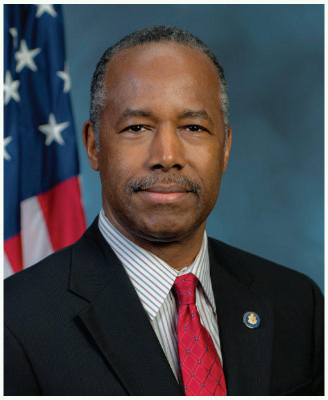
2018 REPORT TO CONGRESS

Ginnie Mae
Our Guaranty Matters

Contents

A Word From the Secretary

Celebrating 50 Years of Affordable Mortgage Financing



More than a million low- and moderate-income households, and thousands of our nation's veterans, found an affordable and safe place to call home in 2018 because of the liquidity and stability made possible by Ginnie Mae — the primary financing mechanism for all government-insured or government-guaranteed mortgage loans.

Ginnie Mae, which celebrates its 50th anniversary this year, brings global capital to the housing market while minimizing risk to the taxpayer. During Fiscal Year 2018, it guaranteed $435 billion in new mortgage-backed securities (MBS), and the Ginnie Mae MBS portfolio grew to $2 trillion.

The Ginnie Mae MBS provides a unique value proposition for investors, as it offers additional yield and is the only type of mortgage-backed security to carry the full faith and credit of the United States government. Importantly, at $2 trillion, the Ginnie Mae MBS is essential to financing the American housing system.

Ginnie Mae is committed to fulfilling its responsibilities to borrowers, investors and American taxpayers. This year, we continued to work closely with the Department of Veterans Affairs to protect our veterans from abusive lending practices, such as loan churning or repeatedly refinancing a loan. These bad practices must be eliminated as they prevent borrowers from obtaining low-interest rates that enable them to afford home mortgages.

In everything it does, Ginnie Mae remains true to its mission: to be the best conduit for bringing capital into the American housing system and enabling affordable homeownership opportunities to millions of Americans.

As an active participant in discussions on housing finance reform, the Department of Housing and Urban Development is committed to reducing taxpayers' exposure to risk and encouraging an expanded role for the private sector. Over the past decade, Ginnie Mae has shown that it can provide liquidity no matter the economic climate. Its model will provide valuable and relevant insights as we move forward.

Ginnie Mae is continually adapting to maximize the strengths of its model and address market challenges. It is investing in technology, enhancing counterparty risk measures, and working to meet the needs of Issuers and investors. This work will continue in the years to come.

In everything it does, Ginnie Mae remains true to its mission: to be the best conduit for bringing capital into the American housing system and enabling affordable homeownership opportunities to millions of Americans.

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 2018 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.

Specifically, Ginnie Mae facilitated the flow of capital to mortgage insurance programs offered by the Federal Housing Administration, the Department of Veterans Affairs, the Department of Agriculture's Office of Rural Development and the Office of Public and Indian Housing.

As Ginnie Mae turned 50 in Fiscal Year 2018, we achieved a major business milestone by reaching $2 trillion in outstanding mortgage-backed securities (MBS), which represents considerable growth from less than $427.6 billion in 2007. This mark was fueled by continued strong performance in the MBS program where Ginnie Mae guaranteed $435 billion in MBS and generated $1.7 billion in deficit-reducing offsets to the U.S. Treasury. We achieved these results by attracting investments from the U.S. and around the globe.

In 2018, we continued our focus on growing our relationships with Ginnie Mae's largest investors, both long-time and newcomers. Replacing and augmenting investors who are lessening their demand for Ginnie MBS — including the Federal Reserve, which is tapering its balance sheet — is going well. Positive reception from dollar pools of assets across the U.S., as well as in the Middle East, Southeast Asia and Northern Europe, are a major reason why we continue to work hard to offer an asset with prepayment speeds that are in-line with market fundamentals and dynamics.

We continue to focus on the intersection of investor and borrower needs, while also protecting taxpayers. Our commitment to this mission led to our decision to sanction a small group of Issuers whose loan performance damaged the integrity of our securities and our ability to effectively serve American homeowners. We have not hesitated to police our program in order to provide the best possible mortgage rate to consumers and a market-predictable MBS to our investors. Monitoring the performance of our security is now part of the routine business of Ginnie Mae, and additional steps can be expected throughout the next year.

Ginnie Mae's business model is flexible and adaptable. Our strategic investments in technology and process redesign have facilitated our growth into a $2 trillion MBS guarantor, with only a small increase in our full-time staff. We will continue to invest in technology in the upcoming fiscal year, making enhancements outlined in our June 2018 white paper "Ginnie Mae 2020."

We are also responding proactively to the fact that each year, more and more of our Issuers are independent nonbank mortgage lenders who are often efficient at mortgage servicing, but are not subject to federal safety and soundness regulations. This reality requires Ginnie Mae to focus on ensuring the strength and liquidity of our partners and the mortgage market that we serve. To that end, we have evolved our approach to counterparty risk management in 2018, and here too we will take additional steps in 2019 and beyond.

As elected officials continue to debate how best to reform the broader U.S. housing market, Ginnie Mae has and will continue to provide insight on the relevant aspects of administering an explicit government guaranty. Meanwhile, we'll continue to do our part to ensure that secondary market capital flows to a safe, liquid and accessible residential mortgage market.

Michael R. Bright
Executive Vice President
and Chief Operations Officer

Executive Summary

"Ginnie Mae maintained a laser-like focus on its mission to support 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 2018 (FY 2018), Ginnie Mae continued to deliver strong results in fulfilling our mission, while managing our finances and operations soundly. Our FY 2018 production was supported by a growing domestic and international investor base that financed the purchases and refinances of single-family and rental housing for approximately 1.9 million households.

The global demand for Ginnie Mae securities remains strong, driven by an array of investors that includes central banks, sovereign wealth funds and multinational financial institutions. In FY 2018, investors purchased $435 billion in newly issued mortgage-backed securities (MBS) guaranteed by Ginnie Mae. Ginnie Mae solidified its position as the second largest source of residential mortgage financing, ending the fiscal year with $2.008 trillion of MBS outstanding.

Ginnie Mae maintained a laser-like focus on its mission to support 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 58.5 percent of FY 2018 loan issuance in Ginnie Mae pools, and the share of VA-guaranteed mortgages continued to grow reaching 36.9 percent of FY 2018 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, many of whom are first-time homebuyers, through 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 this kind of backing from 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 the past 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 the funding necessary to provide loans to all qualified consumers.

This Report to Congress is designed to provide background on Ginnie Mae and our current financial situation to 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 Mae: Making History While Securing the Future of Affordable Housing Finance

In 2018, Ginnie Mae marked two important milestones. First, we celebrated 50 years of financing the government loan market so millions of Americans can buy, refinance or rent homes. And second, the total value of our mortgage-backed securities (MBS) principal outstanding crossed the $2 trillion threshold.

These highpoints underscore two important features of Ginnie Mae, the primary funding mechanism for all government-insured and government-guaranteed mortgage loans. The first is our long and stable history of making affordable housing a reality and helping to strengthen neighborhoods across the nation. The second is our strong growth over the past 10 years and the increasing popularity of our securities among global investors.

Ginnie is an Integral Part of the U.S. Housing System

Chartered as a government corporation and located within the Department of Housing and Urban Development (HUD), Ginnie Mae is the only federal agency tasked with the administration and oversight of an explicit, paid-for, full-faith-and-credit guaranty on MBS.

In 2018, we brought $435 billion of capital into the housing finance market — a system that runs through the heart of our nation's economy — while minimizing risk to the taxpayer.

Our government guaranty, or "wrap," on MBS ensures the timely payment of principal and interest due to the owner of the security. That wrap means mortgage lenders can obtain a better price for their mortgage loans in the secondary mortgage market. The lenders can then use the proceeds to make new mortgage loans available to first-time homebuyers, veterans, rural homeowners, and low- to moderate-income borrowers and others.

Without this liquidity, lenders would be forced to keep loans in their own portfolio, greatly reducing the number of new loans they could make.

Ginnie Mae is the only federal agency tasked with the administration and oversight of an explicit, paid-for, full-faith-and-credit guaranty on MBS.

Global Investors Support Our Growth

To promote liquidity in the housing market in 2018, we continued to turn to global investors to support increasing demand for federally-insured mortgage loans.

In response to changing investment dynamics, including the Federal Reserve's wind down of its MBS portfolio, we have recognized the importance of finding new, dedicated investors across the globe to buy and hold Ginnie Mae MBS. We have had positive reception from asset managers in the Middle East, Southeast Asia and Europe that have not previously had much exposure to this investment class.

To continue to attract new investors, we need to be able to offer them an asset that they can have confidence in, which means not just guaranteed payment of principal and interest, but also a reasonable expectation that the security will perform in line with market fundamentals. If our securities are not well distributed and priced, our Issuers will not have the funding to make loans in the volume that American homeowners need. So, it is important that the MBS program work to the benefit of investors as well as lenders and servicers.

> We have recognized the importance of finding new, dedicated investors across the globe.

__Figure 1__ – Estimate value of Ginnie Mae holdings by global investors as of June 2018 (in millions)

Taiwan - **$72,311**

Japan - **$70,478**

China - **$51,017**

Ireland - **$11,256**

Luxembourg - **$10,039**

South Korea - **$9,675**

Bermuda - **$7,055**

Cayman Islands - **$6,740**

Malaysia - **$3,587**

Switzerland - **$2,589**

Ginnie Mae Takes Stewardship Seriously

Our team of approximately 150 takes very seriously its role as steward of the Ginnie Mae guaranty. Ginnie Mae deploys this guaranty at minimal cost and risk to the federal government, and in so doing has dramatically lowered the cost of housing for the nearly 12 million households currently financed by government-insured loans.

In 2018, Ginnie Mae continued to take strategic steps — as we have throughout our history — to manage "counterparty risk." The term refers to the possibility that a servicer will fail to live up to its responsibilities under the MBS program — the most important of which is to make principal and interest payments. If this were to happen, the government, through Ginnie Mae, would step in to fulfill its guaranty to investors.

Our counterparty risk-management measures are varied and include controls on: whether companies can become Issuers; day-to-day interactions to ensure Issuers are meeting Ginnie Mae's standards and guidelines; monthly and quarterly financial and performance monitoring; and the ongoing revision of MBS program terms and our internal procedures. As our share of securities outstanding and prominence has grown, it is incumbent on us to continually upgrade the safeguards against Issuer failure.

To that end, in January 2018 we published changes to our MBS Guide, which established a set of acceptable risk parameters and provided examples of situations that would be considered outside such parameters. This was an example of how Ginnie Mae has continually evaluated sources of risk, and lead the industry to adopt measures to address them.

As our share of securities outstanding and prominence has grown, it is incumbent on us to continually upgrade the safeguards against Issuer failure.

Building on the work of the Ginnie Mae/Veterans Affairs Loan Churn Task Force launched in September 2017, Ginnie Mae has continued to take steps to address extraordinarily rapid prepayments in our multi-Issuer security program. In 2018, we sanctioned a small number of Issuers whose high prepayment speeds made them outliers among MBS program participants, thus protecting the integrity of our securities and discouraging lending behaviors that can have a negative impact on veterans. We'll continue our efforts on this front.

As Ginnie Mae's market share has dramatically increased over the past decade, to nearly 30 percent of the agency MBS market, and as we've seen an influx of new participants in the MBS program, we've skillfully managed the risks of expanded service.

Keeping Ginnie Mae Up To Date

In 2018, we also made great strides in our ongoing effort to modernize Ginnie Mae's technology platform. We began testing our new MyGinnieMae portal, which will be the primary vehicle for conducting business, building user communities and sharing information. The portal enhances collaboration by enabling user discussion, messaging and other interactions. As MyGinnieMae continues to evolve, we will develop a knowledge center that answers user FAQs and facilitates informed program participation.

Early in 2018, we successfully completed our first three waves of IT infrastructure migration from our pool processing agent to a government SmartCloud. This included accounting and financial reporting operations, general ledger system, website, Issuer reporting feedback system, investor reporting and a host of other applications that manage counterparty risk and Issuers' portfolios. We also decommissioned hardware and software operations at our former hosted data center in May 2018.

During the year we also announced our commitment to modifying the MBS program to permit the inclusion of mortgages that exist only in digital form, an initiative that will be shaped into a pilot program in 2019.

Ginnie Mae Has Been Managing Risk For 50 Years

During Ginnie Mae's 50-year history, the program has proven its stability, scalability and utility in a variety of market cycles, maintaining its profitability throughout. As Ginnie Mae's market share has dramatically increased over the past decade, to nearly 30 percent of the agency MBS market, and as we've seen an influx of new participants in the MBS program, we've skillfully managed the risks of expanded service.

Compared to the period just after the financial crisis, today a much larger share of Ginnie Mae's MBS portfolio is generated and serviced by non-bank institutions. These groups play a valuable role in making adequate home financing available, especially to low- and moderate-income, veteran and rural borrowers. They also have markedly different risk characteristics compared to banking institutions because of their narrower line of business and greater dependence on external financing.

In one sense this trend has mitigated risk, because with our book of business more widely distributed across more Issuers, non-bank financial institutions have reduced Ginnie Mae's exposure to the risk of any one institution failing. At the same time, however, there are more institutions to monitor, and the transactions and institutions we oversee are in many ways more complex than in earlier eras.

In "Ginnie Mae 2020," the roadmap for our management of the MBS program that we released in 2018, we laid out our plan to enhance liquidity and counterparty risk management. Steps we are taking include: strategies to attract more capital to the field, additional standards governing leverage and financing, new acceptable risk parameters, and stress testing and new requirements for Issuers who attain a certain level of prominence within the housing finance system.

Ginnie Mae is Looking Toward Tomorrow

As we move into Fiscal Year 2019, Ginnie Mae is pushing to make the housing finance system function better, continuing to focus on putting in place stronger technology and risk management and being responsive to the needs of our various stakeholders.

We recognize that we occupy a vital place in housing finance, and that with that comes responsibility. We fund the government loan market so millions of Americans — including low- and moderate-income borrowers, minority borrowers, rural borrowers and first-time home buyers — can buy, rent or refinance their homes. We support veterans by attracting the global capital that funds loans under the VA loan guaranty programs.

Ginnie Mae can support a $500 billion book of business — as we did just a few years ago — or the $2 trillion in securities outstanding today or even more if tasked to do so in the future. We are fully equipped to continue serving the mission defined by Congress in our charter.

As we stated in our 2020 roadmap, we are diligently working to implement significant enhancements in the MBS program by that year, incorporating technological progress and new ways of recognizing and managing risk. We will continue to innovate by exploring new ways of applying the basic principles that have worked so well in the five decades since the program's inception.

And we are looking beyond 2020 as well, to ensure we can meet every challenge and seize every opportunity to fulfill our mission of bringing global capital into the U.S. housing market while minimizing risk to the American taxpayer.

Ginnie Mae is pushing to make the housing finance system function better.

Figure 2 – Percentage share of Ginnie Mae MBS by year

10 Years of Growth

Management's Discussion and Analysis of Financial Condition and Results of Operations[1]

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, 2018. 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.

RESTATEMENT OF PRIOR FINANCIAL STATEMENTS AND REMEDIATION UPDATES

The U.S. Department of Housing and Urban Development (HUD) Office of the Inspector General (OIG) issued a disclaimer of opinion on Ginnie Mae's 2014, 2015, 2016, 2017, and 2018 financial statements. The disclaimer focused primarily on Ginnie Mae's non-pooled loans portfolio that was acquired from defaulted, terminated, and extinguished Issuers of Ginnie Mae guaranteed mortgage-backed securities (MBS), which totaled $3.0 billion and $3.6 billion, net, as of September 30, 2018 and 2017, respectively. Ginnie Mae contracted with master sub-servicers (MSS) to provide the servicing functions of defaulted, terminated, and extinguished Issuers' mortgage loans. Due to data limitations, Ginnie Mae was unable to report these non-pooled loan portfolio balances in compliance with U.S. Generally Accepted Accounting Principles (US GAAP or GAAP) requirements in fiscal years 2018 and 2017 comparative financial statements, and determined that it would require a significant investment in technology, infrastructure, and personnel, spanning multiple years to remediate this finding.

Ginnie Mae's objective for fiscal year 2018 was to continue remediation efforts associated with the material weaknesses noted by OIG that led to the disclaimer of opinion in the prior years. 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 US 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.

During fiscal year 2018, Ginnie Mae achieved the following significant milestones towards attaining this objective:

- Developed accounting policies to govern the reporting of non-pooled loans;
- Developed financial architecture for non-pooled loans called Subledger Database (SLDB), a non-pooled assets reporting tool to standardize reporting of loan level information;
- Developed and executed business requirements documents for SLDB; and
- Performed validation procedures on historical MSS loan level information to support relevant financial statement assertions.

Validation or testing of data inputs and outputs from SLDB is ongoing as part of the readiness assessment of SLDB before the planned go-live date in fiscal year 2019. The remediation process continues to require extensive and complex work, including both employees and external consultants.

Although Ginnie Mae continues to show significant progress to improve the non-pooled loan portfolio balances in compliance with US GAAP, Ginnie Mae remains non-compliant for the fiscal year 2018 and the comparative periods presented. Management will assess the impacted financial statement line items and related disclosures during fiscal year 2019 for restatement.

[1] *In some cases, percentages and certain numbers may not foot due to rounding*

Explanation and Reconciliation of Ginnie Mae's Use of Non-GAAP Financial Measures and Key Performance Measures

Throughout this MD&A, non-GAAP financial measures are used to provide users with meaningful insights into Ginnie Mae's results for the periods presented. Non-GAAP financial measures represent the comparable GAAP financial measure adjusted for certain items outside of normal business operations. Whenever used, the non-GAAP financial measures are reconciled to GAAP measures to show adjustments applied.

Below are the non-GAAP financial measures used in this MD&A:

Non-GAAP Results of Operations (Earnings)

To arrive at the non-GAAP earnings, GAAP results of operations are adjusted for expense or income items that do not involve any real cash flow impact for Ginnie Mae, as shown in the table below:

Figure 1 *– Non-GAAP Results of Operations*

	For the Year Ended September 30,			
	2018		2017	
	(Dollars in thousands)			
GAAP Results of Operations	$	1,736,200	$	2,139,621
Adjustments for:				
Total Other (Gains)/Losses		1,107,218		227,107
Total (Recapture) / Provision		(203,308)		263,487
Fixed asset depreciation and amortization		20,130		20,538
Non-GAAP Results of Operations	**$**	**2,660,240**	**$**	**2,650,753**

Ginnie Mae's non-GAAP earnings remained relatively constant, with an increase of $9.5 million compared to prior year.

Free Cash Flow

As Ginnie Mae is expected to have enough cash reserves to satisfy its guaranty to investors, its free cash flow has been determined as cash flow from operating activities, adjusted for any investing related activities (i.e., those activities that are required to maintain its cash generating ability. Such activities include purchase or disposal of its fixed assets).

Figure 2 *– Free Cash Flow for Fiscal Year 2018*

	For the Year Ended September 30,			
	2018		2017	
	(Dollars in thousands)			
Cash generated from operating activities	$	1,677,071	$	1,878,712
Adjustments for:				
Purchases of fixed assets		(17,835)		(25,698)
Free cash flow	**$**	**1,659,236**	**$**	**1,853,014**

Ginnie Mae's free cash flow decreased $190.8 million from $1,853.0 million in fiscal year 2017 to $1,659.2 million in fiscal year 2018, primarily driven by the decrease in GAAP earnings.

Financial Condition

In fiscal years 2018 and 2017, 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 3, total assets as of September 30, 2018 increased to $33.9 billion from $31.6 billion as of September 30, 2017. GAAP results of operations were $1.7 billion for fiscal year 2018 compared with $2.1 billion for fiscal year 2017. The decrease in GAAP results of operations was mainly driven by increase in fair value loss on guaranty asset. As of September 30, 2018, Ginnie Mae held cash and cash equivalents of $20.9 billion, an increase of about $1.9 billion from $19.0 billion as of September 30, 2017. Cash and cash equivalents represented 1.05 percent and 1.01 percent of the outstanding MBS balance, respectively. Ginnie Mae has increased its cash and cash equivalents balances for three straight years since 2015. Mortgage loans held for investment including accrued interest net was $2.7 billion as of September 30, 2018 compared to $3.1 billion as of September 30, 2017. It has steadily been declining since 2013 as loan buy-out activity has decreased and loans get paid down, as a result of scheduled and unscheduled payments, or move to foreclosure and to Real Estate Owned (REO) properties. Guaranty asset was $9.0 billion as of September 30, 2018 compared with $8.3 billion as of September 30, 2017, an increase of $0.7 billion.

Ginnie Mae issued $458.7 billion in commitment authority in fiscal year 2018, a 13.4 percent decrease from $529.7 billion in fiscal year 2017.

Figure 3 *– Selected Financial Data from Balance Sheets*

	September 30,			
	2018		2017	
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$	20,893,461	$	18,989,691
Restricted cash and cash equivalents		754,424		658,527
Mortgage loans held for investment including accrued interest, net		2,735,824		3,130,975
Guaranty asset		9,007,952		8,256,092
Other assets[2]		473,027		606,799
Total Assets	**$**	**33,864,688**	**$**	**31,642,084**
Liabilities:				
Liability for loss on mortgage-backed securities program guaranty	$	21,293	$	268,443
Guaranty liability		7,733,115		7,014,376
Other liabilities[3]		543,168		528,353
Total Liabilities	**$**	**8,297,576**	**$**	**7,811,172**
Investment of U.S. Government	$	25,567,112	$	23,830,912
Total Liabilities and Investment of U.S. Government	**$**	**33,864,688**	**$**	**31,642,084**

[2] *Other assets include: Accrued fees and other receivables; Claims receivable, net; Advances, net; Acquired property, net; Fixed assets, net; Mortgage servicing rights; and Other*

[3] *Other liabilities include: Accounts payable and accrued liabilities; Deferred liabilities and deposits; Deferred revenue; and Liability for representations and warranties*

Liquidity and Capital Adequacy

Ginnie Mae's primary sources of revenue are guaranty fees and commitment fees from the issuance of MBS. Ginnie Mae reported $21.6 billion total cash and cash equivalents as of September 30, 2018, of which $20.9 billion and $754.4 million were unrestricted and restricted, respectively. Total cash and cash equivalents increased by approximately $2.0 billion from $19.6 billion as of September 30, 2017.

