Federal Housing Administration
Washington, DC

Fiscal Years 2014 and 2013

Financial Statements Audit

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2015-FO-0001
November 14, 2014

To:	Biniam Gebre, Acting Assistant Secretary for Housing and Acting Federal Housing Administration Commissioner, H
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From:	Thomas R. McEnanly, Director, Financial Audits Division, GAF
Subject:	Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2014 and 2013

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audits of Federal Housing Administration's fiscal years 2014 and 2013 financial statements.

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

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

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

Audit Report Number: 2015-FO-0001
Date: November 14, 2014

Audit of Federal Housing Administration's Financial Statements for Fiscal Years 2014 and 2013

Highlights

What We Audited and Why

The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the Office of Inspector General (OIG) or an independent auditor, as determined by the OIG to annually audit the financial statements of the Federal Housing Administration (FHA). We contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP to audit FHA's fiscal year 2013 principal financial statements. CliftonLarsonAllen LLP was responsible for its audit reports and the conclusions expressed on those reports. OIG audited FHA's fiscal year 2014 principal financial statements, which are comprised of the balance sheets and the related statements of net cost and changes in net position and the combined statements of budgetary resources for the year then ended. We conducted these audits in accordance with generally accepted government auditing standards.

The following is our report on the results of our audits of FHA's principal financial statements for the fiscal years ending September 30, 2014 and 2013. Also provided are assessments of FHA's internal controls and our findings with respect to FHA's compliance with applicable laws and regulations. In addition, we plan to issue a letter to management describing other issues of concern that came to our attention during the audit.

What We Found

In our opinion, FHA's fiscal year 2014 and 2013 financial statements were presented fairly, in all material respects, in accordance with the generally accepted accounting principles for the Federal government. Our opinion is reported in FHA's Fiscal Year 2014 Annual Management Report. Our audit disclosed one material weakness, two significant deficiencies in internal controls, and one instance of noncompliance with applicable laws and regulations.

What We Recommend

Recommendations are after each finding. One open recommendation from a prior year audit is in the Follow-up on Prior Audits section of this report. We identified the lack of policies and procedures to accrue $722.2 million in accounts receivables and $217.5 million in liabilities and a reclassification on the balance sheet in the net amount of $703.2 million.

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

Independent Auditor's Report

Commissioner
Federal Housing Administration

In our audits of fiscal years 2014 and 2013 financial statements of the Federal Housing Administration (FHA), a component of the U.S. Department of Housing and Urban Development (HUD), we found

- The financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- One material weakness in internal control over financial reporting;
- 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 appendixes discuss in more detail: (1) our conclusions, including a matter of emphasis related to the potential range of estimate for the Single Family liability for loan guarantee and changing of the accounting method for sweeping FHA's receipt account, (2) management's discussion and analysis, other required supplementary information, and additional information included with the financial statements, (3) management's responsibilities, (4) our responsibilities, (5) the current status of prior-year findings, (6)schedule of questioned costs and funds to be put to better use, and (7) management's response to findings.

Report on the Financial Statements

We have audited the accompanying financial statements of FHA, which comprise the balance sheets as of September 30, 2014 and 2013, 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 independent certified public accounting firm of CliftonLarsonAllen LLP, under contract with OIG, audited FHA's fiscal year 2013 principal financial statements. CliftonLarsonAllen LLP was responsible for its audit report and the conclusions expressed on that report. OIG audited FHA's fiscal year 2014 principal financial statements.

Management's Responsibilities

FHA management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accounting principles (GAAP). This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audits. We and the previous auditor conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. These 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. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to FHA's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to assess the risk of material misstatements and to design the nature, timing and extent of audit procedures, (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 required supplementary information 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 Federal Managers' Financial Integrity Act, 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 still 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, 2014. 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.

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, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Notes 1 and 6 to the financial statements, the loan guarantee liability is an actuarially determined estimate of the net present value of future claims, 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 many economic scenarios and FHA's Single Family liability for loan guarantee estimates reported as of September 30, 2014 could change 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. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, FHA has elected to change its method of accounting for sweeping its receipt accounts and changed the timing from October 1 to September 30 in fiscal year 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S GAAP requires that FHA's management's discussion and analysis and other required supplementary information be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board, which 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 management discussion and analysis and other required supplementary information in accordance with U.S. generally accepted government auditing standards. These procedures 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 required supplementary information. 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.

Prior Period Financial Statements Audited by a Predecessor Auditor

FHA's financial statements as of September 30, 2013, were audited by other auditors whose report, dated December 9, 2013, expressed an unqualified opinion on those statements. The audit report on those statements also included an emphasis of matter paragraph, which described the actuarially determined estimate for the loan guarantee liability.

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 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 in 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. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified three deficiencies in internal control, which are described below. We considered one to be a material weakness and two to be significant deficiencies.

FHA Did Not Establish Appropriate Receivables for Legal Settlements and Partial Claims Notes

FHA did not record an accrual in its accounts receivables from settled legal claims. Instead, it accounted for the settlement funds collected on a cash basis. GAAP requires receivables which represent claims for cash from settled legal claims to be recognized at the point of legal settlement rather than when the cash was received. FHA had not established or implemented formal policies and procedures to identify, accrue, record, and report amounts due as a result of the legal settlement agreements. FHA received and reported a total of $466.4 million in collections for fiscal year 2014. An additional $722.2 million was anticipated because of four settlement agreements reached during fiscal year 2014 and a remaining amount due from a 2012 settlement. However, the cash had not been collected by FHA as of September 30, 2014.

FHA could not provide the promissory notes to support $1.5 billion (gross) of the net loans receivable balance outstanding reported in its balance sheet as of September 30, 2014. The $1.5 billion represented 57,164 partial claims (subordinated liens) for which payments were made by FHA to mortgagees on delinquent loans as part of FHA's loss mitigation efforts to bring these delinquent loans current. An increase in the number of partial claims filed, a backlog of unprocessed documents received by the contractor, and the discrepancies between FHA's policy and the regulations resulted in an increased number of partial claims for which FHA was unable to provide documentation and for which it did not demand reimbursement from delinquent mortgagees. As of September 30, 2014, adjustments were needed to recognize $722.2 million in uncollected legal settlements and reclassify $703.2 million from loans receivables to accounts receivables.

Liabilities Were Not Recognized for Unearned Premium Collections or Unpaid Supplemental Claims

Prior to endorsing and providing insurance of Single Family forward loans, FHA recognized the premiums collected prior to loan endorsement as earned, and not as deferred revenue. Recognition of revenue at this point is a departure from GAAP. OIG estimated that FHA did not properly defer $175.6 million of collected premiums as unearned as of September 30, 2014. This condition occurred because FHA's policy is to recognize the cash collection as an inflow in the Single-Family Liability for Loan Guarantee (LLG) when received. The inclusion of premium collections in the LLG balance for loans closed but not endorsed causes the balance to be overstated and the annual re-estimate expense to be understated. As a result, FHA made adjustments to recognize $174.4 million in other deferred revenue for premium collections on unendorsed loans as of September 30, 2014.

In addition, FHA did not have a process to accrue the estimated liability for unpaid Single Family suspended supplemental claims filed. FHA assumed the liability for supplemental claims was accounted for under the LLG. Under that assumption, FHA's accrual process excluded an accrual for unpaid supplemental claims filed but not processed or approved and understated the liability. We estimated that FHA's reported liability in its balance sheet may have been understated by at least $41.9 million at fiscal year-end because of the lack of accruals for suspended supplemental claims. FHA agreed and recorded an accrual of $56.8 million to reflect the suspended supplemental claims liability as of September 30, 2014.

Weaknesses Identified in Selected FHA Information Technology Systems

The Single Family Housing Enterprise Data Warehouse contains critical single family business data from several data sources, mostly from FHA single family automated systems. We found that (1) access to some of the sensitive personally identifiable information in the data warehouse was not sufficiently limited to individuals as necessary to perform their duties, (2) reconciliations of data from some of the source systems that interface with the data warehouse were not sufficiently performed, (3) passwords for the data warehouse user accounts were also not changed to the frequency specified by HUD policy, and (4) web server software was not kept up to date.

The FHA subsidiary ledger (subsidiary ledger) is FHA's official system of record for financial transactions. We found that some of the controls over the subsidiary ledger user accounts were inadequate. Specifically, (1) inactive user accounts and temporary accounts were not always deactivated and removed in a timely manner, (2) HUD's standardized user IDs were not always assigned to STAT[1] users, and (3) one user was inappropriately granted access to the system administration account. Not all subsidiary ledger audit tables with the audit configuration features turned on were included in the subsidiary ledger audit plan. Also, audit data in these tables were not reviewed and analyzed by FHA officials for unusual user access activities. FHA had not developed a memorandum of agreement/understanding and interconnection security agreement for the external interfaces between the subsidiary ledger and U.S. Department of Treasury systems. FHA officials did not fully implement adequate controls over information within the subsidiary ledger test environment. User IDs and passwords for the test environment with subsidiary ledger production data were not encrypted. The implementation status of some security controls was not accurately reflected in the subsidiary ledger system security documents. In addition, certain configuration management controls over the subsidiary ledger were inadequately documented.

Report on Compliance

To obtain reasonable assurance that 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance, described below, which is required to be reported in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

> Capital ratio: For the sixth consecutive year, the FHA fund has failed to meet its legislatively mandated capital ratio requirement. The Cranston-Gonzales National Affordable Housing Act of 1990 required that FHA's Mutual Mortgage Insurance Fund

[1] STAT – is a PeopleSoft account that is used for performing release migrations from one PeopleSoft environment to another using the Quest STAT configuration management tool.

maintain a minimum capital ratio of 2 percent. The capital ratio is defined as the ratio of capital to unamortized insurance-in-force. The Act requires FHA to conduct an annual independent actuarial study to, among other things, calculate this ratio. The Housing and Economic Recovery Act of 2008 requires that the HUD 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 evaluate the quality control procedures and accuracy of information used in the process of underwriting loans guaranteed by the Mutual Mortgage Insurance Fund. As of the date of our audit, this report for fiscal year 2014 had not yet been submitted to Congress, but preliminary FHA data indicated that this ratio remained below the required 2 percent throughout fiscal year 2014.

This report is intended for the information and use of the management of FHA, OMB, the U.S. Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited. The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report was 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 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. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to FHA management, we noted other matters involving internal control over financial reporting and FHA's operation that we are reporting to FHA management in a separate management letter.

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Randy W. McGinnis
Assistant Inspector General for Audit

November 14, 2014

Material Weakness

Finding 1: FHA Did Not Establish Appropriate Receivables for Legal Settlements and Partial Claims Notes

FHA was awarded seven[2] cash settlements totaling $1.2 billion and collected $466.4 million of those settlements, in fiscal year 2014. Additionally, during fiscal year 2014, as part of its loss mitigation efforts to bring delinquent loans current, FHA paid $4.4 billion to mortgagees for partial claims; however, FHA did not receive promissory notes from the mortgagee for $1.5 billion of the claim payments. Mortgagees were required to provide FHA with promissory notes for the payments made or return the claim payment back to FHA. Due to the non-routine nature of legal settlements for FHA and the contractor's backlog for recording promissory notes for partial claim payments, FHA did not properly recognize their receivables. As a result, as of September 30, 2014, adjustments were needed to (1) recognize FHA's anticipated collections of $722.2 million in settlement fees and (2) reclassify $703.2 million in net loans receivables related to partial claims paid without the corresponding promissory notes.

