Federal Housing Administration, Washington, DC

Fiscal Years 2019 and 2018 Financial Statements Audit

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2020-FO-0001
November 14, 2019

To: Brian Montgomery, Assistant Secretary for Housing – Federal Housing Commissioner, H

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From: Sarah D. Sequeira, Acting Director, Financial Audits Division, GAF

Subject: Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2019 and 2018

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Federal Housing Administration's fiscal years 2019 and 2018 financial statements.

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

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

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

Audit Report Number: 2020-FO-0001
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Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2019 and 2018

Highlights

What We Audited and Why

The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the Office of Inspector General to audit the financial statements of the Federal Housing Administration (FHA) annually. We audited the accompanying financial statements and notes of FHA as of and for the fiscal years ending September 30, 2019 and 2018, which are comprised of the balance sheets, related statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended. We conducted these audits in accordance with U.S. generally accepted government auditing standards.

What We Found

In our opinion, FHA's fiscal years 2019 and 2018 financial statements were presented fairly, in all material respects, in accordance with the U.S. generally accepted accounting principles for the Federal Government. Our opinion is reported in FHA's Fiscal Year 2019 Annual Management Report. The results of our audit of FHA's principal financial statements and notes for the fiscal years ending September 30, 2019 and 2018, including our report on FHA's internal control and test of compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to FHA, are presented in this report. Our audit disclosed one significant deficiency in internal controls and no instances of noncompliance with applicable laws, regulations, contracts, and grant agreements, which are discussed further in the body of this report.

What We Recommend

To support reliable financial reporting, we recommend that FHA strengthen its system of internal control processes, policies, and procedures to (1) ensure complete model research and concurrent model documentation and (2) prevent inaccurate financial reporting and misstatements from occurring in the financial statements and notes.

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

Independent Auditor's Report

Assistant Secretary for Housing – Federal Housing Commissioner
Federal Housing Administration

In our audits of the fiscal years 2019 and 2018 financial statements of the Federal Housing Administration (FHA), a component of the U.S. Department of Housing and Urban Development (HUD), we found

- That FHA's financial statements as of and for the fiscal years ending September 30, 2019 and 2018, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- One significant deficiency in internal control over financial reporting.
- No instances of reportable noncompliance with certain provisions of applicable laws, regulations, contracts, and grant agreements tested for fiscal year 2019.

The following sections and appendixes discuss in more detail (1) our report on the financial statements, which includes emphasis-of-matter paragraphs related to the loan guarantee liability, required supplementary information (RSI), and other information included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments and Office of Inspector General (OIG) evaluation.

Report on the Financial Statements

In accordance with U.S. generally accepted auditing standards, we audited FHA's financial statements. FHA's financial statements comprise the balance sheets as of September 30, 2019 and 2018, the related statements of net cost, changes in net position, the combined statements of budgetary resources for the fiscal years then ended, and the related notes to the financial statements.

We conducted our audits in accordance with U.S. generally accepted auditing standards. We believe that the audit evidence we have obtained was sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility

FHA's 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 auditor's report and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted 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 also conducted our audits in accordance with Office of Management and Budget (OMB) Bulletin 19-03, Audit Requirements for Federal Financial Statements. We are further responsible for applying certain limited procedures to the 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 auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to FHA's preparation and fair presentation of the financial statements 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 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 audits also included performing other procedures we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, FHA's financial statements referred to above presented fairly, in all material respects, the financial position of FHA as of September 30, 2019 and 2018, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in notes 1 and 7 to the financial statements, the loan guarantee liability line item is an estimate of the net present value of future claims, net of future premiums, and future recoveries from loans insured as of the end of the fiscal year. The estimate is developed using econometric models that integrate historical loan-level program and economic data with regional house price appreciation forecasts to develop assumptions about future portfolio performance. Actual results may differ from the estimate. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. The RSI consists of "Management's Discussion and Analysis" and the "Combining Statement of Budgetary Resources," which are included with the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We applied certain limited procedures to the RSI in accordance with U.S. generally accepted 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 auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB 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

FHA's other information contains a wide range of information other than the RSI and the auditor's report, some of which is not directly related to the financial statements and consists of information included with the financial statements. This information, including the message from the FHA Commissioner, is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on FHA'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 audits of FHA's financial statements, we considered FHA's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to FHA's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

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

Auditor's Responsibility

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

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

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, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

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

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 and significant deficiencies or to express an opinion on the effectiveness of FHA's internal control over financial reporting. Therefore, other deficiencies in internal control that might be material weaknesses or significant deficiencies may exist but were not identified.

During our 2019 audit, we identified one deficiency in FHA's internal control over financial reporting described below. We consider it to be a significant deficiency. We have communicated these matters to FHA management.

FHA's Controls Over Financial Reporting Had Weaknesses

Control deficiencies in financial reporting were identified during the fiscal year 2019 audit, and some control deficiencies reported in prior fiscal years remained. The new control deficiencies identified this fiscal year were related to the insufficient research and model documentation for a key assumption in the home equity conversion mortgage (HECM) model, improper recording of refunds, and errors in reporting the HECM insurance-in-force and the reestimates in the financial statement note disclosures. These conditions occurred because FHA did not properly research and concurrently document its rationale for a decision on a key HECM model assumption, properly design its posting models, and have effective processes in place to ensure that data reported in the financial statement note disclosures were properly presented and reported. As a result, the loan guarantee liability was potentially overstated by approximately $309.1 million; obligations, outlays, and collections were understated by $81.8 million in FHA's general ledger at the end of fiscal year 2019; and the HECM insurance-in-force data reported in fiscal year 2018 note disclosures were overstated by $3 billion.

Also as in prior fiscal years, FHA continued to face challenges in deobligating invalid obligations in a timely manner and may have missed an opportunity to put $55.4 million to better use in fiscal year 2019 because invalid obligations were not deobligated. Further, FHA had not addressed the weaknesses in processing recorded HECM assignments that we identified during our fiscal year 2018 audit.

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 FHA's internal control over financial reporting and the results of our procedures and not to provide an opinion on the effectiveness of FHA's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose. In addition to this report and providing specific recommendations to FHA management, we noted other matters involving internal control over financial reporting and FHA's operation, which we are reporting to FHA management in a separate management letter.

Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements

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

Management's Responsibility

FHA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to FHA.

Auditor's Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2019 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FHA. Accordingly, we do not express such an opinion.

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

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose. In addition to this report and providing specific recommendations to FHA management, we noted other compliance issues and issues with FHA's operations, which we are reporting to FHA management in a separate management letter.

Agency Comments and Our Evaluation

In commenting on a draft of this report, FHA generally concurred with the findings and recommendations. Efforts have been made to address recommendations from prior years, and FHA has implemented recommendations based upon the current-year audit. FHA's continued efforts in improving and strengthening its internal controls over financial reporting will improve the reliability of the financial statements. We look forward to working with FHA to reach mutually acceptable management decisions to close out the recommendations during the audit resolution process. The complete text of FHA's response is presented in appendix A.

Kimberly R. Randall

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

November 14, 2019

Significant Deficiencies

Finding: FHA's Controls Over Financial Reporting Had Weaknesses

Control deficiencies in financial reporting were identified during the fiscal year 2019 audit, and some control deficiencies reported in prior fiscal years remained. The new control deficiencies identified this fiscal year were related to the insufficient research and model documentation for a key assumption in the HECM model, improper recording of refunds, and errors in reporting the HECM insurance-in-force and the reestimates in the financial statement note disclosures. These conditions occurred because FHA did not properly research and concurrently document its rationale for a decision on a key HECM model assumption, properly design its posting models, and have effective processes in place to ensure that data reported in the financial statement note disclosures were properly presented and reported. As a result, the loan guarantee liability was potentially overstated by approximately $309.1 million; obligations, outlays, and collections were understated by $81.8 million in FHA's general ledger at the end of fiscal year 2019; and the HECM insurance-in-force data reported in fiscal year 2018 note disclosures were overstated by $3 billion.

Also as in prior fiscal years, FHA continued to face challenges in deobligating invalid obligations in a timely manner and may have missed an opportunity to put $55.4 million to better use in fiscal year 2019 because invalid obligations were not deobligated. Further, FHA had not addressed the weaknesses in processing recorded HECM assignments that we identified during our fiscal year 2018 audit.

Exclusion of Valid Assignments Biased the HECM Model

The HECM cash flow model assignment assumption was biased.[1] FHA purposely excluded 5,722 valid HECM assignments that were under 98 percent of the maximum claim amount (MCA) in the training data used to calibrate the high-risk assignment assumption used in the cash flow model, resulting in model bias. As a result of the bias, we estimate that the loan guarantee liability was potentially overstated by approximately $309.1 million. In addition, FHA did not provide evidence for a key assumption to support that it (1) researched valid data observations that were inconsistent with its understanding of program regulations and how those regulations should be applied to model assumptions or (2) performed research to ensure that this exclusion would not bias the model.

FHA asserted that while the observations noted in the data showed that valid HECM assignments that were under 98 percent of the MCA were taking place, they were small in comparison to

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[1] Model bias is when a model systematically underpredicts or overpredicts the variable being estimated, which in this case, is assignments.

those that were assigned at or above 98 percent of the MCA. To that end, FHA further asserted that it was justified in excluding these valid data observations.

According to FHA, it purposely excluded the 5,722 valid HECM assignments because its research showed that the number of loans that were assigned before reaching 98 percent of the MCA was not "statistically different than 0 percent." However, we were unable to confirm this assertion, as FHA did not include this analysis in its model documentation. FHA also stated that with the implementation of Mortgagee Letter 2012-17, assignments that were under 98 percent of the MCA were no longer permitted and would stop, further supporting FHA's decision to exclude the data observations. However, FHA did not document Mortgagee Letter 2012-17 as evidence to support the rationale for its decision to exclude the data in its model documentation and brought the Mortgagee Letter to our attention only after multiple communications about its assignment assumption. FHA disagreed that the assignment assumption was biased and stated that the loan guarantee liability was overstated by only $30.6 million as a result of excluding the 5,722 assignments in the training data. However, our evidence showed that exclusion of the data biased the results of the model, resulting in the loan guarantee liability being potentially overstated by approximately $309.1 million.

While FHA had systems in place to monitor data inconsistencies, the data were monitored too early in the process, and FHA did not add logic to continue to monitor such an important assumption. When FHA noted that the data observations were inconsistent with the key assumption in the model logic, it removed the observations but did not perform further research to determine whether the exclusion of the data observations for the key assumption would bias the model. FHA also did not concurrently document the support for its conclusions in its model documentation.

Refunds Were Not Properly Recorded

FHA improperly recorded the receipt of all refunds as a reduction in outlays. OMB Circular A-11, Preparation, Submission, and Execution of the Budget, required refunds to be recorded as collections if the related payments were made in prior fiscal years. Only refunds received in the same fiscal year as the payments should be recorded as a reduction in outlays.

FHA did not adequately design its posting models to comply with the requirements of OMB Circular A-11. As a result of refunds being improperly recorded, obligations and outlays were understated on the quarterly fiscal year 2019 Statement of Budgetary Resources. In addition, the collections and obligations amounts in the financial statement note disclosures were understated. In October 2019, FHA made an adjustment of $81.8 million in its general ledger to correct the understated obligations, outlays, and collections balances before closing its books for fiscal year 2019 and properly reported the balances on the final fiscal year 2019 Statement of Budgetary Resources and financial statement notes. For fiscal year 2018, FHA determined that the refunds related to prior-year payments totaled $119.2 million for the single-family and HECM programs. FHA included a note disclosure in the fiscal year 2019 financial statements explaining the impact of improperly recording refunds on the fiscal year 2018 balances.

Errors Were Identified in the Financial Statement Note Disclosures

There were errors in Note 7, Direct Loans and Loan Guarantees, Non-Federal Borrowers. Some of the errors related to the insurance-in-force balances for the HECM programs, while the other errors related to the presentation of the reestimates.

HECM insurance-in-force balances were not accurately reported. On FHA's third quarter fiscal year 2019 financial statements and fiscal year 2018 financial statements, the current outstanding balance and the maximum potential liability in the "Home Equity Conversion Mortgage Loans Outstanding" table within the note disclosure incorrectly included the balances for loans for which claims had been paid. OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, requires agencies to establish and maintain internal control to ensure the reliability of financial reporting.

According to FHA, there was a programming error in the Home Equity Reverse Mortgage Information Technology (HERMIT) system that generates the Cohort Summary Report. The Cohort Summary Report, which is used by the Financial Reporting Division to report the insurance-in-force balances on the note disclosure, included an inaccurate current outstanding balance and maximum potential liability amounts because the HERMIT system was not programmed to exclude loans for which the claims had been paid. Once a claim is paid, the loan should no longer be included in the insurance-in-force balances. As a result of this error, the current outstanding balance and the maximum potential liability on the third quarter fiscal year 2019 financial statements and the fiscal year 2018 financial statements were overstated by approximately $3 billion.

Interest rate and technical reestimates were not reported separately. In the fiscal year 2018 financial statement notes, FHA did not report the interest rate reestimates and technical reestimates separately in Note 7, Direct Loans and Loan Guarantees, Non-Federal Borrowers. OMB Circular A-136, Financial Reporting Requirements, requires that agencies disclose the interest rate reestimates and technical reestimates separately for loan guarantees and direct loans in the note disclosures.

FHA did not have policies and procedures to ensure that it properly disclosed both types of reestimates in the financial statements in accordance with OMB Circular A-136. According to FHA officials, FHA reported the total reestimates instead of reporting both types of reestimates separately because it needed to verify the calculation of the two separate components and it wanted to verify that the interest rate reestimates had to be disclosed and not the interest rate component (interest ***on*** reestimates). In the fiscal year 2018 financial statements, the following should have been reported within the note disclosures:

- In the table, "Schedule for Reconciling Loan Guarantee Liability Balances," the total reestimates of $(9,536) million should have been broken down as follows: (1) $(2,967) million for the interest rate reestimates and (2) $(6,569) million for the technical reestimates.
- In the table, "Subsidy Expense for Modification and Reestimates," the total reestimates of $(507) million for the MMI[2]-CMHI[3] should have been broken down as follows: (1) $(2,931) million for interest rate reestimates and (2) $2,424 million for technical reestimates. For the GI[4]-SRI,[5] the total reestimates of $(1,002) million should have been

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[2] Mutual Mortgage Insurance Fund
[3] Cooperative Management Housing Insurance Fund
[4] General Insurance Fund
[5] Special Risk Insurance Fund

broken down as follows: (1) $(36) million for interest rate reestimates and (2) $(966) million for technical reestimates.

- In the table, "Direct Loan Schedule for Reconciling Subsidy Cost Allowance Balances," the interest rate reestimates and technical reestimates must also be reported separately. Although there was no interest rate reestimate for direct loans in fiscal year 2018, the interest rate reestimate of $0 should have been reported separately from the total reestimates.

FHA properly reported both types of reestimates separately for fiscal year 2019 and fiscal year 2018 in the comparative 2019 financial statement note disclosures.

Current-Year Status of Prior-Year Audit Matters

Challenges with deobligating invalid obligations. In our fiscal year 2016 audit report, we reported that FHA's unliquidated balances review process had weaknesses. We attributed the weaknesses to FHA's ineffective monitoring. During fiscal year 2017, FHA developed an effective process to identify invalid obligations, but it continued to face challenges in deobligating invalid obligations in a timely manner. All of the invalid obligations identified in fiscal year 2016 were deobligated in fiscal year 2019. However, FHA reported that some invalid obligations identified in the fiscal years 2017 and 2018 audit reports had not been deobligated. In addition, FHA identified $55.4 million in invalid obligations in fiscal year 2019 but reported that only $11.5 million had been deobligated by the end of September 2019. The following table shows the remaining amount of funds that need to be deobligated according to FHA.

Status of deobligating invalid obligations (in millions)

Year	Amount to be deobligated	Amount deobligated as of fiscal year 2019	Remaining amount to be deobligated as of fiscal year 2019
Fiscal year 2017	$270.7	$195.0	$ 75.7
Fiscal year 2018	399.1	252.2	146.9
Fiscal year 2019	55.4	11.5	43.9

Weaknesses in processing recorded HECM assignments. In fiscal year 2018, we reported that there were processing delays for recorded assignments and not all key dates were tracked on the assignment timeline. These conditions were attributed to (1) the increased volume of assignments, (2) the absence of a billing and sanctioning process to address servicers' delays in providing recorded assignments, and (3) the design of the assignment timeline in the HERMIT system. As a result, there is a risk that recorded assignments may not have been properly recorded, and FHA was unable to determine the status of assignments. During our fiscal year 2019 audit, FHA reported that it had taken some steps to address the deficiencies but did not expect to finalize implementation until fiscal year 2020. We plan to review FHA's corrective actions during our fiscal year 2020 audit.

No new recommendations were made for the prior years' audit findings.

Conclusion

Over the last few years, FHA has made notable progress in strengthening its internal control to ensure that amounts on the financial statements are accurately reported. However, the control deficiencies identified during our fiscal year 2019 audit indicate that additional measures are needed to ensure that (1) model research is complete and concurrently documented to support management's decisions, (2) amounts recorded in the general ledger and reported in the financial statements and accompanying note disclosures are accurate, and (3) the presentation of the data on the note disclosures is consistent with the financial reporting requirements. Additionally, FHA needs to continue to implement the management decisions for the recommendations that remain open from prior-year findings.

Recommendations

We recommend that the Director of the Office of Evaluation

1A. Ensure that the HECM cash flow model assumptions capture all valid assignments or provide an analysis showing that the model results are not biased due to the exclusion of valid HECM assignments.

