does not comply with U.S. GAAP requirements for placing loans on non-accrual status. Refer to Note 3: Summary of Significant Accounting Policies and Practices for U.S. GAAP requirements.

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

	September 30, 2017							
	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
	(Dollars in thousands)							
Conventional	$21,660	$3,966	$2,808	$34,395	$62,829	$129,998	$192,827	$ 34,395
FHA	429,148	123,044	51,781	711,236	1,315,209	1,651,974	2,967,183	711,236
VA	20,197	7,672	4,708	70,134	102,711	72,734	175,445	70,134
USDA	9,963	4,431	1,811	25,039	41,244	27,591	68,835	25,039
Total	**$480,968**	**$139,113**	**$61,108**	**$840,804**	**$1,521,993**	**$1,882,297**	**$3,404,290**	**$840,804**

	September 30, 2016							
	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
	(Dollars in thousands)							
Conventional	$19,103	$5,662	$3,245	$45,253	$73,263	$155,034	$228,297	$45,253
FHA	417,538	125,919	58,472	1,137,494	1,739,423	1,791,581	3,531,004	1,137,494
VA	22,016	8,448	4,074	119,776	154,314	86,719	241,033	119,776
USDA	10,856	2,787	2,992	40,178	56,813	33,248	90,061	40,178
Total	**$ 469,513**	**$ 142,816**	**$ 68,783**	**$ 1,342,701**	**$ 2,023,813**	**$ 2,066,582**	**$ 4,090,395**	**$ 1,342,701**

Management will assess the related financial statement line items and disclosures for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-Pooled Loans.

Foreclosures in Process

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.

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.

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

The table below presents the recorded investment of mortgage loans secured by real estate for which formal foreclosure proceedings are in process at September 30, 2017 and 2016:

	At September 30, 2017		At September 30, 2016	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in thousands)			
Conventional	115	$ 21,707	148	$ 29,495
FHA	2,686	496,077	4,009	739,551
VA	199	44,492	363	79,620
USDA	119	16,965	199	28,390
Total	**3,119**	**$ 579,241**	**4,719**	**$ 877,056**

Management will assess the related financial statement line items and disclosures for restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-Pooled Loans.

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 adjust the carrying value of Ginnie Mae's mortgage loan assets to reflect probable credit losses embedded in the loan portfolio at the balance sheet date.

The collective allowance for loan losses is recorded as an allowance against mortgage loans held for investment including accrued interest, net on the Balance Sheets. Ginnie Mae relies on reports received from its MSS to obtain information necessary to assess mortgagors' ability to pay. Ginnie Mae considers that information, as well as current economic environment, and potential recovery amounts including credit enhancements related to insurance guarantees from different government agencies when determining the amount of credit loss that can be reasonably estimated. The calculation uses statistical models that evaluate a variety of factors affecting collectability. The homogeneous pools of mortgage loans are determined based on common loan characteristics such as LTV ratios, loan product type, insurance type, and geographic region. As at September 30, 2017 and 2016, mortgage loans held for investment including accrued interest consisted of only single-family loans.

The projections are built based on actual loan performance data, current economic environment, and 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 affect the quality of the loans in Ginnie Mae's portfolio, including regional housing trends, applicable home price indices, and unemployment trends. Ginnie Mae uses probability of default and probability of prepayment models which employ logistic regressions to calculate dynamic default and prepayment probabilities based on actual loan performance data for Ginnie Mae's loan population and macroeconomic conditions.

For impaired loans (TDR and PCI loans), subsequent to initial recognition, 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.

During the year, Ginnie Mae implemented an updated methodology for estimating its allowance for loan losses to be in accordance with the loan impairment guidance prescribed by ASC 310-10, and ASC 450-20. Ginnie Mae updated its methodology to reflect insurance recoveries more appropriately and revised the calculation for the allowance for accrued interest on impaired loans in accordance with ASC 310.

Notes to Financial Statements *(continued)*

The following table presents the allowance for loan losses and recorded investment in the HFI mortgage loan portfolio by impairment or reserve methodology, at September 30, 2017 and 2016.

