



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**





OFFICE OF INSPECTOR GENERAL
U.S. Department of Housing and Urban Development

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

From: //signed//
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.

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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

From: //signed//
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 weaknesses¹ and one significant deficiency² 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.



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 information² 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.

¹The RSI consists of Management's Discussion and Analysis which are included with the financial statements.

²Other information consists of information included with the financial statements, other than the RSI and the auditors' report.

Independent Auditors' Report (Continued)

Management's Responsibility

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.

Auditors' Responsibility

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.

Opinion on Financial Statements

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.

Emphasis of Matter

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.

Other Matters

Prior Year Financial Statements

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.

Independent Auditors' Report (Continued)

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

Independent Auditors' Report (Continued)

evaluate all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. 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.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. 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.

Independent Auditors' Report (Continued)

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of Ginnie Mae's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. This report is an integral part of an audit performed in accordance with *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*.

Management's Responsibility

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.

Auditors' Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, and contracts disclosed 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.

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

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, and contracts, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *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

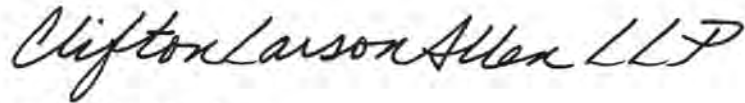
Independent Auditors' Report (Continued)

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

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

Greenbelt, Maryland
November 16, 2020

Independent Auditors' Report (Continued)
Exhibit A
Significant Deficiency

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.

Independent Auditors' Report (Continued)
Exhibit A
Significant Deficiency

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.

Independent Auditors' Report (Continued)
Exhibit B
Management's Response



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

DATE: November 16, 2020

MEMORANDUM FOR: Thomas McEnany, Director, Contracted Financial Statement Audits,
Financial Audits Division, HUD OIG

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

SUBJECT: Management Response to Fiscal Year (FY) 2020 Audit Report

SETH
APPLETON
Digitally signed by
SETH APPLETON
Date: 2020.11.12
11:16:34 -0500

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.

Independent Auditors' Report (Continued)
Exhibit B
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:

<i>Fiscal Year 2019 Findings</i>	<i>Type</i>	<i>Fiscal Year 2020 Status</i>
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: <ol style="list-style-type: none"> 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	
<i>(Dollars in thousands)</i>	
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	

Government National Mortgage Association

Statement of Revenues and Expenses and Changes in Investment of U.S. Government	
	For the year ended September 30, 2020
	<i>(Dollars in thousands)</i>
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	

Government National Mortgage Association

Statement of Cash Flows	
	For the year ended September 30, 2020
	<i>(Dollars in thousands)</i>
Cash Flows from Operating Activities	
Results of Operations	\$ 1,116,860
<i>Adjustments to reconcile results of operations to net cash (used for) provided by operating activities:</i>	
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)
<i>Changes in operating assets and liabilities:</i>	
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 streams 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;
- ***Multi-family 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 extinguishment² (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 C_{if}-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 loan³. 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 <i>(Dollars in thousands)</i>
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
<p>Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13) <i>Issued August 2018</i></p>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ The amount and of and reasons for transfers between L1 and L2 of the fair value hierarchy ○ The policy for timing of transfers between levels ○ The valuation process for L3 fair value measurements ○ 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: <ul style="list-style-type: none"> ○ 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 ○ For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's 	<p>Effective October 2019</p> <p>Adopted in October 2019</p>	<p>The adoption of ASU 2018-13 did not have a significant impact on the Ginnie Mae Financial Statements.</p>

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
	<p>assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing</p> <ul style="list-style-type: none"> The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date 		
<p>Revenue from Contracts with Customers (ASU 2017-14) <i>Issued November 2017</i></p>	<ul style="list-style-type: none"> 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. 	<p>Effective October 2019 Adopted in October 2019</p>	<p>The adoption of ASU 2017-14 did not have material impact on the Ginnie Mae Financial Statements.</p>
<p>Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (ASU 2017-05) <i>Issued February 2017</i></p>	<ul style="list-style-type: none"> 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 	<p>Effective October 2019 Adopted in October 2019</p>	<p>The adoption of ASU 2017-05 did not have material impact on the Ginnie Mae Financial Statements.</p>
<p>Technical Corrections and Improvements (ASU 2016-20) <i>Issued December 2016</i> Amendment to Topic 606,</p>	<ul style="list-style-type: none"> 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 	<p>Effective October 2019 Adopted in October 2019</p>	<p>The adoption of ASU 2016-20 did not have material impact on the Ginnie Mae Financial Statements.</p>

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) <i>Issued November 2016</i>	<ul style="list-style-type: none"> • 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 	<p>Effective October 2019</p> <p>Adopted in October 2019</p>	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) <i>Issued August 2016</i>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ Debt prepayment or extinguishment costs ○ Settlement of zero-coupon debt instruments ○ Contingent consideration payments ○ Proceeds from the settlement of insurance claims ○ Proceeds from the settlement of corporate-owned life insurance ○ Distributions received from equity method investees 	<p>Effective October 2019</p> <p>Adopted in October 2019</p>	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
<p>Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing (ASU 2016-10) <i>Issued April 2016</i></p>	<ul style="list-style-type: none"> Beneficial interests in securitization transactions 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 	<p>Effective October 2019</p> <p>Adopted in October 2019</p>	<p>The adoption of ASU 2016-10 did not have material impact on the Ginnie Mae Financial Statements.</p>
<p>Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08) <i>Issued March 2016</i></p>	<ul style="list-style-type: none"> 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. 	<p>Effective October 2019</p> <p>Adopted in October 2019</p>	<p>The adoption of ASU 2016-08 did not have material impact on the Ginnie Mae Financial Statements.</p>
<p>Financial Instruments – Recognition and Measurement of</p>	<ul style="list-style-type: none"> 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 	<p>Effective October 2019</p> <p>Adopted in</p>	<p>Ginnie Mae’s current approach and techniques are consistent with clarified guidance.</p>