Accounts Receivables Were Not Accrued for Settlement Agreements

FHA did not record an accrual in its accounts receivables for settled legal claims. Instead, FHA accounted for the settlement funds collected on a cash basis. GAAP requires receivables which represent claims for cash from settled legal claims to be recognized at the point of legal settlement rather than when cash was received. Federal financial accounting standards require that a receivable should be recognized when a Federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, such as, taxes not received by the date they are due, or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.

In March 2012, FHA began receiving cash through the National Servicing Settlement Agreement from lenders, including the nation's five largest loan servicers, as a result of increased monitoring and enforcement actions. In fiscal year 2012, FHA reported over $1.1 billion in collections related to the settlement agreements. One of the settlements reached in FHA's favor in fiscal year 2012 was for $490.9 million. However, FHA only collected $485.4 million, and the remaining $5.5 million had not been collected or recorded as an account receivable as of September 30, 2014. No collections were reported for fiscal year 2013. FHA received and reported a total of $466.4 million in collections for fiscal year 2014. An additional $716.7 million is anticipated from four settlement agreements reached during fiscal year 2014, for which the cash had not been collected by FHA as of September 30, 2014.

As FHA was not always the only party named and awarded in the settlement agreements, some of the settlements do not contain FHA's portion of the total settlement amount. This resulted in

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[2] A subsequent event was noted for the seventh settlement, which was reached on September 30, 2014, in the amount of $291 million.

FHA not having a reasonable estimate to accrue. Additionally, FHA's accounting division often did not know of the settlement until just before the collection of the cash. Moreover, as a non-routine transaction, FHA may not have considered accruing the receivables from settled legal claims at the point of legal settlement because legal settlements are uncommon for a credit reform program. Therefore, the policy in place was to record the collection of the cash.

FHA had not established formal policies and procedures to identify, accrue, record, and report amounts due as a result of the legal settlement agreements. Consequently, when legal cases are settled and approved by the court near or at the end of the current fiscal year, FHA will not recognize the asset until the next fiscal year, when the cash is received. As a result, FHA's accounts receivable balances may be understated and the asset may be recognized in an incorrect accounting period.

Single Family Loans Receivable Balances Were Not Supported With Second Mortgage Notes

FHA could not provide the promissory notes to support $1.5 billion (gross) of the net loans receivable balance outstanding reported in its Balance Sheet as of September 30, 2014.[3] The $1.5 billion represented 57,164 partial claims (subordinated liens) for which payments were made by FHA to mortgagees on delinquent loans as part of FHA's loss mitigation efforts to bring these delinquent loans current. An increase in the number of partial claims filed, a backlog of unprocessed documents received by the contractor, and the discrepancies between FHA's policy and the regulations resulted in an increased number of partial claims for which FHA was unable to provide documentation and for which they did not demand reimbursement from delinquent mortgagees.

The borrower eligible for the partial claim loss mitigation option was required to sign a second promissory note and a second mortgage or deed of trust with HUD as the beneficiary, reflecting the partial claim terms. The partial claim promissory note contained the borrower's promise to repay the amount borrowed and established the existence of the loans receivable recorded by FHA. The current regulations for partial claims require that the "original credit instrument" (promissory note) be provided by the lender to HUD no later than 60 days after execution. On a monthly basis, the contractor maintaining the Single-Family Mortgage Asset Recovery Technology (SMART) system generates the Missing Documents' Report (MDR) and sends it to FHA staff at the National Servicing Center in Oklahoma. The MDR identifies partial claims for which the promissory note or mortgage have not been provided by the mortgagee to HUD and for which payment for the partial claim has been made by FHA to the mortgagee.

We reviewed the MDR for September 2014 and determined that 94,179 partial claims were included in the report with a total claim amount of $2.4 billion. Of the 94,179 partial claims, we identified 48,181 partial claims with claim amounts of $1.3 billion and 8,983 partial claims with claim amounts of $216.2 million were missing the promissory note more than 60 days after the

[3] An allowance for subsidy of $783.3 million was recognized against the $1.5 billion gross loans receivable, resulting in $703.2 million, net loans receivable.

loan claims origination date as of September 30, 2014, and September 30, 2013, respectively, totaling 57,164 loans and $1.5 billion in claims.[4]

FHA experienced an increase in partial claims filed in fiscal years 2013 and 2014. FHA's contractor responsible for processing and documenting the receipt of the partial claim promissory notes and mortgages did not have the capacity to keep up with the increase. This resulted in a backlog of unopened, unprocessed documents. Because of the backlog, the MDR did not accurately reflect all documents received because not all of the documents had been entered into SMART by the contractor.

Another contributing factor was the difference between FHA's current policy regarding partial claims and the regulatory requirements. Although the regulations require that the promissory note be provided to HUD no later than 60 days after execution, and that the second mortgage be provided to HUD no later than six months following the date of execution, FHA's policy allowed mortgagees to deliver both the second note and second mortgage to HUD's loan servicing contractor no later than six (6) months from the execution date of the partial claim note and security instrument.[5] The regulations also require the mortgagee to reimburse the amount of the claim paid, including the incentive, if the original of the note and security instrument are not provided within the prescribed deadlines. However, prior to July 30, 2013, the effective date of Mortgagee Letter 2013-19, Partial Claim Documentation and Delivery Requirements, which established FHA's current policy of issuing demand letters for the full reimbursement of all amounts associated with overdue partial claim documents, FHA only enforced reimbursement of the incentive fee. Following the effective date of Mortgagee Letter 2013-19, FHA made a determination to cease follow-up procedures and only issue demand letters after the backlog of partial claims had been properly inventoried and updated in SMART.

According to FHA staff, a new loan servicing contract was awarded in July 2014. The new loan servicing contractor would be responsible for working through the backlog, updating SMART, and sending the demand letters for both the claim and incentive fees paid starting in October 2014.

Conclusion

FHA has recognized the need to implement a policy to determine the total amount of settlement funds due to FHA and to ensure all settlement agreement funds due to FHA are collected in full. In addition, FHA has contracted with a new loan servicing contractor to accurately record the status of the promissory notes and second mortgages in SMART for partial claims and to demand reimbursement from delinquent mortgagees for partial claims and incentive fees previously paid. The court settlements and demand letters establish a legally enforceable claim to cash which should be recorded by FHA as an account receivable in accordance with GAAP.

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[4] OIG used the loan claims origination date because the execution date has to be obtained from the promissory note, which was unavailable. The Partial Claim Documentation and Delivery Requirements state that mortgagees file the claims after the execution of the promissory note and mortgage. Therefore, the loan claims origination date should be subsequent to the execution date.

[5] Mortgagee Letter 2000-05: Loss Mitigation Program – Comprehensive Clarification of Policy and Notice of Procedural Changes, effective January 19, 2000, established the six-month document delivery policy.

As of September 30, 2014, adjustments were needed to recognize $722.2 million in uncollected legal settlements and reclassify $703.2 million from loans receivables to accounts receivables.

Recommendations

We recommend that the FHA Office of the Comptroller

1A. Establish and implement policies and procedures to (a) determine the total amount of settlement funds due to FHA, based upon the settlement agreements or addendums (b) ensure all settlement agreement funds due to FHA are collected in full, and (c) record and account for non-routine transactions related to the accrual of settlement funds in accordance with GAAP and credit reform accounting.

1B. Follow-up on the collection of the $5.5 million from the fiscal year 2012 settlement agreement and determine whether an accrual for the funds due is necessary.

1C. Determine the loans receivable with missing notes that are over 60 days old at the end of fiscal year 2013 and 2014 and reclassify that balance to an appropriate receivable account at the end of their respective fiscal years.

We recommend that the Director of Single Family Asset Management

1D. In conjunction with the loan servicing contractor, review the supporting documentation for all partial claim notes to ensure that SMART accurately reflects the status of the second notes and second mortgages.

1E. Align its current policy on partial claim document delivery with FHA's regulatory requirements.

1F. Initiate the billing process for the claims paid, plus incentive, where the lender has not provided the original of the note and security instrument within the prescribed deadlines for the $1.5 billion.

Significant Deficiencies

Finding 2: Liabilities Were Not Recognized for Unearned Premium Collections or Unpaid Supplemental Claims

Prior to endorsing and providing insurance of Single Family forward loans, FHA recognized the premiums collected prior to loan endorsement as earned, and not as deferred revenue. Recognition of revenue at this point is a departure from GAAP. This condition occurred because FHA's policy is to recognize the cash collection as an inflow in the Single-Family Liability for Loan Guarantee (LLG) when received. The inclusion of premium collections in the LLG balance for loans closed but not endorsed causes the balance to be overstated and the annual re-estimate expense to be understated.

In addition, FHA did not have a process to accrue the estimated liability for unpaid Single Family suspended supplemental claims filed. FHA assumed the liability for supplemental claims was accounted for under the LLG. Under that assumption, FHA's accrual process excluded an accrual for unpaid supplemental claims filed but not processed or approved and understated the liability.

Improper Recognition of Premiums Collected Prior to Insurance Coverage

OIG estimated that FHA did not properly defer $175.6 million of collected premiums as unearned as of September 30, 2014. FHA recognizes a loan guarantee commitment[6] and provides insurance coverage upon its endorsement of the loan and not upon disbursement of the loan. According to the regulations,[7] the mortgage is insured from the date of issuance of a Mortgage Insurance Certificate, from the date of endorsement of the credit instrument, or from the date of HUD's acknowledgement to the mortgagee that the mortgage is insured. A Mortgage Insurance Certificate is issued upon successful processing of the insurance application and subsequent endorsement.

One-time or up-front mortgage insurance premiums are required within ten calendar days after the date of loan closing or the date of disbursement of the mortgage proceeds as a condition of endorsement. Periodic mortgage insurance premiums are required beginning in the month the mortgagor is required to make the first monthly mortgage payment. The periodic mortgage insurance premium is billed and collected on a monthly basis whether a loan is endorsed or not.

Federal GAAP require that premium collections for loan guarantee liabilities subject to the Federal Credit Reform Act (FCRA) be recognized as a cash inflow to the LLG when the loan is disbursed. It is assumed that the disbursement takes place after the loan guarantee commitment

[6] Loan guarantee commitment means a binding agreement by a Federal agency to make a loan guarantee when specified conditions are fulfilled by the borrower, the lender, or any other party to the guarantee agreement.

