OFFICE OF AUDIT
FINANCIAL AUDITS DIVISION
WASHINGTON, DC

★★ OFFICE *of* ★★
INSPECTOR GENERAL

UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Federal Housing Administration Fiscal Years 2013 and 2012 Financial Statements Audit

2014-FO-0002 December 13, 2013

Issue Date: December 13, 2013

Audit Report Number: 2014-FO-0002

TO: Carol Galante, Acting Assistant Secretary for Housing – FHA Commissioner, H

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

SUBJECT: Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2013 and 2012

In accordance with the Government Corporation Control Act as amended (31 U.S.C. 9105), the Office of Inspector General engaged the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the fiscal year 2013 financial statements of the Federal Housing Administration (FHA). The contract required that the audit be performed according to Generally Accepted Government Auditing Standards (GAGAS).

In connection with the contract, we reviewed CLA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. GAGAS, was not intended to enable us to express, and we do not express, opinions on FHA's financial statements or internal controls or conclusions on compliance with laws and regulations. CLA is responsible for the attached Independent Auditors' Report dated December 9, 2013 and the conclusions expressed in the report. Our review disclosed no instances where CLA did not comply, in all material respects, with U.S. GAGAS.

This report includes both the Independent Auditors' Report and FHA's principal financial statements. Under Federal Accounting Standards Advisory Board (FASAB) standards, a general-purpose federal financial report should include as required supplementary information (RSI) a section devoted to Management's Discussion and Analysis (MD&A) of the financial statements and related information. The MD&A is not included with this report. FHA plans to separately publish an annual report for fiscal year 2013 that conforms to FASAB standards.

The report contains two significant deficiencies in FHA's internal control over financial reporting and one instance of reportable non-compliance with laws and regulations. The report contains 11 new recommendations. Within 120 days of the report issue date, FHA is required to provide its final management decision which includes the corrective action plan for each recommendation. As part of the audit resolution process, we will record 11 new recommendation(s) in the Department's Audit Resolution and Corrective Action Tracking system (ARCATS). We will also endeavor to work with FHA to reach a mutually acceptable management decision prior to the mandated deadline. The proposed management decision and corrective action plans will be reviewed and evaluated for OIG concurrence.

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

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

Within 60 days of this report, CLA expects to issue a separate letter to management dated December 9, 2013 regarding other matters that came to its attention during the audit.

We appreciate the courtesies and cooperation extended to the CLA and OIG audit staff during the conduct of the audit. If you have any questions or comments about this report, please do not hesitate to call me at 202-402-8216.

December 13, 2013

Federal Housing Administration
Fiscal Years 2013 and 2012
Financial Statements Audit

Highlights

Audit Report 2014-FO-0002

What CLA Audited and Why

In accordance with the Government Corporation Control Act as amended (31 U.S.C. 9105), HUD OIG engaged CliftonLarsonAllen LLP (CLA) to audit the fiscal years 2013 and 2012 financial statements of FHA. CLA have audited the accompanying balance sheets of FHA as of September 30, 2013 and 2012, and the related statements of net cost and changes in net position, and the combined statements of budgetary resources ("financial statements") for the years then ended.

What We Recommend

HUD needs to close-out and deobligate \$43 million in expired contracts; implement HUD Handbook 1830.2, *Administrative Control of Funds*, and annually review undelivered orders; record obligations and de-obligations for SAMS contracts and reconcile the procurement system, the source system, and the general ledger; deobligate \$57 million from the general ledger; review and assess policies and procedures on closing agent contract invoices; perform and review reconciliations of the HIAMS and SAMS systems; assess periodic reconciliations for sufficiency and frequency to identify potential problems; ensure procedures over data integrity in place and being followed; and ensure policies and procedures to implement new systems that affect the general ledger sufficient.

What We Found

CLA found (1) the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S.); (2) two significant deficiencies in internal control over financial reporting and compliance with laws and regulations; and (3) one instance of reportable noncompliance with selected provisions of laws and regulations tested.

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CliftonLarsonAllen

CliftonLarsonAllen LLP

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INDEPENDENT AUDITORS' REPORT

Inspector General
United States Department of Housing and Urban Development

Commissioner
Federal Housing Administration

In our audit of the fiscal years (FY) 2013 and 2012 financial statements of the Federal Housing Administration (FHA), a component of the U.S. Department of Housing and Urban Development, we found:

- The financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S.);
- Two significant deficiencies in internal control over financial reporting; and
- One instance of reportable noncompliance with certain provisions of laws and regulations tested.

The following sections and Exhibits discuss in more detail: (1) these conclusions including a matter of emphasis related to the potential range of estimate for the Single Family Liability for Loan Guarantee, (2) Management's Discussion and Analysis (MD&A), other required supplementary information (RSI), and other information included with the financial statements, (3) management's responsibilities, (4) our responsibilities, (5) management's response to findings, and (3) the current status of prior year findings.

Report on the Financial Statements

We have audited the accompanying financial statements of FHA, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of net cost and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. The objective of our audits was to express an opinion on the fairness of these financial statements.

Management's Responsibilities

FHA management is responsible for the (1) preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the U.S., (2) preparation, measurement, and presentation of the RSI in accordance with the prescribed accounting principles generally accepted in the U.S., (3) preparation and presentation of other information in documents containing the audited financial statements and auditors' report, and consistency of that information with the audited financial statements and the RSI; and (4) design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 No. 14-02*, Audit Requirements for Federal Financial Statements* (OMB Bulletin 14-02).

In order to fulfill these responsibilities, we (1) obtained an understanding of FHA and its operations, including its internal control over financial reporting; (2) assessed the risk of financial statement misstatement; (3) evaluated the design and operating effectiveness of internal control based on the assessed risk; (4) considered FHA's process for evaluating and reporting on internal control under the Federal Managers' Financial Improvement Act (FMFIA); (5) tested compliance with certain provisions of laws and regulations (6) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (7) evaluated the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management; (8) evaluated the overall presentation of the financial statements; (9) conducted inquiries of management about the methods of preparing the RSI and compared this information for consistency with management's responses to the auditors' 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 Federal Accounting Standards Advisory Board (FASAB) guidelines, if any, identified by these limited procedures; (10) read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements; and (11) performed such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Housing Administration as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Emphasis of Matter

As discussed in Note 6 to the financial statements, the Loan Guarantee Liability (LGL) is an actuarially determined 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. This 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. This year's estimate is the mean value from a series of projections using numerous economic scenarios. This stochastic analysis projects a 25% probability that the Single Family Liability for Loan Guarantee may be lower by $10.2 billion or higher by $9.8 billion, depending on which economic outcome ultimately prevails. This forecast method helps project how the estimate will be affected by different economic scenarios but does not address the risk that the models may not accurately reflect current borrower behavior or contain technical errors.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. require that FHA's Management Discussion and Analysis (MD&A) and other RSI be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
The Message from the Commissioner and the Schedule of Spending are presented for purposes of additional analysis and are not a required part of the financial statements or RSI. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered FHA's internal control over financial reporting (internal control) to determine the 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. Accordingly, we do not express an opinion on the effectiveness of FHA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified. We identified two deficiencies in internal control, described below and in Exhibit A, that we consider to be significant deficiencies.

Undelivered Orders for Property-Related Contracts Should Be Reviewed Annually and De-obligated Promptly

Undelivered orders (UDOs) are outstanding orders for goods or services where budgeted amounts are obligated but no liability has been accrued because the goods or services have not yet been received. When the goods or services remain undelivered and remaining unspent funds are no longer needed, the contracts should be closed out and the UDOs de-obligated.

We found:

- Open obligations for real estate closing agent contracts obligated between 2002 and 2011 that showed:
    - FHA disbursed over $1 million in excess of the obligated amounts for ten contracts.
    - Approximately $43 million of remaining funds for contracts that had expired during FY2009 through FY2012 but had not been closed and the remaining funds de-obligated.

- In 2012, de-obligations for $57 million related to two marketing and management contracts were recorded in HUD's procurement system but these de-obligations were not reflected in the SAMS system.

If open contracts are not reviewed and closed timely, the obligated balances carried forward may be overstated. In addition, inaccurate contract information may lead to Anti-Deficiency Act violations.

New System Reporting and Reconciliation Capabilities Need Improvement

In FY2013, FHA transitioned to a new system (HERMIT) for managing insured and assigned Home Equity Conversion Mortgage (HECM) loans. During our audit, we identified several discrepancies between the reports generated from the new system and reports from the general ledger and other source systems that could not be adequately explained during the reconciliation process. Specifically, the third quarter general ledger trial balance showed:

1. HECM upfront and periodic premiums of $12 million in excess of the HERMIT transaction files.
2. Paid claims resulting in the assignment of HECM mortgage notes of $54 million less than HERMIT.
3. HECM claims paid of $44 million more than HERMIT.

In addition, we found a $88 million difference in the maximum claim amount (essentially the insurance-in-force) in FHA's endorsement system versus HERMIT.

These differences raise concerns about the completeness and accuracy of the data in the HERMIT system and about the movement of data among various source systems (HERMIT, CHUMS, SFDW) and the general ledger. Failure to ensure data completeness and accuracy among source systems, management information systems, and the general ledger exposes the agency to several risks:

- Inaccuracies in the financial statements
- Faulty information in management reports
- Wasted time needed to reconcile data when differences persist over longer periods

Report on Compliance

As part of obtaining reasonable assurance about whether FHA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters, described below that is required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

<u>Capital Ratio:</u> The Cranston-Gonzales National Affordable Housing Act of 1990 required that FHA's Mutual Mortgage Insurance (MMI) Fund maintain a minimum level of capital sufficient to withstand a moderate recession. This capital requirement, termed the Capital Ratio, is defined as capital resources (assets minus current liabilities) less the liability for future claim costs (net of future premiums and recoveries), divided by the value of amortized insurance-in-force. The Act requires FHA to maintain a minimum Capital Ratio of two percent and conduct an annual independent actuarial study to, among other things, calculate this ratio. The Housing and Economic Recovery Act of 2008 requires that the Secretary submit a report annually to the Congress describing the results of the study, assess the financial status of the MMI Fund, recommend program adjustments, and to evaluate the quality control procedures and accuracy of information used in the process of underwriting loans guaranteed by the MMI Fund. As of the date of our audit, this report for FY2013 had not yet been submitted to Congress, but preliminary FHA data indicated that this ratio remained below the required two percent throughout FY2013.

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting, (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, including to provide reasonable assurance that the broad control objectives of FMFIA are met, and (3) ensuring compliance with other applicable laws and regulations.

Auditors' Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (3) applying certain limited procedures with respect to the RSI and all other accompanying information included with the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to FHA. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to FHA's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Management's Response to Findings

Management's response to the findings identified in our report is presented in Exhibit B. We did not audit FHA's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of FHA's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated October 29, 2012. The status of prior year findings is presented in Exhibit C.

INDEPENDENT AUDITORS' REPORT (Continued)

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FHA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FHA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Arlington, VA
December 9, 2013

EXHIBIT A
Significant Deficiencies

Undelivered Orders for Property-Related Contracts Should Be Reviewed Annually and De-obligated Promptly

Undelivered orders (UDOs) are outstanding orders for goods or services where budgeted amounts are obligated but no liability has been accrued because the goods or services have not yet been received. UDOs are reported within the annual financial statements as obligated balances carried forward on the Statement of Budgetary Resources. When the goods or services remain undelivered and remaining unspent funds are no longer needed, the contracts should be closed out and the UDOs de-obligated.

The Single Family Acquired Asset Management System (SAMS) is used to manage and account for HUD-owned properties. The status of closing agent and other property-related contracts is tracked in SAMS. Prior to FY2010, disbursements related to these contracts were expensed, and there was no UDO tracking and limited funds control. In FY2010, FHA established a process to record obligations and UDOs relating to these contracts in the general ledger.

Our testing of UDOs revealed the following:

- Open obligations for SAMS closing agent contracts obligated between 2002 and 2011 that showed:
  - FHA disbursed over $1 million in excess of the obligated amounts for seven contracts.
  - Approximately $43 million of remaining funds for contracts that had expired during FY2009 through FY2012 but had not been closed and the remaining funds de-obligated.

- In 2012, de-obligations for $57 million related to two marketing and management contracts were recorded in HUD's procurement system but these de-obligations were not reflected in the SAMS system.

