U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FHA

FEDERAL HOUSING ADMINISTRATION

ANNUAL MANAGEMENT REPORT

Your Door to FHA HOMEOWNERSHIP

Fiscal Year **2019**

Your Door to FHA HOMEOWNERSHIP

This Annual Management Report (AMR) for the fiscal year ending September 30, 2019 provides the Federal Housing Administration's (FHA) financial and summary performance information in accordance with OMB Circular A-136, Financial Reporting Requirements.

FHA's AMR is available on the following website:

https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2019ANNUALMGMNTRPT.PDF

FHA welcomes feedback on the form and content of this report.

This report is divided into four sections:

- ***A Message from the Assistant Secretary for Housing and Federal Housing Commissioner*** highlights the Office of Housing's achievements for the current fiscal year, and challenges and opportunities in the coming year.

- ***Management's Discussion and Analysis (MD&A)*** defines the organization's mission, program activities, performance goals and objectives, and includes management's assurances regarding compliance with relevant federal financial management and accounting standards, regulations, circulars, bulletins, financial management manuals, and other applicable laws, regulations and legislation.

- ***Principal Financial Statements*** include the following: Balance Sheet; Statement of Net Cost; Statement of Net Position; and Statement of Budgetary Resources; as well as the Notes to the principal financial statements.

- ***Auditor's Report*** on FHA's fiscal year 2019 financial statements, internal controls, and compliance with laws and regulations.

A MESSAGE FROM THE ASSISTANT SECRETARY FOR HOUSING AND FEDERAL HOUSING COMMISSIONER

November 15, 2019

On June 27, 2019, the Federal Housing Administration (FHA) marked its 85th year of service to American homebuyers, renters, and communities. As we look back on eight and a half decades of FHA, the foundational elements of why we exist and how we serve remain as true today as they did in 1934, as recorded in FHA's first annual report to Congress in January 1935:

> *"The Federal Housing Administration is charged with the duty of encouraging improvement in housing standards and conditions… [FHA] extends Government support by means of credit insurance covering private credit transactions. Hence, in achieving the desired results, chief reliance is placed upon private capital and initiative."*

In this report, we discuss FHA's operations throughout fiscal year 2019. The following pages include narratives that describe the progress this past fiscal year in meeting specific objectives. This includes working to overhaul FHA's technology systems, reducing unnecessary regulatory barriers, and expanding Opportunity Zone incentives for participants in FHA insurance programs.

As our financial statements show, we have also successfully balanced our mission with our fiduciary obligations to taxpayers to protect the Mutual Mortgage Insurance Fund (MMIF) and the General Risk and Special Risk Insurance Funds (GI/SRI). As of September 30, 2019, the MMIF Capital Ratio was 4.84 percent, an increase of 2.08 percentage points from fiscal year 2018 and the highest since 2007. Moreover, we returned $2.18 billion to the United States Treasury from the GI/SRI Funds.

This report also provides a comprehensive overview of who FHA served this past fiscal year. Consistent with our role, FHA facilitated affordable single family home financing for first-time and other homebuyers, and seniors wishing to age in place. Through our multifamily insurance and assisted portfolios, we supported the affordable rental housing needs of millions of Americans, including extremely low, very low, and low-income seniors, and persons with disabilities. Our healthcare facility insurance programs continued to support communities who now have access to hospitals and residential care facilities thanks to FHA and lender participants.

In September, HUD published its Housing Finance Reform Plan for FHA and Ginnie Mae. This plan calls for FHA to refocus on its core mission, protect American taxpayers, provide FHA and Ginnie Mae with the tools to appropriately manage risk; and provide liquidity to the housing finance system. The work we're doing today and going forward is consistent with the ultimate goals of the plan: to ensure that FHA can continue to serve its important mission effectively, responsibly, and sustainably for many years to come.

Sincerely,

Brian D. Montgomery

Assistant Secretary for Housing and Federal Housing Commissioner

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FEDERAL HOUSING ADMINISTRATION AT A GLANCE

The Federal Housing Administration (FHA) was established under the National Housing Act of 1934. Headquartered in Washington, D.C., with field offices throughout the United States, FHA was integrated into the United States Department of Housing and Urban Development (HUD) in 1965.

FHA is one of the largest providers of mortgage insurance in the world. Since its inception, FHA has insured over 49.5 million single family and 66,900 multifamily and healthcare facility mortgages.

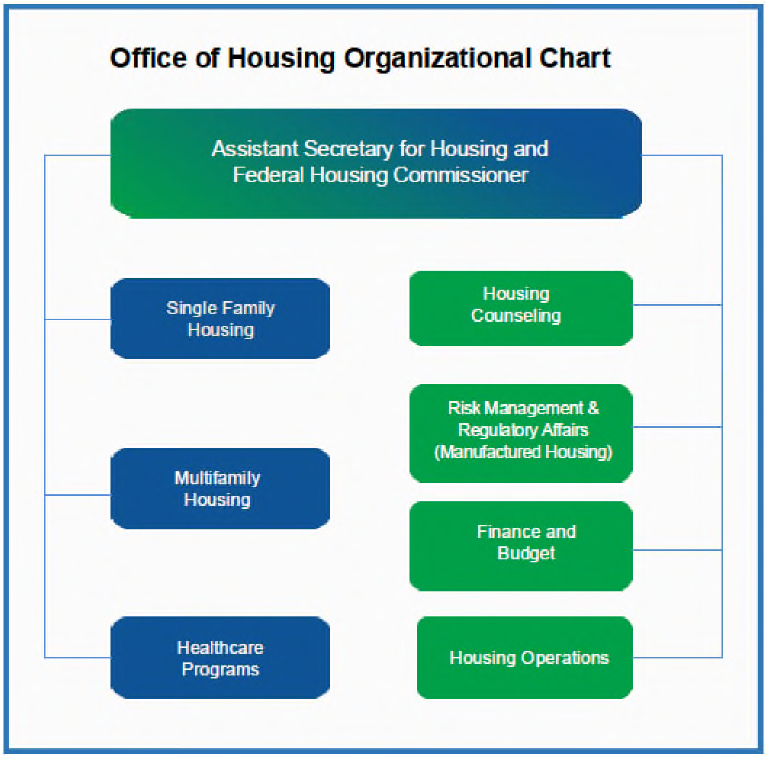
FHA provides mortgage insurance for single family, multifamily, and healthcare facility mortgages financed by FHA-approved lenders throughout the United States and its territories, backed by the full faith and credit of the U.S. Government. This guarantee of payment in the event of default enables lenders to provide financing to eligible borrowers who may not otherwise have access to mortgage credit through the conventional mortgage market. FHA collects upfront mortgage insurance premiums at the time of loan origination, as well as monthly insurance premiums during the life of the loan from the borrower. These premiums are used to pay mortgage insurance claims.

Over the course of its history, FHA has been an important participant in the U.S. housing market by serving millions of first-time and low-to-moderate income homebuyers; providing safe and affordable rental housing; supporting access to quality healthcare; stepping in as a countercyclical backstop during times of economic stress; and providing relief to individuals and families affected by disasters. FHA's efforts include maintaining a strong financial management strategy that balances risk to its insurance funds with its mission to serve homebuyers, renters, and communities.

ORGANIZATIONAL STRUCTURE

FHA is part of HUD's Office of Housing and is led by the Assistant Secretary for Housing and Federal Housing Commissioner who is responsible for ensuring effective execution of its programs and policies.

Within the Office, several core support and program offices, depicted below, play a key role in administering these programs and providing financial management and accountability.



FHA administers mortgage insurance programs through its Single Family, Multifamily and Healthcare Program Offices. The Office of Housing Counseling supports FHA in achieving its mission by making a network of HUD-approved Housing Counseling Agencies. These agencies, in turn, provide tools to current and prospective homeowners, renters, and disaster victims so that they can make responsible choices to address their housing needs.

Among the support offices, the Office of Risk Management and Regulatory Affairs measures, monitors, and manages operational and credit risk to ensure FHA is achieving its strategic objectives. The Office of Finance and Budget (FAB) is responsible for the Office's financial activities, which include financial management; budget formulation and execution activities; and the overall integrity of FHA's accounting records.

Additionally, FAB prepares consolidated annual financial statements and the Annual Management Report and oversees the competitive sale and disposition of mortgage notes. The Office of Housing Operations supports all office divisions with a variety of services, including contracting and procurement.

