audit report

Issue Date
November 5, 2010
Audit Case Number
2011-FO-0002

TO: David H. Stevens, Assistant Secretary for Housing-Federal Housing Commissioner, H

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

SUBJECT: Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2010 and 2009

In accordance with the Government Corporation Control Act as amended (31 U.S.C. 9105), the Office of Inspector General engaged the independent certified public accounting firm of Clifton Gunderson (CG) to audit fiscal year 2010 financial statements of the Federal Housing Administration (FHA). FHA's financial statements as of and for the fiscal year ended September 30, 2009 were audited by Urbach Kahn & Werlin LLP, which was acquired by CG on March 22, 2010. The contract required that the audit be performed according to generally accepted government auditing standards (GAGAS).

CG is responsible for the attached Independent Auditor's Report dated November 3, 2010 and the conclusions expressed in the report. Accordingly, we do not express an opinion on FHA's financial statements or conclusions on FHA's internal controls or compliance with laws, regulations and government-wide policies. Within 30 days of this report, UKW expects to issue a separate letter to management dated November 3, 2010 regarding other less significant matters that came to its attention during the audit.

This report includes both the Independent Auditor's Report and FHA's principal financial statements. Under Federal Accounting Standards Advisory Board (FASAB) standards, a general-purpose federal financial report should include as required supplementary information (RSI) a section devoted to Management's Discussion and Analysis (MD&A). The MD&A is not included in this report. FHA plans to separately publish an annual report for fiscal year 2010 that conforms to FASAB standards.

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

We appreciate the courtesies and cooperation extended to CG and OIG audit staffs during the conduct of the audit.

(THIS PAGE LEFT BLANK INTENTIONALLY)

Table of Contents

(THIS PAGE LEFT BLANK INTENTIONALLY)

Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Inspector General
United States Department of Housing and Urban Development

Commissioner
Federal Housing Administration

We have audited the accompanying consolidated balance sheet of the Federal Housing Administration (FHA), a wholly owned government corporation within the United States Department of Housing and Urban Development (HUD), as of September 30, 2010 and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources (Principal Financial Statements) for the year then ended.

Summary

We concluded that FHA's Principal Financial Statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the following matters being identified as significant deficiencies:

- Effective monitoring of modernization efforts and existing systems are necessary to mitigate near-term financial reporting risks
- Economic conditions and inherent model design increase risks to management's Liability for Loan Guarantee credit reform estimates

We identified one reportable instance of noncompliance with laws and regulations related to the capital requirements for the Mutual Mortgage Insurance Fund.

This report (including Appendices A through D) discusses: (1) these conclusions and our conclusions relating to supplemental information presented in the Annual Management Report, (2) management's responsibilities, (3) our objectives, scope and methodology, (4) management's response and our evaluation of their response, and (5) the current status of prior year findings and recommendations.

4250 N. Fairfax Drive, Suite 1020
Arlington, Virginia 22203
tel: 571.227.9500
fax: 571.227.9552

www.cliftoncpa.com

INDEPENDENT AUDITOR'S REPORT, Continued

Opinion on the Principal Financial Statements

In our opinion, the Principal Financial Statements referred to above present fairly, in all material respects, the financial position of FHA as of September 30, 2010, and its net cost, changes in net position, and combined budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America. The financial statements of FHA as of and for the year ended September 30, 2009 were audited by Urbach Kahn & Werlin LLP, of which practice was acquired by Clifton Gunderson LLP (CG) by merger on March 22, 2010. Urbach Kahn & Werlin LLP's report dated November 9, 2009 expressed an unqualified opinion on those financial statements.

As discussed in the footnotes to the Principal Financial Statements, the Loan Guarantee Liability (LGL) is an actuarially determined estimate of the net present value of future claims, net of premiums and recoveries, from loans insured as of the end of the fiscal year. This estimate is developed using econometric models, which integrate historical data with regional house price appreciation forecasts to develop assumptions about future portfolio performance. Nearly 75% of the losses included in this reserve for the Mutual Mortgage Insurance (MMI) Fund are projected to be incurred in the next twenty four months and are based on the current volume of delinquent insured loans. Changes from the historical loss rates for these delinquent loans could have a material impact on this estimate.

The MMI Fund includes a Capital Reserve account from which increases in funding to cover accrued claim losses are drawn. As of September 30, 2010, this Capital Reserve account had $11.3 billion available to cover further increases in the LGL. The Credit Reform Act of 1990 provides for permanent, indefinite budget authority should future increases in the LGL exceed funds available in the Capital Reserve account.

Consideration of Internal Control

In planning and performing our audits, we considered FHA's internal control over financial reporting and compliance (internal control) as a basis for designing audit procedures that are appropriate in the circumstances and complying with Office of Management and Budget (OMB) audit guidance, 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 FHA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we identified deficiencies in internal control that we consider to be significant deficiencies.

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

INDEPENDENT AUDITOR'S REPORT, Continued

governance. We noted two matters, summarized below and more fully described in Appendix A, involving the internal control and its operation that we consider to be significant deficiencies:

<u>Effective monitoring of modernization efforts and existing systems are necessary to mitigate near-term financial reporting risks</u>

FHA's current financial system is comprised of numerous aging information systems developed independently over the last thirty years and integrated with the general ledger through electronic interfaces. These systems will continue to require expensive maintenance and monitoring and are likely to pose increasing risks to the reliability of FHA's financial reporting and business operations until modernization efforts are completed. In FY2010, FHA initiated a multi-year systems modernization effort that will replace, as well as enhance, a number of critical FHA business systems and operational processes. Overall project plans have been developed but those plans will require additional detail as the project moves to its next phase. Furthermore, modernization project plans need to consider and incorporate the sustainability and scalability of the current systems until they are replaced.

<u>Economic conditions and inherent model design increase risks to management's Liability for Loan Guarantee credit reform estimates</u>

FHA's process for estimating the Liability for Loan Guarantee for single family programs uses assumptions developed through an annual independent actuarial study of the Mutual Mortgage Insurance fund. The econometric models developed for this study are significantly driven by historical claim payment patterns and numerous economic and portfolio variables. During FY2010, FHA and its independent actuary made significant improvements to the models. However, the current economic environment and the depressed housing market are causing changes in mortgage loan behavior that continue to strain the forecasting ability of the models. In the current extreme environment, the models do not have sufficient experience to confidently predict the effects of delays in foreclosures and claims, the increased use of FHA loss mitigation programs, and the risk of redefaults on mitigated loans.

The design of the current models does not provide an effective way to communicate risks and the precision of the model estimates. The FHA financial statements may not effectively present the relative risks in management's estimates in this challenging economic environment.

Additional detail and the related recommendations for these findings are provided in Appendix A of this report.

Our consideration of internal control was for the limited purpose described in the first paragraph above and would not necessarily identify all significant deficiencies in internal control that are also considered to be material weaknesses. However, we believe neither of the significant deficiencies described above is a material weakness.

INDEPENDENT AUDITOR'S REPORT, Continued

Compliance with Laws and Regulations

The results of our tests of compliance with laws, regulations and government-wide policies disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, as described below. Providing an opinion on compliance with laws and regulations and government-wide policies was not an objective of our audit and, accordingly, we do not express such an opinion.

> The Cranston-Gonzales National Affordable Housing Act of 1990 required that FHA's Mutual Mortgage Insurance Fund maintain a minimum level of capital sufficient to sustain a moderate recession. This capital requirement, called the Capital Ratio, is defined as capital resources (assets minus current liabilities) less the liability for future claim costs (net of future premiums and recoveries), divided by the value of insurance-in-force. The Act required FHA to maintain a minimum Capital Ratio of two percent and conduct an annual independent actuarial study to calculate this ratio. The Housing and Economic Recovery Act of 2008 requires that the Secretary submit a report annually to the Congress describing the results of such study, assess the financial status of the Fund, recommend adjustments and evaluate of the quality control procedures and accuracy of information used in the process of underwriting loans guaranteed by the Fund. As of the date of our audit, this report had not yet been submitted, but FHA data indicated that this ratio remained below the required two percent through FY2010.

Supplementary Information

The information in the Management's Discussion and Analysis and Required Supplementary Information sections is not a required part of the Principal Financial Statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Management Responsibilities

Management is responsible for the information in the Annual Management Report, including the preparation of: 1) the Principal Financial Statements in conformity with accounting principles generally accepted in the United States of America, 2) Management's Discussion and Analysis (including the performance measures), and 3) Required Supplementary Information. Management is also responsible for 1) establishing, maintaining and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers Financial Integrity Act of 1982 (FMFIA) are met, 2) ensuring that FHA's financial management systems substantially comply with the Federal Financial Management Improvement Act of 1996 (FFMIA), and 3) complying with applicable laws, regulations and government-wide policies.

INDEPENDENT AUDITOR'S REPORT, Continued

Objectives, Scope and Methodology

Our responsibility is to express an opinion on FHA's Principal Financial Statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Financial Statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we also obtained an understanding of FHA and its operations, including its internal control over financial reporting (including safeguarding of assets) and compliance with laws, regulations and government-wide policies (including execution of transactions in accordance with budget authority), determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to evaluate and report on internal control and determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*, which include ensuring:

- Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Transactions are executed in accordance with (1) laws governing the use of budget authority, (2) other laws and regulations that could have a direct and material effect on the financial statements, and (3) any other laws, regulations, and government-wide policies identified by OMB audit guidance.

We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We are also responsible for testing compliance with selected provisions of laws, regulations and government-wide policies that have a direct and material effect on the financial statements. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2010. Compliance with FFMIA will be reported on by the HUD Office of Inspector General (OIG) in connection with their audit of the consolidated financial statements of HUD.

INDEPENDENT AUDITOR'S REPORT, Continued

We limited our tests of compliance to the provisions described above and we did not test compliance with all laws and regulations applicable to FHA. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

FHA Comments and Our Evaluation

FHA management concurred with our findings and their related recommendations. The full text of FHA management's response is included in Appendix B. We did not perform audit procedures on FHA management's written response and accordingly, we express no opinion on it. Our assessment of FHA management's response is included in Appendix C. The current status of prior year findings and recommendations is included in Appendix D.

We also noted other less significant matters involving FHA's internal control and its operation, which we have reported to the management of FHA in a separate letter, dated November 3, 2010.

Distribution

This report is intended solely for the information and use of the HUD OIG, the management of HUD and FHA, OMB, GAO and the Congress of the United States, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Arlington, Virginia
November 3, 2010

Appendix A
Significant Deficiencies

In our report dated November 3, 2010, we described the results of our audit of the consolidated balance sheet of the Federal Housing Administration (FHA), a wholly owned government corporation within the United States Department of Housing and Urban Development (HUD), as of September 30, 2010, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources (Principal Financial Statements) for the year then ended. The objective of our audit was to express an opinion on these financial statements. In connection with our audit, we also considered FHA's internal control over financial reporting and tested FHA's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements. The following sections present additional detail on the internal control matters discussed in that report.

Background

FHA's current financial system is comprised of numerous aging information systems developed independently over the last thirty years and integrated with the general ledger through electronic interfaces. Many of these systems are COBOL-based applications on either an IBM or Unisys mainframe. Substantially all of FHA's source transaction data is entered by and transmitted from lenders via electronic data interchange or web interfaces. Many of FHA's business systems are owned by the Office of Single Family Housing or the Office of Multifamily Housing and support both HUD and FHA program activities. Infrastructure and general support of FHA and HUD systems are provided by HUD's Office of the Chief Information Officer. When FHA's general ledger system, the FHA Subsidiary ledger (FHASL), was implemented in 2002, FHA planned to integrate new business applications as modules that would be on the same platform and language as FHASL. Due in part to FHA's declining single family mortgage loan market share and reduced IT systems development budgets during that period, few systems were replaced through 2008 and only two multifamily systems were replaced in FY2009. The subsequent housing crisis, several new housing program initiatives and the rebound in business volume illustrated the need for a comprehensive reassessment of FHA's business processes in addition to the need for a systems upgrade. The 2009 Office of Housing's IT Strategy and Improvement Plan served as the first entity-level systems risk assessment and provided the initial framework for the modernization effort currently underway. The Plan recommended 33 technology and architecture approaches and 25 specific initiatives, including replacement of several of FHA's largest and most key business systems. Critical objectives of the initiatives were to "improve fraud detection, improve risk management and loss mitigation, improve program operations and limit mission constraints related to dated technology".

Each initiative was reviewed, evaluated and prioritized based on established risk criteria. The efforts to address these system recommendations are expected to take several years and cost hundreds of millions of dollars.

1. Effective monitoring of modernization efforts and existing systems are necessary to mitigate near-term financial reporting risks

FHA's financial systems will continue to require expensive maintenance and monitoring and are likely to pose increasing risks to the reliability of FHA's financial reporting and business operations until current modernization efforts are completed. FHA needs to be

Appendix A
Significant Deficiencies, Continued

diligent in its oversight of the modernization effort and ensure the project considers the evolving risks to the existing infrastructure during the transition.

By the end of FY2009, FHA had established a modernization project management office with a core leadership team. This team developed a modernization project plan and a concept of operations document, identified certain overarching needs and requirements, and awarded several contracts for system development risk assessment, requirements and design support services. They also issued a modernization risk management plan document that will be used to monitor systems development risks.

The modernization project plan is a high-level summary plan of numerous tasks to be completed across each of the major phases of the project. This can be a useful oversight tool for general project management and enables the project to be broken down into specific steps with critical dependencies and timelines identified.

