2020 REPORT TO CONGRESS

Ginnie Mae
Our Guaranty Matters

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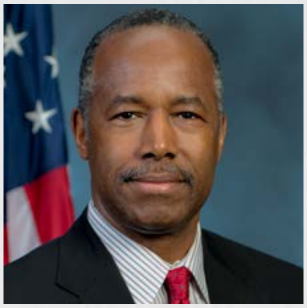
A MESSAGE FROM THE SECRETARY



Since the first government guaranteed mortgage-backed security (MBS) was issued 50 years ago, Ginnie Mae has been a consistent source of low-cost financing for American housing. That consistency and reliability was never more important than in 2020. This past year saw remarkable economic upheaval brought on by a global health emergency. The nation's housing market could have slowed considerably, or even ground to a complete halt, because of this crisis. It didn't, though, in large part because of the work of Ginnie Mae and its government guaranteeing and insuring partners: the Federal Housing Administration, the Department of Veterans Affairs, and the United States Department of Agriculture.

Ginnie Mae and its government partners moved quickly to adapt to the rapidly changing market conditions, keeping to their mission and commitment to provide homeownership and rental housing finance safely and affordably for American families, all while protecting the U.S. taxpayers. The result was a record-breaking year that saw $749 billion of MBS issued, and more than 2.8 million families access quality homeownership and rental housing. Additionally, more than 965,000 families achieved the dream of homeownership for the first time in 2020 through the Ginnie Mae MBS program. The year ended with $2.12 trillion of Ginnie Mae MBS outstanding, another record. A remarkable achievement in a remarkable year.

While navigating unprecedented economic times, Ginnie Mae also kept innovating for the future. Leadership and staff continued to drive the MBS program forward with the release of important long-term customer initiatives. Product and program innovations such as Digital Collateral, which was accelerated in response to the pandemic to increase the speed and security of MBS issuances, and MyGinnieMae, the company's online business portal, will help secure and accelerate the lending market's ability to meet the financing needs of consumers, without additional risk to taxpayers.

Moreover, Ginnie Mae continued to build a culture of innovation in 2020 that positions it well for any new responsibilities that may arise from President Trump's Housing Finance Reform Plan. Ginnie Mae will always adhere to its core principles as it responds to market challenges of mitigating risk exposure for American taxpayers, maximizing the strengths of its model, and firmly establishing Ginnie Mae as a 21st-century company, fully capable of attracting the global capital necessary to keep America's housing market thriving.

Thank you to the dedicated and professional staff of Ginnie Mae for their unwavering service during an extraordinary period to support the world's finest housing finance system and facilitate affordable, sustainable homeownership, and housing opportunities for millions of American households.

BENJAMIN S. CARSON, SR.
SECRETARY
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

A MESSAGE FROM GINNIE MAE

DEAR MR. SECRETARY,

I am pleased to report that, during the 2020 Fiscal Year, Ginnie Mae continued its history of effectively sourcing capital from the U.S. and around the globe on behalf of homeowners and renters who rely on a housing market supported by government-insured lending programs — specifically, the programs administered by the Federal Housing Administration, Department of Veterans Affairs, Department of Agriculture's Office of Rural Development, and the Office of Public and Indian Housing. As a result, Ginnie Mae was able to help a record number of Americans achieve both sustainable homeownership and access to quality, affordable rental housing.

During an unprecedented economic environment brought on by a national health emergency, Ginnie Mae was an important stabilizer for the economy by serving as a steady conduit of capital through our lender partners. As a result, Ginnie Mae achieved record business results and helped more than 2.8 million homeowners and renters. Ginnie Mae issuance of MBS reached $749 billion this year, while the total value of Ginnie Mae's mortgage-backed securities (MBS) portfolio increased to $2.12 trillion.

We achieved these results even as our team moved to full-staff remote work in the middle of the fiscal year. We maintained our focus on positioning our business platform for the future, processing record day-to-day business volumes, all while leading an ambitious policy response to the unprecedented market disruptions resulting from the pandemic. The most notable policy action was the expansion of an existing relief program into a national emergency market liquidity facility: The Pass-Through Assistance Program (PTAP). PTAP was enhanced to help servicers who may face a liquidity shortfall due to the unprecedented level of borrower delinquency. PTAP represented an adaptation for emergency conditions of statutory duty to ensure the timely and full payment of P&I to Ginnie Mae investors.

In fiscal year 2020, Ginnie Mae held firm its top priorities to protect taxpayers, maintain ironclad support for the government guarantee, ensure the vitality of the Ginnie Mae security, and safeguard the market value of the Ginnie Mae MBS. Ginnie Mae made significant progress on these priorities by continuing to enhance our management of counterparty risk, improve the technology infrastructure of the agency and modernizing the MBS program to attract more capital to support government mortgage lending.

For example, in response to the pandemic, we accelerated steps toward the development, implementation and acceptance of loan instruments that exist only in electronic form ("digital collateral"), an essential program evolution to continue meeting the needs of an innovative government loan market. We continued to monitor Issuer performance for activities that could jeopardize the performance of our securities and took steps to prevent transactions that may negatively affect the market. We also supported Issuer liquidity by adding flexibility to our Acknowledgement Agreement, creating additional financing options for holders of Ginnie Mae servicing.

The combination of these actions underscored our forward-looking commitment to the future of the Ginnie Mae program for the benefit of the many Americans who rely on federally insured lending programs.

We will continue to invest in modernization efforts in the upcoming fiscal year and work toward meeting our mid- and long-term strategic goals, while preparing for known macroeconomic risks such as the impending phase-out of LIBOR. Our commitment remains undimmed as we stay true to our vision of maintaining an attractive security for investors, facilitating liquidity in the U.S. housing market, and operating a fiscally sound program that minimizes risks to taxpayers.

ERIC BLANKENSTEIN
EXECUTIVE VICE PRESIDENT,
CHIEF OPERATING OFFICER

EXECUTIVE SUMMARY

Throughout Fiscal Year 2020 (FY 2020), Ginnie Mae delivered strong results that fulfilled its mission, in addition to soundly managing its finances and operations. Ginnie Mae's FY 2020 production was supported by a strong domestic and international investor base that financed the purchases and refinances of single-family and rental housing for more than **2.8 million households.**

The global demand for Ginnie Mae securities remains strong, driven by an array of investors including central banks, sovereign wealth funds, and multinational financial institutions. In FY 2020, investors purchased a record $749 billion in newly issued mortgage-backed securities (MBS) guaranteed by Ginnie Mae. Ginnie Mae ended FY 2020 with $2.12 trillion of MBS outstanding.

Ginnie Mae maintained a laser-like focus on its mission to support mortgages insured by the Federal Housing Administration (FHA), Department of Veterans Affairs (VA), U.S. Department of Agriculture Rural Development, and Office of Public and Indian Housing (PIH). FHA-insured mortgages accounted for 51.1 percent of FY 2020 loan issuance in Ginnie Mae pools, VA-guaranteed mortgages accounted for 43.8 percent, and Rural Development and PIH loans contributed 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 the federally insured mortgage programs. By securitizing these loans into MBS, explicitly guaranteed by the full faith and credit of the U.S. Government — the only MBS with this kind of backing — Ginnie Mae is able to lower the cost of mortgage funding and pass along the savings to support housing and homeownership in American communities. For more than 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 annual report is designed to provide background on Ginnie Mae and its current financial situation to policymakers and other interested parties. The report 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: MODERNIZING THE MORTGAGE-BACKED SECURITIES PLATFORM TO STRENGTHEN AFFORDABLE HOUSING FINANCE

Chartered as a government corporation 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 full faith and credit guaranty on mortgage-backed securities (MBS).

Ginnie Mae has been an integral part of the U.S. housing finance system for more than 50 years. The government guaranty the organization manages ensures the timely payment of scheduled principal and interest due to the owner of the security. Because of that guaranty, mortgage lenders can obtain a better price for their mortgage loans in the secondary mortgage market. Lenders can then use the proceeds to make new mortgage loans to first-time homebuyers, veterans, rural homeowners, low-to moderate-income borrowers and others who qualify for support under federal mortgage programs. This increases liquidity in the housing finance system, which in turn leads to a lower cost of homeownership for borrowers who use the federal housing finance programs Ginnie Mae's MBS program supports.

Ginnie Mae has seen unprecedented growth in securities issued over the past decade. In fiscal year (FY) 2020, the total value of its MBS principal outstanding reached $2.12 trillion. The past year's growth is due to the broad strength of the American housing market, fueled by record-low mortgage rates, as well as Ginnie Mae's stewardship of the MBS program and its continuing ability to attract investment capital from around the world.

In FY 2020, the organization did the following:

- Moved further along the path of platform modernization with the full launch of the MyGinnieMae portal for program participants.
- Progressed toward the acceptance of digital collateral for securities.
- Implemented other technological improvements that position Ginnie Mae to remain vital through the ever-changing dynamics in the housing finance market.

Importantly, in FY 2020 Ginnie Mae launched its NextGen transformation effort. In the initial stage, Ginnie Mae staff comprehensively reexamined the MBS program and platform to identify opportunities for reengineering that will position the organization to continue to thrive over the decades ahead.

Ginnie Mae also aggressively responded to the COVID-19 national emergency. The organization redirected its own resources and collaborated with other government agencies to implement an unprecedented number of program changes, demonstrating Ginnie Mae's flexibility. This work supports stakeholders navigating the ongoing pandemic while also laying the foundation for increased resilience in the future.

In short, Ginnie Mae's staff is building the agency for the future of housing finance and positioning Ginnie Mae to remain the significant source of mortgage capital that diverse market participants rely on and that investors and policymakers can count on as housing finance reform takes shape in coming years.

To that end, in FY 2020 Ginnie Mae made strides toward each of its three strategic goals:

1. Maintaining the vitality of the MBS program.
2. Protecting the government guaranty.
3. Safeguarding the Ginnie Mae security.

STRATEGIC GOAL 1: MAINTAINING THE VITALITY OF THE MBS PROGRAM

To maintain the vitality of the MBS program, in FY 2020 Ginnie Mae introduced program innovations that provided enhanced value to Issuers and improved the overall user experience. These enhancements streamlined the processes by which Issuers package, securitize, and sell MBS to investors (including mortgages originated using digital notes); remit payments to investors; and report data. Each of these steps is essential to the MBS program's ability to meet the needs of a dynamic American housing market.

The COVID-19 emergency led to several new program enhancements. Ginnie Mae accelerated the rollout of its interim pilot program for digital collateral. During the year, the organization finalized the procurement of an eVault system, published final standards for eNotes, and began approving participants in the digital collateral program rollout. It was a milestone year in the effort to build on previous work in mortgage digitalization and bring the government sphere to an equal footing with conventional MBS. As a result, Ginnie Mae achieved greater momentum in its wide-ranging drive to use technology to reduce costs, decrease risks, and provide a better borrower experience.

While Ginnie Mae was driving progress in digitalizing mortgage instruments, it also was bringing online the MyGinnieMae portal, its new on-ramp to key business processes. The organization met targets for onboarding organization administrators, assigning user functional roles, and removing legacy credentials. These successes set the table for fully implementing the portal (and decommissioning obsolete systems and processes) by the end of calendar year 2020.

MyGinnieMae sets the stage for Ginnie Mae to modernize multiple business applications and migrate from legacy systems. It enhances security and controls, increases transparency, and introduces new efficiencies to business transactions.

These externally facing measures are supported by focused investments in internal enterprise technology, buttressing an existing environment that supports continued innovation. In FY 2020, Ginnie Mae's IT Consolidation Program team defined an improved path for leveraging the new cloud solution to improve system stability on the current platform and ensure compliance. This new cloud solution is being developed to support current operations, future software development requirements, and the Ginnie Mae NextGen platform that will be planned in 2021. Proof of concept projects are underway to show how Ginnie Mae can migrate all its business applications and operate them in the new cloud solution.

STRATEGIC GOAL 2: MANAGING RISKS TO PROTECT THE GOVERNMENT GUARANTY

The Ginnie Mae MBS program relies on a variety of institutions to issue and service the MBS it guarantees. As this universe of program participants has changed over the last decade, Ginnie Mae's efforts to manage "counterparty risk" have also increased.

Ginnie Mae's approach to managing counterparty risk recognizes the multifaceted nature of risk in today's complex and evolving financial markets. The organization works diligently to maintain a risk program that is appropriate to the environment in which it operates and increasingly is driven is by new forms of data analysis.

Because of the COVID-19 pandemic, Ginnie Mae expanded its emergency Issuer liquidity support program as a safeguard against possible failures at its counterparties. Most notably, the organization rolled out an expanded version of the Pass-Through Assistance Program (PTAP), enhanced to provide "last resort" principal and interest advance support for Issuers on a national level and without the consequence of being declared in default.

While PTAP involved Ginnie Mae advancing funding to Issuers, continuing modernization of the Ginnie Mae Acknowledgement Agreement in FY 2020 gave Issuers greater ability to obtain private market financing to meet their servicing advance needs. Language supporting new advance facilities was approved for both the GMSR securitization structure and the traditional Acknowledgment Agreement structure, and Ginnie Mae worked to make this additional facility work for both new and existing Issuer financings.

The ability to make servicing advances via Ginnie Mae's Acknowledgement Agreement provides critical liquidity sources for Issuers and helps mitigate counterparty risk in the program. This accomplishment advances Ginnie Mae's goal of attracting more long-term, stable capital into the system.

In FY 2020, Ginnie Mae also continued enhancing its Issuer Stress Testing model framework, most notably integrating industry feedback received in the FY 2019 Request for Input (RFI) process. The framework continues to evolve to increase the ability of the model to inform Ginnie Mae's understanding of risk, which in turn affected policy development, institutional credit decisions, and engagement with Issuers.

Ginnie Mae will continue to evolve its counterparty risk framework in 2021 and develop policies that ensure a healthy program and minimize risks to taxpayers.

STRATEGIC GOAL 3: SAFEGUARDING THE GINNIE MAE SECURITY

Fixed-income investors have a variety of assets to choose from around the world, and yet Ginnie Mae MBS have consistently remained an attractive investment. Ginnie Mae's MBS are sought-after assets in part because the organization takes seriously its duty to protect the integrity of its securities by continually monitoring and supporting their reliability and performance.

The COVID-19 national pandemic and its effect on homeowners and servicers created unprecedented market conditions in FY 2020, but Ginnie Mae took steps to meet the challenge.

Among these were actions to address the potential for negative effects on the prepayment patterns of MBS, as servicers responded to extraordinary levels of borrower delinquency and forbearance requests. Recognizing that the new circumstances could lead to distortions in how delinquent loans are bought out of Ginnie Mae pools, the organization implemented a new policy for the pooling of reperforming loans. The intent of the policy is to guard against loan buyouts that are not driven by borrower needs or the requirements of the insuring agencies.

In FY 2020, Ginnie Mae also improved its multiclass mortgage securities programs, automating important processes and diversifying investor support for these securities, which bolster the price of Ginnie Mae MBS to the ultimate advantage of homeowners.

The REMIC Gateway project launched in August 2020 is just one of these improvements. Gateway will modernize operations, processes, and technology within Ginnie Mae's Multiclass products, and enable the organization to automate workflows, develop refined quality checks, and improve communication between market participants.

Ginnie Mae's comprehensive approach to safeguarding its security balances the interests of investors, Issuers, taxpayers, and homeowners and maintains the vibrancy and liquidity of the program.

THE ROAD AHEAD

Ginnie Mae's steadfast focus on its mission through the economic tumult of 2020 is a testament to the culture of risk management, collaboration, and flexibility created over the decades. Each day Ginnie Mae staff members work diligently to maintain the organization's strong legacy while also preparing for the future. Ginnie Mae will continue to explore new ways of applying the basic principles that have worked so well in all market conditions since the program's inception.

Ginnie Mae's key role in the evolving housing policy landscape is undiminished. In the years ahead, the importance the Ginnie Mae security plays in the housing finance system will help ensure that Ginnie Mae continues to be a key participant in its evolution. Ginnie Mae delivered record security production volume in FY 2020, evidence of a flexible business model designed to seamlessly meet the needs of participants in all market conditions. The organization is fully equipped to continue serving the mission given to it by Congress, and it is prepared to take on any responsibilities assigned to it in the future. Ginnie Mae will handle any challenge and seize every opportunity that brings global capital into the U.S. housing finance market, all while minimizing risk to the American taxpayer.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS[1]

The following is management's discussion and analysis (MD&A) of the financial position and results of operations of Ginnie Mae for the fiscal year ended September 30, 2020. 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.

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

COVID-19 PANDEMIC IMPACT

The COVID-19 pandemic adversely affected the national economy during the current fiscal year. The impact of the pandemic differs from previous economic downturns because of the high level of uncertainty as to when extensive shutdowns and reductions in business activities will revert to pre-pandemic levels. As business and economic stagnation continues, unemployment levels remain substantially elevated and the U.S. GDP remains lowered from pre-pandemic levels. The federal government has passed legislation to reduce the economic impact of the COVID-19 pandemic, including an expansion of unemployment benefits, stimulus checks to eligible taxpayers, and funds to assist businesses.

Forecasts and expectations relating to the impact of the COVID-19 pandemic are subject to significant uncertainty. Various factors related to the pandemic are difficult to assess and will have a material impact on our financial position and operations. Such factors include the length and severity of COVID-19 outbreaks, consumer and business behavior following the pandemic, timing and speed of the economic recovery, governmental actions and support, and loan forbearance and loss mitigation efforts, among other variables.

Currently, we expect COVID-19 to affect our business into fiscal year 2021. However, the housing market has shown signs of recovery with increases in home prices and high levels of mortgage refinances due to the low interest rate environment. We expect refinance activity to remain elevated as interest rates are expected to remain near record-lows during fiscal year 2021. As increased unemployment rates continue, some existing renters will face economic hardship causing delinquencies, loss mitigation, and buyouts to increase in the near term.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act, referred to as the CARES Act, was enacted to provide financial relief to businesses, individuals, and public institutions affected by the COVID-19 pandemic. This Act offers financial institutions relief regarding their accounting and reporting requirements for troubled debt restructurings (TDRs) resulting from loan modification activities related to the COVID-19 national emergency. In April 2020, a related Interagency Statement from financial regulators was issued encouraging financial institutions (issuers, servicers, etc.,) to work constructively with borrowers impacted by COVID-19 and providing additional information over loan modifications to help clarify interactions between the Interagency Statement and related relief provided by the CARES Act. Refer to Note 2: *Summary of Significant Accounting Policies and Practices* for further details regarding the CARES Act and Interagency Statement's impact on our business and COVID-19 related forbearances.

Ginnie Mae has taken actions to assist over 2.7 million borrowers, as well as renters, issuers, and servicers to help alleviate the impact of the COVID-19 pandemic. Our Pass-Through Assistance Program (PTAP) offers liquidity assistance to issuers required to advance payments to investors. Additionally, we continued to facilitate usage of mortgage servicing rights (MSRs) as financing collateral under our Acknowledgment Agreements, and we approved a private market servicer liquidity facility which finances the advanced payments that a servicer makes in connection with individual loans in mortgage backed securities (MBS) pools. These programs not only help issuers and servicers with short-term liquidity issues but also ultimately support the housing market while an elevated number of borrowers and renters experience forbearance due to COVID-19-related economic hardship.

Ginnie Mae has elected to account for modifications in accordance with the guidance outlined within the *Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus*. For loan modifications subject to relief under the Interagency Statement, institutions may presume borrowers are not experiencing financial difficulties at the time of the modification for purposes of determining TDR status, and thus no further TDR analysis is required for each loan modification in the program. In accordance with the Interagency Statement, loans subject to relief will continue to be presented as current within the financial statements. Further, these loans will continue to recognize interest income subject to Ginnie Mae's existing accounting policy. Refer to Note 10: *Mortgage Loans Held for Investment Including Accrued Interest, Net for further details.*

Our business continuity and resiliency plans have allowed us to keep our employees safe while still fulfilling our mission. Our entire workforce and the workforce of our key stakeholders (servicers, issuers, strategic business partners) have worked in a 100% remote environment since mid-March, limiting exposure to COVID-19. To date, our internal systems and processes have successfully supported the transition to the remote working environment despite the shift in how we operate. We have continued to meet milestones along our Modernization Roadmap, as well as, our audit remediation plan without interruption. Ginnie Mae and the industry have leveraged technology in the shift to remote work, and we have reached record high MBS issuance volumes during fiscal year 2020 despite the pandemic. We continue to assess our return to office plan, and the plan will not compromise the health and well-being of our employees and the communities we serve.

PASS-THROUGH ASSISTANCE PROGRAM

The National Emergency declared by the President of the United States on March 13, 2020 and the supplemental CARES Act signed on March 28, 2020 provided financial relief to businesses, individuals and public institutions affected by COVID-19. In response to these declarations, Ginnie Mae revised and expanded its PTAP to specifically authorize it for use in response to the COVID-19 National Emergency. The purpose of this program is to assist our issuers meet their pass-through obligations to MBS holders by supporting issuers in their administration of borrower relief measures, such as extended forbearance and moratoriums on foreclosures and evictions, while minimizing any disruptions to the mortgage servicing market. Ginnie Mae entered into a Memorandum of Understanding (MOU) with the Secretary of the Treasury in response to the COVID-19 national emergency, in which Ginnie Mae may issue obligations to the Secretary of the Treasury in an amount outstanding at any one time sufficient to enable Ginnie Mae to carry out its functions under Title III of the National Housing Act.

Ginnie Mae successfully operationalized PTAP for use by approved Single Family issuers in April 2020, just 30 days after the National Emergency was declared. PTAP assistance for approved Multifamily issuers was released the following month (May 2020).

To apply for PTAP assistance, issuers must agree to the overall terms of the PTAP, as well as submit a separate request for each month that assistance is needed. PTAP funds may be used only to cover shortfalls related to principal and interest payments owed to MBS holders associated with loans that are delinquent but may not be used to cover other issuer operational or servicing costs. From April to September 2020, Ginnie Mae has approved and provided PTAP assistance funding to a total of 9 Single Family issuers. The total amount of PTAP assistance approved through September 30, 2020 is $11.5 million, with $8.4 million already repaid by issuers; the total amount of PTAP assistance outstanding as of September 30, 2020 is $3.1 million.

PTAP information, including historical data, program FAQs, and links to required application forms and timeline information are made available on the official Ginnie Mae website (www.ginniemae.gov) under the issuers/PTAP Assistance tab.