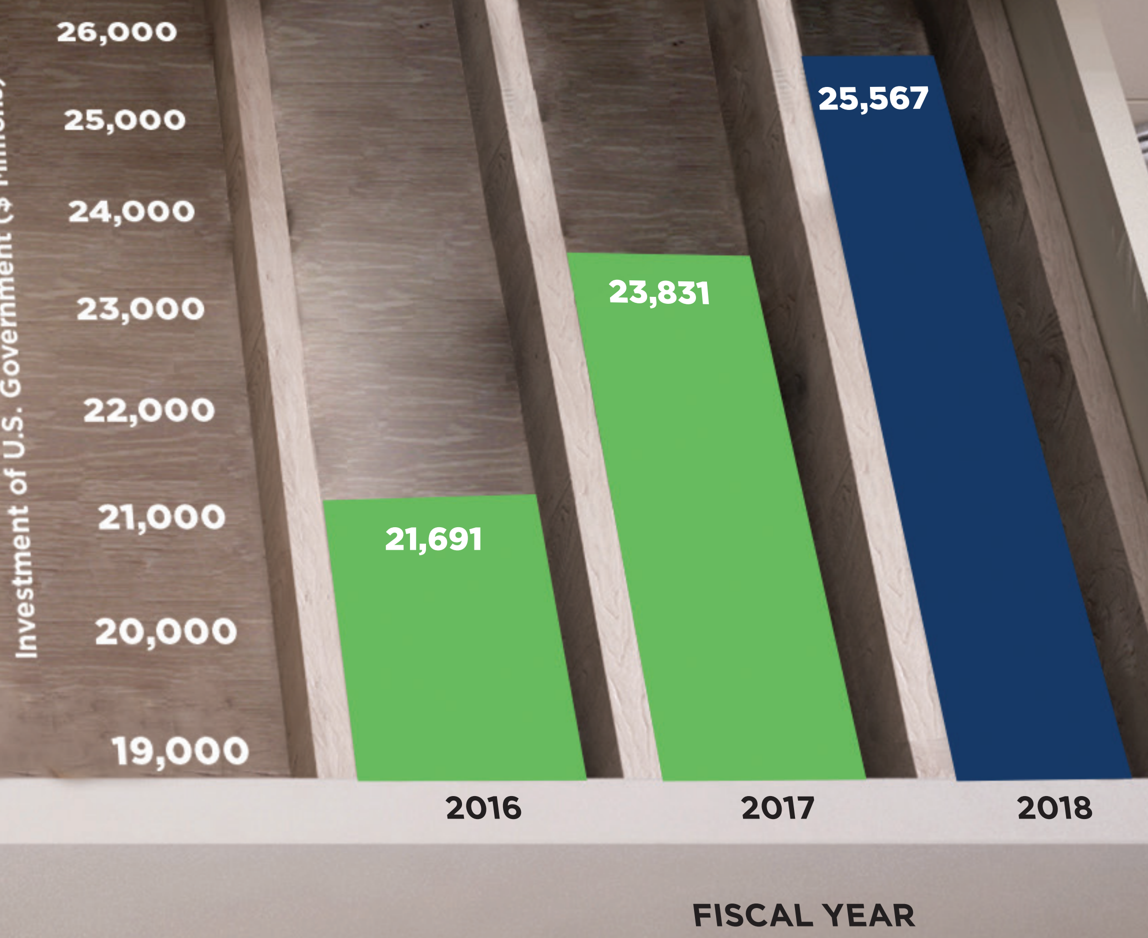
Unrestricted cash and cash equivalents included $16.3 billion and $4.6 billion of U.S. Treasury overnight certificates and funds with U.S. Treasury, respectively, as of September 30, 2018. While the balance of U.S. Treasury overnight certificates decreased $982.8 million from September 30, 2017, funds with U.S. Treasury increased $2.9 billion.

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 management believes that the organization should continue to maintain adequate capital reserves to withstand downturns in the housing market that could cause Issuer defaults to increase.

Ginnie Mae's primary uses of cash include purchases of loans held for investment and fixed assets. Purchases of loans held for investment were $20.1 million in fiscal year 2018 and $24.9 million in fiscal year 2017 respectively. Ginnie Mae purchases loans in the event of Issuer default, at which point Ginnie Mae steps into the role of the defaulted and extinguished Issuer. Purchases of fixed assets were $17.8 million in fiscal year 2018 and $25.7 million in fiscal year 2017. Ginnie Mae's fixed asset purchases include commercial off-the-shelf software purchases hardware, and internally developed software.

At September 30, 2018, the investment of U.S. Government (GAAP-based retained earnings) was $25.6 billion, compared with $23.8 billion at September 30, 2017. See Figure 4 for the investment of U.S. Government for each of the past three years.

Figure 4 – *Investment of U.S. Government (GAAP-based retained earnings) from Fiscal Year 2016 to Fiscal Year 2018*



Results of Operations

Ginnie Mae generated positive results of operations (i.e., net profit) of $1,736.2 million in 2018 compared to positive results of operations of $2,139.6 million in 2017, a decrease of $403.4 million from 2017. The decrease was largely driven by an $881.7 million increase in fair value loss on guaranty asset, which was $1,106.1 million in 2018 compared with a fair value loss on guaranty asset of $224.4 million in 2017. The change in the fair value of guaranty asset was primarily driven by the increase in pay-downs and pay-offs of the loans. The increase in loss on guarantee asset was offset by the decrease of $514.2 million in total provision for mortgage-backed program guaranty.

Figure 5 *– Selected Financial Data from Statement of Revenues and Changes in Investment of U.S. Government*

	For the year ended September 30,			
	2018		2017	
	(Dollars in thousands)			
Revenues:				
MBS program income[4]	$	1,510,967	$	1,462,153
Income on guaranty obligation		1,139,255		1,266,867
Other interest income		236,311		164,433
Total Revenues	**$**	**2,886,533**	**$**	**2,893,453**
Expenses:				
Administrative expenses	$	(28,045)	$	(26,461)
Fixed asset depreciation and amortization		(20,130)		(20,538)
Mortgage-backed securities program and other expenses		(198,248)		(216,239)
Total Expenses	**$**	**(246,423)**	**$**	**(263,238)**
Total Recapture (Provision)[5]	**$**	**203,308**	**$**	**(263,487)**
Total Other Gains / (Losses)[6]	**$**	**(1,107,218)**	**$**	**(227,107)**
Results of Operations	**$**	**1,736,200**	**$**	**2,139,621**

[4] *MBS program income includes: MBS guaranty fees; interest on mortgage loans held for investment; commitment fees; multiclass fees; and other MBS program income*

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

[6] *Total other gains (losses) includes: gains and losses on guaranty asset; mortgage servicing rights (MSR); disposition of investment; and other*

Revenues

In 2018, Ginnie Mae earned total revenue of $2,886.5 million, down from $2,893.5 million in 2017. 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 6 – *Ginnie Mae's Total Revenues from Fiscal Year 2016 to Fiscal Year 2018*

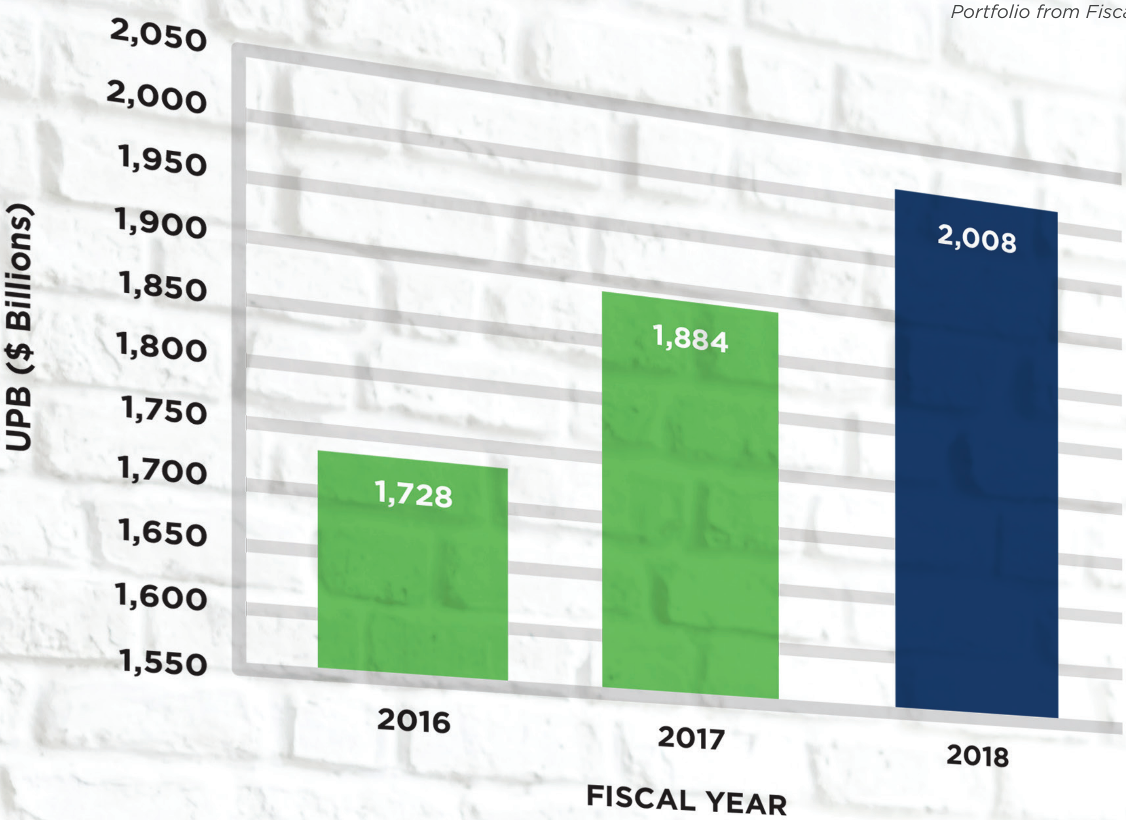
MBS Program Income

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 2018, MBS program income was primarily driven by guaranty fees of $1,237.0 million, followed by gross interest on mortgage loans held for investment of $138.7 million, commitment fees of $88.4 million and multiclass fees of $27.8 million. Combined, guaranty fees, interest on mortgage loans held for investment and commitment fees contributed 96.9 percent of total MBS program revenue for 2018.

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.

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 pooled loans portfolio. MBS guaranty fees grew 7.8 percent to $1,237.0 million in fiscal year 2018, up from $1,147.9 million in 2017. The growth in guaranty fee income reflects an increase in the MBS portfolio. The outstanding MBS portfolio balance at the end of fiscal year 2018 was $2,008.2 billion compared to $1,884.2 billion at the end of fiscal year 2017, due to new issuances exceeding liquidations (Figure 7).

Figure 7 *– UPB Outstanding in Ginnie Mae's MBS Portfolio from Fiscal Year 2016 to Fiscal Year 2018*



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 2018, gross interest on mortgage loans held for investment decreased to $138.7 million from $162.9 million in fiscal year 2017, which was primarily driven by pay-downs of, and decreased buy out activities for, mortgage loans held for investment portfolio.

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 $458.7 billion in commitment authority in fiscal year 2018, a 13.4 percent decrease from fiscal year 2017. 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, 2018 and 2017, commitment fees deferred totaled $25.0 million and $26.2 million, respectively.

Multiclass Fees — Multiclass fees are part of MBS program revenue and are composed of Real Estate Mortgage Investment Conduits (REMIC) and Platinum program fees. Ginnie Mae guaranteed approximately $19.6 billion in Platinum Certificates in fiscal year 2018 compared to $7.8 billion in Platinum Certificates in fiscal year 2017. Fees earned on Platinum Certificates totaled $7.2 million for fiscal year 2018 compared to $7.6 million for fiscal year 2017. Ginnie Mae guaranteed REMIC issuances of $77.5 billion in fiscal year 2018 compared to $80.6 billion in fiscal year 2017. Fees earned on REMIC securities for fiscal year September 30, 2018 totaled $20.7 million compared to $19.7 million for the fiscal year September 30, 2017. 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, 2018 and 2017, REMIC and Platinum program fees deferred totaled $446.0 million and $435.6 million, respectively.

The estimated outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2018, was $489.7 billion. This represents a $23.1 billion increase from the $466.6 billion outstanding balance as of September 30, 2017.

Income on Guaranty Obligations

Ginnie Mae amortizes its guaranty obligation into revenues based on the declining UPB of MBS. In fiscal year 2018, income on guaranty obligations decreased by $127.6 million compared to fiscal year 2017.

Other Interest Income

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 2018 due to an increase in the investment in U.S. Treasury overnight certificates as compared to fiscal year 2017. In fiscal year 2018, interest income on U.S. Treasury overnight certificates increased to $236.3 million from $94.9 million in fiscal year 2017. Ginnie Mae received $69.5 million of interest on uninvested fund balances in fiscal year 2017, but none in fiscal year 2018 due to a dispute with the U.S. Treasury over Ginnie Mae's right to receive this interest.

Expenses

Total expenses declined by 6.4 percent to $246.4 million in fiscal year 2018 compared with $263.2 million in fiscal year 2017, a decrease of $16.8 million. Total expenses as a percentage of average UPB of Ginnie Mae guaranteed MBS decreased to 0.013 percent in fiscal year 2018 compared to 0.015 percent in 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. This relationship is integral to operational efficiency and will continue to be an important part of Ginnie Mae's approach. In fiscal year 2018, Ginnie Mae's total contractor expenses were at 7.6 percent of total revenue compared with 8.7 percent in fiscal year 2017.

MBS Programs, Issuances, and Portfolio Growth

Ginnie Mae MBS issuance decreased by 13.8 percent to $434.7 billion in fiscal year 2018, as shown in Figure 8 (right).

The current MBS guarantees outstanding amount is $2,008.2 billion, which is a $124.0 billion increase over the amount of $1,884.2 at the end of fiscal year 2017. Ginnie Mae has guaranteed approximately $7.1 trillion in MBS since its inception.

As shown in Figure 9 below, Ginnie Mae supported approximately 1.9 million units of housing for individuals and families in fiscal year 2018, a 12.1 percent decrease from fiscal year 2017. The current total outstanding MBS of $2.0 trillion represents over 11.1 million active loans (excluding HMBS/HECM).

Figure 9 *– Ginnie Mae - Supported Units of Housing from Fiscal Year 2016 to Fiscal Year 2018*

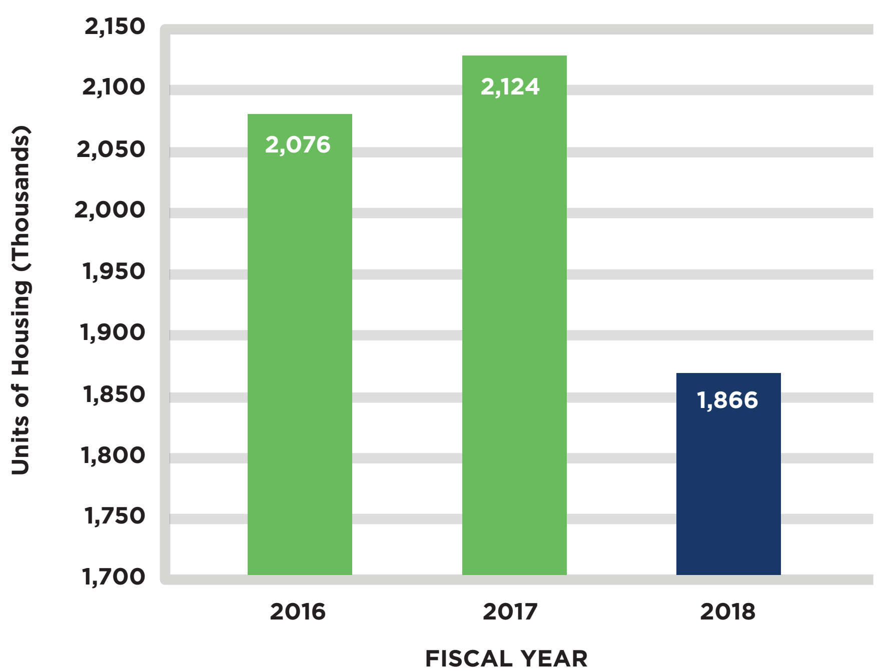


Figure 8 *– Ginnie Mae MBS Issuance from Fiscal Year 2016 to Fiscal Year 2018*

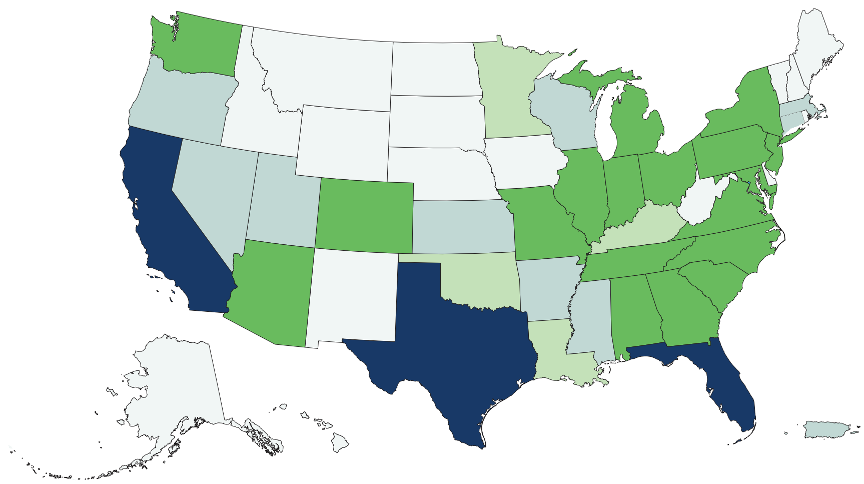
Single Family Program

The vast majority of the mortgages in Ginnie Mae securities are insured by Federal Housing Administration (FHA) and U.S. Department of Veterans Affairs (VA). FHA-insured loans accounted for 60.3 percent of fiscal year 2018 Ginnie Mae MBS issuances, while VA-insured loans accounted for 32.9 percent; U.S. Department of Agriculture's Rural Development Agency (RD) and the Office of Public and Indian Housing (PIH) loans contributed to 6.9 percent. Comparatively, FHA-insured loans accounted for 60.6 percent of fiscal year 2017 Ginnie Mae MBS issuances, while VA-insured loans accounted for 33.0 percent; RD and PIH loans contributed to 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 FHA loans are financed through Ginnie Mae securities. In fiscal year 2018, 96.7 percent of FHA fixed-rate loans and 97.0 percent of VA fixed-rate loans were placed into Ginnie Mae guaranteed MBS. 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 guaranteed MBS.

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 10 highlights the geographic distribution of single family properties securing Ginnie Mae securities as of September 30, 2018.

Figure 10 – *Geographic Distribution of Single Family Properties Securing Ginnie Mae Securities as of September 30, 2018*



Less than 100,000 Loans

100,000 – 149,000 Loans

150,000 – 199,999 Loans

200,000 – 499,999 Loans

Greater than 500,000 Loans

State	Loans	Percent of Total Loans	UPB
Texas	1,040,370	9.40%	$149,123,073,280
California	772,440	6.98%	$211,344,986,645
Florida	759,120	6.86%	$126,183,394,763
Georgia	494,710	4.47%	$71,599,057,352
Ohio	439,541	3.97%	$50,295,446,654
Virginia	431,646	3.90%	$97,733,359,265
North Carolina	415,536	3.76%	$59,681,584,926
Pennsylvania	400,196	3.62%	$55,582,479,142
Illinois	357,693	3.23%	$51,384,902,607
New York	325,555	2.94%	$61,461,240,691
Top 10 Total	**5,436,807**	**49.13%**	**$934,389,525,326**

Multifamily Program

At the end of fiscal year 2018, Ginnie Mae guaranteed securities comprising 99.6 percent of eligible multifamily FHA loans. The Multifamily Program portfolio increased by $9.6 billion, from $105.8 billion at the end of fiscal year 2017 to $115.4 billion at the end of fiscal year 2018. Figure 11 (right) shows the geographic distribution of multifamily properties securing Ginnie Mae securities as of September 30, 2018. Since 1971, Ginnie Mae has guaranteed $302.4 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.

In addition, Ginnie Mae's portfolio of multifamily RD loans grew in fiscal year 2018 to an unpaid principal balance of $1,091.9 million compared to $900.6 million at the end of fiscal year 2017. There were RD loans in 49 states in Ginnie Mae pools at September 30, 2018.

State	Loans	Percent of Total Loans	UPB
Texas	1,129	7.83%	$10,775,626,928
Ohio	1,033	7.17%	$4,557,412,655
California	944	6.55%	$7,822,083,702
Indiana	707	4.90%	$4,150,378,542
Illinois	693	4.81%	$5,782,971,855
Michigan	625	4.34%	$4,032,280,950
North Carolina	610	4.23%	$4,203,820,991
Florida	588	4.08%	$6,010,069,575
New York	564	3.91%	$8,398,822,767
Minnesota	468	3.25%	$3,481,923,041
Top 10 Total	**7,361**	**51.07%**	**$59,215,391,006**

HMBS Program

FHA-insured reverse mortgages are the only loan types that qualify for Ginnie Mae's HMBS program. HMBS issuance in fiscal year 2018 increased to $10.7 billion from $9.6 billion at fiscal year 2017. The UPB of HMBS as of September 30, 2018 was $55.3 billion compared to $55.1 billion as of September 30, 2017.

Manufactured Housing Program

The Manufactured Housing program's UPB was $273.0 million at the end of fiscal year 2018, a decrease from $277.0 million at the end of fiscal year 2017.