The modernization project team also worked with the HUD Office of the Chief Information Officer to define the future computing environment within which the new systems will operate. They subsequently established that a modular, standard financial industry structure would be most practical given the current architecture and programmatic needs. They also completed a concept of operations plan and an OMB-required business case for the modernization project. Upon establishing this framework, the team developed an overarching risk management plan document which serves as a risk inventory that highlights potential delays or failures in the systems migration process.

In order to begin work on the most critical initiatives, FHA awarded several multi-million dollar blanket purchase contracts for system development risk assessment, requirements determination, and design support services. This will allow FHA to begin the needs definition and design phases on the fraud mitigation, business intelligence, and counterparty risk management initiatives. FHA is scheduled to complete their risk assessment documents related to these initiatives in FY2011.

The modernization project team also verbally highlighted several potential steps to upgrade key existing applications in the short term to ensure they continue to meet FHA's needs until the modernization efforts are fully implemented.

While FHA has made notable progress over the current year to get the modernization project started, the current overarching project plan will require more detail to define a fully-functioning governance structure for the overall project going forward.

The project's next phase will be more comprehensive and challenging. Given the magnitude of the recent contract awards, the personnel and financial resources dedicated to the modernization will increase dramatically in FY2011 and 2012. We believe that the existing documents (i.e. the overarching project plan, the risk management plan, and the initiative-level risk assessment) will require more detail to properly coordinate the many consultant teams throughout the next phase of the project.

In addition, management has not provided documentation covering the sustainability of the existing systems during the modernization project. Such sustainability plans are not integrated into the overall project plan or the modernization risk management plan to

Appendix A
Significant Deficiencies, Continued

ensure that they receive the necessary resources and do not lose visibility during the modernization life cycle.

OMB Circular No. A-130, *Management of Federal Information Resources*, states in Section 8, Policy, that "Agencies must plan in an integrated manner for managing information throughout its life cycle. Agencies will:...(e)Integrate planning for information systems with plans for resource allocation and use, including budgeting, acquisition and use of information technology;…" It further states that "Agencies must establish and maintain a capital planning and investment control process that links mission needs, information, and information technology in an effective and efficient manner….The agency's capital planning and investment control process must build from the agency's Enterprise Architecture (EA) and its transition from current architecture to target architecture."

Recommendations

We recommend that the Chair, FHA Transformation:

1a. Further refine the risk management plan for the FHA Infrastructure Transformation Initiative to include formal risk mitigation strategies, key metrics, milestones, and monitoring and reporting requirements. The risk management plan should also include any potential risks associated with achievement of the strategic objectives related to the modernization plan. (New)

1b. Continue developing the initiative specific risk assessment plans and ensure they address the risks inherent in the comprehensive nature of the modernization project. (Updated)

1c. Define a project governance structure and key success factors (KSFs) for monitoring the consultants and measuring the success and achievement of the KSFs for the systems transformation project over the next phase as well as the next three years. (New)

1d. Perform a formal documented risk assessment on the sustainability and scalability of the current systems and processes during the modernization project. Based on the risk assessment, develop a risk management plan incorporating the risk identified for the sustainability of the legacy environment over the next five years. (New)

***2*. Economic conditions and inherent model design increase risks to management's Liability for Loan Guarantee credit reform estimates**

The Cranston-Gonzales National Affordable Housing Act of 1990 requires HUD to conduct an independent annual evaluation of the economic value and capital ratio of the Mutual Mortgage Insurance (MMI) fund. FHA uses the actuarially calculated assumptions regarding future claims, prepayments and recoveries in its cash flow models to estimate the net present value of future cash flows that make up the Single Family Liability for Loan Guarantee.

FHA's current contracted actuary has been conducting this evaluation of the MMI fund since 2004 and over that time has integrated numerous enhancements to their actuarial

Appendix A
Significant Deficiencies, Continued

model to more effectively account for key risk factors, changes in the macroeconomic environment, program policies and the composition of the portfolio. Some of these changes include:

- Inclusion of a credit score variable
- Consideration of the effect of seller-funded down payment assistance
- Increased loan limits
- Recognition of home price dispersion from regional averages
- Expansion of loss mitigation programs
- Incorporation of new policies and programs (e.g. Hope for Homeowners)
- Recognition of the changing geographic distribution of the portfolio
- Incorporation of an econometric recovery model
- Use of enhanced stress testing

In FY2009, we reported that the inherent structure of the actuarial model used by the actuary might understate near-term claim levels in the current challenging economic environment. We recommended that management:

- Incorporate Metropolitan Statistical Area (MSA)-level forecast data in the models.
- Analyze delinquency data, default causes, recoveries and other potential leading indicators to determine whether they would better predict near-term claim costs.
- Document their analyses and conclusions.

Through FY2010, FHA expanded their analysis of performance data and included this information in their HERA Quarterly Reports to Congress. The independent actuary's current year models incorporate MSA-level house price forecast data to better account for the wider dispersion of projected house price appreciation across the US. FHA also enhanced their analysis of streamlined refinanced loans to more accurately identify the original source loan, so the actuary could carry forward the original loan characteristics and more accurately estimate the borrower's current equity position. Also for FY2010, the actuary developed a delinquency "transition" model to better account for the recent delays in foreclosure processing and claim filings, and to better estimate the impact of the significant increases in volume and duration of delinquent loans that have not yet "developed" into claims. They also incorporated new premium rate structures for FY2011 and forward as enacted by Congress in late September 2010.

The dramatic shift in the mortgage market in response to the economic crisis and the resulting fundamental changes in loan behavior continue to strain the econometric functionality of the actuarial model. These fundamental behavioral and programmatic changes include:

- Projecting claim levels beyond all but the most extreme FHA program experience
- Making changes in the predominant cause of defaults
- Recognizing loans with negative equity positions in excess of 40%
- Increasing delays in the time to process foreclosures and related claim filings
- Increasing use of loss mitigation programs
- Excessively restrictive credit market
- Continuing protracted weakness in the housing market

Appendix A
Significant Deficiencies, Continued

In normal market environments, the actuarial models are now designed to reasonably forecast the insured mortgage claim liability. In the current extreme environment, the models do not have sufficient experience to predict the cash flow effects of delays in completing foreclosures and claims, the increased use of loss mitigation, and the potential for redefaults on mitigated loans.

We noted that the default transition model was calibrated with historical claim experience from the latest 20-year period, which did not include a period of prolonged economic downturn. Furthermore, we think that delays in processing foreclosures and claims may cause the default transition model to understate near-term forecasted claims. These delays may also affect the longer-term claim payment model results.

In FY2011 and beyond, management expects that a large number of the currently delinquent loans will take part in various FHA loss mitigation programs. FHA has not performed a comprehensive analysis of the risk of redefault on mitigated loans and the delinquency transition model does not identify a specific redefault risk. FHA also has not analyzed the impact of recent loss mitigation efforts on its overall future claim projections.

The independent actuary's report stated that consistent and reliable model results are based on the constancy of the relationships among the loan variables in the model. However, when a quantum change in the mortgage market occurs, these predictive relationships break down and the models may be slow to adapt to the changes. The independent actuary concluded that they did not see evidence that such a shift had occurred. However, we believe such a quantum change has occurred and that it potentially affects the predictiveness of the default transition model, future claim payment, and prepayment models for FY2011 and FY2012. We noted a number of counterintuitive model results that suggest that such a shift has occurred. Management's documentation of their review of the actuarial report did not include an analysis or explanation of these counterintuitive results.

FASAB Technical Release 6, Preparing Estimates for Direct Loans and Loan Guarantee Subsidies states, "The cash flow estimation process, including all underlying assumptions, should be reviewed and approved at the appropriate level including revisions and updates to the original model. Cash flow models should be tested for reliability as part of the approval process by comparing estimated cash flows to actual cash flows and assessing the model's ability to replicate a credit program's performance."

The design of the current model does not provide an effective way to communicate risks as well as the precision of the model estimates. The FHA financial statements may not effectively present the relative risks in management's estimates in this challenging economic environment.

Recommendations

We recommend that FHA's Deputy Assistant Secretary for Finance and Budget and Deputy Assistant Secretary for Risk Management and Regulatory Affairs:

Appendix A
Significant Deficiencies, Continued

2a. Document their specific review and acceptance of the key assumptions, including key variables, in conjunction with their acceptance of the actuarial study. (New)

2b. Document the final overall management conclusion on whether the analyses performed suggest whether adjustments to the model, calculated assumptions, or projected cash flows are warranted, and if so, how those adjustments are determined and their resulting value. (Updated)

2c. Review and monitor the potential impact of delayed claims and the growth in loss mitigation programs on the counterintuitive model results to ensure the anticipated variable relationships will continue. (New)

2d. Analyze the risk of redefaults and claims on loans that have undergone loss mitigation. (New)

2e. Investigate potential enhancements to the actuarial model to better communicate the precision of its estimates. (New)

2f. Ensure the Annual Report and financial statements effectively present critical factors that may impact current estimates and management's views on the probability of significant changes in these factors. (New)

Appendix B
Management's Response

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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

OCT 29 2010

MEMORANDUM FOR: Clifton Gunderson LLP

FROM: George Tomchick III, Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Response to Fiscal Year 2010 FHA Audit Report

Thank you for providing us the opportunity to respond to FHA's Independent Auditor's Report. I am pleased to present Federal Housing Administration's (FHA) response to this report.

General Comments

FHA is pleased that Clifton Gunderson recognized the progress and efforts made in the last year. FHA will continue to address the concerns identified.

Report on Internal Controls – Significant Deficiencies

1. Effective monitoring of modernization efforts and existing systems are necessary to mitigate near-term financial reporting risks

FHA concurs with the recommendations identified.

2. Economic conditions and inherent model design increase risks to management estimates.

FHA concurs with the recommendations identified.

With regards to recommendation 2a, FHA will document the specific review and acceptance of the key assumptions, including key variables, starting with the FY 2011 actuarial study.

With regards to recommendation 2b, FHA agrees to document the due-diligence procedures it undertakes with the model outputs provided by the actuarial contractor, and to provide a written summary to the auditors. Such summary will also include any changes made by the contractor as a result of this due-diligence work. The written summary will be provided to the auditors around the time of delivery of the draft actuarial review. Any findings after that date will be incorporated into a final summary document to be delivered around the time of delivery of the final actuarial review.

www.hud.gov espanol.hud.gov

Appendix B
Management's Response, Continued

With regards to recommendation 2c, FHA will research and report on whether the FY 2010 actuarial study model on default-to-claim transitions by large negative coefficients for defaults during the "Subprime market expansion" and "Housing Crisis" years appear to represent delays in foreclosures or are the result of more intensive loss mitigation activities.

Regarding recommendation 2d, FHA will provide documented research on re-default and claim rates on loss-mitigation assisted cures.

Relating to recommendation 2e, FHA began this in FY2010 by having the actuarial contractors run all of the alternative economic scenarios produced by Moody's Analytics. The forward-loan contractor used this to provide an assessment of the probability that the economic value of the MMI Fund could be zero or less (40%). FHA is planning on requiring that the next generation actuarial contract model (FY2011) be capable of Monte Carlo simulations of fund value. That capacity will be used to explore VaR metrics and to provide for the probability of outlying events to impact the mean expected results. Other measures of risk-to-forecast will also be explored.

Regarding recommendation 2f, FHA will provide supplementary detail in the notes to the Financial Statements that discusses risks to the baseline forecasts used to calculate the LLG estimate. In this new narrative, FHA will discuss the key risk factors that could cause actual results to vary from what is assumed in the booked LLG.

Appendix C
CG's Assessment of Management's Response

CG has obtained and reviewed FHA management's response to the findings and recommendations made in connection with our audit of FHA's 2010 Principal Financial Statements, which is included as Appendix B. We did not perform audit procedures on FHA's written response to the findings and recommendations and accordingly, we express no opinion on them. Our assessment of management's responses is discussed below.

Assessment of management's response to significant deficiency No. 1:

As indicated in Appendix B, FHA management concurred with our findings and recommendations but did not provide specific information regarding planned corrective actions or information needed to assess whether management will be able to effectively implement the recommendations.

Assessment of management's response to significant deficiency No. 2:

As indicated in Appendix B, FHA management concurred with our findings and recommendations. The specific actions proposed appear to adequately respond to each recommendation.