HUD's Administrative Control of Funds Policies and Procedures Handbook No. 1830.2 Rev-5, *Administrative Control of Funds*, requires that the Office of Chief Financial Officer (OCFO) to coordinate a review of obligations whose status has not changed for six months and evaluate the validity of the contracts along with the allotment holders annually as of May 31. Based on that review, the budgeted amounts should be de-obligated or kept in an active status. Furthermore, GAO's *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, states that *"Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."*

Annually, the FHA Comptroller's Office reviews the general ledger for contracts with unliquidated obligated balances and then sends a request for follow up on open contracts to the operational areas. Based on feedback from the operational areas, contracts are de-obligated. However, we did not identify any written FHA policies and procedures that provide detailed guidance for FHA's implementation of HUD's annual review of UDOs and obligations. FHA overlooked performing an UDO review on the closing agent contracts since it was a new undelivered order type.

EXHIBIT A
Significant Deficiencies

In early FY2012, the HUD Integrated Acquisition Management System (HIAMS) became the procurement system for Housing. The limited reporting capabilities of this new system made reconciliations between SAMS and HIAMS more difficult. In FY2013, a new interface was developed which may improve the reconciliation process.

If open contracts are not reviewed and closed timely, the obligated balances carried forward may be overstated. In addition, inaccurate contract information may lead to Anti-Deficiency Act violations.

We recommend the FHA Comptroller work with the HUD Office of the Chief Procurement Officer to:

1a. Ensure that all expired property-related contracts are reviewed and properly closed out.

We recommend that the FHA Comptroller:

1b. Ensure HUD Handbook 1830.2, *Administrative Control of Funds*, policies and procedures are fully implemented for property-related contracts, and perform an annual review of all property-related undelivered orders to ensure obligations are still valid.

1c. Review and de-obligate, as appropriate, the $43 million in expired property-related contracts once they have been closed out by the contracts office.

1d. Ensure that obligations and de-obligations for SAMS contracts are recorded and promptly reconciled among the procurement system, the source system and the general ledger.

1e. Research and, as necessary, de-obligate any portion of the $57 million identified as de-obligated in the procurement system but not in SAMS.

1f. Review and assess existing current policies and procedures with regard to the review and approval of SAMS closing agent contract invoices to ensure adequate funding is available.

1g. Perform and review reconciliations between the HIAMS and SAMS systems to ensure the interface between the two systems is operating effectively.

EXHIBIT A
Significant Deficiencies

<u>New System Reporting and Reconciliation Capabilities Need Improvement</u>

In FY2013, FHA transitioned to a new system (HERMIT) for managing insured and assigned Home Equity Conversion Mortgage (HECM) loans. During our audit, we identified several discrepancies between the reports generated from the new system and reports from the general ledger and other source systems. Specifically,

1. The third quarter general ledger trial balance showed HECM upfront and periodic premiums of $659 million for the nine-month period, whereas the transaction files from HERMIT showed $647 million, for a difference of $12 million.

2. The third quarter general ledger trial balance showed paid claims resulting in the assignment of HECM mortgage notes of $966 million for the nine-month period, whereas the HERMIT file showed $1,020 million, for a difference of $54 million.

3. The CHUMS system records the insurance endorsements of HECM mortgages and is a source system for HERMIT. We found that the maximum claim amount (essentially the insurance-in-force) in CHUMS was $10,728 million versus HERMIT's $10,640 million, for a difference of $88 million.

4. The Single Family Data Warehouse (SFDW), which receives data from HERMIT, was the source for the all HECM claims paid of $1,729 million for the nine-month period. That amount compared to the third quarter general ledger trial balance amount of $1,773 million showed a difference of $44 million.

These differences raise concerns about the completeness and accuracy of the data in the HERMIT system and about the movement of data among source systems (HERMIT, CHUMS, SFDW) and the general ledger. Furthermore, they indicate a weakness in internal controls because according to GAO's *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

We worked with management and they were able to explain portions of the differences we identified. However, we were unable to determine whether the remaining differences were caused by timing differences among files or reports, interface issues among systems, conversion problems with HERMIT data, or any combination of these causes. The fact that such questions remain after nine months of experience with the HERMIT system indicates that there were weaknesses in the reconciliation of data among the related systems.

Failure to ensure data completeness and accuracy among source systems, management information systems, and the general ledger exposes the agency to several risks:

- Inaccuracies in the financial statements
- Faulty information in management reports
- Wasted time needed to reconcile data when differences persist over longer periods

EXHIBIT A
Significant Deficiencies

We recommend that the FHA Comptroller:

2a. Complete the reconciliation of the identified differences to determine the causes of those differences.

2b. Determine whether the existing periodic reconciliations are sufficient and frequent enough to identify potential problems.

2c. Consider whether the policies and procedures over data integrity are in place and being followed.

2d. Consider whether the policies and procedures over the implementation of new systems that affect the general ledger are sufficient to ensure that the data in the new system is complete and accurate, and that the system properly interfaces with any related systems.

EXHIBIT B
Management's Response

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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

NOV 22 2013

MEMORANDUM FOR: CliftonLarsonAllen LLP

FROM: Monica Clarke, Acting Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Response to Fiscal Year 2013 FHA Audit Report

Thank you for providing us the opportunity to respond to FHA's Independent Audit Report.

FHA is pleased that CliftonLarsonAllen LLP has recognized our progress and efforts made to resolve the prior year finding relating to mitigating persistent IT control deficiencies. FHA will continue to work to improve and address the new concerns identified.

Report on Internal Control – Significant Deficiencies

1. Undelivered Orders Should Be Reviewed Annually and De-obligated Promptly.

FHA recognizes the need to improve its processes over reviewing undelivered orders to determine if funds can be de-obligated. In addition, FHA agrees that reconciliation processes can be improved between the procurement system and the source systems, specifically the Single Family Acquired Asset Management System (SAMS). In early FY 2012, HUD Integrated Acquisition Management System (HIAMS) became the procurement system for FHA. Reconciliations between SAMS and the procurement system became challenging due to limited reporting capabilities in HIAMS. In FY 2013, an interface between HIAMS and SAMS was implemented. The new interface should improve controls and the timeliness of recording obligations and de-obligations in SAMS in the future.

FHA concurs with the auditors recommendations.

2. New System Reporting and Reconciliation Capabilities Need Improvement

FHA implemented a new service for HECM insurance, accounting and program operations on October 9, 2012. FHA named the service Home Equity Reverse Mortgage Information Technology (HERMIT). The HERMIT service consolidated the operations of the following legacy systems into one platform:

- Collecting Mortgage Insurance Premiums (MIP) through its Insurance Accounting Collection System (IACS);

www.hud.gov espanol.hud.gov

- Servicing HECM loans assigned to HUD through its Single Family Mortgage Asset Recovery Technology (SMART) system;
- Manually processing Mortgagee's insurance claims.

The HERMIT service improves FHA's monitoring and tracking of the HECM loan portfolio, automates the payment of insurance claims, and add capabilities to identify and mitigate risks to the Insurance Funds. The HERMIT service also improves IT security controls and compliance with current federal security standards.

While the new service has improved controls over the HECM program, FHA recognizes that reporting capabilities and reconciliation processes need improvement. FHA concurs with the recommendations.

EXHIBIT C
Status of Prior Year Recommendations

Our assessment of the current status of the recommendations related to significant deficiencies identified in the prior year audit is presented below:

FY 2012 Recommendation	***Type***	***Fiscal Year 2013 Status***
1a. The Assistant Secretary for Housing should work with the HUD CIO to continue the development of the IT portfolio management structure and establish clear roles and responsibilities for remediating the identified control deficiencies in Housing's applications and monitor the effectiveness of that structure in managing IT investment.	Significant Deficiency 2012	Resolved
1b. The Assistant Secretary for Housing should assign a Housing representative to oversee and report on the remediation of control deficiencies in general support systems that affect Housing systems and data.	Significant Deficiency 2012	Resolved
1c. The Assistant Secretary for Housing clarify the future role of Housing's Office of Risk Management and Assessment with regard to the IT risk assessment process for FHA applications.	Significant Deficiency 2012	Resolved
1d. The HUD Chief Information Officer should assign a senior OCIO manager to document the plan of action and to provide regular status reports on the progress toward mitigation of the outstanding control deficiencies reported for the general support systems and the applications affecting Housing data.	Significant Deficiency 2012	Resolved

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FEDERAL HOUSING ADMINISTRATION
Financial Statements for the Fiscal Years Ended
September 30, 2013 and 2012

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FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED BALANCE SHEETS
As of September 30, 2013 and 2012
(Dollars in Millions)

	FY 2013	FY 2012
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 63,481	$ 47,640
Investments (Note 4)	3	2,775
Accounts Receivable, Net (Note 5)	-	-
Other Assets (Note 7)	1	3
Total Intragovernmental	$ 63,485	$ 50,418
Investments (Note 4)	$ 56	$ 60
Accounts Receivable, Net (Note 5)	13	24
Loans Receivable and Related Foreclosed Property, Net (Note 6)	7,276	5,441
Other Assets (Note 7)	379	60
TOTAL ASSETS	**$ 71,209**	**$ 56,003**
LIABILITIES		
Intragovernmental		
Accounts Payable (Note 8)	$ 8	$ 6
Borrowings from U.S. Treasury (Note 9)	25,940	11,527
Other Liabilities (Note 10)	3,983	3,473
Total Intragovernmental	$ 29,931	$ 15,006
Accounts Payable (Note 8)	$ 404	$ 721
Loan Guarantee Liability (Note 6)	41,465	54,984
Debentures Issued to Claimants (Note 9)	-	-
Other Liabilities (Note 10)	424	396
TOTAL LIABILITIES	**$ 72,224**	**$ 71,107**
NET POSITION		
Unexpended Appropriations (Note 16)	$ 869	$ 862
Cumulative Results of Operations	(1,884)	(15,966)
TOTAL NET POSITION	**(1,015)**	**(15,104)**
TOTAL LIABILITIES AND NET POSITION	**$ 71,209**	**$ 56,003**

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, 2013 and 2012
(Dollars in Millions)

	FY 2013	FY 2012
Single Family Forward		
Intragovernmental Gross Costs (Note 12)	$ 727	$ 327
Less: Intragovernmental Earned Revenue (Note 13)	1,720	2,608
Intragovernmental Net Costs	(993)	(2,281)
Gross Costs With the Public (Note 12)	(5,840)	15,455
Less: Earned Revenues (Note 13)	28	50
Net Costs With the Public	(5,868)	15,405
Single Family Forward Net Cost (Surplus)	**$ (6,861)**	**$ 13,124**
HECM		
Intragovernmental Gross Costs (Note 12)	$ 53	$ 52
Less: Intragovernmental Earned Revenue (Note 13)	823	477
Intragovernmental Net Costs	(770)	(425)
Gross Costs With the Public (Note 12)	(565)	8,159
Less: Earned Revenues (Note 13)	2	5
Net Costs With the Public	(567)	8,154
HECM Net Cost (Surplus)	**$ (1,337)**	**$ 7,729**
Multifamily/Healthcare		
Intragovernmental Gross Costs (Note 12)	$ 142	$ 85
Less: Intragovernmental Earned Revenue (Note 13)	62	28
Intragovernmental Net Costs	80	57
Gross Costs With the Public (Note 12)	$ (1,927)	$ (1,244)
Less: Earned Revenues (Note 13)	46	58
Net Costs With the Public	(1,973)	(1,302)
Multifamily/Healthcare Net Cost (Surplus)	**$ (1,893)**	**$ (1,245)**
Administrative Expenses		
Intragovernmental Gross Costs (Note 12)	$ 22	$ 29
Less: Intragovernmental Earned Revenue (Note 13)	-	-
Intragovernmental Net Costs	22	29
Gross Costs With the Public (Note 12)	671	660
Less: Earned Revenues (Note 13)	-	-
Net Costs With the Public	671	660
Adminstrative Expenses Net Cost (Surplus)	**$ 693**	**$ 689**
Net Cost of Operations	**$ (9,398)**	**$ 20,297**

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, 2013 and 2012
(Dollars in Millions)