1B. Document and implement policies and procedures to ensure that data observations for key assumptions that are inconsistent with FHA's understanding of program operations are researched and further analyzed and that all results are concurrently documented and included in the model documentation.

We recommend that the Deputy Assistant Secretary for Finance and Budget

1C. Update the posting models to ensure that refunds relating to payments made in prior years are properly recorded in accordance with OMB Circular A-11.

1D. Correct the programming error in the HERMIT system to ensure that the correct insurance-in-force balances are reported on the note disclosures.

1E. Develop policies and procedures to ensure that the line items in the required note disclosures are understood, properly calculated, and properly disclosed in the financial statements in accordance with OMB Circular A-136.

Scope and Methodology

In accordance with the Chief Financial Officers Act of 1990, as amended, OIG is responsible for conducting the annual financial statement audit of FHA. The scope of this work includes the audit of FHA's balance sheets as of September 30, 2019 and 2018, and the related statements of net costs and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. We conducted this audit in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 19-03, Audit Requirements for Federal Financial Statements. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To fulfill these responsibilities, we

- Obtained an understanding of internal controls over financial reporting (including safeguarding assets) and compliance with laws, regulations, contracts, and grant agreements (including the execution of transactions in accordance with budget authority).
- Assessed the accounting principles used and the significant estimates made by management.
- Tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances.
- Examined, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements.
- Considered compliance with the process required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) for evaluating and reporting on internal controls and accounting systems.
- Evaluated the overall presentation of the principal financial statements.
- Performed other procedures we considered necessary in the circumstances.

We considered internal controls over financial reporting by obtaining an understanding of the design of FHA's internal controls, determined whether these internal controls had been placed into operation, assessed control risk, and performed tests of controls to determine our auditing procedures for expressing our opinion on the principal financial statements. We also tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that may materially affect the principal financial statements.

With respect to internal controls related to performance measures to be reported in FHA's Fiscal Year 2019 Annual Management Report, we obtained an understanding of the design of significant internal controls as described in OMB Bulletin 19-03. We performed limited testing procedures as required by the American Institute of Certified Public Accountants' auditing standards at AU-C, section 730, Required Supplementary Information, and OMB Bulletin 19-03. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We did not evaluate the internal controls relevant to operating objectives as broadly defined by FMFIA. We limited our internal controls testing to those controls that are material in relation to FHA's financial statements. Because of inherent limitations in any internal control structure, misstatements may occur and not be detected. We also caution that projection of any evaluation of the structure to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be significant deficiencies. We noted certain matters in the internal control structure and its operation that we consider significant deficiencies under OMB Bulletin 19-03.

Followup on Prior Audits

The current fiscal yearend status of open recommendations from prior-year reports on FHA's financial statements is provided below. Specifically, we identified 10 unimplemented recommendations from prior-year reports. FHA should continue to track these recommendations under the prior-year report numbers in accordance with departmental procedures. Each of these open recommendations and its status is shown below.

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With respect to FHA's not having effective monitoring and processes in place for its unliquidated obligation balances and to ensure the accuracy of data reported in the financial statements, we recommended that the Deputy Assistant for Finance and Budget

1.a. Establish and implement a review process for salary and administrative cost information that is received from HUD OCFO[6] to ensure that the information is complete and accurate. (Final action target date was October 15, 2019; reported in the Audit Resolution and Corrective Action Tracking System (ARCATS) as 2019-FO-0002-002-H, closed October 28, 2019.)

1.b. Ensure that $399.1 million identified as invalid obligations in fiscal year 2018 is deobligated as appropriate. (Final action target date was October 31, 2019; reported in ARCATS as 2019-FO-0002-002-I.)

With respect to FHA's weaknesses in processing recorded HECM assignments, we recommended that the Director of the Office of Single Family Asset Management

1.c. In conjunction with the loan-servicing contractor, determine what actions can be taken to ensure that recorded assignments are reviewed in a timely manner after receipt. (Final action target date is December 31, 2019; reported in ARCATS as 2019-FO-0002-002-M.)

1.d. Develop and implement a billing and sanctioning process to ensure that FHA bills servicers for the costs incurred to obtain recorded assignments from the counties' recorder's offices and sanctions the servicers when they do not provide the recorded assignments within 6 months of claim payment. (Final action target date is December 31, 2019; reported in ARCATS as 2019-FO-0002-002-N.)

1.e. Improve the tracking of recording assignments by modifying the HERMIT assignment timeline to include date fields for servicers' (1) receipt of recorded assignments from counties and (2) mailing of recorded assignments to the loan-servicing contractor. (Final action target date is March 26, 2020; reported in ARCATS as 2019-FO-0002-002-O.)

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[6] Office of the Chief Financial Officer

With respect to FHA's not fully implementing controls to collect the amounts for unsupported partial claims, we recommended that HUD's Associate General Counsel for Program Enforcement

1.f. Establish a timeframe and process to notify the Office of Single Family Housing that funds or documents were not received so noncompliant lenders can be referred to the MRB[7] within 14 business days for temporary suspension or termination and notify FHA of any noncompliant lenders accordingly. (Final action target date was October 31, 2019; reported in ARCATS as 2019-FO-0002-003-A.)

Federal Housing Administration Fiscal Years 2017 and 2016 Financial Statements Audit, 2018-FO-0003

With respect to FHA not having effective model documentation, model governance, and modeling practices, we recommended that the Director of the Office of Evaluation

2.a. Establish and implement policies and procedures for assessing and monitoring the reliability of the work performed by FHA's modeling contractors. (Final action target date was August 31, 2018; reported in ARCATS as 2018-FO-0003-001-D, closed October 15, 2019.)

With respect to FHA's not having effective monitoring and processing controls over its unliquidated obligation balances and using inaccurate data to report on its loan guarantees, we recommended that the Deputy Assistant for Finance and Budget

2.b. Ensure that the $270.7 million identified as invalid obligations in fiscal year 2018 is deobligated as appropriate. (Final action target date was August 31, 2018; reported in ARCATS as 2018-FO-0003-002-A.)

2.c. Develop and implement policies, procedures, and controls to ensure that the reported current-year endorsements in HERMIT and SFHEDW[8] agree with the current-year endorsements in the CHUMS.[9] (Final action target date was September 30, 2018; reported in ARCATS as 2018-FO-0003-002-F, closed October 31, 2019.)

Federal Housing Administration Fiscal Years 2016 and 2015 Financial Statements Audit, 2017-FO-0002

With respect to FHA's not fully implementing controls to collect the amounts for unsupported partial claims, we recommended that the Office of Single Family Housing

3.a. Request payment in the amount of the claims paid, plus incentive, from mortgagees [lenders] that have not provided the original note within the prescribed deadline for the $55.3 million. (Final action target date was June 20, 2018; reported in ARCATS as 2017-FO-0002-003-C.)

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[7] Mortgagee Review Board
[8] Single Family Housing Enterprise Data Warehouse
[9] Computerized Homes Underwriting Management System

Federal Housing Administration Fiscal Years 2015 and 2014 Financial Statements Audit, 2016-FO-0002

With respect to FHA's not fully implementing controls to prevent misclassification of the receivables, we recommended that the Office of Single Family Housing

4.a. Start the billing process for the claims paid, plus incentive, in which the lender has not provided the original note and security instrument within the prescribed deadlines for the $291 million. (Final action target date was November 30, 2016; reported in ARCATS as 2016-FO-0002-001-C.)

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

November 12, 2019

MEMORANDUM FOR: Thomas R. McEnanly, Director, Financial Audits Division, GAF

FROM: Susan A. Betts, Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Response to Fiscal Years 2019 and 2018 Financial Statements Audit Report

Thank you for providing us with the opportunity to respond to FHA's Independent Auditor's Report. We appreciate that the OIG has recognized the hard work staff have put in this year to resolve prior year findings and to address current year auditor concerns. During FY 2019, FHA resolved one material weakness and two significant deficiencies. We value that the OIG is continuing to provide us with actionable recommendations as we are committed to making changes necessary to strengthen controls. This will remain a priority for FHA. Working collaboratively with OIG, FHA will continue to identify and implement changes needed.

Report on Internal Control

Comment 1

Finding: FHA's Controls Over Financial Reporting Had Weaknesses

FHA has already implemented several of the recommendations identified in this finding and will continue to complete the implementation of remaining recommendations in FY 2020.

Exclusion of Valid Assignments Biased the HECM Model

Although FHA estimates a much smaller scale of potential bias from HECM assignment projections than the audit finding does, as discussed during the audit, management concurs with the recommendations. We appreciate that the recommendations will further strengthen the control over and documentation of FHA's model assumptions. FHA will implement procedures to specifically tie all implicit modeling assumptions to their associated policy documents and will include any additional information that supports FHA's understanding of program operations as incorporated into its models.

Refunds Were Not Properly Recorded

Regarding the OIG's recommendation surrounding the improper recording of prior year refunds, FHA has implemented process improvements to ensure that refunds collected are recorded properly. Monthly, refunds will be reconciled to the source system data files and amounts collected related to

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Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments
Comment 1	payments made in prior years will be reclassified as collections and to the correct budgetary accounts to properly record the downward adjustment of prior year undelivered orders. ***HECM Insurance in Force Balances Were Not Accurately Reported*** FHA concurs with this finding and has already taken steps to implement the OIG recommendation. A Hermit system release was implemented in 4th quarter to correct the programming of the Cohort Summary Report to accurately report the HECM loan balances for the current outstanding balance and the maximum potential liability as of September 30, 2019. ***Interest Rate and Technical Reestimates Were Not Reported Separately*** FHA concurs and has already taken steps to address this recommendation. During FY 2019, FHA reviewed OMB A-136 guidance for recording the Interest Rate Reestimates. Based on the result of the analysis, steps were taken to record the financial statement reestimate and segregate the balance of the technical reestimate from that of the interest rate reestimate. This presentation was reflected in the financial statements as of September 30, 2019

OIG Evaluation of Auditee Comments

Comment 1 OIG accepts the response of concurrence with the recommendations. FHA's continued efforts in improving and strengthening its internal controls over financial reporting will improve the reliability of the financial statements. OIG looks forward to working with FHA to reach a mutually acceptable management decision to close out the recommendations during the audit resolution process.

Appendix B

FHA's Fiscal Years 2019 and 2018 Financial Statements and Notes

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED BALANCE SHEETS
As of September 30, 2019, and 2018
(Dollars in Millions)

	FY 2019	FY 2018
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 14,257	$ 33,690
Investments (Note 5)	50,336	26,697
Total Intragovernmental	$ 64,593	$ 60,387
Cash and Other Monetary Assets (Note 4)	$ 87	$ 34
Investments (Note 5)	6	8
Accounts Receivable, Net (Note 6)	137	137
Loans Receivable and Related Foreclosed Property, Net (Note 7)	35,902	26,059
TOTAL ASSETS	**$ 100,725**	**$ 86,625**
LIABILITIES		
Intragovernmental		
Accounts Payable (Note 8)	$ 1	$ 2
Debt (Note 9)	32,360	26,379
Other Liabilities (Note 10)	3,219	2,787
Total Intragovernmental	$ 35,580	$ 29,168
Accounts Payable (Note 8)	$ 446	$ 555
Loan Guarantee Liability (Note 7)	2,568	19,107
Other Liabilities (Note 10)	766	582
TOTAL LIABILITIES	**$ 39,360**	**$ 49,412**
NET POSITION		
Unexpended Appropriations (Note 17)	$ 499	$ 463
Cumulative Results of Operations	60,866	36,750
TOTAL NET POSITION	**$ 61,365**	**$ 37,213**
TOTAL LIABILITIES AND NET POSITION	**$ 100,725**	**$ 86,625**

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED STATEMENTS OF NET COST
For the Periods Ended September 30, 2019, and 2018
(Dollars in Millions)

	FY 2019	FY 2018
Single Family Forward		
Intragovernmental Gross Costs	$ 549	$ 671
Less: Intragovernmental Earned Revenue	990	1,177
Intragovernmental Net Costs	$ (441)	$ (506)
Gross Costs With the Public	$ (19,702)	$ (6,958)
Less: Earned Revenues	4	7
Net Costs With the Public	$ (19,706)	$ (6,965)
Single Family Forward Net Cost (Surplus)	$ (20,147)	$ (7,471)
HECM		
Intragovernmental Gross Costs	$ 461	$ 264
Less: Intragovernmental Earned Revenue	486	724
Intragovernmental Net Costs	$ (25)	$ (460)
Gross Costs With the Public	$ (5,025)	$ (986)
Less: Earned Revenues	1	-
Net Costs With the Public	$ (5,026)	$ (986)
HECM Net Cost (Surplus)	$ (5,051)	$ (1,446)
Multifamily		
Intragovernmental Gross Costs	$ 165	$ 146
Less: Intragovernmental Earned Revenue	26	29
Intragovernmental Net Costs	$ 139	$ 117
Gross Costs With the Public	$ (591)	$ (536)
Less: Earned Revenues	113	133
Net Costs With the Public	$ (704)	$ (669)
Multifamily Net Cost (Surplus)	$ (565)	$ (552)
Healthcare		
Intragovernmental Gross Costs	$ 45	$ 43
Less: Intragovernmental Earned Revenue	16	10
Intragovernmental Net Costs	$ 29	$ 33
Gross Costs With the Public	$ 130	$ (91)
Less: Earned Revenues	$ -	-
Net Costs With the Public	$ 130	$ (91)
Healthcare Net Cost (Surplus)	$ 159	$ (58)
Salaries and Administrative Expenses		
Intragovernmental Gross Costs	$ 190	$ 174
Less: Intragovernmental Earned Revenue	-	-
Intragovernmental Net Costs	$ 190	$ 174
Gross Costs With the Public	$ 578	$ 566
Less: Earned Revenues	-	-
Net Costs With the Public	$ 578	$ 566
Adminstrative and Contracts Net Cost (Surplus)	$ 768	$ 740
Net Cost of Operations	**$ (24,836)**	**$ (8,787)**

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED STATEMENTS OF NET POSITION
For the Periods Ended September 30, 2019, and 2018
(Dollars in Millions)

	2019	2018
Unexpended Appropriations (Note 17)		
Collections	463	459
Budgetary Financing Sources:		
Appropriations Received	1,439	2,078
Other Adjustments (Rescissions, etc)	(13)	(39)
Appropriations Used	(1,390)	(2,035)
Total Budgetary Financing Sources	36	4
Total Unexpended Appropriations	499	463
Cumulative Results of Operations (Note 16)		
Beginning Balance, As Adjusted	**$ 36,750**	**$ 27,670**
Budgetary Financing Sources:		
Appropriations Used	1,390	2,035
NonExchange Revenue	2	-
Other Financing Sources (Nonexchange):		
Transfers In/Out Without Reimbursement	643	611
Imputed Financing From Costs	19	18
Other	(2,773)	(2,373)
Total Financing Sources	(719)	291
Net Cost of Operations	24,836	8,787
Net Change	24,116	9,080
Cumulative Results of Operation	60,866	36,750
Net Position	**$ 61,365**	**$ 37,213**

The accompanying notes are an integral part of these statements.

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Period Ended September 30, 2019
(Dollars in Millions)

	FY 2019 Budgetary	FY 2019 Non-Budgetary	FY 2019 Total
Budgetary Resources:			
Unobligated balance from prior year budget authority, net	27,103	30,123	57,226
Appropriations (discretionary and mandatory)	1,439	-	1,439
Borrowing authority (discretionary and mandatory)	-	11,479	11,479
Spending authority from offsetting collections (discretionary and mandatory)	25,232	16,501	41,733
Total budgetary resources	**$ 53,774**	**$ 58,103**	**$ 111,877**
Status of Budgetary Resources:			
New obligations and upward adjustments (total)	$ 2,698	$ 47,883	$ 50,581
Unobligated balance, end of year:			
Apportioned, unexpired accounts	84	9,023	9,107
Unapportioned, unexpired accounts	50,926	1,197	52,123
Unexpired unobligated balance, end of year	51,010	10,220	61,230
Expired unobligated balance, end of year	66	-	66
Unobligated balance, end of year (total)	51,076	10,220	61,296
Total budgetary resources	**$ 53,774**	**$ 58,103**	**$ 111,877**
Outlays, Net:			
Outlays, net (total) (discretionary and mandatory)	(22,464)	25,610	3,146
Distributed offsetting receipts (-)	(2,180)	-	(2,180)
Agency outlays, net (discretionary and mandatory)	**$ (24,644)**	**$ 25,610**	**$ 966**

The accompanying notes are an integral part of these statements

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Period Ended September 30, 2018
(Dollars in Millions)

	FY 2018 Budgetary	FY 2018 Non-Budgetary	FY 2018 Total
Budgetary Resources:			
Unobligated balance from prior year budget authority, net	31,750	25,255	57,005
Appropriations (discretionary and mandatory)	2,078	-	2,078
Borrowing authority (discretionary and mandatory)	-	8,204	8,204
Spending authority from offsetting collections (discretionary and mandatory)	8,157	23,677	31,834
Total budgetary resources	**$ 41,985**	**$ 57,136**	**$ 99,121**
Status of Budgetary Resources:			
New obligations and upward adjustments (total)	$ 14,753	$ 27,357	$ 42,110
Unobligated balance, end of year:			
Apportioned, unexpired accounts	57	10,486	10,543
Unapportioned, unexpired accounts	27,140	19,293	46,433
Unexpired unobligated balance, end of year	27,198	29,779	56,977
Expired unobligated balance, end of year	34	-	34
Unobligated balance, end of year (total)	27,232	29,779	57,011
Total budgetary resources	**$ 41,985**	**$ 57,136**	**$ 99,121**
Outlays, Net:			
Outlays, net (total) (discretionary and mandatory)	6,499	(7,665)	(1,166)
Distributed offsetting receipts (-)	(1,183)	-	(1,183)
Agency outlays, net (discretionary and mandatory)	**$ 5,316**	**$ (7,665)**	**$ (2,349)**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019

Note 1. Significant Accounting Policies

Entity and Mission

The Federal Housing Administration (FHA) was established under the National Housing Act of 1934 and became a wholly owned government corporation in 1948 subject to the Government Corporation Control Act (31 U.S.C. § 9101 et seq.), as amended. While FHA was established as a separate federal entity, it was subsequently merged into the Department of Housing and Urban Development (HUD), when that department was created in 1965. FHA does not maintain a separate staff or facilities; its operations are conducted, along with other Housing activities, by HUD organizations. FHA is headed by HUD's Assistant Secretary for Housing and Federal Housing Commissioner, who reports to the Secretary of HUD.