Appendix D
Status of Prior Year Findings and Recommendations

Our assessment of the current status of reportable conditions and material weaknesses identified in prior year audits is presented below:

FY 2009 Finding/Recommendation	*Type*	*Fiscal Year 2010 Status*
1a. The HUD Office of the Chief Information Officer in coordination with the Assistant Secretary for Housing, FHA Commissioner continue implementing the short term capacity management plan and further refine the plan to address 1) utilization benchmarks and required responses and 2) clear organizational and staff roles and responsibilities. (New)	Significant Deficiency 2009	Resolved
2a. The HUD Office of Chief Information Officer, in coordination with the FHA Commissioner, Assistant Secretary for Housing should conduct a risk assessment of the various system initiatives and required corrective actions in connection with the OCIO Strategic Plan and the IT Strategy and Improvement Plan. (Updated)	Significant Deficiency 2009	Partially resolved (See Significant Deficiency 1)
2b. Develop a prioritized plan of activities, including the development of the required enterprise architecture, into a detailed implementation plan to support the IT Strategy and Improvement Plan presented to Congress. (New)	Significant Deficiency 2009	Partially resolved (See Significant Deficiency 1)
3a. Continue to analyze trend data on seriously delinquent aged loans and determine whether a statistical correlation exists to support this metric as a leading indicator for short-term claim payment trends. (New)	Significant Deficiency 2009	Partially resolved (See Significant Deficiency 2)
3b. Continue to track and report the reasons for default and as long as “loss of income” remains a major factor for default, determine whether another economic indicator, such as initial unemployment claims, may be useful to support near term estimates for claim payments. (New)	Significant Deficiency 2009	Resolved
3c. Continue to analyze property disposition data in order to better support near-term projected recovery rates. (New)	Significant Deficiency 2009	Resolved
3d. Expand management’s financial cash flow model validation documentation to include expanded analyses of seriously delinquent aged loans data, case level historical recovery data, and other leading indicators as appropriate. (New)	Significant Deficiency 2009	Resolved
3e. Conduct research into available information on inventories and sales of “distressed” properties and consider whether such an indicator can be used to assist in supporting near-term trends in historical	Significant Deficiency 2009	Resolved

Appendix D
Status of Prior Year Findings and Recommendations, Continued

FY 2009 Finding/Recommendation	*Type*	*Fiscal Year 2010 Status*
and projected recovery rates. (New)		
3f. Document the final overall management conclusion whether the analyses performed suggest whether adjustments to the projected cash flows are warranted, and if so, how those adjustments are determined and their resulting value. (New)	Significant Deficiency 2009	Partially resolved (See Significant Deficiency 2)
4a. The Director, Office of Financial Analysis and Reporting, Office of the Comptroller should coordinate with the Multifamily Insurance Operations Branch to enforce least privilege by restricting access only to modules that are needed for the performance of specified tasks. (New)	Significant Deficiency 2009	Resolved
4b. Identify system roles that are incompatible and develop automated edit checks in FHASL to prevent the same person from performing conflicting functions on the same transaction. (New)	Significant Deficiency 2009	Resolved
4c. Terminate the parallel deployment of the Revenue Management and MFIS/F47 modules and restrict access to the development environment of FHASL to only those individuals with development responsibilities. (New)	Significant Deficiency 2009	Resolved
4d. Limit developers' access to the production environment to read-only, and ensure any support or training is completed in a test environment. (New)	Significant Deficiency 2009	Resolved
4e. Ensure proper implementation of the PeopleSoft application audit logging by identifying the data elements and the actions to capture, selecting the capture mechanism and defining the filters and reports to be generated to ensure accurate and relevant information is produced. (New)	Significant Deficiency 2009	Resolved
4f. Establish and implement a formal review process of the audit logs by updating policies and procedures to incorporate the generation of the audit logs, the periodic review of the logs, and the actions to be taken based on the results in accordance with HUD's Security Policy and NIST standards. (New)	Significant Deficiency 2009	Resolved
4g. Implement automated mechanisms or mitigating manual account reviews to ensure disabling of accounts that have been inactive for 90 days consistent with HUD's Security Policy. (New)	Significant Deficiency 2009	Resolved

(THIS PAGE LEFT BLANK INTENTIONALLY)

PRINCIPAL FINANCIAL STATEMENTS

(THIS PAGE LEFT BLANK INTENTIONALLY)

FEDERAL HOUSING ADMINISTRATION
(AN AGENCY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
CONSOLIDATED BALANCE SHEETS
As of September 30, 2010 and 2009
(Dollars in Millions)

	FY 2010	FY 2009
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 39,078	$ 30,130
Investments (Note 4)	4,150	10,635
Other Assets (Note 7)	5	16
Total Intragovernmental	43,233	40,781
Investments (Note 4)	136	145
Accounts Receivable, Net (Note 5)	16	16
Loans Receivable and Related Foreclosed Property, Net (Note 6)	6,136	4,446
Other Assets (Note 7)	76	129
TOTAL ASSETS	**$ 49,597**	**$ 45,517**
LIABILITIES		
Intragovernmental		
Borrowings from U.S. Treasury (Note 9)	$ 4,749	$ 4,420
Other Liabilities (Note 10)	1,165	1,913
Total Intragovernmental	5,914	6,333
Accounts Payable (Note 8)	647	639
Loan Guarantee Liability (Note 6)	34,958	34,022
Debentures Issued to Claimants (Note 9)	10	14
Other Liabilities (Note 10)	427	416
TOTAL LIABILITIES	**41,956**	**41,424**
NET POSITION		
Unexpended Appropriations (Note 16)	880	832
Cumulative Results of Operations	6,761	3,261
TOTAL NET POSITION	**7,641**	**4,093**
TOTAL LIABILITIES AND NET POSITION	**$ 49,597**	**$ 45,517**

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, 2010 and 2009
(Dollars in Millions)

	MMI/CMHI	GI/SRI	H4H	Total
FY 2010				
Intragovernmental Gross Costs (Note 12)	$ 160	$ 144	$ 2	$ 306
Less: Intragovernmental Earned Revenue (Note 13)	2,135	412	-	2,547
Intragovernmental Net Costs	(1,975)	(268)	2	(2,241)
Gross Costs with the Public (Note 12)	(2,543)	3,359	10	826
Less: Earned Revenue from the Public (Note 13)	63	70	-	133
Net Costs with the Public	(2,606)	3,289	10	693
NET PROGRAM COST (SURPLUS)	**$ (4,581)**	**$ 3,021**	**$ 12**	**$ (1,548)**

	MMI/CMHI	GI/SRI	H4H	Total
FY 2009				
Intragovernmental Gross Costs (Note 12)	$ 167	$ 131	$ 5	$ 303
Less: Intragovernmental Earned Revenue (Note 13)	1,756	392	-	2,148
Intragovernmental Net Costs	(1,589)	(261)	5	(1,845)
Gross Costs with the Public (Note 12)	9,072	5,302	12	14,386
Less: Earned Revenue from the Public (Note 13)	47	71	-	118
Net Costs with the Public	9,025	5,231	12	14,268
NET PROGRAM COST (SURPLUS)	**$ 7,436**	**$ 4,970**	**$ 17**	**$ 12,423**

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, 2010 and 2009
(Dollars in Millions)

	FY 2010 Cumulative Results of Operations	FY 2010 Unexpended Appropriations	FY 2009 Cumulative Results of Operations	FY 2009 Unexpended Appropriations
BEGINNING BALANCES	**$ 3,261**	**$ 832**	**$ 10,347**	**$ 411**
BUDGETARY FINANCING SOURCES				
Appropriations Received (Note 16)	-	1,231	-	7,554
Other Adjustments (Note 16)	7	(47)	-	(59)
Appropriations Used (Note 16)	981	(981)	6,929	(6,929)
Transfers-Out (Note 15 and Note 16)	(559)	(155)	(347)	(145)
OTHER FINANCING SOURCES				
Transfers In/Out (Note 15)	1,504	-	(1,260)	-
Imputed Financing (Note 12)	19	-	15	-
TOTAL FINANCING SOURCES	**$ 1,952**	**$ 48**	**$ 5,337**	**$ 421**
NET (COST) SURPLUS OF OPERATIONS	**1,548**	**-**	**(12,423)**	**-**
ENDING BALANCES	**$ 6,761**	**$ 880**	**$ 3,261**	**$ 832**

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, 2010
(Dollars in Millions)

	FY 2010 Budgetary	FY 2010 Non-Budgetary	FY 2010 Total
BUDGETARY RESOURCES			
Unobligated Balance, brought forward, October 1	$ 11,401	$ 26,799	$ 38,200
Recoveries of prior year unpaid obligations	58	70	128
Budget Authority:			
Appropriations	1,231	7	1,238
Borrowing authority	10	790	800
Spending authority from offsetting collections (gross):			
Earned			
Collected (Note 18)	3,970	28,185	32,155
Change in receivables from Federal sources	(62)	(3)	(65)
Change in unfilled customer order w/o advance	-	(1)	(1)
Nonexpenditure transfers, net (Note 19)	(72)	-	(72)
Permanently not available	(262)	(449)	(711)
TOTAL BUDGETARY RESOURCES	**$ 16,274**	**$ 55,398**	**$ 71,672**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred, Direct (Note 20)	$ 11,017	$ 20,749	$ 31,766
Unobligated balance-Apportioned	513	4,064	4,577
Unobligated balance-Not available	4,744	30,585	35,329
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 16,274**	**$ 55,398**	**$ 71,672**
Change in Obligated Balances			
Obligated balance, net:			
Unpaid obligations, brought forward, October 1	$ 840	$ 1,464	$ 2,304
Uncollected customer payments from Federal sources, brought forward, October 1	(86)	(3)	(89)
Total, unpaid obligated balance, brought forward, net	754	1,461	2,215
Obligations incurred (Note 20)	11,017	20,749	31,766
Gross outlays	(11,027)	(20,252)	(31,279)
Recoveries of prior-year unpaid obligations, actual	(58)	(70)	(128)
Change in uncollected customer payments-Federal sources	62	3	65
Total, unpaid obligated balance, net, end of period	748	1,891	2,639
Obligated balance, net, end of period:			
Unpaid obligations (Note 17)	772	1,891	2,663
Uncollected customer payments from Federal sources	(24)	-	(24)
Total, unpaid obligated balance, net, end of period	748	1,891	2,639
Net outlays:			
Gross outlays	$ 11,027	$ 20,252	$ 31,279
Offsetting collections (Note 18)	(3,970)	(28,185)	(32,155)
Less: Distributed offsetting receipts	619	-	619
NET OUTLAYS	**$ 6,438**	**$ (7,933)**	**$ (1,495)**

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, 2009
(Dollars in Millions)

	FY 2009 Budgetary	FY 2009 Non-Budgetary	FY 2009 Total
BUDGETARY RESOURCES			
Unobligated Balance, brought forward, October 1	$ 19,547	$ 8,148	$ 27,695
Recoveries of prior year unpaid obligations	26	10	36
Budget Authority:			
Appropriations	7,554	-	7,554
Borrowing authority	-	470	470
Spending authority from offsetting collections (gross):			
Earned			
Collected (Note 18)	2,363	31,233	33,596
Change in receivables from Federal sources	(152)	1	(151)
Change in unfilled customer order w/o advance	-	-	-
Nonexpenditure transfers, net (Note 19)	(58)	-	(58)
Permanently not available	(364)	(883)	(1,247)
TOTAL BUDGETARY RESOURCES	**$ 28,916**	**$ 38,979**	**$ 67,895**
STATUS OF BUDGETARY RESOURCES			
Obligations incurred, Direct (Note 20)	$ 17,515	$ 12,180	$ 29,695
Unobligated balance-Apportioned	575	5,875	6,450
Unobligated balance-Not available	10,826	20,924	31,750
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 28,916**	**$ 38,979**	**$ 67,895**
Change in Obligated Balances			
Obligated balance, net:			
Unpaid obligations, brought forward, October 1	$ 863	$ 1,596	$ 2,459
Uncollected customer payments from Federal sources, brought forward, October 1	(238)	(2)	(240)
Total, unpaid obligated balance, brought forward, net	625	1,594	2,219
Obligations incurred (Note 20)	17,515	12,180	29,695
Gross outlays	(17,512)	(12,302)	(29,814)
Recoveries of prior-year unpaid obligations, actual	(26)	(10)	(36)
Change in uncollected customer payments-Federal sources	152	(1)	151
Total, unpaid obligated balance, net, end of period	754	1,461	2,215
Obligated balance, net, end of period:			
Unpaid obligations (Note 17)	840	1,464	2,304
Uncollected customer payments from Federal sources	(86)	(3)	(89)
Total, unpaid obligated balance, net, end of period	754	1,461	2,215
Net outlays:			
Gross outlays	$ 17,512	$ 12,302	$ 29,814
Offsetting collections (Note 18)	(2,363)	(31,233)	(33,596)
Less: Distributed offsetting receipts	183	-	183
NET OUTLAYS	**$ 14,966**	**$ (18,931)**	**$ (3,965)**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2010

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, 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. 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.

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

Basis of Accounting

The principal financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to Federal agencies as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The recognition and measurement of budgetary resources and their status for purposes of preparing the Combined Statements of Budgetary Resources (SBR), is based on concepts and guidance provided by Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of the Budget* and the Federal Credit Reform Act of 1990. The format of the SBR is based on the SF 133, *Report on Budget Execution and Budgetary Resources*.

Basis of Consolidation

The accompanying principal financial statements include all Treasury Account Fund Symbols (TAFSs) designated to FHA, which consist of principal program funds, revolving funds, general funds and a deposit fund. All inter-fund accounts receivable, accounts payable, transfers in and transfers out within these TAFSs have been eliminated to prepare the consolidated balance sheets, statements of net cost, and statements of changes in net position. The SBR is prepared on a combined basis as required by OMB Circular A-136, *Financial Reporting Requirements*.

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, Multifamily risk sharing debentures and investments in private-sector entities where FHA is a member with other parties under the Accelerated Claims Disposition Demonstration program (see Note 4).

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 effective interest rate method.

In connection with an Accelerated Claims Disposition Demonstration program (the 601 program), FHA transfers assigned mortgage notes to private sector entities in exchange for cash and equity interest. FHA uses the equity method of accounting to measure the value of its investments in these entities.

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 Statement of Federal Financial Accounting Standards (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.