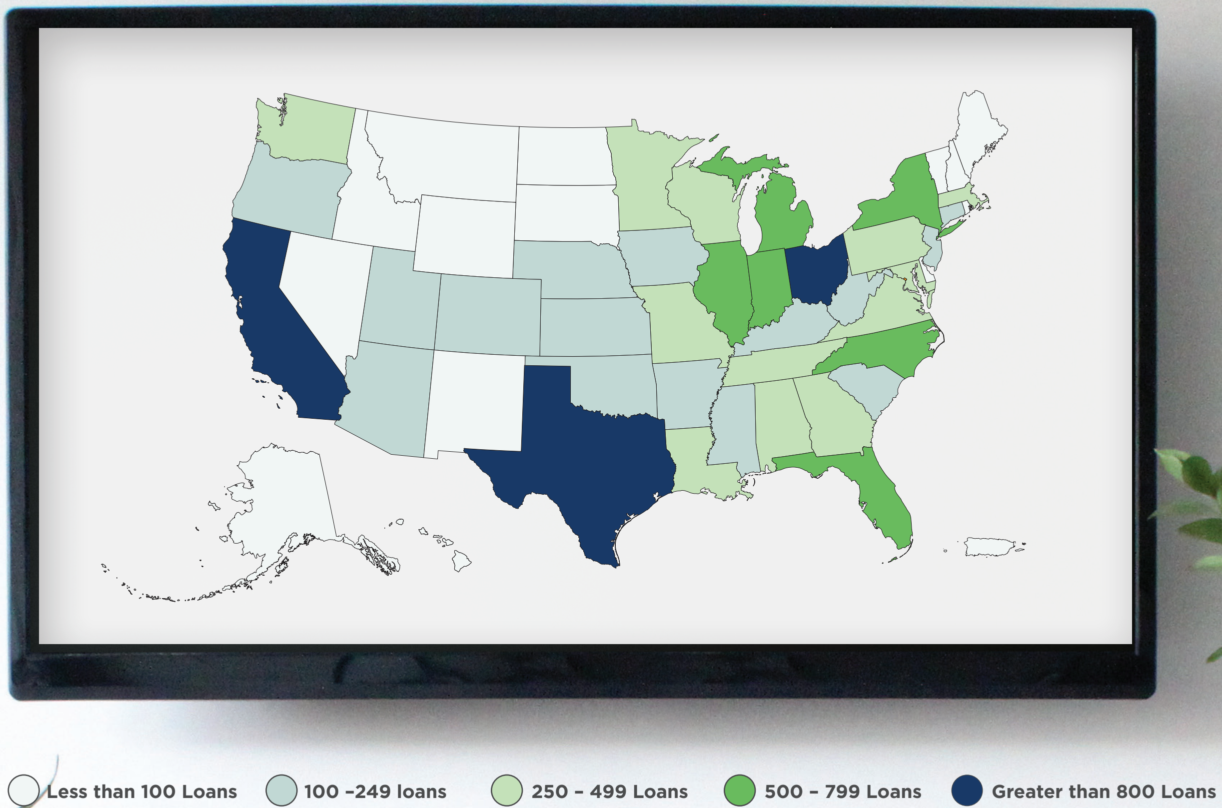
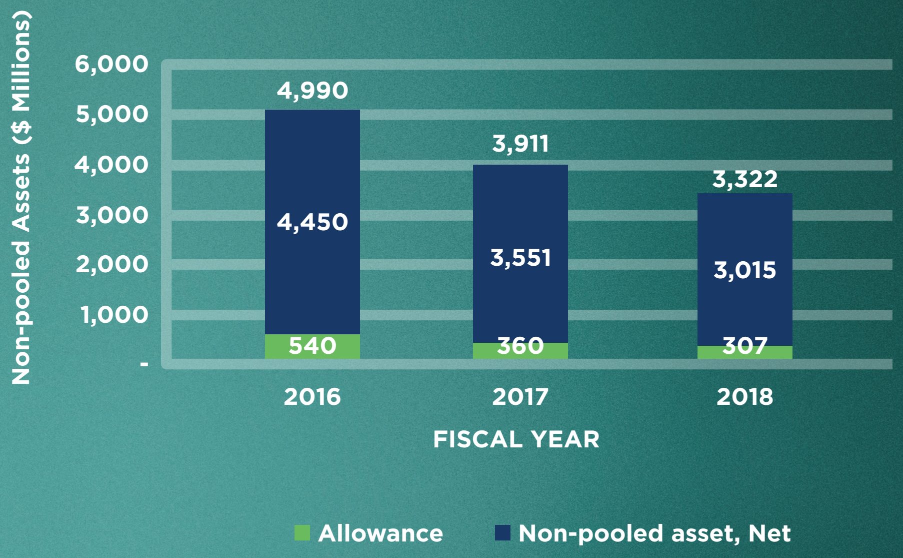


Figure 11 *– Geographic Distribution of Multifamily Properties Securing Ginnie Mae Securities as of September 30, 2018*

Non-pooled Assets

Figure 12 below indicates the declining trend in the balance on Ginnie Mae's non-pooled assets. As highlighted, this balance declined to $3.0 billion as of the end of 2018 from $3.6 billion in fiscal year 2017. The decline is mainly due to both scheduled and unscheduled payments, decrease in loan buy-out activity and defaults that result in the transfer of the loan to either claims or acquired property (see Figure 12).

Figure 12 *– Trend for Non-pooled Assets and Related Allowance*



Critical Accounting Estimates

Certain Ginnie Mae accounting policies require management to use estimates and judgments that affect the amounts reflected in its annual financial statements. Ginnie Mae has established policies and control procedures to ensure that estimation methods, including any significant judgments, are appropriately reviewed and applied consistently from period to period. Such estimates and judgments inevitably involve varying degrees of uncertainty. Accordingly, certain amounts currently recorded in the financial statements will likely be adjusted in the future based on new available information, and changes in other facts and circumstances. The following is a brief description of Ginnie Mae's critical accounting estimates involving significant judgments.

Assets measured at fair value

Ginnie Mae carries a portion of its assets and liabilities at fair value. Guaranty asset (GA) and mortgage servicing rights (MSR) are measured at fair value on a recurring basis, while acquired property (AP) is measured at fair value on a nonrecurring basis.

See *Note 3: Summary of Significant Accounting Policies and Practices* and *Note 12: Fair Value Measurements* for details on Ginnie Mae's processes for determining fair values for GA, MSR, and AP. Estimating fair value requires the application of judgment. The type and level of judgment required is largely dependent on the amount of observable market information available to Ginnie Mae. All three assets measured at fair value use internally developed valuation models and other valuation techniques that use significant unobservable inputs and are therefore classified within Level 3 of the valuation hierarchy. In arriving at an estimate of fair value for an instrument within Level 3, Ginnie Mae first determined an appropriate valuation technique to use and then assessed all relevant historical data to derive valuation inputs that include, for example, the following:

- **GA** — Key considerations for GA valuation include default rates, interest rates, discount rate, and prepayment rates. These significant unobservable inputs change according to macroeconomic market conditions. Ginnie Mae is responsible for the development of a model owned by the Office of Enterprise Risk Management (OER) to calculate the net present value of the expected future guarantee fees over the guarantee period as of the reporting date. The amount is based on the guarantee fee rate for the type of program (e.g., single-family, multi-family, etc.) to be paid by Issuers on the unpaid principal balance of the outstanding MBS portfolio.

- **MSR** — Key considerations for MSR valuation include prepayment experience, forward yield curves, adequate compensation, delinquency rates, and discount rates commensurate with the risks involved. In the event of an Issuer default, Ginnie Mae has the responsibility to service the loans and MBS securities. It will also be entitled to servicing rights to earn any related servicing compensation. 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. Ginnie Mae measures the fair value of MSR based on the present value of expected cash flows from servicing the underlying mortgage assets.

- **AP** — U.S. GAAP requires acquired property to be initially measured at its fair value, net of estimated costs to sell and subsequently measured at lower of cost or market value. Ginnie Mae's current practice for reporting AP constitutes a departure from U.S. GAAP, 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. The AP balance is subject to restatement in fiscal year 2019. Refer to *Note 11: Acquired Property, Net* for further information.

Ginnie Mae bears the risk of change in fair value due to uncertainties related to these underlying inputs and the related difficulty in measurement. Ginnie Mae's Modeling and Valuation Committee (MVC) meets quarterly in order to review all key model assumptions for applicability and analyzes trends quarter over quarter. OER performs back testing on a yearly basis in order to gauge accuracy and effectiveness of modeled estimates. Refer to *Note 12: Fair Value Measurements* for illustration of the potential magnitude of certain alternate judgments (i.e., how sensitive these assumptions are) based on changes in certain inputs.

Loss Allowance Estimate

Mortgage loans held for investment, including accrued interest, net are reported on Ginnie Mae's balance sheet net of an allowance. This allowance is intended to adjust the carrying value of non-pooled loans to reflect probable credit losses on each balance sheet date. 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 aggregates its mortgage loans based on common risk characteristics, for example type of insurance (FHA, VA, RD, PIH) associated with the loan or as uninsured 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. Examples of changes in factors that will increase Allowance for Loan and Lease Losses (ALLL) include:

- Increase in foreclosure timeline
- Decrease in house price
- Decrease in borrower cure rate
- Increase in portfolio delinquency

Ginnie Mae also 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.

Ginnie Mae's current practice for reporting ALLL constitutes a departure from U.S. GAAP, as 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. Ginnie Mae will assess the information used to determine ALLL related financial statement line items for restatement in fiscal year 2019. Refer to *Note 9: Mortgage Loans Held for Investment Including Accrued Interest, Net* for further information.

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 $124.8 billion in fiscal year 2018 compared to $121.0 billion in fiscal year 2017. 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.

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 $2.0 trillion and $1.9 trillion at September 30, 2018 and 2017, 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 $7.7 billion and $7.0 billion at September 30, 2018 and 2017, 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, RD, or PIH. At September 30, 2018 and 2017, Ginnie Mae recorded $60.8 thousand and $54.0 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. 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 loans 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 the 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 non-compliance with applicable regulation or law, interest rates and other economic conditions.

As of September 30, 2018, Ginnie Mae estimated potential losses of $16.0 million related to four Issuers identified as probable of defaulting, as compared to $268.4 million due to three Issuers identified as of September 30, 2017. This year, Ginnie Mae also estimated potential losses up to $282.6 million related to 17 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 multifamily loans at September 30, 2018 and September 30, 2017. Refer to *Note 15: Reserve for Loss* for further information on estimated losses associated with Issuer defaults.

Issuer Concentration Risk

Concentrations of credit risk exists 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. 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.

In fiscal year 2018, the Federal Emergency Management Agency (FEMA) issued declarations for natural disasters involving hurricane Florence that impacted Florida, Georgia, and Alabama. Ginnie Mae's exposure to its MBS Portfolio is summarized in the following table (Figure 13). The information discloses the number of loans and unpaid principal balance with potential exposure to the FEMA declared disaster areas.

Figure 13 *– Ginnie Mae MBS Aggregate Exposure in FEMA Disaster Declared Zones*

	September 30, 2018			
	Pooled Loans	**% of Total Pooled Loans**	**UPB**	**% of Total UPB**
	(Dollars in thousands)			
Hurricane Florence	149,935	1.31%	$ 23,491,321	1.17%
Total exposure	**149,935**	**1.31%**	**$ 23,491,321**	**1.17%**
Ginnie Mae Total Outstanding	**11,417,989**	**100%**	**$ 2,011,124,702**	**100%**

Non-pooled loans impacted by the natural disasters presented below are 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. Ginnie Mae is gathering specific impact information within disaster declared zones for actual exposure. The table below discloses Ginnie Mae's aggregate exposure to the declared natural disasters, not the actual damage.

Figure 14 *– Ginnie Mae's Non-Pooled Loans Impacted by Natural Disasters Declared by FEMA in Fiscal Year 2018*

	September 30, 2018				
	Non-Pooled Loans	% of Total Non-Pooled Loans		UPB	% of Total UPB
	(Dollars in thousands)				
Hurricane Florence	1,745	7.85%	$	176,626	6.14%
Total exposure	**1,745**	**7.85%**	**$**	**176,626**	**6.14%**
Ginnie Mae Total Outstanding	**22,221**	**100%**	**$**	**2,876,091**	**100%**

As of date of issuance of this annual report, the estimated potential loss to Ginnie Mae resulting from the hurricane was still being assessed.

Mortgage Servicing

Ginnie Mae's loan servicing functions are outsourced to two MSS. As Ginnie Mae relies on these MSS for transaction servicing data and accounting reports, any operational or technical failures in MSS' own controls may negatively impact Ginnie Mae's own operations. To mitigate such a risk, Ginnie Mae performs ongoing reviews and monitoring of the MSS, including requiring the MSS to provide attestation reports over their own internal controls.

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.

In reference to the Enterprise Risk Management component of OMB Circular No. A-123, Ginnie Mae has delivered on all requirements and met all standards in accordance with the circular as of fiscal year 2018. Ginnie Mae's Enterprise Risk Management program is considered best practice in the federal space currently.

Ginnie Mae's management performed an evaluation of resources needed to perform an A-123 review in FY 2018, assessed Ginnie Mae's operations, and determined employees who possess significant subject matter expertise, tenure within the organization, and institutional knowledge, fulfill activities within and outside of the boundaries of their designated roles. These employees carry out mission-critical roles throughout Ginnie Mae, and operations are significantly impacted by these employees so much that extensive reliance on these individuals has created a dependency. Furthermore, divisions across Ginnie Mae, such as the Office of the Chief Financial Officer (OCFO), are tasked with executing their routine program area goals with limited resources. These key employees are also responsible for supporting external audits, such as the OIG annual financial statement audit. Some of these divisions are now operating at or beyond capacity. Diversion of resources could also adversely impact the program area mission.

AUDIT REPORT OF GINNIE MAE'S FY 2018 AND FY 2017 FINANCIAL STATEMENTS

Government National Mortgage Association, Washington, DC

Audit of Fiscal Years 2018 and 2017

Financial Statements

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2019-FO-0001
November 13, 2018

To: Michael Bright, Executive Vice President and Chief Operating Officer, TA

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

Subject: Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2018 and 2017

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 2018 and 2017 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: 2019-FO-0001
Date: November 13, 2018

Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2018 and 2017

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, 2018 and 2017. The Government Corporation Control Act, as amended, requires the Office of Inspector General to audit the financial statements of Ginnie Mae annually. This report presents the results of our fiscal years 2018 and 2017 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 2018, for the fifth consecutive year, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the $3 billion (net of allowance) in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio as of September 30, 2018. Ginnie Mae also continued to improperly account for Federal Housing Administration reimbursable costs as an expense instead of capitalizing them, also for the fifth consecutive year. 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 2018 and 2017 financial statements. This report contains the updated status of prior-year audit findings, comprised of four material weaknesses, one significant deficiency, and one reportable noncompliance with selected provisions of laws and regulations.

What We Recommend

Our prior-year audit recommendations are directed toward improving and strengthening Ginnie Mae's governance of its financial operations. We did not have any new audit recommendations in fiscal year 2018. Open recommendations made in previous years are not included in this report.

Table of Contents

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

Independent Auditor's Report

Executive Vice President and Chief Operating Officer
Government National Mortgage Association

In our audits of the fiscal years 2018 and 2017 financial statements of the Government National Mortgage Association (Ginnie Mae), we found

- That certain material weaknesses and other limitations on the scope of our work resulted in conditions that continued to prevent us from expressing an opinion on the accompanying financial statements as of and for the fiscal years ending September 30, 2018 and 2017.
- That Ginnie Mae's internal control over financial reporting was not effective as of September 30, 2018 and 2017. We identified four material weaknesses and one significant deficiency in internal control over financial reporting.
- One instance of reportable noncompliance for fiscal year 2018 with certain provisions of applicable laws and regulations we tested.

The following sections and appendixes discuss in more detail (1) our report on the financial statements, (2) our report on internal control over financial reporting, (3) our report on compliance with laws and regulations, (4) agency comments and our evaluation, and (5) the current status of prior-year audit findings.

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Ginnie Mae, which are comprised of the balance sheets as of September 30, 2018 and 2017, 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

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.

Auditor's Responsibility

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

Basis for Disclaimer of Opinion

The following unresolved matters are a scope limitation in our audit work that contributed to our disclaimer of opinion on the fiscal year 2018 financial statements. There were no other satisfactory alternative audit procedures that we could adopt to obtain sufficient, appropriate evidence with respect to these unresolved matters. Readers are cautioned that amounts reported in the financial statements and related notes may not be reliable because of these unresolved matters.

- Nonpooled loan assets. For the fifth consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets (NPA) into an auditable state in fiscal year 2018. Therefore, we were unable to audit the $3 billion (net of allowance) in NPA reported in Ginnie Mae's financial statements as of September 30, 2018. The NPA represents 9 percent of Ginnie Mae's total assets in the balance sheet. These NPA assets relate to (1) claims receivable, net ($253 million); (2) mortgage loans held for investment, including accrued interest, net ($2,736 million); and (3) acquired property, net ($25 million). This condition occurred because the subledger database project (SLDB), which was the solution developed by Ginnie Mae management in response to our finding, was not yet in place and fully implemented at the end of fiscal year 2018. Therefore, 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 billion in NPA and related accounts as of September 30, 2018.

- Receivable for reimbursable expenses from FHA. For the fifth 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 in fiscal year 2018. 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.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion, 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 notes 3 and 4 to the financial statements, Ginnie Mae did not recognize the amount of interest income that would be earned on uninvested funds it maintained in the U.S. Treasury Financing Fund account. This was due to an ongoing legal dispute with the U.S. Treasury regarding the appropriateness of paying this interest to Ginnie Mae without it having signed the borrowing agreement.[1] Before fiscal year 2018, the U.S. Treasury paid Ginnie Mae interest income without requiring it to sign this agreement. As this issue has not been resolved legally, we cannot conclude on the appropriateness of reporting or not reporting this revenue in accordance with U. S. GAAP in Ginnie Mae's fiscal year 2018 financial statements. Additionally, depending on the outcome of this dispute, we caution readers about the potential impact of this unsettled issue on Ginnie Mae's fiscal year 2018 and prior years' issued statements. Our opinion has not been modified with respect to this matter in fiscal year 2018.

Other Matters

Ginnie Mae's Annual Report and Report to Congress contain a wide range of information, including required supplementary information, such as the management discussion and analysis, which 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

Management's Responsibility

Ginnie Mae's management is 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

In planning and performing our audit of the financial statements in accordance with U.S. generally accepted government auditing standards, 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.

We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

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[1] The borrowing agreement establishes and documents that Ginnie Mae's mortgage-backed securities program is subject to the Federal Credit Reform Act, which permits payment of interest to Ginnie Mae under the Act.

Definition and Inherent Limitations on Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. GAAP and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements due to fraud or error.

A ***deficiency*** in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A ***material weakness*** is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of Ginnie Mae's financial statements will not be prevented or detected and corrected on a timely basis. A ***significant deficiency*** is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Results of Our Consideration of Internal Control Over Financial Reporting

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified five deficiencies in internal control that are described below.

Material Weaknesses in Financial Reporting

<u>Material Asset Balances Related to Nonpooled Assets Were Not Auditable</u>

For the fifth consecutive year, Ginnie Mae could not bring its material asset balances related to its NPA and related accounts into an auditable state in fiscal year 2018. Therefore, we were unable to audit the $3 billion (net of allowance) in NPA reported in Ginnie Mae's financial statements as of September 30, 2018. These assets relate to (1) claims receivable, net ($253 million); (2) mortgage loans held for investment, including accrued interest, net ($2,736 million); and (3) acquired property, net ($25 million). The NPA represents 9 percent of Ginnie Mae's total assets in the balance sheet. This condition occurred because, although efforts were underway to develop financial management systems capable of handling loan-level transaction accounting, these systems were not yet fully in place at the end of fiscal year 2018. 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 finalized until the end of fiscal year 2018. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to formulate a conclusion on the fairness of the financial statements. As a result, we deemed our audit scope insufficient to express an opinion on Ginnie Mae's $3 billion in NPA and related accounts as of September 30, 2018.

<u>Deficiencies in Ginnie Mae's Internal Controls Over Financial Reporting Were Under Remediation</u>

Ginnie Mae made progress in certain areas of internal control over financial reporting in fiscal year 2018; however, the majority of the weaknesses identified in prior-year audits continued. These weaknesses included (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans and (2) accounting issues related to revenue recognition, fixed assets, advances, and note disclosures. We are reporting these continued weaknesses because Ginnie Mae had not remediated a number of our concerns and due to continued disagreement with Ginnie Mae regarding its accounting practice for advances. Until these control deficiencies are fully remediated, Ginnie Mae will lack assurance that its internal controls can be relied on to prevent or detect risk of material misstatements in its financial statements in a timely manner.

<u>Allowance for Loan Loss Account Balances Remained Unreliable</u>

As reported for the past 3 years, Ginnie Mae's loan loss account balances had not been remediated and remained a work in progress at the end of fiscal year 2018 due to various underlying accounting issues. The allowance for loan loss account represents Ginnie Mae's best estimates of receivables that are expected to be uncollectible. This condition occurred because the SLDBproject solution, which was intended to address reliability concerns with the allowance for loan loss account balances, was not fully implemented in fiscal year 2018. As a result, the balances of the allowance for loan loss account reported in Ginnie Mae's financial statements as of September 30, 2018, remained unreliable.

<u>Financial Management Governance Problems Continued, Although Progress Was Made</u>

In fiscal year 2018, as in the past 4 fiscal years, we remained concerned about Ginnie Mae's financial management governance problems, although some progress was made this year. Specifically, this concern included issues with (1) keeping Ginnie Mae'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; (4) lacking effective monitoring and oversight of MSSs as service organizations; and (5) implementing an effective entitywide governance of the estimation models, which are used to generate accounting estimates for financial reporting. The lack of proper alignment in its people, process, and technology at the right time, right place, and right seats contributed to our ongoing concern, as well as Ginnie Mae's inability to produce auditable financial statements for the fifth consecutive fiscal year.

Significant Deficiency in Financial Reporting

<u>Ginnie Mae Was Not in Full Compliance With Federal Information System Controls Requirements for Its Integrated Pool Management System</u>

Ginnie Mae was not in full compliance with Federal information system controls requirements for IPMS. Our review of the general controls over IPMS identified deficiencies with (1) transaction security within the utility software of the CICS transaction server of IPMS, (2) privileged accounts' password controls, (3) contractor employees' access controls, and (4) the review process for incompatible duties. These deficiencies occurred because Ginnie Mae did not (1) know that users' access was not properly restricted, (2) know that the contractor considered privileged accounts to be service accounts, (3) ensure that all of the terms and critical requirements of the contract were followed, and (4) document the review process for incompatible duties. As a result, these deficiencies could (1) allow powerful capabilities to be at the disposal of unauthorized users, (2) increase risk because the privileged accounts could allow unauthorized access to an organization's infrastructure, (3) cause an agency to be unable to assess contractor performance or the potential risks associated with a user, and (4) increase the risk that erroneous or fraudulent transactions could be processed. In addition, we assessed the status of HUD's actions to address information system control deficiencies identified in previous audit reports.

Intended Purpose of Report on Internal Control Over Financial Reporting

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

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

Report on Compliance With Laws and Regulations

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

Management's Responsibility

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

Results of Our Tests for Compliance With Laws and Regulations

Our tests for compliance with selected provisions of applicable laws and regulations disclosed one instance of noncompliance for fiscal year 2018, as noted below, that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

Ginnie Mae's noncompliance with DCIA continued. As reported in the past 3 fiscal years, Ginnie Mae continued to discharge (write off) uninsured mortgage deficiency debts without ensuring that before doing so, all debt collection tools allowed by law had been considered. This condition occurred because Ginnie Mae continued to challenge DCIA's applicability and due to its lack of progress in finalizing the policy on mastersubservicer loss mitigation and debt collection practices. As a result, Ginnie Mae may have missed opportunities to collect millions of dollars in debts related to losses on its MBS program.

Intended Purpose of Report on Compliance With Laws and Regulations

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

Agency Comments and Our Evaluation

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

Kimberly R. Randall

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

November 13, 2018

Material Weaknesses

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

For the fifth consecutive year, Ginnie Mae could not bring its material asset balances related to its NPA and related accounts into an auditable state in fiscal year 2018. Therefore, we were unable to audit the $3 billion (net of allowance) in NPA reported in Ginnie Mae's financial statements as of September 30, 2018. These assets relate to (1) claims receivable, net ($253 million); (2) mortgage loans held for investment, including accrued interest, net ($2,736 million); and (3) acquired property, net ($25 million). The NPA represents 9 percent of Ginnie Mae's total assets in the balance sheet. This condition occurred because, although efforts were underway to develop financial management systems capable of handling loan-level transaction accounting, these systems were not yet fully in place at the end of fiscal year 2018. 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 finalized until the end of fiscal year 2018. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to formulate a conclusion on the fairness of the financial statements. As a result, we deemed our audit scope insufficient to express an opinion on Ginnie Mae's $3 billion in NPA and related accounts as of September 30, 2018.

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

In January 2018, in preparation for our full scope audit, Ginnie Mae provided us with its audit remediation plan for the auditability of its NPA and related accounts. The expectation for the current year was to have an auditable process. However, in May 2018, Ginnie Mae acknowledged that all relevant information and access to the underlying data supporting the completeness and accuracy of NPA and related accounts would not be ready in time for us to audit them in fiscal year 2018. Therefore, we excluded these financial statement line items in the audit scope for our fiscal year 2018 audit. The progress made by Ginnie Mae to make the NPA and related accounts auditable is provided in detail below.