FHA'S INSURANCE FUNDS

Overview

FHA programs operate primarily through two insurance funds, the Mutual Mortgage Insurance Fund (MMIF) and the General Risk and Special Risk Insurance (GI/SRI) Fund:

- The MMIF comprises FHA's Single-Family forward mortgage business and its Home Equity Conversion Mortgage (reverse mortgage) portfolio for endorsements in fiscal year 2009 and later.
- The GI/SRI Fund comprises Multifamily insurance programs, healthcare facility programs, pre-2009 Home Equity Conversion Mortgages, and Single-Family Title I Manufactured Housing and Property Improvement programs.

The Mutual Mortgage Insurance Fund Capital Ratio

In the National Affordable Housing Act of 1990, Congress introduced a capital ratio requirement for gauging the financial status of FHA's MMIF (12 USC 1711(f)(4)). The MMIF's capital ratio compares the "economic net worth" of the MMIF to the dollar balance of active, insured loans, at a point in time. Economic net worth is defined as a net asset position, where the present value of expected future revenues and net claim expenses is added to current balance sheet positions. The capital ratio computation presented below combines the MMIF's actual capital resources as of September 30, 2019 with the net present value of future cash flows from outstanding books of business.

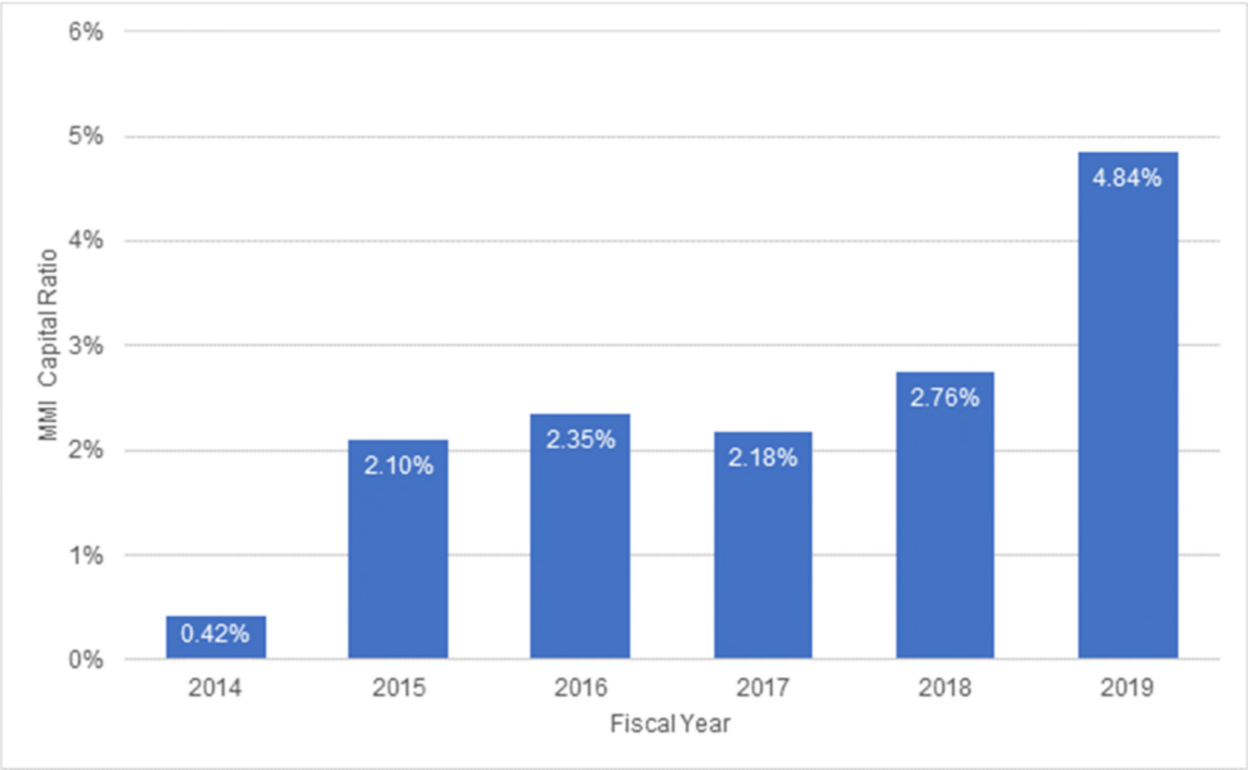
Capital resources of the MMIF are in two types of accounts: a financing account and a capital reserve account. Funds in the financing account cover expected losses over the life of each insurance cohort, while capital reserve balances are accumulated for unanticipated losses.

In fiscal year 2019, the MMIF's economic net worth increased from $34.86 billion for fiscal year 2018 to $62.38 billion for fiscal year 2019. Similarly, the capital ratio increased from 2.76 percent to 4.84 percent between the end of fiscal year 2018 and the end of fiscal year 2019. The MMIF's economic net worth has increased by $57.61 billion since fiscal year 2014. The MMIF's capital ratio similarly increased by 4.42 percent over that time, from 0.42 percent to 4.84 percent.

The portfolio valuation underlying the statutory capital ratio calculation is performed by independent consultants, using FHA data and applying the economic assumptions for the President's Fiscal Year 2019 Budget Mid-Session Review. That valuation is subject to uncertainty both from future economic conditions and from borrower behavioral patterns that could vary from underlying assumptions built into forecasting equations. FHA performed its own internal risk evaluation with the assistance of independent contractors throughout fiscal year 2019. As required by law, FHA also engaged an independent actuarial firm to produce an independent estimate of the net present value of the future cash flows from the MMIF's current book of business. For FY 2019, the Independent Actuary concluded that FHA's Cash Flow NPV is reasonable and within a reasonable range of Actuarial Estimates. The Independent Actuary's Cash Flow Net Present Value

(Cash Flow NPV) estimates for the Forward mortgage and Home Equity Conversion Mortgage (HECM) portfolio combined total $7.42 billion, versus the $4.40 billion FHA baseline estimate. The difference between the two estimates of $3.02 billion is 0.23 percent of Insurance in Force.

MMI Fund Capital Ratio FY 2014-2019



SOURCE: U.S. Department HUD/FHA, October 2019

FHA has identified and is monitoring several emerging risks in the single-family forward mortgage program to include an increase in cash out refinancing and a higher frequency of early payment defaults when the borrower received down payment assistance. Another concern is extreme risk layering which occurs when a borrower has a combination of several higher risk characteristics such as higher debt-to-income ratio, less than two months of reserves, and a credit score of less than 640. While each risk attribute taken by itself can be managed through other compensating factors, mortgages with more than one of these risk factors typically default at higher rates.

The capital position of HECM portfolio has improved during 2019 due primarily to home price appreciation and the subsequent reduction in modeled projected losses, as well as program policy changes; however, overall HECM continues to adversely impact the health of the MMIF.

For more information about the Mutual Mortgage Insurance Fund, risk characteristics and drivers of financial results, access FHA's *Annual Report to Congress Regarding the Financial Status of the Mutual Mortgage Fund for Fiscal Year 2019* at: **https://www.hud.gov/fhammifrpt**

PERFORMANCE GOALS AND OBJECTIVES

HUD STRATEGIC PLAN

The Government Performance and Results Act (GPRA) requires that Federal agencies develop multi-year strategic plans that include program goals and performance measures, the results of which are reported to the public. HUD's FY 2018-2022 Strategic Plan lays out the Administration's strategy to refocus HUD on its core mission and modernize its approach by leveraging private-sector partnerships, strengthening the housing market, and encouraging affordable housing investment while redesigning internal processes. Secretary Carson has coalesced his policy and management agenda into a priority structure called "The Prescription for HUD." The Prescription for HUD encompasses HUD's Agency Priority Goals and is comprised of three pillars:

I) Advance Economic Opportunity: HUD is advancing economic opportunity for low-income families through homeownership, rental assistance, workforce training, educational advancement, and health and wellness programs and services. Policy initiatives include:
   - Support Fair, Sustainable Homeownership and Financial Viability;
   - Reduce Homelessness;
   - Remove Lead-Based Paint Hazards and Other Health Risks from Homes;
   - Enhance Rental Assistance;
   - Reduce Barriers to Affordable Housing;
   - Develop EnVision Centers;
   - Support Effectiveness and Accountability in Long-Term Disaster Recovery;
   - Promote Section 3; and
   - Bolster Growth in Opportunity Zones.