FINANCIAL POSITION

In fiscal year 2020, Ginnie Mae generated ample cash to fund its operations. As highlighted in Figure 1, total assets as of September 30, 2020 were $34.7 billion, total liabilities were $8.7 billion and investment of the U.S. Government was $26.1 billion. As of September 30, 2020, Ginnie Mae held unrestricted cash and cash equivalents of $24.5 billion which represents 70.5 percent of Ginnie Mae's total assets, and an additional $1.1 billion in restricted cash and cash equivalents. Ginnie Mae has increased its total cash and cash equivalents[2] balances for five straight years since 2015. Mortgage loans held for investment including accrued interest, net was $2.1 billion as of September 30, 2020. It has steadily been declining since 2015 as loans get paid down, as a result of scheduled and unscheduled payments, or moved to foreclosure and to Real Estate Owned (REO) properties. The guaranty asset was $6.8 billion as of September 30, 2020 which represents 19.4 percent of total assets. The guaranty liability for the fiscal year 2020 is $8.0 billion, which represents 92.5 percent of total liabilities.

Figure 1 – Selected Financial Data from Balance Sheet

	September 30, 2020 (Dollars in thousands)	
Assets		
Cash and cash equivalents	$	24,512,125
Restricted cash and cash equivalents		1,061,628
Mortgage loans held for investment including accrued interest, net		2,119,470
Guaranty asset		6,755,883
Other assets[3]		298,211
Total Assets	**$**	**34,747,317**
Liabilities		
Liability for loss on mortgage-backed securities program guaranty	$	43,439
Guaranty liability		8,041,340
Other liabilities[4]		604,098
Total Liabilities	**$**	**8,688,877**
Investment of U.S. Government	$	26,058,440
Total Liabilities and Investment of U.S. Government	**$**	**34,747,317**

2 Total cash and cash equivalents includes unrestricted and restricted cash

3 Other assets include: Accrued fees and other receivables; Claims receivable, net; Advances, net; Acquired property, net; Fixed assets, net; Mortgage servicing rights; Reimbursable costs receivable, net; Pass-through assistance program receivables including accrued interest, net; and Other

4 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 $25.6 billion total cash and cash equivalents as of September 30, 2020, of which $24.5 billion and $1.1 billion were unrestricted and restricted, respectively. Unrestricted and restricted cash and cash equivalents included $8.5 billion and $17.0 billion of U.S. Treasury overnight certificates and Funds with U.S. Treasury, respectively, as of September 30, 2020.

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 are for administrative costs and contractor costs related to the support of its mortgage backed securities program and non-pooled asset portfolio. Refer to *Results of Operations and Expenses* section for further detail. Purchases of loans held for investment were $13.1 million in fiscal year 2020. Ginnie Mae primarily purchases loans in the event of issuer default, at which point Ginnie Mae assumes the role of the defaulted and extinguished issuer. Purchases of fixed assets were $8.4 million in fiscal year 2020. Ginnie Mae's fixed asset purchases include commercial software, hardware, and internally developed software. See Figure 2 for Balance Sheet Highlights and Liquidity Analysis.

Figure 2 *– Balance Sheet Highlights and Liquidity Analysis*

		For the year ended September 30, 2020 (Dollars in thousands)
Balance Sheet Highlights		
Total Cash and cash equivalents[5]	$	25,573,753
Other		9,173,564
Total Assets		**34,747,317**
Total Liabilities		**8,688,877**
Liquidity Analysis		
Total UPB Outstanding[6]		2,117,699,000
Investment of U.S. Government as a Percentage of Average Total Assets		75.9%
Capital Adequacy Ratio[7]		1.2%

5 Total cash and cash equivalents includes unrestricted and restricted cash

6 Unpaid Principal Balance (UPB) of Ginnie Mae MBS

7 Liability for loss on mortgage-backed securities program guaranty and Investment of U.S. Government divided by the sum of Total Assets and Average UPB Outstanding

RESULTS OF OPERATIONS

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 period 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 3 *– Non-GAAP Results of Operations for Fiscal Year 2020*

	For the Year Ended September 30, 2020 (Dollars in thousands)	
GAAP Results of Operations	$	1,116,860
Adjustments for:		
Income on guaranty obligation		(2,529,611)
Total Non-cash Other (Gains)/Losses[8]		2,846,007
Total (Recapture) / Provision		50,013
Fixed asset amortization		22,643
Non-GAAP Results of Operations	**$**	**1,505,912**

8 Total Non-cash Other Gains/Losses includes: Gain (Loss) on guaranty asset and Gain (Loss) on mortgage servicing rights

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.

***Figure 4** – Free Cash Flow for Fiscal Year 2020*

	For the Year Ended September 30, 2020 (Dollars in thousands)	
Cash generated from operating activities	$	1,638,887
Adjustments for:		
Purchases of fixed assets		(8,419)
Free cash flow	**$**	**1,630,468**

REVENUES

Ginnie Mae generated positive results of operations (i.e., net gain) of $1.1 billion in fiscal year 2020. Total revenues were $4.3 billion in fiscal year 2020 which includes income on guaranty obligation of $2.5 billion for amortization on Ginnie Mae forward program. The total revenues were offset by $317.9 million of total expense and $2.8 billion of fair value loss on guaranty asset. The fair value loss on guaranty asset was driven by changes in market conditions and updates made to certain models used to estimate the guaranty asset and guaranty obligations. The combination of market volatility and model refinements resulted in a significant change in the estimated fair value of the guaranty asset as compared to prior periods (See Note 5: *Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure* for additional information). Ginnie Mae's core business and overall cash position remains strong as evidenced by positive non-GAAP Earnings of $1.5 billion. Ginnie Mae's non-GAAP Results of Operations (Earnings) as a percentage of average total assets of 4.4 percent demonstrates its ability to generate net earnings for the year from its core business and highlights Ginnie Mae's actual performance and positive cash flow impact for Ginnie Mae. See Figure 5 for Highlights from Statement of Revenues and Changes in Investment of U.S. Government and Profitability Ratios.

Figure 5 *– Highlights from Statement of Revenues and Changes in Investment of U.S. Government and Profitability Ratios*

	For the year ended September 30, 2020 (Dollars in thousands)	
Highlights from Statement of Revenues and Changes in Investment of U.S. Government		
MBS program income[9]	$	1,679,736
Income on guaranty obligation		2,529,611
Other interest income		118,588
Total Revenues		**4,327,935**
Fixed asset depreciation and amortization		(22,643)
Administrative expenses		(31,102)
Mortgage-backed securities program and other expenses[10]		(258,658)
Acquired Property expenses, net		(5,512)
Total Expenses		**(317,915)**
Total Recapture (Provision)[11]		**(50,013)**
Total Other Gains / (Losses)[12]		**(2,843,147)**
Results of Operations		
GAAP Results of Operations		**1,116,860**
Non-GAAP Results of Operations (Earnings)		**1,505,912**
Profitability Ratios		
Return on Average Total Assets		3.3%
Non-GAAP Results of Operations (Earnings) as a percentage of Average Total Assets		4.4%
Non-GAAP Results of Operation (Earnings) as a percentage of Total Revenues		34.8%
Total Expense to Average UPB Outstanding		(1.5 basis points)
Total Recapture (Provision) for Losses to Average UPB Outstanding[13]		(0.24 basis points)

In fiscal year 2020, Ginnie Mae earned total revenue of $4.3 billion. Revenue streams for Ginnie Mae mainly consist of MBS program income, income on guaranty obligations, and other interest income.

9 MBS program income includes: MBS guaranty fees; interest on mortgage loans held for investment; interest on pass-through assistance program receivable; commitment fees; multiclass fees; and other MBS program income

10 Mortgage-backed securities program and other expenses includes contractor expenses totaling $245.4 million. Refer to Expenses section for further details

11 Total recapture (provision) includes: recapture (provision) for mortgage loans held for investment including accrued interest, net; recapture (provision) for pass-through assistance program receivable including accrued interest, net; mortgage-backed program guaranty; claims receivable; loss on uncollectible advances; loss on accrued interest receivable; and acquired property

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

13 Total Recapture (Provision) for Loss divided by Average UPB Outstanding

MBS PROGRAM INCOME

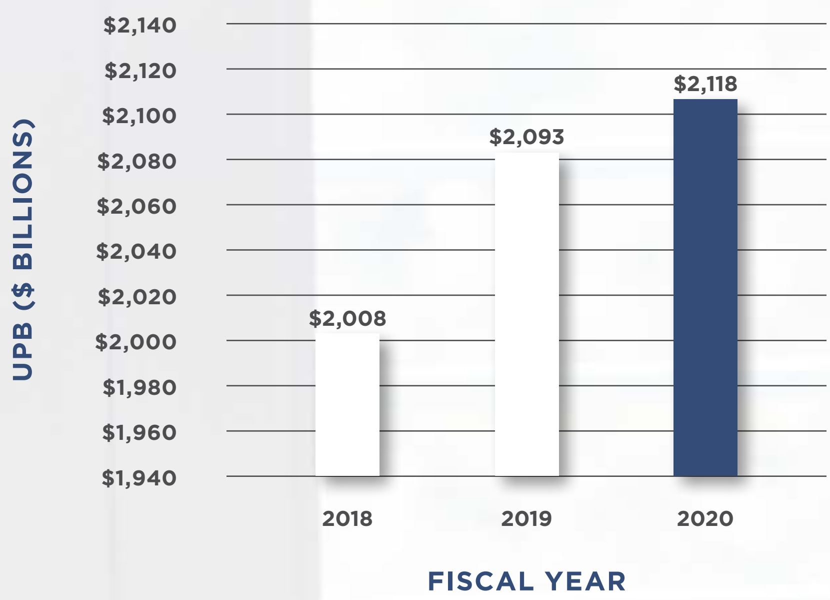
MBS program income consists primarily of guaranty fees, interest on mortgage loans held for investment, commitment fees, multiclass fees, and other MBS program income. For fiscal year 2020, MBS program income was primarily driven by guaranty fees of $1.4 billion, followed by gross interest on mortgage loans held for investment of $106.7 million, commitment fees of $152.1 million and multiclass fees of $31.9 million. Combined, guaranty fees, interest on mortgage loans held for investment and commitment fees contributed 97.8 percent of total MBS program revenue for fiscal year 2020.

Guaranty Fees – Ginnie Mae guarantees the payment of principal and interest passthrough to its MBS investors and charges a fee for providing this guarantee, which is backed by the full faith and credit of the U.S. Government. These fees are received over the life of the Ginnie Mae securities. Guaranty fees are collected on the aggregate UPB of the guaranteed securities outstanding. MBS guaranty fees were $1.4 billion in fiscal year 2020. The outstanding MBS portfolio balance at the end of fiscal year 2020 was $2.1 trillion. See Figure 6 for UPB Outstanding in Ginnie Mae's MBS portfolio from fiscal year 2018 to fiscal year 2020.

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 an allowance on accrued interest to the extent interest is uncollectible including recoverability per insurance guidelines for insured loans. In fiscal year 2020, gross interest on mortgage loans held for investment was $106.7 million.

Commitment Fees - Ginnie Mae earns a fee 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 $892.0 billion in commitment authority in fiscal year 2020. Ginnie Mae recognizes the commitment fees as earned when issuers use their commitment authority. Total commitment fees earned in fiscal year 2020 were $152.1 million. Commitment Fees are deferred until earned or expired, whichever occurs first. As of September 30, 2020, commitment fees deferred totaled $47.0 million.

__Figure 6__ – UPB Outstanding in Ginnie Mae's MBS Portfolio from Fiscal Year 2018 to Fiscal Year 2020



Multiclass Fees - Multiclass fees are one-time upfront fees related to the issuance of multiclass products. Multiclass fees are part of MBS program revenue and consists of Real Estate Mortgage Investment Conduits (REMIC) and Platinum program fees. Ginnie Mae guaranteed approximately $23.4 billion of newly issued Platinum Certificates in fiscal year 2020. Fees earned on Platinum Certificates totaled $7.6 million for fiscal year 2020. Ginnie Mae guaranteed REMIC issuances of $135.9 billion in fiscal year 2020. Fees earned on REMIC securities for fiscal year 2020 totaled $24.4 million. 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, 2020, REMIC and Platinum program fees deferred totaled $480.3 million.

The outstanding balance of multiclass securities in the total MBS securities balance on September 30, 2020, was $559.4 billion, of which $86.7 billion and $472.7 billion were Platinum and REMIC, respectively.

INCOME ON GUARANTY OBLIGATIONS

The guaranty obligation represents the noncontingent liability for Ginnie Mae's obligation to stand ready to perform on its guarantee. Ginnie Mae amortizes its guaranty obligation into revenues based on the declining UPB of MBS pools. In fiscal year 2020, income on guaranty obligations was $2.5 billion which is 58.4 percent of total revenues.

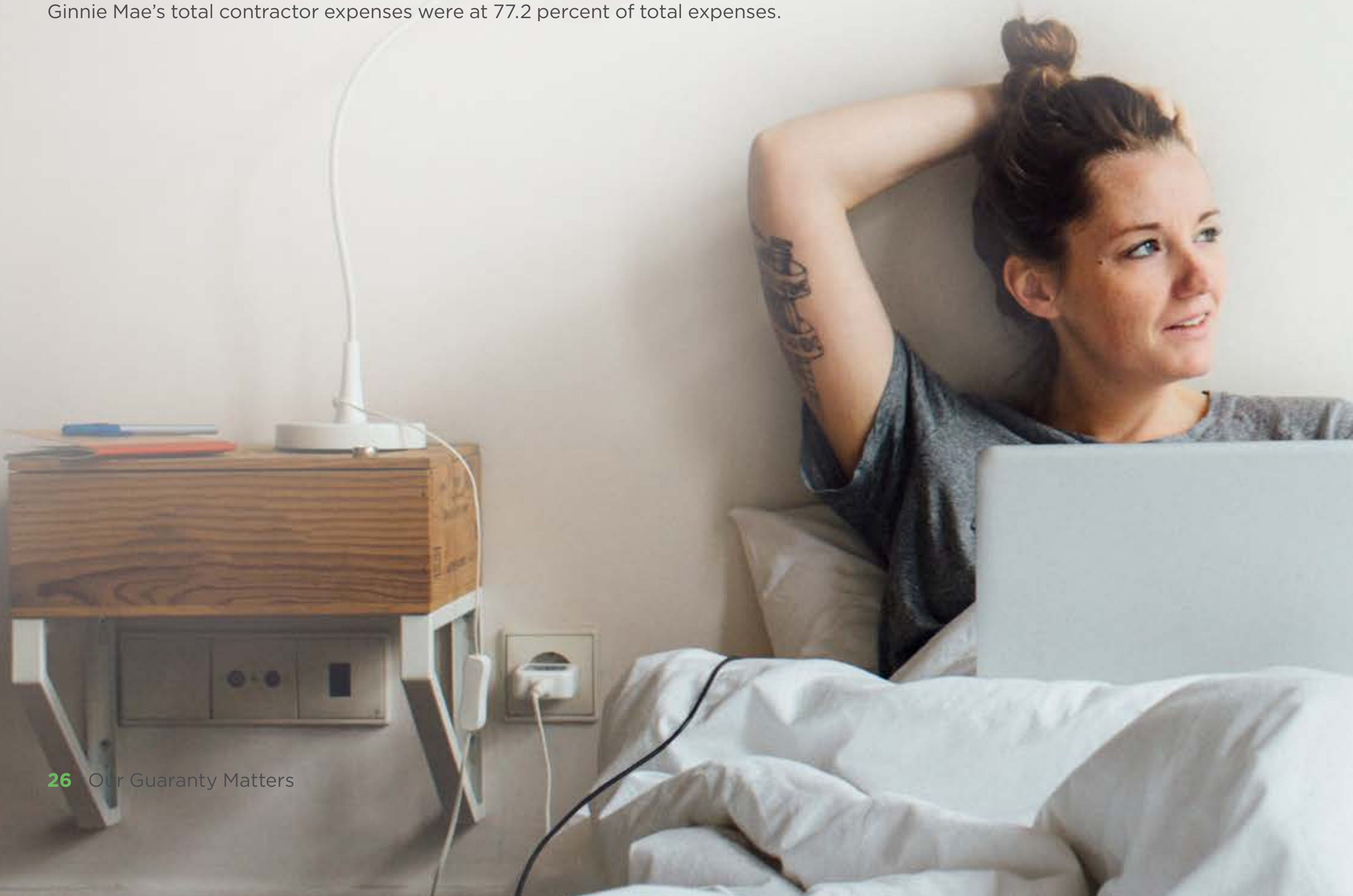
OTHER INTEREST INCOME

Ginnie Mae invests the full balance of the Capital Reserve Fund and the Liquidating Fund in U.S. Treasury overnight certificates. Amount of interest earned on overnight certificates can be compared to the investments balance to estimate the return on investment generated. Ginnie Mae's interest income decreased in fiscal year 2020 due to a decrease in the investment in U.S. Treasury overnight certificates. In fiscal year 2020, interest income on U.S. Treasury overnight certificates was $118.6 million.

EXPENSES

Total expenses were $317.9 million in fiscal year 2020. Total expenses as a percentage of average UPB of Ginnie Mae guaranteed MBS was less than one percent in fiscal year 2020.

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 2020, Ginnie Mae's total contractor expenses were at 77.2 percent of total expenses.



MBS PROGRAMS, ISSUANCES, AND PORTFOLIO GROWTH

Despite the shift to remote work and the economic impact of the COVID-19 pandemic, Ginnie Mae issued its largest volume of securities in its history in fiscal year 2020, with August 2020 marking the highest ever level of Ginnie Mae MBS issuance in a single month. Ginnie Mae MBS issuance increased by 65.8 percent to $749 billion in fiscal year 2020, as shown in Figure 7.

As shown in Figure 8 below, Ginnie Mae supported approximately 2.8 million units of housing for individuals and families in fiscal year 2020, a 46.5 percent increase from fiscal year 2019. The current total outstanding UPB in Ginnie Mae's MBS portfolio balance of $2.1 trillion represents over 11.1 million active loans (excluding Home Equity Conversion Mortgage (HECM)/HECM mortgage-backed securities (HMBS)). Ginnie Mae has guaranteed approximately $8.3 trillion in MBS since its inception.

Figure 7 *– Ginnie Mae MBS Issuance from Fiscal Year 2018 to Fiscal Year 2020*

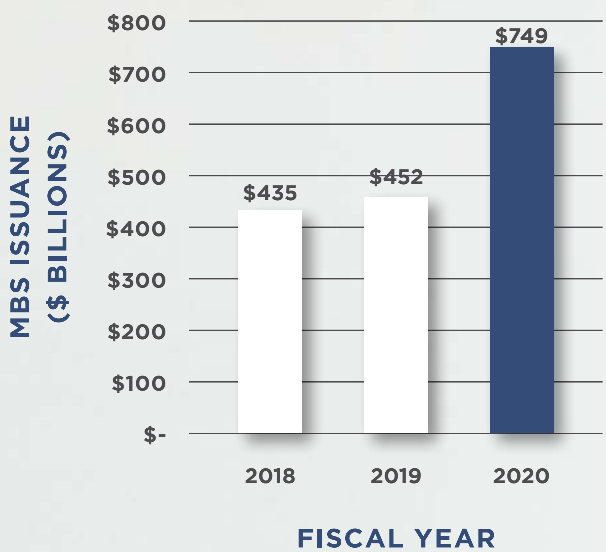
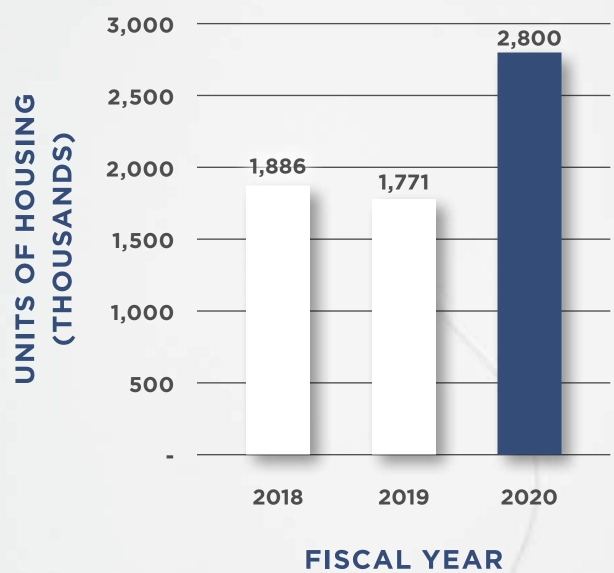


Figure 8 *– Total Housing Units Financed by Ginnie Mae's Single Family, Multifamily, and Manufactured Housing Programs from Fiscal Year 2018 to Fiscal Year 2020*



SINGLE-FAMILY PROGRAM

Ginnie Mae's Single-Family Program is the conduit for government mortgage lending to the worldwide capital markets. This program allows borrowers in government programs to reap the benefits of the full faith and credit of the United States by adding liquidity into the market in order to lower their borrowing costs.

Ginnie Mae's Single-Family Program consists of single-family mortgages originated for the purchase, construction, or renovation of single-family homes originated through Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA), U.S. Department of Agriculture's Rural Development Agency (RD) and the Office of Public and Indian Housing (PIH) loan insurance programs. The vast majority of the mortgages in Ginnie Mae securities are insured by FHA and VA. FHA-insured loans accounted for 51.1 percent of fiscal year 2020 Ginnie Mae MBS issuances, while VA-insured loans accounted for 43.8 percent; RD and PIH loans contributed to 5.1 percent.

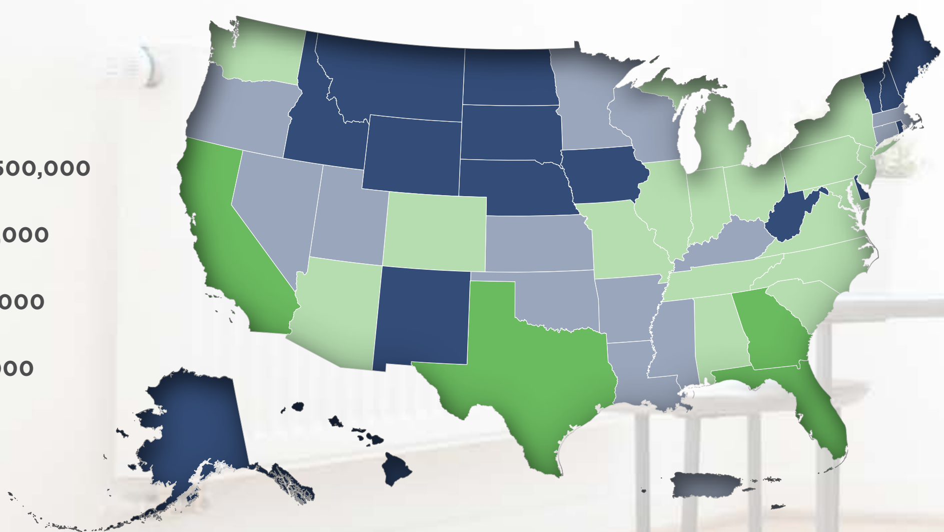
Although other agencies and private issuers may pool FHA and VA insured loans for their own MBS or hold them in portfolios as whole loans, almost all FHA and VA loans are financed through Ginnie Mae securities. In fiscal year 2020, 98.0 percent of FHA fixed-rate loans and 99.4 percent of VA fixed-rate 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 9 highlights the geographic distribution of single-family properties securing Ginnie Mae securities as of September 30, 2020.