FHA administers a wide range of activities to make mortgage financing more accessible to the home-buying public and to increase the availability of affordable housing to families and individuals, particularly to the nation's poor and disadvantaged. FHA insures private lenders against loss on mortgages, which finance single family homes, multifamily projects, healthcare facilities, property improvements, manufactured homes, and reverse mortgages, also referred to as Home Equity Conversion Mortgages (HECM). The objectives of activities carried out by FHA relate directly to the development of affordable housing.

FHA categorizes its insurance programs as Single Family (including Title 1), Multifamily, Healthcare, and HECM. Single Family activities support initial or continued home ownership; Title I activities support manufactured housing and property improvement. Multifamily and Healthcare activities support high-density housing and medical facilities. HECM activities support reverse mortgages, which allow homeowners 62 years of age or older to convert the equity in their homes into lump sum or monthly cash payments without having to repay the loan until the loan terminates.

FHA supports its insurance operations through five funds. The Mutual Mortgage Insurance fund (MMI), FHA's largest fund, provides basic Single Family mortgage insurance and is a mutual insurance fund, whereby mortgagors, upon non-claim termination of their mortgages, share surplus premiums paid into the MMI fund that are not required for operating expenses and losses or to build equity. The Cooperative Management Housing Insurance fund (CMHI), another mutual fund, provides mortgage insurance for management-type cooperatives. The General Insurance fund (GI), provides a large number of specialized mortgage insurance activities, including insurance of loans for property improvements, cooperatives, condominiums, housing for the elderly, land development, group practice medical facilities, nonprofit hospitals, and reverse mortgages. The Special Risk Insurance fund (SRI) provides mortgage insurance on behalf of mortgagors eligible for interest reduction payments who otherwise would not be eligible for mortgage insurance. To comply with the FHA Modernization Act of 2008, activities related to most Single Family programs, including HECM, endorsed in Fiscal Year 2009 and going forward, are in the MMI fund. The Single Family activities in the GI fund from Fiscal Year 2008 and prior remain in the GI fund. The Hope for Homeowners (H4H) program began on October 1, 2008 for Fiscal Year 2009 as a result of *The Housing and Economic Recovery Act of 2008*. This legislation required FHA to modify existing programs and initiated the H4H program and fund, which guaranteed loans for three years. No new H4H loans have been guaranteed since FY 2011.

For the Loan Guarantee Program at FHA, there are Single Family and Multifamily activities in both the MMI/CMHI and GI/SRI funds. The H4H fund only contains Single Family activity.

The following table illustrates how the primary Single Family program activities for FHA are now distributed between MMI/CMHI and GI/SRI funds based on the year of endorsement:

Fund	Loans Endorsed in Fiscal Years 2008 and Prior	Loans Endorsed in Fiscal Years 2009 and Onward
GI/SRI	234(c), HECM	N/A
MMI	203(b)	203(b), 234(c), HECM

In fiscal year 2010, FHA received appropriations for the Energy Innovation and Transformation Initiative programs. The Energy Innovation program is intended to catalyze innovations in the residential energy efficiency sector that have the ability to be replicated and to help create a standardized home energy efficient retrofit market. The appropriation for the Transformation Initiative was for combating mortgage fraud.

Basis of Accounting

The principal financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to federal agencies, as promulgated by the Federal Accounting Standards Advisory Board (FASAB). Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. The recognition and measurement of budgetary resources and their status for purposes of preparing the Combined Statement of Budgetary Resources (SBR), is based on concepts and guidance provided by the Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget* and the Federal Credit Reform Act of 1990. The format of the SBR is based on the SF 133, *Report on Budget Execution and Budgetary Resources*.

Basis of Consolidation

The accompanying principal financial statements include all Treasury Account Fund Symbols (TAFSs) designated to FHA, which consist of principal program funds, revolving funds, general funds and a deposit fund. All inter-fund accounts receivable, accounts payable, transfers in and transfers out within these

TAFSs have been eliminated to prepare the consolidated balance sheet, statement of net cost, and statements of changes in net position. The SBR is prepared on a combined basis as required by OMB Circular A-136, *Financial Reporting Requirements, Revised.*

Fund Balance with U.S. Treasury

Fund balance with U.S. Treasury consists of amounts collected from premiums, interest earned from Treasury, recoveries and appropriations. The balance is available to fund payments for claims, property and operating expenses and of amounts collected but unavailable until authorizing legislation is enacted (see Notes 2 and 3).

Investments

FHA investments include investments in U.S. Treasury securities and Multifamily Risk Sharing debentures. Under current legislation, FHA invests available MMI/CMHI capital reserve fund resources, in excess of its current needs, in non-marketable market-based U.S. Treasury securities. These U.S. Treasury securities may not be sold on public securities exchanges but do reflect prices and interest rates of similar marketable U.S. Treasury securities. Investments are presented at acquisition cost net of the amortized premium or discount. Amortization of the premium or discount is recognized monthly on investments in U.S. Treasury securities using the interest method in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 1 *Accounting for Selected Assets and Liabilities*, paragraph 71.

Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders where the lender shares the risk in a property by issuing debentures for the claim amount paid by FHA on defaulted insured loans.

Credit Reform Accounting

The Federal Credit Reform Act (FCRA) established the use of program, financing, general fund receipt and capital reserve accounts to separately account for transactions that are not controlled by the Congressional budget process. It also established the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991 (pre-Credit Reform). Credit reform financing accounts are reported as non-budgetary on the Combined Statement of Budgetary Resources based on OMB Circular A-136 guidance. FHA's program, capital reserve, and liquidating accounts are reported as budgetary.

In accordance with the SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees,* the program account receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a Non-Budgetary account that is used to record all the cash flows resulting from Credit Reform direct loans, assigned loans, loan guarantees and related foreclosed property. It includes loan disbursements, loan repayments and fees, claim payments, recoveries on sold collateral, borrowing from the U.S. Treasury, interest, negative subsidy and the subsidy cost received from the program account.

FHA has four general fund receipt accounts: the GI/SRI Negative Subsidy, the GI/SRI Downward Reestimate, the Homeownership Preservation Entity Fund Downward Reestimate, and the Capital Transfer Receipt Accounts. Negative subsidy is disbursed from the GI/SRI financing accounts to the Negative Subsidy Receipt Account. Downward reestimates are disbursed from the GI/SRI and Homeownership Preservation Entity funds to the Downward Reestimate Receipt Accounts. The GI/SRI Liquidating Account transfers the prior-year's unobligated balance to the Capital Transfer Receipt Account. FHA's receipt accounts are general fund receipt accounts, and these amounts are not earmarked for FHA's credit programs. Any assets in these accounts are non-entity assets and are offset by intragovernmental liabilities. At the end of the fiscal year, the fund balances in the receipt accounts are swept to Treasury's general fund.

Negative subsidy and downward reestimates in the MMI/CMHI fund are transferred to the Capital Reserve account. Capital Reserve balances are accumulated for unanticipated losses.

The liquidating account is used to record all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are available only for obligations incurred during that year or to repay debt. Unobligated balances remaining in the GI and SRI liquidating funds at year-end are transferred to the U.S. Treasury's general fund. Consequently, in the event that resources in the GI/SRI liquidating account are otherwise insufficient to cover the payments for obligations or commitments, the FCRA provides that the GI/SRI liquidating account can receive permanent indefinite authority to cover any resource shortages.

Loans Receivable and Related Foreclosed Property, Net

FHA's loan receivables include mortgage notes assigned (MNA), also described as Secretary-held notes, purchase money mortgages (PMM), notes related to partial claims, and direct loans relating to the Federal Financing Bank Risk Share program. Under the requirements of the FCRA, PMM notes are considered to be direct loans while MNA notes are considered to be defaulted guaranteed loans. The PMM loans are generated from the sales on credit of FHA's foreclosed properties to qualified non-profit organizations. The MNA notes are created when FHA pays the lenders for claims on defaulted guaranteed loans and takes assignment of the defaulted loans for direct collections. The majority of MNAs are HECM notes. HECM loans, while not in default, are assigned to HUD when they reach 98% of their maximum claim amount. In addition, Multifamily and Single Family performing notes insured pursuant to Section 221(g)(4) of the National Housing Act may be assigned automatically to FHA at a pre-determined point. Partial claims notes arise when FHA pays a loss mitigation amount to keep a borrower current on their loan. FHA, in turn, records a loan receivable which takes a second position to the primary mortgage.

In accordance with the FCRA and SFFAS No. 2, Credit Reform direct loans, defaulted guaranteed loans and related foreclosed property are reported at the net present value of expected cash flows associated with these assets, primarily from estimated proceeds less selling and maintenance costs. The difference between the cost of these loans and property and the net present value is called the Allowance for Subsidy. Pre-Credit Reform loans receivable and related foreclosed property in inventory are recorded at net realizable value which is based on recovery rates net of any selling expenses (see Note 7).

Loan Guarantee Liability

The net potential future losses related to FHA's central business of providing mortgage insurance are reflected in the Loan Guarantee Liability in the consolidated balance sheet. As required by SFFAS No. 2, the Loan Guarantee Liability includes the Credit Reform-related Liabilities for Loan Guarantees (LLG) and the pre-Credit Reform Loan Loss Reserve (LLR) (see Note 7).

The LLG is calculated as the net present value of anticipated cash outflows and cash inflows. Anticipated cash outflows include lender claims arising from borrower defaults (i.e., claim payments), premium refunds, property costs to maintain foreclosed properties arising from future defaults and selling costs for the properties. Anticipated cash inflows include premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes.

FHA records loss estimates for its Single Family LLR (includes MMI and GI/SRI) to provide for anticipated losses incurred (e.g., claims on insured mortgages where defaults have taken place, but claims have not yet been filed). Using the net cash flows (cash inflows less cash outflows), FHA computes an estimate based on conditional claim rates and loss experience data and adjusts the estimate to incorporate management assumptions about current economic factors.

FHA records loss estimates for its Multifamily LLR (includes CMHI and GI/SRI) to provide for anticipated outflows less anticipated inflows. Using the net present value of claims less premiums, fees, and recoveries, FHA computes an estimate based on conditional claim rates, prepayment rates, and recovery assumptions based on historical experience.

FHA establishes cohorts for its direct loan and loan guarantee programs using the Federal fiscal year. FHA's original subsidy estimates for a cohort use the Budget discount rates estimated for the upcoming Federal fiscal year rather than the actual Treasury discount rates for the fiscal year. Starting in fiscal year 2019, FHA is reporting interest rate reestimates for Loans Receivable and the LLG in addition to technical/default reestimates. FHA determined the need to report interest rate reestimates to account for the amount of interest that would have been earned or paid on the subsidy reestimate if the actual Treasury discount rates for the fiscal year had been used to calculate the original subsidy estimate.

Use of Estimates

The preparation of the principal financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable and related foreclosed property and the Loan Guarantee Liability represent FHA's best estimates based on pertinent information available.

FHA bases its estimates of the Allowance for Subsidy associated with loan receivables and related foreclosed property and the Liability for Loan Guarantees (LLG) on cash flow models. As described in Note 7, FHA uses cash flow model assumptions associated with loan guarantee cases subject to the FCRA to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, FHA develops assumptions based on historical data and current and forecasted program and economic assumptions. More details are provided in Note 7.

Certain programs have higher risks due to increased chances of fraudulent activities being perpetrated against FHA. FHA accounts for these risks through the assumptions used in the estimates of the LLG. FHA develops these assumptions based on historical performance and management's judgments about future loan performance.

General Property, Plant and Equipment

FHA does not maintain separate facilities. HUD purchases and maintains all property, plant and equipment used by FHA, along with other Office of Housing activities.

Current HUD policy concerning SFFAS No. 10, *Accounting for Internal Use Software,* states that HUD will either own the software or own the functionality provided by the software in the case of licensed or leased software. This includes "commercial off-the-shelf" (COTS) software, contractor-developed software, and internally developed software. FHA has several procurement actions in place and incurred expenses for software development are transferred to HUD to comply with departmental policy.

Appropriations

FHA receives appropriations for certain operating expenses for its program activities. FHA does not directly receive an appropriation for salaries and expense; instead, the FHA amounts are appropriated to HUD. To recognize these costs in FHA's Statement of Net Cost, a Transfer In from HUD is recorded based on amounts computed by HUD. Additionally, FHA receives appropriations for GI/SRI positive subsidy, upward reestimates, and permanent indefinite authority to cover any shortage of resources in the liquidating account.

Full Cost Reporting

To account for costs assumed by other Federal organizations on their behalf, SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards,* and SFFAS No. 55, *Amending Inter-Entity Cost Provisions,* require Federal agencies to report the full cost of program outputs in the financial statements. Full cost reporting includes all direct, indirect, and inter-entity costs. HUD allocates each responsibility segment's share of the program costs or resources provided by other federal agencies. As a responsibility segment of HUD, FHA's portion of these costs was $19 million for fiscal year 2019 and $18 million for fiscal year 2018, and it was included in FHA's financial statements as an imputed cost in the Consolidated Statement of Net Cost and as imputed financing in the Consolidated Statement of Changes in Net Position.

Distributive Shares

Excess revenues in the MMI/CMHI Fund may be distributed to mortgagors at the discretion of the Secretary of HUD. Such distributions are determined based on the funds' financial positions and their projected revenues and costs. No distributive share distributions have been declared from the MMI fund since the enactment of the National Affordable Housing Act (NAHA) in 1990.

Liabilities Covered by Budgetary Resources

Liabilities of Federal agencies are required to be classified as those covered and not covered by budgetary resources, as defined by OMB Circular A-136, and in accordance with SFFAS No. 1. In the event that available resources are insufficient to cover liabilities due at a point in time, FHA has authority to borrow monies from the U.S. Treasury (for post-1991 loan guarantees) or to draw on permanent indefinite appropriations (for pre-1992 loan guarantees) to satisfy the liabilities.

Liabilities Not Requiring Budgetary Resources

Liabilities that have not previously, nor will in the future, require the use of budgetary resources. These include clearing accounts, non-fiduciary deposit funds, custodial accounts and unearned revenue. FHA's General Fund receipt accounts also fall into this category.

Statement of Budgetary Resources

The Statement of Budgetary Resources has been prepared as a combined statement and as such, intra-entity transactions have not been eliminated. FHA has budget authority provided by law to enter into obligations to carry out its guaranteed and direct loan programs and their associated administrative costs. This budget authority would result in immediate or future outlays of federal funds. FHA's budgetary resources include current budgetary authority (i.e., appropriations and borrowing authority), unobligated balances brought forward from multi-year and no-year budget authority received in prior years, and recoveries of prior year obligations. Budgetary resources also include spending authority from offsetting collections credited to an appropriation or fund account.

Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not for new obligations, until that account is canceled. When accounts are canceled, five years after they expire, amounts are not available for obligation or expenditure for any purpose.

In fiscal year 2018, FHA included $119 million in HECM and Single-Family claim refunds received related to payments made in prior fiscal years in net outlays in the Statement of Budgetary Resources. FHA aligned its posting logic with US Treasury guidance for recording claim refunds related to prior-year payments in fiscal year 2019 to record claim refunds as a downward adjustment of prior-year paid delivered orders rather than as a reduction in delivered orders – obligations, paid. Additionally, FHA is now reporting this resource as unapportioned rather than apportioned. Had the posting logic been updated in fiscal year 2018, it would have resulted in an increase in fiscal year 2018 delivered orders, obligations paid, and an increase in unavailable resources. Due to the closing process, these differences did not impact current-year balances. Since the amount was immaterial and current-year balances were not impacted, FHA chose not to restate its fiscal year 2018 Statement of Budgetary Resources or the associated amounts reported in related notes (Note 19. Budgetary Resources - Collections and Note 20. Budgetary Resources - Obligations).

Public-Private Partnerships

FHA's portfolio is comprised of loan guarantees and direct loans for Single Family, Multifamily, and Healthcare programs. The structure of these loan guarantees and direct loans fall under the definition of Public-Private Partnerships (P3s), based on Conclusive Risk Characteristics established in SFFAS No. 49, *Public-Private Partnerships: Disclosure Requirements*. Most of the disclosure requirements are covered by FHA's compliance with other disclosure requirements, notably those required under SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees,* and are covered in this Note, as well as in Notes 6, 7, 12, 13, 14, 19 and 20. However, there are other SFFAS 49 specific disclosure requirements that are covered in Note 22.

Note 2. Non-Entity Assets

Non-entity assets consist of assets held by FHA that belong to other entities but are included in FHA's consolidated balance sheets. To reflect FHA's net position accurately, these non-entity assets are offset by various liabilities. FHA's non-entity assets as of September 30, 2019, and 2018, are as follows:

(Dollars in millions)

	FY 2019	FY 2018
Intragovernmental:		
Fund Balance with Treasury	$ 19	$ 17
Total Intragovernmental	19	17
Cash and Other Monetary Assets	22	22
Total Non-Entity Assets	41	39
Total Entity Assets	100,684	86,586
Total Assets	**$ 100,725**	**$ 86,625**

FHA's non-entity assets consist of escrow monies collected by FHA from the borrowers of its loans, and Fund Balance with Treasury from downward reestimates and negative subsidies captured in General Fund receipt accounts.