The general fund receipt account 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. The receipt account is a general fund receipt account and amounts are not earmarked for the FHA's credit programs. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to the U.S. Treasury general fund. 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 annual appropriations for certain operating expenses for its MMI/CMHI, GI/SRI, and H4H 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. With the Energy Innovation appropriation of $50 million, Congress directed HUD to target $25 million to the single family market and $25 million to the multifamily market. The entire appropriation for the Transformation Initiative, $20 million, is for combating mortgage fraud.

Full Cost Reporting

SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards*, requires 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 $19 million for fiscal year 2010 and $15 million for fiscal year 2009, 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, *Selected Assets and Liabilities*. In the event that available resources are insufficient to cover liabilities due at a point in time, FHA has authority to borrow monies from the U.S. Treasury (for post-1991 loan guarantees) or to draw on permanent indefinite appropriations (for pre-1992 loan guarantees) to satisfy the liabilities. Thus, all of FHA’s liabilities are considered covered by budgetary resources.

Statement of Budgetary Resources

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

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

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

Note 2. Non-entity Assets

Non-entity assets consist of assets that belong to other entities but are included in FHA's consolidated balance sheets. To reflect FHA's net position accurately, these non-entity assets are offset by various liabilities. FHA's non-entity assets as of September 30, 2010 and 2009 are as follows:

(Dollars in Millions)	FY 2010	FY 2009
Intragovernmental:		
Fund Balance with U.S. Treasury	$ 668	$ 202
Investments in U.S. Treasury Securities	-	4
Total Intragovernmental	668	206
Other Assets	70	92
Total Non-entity Assets	738	298
Total Entity Assets	48,859	45,219
Total Assets	**$ 49,597**	**$ 45,517**

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

According to the FCRA, FHA transfers negative credit subsidy from new endorsements and downward credit subsidy reestimates from the GI/SRI financing account to the GI/SRI general fund receipt account. At the beginning of each fiscal year, fund balance in the GI/SRI general fund receipt account is transferred into the U.S. Treasury's general fund.

Other assets consisting of escrow monies collected from FHA borrowers are either deposited at the U.S. Treasury or minority-owned banks or invested in U.S. Treasury securities. Subsequently, FHA disburses these escrow monies to pay for property taxes, property insurance or maintenance expenses on behalf of the borrowers.

Note 3. Fund Balance with U.S. Treasury

FHA's fund balance with U.S. Treasury was comprised of the following as of September 30, 2010 and 2009:

(Dollars in Millions)		FY 2010		FY 2009
Fund Balances:				
Revolving Funds	$	37,404	$	29,141
Appropriated Funds		790		750
Other Funds		884		239
Total	**$**	**39,078**	**$**	**30,130**
Status of Fund Balance with U.S. Treasury:				
Unobligated Balance:				
Available	$	4,577	$	6,450
Unavailable		31,838		21,376
Obligated Balance not yet Disbursed		2,663		2,304
Total	**$**	**39,078**	**$**	**30,130**

Revolving Funds

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

Appropriated Funds

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

Other Funds

FHA's other funds include the general fund receipt accounts established under the FCRA. Additionally, included with these funds is the capital reserve account that 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, 2010 were as follows:

(Dollars in Millions)	Cost	Amortized (Premium)/ Discount, Net	Investment, Net	Market Value
MMI/CMHI Investments	$ 4,086	$ 41	$ 4,127	$ 5,117
GI/SRI Investments	-	-	-	-
Subtotal	$ 4,086	$ 41	$ 4,127	$ 5,117
MMI/CMHI Accrued Interest	-	-	$ 23	$ 23
Total	**$ 4,086**	**$ 41**	**$ 4,150**	**$ 5,140**

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2009 were as follows:

(Dollars in Millions)	Cost	Amortized (Premium)/ Discount, Net	Investment, Net	Market Value
MMI/CMHI Investments	$ 10,464	$ 83	$ 10,547	$ 11,860
GI/SRI Investments	4	-	4	4
Subtotal	$ 10,468	$ 83	$ 10,551	$ 11,864
MMI/CMHI Accrued Interest	-	-	$ 84	$ 84
Total	**$ 10,468**	**$ 83**	**$ 10,635**	**$ 11,948**

Investments in Private-Sector Entities

Investments in Section 601 and Risk Sharing Debentures as of September 30, 2010 and 2009 were as follows:

(Dollars in Millions)	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
FY 2010						
601 Program	$ 12	$ -	$ -	$ (3)	$ -	$ 9
Risk Sharing Debentures	133	38	-	-	(44)	127
Total	**$ 145**	**$ 38**	**$ -**	**$ (3)**	**$ (44)**	**$ 136**
FY 2009						
601 Program	$ 18	$ -	$ (4)	$ (2)	$ -	$ 12
Risk Sharing Debentures	30	137	-	-	(34)	133
Total	**$ 48**	**$ 137**	**$ (4)**	**$ (2)**	**$ (34)**	**$ 145**

The reporting period for the Section 601 Program investments was from December 1, 2008 to December 31, 2009. The condensed, audited financial statements reported $51 million in assets, $51 million in liabilities and partner's capital, and $1.5 million in net loss for these investments.

Note 5. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2010 and 2009 are as follows:

	Gross		Allowance		Net	
(Dollars in Millions)	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
With the Public:						
Receivables Related to Credit Program Assets	$ 11	$ 17	$ (3)	$ (7)	$ 8	$ 10
Premiums Receivable	1	2	-	-	1	2
Generic Debt Receivables	103	75	(103)	(75)	-	-
Miscellaneous Receivables	7	4	-	-	7	4
Total	**$ 122**	**$ 98**	**$ (106)**	**$ (82)**	**$ 16**	**$ 16**

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 up-front and periodic premiums due to FHA from the mortgagors at the end of the reporting period. The details of FHA premium structure are discussed in Note 13 – Earned Revenue/Premium Revenue.

Generic Debt Receivables

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

Miscellaneous Receivables

Miscellaneous receivables include late charges and penalties receivable on premiums receivable, refunds receivable from overpayments of claims and distributive shares and other immaterial receivables.

Allowance for Loss

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

Note 6. Direct Loans and Loan Guarantees, Non-Federal Borrowers

Direct Loan and Loan Guarantee Programs Administered by FHA Include:

MMI/CMHI Direct Loan Program
GI/SRI Direct Loan Program
MMI/CMHI Loan Guarantee Program
GI/SRI Loan Guarantee Program
H4H Loan Guarantee Program

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.

To comply with the FHA Modernization Act of 2008, activities related to most Single Family programs, including HECM and Section 234(c), endorsed in Fiscal Year 2009 and going forward, are now in the MMI fund. The Single Family activities in the GI fund from Fiscal Year 2008 and prior remain in the GI fund. 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

FHA Direct Loan and Loan Guarantee Programs and the related loans receivable, foreclosed property, and Loan Guarantee Liability as of September 30, 2010 and 2009 are as follows:

Direct Loan Program

(Dollars in Millions)

FY 2010		Total
Direct Loans		
Loans Receivable	$	20
Interest Receivable		10
Allowance		(16)
Total Direct Loans	**$**	**14**

FY 2009		Total
Direct Loans		
Loans Receivable	$	13
Interest Receivable		5
Allowance		(13)
Total Direct Loans	**$**	**5**

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

(Dollars in Millions)

FY 2010	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loans Receivable	$ 16	$ 7	$ 23
Interest Receivable	-	1	1
Allowance for Loan Losses	(9)	(5)	(14)
Foreclosed Property	16	2	18
Subtotal	**$ 23**	**$ 5**	**$ 28**
Multifamily			
Loans Receivable	$ -	$ 2,571	$ 2,571
Interest Receivable	-	213	213
Allowance for Loan Losses	-	(1,825)	(1,825)
Subtotal	**$ -**	**$ 959**	**$ 959**
HECM*			
Loans Receivable	$ -	$ 4	$ 4
Interest Receivable	-	1	1
Allowance for Loan Losses	-	(1)	(1)
Foreclosed Property	-	2	2
Subtotal	**$ -**	**$ 6**	**$ 6**
Total Guaranteed Loans	**$ 23**	**$ 970**	**$ 993**

(Dollars in Millions)

FY 2009	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loans Receivable	$ 19	$ 8	$ 27
Interest Receivable	3	3	6
Allowance for Loan Losses	(12)	(7)	(19)
Foreclosed Property	16	2	18
Subtotal	**$ 26**	**$ 6**	**$ 32**
Multifamily			
Loans Receivable	$ -	$ 2,668	$ 2,668
Interest Receivable	-	199	199
Allowance for Loan Losses	-	(2,162)	(2,162)
Subtotal	**$ -**	**$ 705**	**$ 705**
HECM*			
Loans Receivable	$ -	$ 5	$ 5
Interest Receivable	-	2	2
Allowance for Loan Losses	-	(1)	(1)
Foreclosed Property	-	2	2
Subtotal	**$ -**	**$ 8**	**$ 8**
Total Guaranteed Loans	**$ 26**	**$ 719**	**$ 745**

*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 2010	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loans Receivable	$ 728	$ 39	$ 767
Interest Receivable	-	2	2
Foreclosed Property	6,833	379	7,212
Allowance for Subsidy Cost	(4,282)	(241)	(4,523)
Subtotal	**$ 3,279**	**$ 179**	**$ 3,458**
Multifamily			
Loans Receivable	$ -	$ 641	$ 641
Allowance for Subsidy Cost	-	(353)	(353)
Subtotal	**$ -**	**$ 288**	**$ 288**
HECM*			
Loans Receivable	$ -	$ 1,103	$ 1,103
Interest Receivable	-	524	524
Foreclosed Property	-	44	44
Allowance for Subsidy Cost	-	(288)	(288)
Subtotal	**$ -**	**$ 1,383**	**$ 1,383**
Total Guaranteed Loans	**$ 3,279**	**$ 1,850**	**$ 5,129**

(Dollars in Millions)

FY 2009	MMI/CMHI	GI/SRI	Total
Guaranteed Loans			
Single Family Forward			
Loans Receivable	$ 560	$ 31	$ 591
Interest Receivable	-	1	1
Foreclosed Property	4,875	281	5,156
Allowance for Subsidy Cost	(3,165)	(187)	(3,352)
Subtotal	**$ 2,270**	**$ 126**	**$ 2,396**
Multifamily			
Loans Receivable	$ -	$ 594	$ 594
Allowance for Subsidy Cost	-	(292)	(292)
Subtotal	**$ -**	**$ 302**	**$ 302**
HECM*			
Loans Receivable	$ -	$ 772	$ 772
Interest Receivable	-	418	418
Foreclosed Property	-	31	31
Allowance for Subsidy Cost	-	(223)	(223)
Subtotal	**$ -**	**$ 998**	**$ 998**
Total Guaranteed Loans	**$ 2,270**	**$ 1,426**	**$ 3,696**

*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 2010):		
MMI/CMHI		
Single Family Forward	$ 925,016	$ 878,209
Multifamily	420	403
MMI/CMHI Subtotal	**$ 925,436**	**$ 878,612**
GI/SRI		
Single Family Forward	22,931	20,028
Multifamily	76,709	69,294
GI/SRI Subtotal	**$ 99,640**	**$ 89,322**
H4H		
Single Family - 257	24	24
H4H Subtotal	**$ 24**	**$ 24**
FY 2010 Total	**$1,025,100**	**$ 967,958**
Guaranteed Loans Outstanding (FY 2009):		
MMI/CMHI		
Single Family Forward	$ 711,426	$ 674,263
Multifamily	401	375
MMI/CMHI Subtotal	**$ 711,827**	**$ 674,638**
GI/SRI		
Single Family Forward	25,898	23,088
Multifamily	66,463	59,515
GI/SRI Subtotal	**$ 92,361**	**$ 82,603**
H4H		
Single Family - 257	4	4
H4H Subtotal	**$ 4**	**$ 4**
FY 2009 Total	**$ 804,192**	**$ 757,245**

New Guaranteed Loans Disbursed:

(Dollars in Millions) **Loan Guarantee Programs**	**Outstanding Principal of Guaranteed Loans, Face Value**	**Amount of Outstanding Principal Guaranteed**
New Guaranteed Loans Disbursed (FY 2010):		
MMI/CMHI		
Single Family Forward	$ 296,418	$ 293,710
Multifamily	68	68
MMI/CMHI Subtotal	**$ 296,486**	**$ 293,778**
GI/SRI		
Single Family Forward	230	228
Multifamily	14,760	14,711
GI/SRI Subtotal	**$ 14,990**	**$ 14,939**
H4H		
Single Family - 257	20	20
H4H Subtotal	**$ 20**	**$ 20**
FY 2010 Total	**$ 311,496**	**$ 308,737**
New Guaranteed Loans Disbursed (FY 2009):		
MMI/CMHI		
Single Family Forward	$ 330,342	$ 328,054
Multifamily	43	43
MMI/CMHI Subtotal	**$ 330,385**	**$ 328,097**
GI/SRI		
Single Family Forward	234	232
Multifamily	6,708	6,690
GI/SRI Subtotal	**$ 6,942**	**$ 6,922**
H4H		
Single Family - 257	4	4
H4H Subtotal	**$ 4**	**$ 4**
FY 2009 Total	**$ 337,331**	**$ 335,023**

Home Equity Conversion Mortgage (HECM)