	September 30, 2017		September 30, 2016	
	(Dollars in Thousands)			
Recorded investment:				
Collectively evaluated	$	689,277	$	1,083,084
Individually evaluated		2,570,945		2,787,970
Purchase credit impaired		144,068		219,341
Total recorded investment in loans	**$**	**3,404,290**	**$**	**4,090,395**
Ending balance of the allowance for loan losses:				
Collectively evaluated	$	87,736	$	154,875
Individually evaluated		144,369		172,525
Purchase credit impaired		41,210		63,246
Total allowance for loan losses	$	273,315	$	390,646
Net Investment in mortgage loans HFI	**$**	**3,130,975**	**$**	**3,699,749**

The following table presents changes in Ginnie Mae's allowance for loan losses during the fiscal years ended September 30, 2017 and 2016:

	For the twelve months ended September 30, 2017		2016	
	(Dollars in thousands)			
Beginning balance	$	(390,646)	$	(735,955)
Recapture (provision) for credit losses		113,706		347,300
Charge-offs		51,062		6,215
Recoveries		(47,437)		(8,206)
Ending balance	**$**	**(273,315)**	**$**	**(390,646)**

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

Ginnie Mae is in the process of refining its loan-level transaction reporting with the MSS to allow Ginnie Mae to comply with U.S. GAAP. Management will assess the related financial statement line items and disclosures for restatement during the fiscal year 2018. Refer to Note 2: Restatement, Non-Pooled Loans.

In September 2017, certain Ginnie Mae and other issuers' properties were impacted by three hurricanes; Harvey, Irma, and Maria. Ginnie Mae is actively researching the potential impact of these hurricanes on its financial statements. Ginnie Mae's exposure to losses as a result of these hurricanes arises mainly from the following:

a. Its guaranty of P&I payments due to holders of Ginnie Mae MBS that are secured by issuers' mortgages located in the affected areas;
b. Its own portfolio of real estate owned property and other non-pooled assets that are backed by properties in the affected areas;
c. Its recoverability of monies advanced, including interest charged on outstanding advances, to eligible impacted issuers under a Ginnie Mae approved relief program to non-defaulted and active issuers.

While losses in the affected areas are to be expected, those losses, and the associated loss reserves, are not yet estimable. Although preliminary data indicates potential losses in certain FEMA declared zones, additional data from the issuers and the MSSs is required to understand the list of borrowers and properties affected, borrower payment status, and the conditions of the affected properties. The issuers and MSSs will need time to gather borrower information, determine FHA/VA/USDA insurance coverage or conveyability, and prepare reporting. In addition, the list of FEMA-designated counties for disaster assistance and support is still being finalized. As a result, no additional loss reserves, or loss allowance for the non-pooled assets, are included in the fiscal year 2017 year-end financial statements.

Note 10: Claims Receivable, Net

The following tables present Ginnie Mae's claims receivable and related allowance, by type of claim, at September 30, 2017 and 2016:

	September 30, 2017		
	Foreclosed Property Claims(1)	Short Sale Claims(2)	Total
	(Dollars in thousands)		
Claims receivable	$ 352,890	$ 89,207	$ 442,097
Allowance for claims receivable	(24,216)	(43,132)	(67,348)
Claims receivable, net	**$ 328,674**	**$ 46,075**	**$ 374,749**

(1) Foreclosed property claims receivable represents reimbursements owed to Ginnie Mae by insuring agencies (which may include FHA, VA, USDA, and PIH). Properties have been conveyed, except for USDA insured loans, as USDA requires that the properties are sold before filing a claim for the shortfall. The claims receivable balance also includes $1.0M of insurance claims receivable which are claims that have been approved by the FHA.

(2) Short sale claims receivable are amounts reimbursable to Ginnie Mae from the insuring agencies (which may include FHA, VA, USDA, and PIH) for properties sold to avoid foreclosure where the proceeds received are insufficient to fully pay off the mortgages.

	September 30, 2016		
	Foreclosed Property Claims[(1)]	Short Sale Claims[(2)]	Total
	(Dollars in thousands)		
Claims receivable	$ 685,942	$ 129,494	$ 815,436
Allowance for claims receivable	(83,377)	(22,698)	(106,075)
Claims receivable, net	**$ 602,565**	**$ 106,796**	**$ 709,361**

(1) Foreclosed property claims receivable represents reimbursements owed to Ginnie Mae by insuring agencies (which may include FHA, VA, USDA, and PIH). Properties have been conveyed, except for USDA insured loans, as USDA requires that the properties are sold before filing a claim for the shortfall. The claims receivable balance also includes $6.9M of insurance claims receivable which are claims that have been approved by the FHA.

(2) Short sale claims receivable are amounts reimbursable to Ginnie Mae from the insuring agencies (which may include FHA, VA, USDA, and PIH) for properties sold before foreclosure where the proceeds received are insufficient to fully pay off the mortgages.

On a monthly basis, Ginnie Mae obtains claims receivable balances from the MSSs that service the loans. The foreclosed property claims and short sale claims allowance balances are estimated based on expected recoveries from insuring agencies. At September 30, 2017 and 2016, claims receivable balances included claims on single family properties only. There is no allowance on insurance claims receivable as it represents approved claims.