Cash and other monetary assets that are collected from FHA borrowers consist of escrow monies that are either deposited at the U.S. Treasury or minority-owned banks or invested in U.S. Treasury securities. Subsequently, FHA disburses these escrow monies to pay for maintenance expenses on behalf of the borrowers.

Note 3. Fund Balance with U.S. Treasury

FHA's fund balance with U.S. Treasury was comprised of the following as of September 30, 2019, and 2018:

(Dollars in millions)	FY 2019	FY 2018
Fund Balances:		
Revolving Funds	$ 13,253	$ 32,919
Appropriated Funds	255	250
Other Funds	749	521
Total	**$ 14,257**	**$ 33,690**
Status of Fund Balance with U.S. Treasury:		
Unobligated Balance --		
Available	$ 8,118	$ 9,851
Unavailable	2,123	20,007
Obligated Balance Not Yet Disbursed	4,016	3,832
Total	**$ 14,257**	**$ 33,690**

Revolving Funds

FHA's revolving funds include the liquidating and financing accounts as required by the FCRA. These funds are created to finance a continuing cycle of business-like operations in which the fund charges for the sale of products or services. These funds also use the proceeds to finance spending, usually without requirement of annual appropriations.

Appropriated Funds

FHA's appropriated funds consist of annual or multi-year program accounts that expire at the end of the time period specified in the authorizing legislation. For the five fiscal years after expiration, the resources are available only to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period that were not previously reported. At the end of the fifth year, the annual and multi-year program accounts are canceled, and any remaining resources are returned to the U.S. Treasury.

Other Funds

FHA's other funds include the general fund receipt accounts established under the FCRA and the deposit funds for the receipt of bid deposits for asset sales. Additionally, the capital reserve account is included with these funds and is used to retain the MMI/CMHI negative subsidy and downward credit subsidy reestimates transferred from the financing account. If upward credit subsidy reestimates are calculated or there is shortage of budgetary resources in the liquidating account, the capital reserve account will return the retained negative subsidy to the financing account or transfer the needed funds to the liquidating account, respectively.

Status of Fund Balance with U.S. Treasury

Unobligated Fund Balance with U.S. Treasury represents Fund Balance with U.S. Treasury that has not been obligated to purchase goods or services either because FHA has not received apportionment authority from OMB to use the resources (unavailable unobligated balance) or because FHA has not obligated the apportioned resources (available unobligated balance). Fund Balance with U.S. Treasury that is obligated but not yet disbursed consists of resources that have been obligated for goods or services but not yet disbursed either because the ordered goods or services have not been delivered or because FHA has not yet paid for goods or services received by the end of the fiscal year.

Note 4. Cash and Other Monetary Assets

(Dollars in millions)	FY 2019	FY 2018
With the Public:		
Escrow Monies Deposited at Minority-Owned Banks	$ 22	$ 22
Deposits in Transit	65	12
Total	**$ 87**	**$ 34**

Escrow Monies Deposited at Minority-Owned Banks

FHA holds in trust escrow monies received from the borrowers of its Multifamily mortgage notes to cover property repairs and renovation expenses. These escrow monies are deposited at the U.S. Treasury (see Note 2) or deposited at minority-owned banks.

Deposits in Transit

Deposits in Transit is cash that has not been confirmed as being received by the U.S. Treasury. Once the U.S. Treasury has confirmed that this cash has been received, the cash will be moved from Deposits in Transit to Fund Balance with U.S. Treasury.

Note 5. Investments

Investment in U.S. Treasury Securities

As discussed in Note 1, all FHA investments in Treasury securities are in non-marketable securities issued by the U.S. Treasury. These securities carry market-based interest rates. The market value of these securities is calculated using the bid amount of similar marketable U.S. Treasury securities as of September 30th.

FHA uses the straight-line amortization method for the interest accrual and amortization of discounts for its investments in short-term Treasury bills. In addition, FHA uses the effective interest rate method to account for bond discount accretion and bond premium amortization for its investments in long-term Treasury notes and bonds.

The cost, net amortized premium/discount, net investment, and market values of FHA's investments in U.S. Treasury securities as of September 30, 2019, were as follows:

(Dollars in millions)

FY 2019	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 50,003	$ 261	$ 50,264	$ 50,420
MMI/CMHI Accrued Interest			72	
Total	**$ 50,003**	**$ 261**	**$ 50,336**	**$ 50,420**

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2018, were as follows:

FY 2018	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 26,461	$ 236	$ 26,697	$ 26,678
Total	**$ 26,461**	**$ 236**	**$ 26,697**	**$ 26,678**

Investments in Private-Sector Entities

FHA's investments in private-sector entities include only Risk-sharing Debentures as of September 30, 2019. Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders under which the lender shares the risk in a property by issuing debentures for the claim amount paid by FHA on defaulted insured loans.

Investments in Private Sector Entities as of September 30, 2019, and 2018, were as follows:

(Dollars in millions)	Beginning Balance	Share of Earnings or Losses	Redeemed	Ending Balance
FY 2019				
Risk Sharing Debentures	8	-	(2)	$ 6
Total	**$ 8**	**$ -**	**$ (2)**	**$ 6**
FY 2018				
Securities Held Outside of Treasury	13	-	(13)	$ -
Risk Sharing Debentures	31	(17)	(6)	8
Total	**$ 44**	$ (17)	$ (19)	**$ 8**

Note 6. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2019, and 2018, are as follows:

	Gross		Allowance		Net	
(Dollars in millions)	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
With the Public:						
Receivables Related to Credit Program Assets	$ 49	$ 9	$ -	$ -	$ 49	$ 9
Premiums Receivables	-	1	-	-	-	1
Partial Claims Receivables	12	10	(4)	(5)	8	5
Generic Debt Receivables	73	181	(37)	(131)	36	50
Criminal Restitution Receivables	15	99	(8)	(70)	7	29
Settlements Receivables	21	26	-	-	21	26
Miscellaneous Receivables	16	17	-	-	16	17
Total	$ 186	$ 343	$ (49)	$ (206)	$ 137	$ 137

Receivables Related to Credit Program Assets

These receivables include asset sale proceeds receivables and rent receivables from FHA's foreclosed properties.

Premium Receivables

These amounts consist of the premiums due to FHA from the mortgagors at the end of the reporting period. The details of FHA's premium structure are discussed under Note 14 – Earned Revenue/Premium Revenue.

Partial Claim Receivables

Partial Claim receivables represents partial claims paid by FHA to mortgagees as part of its loss mitigation efforts to bring delinquent loans current for which FHA does not yet have the promissory note recorded.

Generic Debt Receivables

These amounts are mainly comprised of receivables from various sources, the largest of which are Single Family partial claims that have gone to collection, Single Family Indemnifications, and Single Family Restitutions.

Criminal Restitution Receivables

Effective Fiscal Year 2019, FHA is required to disclose Criminal Restitution Receivables separately from other receivables. Criminal restitutions are payments by an offender to a victim for harm caused by the offender's wrongful acts. FHA's criminal restitutions consist of criminal remedies for false claims and statements that resulted in individuals receiving Federal funds or benefits to which they were not entitled.

Settlement Receivables

Settlement receivables represent signed consent judgments that are approved by the courts but for which FHA has not received the funds.

Miscellaneous Receivables

Miscellaneous receivables include late charges and penalties receivables on delinquent premium receivables, refund receivables from overpayments of claims, distributive shares, and other immaterial receivables.

Allowance for Loss

The allowance for loss for these receivables is calculated based on FHA's historical loss experience and management's judgment concerning current economic factors.

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers

Direct Loan and Loan Guarantee Programs Administered by FHA include:

Single Family Forward Mortgages
Multifamily Mortgages
Healthcare Mortgages
Home Equity Conversion Mortgages (HECM)

FHA reports its insurance operations in four overall program areas: Single Family Forward mortgages, Multifamily mortgages, Healthcare mortgages, and Home Equity Conversion Mortgages (HECM). FHA operates these programs primarily through four insurance funds: Mutual Mortgage Insurance (MMI), General Insurance (GI), Special Risk Insurance (SRI), and Cooperative Management Housing Insurance (CMHI), with the MMI fund being the largest. There is a fifth fund, Hope for Homeowners (H4H), that became operational in fiscal year 2009 and only contains minimal activity. For financial reporting purposes, FHA combines the presentation of the GI/SRI and MMI/CMHI programs.

FHA encourages homeownership through its Single Family Forward programs (Section 203(b), which is the largest program, and Section 234). These programs insure mortgage lenders against losses from default, enabling those lenders to provide mortgage financing on favorable terms to homebuyers. Multifamily Housing Programs (Section 213, Section 221(d)(4), Section 207/223(f), and Section 223(a)(7)) provide FHA insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects, such as apartment rentals and cooperatives. Healthcare programs (Section 232 and Section 242) enable low cost financing of healthcare facility projects and improve access to quality healthcare by reducing the cost of capital. The HECM program provides eligible homeowners who are 62 years of age and older access to the equity in their property with flexible terms.

Direct loan obligations and loan guarantee commitments made after fiscal year 1991, and the resulting direct loans or loan guarantees, are governed by the FCRA, as amended. SFFAS 2 requires that the present value of the subsidy costs, which arises from interest rate differentials, interest supplements, and defaults (net of recoveries, fee offsets, and other cash flows) associated with direct loans and loan guarantees, be recognized as a cost in the year the direct or guaranteed loan is disbursed. FHA Direct Loan and Loan Guarantee Programs and the related loan receivables, foreclosed property, and Loan Guarantee Liability as of September 30, 2019, and 2018, are described below.

In prior years, FHA interpreted the OMB Circular A-136 guidance to not explicitly require agencies to disclose interest rate reestimate activity. However, due to the expansion of the guidance in fiscal year 2019, FHA is reporting interest rate reestimates for Post-1991 Direct Loans and Loan Guarantees. The interest rate reestimate represents the change in the credit subsidy rate due to using actual Treasury rates as opposed to the budgeted rates in discounting the original subsidy-estimate cash flows.

Direct Loan Programs:

Starting in FY 2015, FHA began a Federal Financing Bank (FFB) Risk Share program, an inter-agency partnership between HUD, FFB and various Housing Finance Authorities (HFAs). The FFB Risk Share program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan with the public as an asset on its balance sheet, and conversely, borrowing from FFB as a liability. The program does not change the basic structure of Risk Sharing; it only substitutes FFB as the funding source. The HFAs originate and service the loans and share in any losses.

The cash flow model for the FFB direct loan program is developed by collecting and consolidating data from FHA's program and accounting systems. The model is based upon trends and assumptions of historical data and analysis and, where necessary, management's judgment. The model uses actual data through June of the current fiscal year and projections are used to estimate the direct loan cash flows for the 4th quarter. The model estimates total loan commitments and the percentage of commitments that will be disbursed prior to the end of the fiscal year.

Pre-1992 Direct Loans are reported under the allowance-for-loss method. Under the allowance-for-loss method, the nominal amount of the direct loans is reduced by an allowance for uncollectible amounts. Post-1991 direct loans are reported net of an allowance for subsidy at present value. The net loans receivable or the value of assets related to direct loans is not the same as expected proceeds from selling the loans.

Direct Loans Obligated (Pre-1992):
(Dollars in Millions)

September 30, 2019	GI/SRI - Multifamily	Total
Loan Receivables	$ 8	$ 8
Interest Receivables	14	14
Allowance	(4)	(4)
Total Value of Assets	$ 18	$ 18

September 30, 2018	GI/SRI - Multifamily	Total
Loan Receivables	$ 8	$ 8
Interest Receivables	14	14
Allowance	(4)	(4)
Total Value of Assets	$ 18	$ 18

Direct Loans Obligated (Post-1991):
(Dollars in Millions)

September 30, 2019	GI/SRI - Multifamily	Total
Loan Receivables	$ 1,969	$ 1,969
Interest Receivables	5	5
Allowance	306	306
Total Value of Assets	$ 2,280	$ 2,280

September 30, 2018	GI/SRI - Multifamily	Total
Loan Receivables	$ 1,666	$ 1,666
Interest Receivables	4	4
Allowance	203	203
Total Value of Assets	$ 1,873	$ 1,873

Total Amount of Direct Loans Disbursed (Post- 1991):
(Dollars in Millions)

Direct Loan Programs	FY 2019	FY 2018
GI/SRI		
Multifamily/Healthcare	324	488
GI/SRI Subtotal	$ 324	$ 488

In fiscal year 2019, FHA corrected the presentation of the total amount of direct loans disbursed (Post-1991) to include gross disbursements only. In prior years, FHA presented the net amount (gross disbursements less principle payments). The change resulted in a $15 million increase in the fiscal year 2018 presentation.

Subsidy Expense for Direct Loans:

September 30, 2019

	GI/SRI	Total
Multifamily/Healthcare		
FFB		
Financing	$ (66)	$ (66)
Fees and Other Collections	(1)	(1)
Other	18	18
Subtotal	$ (49)	$ (49)

September 30, 2018

	GI/SRI	Total
Multifamily/Healthcare		
FFB		
Financing	$ (76)	$ (76)
Fees and Other Collections	17	17
Other	18	18
Subtotal	(41)	(41)

Subsidy Expense for Reestimates:

(Dollars in millions)

FY 2019	Technical Reestimate	Total Reestimate
GI/SRI	$ (48)	$ (48)
Total	$ (48)	$ (48)

FY 2018		
GI/SRI	$ (103)	$ (103)
Total	$ (103)	$ (103)

Total Direct Loan Subsidy Expense:

Direct Loan Programs	FY 2019	FY 2018
GI/SRI	$ (98)	$ (145)
Total	$ (98)	$ (145)

Subsidy Rates for Direct Loans by Program and Component

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

September 30, 2019	Interest Differential	Default	Fees and Other Collections	Other	Total
GI/SRI					
Multifamily					
FFB	-17%	0%	-2%	5%	-14%

September 30, 2018	Interest Differential	Default	Fees and Other Collections	Other	Total
GI/SRI					
Multifamily					
FFB	-14%	0%	3%	3%	-8%

Schedule for Reconciling Subsidy Cost Allowance Balances:

(Dollars in Millions)

Beginning Balance, Changes, and Ending Balance	FY 2019	FY 2018
Beginning balance of the subsidy cost allowance	$ (203)	$ (37)
Add: subsidy expense for direct loans disbursed during the reporting years by component		
-Financing	(66)	(76)
- Fees and other collections	(1)	17
- Other subsidy costs	18	18
Total of the above subsidy expense components	$ (49)	$ (41)
Adjustments:		
- Fees received	1	1
- Subsidy allowance amortization	(3)	(3)
- Other	(3)	(19)
Ending balance of the subsidy cost allowance before reestimates	$ (258)	$ (99)
Add or subtract subsidy reestimates by component:		
Technical/Default Reestimate	(193)	(100)
Adjustment of prior years' credit subsidy reestimates	145	(3)
Total Technical/Default Reestimate	$ (48)	$ (103)
Ending balance of the subsidy cost allowance	**$ (306)**	**$ (202)**

Loan Guarantee Programs:

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method):

(Dollars in Millions)

FY 2019	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	$ 17	$ 1	$ 18
Foreclosed Property	4	9	13
Allowance for Loan Losses	(3)	(4)	(7)
Subtotal	**$ 18**	**$ 6**	**$ 24**
Multifamily/Healthcare			
Loan Receivables	$ -	$ 1,421	$ 1,421
Interest Receivables	-	243	243
Foreclosed Property	-	(5)	(5)
Allowance for Loan Losses	-	(587)	(587)
Subtotal	**$ -**	**$ 1,072**	**$ 1,072**
HECM			
Loan Receivables	$ -	$ 3	$ 3
Interest Receivables	-	1	1
Foreclosed Property	-	(2)	(2)
Allowance for Loan Losses	-	(1)	(1)
Subtotal	**$ -**	**$ 1**	**$ 1**
Total Guaranteed Loans	**$ 18**	**$ 1,079**	**$ 1,097**

(Dollars in Millions)

FY 2018	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	$ 17	$ -	$ 17
Foreclosed Property	4	9	13
Allowance for Loan Losses	(4)	(4)	(8)
Subtotal	**$ 17**	**$ 5**	**$ 22**
Multifamily/Healthcare			
Loan Receivables	$ -	$ 1,503	$ 1,503
Interest Receivables	-	234	234
Foreclosed Property	-	(5)	(5)
Allowance for Loan Losses	-	(616)	(616)
Subtotal	**$ -**	**$ 1,116**	**$ 1,116**
HECM			
Loan Receivables	$ -	$ 3	$ 3
Interest Receivables	-	1	1
Foreclosed Property	-	(2)	(2)
Allowance for Loan Losses	-	(3)	(3)
Subtotal	**$ -**	**$ (1)**	**$ (1)**
Total Guaranteed Loans	**$ 17**	**$ 1,120**	**$ 1,137**

*HECM loans, while not defaulted, have reached 98% of the maximum claim amount and have been assigned to FHA.