<u>Ginnie Mae Made Significant Progress on Subledger Database Solution</u>

In 2018, Ginnie Mae continued to pursue the SLDB solution to address material weaknesses related to the NPA. In February 2018, we received a timeline from Ginnie Mae, which indicated the availability of the SLDB GAAP opening balances by July 2018 and fiscal year 2018 GAAP balances by October 2018 in an audit (test) environment and full implementation of the SLDB by November 2018. To meet this timeline, Ginnie Mae worked toward several SLDB project milestones, such as (1) developing NPA accounting policies and business requirements documents, (2) enhancing the finance platform,[2] and (3) performing procedures on the SLDB loan-level information to support relevant financial statement assertions over NPA and related accounts as reported by the MSSs. This measure was to ensure the reliability of the NPA data, which is an input to the SLDB. As of yearend, although Ginnie Mae had made significant progress on the SLDB project, there was a considerable amount of work that was still in process, such as enhancing the finance platform and performing validation procedures on the data inputs and outputs before placing the new system into an operational state. With acknowledgement from Ginnie Mae that the SLDB was not yet ready for us to audit in fiscal year 2018, we excluded the NPA line items and NPA-related accounts from our fiscal year 2018 audit scope.

Conclusion

In 2018, we noted that Ginnie Mae's efforts in bringing the $3 billion (net of allowance) in NPA and related accounts into an auditable state remained a work in progress. As a result, we determined that our fiscal year 2018 audit scope was insufficient to express an opinion on Ginnie Mae's financial statements as of September 30, 2018. Ginnie Mae represented to us that it anticipated the SLDB project would be fully implemented in the beginning of fiscal year 2019. Therefore, we will follow up on these matters during our fiscal year 2019 audit.

Recommendations

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

[2] Ginnie Mae is enhancing the finance platform by adding several new components to its existing finance platform. The new components include Operational Data Store, Accounting Event Calculators, Subledger Database, Valuation Modeling and Policy Guidance Engagement, and Adjusting Ledger and Accounting Reports.

Material Weaknesses

Finding 2: Deficiencies in Ginnie Mae's Internal Controls Over Financial Reporting Were Under Remediation

Ginnie Mae made progress in certain areas of internal control over financial reporting in fiscal year 2018; however, the majority of the weaknesses identified in prior-year audits continued. These weaknesses included (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans and (2) accounting issues related to revenue recognition, fixed assets, advances, and note disclosures. We are reporting these continued weaknesses because Ginnie Mae had not remediated a number of our concerns and due to continued disagreement with Ginnie Mae regarding its accounting practice for advances. Until these control deficiencies are fully remediated, Ginnie Mae will lack assurance that its internal controls can be relied on to prevent or detect risk of material misstatements in its financial statements in a timely manner.

Current Year Status of Prior-Year Audit Matters

In our fiscal year 2017 audit report,[3] we identified seven issues regarding weaknesses in Ginnie Mae's controls over financial reporting. During fiscal year 2018, Ginnie Mae resolved two[4] of the prior-year audit issues. The five unremediated audit issues are detailed below.

<u>Ginnie Mae Did Not Comply With GAAP When Accounting for FHA Reimbursable Costs Incurred and Accrued Interest Earned on Nonpooled Loans</u>

In fiscal year 2018, Ginnie Mae continued to incorrectly charge reimbursable costs as expenses instead of capitalizing them as an asset. In addition, accrued interest earned was not properly recognized for all periods allowed by the insuring agency. We have reported these accounting issues for the past 4 years, and our current-year audit followup showed that Ginnie Mae had not fully remediated the issues by the end of fiscal year 2018. Ginnie Mae's plans for correcting them remained a work in progress. For example, in fiscal year 2018, Ginnie Mae had revised and finalized its accounting policies and procedures related to reimbursable costs and accrued interest to comply with GAAP. However, the subledger database accounting system that Ginnie Mae internally developed to correct these accounting issues had not been fully implemented by the end of the fiscal year. According to Ginnie Mae, full implementation of this new system is expected in fiscal year 2019. We will follow up on this audit issue in our fiscal year 2019 audit.

<u>Accounting Issue Related to Ginnie Mae's Real Estate Mortgage Investment Conduit Revenue Recognition Remained Open at Yearend</u>

In fiscal year 2016, we identified that Ginnie Mae had improper month end revenue recognition accrual entries on closed Real Estate Mortgage Investment Conduit (REMIC) deals. In fiscal

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3 2018-FO-0002, Audit of Fiscal Years 2017 and 2016 (Restated) Financial Statements

4 The two prior-year audit issues that Ginnie Mae resolved in fiscal year 2018 were issues related to cash in transit and reversal of accrual entries.

year 2017, Ginnie Mae updated its accounting practices in response to our fiscal year 2016 audit recommendation. According to Ginnie Mae, it also revised its accounting policies and procedures and received HUD Chief Financial Officer (CFO) approval in June 2018; however, these actions took place late in the fiscal year and did not allow us sufficient time to verify whether the actions resolved the related recommendation. As a result, we are reporting this as an open issue in fiscal year 2018 and will follow up in fiscal year 2019.

Ginnie Mae's System and Processes for the 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 to track and accurately account for its system or software development costs in accordance with GAAP. Additionally, in fiscal year 2017, we noted that Ginnie Mae did not require its vendor to submit a capitalization report in a timely manner, which would have allowed Ginnie Mae to report the fixed asset costs in its financial statements in the proper period. In our fiscal year 2018 audit followup, we determined that both of the audit recommendations[5] related to this issue were still under remediation. According to Ginnie Mae, its effort to further enhance the policies and procedures to report fixed assets was ongoing, with a focus on establishing timeframes and deadlines to complete the steps to capitalize and record fixed assets in a timely manner. Given that this concern is under remediation, we consider this an open issue in fiscal year 2018 and will follow up on it during our fiscal year 2019 audit.

Ginnie Mae's Unsupported Writeoff of Balances in Its Advances Account Remained Unresolved
In fiscal year 2016, we reported that Ginnie Mae wrote off advances against defaulted MBS pools and net accounts (advances) totaling $248 million (asset) and $171 million (allowance), respectively, without adequate support. Therefore, 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 were collectible in conjunction with Ginnie Mae's subledger database effort. We were unable to reach a resolution on this accounting issue and, therefore, referred the matter to the Acting Ginnie Mae President in March 2017 and when no resolution was reached, to the Acting HUD Deputy Secretary in August 2017. As of September 30, 2018, we were awaiting a response from the HUD Deputy Secretary; therefore, this remained an open issue at the end of fiscal year 2018.

Issues Identified Related to Note Disclosures
In fiscal years 2016 and 2017, we noted concerns with financial statement note disclosures. These issues included Ginnie Mae's (1) being unable to disclose certain information regarding mortgages held for investment and the related allowance for loan loss, which were required to be disclosed in accordance with GAAP, due to loan-level data information limitations and (2) lacking a process for identifying and analyzing new events affecting its business that have a financial reporting impact. We made two audit recommendations[6] with respect to these issues. In our fiscal year 2018 audit followup, we determined that note disclosure issues reported in 2016 and 2017 were still under remediation. In fiscal year 2018, Ginnie Mae again could not produce the required GAAP note disclosure on its mortgages held for investment and the related allowance for loan loss because the SLDB system, which is the source of information for the

[5] Audit recommendations 2017-FO-0001-2H and 2018-FO-0002-2A
[6] Audit recommendations 2017-FO-0001-2J and 2017-FO-0001-2K

note disclosure, was still in process. With regard to the second note disclosure issue, we reviewed accounting policies and procedures that Ginnie Mae developed for its indemnification and repurchase agreements and found them insufficient to address our concerns and recommendation because the new policies and procedures still lacked basic control mechanisms for identifying and analyzing new events affecting Ginnie Mae's business that could trigger financial reporting.

Conclusion

Many of the weaknesses identified in our prior-year audit reports related to internal control over financial reporting continued in fiscal year 2018 because actions needed to address them were under remediation. We will review Ginnie Mae's progress in addressing these weaknesses in our fiscal year 2019 audit.

Recommendations

We are not making additional recommendations on this finding this fiscal year. The related open audit recommendations made in prior fiscal years are not repeated in this report.

Material Weakness

Finding 3: Allowance for Loan Loss Account Balances Remained Unreliable

As reported for the past 3 years, Ginnie Mae's loan loss account balances had not been remediated and remained a work in progress at the end of fiscal year 2018 due to various underlying accounting issues. The allowance for loan loss account represents Ginnie Mae's best estimates of receivables that are expected to be uncollectible. This condition occurred because the SLDB project solution, which was intended to address reliability concerns with the allowance for loan loss account balances, was not fully implemented in fiscal year 2018. As a result, the balances of the allowance for loan loss account reported in Ginnie Mae's financial statements as of September 30, 2018, remained unreliable.

Current-Year Status of Prior-Year Matters

We first reported concerns regarding the reliability of the allowance for loan loss account balances in fiscal year 2016. Similar to the NPA status (finding 1), we excluded this financial statement line item in our fiscal year 2018 audit because Ginnie Mae represented to us that it was not ready for us to audit the allowance for loan loss account balances. Therefore, this finding provides only current-year updates on the issues identified in prior years as noted below. Ginnie Mae anticipates that this issue will be resolved when the SDLB project is fully implemented, which is expected in fiscal year 2019.

Provision for Loan Loss Was Booked Against a Nonexisting Asset Account

In fiscal year 2016, we reported that Ginnie Mae improperly booked a $436 million loan impairment, which was associated with other indebtedness (for example, reimbursable costs).[7] In fiscal year 2017, Ginnie Mae took exception to our audit finding and recommendation.[8] We referred the matter to the Acting Ginnie Mae President in June 2017 and after reaching no resolution, referred it to the Acting HUD Deputy Secretary in August 2017. As of the end of fiscal year 2018, there had been no response from the Deputy Secretary's office.[9]

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7 In fiscal year 2016, Ginnie Mae incorrectly recorded a $436 million loan impairment (that is, receivable allowance on reimbursable costs) as a contra asset allowance to the mortgages held for investment (MHI). Since the majority of the MHI account balance, as reported in Ginnie Mae's financial statements, is made up of the mortgage loan's unpaid principal balance and excludes other indebtedness, such as reimbursable costs, it would not be appropriate to establish this allowance on the MHI account.

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

9 As part of the normal audit resolution process, the Office of Inspector General (OIG) is required to refer disagreements to the Deputy Secretary for a decision regarding any disagreement on audit issues that have not been resolved with Ginnie Mae management. In general, the Deputy Secretary is responsible for making a final decision on this matter. However, because the issue pertains to an interpretation of GAAP as it applies to Ginnie Mae, the final decision provided by HUD, if it is in disagreement with OIG, will not change how OIG reports this audit finding because the audit of Ginnie Mae's financial statements and the conclusions expressed in this report are the audit opinion of OIG.

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

We continued to disagree with Ginnie Mae on many of the same accounting policy issues related to allowance for loan loss that we have reported annually since fiscal year 2016. The basis for how Ginnie Mae grouped the mortgage loans held for investment (MHI) into three groups[10] as well the basis for how it categorized FHA loans as purchase, not credit impaired (PNCI), remained an open issue. Ginnie Mae provided inadequate support for its conclusions during our fiscal year 2018 audit followup. Additionally, Ginnie Mae had not fully implemented its corrective action plan to resolve our concerns about the relevant accounting policies.[11] Therefore, we considered this an open issue at the end of fiscal year 2018.

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

In fiscal year 2016, we also questioned a number of methodologies used in the loan loss allowance 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 purchase, credit impared (PCI) and troubled debt restructuring (TDR) loans despite the varying severity of the loan 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 fiscal year 2018, we determined that Ginnie Mae had not fully addressed the three loan loss allowance model methodology issues first identified in our fiscal year 2016 audit report, and in some cases, we were unable to follow up on the issues in fiscal year 2018 because they remained out of scope.

- In 2017, in response to our fiscal year 2016 audit finding, Ginnie Mae revised its TDR model for FHA-insured modified loans to use the present value of expected future cash flows for purposes of calculating the loan impairment. However, this line item, along with other NPA assets, was not part of our audit scope in fiscal year 2018; therefore, we considered this an open issue and will follow up in fiscal year 2019.

- 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 TDR and PCI are different according to Ginnie Mae's accounting policies. According to Ginnie Mae, because of a lack of historical data from which to base the PCI loan impairments, PCI loans are combined with TDR loans. In fiscal year 2018, Ginne Mae did not provide information about any corrective action it may have taken on this issue. We will follow up on this issue with Ginnie Mae in fiscal year 2019.

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10 The three groups are (1) PNCI, (2) TDR, and (3) PCI.

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

- The third issue related to Ginnie Mae's use of the global house price index to estimate the market value of the uninsured real-estate owned properties. In fiscal year 2018, according to Ginnie Mae, it changed the methodology for estimating the market value of real estate owned properties using the Federal Housing Finance Agency price index. We were unable to verify the change in the methodology because this line item, along with other NPA assets, was not part of our audit scope in fiscal year 2018; therefore, we considered this an open issue and will follow up in fiscal year 2019

<u>Incorrect Treatment of Servicing Costs and Foreclosure Costs in the Allowance Model</u>
In 2017, Ginnie Mae modified 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. In addition, in the fourth quarter of fiscal year 2017, Ginnie Mae restated the allowance for loan loss to correct the impact of improper inclusion of the servicing costs and certain foreclosure and maintenance costs in the estimation process. In fiscal year 2018, we did not review the allowance restatement adjustments because the allowance line item, along with other NPA assets, was not part of our fiscal year 2018 audit scope. Therefore, we considered this an open issue and will follow up in fiscal year 2019.

Conclusion

The allowance for loan loss account represents Ginnie Mae's best estimates of receivables that are expected to be uncollectible. However, we determined that Ginnie Mae's allowance for loan loss account reported in its financial statements and notes did not fairly represent the amount of receivables that are expected to be uncollectible. This condition is due to the number of unresolved prior-year findings and recommentdations cited in this report. We will follow up on these unresolved matters with Ginnie Mae in our fiscal year 2019 audit cycle.

Recommendations

We are not making additional recommendations on this finding this year. The related open prior-year audit recommendations are not repeated in this finding.

Material Weakness

Finding 4: Financial Management Governance Problems Continued, Although Progress Was Made

In fiscal year 2018, as in the past 4 fiscal years, we remained concerned about Ginnie Mae's financial management governance problems, although some progress was made this year. Specifically, this concern included issues with (1) keeping Ginnie Mae'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; (4) lacking effective monitoring and oversight of MSSs as service organizations; and (5) implementing an effective entitywide governance of the estimation models, which are used to generate accounting estimates for financial reporting. The lack of proper alignment in its people, process, and technology at the right time, right place, and right seats contributed to our ongoing concern, as well as Ginnie Mae's inability to produce auditable financial statements for the fifth consecutive fiscal year.

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

Throughout 2018, we noted Ginnie Mae's continued efforts in addressing financial management governance problems cited in our prior-year audit reports. While these are steps in the right direction, Ginnie Mae fell short of addressing several years of our ongoing concerns in other aspects of Ginnie Mae's financial management governance, including disagreements with us on certain GAAP application and laws and regulations compliance issues.

To its credit, Ginnie Mae made significant efforts in addressing some prior-year financial management governance problems. These efforts included (1) making strategic changes in Ginnie Mae's OCFO leadership to ensure that it is well positioned to handle the challenges of this office; (2) bringing its SLDB project close to completion through a concerted effort of Ginnie Mae's OCFO staff and its contractor partners; and (3) ensuring that the remaining accounting policies and procedures, which had been a work in process for a couple of years, were finalized in 2018.

Since our assumption of responsibility for auditing Ginnie Mae's annual financial statements beginning with fiscal year 2014, Ginnie Mae's executive management had failed to give proper attention and consideration to a number of important issues that we brought to its attention. These issues, which are discussed in more detail in other sections of this report, included our disagreements with Ginnie Mae on (1) proper accounting and presentation of escrows in the financial statements, (2) unsupported writing off of advances, (3) costs considered in estimating its allowance for loan losses, and (4) the applicability of DCIA requirements to Ginnie Mae. These issues had lingered for years with no clear or concrete plans for reaching a resolution.

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

From fiscal years 2015 through 2017, we have reported on a number of vacancies in key positions within Ginnie Mae, including accounting positions within OCFO. In 2018, while some of the vacancies were backfilled, the staffing issues recurred over a number of years due to employee turnover and reassignments. For this reason, we continue to be concerned with Ginnie Mae's ability to effectively manage its financial management operations due to the lack of stability in certain key positions, especially in Ginnie Mae's OCFO. Our concern in this area was also echoed in Ginnie Mae's own enterprise risk management assessment performed in fiscal year 2018, which identified Ginnie Mae's OCFO as being in a state of heightened risk because of noted weaknesses in financial controls and reporting.

According to Ginnie Mae's fiscal year 2018 enterprise risk profile, employee availability and qualification is one of the top administrative enterprise risks facing Ginnie Mae, based on impact, probability, and resource allocation considerations. Ginnie Mae's own assessment identified itself as highly vulnerable to the risk of insufficient employee resources in terms of quantity and quality. As of September 30, 2018, three key Ginnie Mae OCFO positions (CFO, Senior Advisor of Financial Strategy and Policy, and Treasury supervisory accountant) were vacant. And during the fiscal year, the CFO, Controller, and Senior Vice President of the Office of Issuer and Portfolio Management roles were carried out by staff in an Acting capacity.

Additionally, the former Vice President of Accounting Policy left Ginnie Mae in April 2017, after having been in the position for less than a year. Ginnie Mae reconstituted this Vice President position to the Senior Advisor of Financial Strategy and Policy position, which remained vacant for 17 months, starting in April 2017.[12] We consider this position extremely significant as the responsibilities include but are not limited to implementing new accounting systems, partnering with other program offices to implement OCFO policies, applying new and old accounting standards to OCFO processes, advising on the need for procurement to execute policy, preparing OCFO for standards in the pipeline, reviewing draft regulations, and assessing compliance with financial and accounting standards and regulations. The duties also include assessing the reasonableness of accounting policies and standard operating procedures for modeling; for example, the portfolio valuation and loss reserve functions for all MBS, real-estate owned fair values, and mortgage assets and related allowances. Ginnie Mae did not backfill this position with a senior advisor until September 2018. Thus, we cannot assess the effectiveness of the new senior advisor in fulfilling this role until fiscal year 2019.

For financial reporting in fiscal year 2018, Ginnie Mae relied heavily on contractors for Financial Accounting Standards Board GAAP accounting advice and accounting support, but we expect that Ginnie Mae's senior advisor in the role as a subject matter expert on accounting will

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[12] According to Ginnie Mae, an ad hoc committee was established as a proxy in the absence of a senior advisor. However, we did not find the ad hoc committee effective in the role for which it was created because a majority of the committee members were Ginnie Mae contractors and we could not verify the process used by the committee in reviewing and assessing several of Ginnie Mae's approved accounting policies and procedures, including any new or upcoming commercial GAAP accounting standards that may warrant Ginnie Mae's consideration.

provide an effective challenge on the accounting advice and work done by Ginnie Mae's contractors. Having an experienced subject matter expert in place should enhance the credibility of the accounting process, which we could then better rely on because it would likely improve checks and balances in this area. As these issues were ongoing throughout the entire fiscal year, the vacancies and lack of stability in certain key positions remained a reportable issue for fiscal year 2018.

Ginnie Mae's fiscal year 2018 Office of Management and Budget (OMB) Circular A-123, appendix A, review was once again limited in scope as the review was heavily dependent upon the availability of Ginnie Mae resources. In 2018, Ginnie Mae's alternate plan was to have a contractor perform a full-scope A-123 review due to insufficient internal staff resources. However, Ginnie Mae experienced contracting issues on its A-123 contract due to a contract award protest. Although the issue was resolved during the fiscal year, it delayed the execution of the A-123 review process. As a result, once again in 2018, Ginnie Mae performed an A-123 review that was reduced in scope. A thorough A-123 review is needed to provide reasonable assurances regarding internal controls over financial reporting.

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

In fiscal year 2016, we noted weaknesses in Ginnie Mae's capability to identify, monitor, analyze, evaluate, and appropriately respond to changes in its business environment due to a lack of process and a lack of dedicated personnel to manage these important responsibilities. We consider this a gap in the process and are concerned because this could lead to Ginnie Mae's failing to properly account for or disclose in its financial statements any operational business transactions or activities (for example, issuer defaults, third-party guarantee, or indemnification agreements) that have a financial reporting impact. As for issuer defaults, to comply with GAAP, Ginnie Mae is required to book a reserve for loss related to potential issuer defaults that are probable and estimable and to disclose in the notes to the financial statements any reasonably possible issuer defaults. In 2017, Ginnie Mae developed an action plan in response to our audit recommendations regarding accounting for potential issuer defaults.[13] In our fiscal year 2018 audit followup, we assessed Ginnie Mae's progress in addressing prior-year audit recommendations. We determined that the vulnerability remained because, while progress was being made in its corrective action plan, its full implementation is not expected until fiscal year 2019.

[13] Audit recommendations 2017-FO-0001-2J and 2017-FO-0001-4A. See the Followup on Prior Audits section for more details.

Ginnie Mae Finalized Its Accounting Policies and Procedures but Accounting Systems To Implement Them Were in Development

In fiscal year 2018, Ginnie Mae made progress in finalizing its accounting policies and procedures, an issue we reported in prior years. At the end of fiscal year 2017, of 20 Ginnie Mae accounting procedures, 7 were HUD final approved, while the remaining 13 were in various stages of processing. Of these 13, 6 were under HUD OCFO's review and the other 7 were in process.

In our fiscal year 2018 audit followup, Ginnie Mae informed us that all 13 accounting policies and procedures had been final approved by HUD OCFO as of September 2018. While Ginnie Mae had made demonstrable progress finalizing 13 accounting policies and procedures this fiscal year, the accounting systems capable of performing loan-level accounting to implement them were not in place at the end of fiscal year 2018. 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. Ginnie Mae's contractor began the development of an SLDB system capable of capturing loan-level events and related accounting entries in 2016. Work on this database continued throughout 2017 and 2018, as Ginnie Mae and its contractor underestimated the time and effort it would take to develop this accounting system. According to Ginnie Mae, the loan-level accounting data are anticipated to be available for our review in fiscal year 2019 with the full implementation of the SLDB solution.

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

As reported in the past 3 fiscal year years, in 2018, Ginnie Mae's action plans for ensuring effective monitoring and oversight of its MSSs as service organizations were not fully implemented. These plans included actions to (1) develop a policy for the appropriate oversight of the MSSs, (2) augment OCFO to assist in performing oversight of the MSSs, (3) customize the scope and timing of the Statements on Standards of Attestation Engagement number 16 to better align with Ginnie Mae's processes, (4) develop analytics around the review of the accounting reports, and (5) perform periodic compliance reviews.

In our fiscal year 2018 audit followup, we determined that of five items in the action plan, only one (item number 3) had been implemented. The remaining four items were in process as of September 2018. Additionally, we noted a number of repeat MSS compliance review and monitoring oversight issues previously identified in our fiscal year 2017 audit report. For example, we found that Ginnie Mae had not (1) performed the required number of quarterly compliance reviews,[14] (2) fully addressed the MSS compliance review procedures identified in our fiscal year 2016 audit report,[15] and (3) strengthened Ginnie Mae's process for evaluating the

[14] Ginnie Mae completed or provided documentation for only two quarterly reviews for both MSSs and the final review for one MSS.