__Figure 9__ – Geographic Distribution of Single Family Properties Securing Ginnie Mae Securities as of September 30, 2020

LOANS

- **GREATER THAN 500,000**
- **200,000 TO 500,000**
- **100,000 TO 200,000**
- **LESS THAN 100,000**



State	Loans	Percent of Total Loans	UPB
Texas	1,062,246	9.6%	$167,672,853,732
Florida	829,846	7.5%	$150,720,942,777
California	734,863	6.6%	$212,581,433,532
Georgia	501,211	4.5%	$77,586,811,562
Ohio	436,705	3.9%	$51,430,170,987
Virginia	434,541	3.9%	$100,484,854,489
North Carolina	419,929	3.8%	$63,939,557,560
Pennsylvania	404,136	3.7%	$56,620,648,177
Illinois	357,913	3.2%	$52,492,916,815
New York	319,479	2.9%	$61,333,637,950
Top 10 Total	**5,500,869**	**49.6%**	**$994,863,827,581**

MULTIFAMILY PROGRAM

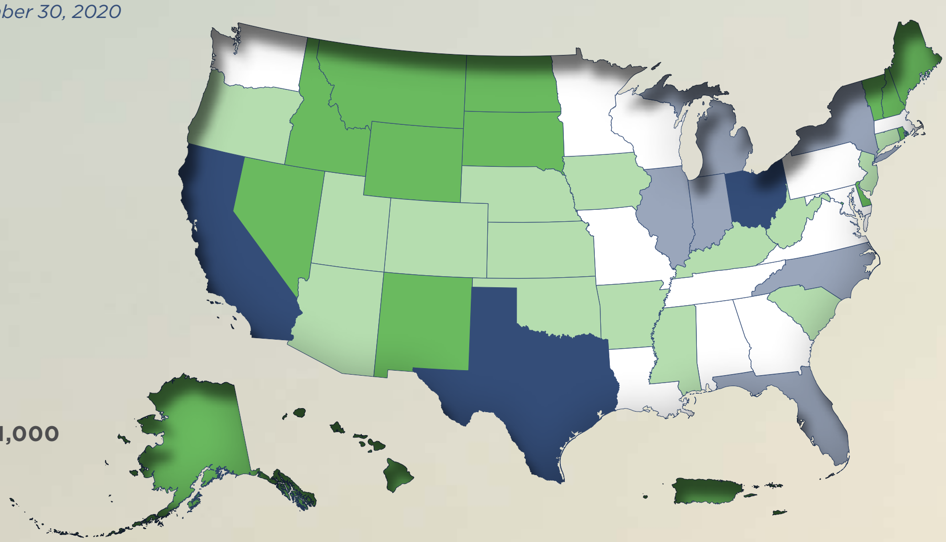
Ginnie Mae's Multifamily Program consists of FHA and RD insured loans originated for the purchase, construction, or renovation of apartment buildings, hospitals, nursing homes, assisted living facilities, and other housing options. By guaranteeing pools of multifamily loans that are sold to investors in the global capital markets, Ginnie Mae enables lenders to reduce mortgage interest rates paid by property owners and developers. The guaranty allows mortgage lenders to obtain a better price for the mortgage loans in the secondary mortgage market due to the decreased risk of default. The lenders can then use these proceeds to make new mortgage loans available at a reduced mortgage rate. In addition, these projects stabilize and bring jobs to communities across the country.

At the end of fiscal year 2020, Ginnie Mae guaranteed securities comprising 99.2 percent of eligible multifamily FHA loans. The Multifamily Program portfolio increased by $4.9 billion, from $123.1 billion at the end of fiscal year 2019 to $128.0 billion at the end of fiscal year 2020. This increase was consistent across FHA and RD multifamily loans and was largely due to the historically low interest rate environment. Figure 10 below shows the geographic distribution of multifamily properties securing Ginnie Mae securities as of September 30, 2020. Since 1971, Ginnie Mae has guaranteed $358.0 billion in multifamily MBS, helping to finance affordable and community-stabilizing multifamily housing developments across the nation.

***Figure 10** – Geographic Distribution of Multifamily Properties Securing Ginnie Mae Securities as of September 30, 2020*

LOANS

- LESS THAN 100
- 100 — 249
- 250 — 499
- 500 — 1,000
- GREATER THAN 1,000



State	Loans	Percent of Total Loans	UPB
Texas	1,225	8.3%	$12,964,299,825
Ohio	1,045	7.1%	$4,996,796,903
California	1,008	6.8%	$8,712,740,067
Illinois	683	4.6%	$6,116,642,389
Indiana	680	4.6%	$4,030,616,224
North Carolina	638	4.3%	$4,490,378,893
Michigan	618	4.2%	$4,104,597,187
Florida	606	4.1%	$6,935,491,830
New York	564	3.8%	$9,397,319,071
Minnesota	462	3.1%	$3,684,230,504
Top 10 Total	**7,529**	**50.9%**	**$65,433,112,893**

Ginnie Mae's portfolio of Multifamily FHA loans grew in fiscal year 2020 to an unpaid principal balance of $126.6 billion compared to $121.8 billion at the end of fiscal year 2019. There were FHA loans in all 50 states, 2 territories and the District of Columbia in Ginnie Mae pools at September 30, 2020.

In addition, Ginnie Mae's portfolio of Multifamily RD loans, grew in fiscal year 2020 to a UPB of $1.4 billion compared to $1.3 billion at the end of fiscal year 2019. There were RD loans in 48 states and 1 territory in Ginnie Mae pools at September 30, 2020.

HMBS PROGRAM

Ginnie Mae's HMBS Program provides capital and liquidity for FHA insured reverse mortgages, an essential financial solution for a growing number of senior citizens. HMBS issuance in fiscal year 2020 increased to $9.9 billion from $8.1 billion at fiscal year 2019. The UPB of HMBS as of September 30, 2020 was $55.4 billion as compared to $54.1 billion as of September 30, 2019. The increases in HMBS issuance and UPB were caused by an increase in refinances beginning in December of 2019. Refer to Note 18: *Concentrations of Credit Risk* for concentration of risk analysis related to Ginnie Mae's HMBS Program.

MANUFACTURED HOUSING PROGRAM

Ginnie Mae's Manufactured Housing Program provides a guarantee for mortgage loans insured by FHA for the purchase of a new or used manufactured home. This program provides liquidity in the market that in turn lowers costs for borrowers. The manufactured housing program consists of more affordable housing alternatives for first time low-income borrowers. Manufactured housing loans (FHA Title I) include loans secured by a manufactured (mobile) home unit or both the manufactured unit and land. The limited nature of this program left low-to moderate-income borrowers with no adequate financing options for manufactured housing. Following FHA's modernization of the program, Ginnie Mae also made updates to the Title I Program to offer a securitization vehicle for manufactured housing that is backed by the US Government. The Manufactured Housing program's UPB was $227.0 million at the end of fiscal year 2020, a decrease from $258.0 million at the end of fiscal year 2019. This decrease was caused by a pause in manufactured housing issuance due to market conditions by two active Ginnie Mae issuers. Refer to Note 18: *Concentrations of Credit Risk* for concentration of risk analysis related to Ginnie Mae's Manufactured Housing Program.

RISK FACTORS

MODEL RISK

Model risk is the potential for adverse results from decisions based on incorrect model inputs and outputs. The Office of Enterprise Risk (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 2: *Summary of Significant Accounting Policies and Practices* in the financial statements for valuations that are based on the model.

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. Furthermore, model validation is performed by an independent third-party firm. Refer to Note 13: *Fair Value Measurement* for illustration of the potential magnitude of certain alternate judgments (i.e., how sensitive these assumptions are) based on changes in certain inputs.

Management faces an increased degree of model risk and uncertainty in the current year due to the unprecedented COVID-19 pandemic and related economic downturn. As a result, our models require additional considerations and face significant challenges to accurately forecast key inputs. Adjustments to existing models due to the current economic environment will have subjectivity and will require management judgment.

CREDIT RISK

Credit Risk is the risk of loss arising from another party's failure or inability to meet its financial and/or contractual obligations. Ginnie Mae is exposed to both borrower credit risk and counterparty credit risk.

Borrower credit risk is the risk of loss arising from the failure or inability of a borrower to meet their financial and/or contractual obligations. Ginnie Mae's borrower credit risk primarily consists of mortgage assets in the non-pooled loans portfolio which is composed of loans acquired from defaulted, terminated, and extinguished issuers of Ginnie Mae guaranteed MBS, and loans purchased/repurchased out of Ginnie Mae guaranteed MBS pools in accordance with Ginnie Mae MBS guidelines. See Note 5: *Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure* and Note 10: *Mortgage Loans Held for Investment Including Accrued Interest, Net* for further information.

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. Refer to Note 17: *Reserve for Loss* for further information.

GEOGRAPHIC CONCENTRATION RISK

Concentrations of credit risk exist when a significant number of issuers are susceptible to similar changes in economic conditions that could affect their ability to meet contractual obligations. This concentration of credit risk may be the result of several factors, including but not limited to geographic or insurer concentration within the portfolio. Generally, Ginnie Mae's MBS pools are diversified among issuers. All issuers operate within the U.S. and its territories, and there are no significant geographic concentrations.

Natural disasters affecting Ginnie Mae's loan portfolio (pooled and non-pooled) occur throughout the year but are typically concentrated during each year's hurricane season. In fiscal year 2020, there were six natural disasters which occurred that had a minor impact on the Ginnie Mae loan population.

MORTGAGE SERVICING

Ginnie Mae's loan servicing functions are contracted to two Master Sub-Servicers (MSS). As Ginnie Mae relies on these MSS for 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.

TRANSITION FROM THE LONDON INTERBANK OFFER RATE TO ALTERNATIVE REFERENCE RATES

In July 2017, the United Kingdom's Financial Conduct Authority (FCA) announced that it would cease requiring the submission of quotes supporting the London Interbank Offered Rate (LIBOR) by December 31, 2021 (fiscal year 2022). As a result, it is unclear whether LIBOR will continue to be published after that date. Ginnie Mae has worked closely with key stakeholders, including other federal agencies, to identify and implement a course of action that transitions the Ginnie Mae program away from LIBOR while minimizing disruption to the MBS Program and its participants. Ginnie Mae has been collaborating with the Federal Housing Administration on a LIBOR transition plan since September of 2019 and developed a joint LIBOR transition plan which has been approved by the HUD Secretary.

In March 2020, we announced new updates in the agency's multiclass securities for tranches indexed to LIBOR issued after March 1, 2020. This update follows Ginnie Mae's adopted recommendations of the Alternative Rates Reference Committee (ARRC) for fallback language for LIBOR floating rate securities issued in March 2020 or later. The update adds the Secured Overnight Funding Rate (SOFR) as an available index for new issuance of floating rate Multiclass Securities and adoption of the ARRC recommended SOFR fallback provision.

In September 2020, we announced restrictions on the pooling of adjustable-rate mortgages (ARM) with rates indexed to LIBOR. Restriction on LIBOR based Single-Family Forward is effective with security issuances dated on or after January 1, 2021. Restrictions on LIBOR-Based Adjustable Rate Reverse Mortgages (HECM/HMBS) is effective with HMBS issuances dated on or after January 1, 2021.

INTERNAL CONTROLS

Ginnie Mae management is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 and the Federal Financial Management Improvement Act (FFMIA) of 1996 are met throughout the organization. OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, sets forth the guidance agencies must follow to meet the requirements of FMFIA and FFMIA. Ginnie Mae management is responsible for enacting and ensuring a strong internal control environment is in place to mitigate against reporting, operational, and compliance risks the organization may face. In addition, Ginnie Mae's OER provides guidance and manages the internal controls framework for the organization, including conducting internal controls assessments and Enterprise Risk Management (ERM) activities, coordinating with other Offices to evaluate their monitoring and assessment results, and reporting these results to the Department of Housing and Urban Development (HUD). These assessments, reviews, and continuous monitoring of issuers and major contractors enable Ginnie Mae to strengthen its internal controls and minimize risks that would negatively impact financial and operating results. Additionally, the consolidated evaluation of these assessments enable management to prepare an assurance statement to report any assessed significant deficiencies or material weaknesses to HUD.

In reference to the Enterprise Risk Management component of OMB Circular No. A-123, Ginnie Mae has delivered on the requirements and met the standards in accordance with the circular as of fiscal year 2020. Ginnie Mae developed a standard three-level risk taxonomy to identify, classify, and report the risks associated with the operations of each of its Offices. Each Office is assessed on an annual basis. These results are compiled, analyzed, and aggregated into Ginnie Mae's Risk Register which is provided to HUD leadership. Ginnie Mae management also uses this Risk Register to understand organizational challenges and prioritize activities for Ginnie Mae's Enterprise Risk Management program, which has been considered best practice.

Ginnie Mae undertook a restructuring of its Management Internal Control Program during fiscal year 2019 in order to implement the requirements of the revised OMB Circular No. A-123 to integrate ERM and internal control over financial reporting (ICOFR). This change in structure reflects the requirements of the revised A-123 and GAO *Standards for Internal Control in the Federal Government* (the Green Book) to explicitly integrate ERM with traditional ICOFR-only views of risks and controls. OER aligned appropriate resources, responsibility, and governance to establish the revised program and has implemented a three-year plan to guide its risk management and controls assessment strategy, while providing sufficient annual assessment support to comply with the A-123 reporting requirements.

Ginnie Mae began executing against this robust, integrated A-123 strategy in fiscal year 2019 and has continued in fiscal year 2020 by enhancing governance for the revised A-123 program with the development of new policies and procedures to guide the program. Additionally, during fiscal year 2020, Ginnie Mae developed comprehensive documentation and performed an assessment of internal controls supporting significant financial statement line items and classes of transactions, including its non-pooled assets. Based on the results of this assessments and other program enhancements, Ginnie Mae was able to provide reasonable assurance that its internal controls were operating effectively for fiscal year 2020.

As part of management's commitment to a strong internal control environment, Ginnie Mae continues to establish effective communication procedures amongst all the Offices to ensure the timely application of the internal controls and review of policies, procedures, and related programs to ensure accounting transactions are consistently applied throughout the organization.

SECURITY PRODUCTS

SINGLE-CLASS

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

- Ginnie Mae I MBS are pass-through securities providing monthly P&I payments to each investor. They are single-family, multifamily, or manufactured housing pools of mortgages with similar maturities and interest rates offered by a single issuer.
- Ginnie Mae II MBS are similar to Ginnie Mae I MBS but allow multiple-issuers and single-issuer pools. They permit the securitization of ARMs, manufactured home loans, and 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.

***Figure 11** – Ginnie Mae I and II Security Products Issuance from Fiscal Year 2018 to Fiscal Year 2020*

MULTICLASS

Ginnie Mae offers two multiclass securities product structures — Platinum Securities and REMIC Securities:

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

***Figure 12** – REMIC and Platinum Security Products Issuance from Fiscal Year 2018 to Fiscal Year 2020*

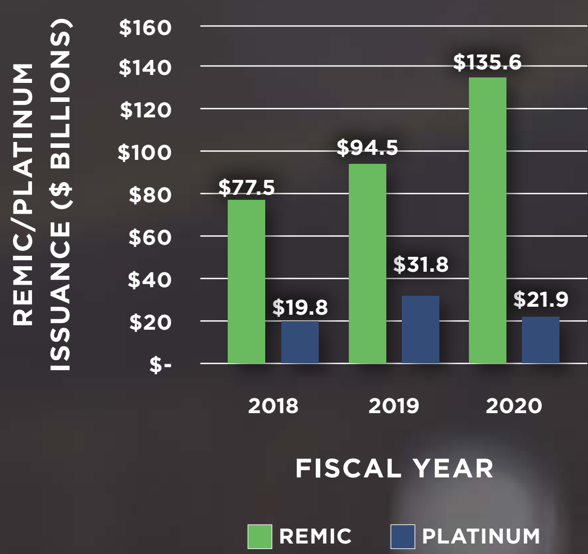
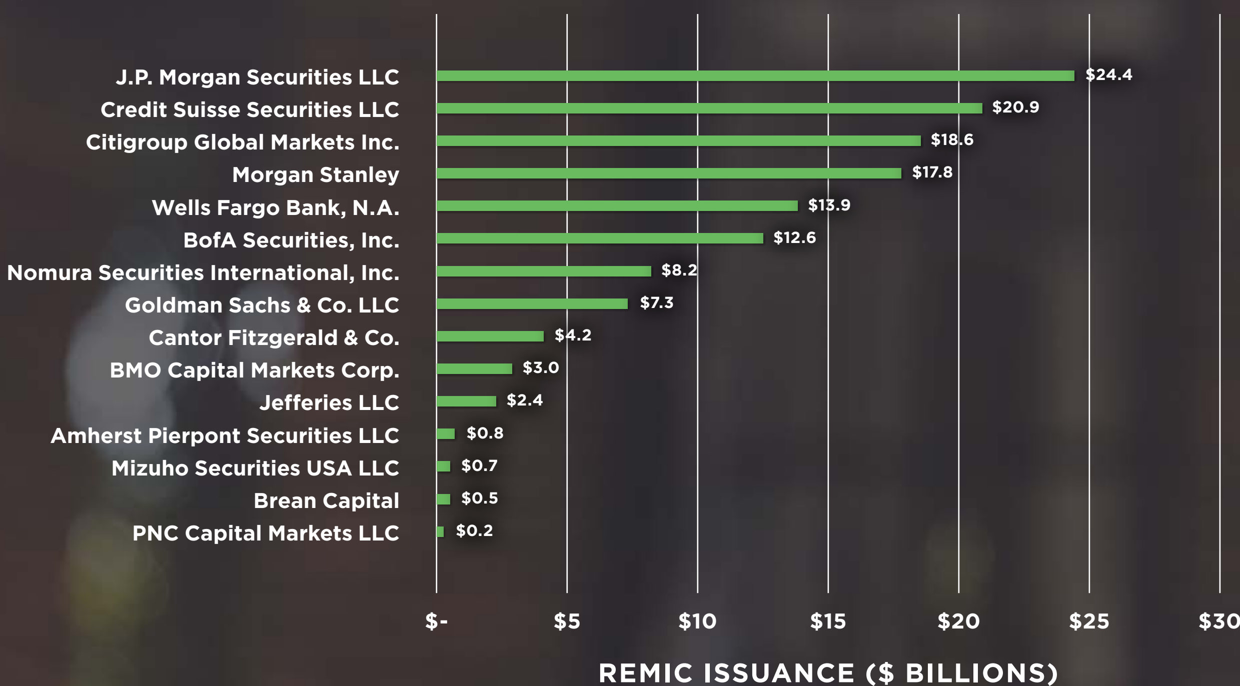


***Figure 13** – REMIC Security Products Contributions by Sponsor in Fiscal Year 2020*



OTHER KEY INFORMATION

AUDIT REMEDIATION UPDATES

The U.S. Department of Housing and Urban Development Office of the Inspector General (OIG) issued a disclaimer of opinion on Ginnie Mae's financial statements since fiscal year 2015. The disclaimer focused primarily on Ginnie Mae's nonpooled loans portfolio that was acquired from defaulted, terminated, and extinguished issuers of Ginnie Mae guaranteed MBS. Ginnie Mae determined that it would require a significant investment in technology, infrastructure, and personnel, spanning multiple years to remediate this finding.

Since fiscal year 2015, Ginnie Mae made continued progress to address financial reporting control deficiencies. In fiscal year 2019, Ginnie Mae completed its remediation efforts associated with the disclaimer of opinion and informed the OIG that the financial statements are auditable. This accomplishment was highlighted by, but not limited to: (i) the development of loan accounting policies compliant with U.S. GAAP standards; (ii) the creation and implementation of standard operating procedures (SOPs) to comply with new accounting policies; (iii) improving internal controls and accounting oversight within the organization; (iv) working with third-party servicers to develop and transfer standardized servicing details for over 46,000 loans, including millions of related transactional-level information from the servicers' off-site systems to an on-site accounting database; and (v) a significant investment in accounting and modeling software to track and account for the non-pooled loans obtained from the servicers. The remediation project culminated with the development and launch of Ginnie Mae's Subledger Database (SLDB) solution. The SLDB solution provides Ginnie Mae with the capability to translate mortgage loan servicing data into loan-level accounting entries in an integrated system that supports appropriate accounting treatment in accordance with U.S. GAAP and Ginnie Mae's accounting policies.

The implementation of the SLDB solution required significant enhancements to Ginnie Mae's accounting system, financial models and modeling processes, new system interfaces and protocols for data processing and movement, and far-reaching changes to the processes under which Ginnie Mae personnel performs critical accounting, reporting, data processing, technology support and oversight tasks required to track and report the non-pooled asset portfolio.

During fiscal year 2020, Ginnie Mae continued to build upon the accomplishments achieved in fiscal year 2019 as the SLDB solution was operational for its first full year, while gaining efficiencies through automation, standardization, and modernization of the existing technology. During fiscal year 2020, Ginnie Mae was able to make significant improvements to the reliability of the solution, including controls around the NPA (Non-pooled assets) portfolio, which have resulted in reductions of processing times and the volume of manual interventions through the implementation of various code enhancements to support accurate and timely financial reporting. Ginnie Mae has also implemented a semi-automated solution to process HECM which enables seamless transaction processing, accounting, and reporting of Ginnie Mae's HMBS program through the SLDB.

Ginnie Mae has also placed a high level of emphasis on strengthening the overall control environment by enhancing our accounting policy governance and improving key processes to drive operational efficiencies. These activities are helping drive dynamic change within the finance function at Ginnie Mae, in an effort to continue to reach our strategic goals and instill reliability in our financial statements as a whole. During fiscal year 2020, Ginnie Mae, in collaboration with HUD, was able to arrive at an official agreement with the OIG to close out prior year referred findings. This was a major accomplishment for the organization as it demonstrates that Ginnie Mae is taking corrective action to remediate its financial reporting deficiencies.

This is the second year since fiscal year 2015 that Ginnie Mae has undergone a full financial statement audit. As noted in the HUD OIG final results of the audit of Ginnie Mae within our annual report, CliftonLarsonAllen (or "CLA") was engaged to audit the financial statements and notes of Ginnie Mae as of September 30, 2020. As such, management's discussion and analysis included herein will be limited to the financial position and results of operations of Ginnie Mae for the fiscal year ended September 30, 2020.