Defaulted Guaranteed Loans from Post-1991 Guarantees:

(Dollars in Millions)

FY 2019		MMI/CMHI		GI/SRI		H4H		Total
Guaranteed Loans								
Single Family Forward								
Loan Receivables	$	12,705	$	410	$	6	$	13,121
Foreclosed Property		1,005		13		-		1,018
Allowance		(4,584)		(147)		(3)		(4,734)
Subtotal	**$**	**9,126**	**$**	**276**	**$**	**3**	**$**	**9,405**
Multifamily/Healthcare								
Loan Receivables	$	-	$	735	$	-	$	735
Foreclosed Property		-		19		-		19
Allowance		-		(344)		-		(344)
Subtotal	**$**	**-**	**$**	**410**	**$**	**-**	**$**	**410**
HECM								
Loan Receivables	$	15,010	$	4,685	$	-	$	19,695
Interest Receivables		10,799		2,860		-		13,659
Foreclosed Property		142		151		-		293
Allowance		(7,925)		(3,030)		-		(10,955)
Subtotal	**$**	**18,026**	**$**	**4,666**	**$**	**-**	**$**	**22,692**
Total Guaranteed Loans	**$**	**27,152**	**$**	**5,352**	**$**	**3**	**$**	**32,507**

(Dollars in Millions)

FY 2018		MMI/CMHI		GI/SRI		H4H		Total
Guaranteed Loans								
Single Family Forward								
Loan Receivables	$	11,810	$	416	$	6	$	12,232
Foreclosed Property		1,004		23		-		1,027
Allowance		(5,682)		(201)		(5)		(5,888)
Subtotal	**$**	**7,132**	**$**	**238**	**$**	**1**	**$**	**7,371**
Multifamily/Healthcare								
Loan Receivables	$	-	$	693	$	-	$	693
Foreclosed Property		-		27		-		27
Allowance		-		(315)		-		(315)
Subtotal	**$**	**-**	**$**	**405**	**$**	**-**	**$**	**405**
HECM								
Loan Receivables	$	10,099	$	3,983	$	-	$	14,082
Interest Receivables		6,707		2,297		-		9,004
Foreclosed Property		82		108		-		190
Allowance		(5,208)		(2,812)		-		(8,020)
Subtotal	**$**	**11,680**	**$**	**3,576**	**$**	**-**	**$**	**15,256**
Total Guaranteed Loans	**$**	**18,812**	**$**	**4,219**	**$**	**1**	**$**	**23,032**

*HECM loans, while not defaulted, have reached 98% of the maximum claim amount and have been assigned to FHA.

Guaranteed Loans Outstanding:

(Dollars in Millions)

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding (FY 2019):		
MMI/CMHI		
Single Family Forward	$ 1,367,003	$ 1,224,225
Multifamily/Healthcare	827	773
MMI/CMHI Subtotal	**$ 1,367,830**	**$ 1,224,998**
GI/SRI		
Single Family Forward	$ 5,980	$ 3,786
Multifamily/Healthcare	150,722	137,399
GI/SRI Subtotal	**$ 156,702**	**$ 141,185**
H4H		
Single Family - 257	$ 69	$ 60
H4H Subtotal	**$ 69**	**$ 60**
Total	**$ 1,524,601**	**$ 1,366,243**
Guaranteed Loans Outstanding (FY 2018):		
MMI/CMHI		
Single Family Forward	$ 1,322,241	$ 1,192,283
Multifamily/Healthcare	763	718
MMI/CMHI Subtotal	**$ 1,323,004**	**$ 1,193,001**
GI/SRI		
Single Family Forward	$ 6,792	$ 4,427
Multifamily/Healthcare	140,955	129,317
GI/SRI Subtotal	**$ 147,747**	**$ 133,744**
H4H		
Single Family - 257	$ 75	$ 66
H4H Subtotal	**$ 75**	**$ 66**
Total	**$ 1,470,826**	**$ 1,326,811**

New Guaranteed Loans Disbursed (FY 2019):

(Dollars in Millions)

	Principal of Guaranteed Loans, Face Value	Amount of Principal Guaranteed
MMI/CMHI		
Single Family Forward	$ 214,570	$ 212,917
Multifamily/Healthcare	65	65
MMI/CMHI Subtotal	**$ 214,635**	**$ 212,982**
GI/SRI		
Single Family Forward	$ 61	$ 60
Multifamily/Healthcare	15,159	15,106
GI/SRI Subtotal	**$ 15,220**	**$ 15,166**
Total	**$ 229,855**	**$ 228,148**

New Guaranteed Loans Disbursed (FY 2018):

	Principal of Guaranteed Loans, Face Value	Amount of Principal Guaranteed
MMI/CMHI		
Single Family Forward	$ 208,985	$ 207,044
Multifamily/Healthcare	133	133
MMI/CMHI Subtotal	**$ 209,118**	**$ 207,177**
GI/SRI		
Single Family Forward	$ 80	$ 79
Multifamily/Healthcare	18,344	18,270
GI/SRI Subtotal	**$ 18,424**	**$ 18,349**
Total	**$ 227,542**	**$ 225,526**

Home Equity Conversion Mortgage (HECM):

HECM (reverse mortgages) are not included in the previous tables due to the unique nature of the program. Since the inception of the program, FHA has insured 1,131,919 HECM loans with a maximum claim amount of $279 billion. Of these 1,131,919 HECM loans insured by FHA, 472,485 loans with a maximum claim amount of $129 billion are still insured. As of September 30, 2019, the insurance-in-force (the outstanding balance of active loans that have not been assigned) was $88 billion. The insurance-in-force includes balances drawn by the mortgagor, interest accrued on the balances drawn, service charges, and mortgage insurance premiums. The maximum claim amount is the dollar ceiling to which the outstanding loan balance can grow before being assigned to FHA.

Home Equity Conversion Mortgage Loans Outstanding (not included in the balances in the previous table)

(Dollars in Millions)

Loan Guarantee Programs			Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximum Potential Liability
FY 2019	MMI/CMHI		$ 10,856	$ 64,211	$ 101,691
	GI/SRI		-	23,697	26,892
		Total	**$ 10,856**	**$ 87,908**	**$ 128,583**
FY 2018	MMI/CMHI		$ 16,189	$ 72,389	$ 111,278
	GI/SRI		-	27,699	32,611
		Total	**$ 16,189**	**$ 100,088**	**$ 143,889**

The support for the HECM insurance-in-force amounts are derived from FHA's Home Equity Reverse Mortgage Information Technology (HERMIT) system. FHA identified a $3 billion overstatement of the fiscal year 2018 Outstanding Balance and Maximum Potential Liability columns in the HECM insurance-in-force note disclosure. In fiscal year 2019, the HERMIT cohort report was updated to reflect only active loans for which HECM assignment claims had not been paid.

Loan Guarantee Liability, Net:

(Dollars in Millions)

FY 2019	MMI/CMHI	GI/SRI	H4H	Total
LLG				
Single Family Forward	$ (10,902)	$ 175	$ 2	$ (10,725)
Multifamily/Healthcare	(35)	(3,854)	-	(3,889)
HECM	8,598	8,584	-	17,182
Subtotal	**$ (2,339)**	**$ 4,905**	**$ 2**	**$ 2,568**
Loan Guarantee Liability Total	**$ (2,339)**	**$ 4,905**	**$ 2**	**$ 2,568**

FY 2018	MMI/CMHI	GI/SRI	H4H	Total
LLR				
Single Family Forward	$ 2	$ -	$ -	$ 2
Multifamily/Healthcare	-	(1)	-	(1)
Subtotal	**$ 2**	**$ (1)**	**$ -**	**$ 1**
LLG				
Single Family Forward	$ (1,166)	$ 227	$ 18	$ (921)
Multifamily/Healthcare	(38)	(4,082)	-	(4,120)
HECM	14,899	9,248	-	24,147
Subtotal	**$ 13,695**	**$ 5,393**	**$ 18**	**$ 19,106**
Loan Guarantee Liability Total	**$ 13,697**	**$ 5,392**	**$ 18**	**$ 19,107**

Subsidy Expense for Loan Guarantees by Program and Component:

(Dollars in millions)

FY 2019	MMI/CMHI	GI/SRI	Total
Single Family Forward			
Defaults	$ 5,264	$ 3	$ 5,267
Fees and Other Collections	(14,148)	(4)	(14,152)
Other	2,016	-	2,016
Subtotal	**$ (6,868)**	**$ (1)**	**$ (6,869)**
Multifamily/Healthcare			
Defaults	$ 2	$ 117	$ 119
Fees and Other Collections	(5)	(563)	(568)
Other	1	-	1
Subtotal	**$ (2)**	**$ (446)**	**$ (448)**
HECM			
Defaults	$ 425	$ -	$ 425
Fees and Other Collections	(442)	-	(442)
Subtotal	**$ (17)**	**$ -**	**$ (17)**
Total	**$ (6,887)**	**$ (447)**	**$ (7,334)**

FY 2018	MMI/CMHI	GI/SRI	Total
Single Family Forward			
Defaults	$ 5,058	$ 4	$ 5,062
Fees and Other Collections	(13,672)	(6)	(13,678)
Other	1,965	-	1,965
Subtotal	**$ (6,649)**	**$ (2)**	**$ (6,651)**
Multifamily/Healthcare			
Defaults	$ 3	$ 202	$ 205
Fees and Other Collections	(9)	(848)	(857)
Other	1	-	1
Subtotal	**$ (5)**	**$ (646)**	**$ (651)**
HECM			
Defaults	$ 635	$ -	$ 635
Fees and Other Collections	(714)	-	(714)
Subtotal	**$ (79)**	**$ -**	**$ (79)**
Total	**$ (6,733)**	**$ (648)**	**$ (7,381)**

Subsidy Expense for Modification and Reestimates:

(Dollars in millions)

FY 2019	Interest Rate Reestimate	Technical Reestimate	Total Reestimate
MMI/CMHI	$ (129)	$ (17,051)	$ (17,180)
GI/SRI	(34)	(108)	(142)
H4H	-	(19)	(19)
Total	$ (163)	$ (17,178)	$ (17,341)
FY 2018			
MMI/CMHI	$ (2,931)	$ 2,425	$ (506)
GI/SRI	(36)	(966)	(1,002)
Total	$ (2,967)	$ 1,459	$ (1,508)

Total Loan Guarantee Subsidy Expense:

(Dollars in millions)

	FY 2019	FY 2018
MMI/CMHI	$ (24,067)	$ (7,239)
GI/SRI	(589)	(1,650)
H4H	(19)	-
Total	$ (24,675)	$ (8,889)

Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

(Percentage)	Defaults	Fees and Other Collections	Total
Budget Subsidy Rates for FY 2019 Loan Guarantees:			
MMI/CMHI			
Single Family			
SF - Forward	3.58	(6.79)	(3.21)
SF - HECM	4.45	(4.60)	(0.15)
Multifamily			
MF - Default CMHI- (Cooperatives)	3.58	(6.79)	(3.21)
GI/SRI			
Single Family			
Title I - Manufactured Housing	6.09	(9.96)	(3.87)
Title I - Property Improvements	4.43	(5.43)	(1.00)
Multifamily			
Apartments - NC/SC 10/01/2018 - 05/13/2019	1.34	(1.54)	(0.20)
Apartments - NC/SC 05/14/2019 - Current	1.34	(1.53)	(0.19)
Tax Credit Projects 10/01/2018 - 05/13/2019	0.26	(2.75)	(2.49)
Tax Credit Projects 05/14/2019 - Current	0.26	(2.73)	(2.47)
Apartments- Refinance	0.09	(3.36)	(3.27)
HFA Risk Share	0.01	(0.23)	(0.22)
Other Rental 10/01/2018 - 05/13/ 2019	0.65	(1.54)	(0.89)
Other Rental 05/14/2019 - Current	0.65	(1.52)	(0.87)
Healthcare			
MF - FHA Full Insurance - Health Care	1.47	(7.28)	(5.81)
MF - Health Care Refinance	0.94	(6.17)	(5.23)
MF - Hospitals (includes refi., and Suppl. Loan)	1.46	(7.05)	(5.59)

(Percentage)	Defaults	Fees and Other Collections	Total
Budget Subsidy Rates for Loan Guarantees for 2018 Cohort:			
MMI/CMHI			
Single Family			
SF - Forward	2.42	(5.60)	(3.18)
SF - HECM	3.92	(4.41)	(0.49)
Multifamily			
MF - CMHI- (Cooperatives)	2.42	(5.60)	(3.18)
GI/SRI			
Single Family			
Title I - Manufactured Housing	5.79	(10.15)	(4.36)
Title I - Property Improvements	4.35	(5.82)	(1.47)
Multifamily			
Apartments - NC/SC	2.20	(3.81)	(1.61)
Tax Credit Projects	0.89	(2.52)	(1.63)
Apartments- Refinance	0.28	(4.20)	(3.92)
HFA Risk Share	0.01	(0.28)	(0.27)
Other Rental	0.94	(4.62)	(3.68)
Healthcare			
FHA Full Insurance - Health Care	1.45	(8.49)	(7.04)
Health Care Refinance	0.67	(6.61)	(5.94)
Hospitals	1.52	(6.75)	(5.23)

Schedule for Reconciling Loan Guarantee Liability Balances:

	FY 2019		FY 2018	
(Dollars in Millions)	LLR	LLG	LLR	LLG
Beginning Balance of the Loan Guarantee Liability	$ 1	$ 19,106	$ 8	$ 20,608
Add: Subsidy Expense for guaranteed loans disbursed during the reporting fiscal years by component:				
Default Costs (Net of Recoveries)	-	5,811	-	5,902
Fees and Other Collections	-	(15,162)	-	(15,249)
Other Subsidy Costs	-	2,017	-	1,966
Total of the above subsidy expense components	-	**(7,334)**	-	**(7,381)**
Adjustments:				
Fees Received	$ -	$ 14,146	$ -	$ 14,012
Foreclosed Property and Loans Acquired	-	15,951	-	$ 10,341
Claim Payments to Lenders	-	(21,618)	-	$ (17,692)
Interest Accumulation on the Liability Balance	-	(434)	-	$ 434
Other	(1)	91	$ (7)	$ 292
Ending Balance before Reestimates	**$ -**	**$ 19,908**	**$ 1**	**$ 20,614**
Add or Subtract Subsidy Reestimates by Component:				
Technical/Default Reestimate		$ (11,775)		$ (6,569)
Interest Rate Reestimate		(162)		(2,967)
Adjustment of prior years' credit subsidy reestimates		(5,403)	-	8,028
Total of the above reestimate components	-	(17,340)	-	(1,508)
Ending Balance of the Loan Guarantee Liability	**$ -**	**$ 2,568**	**$ 1**	**$ 19,106**

Administrative Expense:

(Dollars in Millions)	FY 2019	FY 2018
MMI/CMHI	$ 748	$ 723
Total	$ 748	$ 723

Other Information on Foreclosed Property:

Additional information on FHA foreclosed property as of September 30, 2019, and 2018, is as follows:

	FY 2019	FY 2018
Average number of days in inventory for Sold Cases	138	136
End of Fiscal Year active inventory	7,606	7,968

This chart reports the average holding period for FHA foreclosed property and the total number of foreclosed properties on-hand as of September 30, 2019. Foreclosed properties are primarily Single Family properties, and the amounts reported above include both Single Family Forward and HECM foreclosed properties.

Restrictions on the use/disposal of foreclosed property:

The balance relating to foreclosures as of September 30, 2019, is comprised of only Single Family properties. There are no Multifamily properties currently in inventory.

The Secretary has the authority under the National Housing Act (12 U.S.C 1710 (g)) to manage or dispose of eligible HUD-owned property assets in a manner that will provide affordable, safe and sanitary housing to low-wealth families, preserve and revitalize residential neighborhoods, expand homeownership opportunities, minimize displacement of tenants residing in rental or cooperative housing, and protect the financial interest of the Federal government.

Single Family properties may be sold to eligible entities (24 CFR 291.303) through public asset sales. Eligibility of bidders will be determined by the Secretary and included in the bid package with a notice filed in the Federal Register. In addition, HUD must ensure that its policies and practices in conducting the Single-Family property disposition program do not discriminate on the basis of disability (24 CFR 9.155(a)).

Credit Reform Valuation Methodology

FHA values its Credit Reform Loan Liability Guaranty (LLG) and related receivables from notes and property inventories at the net present value of their estimated future cash flows.

To apply the present value computations, FHA divides loans into cohorts and "risk" categories. Multifamily and Healthcare cohorts are defined based on the year in which loan guarantee commitments are made. Single Family mortgages are grouped into cohorts based on loan endorsement dates for the GI/SRI and MMI fund. Within each cohort year, loans are subdivided into product groupings, which are referred to as risk categories in federal budget accounting. Each risk category has characteristics that distinguish it from others, including loan performance patterns, premium structure, and the type and quality of collateral underlying the loan. For activity related to fiscal years 1992-2008, the MMI Fund has one risk category, and for activity related to fiscal years 2009 and onward, the MMI Fund has two risk categories. The second category is for HECM loans, which joined the MMI Fund group of programs in 2009. The Single Family GI/SRI loans are grouped into four risk categories. Also, in the GI/SRI Fund, there are nine multifamily risk categories and three health care categories.

The use of the significant assumptions detailed below determines the cash flow estimates that underlie the present value calculations.

Significant Assumptions – FHA developed economic and financial models in order to estimate the present value of future program cash flows. The models incorporate information on the expected magnitude and timing of each cash flow. The models rely heavily on the following loan performance assumptions:

- Conditional Termination Rates: The estimated probability of an insurance policy claim or non-claim termination in each year of the loan guarantee's term, given that a loan survives until the start of that year.
- Claim Amount: The estimated amount of the claim payment relative to the unpaid principal balance at the time the claim occurs.
- Recovery Rates: The estimated percentage of a claim payment or defaulted loan balance that is recovered through disposition of a mortgage note or underlying property.