[15] 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. In fiscal year 2018, Ginnie Mae updated its MSS compliance review procedures to address prior-years' audit concerns except loan buyouts.

adequacy and sufficiency of corrective action plans developed by the MSSs as a result of compliance reviews. Further, we found that Ginnie Mae lacked a proper review[16] for appropriateness, reasonableness, and validation of the invoices submitted to Ginnie Mae before making a payment.

According to Ginnie Mae, going forward it plans to compile a report consisting of MSS compliance reviews and make the report accessible to key Ginnie Mae personnel to allow for sufficient evaluation of the reports and appropriate response to reported findings. Ginnie Mae also anticipates adding a control log to identify deficiencies and improvements to the MSS testing process. Ginnie Mae's target completion date for these improvements is not expected until December 2019. Taking all of the above open issues into consideration, we considered this finding an open issue at the end of fiscal year 2018.

Ginnie Mae's Entitywide Model Risk Governance Was Not Fully Implemented

As in the past 2 fiscal years, in fiscal year 2018, we concluded that Ginnie Mae had not fully implemented two key areas of its model risk governance framework, which included model developer testing[17] and independent model validation,[18] based on model governance issues identified below.

Regarding model developer testing, our fiscal year 2018 audit followup found modeling issues concerning (1) the results of Guarantee Asset and Guarantee Obligation (GA-GO) back testing as well as the sensitivity analysis done on some of the assumptions used in the model and (2) model-coding errors found in the GA-GO model. Although Ginnie Mae's contractor performed sensitivity analysis and back testing on the model, it produced a result that neither Ginnie Mae nor its contractor could properly explain or justify when we asked about these issues. Additionally, we found model-coding errors not identified in the model developer testing or independent model validation.

With respect to the independent model validation, although Ginnie Mae completed its independent model validation in April 2018, it failed to fully respond to many of the independent model validation findings identified during the review. This determination was based on our review of the final independent model validation report, including Ginnie Mae's response and corrective action plan. Further, our fiscal year 2018 audit found that (1) the GA-GO model documentation was incomplete and could not stand on its own so that an independent person could perform the same steps and replicate the results with little or no outside explanation or assistance; (2) the grouping of data inputs on default and prepayment submodels using a varying

[16] According to Ginnie Mae, it sampled only the invoices from the MSSs due to the sheer volume of invoices received daily.

[17] According to Ginnie Mae's model risk management policy, model developer testing includes the following components: model robustness and stability, benchmarking of model assumptions and model output, stress testing of model limitations, discriminatory power, back testing, and sensitivity testing.

[18] Model validation and review is a methodology performed through a set of processes and activities intended to verify that models are performing as expected, in line with design objectives, business use, and industry standards. All model components, including model theory, input, assumptions, processing, and output, are subject to validation.

combination of State and loan age were too many[19] and lacked testing samples in the model;[20] and (3) other model data data inputs, such as the taxes and insurance, which, according to Ginnie Mae, was a significant model input, were being missed and not made part of the fiscal year 2018 possible and probable issuer default model.

Conclusion

While progress was being made in addressing many of the financial management problems identified in our prior-year audit reports, more work is needed to ensure proper alignment of Ginnie Mae's people, process, and technology, which are key elements in addressing its complex financial governance problems. We will continue to monitor Ginnie Mae's efforts and progress in resolving these financial management governance deficiencies in fiscal year 2019.

Recommendations

We are not making additional recommendations on this finding this fiscal year. The related open audit recommendations made in prior fiscal years remain.

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19 Ginnie Mae's default and prepayment models were segmented by 156 combinations of State and loan age. A regression is fitted for each cohort. The purpose of model segmentation is to create homogenous pools for loans with similar risk characteristics. It is natural for many U.S. States with similar risk profiles to be merged into one segment. However, too many model segments may cause the model prediction to be less robust on testing or monitoring to sample, and it would be difficult for a model developer to meaningfully analyze a model with 156 segments.

20 The training sample is used to train the model, and the testing data are used to validate the model's performance.

Significant Deficiency

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

Ginnie Mae was not in full compliance with Federal information system controls requirements for IPMS. Our review of the general controls over IPMS identified deficiencies with (1) transaction security within the utility software of the CICS transaction server of IPMS, (2) privileged accounts' password controls, (3) contractor employees' access controls, and (4) the review process for incompatible duties. These deficiencies occurred because Ginnie Mae did not (1) know that users' access was not properly restricted, (2) know that the contractor considered privileged accounts to be service accounts, (3) ensure that all of the terms and critical requirements of the contract were followed, and (4) document the review process for incompatible duties. As a result, these deficiencies could (1) allow powerful capabilities to be at the disposal of unauthorized users, (2) increase risk because the privileged accounts could allow unauthorized access to an organization's infrastructure, (3) cause an agency to be unable to assess contractor performance or the potential risks associated with a user, and (4) increase the risk that erroneous or fraudulent transactions could be processed. In addition, we assessed the status of HUD's actions to address information system control deficiencies identified in previous audit reports.

Some Utility Software Within IPMS Was Not Adequately Secured

IPMS security staff did not restrict user access and implement adequate transaction security protection for the utility software of the CICS[21] transaction server. This condition occurred because both Ginnie Mae and its contractor were unaware that users had access to the utilities. Without adequate software security controls in place, powerful capabilities are at the disposal of those who have access to a system's software and related tools. Unauthorized access can lead to devastating effects, and entities can become victims of malicious activities. Within 36 hours of our observation and discussion, Ginnie Mae's contractor completed the necessary security enhancements to adequately restrict access.

Password Controls for Some Privileged IPMS Accounts Were Not Enforced

Ginnie Mae's contractor did not enforce HUD's password control policies for privileged IPMS accounts. Privileged accounts and groups in an active directory are those with powerful rights, privileges, and permissions that allow the user to perform nearly any action on the system. This condition occurred because Ginnie Mae's contractor considered these accounts to be service accounts[22] and the contractor's access control standards for service accounts allowed nonexpiring

[21] CICS® stands for Customer Information Control System. It is a general-purpose transaction-processing subsystem for the z/OS® operating system. CICS provides services for running an application online.

[22] A service account is a user account that is created explicitly to provide a security context for services running on a system.

passwords. The consequences and risks to privileged accounts would be significant if those accounts were compromised. Information technology savvy individuals have become skilled at recognizing weaknesses in system access and are knowledgeable about the tools necessary to successfully exploit weak systems.

Access Controls for IPMS Contractor Employees Were Inadequate

Ginnie Mae allowed its contractor to control the process for contractor employees to obtain access to the IPMS mainframe and did not require the contractor to notify Ginnie Mae when a contractor employee was granted access, dismissed, or no longer performing duties requiring access to the application. This condition occurred because Ginnie Mae did not ensure that all of the terms and critical requirements of the contract were followed. Specifically, the contract stipulated that Ginnie Mae was responsible for making the system access determination on contractor employees. However, Ginnie Mae allowed the contractor to perform that function. Without sufficient information (for example, contractor employees' skill sets, background, and other information that may pertain to the agency's mission) from the contractor, Ginnie Mae is not able to monitor some aspects of the contract. Specifically, the agency is unable to assess the contractor's performance or potential risks that may be associated with a user.

Review for Incompatible Duties Was Not Documented

Neither Ginnie Mae nor its contractor had an adequate process to review and document incompatible duties and ensure that individuals' duties were properly segregated. Ginnie Mae and its contractor indicated that incompatible duties were identified and addressed when user IDs were created or access request forms were received. However, documentation provided did not support how the form was used to assess incompatible duties. Further, we were not successful in obtaining an adequate roles and permissions matrix[23] to assess whether the roles and associated responsibilities were properly segregated and individual user access was appropriate. The condition occurred because an incompatibility assessment of user roles was not documented when a role was created or modified. Inadequately segregated duties can increase the risk that erroneous or fraudulent transactions could be processed, improper program changes could be implemented, and computer resources could be damaged or destroyed. The need for certain assigned user privileges may change over time, reflecting changes in organizational mission or business function, environments of operation, technologies, or threats. Thus, periodic review of assigned user privileges is necessary to determine whether the rationale for assigning such privileges remains valid.

[23] Roles and responsibilities matrix is a grid that defines all of the possible user roles, system operations, and specific permissions on those operations by role. Role names are represented in the columns, and system operations are in the rows.

Most Information System Control Deficiencies Previously Identified on Ginnie Mae's Oversight of GFAS Had Been Addressed

In an audit we conducted in fiscal year 2017,[24] we found that general and application controls over the Ginnie Mae Financial Accounting System (GFAS)[25] were deficient. Specifically, adequate controls were not in place to govern the use of the budget override function, the system operated with outdated software for 3 years, user accounts were not always disabled in a timely manner, and adequate policies and procedures were not in place for the business process controls.

We issued seven recommendations to address the issues cited. As of September 30, 2018, Ginnie Mae had satisfactorily completed the corrective actions to close six of the fiscal year 2017 recommendations. Corrective action is pending for one recommendation.

Information System Control Deficiencies Previously Identified on Ginnie Mae's Oversight of Its Mastersubservicers Had Not Been Resolved

In an audit we conducted in fiscal year 2015,[26] we found that Ginnie Mae did not provide adequate oversight of one of its single-family MSSs[27] 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 closed one of the recommendations. However, we were not provided evidence to support closure and do not agree with the closure of the recommendation. Therefore, we plan to reopen the recommendation. For the remaining two recommendations, we did not agree with Ginnie Mae's proposed management decisions. On March 6, 2017, a referral memorandum was issued to the Acting Deputy Secretary regarding the two recommendations. On September 12, 2018, Ginnie Mae provided additional information in response to all three recommendations. We reviewed the information and concluded that the information did not adequately address the recommendations. As of September 30, 2018, there had been no changes to the recommendations.

Conclusion

Ginnie Mae must improve its controls over IPMS and its other financial management systems and processes to fully comply with Federal requirements and security policies to prevent (1) unauthorized access that could lead to devastating effects, (2) password control

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[24] Audit Report 2018-DP-0001, Information System Controls Over the Ginnie Mae Financial Accounting System, issued December 15, 2017

[25] GFAS is a centralized data collection and processing system for all Ginnie Mae general ledger accounts. The system tracks and records all accounting transactions and contains the data necessary for the preparation of Ginnie Mae's financial statements.

[26] 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

[27] The Single-Family MSS provides mortgage servicing and loan default management for the full life cycle of loans to Ginnie Mae.

weaknesses that could result in increased risks, (3) inability to monitor the technical aspects of contract requirements, and (4) the risk that erroneous or fraudulent transactions could be processed.

Recommendations

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

Compliance With Laws and Regulations

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

Ginnie Mae's noncompliance with DCIA continued.[28] As reported in the past 3 fiscal years, Ginnie Mae continued to discharge (write off) uninsured mortgage deficiency debts without ensuring that before doing so, all debt collection tools allowed by law had been considered.[29] This condition occurred because Ginnie Mae continued to challenge DCIA's applicability and due to its lack of progress in finalizing the policy on MSS loss mitigation and debt collection practices. 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

We first identified the DCIA issue in fiscal year 2015. In our fiscal year 2015 audit report, we noted that Ginnie Mae was not properly analyzing the collectability of uninsured mortgage debts owed to it from the MBS program activities. Specifically, Ginnie Mae failed to use debt collection tools allowed by law before deciding to write off these debts. Under Ginnie Mae's MBS program, a U.S. Government claim for money against the borrower is established when there is a deficiency between the price obtained by Ginnie Mae on the sale of property and the amount owed on the uninsured mortgage. Although Ginnie Mae made an effort in 2016 to develop a policy on MSS loss mitigation and debt collection practices,[30] it had lacked demonstrable progress in finalizing this policy for the past 3 years. As a result, from 2016 through 2018, Ginnie Mae continued its practice of automatically writing off its claim for the mortgage debt deficiency without proper consideration of all debt collection tools available to it before doing so. As of September 30, 2018, noncompliance with DCIA continued. We are not aware of any changes in the way Ginnie Mae has managed its uninsured mortgage deficiency debts since we reported this issue in 2015, and Ginnie Mae has not provided any updated data on

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[28] Within the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104-134) is the Debt Collection Improvement Act of 1996. Chapter 10, section 31001(d)(6), provides that any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is more than 180 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, must notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset under this subsection. HUD is subject to DCIA, and Ginnie Mae is an entity under HUD; therefore, it should be required to comply with DCIA.

[29] Audit Report 2016-FO-0001, finding 6, issued November 13, 2015; Audit Report 2017-FO-0001, finding 6, issued November 14, 2016; and Audit Report 2018-FO-0002, finding 6, issued November 14, 2017. Also note that 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.

[30] The draft policy on MSS loss mitigation and debt collection practices is intended to provide a framework for how Ginnie Mae manages its mortgage deficiency debts, which is the essesnce of the actions we are recommending to Ginnie Mae. According to Ginnie Mae, in 2017, there was a disagreement between HUD's Office of the Chief Financial Officer and Ginnie Mae's General Counsel regarding this draft policy. Ginnie Mae did not provide any updates to us on this issue in fiscal year 2018.

the cumulative amount of forgone mortgage deficiency debts. The mortgage deficiency data are not accessible to us because the data are tied to the nonpooled loan assets, which were unauditable.

Regarding the applicability of the DCIA requirements, Ginnie Mae continued to take the same position as in previous years that DCIA requirements did not apply to Ginnie Mae. We referred this matter to Ginnie Mae's former President on April 21, 2016, and to HUD's then Acting Deputy Secretary on March 6, 2017. As of September 30, 2018, we had not received an official response to our referral memorandum. Therefore, we consider the DCIA issue unresolved and, accordingly, our report reflects this issue as a repeat finding.

Conclusion

Ginnie Mae has lacked demonstrable progress in addressing the DCIA noncompliance issue since it was first reported in fiscal year 2015. As a result, Ginnie Mae may have lost the opportunity to recover claims on many of the debts owed to it for the past 4 years. As a steward of public funds, Ginnie Mae 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.[31]

[31] Audit Report 2016-FO-0001, finding 6, issued November 13, 2015, recommendation 6A: Request a legal opinion from the implementing agency, the U.S. Treasury, for a determination of whether Ginnie Mae is required to comply with DCIA.

Scope and Methodology

In accordance with the Government Corporation Control Act, as amended, OIG is responsible for conducting the annual financial statements audit of Ginnie Mae. The scope of this work includes the audit of Ginnie Mae's balance sheets as of September 30, 2018 and 2017, 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 19-01, as amended, Audit Requirements for Federal Financial Statements.

In fiscal years 2018 and 2017, 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 2017, 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 37 carryover prior-year audit recommendations that were open at the beginning of fiscal year 2018 and their current status at the end of fiscal year 2018.

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

For the one audit recommendation in OIG audit report 2018-FO-0002, we concurred on the action plan for that (zero closed and one under remediation) audit recommendation. Our assessment of the current status of this recommendation is presented below.

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

Of 16 audit recommendations in OIG audit report 2017-FO-0001, we concurred on the action plans for 14 (4 closed and 10 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 decision 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 eight audit recommendations in OIG audit report 2016-FO-0001, we concurred on the action plans for five (two closed and three 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 decision 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 seven (zero closed and seven under remediation) audit recommendations. We referred the remaining five[32] audit recommendations to the departmental audit resolution official because of a disagreement with Ginnie Mae's management decision on the actions necessary to correct the deficiencies. Our assessment of the current status of the recommendations is presented below.

[32] The number of referred audit recommendations changed from six in fiscal year 2017 to five in 2018 because Ginnie Mae submitted a revised management decision for one prior-year audit recommendation (2015-FO-0003-2C), which we concurred.

Fiscal year 2017 recommendations	Classification	Fiscal year 2018 status
We recommend that Ginnie Mae's Chief Financial Officer		
2A. Require its mission support contractors to submit a capitalization report and other supporting documentation in a timely manner, which would allow Ginnie Mae to record fixed asset activities during the proper period.	Material weakness 2017 Finding 2	Under remediation –Ginnie Mae's revised accounting policies and procedures did not fully address our audit recommendation. Ginnie Mae's effort to further enhance the fixed assets policies and procedures is ongoing.

Fiscal year 2016 recommendations	Classification	Fiscal year 2018 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	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 OIG Review – We received the complete and final revised accounting policies and procedures late in the fiscal year, which did not allow us sufficient time to verify the corrective actions taken.
2F. Reverse the accounting writeoff of the advances accounts. In conjunction with the subledger data solution, conduct a proper analysis to determine whether any of the $248 million balances in the advances accounts are collectible.	Material weakness 2016 Finding 2	We did not reach a management decision. Referred to departmental audit resolution official. See material weakness 2018 – 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 – Final action target date (FATD) on this audit recommendation was 9/30/17. Since the solution to this issue was tied to the subledger database project, full implementation of the corrective action plan was not expected until fiscal year 2019.
2H. Enhance existing policies and procedures for its fixed assets, to include	Material weakness 2016	Under remediation – We received the complete and final

Fiscal year 2016 recommendations	Classification	Fiscal year 2018 status
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.	Finding 2	revised accounting policies and procedures late in the fiscal year, which did not allow us sufficient time to verify the corrective actions taken.
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 – We received the complete and final revised accounting policies and procedures late in the fiscal year, which did not allow us sufficient time to verify the corrective actions taken.
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 –Revised procedures did not fully address our audit recommendations. They lacked a basic control mechanism for capturing new events with financial reporting impact on Ginnie Mae statements.
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 – FATD on this audit recommendation was 6/30/18. Since the solution to this issue was tied to the SLDB project, full implementation of the corrective action plan was not expected until fiscal year 2019.
We recommend that Ginnie Mae's Chief Financial Officer		
3A. Adjust the reimbursable costs out of the allowance accounts as appropriate.	Material weakness 2016 Finding 3	Under remediation – We were unable to verify corrective actions taken since the SLDB systems were in process during fiscal year 2018.
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 2018 – finding 3.

Fiscal year 2016 recommendations	Classification	Fiscal year 2018 status
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 – We were unable to validate the implementation of the new procedures since SLDB systems were in process in 2018.
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 – We were unable to validate the implementation of the new procedures since SLDB systems were in process in 2018.
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 – Based on FATD of 9/30/19, full implementation of the corrective action plan was not expected until fiscal year 2019.
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	Closed.
5B. Establish policies and procedures for monitoring changes to master data, to include creating and reviewing a change report and establishing controls within IPMS to inform managers of changes to master data. In addition, Ginnie Mae	Significant deficiency 2016 Finding 5	Closed.

Fiscal year 2016 recommendations	Classification	Fiscal year 2018 status
should automate the reconciliation process between IPMS and other interfacing applications or systems to ensure that all pool-level details are compared and that changes are captured and reported in a timely manner.		
5C. Develop written policies and procedures for master data and ensure that those policies and procedures are available to all staff. In addition, Ginnie Mae should revise policies and procedures, as needed, to reflect the changes in business processes to ensure that policies and procedures are accurate, complete, and current at all times. This should include when new systems are developed and implemented or other organizational changes occur. Ginnie Mae should also ensure that significant changes to the policies and procedures are properly communicated to all individuals responsible for handling Ginnie Mae's data.	Significant deficiency 2016 Finding 5	Closed.

Fiscal year 2015 recommendations	Classification	Fiscal year 2018 status
2B. Update the accounting policies and procedures related to revenue recognition to reasonably ensure compliance with GAAP.	Material weakness 2015 Finding 2	Closed.
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	Closed.
We recommend that Ginnie Mae's President		
4A. Ensure that the systems and processes for servicing and financial reporting on Ginnie Mae's defaulted	Material weakness 2015 Finding 4	Under remediation – Since the solution to this issue was tied to the SLDB project, full

Fiscal year 2015 recommendations	Classification	Fiscal year 2018 status
issuers' portfolio are ready and capable of handling loan-level accounting.		implementation of the corrective action plan was not expected until fiscal year 2019.
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 – Ginnie Mae had not fully implemented two key areas of its model risk governance framework, which included model developer testing and independent model validation.
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.
5B. Conduct ongoing monitoring of change reports to ensure that unauthorized changes are not made to Ginnie Mae's data and establish a policy regarding ongoing monitoring of change activity that requires performing periodic reviews of change reports.	Significant deficiency 2015 Finding 5	Under remediation – Ginnie Mae has not provided sufficient evidence for our consideration in clearing this audit recommendation.
5C. Automate the approval process to include restricting the capability to make unauthorized changes unless evidence of approval is present or increase the scope of the "Admin Adjustments Report" to include all exceptions and adjustments.	Significant deficiency 2015 Finding 5	We did not reach a management decision. Referred to departmental audit resolution official.

Fiscal year 2015 recommendations	Classification	Fiscal year 2018 status
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.		
We recommend that Ginnie Mae's Acting Chief Financial Officer		
6A. Request a legal opinion from the implementing agency, the U.S. Treasury, for a determination of whether Ginnie Mae is required to comply with DCIA.	Compliance with laws and regulations 2015 Finding 6	We did not reach a management decision. Referred to departmental audit resolution official. See compliance with laws and regulations 2018 – finding 6.

Fiscal year 2014 recommendations	Classification	Fiscal year 2018 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 – Ginnie Mae has not fully implemented several action plan items. FATD on this recommendation was 9/30/16, and no new FATD was established.
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 audit recommendation was 12/31/15. Since the solution to this issue was tied to the SLDB project, full implementation of the corrective action plan was not expected until fiscal year 2019.
2A. Establish and implement policies and procedures to ensure that reimbursable costs are tracked and accounted for at the loan level.	Material weakness 2014 Finding 2	Under remediation – FATD on this audit recommendation was 12/31/15. Since the solution to this issue was tied to the SLDB project, full implementation of the corrective action plan was not expected until fiscal year 2019.