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 at the end of each reporting period, while acquired property (AP) is measured at fair value on a nonrecurring basis as valuations are not always as of the last date of the reporting period.

See Note 2: *Summary of Significant Accounting Policies and Practices* and Note 13: *Fair Value Measurement* 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 accordance with ASC 820. 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 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 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 interest rates, 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) represent 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 -** Key considerations for AP valuation include the valuation waterfall methodology and availability of appraisal or broker price opinions obtained from third parties. When valuations are not available from external sources, internally developed valuation models are leveraged to determine the fair value of AP. Ginnie Mae also calculates the estimated cost to sell to be used in determining the US GAAP basis for AP properties. Refer to Note 2: *Summary of Significant Accounting Policies and Practices* and Note 12: *Acquired Property, Net* for further information.

LOSS ALLOWANCE ESTIMATE

Mortgage loans held for investment, including accrued interest, 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
- 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. Refer to Note 10: *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 and 24 months for single family and multifamily issuers, respectively. MBS commitments were $234.4 billion in fiscal year 2020 compared to $115.7 billion in fiscal year 2019. 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 request for pools or loan packages from the issuer's previously approved amount of commitment authority.

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 $2.1 trillion at September 30, 2020. 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 $8.0 billion at September 30, 2020 related to this portfolio.

AGGREGATE CONTRACTUAL OBLIGATIONS

Periodically, 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, 2020, Ginnie Mae recorded $67.7 thousand as a contingent liability to account for these agreements.

FINANCIAL SYSTEM ENHANCEMENTS AND AUTOMATION

Throughout fiscal year 2020, Ginnie Mae's Financial Accounting System (GFAS) underwent several enhancements that position Ginnie Mae for end-to-end automated financial reporting and enduring readiness to accommodate future business and workflow requirements. The combination of a reconfigured Federal compilation process, Statement of Cash Flow Automation, and an Activity Code Redesign completed in fiscal year 2020 provide six fully automated principal statements. This automation has led to the financials being in sync with HUD's statements and minimal to no reconciling issues being identified during consolidation and reconciliation for any of the Federal Financial Statements.

During fiscal year 2020, the Robotics Process Automation (RPA) team was able to successfully deploy the first Ginnie Mae bots which automated three previously manual processes. RPA, which uses commercial-off-the-shelf software, is a computer coded, rules-based software, known as bots, used to automate process owner activities for repetitive rules-based tasks. The bot then replicates those actions as many times as necessary at a very rapid rate with a high level of accuracy. RPA solutions can be directly implemented in a physical (e.g., desktop, laptop) or virtual environment (e.g. VMware or Cloud), allowing for quick and cost-effective deployment onto Ginnie Mae's existing infrastructure with minimal, if any, impact. The three bots that are now live are:

- **Pioneer –** Helps the Planning and Budgeting Cloud Services (PBCS) system to support the development of business planning objectives.
- **Dabo –** Pulls LIBOR/CMT rates from WSJ.com on a daily basis.
- **RBG –** Performs the Commitment Authority Reconciliation process on a daily basis.

Government National Mortgage Association, Washington, DC

Audit of Ginnie Mae's Fiscal Year 2020 Financial Statements

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2021-FO-0002
November 16, 2020

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

//signed//

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

Subject: Audit of the Government National Mortgage Association's Fiscal Year 2020 Financial Statements

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of the audit of the Government National Mortgage Association's (Ginnie Mae) fiscal year 2020 financial statements and reports on internal control over financial reporting and compliance with laws, regulations, and contracts.

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

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

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

Office of Audit (Financial Audits Division)
451 7th Street SW, Washington, DC, 20410
Phone (202) 708-0383, Fax (202) 401-5186
Visit the Office of Inspector General website at https://www.hudoig.gov/.

Audit Report Number: 2021-FO-0002
Date: November 16, 2020

Audit of the Government National Mortgage Association's Fiscal Year 2020 Financial Statements

Highlights

What We Audited and Why

The Chief Financial Officers Act of 1990, as amended, requires the Office of Inspector General (OIG) or an independent auditor, as determined by OIG, to annually audit the financial statements of the Government National Mortgage Association (Ginnie Mae) in accordance with U.S. generally accepted government auditing standards.

We contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to audit Ginnie Mae's fiscal year 2020 financial statements in accordance with U.S. generally accepted government auditing standards. We conducted oversight of CLA in accordance with the Financial Audit Manual of the U.S. Government Accountability Office and the Council of the Inspectors General on Integrity and Efficiency.

What We Found

CLA is responsible for the attached Independent Auditor's Report, dated November 16, 2020, and the conclusions expressed therein. Our oversight review disclosed no instances in which CLA did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Based on its audit, CLA issued an Independent Auditor's Report with an unmodified opinion on Ginnie Mae's financial statements. CLA also reported one significant deficiency in its Report on Internal Control Over Financial Reporting and no reportable compliance issues in its Report on Compliance With Laws, Regulations, and Contracts.

CLA reported that Ginnie Mae had a significant deficiency in the control design of its organizational structure for two key functions, estimation model development and model verification, within its Office of Enterprise Risk. CLA further reported that this control deficiency potentially prevents an effective challenge to models used to develop significant estimates for financial reporting.

Ginnie Mae reports the auditor's opinion on its financial statements in its Annual Report.

What We Recommend

To improve Ginnie Mae's financial management governance, CLA recommended that it create separate reporting lines between model development and model validation functions so that both critical model functions do not report to the Office of Enterprise Risk, are appropriately segregated in accordance with industry guidance, and follow the foundational component of internal control standards.

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

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

Subject: Transmittal of Independent Public Accountant's Audit Report on the Government National Mortgage Association's Fiscal Year 2020 Financial Statements

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of the audit of the Government National Mortgage Association's (Ginnie Mae) fiscal year 2020 financial statements and reports on internal control over financial reporting and compliance with laws, regulations, and contracts.

We contracted with the independent public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the financial statements of Ginnie Mae as of and for the fiscal year ending September 30, 2020, to provide reports on internal control over financial reporting and compliance with laws, regulations, and contracts. Our contract with CLA required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit requirements, and the Financial Audit Manual of the U.S. Government Accountability Office and the Council of the Inspectors General on Integrity and Efficiency.

In its audit of Ginnie Mae, CLA reported

- That the financial statements as of and for the fiscal year ending September 30, 2020, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- No material weaknesses[1] and one significant deficiency[2] in internal control over financial reporting, based on limited procedures performed.
- No reportable noncompliance with provisions of applicable laws, regulations, and contracts tested.

Regarding the identified significant deficiency, CLA determined that the model development and model verification functions both reside within Ginnie Mae's Office of Enterprise Risk, with both respective teams reporting through the same line of authority. CLA determined that such a

[1] 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.
[2] 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.

deficiency in control design needed to be brought to the attention of those charged with governance.

Ginnie Mae presented single-year financial statements for fiscal year 2020 and did not present comparative financial statements. CLA's opinion on Ginnie Mae's financial statements was not modified with respect to this matter.

In connection with the contract, we reviewed CLA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express and we do not express opinions on Ginnie Mae's financial statements or internal control over financial reporting or on compliance with laws, regulations, and contracts. CLA is responsible for the attached Independent Auditor's Report, dated November 16, 2020, and the conclusions expressed therein. Our review disclosed no instances in which CLA did not comply, in all material respects, with U.S. generally accepted government auditing standards.

CliftonLarsonAllen LLP
CLAconnect.com

Independent Auditors' Report

Inspector General
U.S. Department of Housing and Urban Development

Principal Executive Vice President
Government National Mortgage Association

In our audit of the fiscal year 2020 financial statements of the Government National Mortgage Association (Ginnie Mae), we found:

- Ginnie Mae's financial statements as of and for the fiscal year ended September 30, 2020, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- no material weaknesses and one significant deficiency for fiscal year 2020 in internal control over financial reporting based on the limited procedures performed; and,
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, and contracts tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)[1] and other information[2] included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, and contracts; and (4) Ginnie Mae's response to our findings and recommendation.

Report on the Financial Statements

We have audited Ginnie Mae's financial statements in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). Ginnie Mae's financial statements comprise the balance sheet as of September 30, 2020, the related statement of revenues and expenses and changes in investment of U.S. Government, and statement of cash flows for the fiscal year then ended; and the related notes to the financial statements. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

[1]The RSI consists of Management's Discussion and Analysis which are included with the financial statements.
[2]Other information consists of information included with the financial statements, other than the RSI and the auditors' report.

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<u>Management's Responsibility</u>
Ginnie Mae management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

<u>Auditors' Responsibility</u>
Our responsibility is to express an opinion on these financial statements based on our audit. *Government Auditing Standards* require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the auditors' assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit also included performing such other procedures as we considered necessary in the circumstances.

<u>Opinion on Financial Statements</u>
In our opinion, Ginnie Mae's financial statements present fairly, in all material respects, Ginnie Mae's financial position as of September 30, 2020, and its revenues and expenses and changes in investment of U.S. Government, and statement of cash flows for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

<u>Emphasis of Matter</u>
As discussed in Note 3 to the financial statements, Ginnie Mae presented single-year financial statements for fiscal year 2020 and did not present comparative financial statements. Our opinion on Ginnie Mae's financial statements is not modified with respect to this matter.

<u>Other Matters</u>

<u>Prior Year Financial Statements</u>
Ginnie Mae's financial statements as of and for the year ended September 30, 2019, were audited by other auditors, whose Independent Auditors' Report dated February 7, 2020, expressed a disclaimer of opinion on those financial statements.

Required Supplementary Information

OMB Bulletin 19-03 requires that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, OMB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with *Government Auditing Standards*, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audits of the financial statements, in order to report omissions or material departures from OMB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

Ginnie Mae's other information has historically contained a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. In addition, management typically includes references to information on websites or other data outside of the Annual Report. As of the date of this report we were unable to read the other information typically included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements, as management has not yet completed the information for our review. Our audit was conducted for the purpose of forming an opinion on Ginnie Mae's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

In connection with our audit of Ginnie Mae's financial statements, we considered Ginnie Mae's internal control over financial reporting, consistent with our auditors' responsibility discussed below. We performed our procedures related to Ginnie Mae's internal control over financial reporting in accordance with *Government Auditing Standards*.

Management's Responsibility

Ginnie Mae management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

In planning and performing our audit of Ginnie Mae's financial statements as of and for the year ended September 30, 2020, in accordance with *Government Auditing Standards*, we considered Ginnie Mae's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ginnie Mae's internal control over financial reporting. Accordingly, we do not express an opinion on Ginnie Mae's internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

<u>Definition and Inherent Limitations of Internal Control over Financial Reporting</u>
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. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, and contracts, noncompliance with which could have a material effect on the financial statements.

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

<u>Results of Our Consideration of Internal Control over Financial Reporting</u>
Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. Given these limitations, material weaknesses and/or significant deficiencies may exist that have not been identified. However, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency. This deficiency is listed below and described in Exhibit A.

> *Organizational Structure and Model Risk Governance*. Ginnie Mae's design of its organizational structure for two key functions within its model risk governance framework is considered deficient in appropriately mitigating the inherent risk presented when employing complex models for significant estimates for financial reporting.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our 2020 audit, we identified other deficiencies in Ginnie Mae's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant Ginnie Mae management's attention. We have communicated these matters to Ginnie Mae management and, where appropriate, will report on them separately.

<u>Intended Purpose of Report on Internal Control over Financial Reporting</u>
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 *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.

Report on Compliance with Laws, Regulations, and Contracts

In connection with our audit of Ginnie Mae's financial statements, we tested compliance with selected provisions of applicable laws, regulations, and contracts consistent with our auditors' 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 *Government Auditing Standards*.

<u>Management's Responsibility</u>
Ginnie Mae management is responsible for complying with laws, regulations, and contracts applicable to Ginnie Mae, including ensuring Ginnie Mae's financial management systems are in substantial compliance with Federal Financial Management Improvement Act requirements.

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

<u>Results of Our Tests for Compliance with Laws, Regulations, and Contracts</u>
Our tests for compliance with selected provisions of applicable laws, regulations, and contracts disclosed no instances of noncompliance or other matters for fiscal year 2020 that would be reportable under *Government Auditing Standards*. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, and contracts applicable to Ginnie Mae. Accordingly, we do not express such an opinion.

<u>Intended Purpose of Report on Compliance with Laws, Regulations, and Contracts</u>
The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, and contracts, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering compliance. Accordingly, this report on compliance with laws, regulations, and contracts is not suitable for any other purpose.

Ginnie Mae's Response to Audit Findings and Recommendation

Ginnie Mae's response to the findings and recommendation identified in our report is included in Exhibit B. In their response Ginnie Mae acknowledges the significant deficiency reported, however, believes their compensating controls sufficiently mitigates the risk of misstatement. We believe the control environment inherent risk without the appropriate segregation of duties in designing and implementing complex modeling for significant estimates within the financial statements is critical in Ginnie Mae's internal control system. Ginnie Mae does also state they have taken immediate action in response to the finding which will address the concern. Ginnie

Mae's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of Ginnie Mae's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated February 7, 2020. The status of prior year findings is presented in Exhibit C.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
November 16, 2020

Organizational Structure and Model Risk Governance

Background

Accounting estimates are an approximation of monetary amounts in the absence of a precise means of measurement. Accounting estimates involve estimation uncertainty, which is the susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement. Ginnie Mae makes significant estimates in a variety of areas including, but not limited to, valuation of certain financial instruments; allowance for loss on mortgage loans held for investment, including accrued interest; claims and other receivables; guaranty assets; and guaranty obligations. Ginnie Mae utilizes models and estimation methods, some of them complex and sophisticated, to develop certain significant estimates presented within Ginnie Mae's financial statements. Ginnie Mae's Office of Enterprise Risk (OER) is responsible for the development, testing, and implementation of the models used in calculating the estimates for financial statement presentation. The testing of the models involves validation, which is a significant set of processes and activities intended to verify the models are performing as expected and are in line with design objectives and business uses. Model validation, therefore, serves as a form of quality control for model development, helping to ensure the soundness of the models through effective challenge.

Condition

The current organizational structure, where OER is responsible for both model development and model validation, is a control design deficiency potentially preventing an effective challenge to the models and possibly not allowing management to appropriately prevent, or detect and correct misstatements. Industry leading practices and bank regulatory guidance provide the following key aspects of effective model risk management:

Board of Governors of the Federal Reserve System Office of the Comptroller of the Currency (OCC), OCC 2011-12, *Supervisory Guidance on Model Risk Management*, V. Model Validation states, "Validation involves a degree of independence from model development and use. Generally, validation should be done by people who are not responsible for development or use and do not have a stake in whether a model is determined to be valid."

Federal Housing Finance Agency (FHFA), Advisory Bulletin (AB) 2013-07, *Model Risk Management Guidance*, Background and Key Points states, "Senior management should create an appropriate organizational structure to promote effective organizational challenge of models."

Further, the U.S. Government Accountability Office (GAO) GAO 14-704G, *Standards for Internal Control in the Federal Government*, includes as its foundational component of internal control, the control environment. One of the required principals of the control environment is *Principal* 3 – *Establish Structure, Responsibility, and Authority* which states, "As part of delegating authority, management evaluates the delegation for proper segregation of duties within the unit and in the organizational structure."

Given the estimation uncertainty of Ginnie Mae's significant modeled estimates, and the corresponding increased inherent risk of misstatement, an appropriate organizational structure that provides for an effective control environment that engenders the challenging of models and proper segregation of duties between model development and model validation is necessary. Without the appropriate organizational structure and control environment, Ginnie Mae's models may not have the rigorous review necessary to achieve its objectives and adequately address related risks.

Recommendation
We recommend Ginnie Mae:

1. Create separate reporting lines between model development and model validation functions so that both critical model functions do not report to OER, are appropriately segregated in accordance with industry guidance, and follow the foundational component of internal control standards.

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

DATE:	November 16, 2020
MEMORANDUM FOR:	Thomas McEnanly, Director, Contracted Financial Statement Audits, Financial Audits Division, HUD OIG
FROM:	Seth D. Appleton, Principal Executive Vice President, Ginnie Mae SETH APPLETON Digitally signed by SETH APPLETON Date: 2020.11.12 11:16:34 -05'00'
SUBJECT:	Management Response to Fiscal Year (FY) 2020 Audit Report

The Government National Mortgage Association (Ginnie Mae) appreciates the opportunity to respond to the Independent Auditors' Report for fiscal year 2020, prepared by CliftonLarsonAllen (CLA) for the Office of the Inspector General (OIG). CLA's efforts in conducting this audit demonstrated great skill and professionalism. OIG's supervision of the project was constructive, and we continue to appreciate and support the valuable role that OIG plays on behalf of the American taxpayer.

This was a remarkable year for Ginnie Mae; 2020 was the capstone of a long campaign to implement improvements to our financial administration to address issues identified in recent audit reports and auditee comments. In FY 2020, Ginnie Mae set several key strategic objectives, including: 1) strengthening the financial reporting control environment; 2) proactively preparing for significant upcoming accounting mandates; 3) increasing overall staffing levels and gaining efficiencies from automation and standardization; and 4) modernizing technology systems. These priorities were aimed at producing useful and reliable financial statements, maintaining effective internal controls over financial reporting, strengthening accounting policy governance, and improving and modernizing key processes to drive operational efficiencies and transform the finance function, in order to support Ginnie Mae's core mission and strategic goals. Ginnie Mae made significant steps in the pursuit of these objectives, building upon the accomplishments achieved in FY 2019.

In collaboration with the U.S. Department of Housing and Urban Development (HUD) Office of the Chief Financial Officer (OCFO), Ginnie Mae's dedicated efforts on the external audit and the substantial progress achieved this year contributed to the external auditors issuing an unmodified opinion on Ginnie Mae's FY 2020 financial statements. This is the product of numerous years of work, to which many contributed and in which we take pride. Moreover, this comes during a time in which we continued to implement significant modernization of our program and securitization platform, and rose to the challenges of meeting the COVID-19 national emergency, which has had a significant impact on the environment in which we operate.

Management's Response

We acknowledge the Independent Auditors' finding of a significant deficiency during the audit period, relating to our organizational structure as it pertains to model risk governance. Ginnie Mae believes compensating controls and validation procedures in place effectively test the model and sufficiently mitigate the risk of misstatement. We have also provided CLA with immediate actions we have taken in response to this finding, which we believe can effectively address the circumstances of concern. We will continue our dialogue with CLA about these and any issues arising from our stewardship of the Ginnie Mae mortgage-backed security program, to ensure that the program continues to benefit the homeowners served by the federal mortgage programs that are funded through the securities we guarantee while protecting the American taxpayer.

We remain dedicated to our core mission of bringing global capital into the housing finance market while minimizing risk to the taxpayer, and will continue to make enhancements to our operating model through innovative, advanced analytics and modernization of technology and infrastructure.

Independent Auditors' Report (Continued)
Exhibit C
Status of Prior Year's Findings

Our assessment of the current status of the findings related to the prior year audit is presented below:

Fiscal Year 2019 Findings	***Type***	***Fiscal Year 2020 Status***
Significant estimates were not reliable, and adequate support for material asset balances could not be provided in time to be audited.	Material Weakness Finding 1	Management Letter
Concerns in addressing deficiencies in internal control over financial reporting: 1. unable to provide assurance on the effectiveness of its internal controls; 2. control weaknesses regarding its nonpooled loan assets; and, 3. weaknesses in its data processing controls within its nonpooled assets audit remediation solution.	Material Weakness Finding 2	Closed
Not in full compliance with federal information system controls requirement for its financial accounting system.	Significant Deficiency	Closed
Noncompliance with the Debt Collection Improvement Act (DCIA) of 1996.	Noncompliance	Management Letter

In addition to the findings listed above, the audit of Ginnie Mae's fiscal year 2019 financial statements listed 31 prior year audit recommendations associated with past findings that remained open at the beginning of fiscal year 2020. Our assessment of the current status of these recommendations, at the conclusion of our audit, is that these are considered closed, with the exception of one remaining action to be taken regarding the DCIA (listed above).