	FY 2013 Cumulative Results of Operations	FY 2013 Unexpended Appropriations	FY 2012 Cumulative Results of Operations	FY 2012 Unexpended Appropriations
BEGINNING BALANCES	**$ (15,966)**	**$ 862**	**$ 4,569**	**$ 850**
Budgetary Financing Sources				
Appropriations Received (Note 16)	-	7,604	-	983
Other Adjustments (Note 16)	-	(39)	-	(24)
Appropriations Used (Note 16)	7,490	(7,490)	875	(875)
Transfers-Out (Note 15 and Note 16)	-	(68)	(395)	(72)
Other Financing Sources				
Transfers In/Out (Note 15)	550	-	(481)	-
Imputed Financing (Note 12)	18	-	15	-
Other	(3,374)	-	(252)	
Total Financing Sources	**$ 4,684**	**$ 7**	**$ (238)**	**$ 12**
Net (Cost) Surplus of Operations	**9,398**	**-**	**(20,297)**	**-**
ENDING BALANCES	**$ (1,884)**	**$ 869**	**$ (15,966)**	**$ 862**

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, 2013
(Dollars in Millions)

	FY 2013 Budgetary	FY 2013 Non-Budgetary	FY 2013 Total
Budgetary Resources:			
Unobligated balance brought forward, October 1	4,074	40,275	44,349
Unobligated balance brought forward, October 1, as adjusted	4,075	40,275	44,350
Recoveries of prior year unpaid obligations	87	404	491
Other changes in unobligated balance (+ or -)	(208)	-	(208)
Unobligated balance from prior year budget authority, net	3,955	40,678	44,633
Appropriations (discretionary and mandatory)	7,525	-	7,525
Borrowing authority (discretionary and mandatory)	-	19,092	19,092
Spending authority from offsetting collections (discretionary and mandatory)	22,922	54,696	77,618
Total budgetary resources	**34,402**	**114,466**	**148,868**
Status of Budgetary Resources:			
Obligations incurred	33,564	56,611	90,175
Unobligated balance, end of year:			
Apportioned	77	24,999	25,076
Unapportioned	761	32,856	33,617
Total unobligated balance, end of year	838	57,855	58,693
Total budgetary resources	**34,402**	**114,466**	**148,868**
Change in Obligated Balance:			
Unpaid obligations, brought forward, October 1 (gross)	732	2,472	3,204
Obligated balance, start of year (net), before adjustments (+ or -)	732	2,472	3,204
Adjustment to obligated balance, start of year (net) (+ or -)	(1)	-	(1)
Obligated balance, start of year (net), as adjusted	731	2,472	3,203
Obligations incurred	33,564	56,611	90,175
Outlays (gross) (-)	(33,574)	(56,141)	(89,715)
Change in uncollected customer payments from Federal sources (+ or -)	(1)	-	(1)
Recoveries of prior year unpaid obligations (-)	(87)	(404)	(491)
Unpaid obligations, end of year (gross)	634	2,539	3,173
Uncollected customer payments from Federal sources, end of year	(3)	-	(3)
Obligated balance, end of year (net)	631	2,539	3,170
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	30,448	73,788	104,236
Actual offsetting collections (discretionary and mandatory) (-)	(22,921)	(59,375)	(82,296)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	(1)	-	(1)
Budget authority, net (discretionary and mandatory)	7,526	14,413	21,939
Outlays, gross (discretionary and mandatory)	33,574	56,141	89,715
Actual offsetting collections (discretionary and mandatory) (-)	(22,921)	(59,375)	(82,296)
Outlays, net (discretionary and mandatory)	10,653	(3,234)	7,419
Less Distributed offsetting receipts (-)	1,442	-	1,442
Agency outlays, net (discretionary and mandatory)	**9,211**	**(3,234)**	**5,977**

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, 2012
(Dollars in Millions)

	FY 2012 Budgetary	FY 2012 Non-Budgetary	FY 2012 Total
Budgetary Resources:			
Unobligated balance brought forward, October 1	5,565	36,249	41,814
Unobligated balance brought forward, October 1, as adjusted	5,565	36,249	41,814
Recoveries of prior year unpaid obligations	26	122	148
Other changes in unobligated balance (+ or -)	(276)	-	(276)
Unobligated balance from prior year budget authority, net	5,315	36,371	41,686
Appropriations (discretionary and mandatory)	912	-	912
Borrowing authority (discretionary and mandatory)	-	5,760	5,760
Spending authority from offsetting collections (discretionary and mandatory)	12,737	34,329	47,066
Total budgetary resources	**18,964**	**76,460**	**95,424**
Status of Budgetary Resources:			
Obligations incurred	14,890	36,185	51,075
Unobligated balance, end of year:			
Apportioned	59	18,346	18,405
Unapportioned	4,015	21,929	25,944
Total unobligated balance, end of year	4,074	40,275	44,349
Total budgetary resources	**18,964**	**76,460**	**95,424**
Change in Obligated Balance:			
Unpaid obligations, brought forward, October 1 (gross)	737	2,320	3,057
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(20)	(1)	(21)
Obligated balance, start of year (net), before adjustments (+ or -)	717	2,319	3,036
Obligated balance, start of year (net), as adjusted	717	2,319	3,036
Obligations incurred	14,890	36,185	51,075
Outlays (gross) (-)	(14,868)	(35,911)	(50,779)
Change in uncollected customer payments from Federal sources (+ or -)	18	1	19
Recoveries of prior year unpaid obligations (-)	(26)	(122)	(148)
Unpaid obligations, end of year (gross)	733	2,472	3,205
Uncollected customer payments from Federal sources, end of year	(2)	-	(2)
Obligated balance, end of year (net)	731	2,472	3,203
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	13,649	40,089	53,738
Actual offsetting collections (discretionary and mandatory) (-)	(12,766)	(34,595)	(47,361)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	18	1	19
Budget authority, net (discretionary and mandatory)	901	5,495	6,396
Outlays, gross (discretionary and mandatory)	14,868	35,911	50,779
Actual offsetting collections (discretionary and mandatory) (-)	(12,766)	(34,595)	(47,361)
Outlays, net (discretionary and mandatory)	2,102	1,316	3,418
Less Distributed offsetting receipts (-)	2,611	-	2,611
Agency outlays, net (discretionary and mandatory)	**(509)**	**1,316**	**807**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

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/Federal Housing Commissioner, who reports to the Secretary of HUD. FHA's activities are included in the Housing section of the HUD budget.

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, health care facilities, property improvements, manufactured homes, and reverse mortgages, also referred to as Home Equity Conversion Mortgages (HECM). The objectives of the activities carried out by FHA relate directly to developing affordable housing.

FHA categorizes its insurance programs as Single Family (including Title 1), Multifamily and HECM. Single Family activities support initial or continued home ownership; Title I activities support manufactured housing and property improvement. Multifamily 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.

For the Loan Guarantee Program at FHA, in both the MMI/CMHI and GI/SRI funds there are Single Family and Multifamily activities. 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	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 is 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). The recognition and measurement of budgetary resources and their status for purposes of preparing the Combined Statements of Budgetary Resources (SBR), is based on concepts and guidance provided by 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 sheets, statements 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). These accounts are classified as either Budgetary or Non-Budgetary in the Combined Statements of Budgetary Resources. The Budgetary accounts include the program, capital reserve and liquidating accounts. The Non-Budgetary accounts consist of the credit reform financing accounts.

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 of 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 two general fund receipt accounts. FHA's receipt accounts are general fund receipt accounts and amounts are not earmarked for the FHA's credit programs. The first is used for the receipt of amounts paid from the GI/SRI financing account when there is negative subsidy from the original estimate or a downward reestimate. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in these accounts are non-entity assets and are offset by intragovernmental liabilities. At the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to the U.S. Treasury general fund.

The second general fund receipt account is used for the unobligated balance transferred from GI/SRI liquidating account and loan modifications. Similar to the general fund receipt account used for the GI/SRI negative subsidy and downward reestimates, the amounts in this account are not earmarked for FHA's credit programs and are returned to Treasury at the beginning of the next fiscal year. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. Negative subsidy and downward reestimates in the MMI/CMHI fund are transferred to the Capital Reserve account.

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 loans receivable include mortgage notes assigned (MNA), also described as Secretary-held notes, purchase money mortgages (PMM), and notes related to partial claims. 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. 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 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 6).

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 sheets. 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 6).

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.

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.

To estimate the Allowance for Subsidy associated with loans receivable and related to foreclosed property and the liability for loan guarantees (LLG), FHA uses cash flow model assumptions associated with loan guarantee cases subject to the Federal Credit Reform Act of 1990 (FCRA), as described in Note 6, to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, FHA develops assumptions, as described in Note 6, based on historical data, current and forecasted program and economic assumptions.

Certain programs have higher risks due to increased chances of fraudulent activities perpetrated against FHA. FHA accounts for these risks through the assumptions used in the liabilities for loan guarantee estimates. FHA develops the 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,* indicates that HUD will either own the software or 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 had several procurement actions in place and had incurred expenses for software development. FHA identified and transferred those expenses to HUD to comply with departmental policy.

Appropriations

FHA receives appropriations for certain operating expenses for its program activities, some of which are transferred to 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

SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards* and SFFAS No. 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts to account for costs assumed by other Federal organizations on their behalf*, require that Federal agencies 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 $18 million for fiscal year 2013 and $15 million for fiscal year 2012, and was included in FHA's financial statements as an imputed cost in the Consolidated Statements of Net Cost, and an imputed financing in the Consolidated Statements of Changes in Net Position.

Distributive Shares

As mutual funds, 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. Thus, all of FHA's liabilities are considered covered by budgetary resources.

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. Budget authority is the authorization provided by law to enter into obligations to carry out the guaranteed and direct loan programs and their associated administrative costs, which would result in immediate or future outlays of federal funds. FHA's budgetary resources include current budgetary authority (i.e., appropriations and borrowing authority) and 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 obligations or expenditure for any purpose.

FHA funds its programs through borrowings from the U.S. Treasury and debentures issued to the public. These borrowings and debentures are authorized through a permanent indefinite authority at interest rates set each year by the U.S. Treasury and the prevailing market rates.

Note 2. Non-entity Assets

Non-entity assets consist of assets 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, 2013 and 2012 are as follows:

(Dollars in millions)

	FY 2013	FY 2012
Intragovernmental:		
Fund Balance with Treasury	$ 1,671	$ 2,894
Investments in U.S. Treasury Securities	3	3
Total Intragovernmental	1,674	2,897
Other Assets	47	54
Total Non-Entity Assets	1,721	2,951
Total Entity Assets	69,488	53,052
Total Assets	**$ 71,209**	**$ 56,003**

FHA's non-entity assets consist of FHA's U.S. Treasury deposit of negative credit subsidy in the GI/SRI general fund receipt account and of escrow monies collected by FHA from the borrowers of its loans.

According to the FCRA, FHA transfers GI/SRI negative credit subsidy from new endorsements, downward credit subsidy re-estimates, loan modifications, and unobligated balances from the liquidating account to the GI/SRI general fund receipt accounts. At the beginning of each fiscal year, fund balances in the GI/SRI general fund receipt accounts are transferred into the U.S. Treasury's general fund.

Other assets consisting of escrow monies collected from FHA borrowers 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 property taxes, property insurance or 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, 2013 and 2012:

(Dollars in millions)	FY 2013	FY 2012
Fund Balances:		
Revolving Funds	$ 61,084	$ 43,449
Appropriated Funds	775	790
Other Funds	1,622	3,401
Total	**$ 63,481**	**$ 47,640**
Status of Fund Balance with U.S. Treasury:		
Unobligated Balance		
Available	$ 25,075	$ 18,405
Unavailable	35,233	26,030
Obligated Balance Not Yet Disbursed	3,173	3,205
Total	**$ 63,481**	**$ 47,640**

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 subsequent 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 expired year, the annual and multi-year program accounts are cancelled 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. 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 subsequent upward credit subsidy reestimates are calculated in the financing account 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. 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 has no MMI/CMHI investments in U.S. Treasury securities as of September 30, 2013.