II) Protect Taxpayer Funds: HUD will improve processes and policies to enable it to meet reporting requirements while complying with laws and regulations related to all financial matters. The Department will develop new, or enhance existing, policies and procedures to provide guidance and alignment within HUD. Efforts will be driven by commitments from senior Departmental leadership; clear, concise operational planning; and focusing on the needs of end-customers. HUD will reduce fraud, waste, and abuse of taxpayers' dollars. Efforts will focus on the objective to:

   - Improve Financial Controls through Financial Transformation.

III) Streamline Operations: HUD will examine its programs, customer needs, and employee expertise to streamline its operations. Alignment of program regulations, rules, and management activities will allow the Department's customers to more easily access our services. HUD will better align delegations of authority to prevent gaps and overlaps in responsibility while streamlining coordination. The Department will explore ways to strengthen coordination among program offices in Headquarters and the Field to ensure front-line employees are empowered to respond effectively to customers' needs. Department-wide efforts to simplify HUD's regulations, rules, and improve human capital management will support these efforts while ensuring their long-term sustainability. HUD will streamline rules and simplify programs to better serve our customers. Efforts will focus on the objectives to:

- Organize and Deliver Services More Effectively;
- Modernize Information Technology; and
- Reform Regulations.

Performance Reporting

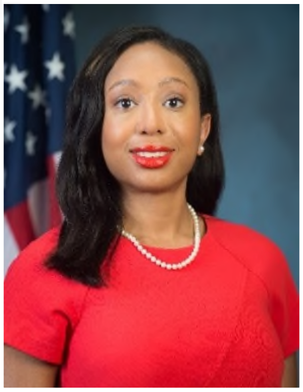
Performance reporting of targets and actual achievements as of September 30, 2019 will be reported in HUD's Annual Performance Report (APR) to be published in February 2020, and will be available on the following website: https://www.hud.gov/program_offices/spm

Note on Forward-Looking Information

Information contained in this document is considered "forward-looking" as defined by the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 15, "Management's Discussion and Analysis," and Statement of Federal Financial Accounting Concepts (SFFAC) No. 3, "Management's Discussion and Analysis Concepts." While the agency does have reasonably reliable processes, procedures, and systems to collect performance data and their supporting attributes, there are inherent limitations to the completeness and reliability of performance information. Such forward-looking information includes estimates and is subject to risks and uncertainties that could cause actual results to differ materially from the estimates used in the document. Additionally, economic and legislative factors outside of FHA's control may affect its ability to influence key performance goals.

FHA PROGRAMS AND PERFORMANCE SECTION

Office of Single Family Housing Programs



For the past 85 years, FHA and its Office of Single Family Housing have been at the forefront of insuring mortgage loans that, to date, have enabled more than 49.5 million first-time and low-to-moderate income individuals and families become homeowners. By efficeintly managing FHA's $1.3 trillion single family insurance portfolio, FHA will be able to serve the nation's homebuyers for years to come.

Gisele Roget, (*Former)* Deputy Assistant Secretary
Office of Single Family Housing

Overview

The Office of Single Family Housing (SFH) supports affordable homeownership and refinancing opportunities for qualified borrowers through its Single Family mortgage insurance programs. FHA's Single Family programs insure mortgage lenders against losses from default, encouraging lenders to provide mortgage financing to eligible homebuyers, including first-time and low-to-moderate income homebuyers. Historically, more than 80 percent of the purchase mortgages FHA insures annually are for first-time homebuyers.

FHA's Single Family insurance endorsement program is managed through its Mutual Mortgage Insurance Fund (MMIF). The MMIF is funded through the collection of two types of mortgage insurance premiums: an up-front mortgage insurance premium charged to borrowers for each FHA-insured mortgage at endorsement and monthly insurance premiums that lenders collect from borrowers and remit to FHA.

The National Housing Act, as amended by the Housing and Economic Recovery Act of 2008 (HERA), requires FHA to set Single Family forward mortgage limits at 115 percent of median house prices, subject to a floor and a ceiling on the limits. FHA's forward mortgage limits are set by Metropolitan Statistical Area and county. In calendar year 2019, the loan limit floor for a forward mortgage on an FHA-insured, one-unit, single family property in a low-cost area was $314,827, and the loan limit ceiling in a high-cost area was $726,525. There is a higher loan limit ceiling in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.

Fiscal Year 2019 Portfolio and Performance Highlights

- Insured 990,429 single family forward mortgages with an unpaid principal balance of $215 billion
- Served 615,711 first-time homebuyers, representing over 82.8 percent of total forward purchase mortgage endorsements
- Insured 31,260 Home Equity Conversion reverse mortgages with a Maximum Claim Amount totaling $10.9 billion

Single Family Housing Programs Division Structure

Headquartered in Washington, D.C., SFH is comprised of the Office of the Deputy Assistant Secretary and three headquarters-based Program Offices as follows:

- The **Office of Single Family Program Development** is responsible for the development and implementation of all SFH origination through endorsement policies, program guidelines, standards, and operating procedures for FHA's Single Family Title I and Title II mortgage insurance programs under the National Housing Act. It also is responsible for the development and oversight of SFH employee and external stakeholder communications, marketing, outreach, and training that supports these efforts.

- The **Office of Single Family Asset Management** is responsible for the development and implementation of policies for mortgage servicing, claims, and property disposition that helps FHA to mitigate losses to the Mutual Mortgage Insurance Fund and assist homeowners to avoid foreclosure whenever possible. The Office includes the FHA National Servicing Center locations in Oklahoma City and Tulsa, Oklahoma.

- The **Office of Lender Activities and Program Compliance** provides oversight and enforcement and uses risk management strategies to implement process changes for all FHA-approved lenders.

SFH also includes four regional Homeownership Centers located in Atlanta, Denver, Philadelphia, and Santa Ana, each of which supports the operational aspects of FHA single family mortgage insurance for a designated geographic area.

Insurance Programs

FHA insures mortgages for one-to-four unit single family residential properties through its Title II forward and reverse mortgage programs. Under Title I programs, FHA insures loans for both manufactured homes titled as personal property and property improvement loans.

Title II Forward Mortgage Programs:

Single Family Title II mortgage insurance programs include:

- **Section 203(b): Mortgage Insurance for One-to-Four Family Homes:** FHA insures loans made by lending institutions for new or existing one-to-four unit single family residences, including manufactured homes and individual condominium units, with loan terms up to 30 years.

- **Section 203(h) Mortgage Insurance for Disaster Victims:** This section of the National Housing Act authorizes FHA to insure mortgages to victims of a Presidentially-Declared Major Disaster Area for the purchase or reconstruction of a single family property or a unit in an FHA-approved condominium project.

- **Section 203(k) Rehabilitation Mortgage Insurance Program:** Section 203(k) insurance enables homebuyers and homeowners to finance both the purchase or refinancing of a home and the cost of its rehabilitation through a single mortgage, or to finance the rehabilitation of an existing home.

FHA offers additional Title II forward mortgage insurance programs. A complete list of programs can be found on the Single Family Housing pages of HUD's website at:

https://www.hud.gov/program_offices/housing/sfh

Title II Reverse Mortgage Program:

Section 255: Home Equity Conversion Mortgage (HECM): FHA's HECM reverse mortgage program enables senior homeowners, aged 62 or older, to withdraw a portion of the value of their home without any corresponding periodic requirement to repay amounts borrowed, provided they meet various borrower, property ownership, and financial requirements. The principal borrowed, along with interest, mortgage insurance premiums, and servicing fees are added to the mortgage balance over time. As a result, HECM balances may eventually exceed the value of the home. HECM borrowers remain responsible for the payment of taxes, insurance, and property charges. Insurance under the HECM program helps protect lenders from losses and encourages them to participate in the program.

Title I Insurance Endorsement Programs:

- **Manufactured Home Loan Program:** The Title I Manufactured Home Loan Program provides insurance on loans made by lenders to borrowers for the purchase of manufactured homes.

- **Home Improvement Loan Program:** The Title I Home Improvement Loan Program provides insurance on property improvement loans made by lenders which may be used to finance alterations, repairs, and improvements to a home, including a manufactured home, or to finance a nonresidential structure located on the property.