Appendix

Appendix A

Government National Mortgage Association

Fiscal Year Financial Statements

September 30, 2020

Government National Mortgage Association

Balance Sheet		
		September 30, 2020
		(Dollars in thousands)
Assets:		
Cash and cash equivalents	$	24,512,125
Restricted cash and cash equivalents		1,061,627
Accrued fees and other receivables		118,032
Pass-through assistance program receivable including accrued interest, net		2,672
Reimbursable costs receivable, net		32,681
Claims receivable, net		71,916
Advances, net		784
Mortgage loans held for investment including accrued interest, net		2,119,470
Acquired property, net		4,603
Fixed assets, net		66,762
Mortgage servicing rights		398
Guaranty asset		6,755,883
Other assets		364
Total Assets	**$**	**34,747,317**
Liabilities and Investment of U.S. Government:		
Liabilities:		
Accounts payable and accrued liabilities	$	73,443
Deferred liabilities and deposits		3,210
Deferred revenue		527,377
Liability for loss on mortgage-backed securities program guaranty		43,439
Liability for representations and warranties		68
Guaranty liability		8,041,340
Total Liabilities	**$**	**8,688,877**
Commitments and Contingencies (See Note 19)		
Investment of U.S. Government	$	26,058,440
Total Liabilities and Investment of U.S. Government	**$**	**34,747,317**

The accompanying notes are an integral part to these financial statements

Statement of Revenues and Expenses and Changes in Investment of U.S. Government		
		For the year ended September 30, 2020
		(Dollars in thousands)
Revenues:		
Interest Income		
Interest income on mortgage loans held for investment	$	106,659
Interest income on pass-through assistance program receivable		83
Other interest income		118,588
Income on guaranty obligation		2,529,611
Mortgage-backed securities guaranty fees		1,384,005
Commitment fees		152,062
Multiclass fees		31,914
Mortgage-backed securities program and other income		5,013
Total Revenues	**$**	**4,327,935**
Expenses:		
Administrative expenses	$	(31,102)
Fixed asset depreciation and amortization		(22,643)
Mortgage-backed securities program and other expenses		(258,658)
Acquired property expenses, net		(5,512)
Total Expenses	**$**	**(317,915)**
Recapture (provision):		
Recapture (provision) for mortgage loans held for investment including accrued interest, net	$	1,551
Recapture (provision) for mortgage-backed program guaranty		(36,764)
Recapture (provision) for reimbursable cost		589
Recapture (provision) for claims receivable		(14,856)
Recapture (provision) for loss on uncollectible advances		(79)
Recapture (Provision) for pass-through assistance program receivable including accrued interest		(454)
Total Recapture (Provision)	**$**	**(50,013)**
Other Gain (Loss):		
Gain (loss) on guaranty asset	$	(2,845,137)
Gain (loss) on mortgage servicing rights		(870)
Gain (loss) other		2,860
Total Other Gains / (Losses)	**$**	**(2,843,147)**
Results of Operations	$	1,116,860
Investment of U.S. Government at Beginning of Period	$	24,941,580
Investment of U.S. Government at End of Period	**$**	**26,058,440**

The accompanying notes are an integral part to these financial statements

Statement of Cash Flows		
	For the year ended September 30, 2020	
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Results of Operations	$	1,116,860
Adjustments to reconcile results of operations to net cash (used for) provided by operating activities:		
Depreciation and amortization expense		22,643
Provision (recapture) for mortgage loans held for investment including accrued interest, net		(1,551)
Provision (recapture) for mortgage-backed program guaranty		36,764
Provision (recapture) for reimbursable costs		(589)
Provision (recapture) for claims receivable		14,856
Provision (recapture) for loss on uncollectible advances		79
Provision (recapture) for pass-through assistance program receivables including accrued interest		454
Acquired property expenses, net		5,512
(Gain)/loss on guaranty asset		2,845,137
(Gain)/loss on mortgage servicing rights		870
(Gain)/loss on liability for representations and warranties		6
Income on guaranty obligation		(2,529,611)
Interest income on mortgage loans held for investment		(3,375)
Interest income on pass-through assistance program		(23)
Changes in operating assets and liabilities:		
Accrued fees and other receivables		(3,433)
Pass-through assistance program receivables including accrued interest, net		(3,103)
Claims receivable, net		120,021
Advances, net		(28)
Reimbursable costs receivable, net		(3,992)
Mortgage loans held for investment including accrued interest, net		(4,084)
Other assets		(1,288)
Accounts payable and accrued liabilities		(18,912)
Deferred liabilities and deposits		(2,245)
Deferred revenue		47,918
Net cash provided by operating activities	**$**	**1,638,886**
Cash Flows from Investing Activities		
Proceeds from repayments and sales of mortgage loans acquired as held for investment	$	220,479
Proceeds from the dispositions of acquired property and preforeclosure sales		16,336
Purchases of loans held for investment including accrued interest, net		(13,098)
Purchases of fixed assets		(8,418)
Net cash provided by investing activities	**$**	**215,299**
Cash Flows from Financing Activities		
Net cash (used for) provided by financing activities	$	-
Net change in cash and cash equivalents	$	1,854,185
Cash and cash equivalents, beginning of the period		23,719,567
Cash and cash equivalents, end of the period	**$**	**25,573,752**
Supplemental Disclosure of Non-Cash Activities		
Transfers from mortgage loans held for investment including accrued interest, net to claims receivable, net	$	23,613
Transfers from mortgage loans held for investment including accrued interest, net to acquired property, net		17,910

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 market is the U.S. and its Territories housing market.

Among those Ginnie Mae supports through the MBS program are:

- 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 U.S. Department of Veterans Affairs (VA), the U.S. Department of Agriculture's Rural Development Agency (RD), and the Office of Public and Indian Housing (PIH)[1]. Ginnie Mae neither originates, purchases, or guarantees direct loans.

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

- Ginnie Mae I MBS are pass-through securities providing monthly P&I payments to each investor. They are single-family, multifamily, or manufactured housing pools of mortgages with similar maturities and interest rates offered by a single issuer.
- Ginnie Mae II MBS are similar to Ginnie Mae I MBS but allow multiple-issuer and single-issuer pools. They permit the securitization of adjustable rate mortgages (ARMs), manufactured home loans, and home equity conversion mortgages (HECM), and allows small issuers unable to meet the dollar requirements of the Ginnie Mae I MBS program to participate in the secondary mortgage market.

[1] *Ginnie Mae did not have any mortgage loans insured by PIH at September 30, 2020. However, PIH-insured mortgage loans may exist within MBS pools.*

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

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

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

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

Note 2: 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. Ginnie Mae is presenting its financial statements and footnotes as a single year presentation for fiscal year 2020. The decision to continue with single year reporting in fiscal year 2020 was made in conjunction with HUD to allow adequate time for the audit of HUD's and Ginnie Mae's year-end Financial Statements and footnotes. 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, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses for the periods presented, and the related disclosures in the accompanying notes. Ginnie Mae evaluates these estimates and judgments on an ongoing basis and bases its estimates on experience, historical, current and expected future conditions, third-party evaluations, and various other assumptions that Ginnie Mae believes are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment with respect to commitments and contingencies.

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

Accounting Changes and Error Corrections: Ginnie Mae may make certain accounting changes or discover the need for error corrections. ASC 250 – *Accounting Changes and Error Corrections* provides guidance on the accounting for and reporting of accounting changes and error corrections.

Change in Accounting Principle: A change in accounting principle occurs when "there are two or more generally accepted accounting principles that apply or when the accounting principle formerly used is no longer generally accepted. A change in the method of applying an accounting principle also is considered a change in accounting principle." Management may make changes in accounting principle only if either of the following conditions are met: 1) The change is required by a newly issued Codification update or 2) The entity can justify the use of an allowable alternative accounting principle on the basis that it is preferable. In instances where management deems a change in accounting principle is necessary, the change shall be recorded by retrospective application in accordance with ASC 250-10-45-5 through 45-8. When retrospective application is deemed impractical, the change in accounting principle will be made as of the beginning of the subsequent fiscal year of the period in which the change is made, per ASC 250-10-45-14. Management shall make the appropriate disclosures in the financial statements in the period in which a change in accounting principle is made.

Change in Accounting Estimate: Ginnie Mae employs the use of significant estimates and assumptions for certain balances disclosed within its financial statements. Accordingly, Ginnie Mae periodically updates its models and assumptions that are used within financial reporting and assesses these updates to determine whether they should be accounted for as a change in accounting estimate Ginnie Mae accounts for changes in accounting estimates prospectively, in accordance with ASC 250.

Disclosures for changes in accounting estimates made in the ordinary course of accounting for items (such as for depreciation and amortization) are not necessary, unless the effect of a change in accounting estimate is material. Changes in accounting estimates resulting from a change in valuation technique used to measure fair value are not subject to disclosure when the resulting fair value measurement is in accordance with ASC 820: *Fair Value Measurement.* If a change in accounting estimate is a result of a change in accounting principle, the change in accounting estimate shall be subject to the disclosure requirements required for changes in accounting principle, as noted above. Management shall make the appropriate disclosures for changes in accounting estimates in the period for which the change in accounting estimate is made.

Error Corrections: In the event that Ginnie Mae identifies an error in previously issued financial statements, Ginnie Mae will perform a materiality assessment, since the method to correct the error is dependent on the materiality to both prior year(s) and current year. When the error is material to the prior period(s) financial statements, the error is corrected through a restatement including the correction of material errors relating to classification and disclosure. For errors that are immaterial to prior periods, but the correction would result in a material error in the current period, Ginnie Mae adjusts or "restates" the prior period information in the current period financial statement and discloses the correction in the footnotes of the current period financial statements (i.e., the financial statements that reflect the correction). Errors that are immaterial to both the current and prior period are typically corrected in the current period.

In fiscal year 2020, management identified errors in previously issued financial statements related to the guaranty obligation in the amount of $64.4 million. Management determined the error to be immaterial to both the current and prior years, and therefore corrected the error in the current year financial statements.

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.

Fair Value Option: The fair value option under ASC 825: *Financial Instruments* allows certain financial assets and liabilities, such as acquired loans, to be reported at fair value (with unrealized gains and losses reported in the Statement of Revenues and Expenses and Changes in Investment of U.S. Government and related cash flows classified as operating activities). The fair value option was elected by Ginnie Mae for the guaranty asset.

Natural Disasters: The occurrence of a major natural disaster, such as a hurricane, tropical storm, wildfires, flood, and other large-scale catastrophe, in an area where Ginnie Mae's pooled and non-pooled loans or properties are located could have an adverse impact on our financial condition and results of operations. An unpredictable natural disaster could negatively affect the ability of borrowers to continue to make principal and interest payments, increasing Ginnie Mae's credit losses. It could cause damage or destroy properties that Ginnie Mae owns, and Ginnie Mae may not have insurance coverage to offset all the losses. Further, a major disruptive event, such as natural disaster, may negatively impact an Issuer if the Issuer's portfolio is highly concentrated in the affected region. This could lead to an increase in probability of the Issuer's default and Ginnie Mae having to step into the role of the Issuer. In doing so, Ginnie Mae would then need to assume all servicing rights and obligations of the Issuer, including making timely principal and interest payments to the MBS investors. Finally, a natural disaster could negatively impact the valuation of the guaranty asset and mortgage servicing rights assets (MSRs) by having an adverse impact on significant modeling inputs and key economic assumptions, such as prepayment rates and default rates.

During the fourth quarter of fiscal year 2020, several natural disasters impacted 6 states and 1 territory . Management performed an initial assessment over the pooled and non-pooled portfolios in these markets to assess the impact as a result of the natural disasters. Management found that there were no materially adverse effects to Ginnie Mae's financial statements. See Note 18: *Concentration of Credit Risk* for additional discussion around the maximum exposure related to the natural disasters during fiscal year 2020.

Cash and Cash Equivalents: Ginnie Mae's cash and cash equivalents consists of cash held by the U.S. Treasury (Funds with U.S. Treasury), cash that is held by the MSS and the Trustee and Administrator of securities on Ginnie Mae's behalf but has not yet been transferred to Ginnie Mae (Deposits in transit), as well as U.S. Treasury short-term investments (securities issued with an original maturity date of three months or less). Cash receipts, disbursements, and investment activities are processed by U.S. Department of Treasury (U.S. Treasury). All cash not classified as restricted cash is accessible in the event of an issuer default, termination and extinguishment[2] (defined as any failure or inability of the issuer to perform its responsibilities under the Ginnie Mae MBS programs).

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

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

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

Restricted Cash and Cash Equivalents: Cash and cash equivalents are classified as restricted when the statutes, regulations, contracts or Ginnie Mae's statements of intentions legally limit the use of funds. Restrictions may include legally restricted deposits, contracts entered into with

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

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

Escrow Funds (Held in Trust for MBS Certificate Holders or Mortgagors): Escrow funds are held in trust for payments of mortgagors' taxes, insurance and related items, or other fiduciary funds. These funds are collected by the MSS and held at depository institutions for which Ginnie Mae does not have access. This amount is $24.8 million at September 30, 2020. The escrow balance as of September 30, 2020 is an estimate and represents amounts submitted by the MSS. Escrow funds are not owned, invested or controlled by Ginnie Mae and are therefore not included in total assets or liabilities on Ginnie Mae's Balance Sheet. As such, Ginnie Mae receives no current or future economic benefits thereof, and there is no associated risk or reward to Ginnie Mae from the escrow funds.

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

Accrued Fees and Other Receivables: Ginnie Mae's accrued fees and other receivables primarily include accrued guaranty fees. Guaranty fees are discussed in Note 5: *Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure*.

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

Pass-Through Assistance Program Receivables Including Accrued Interest, Net: When the President of the United States declares a major disaster, Ginnie Mae, at its sole discretion, may extend to Issuers one or more of the Disaster Assistance Programs identified in Chapter 34 of its Mortgage-Backed Securities Guide ("MBS Guide"), one of which is the Pass-Through Assistance

Program ("PTAP"). Under PTAP, Ginnie Mae assists Issuers with pass-through payments of P&I to investors if the Issuers are facing a temporary liquidity shortfall directly attributable to a major disaster. Requests for assistance should only be made by an Issuer as a "last resort". PTAP is not intended to provide long-term financing, or to address the full extent of solvency issues that an Issuer might face as a result of a disaster.

Pass-Through Assistance Program Receivable: An Issuer that receives an eligible pass-through assistance advance from Ginnie Mae will be obligated to repay it to Ginnie Mae according to the terms set forth in the applicable Supervisory Agreement. Ginnie Mae recognizes each pass-through assistance advance as a financing receivable (hereinafter referred to as "Pass-Through Assistance Program Receivables", or "PTAP Receivables") when the advance is disbursed to the Issuer. Ginnie Mae cannot transfer PTAP receivables to another party and has the intent and ability to hold them for the foreseeable future or until maturity. Therefore, Ginnie Mae classifies all PTAP receivables as HFI and reports their carrying value, which includes the outstanding contractual balance (including accrued interest), net of cost basis adjustments, and net of allowance. The PTAP Receivables is discussed in Note 6: *Pass-Through Assistance Program Receivables Including Accrued Interest, Net*.

Accrued Interest Receivable: Ginnie Mae accrues interest on PTAP receivables at the effective interest rate based on the interest method, and records an allowance on accrued interest to the extent interest is uncollectible.

Non-accrual: *Ginnie Mae places PTAP receivables on non-accrual status upon the earlier of:*

1) When Ginnie Mae determines that payment in full is not expected from the Issuer, i.e. the PTAP receivable is considered impaired, or
2) When the PTAP receivable has been due and unpaid for 90 days.

If PTAP receivables are placed on non-accrual status, Ginnie Mae suspends recognizing additional interest income. Previously accrued interest is not reversed but becomes part of Ginnie Mae's recorded investment and is assessed for impairment. Partial repayments received for PTAP receivables on non-accrual status are applied to principal before accrued interest, as doubt exists about the collectability of principal. Due to the short-term nature of PTAP receivables, non-accrual PTAP receivables are generally not returned to accrual status. Forgone interest on non-accrual PTAP receivables is only recognized when cash repayment is received.

Allowance for PTAP Receivables: Ginnie Mae performs periodic and systematic reviews of PTAP receivables to identify credit risks and assess the overall collectability to determine if (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.

When Ginnie Mae determines that it is probable a credit loss has occurred and that loss can be reasonably estimated, Ginnie Mae recognizes the estimated amount of the incurred loss in the allowance for PTAP receivables. The allowance consists of two components: (1) an asset-specific component for larger-balance PTAP receivables individually evaluated and deemed impaired, and (2) a component for PTAP receivables collectively evaluated for impairment. PTAP receivables collectively evaluated for impairment include smaller-balance PTAP receivables and larger-balance PTAP receivables not deemed individually impaired. The allowance for PTAP receivables represents management's best estimate of probable credit losses inherent in Ginnie Mae's PTAP receivables. The allowance is netted against the recorded investment of PTAP receivables presented on the balance sheet.

Charge off: Ginnie Mae charges off accrued interest and unpaid principal balance (UPB) for PTAP receivables when it believes collectability of interest or principal is not reasonably assured. Ginnie Mae's policy is to evaluate individual PTAP receivables on a quarterly basis, to determine whether payment in full is expected and charges off the amount deemed uncollectible against allowance for PTAP receivables.

Recoveries: Ginnie Mae records recoveries of PTAP receivables previously charged off when repayment received from the Issuer exceeds the recorded investment. The recoveries are recorded by crediting the allowance, which results in an indirect credit to earnings through Recapture (Provision) for Pass-Through Assistance Program Receivables Including Accrued Interest, Net.

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

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

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

Foreclosed property: Ginnie Mae records foreclosed property when the MSS receives title to a residential real estate property that has completed the foreclosure process in its respective legal jurisdiction, or when the mortgagor conveys all interest in the property to Ginnie Mae through its

MSS to satisfy the loan through completion of a deed in lieu of foreclosure process or similar legal agreement. These properties differ from acquired properties as Ginnie Mae intends to convey the property to an insuring or guaranteeing agency, instead of marketing and selling the properties through the MSS. The claimed asset is measured based on the amount of the loan outstanding balance expected to be recovered from the insuring or guaranteeing agency.

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

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

Recoveries: If the claim proceeds received exceed the claims receivable's carrying amount, Ginnie Mae will apply the excess to amounts previously charged-off (i.e., recovery) with any residual amounts recognized as a gain on the Statement of Revenues and Expenses and Changes in Investment of U.S. Government.

Advances, Net: Advances represent pass-through payments made to the MSS to fulfill Ginnie Mae's guarantee of timely P&I payments to MBS security holders, when there is a shortfall in P&I payments collected on the pooled loans serviced by the MSS on behalf of Ginnie Mae. Ginnie Mae reports advances net of an allowance to the extent that management believes advances will not be collected. The allowance is calculated based on expected recovery amounts from any mortgage insurance or guarantee per established insurance or guarantor rates, Ginnie Mae's collectability experience, and other economic factors.

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

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

Mortgage Loans Held For Investment: Ginnie Mae has the intent and ability to hold acquired loans for the foreseeable future or until maturity, therefore, the mortgage loans are classified as

HFI. Ginnie Mae reports the carrying value of HFI loans on the Balance Sheet at the UPB along with accrued interest, net of cost basis adjustments, and net of allowance for loan losses including accrued interest, as required by U.S. GAAP. In the event that Ginnie Mae clearly identifies mortgage loans that it intends to sell, as well as develops a formal marketing strategy or plan of sale, Ginnie Mae will reclassify the applicable loans from HFI to held for sale (HFS). For loans which Ginnie Mae initially classified as HFI and subsequently transfers to HFS, those loans would be recognized at the lower of cost or fair value until sold, with any related cash flows classified as operating activities. At September 30, 2020, Ginnie Mae had no loans classified as HFS.

Accrued interest receivable**:** Ginnie Mae accrues interest on mortgage loans HFI at the contractual rate and records an allowance on accrued interest to the extent interest is uncollectible for conventional loans, and to the extent interest is not recoverable per insurance guidelines for insured or guaranteed loans.

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

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

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

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

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

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

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

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

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

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

Various concessions may be provided through modification, including:

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

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

COVID-19 Related Forbearances: In March 2020, the Coronavirus Aid, Relief, and Economic Security Act, referred to as the CARES Act, was enacted to provide financial relief to businesses, individuals and public institutions affected by the COVID-19 pandemic. Section 4013 of the CARES Act provides financial institutions the option to temporarily suspend the accounting and reporting requirements for TDRs for loan modifications provided they are: 1) related to the COVID-19 pandemic, 2) the modification occurs between March 1, 2020 through the earlier of December 31, 2020 or 60 days after the date on which the COVID-19 outbreak national emergency terminates, and 3) the loan was not more than 30 days delinquent as of December 31, 2019. The scope of this Section applies to forbearance arrangements, repayment plans, interest rate modifications, and any similar arrangement that defer or delays the payment of principal or interest.

FHA, VA, and RD insured loans fall in scope of Section 4022 "Foreclosure Moratorium and Consumer Right to Request Forbearance" of the CARES Act which grants forbearance rights and protection against foreclosure to borrowers with a federally backed mortgage loan[3]. Per Section 4022, upon the borrower's request, a servicer must provide forbearance for up to 180 days provided that the borrower must attest that they have experienced financial hardship due to COVID-19. Section 4022 also notes that the forbearance period may be extended for an additional period of up to 180 days at the request of the borrower, provided that, the borrower's request for an extension

[3] *The term ''Federally backed mortgage loan'' includes any loan which is secured by a first or subordinate lien on residential real property (including individual units of condominiums and cooperatives) designed principally for the occupancy of from 1- to 4- families that is either (A) insured by the FHA; (B) insured under the National Housing Act; (C) guaranteed under the Housing and Community Development Act of 1992; (D) guaranteed or insured by the Department of Veterans Affairs; (E) guaranteed or insured by the Department of Agriculture; (F) made by the Department of Agriculture; or (G) purchased or securitized by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association.*

is made during the covered period, and, at the borrower's request, either the initial or extended period of forbearance may be shortened. In August 2020, FHA, VA and RD announced the extension of its foreclosure and eviction moratorium to the insured borrowers through December 31, 2020.

In April 2020, the Board of Governors of the Federal Reserve, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Consumer Financial Protection Bureau, in consultation with state financial regulators, issued a revision to the *Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus* ("Interagency Statement"), which was confirmed with the staff of the Financial Accounting Standards Board. The Interagency Statement encourages financial institutions to work constructively with borrowers impacted by COVID-19, provides additional information over loan modifications, and clarifies interactions between the interagency statement and related relief provided by the CARES Act. The Interagency Statement allows for an entity to either choose to account for an eligible loan modification under Section 4013 of the CARES Act or in accordance with the Interagency Statement's interpretation of existing US GAAP (ASC 310-40) in the context of COVID-19. The scope of the Interagency Statement applies to modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays in payment that are insignificant. Loan modifications eligible for relief under the Interagency Statement meet all of the following criteria: 1) modification is in response to the National Emergency, 2) the loan was not 30 days or more past due at the time the modification program is implemented, and 3) the modification is short term in nature (e.g. six months).

Ginnie Mae has elected to account for modifications and take the optional relief provided within the Interagency Statement. For loan modifications to meet the criteria for relief under the Interagency Statement, one requirement is that borrowers have to be current at the implementation of the modification program. As such, institutions may presume borrowers are not experiencing financial difficulties at the time of the modification for purposes of determining TDR status, and thus no further TDR analysis is required for each loan modification in the program. In accordance with the Interagency Statement, loans subject to relief will continue to be presented as current within the financial statement aging disclosures. Further, these loans will continue to recognize interest income subject to Ginnie Mae's existing accounting policy. Refer to Note 10: *Mortgage Loans Held for Investment Including Accrued Interest, Net* for further details.

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

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

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

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

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

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

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

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

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

The capitalization of software development costs is governed by ASC 350-40: *Intangibles – Goodwill and Other – Internal-Use Software* if the software is for internal use. After the technological feasibility of the software has been established at the beginning of application development, software development costs, which primarily include salaries and related payroll costs and costs of independent contractors incurred during development, are capitalized. Research and development costs incurred prior to application development (for internal-use software), are expensed as incurred. Software development costs are amortized on a program-by-program basis using a straight-line method commencing on the date when ready for use. Ginnie Mae did not develop software to be marketed in 2020.

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

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

Mortgage Servicing Rights: MSR represent Ginnie Mae's rights and obligations to service mortgage loans underlying a terminated and extinguished issuer's entire Ginnie Mae guaranteed pooled-loan portfolio. Ginnie Mae contracts with multiple MSS to provide the servicing of its pooled mortgage loans. The servicing functions typically performed by Ginnie Mae's MSS include: collecting and remitting loan payments, responding to mortgagor inquiries, reporting P&I

payments, holding custodial funds for payment of property taxes and insurance premiums, counseling delinquent mortgagors, supervising foreclosures and property dispositions, and generally administering the loans. Ginnie Mae receives a monthly servicing fee based on the interest portion of each monthly installment of P&I actually collected by MSS on the pooled mortgage loans. The servicing fee is calculated based on the servicing fee percentage, embedded in the note rate. Ginnie Mae pays a sub-servicing expense to the MSS in consideration for servicing the loans.