(Dollars in millions)

FY 2013	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ -	$ -	$ -	$ -
GI/SRI Investments	3	-	3	-
Subtotal	3	-	3	-
Total	**$ 3**	**$ -**	**$ 3**	**$ -**

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2012 were as follows:

FY 2012	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 2,771	$ 1	$ 2,772	$ 2,772
GI/SRI Investments	3	-	3	3
Subtotal	$ 2,774	$ 1	$ 2,775	$ 2,775
Total	**$ 2,774**	**$ 1**	**$ 2,775**	**$ 2,775**

Investments in Private-Sector Entities
Investments Risk Sharing Debentures as of September 30, 2013 and 2012 were as follows:

(Dollars in millions)	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Returns of Investment	Redeemed	Ending Balance
FY 2013						
601 Program and Note Sales	$ -	$ -	$ -	$ -	$ -	$ -
Risk Sharing Debentures	57	1	-	-	(2)	56
Total	**$ 57**	**$ 1**	**$ -**	**$ -**	**$ (2)**	**$ 56**
FY 2012						
601 Program and Note Sales	$ 6	$ 21	$ 7	$ (31)	$ -	$ 3
Risk Sharing Debentures	57	-	-	-	-	57
Total	**$ 63**	**$ 21**	**$ 7**	**$ (31)**	**$ -**	**$ 60**

Note 5. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2013 and 2012 are as follows:

	Gross		Allowance		Net	
(Dollars in millions)	FY 2013	FY2012	FY 2013	FY2012	FY 2013	FY2012
With the Public:						
Receivables related to credit program assets	$ 1	$ 16	$ -	$ -	$ 1	$ 16
Premiums receivable	6	6	-	-	6	6
Generic Debt Receivables	96	79	(96)	(79)	-	-
Miscellaneous receivables	6	2	-	-	6	2
Total	**$ 109**	**$ 103**	**$ (96)**	**$ (79)**	**$ 13**	**$ 24**

Receivables Related to Credit Program Assets

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

Premiums Receivable

These amounts consist of the premiums due to FHA from the mortgagors at the end of the reporting period. The details of FHA premium structure are discussed in Note 13 – Earned Revenue/Premium Revenue.

Generic Debt Receivables

These amounts are mainly composed of receivables from various sources, the largest of which are Single Family Partial Claims, Single Family Indemnifications, and Single Family Restitutions.

Miscellaneous Receivables

Miscellaneous receivables include late charges and penalties receivable on premiums receivable, refunds receivable from overpayments of claims and 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 6. Direct Loans and Loan Guarantees, Non-Federal Borrowers

Direct Loan and Loan Guarantee Programs Administered by FHA Include:
MMI/CMHI Direct Loan Program
GI/SRI Direct Loan Program
MMI/CMHI Loan Guarantee Program
GI/SRI Loan Guarantee Program
H4H Loan Guarantee Program

FHA Direct Loan and Loan Guarantee Programs and the related loans receivable, foreclosed property, and Loan Guarantee Liability as of September 30, 2013 and 2012 are as follows:

Direct Loan Program

(Dollars in Millions)

FY 2013	Total
Direct Loans	
Loan Receivables	15
Interest Receivables	11
Allowance	(12)
Total Direct Loans	**14**

(Dollars in Millions)

FY2012	Total
Direct Loans	
Loan Receivables	15
Interest Receivables	11
Allowance	(11)
Total Direct Loans	**15**

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

(Dollars in Millions)

FY 2013	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	18	-	18
Allowance for Loan Losses	(24)	(10)	(34)
Foreclosed Property	22	8	30
Subtotal	**16**	**(2)**	**14**
Multifamily/Healthcare			
Loan Receivables	-	2,225	2,225
Interest Receivables	-	228	228
Allowance for Loan Losses	-	(935)	(935)
Foreclosed Property	-	1	1
Subtotal	**-**	**1,519**	**1,519**
HECM			
Loan Receivables	-	5	5
Interest Receivables	-	2	2
Allowance for Loan Losses	-	(2)	(2)
Foreclosed Property	-	7	7
Subtotal	-	12	12
Total Guaranteed Loans	**16**	**1,529**	**1,545**

(Dollars in Millions)

FY2012	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	17	1	18
Allowance for Loan Losses	(35)	(16)	(51)
Foreclosed Property	24	10	34
Subtotal	**6**	**(5)**	**1**
Multifamily/Healthcare			
Loan Receivables	-	2,338	2,338
Interest Receivables	-	219	219
Allowance for Loan Losses	-	(1,362)	(1,362)
Foreclosed Property	-	1	1
Subtotal	**-**	**1,196**	**1,196**
HECM			
Loan Receivables	-	5	5
Interest Receivables	-	1	1
Allowance for Loan Losses	-	(2)	(2)
Foreclosed Property	-	5	5
Subtotal	-	9	9
Total Guaranteed Loans	**6**	**1,200**	**1,206**

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

FHA FY 2013 AND 2012 FINANCIAL STATEMENTS (Cont.)

Defaulted Guaranteed Loans from Post-1991 Guarantees:

(Dollars in Millions)

FY 2013	MMI/CMHI	GI/SRI	H4H	Total
Guaranteed Loans				
Single Family Forward				
Loan Receivables	2,957	67	-	3,024
Interest Receivables	8	2	-	10
Foreclosed Property	4,499	149	1	4,649
Allowance	(4,729)	(147)	1	(4,875)
Subtotal	**2,735**	**71**	**2**	**2,809**
Multifamily/Healthcare				
Loan Receivables	-	619	-	619
Interest Receivables	-	-	-	-
Foreclosed Property	-	1	-	1
Allowance	-	(212)	-	(212)
Subtotal	**-**	**408**	**-**	**408**
HECM				
Loan Receivables	530	2,038	-	2,568
Interest Receivables	155	951	-	1,106
Foreclosed Property	2	67	-	69
Allowance	(228)	(1,015)	-	(1,243)
Subtotal	**459**	**2,041**	**-**	**2,500**
Total Guaranteed Loans	**3,194**	**2,520**	**2**	**5,717**

FY2012	MMI/CMHI	GI/SRI	H4H	Total
Guaranteed Loans				
Single Family Forward				
Loan Receivables	1,582	53	-	1,635
Interest Receivables	3	2	-	5
Foreclosed Property	4,888	200	-	5,088
Allowance	(4,410)	(177)	-	(4,587)
Subtotal	**2,063**	**78**	**-**	**2,141**
Multifamily/Healthcare				
Loan Receivables	-	631	-	631
Interest Receivables	-	-	-	-
Foreclosed Property	-	1	-	1
Allowance	-	(382)	-	(382)
Subtotal	**-**	**250**	**-**	**250**
HECM				
Loan Receivables	163	1,775	-	1,938
Interest Receivables	38	805	-	843
Foreclosed Property	-	53	-	53
Allowance	(71)	(934)	-	(1,005)
Subtotal	**130**	**1,699**	**-**	**1,829**
Total Guaranteed Loans	**2,193**	**2,027**	**-**	**4,220**

*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 2013):		
MMI/CMHI		
Single Family Forward	1,167,089	1,086,647
Multifamily/Healthcare	449	432
MMI/CMHI Subtotal	**1,167,538**	**1,087,079**
GI/SRI		
Single Family Forward	14,323	11,265
Multifamily/Healthcare	100,911	93,416
GI/SRI Subtotal	**115,234**	**104,681**
H4H		
Single Family - 257	117	113
H4H Subtotal	**117**	**113**
Total	**1,282,889**	**1,191,873**
Guaranteed Loans Outstanding (FY 2012):		
MMI/CMHI		
Single Family Forward	1,141,279	1,069,003
Multifamily/Healthcare	439	417
MMI/CMHI Subtotal	**1,141,718**	**1,069,420**
GI/SRI		
Single Family Forward	18,094	14,868
Multifamily/Healthcare	93,492	85,852
GI/SRI Subtotal	**111,586**	**100,720**
H4H		
Single Family - 257	124	122
H4H Subtotal	**124**	**122**
Total	**1,253,428**	**1,170,262**

New Guaranteed Loans Disbursed:

(Dollars in Millions)

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
MMI/CMHI		
Single Family Forward	240,089	237,258
Multifamily/Healthcare	187	185
MMI/CMHI Subtotal	**240,276**	**237,443**
GI/SRI		
Single Family Forward	138	137
Multifamily/Healthcare	23,206	23,054
GI/SRI Subtotal	**23,344**	**23,191**
Total	**263,620**	**260,634**
New Guaranteed Loans Disbursed (FY 2012):		
MMI/CMHI		
Single Family Forward	213,159	210,936
Multifamily/Healthcare	108	107
MMI/CMHI Subtotal	**213,267**	**211,043**
GI/SRI		
Single Family Forward	163	161
Multifamily/Healthcare	18,643	18,548
GI/SRI Subtotal	**18,806**	**18,709**
Total	**232,073**	**229,752**

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 766,695 HECM loans with a maximum claim amount of $173 billion. Of these 766,695 HECM loans insured by FHA, 586,138 loans with a maximum claim amount of $146 billion are still active. As of September 30, 2013 the insurance-in-force (the outstanding balance of active loans) was $100 billion. The insurance in force includes balances drawn by the mortgagee; 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.

FHA FY 2013 AND 2012 FINANCIAL STATEMENTS (Cont.)

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 2013	MMI/CMHI	$ 14,671	$ 56,936	$ 86,305
	GI/SRI	-	43,933	59,613
	Total	**$ 14,671**	**$ 100,869**	**$ 145,918**
FY2012	MMI/CMHI	$ 13,111	$ 48,412	$ 76,220
	GI/SRI	-	45,153	63,639
	Total	**$ 13,111**	**$ 93,565**	**$ 139,859**

Loan Guarantee Liability, Net:

(Dollars in Millions)

FY 2013	MMI/CMHI	GI/SRI	H4H	Total
LLR				
Single Family Forward	$ 6	$ -	$ -	$ 6
Multifamily/Healthcare	-	2	-	2
Subtotal	**$ 6**	**$ 2**	**$ -**	**$ 8**
LLG				
Single Family Forward	$ 26,189	$ 878	$ 21	$ 27,088
Multifamily/Healthcare	(20)	(2,446)	-	(2,466)
HECM	6,038	10,797	-	16,835
Subtotal	**$ 32,207**	**$ 9,229**	**$ 21**	**$ 41,457**
Loan Guarantee Liability Total	**$ 32,213**	**$ 9,231**	**$ 21**	**$ 41,465**

FY2012	MMI/CMHI	GI/SRI	H4H	Total
LLR				
Single Family Forward	$ 11	$ 1	$ -	$ 12
Multifamily/Healthcare	-	5	-	5
Subtotal	**$ 11**	**$ 6**	**$ -**	**$ 17**
LLG				
Single Family Forward	$ 37,105	$ 1,662	$ 20	$ 38,787
Multifamily/Healthcare	(17)	(1,593)	-	(1,610)
HECM	5,548	12,242	-	17,790
Subtotal	$ 42,636	$ 12,311	$ 20	$ 54,967
Loan Guarantee Liability Total	**$ 42,647**	**$ 12,317**	**$ 20**	**$ 54,984**

Subsidy Expense for Loan Guarantees by Program and Component:

(Dollars in millions)

FY 2013	MMI/CMHI	GI/SRI	H4H	Total
Single Family Forward				
Defaults	7,130	4	-	7,134
Fees and Other Collections	(24,191)	(5)	-	(24,196)
Other	(7)	-	-	(7)
Subtotal	**(17,068)**	**(1)**	**-**	**(17,069)**
Multifamily/Healthcare				
Defaults	6	567	-	573
Fees and Other Collections	(16)	(1,479)	-	(1,495)
Other	-	-	-	-
Subtotal	**(10)**	**(912)**	**-**	**(922)**
HECM				
Defaults	536	-	-	536
Fees and Other Collections	(902)	-	-	(902)
Subtotal	**(366)**	**-**	**-**	**(366)**
Total	**(17,444)**	**(913)**	**-**	**(18,357)**

FY2012	MMI/CMHI	GI/SRI	H4H	Total
Single Family Forward				
Defaults	6,825	5	-	6,830
Fees and Other Collections	(13,194)	(7)	-	(13,201)
Other	992	-	-	992
Subtotal	(5,377)	(2)	-	(5,379)
Multifamily/Healthcare				
Defaults	4	642	-	646
Fees and Other Collections	(9)	(1,035)	-	(1,044)
Other	1	-	-	1
Subtotal	(4)	(393)	-	(397)
HECM				
Defaults	754	-	-	754
Fees and Other Collections	(953)	-	-	(953)
Subtotal	(199)	-	-	(199)
Total	**(5,580)**	**(395)**	**-**	**(5,975)**

Subsidy Expense for Modification and Reestimates:

(Dollars in millions)

FY 2013	Total Modifications	Technical Reestimate
MMI/CMHI	-	9,862
GI/SRI	-	(1,443)
Total	-	8,419
FY2012		
MMI/CMHI	-	16,636
GI/SRI	-	3,993
Total	-	20,629

Total Loan Guarantee Subsidy Expense:

(Dollars in millions)