Fiscal Year 2019 Portfolio and Performance Accomplishments

In fiscal year 2019, FHA insured 990,429 single family forward mortgages with an unpaid principal balance of $215 billion. FHA insured 31,260 Home Equity Conversion Mortgages (HECM), with a Maximum Claim Amount of $10.9 billion. Table 1 below reflects FHA's Single Family insurance portfolio profile in fiscal years 2017 through 2019.

Table 1 - FHA's Single Family Insurance Portfolio Profile

Single Family FHA Portfolio	FY2017*	FY2018*	FY2019
Total Forward Endorsements	**1,246,437**	**1,014,601**	**990,429**
Total 203(b)	1,230,770	1,002,765	980,819
Purchase	867,655	765,332	734,398
Manufactured Homes (Title II) – Purchase	22,334	24,300	25,260
Refinance	363,115	237,433	246,421
Manufactured Homes (Title II) – Refinance	9,909	6,766	6,165
Total 203(k)	15,667	11,836	9,610
Purchase	14,424	10,944	8,882
Refinance	1,243	892	728
Total Reverse Endorsements (HECM)	55,291	48,329	31,260
HECM Adjustable Rate	49,575	43,428	29,369
HECM Fixed Rate	5,716	4,901	1,891
Total Single Family Endorsements	**1,301,728**	**1,062,930**	**1,021,689**
Total Active Loans at Year-End (Forward)	**7,982,070**	**8,048,639**	**8,107,806**
Total Active Loans at Year-End (Forward and Reverse)	**8,548,921**	**8,596,360**	**8,594,838**
Total Title I Loans	**3,956**	**3,465**	**2,894**
Manufactured Homes	848	554	204
Property Improvement	3,108	2,911	2,690

**The prior years' data have been updated to reflect small changes.*

The Single Family mortgage insurance programs continue to be critically important sources of home financing for many individuals and families. In fiscal year 2019, 82.8 percent of home purchasers under the forward mortgage insurance program were first-time homebuyers, and 33.6 percent of all purchase and refinance borrowers were minority borrowers. Table 2 below provides additional detail on the profile of borrowers served through Single Family mortgage insurance programs.

Table 2 – FHA's Single Family Borrowers Profile

Borrowers Served - Single Family Mortgage Loans	FY2017*	FY2018*	FY2019
Forward Mortgage Insurance Endorsements			
Average Loan Amount	$201,338	$206,041	$216,695
Average Credit Score of Borrowers**	676	670	666
First-Time Homebuyers	725,220	641,911	615,711
Percent of SF FHA Forward Purchasers	82.2%	82.7%	82.8%
Minority Borrowers	365,497	326,424	313,658
Percent of all SF FHA Forward Mortgage Borrowers**	33.7%	33.9%	33.6%
Low and Moderate Income Borrowers	612,349	552,862	545,788
Percent of all Forward Mortgage Borrowers**	56.4%	57.4%	58.4%
Reverse Mortgage Insurance Endorsements			
Average Initial Principal Limit (amount available)	$191,779	$185,105	$180,601
Average Maximum Claim Amount	$319,964	$334,986	$347,275
Minority Borrowers	8,515	6,375	4,144
Percent of all SF FHA Reverse Mortgage Borrowers	15.4%	13.2%	13.3%
Average Age of Borrowers	73	73	74

**The prior years' data have been updated to reflect small changes.*

***The calculation excludes streamline refinances.*

Information Technology Modernization

As part of a larger FHA technology modernization overhaul, in conjunction with HUD's Office of the Chief Information Officer, SFH is moving forward on an aggressive timeline to bring its antiquated information technology (IT) infrastructure up to 21st century mortgage industry standards. Currently, FHA Single Family technology operates on legacy systems, some of which are more than 40 years old and based on programming language initially developed over a half century ago.

To effectively modernize its IT infrastructure, FHA is working to develop a modern, single technology platform and baseline architecture that includes a top to bottom realignment of Single Family's IT systems.

For FHA's Single Family programs, technology modernization will eventually provide lenders, servicers, and other program participants with a single portal to conduct business from application through claims and will:

- offer the ability to track requests throughout the lifecycle of the loan;
- enable electronic submission and document management to reduce errors and reliance on paper, as well as enhance processing speed;
- offer batch processing capabilities for lenders with larger books of business;
- provide a full suite of lender transactions across the loan lifecycle, including claims processing;
- allow greater level of risk analysis and management through the collection of both higher quality and additional data.

The initial $20 million funding allocation for this long-overdue, multi-year, IT modernization effort was appropriated in the President's fiscal year 2019 budget.

Risk Management

TOTAL Mortgage Scorecard: On March 18, 2019, FHA introduced adjustments to its TOTAL Mortgage Scorecard to better mitigate the increasing risks identified in recent Single Family fiscal year endorsements. The updates to the Scorecard were designed specifically to address the excessive risk layering that results when multiple risk factors are present. Changes to the TOTAL Mortgage Scorecard and other risk management actions in fiscal year 2019 were intended to address:

- An increase in the concentration of mortgages with high debt-to-income (DTI) ratios, where almost 25 percent of all FHA-insured forward mortgage purchase transactions in FY 2018 were comprised of mortgages where the borrower had a DTI ratio above 50 percent, the highest percentage since the year 2000. The increase in higher DTI concentrations continued in FY 2019, with approximately 27 percent of endorsements having a DTI ratio greater than 50 percent.
- A decrease in average borrower credit scores to 666 for FY 2019, the lowest average since 2008.
- Approximately 13 percent of new forward mortgage endorsements in FY 2019 had credit scores less than 620, nearly a 12 percent increase over the FY 2018 concentration.
- An increasing concentration of credit scores less than 640 combined with DTI ratios greater than 50 percent.

Cash-Out Refinance Mortgages: In FY 2019, FHA Single Family saw a growth in cash out refinances as a percentage of both its overall business and its refinance endorsement volume. This increase was more than 1.4 percent in cash-out refinances as a percentage of all refinances for the Single Family portfolio.

To mitigate potential impacts to its Mutual Mortgage Insurance Fund (MMIF), FHA, on August 1, 2019, published Mortgagee Letter 2019-11, "Maximum Loan-to-Value and Combined Loan-to-Value Percentages for Cash-out Refinance Mortgages." This ML announced the reduction of FHA's maximum loan-to-value (LTV) and combined loan-to-value (CLTV) percentages for cash-out refinance mortgages from 85 percent to 80 percent. The cash-out refinance guidance in the ML became effective for mortgages with case numbers assigned on or after September 1, 2019. This new guidance also put FHA in alignment with Government Sponsored Enterprises' policy regarding maximum LTV/CLTV percentages on cash-out refinances.

Regulatory Clarity and Transparency: To improve the clarity of regulatory expectations within FHA programs, HUD and the U.S. Department of Justice signed a Memorandum of Understanding (MOU) in October 2019, that sets prudential guidance on the appropriate use of the False Claims Act (FCA) for violations of FHA requirements by FHA-approved lenders. Specifically, the MOU sets forth a process for deciding when to pursue an FCA case to remedy material and knowing FHA violations. The MOU makes clear that HUD expects that FHA requirements will be enforced primarily through HUD's administrative proceedings.

To further provide certainty and clarity with respect to FHA program requirements, SFH introduced changes to its loan-level and annual lender certifications, and Defect Taxonomy. Highlights of FHA's loan-level and annual lender certifications and Defect Taxonomy changes are described below:

- **<u>Loan-Level Certifications</u>**

  FHA's revisions to its loan-level certifications reorganize the *Addendum to Uniform Residential Loan Application* (Form 92900-A) in a logical, easy to read, and understandable format. The revisions eliminate duplicative information collected elsewhere. The proposed changes will:

  – resolve ambiguity and provide more clarity for lenders and borrowers alike;
  – align borrower and lender information in a streamlined, more logical format making it easier to read and comprehend; and
  – make clearer what lenders are certifying to by ensuring the language in Form 92900-A mirrors FHA regulations and the Single Family Housing Policy Handbook 4000.1.

  FHA posted the proposed changes to the loan-level certifications (Form HUD-92900-A) on the Single Family Housing Policy Drafting Table (Drafting Table) for feedback on May 9, 2019. Subsequently, FHA published a Federal Register Notice with the revised draft, as required by the Paperwork Reduction Act (PRA) on October 25, 2019. FHA anticipates Federal Register publication of the final revised loan-level certification in FY 2020.