Fiscal year 2014 recommendations	Classification	Fiscal year 2018 status
2B. Determine the amount of reimbursable costs incurred by Ginnie Mae per loan, report the reimbursable costs incurred as receivables rather than expensing them, and adjust them out of the mortgage-backed securities loss liability account as appropriate.	Material weakness 2014 Finding 2	Under remediation – FATD on this audit recommendation was 6/24/16. Since the solution to this issue was tied to the SLDB project, Full implementation of the corrective action plan was not expected until fiscal year 2019.
2C. Restate fiscal year 2013 financial statements to correct the impact of the accounting errors determined in recommendation 2B.	Material weakness 2014 Finding 2	Under remediation – This was previously referred to the Deputy Secretary. In 2018, Ginnie Mae provided a revised management decision on which we concurred. Its full implementation was not expected until fiscal year 2019.
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 audit recommendation was 6/24/16. Since the solution to this issue was tied to the SLDB project, full implementation of the corrective action plan was not expected until fiscal year 2019.
2E. Report the escrow fund balances on the face of the financial statements, including additional disclosure information in the notes, in accordance with generally accepted accounting principles.	Material weakness 2014 Finding 2	We did not reach a management decision. Referred to departmental audit resolution official. .
2F. Restate fiscal year 2013 financial statements to show escrow fund balances omitted on the face of the financial statements.	Material weakness 2014 Finding 2	We did not reach a management decision. Referred to departmental audit resolution official.
3A. Establish and implement policies and procedures for the documentation and validation of Ginnie Mae management assumptions, including foreclosure costs and redefault rates, used in the loss reserve model going forward.	Material weakness 2014 Finding 3	Under remediation – We were unable to verify corrective actions taken since this was part of the NPA, which was out of scope in fiscal year 2018.
We recommend that Ginnie Mae's President	Material weakness 2014	

Fiscal year 2014 recommendations	Classification	Fiscal year 2018 status
4B. Work with HUD's Chief Financial Officer to design and implement a compliant financial management governance structure.	Material weakness 2014 Finding 4	We did not reach a management decision. Referred to departmental audit resolution official.
We recommend that the HUD Chief Financial Officer, in accordance with provisions of the Chief Financial Officers Act of 1990, assist Ginnie Mae to implement a compliant financial management governance structure by		
4D. Overseeing a comprehensive risk assessment of Ginnie Mae's financial management governance.	Material weakness 2014 Finding 4	We did not reach a management decision. Referred to departmental audit resolution official.
4E. Preparing and implementing a plan, based on the results of the risk assessment in recommendation 4D, that		We did not reach a management decision. Referred to departmental audit resolution official.
4E.i) Demonstrates HUD OCFO oversight of Ginnie Mae's, as a HUD component, financial management activities;	Material weakness 2014 Finding 4	
4E.ii) Ensures that Ginnie Mae updates its financial management polices to reflect conclusions reached in the financial management risk assessment;	Material weakness 2014 Finding 4	
4E.iii) Provides complete, reliable, consistent and timely information for defaulted issuers' pooled and nonpooled loans, prepared on a uniform basis for preparation of Ginnie Mae financial statements, management reporting, and cost reporting; and	Material weakness 2014 Finding 4	
4E.iv) Ensures all of Ginnie Mae's financial management systems, both owned and outsourced, provide the financial information necessary to prepare and support financial statements that comply with generally accepted accounting principles.	Material weakness 2014 Finding 4	

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

Ginnie Mae
Our Guaranty Matters

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

DATE: November 8, 2018

To: Thomas R McEnanly
Financial Audits Division Director, GAF

FROM: Michael Bright, EVP/COO, Acting President, TA

SUBJECT: Management Response to Fiscal Year (FY) 2018 Audit Report

Thank you for your report dated November 8, 2018 outlining your findings with the Government National Mortgage association, or "Ginnie Mae." Ginnie Mae appreciates the opportunity to respond to the findings noted in the Office of the Inspector General's (OIG) FY 2018 Audit Report, and we very much appreciate the important role that the Office of the Inspector General performs each and every day on behalf of American taxpayers.

Comment 1

As you know, Ginnie Mae is now a $2 trillion mortgage-backed security program. We have over 400 program participants and issuers who rely on our platform and our security to support lending in the Federal Housing Administration, Department of Veterans Affairs (VA), and Rural Housing programs. Each and every month over $40 billion of principal and interest (P&I) remits over our platform from issuers to investors, and because of Ginnie Mae's unique role in the mortgage market, investors know with certainty that they will receive this principal and interest on time and in full. In the 50 years of Ginnie Mae's history, P&I has never been missed.

This past year we have focused on four primary strategic directives. Number one, we have taken decisive action to reign in prepayment behavior in the VA loan program that was threatening the viability of our security and putting American Veterans at financial risk. Number two, we have set about the task of infrastructure modernization – much of which we call *Ginnie Mae 2020* – that will position Ginnie Mae to be an industry and market leader in data, technology infrastructure, and mortgage securitization processing. Third, we are taking very meaningful steps to evolve our risk management paradigm to appropriately police the risk of either systemic or bespoke liquidity runs in our market now that mortgage servicing is primarily conducted by non-bank institutions. Finally, we have made substantial progress on the development of a subledger database (SLDB) to allow for both government and corporate United States Generally Accepted Accounting Principles (US GAAP) accounting to be done in a highly sophisticated manner on delinquent loans pulled from servicing books that Ginnie Mae has taken possession of due to issuer failure. All of these initiatives

Ref to OIG Evaluation

are very comprehensive in nature, and we are exceptionally proud of the progress we are making as well as the work to come in fiscal year 2019.

Ginnie Mae currently has a retained whole loan book of roughly $3 billion in unpaid principal balance (UPB) of loans that were largely originated by some of the mortgage industry's most serious cases of fraud in the past decades. The portfolios that were taken over by Ginnie Mae in the depths of the financial crisis contained some of the more poorly underwritten loans in our program's history. Documentation and data fields were missing, and issuer fraud was pervasive. We have worked since 2009 to resolve these issues, while also helping these homeowners affected by the financial crisis as much as possible. We work closely with our master subservicers (MSS) to ensure that proper care is given to homeowners and communities where these loans were made.

In 2009, the defaulted portfolio totaled $26 billion. The original UPB of the loans that are the subject of much of your audit report were the result of approximately $12 billion in buyouts in 2010. This portfolio has decreased since 2010 to an outstanding balance of approximately $3 billion as of today and continues to be in runoff mode. Nonetheless, we are working diligently to resolve remaining issues on these loans and to ensure that we have in place a robust infrastructure for accurate accounting and financial reporting.

As your report points out, certain material deficiencies remain with our accounting for this $3 billion non-pooled asset (NPA) portfolio. While Ginnie Mae's management does not concur with all the findings and recommendations in the Audit Report, particularly relating to certain policy elections and internal controls over financial reporting, Ginnie Mae management appreciates the OIG's efforts in identifying areas of improvement in our financial operations.

Comment 1

We also appreciate OIG's acknowledgement in the report that Ginnie Mae has made significant progress in developing and implementing sound policies and standard operating procedures, remediating previously identified issues noted in our accounting reports, assessing the reliability of the underlying NPA data, and in building the loan-level SLDB to account for those assets. We think this progress should be highlighted further and are taking the opportunity to do so in this response.

In particular, in fiscal year 2018, Ginnie Mae continued to expend considerable effort on remediating material weaknesses related to NPAs, which is the basis for the disclaimer of opinion. As part of the complex and extensive project to resolve the identified material weaknesses, Ginnie Mae faced challenges, especially with regard to implementing SLDB, due to dependencies on the availability and quality of the underlying loan data. Despite these challenges, fiscal year 2018 was marked by significant milestones and achievements relating to the SLDB solution. These achievements include, the development and delivery of: (1) accounting policies outlining the accounting treatment and reporting of NPA transactions in compliance with US GAAP; (2) business specification documents outlining the system logic for the SLDB processing of servicing data from MSS – i.e., aligning servicing and business events into accounting events to help convert operational balances into accounting amounts in compliance with the aforementioned policies; and (3) financial statement line item (FSLI) assertion memos and testing workpapers addressing the completeness/accuracy, existence/occurrence, rights & obligations, and valuation/measurement of NPA activities reported by the MSS for processing in the SLDB. In conjunction with these

Ref to OIG Evaluation

achievements, we also held four sessions with the OIG to discuss work performed tied to the NPA remediation efforts that included walkthroughs of the integrated system solution, as well as an overview of the above referenced NPA accounting policies, business specification documents and FSLI assertion procedures.

Ginnie Mae remains on-schedule to meet SLDB implementation deadlines that include restating fiscal year 2018 amounts in the first quarter of fiscal year 2019, making non-pooled balances available for audit in fiscal year 2019.

Furthermore, the implementation of SLDB marks an important milestone for Ginnie Mae in that the SLDB brings with it the capabilities of loan-level government and corporate US GAAP accounting. The ability to accurately account for loans that have been removed from pools of defaulted issuers was a capability gap for the agency but, going forward this will now be a core capability.

In addition to the above, Ginnie Mae also finalized and obtained HUD OCFO approval of its remaining accounting policies and standard operating procedures and received concurrence from the OIG for closure of two fiscal year 2015 audit findings. During the fiscal year, the OIG also closed four fiscal year 2016 audit findings relating to information system control deficiencies surrounding Ginnie Mae's oversite of Integrated Pool Management System (IPMS). In response to the 2016 findings, Ginnie Mae management made significant efforts in fiscal year 2017 and 2018 to remediate these findings, which resulted in the development and implementation of a master data policy outlining data management and data certification procedures for use across the entity.

Comment 1

We look forward to OIG's cooperation in the FY 2019 audit as we achieve target milestones in relation to our remediation efforts.

While Ginnie Mae will continue to take corrective actions to strengthen its financial operations, Ginnie Mae's financial position remains sound. During fiscal year 2018, Ginnie Mae contributed $1.7 billion in profits to the Federal Government and as of September 30, 2018 had a period end fund balance with Treasury of $4.6 billion and $16.3 billion invested in US Treasury Securities. This past fiscal year, we guaranteed $435 billion in mortgage-backed securities (MBS) issuance, supporting approximately 1.9 million units of housing for individuals and families in fiscal year 2018, while also ensuring the timely and accurate remittance of $397 billion in investor payments. This past year was also marked by several record-breaking milestones for our business that included $1.4 billion in revenue from our securitization business and our outstanding portfolio, consisting of 11.1 million loans and 559,000 pools. In addition, the introduction of a new user-friendly online process to create Ginnie Mae Platinum Securities and additional product offerings to the program resulted in Platinum issuance volume surging to all-time record of more than $20 billion of securities formed, helping to increase the liquidity in the Ginnie Mae mortgage-backed securities market and generating $4.5 million in fees.

Ref to OIG Evaluation

In addition to these milestones, as noted before, we continue to make strides in modernizing the MBS Program and Platform, as detailed in our white paper, *Ginnie Mae 2020*. During fiscal year 2018, Ginnie Mae introduced the new Multi-Family Delivery Module under a pilot program with seven pilot issuers and has already reached $1 billion in total transactions.

Comment 1

Ginnie Mae is committed to demonstrating continued progress towards enhancing its business operations and strengthening its financial management governance.

OIG Evaluation of Auditee Comments

Comments 1 OIG accepts Ginnie Mae's general concurrence with the findings and recommendations. We commend Ginnie Mae for the considerable efforts and progress it has made to remediate issues identified related to nonpooled loan assets and to help bring them closer to an auditable state at the end of fiscal year 2018. As Ginnie Mae completes its implementation of the SLDB project, which is expected in early fiscal year 2019, we look forward to doing a full-scope audit on Ginnie Mae's financial statements next year.

Appendix B

Ginnie Mae's Fiscal Years 2018 and 2017 Financial Statements and Notes

Balance Sheets		
	September 30,	
	2018	2017
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	$ 20,890,461	$ 18,989,691
Restricted cash and cash equivalents	757,424	658,527
Accrued fees and other receivables	106,909	98,465
Claims receivable, net*	253,577	374,749
Advances, net	117	38
Mortgage loans held for investment including accrued interest, net*	2,735,824	3,130,975
Acquired property, net*	25,453	45,080
Fixed assets, net	85,761	88,056
Mortgage servicing rights	943	–
Guaranty asset	9,007,952	8,256,092
Other assets	267	411
Total Assets	**$ 33,864,688**	**$ 31,642,084**
Liabilities and Investment of U.S. Government:		
Liabilities:		
Accounts payable and accrued liabilities	$ 71,707	$ 65,945
Deferred liabilities and deposits	407	444
Deferred revenue	470,993	461,862
Liability for loss on mortgage-backed securities program guaranty	21,293	268,443
Liability for representations and warranties	61	54
Mortgage servicing rights	-	48
Guaranty liability	7,733,115	7,014,376
Total Liabilities	**$ 8,297,576**	**$ 7,811,172**
Commitments and Contingencies (See Note 17)		
Investment of U.S. Government	$ 25,567,112	$ 23,830,912
Total Liabilities and Investment of U.S. Government	**$ 33,864,688**	**$ 31,642,084**

* 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,			
		2018		2017
	(Dollars in thousands)			
Revenues:				
Interest Income				
Interest income on mortgage loans held for investment*	$	138,653	$	162,899
Other interest income		236,311		164,433
Income on guaranty obligation		1,139,255		1,266,867
Mortgage-backed securities guaranty fees		1,236,988		1,147,866
Commitment fees		88,362		101,771
Multiclass fees		27,834		27,304
Mortgage-backed securities program and other income		19,130		22,313
Total Revenues	**$**	**2,886,533**	**$**	**2,893,453**
Expenses:				
Administrative expenses	$	(28,045)	$	(26,461)
Fixed asset depreciation and amortization		(20,130)		(20,538)
Mortgage-backed securities program and other expenses		(198,248)		(216,239)
Total Expenses	**$**	**(246,423)**	**$**	**(263,238)**
Recapture (provision):				
Recapture (provision) for mortgage loans held for investment including accrued interest*	$	38,661	$	113,706
Recapture (provision) for mortgage-backed program guaranty		247,151		(267,057)
Recapture (provision) for claims receivable*		(50,844)		(62,173)
Recapture (provision) for loss on uncollectible advances		(16)		(15)
Recapture (provision) for acquired property*		(31,644)		(47,948)
Total Recapture (Provision)	**$**	**203,308**	**$**	**(263,487)**
Other Gain (Loss):				
Gain (Loss) on guaranty asset	$	(1,106,134)	$	(224,411)
Gain (Loss) on mortgage servicing rights		991		(83)
Gain (Loss) other		(2,075)		(2,613)
Total Other Gains / (Losses)	**$**	**(1,107,218)**	**$**	**(227,107)**
Results of Operations	**$**	**1,736,200**	**$**	**2,139,621**
Investment of U.S. Government at Beginning of Period	$	23,830,912	$	21,691,291
Adjustment to Investment of U.S. Government		-		–
Investment of U.S. Government at Beginning of Period, Restated*	$	23,830,912	$	21,691,291
Investment of U.S. Government at End of Period*	**$**	**25,567,112**	**$**	**23,830,912**

* 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,			
		2018		2017
	(Dollars in thousands)			
Cash Flows from Operating Activities				
Results of Operations	**$**	**1,736,200**	**$**	**2,139,621**
Adjustments to reconcile results of operations to Net cash (used for) provided by operating activities:				
Depreciation and amortization expense		20,130		20,538
Provision (Recapture) for mortgage loans held for investment including accrued interest*		(38,661)		(113,706)
Provision (Recapture) for mortgage-backed program guaranty		(247,151)		267,057
Provision (Recapture) for claims receivable*		50,844		62,173
Provision (Recapture) for loss on uncollectible advances		16		15
Provision (Recapture) for acquired property*		31,644		47,948
(Gain)/loss on guaranty asset		1,106,134		224,411
(Gain)/loss on mortgage servicing rights		(991)		83
(Gain)/loss on liability for representations and warranties		6		(19)
(Income) on guaranty obligation		(1,139,255)		(1,266,867)
Changes in operating assets and liabilities:				
Restricted cash and cash equivalents		(98,897)		(111,921)
Accrued fees and other receivables		(8,445)		(11,448)
Claims receivable, net*		257,609		620,598
Advances, net		(96)		20,860
Mortgage loans held for investment including accrued interest, net*		(7,017)		(8,073)
Other assets		145		(247)
Accounts payable and accrued liabilities		5,763		(28,659)
Deferred liabilities and deposits		(37)		110
Deferred revenue		9,130		16,238
Net cash (used for) provided by operating activities	**$**	**1,677,071**	**$**	**1,878,712**
Cash Flows from Investing Activities				
Proceeds from repayments and sales of mortgage loans acquired as held for investment*	$	225,830	$	247,572
Proceeds from the dispositions of acquired property and pre-foreclosure sales*		35,798		67,897
Purchases of loans held for investment*		(20,094)		(24,917)
Purchases of fixed assets		(17,835)		(25,698)
Net cash (used for) provided by investing activities	**$**	**223,699**	**$**	**264,854**
Cash Flows from Financing Activities				
Net cash (used for) provided by financing activities	**$**	–	**$**	–
Net change in Cash and cash equivalents		1,900,770		2,143,566
Cash and cash equivalents, beginning of the period		**18,989,691**		**16,846,125**
Cash and cash equivalents, end of the period	**$**	**20,890,461**	**$**	**18,989,691**
Supplemental Disclosure of Non-Cash Activities				
Transfers from Mortgage loans held for investment including accrued interest net, to foreclosed loans net , claims receivable net, acquired property, net*	$	260,685	$	467,897

* 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, is exempt from both federal and state taxes. Ginnie Mae guarantees the timely payment of principal and interest (P&I) on Mortgage-Backed Securities (MBS) backed by federally insured or guaranteed residential loans to its MBS investors. The guarantee, which is backed by the full faith and credit of the U.S. government, increases liquidity in the secondary mortgage market and attracts new sources of capital for residential mortgage loans from investors. Ginnie Mae's role in the market enables qualified borrowers to have reliable access to a variety of mortgage products. Ginnie Mae's principal market is U.S. and Territories housing market.

Through the MBS program, Ginnie Mae supports:

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

Ginnie Mae requires all mortgages to be insured or guaranteed by government agencies, including the Federal Housing Administration (FHA), the Office of Public and Indian Housing (PIH), the U.S. Department of Agriculture's Rural Development Agency (RD), and the U.S. Department of Veterans Affairs (VA).

Ginnie Mae 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.

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

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

The OIG issued a disclaimer of opinion on Ginnie Mae's financial statements for fiscal years 2014 to 2017. The OIG's audit findings focused primarily on Ginnie Mae's non-pooled loans portfolio that were acquired from defaulted issuers, which totaled $3.0 billion and $3.6 billion, net, as of September 30, 2018 and 2017, 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 United States Generally Accepted Accounting Principles (U.S. GAAP) requirements for fiscal years 2018 and 2017.

Ginnie Mae's objective for fiscal year 2018 was to continue remediation efforts associated with the material weaknesses noted by OIG that led to the disclaimer of opinion in the prior years. 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.

During fiscal year 2018, Ginnie Mae achieved the following significant milestones towards attaining this objective:

- Developed accounting policies to govern the reporting of non-pooled loans. The accounting policies were submitted to OIG in January 2018;

- Delivered business specification documents outlining the logic for the sub ledger database (SLDB) processing of operational transactions in compliance with the aforementioned policies to the OIG in March 2018;
- Delivered documentation to support relevant financial statement line item (FSLI) assertions for non-pooled assets (NPAs) and activity processed in SLDB. Documentation was submitted to OIG in June 2018; and
- Held a series of sessions with the OIG to provide insight to key aspects of the accounting policies, rationale behind accounting policy elections, demonstration of SLDB functionality, and an overview of the FSLI assertion work.

Validation or testing of data inputs and outputs from SLDB is on-going and is part of a readiness assessment of the SLDB before the planned go-live date in fiscal year 2019. The remediation process continues to require extensive and complex work, including both employees and external consultants.

Although Ginnie Mae continues to show progress to improve the non-pooled loan portfolio balances, the balances, however, remain non-compliant with U.S. GAAP for fiscal year 2018 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 2019 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 pre-foreclosure sales;
- Purchases of mortgage loans held for investment including accrued interest;

- Transfers from/to mortgage loans held for investment including accrued interest, net to/from advances, net, and claims receivable, net;
- Transfers from mortgage loans held for investment including accrued interest, net to/from 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.

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.

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, termination and extinguishment[1] (defined as any failure or inability of the issuer to perform its responsibilities under the Ginnie Mae MBS programs).

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

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

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

Restricted Cash and Cash Equivalents: Cash and cash equivalents that are classified as restricted when the cash is unavailable for withdrawal or usage. Restrictions may include legally restricted deposits, contracts entered into with others, or the entity's statements of intention with regard to particular deposits. Restricted cash balances are recorded in a separate line item as restricted cash and cash equivalents. Ginnie Mae received approval from the Office of Management and Budget (OMB) to invest 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.

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[1]*Extinguishment occurs when defaulted issuer's right, title, and interest in the pooled mortgages is taken over by Ginnie Mae*

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 \$30.6 million (estimated) and \$38.7 million at September 30, 2018 and 2017, 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: For costs incurred on both pooled and non-pooled loans expected to be reimbursed, a receivable should be recorded, and reported net of allowance for amounts that management believes will not be collected. Reimbursable Costs arise where insufficient escrowed funds are available to make scheduled tax and insurance payments for pooled and non-pooled loans serviced by Ginnie Mae, it 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 mortgage held for investment or sale. 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, RD, 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, 2018. 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 2019. 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. Guaranty fees are discussed in Note 6: Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure.

Claims Receivable, Net: Claims receivable represents receivables from conveyed properties and payments owed to Ginnie Mae from insuring agencies (FHA, VA, RD, 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 often times 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, RD, 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 unrecoverable amounts 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, 2018, 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 2019. 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 expected unrecoverable amounts 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, 2018, 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 2019. 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 based on history of recoverability from FHA.

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.

Mortgage Loans Held for Investment Including Accrued Interest, Net: When a Ginnie Mae issuer defaults, and is terminated and extinguished, Ginnie Mae steps into the role of the issuer and assumes all servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed portfolio, including making timely pass through payments. Ginnie Mae utilizes MSS to service these portfolios. There are currently two MSS that service the terminated and extinguished issuer portfolio (of pooled and non-pooled loans). As of September 30, 2018 and 2017, 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, RD, VA, or PIH, as well as loans that have been modified beyond the trial modification period. Additionally, Ginnie Mae has the option to purchase mortgage loans out of the MBS pool when the mortgage loans are insured but are delinquent for more than 90 days.

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, 2018 and 2017, Ginnie Mae had no loans classified as HFS.

Due to lack of required HFI data from MSS at September 30, 2018, 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 2019. 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 interest is uncollectible including recoverability per insurance guidelines 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, 2018, 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 2019. 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, RD, PIH) associated with the loan, as each has a different recovery rate. Ginnie Mae also categorizes uninsured loans separately from insured loans. The allowance for loan losses estimate is calculated using statistical models that are based on historical loan performance and insurance 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, 2018, 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 2019. 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, 2018, 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 2019. 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, 2018. 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 2019. 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, RD, VA, and PIH in determining whether it is probable that Ginnie Mae will collect all amounts due according to the contractual terms. Per U.S. GAAP, Ginnie Mae is required to record realized losses on loans purchased when, upon purchase, the fair value is less than the acquisition cost of the loan. Additionally, U.S. GAAP requires Ginnie Mae to accrue and recognize the difference between the initial investment of the loan and the undiscounted expected cash flows (accretable yield) as interest income on a level-yield basis over the expected life of the loan.

For the loans insured by the FHA, 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. 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, 2018, 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 2019. Refer to Note 2: Restatement, Non-pooled Loans.

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 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, 2018, 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 2019. Refer to Note 2: Restatement, Non-pooled Loans.

Fixed Assets, Net: Ginnie Mae's fixed assets consist of leased assets, hardware, and software that is used to accomplish its mission. Ginnie Mae capitalizes costs based on guidance in ASC 350-40:

Intangibles – Goodwill and Other – Internal-Use Software and ASC 360: *Property, Plant and Equipment*. Additions to fixed assets consist of improvements, new purchased items, and betterments. Purchased software is recorded at cost and amortized using the straight-line method over its estimated useful life.