[7] Code of Federal Regulations: Title 24: Housing and Urban Development PART 203—Single Family Mortgage Insurance Subpart B—Contract Rights and Obligations §203.257 Creation of the contract

is made. For non-credit reform programs, insurance premium fees are exchanged for insurance coverage and are recognized as revenue when they are realized or earned, or when the insurance coverage is provided. However, for Single Family Forward loan guarantees subject to FCRA, FHA recognized premium collections as a cash inflow to the LLG prior to endorsement, prior to its guarantee of insurance coverage, and prior to earning the collections. The premium fees collected prior to the insurance coverage were unearned, and FHA should have recorded the collections for the unendorsed loans as deferred revenue until the loan was endorsed.

When premiums are initially collected, FHA, through an automated process, records the cash collection as an inflow to the LLG in the current cohort[8] year. Once the case is endorsed, the initial transaction is reversed and the premiums are then recorded in the cohort year in which the case was endorsed. In most instances, the premiums are received and the loan is endorsed in the same cohort year. However, due to process timing, many of the loans associated with premiums received during September are not endorsed until the following fiscal year. Premiums collected during September for unendorsed cases included in the current cohort year causes the re-estimate expense to be understated since cash will include premiums for cases not included as part of the LLG. In the following cohort year, when the cases are endorsed and included in the LLG, the re-estimate expense is overstated because it also includes the cash collected during September.

Using a data extract of Single Family Forward loans from the Single Family Enterprise Data Warehouse as of May 28, 2014, we calculated an average of 28 days between the closing date and the endorsement date for loans that were endorsed as of May 28, 2014. We also calculated the average monthly premium collection for FHA using data extracts of the upfront premiums collected during fiscal year 2014. Based on our review, we determined that an average of $175.6 million in upfront premiums per month was collected by FHA in fiscal year 2014. However, at or close to fiscal year end, the monthly premiums collected are not earned until the following fiscal year when the associated loans are endorsed.

FHA's Claims Payable Accrual Process was Incomplete

FHA's claims payable only included claims approved but not paid as of the end of the fiscal year and potential claims for single family properties sold for which no claim request had been filed. Prior to 2005, FHA accrued accounts payable for supplemental claims using the average supplemental claim amount paid. The General Ledger Division stopped accruing any accounts payable amount for suspended supplemental claims in 2005 because the assumption was that the amount of the supplemental claims was accounted for under the Loan Guarantee Liability balance. However, for supplemental claims associated with conveyance or Accelerated Claims Disposition claims, once the note or property is sold, any further claim payments are not accounted for either in the Loan Guarantee Liability balance or the Allowance for Subsidy. GAAP requires recognition of liability when the future outflow of resources is both probable and measurable.

FHA relies on a contractor to review supplemental claim requests and prepare them for approval. According to FHA staff, the funding for the contract has been insufficient to allow FHA to keep

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[8] Cohort year refers to the fiscal year of obligation for direct loan obligations, or loan guarantee commitments of a program.

up with the increasing volume of supplemental claims. The insufficient funding has led to a backlog in processing the supplemental claims for approval.

Once the supplemental claims have been imaged and uploaded to the claims system, a contractor manually reviews each claim for payment. The contractor reviews the documentation from the original claim paid to ensure that the request for the supplemental claim payment was not already paid with the original claim payment. Once the contractor completes its review, the results of the review are forwarded to FHA staff, with a recommendation for payment or denial of the claim. HUD's Government Technical Monitor performs a final review of a sample of such claims to ensure the recommendations are valid.

Based upon the Single Family Claims Monthly Average report for September 2014, OIG noted that during fiscal year 2014, 34,410 supplemental claims were paid in the amount of $32.6 million. Based on the Suspended Cases Summary report as of September 30, 2014, and other information provided by FHA staff, we determined the number of suspended Single Family supplemental claims that would be subject to accrual. Of the 60,133 cases included in the report, we determined that 54,372 of the cases were for supplemental claims; an additional 5,073 supplemental claims had been received but not imaged. The total number of supplemental claims filed during fiscal year 2014 was 52,110. The remaining 7,335 were carried over from a backlog in prior years. Due to the impact of the backlog, which is approximately 1.7 times the amount of claims paid during the fiscal year, we determined that the recognition of estimated liability for the unpaid supplemental claims would be appropriate. Using the Single Family Claims Monthly Average report for September 2014 provided by FHA staff, we identified an average claim amount per supplemental claim of $947.41 and an estimated liability for the supplemental claims of at least $41.9 million as of September 2014.

Conclusion

FHA's current policy is to recognize all premiums as cash inflows to the LLG when they are received. If the loan is not endorsed until the following fiscal year, the inclusion of the premiums in the LLG causes the re-estimate expense to be understated. Since FHA does not endorse the loans when the loans are disbursed, it should record all premiums received as deferred revenue until the loans are endorsed. Accordingly, FHA should recognize $175.6 million in other deferred revenue for premium collections on unendorsed loans as of September 30, 2014.

Due to the lack of accruals for suspended supplemental claims, we estimated that FHA's reported liability in its balance sheet may be understated by at least $41.9 million at fiscal year-end. FHA agreed that an accrual to reflect the suspended supplemental claims liability at year-end was necessary and recorded an accrual in the amount of $56.8 million.

Recommendations

We recommend that the FHA Comptroller

2A. Develop and implement a methodology to defer the recognition of all premium collections prior to endorsement from the Liability for Loan Guarantee.

2B. Develop and implement a methodology for estimating the appropriate amount of liability to accrue from suspended supplemental claims.

2C. Record an adjusting entry to report the appropriate amount of suspended supplemental claims liability to accrue at year-end based on the methodology developed in recommendation number 2B.

Finding 3: Weaknesses Identified in Selected FHA Information Technology Systems

We reviewed the general and application controls over the FHA Single Family Housing Enterprise Data Warehouse and the FHA subsidiary ledger system as part of the internal control assessments of FHA's principal financial statements for fiscal year 2014. We found weaknesses in the data warehouse and the FHA subsidiary ledger information systems. These conditions occurred because some application controls were not sufficient. As a result, the appropriate confidentiality, integrity, and availability of critical information may be negatively impacted. The information used to provide input to the FHA financial statements could be adversely affected.

Information System Control Weaknesses Were Identified in the Single Family Data Warehouse

The data warehouse contains critical single family business data from several data sources, mostly from FHA single-family automated systems. The data warehouse helps FHA manage its $1.2 trillion portfolio of single family mortgages. The data warehouse maintains Web pages on HUD's Intranet that, as of May 2014, contained data query tools for approximately 400 registered users. The data warehouse was created for HUD personnel to extract financial information to prepare financial statement line items, and to obtain other financial and non-financial data. The information in the data warehouse can also be used to assess the potential impact of a disaster. For example, the data warehouse can be used to identify the number of FHA loans and servicing lenders affected by the disaster. This capability would allow managers in Headquarters to make decisions regarding potential moratoriums or other special initiatives. Further, it would give the HUD Secretary background information from the data warehouse to advise the President.

We found that access to some of the sensitive personally identifiable information in the data warehouse was not sufficiently limited to individuals as necessary to perform their duties. This condition occurred because procedures were not sufficient to determine who required access to the sensitive information in the system. As a result, some of the sensitive information in the data warehouse could be vulnerable to unauthorized access and disclosure.

Reconciliations of data from some of the source systems that interface with the data warehouse were not sufficiently performed. This condition occurred because data from the source systems to the data warehouse were assumed to be valid and some interfaces transferring information to the data warehouse did not provide adequate data to reconcile the information processed. As a result, data may not have been processed accurately because of errors, inconsistencies in data, system interruptions, or communication failures.

Passwords for the data warehouse user accounts were not changed to the frequency specified by HUD policy. This condition occurred because the system has a limitation where users cannot change their own passwords. As a result, the sensitive information in the system could be vulnerable to unauthorized access and modification.

Web server software was not kept up to date. This condition occurred because the former acting Chief Information Officer granted a waiver to continue using the outdated server software because of application dependencies. As a result, the data warehouse may have been exposed to known security vulnerabilities.

Information System Control Weaknesses Were Identified in the FHA Subsidiary Ledger

The FHA subsidiary ledger (subsidiary ledger) is FHA's official system of record of financial transactions. It is a commercial-off-the-shelf PeopleSoft accounting package and was certified by the Financial Systems Integration Office as compliant with Federal government financial accounting processing. The subsidiary ledger relies on 19 interfaces to translate commercial accounting transactions to code values consistent with Federal rules and regulations in accordance with the U.S. Standard General Ledger. FHA financial data feeder systems are on various hardware and software platforms. The transactions are rolled-up and summarized in the FHA subsidiary ledger's Financial Transaction Repository and then interfaced into the FHA subsidiary ledger's PeopleSoft General Ledger (GL) module for journal processing. FHA subsidiary ledger maintains budgetary, proprietary and memorandum U.S. Standard General Ledger accounts. Currently, the FHA subsidiary ledger GL consists of approximately 200,000 summarized transactions (rows) per reporting period.

We found that some of the controls over the subsidiary ledger user accounts were inadequate. Specifically, inactive user accounts and temporary accounts were not always deactivated or removed in a timely manner and HUD's standardized user IDs were not always assigned to STAT users. These conditions occurred because FHA did not always follow National Institute of Standards and Technology and the Department's account management policies when granting and monitoring those user accounts. Inadequate access controls diminish the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of subsidiary ledger data.

Not all subsidiary ledger audit tables with the audit configuration features turned on were included in the subsidiary ledger audit plan. Also, audit data of these tables were not reviewed and analyzed by FHA officials for unusual user access activities. These conditions occurred because subsidiary ledger audit plans and the tables with audit log turned on have not been reviewed periodically by FHA officials to ensure audit configurations reflect risk inherent in current operations. As a result, FHA officials cannot ensure inappropriate user access to all subsidiary ledger audit tables will be identified in a timely manner.

FHA had not developed a Memorandum of Agreement/Understanding (MOA/U) and Interconnection Security Agreement (ISA) for the external interfaces between the subsidiary ledger and Treasury systems because the subsidiary ledger moved back to HUD's data center in fiscal year 2013. This condition occurred because FHA did not always comply with the Federal security requirements to ensure a MOA/U and ISA were developed before connecting FHA systems to external systems. Without developing the ISA and MOA/U before connecting systems to external systems, FHA management cannot ensure equipment operates properly and controls are tested for the planned interconnections.

FHA officials did not fully implement adequate controls over information within the subsidiary ledger test environment. User IDs and passwords for the test environment with subsidiary ledger production data were not encrypted. This condition occurred because HUD's password encryption policy was not enforced and FHA management was not aware that the subsidiary ledger contains Personally Indentifable Information (PII) data that needed to be protected from unauthorized individuals. Unauthorized individuals can surreptitiously read and copy the PII data for malicious purposes or personal gain.

The implementation status of some security controls was not accurately reflected in the subsidiary ledger system security documents. This condition occurred because implementation statements for the subsidiary ledger security controls were not closely reviewed for accuracy. As a result, it increases the risk that subsidiary ledger security controls might not be properly assessed and consequently, inadequate security controls over the application could be implemented.