The allowance for claims receivable includes effects of charge offs and recoveries. Charge-offs may include write downs resulting from the reclassification of receivables between certain asset classes, while recoveries include miscellaneous adjustments and charge-offs reversals. Ginnie Mae does not have a consistent methodology for recording charge offs and recoveries. In addition, due to lack of data, Ginnie Mae is unable to capitalize proceeds from reimbursable costs, to ascertain claims receivable balance in accordance with U.S. GAAP. Refer to Note 3: Summary of Significant Accounting Policies and Practices for U.S. GAAP requirements.

The allowance for claims receivable is summarized as follows:

	For the fiscal years ended September 30,					
	2017			2016		
	Foreclosed Property Claims	Short Sale Claims	Total	Foreclosed Property Claims	Short Sale Claims	Total
	(Dollars in thousands)					
Beginning balance	$ (83,377)	$ (22,698)	$ (106,075)	$ (67,132)	$ (35,715)	$ (102,847)
Recapture (provision) for claims receivables	17,319	(79,492)	(62,173)	(71,156)	(4,387)	(75,543)
Charge-offs	208,315	236,622	445,022	63,397	20,460	83,857
Recoveries	(185,305)	(158,648)	(344,122)	(8,486)	(3,056)	(11,542)
Transfers, net	(84)	-	(84)	-	-	-
Ending balance	**$ (43,132)**	**$ (24,216)**	**$ (67,348)**	**$ (83,377)**	**$ (22,698)**	**$ (106,075)**

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to comply with U.S. GAAP. Management will assess the information presented within this footnote for potential restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-Pooled Loans.

Due to close proximity of the hurricanes occurrence to fiscal year 2017 year-end and date of issuance of these financial statements, Ginnie Mae was unable to assess and quantify the impact of the hurricane on the claims receivable, net. Ginnie Mae is still gathering data necessary to assess the impact of the hurricanes on Ginnie Mae's financial statements. Accordingly, the claims receivable, net balance excludes effects of these hurricanes as of September 30, 2017.

Note 11: Acquired Property, Net

Ginnie Mae records acquired property when it obtains marketable title to the underlying property after the foreclosure process is complete. The acquired properties are typically either USDA insured or uninsured conventional loans[3]. Acquired properties are assets as Ginnie Mae intends to sell and actively markets these properties through the MSS.

Ginnie Mae initially recognizes acquired property at UPB plus accrued interest and is presented net of a valuation allowance on the balance sheets. The valuation allowance is adjusted through the recapture (provision) for acquired property in the Statements of Revenue and Expenses and Changes in Investment of U.S. Government. The valuation allowance is designed to approximate the expected cash flows that Ginnie Mae does not expect to receive upon sale of the acquired property.

The acquired property, net balance is subsequently adjusted for changes in the valuation allowance at the end of each reporting period.

Ginnie Mae expenses all post-foreclosure costs as incurred in mortgage-backed securities program and other expenses in the Statements of Revenue and Expenses and Changes in Investment of the U.S. Government.

Upon disposition of an acquired property, Ginnie Mae charges off the difference between the sales proceeds and the carrying value of the acquired property against the acquired property valuation allowance. Ginnie Mae does not recognize gains or losses on the sale of acquired property, as the recapture (provision) of acquired property captures these though the quarterly valuation allowance adjustments.

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

Activity for acquired properties are presented in the table below:

	For the fiscal years ended September 30, 2017	2016
	(Dollars in thousands)	
Beginning balance – acquired properties	$ 84,512	$ 52,558
Additions	119,655	98,770
Dispositions	(139,394)	(66,816)
Ending balance – acquired properties	**$ 64,773**	**$ 84,512**
Beginning balance – valuation allowance	$ (43,326)	$ (22,271)
Change in valuation allowance	23,633	(21,055)
Ending balance – valuation allowance	**$ (19,693)**	**$ (43,326)**
Ending balance – acquired properties, net	**$ 45,080**	**$ 41,186**

Due to data limitations from the MSSs, Ginnie Mae is unable to obtain a complete population and fair values for acquired properties or calculate the estimated costs to sell or expected recoveries from credit enhancements upon initial recognition or in subsequent periods. Accordingly, Ginnie Mae's current practice for reporting acquired properties is not U.S. GAAP compliant. Refer to Note 3: Summary of Significant Accounting Policies and Practices for U.S. GAAP requirements.

Ginnie Mae is refining its loan-level transaction data collection and reporting with the MSS to allow Ginnie Mae to comply with U.S. GAAP. Management will assess the information presented within this footnote for potential restatement in fiscal year 2018. Refer to Note 2: Restatement, Non-Pooled Loans.