	FY 2013	FY2012
MMI/CMHI	(7,582)	11,054
GI/SRI	(2,356)	3,599
Total	(9,938)	14,653

Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

(Percentage)	Defaults	Fees and Other Collections	Other	Total
Budget Subsidy Rates for FY 2013 Loan Guarantees:				
MMI/CMHI				
Single Family				
Forward - 06/03/2013 - present	2.96	(12.66)	-	(9.70)
Forward - 04/01/2013 - 06/02/2013	2.96	(9.29)	-	(6.33)
Forward - 10/01/12 - 03/31/2013	2.96	(8.94)	-	(5.98)
HECM	2.42	(6.19)	-	(3.77)
Short Refinance	10.22	(7.65)	(2.57)	-
Multifamily				
Cooperatives - 06/03/2013 - present	2.96	(12.66)	-	(9.70)
Cooperatives - 04/01/2013 - 06/02/2013	2.96	(9.29)	-	(6.33)
Cooperatives - 10/01/12- 03/31/2013	2.96	(8.94)	-	(5.98)
GI/SRI				
Multifamily				
Apartments	4.40	(6.91)	-	(2.51)
Apartments Refinance	1.10	(5.75)	-	(4.65)
Apartments Refinance	1.10	(5.75)	-	(4.65)
Healthcare				
Residential Care	3.08	(7.37)	-	(4.29)
Hospitals	1.31	(7.72)	-	(6.41)

(Percentage)	Defaults	Fees and Other Collections	Other	Total
Budget Subsidy Rates for FY 2012 Loan Guarantees:				
MMI/CMHI				
Single Family				
Single Family - Forward - 06/11/2012 - present	3.65	(6.40)	-	(2.75)
Single Family - Forward - 04/09/2012 - 06/10/2012	3.65	(6.65)	-	(3.00)
Single Family - Forward - 10/01/11 - 04/08/2012	2.67	(5.84)	1.01	(2.16)
Single Family - HECM	5.73	(7.25)	-	(1.52)
Single Family - Short Refi	6.38	(5.99)	(0.39)	-
Multifamily				
Cooperatives - 06/11/2012 - present	3.65	(6.40)	-	(2.75)
Cooperatives - 04/09/2012 - 06/10/2012	3.65	(6.65)	-	(3.00)
Cooperatives - 10/01/11 - 04/08/2012	2.67	(5.84)	1.01	(2.16)
GI/SRI				
Multifamily				
Apartments - Section 221(d)(4)	5.32	(6.41)	-	(1.09)
Apartments Refinance - Section 207/223(f)	3.45	(5.62)	-	(2.17)
Apartments Refinance - Section 223(a)(7)	3.45	(5.62)	-	(2.17)
Healthcare				
Residential Care - Section 232	3.60	(5.56)	-	(1.96)
Hospitals - Section 242	1.79	(5.61)	-	(3.82)

Schedule for Reconciling Loan Guarantee Liability Balances:

	FY 2013		FY2012	
(Dollars in Millions)	LLR	LLG	LLR	LLG
Beginning Balance of the Loan Guarantee Liability	$ 17	$ 54,967	$ 34	$ 36,070
Add: Subsidy Expense for guaranteed loans disbursed during the reporting fiscal years by component:				
Default Costs (Net of Recoveries)	-	8,243	-	8,230
Fees and Other Collections	-	(26,593)	-	(15,198)
Other Subsidy Costs	-	(7)	-	993
Total of the above subsidy expense components	**-**	**(18,357)**	**-**	**(5,975)**
Adjustments:				
Fees Received	-	12,022	-	10,733
Foreclosed Property and Loans Acquired	-	11,809	-	5,857
Claim Payments to Lenders	-	(29,386)	-	(20,260)
Interest Accumulation on the Liability Balance	-	1,674	-	1,417
Other	-	(14)	-	(36)
Ending Balance before Reestimates	**17**	**32,715**	**34**	**27,806**
Add or Subtract Subsidy Reestimates by Component:				
Technical/Default Reestimate				
Subsidy Expense Component	(9)	1,705	(17)	14,553
Interest Expense Component		(377)	-	5,616
Adjustment of prior years' credit subsidy reestimates	-	7,414	-	6,992
Total Technical/Default Reestimate	(9)	8,742	(17)	27,161
Ending Balance of the Loan Guarantee Liability	**$ 8**	**$ 41,457**	**$ 17**	**$ 54,967**

Administrative Expense:

(Dollars in Millions)	FY 2013	FY2012
MMI/CMHI	647	646
Total	**647**	**646**

Credit Reform Valuation Methodology

FHA values its Credit Reform 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 Health Care 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. That 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. There are 15 different multifamily risk categories and six health care categories.

The cash flow estimates that underlie present value calculations are determined using the significant assumptions detailed below.

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.

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 Health Care claim and prepayment rates. Sources of forecast data include IHS Global Insight and Moody's Analytics. OMB provides other economic assumptions used, such as interest rates and the discount rates used against the cash flows.

Actuarial Review: An independent actuarial review of the MMI Fund each year produces conditional claim, prepayment, and loss severity rates that are used as inputs to the Single Family LLG calculation, both for forward and (post-2008) HECM loans.

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, respecting differences due to current loan characteristics and forecasted economic conditions.

Current legislation and regulatory structure: FHA's future plans allowed under current legislative authority have been taken into account in formulating assumptions when relevant. In contrast, future changes in legislative authority may affect the cash flows associated with FHA insurance programs. Such changes cannot be reflected in LLG calculations because of uncertainty over their nature and outcome.

Discount rates: The disbursement-timing-weighted interest rate on U.S. Treasury securities of maturity comparable to the guaranteed loans term creates the discount factor used in the present value calculation for cohorts 1992 to 2000. For the 2001 and future cohorts, the rate on U.S. Treasury securities of maturities comparable to cash flow timing for the loan guarantee is used in the present value calculation. 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, and (4) 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 2013. Overall, FHA’s liability decreased significantly from the fiscal year 2012 estimates.

Mutual Mortgage Insurance (MMI) – On net, the MMI Fund LLG decreased from $42,652 million at the end of fiscal year 2012 to $31,010 at the end of fiscal year 2013. This decrease is the result of many factors. There are, however, two primary factors at work this year in the forward-loan portfolio and two in the HECM (reverse mortgage) portfolio. First for forward loans are the updates to FHA’s mortgage insurance premium (MIP) schedule. Effective June 3, 2013, FHA eliminated the automatic cancellation of annual Mortgage Insurance Premiums (MIP) when loan balances reached 78 percent of the original property value. This policy addresses the risk still present in a loan guarantee even as the loan seasons, as FHA does pay claims on loan defaults throughout the entire life of each cohort. The second major factor affecting the portfolio LLG is a new policy requiring major loan servicers to facilitate Third Party Sale sales at foreclosure auctions in order to reduce reliance upon costly REO activities. HUD ran a limited pilot program in 2012 and then began national implementation in 2013.

The first factor affecting the HECM LLG calculation is that the discounting rates published by OMB. The new discounting factors are indicative of the historically-low interest rates. Lower interest rates increase the present value of future cash inflows and outflows. Second, this year’s house price forecast shows a stronger near term recovery than was predicted last year.

Premium revenues continue to reflect the impacts of five increases from April 2010 through June 2012. To address the decline in portfolio value indicated by the 2012 actuarial study and the President’s 2014 Budget, FHA raised forward-loan insurance premiums again in Fiscal Year 2013.

FHA continues to face delayed claim actions. This is a result from lender’s holding properties after foreclosure auctions to assure they have good title to transfer to HUD, and because of significant foreclosure process bottlenecks in so-called judicial States, where court approval is required to schedule foreclosure auctions. Those delays are addressed in the loan performance forecasts. This year, the MMI Fund LLG includes an assumption that 20,000 additional loans will go to conveyance claim in FY 2014, above those otherwise predicted by the forecasting models. While such adjustments in past years have resulted in over-predictions of near term claims, the adjustment number this year is much smaller than what was used in 2011 and 2012. In addition, HUD continues to pursue the clearing of long foreclosure queues through its Distressed Asset Sale Program. That, alone, could account for the 20,000 loans involved in the adjustment noted here.

GI/SRI Home Equity Conversion Mortgage (HECM) - HECM endorsements from fiscal years 1990-2008 remain in the GI/SRI Fund. The liability for these loans decreased from $12,242 million at the end of FY 2012 to $10,796 million at the end of FY 2013. This liability is driven more by long term house price appreciation forecasts than short term forecasts. Although the short-term forecast used (Moody’s Analytics, July 2013) is generally more favorable this year in the major states where HECM loans are most concentrated, namely, California, Texas, Florida and New York, the long-term trend is slightly less favorable in California, Texas and Florida. The HECM loans remaining in the GI/SRI fund also benefited from slower UPB (Unpaid Principal Balance) growth due to lower current and future (projected) interest rates for adjustable-rate mortgages. Over 99 percent of the remaining GI/SRI HECM loans have adjustable interest 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 $24 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 decreased this year by $240 million, from ($526) million to ($766) million, and principally due to lower prepayment 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 second largest multifamily program in the GI/SRI fund with an insurance-in-force of $11.6 billion. The Section 221(d)(4) liability decreased by $62 million this year, from $14 million to ($48) million. This was principally due to lower claim.

GI/SRI Section 232 Health Care New Construction - 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 $3.6 billion. The Section 232 NC liability decreased by $6.8 million from ($37.8) million in FY 2012 to ($44.6) million in FY 2013 due to a diminished insurance-in-force and decreased claim expectations.

GI/SRI Section 232 Health Care 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 $19.2 billion. The Section 232 Refinance liability decreased by $279 million from ($258) million in FY 2012 to ($537) million in FY 2013 due to higher premium revenue caused by a significant decrease in prepayment expectations.

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 $8.9 billion. The Section 242 liability decreased by $33 million from ($216) million in FY 2012 to ($249) million in FY 2013 due to higher premium revenue caused by decreased prepayment expectations.

Risks to LLG Calculations

LLG calculations for most major 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 actually occurred in the historical record. By creating a large number of 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. Comparisons of mean-value results to indicators of the range of possible outcomes from the Monte Carlo simulations for Single Family forward and HECM mortgages in the MMI LLG are shown in the table below. The representative outcomes shown there are for the inter-quartile range (25^{th} and 75^{th} percentiles), and a standard indicator of "tail" outcomes (95^{th} percentile).

Range of LLG Values Found in Monte Carlo Simulations
(*all dollars in millions*)

Program Area	25th Percentile	Mean	75th Percentile	95th Percentile
MMI Fund				
Single-Family Forward Mortgages	$ 20,717	$ 28,432	$ 34,805	$ 45,666
Single Family Reverse Mortgages (HECM)	$ (878)	$ 2,578	$ 6,082	$ 13,949
Total	$ 19,839	$ 31,010	$ 40,887	$ 59,615

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, HUD works with its contractors to evaluate the forecasting models for reasonableness of results on a number of 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. Lastly, because of the critical importance of the FHA single-family programs for national housing policy, and the uncertainty surrounding the final cost of credit expenses resulting from the recent, severe economic recession, HUD has contracted for a second independent actuarial study of that portfolio. Such a second opinion directly addresses potential model risk by seeing if a different modeling approach would produce a reasonably similar economic value. This year, the results of that examination provide a reasonable assurance that any model risk in the LLG calculations is within a tolerable range for accepting the primary contractor's loan performance projections.

At this point in the economic cycle, with demand for rental units high, and loans refinancing to historically low interest rates, near term risks to the multifamily LLG calculation appear to be low. However, over the longer term, risks come from many sources--changes in population growth and household formation, the supply of rental housing in each market where FHA has a presence, and local employment conditions. Risks also come from FHA's policy of insuring loans pre-construction in its 221(d)(4) program, though that is a small share of new endorsement activity today. To the extent 221(d)(4) projects come into each new cohort, LLG calculations are subject to risk from their abilities to find viable markets when they do come on-line. New construction loans approved in 2007 – 2009 have now gone through several annual rounds of rentals to prove market viability. The combined 2010-2013 cohorts, which are just now starting to come into rent-up, are more than twice as large as 2007-2009, by dollar volume. Valuations of the newer portfolio are dependent upon continued trends in rental vacancy rates and rental-price growth.

For Healthcare programs (Sections 232 and 242), LLG risk comes principally from health-care 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 on the basis of net cash flows. To value these items, FHA uses historical claim data, revenues from premiums and recoveries, and expenses of selling and maintaining property.

MMI Single Family LLR - For the single family portfolio, the remaining insurance-in-force for pre-credit reform loans is $2.9 billion. The aggregate liability for the remaining pre-credit reform loans in FY 2013 is $6 million, which is a $5 million decrease from the $11.5 million estimate in FY 2012.