FHA uses the beginning of year (BOY) discount period methodology to calculate its liquidating mid-year reestimate and the year-end financial statement reestimate interest expense and reestimate subsidy. This discount period methodology is consistent with OMB's Credit Subsidy Calculator and with the subsidy and interest allocation being published in the President' Budget and Federal Credit Supplement.

Additional information about loan performance assumptions is provided below:

Sources of data: FHA developed assumptions for claim rates, prepayment rates, claim amounts, and recoveries based on historical data obtained from its internal business systems.

Economic assumptions: Independent forecasts of economic conditions are used in conjunction with loan-level data to generate Single Family, Multifamily, and Healthcare claim and prepayment rates. OMB provides the central economic assumptions used, such as interest rates, house price appreciation and the discount rates used against the cash flows. Other sources are used to distribute the central assumptions geographically.

Reliance on historical performance: FHA relies on the historical performance of its insured portfolio to generate behavioral response functions that are applied to economic forecasts to generate future performance patterns for the outstanding portfolio. Changes in legislation, program requirements, tax treatment, and economic factors all influence loan performance. FHA assumes that its portfolio will continue to perform consistently with its historical experience and reflect changes to program terms over time, respecting differences due to current loan characteristics and forecasted economic conditions.

Current legislation and regulatory structure: FHA considered its future plans allowed under current legislative authority in formulating assumptions when relevant. In contrast, future changes in legislative authority may affect the cash flows associated with FHA insurance programs. FHA does not reflect such potential changes in LLG.

Discount rates: The disbursement-timing-weighted interest rates on U.S. Treasury securities of maturities comparable to the terms of the guaranteed loans create the discount factors used in the present value calculations for cohorts 1992 to 2000. For the 2001 and future cohorts, the rates on U.S. Treasury securities of maturities comparable to the cash flow timing for the loan guarantees are used in the present value calculations. This latter methodology is referred to as the basket-of-zeros discounting methodology. OMB provides these rates to all Federal agencies for use in preparing credit subsidy estimates and requires their use under OMB Circular A-11, Part 4, and "Instructions on Budget Execution." The basket-of-zeros discount factors are also disbursement weighted.

Analysis of Change in the Liability for Loan Guarantees

FHA has estimated and reported on LLG calculations since fiscal year 1992. Over this time, FHA's reported LLG values have shown measurable year-to-year variance. That variance is caused by four factors: (1) adding a new year of insurance commitments each year, (2) an additional year of actual loan performance data used to calibrate forecasting models, (3) revisions to the methodologies employed to predict future loan performance, (4) changes in economic assumptions, and (5) programmatic/policy changes that affect the characteristics of insured loans or potential credit losses.

Described below are the programs that comprise the majority of FHA's loan guarantee business. These descriptions highlight the factors that contributed to changing LLG estimates for FY 2019.

Mutual Mortgage Insurance (MMI) – On net, the MMI Fund LLG decreased to -$2,339 million at the end of fiscal year 2019. The decrease in liability can be attributed to model methodology changes, changes in economic forecasts and actual loan performance.

MMI Single Family Forward: The model methodology used for the fiscal year 2019 SF Forward LLG is similar to the 2018 methodology. The models use historical data to generate claim and prepayment probabilities based on various borrower and loan-specific factors. These projections feed a Cash Flow Model (CFM). The CFM discounts all cohort years using the latest Single Effective Rate (SER) specific to each cohort; in accordance with Federal Credit Reform Modeling guidelines. As with the 2018 LLG, the 2019 LLG estimate uses a single path (President's Economic Assumption released in June 2019) to compute the expected net present value of the future cash flows.

MMI Home Equity Conversion Mortgage (HECM): Like the SF Forward program, in 2019, the HECM LLG was modeled first by using actuarial and econometric models to estimate the termination probability for each loan. A HECM termination event was grouped into three (3) categories: borrower death, borrower move out of subject property, or borrower refinance of subject property. These projections are used in calculating the LLG in the CFM. The CFM discounts all cohort years using the latest Single Effective Rate (SER) specific to each cohort, in accordance with Federal Credit Reform Modeling guidelines. As with the 2018 LLG, the 2019 LLG estimate uses a single path (President's Economic Assumption released in June 2019) to compute the expected net present value of the future cash flows.

GI/SRI (HECM) - HECM endorsements from fiscal years 1990-2008 remain in the GI/SRI Fund. Estimation of the GI/SRI HECM LLG is consistent with that of the MMI HECM LLG estimation. The liability for these loans decreased to $8,584 million at the end of FY 2019, reflecting the winding down of the pre-2009 HECM cohorts. This liability is driven more by long-term house price appreciation forecasts than short-term forecasts. Most of the remaining GI/SRI HECM loans have adjustable interest rates, which impact the LLG through their influence on unpaid balances, claims, and recovery rates.

GI/SRI Section 223(f) - Section 223(f) of the National Housing Act permits FHA mortgage insurance for the refinance or acquisition of existing multifamily rental properties consisting of five or more units. Under this program, FHA may insure up to 85 percent of the lesser of the project's appraised value or its replacement cost. Projects insured under the program must be at least three years old. The Section 223(f) program is the largest multifamily program in the GI/SRI fund with an insurance-in-force of $35.1 billion. The Section 223(f) liability is negative, meaning that the present value of expected future premium revenues is greater than the present value of expected future (net) claim expenses. The 223(f) liability marginally increased this year by $ 23 million, from ($1,561) million to ($1,538) million, due to slightly higher claim expectations.

GI/SRI Section 223(a)(7) - Section 223(a)(7) gives FHA authority to refinance FHA-insured loans. Under this program, the refinanced principal amount of the mortgage may be the lesser of the original amount of the existing mortgage or the remaining unpaid principal balance of the loan. Loans insured under any sections of the National Housing Act may be refinanced under 223(a)(7), including those already under 223(a)(7). The Section 223(a)(7) program has an insurance-in-force of $19.9 billion. The Section 223(a)(7) liability is negative, meaning that the present value of expected future premium revenues is greater than the present value of expected future (net) claim expenses. The 223(a)(7) liability increased this year by $102 million, from ($578) million to ($476) million due to higher claim expectations.

GI/SRI Section 221(d)(4) - Section 221(d)(4) of the National Housing Act authorizes FHA mortgage insurance for the construction or substantial rehabilitation of multifamily rental properties with five or more units. Under this program, FHA may insure up to 90 percent of the total project cost. This is the third largest multifamily program in the GI/SRI fund with an insurance-in-force of $16.9 billion. The Section 221(d)(4) liability decreased by $107 million this year, from ($203) million to ($310) million, due to lower claim projections.

GI/SRI Section 232 Healthcare New Construction (NC) - The Section 232 NC program provides mortgage insurance for construction or substantial rehabilitation of nursing homes and assisted-living facilities. FHA insures a maximum of 90 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 NC program has an insurance-in-force of $3.1 billion. The Section 232 NC liability decreased by $27 million this year, from ($97) million to ($124) million, due to lowered claim projections.

GI/SRI Section 232 Healthcare Purchasing or Refinancing - The Section 232 Refinance program provides mortgage insurance for two purposes: purchasing or refinancing of projects that do not need substantial rehabilitation and installation of fire safety equipment for either private, for-profit businesses, or non-profit associations. For existing projects, FHA insures a maximum of 85 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 Refinance program has an insurance-in-force of $25 billion. The Section 232 Refinance liability increased by $268 million this year, from ($933) million to ($665) million, due to lower premium revenue resulting from an increase in prepayment projections.

GI/SRI Section 242 Hospitals - The Section 242 Hospitals program provides mortgage insurance for the construction, substantial rehabilitation, or refinance of hospitals and/or the purchase of major hospital equipment to either private, for-profit businesses, or non-profit associations. FHA insures a maximum of 90 percent of the estimated replacement cost of the hospital, including the installed equipment. The Section 242 program has an insurance-in-force of $7.3 billion. The Section 242 liability increased by $24 million this year from ($218) million to ($194) million due to slightly higher claim expectations.

Risks to LLG Calculations

LLG calculations for some programs now use Monte Carlo simulations and stochastic economic forecasts. What is booked as an LLG value is the average or arithmetic "mean" value from a series of projections that view loan portfolio performance under a large variety of possible economic circumstances. The individual economic scenario forecasts are designed to mimic the types of movements in factors such as home prices, interest rates, and apartment vacancy rates that have occurred in the historical record. By creating many these scenarios, each independent of the others, one creates a universe of potential outcomes that define the possible set of LLG values in an uncertain world. Using the mean value across all forecast scenarios is valuable for providing some consideration for "tail risk." Tail risk occurs in most loan guarantee portfolios because potential losses under the worst scenarios are multiples of potential gains under the best scenarios. The inclusion of tail events in the mean-value calculation creates an addition to LLG, which is the difference between the mean value from the simulations and the median value. The median is the point at which half of the outcomes are worse and half are better. By booking a mean value rather than a median, FHA is essentially providing some additional protection in its loss reserves against adverse outcomes. At the same time, booking an LLG based on a mean value results in a better than even chance future revisions will be in the downward direction.

The uncertainty built into Monte Carlo forecasts is only for economic risk, and not for model risk. All LLG values are fundamentally dependent upon forecasts of insured-loan performance. Those forecasts are developed through models that apply statistical, economic, financial, or mathematical theories, techniques, and assumptions to create behavioral-response functions from historical data. All such models involve risk that actual behavior of borrowers and lenders in the future will differ from the historical patterns embedded in the forecasting models. Model risk also emanates from the possibility that the computer code used to create the forecasts has errors or omissions which compromise the integrity and reliability of projections.

Each year, FHA works with its contractors to evaluate the forecasting models for reasonableness of results on several dimensions. Model risk is also addressed through a continuous cycle of improvement, whereby lessons learned from the previous round of annual portfolio valuations—in the independent actuarial studies, LLG valuations, and President's Budget—are used as a basis for new research and model development in the current year.

For the SF Forward mortgage programs, LLG risk comes from claims, recoveries, and premiums. Claims and recoveries are largely dependent on house price appreciation and local market conditions such as demand to supply ratio and share of homes in foreclosure status. FHA recoveries are also dependent on the type of claim disposition. Various disposition types such as pre-foreclosure sale, CWCOT, and Note Sales typically recover more funds for FHA than REOs. Premiums are driven by FHA policy, industry demand for FHA products, and interest rate outlook, which determines the incentive of refinances. Generally, risk comes from portfolio characteristics, market and prevailing economic conditions.

For both HECM funds (GI/SRI and MMI cohorts), LLG risk comes from claims, recoveries and premiums. Claims and recoveries are largely dependent on house price appreciation and borrower behavior such as home maintenance and ability to meet property tax and insurance obligations. Premiums are driven by FHA policy and interest rates which determine the growth of HECM unpaid principal balances (UPB). Generally, risk comes from portfolio characteristics, market and prevailing economic conditions.

For Multifamily programs, LLG risk comes from claims, recoveries, and premiums. Claims and recoveries are dependent on continued rental-income trends and rental-price growth. Premiums are driven by FHA policy and industry demand for FHA products. Generally, risk comes from market, economic, and demographic influences such as changes in local employment conditions, the supply of rental housing in each market where FHA has a presence, population growth, and household formation. FHA's policy of insuring loans pre-construction in its 221(d)(4) program subject LLG calculations to risk from their capability to operate post-construction.

For Healthcare programs (Sections 232 and 242), LLG risk comes principally from healthcare reimbursement rates from Medicare and Medicaid. In addition, the financial health of State and Municipal government entities also is a source of LLG risk, as many of the FHA-insured projects benefit, in part, from periodic cash infusions from those entities. Risk also varies as does the quality of business management at each facility, and from the supply of medical care in each community relative to demand and the abilities of facility management to adapt to changing technologies and the competitive landscape. These are factors for which it is difficult to predict future trends.

Pre-Credit Reform Valuation Methodology

FHA values its Pre-Credit Reform related notes and properties in inventory at net realizable value, determined based on net cash flows. To value these items, FHA uses historical claim data, revenues from premiums and recoveries, and expenses of selling and maintaining property.

Note 8. Accounts Payable

Accounts Payable as of September 30, 2019, and 2018, are as follows:

(Dollars in millions)

	FY 2019	FY 2018
Intragovernmental:		
Claims Payable to Ginnie Mae	$ -	$ 1
Miscellaneous Payables to Other Federal Agencies	1	1
Total	**$ 1**	**$ 2**

	FY 2019	FY 2018
With the Public:		
Claims Payable	$ 192	$ 285
Premium Refunds Payable	141	142
Single Family Property Disposition Payable	33	43
Miscellaneous Payables	80	85
Total	**$ 446**	**$ 555**

Claims Payable to Ginnie Mae

Payables to the Government National Mortgage Association (Ginnie Mae) consist of claim payments to Ginnie Mae for FHA-insured mortgages in Ginnie Mae mortgage-backed pools.

Miscellaneous Payables to Other Federal Agencies

Miscellaneous payables to other Federal agencies consist of the net of custodial collections made and expenses incurred by FHA for the sale of Public and Indian Housing (PIH) property. The net of the two components are returned to PIH.

Claims Payables

Claims payables represent the amount of claims that have been processed by FHA, but for which the disbursement of payment to lenders has not taken place at the end of the reporting period.

Premium Refunds Payables

Premium refund payables are refunds of previously collected Single Family premiums that will be returned to borrowers based on their prepayment of insured mortgages

Single Family Property Disposition Payables

Single family property disposition payables include management and marketing contracts and other property disposition expenses related to foreclosed property.

Miscellaneous Payables

Miscellaneous payables include interest enhancement payables, interest penalty payables for late payment of claims, generic debt payables and other payables related to various operating areas within FHA.

Note 9. Debt

The following tables describe the composition of Debt held by FHA as of September 30, 2018, and 2019:

(Dollars in millions)

	2018 Beginning Balance	2018 Net Borrowings	2018 Ending Balance	2019 Beginning Balance	2019 Net Borrowings	2019 Ending Balance
Other Debt:						
Debt to FFB	1,187	484	1,671	1,671	304	1,974
Debt to Treasury	27,954	(3,246)	24,708	24,708	5,677	30,386
Total	**$ 29,141**	**$ (2,762)**	**$ 26,379**	**$ 26,379**	**$ 5,981**	**$ 32,360**

	FY 2018	FY 2019
Classification of Debt:		
Intragovernmental Debt	$ 26,379	$ 32,360
Total	**$ 26,379**	**$ 32,360**

Debt to the Treasury

In accordance with Credit Reform accounting, FHA borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amounts related to new loan disbursements and existing loan modifications from the financing accounts to the general fund receipt account (for cases in GI/SRI funds) or to the capital reserve account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward reestimates from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

During fiscal year 2019, FHA's U.S. Treasury debt carried interest rates ranging from 1.02 percent to 7.59 percent, and the maturity dates for these debts range from September 2018 to September 2030. Loans may be repaid in whole or in part without penalty at any time prior to maturity.

Debt to the Federal Financing Bank

Starting in FY 2015, FHA began a Federal Financing Bank (FFB) Risk Share program, an inter-agency partnership between HUD, FFB and the Housing Finance Authorities (HFAs). The FFB Risk Share program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA borrows from the FFB to disburse direct loans.

During fiscal year 2019, FHA's FFB debt carried interest rates ranging from 2.60 percent to 3.04 percent, and the maturity dates for the FFB debt range from November 2049 to September 2059.

Note 10. Other Liabilities

The following table describes the composition of Other Liabilities as of September 30, 2019, and 2018:

(Dollars in millions)

FY 2019	Current
Intragovernmental:	
Receipt Account Liability	$ 3,219
Total	**$ 3,219**
With the Public:	
Trust and Deposit Liabilities	$ 42
Multifamily Notes Unearned Revenue	262
Premiums collected on unendorsed cases	380
Miscellaneous Liabilities	82
Total	**$ 766**

FY 2018	Current
Intragovernmental:	
Receipt Account Liability	2,787
Total	**$ 2,787**
With the Public:	
Trust and Deposit Liabilities	$ 39
Multifamily Notes Unearned Revenue	252
Premiums collected on unendorsed cases	212
Miscellaneous Liabilities	79
Total	**$ 582**

Receipt Account Payable Liability

The receipt account payable liability is created from downward credit subsidy reestimates in the GI/SRI receipt account.

Trust and Deposit Liabilities

Trust and deposit liabilities include mainly escrow monies received by FHA for the borrowers of its mortgage notes and earnest money received from potential purchasers of the FHA foreclosed properties. The escrow monies are eventually disbursed to pay for maintenance expenses on behalf of the borrowers. The earnest money becomes part of the sale proceeds or is returned to any unsuccessful bidders.

Multifamily Notes Unearned Revenue

Multifamily Notes unearned revenue primarily includes the deferred interest revenue on Multifamily notes that are based on work-out agreements with the owners. The work-out agreements defer payments from the owners for a specified time, but the interest due on the notes continues to accrue.

Premiums Collected on Unendorsed Cases

Premiums collected on unendorsed cases are mortgage insurance premium amounts collected by FHA for cases that have yet to be endorsed.

Miscellaneous Liabilities

Miscellaneous liabilities mainly include disbursements in transit (cash disbursements pending Treasury confirmation), unearned premium revenue, and any loss contingencies that are recognized by FHA for past events that warrant a probable, or likely, future outflow of measurable economic resources.

Note 11. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

Description	2019	2018
Total Liabilities Not Covered by Budgetary Resources	-	-
Total Liabilities Covered by Budgetary Resources	36,119	46,604
Total Liabilities Not Requiring Budgetary Resources	3,241	2,808
Total Liabilities	**$ 39,360**	**$ 49,412**

Total Liabilities Not Covered by Budgetary Resources – FHA has no liabilities not covered by budgetary resources.