Certain configuration management (CM) controls over the subsidiary ledger were inadequately documented. These conditions occurred because subsidiary ledger management did not ensure certain information required by HUD's CM policy and procedures were included in the subsidiary ledger CM plan. Without adequate policies, procedures, and techniques, FHA risks that security features can be inadvertently omitted or that processing irregularities are introduced.

Conclusion

FHA must improve its information security controls over the data warehouse and subsidiary ledger to fully comply with Federal requirements and its own security policies to prevent an increased risk of unauthorized disclosure or modification of FHA data.

Recommendations

Recommendations were included in separate OIG audit reports[9]. Therefore, no recommendations are reported here.

[9] This work was performed under separate audits of the data warehouse and subsidiary ledger which are reported in Audit Report Number 2015-DP-0001, Federal Housing Commissioner Single Family Housing Enterprise Data Warehouse, issued October 21, 2014 and Audit Report 2015-DP-0003, Federal Housing Administration FHA Subsidiary Ledger, issued November 7, 2014.

Scope and Methodology

In accordance with the Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, OIG is responsible for the conduct of the annual financial statement audit of FHA. The scope of this work includes the audit of FHA's balance sheets as of September 30, 2014 and 2013, and the related statements of net costs and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. We conducted this audit in accordance with U.S. generally accepted government audit standards and OMB Bulletin 14-02, as amended, Audit Requirements for Federal Financial Statements. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To fulfill these responsibilities, we

- Examined, on a test basis, evidence supporting the amounts and disclosures in the principal financial statements;
- Assessed the accounting principles used and the significant estimates made by management;
- Evaluated the overall presentation of the principal financial statements;
- Obtained an understanding of internal controls over financial reporting, including safeguarding assets and compliance with laws and regulations, including the execution of transactions in accordance with budget authority;
- Tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances;
- Tested FHA's compliance with certain provisions of laws and regulations, government wide policies, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 14-02, including the requirements referred to in FMFIA;
- Considered compliance with the process required by FMFIA for evaluating and reporting on internal controls and accounting systems; and
- Performed other procedures we considered necessary in the circumstances.

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

Regarding internal controls related to performance measures to be reported in FHA's Fiscal Year 2014 Annual Management Report, we obtained an understanding of the design of significant internal controls as described in OMB Bulletin 14-02. We performed limited testing procedures as required by AU-C Section 730, Required Supplementary Information, and OMB Bulletin 14-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be material weaknesses or significant deficiencies. We noted one material weakness and two significant deficiencies that are reportable under AICPA and OMB Bulletin 14-02, as amended.

Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a deficiency or a 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.

A material weakness is a deficiency or combination of deficiencies in internal controls, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Follow-up on Prior Audits

A recommendation from a prior year report on FHA's financial statements that has not been fully implemented based on the status reported in the Audit Resolution and Corrective Action Tracking System (ARCATS) is included below. FHA should continue to track this recommendation under the prior year's report number in accordance with departmental procedures. The open recommendation and the status are shown below.

Federal Housing Administration Fiscal Years 2013 and 2012 Financial Statements Audit, 2014-FO-0002

1. The FHA Comptroller should review and de-obligate, as appropriate, the $43 million in expired property-related contracts once they have been closed out by the contracts office. (Final action target date was September 30, 2014, reported in ARCATS as 1C)

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1B.		$5,500,000
1F.	$1,486,544,478	
Totals	**$1,486,544,478**	**$5,500,000**

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

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

OFFICE OF HOUSING

OCT 31 2014

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

FROM: George J. Rabil, Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Response to Fiscal Year 2014 FHA Audit Report

Thank you for providing us the opportunity to respond to FHA's Independent Audit Report. FHA continues to have strong focus on internal controls and continuously strives for improvements. During fiscal year 2014, FHA resolved both prior year significant deficiencies.

FHA acknowledges the deficiencies identified by the OIG in the internal control report and will continue to work to improve the new concerns identified in fiscal year 2015.

Report on Internal Control – Material Weakness

1. FHA Did Not Recognize Accounts Receivables When Claims to Cash Were Established

FHA concurs with the recommendations identified in this finding and as already taken actions to implement auditor recommendations in its FY 2014 year-end financial statements.

- ***Accounts Receivables Were Not Accrued for Settlement Agreements***

Comment 1

FHA prepares its financial statements 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). FHA's primary business is to insure lenders against losses on mortgages. As such, FHA's accounting is influenced by the Credit Reform Act.

Consistent with credit reform, FHA has recorded settlement amounts on the cash basis. Due to the magnitude of the settlements and the fact they are not typically included in the cash flow model estimates (since settlements are unpredictable and amounts are difficult to estimate), FHA will continue to evaluate its processes surrounding settlements and improve the tracking of settlement funds.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

2

- ***Single Family Loans Receivable Balances Were Not Supported With Second Mortgage Notes***

Comment 2

FHA recognizes that it has a control deficiency to its partial claims loan receivable. The Office of Single Family Asset Management has already initiated steps to comply with the OIG recommendations and is working with the new loan servicing contractor to immediately address the backlog of unprocessed documents and ensure that the SMART system accurately reflects the status of the second notes and second mortgages. The Office also plans to draft a Mortgagee Letter to align policy on partial claim document delivery with FHA's regulatory requirements and initiate the billing process for any claims paid, plus incentives, where the lender did not provide the original note and security instrument within policy deadlines. The processing of the backlog is expected to take approximately 60 to 90 days, at which time, an accurate Missing Documents Report will be available to support the billing process.

While FHA agrees with the need to enhance controls surrounding the partial claims receivables, FHA disagrees with the recommendation to reclassify loan receivables that do not have the supporting note recorded to accounts receivable. Even without the promissory note being documented as received, there is a high probability that the note exists. FHA will further research this issue in FY15, if needed.

Report on Internal Control - Significant Deficiencies

2. Liabilities Were Not Recognized for Unearned Premium Collections or Unpaid Supplemental Claims

Comment 3

FHA concurs with the findings and recommendations and has already taken actions to implement auditor recommendations in its FY 2014 year-end financial statements.

3. Weaknesses Identified in Selected FHA Information Technology Systems

Comment 4

FHA concurs with the recommendations identified in both the report on the Single Family Data Warehouse and the report on the FHA Subsidiary Ledger (FHASL) and has already started to resolve the issues identified. However, FHA does not believe that the conditions identified warrant a significant deficiency. The OIG report, while factually accurate, leaves the reader with the impression of more dire conditions than actually exist.

OIG Evaluation of Auditee Comments

Comment 1 OIG recognizes the influence of the Federal Credit Reform Act of 1990 (FCRA) on FHA's accounting. Additionally, OIG recognizes the need to record on an accrual basis, consistent with GAAP. As FHA continues to evaluate its processes surrounding settlements and improve the tracking of settlement funds, OIG will continue to review those processes for the proper recognition in the financial statements.

Comment 2 OIG has a responsibility to gather sufficient appropriate evidence in order to report on the assertions in account balances in FHA's financial statements. FHA's efforts to work through processing the partial claims backlog and aligning its policy with regulatory requirements should result in FHA being able to produce the evidence to support the loans receivable balances in its financial statements.

Comment 3 OIG has reviewed FHA's actions taken to properly recognize liabilities in its balance sheet as of September 30, 2014. Based upon our review, the actions taken resulted in adjustments which adequately recognized FHA's liabilities for unearned premiums and unpaid supplemental claims.

Comment 4 OIG accepts the response of concurrence for recommendations identified in both the report on the Single Family Data Warehouse and the report on the FHA Subsidiary Ledger. We agree that FHA has initiated actions to resolve the conditions identified. However, we maintain that collectively the conditions identified warrant a significant deficiency. A significant deficiency is defined as a deficiency or a 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. OIG identified a combination of deficiencies in the FHA Subsidiary Ledger and the Single Family Data Warehouse that could adversely affect the reporting of financial data and merit the attention of management. We look forward to working with the office on the recommendations to reach a mutually acceptable corrective action plan.

Appendix C

FHA Fiscal Years 2014 and 2013 Financial Statements and Notes

PRINCIPAL FINANCIAL STATEMENTS

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED BALANCE SHEETS
As of September 30, 2014 and 2013
(Dollars in Millions)

	FY 2014	FY 2013
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 50,232	$ 63,481
Investments (Note 4)	6,379	3
Other Assets (Note 7)	1	1
Total Intragovernmental	$ 56,612	$ 63,485
Investments (Note 4)	$ 41	$ 56
Accounts Receivable, Net (Note 5)	1,459	13
Loans Receivable and Related Foreclosed Property, Net (Note 6)	8,507	7,276
Other Assets (Note 7)	47	379
TOTAL ASSETS	**$ 66,666**	**$ 71,209**
LIABILITIES		
Intragovernmental		
Accounts Payable (Note 8)	$ 3	$ 8
Borrowings from U.S. Treasury (Note 9)	27,528	25,940
Other Liabilities (Note 10)	1,689	3,983
Total Intragovernmental	$ 29,220	$ 29,931
Accounts Payable (Note 8)	$ 459	$ 404
Loan Guarantee Liability (Note 6)	33,473	41,465
Other Liabilities (Note 10)	629	424
TOTAL LIABILITIES	**$ 63,781**	**$ 72,224**
NET POSITION		
Unexpended Appropriations (Note 16)	$ 872	$ 869
Cumulative Results of Operations	2,013	(1,884)
TOTAL NET POSITION	**2,885**	**(1,015)**
TOTAL LIABILITIES AND NET POSITION	**$ 66,666**	**$ 71,209**

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, 2014 and 2013
(Dollars in Millions)

	FY 2014	FY 2013
Single Family Forward		
Intragovernmental Gross Costs (Note 12)	$ 736	$ 727
Less: Intragovernmental Earned Revenue (Note 13)	1,340	1,720
Intragovernmental Net Costs	(604)	(993)
Gross Costs With the Public (Note 12)	(6,350)	(5,840)
Less: Earned Revenues (Note 13)	17	28
Net Costs With the Public	(6,367)	(5,868)
Single Family Forward Net Cost (Surplus)	**$ (6,971)**	**$(6,861)**
HECM		
Intragovernmental Gross Costs (Note 12)	$ 59	$ 53
Less: Intragovernmental Earned Revenue (Note 13)	711	823
Intragovernmental Net Costs	(652)	(770)
Gross Costs With the Public (Note 12)	2,673	(565)
Less: Earned Revenues (Note 13)	1	2
Net Costs With the Public	2,672	(567)
HECM Net Cost (Surplus)	**$ 2,020**	**$(1,337)**
Multifamily/Healthcare		
Intragovernmental Gross Costs (Note 12)	$ 168	$ 142
Less: Intragovernmental Earned Revenue (Note 13)	67	62
Intragovernmental Net Costs	101	80
Gross Costs With the Public (Note 12)	$ (1,024)	$ (1,927)
Less: Earned Revenues (Note 13)	45	46
Net Costs With the Public	(1,069)	(1,973)
Multifamily/Healthcare Net Cost (Surplus)	**$ (968)**	**$(1,893)**
Salaries and Administrative Expenses		
Intragovernmental Gross Costs (Note 12)	$ 17	$ 22
Less: Intragovernmental Earned Revenue (Note 13)	-	-
Intragovernmental Net Costs	17	22
Gross Costs With the Public (Note 12)	613	671
Less: Earned Revenues (Note 13)	-	-
Net Costs With the Public	613	671
Adminstrative Expenses Net Cost (Surplus)	**$ 630**	**$ 693**
Net Cost of Operations	**$ (5,289)**	**$ (9,398)**