Due to close proximity of the hurricanes occurrence to fiscal year 2017 year-end and date of issuance of these financial statements, Ginnie Mae was unable to assess and quantify the impact of the hurricanes on the reported balance of acquired property, net. As of September 30, 2017, Ginnie Mae is still gathering data necessary to assess the impact of the hurricanes on its financial statements.

Note 12: 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 technique are categorized into a three-level hierarchy, as described below:

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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, 2017			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Assets:				
Guaranty asset	**$ -**	**$ -**	**$ 8,256,092**	**$ 8,256,092**
Liabilities:				
Mortgage servicing rights	**$ -**	**$ -**	**$ (48)**	**$ (48)**

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Assets:				
Guaranty asset	$ -	$ -	$ 6,397,614	$ 6,397,614
Mortgage servicing rights	-	-	35	35
Total assets at fair value	$ -	**$ -**	**$ 6,397,649**	**$ 6,397,649**
Liabilities:				
Mortgage servicing rights	$ -	**$ -**	**$ -**	**$ -**

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. A 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, 2017	September 30, 2016
	(Dollars in thousands)	
Valuation at period end:		
Fair value	$ (48)	$ 35
Weighted- average life (years)	3.21	3.96
Prepayment rates assumptions:		
Weighted average rate assumption	25.85%	20.72%
Weighted average minimum	15.48%	14.28%
Weighted average maximum	29.32%	30.78%
Impact on fair value of a 10% adverse change	(0)	-
Impact on fair value of a 20% adverse change	(1)	-
Discount rate assumptions:		
Weighted average rate assumption	11.22%	10.54%
Weighted average minimum	11.22%	10.54%
Weighted average maximum	11.22%	10.54%
Impact on fair value of a 10% adverse change	(1)	-
Impact on fair value of a 20% adverse change	(2)	-

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 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 ofMBS, 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 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,	
	2017	**2016**
	(Dollars in thousands)	
Valuation at period end:		
Fair value	$ 8,256,092	$ 6,397,614
Prepayment rates assumptions:		
Weighted average rate assumption	36.91%	41.96%
Weighted average minimum	0.19%	0.02%
Weighted average maximum	98.50%	98.51%
Default rate assumptions:		
Weighted average rate assumption	18.51%	26.40%
Weighted average minimum	0.00%	0.00%
Weighted average maximum	99.85%	99.97%
Discount rate assumptions:		
Weighted average rate assumption	2.20%	1.25%
Weighted average minimum	0.97%	0.26%
Weighted average maximum	2.84%	2.04%

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, as adjusted for the risk characteristics specific to issuer. Increases in the discount rate results in lower fair values of the guaranty asset.

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs for the fiscal years ended September 30, 2017 and 2016:

	For the fiscal year ended September 30, 2017			
	Mortgage Servicing Rights		Guaranty Asset	
	(Dollars in thousands)			
Beginning balance	$	35	$	6,397,614
Total realized and unrealized gains/(losses) included in net income:		(83)		(224,411)
Proceeds from sale of MSRs		-		-
Issuances		-		2,082,889
Ending balance	**$**	**(48)**	**$**	**8,256,092**

	For the fiscal year ended September 30, 2016			
	Mortgage Servicing Rights		Guaranty Asset	
	(Dollars in thousands)			
Beginning balance	$	29,644	$	6,742,159
Total realized and unrealized gains/(losses) included in net income:		(4,082)		(2,133,594)
Proceeds from sale of MSRs		(25,527)		-
Issuances		-		1,789,049
Ending balance	**$**	**35**	**$**	**6,397,614**

Ginnie Mae records transfers between Level 1, Level 2, and Level 3, if any, at the beginning of the period. There were no transfers between Level 1, Level 2, and Level 3 during the fiscal years ended September 30, 2017 and 2016. 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 Statements of Revenue and Expenses and Changes in Investment of U.S. Government.

Assets Measured at Fair Value on a Nonrecurring Basis: The following tables present assets measured on the Balance Sheets at fair value on a nonrecurring basis at September 30, 2017 and 2016:

	At September 30, 2017			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Acquired property, net	$ -	$ -	$ 45,080	$ 45,080

	At September 30, 2016			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Acquired property, net	$ -	$ -	$ 41,186	$ 41,186

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

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

Ginnie Mae is refining its data collection and reporting with the MSS to allow Ginnie Mae to comply with U.S. GAAP. Management will assess the information presented within this footnote for potential restatement in 2018. Refer to Note 2: Restatement, Non-Pooled Loans.