- **<u>Annual Lender Certifications</u>**

  The changes to FHA's annual lender certifications are designed to better align the certification statements with HUD's statutes and regulations while continuing to hold lenders accountable for compliance with FHA's eligibility requirements. The proposed changes will:

  – streamline the number of certification statements to which lenders are required to attest; and
  – eliminate redundancies and more clearly align the certification with statutes and HUD regulations.

  FHA posted proposed changes on the Drafting Table on May 9, 2019. After considering public feedback, FHA posted the revised certification on the Drafting Table and published a PRA Notice in the Federal Register on August 14, 2019. FHA issued a final Federal Register Notice on October 25, 2019 that required the final certification statements to be used by lenders that have a fiscal year end date of December 31, 2019.

- **<u>Defect Taxonomy</u>**

  The Defect Taxonomy changes will provide more clarity and transparency into FHA's existing loan-level quality assurance processes implemented in the Loan Review System by providing:

  – updated Severity Tier definitions;
  – potential Remedies that align with each Severity Tier;
  – revised Sources and Causes in certain Defect Areas;
  – new Defect Areas for reviews of loan Servicing; and
  – HUD policy references.

  FHA posted a preliminary draft of the Defect Taxonomy Version 2 on the Drafting Table in May 9, 2019, and then made revisions after assessing the pubic feedback. FHA posted the final Defect Taxonomy Version 2 on HUD's website October 25, 2019 with an effective date of January 1, 2020.

Success Story – Annual Lender Certification

FHA, with the help of its internal and external partners, streamlined the annual lender certification to align with statute and regulation. The annual certification allows FHA to hold lenders accountable for compliance with HUD approval and eligibility requirements. Proposed changes to the certification statements were posted on the Single Family Drafting Table for public feedback. In response to industry concern that the proposed certification statements required overly broad attestations without addressing the risk of False Claims Act liability, FHA made further revisions that reflect regulations, support counterparty risk management, and protect the MMIF.

Mortgagee Review Board: Administrative Actions Published in *Federal Register*: FHA publishes notice in the *Federal Register* (Docket No. FR-6163-N-01) of all completed administrative actions taken by HUD's Mortgagee Review Board during fiscal year 2018. The notice provided a description of, and the cause for, the Mortgagee Review Board's administrative actions against HUD-approved mortgagees in 17 fact-based cases and 31 annual recertification violations.

Disaster Recovery Efforts

Natural disasters continued to proliferate during fiscal year 2019. In response to a Presidentially Declared Major Disaster Area (PDMDA) declaration, FHA's standing policy triggers a foreclosure moratorium for a ninety-day period and makes mortgage finance options available to qualified borrowers to repair their home, refinance their mortgage, or buy a new home with 100 percent financing. Additionally, FHA offers loss mitigation to impacted borrowers having difficulty making their monthly mortgage payment. Under loss mitigation policy, borrowers in disaster areas can qualify for a forbearance which is a period of reduced or suspended mortgage payments. Borrowers may also qualify for a disaster loan modification under FHA Home Affordable Mortgage Program (FHA-HAMP), which offers a loan modification or a partial claim or a combination of both.

SFH also issued policy expanding, and making permanent, enhanced loss mitigation options during fiscal year 2019. Through this policy, SFH made permanent the Disaster Standalone Partial Claim option and improved the Disaster Loan Modification. The Disaster Standalone Partial Claim and Disaster Loan Modification were designed to help eligible borrowers resume their pre-disaster mortgage payments and avoid payment increase.

Condominium Rule

In recognition of the value of condominiums in creating affordable housing combined with the need to protect the MMIF, FHA made significant policy changes during FY 2019 to address mortgages secured by a unit in a condominium using FHA financing. In August 2019, FHA published the Project Approval for Single-Family Condominiums Final Rule (Condominium Final Rule) to codify the condominium project approval requirements as mandated by the Housing and Economic Recovery Act of 2008 and Housing Opportunities through Modernization Act of 2016. The Condominium Final Rule helps remove barriers to affordable homeownership while protecting against the unique risks presented by such housing; and reduces regulatory burden for industry to meet the demands of the buyers they serve.

Handbook 4000.1 Update

FHA resumed its updates to the *Single Family Housing Policy Handbook* (SF Handbook) 4000.1 in fiscal year 2019. The SF Handbook — which is organized in such a way that it follows the logical flow of a mortgagee or lender's process — now includes the majority of the policy updates made through Mortgagee Letters, *Federal Register* or Housing Notices, policy waivers, and other sources of SFH policy issued since the last quarterly update in December 2016. Having a consolidated source for single family housing policy makes it easier for lenders and other stakeholders to do business with FHA.

FHA published two SF Handbook updates in fiscal year 2019, including the publication of the Condominium Project Approval and Condominium Requirements sections.

Recent Home Equity Conversion Mortgage Program Updates

The Home Equity Conversion Mortgage (HECM) program has placed substantial financial stress on the Federal Housing Administration's Mutual Mortgage Insurance (MMI) fund. To improve the fiscal safety and soundness of the program, FHA enacted a series of policy changes including: (1) continuing the collateral risk assessment, (2) Mortgagee Optional Election for non-borrowing spouses, and (3) origination requirements for HECMs in condominium projects.

Due to the nonrecourse nature of a HECM, the financial soundness of the HECM program is contingent on the use of an accurate property value. To further strengthen the financial viability of the HECM program, FHA published revised appraisal requirements to require a new collateral risk assessment to evaluate the validity of the appraisal for new HECM books of business. This collateral risk assessment applied to all loans originated after October 1, 2018 and required lenders to provide a second appraisal under certain circumstances. Because the collateral risk assessment was having the desired effect, SFH issued a Mortgagee Letter (ML) to extend its required use beyond fiscal year 2019.

In addition to the HECM collateral risk assessment ML, SFH published two additional HECM-related MLs. The HECM Mortgagee Optional Election for non-borrowing spouses ML, with its corresponding consumer and other marketing materials, provided more guidance to HECM non-borrowing spouses, as well as to the heirs of the last surviving HECM borrower who inherited a home that was secured by a HECM loan. The HECM condominium requirements ML outlined the updated origination requirements for HECMs in condominium projects in accordance with the recently published SF Handbook guidance specific to HECM and condominiums. It also included certain borrower eligibility requirements for seniors seeking to obtain a HECM for a condominium unit using FHA's Single-Unit Approval process.

SFH Loan Sales

Single Family defaulted loan sales are a collaborative FHA in-house effort between the Office of Finance and Budget's Office of Asset Sales (ASO) and SFH's Office of Asset Management.

In FY 2019, FHA conducted two Single Family defaulted reverse mortgage note sales of Secretary-held, due and payable on vacant properties. The notes were sold through competitive auctions to qualified bidders. In the first sale, HUD awarded 1,020 loans with an updated loan balance of $213.6 million and a Broker Price Opinion (BPO) value of $152.5 million. The notes were sold in nine pools to five bidders, including two non-profit bidders, with an average Bid to BPO of 64 percent. In the second sale, HUD awarded 1,530 notes with a loan balance of $341.5 million and a BPO value of $235.3 million. The notes were sold in 10 pools to six bidders, including two non-profit bidders, with an average bid to BPO of 62 percent.


PARKING

Office of Multifamily Housing Programs

Multifamily housing is critical for building and preserving healthy neighborhoods and communities. Since its creation, the Office of Multifamily Housing has insured over 56,000 multifamily project mortgages and currently has over 11,000 insured properties in its portfolio. Our insurance programs provide stability and affordability to the multifamily housing market and increase access to safe and affordable housing for our nation's workforce and vulnerable populations, including the elderly and people with disabilities.

C. Lamar Seats, Deputy Assistant Secretary,
Office of Multifamily Housing Programs

Overview

The Office of Multifamily Housing (MFH) Programs provides mortgage insurance to approved lenders in order to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily rental housing projects. FHA's Multifamily mortgage insurance endorsement program is part of FHA's General Insurance and Special Risk Insurance (GI/SRI) Funds. Multifamily insurance programs are funded through mortgage insurance premiums paid by borrowers at the time of endorsement and periodic payments thereafter.

Through its broad set of programs, the work of MFH also supports thousands of private-sector jobs in the construction, property management, supportive service provisions, financial services and administrative fields.