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, 2014 and 2013
(Dollars in Millions)

	FY 2014 Cumulative Results of Operations	FY 2014 Unexpended Appropriations	FY 2013 Cumulative Results of Operations	FY 2013 Unexpended Appropriations
BEGINNING BALANCES	**$ (1,884)**	**$ 869**	**$ (15,966)**	**$ 862**
Budgetary Financing Sources				
Appropriations Received (Note 16)	-	367	-	7,604
Other Adjustments (Note 16)	-	(37)	-	(39)
Appropriations Used (Note 16)	327	(327)	7,490	(7,490)
Transfers-Out (Note 15 and Note 16)	-	-	-	(68)
Other Financing Sources				
Transfers In/Out (Note 15)	497	-	550	-
Imputed Financing (Note 12)	15	-	18	-
Other	(2,231)	-	(3,374)	-
Total Financing Sources	**$ (1,392)**	**$ 3**	**$ 4,684**	**$ 7**
Net (Cost) Surplus of Operations	**5,289**	**-**	**9,398**	**-**
ENDING BALANCES	**$ 2,013**	**$ 872**	**$ (1,884)**	**$ 869**

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, 2014
(Dollars in Millions)

	FY 2014 Budgetary	FY 2014 Non-Budgetary	FY 2014 Total
Budgetary Resources:			
Unobligated balance brought forward, October 1	837	57,855	58,692
Unobligated balance brought forward, October 1, as adjusted	837	57,855	58,692
Recoveries of prior year unpaid obligations	71	765	836
Other changes in unobligated balance (+ or -)	(271)	(1)	(272)
Unobligated balance from prior year budget authority, net	637	58,618	59,255
Appropriations (discretionary and mandatory)	367	-	367
Borrowing authority (discretionary and mandatory)	-	8,769	8,769
Spending authority from offsetting collections (discretionary an	13,317	24,002	37,319
Total budgetary resources	**14,321**	**91,389**	**105,710**
Status of Budgetary Resources:			
Obligations incurred	6,169	45,820	51,989
Unobligated balance, end of year:			
Apportioned	85	13,494	13,579
Unapportioned	8,067	32,075	40,142
Total unobligated balance, end of year	8,152	45,569	53,721
Total budgetary resources	**14,321**	**91,389**	**105,710**
Change in Obligated Balance:			
Unpaid obligations, brought forward, October 1 (gross)	634	2,539	3,173
Uncollected customer payments from Federal sources, brough	(3)	-	(3)
Obligated balance, start of year (net), before adjustments (+	631	2,539	3,170
Obligated balance, start of year (net), as adjusted	631	2,539	3,170
Obligations incurred	6,169	45,820	51,989
Outlays (gross) (-)	(6,145)	(45,366)	(51,511)
Change in uncollected customer payments from Federal	(6)	-	(6)
Recoveries of prior year unpaid obligations (-)	(71)	(765)	(836)
Unpaid obligations, end of year (gross)	587	2,229	2,816
Uncollected customer payments from Federal sources, end of	(9)	-	(9)
Obligated balance, end of year (net)	578	2,229	2,807
Budget Authority and Outlays, Net:			
Budget authority, gross (discretionary and mandatory)	13,684	32,771	46,455
Actual offsetting collections (discretionary and mandatory) (-)	(13,311)	(31,182)	(44,493)
Change in uncollected customer payments from Federal	(6)	-	(6)
Budget authority, net (discretionary and mandatory)	367	1,589	1,956
Outlays, gross (discretionary and mandatory)	6,145	45,366	51,511
Actual offsetting collections (discretionary and mandatory) (-)	(13,311)	(31,182)	(44,493)
Outlays, net (discretionary and mandatory)	(7,166)	14,184	7,018
Less Distributed offsetting receipts (-)	2,668	-	2,668
Agency outlays, net (discretionary and mandatory)	**(9,834)**	**14,184**	**4,350**

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	44,632
Appropriations (discretionary and mandatory)	7,525	-	7,525
Borrowing authority (discretionary and mandatory)	-	19,092	19,093
Spending authority from offsetting collections (discretionary an	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 (+	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	(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	(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	(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.

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

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 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 end of the 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 end of the 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 $15 million for fiscal year 2014 and $18 million for fiscal year 2013, 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.

Change in Accounting Principle

In prior years, FHA swept (returned to Treasury) its GI/SRI receipt accounts on October 1st. Effective in fiscal year 2014, FHA is changing the timing of sweeping its receipt accounts from October 1st to September 30th to be consistent with the implementation of Treasury’s two new systems, the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) and the Central Accounting Reporting System (CARS).

FHA is treating this change as a “Change in Accounting Principle”, prospectively. This change in FY 2014 has no effect on prior years’ financial statements. FHA believes its numbers are accurate on its FY 2013 financial statement based on inconsistent guidance regarding receipt accounts. This change impacts the balance sheet line items *Fund Balance with U.S. Treasury* and *Other Liabilities*, and reduces both assets and liabilities but does not impact FHA’s overall net position.

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, 2014 and 2013 are as follows:

(Dollars in millions)

	FY 2014	FY 2013
Intragovernmental:		
Fund Balance with Treasury	$ 92	$ 1,671
Investments in U.S. Treasury Securities	-	3
Total Intragovernmental	92	1,674
Other Assets	41	47
Total Non-Entity Assets	133	1,721
Total Entity Assets	66,533	69,488
Total Assets	**$ 66,666**	**$ 71,209**

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 and for the receipt of bid deposits on asset sales.

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. Effective FY 2014, fund balances in the GI/SRI general fund receipt accounts are transferred into the U.S. Treasury's general fund at the end of the fiscal year.

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, 2014 and 2013:

(Dollars in millions)	FY 2014	FY 2013
Fund Balances:		
Revolving Funds	$ 48,448	$ 61,084
Appropriated Funds	751	775
Other Funds	1,033	1,622
Total	**$ 50,232**	**$ 63,481**
Status of Fund Balance with U.S. Treasury:		
Unobligated Balance		
Available	$ 13,579	$ 25,075
Unavailable	33,837	35,233
Obligated Balance Not Yet Disbursed	2,816	3,173
Total	**$ 50,232**	**$ 63,481**

Revolving Funds

FHA's revolving funds include the liquidating and financing accounts as required by the FCRA and deposit funds for the receipt of bid deposit fund asset sales. 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 and the deposit funds for the receipt of bid deposits for asset sales. As of 9/30, there was $73.9 million of bidder deposits. This is because FHA conducted an asset sale on 9/30 and the unsuccessful bidders' deposits were not returned until October. It is like escrow or earnest money, so FHA felt it was already covered in Notes 2 and 10. Effective FY 2014, FHA sweeps its GI/SRI receipt accounts on September 30 and returns the funds to Treasury. 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. The cost, net amortized premium/discount, net investment, and market values of FHA's investments in U.S. Treasury securities as of September 30, 2014 were as follows:

(Dollars in millions)

FY 2014	Cost	Amortized (Premium) / Discount, Net	Investments, Net	Market Value
MMI/CMHI Investments	$ 6,371	$ 1	$ 6,372	$ 6,372
MMI/CMHI Accrued Interest			7	7
Total	**$ 6,371**	**$ 1**	**$ 6,379**	**$ 6,379**

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2013 were as follows. FHA had no MMI/CMHI investments in U.S. Treasury securities as of September 30, 2013.

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

Investments in Private-Sector Entities

Investments Risk Sharing Debentures as of September 30, 2014 and 2013 were as follows:

(Dollars in millions)	Beginning Balance	New Acquisitions	Redeemed	Ending Balance
FY 2014				
Risk Sharing Debentures	56	-	(15)	41
Total	**$ 56**	**$ -**	**$ (15)**	**$ 41**
FY 2013				
Risk Sharing Debentures	57	1	(2)	56
Total	**$ 57**	**$ 1**	**$ (2)**	**$ 56**

Note 5. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2014 and 2013 are as follows:

	Gross		Allowance		Net	
(Dollars in millions)	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
With the Public:						
Receivables related to credit program assets	$ 8	$ 1	$ (1)	$ -	$ 7	$ 1
Premiums receivable	3	6	-	-	3	6
Partial Claims receivable	1,486	-	(783)	-	703	-
Generic Debt Receivable	85	96	(85)	(96)	-	-
Settlements receivable	725	-	-	-	725	-
Miscellaneous receivable	21	6	-	-	21	6
Total	**$ 2,328**	**$ 109**	**$ (869)**	**$ (96)**	**$ 1,459**	**$ 13**

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.

Partial Claims Receivable

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

Generic Debt Receivable

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.

Settlements Receivable

As of September 30, 2014, FHA received signed consent judgments that were approved by the courts for which funds have not been received.

Miscellaneous Receivable

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:
Single Family Mortgages
Multifamily/Healthcare Mortgages
Home Equity Conversion Mortgages

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

FHA encourages homeownership through its Single Family Forward programs (Section 203(b), which is the largest program, and Section 234) by making loans readily available with its mortgage insurance programs. These programs insure mortgage lenders against losses from default, enabling those lenders to provide mortgage financing on favorable terms to homebuyers. Multifamily Housing Programs (Section 213, Section 221(d)(4), Section 207/223(f), and Section223(a)(7)) provide FHA insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects such as apartment rentals, and cooperatives. Healthcare programs (Section 232 and Section 242) enable low cost financing of health care facility projects and improve access to quality health care by reducing the cost of capital. The HECM program provides eligible homeowners who are 62 years of age and older access to the equity in their property with flexible terms.

FHA Direct Loan and Loan Guarantee Programs and the related loans receivable, foreclosed property, and Loan Guarantee Liability as of September 30, 2014 and 2013 are as follows:

Direct Loan Program

(Dollars in Millions)

FY 2014	Total
Direct Loans	
Loan Receivables	14
Interest Receivables	13
Allowance	(12)
Total Direct Loans	**15**

(Dollars in Millions)

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

FHA's Direct Loans are as a result of purchase money mortgages (PMMs). The Direct loan receivables are primarily multifamily loans and are in the liquidating fund. In addition, FHA has a small amount of new PMMs that are administered by Single Family Housing. Due to the small size, there is no subsidy associated with these loans.

FHA's net direct loans receivable is not the same as the proceeds that would be anticipated from the sale of its direct loans.