Notes to Financial Statements *(continued)*

Note 13: Fixed Assets, Net

The tables below present the total balance of hardware and software for the fiscal years ended September 30, 2017 and 2016, net of the accumulated depreciation and amortization:

	For the fiscal year ended September 30, 2017		
	Hardware	Software	Total
	(Dollars in thousands)		
Beginning balance – cost	$ 4,997	$ 181,565	$ 186,562
Additions	-	25,698	25,698
Disposals	-	-	-
Transfers	(1,202)	1,202	-
Ending balance - cost	**$ 3,795**	**$ 208,465**	**$ 212,260**
Beginning balance - accumulated depreciation and amortization	$ (2,276)	$ (101,390)	$ (103,666)
Depreciation and amortization	(757)	(19,781)	(20,538)
Disposals	-	-	-
Transfers	-	-	-
Ending balance - accumulated depreciation and amortization	$ (3,033)	$ (121,171)	$ (124,204)
Ending balance - fixed assets, net	**$ 762**	**$ 87,294**	**$ 88,056**

	For the fiscal year ended September 30, 2016		
	Hardware	Software	Total
	(Dollars in thousands)		
Beginning balance - cost	$ 4,997	$ 145,262	$ 150,259
Additions	-	36,313	36,313
Disposals	-	(10)	(10)
Transfers	-	-	
Ending balance - cost	**$ 4,997**	**$ 181,565**	**$ 186,562**
Beginning balance - accumulated depreciation and amortization	$ (1,678)	$ (86,306)	$ (87,984)
Depreciation and amortization	(598)	(15,088)	(15,686)
Disposals		5	5
Transfers	-	-	-
Ending balance - accumulated depreciation and amortization	$ (2,276)	$ (101,390)	$ (103,666)
Ending balance - fixed assets, net	**$ 2,721**	**$ 80,175**	**$ 82,896**

Assets under capital leases (hardware) were fully depreciated as of September 30, 2017. As of September 30, 2016, assets recorded under capital leases (hardware) were $142.0 thousand. These assets are recorded net of accumulated depreciation and amortization of $1.2 million and $1.1 million at September 30, 2017 and 2016, respectively. The charge to expense resulting from depreciation and amortization of assets recorded under capital leases is included in fixed assets depreciation and amortization in the Statements of Revenues and Expenses and Changes in Investment of U.S. Government. There were no assets under capital lease (software) as of September 30, 2017 and 2016.

Ginnie Mae recorded depreciation and amortization expense of $20.5 million and $15.7 million for the fiscal years ended September 30, 2017 and 2016, respectively. Estimated amortization expense over the next five years is as follows: 2018 – $17.7 million; 2019 – $12.3 million; 2020 – $9.9 million; 2021 – $6.9 million and 2022 – $1.7 million. There were no intangible assets with indefinite lives as of September 30, 2017 and 2016. No impairment of long-lived assets, including capitalized software, was recorded for the year ended September 30, 2017.

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

Note 14: Short-Term Liabilities and Deferred Revenue

Short-term liabilities include accounts payable and accrued liabilities, which comprised of the following at September 30, 2017 and 2016:

	September 30,	
	2017	2016 (Restated)
	(Dollars in thousands)	
Accounts payable	$ 39,862	$ 68,750
Unclaimed securities holder payments	23,700	23,623
Accrued unfunded leave	1,445	1,348
Salaries and benefits payable	938	882
Total	**$ 65,945**	**$ 94,603**

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

Deferred revenue includes the following at September 30, 2017 and 2016:

	September 30,	
	2017	2016 (Restated)
	(Dollars in thousands)	
Deferred revenue - multiclass fees	$ 435,629	$ 425,711
Deferred revenue - commitment fees	26,233	19,914
Total	**$ 461,862**	**$ 445,625**

Note 15: Reserve for Loss

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

- *Defaulted issuer, pooled loans, and allowance for advances:* In the event an issuer cannot fulfil its responsibilities under the applicable MBS program, pass-through payments to fulfill Ginnie Mae’s guaranty of timely P&I payment to MBS security holders are presented in “Advances, net” in the Balance Sheets. 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 such as FHA, USDA, VA, and PIH.

- *Defaulted issuer, non-pooled loans, and allowance for loan loss:* When a Ginnie Mae issuer defaults, Ginnie Mae steps into the role of issuer and assumes all rights and obligations of the defaulted issuer’s entire Ginnie Mae guaranteed pooled-loan portfolio. As Ginnie Mae purchases loans out of a pool, it recognizes the loan on its Balance Sheets along with the corresponding estimated incurred loss (i.e., allowance for loan losses) within the Balance Sheets as “Mortgage loans held for investment including accrued interest, net,” or “Claims receivable, net”). During 2017, Ginnie Mae changed presentation of its non-pooled portfolio previously included in the “Mortgage loans held for investment, net” and “Accrued interest receivable, net” on the Balance Sheets to reflect the balance as a single financial statement line item “Mortgage loans held for investment including accrued interest, net.” The change was meant to align presentation with its impairment allowance methodology. See Note 2: Restatement, Non-pooled Loans for details.