HECM (reverse mortgages) are not included in the previous tables due to the unique nature of the program. Since the inception of the program, FHA has insured 650,591HECM loans with a maximum claim amount of $144 billion. Of these 650,591 HECM loans insured by FHA, 510,144 loans with a maximum claim amount of $119 billion are still active. As of September 30, 2010 the insurance-in-force (the outstanding balance of active loans) was $73 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)

			Cumulative	
Loan Guarantee Programs		**Current Year Endorsements**	**Outstanding Balance**	**Potential Liability**
FY 2010	MMI/CMHI	$ 21,023	$ 28,351	$ 49,388
	GI/SRI	-	44,906	69,407
	Total	**$ 21,023**	**$ 73,257**	**$ 118,795**
FY 2009	MMI/CMHI	$ 30,080	$ 15,524	$ 29,442
	GI/SRI	-	44,353	73,058
	Total	**$ 30,080**	**$ 59,877**	**$ 102,500**

Loan Guarantee Liability, Net:

(Dollars in Millions)

FY 2010	MMI/CMHI	GI/SRI	H4H	Total
LLR				
Single Family Forward	$ 10	$ 1	$ -	$ 11
Multifamily	-	42	-	42
Subtotal	**$ 10**	**$ 43**	**$ -**	**$ 53**
LLG				
Single Family Forward	$ 23,362	$ 609	$ 5	$ 23,976
Multifamily	(7)	(429)	-	(436)
HECM	2,673	8,692	-	11,365
Subtotal	**$ 26,028**	**$ 8,872**	**$ 5**	**$ 34,905**
Loan Guarantee Liability Total	**$ 26,038**	**$ 8,915**	**$ 5**	**$ 34,958**

FY 2009	MMI/CMHI	GI/SRI	H4H	Total
LLR				
Single Family Forward	$ 14	$ 1	$ -	$ 15
Multifamily	-	121	-	121
Subtotal	**$ 14**	**$ 122**	**$ -**	**$ 136**
LLG				
Single Family Forward	$ 27,301	$ 838	$ 1	$ 28,140
Multifamily	(5)	(158)	-	(163)
HECM	1,156	4,753	-	5,909
Subtotal	**$ 28,452**	**$ 5,433**	**$ 1**	**$ 33,886**
Loan Guarantee Liability Total	**$ 28,466**	**$ 5,555**	**$ 1**	**$ 34,022**

Subsidy Expense for Loan Guarantees by Program and Component:

(Dollars in millions)

FY 2010	**MMI/CMHI**	**GI/SRI**	**H4H**	**Total**
Single Family Forward				
Defaults	$ 9,601	$ 11	$ 4	$ 9,616
Fees and Other Collections	(15,522)	(12)	(1)	(15,535)
Other	3,376	1	-	3,377
Subtotal	**$ (2,545)**	**$ -**	**$ 3**	**$ (2,542)**
Multifamily				
Defaults	$ 2	$ 428	$ -	$ 430
Fees and Other Collections	(3)	(856)	-	(859)
Other	1	-	-	1
Subtotal	**$ -**	**$ (428)**	**$ -**	**$ (428)**
HECM				
Defaults	$ 1,078	$ -	$ -	$ 1,078
Fees and Other Collections	(1,184)	-	-	(1,184)
Subtotal	**$ (106)**	**$ -**	**$ -**	**$ (106)**
Total	**$ (2,651)**	**$ (428)**	**$ 3**	**$ (3,076)**

FY 2009	**MMI/CMHI**	**GI/SRI**	**H4H**	**Total**
Single Family Forward				
Defaults	$ 9,990	$ 10	$ 1	$ 10,001
Fees and Other Collections	(13,637)	(12)	-	(13,649)
Other	3,496	1	-	3,497
Subtotal	**$ (151)**	**$ (1)**	**$ 1**	**$ (151)**
Multifamily				
Defaults	$ 1	$ 193	$ -	$ 194
Fees and Other Collections	(2)	(338)	-	(340)
Other	-	-	-	-
Subtotal	**$ (1)**	**$ (145)**	**$ -**	**$ (146)**
HECM				
Defaults	$ 1,043	$ -	$ -	$ 1,043
Fees and Other Collections	(1,457)	-	-	(1,457)
Subtotal	**$ (414)**	**$ -**	**$ -**	**$ (414)**
Total	**$ (566)**	**$ (146)**	**$ 1**	**$ (711)**

Subsidy Expense for Modifications and Reestimates:

(Dollars in millions)

FY 2010	Total Modifications	Technical Reestimate
MMI/CMHI	$ -	$ (2,161)
GI/SRI	(5)	3,195
Total	**$ (5)**	**$ 1,034**
FY 2009		
MMI/CMHI	$ (362)	$ 7,275
GI/SRI	(6)	3,139
Total	**$ (368)**	**$ 10,414**

Total Loan Guarantee Subsidy Expense:

(Dollars in millions)

	FY 2010	FY 2009
MMI/CMHI	$ (4,812)	$ 6,347
GI/SRI	2,762	2,987
H4H	3	1
Total	**$ (2,047)**	**$ 9,335**

Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

(Percentage)	Defaults	Fees and Other Collections	Other	Total
Budget Subsidy Rates for FY 2010 Loan Guarantees:				
MMI/CMHI				
Single Family - Forward (10/1/2009 - 4/4/2010)	3.22	(4.97)	1.13	(0.62)
Single Family - Forward (4/5/2010 - 9/30/2010)	3.23	(5.50)	1.14	(1.13)
Single Family - HECM	5.11	(5.61)	-	(0.50)
Multifamily - Section 213 (10/1/2009 - 4/4/2010)	3.22	(4.96)	1.12	(0.62)
Multifamily - Section 213 (4/5/2010 - 9/30/2010)	3.23	(5.50)	1.14	(1.13)
GI/SRI				
Multifamily - Section 221(d)(4)	4.23	(5.86)	-	(1.63)
Multifamily - Section 207/223(f)	1.45	(5.32)	-	(3.87)
Multifamily - Section 223(a)(7)	1.45	(5.32)	-	(3.87)
Multifamily - Section 232	3.67	(5.96)	-	(2.29)
Section 242	1.55	(5.83)	-	(4.28)
H4H				
Single Family - Section 257 (10/1/2009 - 12/31/2009)	24.26	(1.91)	0.37	22.72
Single Family - Section 257 (1/1/2010 - 9/30/2010)	22.26	(5.89)	0.54	16.91

(Percentage)	Defaults	Fees and Other Collections	Other	Total
Budget Subsidy Rates for FY 2009 Loan Guarantees:				
MMI/CMHI				
Single Family - Forward (10/1/2008 - 6/30/2009)	3.03	(4.13)	1.06	(0.04)
Single Family - Forward (7/1/2009 - 9/30/2009)	3.04	(4.13)	1.03	(0.06)
Single Family - HECM	3.45	(4.82)	-	(1.37)
Multifamily - Section 213 ((10/1/2008 - 6/30/2009)	3.03	(4.13)	1.06	(0.04)
Multifamily - Section 213 (7/1/2009 - 9/30/2009)	3.04	(4.13)	1.03	(0.06)
GI/SRI				
Multifamily - Section 221(d)(4)	4.14	(5.24)	-	(1.10)
Multifamily - Section 207/223(f)	1.47	(4.76)	-	(3.29)
Multifamily - Section 223(a)(7)	1.47	(4.76)	-	(3.29)
Multifamily - Section 232	3.39	(5.48)	-	(2.09)
Section 242	2.63	(5.14)	-	(2.51)
H4H				
Single Family - Section 257	22.40	(8.41)	(0.61)	13.38

Schedule for Reconciling Loan Guarantee Liability Balances:

(Dollars in Millions)	FY 2010		FY 2009	
	LLR	LLG	LLR	LLG
Beginning Balance of the Loan Guarantee Liability	$ 136	$ 33,886	$ 182	$ 19,304
Add: Subsidy Expense for guaranteed loans disbursed during the reporting fiscal years by component:				
Default Costs (Net of Recoveries)		11,124		11,238
Fees and Other Collections		(17,578)		(15,446)
Other Subsidy Costs		3,378		3,497
Total of the above subsidy expense components		**(3,076)**		**(711)**
Adjustments:				
Fees Received		10,082		8,771
Foreclosed Property and Loans Acquired		6,814		3,907
Claim Payments to Lenders		(16,478)		(10,481)
Interest Accumulation on the Liability Balance		1,344		1,079
Other		16		(254)
Ending Balance before Reestimates	**136**	**32,588**	**182**	**21,615**
Add or Subtract Subsidy Reestimates by Component:				
Technical/Default Reestimate				
Subsidy Expense Component	(83)	(2,607)	(46)	5,364
Interest Expense Component		1,113		1,367
Adjustment of prior years' credit subsidy reestimates		3,811		5,540
Total Technical/Default Reestimate	**(83)**	**2,317**	**(46)**	**12,271**
Ending Balance of the Loan Guarantee Liability	**$ 53**	**$ 34,905**	**$ 136**	**$ 33,886**

Administrative Expense:

(Dollars in Millions)	FY 2010	FY 2009
MMI/CMHI	$ 543	$ 275
GI/SRI	30	294
H4H	9	16
Total	**$ 582**	**$ 585**

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.

The majority of FHA's Pre-Credit Reform liability relates to the Mark-to-Market program. A separate analysis was conducted to adjust the loan loss estimate for anticipated reductions for these project-based Section 8 rental assistance subsidies administered by the Office of Affordable Housing Preservation (OAHP). In fiscal year 2010, an assumption was implemented that only fifty percent of Mark-to-Market eligible projects would enter the program to better represent the historical pattern that not all eligible projects would opt to enter the program. All projects that are required to submit financial statements and have submitted annual financial statements within the past two years, received Section 8 assistance, expected to expire in the next five years, and had contract rents exceeding 100 percent of fair market value were included. In the analysis, the gross rent for these projects was reduced to bring the contract rent for assisted units to fair market levels. The effects of this rent reduction on projects' financial health was assessed and a revised loan principal balance was computed based on a sustainable debt service level. A potential claim was calculated based on this reduction of loan principal.

Credit Reform Valuation Methodology

FHA values its Credit Reform LLG and related receivables from notes and properties in inventory at the net present value of their estimated future cash flows.

To apply the present value computations, FHA divides the loans into cohorts and risk categories. Multifamily 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 by risk categories. Each risk category has characteristics that distinguish it from others, including risk profile, premium structure, and the type and quality of collateral underlying the loan. For activity related to fiscal years 1992-2008, the MMI fund has one risk category, and for activity related to fiscal years 2009 and onward, the MMI fund has two risk categories. The single family GI/SRI loans are grouped into four risk categories. HECM loans are considered a separate risk category. There are thirteen different multifamily risk categories.

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

Significant Assumptions – FHA developed financial models in order to estimate the present value of future program cash flows. The models incorporate information on the cash flows' expected magnitude and timing. 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 that year.

- Recovery Rates: The estimated percentage of a claim payment that is recovered through disposition of a mortgage note or underlying property.

- Claim Amount: The estimated amount of the claim payment relative to the unpaid principal balance at the time the claim occurs.

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 systems.

Economic assumptions: Forecasts of economic conditions used in conjunction with loan-level data to generate Single Family and Multifamily claim and prepayment rates were obtained from Global Insights (formerly DRI) and Moody's Analytics. OMB provides other economic assumptions used, such as discount rates.

Actuarial Review: An independent actuarial review of the MMI fund each year produces conditional claim and prepayment rates and loss severity rates that are used as inputs to the Single Family LLG calculation.

Reliance on historical performance: FHA relies on the average historical performance of its insured portfolio to forecast future performance of that portfolio. Changes in legislation, subsidy programs, tax treatment and economic factors all influence loan performance. FHA assumes that its portfolio will continue to perform consistently with its historical experience given a set of forecasted economic conditions throughout the remaining life of existing mortgage guarantees, which can be as long as 40 years for Multifamily programs and affect loan performance accordingly.

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. These changes cannot be reflected in LLG calculations because of uncertainty over their nature and outcome.

Discount rates: The disbursement weighted interest rate on U.S. Treasury securities of maturity comparable to the guaranteed loan term is 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 maturity comparable to the term of each cash flow for the loan guarantee is used in the present value calculation. This 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, "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 applied credit subsidy rates to each FHA loan guarantee program since fiscal year 1992. Over this time FHA's credit subsidy rates have varied. The variance is caused by three factors: (1) additional loan performance data underlying the credit subsidy rate estimates, (2) revisions to the calculation methodology used to estimate the credit subsidy rates, and (3) revisions on expected claims and prepayments derived from the revised Actuarial Review of the MMI Fund. Loan performance data, which reflect mortgage market performance and FHA policy direction, are added as they become available. Revisions to the estimation methodology result from legislative direction and technical enhancements.

FHA estimated the credit subsidy rates for the 2010 cohort in December 2008. At the time of budget submission, the rates reflected prevailing policy and loan performance assumptions based on the most recent information available at that time. The annual credit subsidy reestimates allow FHA to adjust the LLG and subsidy expense to reflect the most current and accurate credit subsidy rate.

Described below are the programs that comprise the majority of FHA's fiscal year 2010 business. These descriptions highlight the factors that contributed to changing credit subsidy rates and the credit subsidy reestimates. Overall, FHA's liability increased slightly from the fiscal year 2009 estimates.

Mutual Mortgage Insurance (MMI) – During fiscal year 2010, FHA experienced better than anticipated credit quality of borrowers and an improved house price appreciation forecast in the short term. Higher quality borrowers and a more optimistic short term house price appreciation forecast caused the liability for MMI to decrease from $28,456 million at the end of fiscal year 2009 to $26,035 million at the end of fiscal year 2010.