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

(Dollars in Millions)

FY 2014	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	21	-	21
Interest Receivables	-	-	-
Allowance for Loan Losses	(9)	(4)	(13)
Foreclosed Property	11	9	20
Subtotal	**23**	**5**	**28**
Multifamily/Healthcare			
Loan Receivables	-	2,078	2,078
Interest Receivables	-	231	231
Allowance for Loan Losses	-	(857)	(857)
Foreclosed Property	-	1	1
Subtotal	**-**	**1,453**	**1,453**
HECM			
Loan Receivables	-	4	4
Interest Receivables	-	2	2
Allowance for Loan Losses	-	(2)	(2)
Foreclosed Property	-	(2)	(2)
Subtotal	-	2	2
Total Guaranteed Loans	**23**	**1,460**	**1,483**

(Dollars in Millions)

FY 2013	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loan Receivables	18	-	18
Interest Receivables	-	-	-
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**

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

Defaulted Guaranteed Loans from Post-1991 Guarantees:

(Dollars in Millions)

FY 2014	MMI/CMHI	GI/SRI	H4H	Total
Guaranteed Loans				
Single Family Forward				
Loan Receivables	5,244	176	2	5,422
Foreclosed Property	2,437	73	1	2,511
Allowance	(4,195)	(139)	2	(4,332)
Subtotal	**3,486**	**110**	**5**	**3,601**
Multifamily/Healthcare				
Loan Receivables	-	818	-	818
Foreclosed Property	-	1	-	1
Allowance	-	(319)	-	(319)
Subtotal	**-**	**500**	**-**	**500**
HECM				
Loan Receivables	996	2,510	-	3,506
Interest Receivables	371	1,192	-	1,563
Foreclosed Property	5	80	-	85
Allowance	(598)	(1,648)	-	(2,246)
Subtotal	**774**	**2,134**	**-**	**2,908**
Total Guaranteed Loans	**4,260**	**2,744**	**5**	**7,009**

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
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**

*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 2014):		
MMI/CMHI		
Single Family Forward	1,168,427	1,074,732
Multifamily/Healthcare	492	477
MMI/CMHI Subtotal	**1,168,919**	**1,075,209**
GI/SRI		
Single Family Forward	12,301	9,303
Multifamily/Healthcare	109,296	101,132
GI/SRI Subtotal	**121,597**	**110,435**
H4H		
Single Family - 257	109	104
H4H Subtotal	**109**	**104**
Total	**1,290,625**	**1,185,748**
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**

New Guaranteed Loans Disbursed (FY 2014):

(Dollars in Millions)

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
MMI/CMHI		
Single Family Forward	135,187	133,907
Multifamily/Healthcare	48	48
MMI/CMHI Subtotal	**135,235**	**133,955**
GI/SRI		
Single Family Forward	123	122
Multifamily/Healthcare	14,104	14,026
GI/SRI Subtotal	**14,227**	**14,148**
Total	**149,462**	**148,103**
New Guaranteed Loans Disbursed (FY 2013):		
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**

Home Equity Conversion Mortgage (HECM)

HECM (reverse mortgages) are not included in the previous tables due to the unique nature of the program. As of September 30, 2014 the insurance-in-force (the outstanding balance of active loans) was $105 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.

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 2014	MMI/CMHI		$ 13,473	$ 63,259	$ 94,466
	GI/SRI		-	42,264	55,419
		Total	**$ 13,473**	**$ 105,523**	**$ 149,885**
FY 2013	MMI/CMHI		$ 14,671	$ 56,936	$ 86,305
	GI/SRI		-	43,933	59,613
		Total	**$ 14,671**	**$ 100,869**	**$ 145,918**

Loan Guarantee Liability, Net:

(Dollars in Millions)

FY 2014	MMI/CMHI	GI/SRI	H4H	Total
LLR				
Single Family Forward	$ 7	$ 1	$ -	$ 8
Multifamily/Healthcare	-	1	-	1
Subtotal	**$ 7**	**$ 2**	**$ -**	**$ 9**
LLG				
Single Family Forward	$ 17,201	$ 740	$ 22	$ 17,963
Multifamily/Healthcare	(23)	(2,957)	-	(2,980)
HECM	7,447	11,034	-	18,481
Subtotal	**$ 24,625**	**$ 8,817**	**$ 22**	**$ 33,464**
Loan Guarantee Liability Total	**$ 24,632**	**$ 8,819**	**$ 22**	**$ 33,473**

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**

Subsidy Expense for Loan Guarantees by Program and Component:

(Dollars in millions)

FY 2014	MMI/CMHI	GI/SRI	Total
Single Family Forward			
Defaults	3,951	4	3,955
Fees and Other Collections	(13,741)	(5)	(13,746)
Other	-	-	-
Subtotal	**(9,790)**	**(1)**	**(9,791)**
Multifamily/Healthcare			
Defaults	2	259	261
Fees and Other Collections	(7)	(866)	(873)
Other	-	-	-
Subtotal	**(5)**	**(607)**	**(612)**
HECM			
Defaults	878	-	878
Fees and Other Collections	(934)	-	(934)
Other	-	-	-
Subtotal	**(56)**	**-**	**(56)**
Total	**(9,851)**	**(608)**	**(10,459)**

FY 2013	MMI/CMHI	GI/SRI	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)
Other	-	-	-
Subtotal	(366)	-	(366)
Total	**(17,444)**	**(913)**	**(18,357)**

Subsidy Expense for Modification and Re-estimates:

(Dollars in millions)

FY 2014	Technical Reestimate
MMI/CMHI	3,380
GI/SRI	544
Total	3,924
FY 2013	
MMI/CMHI	9,862
GI/SRI	(1,443)
Total	8,419

Total Loan Guarantee Subsidy Expense:

(Dollars in millions)

	FY 2014	FY 2013
MMI/CMHI	(6,470)	(7,582)
GI/SRI	(64)	(2,356)
Total	(6,534)	(9,938)

Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

(Percentage)	Defaults	Fees and Other Collections	Other	Total
Budget Subsidy Rates for FY 2014 Loan Guarantees:				
MMI/CMHI				
Single Family				
Forward	2.91	(10.16)	-	(7.25)
HECM	6.49	(6.90)	-	(0.41)
Short Refinance	11.36	(11.36)	-	-
Multifamily				
Cooperatives	2.91	(10.16)	-	(7.25)
GI/SRI				
Multifamily				
Apartments	2.52	(6.10)	-	(3.58)
Apartments Refinance	0.43	(4.61)	-	(4.18)
Healthcare				
Residential Care	2.78	(6.82)	-	(4.04)
Hospitals	3.19	(7.28)	-	(4.09)

(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)

Schedule for Reconciling Loan Guarantee Liability Balances:

	FY 2014		FY 2013	
(Dollars in Millions)	LLR	LLG	LLR	LLG
Beginning Balance of the Loan Guarantee Liability	$ 8	$ 41,457	$ 17	$ 54,967
Add: Subsidy Expense for guaranteed loans disbursed during the reporting fiscal years by component:				
Default Costs (Net of Recoveries)	-	5,094	-	8,243
Fees and Other Collections	-	(15,553)	-	(26,593)
Other Subsidy Costs	-	-	-	(7)
Total of the above subsidy expense components	**-**	**(10,459)**	**-**	**(18,357)**
Adjustments:				
Fees Received	-	12,227	-	12,022
Foreclosed Property and Loans Acquired	-	11,870	-	11,809
Claim Payments to Lenders	-	(27,944)	-	(29,386)
Interest Accumulation on the Liability Balance	-	1,149	-	1,674
Other	-	532	-	(14)
Ending Balance before Reestimates	**8**	**28,832**	**17**	**32,715**
Add or Subtract Subsidy Reestimates by Component:				
Technical/Default Reestimate				
Subsidy Expense Component	1	4,345	(9)	1,705
Interest Expense Component		946		(377)
Adjustment of prior years' credit subsidy reestimates	-	(659)	-	7,414
Total Technical/Default Reestimate	1	4,632	(9)	8,742
Ending Balance of the Loan Guarantee Liability	**$ 9**	**$ 33,464**	**$ 8**	**$ 41,457**

Administrative Expense:

(Dollars in Millions)	FY 2014	FY 2013
Total	577	647

Other Information on Foreclosed Property:

Additional information on FHA foreclosed property as of September 30, 2014 and 2013 is as follows:

	FY 2014	FY 2013
Average number of days in Inventory for Sold Cases	129	124
End of Fiscal Year Active Inventory	18,945	35,217

Defaulted Guaranteed Loans (Pre-92 and Post-91)

Restrictions on the use/disposal of foreclosed property:

The balance relating to foreclosures as of September 30, 2014 is comprised of only Single Family properties. There are no Multi-family properties currently in inventory.

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

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

Credit Reform Valuation Methodology

FHA values its Credit Reform 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 2014. Overall, FHA's liability decreased from the fiscal year 2013 estimates.

Mutual Mortgage Insurance (MMI) – On net, the MMI Fund LLG decreased from $31,010 million at the end of fiscal year 2013 to $24,648 million at the end of fiscal year 2014. This decrease is the result of the decreases in liability in the Forward loans exceeding the smaller increase in liability to HECM. There are two primary factors at work this year in the forward-loan portfolio and two in the HECM (reverse mortgage) portfolio. The decrease in liability in Forward loans is mainly due to the inclusion of the 2014 book-of-business which is forecast to add almost $ 9 billion in negative liability to the MMI fund. The second major factor affecting the portfolio LLG is the ramping up of the 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 which has increased throughout the 2014 fiscal year. The first factor affecting the HECM LLG calculation is that there are three new mortality tables used this year which show people living longer. This causes the termination rates for HECM to be longer and thus increases the liability to the Fund. The second factor is HECM recoveries as related to conveyance claim costs that were adjusted this year to reflect increased maintenance and operation cost for projected conveyances. (Note: this increased cost will lower future expected recoveries hence increase liability).

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 12,000 additional loans will go to claim in FY 2015, 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 past years. In addition, HUD continues to pursue the clearing of long foreclosure queues through its Distressed Asset Sale Program. That, alone, could account for the 12,000 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 increased from $10,796 million at the end of FY 2013 to $11,034 million at the end of FY 2014. This liability is driven more by long term house price appreciation forecasts than short term forecasts. Also, for the FY2014 liability estimate, HECM recoveries as related to conveyance claim costs were adjusted this year to reflect increased maintenance and operation cost for projected conveyances. (Note: this increased cost will lower future expected recoveries hence increase liability). 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 $28 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 $297 million, from ($766) million to ($1,063) million, due to lower prepayment and claims expectations as well as increased insurance-in-force.

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 $11.5 billion. The Section 221(d)(4) liability decreased by $38 million this year, from ($48) million to ($86) million. This was due to lower claims and prepayments predicted.

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 $3.2 billion. The Section 232 NC liability decreased by $13.9 million from ($44.6) million in FY 2013 to ($58.5) million in FY 2014 due to a diminished insurance-in-force and decreased claim and prepayment 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 $30 billion. The Section 232 Refinance liability decreased by $116 million from ($537) million in FY 2013 to ($653) million in FY 2014 due to a significant decrease in claims expectations coupled with a large increase in insurance-in-force.