- *Defaulted issuer, pooled loans, and mortgage servicing rights:* Ginnie Mae records a servicing asset (or liability) each time it takes over a defaulted issuer’s Ginnie Mae guaranteed portfolio (see “Mortgage servicing rights” financial statement line item on the Balance Sheets). Ginnie Mae’s servicing asset is recorded at fair value based upon 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 to 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 MSR section in Note 3: Summary of Significant Accounting Policies and Practices, for further analysis) including delinquencies and expectation of credit losses that management believes are consistent with the assumptions other similar market participants use in valuing the mortgage servicing rights. Thus, estimated credit losses for defaulted issuers’ pooled loans are incorporated within the servicing asset (or liability).

- *Non-defaulted issuer and liability for pooled loans:* 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
  Ginnie Mae determines a non-contingent liability based on the premium received or receivable (i.e., present value of guaranty fee expected to be collected under the guaranty) within the financial statement line item "Guaranty liability" on the Balance Sheets. 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, non-contingent liability amount exceeds contingent liability and, thus, is recorded at inception of a guaranty.

  Contingent liability
  Ginnie Mae records a contingent liability when it is probable that a triggering 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 triggering event is probable to occur, Ginnie Mae estimates the probable credit losses in the underlying loan portfolio to calculate the loss contingency, which is recorded within the Balance Sheets as "Liability for loss on mortgage-backed securities program guaranty". Where it is only reasonably possible that a triggering event may occur, a contingent liability is not recorded, but is disclosed.

  The triggering event to recognize a contingent liability depends on the type of underlying loan 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 loan is probable of defaulting.

  For multifamily loans, agency guidelines prescribe that Ginnie Mae reimburse multifamily issuers 1% of the UPB and 85% of the excess, if any, of the interest paid by the issuer to the security holders after the date of default on the mortgage, less the net interest paid to the issuer by HUD under the FHA claim settlement procedure. If any underlying loans within multifamily pools are probable of defaulting, a contingent liability should be recorded. As such, the contingent obligation for multifamily loans comprises the contingent obligation related to probable issuer defaults, and / or probable loan defaults.

  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 triggering 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.

At June 30, 2017, Ginnie Mae implemented an updated methodology for determining the contingent liability as calculated in accordance with ASC 450, addressing inappropriate inclusion of certain inputs. At September 30, 2017 and 2016, the contingent liability related to probable losses on pooled loans was $268.4 million and $1.4 million, respectively. At September 30, 2017, Ginnie Mae estimated potential losses up to $84.2 million related to reasonably possible losses on pooled loans. Ginnie Mae was unable to determine a reasonable estimate for reasonably possible losses on pooled loans at September 30, 2016, and for multifamily loans at September 30, 2017.

- *Liability for representations and warranties:* Ginnie Mae performs an assessment of all existing representations and warranties and indemnification clauses associated with PSAs. These clauses may require Ginnie Mae to buy back previously sold loans from third-parties or reimburse the buyer for losses per the contractual terms of the PSA. At September 30, 2017 and 2016, Ginnie Mae recorded $54.0 thousand and $74.0 thousand as a contingent liability, respectively, for representations and warranties under an existing loan PSA that may require Ginnie Mae to repurchase mortgage loans that are modified or that are not insured or guaranteed by the FHA, VA, USDA, or PIH 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 Sheets.

As of the date of issuing these financial statements, the potential impact of hurricanes Harvey, Irma, and Maria on the reserve for loss balances is still being assessed by Ginnie Mae. Accordingly, the reserve for loss balances exclude effects of these hurricanes as of September 30, 2017.

Note 16: 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 summarizes concentrations of credit risk by active issuers and loan type at September 30, 2017 and 2016:

	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	25	$ 1,340.0	8	$ 60.4	-	-	-	-
Other performing issuers	297	$ 385.5	46	$ 45.6	3	$ 0.3	16	$ 55.1

	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	32	$ 1,300.5	6	$ 46.2	-	-	-	-
Other performing issuers	276	$ 277.4	48	$ 51.1	2	$ 0.3	16	$ 54.9

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 HECM 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, USDA, VA, or PIH). The insuring agencies have strict underwriting standards and criteria for quality of collateral. Mortgage loans insured by the FHA get 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. USDA, VA, and PIH insured loans are not fully recoverable. The loan balance and related allowance for loan loss balance broken down by portfolio segment and underlying insuring agencies at September 30, 2017 and 2016 are presented in Note 9: Mortgage Loans Held for Investment Including Accrued Interest, Net.