Standard	Summary of Guidance	Effective Date and/or Date of Adoption	Effect on the financial statements
Financial Assets and Financial Liabilities (ASU 2016-01) <i>Issued January 2016</i>	<p>income unless the investments qualify for the new practicability exception</p> <ul style="list-style-type: none"> • 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) <i>Issued August 2015</i>	<ul style="list-style-type: none"> • 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) <i>Issued May 2014</i>	<ul style="list-style-type: none"> • 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) <i>Issued March 2020</i>	<ul style="list-style-type: none"> • 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. <ul style="list-style-type: none"> ○ 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) <i>Issued February 2020</i>	<ul style="list-style-type: none"> • 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
	<p>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.</p> <ul style="list-style-type: none"> • 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). 		
<p>Financial Instruments— Credit Losses (ASU 2019-11) <i>Issued November 2019</i></p>	<ul style="list-style-type: none"> • 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, 	<p>Effective October 2023</p>	<p>Ginnie Mae is currently evaluating the potential impact on its financial statements</p>

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) <i>Issued November 2019</i>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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 ○ 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
	<ul style="list-style-type: none"> 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) <i>Issued May 2019</i>	<ul style="list-style-type: none"> 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) <i>Issued April 2019</i>	<ul style="list-style-type: none"> 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)	<ul style="list-style-type: none"> 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
<i>Issued November 2018</i>	amendments to scope and transition and effective date requirements and to expedite the improvements		
Consolidation (ASU 2018-17) <i>Issued October 2018</i>	<ul style="list-style-type: none"> • This Update amends two aspects of the related-party guidance in ASC 810. Under the new guidance: <ul style="list-style-type: none"> ○ 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
<p>Intangibles – Goodwill and Other – Internal-Use Software (ASU 2018-15) <i>Issued August 2018</i></p>	<ul style="list-style-type: none"> 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 	<p>Effective October 2021; early adoption is permitted</p>	<p>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.</p>
<p>Financial Instruments – Credit Losses (ASU 2016-13) <i>Issued June 2016</i></p>	<ul style="list-style-type: none"> 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 	<p>Effective October 2023</p>	<p>Ginnie Mae is currently evaluating the potential impact on its financial statements.</p>

Standard	Description	Effective Date and/or Date of Adoption	Effect on the financial statements
	<p>that generally results in the earlier recognition of allowances for losses</p> <ul style="list-style-type: none"> • 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
	<i>(Dollars in thousands)</i>		
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 <i>(Dollars in thousands)</i>
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 <i>(Dollars in billions)</i>
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		Total
	Single Family Program	Multifamily Program	
	<i>(Dollars in Thousands)</i>		
PTAP receivables UPB	\$ 3,103	\$ -	\$ 3,103,563,249
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				Total
	IRG 6	IRG 8	Other		
	<i>(Dollars in Thousands)</i>				
PTAP receivables	\$	\$	\$		
UPB	2,1704,563,249	9334,563,249	-	\$	3,1034,563,249
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 <i>(Dollars in thousands)</i>	
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 MSR's was \$398.6 thousand at September 30, 2020. The MSR's correspond to UPB of \$147.1 million at September 30, 2020.

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

	For the year ended September 30, 2020 <i>(Dollars in thousands)</i>	
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					Total
	FHA	VA	RD	Conventional		
	<i>(Dollars in Thousands)</i>					
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
	<i>(Dollars in thousands)</i>
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					
	Conventional	FHA	VA	RD	Total	
	<i>(Dollars in thousands)</i>					
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			Total
	Less than 80%	80-100%	Greater than 100%	
	<i>(Dollars in thousands)</i>			
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 <i>(Dollars in Thousands)</i>	Current ⁽¹⁾	Total	Loans Over 90 Days Delinquent and Accruing Interest ⁽²⁾	Recorded Investment in Non- accrual loans ⁽³⁾
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⁾
	<i>(Dollars in thousands)</i>				
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⁾ <i>(Dollars in thousands)</i>
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⁾
	<i>(Dollars in thousands)</i>	
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 <i>(Dollars in thousands)</i>
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 <i>(Dollars in thousands)</i>
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
	<i>(Dollars in thousands)</i>			
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 <i>(Dollars in thousands)</i>
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			Total
	Level 1	Level 2	Level 3	
	<i>(Dollars in thousands)</i>			
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 MSR 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 MSR 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 MSR.

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

The table below presents the range and weighted average of significant unobservable inputs and 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			Total
	Level 1	Level 2	Level 3	
	<i>(Dollars in thousands)</i>			
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:

<i>Cost</i>	For the year ended September 30, 2020		
	Hardware	Software	Total
	<i>(Dollars in thousands)</i>		
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
<i>Accumulated depreciation and amortization</i>			
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 C_{ff}-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 C_{if}-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
<i>(Dollars in billions)</i>								
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:

	Total Number of Issuers	Total Issuances ⁽¹⁾ <i>(Dollars in millions)</i>	September 30, 2020 As Percentage of Total Issuance	Unpaid Principal Balance <i>(Dollars in millions)</i>	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			
	FHA	VA	RD	Total
	<i>(Dollars in thousands)</i>			
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.