Fiscal Year 2019 Portfolio and Performance Highlights

- Endorsed 691 new multifamily loans totaling $11.4 billion
- Managed insured portfolio of 11,512 multifamily loans with an unpaid principal balance of $98.7 billion
- Oversaw 2.6 million insured and assisted units for a total of 30,206 properties
- Maintained low default rate of 0.08 percent

2019 Operational Highlights

- Expanded the Low Income Housing Tax Credit (LIHTC) Pilot to include new construction and substantial rehab with a streamlined review process for qualified projects to stimulate greater capital investment in affordable housing.
- Converted 17,104 public housing units to the Section 8 platform bringing the total to 118,822 units preserved through the Rental Assistance Demonstration, which allows the properties to be stabilized and rehabilitated.
- Published fiscal year 2018 Section 202 Supportive Housing for the Elderly Program Capital Advance Notice of Funding Availability, providing up to $50 million in grant funding for the development and operation of supportive rental housing for extremely loan and very low-income persons, aged 62 years or older.
- Provided disaster support by conducting preliminary assessments on 2,049 properties and onsite final assessments on 33 properties.
- Implemented incentives for FHA mortgage insurance in Qualified Opportunity Zones in more than 8,700 census tracks to encourage public and private investments in urban and economically distressed areas.

Multifamily Housing Program Offices

Headquartered in Washington, D.C., MFH is led by the Deputy Assistant Secretary for MFH Programs, and includes the following program offices:

- **Office of Production** is responsible for providing direction, technical assistance and oversight for multifamily property mortgages originated for an FHA-insurance endorsement.
- **Office of Recapitalization** is responsible for the preservation and recapitalization of federally assisted affordable housing; and, oversees and processes financial transactions to ensure the long-term physical and financial viability of affordable rental housing.
- **Office of Asset Management and Portfolio Oversight** is responsible for the fiscal and physical soundness of the portfolio of multifamily assets after the development phase.
- **Office of Field Support & Operations** provides management direction, guidance and technical support to Multifamily leadership and staff on program management and operational matters.

Insurance Programs

FHA insures mortgages for multi-unit rental properties under a variety of programs:

- **Sections 213, 220, 221(d)(4), 231 and 241(a)** provide mortgage insurance on market rate and below market rate mortgages to facilitate new construction or substantial rehabilitation of multifamily rental properties, elderly housing, cooperative housing and Single Room Occupancy (SRO) projects; and, insurance on loans to finance repairs, additions, and improvements on projects already insured by FHA.

- **Sections 223(f) and 223(a)(7)** provide mortgage insurance for the purchase or refinance of existing rental properties financed with conventional or FHA loans and a streamlined refinancing option for mortgages that already have an FHA insurance endorsement.
- **Sections 542(b) and 542(c)** provide risk-sharing arrangements for loans on affordable multifamily rental properties originated, underwritten, and serviced by State Housing Finance Agencies (HFA), Qualified Public Entities (QPE) or Public Housing Authorities (PHAs). FHA assumes an agreed upon loss percentage on these loans and pays the entities when they dispose of defaulted loans.

Capital Advance Programs

- **Section 202** provides capital advances to finance the construction, rehabilitation or acquisition of structures that will serve as supportive housing for very low- and extremely low-income elderly persons and provides rent subsidies for the projects to help make them affordable.
- **Section 811** provides funding to develop and subsidize rental housing with the availability of supportive services for very low- and extremely low-income adults with disabilities.

Fiscal Year 2019 Portfolio and Performance Accomplishments

Table 1 - Information on FHA's MFH insurance portfolio in Fiscal Year 2019

MFH Endorsements by Program			
	Endorsements for Fiscal Year		
Section of the Act	**2017**	**2018**	**2019**
Section 221(d)(4): New Construction and Substantial Rehabilitation Program Volume (In Millions)	$4,453	$6,349	$4,906
Percentage	29.2%	41.7%	42.9%
Number of Mortgages	204	269	224
Sections 223(f) and 223(a)(7): Purchase/Refinancing Program of Existing MHP Projects Volume (In Millions)	$9,846	$8,076	$5,648
Percentage	64.6%	53.1%	49.5%
Number of Mortgages	757	570	385
Section 542(b) and 542(c): Risk-Sharing with QPEs & HFAs Volume (In Millions)	$941	$790	$859
Percentage	6.2%	5.3%	7.5%
Number of Mortgages	94	69	82
Total	**$15,240**	**$15,215**	**$11,413**

*Percentages based on total mortgages endorsed. MFH endorsements shown in Table 1 based on available data for initially endorsed projects in the Development Application Processing (DAP) system. DAP is used to track and monitor MFH basic FHA and Risk Share loan applications.

Rental Assistance Demonstration Highlights

The Rental Assistance Demonstration (RAD) allows Public Housing Authorities (PHAs) and owners of other HUD-assisted properties to leverage the private market to make capital improvements and preserve properties for long-term affordability. The program converts units from their original regulatory platform to project-based Section 8 contracts.

- Converted 17,104 units in fiscal year 2019, from Public Housing to the Section 8 platform under RAD for a total of more than 118,822 units since the inception of the program.
- Completed $1.8 billion in construction investment for closed RAD transactions to recapitalize public housing stock in fiscal year 2019, surpassing $7.8 billion since the inception of the program.
- Successfully closed out remaining legacy properties assisted under the 1960s-era Rent Supplement program. Since authorized in fiscal year 2012, RAD for Rent Supplement facilitated preservation of 117 properties covering 13,943 homes.
- Published RAD Notice Revision 4, which further facilitates and streamlines the path to preserve HUD-assisted affordable housing as well as introducing the RAD conversions for Section 202 Project Rental Assistance Contracts (PRACs).

FHA insures RAD project in New Haven, Connecticut

The Housing Authority of the City of New Haven, Connecticut utilized an $11 million FHA-insured loan for a Rental Assistance Demonstration (RAD) as part of an effort to redevelop an obsolete public housing development site called Westville Manor. The current phase has a construction budget of $24 million, primarily funded through the FHA-insured loan and $14 million in equity generated through the sale of 9 percent Low-Income Housing Tax Credit (LIHTC) properties. The housing authority used RAD to convert and transfer 62 units of project-based Section 8 assistance from Westville Manor to the Rock View site.

Mark-to-Market and Post Mark-to-Market (M2M)

This program preserves affordability and availability of low-income rental multifamily properties with federally insured mortgages by reducing rents to market levels and restructuring of existing debt to levels supportable by these rents. Although most of the eligible portfolio has been restructured, Mark to Market continues to be an important preservation tool in the Section 8 portfolio, and MFH continued to process transactions in FY 2019.

- In fiscal year 2019, M2M processed six transactions for a total of 619 units, of which two were full debt restructures with 152 units; one transaction with 160 units completed as a rent restructuring, and the remaining three transactions with 307 units completed as actions other than closing with potential to re-enter the program for full debt restructuring.

- Post M2M processed 34 transactions with 3,339 units, and with privately funded rehabilitation costs that averaged $50,848 per unit. Further, Post M2M collected $5.4 million in paydowns of the HUD-held M2M debt.

Property Disposition

MFH is responsible for the management and disposition of defaulted multifamily assets from FHA held mortgages, formerly FHA-insured properties, and defaulted subsidy contracts. In addition, MFH collaborates with the Office of Finance and Budget's Office of Asset Sales on the deposition of defaulted notes.

MFH's attentiveness to the portfolio has led to a historically low default rate of 0.08 percent for MFH properties in fiscal year 2019.

- FHA achieved a 58 percent rate of return from the sale of FHA mortgage notes, based upon unpaid principal balance and sale price.
- FHA collected $4 million on three properties in equity participation from a previous sale and returned it to the U.S. Treasury.
- FHA administered over $51 million in active Upfront Grants for redevelopment or rehabilitation activities at formerly FHA-insured properties.
- FHA performed management and operational oversight by taking Mortgagee in Possession on eight properties; and relocated 707 families from 14 properties due to subsidy contract terminations.

Disaster Relief and Recovery Efforts

The Office of MFH provided support for owners and managers who had properties affected within Presidentially Declared Major Disaster Areas (PDMDAs). Preliminary Assessments were conducted on all MFH properties in a PDMDA area designated for individual assistance. MFH Assessment Teams were deployed to conduct on-site, final assessments on properties coded with moderate and severe damage. The teams provided on-site technical assistance to owners and agents during the on-site assessment, which are the foundation for review and approval of a restoration plan. The plan outlines all aspects of the restoration processing, including repairs, resident displacement, tracking, sources and uses of funds, and estimated completion dates. FHA closely engaged with property owners and managers as they developed longer-term recovery plans and ensured the residents received their needed assistance.