In the event of an issuer default, Ginnie Mae assumes the rights and obligations of the issuer and becomes the owner of the MSR liability or asset, which typically is salable. When Ginnie Mae assumes the role of the defaulted issuer, it has the option to purchase loans out of the pool when they are 90 days or more delinquent. Upon purchasing 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, USDA, VA, or PIH insured 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, 2017 and 2016, the distribution of Ginnie Mae's business volumes among these two categories was as follows:

	September 30, 2017			September 30, 2016		
	Total Number of Issuers	Total Issuances	As Percentage of Total Issuances	Total Number of Issuers	Total Issuances	As Percentage of Total Issuance
	(Dollars in millions)					
Depositories	82	$ 115,409	24%	80	$ 120,042	26%
Non-depositories	222	359,023	76%	211	341,921	74%
Total active issuers	**304**	**$ 474,432**	**100%**	**291**	**$ 461,963**	**100%**

As more non-banks issue Ginnie Mae's securities, the cost and complexity of monitoring non-banks 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.

In September 2017, certain Ginnie Mae and other issuers' properties that are located in U.S states of TX, LA, FL, and GA and territories of PR and VI were impacted by three hurricanes: Harvey, Irma, and Maria. Hurricane Harvey impacted properties in 39 TX counties, while hurricane Irma affected properties mainly located in 55 counties in FL and GA, with minimal damage to SC and NC. Hurricane Maria impacted an additional 51 counties in PR and VI.

Non-pooled loans impacted by the hurricanes presented below is based on total geographical region (i.e., by state and territory) and represent the potential maximum exposure to Ginnie Mae, which is not representative of specific FEMA disaster declared zones within the states and territories. Ginnie Mae is gathering specific impact information within disaster declared zones for actual exposure. The tables below discloses Ginnie Mae's aggregate hurricane exposure as of September 30, 2017, not the actual damage.

	Pooled Loans	% of Total Pooled Loans	UPB *(in millions)*	% of Total UPB
Hurricane Harvey	274,402	2.49%	$ 40,534	2.15%
Hurricane Irma	678,914	6.17%	112,476	5.96%
Hurricane Maria	137,045	1.24%	13,862	0.73%
Total Exposure	**1,090,361**	**9.90%**	**$ 166,872**	**8.84%**
Ginnie Mae Total Outstanding	**11,008,220**	**100.00%**	**$ 1,887,221**	**100.00%**

	Non-Pooled Loans	% of Total Non-Pooled Loans	UPB *(in millions)*	% of Total UPB
Hurricane Harvey	551	2.23%	57	1.75%
Hurricane Irma	7,662	31.04%	886	27.05%
Hurricane Maria	3	0.01%	-	-
Total Exposure	**8,216**	**33.28%**	**$ 943**	**28.80%**
Ginnie Mae Total Outstanding	**24,685**	**100.00%**	**$ 3,276**	**100.00%**

As of date of issuing these financial statements, actual and estimated potential losses to Ginnie Mae resulting from these hurricanes is still being assessed.

Counterparty Credit Risk

Counterparty credit risk is the risk that issuers will be unable to fulfill their contractual pass through obligations to investors. After hurricanes Harvey, Irma, and Maria impacted the states and territories as mentioned previously, Ginnie Mae issued a disaster relief loan buyout program for single-family issuers. The expanded loan buyout authority supports issuers by offering relief to borrowers impacted by hurricanes, e.g., late fee waivers, forbearance periods, loan modifications, and foreclosure moratoriums, to the extent permissible under the guidelines of the federal agency guaranteeing or insuring each loan. The loan buyout authority expires on March 31, 2018.

In addition, Ginnie Mae plans to authorize and issue advances to eligible impacted issuers, who offer such relief to borrowers impacted by hurricanes. Interest will be levied on advances to issuers until full payment is received to settle the outstanding advances. Advances are expected to be issued monthly, beginning October 2017, with a period of 90 days for repayment. Ginnie Mae is still assessing the counterparty credit risk arising from such an arrangement with affected issuers.

Note 17: Commitments and Contingencies

Lease, purchase, and other commitments

Ginnie Mae leases facilities, hardware, and software under agreements that may require the agency to pay rental fees, insurance, maintenance, and other costs. As at September 30, 2017, Ginnie Mae did not have any active and open lease contracts related to rental expense or hardware and software.

As of September 30, 2017, Ginnie Mae had approved and committed to make $682.2 million in payments for fiscal year 2018 and beyond, with $675.3 million and $6.8 million committed under contracts with its various vendors and administrative expenditure, respectively. 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 only disclosed in the notes to the financial statements.