The capitalization of software development costs is governed by ASC 350-40: *Intangibles – Goodwill and Other – Internal-Use Software* if the software is for internal use. After the technological feasibility of the software has been established at the beginning of application development, software development costs, which primarily include salaries and related payroll costs and costs of independent contractors incurred during development, are capitalized. Research and development costs incurred prior to application development (for internal-use software), are expensed as incurred. Software development costs are amortized on a program-by-program basis commencing on the date when ready for use. Ginnie Mae did not develop software to be marketed in either 2018 or 2017.

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

Ginnie Mae 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 terminated and extinguished issuer's entire Ginnie Mae guaranteed pooled-loan portfolio. Ginnie Mae contracts with multiple MSS to provide the servicing of its pooled mortgage loans. The servicing functions typically performed by Ginnie Mae's MSS include: collecting and remitting loan payments, responding to mortgagor inquiries, reporting P&I payments, holding custodial funds for payment of property taxes and insurance premiums, counseling delinquent mortgagors, supervising foreclosures and property dispositions, and generally administering the loans. Ginnie Mae receives a monthly servicing fee based on the 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 terminated and extinguished 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 terminated and extinguished issuers' portfolio including credit losses. The discount rate is used to estimate the present value of the projected cash flows in order to estimate the fair value of the MSR. The discount rate assumptions reflect the market's required rate of return adjusted for the relative risk of the asset type. Upon acquisition, Ginnie Mae measures its MSR at fair value and subsequently re-measures the MSR assets or liabilities with changes in the fair value recorded in the Statements of Revenues and Expenses and Changes in Investment of U.S. Government.

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 U.S. Department of Housing and Urban Development (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 MSS and third-party vendors and unclaimed securities holders' payments. Ginnie Mae uses estimates and judgments, as required under U.S. GAAP, to accrue for expenses when incurred, regardless of whether expenses were paid as of year-end.

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

Refer to Note 15: Reserve for Loss for details on Ginnie Mae's current practice.

Liability for Representations and Warranties (Repurchase Liability): Ginnie Mae may enter into business transactions and agreements, such as the sale of an MSR or loan portfolio, which provide certain representations and warranties associated with the underlying loans. If there is a breach of these contractual obligations, Ginnie Mae may be required to repurchase certain loans or provide other compensation.

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 and on uninvested funds in the Financing Fund. Prior to 2018, Ginnie Mae earned and collected interest on uninvested funds, which was calculated using the applicable version of the CSC2 provided by the OMB. In September 2018, the US Department of Treasury (Treasury) clarified rules regarding the collection of interest on uninvested funds in the Financing Account. Based on additional conversations with, and clarifications from, Treasury, Ginnie Mae was not entitled to earn interest on uninvested funds without a signed borrowing agreement in accordance with Federal Credit Reform Act. Ginnie Mae is in ongoing discussions with OMB and its legal counsel on whether the Financing Account is fully subject to the provisions of Federal Credit Reform Act. As resolution of the matter between Ginnie Mae and OMB is pending, Treasury and Ginnie Mae agreed that Ginnie Mae will not earn and collect interest on uninvested funds in fiscal year 2018. Due to Treasury's new criteria for earning and collecting interest on uninvested funds, no interest income was recognized in fiscal year 2018 as revenue recognition criterion per ASC 605 were not fully met. At present, there is uncertainty regarding applicability of Federal Credit Reform Act to Ginnie Mae, and whether Ginnie Mae would be required to pay or be able to earn such interest in the future.
- Income on guaranty obligation – Ginnie Mae amortizes its guaranty obligation into revenues based on the 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 may include a 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 of capitalized software acquired, leased, and in-use, by Ginnie Mae. Fixed assets are depreciated and amortized, on a straight-line basis, over a three to five-year period.
- MBS program and other expenses – The main components of the MBS program and other 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, RD, and PIH.

The following table presents assets and liabilities that relate to Ginnie Mae's interest in VIEs at September 30, 2018 and 2017:

	September 30, 2018 (Dollars in thousands)	September 30, 2017 (Dollars in thousands)
Guaranty asset	$ 9,007,952	$ 8,256,092
Guaranty fee receivable	105,000	98,000
Total	**$ 9,112,952**	**$ 8,354,092**
Guaranty liability	$ 7,733,115	$ 7,014,376
Maximum exposure to loss:		
Outstanding MBS securities	$ 2,008,201,891	$ 1,884,163,811
Outstanding MBS commitments	124,767,008	120,883,790
Total	**$ 2,132,968,899**	$ **2,005,047,601**

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

Recently Adopted Accounting Pronouncements

The Accounting Standard Updates (ASUs) not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our financial position and/or results of operations.

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the 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 previous FASB guidance, the decision maker had to consider those interests in their entirety • The new guidance could change consolidation conclusions for entities that have already adopted previous 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 Adopted in October 2017	Ginnie Mae's involvement with VIEs is limited to providing a guaranty on interest payments and principal returns to MBS holders of the Ginnie Mae virtual trusts. Ginnie Mae is not the primary beneficiary of the Ginnie Mae virtual trusts as it does not have the power to control the significant activities of the trusts
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 Adopted in October 2017	Ginnie Mae's involvement with VIEs is limited to providing a guaranty on interest payments and principal returns to MBS holders of the Ginnie Mae virtual trusts. Ginnie Mae is not the primary beneficiary of the Ginnie Mae virtual trusts as it does not have the power to control the significant activities of the trusts

Standard	**Summary of Guidance**	**Effective Date and/or Date of Adoption**	**Effect on the financial statements**
Technical Corrections and Improvements (ASU 2016-19) *Issued December 2016* The amendment to Topic 820, Fair Value Measurement	• Clarifies the difference between a valuation approach and a valuation technique when applying the guidance in that Topic • Fair value approaches are identified as cost approach, market approach, and income approach • Valuation techniques are used to estimate the price at which an orderly transaction to sell an asset would take place between market participants at the measurement date under current market conditions (i.e., valuation techniques are more detailed than approach, e.g., present value technique would be used in income approach to consider future cash flows) • 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 Adopted in October 2017	Ginnie Mae current approach and techniques are consistent with clarified guidance. Accordingly, there was no change in valuation approach or valuation technique since the adoption
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 Adopted in October 2017	There were no servicing assets transferred with loans transactions since the adoption

Recent Accounting Pronouncements Not Yet Adopted

Any ASUs 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
Codification Improvements (ASU 2018-09) *Issued July 2018*	• Since the FASB Accounting Standards Codification was established in September 2009 as the source of authoritative GAAP to be applied by nongovernmental entities, stakeholders have provided suggestions for minor corrections and clarifications. The Codification describes the FASB's procedure for responding to submissions, which involves the staff analyzing and processing the submissions and including any resulting changes to the Codification in maintenance updates or in an Accounting Standards Update. • Amendments to Subtopic 820-10, Fair Value Measurement	Effective October 2018	Ginnie Mae is currently evaluating the potential impact on amendments that will become effective in fiscal year 2019
Technical Corrections and Improvements (ASU 2016-19) *Issued December 2016* The amendment to Subtopic 350-40, Intangibles –Goodwill and Other Internal-Use Software	• Adds a reference to guidance to use when accounting for internal-use software licensed from third parties within the scope of Subtopic 350-40 • A software license within 350-40 shall be accounted for as the acquisition of an intangible asset and the incurrence of a liability (that is, to the extent that all or a portion of the software licensing fees are not paid on or before the acquisition date of the license) by the licensee • The intangible asset acquired shall be recognized and measured in accordance with paragraphs 350-30-25-1 and 350-30-30-1, respectively	Effective October 2018	Ginnie Mae is already complying with the clarified guidance and, therefore, not expected to have an impact on adoption in fiscal year 2019

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

Standard	**Description**	**Effective Date and/or Date of Adoption**	**Effect on the financial statements**
Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01) *Issued January 2016*	• The guidance will require entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception • The 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	Effective October 2019	Ginnie Mae is currently evaluating the potential impact on its financial statements
Statement of Cash Flows (ASU 2016-18) *Issued November 2016*	• The guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows • As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows	Effective October 2019	Ginnie Mae is currently evaluating the potential impact on its financial statements
Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13) *Issued August 2018*	• The amendment modifies the disclosure requirements on fair value measurements under ASC 820 based on concepts in the Concepts Statement, including the consideration of costs and benefits. • The following disclosure requirements were removed from ASC 820: o The amount and of and reasons for transfers between L1 and L2 of the fair value hierarchy o The policy for timing of transfers between levels o The valuation process for L3 fair value measurements	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**
(Continued from previous page) Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13) *Issued August 2018*	o For non-public entities, the changes in unrealized gains and losses for the period included in earnings for recurring L3 fair value measurements held at the end of the reporting period • The following disclosure requirements were modified in Topic 820: o In lieu of a roll forward for Level 3 fair value measurement, a nonpublic entity is required to disclose transfers into and out of Level 3 assets and liabilities o For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly o The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date		

Standard	Description	Effective Date and/or Date of Adoption	Effect on the 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 o Proceeds from the settlement of insurance claims o Proceeds from the settlement of corporate-owned life insurance o Distributions received from equity method investees • Beneficial interests in securitization transactions	Effective October 2019	Ginnie Mae is currently evaluating the potential impact on its financial statements
Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (ASU 2017-05) *Issued February 2017*	• The guidance clarifies scope and application of ASC 610-20 on the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales • The ASU applies to nonfinancial assets, including real estate, ships and intellectual property, and clarifies that the derecognition of all businesses is in the scope of ASC 810. It also defines an in substance nonfinancial asset	Effective October 2019	Ginnie Mae is currently evaluating the potential impact on its financial statements

Standard	**Description**	**Effective Date and/or Date of Adoption**	**Effect on the financial statements**
Technical Corrections and Improvements to Financial Instruments – Overall (ASU 2018-03) *Issued February 2018*	• The amendment clarifies that an entity measuring an equity security using the measurement alternative may change its measurement approach to a fair value method in accordance with ASC 820, through an irrevocable election that would apply to that security and all identical or similar investments of the same issuer • The amendment clarifies that the adjustments made under the measurement alternative are intended to reflect the fair value of the security as of the date that the observable transaction for a similar security took place	Effective October 2019	Ginnie Mae is currently evaluating the potential impact on its financial statements
Leases (ASU 2016-02) *Issued February 2016*	• The guidance requires lessees to put most leases on their balance 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 • The guidance also eliminates today's real estate-specific provisions for all entities • For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases • All entities classify leases to determine how to recognize lease-related revenue and expense. Classification continues to affect lessors' balance sheets	Effective October 2020	Ginnie Mae is currently evaluating the potential impact on its financial statements

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Leases (ASU 2018-01) *Issued January 2018*	• The Update provides an optional transition practical expedient to not evaluate, under ASC 842, existing or expired land easements that were not previously accounted for as leases under ASC 840, Leases • An entity that elects this practical expedient should evaluate new or modified land easements under ASC 842 beginning at the date that the entity adopts ASC 842 • An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in ASC 842 to assess whether they meet the definition of a lease	Effective upon adoption of the amendments in ASU 2016-02 ASU 2016-02 is effective October 2020	Ginnie Mae is currently evaluating the potential impact on its financial statements
Financial Instruments – Credit Losses (ASU 2016-13) *Issued June 2016*	• The guidance changes the impairment model for most financial assets and other instruments • For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally results in the earlier recognition of allowances for losses • For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities • Entities will have to disclose significantly more information, including information they use to track credit quality by year of origination for most financing receivables	Effective October 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
Intangibles – Goodwill and Other – Internal-Use Software (ASU 2018-15) Issued August 2018	• The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal –use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments in this update require an entity in a hosting arrangement that is service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Costs to develop or obtain internal-use software that cannot be capitalized under Subtopic 350-40, such as training costs and certain data conversion costs, also cannot be capitalized for a hosting arrangement that is a service contract	Effective October 2021; early adoption is permitted	Ginnie Mae is currently evaluating the potential impact on its financial statements

Other recent accounting pronouncements have been deemed not applicable or not expected to have a material impact 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, 2018 and 2017:

	September 30, 2018		
	Unrestricted	Restricted	Total
	(Dollars in thousands)		
Funds with U.S. Treasury[1]	$ 4,590,522	$ 734,178	$ 5,321,700
Deposit in Transit:			
Cash held by MSS[2]	28,970	–	28,970
Cash held by Trustee and Administrator of securities[3]	4,041	–	4,041
U.S. Treasury short-term investments[4]	16,269,928	23,246	16,293,174
Total	**$ 20,893,461**	**$ 757,424**	**$ 21,647,885**

	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**

(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. Uninvested funds in the Financing Fund consist of Funds with U.S. Treasury and/or offsetting collections that have not been disbursed. Prior to 2018, Ginnie Mae earned and collected interest on uninvested funds, which was calculated using the applicable version of the CSC2 provided by the OMB. In 2018, no interest income was recorded due to uncertainty in determining whether Ginnie Mae was authorized to receive this payment from the U.S. Treasury. See Note 3: Summary of Significant Accounting Policies and Practices for details on other interest income from uninvested funds.

Deposits in Transit:

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

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

U.S. Treasury short term investments: U.S. Treasury securities are bought and sold at composite prices received from the Federal Reserve Bank of New York. These securities are maintained in book-entry form at the Bureau of Public Debt and include U.S. Treasury overnight certificates, U.S. Treasury notes, and U.S. Treasury inflation-indexed securities (reflecting inflation compensation). Ginnie Mae has approval from the OMB to establish a Capital Reserve Fund, which 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 $16.2 billion and $17.1 billion, and the Liquidating Fund approximately $124.3 million and $152.3 million at September 30, 2018 and 2017, respectively, in overnight U.S. Government securities. At September 30, 2018 and 2017, Ginnie Mae only held overnight certificates. The U.S. Treasury short-term investments balance includes a $23.2 million and $23.7 million and of restricted cash related to unclaimed MBS security holder payments, at September 30, 2018 and 2017, respectively. U.S. Treasury securities are carried at cost, which approximates fair value.

Note 5: Restricted Cash and Cash Equivalents

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

- Unclaimed security holder payments: Money owed to MBS certificate holders who cannot be located by the administrator of Ginnie Mae MBS securities.
- Unapplied deposits: Cash received by Ginnie Mae held in a suspense account until the appropriate application is determined.
- Fund balances precluded from obligation: Unobligated money within the Programs Fund balance that is restricted by Congress and cannot be utilized unless there is approval by the legislative body.

The balance of restricted cash and cash equivalents at September 30, 2018 and 2017 were as follows:

	September 30, 2018	September 30, 2017
	(Dollars in thousands)	
Unclaimed security holder payments	$ 23,246	$ 23,699
Unapplied deposits	351	335
Fund balances precluded from obligation	733,827	634,493
Total	**$ 757,424**	**$ 658,527**

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

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

Ginnie Mae recognizes a guaranty asset upon issuance of a guarantee for the expected present value of these guaranty fees. The guaranty asset recognized on the Balance Sheets is $9.0 billion and $8.3 billion at September 30, 2018 and 2017, 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 $7.7 billion and $7.0 billion at September 30, 2018 and 2017, 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, 2018 and 2017, the UPB of Ginnie Mae's MBS securities amounted to $2.0 trillion and $1.9 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 for single family programs. For multifamily programs, the maximum guarantee term is capped at 40 years plus the applicable construction period. 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 securities due in part to Ginnie Mae's ability to limit commitment authority granted to individual MBS issuers. Outstanding MBS and commitments were as follows:

	September 30, 2018		September 30, 2017	
	(Dollars in billions)			
Outstanding MBS securities	$	2,008	$	1,884
Outstanding MBS commitments		125		121
Total	**$**	**2,133**	**$**	**2,005**

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 years ended September 30, 2018 and 2017, multiclass security program issuances totaled \$97.1 billion and \$88.4 billion, respectively. The estimated outstanding balance of multiclass securities included in the outstanding MBS balance was \$489.7 billion and \$466.6 billion at September 30, 2018 and 2017, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS collateral.

Note 7: Mortgage Servicing Rights

Upon Ginnie Mae's assumption of defaulted issuers' entire Ginnie Mae guaranteed pooled-loan portfolio, Ginnie Mae assumes the servicing rights and servicing obligations associated with servicing those portfolios. This entitles Ginnie Mae to a future stream of cash flows based on the outstanding principal balances of the loans and the servicing fee.

During 2018, Ginnie Mae acquired additional MSR related to defaulted issuers. The fair value of Ginnie Mae's capitalized MSRs was \$943.3 thousand and (\$48.0) thousand at September 30, 2018 and 2017, respectively. The MSRs correspond to unpaid principal balances of $98.4 million and $12.6 million as of September 30, 2018 and 2017, respectively.

The following table summarizes the changes in capitalized MSRs for the year ended September 30, 2018 and 2017:

	For the fiscal years ended September 30, 2018	2017
	(Dollars in thousands)	
Beginning balance, October 1	$ (48)	$ 35
Additions	966	–
Dispositions	–	–
Loss on disposition of MSR	–	–
Changes in fair value due to:		
Changes in valuation inputs or assumptions used in valuation model	25	(83)
Other changes in fair value		
Ending balance, September 30	**$ 943**	**$ (48)**

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 buyer. 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 January 1, 2019. At September 30, 2018, there was no liability for representations and warranties related to the MSR sale.

The following table presents net servicing expenses, which are included in Mortgage backed securities program and other expenses, for the year ended September 30, 2018 and 2017:

	For the fiscal years ended September 30, 2018	2017
	(Dollars in thousands)	
Servicing fee income	$ 297	**$ 43**
Servicing expenses[1]	(15,998)	(17,741)
Servicing expenses, net	**$ (15,701)**	**$ (17,698)**

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

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 issuers, mortgagors, or recoverability from third-party insurers such as FHA.

During the year ended September 2018, three issuers defaulted, and were subsequently terminated and extinguished. Ginnie Mae assumed the servicing rights and obligations of the issuers and advanced funds to the MSS throughout 2017 and 2018 to cover P&I not yet paid by mortgagors, but due to the MBS investors.

The net carrying value of advances balance is $117.4 thousand and $38.0 thousand at September 30, 2018 and 2017, respectively, as disclosed in the table below:

	September 30,	
	2018	2017
	(Dollars in thousands)	
Advances	$ 149	$ 53
Allowance for Uncollectible Advances	(32)	(15)
Advances, net	**$ 117**	**$ 38**

Changes in the allowance for advances for the year ended September 30, 2018 and 2017 are presented below:

	For the fiscal years ended September 30,	
	2018	2017
	(Dollars in thousands)	
Beginning balance, October	$ (15)	$ –
Recapture (provision) for uncollectible advances	(17)	(15)
Charge-offs	–	–
Recoveries	–	–
Ending balance, September 30,	**$ (32)**	**$ (15)**

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

Upon Ginnie Mae issuers default, termination and extinguishment, 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 terminated and extinguished 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, RD, VA, or PIH[2] or were modified.

Upon acquisition, Ginnie Mae classifies a loan as either HFS or HFI. At September 30, 2018 and 2017, Ginnie Mae's loan portfolio did not include any HFS loans. The HFI portfolio consists of loans purchased from extinguished 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, RD, VA, and PIH.

For the fiscal years ended September 30, 2018 and 2017, Ginnie Mae purchased $3.6 million and $479.0 thousand of HFI including accrued interest, respectively, out of the MBS pools from terminated and extinguished 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.

The table below (and on next page) presents the carrying value of HFI including accrued interest broken down by underlying insurance agencies at September 30, 2018 and 2017:

	September 30, 2018 *(Dollars in thousands)*				
	Conventional	**FHA**	**VA**	**RD**	**Total**
Mortgage loans held for investment UPB	$ 165,071	$ 2,519,655	$ 136,691	$ 54,674	$ 2,876,091
Accrued interest receivable	5,436	78,511	7,993	2,928	94,868
Allowance for loan losses	(33,845)	(173,466)	(18,408)	(9,416)	(235,135)
Net mortgage loans held for investment including accrued interest, net	**$ 136,662**	**$ 2,424,700**	**$ 126,276**	**$ 48,186**	**$ 2,735,824**

[2] *Ginnie Mae did not have any mortgage loans insured by PIH at September 30, 2018 and 2017. However, PIH-insured mortgage loans may exist within MBS pools*

	September 30, 2017				
	Conventional	FHA	VA	RD	Total
	(Dollars in thousands)				
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)
Net mortgage loans held for investment including accrued interest, net	**$ 153,945**	**$ 2,769,635**	**$ 150,339**	**$ 57,056**	**$ 3,130,975**

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 ratio at September 30, 2018 and 2017, respectively:

	September 30, 2018			
	Less than 80%	80-100%	Greater than 100%	Total
	(Dollars in thousands)			
Conventional	$ 142,832	$ 12,738	$ 9,501	$ 165,071
FHA	2,085,569	369,246	64,840	2,519,655
VA	101,330	24,334	11,027	136,691
RD	41,169	10,594	2,911	54,674
Total UPB of loans HFI	**$ 2,370,900**	**$ 416,912**	**$ 88,279**	**$ 2,876,091**

	September 30, 2017			
	Less than 80%	80-100%	Greater than 100%	Total
	(Dollars in thousands)			
Conventional	$ 157,952	$ 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
RD	43,860	16,718	4,321	64,899
Total UPB of loans HFI	**$ 2,413,837**	**$ 729,890**	**$ 132,077**	**$ 3,275,804**

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 tables below present the recorded investment[3] and the UPB of impaired mortgage loans at September 30, 2018 and 2017:

	September 30, 2018			
	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
	(Dollars in thousands)			
Conventional	689	$ 101,228	$ 30,674	$ 97,684
FHA	16,215	2,183,079	119,667	2,149,034
VA	825	144,684	18,408	136,691
RD	509	57,602	9,416	54,674
Total	**18,238**	**$ 2,486,593**	**$ 178,165**	**$ 2,438,083**

	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
RD	590	68,836	11,780	64,899
Total	**19,436**	**$ 2,715,013**	**$ 185,579**	**$ 2,659,070**

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.

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

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.

The following tables present the recorded investment in TDR loans at September 30, 2018 and 2017:

	September 30, 2018			
	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
	(Dollars in thousands)			
Conventional	417	$ 65,565	$ 19,084	$ 64,084
FHA	16,215	2,183,079	119,667	2,149,034
VA	572	105,775	7,872	103,180
RD	249	32,161	3,639	30,361
Total TDRs	**17,453**	**$ 2,385,580**	**$ 150,262**	**$ 2,346,659**

	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
RD	252	32,527	3,419	31,746
Total TDRs	**18,394**	**$ 2,570,945**	**$ 144,369**	**$ 2,530,071**

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, 2018 and 2017 for the loans that entered a TDR in the preceding twelve months and for which there was a payment default during the period:

	September 30, 2018		September 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in thousands)			
Conventional	11	$ 2,173	14	$ 2,503
FHA	206	32,693	494	69,876
VA	14	3,457	28	5,840
RD	8	1,142	22	3,291
Total	**239**	**$ 39,465**	**558**	**$ 81,510**

Management will assess the related financial statement line items and disclosures for restatement in fiscal year 2019. 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, RD, or PIH, Ginnie Mae concludes that it is probable that it will not collect all contractually required payments receivable. Accordingly, these loans are considered PCI mortgage loans.