GI/SRI Multifamily & Healthcare LLR - For the multifamily and healthcare portfolio, the remaining insurance-in-force for pre-credit reform loans is $846 million. The aggregate liability for the remaining pre-credit reform loans in FY 2013 is ($1.7) million, which is a $200 thousand decrease from the ($1.5) million estimate in FY 2012. The year-over-year decrease in aggregate liability is due to a $363 million decline in insurance-in-force.

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 $19.2billion. 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 decreased this year by $169 million, from ($431) million to ($600) million, principally due higher premium revenue expectations resulting from decreased projected prepayment speeds.

Note 7. Other Assets

The following table presents the composition of Other Assets held by FHA as of September 30, 2013 and 2012:

(Dollars in millions)

	FY 2013	FY2012
Intragovernmental:		
Advances to HUD for Working Capital Fund Expenses	$ 1	$ 3
Total	**$ 1**	**$ 3**
With the Public:		
Escrow Monies Deposited at Minority-Owned Banks	$ 47	$ 55
Deposits in Transit	332	5
Total	**$ 379**	**$ 60**

Advances to HUD for Working Capital Fund Expenses

The Working Capital Fund was established by HUD to consolidate, at the department level, the acquisition of certain property and equipment to be used by different organizations within HUD. Advances to HUD for Working Capital Fund expenses represent the amount of payments made by FHA to reimburse the HUD Working Capital Fund for its share of the fund's expenses prior to the receipt of goods or services from this fund.

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 renovations expenses. These escrow monies are deposited at the U.S. Treasury (see Note 2), invested in U.S. Treasury securities (see Note 4 - GI/SRI Investments) or deposited at minority-owned banks.

Deposits in Transit

A deposit 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. The majority of Deposits in Transit relates to accelerated claims disposition final asset sales that occurred the last week in September.

Note 8. Accounts Payable

Accounts Payable as of September 30, 2013 and 2012 are as follows:

(Dollars in millions)

	FY 2013	FY2012
Intragovernmental:		
Claims Payable to Ginnie Mae	$8	$6
Total	$8	$6

	FY 2013	FY2012
With the Public:		
Claims Payable	$188	$503
Premium Refunds Payable	143	143
Single Family Property Disposition Payable	49	42
Miscellaneous Payables	24	33
Total	**$404**	**$ 721**

Claims Payable

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

Premium Refunds

Premium refunds payable are refunds of previously collected Single Family premiums that will be returned to the borrowers resulting from prepayment of the insured mortgages.

Single Family Property Disposition Payable

Single family property disposition payable includes 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, 2013 and 2012:

(Dollars in millions)

	FY2012			FY 2013	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
Agency Debt:					
Debentures Issued to Claimants	$ 10	$ (10)	$ -	$ -	$ -
Other Debt:					
Borrowings from U.S. Treasury	6,032	5,495	11,527	14,413	25,940
Total	**$ 6,042**	**$ 5,485**	**$ 11,527**	**$ 14,413**	**$ 25,940**

	FY 2013	FY2012
Classification of Debt:		
Intragovernmental Debt	$ 25,940	$ 11,527
Total	**$ 25,940**	**$ 11,527**

Debentures Issued to Public

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. There are no debentures outstanding as of September 30, 2013. Lenders may redeem FHA debentures prior to maturity in order to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U.S. Treasury.

Borrowings from U.S. 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 2013, FHA's U.S. Treasury borrowings carried interest rates ranging from 1.68 percent to 7.59 percent. In fiscal year 2012, they carried the same interest rates ranging from 1.68 percent to 7.39 percent. The maturity dates for these borrowings occur from September 2017 – September 2030. Loans may be repaid in whole or in part without penalty at any time prior to maturity.

Note 10. Other Liabilities

The following table describes the composition of Other Liabilities as of September 30, 2013 and 2012:

(Dollars in millions)

FY 2013		**Current**
Intragovernmental:		
Receipt Account Liability	$	3,983
Total	**$**	**3,983**
With the Public:		
Trust and Deposit Liabilities	$	100
Multifamily Notes Unearned Revenue		243
Miscellaneous Liabilities		81
Total	**$**	**424**

FY2012		**Current**
Intragovernmental:		
Receipt Account Liability	$	3,473
Total	**$**	**3,473**
With the Public:		
Trust and Deposit Liabilities	$	88
Multifamily Notes Unearned Revenue		234
Miscellaneous Liabilities		74
Total	**$**	**396**

Receipt Account Liability

The receipt account liability is created from negative credit subsidy from new endorsements, downward credit subsidy reestimates, loan modifications, and unobligated balances from the liquidating account 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 insurance, property taxes, and 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 workout agreements defer payments from the owners for a specified time but, the interest due on the notes is still accruing and will also be deferred until payments resume.

Miscellaneous Liabilities

Miscellaneous liabilities mainly include unearned premium revenue and may include loss contingencies that are recognized by FHA for past events that warrant a probable or likely future outflow of measurable economic resources.

Note 11. 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, 2013. As a result, no contingent liability has been recorded.

Related Party

As of September 30, 2013, 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 2013 (in millions)	FY 2012 (in millions)
Mortgages Held for Investment	$ 5,301	$ 6,210
Foreclosed Properties (Pre-Claim)	479	829
Short Sale Claims Receivable	44	15

Ginnie Mae may submit requests for foreclosure on short sale claim payments to FHA for some or all of these loans. The foreclosure properties represent post foreclosure FHA insured loans where properties have not yet been conveyed and the claims filled. Subject to all existing claim verification controls, FHA would pay such claims to Ginnie Mae 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 12. Gross Costs

Gross costs incurred by FHA for the period ended September 30, 2013 and 2012 are as follows:
(Dollars in millions)

September 30, 2013	Single Family Forward	HECM	Multifamily/ Healthcare	Administrative Expenses	Total
Intragovernmental:					
Interest Expense	$ 727	$ 53	$ 142	$ -	$ 922
Imputed Cost	-	-	-	18	18
Other Expenses	-	-	-	4	4
Total	**$ 727**	**$ 53**	**$ 142**	**$ 22**	**$ 944**
With the Public:					
Salary and Administrative Expense	$ -	$ -	$ -	$ 644	$ 644
Subsidy Expense	(17,069)	(366)	(922)	-	(18,357)
Re-estimate Expense	9,462	(636)	(407)	-	8,419
Interest Expense	758	(336)	(99)	(1)	322
Interest Accumulation Expense	985	770	(81)	-	1,674
Bad Debt Expense	(15)	-	(426)	-	(441)
Loan Loss Reserve	(5)	-	(4)	-	(9)
Other Expenses	44	3	12	28	87
Total	**$ (5,840)**	**$ (565)**	**$ (1,927)**	**$ 671**	**$ (7,661)**
Total Gross Costs	**$ (5,113)**	**$ (512)**	**$ (1,785)**	**$ 693**	**$ (6,717)**

September 30, 2012	Single Family Forward	HECM	Multifamily/ Healthcare	Administrative Expenses	Total
Intragovernmental:					
Interest Expense	$ 327	$ 51	$ 85	$ -	$ 464
Imputed Cost	-	-	-	15	15
Other Expenses	-	-	-	14	14
Total	**$ 327**	**$ 51**	**$ 85**	**$ 29**	**$ 492**
With the Public:					
Salary and Administrative Expense	$ -	$ -	$ -	$ 633	$ 633
Subsidy Expense	(5,379)	(200)	(397)	-	(5,976)
Re-estimate Expense	19,733	7,921	(494)	-	27,160
Interest Expense	-	-	1	(2)	(1)
Interest Accumulation Expense	1,048	427	(57)	-	1,417
Bad Debt Expense	(5)	1	(299)	-	(303)
Loan Loss Reserve	(7)	-	(10)	-	(17)
Other Expenses	65	11	12	29	117
Total	**$ 15,455**	**$ 8,160**	**$ (1,244)**	**$ 660**	**$ 23,031**
Total Gross Costs	**$ 15,782**	**$ 8,211**	**$ (1,159)**	**$ 689**	**$ 23,523**

Interest Expense

Intragovernmental interest expense includes interest expense on borrowings from the U.S. Treasury in the financing account. Interest expense is calculated annually for each cohort using the interest rates provided by the U.S Treasury. Interest expense with the public consists of interest expense on debentures issued to claimants to settle claim payments and interest expense on the annual credit subsidy reestimates.

Interest Accumulation Expense

Interest accumulation expense is the net of interest expense on borrowing and interest revenue in the financing accounts.

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. 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts 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 Statements of Changes in Net Position.

Salary and Administrative Expenses

Salary and administrative expenses include FHA's reimbursement to HUD for FHA personnel costs and FHA's payments to third party contractors for administrative contract expenses. Beginning in fiscal year 2010 and going forward, FHA is only using the MMI annual program fund to record salaries and related expenses other than those relating to the H4H program.

Subsidy Expense

Subsidy expense, positive and negative, consists of credit subsidy expense from new endorsements, modifications, and annual credit subsidy reestimates and the subsidy expense incurred by the Church Arson program. 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.

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 of 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 FHA's share of HUD expenses incurred in the Working Capital Fund and expenses from intra-agency agreements.

Note 13. Earned Revenue

Earned revenues generated by FHA for the period ended September 30, 2013 and 2012 are as follows:
(Dollars in millions)

September 30, 2013	Single Family Forward	HECM	Multifamily/ Healthcare	Total
Intragovernmental:				
Interest Revenue from Deposits at U.S. Treasury	$ 1,712	$ 823	$ 62	$ 2,597
Interest Revenue from MMI/CMHI Investments	8	-	-	8
Total Intragovernmental	**$ 1,720**	**$ 823**	**$ 62**	**$ 2,605**
With the Public:				
Insurance Premium Revenue	$ -	$ -	$ 8	$ 8
Income from Notes and Properties	27	2	38	67
Other Revenue	1	-	-	1
Total With the Public	**$ 28**	**$ 2**	**$ 46**	**$ 76**
Total Earned Revenue	**$ 1,748**	**$ 825**	**$ 108**	**$ 2,681**

September 30, 2012	Single Family Forward	HECM	Multifamily/ Healthcare	Total
Intragovernmental:				
Interest Revenue from Deposits at U.S. Treasury	$ 1,375	$ 478	$ 28	$ 1,881
Interest Revenue from MMI/CMHI Investments	117	-	-	$ 117
Gain on Sale of MMI/CMHI Investments	1,116	-	-	$ 1,116
Total Intragovernmental	**$ 2,608**	**$ 478**	**$ 28**	**$ 3,114**
With the Public:				
Insurance Premium Revenue	$ -	$ -	$ 9	$ 9
Income from Notes and Properties	34	1	47	$ 82
Other Revenue	16	4	1	$ 21
Total With the Public	**$ 50**	**$ 5**	**$ 57**	**$ 112**
Total Earned Revenue	**$ 2,658**	**$ 483**	**$ 85**	**$ 3,226**

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 and of escrow monies collected from borrowers in the GI/SRI liquidating accounts.

Interest revenue with the public is generated mainly from FHA's acquisition of pre-1992 performing MNA notes as a result of claim payments to lenders for defaulted guaranteed loans. Interest revenue associated with the post-1991 MNA notes is included in the Allowance for Subsidy (AFS) balance.

Gain on Sale of MMI/CMHI Investments

This gain occurred as a result of the sale of investments before maturity in the MMI/CMHI Capital Reserve account because the sales price of the investments was greater than the book value of the investments at the time of the sale.

Premium Revenue

According to the FCRA accounting, FHA's premium revenue includes only premiums associated with the pre-1992 loan guarantee business. Premiums for post-1991 guarantee loans are included in the balance of the LLG. The FHA premium structure includes both up-front premiums and annual periodic premiums.

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 in fiscal year 2013 were:

	Upfront Premium Rates
Single Family:	
10/01/2012 - 9/30/2013	1.75%
Multifamily	0.25%, 0.45%, 0.50%, 0.80% or 1.00%
HECM Standard	2.00% (Based on Maximum Claim Amount)
HECM Saver	0.01% (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 in fiscal year 2013 were:

	Annual Periodic Premium Rates
Single Family:	
10/01/2012 - 3/31/2013	1.20%, 1.25% , 1.45% or 1.50%
4/1/2013 - 9/30/2013	1.30%, 1.35%, 1.50% or 1.55%
Multifamily	0.45%, 0.50%, 0.57% or 0.80%
HECM (Standard and Saver)	1.25%

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. For guaranteed cases endorsed in fiscal year 2013, the Title I annual insurance premium is 1.00 percent of the loan amount until maturity.