GI/SRI Home Equity Conversion Mortgage (HECM) - The HECM activity from fiscal years 1992-2008 remains in the GI/SRI fund. The HECM liability for these years increased from $4,753 million at the end of fiscal year 2009 to $8,692 million at the end of fiscal year 2010. The increase in the liability is primarily due to a less optimistic house price appreciation forecast for HECM properties in the long term and new estimates of current and future tax and insurance default cases. The HECM liability is driven more by long term house price appreciations forecasts than short term forecasts. The drop in the long term forecast results in lower recoveries from future HECM assigned assets and the new estimates of current and future tax and insurance default cases increases the unpaid balance of these loans which increases the liability.

GI/SRI Section 221(d)(4) - The Section 221(d)(4) program was established to provide mortgage insurance for the construction or substantial rehabilitation of Multifamily rental properties with five or more units. Under this program, HUD may insure up to 90 percent of the total project cost and is prohibited from insuring loans with HUD-subsidized interest rates. The Section 221(d)(4) program is the largest Multifamily program in the GI/SRI fund. The Section 221(d)(4) liability decreased by $19 million in FY 2010.

Mark-to-Market - The Mark-to-Market (M2M) program was established by legislation to assess rents at the time of Section 8 Assistance contract renewal. If rents are above market levels, the project is referred to OAHP. OAHP then evaluates the project for potential financial restructuring to determine if the project could survive given the lower revenues from reduced rents. The pool of loans eligible for M2M restructuring is comprised of active insured loans with Section 8 Assistance contracts, which also meet all eligibility requirements such as financial statements submitted within the last 2 years and assistance contracts expiring within the next 5 years. While new Section 8 assistance contracts are not being offered to any properties, which reduces the number of active insured loans with section 8 contracts, the number of projects that meet M2M eligibility criteria may actually increase from year to year. A loan can fail one or more of the eligibility criteria one year but become eligible the following year. During fiscal year 2010, the M2M liability decreased primarily due to the new assumption that only fifty percent of Mark-to-Market eligible projects would enter the program which decreased the forecasted amount of loans in the program.

GI/SRI Section 234(c) - The Section 234(c) program insures loans for condominium purchases. Like HECM, the activity from fiscal year 1992-2008 remains in the GI/SRI fund. One of the many purposes of FHA's mortgage insurance programs is to encourage lenders to make affordable mortgage credit available for non-conventional forms of ownership. Condominium ownership, in which the separate owners of the individual units jointly own the development's common areas and facilities, is one particularly popular alternative. Like the MMI single family program, in fiscal year 2010 the Section 234(c) had lower claim rates due to the higher quality of borrowers, which resulted in decreased claims and an improved house price appreciation forecast for future years that resulted in higher proceeds from the sale of foreclosed properties. This resulted in a decrease in the liability from $694 million at the end of fiscal year 2009 to $467 million at the end of fiscal year 2010 in the GI/SRI fund.

Note 7. Other Assets

The following table presents the composition of Other Assets held by FHA as of September 30, 2010 and 2009:

(Dollars in Millions)

	FY 2010		FY 2009	
Intragovernmental:				
Advances to HUD for Working Capital Fund Expenses	$	5	$	16
Total	**$**	**5**	**$**	**16**
With the Public:				
Escrow Monies Deposited at Minority-Owned Banks	$	70	$	92
Deposits in Transit		6		37
Total	**$**	**76**	**$**	**129**

Advances to HUD for Working Capital Fund Expenses

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

Escrow Monies Deposited at Minority-Owned Banks

FHA holds in trust escrow monies received from the borrowers of its Multifamily mortgage notes to cover property repairs and renovations expenses. These escrow monies are deposited at the U.S. Treasury (see Note 2), invested in U.S. Treasury securities (see Note 4 - GI/SRI Investments) or deposited at minority-owned banks.

Deposits in Transit

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

Note 8. Accounts Payable

Accounts Payable as of September 30, 2010 and 2009 are as follows:

(Dollars in Millions)

		FY 2010		FY 2009
With the Public:				
Claims Payable	$	351	$	331
Premium Refunds		143		173
Single Family Property Disposition Payable		128		105
Miscellaneous Payables		25		30
Total	**$**	**647**	**$**	**639**

Claims Payable

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

Premium Refunds

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

Single Family Property Disposition Payable

Single family property disposition payable includes management and marketing contracts and other property disposition expenses related to foreclosed property.

Miscellaneous Payables

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

Note 9. Debt

The following tables describe the composition of Debt held by FHA as of September 30, 2010 and 2009:

(Dollars in Millions)	FY 2009			FY 2010	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
Agency Debt:					
Debentures Issued to Claimants	$ 52	$ (38)	$ 14	$ (4)	$ 10
Other Debt:					
Borrowings from U.S. Treasury	4,832	(412)	4,420	329	4,749
Total	**$ 4,884**	**$ (450)**	**$ 4,434**	**$ 325**	**$ 4,759**

	FY 2010	FY 2009
Classification of Debt:		
Intragovernmental Debt	$ 4,749	$ 4,420
Debt held by the Public	10	14
Total	**$ 4,759**	**$ 4,434**

Debentures Issued to Public

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4.00 percent to 13.375 percent in fiscal year 2010 and 4.00 percent to 10.375 percent in fiscal year 2009. Lenders may redeem FHA debentures prior to maturity in order to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U.S. Treasury.

The par value of debentures outstanding, not including accrued interest, as of September 30th was $10 million in fiscal year 2010 and $14 million in fiscal year 2009. The fair values for fiscal years 2010 and 2009 were $21 and $15 million, respectively.

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 2010, FHA's U.S. Treasury borrowings carried interest rates ranging from 1.68 percent to 7.59 percent. In fiscal year 2009, they carried interest rates ranged from 3.71 percent to 7.34 percent. The maturity dates for these borrowings occur from September 2017 – September 2029. 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, 2010 and 2009:

(Dollars in Millions)

FY 2010		Current
Intragovernmental:		
Receipt Account Liability	$	1,165
Total	**$**	**1,165**
With the Public:		
Trust and Deposit Liabilities	$	120
Disbursements in Transit		74
Miscellaneous Liabilities		233
Total	**$**	**427**

FY 2009		Current
Intragovernmental:		
Receipt Account Liability	$	1,913
Total	**$**	**1,913**
With the Public:		
Trust and Deposit Liabilities	$	116
Disbursements in Transit		64
Miscellaneous Liabilities		236
Total	**$**	**416**

Special Receipt Account Liability

The special receipt account liability is created from negative subsidy endorsements and downward credit subsidy in the GI/SRI special receipt account.

Trust and Deposit Liabilities

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

Disbursements in Transit

Disbursements in Transit is cash that has not been confirmed as being disbursed by the U.S. Treasury. Once the U.S. Treasury has confirmed that this cash has been disbursed, the cash will be removed from Disbursements in Transit and taken out of Fund Balance with U.S. Treasury.

Miscellaneous Liabilities

Miscellaneous liabilities mainly include unearned revenue generated from Multifamily notes. It also 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, 2010. As a result, no contingent liability has been recorded.

Pending Litigation Against FHA

(Dollars in Millions)

	FY 2010	**FY 2009**
Expected Outcome	Estimated Loss	Estimated Loss
Probable	-	-
Reasonably Possible	-	$23
Remote	-	-

Note 12. Gross Costs

Gross costs incurred by FHA for the period ended September 30, 2010 and 2009 are as follows:

(Dollars in Millions)	FY 2010			FY 2009		
	MMI/CMHI	GI/SRI	H4H	MMI/CMHI	GI/SRI	H4H
Intragovernmental:						
Interest Expense	$ 140	$ 144	$ -	$ 160	$ 123	$ -
Imputed Costs	19	-	-	7	8	-
Other Expenses	1	-	2	-	-	5
Total	**$ 160**	**$ 144**	**$ 2**	**$ 167**	**$ 131**	**$ 5**
With the Public:						
Salary and Administrative Expenses	$ 542	$ 30	$ 7	$ 275	$ 294	$ 11
Subsidy Expense	(4,812)	2,762	3	6,347	2,987	1
Interest Expense	595	695	-	1,568	294	-
Interest Accumulation Expense	1,076	268	-	830	269	-
Bad Debt Expense	(7)	(342)	-	(7)	1,438	-
Loan Loss Reserve Expense	(4)	(79)	-	(5)	(44)	-
Other Expenses	67	25	-	64	64	-
Total	**$ (2,543)**	**$ 3,359**	**$ 10**	**$ 9,072**	**$ 5,302**	**$ 12**

Interest Expense

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

Interest Accumulation Expense

Interest accumulation expense is the net of interest expense on borrowing and interest revenue in the financing accounts for MMI/CMHI and GI/SRI.

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

Salary and Administrative Expenses

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

Subsidy Expense

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

Bad Debt Expense

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

Loan Loss Reserve Expense

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

Other Expenses

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

Note 13. Earned Revenue

Earned revenues generated by FHA for the period ended September 30, 2010 and 2009 are as follows:

(Dollars in Millions)	FY 2010		FY 2009	
	MMI/CMHI	GI/SRI	MMI/CMHI	GI/SRI
Intragovernmental:				
Interest Revenue from Deposits at U.S. Treasury	$ 1,215	$ 412	$ 990	$ 392
Interest Revenue from MMI/CMHI Investments	366	-	633	-
Gain on Sale of MMI/CMHI Investments	554	-	133	-
	$ 2,135	**$ 412**	**$ 1,756**	**$ 392**
With the Public:				
Insurance Premium Revenue	$ 28	$ 16	$ 16	$ 20
Income from Notes and Properties	35	54	31	31
Other Revenue	-	-	-	20
Total	**$ 63**	**$ 70**	**$ 47**	**$ 71**

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 liquidating accounts 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 2010 were:

	Upfront Premium Rates
Single Family	1.75%, 2.25% (As of April 5th)
Multifamily	0.45 %, 0.50%, 0.57% or 0.80%
HECM	2.00% (Based on Maximum Claim Amount)

Annual Periodic Premiums

The periodic premium rate is used to calculate monthly or annual premiums. These rates also vary by mortgage type and program. The FHA annual periodic premium rates in fiscal year 2010 were:

	Annual Periodic Premium Rates
Single Family	0.50% or 0.55%
Multifamily	0.45 %, 0.50%, 0.57% or 0.80%
HECM	0.50%

For Title I, the maximum insurance premium paid for guaranteed cases endorsed in years 1992 through 2001 is equal to 0.50 percent of the loan amount multiplied by the number of years of the loan term. The annual insurance premium for a Title I Property Improvement loan is 0.50 percent of the loan amount until the maximum insurance charge is paid. The annual insurance premium of a Title I Manufactured Housing loan is calculated in tiers by loan term until the maximum insurance charge is paid. For guaranteed cases endorsed in fiscal year 2010, 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

Transfers in/out incurred by FHA for the period ended September 30, 2010 and 2009 are as follows:

(Dollars in Millions)

FY 2010

Budgetary Financing Sources	Cumulative Results of Operations	Unexpended Appropriations	Total
Treasury	$ (559)	$ (83)	$ (642)
HUD	-	(72)	(72)
Total	**$ (559)**	**$ (155)**	**$ (714)**

Other Financing Sources	Cumulative Results of Operations	Unexpended Appropriations	Total
Treasury	$ 1,020	$ -	$ 1,020
HUD	484	-	484
Total	**$ 1,504**	**$ -**	**$ 1,504**

FY 2009

Budgetary Financing Sources	Cumulative Results of Operations	Unexpended Appropriations	Total
Treasury	$ (347)	$ (86)	$ (433)
HUD	-	(59)	(59)
Total	**$ (347)**	**$ (145)**	**$ (492)**

Other Financing Sources	Cumulative Results of Operations	Unexpended Appropriations	Total
Treasury	$ (1,730)	$ -	$ (1,730)
HUD	470	-	470
Total	**$ (1,260)**	**$ -**	**$ (1,260)**

Transfers Out to U.S. Treasury

Transfers out to U.S. Treasury consists of negative subsidy from new endorsements, modifications and downward credit subsidy reestimates in the GI/SRI general fund receipt account, and the prior year unobligated balance of budgetary resources in the GI/SRI liquidating account.

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.

Note 16. Unexpended Appropriations

Unexpended appropriation balances at September 30, 2010 and 2009 are as follows:

(Dollars in Millions)

FY 2010	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Transfers-Out	Ending Balance
Positive Subsidy	$ 478	$ 9	$ -	$ (19)	$ -	$ 468
Working Capital and Contract Expenses	272	259	(47)	(96)	(72)	316
Reestimates	-	863	-	(863)	-	-
GI/SRI Liquidating	82	100	-	(3)	(83)	96
Total	**$ 832**	**$ 1,231**	**$ (47)**	**$ (981)**	**$ (155)**	**$ 880**
FY 2009						
Positive Subsidy	$ 15	$ 470	$ -	$ (7)	$ -	$ 478
Working Capital and Contract Expenses	310	195	(59)	(115)	(59)	272
Reestimates	-	6,793	-	(6,793)	-	-
GI/SRI Liquidating	86	96	-	(14)	(86)	82
Total	**$ 411**	**$ 7,554**	**$ (59)**	**$ (6,929)**	**$ (145)**	**$ 832**

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; the year-end unobligated balance in the GI/SRI liquidating account is returned to the U.S. Treasury; 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 2009 have been reconciled to the fiscal year 2009 actual amounts included in the Program and Financing Schedules presented in the Budget of the United States Government. There were no significant reconciling items. Information from the fiscal year 2010 Statement of Budgetary Resources will be presented in the fiscal year 2012 Budget of the U.S. Government. The Budget will be transmitted to Congress on the first Monday in February 2012 and will be available from the Government Printing Office and online at that time.