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

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

Ginnie Mae's MSR portfolio consists of FHA, VA, RD, and PIH insured loans with similar collateral types and underwriting standard. Since these loans have similar risk profiles, Ginnie Mae identifies one class of servicing assets and liabilities. As such, although MSRs are valued at the pool level, they are presented on a net basis (as servicing asset or liability) at the aggregate class level.

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

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

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

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

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

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

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

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

Deferred Revenue: The classification of deferred revenue depends on the reason the revenue has not yet been recognized.

- Deferred revenue – multiclass fees: Deferred multiclass fees revenue represents the guaranty fees paid by the REMIC or Platinum Certificate sponsor, which are deferred and amortized into income evenly over the weighted average contractual life of the security unless truncated by early termination.
- Deferred revenue – commitment fees: Deferred commitment fee revenue represents payments received in advance of completion of Ginnie Mae's performance obligation. Commitment fee revenue is recognized in income over time as Ginnie Mae completes its performance obligation.

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

- The guaranty obligation that Ginnie Mae has to the MBS holders as a result of a probable issuer default. The issuers have the obligation to make timely P&I payments to MBS certificate holders. However, if an issuer defaults, Ginnie Mae ensures the contractual payments to MBS certificate holders are made. When assessing whether an issuer may default, Ginnie takes into consideration various factors including the issuer's financial and operational vulnerability, a qualitative and quantitative corporate credit analysis, and other evidence of the issuer's potential default (e.g. known regulatory investigations or actions).
- The obligation that Ginnie Mae has to the Multifamily MBS issuers to reimburse them for applicable losses in the event of a loan default, pursuant to the Multifamily guaranty agreement.

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

Refer to Note 17: *Reserve for Loss* for details on Ginnie Mae's current practice.

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

Recognition of Revenues and Expenses: ASC 606, Revenue from Contracts with Customers, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from Ginnie Mae's contracts with customers. ASC 606 requires Ginnie Mae to recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration received in exchange for those services recognized as performance obligations being completed. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized based on the measurement of value to the customer of the services transferred by Ginnie Mae to date relative to the remaining services promised under the contract. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time the customer obtains control of the promised service. Commitment fees, Real Estate Mortgage Investment Conduit (REMIC) modification and exchange (MX) combination fees, and certain MBS program fees, such as transfer of issuer responsibilities, new issuer applications, certificate handling, and acknowledgement of agreement fees, are in the scope of ASC 606. Refer to Note 16: *Revenue from Contracts with Customers* for disaggregation of revenue in the scope of ASC 606.

The majority of Ginnie Mae's revenues, including interest income on mortgage loans held for investment, other interest income, income on guaranty obligation, MBS guaranty fees, REMIC and Platinum Certificates guarantee fees, and certain MBS program and other fees, are subject to other GAAP requirements for recognition.

Ginnie Mae recognizes revenue from the following sources:

- Interest income on mortgage loans held for investment – Ginnie Mae accrues interest for performing loans at the contractual interest rate of the underlying mortgage.
- Interest income on pass-through assistance program receivable – Ginnie Mae accrues interest for PTAP receivables on accrual status at the effective interest rate based on the interest method.
- Other interest income – Ginnie Mae earns interest income on U.S. Government securities related to U.S. Treasury overnight certificates and on uninvested funds in the Financing Fund. Prior to 2018, Ginnie Mae earned and collected interest on uninvested funds, which was calculated using the applicable version of the Credit Subsidy Calculator 2 (CSC2) provided by the OMB. In September 2018, the U.S. Treasury clarified rules regarding the collection of interest on uninvested funds in the Financing Account. Based on additional conversations with and clarifications from U.S. Treasury, Ginnie Mae was not entitled to earn interest on uninvested funds without a signed borrowing agreement in accordance with the Federal Credit Reform Act of 1990. Ginnie Mae is in ongoing discussions with OMB and its legal counsel on whether the Financing Account is fully subject to the provisions of the Federal Credit Reform Act of 1990. As a resolution of the matter between Ginnie Mae and OMB is pending, U.S. Treasury and Ginnie Mae agreed that Ginnie Mae will not earn and collect interest on uninvested funds until the matter is resolved. Due to U.S. Treasury's new criteria for earning and collecting interest on uninvested funds, no interest income was recognized in fiscal year 2020. At present, there is uncertainty regarding applicability of Federal Credit Reform Act of 1990 to Ginnie Mae, and whether Ginnie Mae will be required to pay or earn such interest in the future.

- Income on guaranty obligation – Ginnie Mae amortizes its guaranty obligation into revenues based on the remaining UPB of the related MBS pools.
- MBS guaranty fees – Ginnie Mae receives monthly guaranty fees for each MBS mortgage pool, based on a percentage of the pool's UPB. Fees received for Ginnie Mae's guaranty of MBS are recognized as earned.
- Commitment fees – Ginnie Mae receives commitment fees in exchange for providing review and approval services of commitment authority usage requests submitted by the issuers. This service allows for the approved issuer to pool mortgages into MBS that are guaranteed by Ginnie Mae.

  Ginnie Mae uses a third-party entity, the Pool Processing Agent (PPA), to determine whether the issuer has sufficient commitment authority to issue the pool or loan package and approve the issuance. Ginnie Mae recognizes commitment fee revenue based on the gross amount collected from the issuers because Ginnie Mae directs the PPA's services and is ultimately responsible for fulfilling the services performed by the PPA on Ginnie Mae's behalf.

  The total amount of the commitment fees is determined and paid at the time the issuer initially requests the commitment authority. Commitment fee revenue is recognized in income over time as issuers use their commitment authority, which represents the completion of Ginnie Mae's performance obligation. The remaining balance of the commitment fees is deferred until the service is used or expired, whichever occurs first. Fees from expired commitment authority are not returned to issuers and are recognized as income.

  Commitment fee revenue depends on the volume of commitment authority used, which is affected by changes in interest rates.

- 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 consist of a guaranty fee and may include a MX combination fee.

  The guaranty fee is paid by the REMIC sponsor and is based upon the total principal balance of the deal. It is deferred and amortized into income evenly over the weighted average contractual life of the security unless truncated by early termination. All deferred REMIC guaranty fee income is recognized at security termination.

  The MX combination fee allows the sponsor to combine REMIC and/or MX securities at the time of issuance. Ginnie Mae provides administrative services when MX combinations are requested by sponsors. Any permitted combinations by the sponsor are set forth in the combination schedule to an offering circular supplement. The MX combination fees are recognized immediately in income at the point in time when the administrative services are complete (i.e. upon the combination of REMIC and/or MX securities). Revenue earned from REMIC MX Combination fee depends on the demand for the service, which is affected by the interest rate environment.

The guarantee fees received for Platinum Certificates are deferred and amortized into income evenly over the weighted average contractual life of the security.

- MBS program and other income – Ginnie Mae recognizes income for MBS program-related and other fees, including transfer of issuer responsibilities, new issuer applications, acknowledgement agreement fees, certificate handling, mortgage servicing, and civil monetary penalty.

  The transfer of issuer responsibilities fees is one-time upfront fees received by Ginnie Mae for providing the review and approval services for issuer's requests to transfer responsibilities associated with their MBS. Transferors and transferees have the prerogative to reject the transfer at any time before its completion, even after Ginnie Mae approves it, which requires a fee refund. As such, the entire amount of consideration is constrained until the pool transfer is complete. The transfer of issuer responsibilities fees is recorded as a refund liability and recognized as income when Ginnie Mae's performance obligation is complete and the uncertainty around the constraint is resolved (i.e. when pool transfer is complete).

  New issuer applications fees, acknowledgement agreement fees, and certificate handling fees are one-time non-refundable upfront fees received by Ginnie Mae for providing various services related to the MBS program. These services include Ginnie Mae's consideration of the issuer's application to become an authorized MBS issuer, approval of an Acknowledgment Agreement permitting a pledge of servicing by an issuer, and providing evidence of security ownership. The fees are recognized in income when payment is received, as Ginnie Mae 's performance obligation is completed at that time.

Ginnie Mae receives various other fees which are recognized in income when payment is received.

Ginnie Mae's expenses are classified into three groups:

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

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

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

Variable Interest Entities Model:

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

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

The following table presents assets and liabilities that relate to Ginnie Mae's interest in VIEs at September 30, 2020:

		September 30, 2020 *(Dollars in thousands)*
Guaranty asset	$	6,755,883
Guaranty fee receivable		116,000
Total	**$**	**6,871,883**
Guaranty liability		8,041,340
Liability for loss on mortgage-backed securities program guaranty		43,439
Total	**$**	**8,084,779**
Maximum exposure to loss:		
Outstanding MBS securities	$	2,117,699,399
Outstanding MBS commitments		234,376,731
Total	**$**	**2,352,076,130**

Refer to Note 5: *Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure* for further details.

Recently Adopted Accounting Pronouncements

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

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13) *Issued August 2018*	• The amendment modifies the disclosure requirements on fair value measurements under ASC 820 based on concepts in the Concepts Statement, including the consideration of costs and benefits. • The following disclosure requirements were removed from ASC 820: o The amount and of and reasons for transfers between L1 and L2 of the fair value hierarchy o The policy for timing of transfers between levels o The valuation process for L3 fair value measurements o For non-public entities, the changes in unrealized gains and losses for the period included in earnings for recurring L3 fair value measurements held at the end of the reporting period • The following disclosure requirements were modified in Topic 820: o In lieu of a roll forward for Level 3 fair value measurement, a non-public entity is required to disclose transfers into and out of Level 3 assets and liabilities o For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's	Effective October 2019 Adopted in October 2019	The adoption of ASU 2018-13 did not have a significant impact on the Ginnie Mae Financial Statements.

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
	assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing • The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date		
Revenue from Contracts with Customers (ASU 2017-14) *Issued November 2017*	• This Accounting Standards Update amends SEC paragraphs pursuant to the SEC Staff Accounting Bulletin No. 116 and SEC Release No. 33-10403, which bring existing guidance into conformity with Topic 606, Revenue from Contracts with Customers.	Effective October 2019 Adopted in October 2019	The adoption of ASU 2017-14 did not have material impact on the Ginnie Mae 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 Adopted in October 2019	The adoption of ASU 2017-05 did not have material impact on the Ginnie Mae Financial Statements.
Technical Corrections and Improvements (ASU 2016-20) *Issued December 2016* Amendment to Topic 606,	• 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	Effective October 2019 Adopted in October 2019	The adoption of ASU 2016-20 did not have material impact on the Ginnie Mae Financial Statements.

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
Revenue from Contracts with Customers	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		
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 Adopted in October 2019	The adoption of ASU 2016-18 is presented in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows.
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	Effective October 2019 Adopted in October 2019	The adoption of ASU 2016-15 was applied to the statement of cash flows for the period presented. The adoption did not have a significant impact on Ginnie Mae's Financial Statements.

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
	• Beneficial interests in securitization transactions		
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 Adopted in October 2019	The adoption of ASU 2016-10 did not have material impact on the Ginnie Mae Financial Statements.
Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08) *Issued March 2016*	• The amendments in this update do not change the core principle of the guidance in Topic 606 • The amendments to the principal versus agent guidance in the new revenue standard clarify how an entity should identify the unit of accounting (i.e., the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions, by explaining what a principal controls before the specified good or service is transferred to the customer. • The amendments reframe the indicators in the guidance to focus on evidence that an entity is acting as a principal rather than as an agent.	Effective October 2019 Adopted in October 2019	The adoption of ASU 2016-08 did not have material impact on the Ginnie Mae Financial Statements.
Financial Instruments – Recognition and Measurement of	• The update will require entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net	Effective October 2019 Adopted in	Ginnie Mae's current approach and techniques are consistent with clarified guidance.

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
Financial Assets and Financial Liabilities (ASU 2016-01) *Issued January 2016*	income unless the investments qualify for the new practicability exception • The update doesn't change the guidance for classifying and measuring investments in debt securities and loans • The update eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. • Entities will have to record changes in instrument-specific credit risk for financial liabilities measured under the fair value option in other comprehensive income	June 2019	Accordingly, there was no impact on the Balance Sheet or Statement of Revenues and Expenses and Changes in Investment of U.S. Government since the adoption.
Revenue from Contracts with Customers (ASU 2015-14) *Issued August 2015*	• The amendments in this Update defer the effective date of its new revenue recognition standard, ASU 2014-09, for public and nonpublic entities reporting under U.S. GAAP by one year.	Effective October 2019 Adopted October 2019	Ginnie Mae adopted ASU to 2015-14 to defer adoption of ASU 2014-19 by one year..

Standard	Summary of Guidance	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 Adopted in October 2019	The adoption of ASU 2014-09 did not have material impact on the Ginnie Mae Financial Statements.

Recent Accounting Pronouncements Not Yet Adopted

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

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Codification Improvements to Financial Instruments (ASU 2020-03) *Issued* *March 2020*	• The amendments in this update represent changes to clarify or improve the Codification. The amendments make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. ○ Issue 1: Fair Value Option Disclosures - The amendment clarify that all entities are required to provide the fair value option disclosures in paragraphs 825-10-50-24 through 50-32. ○	Effective October 2020	Ginnie Mae's current approach and techniques are consistent with the new guidance. Accordingly, there will be no impact on Ginnie Mae's financial Balance Sheet or Statement of Revenues and Expenses and Changes in Investment of U.S. Government, or to financial statement disclosures upon adoption.
Financial Instruments – Credit Losses (ASU 2020-02) *Issued* *February 2020*	• Amendments to Subtopic 326-20 to add Section 326-20-S99 - Accounting for Loan Losses by Registrants Engaged in Lending Activities Subject to FASB ASC Topic 326. • FASB ASC Subtopic 326-20 addresses the measurement of current expected credit losses for financial assets measured at amortized cost basis, net investments in leases recognized by lessors, reinsurance recoverables, and certain off-balance-sheet credit exposures. At each reporting date, an entity shall	Effective October 2023	Ginnie Mae is currently evaluating the potential impact on its financial statements.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
	record an allowance for credit losses on financial assets measured at amortized cost basis and net investments in leases recognized by lessors and shall record a liability for credit losses on certain off-balance-sheet exposures not accounted for as insurance or derivatives, including loan commitments, standby letters of credit, and financial guarantees. • For financial asset(s), the allowance for credit losses is a valuation account that is deducted from, or added to, the amortized cost basis of the financial asset(s) to present the net amount expected to be collected on the financial asset(s). • The allowance for credit losses is an estimate of current expected credit losses considering available information relevant to assessing collectability of cash flows over the contractual term of the financial asset(s).		
Financial Instruments—Credit Losses (ASU 2019-11) *Issued November 2019*	• The amendments in this update clarify or address stakeholders' specific issues about certain aspects of the amendments in ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. • The amendments in this update represent changes to clarify,	Effective October 2023	Ginnie Mae is currently evaluating the potential impact on its financial statements

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
	correct errors in, or improve the Codification.		
Financial Instruments - Credit Losses, Derivatives and Hedging, and Leases: Effective Dates (ASU 2019-10) *Issued November 2019*	• In response to implementation challenges encountered by all entities when adopting a major Update and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Those other entities include private companies, smaller public companies, not-for-profit organizations, and employee benefit plans. • Credit Losses currently is not effective for any entities; early application is allowed for fiscal years beginning after December 15, 2018. Its mandatory effective dates are as follows: o 1. Public business entities that meet the definition of an SEC filer for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years o 2. All other public business entities for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years	Effective October 2023	Ginnie Mae is currently evaluating the potential impact on its financial statements.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
	• 3. All other entities (private companies, not-for-profit organizations, and employee benefit plans) for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.		
Financial Instruments - Credit Losses - Targeted Transition Relief (ASU 2019-05) *Issued May 2019*	• The amendments in this Update provide entities that have certain instruments within the scope of Subtopic 326-20, Financial Instruments - Credit Losses - Measured at Amortized Cost, with an option to irrevocably elect the fair value option in Subtopic 825-10, Financial Instruments - Overall, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326.	Effective October 2023	Ginnie Mae is currently evaluating the potential impact on its financial statements.
Financial Instruments - Credit Losses, Derivatives and Hedging, and Financial Instruments (ASU 2019-04) *Issued April 2019*	• The amendments clarify the scope of the credit losses standard and address issues related to accrued interest receivable balances, recoveries, variable interest rates, and prepayments, among other topics	Effective October 2023	Ginnie Mae is currently evaluating the potential impact on its financial statements.
Codification Improvements to Topic 326, Financial Instruments-Credit Losses (ASU 2018-19)	• The amendments in this Update for improvements related to Update 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, is to increase stakeholders' awareness of the	Effective October 2023	Ginnie Mae is currently evaluating the potential impact on its financial statements.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
Issued November 2018	amendments to scope and transition and effective date requirements and to expedite the improvements		
Consolidation (ASU 2018-17) *Issued October 2018*	• This Update amends two aspects of the related-party guidance in ASC 810. Under the new guidance: ○ 1) A private company (reporting entity) may elect not to apply VIE guidance to legal entities under common control (including common control leasing arrangements) if both the parent and the legal entity being evaluated for consolidation are not public business entities. This accounting alternative should reduce diversity in applying VIE guidance to private companies under common control, improve the relevance of the financial reporting and reduce the costs and complexity associated with applying VIE guidance to common control arrangements. • 2) When an entity determines whether a decision-making fee is a variable interest, it considers indirect interests held through related parties under common control on a proportionate basis rather than in their entirety.	Effective October 2020 Adopted October 2020	The adoption of this ASU will not impact the financial statements nor change the disclosure requirements for consolidation.

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's current approach and techniques are consistent with the existing guidance. Accordingly, there will be no change in treatment of implementation costs related to cloud computing arrangements upon adoption.
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	Effective October 2023	Ginnie Mae is currently evaluating the potential impact on its financial statements.

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
	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		

Note 3: Cash and Cash Equivalents

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

Cash and cash equivalents – unrestricted and restricted – include the following at September 30, 2020:

	September 30, 2020		
	Unrestricted	Restricted	Total
	(Dollars in thousands)		
Funds with U.S. Treasury (1)	$ 15,975,171	$ 1,038,135	$ 17,013,306
Deposit in Transit:			
Cash held by MSS (2)	29,992	-	29,992
Cash held by Trustee and Administrator of securities (3)	5,872	-	5,872
U.S. Treasury short-term investments (4)	8,501,090	23,492	8,524,582
Total	**$ 24,512,125**	**$ 1,061,627**	**$ 25,573,752**

(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 the money owed to MBS certificate holders who cannot be located by the administrator of the Ginnie Mae MBS securities and have not yet been claimed. There is no statute of limitations stating when the MBS certificate holder can claim this cash. See Note 4: Restricted Cash and Cash Equivalents for details on unclaimed security holder payments.

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

Deposits in Transit:

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

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

U.S. Treasury short-term investments: U.S. Treasury securities are bought and sold at composite prices received from the Federal Reserve Bank of New York. These securities are maintained in book-entry form at the Bureau of Public Debt and include U.S. Treasury overnight certificates, U.S. Treasury notes, and U.S. Treasury inflation-indexed securities (reflecting inflation compensation). Ginnie Mae has approval from the OMB to establish a Capital Reserve Fund, which can be invested in overnight U.S. Government securities. As a result of the OMB approval, Ginnie Mae invested the full balance of the Capital Reserve Fund of approximately $8.4 billion and the Liquidating Fund of approximately $124.2 million in overnight U.S. Government securities at September 30, 2020. Ginnie Mae only held overnight certificates at September 30, 2020. The U.S. Treasury short-term investments balance includes $23.5 million of restricted cash related to unclaimed MBS security holder payments at September 30, 2020. U.S. Treasury securities are carried at cost, which approximates fair value.

Note 4: Restricted Cash and Cash Equivalents

Cash and cash equivalents are classified as restricted when the statutes, regulations, contracts or Ginnie Mae's statements of intentions legally limit the use of funds. 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. The money stays in U.S. Treasury short-term investments until the MBS certificate holders claim the money.
- 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 law and cannot be utilized unless allowed by a subsequently enacted law.
- Liability for investor passthrough payments: Cash from unremitted P&I collections sent to Ginnie Mae, that Ginnie Mae has an obligation to pass through to MBS holders.

Restricted cash and cash equivalents balance has increased from prior year primarily driven by the funds balance precluded from the discretionary collection of multiclass/commitment fees during fiscal year 2020.

The balance of restricted cash and cash equivalents at September 30, 2020 were as follows:

	September 30, 2020 (Dollars in thousands)
Unclaimed security holder payments	$ 23,492
Unapplied deposits	195
Fund balances precluded from obligation	1,034,937
Liability for investor pay off	3,003
Total	**$ 1,061,627**

Note 5: Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure

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

Ginnie Mae recognizes a guaranty asset upon issuance of a guarantee for the expected present value of the guaranty fees. The guaranty asset recognized on the Balance Sheet is $6.8 billion at September 30, 2020. The guaranty obligation represents the non-contingent liability for Ginnie Mae's obligation to stand ready to perform on its guarantee. The guaranty obligation recognized on the Balance Sheet is $8.0 billion at September 30, 2020. After the initial measurement, the guaranty asset is recorded at fair value and the guaranty obligation is amortized based on the remaining UPB of the MBS pools. The difference in measurement for the guaranty asset and guaranty obligation subsequent to initial recognition may cause volatility in reported earnings due to different measurement attributes in reporting the related financial asset (using projected economic exposures such as interest rates and prepayments) and the financial liability (using actual payoffs and paydowns). Refer to Note 13: *Fair Value Measurement* for discussion surrounding the volatility reflected in the Statement of Revenues and Expenses and Changes in Investment of U.S. Government as a result of changes in assumptions used in estimating the fair value of the guaranty asset.

For the guaranty asset and guaranty liability recognized on the Balance Sheet, Ginnie Mae's maximum potential exposure under these guarantees is primarily comprised of the UPB of MBS securities and outstanding commitments and does not consider loss recoverable from other agencies. At September 30, 2020, the UPB of Ginnie Mae's MBS securities amounted to $2.1

trillion. It should be noted, however, that Ginnie Mae's potential loss is considerably less due to the financial strength of its issuers. In addition, the value of the underlying collateral and the insurance provided by insuring or guaranteeing agencies indemnify Ginnie Mae for most losses.

The Ginnie Mae guaranteed security is a pass-through security whereby mortgage P&I payments (or curtailments) are passed through to the MBS certificate holders monthly. Exposure to credit loss is primarily contingent on the nonperformance of Ginnie Mae issuers. Ginnie Mae does not anticipate nonperformance by the issuers other than those considered probable of default reflected in the liability for loss on mortgage backed securities guaranty program line item on the Balance Sheet or considered reasonably possible of default as disclosed in Note 17: *Reserve for Loss*. Generally, terms of the guarantee range from 15 to 30 years for single family programs. For multifamily programs, the maximum guarantee term is capped at 40 years plus the applicable construction period. For HMBS programs, the maximum guarantee term is 50 years from the issuance of the security. Refer to Note 17: *Reserve for Loss* for discussion of contingent and non-contingent guaranty liability.