Risk Management

During fiscal year 2019, the Office of MFH continued to improve processes with a goal of better identifying and managing risk within its programs. Delinquencies on FHA-insured MFH mortgages remained below 0.2 percent.


H

Office of Healthcare Programs

The Office of Healthcare Programs administers FHA's healthcare mortgage insurance programs and manages a growing portfolio of over $36 billion in healthcare assets nationwide. These successful programs promote economic development and enable the affordable financing of needed residential care facilities and hospitals in local communities across the nation.

Roger Lukoff, Deputy Assistant Secretary
Office of Healthcare Programs

Overview

The Office of Healthcare Programs (OHP) administers FHA's programs that provide mortgage insurance to residential care facilities and hospitals under Section 232 and Section 242, respectively, of the National Housing Act. Section 232 was established by Congress in 1959 to support the critical care needs of a vulnerable aging population in residential care facilities across the country. Section 242 was enacted in 1968 to support capital financing for urgently needed hospitals.

With access to FHA mortgage insurance, private lenders are encouraged to increase their capital investments in the healthcare market. Hospitals, skilled nursing homes, board and care facilities, and assisted living facilities can access capital at lower interest rates, resulting in significant cost savings and the ability to invest in construction, improvement, and/or refinancing projects. With FHA-insured financing, these facilities strengthen the quality of healthcare services available to residents and communities.

Fiscal Year 2019 Portfolio and Performance Highlights

- Section 232 Residential Care Facilities
  - Issued 314 commitments totating $4.2 billion
  - Maintained a low annual claim rate of 0.34 percent net of recoveries
- Section 242 Mortgage Insurance for Hospitals
  - Issued three insurance commitments for $221 million
  - Maintained a low cumulative claim rate of 1.30 percent net of recoveries

As of September 30, 2019, the total FHA-insured Healthcare insurance portfolio consisted of 3,872 loans with an unpaid principal balance of $37.2 billion. The programs maintain low claim rates and contribute credit subsidy receipts to the General and Special Risk Insurance (GI/SRI) Fund.

Healthcare Programs Division Structure

OHP is comprised of the Office of the Deputy Assistant Secretary for Healthcare Programs that oversees the following program and support offices:

- **Office of Residential Care Facilities (ORCF**) is responsible for FHA's Section 232 mortgage insurance program that insures mortgages for residential care facilities such as skilled nursing facilities, assisted living centers, and board and care homes.
- **Office of Hospital Facilities (OHF)** is responsible for FHA's Section 242 healthcare mortgage insurance program that insures mortgages for acute care hospitals.
- **Office of Architecture and Engineering (OAE)** supports both programs with technical expertise related to architectural, engineering, and environmental issues.

Section 232 Mortgage Insurance for Residential Care Facilities

The Section 232 Mortgage Insurance Program for Residential Care Facilities insures loans to finance the construction, substantial rehabilitation, acquisition, or refinancing of skilled nursing homes, assisted living facilities, and board and care homes. As of September 30, 2019, Section 232 consists of the following:

- **Production Volume:** A total of 368 applications were received and ORCF issued 314 commitments totaling $4.2 billion.
- **Asset Management Volume:** The Section 232 portfolio totaled 3,782 loans with an unpaid principal balance of $31.2 billion.

Heritage Woods of Newburgh

Heritage Woods of Newburgh, Indiana is a proposed 120-unit new construction Assisted Living Facility. The project's loan closed on June 20, 2019 and construction is scheduled for completion in summer 2020. Upon completion, the project will contain 96 low income and restricted rent units along with 24 market rate units. The FHA Insurance on the Section 232 mortgage assisted in the project obtaining a low interest rate. Four percent Low Income Housing Tax Credits (LIHTC) are being utilized to bring in approximately $4.8 million in equity.

Section 242 Mortgage Insurance for Hospitals

The Section 242 Mortgage Insurance Program for Hospitals supports access to affordable financing for acute care hospitals to fund capital projects, such as new construction or modernization projects. Additionally, the Section 242/223(f) program provides options for hospitals wishing to refinance existing loans without new construction or major rehabilitation. Year-end statistics for fiscal year 2019 included:

- **Production Volume:** The OHF issued three insurance commitments for $221.2 million for a hospital construction project and one loan modification for $129.2 million that allowed portfolio hospitals to reduce interest rates on their FHA-insured loans.
- **Asset Management Volume:** The Section 242 portfolio consisted of 90 active hospital loans with a total unpaid principal balance of $6.0 billion.

FHA insured hospitals range from small rural hospitals to major medical centers, all of which serve as major community anchors that provide not only critical healthcare services, but jobs and economic support to their communities.

Kirby Hospital

Kirby Hospital is a critical access hospital located in Monticello Illinois. Loan proceeds from the hospital's first loan, originally closed in fiscal year 2010, were used to build a 75,000 square foot, 16-bed replacement hospital for an aging facility. Since completing the project, Kirby Hospital thrived, and applied for a second supplemental loan to add new treatment rooms, and expand the imaging, pharmacy departments, and the chemotherapy infusion unit. In fiscal year 2019, construction was completed with funds from the approved supplemental loan.

Fiscal Year 2019 Accomplishments

In fiscal year 2019, the Office of Healthcare Programs continued to refine its operational processes and provided lender and staff training.

- **New Set of Section 232 Mortgage Documents:** ORCF revised and published a completely new set of mortgage and transaction documents for use in the Section 232 program. The more than 150 revised Section 232 documents were critical to implementing the policy changes in the revised Handbook 4232.1.

- **Training:** OHP routinely provides training opportunities to continuously improve lender relations and enhance the capabilities of its staff members. In fiscal year 2019, the Office of Hospital Facilities hosted a HUD 242 Lender Training Conference designed to enhance the individual mentoring efforts underway and covered a broad range of topics such as risk management and assessment, financial reviews, best practices, standardized work, and HUD systems.

Disaster Relief and Recovery Efforts and Highlights

The Office of Healthcare Programs continued to actively engage in disaster relief and recovery efforts. In fiscal year 2019, OHP:

- **Utilized its internal tracking system** to monitor the insured healthcare portfolio, assisting lenders and borrowers of impacted facilities in the aftermath of events whenever possible.
- **Proactively monitored new legislation and/or requirements** developed in response to disaster events to assist FHA-insured facilities to remain in compliance with state and/or local requirements, providing informational updates and guidance via email messages to program stakeholders.
- **Enhanced cross-program disaster reporting** in collaboration with other FHA programs.

Management Initiatives and Program Improvements

In fiscal year 2019, OHP focused on enhancing underwriting and asset management capabilities. Enhancements were designed to improve workflow and mitigate risk.

- **Change of Participants:** The Office of Residential Care Facilities' (ORCF) Asset Management implemented a new policy to require that Change of Participants for existing insured projects or portfolios in excess of $15 million be presented and approved through an FHA Committee. This policy ensures a more stringent and standardized evaluation of incoming participants on higher risk projects and portfolios. This new policy is consistent with standards already in place for new Section 232 mortgages being considered for an FHA insurance endorsement.

- **ORCF Financial Statement Reviews:** ORCF Asset Management has revised and implemented new standardized work processes for reviewing borrower financial statements as well as surplus cash note procedures. This effort has enhanced ORCF's ability to monitor its portfolio and reduce future risk to FHA.
- **Real Estate Assessment Center Physical Inspection Process Improvement:** ORCF continues to improve its process related to Real Estate Assessment Center (REAC) Physical Inspection follow-up. The proactive follow-up on REAC inspections has resulted in improved operational performance for the facilities, a substantial improvement in REAC scores, and a risk reduction to the FHA portfolio.

Risk Management

With an outstanding portfolio balance of over $37.2 billion, managing risk is an important focus of the OHP programs. OHP mitigates risk upfront during the underwriting process, after loan closing, through the identification and monitoring of troubled properties, and through actions to reduce claim payments.