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, 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, and miscellaneous income generated from FHA operations.

Note 14. 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 15. Transfers Out and Other Financing Sources

Transfers in/out incurred by FHA for the period ended September 30, 2013 and 2012 are as follows:

(Dollars in millions)

FY 2013	Cumulative Results of Operations	Unexpended Appropriations	Total
Budgetary Financing Sources:			
HUD	-	(68)	(68)
Transfers Out:			
HUD	550	-	550
Other Financing Sources:			
Treasury	$ (3,374)	$ -	$ (3,374)

FY2012	Cumulative Results of Operations	Unexpended Appropriations	Total
Budgetary Financing Sources:			
Treasury	$ (395)	$ -	$ (395)
HUD	-	(72)	(72)
Transfers Out:			
HUD	544	-	544
Other Financing Sources:			
Treasury	$ (1,025)	$ -	$ (1,025)

Transfers In/Out From HUD

FHA does not receive an appropriation for salaries and expense; instead the FHA amounts are appropriated directly to HUD. In order to recognize these costs in FHA's Statement of Net Cost, a Transfer In from HUD is recorded based on amounts computed by HUD. FHA continues to make a non-expenditure Transfer Out to HUD for Working Capital Fund expenses.

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 16. Unexpended Appropriations

Unexpended appropriation balances at September 30, 2013 and 2012 are as follows:

(Dollars in millions)

FY 2013	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Transfers-Out	Ending Balance
Positive Subsidy	$ 464	$ -	$ -	$ -	$ -	$ 464
Working Capital and Contract Expenses	309	207	(39)	(111)	(68)	298
Reestimates	-	7,367	-	(7,367)	-	-
GI/SRI Liquidating	89	30	-	(12)	-	107
Total	**$ 862**	**$ 7,604**	**$ (39)**	**$ (7,490)**	**$ (68)**	**$ 869**

FY2012	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Transfers-Out	Ending Balance
Positive Subsidy	$ 465	$ -	$ -	$ (1)	$ -	$ 464
Working Capital and Contract Expenses	317	207	(24)	(119)	(72)	309
Reestimates	-	746	-	(746)	-	-
GI/SRI Liquidating	68	30	-	(9)	-	89
Total	**$ 850**	**$ 983**	**$ (24)**	**$ (875)**	**$ (72)**	**$ 862**

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 program accounts for administrative and contract expenses. The MMI/CMHI, GI/SRI, and H4H no-year program accounts also receive appropriations for positive credit subsidy and upward reestimates. Additionally, FHA obtains 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 17. Budgetary Resources

The SF-133 and the Statement of Budgetary Resources for fiscal year 2012 have been reconciled to the fiscal year 2012 actual amounts included in the Program and Financing Schedules presented in the fiscal year 2014 Budget of the United States Government. There were no significant reconciling items. Information from the fiscal year 2013 Statement of Budgetary Resources will be presented in the fiscal year 2015 Budget of the U.S. Government. The Budget will be transmitted to Congress on the first Monday in February 2014 and will be available from the Government Printing Office and online at that time.

Obligated balances as of September 30, 2013 and 2012 are as follows:

Unpaid Obligations

(Dollars in Millions)

Undelivered Orders	**FY 2013**	**FY2012**
MMI/CMHI	$ 1,870	$ 1,631
GI/SRI	436	403
H4H	-	1
EI	36	40
TI	2	3
Undelivered Orders Subtotal	**$ 2,344**	**$ 2,078**
Accounts Payable		
MMI/CMHI	$ 447	$ 613
GI/SRI	382	514
H4H	-	-
EI	-	-
TI	-	-
Accounts Payable Subtotal	**$ 829**	**$ 1,127**
Total	**$ 3,173**	**$ 3,205**

Note 18. Budgetary Resources - Collections

During fiscal year 2012, FHA collected funds received from the National Servicing Settlement with the Nation's five largest loan servicers, as well as settlements from lenders as a result of increased monitoring and enforcement actions.

The following table presents the composition of FHA's collections for the period ended September 30, 2013 and 2012:

(Dollars in Millions)

FY 2013	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 11,178	$ 842	$ 1	$ 12,021
Notes	2,253	601	1	2,855
Property	8,400	319	-	8,719
Interest Earned from U.S. Treasury	2,002	603	1	2,606
Subsidy	17,444	-	-	17,444
Reestimates	32,913	5,681	-	38,594
Collections from settlements	-	-	-	-
Other	43	13	1	57
Total	**$ 74,233**	**$ 8,059**	**$ 4**	**$ 82,296**

FY2012	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 8,827	$ 803	$ 1	$ 9,631
Notes	41	522	-	563
Property	6,656	322	-	6,978
Interest Earned from U.S. Treasury	2,747	405	1	3,153
Subsidy	5,582	1	-	5,583
Reestimates	19,523	746	-	20,269
Collections from settlements	1,119	-	-	1,119
Other	54	11	-	65
Total	**$ 44,549**	**$ 2,810**	**$ 2**	**$ 47,361**

Note 19. Budgetary Resources – Non-expenditure Transfers

The following table presents the composition of FHA's non-expenditure transfers for the period ended September 30, 2013 and 2012:

(Dollars in Millions)

FY 2013	MMI/CMHI	GI/SRI	H4H	EI	TI	Total
Transfers:						
Working Capital and Contract Expenses	$ (68)	$ -	$ -	$ -	$ -	$ (68)

(Dollars in Millions)

FY2012	MMI/CMHI	GI/SRI	H4H	EI		Total
Transfers						
Working Capital and Contract Expenses	$ (72)	$ -	$ -	$ -	$ -	$ (72)

Note 20. Budgetary Resources – Obligations

The following table presents the composition of FHA's obligations for the period ended September 30, 2013 and 2012:

(Dollars in Millions)

FY 2013	MMI/CMHI	GI/SRI	H4H	EI/TI	Total
Obligations					
Claims	$ 26,766	$ 2,596	$ 3	$ -	$ 29,365
Property Expenses	1,982	78	-	-	2,060
Interest on Borrowings	710	211	-	-	921
Subsidy	17,446	1,046	-	-	18,492
Downward Reestimates	5,241	529	-	-	5,770
Upward Reestimates	27,673	5,681	-	-	33,354
Admin, Contract and Working Capital	110	-	-	4	114
Other	12	87	-	-	99
Total	**$ 79,940**	**$ 10,228**	**$ 3**	**$ 4**	**$ 90,175**

FY2012	MMI/CMHI	GI/SRI	H4H	EI/TI	Total
Obligations					
Claims	$ 18,104	$ 2,196	$ 1	$ -	$ 20,301
Property Expenses	1,460	80	-	-	1,540
Interest on Borrowings	305	159	-	-	464
Subsidy	5,582	438	-	-	6,020
Downward Reestimates	5,655	2,216	-	-	7,871
Upward Reestimates	13,868	746	-	-	14,614
Admin, Contract and Working Capital	124	-	-	31	155
Other	1	109	-	-	110
Total	**$ 45,099**	**$ 5,944**	**$ 1**	**$ 31**	**$ 51,075**

Note 21. Reconciliation of Net Cost of Operations to Budget

This note (formerly the Statement of Financing) links the proprietary data to the budgetary data. Most transactions are recorded in both proprietary and budgetary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. The Reconciliation of Net Cost of Operations to Budget is as follows for the period ended September 30, 2013 and 2012:

(Dollars in Millions)	FY 2013	FY 2012
RESOURCES USED TO FINANCE ACTIVITIES		
Obligations Incurred - SBR	$ 90,175	$ 51,075
Spending Authority from Offsetting Collections and Recoveries - SBR	$ (82,297)	(47,490)
Offsetting Receipts - SBR	$ (1,442)	(2,611)
Transfers In / Out - NP	$ -	(25,267)
Imputed Financing from Costs Absorbed by Others	$ 18	15
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	**$ 6,454**	**$ (24,278)**
RESOURCES THAT DO NOT FUND THE NET COST OF OPERATIONS		
Undelivered Orders and Adjustments	$ (266)	$ (154)
Revenue and Other Resources	81,088	46,767
Purchase of Assets	(55,840)	(10,261)
Resources for prior year Re-estimate	(33,354)	(14,614)
TOTAL RESOURCES NOT PART OF NET COST OF OPERATIONS	**$ (8,372)**	**$ 21,738**
TOTAL RESOURCES USED TO FINANCE THE NET COST (SURPLUS) OF OPERATIONS	**$ (1,918)**	**$ (2,540)**
COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Upward Re-estimate of Credit Subsidy Expense	$ 14,777	$ 31,423
Downward Re-estimate of Credit Subsidy Expense	(6,035)	(4,260)
Changes in Loan Loss Reserve Expense	(3)	(3)
Changes in Bad Debt Expenses Related to Uncollectible Pre-Credit Reform Receivables	(440)	(303)
Reduction of Credit Subsidy Expense from Endorsements and Modifications of Loan Guarantees	(18,358)	(5,977)
Gains or Losses on Sales of Credit Program Assets	19	31
Other	2,560	1,926
TOTAL COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD	**$ (7,480)**	**$ 22,837**
NET COST (SURPLUS) OF OPERATIONS	**$ (9,398)**	**$ 20,297**

Required Supplementary Information

Schedule A: Intragovernmental Assets

FHA's Intragovernmental assets, by federal entity, are as follows on September 30, 2013 and 2012:

(Dollars in Millions)

FY 2013	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Accounts Receivable	Other Assets	Total
U.S. Treasury	$ 63,481	$ 3	$ -	$ -	$ 63,484
HUD	-	-	-	1	1
Total	**$ 63,481**	**$ 3**	**$ -**	**$ 1**	**$ 63,485**

FY2012	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Accounts Receivable	Other Assets	Total
U.S. Treasury	$ 47,640	$ 2,775	$ -	$ -	$ 50,415
HUD	-	-	-	3	3
Total	**$ 47,640**	**$ 2,775**	**$ -**	**$ 3**	**$ 50,418**

Schedule B: Intragovernmental Liabilities

FHA's Intragovernmental liabilities, by federal entity, are as follows on September 30, 2013 and 2012:

(Dollars in Millions)

FY 2013	Accounts Payable	Borrowings from U.S. Treasury	Other Liabilities	Total
U.S. Treasury	$ -	$ 25,940	$ 3,983	$ 29,923
HUD	8	-	-	8
Total	**$ 8**	**$ 25,940**	**$ 3,983**	**$ 29,931**

FY2012	Accounts Payable	Borrowings from U.S. Treasury	Other Liabilities	Total
U.S. Treasury	$ -	$ 11,527	$ 3,473	$ 15,000
HUD	6	-	-	6
Total	**$ 6**	**$ 11,527**	**$ 3,473**	**$ 15,006**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2013:

	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 3,309	$ 72	$ 41	$ 652	$ 4,074
Adjustment to unobligated balance brought forward, October 1 (+ or -)	-	1	-	-	1
Unobligated balance brought forward, October 1, as adjusted	3,309	74	41	651	4,075
Recoveries of prior year unpaid obligations	-	11	3	73	87
Other changes in unobligated balance (+ or -)	(3,309)	3,285	(20)	(164)	(208)
Unobligated balance from prior year budget authority, net	-	3,370	23	561	3,954
Appropriations (discretionary and mandatory)	-	1,814	5,681	30	7,525
Borrowing authority (discretionary and mandatory)	-	-	-	1	1
Contract authority (discretionary and mandatory)	-	-	-	-	-
Spending authority from offsetting collections (discretionary and mandatory)	2	22,694	-	226	22,922
Total budgetary resources	**$ 2**	**$ 27,878**	**$ 5,704**	**$ 818**	**$ 34,402**
Status of Budgetary Resources:					
Obligations incurred	-	27,783	5,681	100	33,564
Unobligated balance, end of year:					
Apportioned	-	34	16	27	77
Exempt from apportionment	-	-	-	-	-
Unapportioned	2	61	7	691	761
Total unobligated balance, end of year	2	95	23	718	838
Total budgetary resources	**$ 2**	**$ 27,878**	**$ 5,704**	**$ 818**	**$ 34,402**
Change in Obligated Balance:					
Unpaid obligations, brought forward, October 1 (gross)	-	157	8	567	732
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(1)	-	-	1	-
Obligated balance, start of year (net), before adjustments (+ or -)	(1)	157	8	568	732
Adjustment to obligated balance, start of year (net) (+ or -)	-	(1)	-	-	(1)
Obligated balance, start of year (net), as adjusted	(1)	155	8	569	731
Obligations incurred	-	27,783	5,681	100	33,564
Outlays (gross) (-)	-	(27,780)	(5,682)	(112)	(33,574)
Change in uncollected customer payments from Federal sources (+ or -)	(1)	-	-	-	(1)
Actual transfers, unpaid obligations (net) (+ or -)	-	-	-	-	-
Actual transfers, uncollected customer payments from Federal sources (net) (+ or -)	-	-	-	-	-
Recoveries of prior year unpaid obligations (-)	-	(11)	(3)	(73)	(87)
Unpaid obligations, end of year (gross)	-	147	4	483	634
Uncollected customer payments from Federal sources, end of year	(2)	-	-	(1)	(3)
Obligated balance, end of year (net)	**$ (2)**	**$ 147**	**$ 4**	**$ 482**	**$ 631**
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	2	24,508	5,681	257	30,448
Actual offsetting collections (discretionary and mandatory) (-)	(22,695)	-	-	(226)	(22,921)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	(1)	-	-	-	(1)
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	(22,694)	24,508	5,681	31	7,526
Outlays, gross (discretionary and mandatory)	-	27,780	5,682	112	33,574
Actual offsetting collections (discretionary and mandatory) (-)	(22,695)	-	-	(226)	(22,921)
Outlays, net (discretionary and mandatory)	(22,695)	27,780	5,682	(114)	10,653
Distributed offsetting receipts (-)	-	-	-	1,442	1,442
Agency outlays, net (discretionary and mandatory)	**$ (22,695)**	**$ 27,780**	**$ 5,682**	**$ 1,328**	**$ 12,095**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2012:

	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 4,685	$ 58	$ 51	$ 771	$ 5,565
Unobligated balance brought forward, October 1, as adjusted	4,685	58	51	771	5,565
Recoveries of prior year unpaid obligations	-	10	6	10	26
Other changes in unobligated balance (+ or -)	(4,685)	4,677	(16)	(252)	(276)
Unobligated balance from prior year budget authority, net	-	4,744	41	530	5,315
Appropriations (discretionary and mandatory)	-	135	746	31	912
Spending authority from offsetting collections (discretionary and mandatory)	3,309	9,185	-	243	12,737
Total budgetary resources	**$ 3,309**	**$ 14,064**	**$ 787**	**$ 804**	**$ 18,964**
Status of Budgetary Resources:					
Obligations incurred	-	13,991	746	153	14,890
Unobligated balance, end of year:					
Apportioned	-	-	16	43	59
Unapportioned	3,309	72	25	609	4,015
Total unobligated balance, end of year	3,309	73	41	651	4,074
Total budgetary resources	**$ 3,309**	**$ 14,064**	**$ 787**	**$ 804**	**$ 18,964**
Change in Obligated Balance:					
Unpaid obligations, brought forward, October 1 (gross)	-	145	16	576	737
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(19)	-	-	(1)	(20)
Obligated balance, start of year (net), before adjustments (+ or -)	(19)	145	16	575	717
Adjustment to obligated balance, start of year (net) (+ or -)	-	-	-	-	-
Obligated balance, start of year (net), as adjusted	(19)	145	16	575	717
Obligations incurred	-	13,991	746	153	14,890
Outlays (gross) (-)	-	(13,970)	(749)	(149)	(14,868)
Change in uncollected customer payments from Federal sources (+ or -)	18	-	-	-	18
Recoveries of prior year unpaid obligations (-)	-	(10)	(6)	(10)	(26)
Unpaid obligations, end of year (gross)	-	157	8	568	733
Uncollected customer payments from Federal sources, end of year	(1)	-	-	(1)	(2)
Obligated balance, end of year (net)	**$ (1)**	**$ 157**	**$ 8**	**$ 567**	**$ 731**
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	3,309	9,320	746	274	13,649
Actual offsetting collections (discretionary and mandatory) (-)	(12,510)	-	-	(256)	(12,766)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	18	-	-	-	18
Budget authority, net (discretionary and mandatory)	(9,183)	9,319	746	19	901
Outlays, gross (discretionary and mandatory)	-	13,970	749	149	14,868
Actual offsetting collections (discretionary and mandatory) (-)	(12,510)	-	-	(256)	(12,766)
Outlays, net (discretionary and mandatory)	(12,510)	13,969	749	(106)	2,102
Distributed offsetting receipts (-)	-	-	-	2,611	2,611
Agency outlays, net (discretionary and mandatory)	**$ (12,510)**	**$ 13,969**	**$ 749**	**$ 2,505**	**$ 4,713**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2013:

	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total Total
Budgetary Resources:				
Unobligated balance brought forward, October 1	$ 33,167	$ 7,082	$ 26	$ 40,275
Adjustment to unobligated balance brought forward, October 1 (+ or -)	-	-	-	-
Unobligated balance brought forward, October 1, as adjusted	33,167	7,082	26	40,275
Recoveries of prior year unpaid obligations	381	23	-	404
Other changes in unobligated balance (+ or -)	-	-	-	-
Unobligated balance from prior year budget authority, net	33,548	7,105	25	40,678
Appropriations (discretionary and mandatory)	-	-	-	-
Borrowing authority (discretionary and mandatory)	17,603	1,488	1	19,092
Contract authority (discretionary and mandatory)	-	-	-	-
Spending authority from offsetting collections (discretionary and mandatory)	47,304	7,389	3	54,696
Total budgetary resources	**$ 98,455**	**$ 15,982**	**$ 29**	**$ 114,466**
Status of Budgetary Resources:				
Obligations incurred	52,121	4,487	3	56,611
Unobligated balance, end of year:				
Apportioned	22,797	2,187	15	24,999
Exempt from apportionment	-	-	-	-
Unapportioned	23,537	9,308	11	32,856
Total unobligated balance, end of year	46,334	11,495	26	57,855
Total budgetary resources	**$ 98,455**	**$ 15,982**	**$ 29**	**$ 114,466**
Change in Obligated Balance:				
Unpaid obligations, brought forward, October 1 (gross)	1,931	541	-	2,472
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	-	-	-	-
Obligated balance, start of year (net), before adjustments (+ or -)	1,931	541	-	2,472
Adjustment to obligated balance, start of year (net) (+ or -)	-	-	-	-
Obligated balance, start of year (net), as adjusted	1,931	541	-	2,472
Obligations incurred	52,121	4,487	3	56,611
Outlays (gross) (-)	(51,651)	(4,486)	(4)	(56,141)
Change in uncollected customer payments from Federal sources (+ or -)	-	-	-	-
Actual transfers, unpaid obligations (net) (+ or -)	-	-	-	-
Actual transfers, uncollected customer payments from Federal sources (net) (+ or -)	-	-	-	-
Recoveries of prior year unpaid obligations (-)	(381)	(23)	-	(404)
Unpaid obligations, end of year (gross)	2,019	520	-	2,539
Uncollected customer payments from Federal sources, end of year	-	-	-	-
Obligated balance, end of year (net)	**$ 2,019**	**$ 520**	**$ -**	**$ 2,539**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	64,907	8,877	4	73,788
Actual offsetting collections (discretionary and mandatory) (-)	(51,514)	(7,859)	(2)	(59,375)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	-	-	-	-
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-	-	-
Budget authority, net (discretionary and mandatory)	13,393	1,019	1	14,413
Outlays, gross (discretionary and mandatory)	51,651	4,486	4	56,141
Actual offsetting collections (discretionary and mandatory) (-)	(51,514)	(7,859)	(2)	(59,375)
Outlays, net (discretionary and mandatory)	138	(3,373)	1	(3,234)
Distributed offsetting receipts (-)	-	-	-	-
Agency outlays, net (discretionary and mandatory)	**$ 138**	**$ (3,373)**	**$ 1**	**$ (3,234)**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2012:

	MMI/CMHI Financing	GI/SRI Financing	Other	Non Budgetary Total Total
Budgetary Resources:				
Unobligated balance brought forward, October 1	$ 27,044	$ 9,181	$ 24	$ 36,249
Unobligated balance brought forward, October 1, as adjusted	27,044	9,181	24	36,249
Recoveries of prior year unpaid obligations	103	19	-	122
Unobligated balance from prior year budget authority, net	27,147	9,199	25	36,371
Borrowing authority (discretionary and mandatory)	5,200	560	-	5,760
Spending authority from offsetting collections (discretionary and mandatory)	31,887	2,440	2	34,329
Total budgetary resources	**$ 64,234**	**$ 12,199**	**$ 27**	**$ 76,460**
Status of Budgetary Resources:				
Obligations incurred	31,067	5,117	1	36,185
Unobligated balance, end of year:				
Apportioned	17,169	1,167	10	18,346
Unapportioned	15,998	5,915	16	21,929
Total unobligated balance, end of year	33,167	7,082	26	40,275
Total budgetary resources	**$ 64,234**	**$ 12,199**	**$ 27**	**$ 76,460**
Change in Obligated Balance:				
Unpaid obligations, brought forward, October 1 (gross)	2,007	313	-	2,320
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	-	(1)	-	(1)
Obligated balance, start of year (net), before adjustments (+ or -)	2,007	312	-	2,319
Adjustment to obligated balance, start of year (net) (+ or -)	-	-	-	-
Obligated balance, start of year (net), as adjusted	2,007	312	-	2,319
Obligations incurred	31,067	5,117	1	36,185
Outlays (gross) (-)	(31,041)	(4,870)	-	(35,911)
Change in uncollected customer payments from Federal sources (+ or -)	-	1	-	1
Recoveries of prior year unpaid obligations (-)	(103)	(19)	-	(122)
Unpaid obligations, end of year (gross)	1,931	541	-	2,472
Obligated balance, end of year (net)	**$ 1,931**	**$ 541**	**$ -**	**$ 2,472**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	37,087	3,000	2	40,089
Actual offsetting collections (discretionary and mandatory) (-)	(32,017)	(2,575)	(3)	(34,595)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	-	1	-	1
Budget authority, net (discretionary and mandatory)	5,070	425	-	5,495
Outlays, gross (discretionary and mandatory)	31,041	4,870	-	35,911
Actual offsetting collections (discretionary and mandatory) (-)	(32,017)	(2,575)	(3)	(34,595)
Outlays, net (discretionary and mandatory)	(976)	2,294	(2)	1,316
Agency outlays, net (discretionary and mandatory)	**$ (976)**	**$ 2,294**	**$ (2)**	**$ 1,316**

Other Accompanying Information

The Office of Management and Budget (OMB) requires all CFO Act agencies' to include the Schedule of Spending in the Other Accompanying Information section of their Annual Financial Report. The Schedule of Spending presents an overview of how and where agencies are spending money. The statement discloses FHA's resources that were available to spend, services or items that were purchased, with whom the agencies are spending money, and how obligations are issued.

SCHEDULE OF SPENDING
As of September 30, 2013
In millions

	FY 2013	FY 2012
What Money is Available to spend?		
Total Resources	$148,867	$95,423
Less Amount Available but Not Agreed to be Spent	$25,075	$18,404
Less Amount Not Available to be Spent	$33,617	$25,944
Total Amounts Agreed to be Spent	**$90,175**	**$51,075**
How was the Money Spent?		
Category*		
Claims	$29,656	$20,270
Property Expenses	$1,414	$1,341
Interest on Borrowings	$921	$464
Subsidy	$18,358	$5,978
Downward Reestimates	$5,770	$7,872
Upward Reestimates	$33,354	$14,614
Admin, Contract and Working Capital	$116	$116
Other	$126	$125
Total Spending	$89,714	$50,780
Amounts Remaining to be Spent	$461	$295
Total Amounts Agreed to be Spent	**$90,175**	**$51,075**
Who did the Money go to?		
For Profit	$31,772	$22,147
Government	$58,403	$28,928
Total Amounts Agreed to be Spent	**$90,175**	**$51,075**
How Was the Money Issued?		
Claims	$29,365	$20,301
Property Expenses	$2,060	$1,539
Interest on Borrowings	$921	$464
Subsidy	$18,491	$6,019
Downward Reestimates	$5,770	$7,872
Upward Reestimates	$33,354	$14,614
Admin, Contract and Working Capital	$114	$155
Other	$100	$111
Total on How Money Was Issued	**$90,175**	**$51,075**