Total Liabilities Covered by Budgetary Resources includes liabilities incurred that are covered by realized budgetary resources as of the Balance Sheet date. Most of FHA's liabilities require budgetary resources.

Total Liabilities Not Requiring Budgetary Resources includes FHA liabilities that have not in the past required and will not in the future require the use of budgetary resources. FHA's liabilities in its non-fiduciary deposit funds and general fund receipt accounts for fiscal year 2019 are reported as liabilities not requiring budgetary resources.

Note 12. Commitments and Contingencies

Litigation

FHA is party in various legal actions and claims brought by or against it. In the opinion of management and General Counsel, the ultimate resolution of these legal actions will not have an effect on FHA's consolidated financial statements as of September 30, 2019. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $24.4 million or more.

Activity with Ginnie Mae

As of September 30, 2019, the Government National Mortgage Association ("Ginnie Mae") held defaulted FHA-insured mortgage loans. These loans, acquired from defaulted mortgage-backed securities issuers, had the following balances:

	FY 2019 (in Millions)	FY 2018 (in Millions)
Mortgages Held for Investment & Foreclosed Property (Pre-claim)	2,366	3,125
Short Sale Claims Receivable	2	22

"Ginnie Mae" may submit requests for claim payments to FHA for some or all of these loans. Subject to all existing claim verification controls, FHA would pay such claims to Ginnie Mae, another component of HUD, upon conveyance of the foreclosed property to FHA. Any liability for such claims, and offsetting recoveries, has been reflected in the Liability for Loan Guarantees on the accompanying financial statements based on the default status of the insured loans.

Note 13. Gross Costs

Gross costs incurred by FHA for the period ended September 30, 2019, and 2018, are as follows:

(Dollars in millions)

FY 2019	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Expense	$ 549	$ 461	$ 165	$ 45	$ -	$ 1,220
Imputed Cost	-	-	-	-	19	19
Other Expenses	-	-	-	-	171	171
Total	**$ 549**	**$ 461**	**$ 165**	**$ 45**	**$ 190**	**$ 1,410**
With the Public:						
Salary and Administrative Expense	$ -	$ -	$ -	$ -	$ 576	$ 576
Subsidy Expense	(6,870)	(16)	(290)	(209)	-	(7,385)
Re-estimate Expense	(12,521)	(5,000)	(235)	368	-	(17,388)
Interest Accumulation Expense	(318)	(9)	(80)	(29)	-	(436)
Bad Debt Expense	1	-	-	-	-	1
Loan Loss Reserve	(2)	-	1	-	-	(1)
Other Expenses	8	-	13	-	2	23
Total	**$ (19,702)**	**$ (5,025)**	**$ (591)**	**$ 130**	**$ 578**	**$ (24,610)**
Total Gross Costs	**$ (19,153)**	**$ (4,564)**	**$ (426)**	**$ 175**	**$ 768**	**$ (23,200)**

FY 2018	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Expense	$ 671	$ 264	$ 146	$ 43	$ -	$ 1,124
Imputed Cost	-	-	-	-	17	17
Other Expenses	-	-	-	-	157	157
Total	**$ 671**	**$ 264**	**$ 146**	**$ 43**	**$ 174**	**$ 1,298**
With the Public:						
Salary and Administrative Expense	$ -	$ -	$ -	$ -	$ 566	$ 566
Subsidy Expense	(6,650)	(80)	(467)	(225)	-	(7,422)
Re-estimate Expense	(388)	(1,362)	(29)	166	-	(1,613)
Interest Accumulation Expense	76	453	(75)	(33)	-	421
Bad Debt Expense	2	3	17	-	-	22
Loan Loss Reserve	(7)	-	-	-	-	(7)
Other Expenses	9	-	18	1	-	28
Total	**$ (6,958)**	**$ (986)**	**$ (536)**	**$ (91)**	**$ 566**	**$ (8,005)**
Total Gross Costs	**$ (6,287)**	**$ (722)**	**$ (390)**	**$ (48)**	**$ 740**	**$ (6,707)**

Interest Expense

Intragovernmental interest expense includes interest expense on borrowings from the U.S. Treasury and the Federal Financing Bank (FFB) in the financing account.

Imputed Costs/Imputed Financing

Imputed costs represent FHA's share of the departmental imputed cost calculated and allocated to FHA by the HUD CFO office. Federal agencies are required to report imputed costs under SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards,* and SFFAS No. 55, *Amending Inter-Entity Cost Provisions* to account for costs assumed by other Federal organizations on their behalf. The HUD CFO receives its imputed cost data from the Office of Personnel Management (OPM) for pension costs, federal employee health benefits (FEHB) and life insurance costs. It also receives Federal Employees' Compensation Act (FECA) costs from the Department of Labor (DOL). Subsequently, using its internally developed allocation basis, HUD CFO allocates the imputed cost data to each of its reporting offices. The imputed costs reported by FHA in its Statements of Net Cost are equal to the amounts of imputed financing in its Statement of Changes in Net Position.

Salary and Administrative Expenses

Salary and administrative expense include FHA's reimbursement to HUD for FHA personnel costs and FHA's payments to third party contractors for administrative contract expenses. Since fiscal year 2010, FHA has only been using the MMI program fund to record salaries and related expenses.

Subsidy Expense

Subsidy expense, positive and negative, consists of credit subsidy expense from new endorsements, and modifications. Credit subsidy expense is the estimated long-term cost to the U.S. Government of a direct loan or loan guarantee, calculated on a net present value basis of the estimated future cash flows associated with the direct loan or loan guarantee.

Reestimate Expense

Reestimate expense captures the cost associated with the annual requirement to reestimate the liability for loan guarantee.

Interest Accumulation Expense

Interest accumulation expense is calculated as the difference between interest revenue and interest expense. For guaranteed loans, the liability for loan guarantees is adjusted with an offset to interest accumulation expense. SFFAS 2 requires that interest be accrued and compounded on the liability for loan guarantees and the accrued interest recognized as interest expense.

Bad Debt Expense

Bad debt expense represents the provision for loss recorded for uncollectible amounts related to FHA's pre-1992 accounts receivable and credit program assets. FHA calculates its bad debt expense based on the estimated change in these assets' historical loss experience and FHA management's judgment concerning current economic factors.

Loan Loss Reserve Expense

Loan loss reserve expense is recorded to account for the change in the balance of the loan loss reserve liabilities associated with FHA's pre-1992 loan guarantees. The loan loss reserve is provided for the estimated losses incurred by FHA to pay claims on its pre-1992 insured mortgages when defaults have taken place, but the claims have not yet been filed with FHA.

Other Expenses

Other expenses with the public include only those associated with the FHA pre-1992 loan guarantees. They consist of net losses or gains on sales of FHA credit program assets, insurance claim expenses, fee expenses, and other miscellaneous expenses incurred to carry out FHA operations. Other intragovernmental expenses include expenses from intra-agency agreements.

Note 14. Earned Revenue

Earned revenues generated by FHA for the period ended September 30, 2019, and 2018, are as follows:

(Dollars in millions)

FY 2019	Single Family Forward	HECM	Multifamily	Healthcare	Total
Intragovernmental:					
Interest Revenue from Deposits at U.S. Treasury	$ 231	$ 451	$ 26	$ 16	$ 724
Interest Revenue from MMI/CMHI Investments	759	35	-	-	794
Total Intragovernmental	**$ 990**	**$ 486**	**$ 26**	**$ 16**	**$ 1,518**
With the Public:					
Insurance Premium Revenue	$ 1	$ -	$ 1	$ -	$ 2
Income from Notes and Properties	2	1	53	-	56
Other Revenue	1	-	59	-	60
Total With the Public	**$ 4**	**$ 1**	**$ 113**	**$ -**	**$ 118**
Total Earned Revenue	**$ 994**	**$ 487**	**$ 139**	**$ 16**	**$ 1,636**

FY 2018	Single Family Forward	HECM	Multifamily	Healthcare	Total
Intragovernmental:					
Interest Revenue from Deposits at U.S. Treasury	$ 746	$ 718	$ 29	$ 10	$ 1,503
Interest Revenue from MMI/CMHI Investments	431	6	-	-	437
Total Intragovernmental	**$ 1,177**	**$ 724**	**$ 29**	**$ 10**	**$ 1,940**
With the Public:					
Insurance Premium Revenue	$ -	$ -	$ 1	$ -	$ 1
Income from Notes and Properties	5	-	90	-	95
Other Revenue	2	-	42	-	44
Total With the Public	**$ 7**	**$ -**	**$ 133**	**$ -**	**$ 140**
Total Earned Revenue	**$ 1,184**	**$ 724**	**$ 162**	**$ 10**	**$ 2,080**

Interest Revenue

Intragovernmental interest revenue includes interest revenue from deposits at the U.S. Treasury and investments in U.S. Treasury securities. FHA's U.S. Treasury deposits are generated from post-1991 loan guarantees and direct loans in the financing accounts. FHA's investments in U.S. Treasury securities consist of investments of surplus resources in the MMI/CMHI Capital Reserve account.

Insurance Premium Revenue

Under FCRA accounting, FHA's premium revenue should include only premiums associated with the pre-1992 loan guarantee business. Premiums for post-1991 guaranteed loans are included in the balance of the LLG. The FHA premium structure includes both up-front premiums and annual periodic premiums. The up-front premium and annual periodic premium rates for fiscal year 2019 are reported below.

However, the premiums received for post-1991 guaranteed loans are not reported under this note. Those premiums are included in the premiums reported under Budgetary Resources – Collections.

Up-front Premiums

The up-front premium rates vary according to the mortgage type and the year of origination. The FHA up-front premium rates for loans committed in fiscal year 2019 were:

Upfront Premium Rates	
10/01/2018 - 9/30/2019	
Single Family	1.75%
Multifamily	0.25%, 0.50%, 0.65%, 0.80% or 1.00%
HECM	2.00% (Based on Maximum Claim Amount)

Annual Periodic Premiums

The periodic premium rate is used to calculate monthly or annual premiums. These rates also vary by mortgage type and program. The FHA annual periodic premium rates for loans committed in fiscal year 2019 were:

Annual Periodic Premium Rates	
10/01/2018 - 9/30/2019	
Single Family - Term > 15 years	0.80%, 0.85%, 1.00% or 1.05%
Single Family - Term ≤ 15 years	0.45%, 0.70% or 0.95%
Multifamily	0.45%, 0.57%, 0.65% or 0.70%
HECM	0.50%

For Title I, the maximum insurance premium paid for guaranteed cases endorsed in years 1992 through 2001 is equal to 0.50 percent of the loan amount multiplied by the number of years of the loan term. The annual insurance premium for a Title I Property Improvement loan is 0.50 percent of the loan amount until the maximum insurance charge is paid. The annual insurance premium of a Title I Manufactured Housing loan is calculated in tiers by loan term until the maximum insurance charge is paid.

Income from Notes and Property

Income from Notes and Property includes revenue associated with FHA pre-1992 loan guarantees. This income includes revenue from Notes and Properties held and sold, and gains associated with the sale.

Other Revenue

Other revenue includes revenue associated with FHA pre-1992 loan guarantees. FHA's other revenue consists of late charges and penalty revenue, fee income, miscellaneous income generated from FHA operations, and FFB interest revenue.

Note 15. Gross Cost and Earned Revenue by Budget Functional Classification

FHA cost and earned revenue reported on the Statements of Net Cost is categorized under the budget functional classification (BFC) for Mortgage Credit (371). All FHA U.S. Treasury account symbols found under the department code "86" for Department of Housing and Urban Development appear with the Mortgage Credit BFC.

Note 16. Transfers In and Other Financing Sources

Transfers In and Other Financing sources are components of the Consolidated Statements of Net Position. This Note, along with Note 17, describes the changes to net position. Transfers In and Other Financing Sources incurred by FHA for the period ended September 30, 2019, and 2018, are as follows:

(Dollars in millions)

FY 2019	Cumulative Results of Operations
Transfers In:	
HUD	643
Non Exchange Revenue	
HUD	$ 2
Other Financing Sources:	
Treasury	$ (2,773)

FY 2018	Cumulative Results of Operations
Transfers In:	
HUD	611
Other Financing Sources:	
Treasury	$ (2,373)

Transfers In from HUD

FHA does not receive an appropriation for salaries and expense; instead the FHA amounts are appropriated directly to HUD. To recognize these costs in FHA's Statement of Net Cost, a Transfer In from HUD is recorded based on amounts computed by HUD.

Nonexchange Revenue

Nonexchange revenue consists of late fees incurred on Multifamily and Single Family premiums.

Other Financing Sources

Transfers out to U.S. Treasury consist of negative subsidy from new endorsements, modifications and downward credit subsidy reestimates in the GI/SRI general fund receipt account.

Note 17. Unexpended Appropriations

Unexpended appropriation balances at September 30, 2019, and 2018, are as follows:

(Dollars in millions)

FY 2019	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Ending Balance
Positive Subsidy	$ 2	$ -	$ -	$ -	$ 2
Authority for Contract Expenses	232	130	(13)	(105)	244
Reestimates	-	1,284	-	(1,284)	-
GI/SRI Liquidating	229	25	-	(1)	253
Total	**$ 463**	**$ 1,439**	**$ (13)**	**$ (1,390)**	**$ 499**

FY 2018	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Ending Balance
Positive Subsidy	$ 2	$ -	$ -	$ -	$ 2
Authority for Contract Expenses	253	130	(39)	(112)	232
Reestimates	-	1,923	-	(1,923)	-
GI/SRI Liquidating	204	25	-	-	229
Total	**$ 459**	**$ 2,078**	**$ (39)**	**$ (2,035)**	**$ 463**

As required under FCRA, FHA receives appropriations to cover expenses or fund shortages related to its loan guarantee and direct loan operations.

FHA receives appropriations in the MMI program account for administrative and contract expenses. The GI/SRI no-year program account also receives appropriations for positive credit subsidy and upward reestimates. Additionally, FHA may obtain permanent indefinite appropriations to cover any shortfalls for its GI/SRI pre-1992 loan guarantee operations.

When appropriations are first received, they are reported as unexpended appropriations. As these appropriations are expended, appropriations used are increased and unexpended appropriations are decreased. Additionally, unexpended appropriations are decreased when administrative expenses and working capital funds are transferred out to HUD, appropriations are rescinded, or other miscellaneous adjustments are required.

Note 18. Budgetary Resources

Obligated balances as of September 30, 2019, and 2018, are as follows:

Unpaid Obligations

(Dollars in Millions)			FY 2019
	Federal	Non-Federal	Total
MMI/CMHI	$ 9	$ 1,754	$ 1,764
GI/SRI	(5)	1,342	1,337
H4H	-	2	2
Undelivered Orders Subtotal	**$ 4**	**$ 3,098**	**$ 3,103**

			FY 2018
	Federal	Non-Federal	Total
MMI/CMHI	$ 13	$ 1,819	$ 1,832
GI/SRI	18	993	1,012
H4H	-	2	2
Undelivered Orders Subtotal	**$ 31**	**$ 2,814**	**$ 2,846**

Note 19. Budgetary Resources - Collections

The following table presents the composition of FHA's collections for the period ended September 30, 2019, and 2018:

(Dollars in Millions)

FY 2019	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 13,436	$ 865	$ -	$ 14,301
Notes	1,593	806	1	2,400
Property	1,513	185	-	1,698
Interest Earned from U.S. Treasury	986	424	1	1,411
Subsidy	6,887	-	-	6,887
Reestimates	18,732	1,284	-	20,016
Collections from settlements	11	-	-	11
Other	216	3	-	219
Total	**$ 43,374**	**$ 3,567**	**$ 2**	**$ 46,943**

FY 2018	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 13,125	$ 872	$ 1	$ 13,998
Notes	1,149	659	-	1,808
Property	2,173	142	-	2,315
Interest Earned from U.S. Treasury	1,317	484	1	1,802
Subsidy	6,732	-	-	6,732
Reestimates	13,650	1,923	-	15,573
Collections from settlements	192	-	-	192
Other	142	135	-	277
Total	**$ 38,480**	**$ 4,215**	**$ 2**	**$ 42,697**

In fiscal year 2018, FHA reported $119 million in HECM and Single Family claim refunds related to payments made in prior fiscal years as an adjustment to delivered orders – obligations paid rather than as a downward adjustment of prior-year paid delivered orders. As a result, FHA's collections in fiscal year 2018 were understated by $119 million.

Note 20. Budgetary Resources – Obligations

The following table presents the composition of FHA's obligations for the period ended September 30, 2019, and 2018:

(Dollars in Millions)

FY 2019	MMI/CMHI	GI/SRI	H4H	Total
Obligations				
Claims	$ 16,189	$ 2,800	$ 1	$ 18,990
Property Expenses	243	36	1	280
Interest on Borrowings - Treasury	924	238	-	1,162
Interest on Borrowings - FFB	-	59	-	59
Subsidy	6,886	578	-	7,464
Downward Reestimates	17,465	1,676	-	19,141
Upward Reestimates	1,267	1,284	-	2,551
Administrative Contracts	114	-	-	114
FFB Direct Loans	-	623	-	623
Other	78	119	-	197
Total	**$ 43,166**	**$ 7,413**	**$ 2**	**$ 50,581**

FY 2018	MMI/CMHI	GI/SRI	H4H	Total
Obligations				
Claims	$ 13,929	$ 2,107	$ 2	$ 16,038
Property Expenses	487	103	1	591
Interest on Borrowings - Treasury	841	230	-	1,071
Interest on Borrowings - FFB	-	50	-	50
Subsidy	6,732	702	-	7,434
Downward Reestimates	1,012	433	-	1,445
Upward Reestimates	12,638	1,923	-	14,561
Admin, Contract and Working Capital	131	-	-	131
FFB Direct Loans	-	586	-	586
Other	35	168	-	203
Total	**$ 35,805**	**$ 6,302**	**$ 3**	**$ 42,110**

Effective fiscal year 2019, FHA expanded the presentation of its Interest on Borrowings to include separate lines for the US Treasury and the Federal Financing Bank (FFB). In prior reporting, the Interest on Borrowings line captured the activity for Treasury only, and the interest on borrowings for FFB was included in the FFB Direct Loans line.