Ginnie Mae is also subject to credit risk for its outstanding commitments to guarantee MBS, which are not recognized on its Balance Sheet. These commitments represent Ginnie Mae's guarantee of future MBS issuances. The commitment ends when the securities are issued or the commitment period expires, which is the last day of the month that is 12 months after the authority is approved for single family issuers and on the last day of the month that is 24 months after the authority is approved for multifamily issuers. Ginnie Mae's risk related to outstanding commitments is significantly lower than the outstanding balance of MBS securities due in part to Ginnie Mae's ability to limit commitment authority granted to individual MBS issuers. Outstanding MBS and commitments were as follows:

	September 30, 2020 *(Dollars in billions)*
Outstanding MBS securities	$ 2,118
Outstanding MBS commitments	234
Total	$ 2,352

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

For the year ended September 30, 2020, multiclass security program issuances totaled $159.4 billion. The estimated outstanding balance of multiclass securities included in the outstanding MBS balance was $559.4 billion at September 30, 2020. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS collateral.

Note 6: Pass-Through Assistance Program Receivables Including Accrued Interest, Net

In response to the COVID-19 National Emergency declared by the President of the United States on March 13, 2020, Ginnie Mae has revised and expanded the Issuer assistance programs in Chapter 34 of the MBS Guide. The expansion includes the addition of a new PTAP, specifically authorized for use in the response to the COVID-19 National Emergency. Under this program, Ginnie Mae may assist Issuers under the Single-Family and Multifamily programs with pass-through payments to investors, if the Issuers are facing a temporary liquidity shortfall directly attributable to the COVID-19 National Emergency.

As of September 30, 2020, Ginnie Mae has disbursed a total of $11.5 million from its own capital reserves and received $8.5 million in total repayments (including interest) under PTAP. If Ginnie Mae's own capital reserves are depleted in the future, Ginnie Mae has the authority to borrow from the U.S. Treasury to meet immediate funding needs for PTAP. PTAP receivables are considered short-term in nature as their maturity dates are within 12 months from the end of the month the corresponding PTAP requests were approved.

The table below presents the carrying value of PTAP receivables including accrued interest at September 30, 2020:

	September 30, 2020 *(Dollars in Thousands)*		
	Single Family Program	**Multifamily Program**	**Total**
PTAP receivables UPB	$ 3,103	$ -	$ 3,103
PTAP accrued interest receivable	23	-	23
Recorded investment of PTAP receivables	**$ 3,126**	**$ -**	**$ 3,126**
Allowance for PTAP receivables	(454)	-	(454)
PTAP receivables including accrued interest, net	**$ 2,672**	**$ -**	**$ 2,672**

As of September 30, 2020, no outstanding PTAP receivables are past due or impaired.

Credit Quality Indicators

Ginnie Mae regularly monitors the credit quality of PTAP receivables through the internal Issuer Risk Grade (IRG). Ginnie Mae's IRG methodology is similar to the methodology used by credit rating agencies when evaluating corporate financial strength, and the individual IRGs are comparable to the credit ratings from rating agencies. The IRGs are updated on a monthly basis.

The IRG is on a scale from 1 to 8, where an IRG of 1 indicates the strongest credit quality, and an IRG of 8 indicates the weakest credit quality. As of September 30, 2020, Issuers with outstanding PTAP receivables received an IRG of either 6 or 8:

- IRG 6: the Issuer has minimally adequate financial strength with a high credit risk, which is equivalent to a credit rating of B from credit rating agencies Moody's, Standard and Poor's (S&P) or Fitch.
- IRG 8: the Issuer has very poor standing with a very high credit risk, which is equivalent to a credit rating of Ca from Moody's, or CC/C from S&P or Fitch.

The table below presents the recorded investment for PTAP receivables by IRG at September 30, 2020:

	September 30, 2020			
	IRG 6	IRG 8	Other	Total
	(Dollars in Thousands)			
PTAP receivables UPB	$ 2,170	$ 933	$ -	$ 3,103
PTAP accrued interest receivable	17	6	-	23
Recorded investment of PTAP receivables	**$ 2,187**	**$ 939**	**$ -**	**$ 3,126**

Allowance for PTAP Receivables

Ginnie Mae performs a quarterly analysis of outstanding PTAP receivables to determine if impairment has occurred and to assess the appropriateness of allowance. The allowance for PTAP receivables involves significant management judgment and estimates of credit losses inherent in the PTAP receivables.

The allowance for PTAP receivables consists of two components: (1) an asset-specific component for larger-balance PTAP receivables individually evaluated and deemed impaired, and (2) a component for PTAP receivables collectively evaluated for impairment. As of September 30, 2020, no outstanding PTAP receivables were identified for individual impairment evaluation. The collective component of allowance for PTAP receivables was calculated based on estimated probability of default, which was derived using the following approach: 1) identifying Ginnie Mae's internal IRGs for Issuers with outstanding PTAP receivables, 2) mapping each Issuer's IRG to comparable agency ratings, and 3) estimating probabilities of default by leveraging the actual one-year default rates that credit rating agencies published by rating. The following table presents changes in Ginnie Mae's allowance for PTAP receivables during the year ended September 30, 2020:

		For the year ended September 30, 2020 *(Dollars in thousands)*
Beginning balance	$	-
Recapture (provision)		(454)
Charge offs		-
Recoveries		-
Ending balance	**$**	**(454)**
Recorded investment of PTAP receivables	**$**	**3,126**
Net investment of PTAP receivables	**$**	**2,672**

Note 7: Mortgage Servicing Rights

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

The fair value of Ginnie Mae's capitalized MSRs was $398.6 thousand at September 30, 2020. The MSRs correspond to UPB of $147.1 million at September 30, 2020.

The following table summarizes the changes in capitalized MSRs for the year ended September 30, 2020:

		For the year ended September 30, 2020 *(Dollars in thousands)*
Beginning balance, October 1, 2019	$	1,268
Additions		-
Dispositions		-
Changes in fair value due to:		
Changes in valuation inputs or assumptions used in valuation model		(870)
Other changes in fair value		-
Ending balance, September 30, 2020	**$**	**398**

For the year ended September 30, 2020, Ginnie Mae earned $619.7 thousand related to servicing fee income, which is included in MBS program and other income.

Note 8: Reimbursable Costs, Net

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

The following table presents reimbursable costs and related allowance amounts, by loan insurance type, at September 30, 2020:

	September 30, 2020 (Dollars in Thousands)									
	FHA		VA		RD		Conventional		Total	
Reimbursable costs	$	33,679	$	1,922	$	686	$	245	$	36,532
Allowance for reimbursable costs		(2,968)		(628)		(217)		(38)		(3,851)
Reimbursable costs, net	**$**	**30,711**	**$**	**1,294**	**$**	**469**	**$**	**207**	**$**	**32,681**

Note 9: Advances, Net

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

During the year ended September 30, 2020, no new issuers defaulted, and therefore no issuers were subsequently terminated and extinguished. Ginnie Mae made advance payments for five previously defaulted issuers for the year ended September 30, 2020. Ginnie Mae had assumed the servicing rights and obligations of these defaulted issuers and advanced funds to the MSS to cover P&I not yet paid by mortgagors, but due to the MBS investors.

The net carrying value of the advances balance is $784.0 thousand at September 30, 2020, as disclosed in the table below:

	September 30, 2020 (Dollars in thousands)	
Advances	$	945
Allowance for uncollectible advances		(161)
Advances, net	**$**	**784**

Changes in the allowance for advances for the year ended September 30, 2020, are presented below:

	For the year ended September 30, 2020 (Dollars in thousands)
Beginning balance, October 1, 2019	$ (82)
Provision for uncollectible advances	(79)
Charge offs	-
Recoveries	-
Ending balance, September 30, 2020	**$ (161)**

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

Ginnie Mae classifies loans as either HFS or HFI. At September 30, 2020, Ginnie Mae's loan portfolio did not include any HFS loans. Ginnie Mae reports the carrying value of HFI loans at the recorded investment of the mortgage loan, which represents the UPB and accrued interest, net of cost basis adjustments, and net of allowance for loan losses including allowance for accrued interest receivable.

The tables below present the carrying value of HFI loans including accrued interest broken down by underlying insuring agencies at September 30, 2020:

	September 30, 2020 (Dollars in thousands)				
	Conventional	FHA	VA	RD	Total
Mortgage loans held for investment UPB	$ 113,579	$ 2,004,110	$ 87,056	$ 37,593	$ 2,242,338
Accrued interest receivable	1,069	17,434	846	187	19,536
Recorded investment of mortgage loans held for investment including accrued interest	114,648	2,021,544	87,902	37,780	2,261,874
Allowance for loan losses	(4,546)	(133,039)	(2,810)	(2,009)	(142,404)
Mortgage loans held for investment including accrued interest, net	**$ 110,102**	**$ 1,888,505**	**$ 85,092**	**$ 35,771**	**$ 2,119,470**

Credit Quality Indicators

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

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

The following tables present the recorded investment[(1)] for mortgage loans by original LTV ratio at September 30, 2020:

	September 30, 2020			
	Less than 80%	80-100%	Greater than 100%	Total
	(Dollars in thousands)			
Conventional	$ 7,798	$ 102,296	$ 4,554	$ 114,648
FHA	133,666	1,852,218	35,660	2,021,544
VA	5,888	63,576	18,438	87,902
RD	1,174	26,699	9,907	37,780
Total	**$ 148,526**	**$ 2,044,789**	**$ 68,559**	**$ 2,261,874**

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

Aging Analysis

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

	September 30, 2020								
	One Month Delinquent	Two Months Delinquent	Three Months Delinquent	Four Months or more Delinquent	Total Delinquent	Current[(1)]	Total	Loans Over 90 Days Delinquent and Accruing Interest[(2)]	Recorded Investment in Non-accrual loans[(3)]
					(Dollars in Thousands)				
Conventional	$ 8,790	$ 3,257	$ 1,326	$ 11,028	$ 24,401	$ 90,247	$ 114,648	$ -	$ 21,982
FHA	151,326	65,207	37,376	301,042	554,951	1,466,593	2,021,544	301,042	-
VA	4,671	2,563	2,184	23,344	32,762	55,140	87,902	23,344	-
RD	3,696	1,310	1,446	6,809	13,261	24,519	37,780	6,809	-
Total	**$ 168,483**	**$ 72,337**	**$ 42,332**	**$ 342,223**	**$ 625,375**	**$ 1,636,499**	**$ 2,261,874**	**$ 331,195**	**$ 21,982**

(1) Includes 858 loans with a recorded investment of $118.7 million subject to Interagency Statement relief. Loans subject to Interagency relief recognize interest income subject to Ginnie Mae's non-accrual policy as discussed in Note 2: Summary of Significant Accounting Policies and Practices.

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

(3) Refer to Ginnie Mae's non-accrual policy as discussed in Note 2: Summary of Significant Accounting Policies and Practices.

Impaired Loans

Ginnie Mae's impaired loans include the following categories:

- TDR loans
- PCI loans

The table below presents the recorded investment, related allowance, UPB, average recorded investment, and total interest income recognized for impaired mortgage loans at September 30, 2020:

	September 30, 2020				
	Recorded Investment	Related Allowance	Unpaid Principal Balance	Average Recorded Investment	Total Interest Income Recognized[1]
			(Dollars in thousands)		
With related allowance recorded:					
Conventional	$ 45,579	$ (3,647)	$ 45,289	$ 46,091	$ 2,125
FHA	1,506,795	(130,361)	1,498,174	1,550,854	66,035
VA	62,427	(2,810)	61,860	65,150	2,850
RD	26,830	(2,009)	26,685	28,083	1,335
Total impaired loans with related allowance recorded	$ 1,641,631	$ (138,827)	$ 1,632,008	$ 1,690,178	$ 72,345
With no related allowance recorded[2]:					
Conventional	$ 14,257	$ -	$ 13,939	$ 20,828	$ 646
FHA	188,407	-	183,619	299,967	8,308
VA	25,475	-	25,196	41,680	1,332
RD	10,950	-	10,908	16,783	739
Total impaired loans with no related allowance recorded	$ 239,089	$ -	$ 233,662	$ 379,258	$ 11,025
Total impaired loans[3]	**$ 1,880,720**	**$ (138,827)**	**$ 1,865,670**	**$ 2,069,436**	**$ 83,370**

(1) Interest income on impaired loans is recognized subject to Ginnie Mae's non-accrual policy (as applicable), as discussed in Note 2: Summary of Significant Accounting Policies and Practices.

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

(3) The recorded investment, related allowance, and UPB for TDRs was $1,839.2 million, $137.8 million, and $1,824.6 million, respectively, at September 30, 2020. The recorded investment, related allowance, and UPB for PCI loans was $41.5 million, $1.0 million, and $41.1 million, respectively, at September 30, 2020.

Troubled Debt Restructuring

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

Section 4022 of the CARES Act provides borrowers with federally backed mortgage loans a foreclosure moratorium and a right to forbearance of loan payments for homeowners experiencing financial hardship due to COVID-19. The majority of Ginnie Mae's non-pooled loan portfolio is insured/guaranteed by the FHA, VA, RD, or PIH, and therefore eligible for forbearance under Section 4022 of the CARES Act. As described in Note 2: *Summary of Significant Accounting Policies and Procedures*, Ginnie Mae has elected to follow the guidance issued in the Interagency Statement and, accordingly, loan modifications (including short term payment deferrals of six months or less) subject to relief under the Interagency Statement are not accounted for as TDRs and therefore not included within Ginnie Mae's TDR disclosures. Any further payment deferrals permitted under Section 4022 beyond the six month period will be assessed for TDR accounting.

Ginnie Mae's loan modification programs may result in various types of concessions (including a combination of concessions) such as term extensions and interest rate reductions (lower than what the mortgagor would receive in the market at the time of the modification). Ginnie Mae considers these modifications a concession to mortgagors experiencing financial difficulties and therefore classifies these loans as TDRs. The average term extension granted by Ginnie Mae was 65 months for the year ended September 30, 2020. The average interest rate reduction was 1.02 percentage points for the year ended September 30, 2020.

The following table presents the number of loans and recorded investment of loans newly classified[(1)] as a TDR during the year ended September 30, 2020:

	September 30, 2020	
	Number of Loans[(3)]	**Recorded Investment[(2)]**
	(Dollars in thousands)	
Conventional	32	$ 3,956
FHA	174	23,490
VA	15	3,048
RD	8	778
Total	**229**	**$ 31,272**

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

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

(3) Includes modifications that do not meet the criteria under the Interagency Statement to take the optional relief from TDR accounting. As such, these modifications have been assessed under Ginnie Mae's TDR policy and classified as new TDRs.

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

	September 30, 2020	
	Number of Loans	Recorded Investment[2]
	(Dollars in thousands)	
Conventional	-	$ -
FHA	7	1,410
VA	2	541
RD	1	125
Total	**10**	**$ 2,076**

Purchased Credit Impaired Loans

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

Historically, Ginnie Mae has not applied the PCI guidance to its loans purchased with evidence of credit deterioration since Ginnie Mae has determined that non-compliance with the full PCI requirements outlined in ASC 310-30 does not, on its own, preclude the financial statements as a whole from being materially compliant with U.S. GAAP. Currently, upon acquisition, the PCI loans are recorded at UPB and accrued interest, less allowance. Ginnie Mae measures subsequent impairment on these loans based on the present value of expected future cash flows. Refer to Note 2: *Summary of Significant Accounting Policies and Practices* for U.S. GAAP requirements.

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

For the year ended September 30, 2020, there were $3.5 million of purchases of loans classified as PCI.

Foreclosures in Process

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

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

The recorded investment of Foreclosure in Process loans was $135.6 million as of September 30, 2020. Although the foreclosure process has begun for these loans, Ginnie Mae believes that a portion of these loans will not complete the foreclosure process due to Ginnie Mae's loss mitigation activities.

Allowance for Loan Losses

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

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

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

The following table displays the total recorded investment and allowance for loan losses by allowance methodology at September 30, 2020:

		September 30, 2020 *(Dollars in thousands)*
Recorded investment:		
Collectively evaluated	$	381,154
Individually evaluated		1,839,245
Purchase credit impaired		41,475
Total recorded investment in loans	**$**	**2,261,874**
Ending balance of the allowance for loan losses:		
Collectively evaluated	$	(3,577)
Individually evaluated		(137,783)
Purchase credit impaired		(1,044)
Total allowance for loan losses	**$**	**(142,404)**
Net Investment in mortgage loans HFI	**$**	**2,119,470**

The following table presents changes in Ginnie Mae's allowance for loan losses during the year ended September 30, 2020:

		For the year ended September 30, 2020 *(Dollars in thousands)*
Beginning balance	$	(144,303)
Recapture (provision) for loan losses		1,551
Charge offs		7,343
Recoveries		(6,995)
Ending balance	**$**	**(142,404)**

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

Note 11: Claims Receivable, Net

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

The following table presents Ginnie Mae's claims receivable and related allowance, by type of claim, at September 30, 2020:

	September 30, 2020			
	FHA	VA	RD	Total
	(Dollars in thousands)			
Foreclosed property claims receivable[1]	$ 88,300	$ 1,153	$ 2,126	$ 91,579
Short sale claims receivable[2]	920	236	182	1,338
Allowance for claims receivable	(20,278)	(609)	(114)	(21,001)
Claims receivable, net	**$ 68,942**	**$ 780**	**$ 2,194**	**$ 71,916**

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

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

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

The allowance for claims receivable includes effects of charge offs, recoveries, and amounts deemed uncollectible from the insuring or guaranteeing agency. At initial recognition, a claims receivable is recognized for the amount recoverable from the insurers and any excess amounts not recoverable are charged off against the allowance for loan losses. If the claim proceeds received exceed the claims receivable's carrying amount, Ginnie Mae will apply the excess to amounts previously charged-off (i.e., recovery) with any residual amounts recognized as a gain on the Statement of Revenues and Expenses and Changes in Investment of U.S. Government.

Note 12: Acquired Property, Net

Ginnie Mae recognizes acquired property when marketable title to the underlying property is obtained and the property has completed the foreclosure process, or the mortgagor conveys all interest in the residential real estate property to Ginnie Mae to satisfy the loan through the completion of a foreclosure or a deed in lieu of foreclosure or other similar legal agreement. The acquired properties are typically either RD insured[1], FHA insured[2] or uninsured conventional loans[3]. Acquired properties are assets that Ginnie Mae intends to sell and is actively marketing through the MSS.

Activity for acquired properties is presented in the table below:

	For the year ended September 30, 2020 (Dollars in thousands)
Beginning balance – acquired properties	$ 11,337
Additions	11,572
Dispositions	(17,185)
Ending balance – acquired properties	**$ 5,724**
Beginning balance – valuation allowance	(1,392)
Change in valuation allowance	271
Ending balance – valuation allowance	**$ (1,121)**
Ending balance – acquired properties, net	**$ 4,603**

(1) *Properties from foreclosed RD insured loans are not conveyed to the insuring agency subsequent to foreclosure per the insurance guidelines published by RD.*

(2) *Properties from foreclosed FHA insured loans that are under FHA's Claims Without Conveyance of Title program are not conveyed to the insuring agency subsequent to foreclosure, per the insurance guidelines published by FHA.*

(3) *Properties from foreclosed VA insured loans are usually conveyed to the insuring agency subsequent to foreclosure, and are recognized as foreclosed properties under Claims Receivable, Net on Ginnie Mae's balance sheet upon the completion of the foreclosure process.*

Note 13: Fair Value Measurement

ASC 820: *Fair Value Measurement* defines fair value, establishes a framework for measuring fair value, and sets forth disclosure requirements regarding fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are 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 table presents the fair value measurement hierarchy level for Ginnie Mae's assets and liabilities that are measured at fair value on a recurring basis at September 30, 2020:

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Assets:				
Guaranty asset	$ -	$ -	$ 6,755,883	$ 6,755,883
Mortgage servicing rights	-	-	398	398
Total Assets at Fair Value	**$ -**	**$ -**	**$ 6,756,281**	**$ 6,756,281**

For the year ended September 30, 2020, the guaranty asset increased by $2.5 billion due to new MBS issuances.

Ginnie Mae had no acquisitions of MSRs for the year ended September 30, 2020.

Ginnie Mae records transfers into or out of Level 3, if any, at the beginning of the period. There were no transfers into or out of Level 3 during the year ended September 30, 2020.

Mortgage Servicing Rights – The valuation technique used by Ginnie Mae to measure the fair value of MSRs is based on the present value of expected future 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 it 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 2: *Summary of Significant Accounting Policies and Practices* contains additional details with regards to specific fair value assumptions of MSRs.

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 MSRs.

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

	September 30, 2020 *(Dollars in thousands)*	
Valuation at period end:		
Fair value	$	398
Weighted- average life (years)		**3.18**
Prepayment rates assumptions:		
Weighted average rate assumption		26.05%
Weighted average minimum		15.33%
Weighted average maximum		29.90%
Impact on fair value of a 10% adverse change		(20)
Impact on fair value of a 20% adverse change		(39)
Discount rate assumptions:		
Weighted average rate assumption		10.82%
Weighted average minimum		10.00%
Weighted average maximum		12.48%
Impact on fair value of a 10% adverse change		(4)
Impact on fair value of a 20% adverse change		(8)

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. The valuation technique used by Ginnie Mae to measure the fair value of its guaranty asset is based on the present value of expected future cash flows from the guaranty fees based on the UPB of the outstanding MBS in the defaulted and non-defaulted issuers' pooled portfolio, based on new issuances of MBS, scheduled run-offs of MBS, anticipated prepayments, and anticipated 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 issuers' pooled portfolio.

Ginnie Mae recorded a loss of $2.8 billion for the year ended September 30, 2020 from changes in the fair value of the guaranty asset reflected in the Gain (loss) on guaranty asset line item in the Statement of Revenues and Expenses and Changes in Investment of U.S. Government.

The table below presents the range and weighted average of significant unobservable inputs used in determining the fair value of Ginnie Mae's guaranty asset:

		September 30, 2020 (Dollars in millions)
Valuation at period end:		
Fair value	$	6,756
Prepayment rates assumptions:		
Weighted average rate assumption		56.42%
Weighted average minimum		0.12%
Weighted average maximum		99.37%
Default rate assumptions:		
Weighted average rate assumption		15.61%
Weighted average minimum		0.01%
Weighted average maximum		98.34%
Discount rate assumptions:		
Weighted average rate assumption		0.32%
Weighted average minimum		0.11%
Weighted average maximum		1.09%

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 of the pool and it 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 the guaranty asset valuation represents an estimate of the cost of financing for Ginnie Mae and it is determined considering Ginnie Mae's overall estimated cost of financing.