The following table shows the approximate number of plaintiffs and claimants who had claims pending against Ginnie Mae at the beginning of each fiscal year, the number of claims disposed of during that year, the year's filings and the claims pending at the end of each listed year (eliminating duplicate filings):

	September 30,	
	2017	**2016** [2]
Pending at beginning of year	1	1
Disposed[2]	(1)	-
Filed	2	-
Pending at end of year	**2**	**1**

[2] Office of General Counsel (OGC) previously reported a case, Marissa A. Fournier v. Bank of America, et al, as of September 30, 2016. Upon further consideration, OGC concluded that the likelihood of an unfavorable outcome is remote and no longer meets the established threshold for reporting as of September 30, 2017.

The two pending cases against Ginnie Mae as of September 30, 2017 are described below.

Reimbursement for amounts of advances of taxes and insurance: On December 7, 2016, Bank of America filed an appeal to a claim with the Civilian Board of Contract Appeals of a Contracting Officer's final decision denying its claim for approximately $58.0 million in connection with Ginnie Mae's single family MSS contract. In the opinion of Ginnie Mae's management and OGC, the likelihood of an unfavorable outcome is reasonably possible and, therefore, no accrual has been established. The possible loss associated with this pending action is estimated at $58.0 million.

Other claim: 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 contends that all standard procedures, including violation notification to the former issuer, were appropriately followed. As of date of issuing these financial statements, Ginnie Mae's management and OGC were still assessing the nature of, and planned response to, the claim, and believe the likelihood of an unfavorable outcome is remote. Accordingly, no accrual has been established.

No other asserted or unasserted claims or assessments in which Ginnie Mae's exposure is $675,000 or greater, individually, or in the aggregate for similar matters have been identified. Additionally, Ginnie Mae's OGC has determined that there are no pending or threatened actions or unasserted claims or assessments in which Ginnie Mae's potential loss exceeds $1,575,000 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 defaulted issuers and other indirect guarantees, such as large issuer portfolio default, lack of proper insurance coverage of defaulted loans, etc. Additional information is discussed in Note 15: Reserve for Loss.

Note 18: Related Parties

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

Ginnie Mae was authorized to use $35.6 million and $33.2 million during the fiscal years ended September 30, 2017 and 2016, respectively, for personnel (payroll) and non-personnel (travel, train, and other administration) costs only. For the fiscal years ended September 30, 2017 and 2016, Ginnie Mae incurred $26.4 million and $25.5 million, respectively, for these costs, which are included in administrative expenses on the Statements 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 fiscal years ended September 30, 2017 and 2016.

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 $2.9 billion and $3.4 billion of loans were insured by the FHA at September 30, 2017 and 2016, respectively. In addition, Ginnie Mae submits and receives claim proceeds for FHA-insured loans that have been through the foreclosure and short sale process. The breakdown of FHA claims pending payment or pre-submission to FHA is below:

	September 30, 2017	September 30, 2016
	(Dollars in thousands)	
Foreclosed property claims receivable	$ 325,589	$ 652,930
Short sales claims receivable	64,539	114,034
Insurance claims receivable	996	6,887
Total FHA claims	**$ 391,124**	**$ 773,851**

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 fiscal years ended September 30, 2017 and 2016, Ginnie Mae contributed $3.8 million and $2.8 million, respectively, in pension and savings benefits for eligible employees.

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

Note 19: Credit Reform

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

Credit programs that operate at a profit result in negative subsidies. Ginnie Mae's credit activities have historically operated at a profit. Ginnie Mae has not incurred borrowings or received appropriations to finance its credit operations. At September 30, 2017 and 2016, the U.S. Government held an investment in Ginnie Mae of $23.8 billion and $21.7 billion (restated), respectively. 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 20: Subsequent Events

Ginnie Mae has evaluated potential subsequent events for the 2017 financial statements through November 9, 2017, the date through which the financial statements were made available to be issued. On October 13, 2017, Ginnie Mae notified issuers of its program to issue advances to eligible hurricane impacted issuers, who offer relief programs to borrower affected by hurricanes. Interest is levied on advances to issuers and is calculated monthly on the outstanding advance, plus accrued interest, until full outstanding advances balance is settled. These advances are expected to be due within 90 days.

As of date of issuing these financial statements, a total of $411.0 thousand had been advanced to issuers under this program. Ginnie Mae will assess recoverability of the full balance at the end of first quarter of fiscal year 2018.

Subsequent events for the originally issued 2016 financial statements were evaluated through November 10, 2016.

Ginnie Mae
Our Guaranty Matters