Obligated balances as of September 30, 2010 and 2009 are as follows:

Unpaid Obligations

(Dollars in Millions)

Undelivered Orders	FY 2010		FY 2009	
MMI/CMHI	$	1,139	$	638
GI/SRI		454		475
H4H		1		1
Undelivered Orders Subtotal	**$**	**1,594**	**$**	**1,114**
Accounts Payable				
MMI/CMHI	$	719	$	857
GI/SRI		350		333
Accounts Payable Subtotal	**$**	**1,069**	**$**	**1,190**
Unpaid Obligations Total	**$**	**2,663**	**$**	**2,304**

Note 18. Budgetary Resources - Collections

The following table presents the composition of FHA's collections for the period ended September 30, 2010 and 2009:

(Dollars in Millions)

FY 2010	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 9,282	$ 768	$ 1	$ 10,051
Notes	9	490	-	499
Property	5,038	269	-	5,307
Interest Earned from U.S Treasury	2,238	412	-	2,650
Subsidy	2,651	15	3	2,669
Reestimates	9,894	863	-	10,757
Other	48	165	9	222
Total	**$ 29,160**	**$ 2,982**	**$ 13**	**$ 32,155**

(Dollars in Millions)

FY 2009	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 8,084	$ 664	$ -	$ 8,748
Notes	9	378	-	387
Property	3,418	180	-	3,598
Interest Earned from U.S Treasury	2,008	392	-	2,400
Subsidy	926	13	1	940
Reestimates	10,491	6,793	-	17,284
Other	44	195	-	239
Total	**$ 24,980**	**$ 8,615**	**$ 1**	**$ 33,596**

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, 2010 and 2009:

(Dollars in Millions)

FY 2010	MMI/CMHI	EI	Total
Transfers:			
Working Capital and Contract Expenses	$ (71)	$ (1)	$ (72)
Total	**$ (71)**	**$ (1)**	**$ (72)**

(Dollars in Millions)

FY 2009	MMI/CMHI	EI	Total
Transfers:			
Working Capital and Contract Expenses	$ (58)	$ -	$ (58)
Total	**$ (58)**	**$ -**	**$ (58)**

Note 20. Budgetary Resources – Obligations

The following table presents the composition of FHA's obligations for the period ended September 30, 2010 and 2009:

(Dollars in Millions)

FY 2010	MMI/CMHI	GI/SRI	H4H	Total
Obligations:				
Claims	$ 14,017	$ 2,007	$ -	$ 16,024
Single Family Property Management Contracts	808	21	-	829
Contract Obligations	112	6	-	118
Subsidy	2,651	521	3	3,175
Downward Reestimates	26	164	-	190
Upward Reestimates	9,868	863	-	10,731
Interest on Borrowings	139	151	-	290
Other	257	150	2	409
Total	**$ 27,878**	**$ 3,883**	**$ 5**	**$ 31,766**

(Dollars in Millions)

FY 2009	MMI/CMHI	GI/SRI	H4H	Total
Obligations:				
Claims	$ 8,780	$ 1,685	$ -	$ 10,465
Single Family Property Management Contracts	166	7	-	173
Contract Obligations	73	52	5	130
Subsidy	926	205	1	1,132
Downward Reestimates	108	19	-	127
Upward Reestimates	10,384	6,793	-	17,177
Interest on Borrowings	160	125	-	285
Other	50	156	-	206
Total	**$ 20,647**	**$ 9,042**	**$ 6**	**$ 29,695**

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, 2010 and 2009:

(Dollars in Millions)	FY 2010	FY 2009
RESOURCES USED TO FINANCE ACTIVITIES		
Obligations Incurred	$ 31,766	$ 29,695
Spending Authority from Offsetting Collections and Recoveries	(32,217)	(33,481)
Offsetting Receipts	(619)	(183)
Transfers In / Out	1,504	(1,260)
Imputed Financing from Costs Absorbed by Others	19	15
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	**$ 453**	**$ (5,214)**
RESOURCES THAT DO NOT FUND THE NET COST OF OPERATIONS		
Undelivered Orders and Adjustments	$ (468)	$ 209
Revenue and Other Resources	30,073	31,343
Purchase of Assets	(21,497)	(10,903)
Appropriation for prior year Re-estimate	(10,731)	(17,176)
TOTAL RESOURCES NOT PART OF NET COST OF OPERATIONS	**$ (2,623)**	**$ 3,473**
TOTAL RESOURCES USED TO FINANCE THE NET COST (SURPLUS) OF OPERATIONS	**$ (2,170)**	**$ (1,741)**
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	$ 8,183	$ 14,054
Downward Re-estimate of Credit Subsidy Expense	(5,865)	(1,784)
Changes in Loan Loss Reserve Expense	(83)	(49)
Changes in Bad Debt Expenses Related to Uncollectible Pre-Credit Reform Receivables	(349)	1,431
Reduction of Credit Subsidy Expense from Endorsements and Modifications of Loan Guarantees	(3,100)	(1,084)
Gains or Losses on Sales of Credit Program Assets	46	73
Other	1,790	1,523
TOTAL COMPONENTS OF THE NET COST (SURPLUS) OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD	**$ 622**	**$ 14,164**
NET COST (SURPLUS) OF OPERATIONS	**$ (1,548)**	**$ 12,423**

Required Supplementary Information

Schedule A: Intragovernmental Assets

FHA's Intragovernmental assets, by federal entity, are as follows on September 30, 2010 and 2009:

(Dollars in Millions) Agency		Fund Balance with U.S. Treasury		Investments in U.S. Treasury Securities		Other Assets
FY 2010						
U.S. Treasury	$	39,078	$	4,150	$	-
HUD		-		-		5
Total	**$**	**39,078**	**$**	**4,150**	**$**	**5**
FY 2009						
U.S. Treasury	$	30,130	$	10,635	$	-
HUD		-		-		16
Total	**$**	**30,130**	**$**	**10,635**	**$**	**16**

Schedule B: Intragovernmental Liabilities

FHA's Intragovernmental liabilities, by federal entity, are as follows on September 30, 2010 and 2009:

(Dollars in Millions) Agency		Borrowings from U.S. Treasury		Other Liabilities
FY 2010				
U.S. Treasury	$	4,749	$	1,165
Total	**$**	**4,749**	**$**	**1,165**
FY 2009				
U.S. Treasury	$	4,420	$	1,913
Total	**$**	**4,420**	**$**	**1,913**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program
September 30, 2010:

(Dollars in Millions)

	MMI/CMHI	GI/SRI	Other	Total
BUDGETARY RESOURCES				
Unobligated Balance Carried Forward				
Beginning of period	$ 30,622	$ 7,113	$ 465	$ 38,200
Recoveries of Prior Year Obligations	98	30	-	128
Budget Authority:				
Appropriations received	189	979	70	1,238
Borrowing Authority	1	799	-	800
Spending Authority from Offsetting Collections:				
Earned				
Collected	29,160	2,982	13	32,155
Receivable from Federal Sources	(64)	(1)	-	(65)
Unfilled Customer Orders	-	(1)	-	(1)
Net Transfers	(71)	-	(1)	(72)
Permanently Not Available	(285)	(426)	-	(711)
TOTAL BUDGETARY RESOURCES	**$ 59,650**	**$ 11,475**	**$ 547**	**71,672**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	$ 27,878	$ 3,883	$ 5	$ 31,766
Unobligated Balance-Apportioned	4,021	173	383	4,577
Unobligated Balance Not Available	27,751	7,419	159	35,329
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 59,650**	**$ 11,475**	**$ 547**	**71,672**
CHANGE IN OBLIGATED BALANCES				
Obligated Balance, Net, Beginning of Period:				
Unpaid Obligations Carried Forward	$ 1,498	$ 805	$ 1	$ 2,304
Receivable from Federal Sources Carried Forward	(86)	(3)	-	(89)
Obligations Incurred	27,878	3,883	5	31,766
Gross Outlays	(27,419)	(3,855)	(5)	(31,279)
Obligated Balance Transfers, Net:				
Recoveries of Prior Year Obligations	(98)	(30)	-	(128)
Change in Receivable from Federal Sources	63	2	-	65
Obligated Balance, Net, End of Period:				
Unpaid Obligations	1,859	803	1	2,663
Receivable from Federal Sources	(23)	(1)	-	(24)
Outlays:				
Disbursements	$ 27,419	$ 3,855	$ 5	$ 31,279
Collections	(29,160)	(2,982)	(13)	(32,155)
Subtotal	(1,741)	873	(8)	(876)
Less: Offsetting Receipts	-	619	-	619
NET OUTLAYS	**$ (1,741)**	**$ 254**	**$ (8)**	**$ (1,495)**

Required Supplementary Information

Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program
September 30, 2009:

(Dollars in Millions)	MMI/CMHI	GI/SRI	Other	Total
BUDGETARY RESOURCES				
Unobligated Balance Carried Forward				
Beginning of period	$ 26,833	$ 853	$ 9	$ 27,695
Recoveries of Prior Year Obligations	17	19	-	36
Budget Authority:				
Appropriations received	146	6,947	461	7,554
Borrowing Authority	85	385	-	470
Spending Authority from Offsetting Collections:				
Earned				
Collected	24,980	8,615	1	33,596
Receivable from Federal Sources	(147)	(4)	-	(151)
Unfilled Customer Orders	-	-	-	-
Net Transfers	(58)	-	-	(58)
Permanently Not Available	(586)	(661)	-	(1,247)
TOTAL BUDGETARY RESOURCES	**$ 51,270**	**$ 16,154**	**$ 471**	**$ 67,895**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	$ 20,647	$ 9,042	$ 6	$ 29,695
Unobligated Balance-Apportioned	5,644	341	465	6,450
Unobligated Balance Not Available	24,979	6,771	-	31,750
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 51,270**	**$ 16,154**	**$ 471**	**$ 67,895**
CHANGE IN OBLIGATED BALANCES				
Obligated Balance, Net, Beginning of Period:				
Unpaid Obligations Carried Forward	$ 1,589	$ 870	$ -	$ 2,459
Receivable from Federal Sources Carried Forward	(234)	(6)	-	(240)
Obligations Incurred	20,647	9,042	6	29,695
Gross Outlays	(20,721)	(9,088)	(5)	(29,814)
Obligated Balance Transfers, Net:				
Recoveries of Prior Year Obligations	(17)	(19)	-	(36)
Change in Receivable from Federal Sources	147	4	-	151
Obligated Balance, Net, End of Period:				
Unpaid Obligations	1,498	805	1	2,304
Receivable from Federal Sources	(87)	(2)	-	(89)
Outlays:				
Disbursements	$ 20,721	$ 9,088	$ 5	$ 29,814
Collections	(24,980)	(8,615)	(1)	(33,596)
Subtotal	(4,259)	473	4	(3,782)
Less: Offsetting Receipts	-	183	-	183
NET OUTLAYS	**$ (4,259)**	**$ 290**	**$ 4**	**$ (3,965)**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by Appropriation for the MMI/CMHI Program
September 30, 2010:

(Dollars in Millions)

	Program	Liquidating	Financing	Capital Reserve	MMI/CMHI Total
BUDGETARY RESOURCES					
Unobligated Balance Carried Forward					
Beginning of period	$ 48	$ 30	$ 19,940	$ 10,604	$ 30,622
Recoveries of Prior Year Obligations	6	30	62	-	98
Budget Authority:					
Appropriations received	189	-	-	-	189
Borrowing Authority	-	-	1	-	1
Spending Authority from Offsetting Collections:					
Earned					
Collected	-	20	25,440	3,700	29,160
Receivable from Federal Sources	-	-	(2)	(62)	(64)
Unfilled Customer Orders	-	-	-	-	-
Net Transfers	9,796	-	-	(9,867)	(71)
Permanently Not Available	(25)	-	(260)	-	(285)
TOTAL BUDGETARY RESOURCES	**$ 10,014**	**$ 80**	**$ 45,181**	**$ 4,375**	**$ 59,650**
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 9,979	$ 44	$ 17,855	$ -	$ 27,878
Unobligated Balance-Apportioned	5	13	4,003	-	4,021
Unobligated Balance Not Available	30	23	23,323	4,375	27,751
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 10,014**	**$ 80**	**$ 45,181**	**$ 4,375**	**$ 59,650**
CHANGE IN OBLIGATED BALANCES					
Obligated Balance, Net, Beginning of Period:					
Unpaid Obligations Carried Forward	$ 88	$ 200	$ 1,210	$ -	$ 1,498
Receivable from Federal Sources Carried Forward	-	-	(2)	(84)	(86)
Obligations Incurred	9,979	44	17,855	-	27,878
Gross Outlays	(9,929)	(45)	(17,445)	-	(27,419)
Obligated Balance Transfers, Net:					
Recoveries of Prior Year Obligations	(6)	(30)	(62)	-	(98)
Change in Receivable from Federal Sources	-	-	2	61	63
Obligated Balance, Net, End of Period:					
Unpaid Obligations	132	169	1,558	-	1,859
Receivable from Federal Sources	-	-	-	(23)	(23)
Outlays:					
Disbursements	$ 9,929	$ 45	$ 17,445	$ -	$ 27,419
Collections	-	(20)	(25,440)	(3,700)	(29,160)
Subtotal	9,929	25	(7,995)	(3,700)	(1,741)
Less: Offsetting Receipts	-	-	-	-	-
NET OUTLAYS	**$ 9,929**	**$ 25**	**$ (7,995)**	**$ (3,700)**	**$ (1,741)**