In fiscal year 2018, FHA reported $119 million in HECM and Single Family claim refunds related to payments made in prior fiscal years as an adjustment to delivered orders – obligations paid rather than as a downward adjustment of prior-year paid delivered orders. As a result, FHA's obligations in fiscal year 2018 were understated by $119 million.

Note 21. Budget and Accrual Reconciliation (BAR)

(Dollars in Millions)

Federal Housing Administration For the Period Ended September 30, 2019		**Intragovernmental**		**With the Public**		**Total**
NET COST	$	(108)	$	(24,729)	$	(24,837)
Components of Net Cost That Are Not Part of Net Outlays:						
Year-end credit reform subsidy re-estimates						12,131
Increase/(decrease) in assets:						
Accounts receivable	$	-	$	1	$	1
Loans receivable		-		5,058		5,058
Investments		107		(2)		104
Other assets		-		53		53
(Increase)/decrease in liabilities:						
Accounts payable	$	1	$	109	$	111
Insurance and guarantee program liabilities		-		3,936		3,936
Other liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)		(432)		(185)		(617)
Other financing sources:						
Federal employee retirement benefit costs paid by OPM and imputed ot the agency	$	(19)	$	-	$	(19)
Transfers out (in) without reimbursement		(643)		-		(643)
Total Components of Net Cost That Are Not Part of Net Outlays	$	(986)	$	21,100	$	20,114
Components of Net Outlays That Are Not Part of Net Cost:						
Effect of prior year agencies credit reform subsidy re-estimates	$	-	$	5,257	$	5,257
Other		2,773		(2)		2,772
Total Components of Net Outlays That Are Not Part of Net Cost	$	2,773	$	5,256	$	8,029
Other Temporary Timing Differences		(2,341)		-		(2,341)
NET OUTLAYS	$	(662)	$	1,627	$	966
Related Amounts on the Statement of Budgetary Resources						
Outlays, Net (-) 4190					$	3,146
Distributed offsetting receipts (-) 4200					$	(2,180)
Net Outlays from SBR					$	966

The Budget and Accrual Reconciliation (BAR) requires a reconciliation between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. FHA follows the Treasury crosswalk for most of the line items in the BAR, but it does not follow the crosswalk for the following line items to conform with FHA's reporting in its financial statements and other notes: Accounts Receivable, Loans Receivable, Other Assets, Investments, Accounts Payable, and Other Liabilities.

FHA's treatment of Credit Reform offsets to Receivables and Payables, "Deferred Debits" and "Deferred Credits", respectively, have an impact on the presentation of the BAR. Deferred Debits, captured by FHA in USSGL account 199000 Other Assets, are contra-payables presented as liabilities, while Deferred Credits are captured by FHA in USSGL account 232000 Other Deferred Revenue are contra-receivables presented as assets. Although approved by the Bureau of Fiscal Service (BFS) for fiscal year 2019, the presentation is contrary to Treasury's financial statement crosswalk. FHA's treatment impacts the Accounts Receivable, Loans Receivable, Other Assets, Accounts Payable, and Other Liabilities lines of the BAR.

Starting in FY 2019, FHA is reporting "Year-end credit reform subsidy reestimates" and "Effect of prior year agencies credit reform subsidy reestimates." Due to FHA's current methodology for calculating credit reform subsidy reestimates, FHA is not using the Treasury crosswalk to report the Year-end credit reform subsidy reestimates. Since Treasury has not developed a crosswalk for Effect of prior year agencies credit reform subsidy reestimates, FHA developed its own crosswalk for that line item. These changes in reporting impact the Loans Receivable and Insurance and guarantee program liabilities line items in the BAR.

Other Temporary Timing Differences captures the amounts in FHA's general fund receipt accounts that are transferred to Treasury at fiscal year-end and timing differences related to FHA's reestimate of the LLG that will be cleared in the following fiscal year.

Note 22 Public–Private Partnerships

Federal public-private partnerships (P3s) are risk-sharing arrangements or transactions with expected lives greater than five years between public and private sector entities. Such arrangements or transactions provide a service or an asset for government and/or general public use where in addition to the sharing of resources, each party shares in the risks and rewards of said arrangements or transactions.

FHA analyzed its loan portfolio and programs and determined that all of its programs meet the "Conclusive Characteristics" identified in SFFAS No. 49, *Public-Private Partnerships: Disclosure Requirements*. FHA's portfolio is comprised of loan guarantees and direct loans for Single Family, Multifamily, and Healthcare programs. The structure of these loan guarantees and direct loans also fall under the definition of Public-Private Partnerships (P3s), based on Conclusive Risk Characteristics established in SFFAS No. 49. Accordingly, FHA is required to disclose its P3s and related information. Most of the disclosure requirements are covered by FHA's other disclosure requirements, notably those under SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees,* and are included in Notes 1, 6, 7, 12, 13, 14, 19, and 20. Additional required disclosures are covered by this note.

Given the number of lenders, borrowers, and other counter-parties that participate in FHA's programs, individual disclosure of these partnerships is impractical. Accordingly, FHA aggregates and reports its P3 information by program and fund, as outlined in FHA's Entity and Mission section in Note 1.

The purpose and objective of FHA's P3 arrangements, as well as the statutory authority, are addressed in FHA's Note 1- Significant Accounting Policies, Entity and Mission section, as well as in its introduction to Note 7-Direct Loans and Loan Guarantees.

The operational and financial structure of FHA's P3 arrangements, along with its rights and responsibilities, are governed by the Housing Act of 1934 and subsequent amendments, as well as other statutory authority covered in Note 1. FHA's private sector partners must apply and be approved to issue FHA-insured mortgages, and once approved they agree to comply with FHA requirements, which vary depending on the program area. Additional FHA responsibilities and requirements for FHA's private sector partners are established in FHA's regulations, handbooks, and mortgagee letters. These partnerships continue indefinitely as long as FHA's partners comply with FHA requirements. FHA's private sector partners benefit from their relationship with FHA because FHA guarantees loans and mortgages that meet FHA requirements for insurance. FHA benefits because it can carry out its mission through these P3 arrangements.

Contractual terms governing payments to and from the government over the expected life of the P3 arrangement are covered in FHA's regulations, handbooks, and mortgagee letters. The basic structure of these arrangements is that FHA provides either a direct loan or a loan guarantee to a borrower or lender, respectively. In return, the borrower in the arrangement pays a premium for the loan guarantee to FHA, through the lender, and interest for a direct loan either directly to FHA or through a custodian. FHA assumes the loan under its loan guarantee arrangements if the underlying borrower defaults on the loan provided by FHA's partner, i.e. lender, and pays a claim directly to the lender. The expected life of FHA's arrangements varies by program, however most of FHA's loan guarantees and direct loans have 15-year to 30-year terms, with fixed interest rates.

The relative benefits being received by FHA as a result of its P3 arrangements are covered by FHA's Note 14-Earned Revenues and Note 19-Budgetary Resources-Collections. Earned revenues/benefits consist of insurance premium revenue, income from notes and property, and other revenues earned with the public. Premiums, notes, property, and collections from settlements, and are non-federal funding received by FHA as a result of its P3 arrangements for the current year.

The government's consideration for entering into these P3 arrangements is covered by FHA's Note 13 – Gross Costs and Note 20 – Budgetary Resources-Obligations. FHA's consideration, or costs, consist of claims paid to lenders, property expenses, interest on borrowings, subsidy costs, reestimate costs, FFB direct loan costs, bad debt expense, loan loss reserve, and interest accumulation expense costs.

Funding over the expected life of FHA's P3 arrangements, in the form of net potential future losses, is covered in Note 7, in each FHA program's Loan Liability Guaranty (LLG) and FHA's total Loan Guarantee Liability (LGL) on its balance sheet. The LLG is calculated as the net present value of anticipated cash outflows and cash inflows. Anticipated cash outflows include lender claims arising from borrower defaults (i.e., claim payments), premium refunds, property costs to maintain foreclosed properties arising from future defaults and selling costs for the properties. Anticipated cash inflows include premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes.

Identification of the contractual risks of loss that P3 partners are undertaking, including contractual risks and the potential effect on cash flows if the risks were realized, are not practical from an individual partner level due to the number of lenders, borrowers, and other counter-parties that participate in FHA programs. Instead, these risks are aggregated and captured in the FHA's Note 7. The Credit Reform Valuation Methodology section of Note 7 in particular, discloses and identifies risks associated with Credit Reform programs, which are the basis of FHA's P3 arrangements. They would also be reflected in the reestimate expense reported under Note 13. Currently, Gains or losses relating to foreclosed property or notes are reflected in Notes 14 or 13, and capitalized items are reflected in Note 7 as part of the LGL. FHA recognized gains of $1.8 million on foreclosed property and losses of $9.8 million on foreclosed property and notes in fiscal year 2019.

If there were significant instances of non-compliance by FHA with legal and contractual provisions governing the P3 arrangements, they would be reported under Note 12-Commitments and Contingencies. None of $24.4 million reported under Note 12 in fiscal year 2019 related to instances of non-compliance by FHA with legal and contractual provisions governing P3 arrangements.

Significant instances of non-compliance by lenders in these same P3 arrangements are reported as settlement agreement receivables and payments received. Receivables from settlement agreements are reported under Note 6-Accounts Receivable – Settlement Receivables, and payments received are reported under Note 7, in accordance with the FCRA, as part of the MMI/CMHI Loan Guarantee Liability, Net, for the Single Family Forward program. Settlement payments received from individual counter-parties for non-compliance with FHA's P3 arrangements totaled $11.3 million in FY 2019.

Given the large number of lenders, borrowers, and other counter-parties that participate in FHA program, it would be impractical for FHA to determine if FHA's private partners have borrowed or invested capital contingent upon FHA's loan guarantees or direct loans. However, at the aggregate level, FHA's programs are designed to serve as a guarantee for lenders and in turn make mortgage financing more accessible to the home-buying public. This is disclosed in the Entity and Mission section of Note 1.

Description of events of termination or default are not practical from an individual loan guarantee or direct loan perspective in most cases, given the large number of loans or guarantees. However, FHA-approved lenders are contractually obligated to follow FHA guidelines and are subject to oversight by FHA staff. FHA's relationship with a lender may be terminated if FHA determines that the lender did not comply with FHA guidelines.

Required Supplementary Information

Schedule A: Intragovernmental Assets

FHA's Intra-governmental assets, by Federal entity, are as follows on September 30, 2019, and 2018:

(Dollars in Millions)

FY 2019	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Total
U.S. Treasury	$ 14,257	$ 50,336	$ 64,593
Total	$ 14,257	$ 50,336	$ 64,593

FY 2018	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Total
U.S. Treasury	$ 33,690	$ 26,697	$ 60,387
Total	$ 33,690	$ 26,697	$ 60,387

Schedule B: Intragovernmental Liabilities

FHA's Intra-governmental liabilities, by Federal entity, are as follows on September 30, 2019, and 2018:

(Dollars in Millions)

FY 2019	Accounts Payable	Borrowings	Other Liabilities	Total
Federal Financing Bank	$ -	$ 1,974	$ -	$ 1,974
U.S. Treasury	-	30,386	3,219	33,605
HUD	1	-	-	1
Total	**$ 1**	**$ 32,360**	**$ 3,219**	**$ 35,580**

FY 2018	Accounts Payable	Borrowings	Other Liabilities	Total
Federal Financing Bank	$ -	$ 1,671	$ -	$ 1,671
U.S. Treasury	-	24,708	2,787	27,495
HUD	2	-	-	2
Total	**$ 2**	**$ 26,379**	**$ 2,787**	**$ 29,168**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2019:

Dollars in Millions	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance from prior year budget authority, net	25,704	1,370	2	27	27,103
Appropriations (discretionary and mandatory)	-	130	1,284	25	1,439
Spending authority from offsetting collections (discretionary & mandatory)	25,110	-	-	122	25,232
Total budgetary resources	**$ 50,814**	**$ 1,500**	**$ 1,286**	**$ 174**	**$ 53,774**
Status of Budgetary Resources:					
Obligations incurred	-	1,381	1,284	33	2,698
Apportioned	-	53	2	29	84
Unapportioned	50,814	-	-	112	50,926
Unexpired unobligated balance, end of year	50,814	53	2	141	51,010
Expired unobligated balance, end of year	-	66	-	-	66
Total unobligated balance, end of year	50,814	53	2	207	51,076
Total budgetary resources	**$ 50,814**	**$ 1,500**	**$ 1,286**	**$ 174**	**$ 53,774**
Outlays, Net:					
Outlays, net (discretionary and mandatory)	(25,038)	1,379	1,284	(89)	(22,464)
Distributed offsetting receipts (-)	-	-	-	(2,180)	(2,180)
Agency outlays, net (discretionary and mandatory)	**$ (25,038)**	**$ 1,379**	**$ 1,284**	**$ (2,269)**	**$ (24,644)**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2018:

Dollars in Millions		MMI/CMHI Capital Reserve		MMI/CMHI Program		GI/SRI Program		Other		Budgetary Total
Budgetary Resources:										
Unobligated balance from prior year budget authority, net		18,987		80		12,640		43		31,750
Appropriations (discretionary and mandatory)		-		130		1,923		25		2,078
Spending authority from offsetting collections (discretionary & mandatory)		7,995		-		-		162		8,157
Total budgetary resources	**$**	**26,982**	**$**	**210**	**$**	**14,563**	**$**	**230**	**$**	**41,985**
Status of Budgetary Resources:										
Obligations incurred		-		131		14,561		61		14,753
Unobligated balance, end of year:		-		-		-				
Apportioned		-		45		1		11		57
Unapportioned		26,982		-		1		157		27,140
Unexpired unobligated balance, end of year		26,982		45		2		169		27,198
Expired unobligated balance, end of year		-		34		-		-		34
Total unobligated balance, end of year		26,982		45		2		203		27,232
Total budgetary resources	**$**	**26,982**	**$**	**210**	**$**	**14,563**	**$**	**230**	**$**	**41,985**
Outlays, Net:										
Outlays, net (discretionary and mandatory)	$	(8,042)	$	110	$	14,561	$	(130)	$	6,499
Distributed offsetting receipts (-)		-		-		-		(1,183)		(1,183)
Agency outlays, net (discretionary and mandatory)	**$**	**(8,042)**	**$**	**110**	**$**	**14,561**	**$**	**(1,313)**	**$**	**5,316**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2019:

(Dollars in Millions)

	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total
Budgetary Resources:				
Unobligated balance from prior year budget authority, net	21,014	9,093	16	30,123
Borrowing authority (discretionary and mandatory)	9,226	2,254	(1)	11,479
Spending authority from offsetting collections (discretionary and mandatory)	13,636	2,863	2	16,501
Total budgetary resources	**$ 43,876**	**$ 14,210**	**$ 17**	**$ 58,103**
Status of Budgetary Resources:				
Obligations incurred	41,773	6,109	1	47,883
Unobligated balance, end of year:				
Apportioned	2,093	6,926	4	9,023
Exempt from apportionment				
Unapportioned	9	1,175	13	1,197
Unexpired unobligated balance, end of year	2,103	8,101	16	10,220
Total unobligated balance, end of year	2,103	8,101	16	10,220
Total budgetary resources	**$ 43,876**	**$ 14,210**	**$ 17**	**$ 58,103**
Outlays, Net:				
Outlays, net (discretionary and mandatory)	23,333	2,277	-	25,610
Agency outlays, net (discretionary and mandatory)	**$ 23,333**	**$ 2,277**	**$ -**	**$ 25,610**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2018:

(Dollars in Millions)

	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total
Budgetary Resources:				
Unobligated balance from prior year budget authority, net	16,517	8,681	57	25,255
Borrowing authority (discretionary and mandatory)	6,450	1,051	703	8,204
Spending authority from offsetting collections (discretionary and mandatory)	20,772	2,861	44	23,677
Total budgetary resources	**$ 43,740**	**$ 12,592**	**$ 804**	**$ 57,136**
Status of Budgetary Resources:				
Obligations incurred	23,011	3,650	696	27,357
Unobligated balance, end of year:				
Apportioned	7,597	2,873	16	10,486
Exempt from apportionment				
Unapportioned	13,132	6,070	91	19,293
Unexpired unobligated balance, end of year	20,729	8,943	107	29,779
Total unobligated balance, end of year	20,729	8,943	107	29,779
Total budgetary resources	**$ 43,740**	**$ 12,592**	**$ 804**	**$ 57,136**
Outlays, Net:				
Outlays, net (discretionary and mandatory)	$ (7,746)	$ (345)	$ 426	$ (7,665)
Agency outlays, net (discretionary and mandatory)	**$ (7,746)**	**$ (345)**	**$ 426**	**$ (7,665)**

Other Accompanying Information

The FY 2018 material weakness has been resolved. Table 1 provides a summary of financial audit findings with regards to the audit opinion. Table 2 is a summary of FHA's Federal Manager's Financial Integrity Act management assurances.

Table 1
Summary of Financial Statement Audit

Audit Opinion	Unmodified
Restatement	No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Weaknesses in FHA's Modeling Processes	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

Table 2
Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA section 2)	
Statement of Assurance	Unqualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Weaknesses in FHA's Modeling Processes	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0