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 $8.6 billion. The Section 242 liability decreased by $46 million from ($249) million in FY 2013 to ($295) million in FY 2014 due to higher premium revenue caused by decreased prepayment expectations as well as lower claims expected.

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 (25th and 75th percentiles), and a standard indicator of “tail”outcomes (95th 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	$ 10,990	$ 17,201	$ 21,795	$ 39,829
Single Family Reverse Mortgages (HECM)	$ 806	$ 7,447	$ 13,223	$ 20,261
Total	$ 11,796	$ 24,648	$ 35,018	$ 60,090

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 $2.4 billion. The aggregate liability for the remaining pre-credit reform loans in FY 2014 is $7.6 million, which is a $1.6 million increase from the $6 million estimate in FY 2013.

GI/SRI Multifamily & Healthcare LLR - For the multifamily and healthcare portfolio, the remaining insurance-in-force for pre-credit reform loans is $555 million. The aggregate liability for the remaining pre-credit reform loans in FY 2014 is ($1.6) million, which is a $100 thousand increase from the ($1.7) million estimate in FY 2013. The year-over-year increase in aggregate liability is due to a $291 million decline in insurance-in-force as both measures move closer to zero.

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 $19.3 billion. The Section 223(a)(7) liability is negative, meaning that the present value of expected future premium revenues is greater than the present value of expected future (net) claim expenses. The 223(a)(7) liability decreased this year by $40 million, from ($600) million to ($640) 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, 2014 and 2013:

(Dollars in millions)

	FY 2014	FY 2013
Intragovernmental:		
Advances to HUD for Working Capital Fund Expenses	$ 1	$ 1
Total	$ 1	$ 1
With the Public:		
Escrow Monies Deposited at Minority-Owned Banks	$ 41	$ 47
Deposits in Transit	6	332
Total	$ 47	$ 379

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 and for the bid deposits on asset sales. 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.

Note 8. Accounts Payable

Accounts Payable as of September 30, 2014 and 2013 are as follows:

(Dollars in millions)

	FY 2014	FY 2013
Intragovernmental:		
Claims Payable to Ginnie Mae	$ 2	$ 8
Miscellaneous Payables to Other Federal Agencies	1	-
Total	$ 3	$ 8

	FY 2014	FY 2013
With the Public:		
Claims Payable	$ 277	$ 188
Premium Refunds Payable	142	143
Single Family Property Disposition Payable	14	49
Miscellaneous Payables	26	24
Total	$ 459	$ 404

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. This line item also includes estimated claims on suspended supplemental claims.

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, 2014 and 2013:

(Dollars in millions)

	FY 2014				FY 2013		
	Beginning Balance	Net Borrowings	Ending Balance		Beginning Balance	Net Borrowings	Ending Balance
Other Debt:							
Borrowings from U.S. Treasury	25,940	1,588	27,528		11,527	14,413	25,940
Total	**$ 25,940**	**$ 1,588**	**$ 27,528**	**$ -**	**$ 11,527**	**$ 14,413**	**$ 25,940**

	FY 2014	FY 2013
Classification of Debt:		
Intragovernmental Debt	$ 27,528	$ 25,940
Total	**$ 27,528**	**$ 25,940**

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 2014, FHA's U.S. Treasury borrowings carried interest rates ranging from 0.75 percent to 7.59 percent. In fiscal year 2013, they carried interest rates ranged from 1.68 percent to 7.59 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, 2014 and 2013:

(Dollars in millions)

FY 2014		Current
Intragovernmental:		
Receipt Account Liability		1,689
Total	**$**	**1,689**
With the Public:		
Trust and Deposit Liabilities	$	59
Multifamily Notes Unearned Revenue		248
Premiums collected on unendorsed cases		174
Miscellaneous Liabilities		148
Total	**$**	**629**

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**

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. Effective FY 2014, FHA sweeps its GI/SRI receipt accounts on September 30 and returns the funds to Treasury.

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.

Premiums Collected on Unendorsed Cases

Premiums collected on unendorsed cases represent amounts collected by FHA for cases that have not yet been endorsed. FHA's policy is to collect upfront premiums prior to endorsing a case.

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, 2014. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $24 million or more.

Activity with Ginnie Mae

As of September 30, 2014, 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 2014 (in Millions)	FY 2013 (in Millions)
Mortgages Held for Investment & Foreclosed Property (Pre-Claim)	4,891	5,780
Short Sale Claims Receivable	19	44

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

Note 12. Gross Costs

Gross costs incurred by FHA for the period ended September 30, 2014 and 2013 are as follows:
(Dollars in millions)

September 30, 2014	Single Family Forward	HECM	Multifamily/ Healthcare	Administrative Expenses	Total
Intragovernmental:					
Interest Expense	$ 736	$ 59	$ 168	$ -	$ 963
Imputed Cost	-	-	-	15	15
Other Expenses	-	-	-	2	2
Total	**$ 736**	**$ 59**	**$ 168**	**$ 17**	**$ 980**
With the Public:					
Salary and Administrative Expense	$ -	$ -	$ -	$ 574	$ 574
Subsidy Expense	(9,790)	(55)	(612)	-	(10,457)
Re-estimate Expense	2,636	1,580	(292)	-	3,924
Interest Expense	199	495	16	(1)	709
Interest Accumulation Expense	598	652	(101)	-	1,149
Bad Debt Expense	(19)	-	(78)	-	(97)
Loan Loss Reserve	2	-	(1)	-	1
Other Expenses	24	1	44	40	109
Total	**$ (6,350)**	**$ 2,673**	**$ (1,024)**	**$ 613**	**$ (4,088)**
Total Gross Costs	**$ (5,614)**	**$ 2,732**	**$ (856)**	**$ 630**	**$ (3,108)**

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)**

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 calculated as the difference between interest revenue and interest expense. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest accumulation expense.

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.

Re-estimate Expense

Re-estimate expense captures the cost associated with revisions to the liability for loan guarantee. A re-estimate is calculated annually.

Subsidy Expense

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

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, 2014 and 2013 are as follows:

(Dollars in millions)

September 30, 2014	Single Family Forward	HECM	Multifamily/ Healthcare	Total
Intragovernmental:				
Interest Revenue from Deposits at U.S. Treasury	$ 1,334	$ 711	$ 67	$ 2,112
Interest Revenue from MMI/CMHI Investments	6	-	-	6
Total Intragovernmental	**$ 1,340**	**$ 711**	**$ 67**	**$ 2,118**
With the Public:				
Insurance Premium Revenue	$ (7)	$ -	$ 8	$ 1
Income from Notes and Properties	14	1	37	52
Other Revenue	10	-	-	10
Total With the Public	**$ 17**	**$ 1**	**$ 45**	**$ 63**
Total Earned Revenue	**$ 1,357**	**$ 712**	**$ 112**	**$ 2,181**

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**

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 2014 were:

	Upfront Premium Rates
Single Family:	
10/01/2013 - 9/30/2014	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 2014 were:

	Annual Periodic Premium Rates
Single Family:	
10/01/2013 - 9/30/2014	1.20%, 1.25% , 1.45% or 1.50%
10/01/2013 - 9/30/2014	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, 2014 and 2013 are as follows:

(Dollars in millions)

September 30, 2014	Cumulative Results of Operations	Unexpended Appropriations	Total
Transfers Out:			
HUD	497	-	497
Other Financing Sources:			
Treasury	$ (2,231)	$ -	$ (2,231)

September 30, 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)

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, 2014 and 2013 are as follows:

(Dollars in millions)

FY 2014	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Transfers-Out	Ending Balance
Positive Subsidy	$ 464	$ -	$ -	$ -	$ -	$ 464
Working Capital and Contract Expenses	298	127	(37)	(114)	-	274
Reestimates	-	210	-	(210)	-	-
GI/SRI Liquidating	107	30	-	(3)	-	134
Total	**$ 869**	**$ 367**	**$ (37)**	**$ (327)**	**$ -**	**$ 872**

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**

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 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 2013 have been reconciled to the fiscal year 2013 actual amounts included in the Program and Financing Schedules presented in the fiscal year 2015 Budget of the United States Government. There were no significant reconciling items. Information from the fiscal year 2014 Statement of Budgetary Resources will be presented in the fiscal year 2016 Budget of the U.S. Government. The Budget will be transmitted to Congress on the first Monday in February 2015 and will be available from the Government Printing Office and online at that time.

Obligated balances as of September 30, 2014 and 2013 are as follows:

Unpaid Obligations

(Dollars in Millions)

Undelivered Orders	**FY 2014**	**FY 2013**
MMI/CMHI	$ 1,570	$ 1,870
GI/SRI	321	436
EI	26	36
TI	-	2
Undelivered Orders Subtotal	**$ 1,917**	**$ 2,344**
Accounts Payable		
MMI/CMHI	$ 527	$ 447
GI/SRI	372	382
Accounts Payable Subtotal	**$ 899**	**$ 829**
Total	**$ 2,816**	**$ 3,173**

Note 18. Budgetary Resources - Collections

During fiscal year 2012 and 2014, 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, 2014 and 2013:

FY 2014	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 11,041	$ 843	$ 1	$ 11,885
Notes	4,884	434	1	5,319
Property	5,348	223	1	5,572
Interest Earned from U.S. Treasury	1,637	473	1	2,111
Subsidy	9,850	-	-	9,850
Reestimates	9,018	210	-	9,228
Collections from settlements	466	-	-	466
Other	47	15	-	62
Total	**$ 42,291**	**$ 2,198**	**$ 4**	**$ 44,493**

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**

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, 2014 and 2013:

(Dollars in Millions)

FY 2014	MMI/CMHI	GI/SRI	H4H	EI	TI	Total
Transfers:						
Working Capital and Contract Expenses	$ -	$ -	$ -	$ -	$ -	$ -

(Dollars in Millions)

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

Note 20. Budgetary Resources – Obligations

The following table presents the composition of FHA's obligations for the period ended September 30, 2014 and 2013:

(Dollars in Millions)

FY 2014	MMI/CMHI	GI/SRI	H4H	EI/TI	Total
Obligations					
Claims	$ 25,392	$ 2,706	$ 5	$ -	$ 28,103
Property Expenses	956	92	-	-	1,048
Interest on Borrowings	726	237	-	-	963
Subsidy	9,849	526	-	-	10,375
Downward Reestimates	3,250	2,060	-	-	5,310
Upward Reestimates	5,769	210	-	-	5,979
Admin, Contract and Working Capital	122	-	-	-	122
Other	10	79	-	-	89
Total	**$ 46,074**	**$ 5,910**	**$ 5**	**$ -**	**$ 51,989**

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**

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, 2014 and 2013:

(Dollars in Millions)	FY 2014	FY 2013
RESOURCES USED TO FINANCE ACTIVITIES		
Obligations Incurred - SBR	$ 51,989	$ 90,175
Spending Authority from Offsetting Collections and Recoveries - SBR	$ (44,499)	(82,297)
Offsetting Receipts - SBR	$ (2,668)	(1,442)
Transfers In / Out - NP	$ (2,230)	-
Imputed Financing from Costs Absorbed by Others	$ 15	18
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	**$ 2,607**	**$ 6,454**
RESOURCES THAT DO NOT FUND THE NET COST OF OPERATIONS		
Undelivered Orders and Adjustments	$ 428	$ (266)
Revenue and Other Resources	45,001	81,088
Purchase of Assets	(45,433)	(55,840)
Appropriation for prior year Re-estimate	(5,979)	(33,354)
TOTAL RESOURCES NOT PART OF NET COST OF OPERATIONS	**$ (5,983)**	**$ (8,372)**
TOTAL RESOURCES USED TO FINANCE THE NET COST (SURPLUS) OF OPERATIONS	**$ (3,376)**	**$ (1,918)**
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	$ 10,639	$ 14,777
Downward Re-estimate of Credit Subsidy Expense	(6,006)	(6,035)
Changes in Loan Loss Reserve Expense	27	(3)
Changes in Bad Debt Expenses Related to Uncollectible Pre-Credit Reform Receivables	(97)	(440)
Reduction of Credit Subsidy Expense from Endorsements and Modifications of Loan Guarantees	(10,457)	(18,358)
Gains or Losses on Sales of Credit Program Assets	29	19
Other	3,952	2,560
TOTAL COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD	**$ (1,913)**	**$ (7,480)**
NET COST (SURPLUS) OF OPERATIONS	**$ (5,289)**	**$ (9,398)**

Required Supplementary Information

Schedule A: Intragovernmental Assets

FHA's Intragovernmental assets, by federal entity, are as follows on September 30, 2014 and 2013:

(Dollars in Millions)

FY 2014	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Other Assets	Total
U.S. Treasury	$ 50,232	$ 6,379	$ -	$ 56,611
HUD	-	-	1	1
Total	**$ 50,232**	**$ 6,379**	**$ 1**	**$ 56,612**

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

Schedule B: Intragovernmental Liabilities

FHA's Intragovernmental liabilities, by federal entity, are as follows on September 30, 2014 and 2013:

(Dollars in Millions)

FY 2014	Accounts Payable	Borrowings from U.S. Treasury	Other Liabilities	Total
U.S. Treasury	$ -	$ 27,528	$ 1,689	$ 29,217
HUD	3	-	-	3
Total	**$ 3**	**$ 27,528**	**$ 1,689**	**$ 29,220**

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**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2014:

Dollars in Millions	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 2	$ 95	$ 23	$ 717	$ 837
Unobligated balance brought forward, October 1, as adjusted	2	95	23	717	837
Recoveries of prior year unpaid obligations	-	23	3	45	71
Other changes in unobligated balance (+ or -)	(2)	(25)	(10)	(234)	(271)
Unobligated balance from prior year budget authority, net	-	93	16	528	637
Appropriations (discretionary and mandatory)	-	127	210	30	367
Spending authority from offsetting collections (discretionary and mandatory)	7,337	5,766	-	214	13,317
Total budgetary resources	**$ 7,337**	**$ 5,986**	**$ 226**	**$ 772**	**$ 14,321**
Status of Budgetary Resources:					
Obligations incurred	-	5,892	210	67	6,169
Apportioned	-	44	16	25	85
Exempt from apportionment	-	-	-	85	85
Unapportioned	7,337	50	-	680	8,067
Total unobligated balance, end of year	7,337	94	16	705	8,152
Total budgetary resources	**$ 7,337**	**$ 5,986**	**$ 226**	**$ 772**	**$ 14,321**
Change in Obligated Balance:					
Unpaid obligations, brought forward, October 1 (gross)	-	147	4	483	634
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(2)	-	-	(1)	(3)
Obligated balance, start of year (net), before adjustments (+ or -)	(2)	147	4	482	631
Adjustment to obligated balance, start of year (net) (+ or -)	-	-	-	-	-
Obligated balance, start of year (net), as adjusted	(2)	147	4	482	631
Obligations incurred	-	5,892	210	67	6,169
Outlays (gross) (-)	-	(5,870)	(210)	(65)	(6,145)
Change in uncollected customer payments from Federal sources (+ or -)	(6)	-	-	-	(6)
Recoveries of prior year unpaid obligations (-)	-	(23)	(3)	(45)	(71)
Unpaid obligations, end of year (gross)	-	146	1	440	587
Uncollected customer payments from Federal sources, end of year	(8)	-	-	(1)	(9)
Obligated balance, end of year (net)	**$ (8)**	**$ 146**	**$ 1**	**$ 439**	**$ 578**
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	7,337	5,893	210	244	13,684
Actual offsetting collections (discretionary and mandatory) (-)	(13,098)	-	-	(213)	(13,311)
Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -)	(6)	-	-	-	(6)
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	(5,766)	5,893	210	30	367
Outlays, gross (discretionary and mandatory)	-	5,870	210	65	6,145
Actual offsetting collections (discretionary and mandatory) (-)	(13,098)	-	-	(213)	(13,311)
Outlays, net (discretionary and mandatory)	(13,098)	5,870	210	(148)	(7,166)
Distributed offsetting receipts (-)	-	-	-	(2,668)	(2,668)
Agency outlays, net (discretionary and mandatory)	**$ (13,098)**	**$ 5,870**	**$ 210**	**$ (2,816)**	**$ (9,834)**

Required Supplementary Information

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

Dollars in Millions	MMI/CMHI Capital Reserve	MMI/CMHI Program	GI/SRI Program	Other	Budgetary Total 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
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
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)
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)
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**	**$ 9,211**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2014:

	MMI/CMHI Financing	GI/SRI Financing	Other	Budgetary Total Total
Budgetary Resources:				
Unobligated balance brought forward, October 1	$ 46,334	$ 11,495	$ 26	$ 57,855
Unobligated balance brought forward, October 1, as adjusted	46,334	11,495	26	57,855
Recoveries of prior year unpaid obligations	714	50	1	765
Other changes in unobligated balance (+ or -)	-	-	(1)	(1)
Unobligated balance from prior year budget authority, net	47,048	11,546	24	58,618
Borrowing authority (discretionary and mandatory)	7,000	1,769	-	8,769
Spending authority from offsetting collections (discretionary and mandatory)	23,181	817	4	24,002
Total budgetary resources	**$ 77,229**	**$ 14,132**	**$ 28**	**$ 91,389**
Status of Budgetary Resources:				
Obligations incurred	40,158	5,658	4	45,820
Unobligated balance, end of year:	-	-		
Apportioned	12,076	1,406	12	13,494
Exempt from apportionment	-	-	13,494	13,494
Unapportioned	24,996	7,068	11	32,075
Total unobligated balance, end of year	37,072	8,474	23	45,569
Total budgetary resources	**$ 77,229**	**$ 14,132**	**$ 28**	**$ 91,389**
Change in Obligated Balance:				
Unpaid obligations, brought forward, October 1 (gross)	2,019	520	-	2,539
Obligated balance, start of year (net), before adjustments (+ or -)	2,019	520	-	2,539
Obligated balance, start of year (net), as adjusted	2,019	520	-	2,539
Obligations incurred	40,158	5,658	4	45,820
Outlays (gross) (-)	(39,657)	(5,704)	(5)	(45,366)
Recoveries of prior year unpaid obligations (-)	(714)	(50)	(1)	(765)
Unpaid obligations, end of year (gross)	1,806	423	-	2,229
Obligated balance, end of year (net)	**$ 1,806**	**$ 423**	**$ -**	**$ 2,229**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	30,181	2,586	4	32,771
Actual offsetting collections (discretionary and mandatory) (-)	(29,181)	(1,997)	(4)	(31,182)
Budget authority, net (discretionary and mandatory)	1,000	589	-	1,589
Outlays, gross (discretionary and mandatory)	39,657	5,704	5	45,366
Actual offsetting collections (discretionary and mandatory) (-)	(29,181)	(1,997)	(4)	(31,182)
Outlays, net (discretionary and mandatory)	10,476	3,707	1	14,184
Agency outlays, net (discretionary and mandatory)	**$ 10,476**	**$ 3,707**	**$ 1**	**$ 14,184**

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
Unobligated balance brought forward, October 1, as adjusted	33,167	7,082	26	40,275
Recoveries of prior year unpaid obligations	381	23	-	404
Unobligated balance from prior year budget authority, net	33,548	7,105	25	40,678
Borrowing authority (discretionary and mandatory)	17,603	1,488	1	19,092
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
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
Obligated balance, start of year (net), before adjustments (+ or -)	1,931	541	-	2,472
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)
Recoveries of prior year unpaid obligations (-)	(381)	(23)	-	(404)
Unpaid obligations, end of year (gross)	2,019	520	-	2,539
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)
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)
Agency outlays, net (discretionary and mandatory)	**$ 138**	**$ (3,373)**	**$ 1**	**$ (3,234)**

Other 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 2014
in millions

	FY 2014	FY 2013
What Money is Available to spend?		
Total Resources	$105,710	$148,867
Less Amount Available but Not Agreed to be Spent	$13,579	$25,075
Less Amount Not Available to be Spent	$40,142	$33,617
Total Amounts Agreed to be Spent	**$51,989**	**$90,175**
How was the Money Spent?		
Category*		
Claims	$27,991	$29,656
Property Expenses	$596	$1,414
Interest on Borrowings	$963	$921
Subsidy	$10,457	$18,358
Downward Reestimates	$5,310	$5,770
Upward Reestimates	$5,979	$33,354
Admin, Contract and Working Capital	$116	$116
Other	$99	$126
Total Spending	$51,511	$89,714
Amounts Remaining to be Spent	$478	$461
Total Amounts Agreed to be Spent	**$51,989**	**$90,175**
Who did the Money go to?		
For Profit	$29,280	$31,772
Government	$22,709	$58,403
Total Amounts Agreed to be Spent	**$51,989**	**$90,175**
How Was the Money Issued?		
Claims	$28,103	$29,365
Property Expenses	$1,048	$2,060
Interest on Borrowings	$963	$921
Subsidy	$10,376	$18,491
Downward Reestimates	$5,310	$5,770
Upward Reestimates	$5,979	$33,354
Admin, Contract and Working Capital	$123	$114
Other	$87	$100
Total on How Money Was Issued	**$51,989**	**$90,175**

Summary of Financial Statement Audit and Management Assurances

For FY2014, one material internal control weakness was identified. The following tables provide a summary of financial audit findings with regard to audit opinion and management assurances.

Summary of Financial Statement Audit

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Failure to recognize accounts receivable appropriately	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

Summary of Management Assurances

Summary of Management Assurances					
Effectiveness of Internal Control over Financial Reporting (FMFIA section 2)					
Statement of Assurance	Qualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Failure to recognize accounts receivable appropriately	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1