Required Supplementary Information

Schedule D: Comparative Combining Budgetary Resources by Appropriation for the MMI/CMHI Program

September 30, 2009:

(Dollars in Millions)

	Program	Liquidating	Financing	Capital Reserve	MMI/CMHI Total
BUDGETARY RESOURCES					
Unobligated Balance Carried Forward					
Beginning of period	$ 48	$ 50	$ 7,651	$ 19,084	$ 26,833
Recoveries of Prior Year Obligations	9	-	8	-	17
Budget Authority:					
Appropriations received	146	-	-	-	146
Borrowing Authority	-	-	85	-	85
Spending Authority from Offsetting Collections:					
Earned					
Collected	-	15	22,914	2,051	24,980
Receivable from Federal Sources	-	-	-	(147)	(147)
Unfilled Customer Orders	-	-	-	-	-
Net Transfers	10,326	-	-	(10,384)	(58)
Permanently Not Available	(23)	-	(563)	-	(586)
TOTAL BUDGETARY RESOURCES	**$ 10,506**	**$ 65**	**$ 30,095**	**$ 10,604**	**$ 51,270**
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 10,456	$ 35	$ 10,156	$ -	$ 20,647
Unobligated Balance-Apportioned	16	19	5,609	-	5,644
Unobligated Balance Not Available	34	11	14,330	10,604	24,979
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 10,506**	**$ 65**	**$ 30,095**	**$ 10,604**	**$ 51,270**
CHANGE IN OBLIGATED BALANCES					
Obligated Balance, Net, Beginning of Period:					
Unpaid Obligations Carried Forward	$ 66	$ 205	$ 1,318	$ -	$ 1,589
Receivable from Federal Sources Carried Forward	-	-	(2)	(232)	(234)
Obligations Incurred	10,456	35	10,156	-	20,647
Gross Outlays	(10,425)	(40)	(10,256)	-	(20,721)
Obligated Balance Transfers, Net:	-	-	-	-	-
Recoveries of Prior Year Obligations	(9)	-	(8)	-	(17)
Change in Receivable from Federal Sources	-	-	-	147	147
Obligated Balance, Net, End of Period:	-	-	-	-	-
Unpaid Obligations	88	200	1,210	-	1,498
Receivable from Federal Sources	-	-	(2)	(85)	(87)
Outlays:	-	-	-	-	-
Disbursements	$ 10,425	$ 40	$ 10,256	$ -	$ 20,721
Collections	-	(15)	(22,914)	(2,051)	(24,980)
Subtotal	10,425	25	(12,658)	(2,051)	(4,259)
Less: Offsetting Receipts	-	-	-	-	-
NET OUTLAYS	**$ 10,425**	**$ 25**	**$ (12,658)**	**$ (2,051)**	**$ (4,259)**

Required Supplementary Information

Schedule E: Comparative Combining Budgetary Resources by Appropriation for the GI/SRI Program
September 30, 2010:

(Dollars in Millions)

	Program	Liquidating	Financing	GI/SRI Total
BUDGETARY RESOURCES				
Unobligated Balance Carried Forward				
Beginning of period	$ 67	$ 187	$ 6,859	$ 7,113
Recoveries of Prior Year Obligations	19	3	8	30
Budget Authority:				
Appropriations received	871	101	7	979
Borrowing Authority	-	10	789	799
Spending Authority from Offsetting Collections:				
Earned				
Collected	-	241	2,741	2,982
Receivable from Federal Sources	-	-	(1)	(1)
Unfilled Customer Orders	-	-	(1)	(1)
Net Transfers	-	-	-	-
Permanently Not Available	(23)	(214)	(189)	(426)
TOTAL BUDGETARY RESOURCES	**$ 934**	**$ 328**	**$ 10,213**	**$ 11,475**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	$ 877	$ 112	$ 2,894	$ 3,883
Unobligated Balance-Apportioned	9	107	57	173
Unobligated Balance Not Available	48	109	7,262	7,419
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 934**	**$ 328**	**$ 10,213**	**$ 11,475**
CHANGE IN OBLIGATED BALANCES				
Obligated Balance, Net, Beginning of Period:				
Unpaid Obligations Carried Forward	$ 82	$ 470	$ 253	$ 805
Receivable from Federal Sources Carried Forward	-	(1)	(2)	(3)
Obligations Incurred	877	112	2,894	3,883
Gross Outlays	(913)	(136)	(2,806)	(3,855)
Obligated Balance Transfers, Net:				
Recoveries of Prior Year Obligations	(19)	(3)	(8)	(30)
Change in Receivable from Federal Sources	-	-	2	2
Obligated Balance, Net, End of Period:				
Unpaid Obligations	27	443	333	803
Receivable from Federal Sources	-	(1)	-	(1)
Outlays:				
Disbursements	$ 913	$ 136	$ 2,806	$ 3,855
Collections	-	(241)	(2,741)	(2,982)
Subtotal	913	(105)	65	873
Less: Offsetting Receipts	-	-	-	619
NET OUTLAYS	**$ 913**	**$ (105)**	**$ 65**	**$ 254**

Required Supplementary Information

Schedule E: Comparative Combining Budgetary Resources by Appropriation for the GI/SRI Program
September 30, 2009:

(Dollars in Millions)

	Program	Liquidating	Financing	GI/SRI Total
BUDGETARY RESOURCES				
Unobligated Balance Carried Forward				
Beginning of period	$ 88	$ 269	$ 496	$ 853
Recoveries of Prior Year Obligations	8	8	3	19
Budget Authority:	-	-	-	-
Appropriations received	6,850	97	-	6,947
Borrowing Authority	-	-	385	385
Spending Authority from Offsetting Collections:	-	-	-	-
Earned	-	-	-	-
Collected	-	298	8,317	8,615
Receivable from Federal Sources	-	(5)	1	(4)
Unfilled Customer Orders	-	-	-	-
Net Transfers	-	-	-	-
Permanently Not Available	(36)	(305)	(320)	(661)
TOTAL BUDGETARY RESOURCES	**$ 6,910**	**$ 362**	**$ 8,882**	**$ 16,154**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	$ 6,843	$ 175	$ 2,024	$ 9,042
Unobligated Balance-Apportioned	20	56	265	341
Unobligated Balance Not Available	47	131	6,593	6,771
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 6,910**	**$ 362**	**$ 8,882**	**$ 16,154**
CHANGE IN OBLIGATED BALANCES				
Obligated Balance, Net, Beginning of Period:				
Unpaid Obligations Carried Forward	$ 98	$ 494	$ 278	$ 870
Receivable from Federal Sources Carried Forward	-	(5)	(1)	(6)
Obligations Incurred	6,843	175	2,024	9,042
Gross Outlays	(6,851)	(191)	(2,046)	(9,088)
Obligated Balance Transfers, Net:	-	-	-	-
Recoveries of Prior Year Obligations	(8)	(8)	(3)	(19)
Change in Receivable from Federal Sources	-	5	(1)	4
Obligated Balance, Net, End of Period:	-	-	-	-
Unpaid Obligations	82	470	253	805
Receivable from Federal Sources	-	-	(2)	(2)
Outlays:	-	-	-	-
Disbursements	$ 6,851	$ 191	$ 2,046	$ 9,088
Collections	-	(298)	(8,317)	(8,615)
Subtotal	6,851	(107)	(6,271)	473
Less: Offsetting Receipts	-	-	-	183
NET OUTLAYS	**$ 6,851**	**$ (107)**	**$ (6,271)**	**$ 290**

Required Supplementary Information

Schedule F: Comparative Combining Budgetary Resources by Appropriation for the H4H Program
September 30, 2010:

(Dollars in Millions)

	Program	Financing	H4H Total
BUDGETARY RESOURCES			
Unobligated Balance Carried Forward			
Beginning of period	$ 464	$ 1	$ 465
Recoveries of Prior Year Obligations	-	-	-
Budget Authority:			
Appropriations received	-	-	-
Borrowing Authority	-	-	-
Spending Authority from Offsetting Collections:			
Earned			
Collected	9	4	13
Receivable from Federal Sources	-	-	-
Unfilled Customer Orders	-	-	-
Anticipated for rest of year	-	-	-
Net Transfers	-	-	-
Permanently Not Available	-	-	-
TOTAL BUDGETARY RESOURCES	**$ 473**	**$ 5**	**$ 478**
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	$ 5	$ -	$ 5
Unobligated Balance-Apportioned	309	5	314
Unobligated Balance Not Available	159	-	159
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 473**	**$ 5**	**$ 478**
CHANGE IN OBLIGATED BALANCES			
Obligated Balance, Net, Beginning of Period:			
Unpaid Obligations Carried Forward	$ 1	$ -	$ 1
Receivable from Federal Sources Carried Forward	-	-	-
Obligations Incurred	5	-	5
Gross Outlays	(5)	-	(5)
Obligated Balance Transfers, Net:			
Recoveries of Prior Year Obligations	-	-	-
Change in Receivable from Federal Sources	-	-	-
Obligated Balance, Net, End of Period:			
Unpaid Obligations	1	-	1
Receivable from Federal Sources	-	-	-
Outlays:			
Disbursements	$ 5	$ -	$ 5
Collections	(9)	(4)	(13)
Subtotal	(4)	(4)	(8)
Less: Offsetting Receipts	-	-	-
NET OUTLAYS	**$ (4)**	**$ (4)**	**$ (8)**

Required Supplementary Information

Schedule F: Comparative Combining Budgetary Resources by Appropriation for the H4H Program
September 30, 2009:

(Dollars in Millions)

	Program	Financing	H4H Total
BUDGETARY RESOURCES			
Unobligated Balance Carried Forward			
Beginning of period	$ 9	$ -	$ 9
Recoveries of Prior Year Obligations	-	-	-
Budget Authority:			
Appropriations received	461	-	461
Borrowing Authority	-	-	-
Spending Authority from Offsetting Collections:			
Earned			
Collected	-	1	1
Receivable from Federal Sources	-	-	-
Unfilled Customer Orders	-	-	-
Anticipated for rest of year	-	-	-
Net Transfers	-	-	-
Permanently Not Available	-	-	-
TOTAL BUDGETARY RESOURCES	**$ 470**	**$ 1**	**$ 471**
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	$ 6	$ -	$ 6
Unobligated Balance-Apportioned	464	1	465
Unobligated Balance Not Available	-	-	-
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 470**	**$ 1**	**$ 471**
CHANGE IN OBLIGATED BALANCES			
Obligated Balance, Net, Beginning of Period:			
Unpaid Obligations Carried Forward	$ -	$ -	$ -
Receivable from Federal Sources Carried Forward	-	-	-
Obligations Incurred	6	-	6
Gross Outlays	(5)	-	(5)
Obligated Balance Transfers, Net:			
Recoveries of Prior Year Obligations	-	-	-
Change in Receivable from Federal Sources	-	-	-
Obligated Balance, Net, End of Period:			
Unpaid Obligations	1	-	1
Receivable from Federal Sources	-	-	-
Outlays:			
Disbursements	$ 5	$ -	$ 5
Collections	-	(1)	(1)
Subtotal	5	(1)	4
Less: Offsetting Receipts	-	-	-
NET OUTLAYS	**$ 5**	**$ (1)**	**$ 4**

Required Supplementary Information

Schedule G: Comparative Combining Budgetary Resources by Appropriation for the Energy Innovation Program and the Transformation Initiative Program

September 30, 2010:

(Dollars in Millions)

	EI Total	TI Total
BUDGETARY RESOURCES		
Unobligated Balance Carried Forward		
Beginning of period	$ -	$ -
Recoveries of Prior Year Obligations	-	-
Budget Authority:		
Appropriations received	50	20
Borrowing Authority	-	-
Spending Authority from Offsetting Collections:		
Earned		
Collected	-	-
Receivable from Federal Sources	-	-
Unfilled Customer Orders	-	-
Anticipated for rest of year	-	-
Net Transfers	(1)	-
Permanently Not Available	-	-
TOTAL BUDGETARY RESOURCES	**$ 49**	**$ 20**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	-	-
Unobligated Balance-Apportioned	49	-
Unobligated Balance Not Available	-	20
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 49**	**$ 20**
CHANGE IN OBLIGATED BALANCES		
Obligated Balance, Net, Beginning of Period:		
Unpaid Obligations Carried Forward	$ -	$ -
Receivable from Federal Sources Carried Forward	-	-
Obligations Incurred	-	-
Gross Outlays	-	-
Obligated Balance Transfers, Net:		
Recoveries of Prior Year Obligations	-	-
Change in Receivable from Federal Sources	-	-
Obligated Balance, Net, End of Period:		
Unpaid Obligations	-	-
Receivable from Federal Sources	-	-
Outlays:		
Disbursements	$ -	$ -
Collections	-	-
Subtotal	-	-
Less: Offsetting Receipts	-	-
NET OUTLAYS	**$ -**	**$ -**