Historically, Ginnie Mae has not applied the PCI guidance to its loans purchased with evidence of credit deterioration 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 present the recorded investment and the UPB of PCI mortgage loans at September 30, 2018 and 2017:

	September 30, 2018			
	Number of Loans	Recorded Investment	Related Allowance	Unpaid Principal Balance
	(Dollars in thousands)			
Conventional	272	$ 35,663	$ 11,590	$ 33,601
VA	253	38,909	10,536	33,511
RD	260	26,441	5,777	24,313
Total	**785**	**$ 101,013**	**$ 27,903**	**$ 91,425**

	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
RD	338	36,309	8,361	33,153
Total	**1,042**	**$ 144,068**	**$ 41,210**	**$ 128,999**

For the twelve months ended September 30, 2018 and 2017, there were no purchases of loans classified as PCI. 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 2019. 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, 2018							
	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	$ 18,604	$ 6,513	$ 2,654	$ 28,377	$ 55,788	$ 114,719	$ 170,507	$ 28,377
FHA	380,542	101,715	46,268	519,815	1,048,340	1,549,826	2,598,166	519,815
VA	15,636	4,816	2,634	51,906	74,992	69,691	144,684	51,906
RD	8,496	3,486	1,240	17,716	30,938	26,664	57,602	17,716
Total PCI	**$ 423,278**	**$ 116,170**	**$ 52,796**	**$ 617,814**	**$1,210,058**	**$ 1,760,901**	**$2,970,959**	**$ 617,814**

	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
RD	9,963	4,431	1,811	25,039	41,244	27,591	68,835	25,039
Total PCI	**$ 480,968**	**$ 139,113**	**$ 61,108**	**$ 840,804**	**$ 1,521,993**	**$ 1,882,297**	**$ 3,404,290**	**$ 840,804**

Management will assess the related financial statement line items and disclosures for restatement in fiscal year 2019. 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 is in process at September 30, 2018 and 2017:

	September 30, 2018		September 30, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in thousands)			
Conventional	82	$ 14,558	115	$ 21,707
FHA	1,537	293,396	2,686	496,077
VA	120	28,451	199	44,492
RD	77	12,029	119	16,965
Total	**1,816**	**$ 348,434**	**3,119**	**$ 579,241**

Management will assess the related financial statement line items and disclosures for restatement in fiscal year 2019. 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 reduce the carrying value of Ginnie Mae's HFI and related accrued interest for probable credit losses embedded in the loan portfolio at the balance sheet date. HFI and accrued interest are reported net of the allowance on the Balance Sheets.

Ginnie Mae relies on MSS reports for information to assess mortgagors' ability to pay current economic environment assessment, and potential insurance recoveries as determinants in the statistical models that evaluate HFI collectability. Homogeneous pools of mortgage loans are defined on common characteristics such as LTV ratios, loan product type, insurance type, and geographic region. As at September 30, 2018 and 2017, 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 updated its method for estimating its allowance for loan losses to comply with the loan impairment guidance prescribed by ASC 310-10, and ASC 450-20. This change enhanced insurance recoveries recognition the allowance computed for accrued interest on impaired loans.

The following table segregates HFI by the method applied to determine the related allowance for loan losses at September 30, 2018 and 2017.

	September 30, 2018		September 30, 2017	
	(Dollars in Thousands)			
Recorded investment:				
Collectively evaluated	$	484,366	$	689,277
Individually evaluated		2,385,580		2,570,945
Purchase credit impaired		101,013		144,068
Total recorded investment in loans	**$**	**2,970,959**	**$**	**3,404,290**
Ending balance of the allowance for loan losses:				
Collectively evaluated	$	56,970	$	87,736
Individually evaluated		150,262		144,369
Purchase credit impaired		27,903		41,210
Total allowance for loan losses	$	235,135	$	273,315
Net Investment in mortgage loans HFI	**$**	**2,735,824**	**$**	**3,130,975**

The following table presents changes in Ginnie Mae's allowance for loan losses during the twelve months ended September 30, 2018 and 2017:

	For the year ended September 30, 2018		For the year ended September 30, 2017	
	(Dollars in thousands)			
Beginning balance	$	(273,315)	$	(390,646)
Recapture (provision) for credit losses		38,661		113,706
Charge-offs		(481)		51,062
Recoveries		-		(47,437)
Ending balance	**$**	**(235,135)**	**$**	**(273,315)**

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.

Note 10: Claims Receivable, Net

The following tables present Ginnie Mae's claims receivable and related allowance, by type of claim, at September 30, 2018 and 2017:

	September 30, 2018		
	Foreclosed Property Claims(1)	Short Sale Claims(2)	Total
	(Dollars in thousands)		
Claims receivable	$ 250,045	$ 65,371	$ 315,416
Allowance for claims receivable	(40,028)	(21,811)	(61,839)
Claims receivable, net	**$ 210,017**	**$ 43,560**	**$ 253,577**

(1) Foreclosed property claims receivable represents reimbursements owed to Ginnie Mae by insuring agencies (which may include FHA, VA, RD, and PIH). Properties have been conveyed, except for RD insured loans, as RD requires that the properties are sold before filing a claim for the shortfall. The claims receivable balance also includes $1.5M 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, RD, and PIH) for properties sold to avoid foreclosure where the proceeds received are insufficient to fully pay off the mortgages.

	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	(43,132)	(24,216)	(67,348)
Claims receivable, net	**$ 309,758**	**$ 64,991**	**$ 374,749**

(1) Foreclosed property claims receivable represents reimbursements owed to Ginnie Mae by insuring agencies (which may include FHA, VA, RD, and PIH). Properties have been conveyed, except for RD insured loans, as RD 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, RD, and PIH) for properties sold to avoid 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 MSS 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, 2018 and 2017, claims receivable balances included claims on single family properties only.

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,					
	2018			2017		
	Foreclosed Property Claims	Short Sale Claims	Total	Foreclosed Property Claims	Short Sale Claims	Total
			(Dollars in thousands)			
Beginning balance	$ (43,132)	$ (24,216)	$ (67,348)	$ (83,377)	$ (22,698)	$ (106,075)
(Provision) for claims	(33,202)	(17,642)	(50,844)	17,319	(79,492)	(62,173)
Charge-offs	36,306	20,047	56,353	208,315	236,622	444,937
Recoveries	–	–	–	(185,305)	(158,648)	(343,953)
Transfers, net	–	–	–	(84)	–	(84)
Ending balance	**$ (40,028)**	**$ (21,811)**	**$ (61,839)**	**$ (43,132)**	**$ (24,216)**	**$ (67,348)**

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 2019. Refer to Note 2: Restatement, Non-Pooled Loans.

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 RD insured or uninsured conventional loans[4]. Acquired properties are assets that Ginnie Mae intends to sell and is actively marketing 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 (including an assumption for estimated costs to sell) that Ginnie Mae does not expect to receive upon sale of the acquired property.

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

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.

Activity for acquired properties are presented in the table below:

	For the fiscal years ended September 30,	
	2018	2017
	(Dollars in thousands)	
Beginning balance – acquired properties	$ 64,773	$ 84,512
Additions	49,254	119,655
Dispositions	(79,043)	(139,394)
Ending balance – acquired properties	**$ 34,984**	**$ 64,773**
Beginning balance – valuation allowance	$ (19,693)	$ (43,326)
Change in valuation allowance	10,162	23,633
Ending balance – valuation allowance	$ **(9,531)**	**$ (19,693)**
Ending balance – acquired properties, net	**$ 25,453**	**$ 45,080**

Due to data limitations from the MSS, Ginnie Mae does not obtain a complete population and fair values for acquired properties or expected recoveries from credit enhancements and does not calculate the estimated cost to sell 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 2019. Refer to Note 2: Restatement, Non-Pooled Loans.

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, 2018			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Assets:				
Guaranty asset	$ –	$ –	$ 9,007,952	$ 9,007,952
Mortgage servicing rights	$ –	$ –	$ 943	$ 943
Total Assets at Fair Value	**$** –	**$** –	**$ 9,008,895**	**$ 9,008,895**

	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)**

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

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

The table below presents the range and weighted average of significant unobservable inputs and impacts of key economic assumptions used in determining the fair value of Ginnie Mae's MSR assets valued on a recurring basis:

	September 30, 2018	September 30, 2017
	(Dollars in thousands)	
Valuation at period end:		
Fair value	$ 943	$ (48)
Weighted- average life (years)	6.99	3.21
Prepayment rates assumptions:		
Weighted average rate assumption	10.73%	25.85%
Weighted average minimum	7.16%	15.48%
Weighted average maximum	15.72%	29.32%
Impact on fair value of a 10% adverse change	(35)	(0)
Impact on fair value of a 20% adverse change	(68)	(1)
Discount rate assumptions:		
Weighted average rate assumption	11.19%	11.22%
Weighted average minimum	11.09%	11.22%
Weighted average maximum	11.68%	11.22%
Impact on fair value of a 10% adverse change	(34)	(1)
Impact on fair value of a 20% adverse change	(66)	(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 based on the UPB of the outstanding MBS in the defaulted and non-defaulted pooled issuer portfolio, which results from new issuances of MBS, scheduled run-offs of MBS, prepayments, and defaults.

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

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

	September 30, 2018	September 30, 2017
	(Dollars in thousands)	
Valuation at period end:		
Fair value	$ 9,007,952	$ 8,256,092
Prepayment rates assumptions:		
Weighted average rate assumption	36.14%	36.91%
Weighted average minimum	0.05%	0.19%
Weighted average maximum	98.65%	98.50%
Default rate assumptions:		
Weighted average rate assumption	16.04%	18.51%
Weighted average minimum	0.00%	0.00%
Weighted average maximum	99.42%	99.85%
Discount rate assumptions:		
Weighted average rate assumption	2.89%	2.20%
Weighted average minimum	1.81%	0.97%
Weighted average maximum	3.03%	2.84%

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 tables below present a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs as of September 30, 2018 and 2017.

	For the fiscal year ended September 30, 2018 Mortgage Servicing Rights (Dollars in thousands)	Guaranty Asset
Beginning balance	$ (48)	$ 8,256,092
Total realized and unrealized gains/(losses) included in net income:		
Acquisition of MSR	966	–
Changes in fair value	25	(1,106,134)
Issuances	–	1,857,994
Ending balance	**$ 943**	**$ 9,007,952**

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

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, 2018 and 2017. 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, 2018 and 2017:

	At September 30, 2018 Level 1	Level 2	Level 3 (Dollars in thousands)	Total
Acquired property, net	$ –	$ –	$ 25,453	$ 25,453

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

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, including an assumption for estimated costs to sell, 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 fiscal year 2019. Refer to Note 2: Restatement, Non-Pooled Loans.

Note 13: Fixed Assets, Net

Fixed assets are carried at cost, less accumulated depreciation and amortization.

The table below (and on next page) presents the total balance of hardware and software as of September 30, 2018 and 2017, net of the accumulated depreciation and amortization:

	For the year ended September 30, 2018		
	Hardware	**Software**	**Total**
Cost		*(Dollars in thousands)*	
Beginning balance	$ 3,795	$ 208,465	$ 212,260
Additions	793	17,042	17,835
Disposals	(2,946)	(1,805)	(4,751)
Transfers	–	–	–
Ending balance	$ 1,642	$ 223,702	$ 225,344
Accumulated depreciation and amortization			
Beginning balance – accumulated depreciation and amortization	$ (3,033)	$ (121,171)	$ (124,204)
Depreciation and amortization	(842)	(19,288)	(20,130)
Disposals	2,946	1,805	4,751
Transfers	6	(6)	–
Ending balance – accumulated depreciation and amortization	$ (923)	$ (138,660)	$ (139,583)
Ending balance – fixed assets, net	**$ 719**	**$ 85,042**	**$ 85,761**

Cost	For the year ended September 30, 2017 Hardware	Software	Total
	(Dollars in thousands)		
Beginning balance	$ 4,997	$ 181,565	$ 186,562
Additions	–	25,698	25,698
Disposals	–	–	–
Transfers	(1,202)	1,202	–
Ending balance	**$ 3,795**	**$ 208,465**	**$ 212,260**
Accumulated depreciation and amortization			
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**

There were no assets under lease as of September 30, 2018.

Ginnie Mae recorded total depreciation and amortization expense of $20.1 million and $20.5 million and for the year ended September 30, 2018 and 2017, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense over the next five years is as follows: 2019 – $16.5 million; 2020 – $14.1 million; 2021 – $10.5 million; 2022 – $4.9 million and 2023 – $1.5 million.

There were no intangible assets with indefinite lives as of September 30, 2018 and 2017. The weighted average life of intangible assets (i.e., software) subject to amortization was 4.9 years.

No impairment of long-lived assets, including capitalized software, was recorded for the fiscal years ended September 30, 2018 and 2017.

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, 2018 and 2017:

	September 30, 2018	2017
	(Dollars in thousands)	
Accounts payable	$ 45,899	$ 39,862
Unclaimed securities holder payments	23,246	23,700
Accrued unfunded leave	1,583	1,445
Salaries and benefits payable	979	938
Total	**$ 71,707**	**$ 65,945**

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

Deferred revenue included the following at September 30, 2018 and 2017:

	September 30, 2018		September 30, 2017	
	(Dollars in thousands)			
Deferred revenue – multiclass fees	$	445,970	$	435,629
Deferred revenue – commitment fees		25,023		26,233
Total	**$**	**470,993**	$	461,862

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, RD, 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 fulfill its responsibilities under the applicable MBS program, pass-through payments to satisfy 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, RD, VA, and PIH.

- *Defaulted issuer, non-pooled loans, and allowance for loan loss:* When a Ginnie Mae issuer defaults, is terminated and extinguished, Ginnie Mae steps into the role of issuer and assumes all rights and obligations of the terminated and extinguished issuer's entire Ginnie Mae guaranteed pooled-loan portfolio. 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").

- *Defaulted issuer, pooled loans, and mortgage servicing rights:* Ginnie Mae records a servicing asset (or liability) each time it takes over a terminated and extinguished issuer's Ginnie Mae guaranteed portfolio (see "Mortgage servicing rights" financial statement line item on the Balance Sheets). Ginnie Mae's servicing asset (or liability) 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 terminated and extinguished 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

  Upon issuance, 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 on 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.

  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 September 30, 2018 and 2017, the contingent liability related to probable losses on pooled loans was $21.3 million and $268.4 million, respectively. At September 30, 2018 and 2017, Ginnie Mae estimated potential losses up to $282.6 million and $84.2 million, respectively, related to reasonably possible losses on pooled loans. Ginnie Mae cannot determine an estimate for reasonably possible contingent liability for multifamily loan defaults as of September 30, 2018 and 2017 because there is not a specific loan performance indicator that can be used as an input to accurately determine the loss exposure for those loans that are not considered probable of default.

- *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. On September 30, 2018 and 2017, Ginnie Mae recorded $60.8 thousand and $54.0 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, RD, or PIH as identified by the purchaser as of or after the sale date. This amount is presented in "Liability for representations and warranties" on the Balance Sheets.

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 tables below summarize concentrations of credit risk by active issuers and loan type at September 30, 2018 and 2017:

	September 30, 2018 (Dollars in billions)							
	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
Largest performing Issuers	28	$ 1,474.2	7	$ 57.9	–	$ –	–	$ –
Other performing Issuers	284	$ 366.0	48	$ 57.5	3	$ 0.3	16	$ 55.3

	September 30, 2017 (Dollars in billions)							
	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
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

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, RD, 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. RD, 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, 2018 and 2017 are presented in Note 9: Mortgage Loans Held for Investment Including Accrued Interest, Net.

In the event of an issuer default, terminated and extinguished, Ginnie Mae assumes the rights and obligations of that issuer and becomes the owner of the MSR liability or asset, which typically is salable. Ginnie Mae has the option or requirement to purchase loans out of the pool if certain criteria are satisfied. Upon purchase of the loan out of the pool, Ginnie Mae acquires all lender rights, privileges, and responsibilities. This includes certain collateral rights and ability to claim FHA, RD, VA, or PIH insured 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, 2018 and 2017, the distribution of Ginnie Mae's business volumes among these two categories was as follows:

	September 30, 2018				September 30, 2017			
	Total Number of Issuers		Total Issuances	As Percentage of Total Issuances	Total Number of Issuers		Total Issuances	As Percentag e of Total Issuance
	(Dollars in millions)							
Depositories	95	$	95,890	21.91%	82	$	115,409	24.33%
Non-depositories	291	$	341,809	78.09%	222		359,023	75.67%
Total active issuers	**386**	**$**	**437,699**	**100%**	**304**	**$**	**474,432**	**100%**

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

In September 2018, Hurricane Florence impacted certain Ginnie Mae and other issuers' properties in locales identified as disaster areas by Federal Emergency Management Agency (FEMA). These properties are in the states of North Carolina (NC), South Carolina (SC), and Virginia (VA), and cover 39 and 185 counties for pooled and non-pooled loans, respectively.

Loans impacted by the hurricane 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 disclose Ginnie Mae's hurricane exposure as of September 30, 2018, not the actual damage.

	Pooled Loans	% of Total Pooled Loans		UPB *(in millions)*	% of Total UPB
Hurricane Florence	149,935	1.31%	$	23,491	1.17%
Total Exposure	**149,935**	**1.31%**	**$**	**23,491**	**1.17%**
Ginnie Mae Total Outstanding	**11,417,989**	**100.00%**	**$**	**2,011,125**	**100.00%**

	Non-Pooled Loans	% of Total Non-Pooled Loans		UPB *(in millions)*	% of Total UPB
Hurricane Florence	1,745	7.85%	$	177	6.15%
Total Exposure	**1,745**	**7.85%**	**$**	**177**	**6.15%**
Ginnie Mae Total Outstanding	**22,221**	**100.00%**	**$**	**2,876**	**100.00%**

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

Mortgage loan servicing

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

Note 17: Commitments and Contingencies

Lease, purchase, and other commitments

Ginnie Mae may lease facilities, hardware, and software under agreements that could require the agency to pay rental fees, insurance, maintenance, and other costs. As at September 30, 2018, Ginnie Mae did not have any active and open lease contracts related to rental expense or hardware and software.

As of September 30, 2018, Ginnie Mae had approved and committed to make $1.0 billion in payments under contracts with its various vendors for fiscal year 2018 and beyond. Some contract terms with its vendors are in excess of one year.

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

Legal

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

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

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

	September 30, 2018	2017
	Case Count	
Pending at beginning of year	2	1
Disposed	(2)	(1)
Filed	1	2
Pending at September 30	**1**	**2**

The status of cases against Ginnie Mae as of September 30, 2018 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 $58.9 million in connection with Ginnie Mae's single family MSS contract. The appellant alleged it is entitled to reimbursement for amounts advanced for payment of real estate taxes, personal property taxes, and hazard insurance premiums from September 2009 to January 2010. On July 2nd, 2018, U.S. Court of Appeals for the

Federal Circuit denied Bank of America's breach of contract claim. According, no accrual has been established by Ginnie Mae as this case is considered closed as of September 30, 2018.

Claim for wrongful dismissal from Ginnie Mae program (First Mortgage Corp. versus Government National Mortgage Association, Civil Action No. 5:2017-cv-01225 JGB) (C.D. Cal.): First Mortgage Corp., a former Ginnie Mae issuer, filed a claim against Ginnie Mae alleging wrongful dismissal from the Ginnie Mae's programs afforded to issuers. Prior to the termination of the issuer by Ginnie Mae, Ginnie Mae asserted that all standard procedures, including violation notification to the former issuer, were appropriately followed. The case against Ginnie Mae was dismissed on January 4, 2018. First Mortgage Corp., however, refiled the case in a new court, Federal Court of Claims *(First Mortgage Corp. versus Government National Mortgage Association, Fed. Cl. No. 18-288C)*. The complainant is seeking $150.0 million from Ginnie Mae. The case was still pending as of date of issue of these financial statements. Ginnie Mae's General Counsel believes that the likelihood of an unfavorable outcome is remote, with no estimated potential loss. Accordingly, no accrual has been established.

No other asserted or unasserted claims or assessments in which Ginnie Mae's exposure is $567.0 thousand or greater, individually, or in the aggregate for similar matters have been identified. Additionally, Ginnie Mae's General Counsel has determined that there are no pending or threatened actions or unasserted claims or assessments in which Ginnie Mae's potential loss exceeds $1.3 million in the aggregate for cases not listed individually or as part of similar cases that could be material to the financial statements.

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

Note 18: Related Parties

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

Ginnie Mae was authorized to use $38.1 million and $35.6 million during the years ended September 30, 2018 and 2017, respectively, for personnel (payroll) and non-personnel (travel, training, and other administration) costs only. For the years ended September 30, 2018 and 2017, Ginnie Mae incurred $27.9 million and $26.4 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 years ended September 30, 2018 and 2017.

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 \$2.5 billion and \$2.9 billion of loans were insured by the FHA at September 30, 2018 and 2017, respectively. In addition, Ginnie Mae submits and receives claim proceeds for FHA-insured loans that have completed the foreclosure and short sale process.

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

	September 30,			
	2018		2017	
	(Dollars in thousands)			
Foreclosed property claims receivable	$	232,280	$	325,589
Short sales claims receivable		43,668		64,539
Insurance claims receivable		1,497		996
Total FHA claims	**$**	**277,445**	**$**	**391,124**

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 years ended September 30, 2018 and 2017, Ginnie Mae contributed \$3.2 million and \$2.9 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, 2018 and 2017, the U.S. Government held an investment in Ginnie Mae of $25.6 billion and $23.8 billion, 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; but has worked with HUD and OMB to develop a modified approach to better align its accounting, budgeting and reporting of its loan activity with other loan related programs in the Federal Government.

Note 20: Subsequent Events

Ginnie Mae has evaluated potential subsequent events for the 2018 financial statements through November 13, 2018, the date through which the financial statements were made available to be issued.

Hurricane Michael

Between October 7 and 10, 2018, Hurricane Michael (the hurricane) impacted the states of Florida (FL), Georgia (GA), and Alabama (AL). In the aftermath of the hurricane, FEMA issued disaster declarations for certain counties within those states. As of September 30, 2018, Ginnie Mae's non-pooled UPB and loan count located in the affected states were $289.0 million (2,252 loans), $369.3 million (3,272 loans), and $69.6 million (720 loans) in FL, GA, and AL, respectively. The pooled loan population was $201.3 billion (1,148,821 loans), $4.7 billion (15,299 loans), and $14.1 billion (91,133) for FL, GA, and AL, respectively. Both the non-pooled and pooled loans statistics represent maximum potential exposure to Ginnie Mae caused by the hurricane, and not necessarily the actual loss.

As of the date of issue of these financial statements, Ginnie Mae was still assessing the full impact of the hurricane on the carrying values of its assets and liabilities. This assessment is expected to be completed during fiscal year 2019.

Default and extinguishment of Issuer

On October 9, 2018, one of Ginnie Mae's approved issuers defaulted and was terminated and extinguished from the MBS program. Ginnie Mae assumed the servicing of the defaulted issuer's portfolio and MSR associated with the underlying portfolio. The portfolio consisted of 827 loans included in 106 pools, with a UPB of $175.9 million as of date of default. Both GNMA I and II securities were included in the portfolio. The impact of the transaction on Ginnie Mae's financial statements will be evaluated during fiscal year 2019.

Ginnie Mae

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