Assets Measured at Fair Value on a Nonrecurring Basis:

Ginnie Mae holds certain assets (acquired properties and conventional MHI loans at or greater than 180 DPD) that are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., the impairment on the asset).

Acquired Properties: Acquired properties are long-lived assets classified as held for sale by Ginnie Mae that qualify for fair value measurement on a nonrecurring basis. Ginnie Mae initially measures acquired properties at their fair value, net of estimated costs to sell. Ginnie Mae subsequently measures acquired properties at the lower of their carrying values or fair values less estimated costs to sell. Subsequent valuation measurements are periodically performed up until the sale of the property. The dates of the fair value measurements vary from property to property and are not always at the reporting period end date. Ginnie Mae's accounting policy allows the use of fair value measurements from a variety of sources that are within six months of the reporting period end date.

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

The following table presents the fair value measurement hierarchy level for Ginnie Mae's assets and liabilities that are measured at fair value on a nonrecurring basis at September 30, 2020:

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Acquired property, net	$ -	$ -	$ 4,603	$ 4,603
Mortgage Loans Held for Investment, net	-	-	14,252	14,252
Total Nonrecurring Assets at Fair Value	**$ -**	**$ -**	**$ 18,855**	**$ 18,855**

For both acquired properties and conventional MHI loans at or greater than 180 DPD Ginnie Mae applies a valuation waterfall methodology in estimating the fair value of those properties. The most commonly used techniques by valuation sources used in the waterfall include discounted cash flow analysis and listing and sales price analysis of similar properties. Inputs to the valuation methodologies include discount rates, recent historical data of the value of similar properties by a certified or licensed appraiser, recent pending sales information of similar properties, current listing of similar properties, estate brokers' specific market research of similar properties, and historical data of the value of similar properties. Ginnie Mae also leverages historical information to calculate the flat estimated costs to sell percentage for its acquired properties when applying the estimated costs to sell to the fair value. The related ranges and weighted averages for these inputs are not meaningful when aggregated as they vary significantly from property to property.

Note 14: Fixed Assets, Net

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

The table below presents the total balance of hardware and software as of September 30, 2020, net of the accumulated depreciation and amortization:

	For the year ended September 30, 2020		
	Hardware	Software	Total
Cost	(Dollars in thousands)		
Beginning balance	$2,013	$ 239,814	$ 241,827
Additions	61	10,100	10,162
Disposals			
Impairments	-	(1,743)	(1,743)
Ending balance	**$ 2,074**	**$ 248,171**	**$ 250,245**
Accumulated depreciation and amortization			
Beginning balance – accumulated depreciation and amortization	$ (1,190)	$ (159,650)	$ (160,840)
Depreciation and amortization	(258)	(22,385)	(22,643)
Disposals	-	-	-
Transfers	-	-	-
Ending balance – accumulated depreciation and amortization	$ (1,448)	$ (182,035)	$ (183,483)
Ending balance – fixed assets, net	**$ 626**	**$ 66,136**	**$ 66,762**

There were no assets under capital lease as of September 30, 2020.

Ginnie Mae recorded total depreciation and amortization expense of $22.6 million for the year ended September 30, 2020. Based on the current amount of hardware and software subject to depreciation and amortization, the estimated depreciation and amortization expense over the next five years is as follows: 2021 – $20.7 million; 2022 – $14.1 million; 2023 – $10.7 million; 2024 – $6.0 million; and 2025 - $2.2 million.

There were no intangible assets with indefinite lives as of September 30, 2020. The original weighted average life of intangible assets (i.e., software) subject to amortization was 4.8 years. The remaining weighted average life of intangible assets subject to amortization was 1.5 years

Ginnie Mae recorded impairments of $1.7 million for the year ended September 30, 2020. During the year, Ginnie Mae stopped the development of two software assets due to changes in Ginnie Mae's architecture. As the developed technology has no reuse or recoverable value, Ginnie Mae wrote the assets down to a fair value of $0. The $1.7 million impairment is included in the Gain (loss) other line item in the Statement of Revenues and Expenses and Changes in Investment of U.S. Government.

Note 15: Short-Term Liabilities and Deferred Revenue

Short-term liabilities include accounts payable and accrued liabilities, which consisted of the following at September 30, 2020:

		September 30, 2020 *(Dollars in thousands)*
Accounts payable	$	45,945
Unclaimed securities holder payments		23,492
Accrued unfunded leave		2,478
Salaries and benefits payable		1,528
Total	**$**	**73,443**

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

Deferred revenue(1) included the following at September 30, 2020:

		September 30, 2020 *(Dollars in thousands)*
Deferred revenue – multiclass fees	$	480,321
Deferred revenue – commitment fees(2)		46,953
Deferred revenue – other		103
Total	**$**	**527,377**

(1) Deferred revenue balance was $456.2 million for multiclass fees, $23.2 million for the commitment fees, and $61 thousand for other as of September 30, 2019.

(2) Represents payments received in advance of completion of Ginnie Mae's performance obligation. Refer to Note 2: Summary of Significant Accounting Policies and Practices for further details.

Note 16: Revenue from contracts with customers

Revenue from contracts with customers includes commitment fees, MX combination fees, and other fees included in Mortgage-backed securities program and other income on the Statement of Revenue and Expenses and Changes in Investment of U.S. Government. Refer to Note 2: *Summary of Significant Accounting Policies and Practices* for further information.

The following table presents revenue related to contracts with customers for the year ended September 30, 2020, disaggregated by type of revenue.

	September 30, 2020 *(Dollars in thousands)*
Revenues:	
Commitment fees	$ 152,062
Multiclass fees:	
Multiclass fees not in scope of ASC 606(1)	27,378
MX combination fees	4,536
Total multiclass fees	**31,914**
Mortgage-backed securities (MBS) program and other income:	
Transfer of issuer responsibilities	3,996
Other MBS program fees in scope of ASC 606(2)	115
Other MBS program fees not in scope of ASC 606(3)	902
Total mortgage-backed securities program and other income	**5,013**
Total Revenues	**$ 188,989**

(1) Includes REMIC and Platinum Certificates guarantee fees.

(2) Includes new issuer applications fees, certificate handling fees, and acknowledgement agreement fees.

(3) Primarily includes mortgage servicing fees and civil monetary penalty fees.

Note 17: Reserve for Loss

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

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

    - *Non-contingent liability*

      Upon issuance of a guaranty, Ginnie Mae determines a non-contingent liability based on the present value of guaranty fees expected to be collected under the guaranty, within the financial statement line item "Guaranty liability" on the Balance Sheet (see Note 5: *Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure)*. Upon issuance of a guaranty, the greater of the non-contingent guarantee liability under ASC 460 or contingent liability under ASC 450 is recognized. Typically, the non-contingent liability amount exceeds contingent liability and, thus, is recorded at inception of a guaranty.

- *Contingent liability*
  As noted in Note 5: *Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure,* Ginnie Mae receives compensation in exchange for its guaranty of timely P&I payments to the MBS certificate holders in the event of an issuer default.
  Ginnie Mae records a contingent liability when it is probable that a loss event will occur and the amount of the loss or a range of loss can be reasonably estimated. The contingent liability is measured initially and in subsequent periods under ASC 450. Once it is determined that a loss event is probable to occur, Ginnie Mae estimates the probable losses in the underlying loan portfolio to calculate the loss contingency, which is recorded on the Balance Sheet as "Liability for loss on MBS program guaranty". Where it is only reasonably possible that a loss event may occur, a contingent liability is not recorded, but is disclosed.

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

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

- At September 30, 2020, no Ginnie Mae issuer was considered probable of defaulting. In addition, Ginnie Mae estimated potential losses up to $285.5 million, related to reasonably possible losses on pooled Single Family and HECM loans in the event of issuer defaults.

- At September 30, 2020, the contingent liability related to pooled Multifamily loans probable of defaulting was $43.4 million. Ginnie Mae cannot determine an estimate for reasonably possible contingent liability for multifamily loan defaults as of September 30, 2020, because there is not a specific loan performance indicator that can be used to accurately reflect the reasonably default likelihood for those loans that are not considered probable of default.

- *Defaulted issuer, pooled loans, and allowance for P&I advances:* In the event an issuer cannot fulfill its responsibilities under the applicable MBS program, pass-through payments made by Ginnie Mae to satisfy its guaranty of timely P&I payments to MBS certificate holders are presented in “Advances, net” on the Balance Sheet and Note 9: *Advances, Net*. Advances are reported net of an allowance, which is based on management’s expectations of future collections of advanced funds from the mortgagors, proceeds from the sale of the property, or recoveries from third-party insurers or guarantors such as FHA, VA, RD, and PIH. Additionally, under the PTAP program, Ginnie Mae may advance P&I payments to issuers facing temporary liquidity shortfalls directly attributable to the COVID-19 National Emergency (see “Pass-Through Assistance Program Receivables Including Accrued Interest, Net” financial statement line item on the Balance Sheet and Note 6: *Pass-Through Assistance Program Receivables Including Accrued Interest, Net*). Costs incurred on advances related to PTAP are expected to be reimbursed and are reported net of an allowance for amounts that management believes will not be collected.

- *Defaulted issuer, pooled loans, and mortgage servicing rights:* When a Ginnie Mae issuer is declared in default, terminated and extinguished, Ginnie Mae steps into the role of issuer and assumes all rights and obligations of the terminated and extinguished issuer’s entire Ginnie Mae guaranteed pooled-loan portfolio. Ginnie Mae records a servicing asset (or liability) each time it takes over a terminated and extinguished issuer’s Ginnie Mae guaranteed portfolio (see “Mortgage servicing rights” financial statement line item on the Balance Sheet and Note 7: *Mortgage Servicing Rights*). Ginnie Mae’s servicing asset (or liability) is recorded at fair value based on the present value of the expected future net cash flows from servicing, which are expected to be greater (or less) than adequate compensation for performing the servicing related to these loans. The determination of adequate compensation is a market notion and is made independent of Ginnie Mae’s cost of servicing. Accordingly, Ginnie Mae’s determination of adequate compensation is based on compensation demanded in the marketplace. Ginnie Mae’s cash flow model incorporates a number of factors (see Mortgage Servicing Rights section in Note 2: *Summary of Significant Accounting Policies and Practices*, for further information) including delinquencies and expectation of credit losses that management believes are consistent with the assumptions other similar market participants use in valuing the MSR. Thus, estimated credit losses for terminated and extinguished issuers’ pooled loans are incorporated within the servicing asset (or liability).
- *Defaulted issuer, non-pooled mortgage loans, and allowance for loan loss:* As Ginnie Mae purchases forward mortgage loans out of a pool, it recognizes the loans on its Balance Sheet along with the corresponding estimated incurred loss (i.e., allowance for loan losses) within the Balance Sheet as “Mortgage loans held for investment including accrued interest, net”. Costs incurred on non-pooled loans expected to be reimbursed are recorded as Reimbursable costs receivable and reported net of allowance within the Balance Sheet as “Reimbursable costs receivable, net” for amounts that management believes will not be collected.

- *Liability for representations and warranties:* Ginnie Mae performs an assessment of all existing representations and warranties and indemnification clauses associated with Purchase and Sale Agreements (PSAs) that are enforceable and legally binding. These clauses may require Ginnie Mae to repurchase loans previously sold to a third party or indemnify the purchaser for losses per the contractual terms of the PSA. On September 30, 2020, Ginnie Mae recorded $67.7 thousand as a contingent liability for representations and warranties under an existing PSA that requires Ginnie Mae to repurchase mortgage loans that are not insured by the FHA or guaranteed by the VA, RD, or PIH as identified by the purchaser as of or after the sale date. This amount is presented in "Liability for representations and warranties" on the Balance Sheet.

Note 18: Concentration of Credit Risk

Issuer concentration

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

The table below summarize concentrations of credit risk by active issuers and loan type at September 30, 2020:

	September 30, 2020							
	Single Family		Multifamily		Manufactured Housing		Home Equity Conversion (HECM/HMBS)	
	Number of Issuers	Unpaid Principal Balance	Number of Issuers	Unpaid Principal Balance	Number of Issuers	Unpaid Principal Balance	Number of Issuers	Unpaid Principal Balance
	(Dollars in billions)							
Largest performing Issuers	27	$ 1,548.1	6	$ 61.4	-	$ -	1	$ 11.6
Other performing Issuers	280	$ 390.2	47	$ 66.6	3	$ 0.2	13	$ 43.7

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

Issuers are only permitted to pool insured or guaranteed loans (from FHA, VA, RD, or PIH). The insuring or guaranteeing agencies have strict underwriting standards and criteria for quality of collateral. Mortgage loans insured by the FHA receive full recovery of the UPB, including all delinquent interest accrued at the HUD debenture rate since default with the exception of the first two months. RD, VA, and PIH guaranteed loans are not fully recoverable. The loan balance and related allowance for loan loss balance broken down by portfolio segment and underlying insuring or guaranteeing agencies at September 30, 2020 are presented in Note 10: *Mortgage Loans Held for Investment Including Accrued Interest, Net*.

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

Ginnie Mae's portfolio of issuers include both traditional banks (depositories) and independent mortgage institutions (non-depositories, or non-banks). As of September 30, 2020, the distribution of Ginnie Mae's business volumes among these two categories was as follows:

	September 30, 2020				
	Total Number of Issuers	**Total Issuances [(1)]** *(Dollars in millions)*	**As Percentage of Total Issuance**	**Unpaid Principal Balance** *(Dollars in millions)*	**As Percentage of Unpaid Principal Balance**
Depositories	99	$ 100,534	13.35%	$ 531,106	25.03%
Non-depositories	278	652,286	86.65%	1,590,770	74.97%
Total	**377**	**$ 752,820**	**100.00%**	**$ 2,121,876**	**100.00%**

(1) These amounts represent the total issuances within the past 12 months from October 1, 2019 to September 30, 2020.

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 transactions and other types of external financing, and sales of MSR to provide liquidity. Regardless, Ginnie Mae's issuer composition greatly reduces the risk of exposure to the failure of any one institution.

In March 2020, The President of the United States proclaimed that the COVID-19 outbreak in the United States constitutes a national emergency. Liquidity challenges arose as market conditions changed and borrowers affected by COVID-19 were offered widespread forbearance, including forbearance on loans purchased and securitized by Ginnie Mae. As Ginnie Mae issuers must continue to advance mortgage principal and interest payments for Ginnie Mae loans during the forbearance period, liquidity pressures on certain of our counterparties could increase. In response to these potential liquidity concerns, we have heightened our monitoring and review of the financial stability of our institutional counterparties. Refer to Note 6: *Pass-Through Assistance Program Including Accrued Interest, Net* for more information on Ginnie Mae's PTAP program.

In August and September 2020, natural disasters, including hurricanes and wildfires, impacted certain Ginnie Mae and other issuers' properties in locales identified as disaster areas by Federal

Emergency Management Agency (FEMA). Loans impacted by the disasters presented below 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 exposure to natural disasters as of September 30, 2020, not the actual damage.

	September 30, 2020			
	Total Number of Pooled Loans	% of Total Pooled Loans	UPB *(in millions)*	% of Total UPB
Hurricane Laura	56,667	0.50%	$ 8,076	0.38%
Hurricane Sally	107,843	0.94%	18,720	0.89%
CA Wildfire 20	58,766	0.52%	20,684	0.98%
OR Wildfire 20	70,566	0.61%	15,969	0.75%
Hurricane Isaias	5,523	0.05%	498	0.02%
Iowa Storms	43,978	0.39%	6,220	0.29%
Total Exposure of Affected Loans	**343,343**	**3.01%**	**$ 70,167**	**3.31%**
Unaffected Loans	11,060,099	96.99%	2,051,709	96.69%
Ginnie Mae Total Outstanding	**11,403,442**	**100.00%**	**$ 2,121,876**	**100.00%**

	September 30, 2020			
	Total Number of Non-Pooled Loans	% of Total Non-Pooled Loans	UPB *(in millions)*	% of Total UPB
Hurricane Laura	167	0.90%	$ 15	0.67%
Hurricane Sally	190	1.02%	19	0.85%
CA Wildfire 20	25	0.13%	6	0.27%
OR Wildfire 20	82	0.44%	13	0.58%
Hurricane Isaias	-	-	-	-
Iowa Storms	35	0.19%	3	0.13%
Total Exposure of Affected Loans	**499**	**2.68%**	**$ 56**	**2.50%**
Unaffected Loans	18,116	97.32%	2,186	97.50%
Ginnie Mae Total Outstanding	**18,615**	**100.00%**	**$ 2,242**	**100.00%**

As of date of issuing these financial statements, actual and estimated potential losses to Ginnie Mae resulting from the natural disasters are 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 counterparty credit risk through financial monitoring, risk modeling at issuer level, credit reviews, and operational monitoring. Financial monitoring includes exposure limit analysis and analysis of projected losses against core capital reserves. Risk modeling at entity level is performed through Ginnie Mae's focus on the riskiest segment of issuer base and regular monitoring of issuers on a watch list. Credit reviews are performed and considered in determining, for example, respective issuer's commitment authority limits, whether issuers can transfer pools to other approved issuers without impacting issuers credit profiles of issuers involved, etc. Operational monitoring encompasses compliance reviews, assessments of delinquency levels and trending, due diligence reviews before, during, or after transfer of servicing.

Mortgage loan servicing

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

Note 19: 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 of September 30, 2020, Ginnie Mae did not have any active and open lease contracts related to rental expense or hardware and software.

As of September 30, 2020, Ginnie Mae had approved and committed to make $2.1 billion in payments under contracts with its various vendors for fiscal year 2020 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 5: *Financial Guarantees and Financial Instruments with Off-Balance Sheet Exposure*.

Legal

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

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

The table below shows the approximate number of plaintiffs and claimants who had claims pending against Ginnie Mae at the beginning of the fiscal year, the number of claims disposed of during the period, the period's filings and the claims pending at the end of the year ending September 30, 2020 (eliminating duplicate filings).

	September 30, 2020 Case Count
Pending at beginning of year	1
Disposed	(1)
Filed	0
Pending at September 30, 2020	**0**

The status of cases against Ginnie Mae as of September 30, 2020, are described below.

Claim for wrongful dismissal from Ginnie Mae program (First Mortgage Corp. versus Government National Mortgage Association, Civil Action No. 5:2017-cv-01225 JGB) (C.D. Cal.): First Mortgage Corp., a former Ginnie Mae issuer, filed a claim against Ginnie Mae alleging wrongful dismissal from the Ginnie Mae's programs afforded to issuers. Prior to the termination of the issuer by Ginnie Mae, Ginnie Mae asserted that all standard procedures, including violation notification to the former issuer, were appropriately followed. The case against Ginnie Mae was dismissed on January 4, 2018. First Mortgage Corp., however, refiled the case in a new court, Court of Federal Claims, on 7/16/2018. *(First Mortgage Corp. versus Government National Mortgage Association, Fed. Cl. No. 18-288C)*. The complainant sought $148.0 million from Ginnie Mae. The refiled case was dismissed on February 22, 2019. On June 24, 2019, First Mortgage filed its Opening Brief in support of its appeal and the government responded. *(First Mortgage v. United States, 2019-1798, Fed. Cir. 2019).* On June 12, 2020, the Court of Appeals for the Federal Circuit issued a decision and judgment affirming the trial court's dismissal of the lawsuit against Ginnie Mae.

No other asserted or unasserted claims or assessments in which Ginnie Mae's exposure is $5 million 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 $11 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 17: *Reserve for Loss*.

Contingencies

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The President of the United States proclaimed that the COVID-19 outbreak in the United States constitutes a national emergency as of March 1, 2020. In order to address the impact to the financial well-being of American individuals, families, and businesses caused by COVID-19, on March 18, HUD Secretary Ben Carson, in consultation with the Trump Administration and the Coronavirus Task Force, authorized the FHA to implement an immediate foreclosure and eviction moratorium for single family homeowners with FHA-insured mortgages, including HECM loans, for the subsequent 60 days. The moratorium has since been extended to at least December 31, 2020.

While the disruption caused by COVID-19 is currently expected to be temporary, there is considerable uncertainty around the impact to issuer stability, and potential mitigating actions contemplated by the U.S. government, including HUD and Ginnie Mae. Therefore, Ginnie Mae expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Note 20: 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 $45.7 million during the year ended September 30, 2020 for personnel (payroll) and non-personnel (travel, training, and other administration) costs only. For the year ended September 30, 2020, Ginnie Mae incurred $30.5 million for these costs, which are included in administrative expenses on the Statement of Revenue and Expenses and Changes in Investment of U.S. Government. Ginnie Mae has authority to borrow from Treasury to finance operations in lieu of appropriations, if necessary. Ginnie Mae did not borrow funds for the year ended September 30, 2020.

Additionally, Ginnie Mae has relationships with FHA, VA and RD. All transactions between Ginnie Mae and FHA, VA and RD have occurred in the normal course of business. Of the total mortgage loans HFI, approximately $2.0 billion, $87.1 million and $37.6 million of loans were insured by FHA, VA and RD at September 30, 2020, respectively. In addition, Ginnie Mae submits and receives claim proceeds for FHA, VA and RD-insured loans that have completed the foreclosure and short sale process.

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

The breakdown of FHA, VA and RD claims pending payment or pre-submission to FHA, VA and RD is below:

	September 30, 2020 (Dollars in thousands)			
	FHA	VA	RD	Total
Foreclosed property claims receivable	$ 88,300	$ 1,153	$ 2,126	$ 91,579
Short sale claims receivable	920	236	182	1,338
Allowance for claims receivable	(20,278)	(609)	(114)	(21,001)
Claims receivable, net	**$ 68,942**	**$ 780**	**$ 2,194**	**$ 71,916**

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

Under the Federal Thrift Savings Plan (TSP), Ginnie Mae provides FERS employees with an automatic contribution of 1% of pay and an additional matching contribution up to 4% of pay. CSRS employees also can contribute to the TSP, but they do not receive matching contributions. For the year ended September 30, 2020, Ginnie Mae contributed $3.9 million in pension and savings benefits for eligible employees.

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

Note 21: 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. At September 30, 2020, the Investment of U.S. Government account has a balance of $26.1 billion. Federal statute allows Ginnie Mae to accumulate and retain revenues in excess of expenses to build sound reserves. In the opinion of management and HUD's general counsel, Ginnie Mae is not subject to the Federal Credit Reform Act.

Note 22: Subsequent Events

Ginnie Mae has evaluated subsequent events through the filing of this annual financial statements as of November 16, 2020 and determined that there have been no events that have occurred that would require adjustments to our disclosures.

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