- **OHP continues to work to improve underwriting standards** and to ensure consistent applications while reducing processing time. The Section 232 program has improved business practices by standardizing nationwide submission and underwriting. This process has allowed for greater focus on the creditworthiness of the operator and its principals.
- **Proactive asset management** also plays an important role in risk management and loss prevention. In 2019, OHP actively engaged lenders and servicers to improve strategies to coordinate asset functions and responsibilities. Open communication with industry stakeholders improves the quality of risk management and helps OHP strengthen asset management and avoid or reduce insurance claims.
- **Other approaches to loss prevention** include working with state agencies on early notification of potential adverse actions; expediting refinancing; working with lenders who have identified potential owners, operators or equity providers with increased risks; and using available options to supplement funds until a property is stabilized.
- **Options for minimizing losses** on HUD-held loans include partial payment of claims, positioning notes for re-assignment, modifying mortgages and identifying equity providers and purchasers. Working in concert with internal and external stakeholders, OHP maximizes asset management outcomes for the benefit of the General Insurance and Special Risk Insurance (GI/SRI) Funds.

HOUSING-FHA OTHER CONTRIBUTING OFFICES

Office of Housing Counseling

The Office of Housing Counseling was pleased to celebrate the 50th anniversary of the HUD Housing Counseling Program throughout this past year. Since Fiscal Year 2017, HUD housing counseling agencies have assisted 2,976,289 families to overcome housing barriers and achieve their housing goals.

Danberry Carmon, Associate Deputy Assistant Secretary
Office of Housing Counseling

Overview

Through the Office of Housing Counseling (OHC), HUD supports a national network of nonprofit and government housing counseling agencies. These agencies, in turn, provide tools to current and prospective FHA and other borrowers, renters, and disaster victims so that they can make responsible choices to address their housing needs. The Housing Counseling Program is authorized by Section 106 of the Housing and Urban Development Act of 1968, as amended (12 U.S.C. 1701x). The network consists of approximately 1,750 housing counseling agencies trained and approved to offer guidance to current and prospective homeowners and renters to help them make informed housing decisions. While the Housing Counseling program is funded outside of FHA, its activities contribute to FHA's mission by helping borrowers make responsible homeownership choices. By counseling consumers on basic principles of housing and money management, HUD-approved housing counselors show consumers ways they can increase their residual income and savings, improve their housing conditions, understand mortgage credit, and give them greater stability and confidence. Housing counselors also serve as a gateway to state, local, federal and private housing assistance programs. HUD-approved housing counselors provide an important safeguard against discrimination, scams and fraud.

Fiscal Year 2019 Portfolio and Performance Highlights

- Awarded $42.8 million in grants
- Helped 207 agencies provide services for approximately 1 million households through the grant awards

Housing Counseling Division Structure

The Office of Housing Counseling is composed of four offices that work collaboratively to manage the national housing counseling program and its network of HUD-approved housing counseling agencies.

- **Office of the Deputy Assistant Secretary (DAS)** is responsible for overseeing regulations, standards and performance for HUD's Housing Counseling Program. It also works closely with industry representatives to build coalitions and leverage additional resources for HUD-approved housing counseling agencies.

- **Office of Outreach and Capacity Building (OCB)** promotes additional housing counseling capacity for underserved areas and populations, trains partners in housing counseling programs and practices, and supports campaigns to promote awareness of housing counseling services.

- **Office of Policy and Grant Administration (OPGA)** is responsible for research, program policies and procedures, the Comprehensive Housing Counseling Notice of Availability, and grant administration.

- **Office of Oversight and Accountability (OOA)** monitors the compliance and mitigates risk associated with HUD housing counseling.

Table 1: As of 3rd quarter FY2019, Number of Households Receiving Housing Counseling Services from HUD-Approved Housing Counseling Agencies

Total Households Served	FY 2019 June 30, 2019
Households Receiving Group Education by Purpose	
Completed financial literacy workshop, including home affordability, budgeting and understanding use of credit	117,735
Completed predatory lending, loan scam or other fraud prevention workshop	4,206
Completed fair housing workshop	6,193
Completed homelessness prevention workshop	430
Completed rental workshop	8,782
Completed pre-purchase homebuyer education workshop	141,467
Completed non-delinquency post-purchase workshop, including home maintenance and/or financial management for homeowners	3,852
Completed resolving or preventing mortgage delinquency workshop	3,452
Completed other workshops	12,253
Total Group Education	**298,370**
Households Receiving One-on-One Counseling by Purpose	
Homeless Assistance	11,373
Rental Topics	73,219
Pre-purchase/Homebuying	229,556
Non-Delinquency Post-purchase	35,339
Reverse Mortgage	46,344
Resolving or Preventing Mortgage Delinquency or Default	104,964
Total One-on-One Counseling	**500,795**

Table 2: Housing Counseling Client Outcomes as of 3rd Quarter FY2019

FY2019 (October 1, 2018 Through June 30, 2019)	
Clients	**Outcomes**
260,825	Developed a sustainable household budget
231,358	Received information on fair housing, fair lending and accessibility rights
119,131	Received one-on-one counseling that also received group education services
115,586	Gained access to resources to improve their housing situation
110,533	Improved their financial capacity
62,035	Gained access to non-housing resources
25,674	Received homebuying counseling and purchased housing
22,355	Prevented or resolved a mortgage default
14,079	Avoided eviction after receiving housing counseling services
11,717	Improved home conditions or home affordability for current homeowners
8,631	Received reverse mortgage counseling and obtained a HECM
7,923	Homeless or potentially homeless clients obtained housing

Fiscal Year 2019 Performance Accomplishments

In fiscal year 2019, the Office of Housing Counseling awarded 207 housing counseling grant awards and reached a variety of milestones to increase the impact of housing counseling, maximize the efficiency and effectiveness of its services, and engage stakeholders to support and improve the program. Several of these accomplishments are highlighted below.

Grant Awards

OHC awarded $42.8 million in housing counseling grants to 207 national, regional, and local organizations to help families and individuals with their housing needs and to prevent foreclosures. The bulk of the money is used to fund comprehensive housing counseling grants to provide a wide range of housing counseling services. These services may include pre-purchase homeownership counseling, delinquency and foreclosure prevention counseling for forward and reverse mortgages, and counseling on issues such as home maintenance, rental counseling, homelessness counseling, disaster recovery, and counseling for seniors seeking reverse mortgages.

Housing Counseling Partnerships

Industry partnerships are a critical part of the success of housing counseling. HUD meets regularly with industry representatives from lending institutions, various real estate trade and professional associations, and other experts in financial and housing education. Through OHC, HUD also provides technical assistance to federal, state and local regulators in the lending, consumer protection and housing fields. OHC supports HUD's participation on the Financial Literacy and Education Commission (FLEC) which plays a central role in the federal government's efforts to enhance financial literacy, financial capability, and individual financial well-being.

OHC also continues to partner with other HUD program areas and participating housing counseling agencies to disseminate information on housing counselor certification and the upcoming August 1, 2020 certification deadline. Both funding NOFAs (counseling and training) provide funding for certification training and testing activities.

OHC continues to build partnerships with the Federal Emergency Management Agency (FEMA) to incorporate housing counseling into disaster preparation planning. FEMA's Individual and Community Preparedness Division is working with OHC's disaster planning team to ensure housing counseling is a vital component of preparedness and resilience planning.

Program Efficiency and Effectiveness

OHC completed many initiatives that improved the efficiency and effectiveness of its program which, in turn, supports quality FHA-insured mortgages. Efforts in this area include the following:

- **Making Housing Counseling Data Part of the Mortgage Process**
  OHC led efforts to encourage the housing counseling and mortgage industries to adopt the Mortgage Industry Standards Maintenance Organization (MISMO) data standards for housing counseling information. This initiative standardizes counseling data and its collection through an automated process, making it possible to integrate housing counseling into the mortgage transaction. The result improves data consistency, promotes confidence in data reliability, and facilitates reporting from housing counseling agencies to funders.

- **Consumer Financial Protection Bureau No-Action Letter**
  On September 10, 2019 the Consumer Financial Protection Bureau (CFPB) issued a No-Action Letter (NAL) in response to a request by HUD on behalf of housing counseling agencies (HCAs) that participate in HUD's housing counseling program. In 2018, HUD brought concerns to the Bureau about housing counseling agencies and lenders not entering into agreements that would fund counseling services due to uncertainty about the application of the Real Estate Settlement Procedures Act (RESPA). The no-action letter essentially states that the Bureau will not take supervisory or enforcement action under RESPA against HUD-certified housing counseling agencies that have entered into certain fee-for-service arrangements with lenders for pre-purchase housing counseling services. The NAL, which is an exercise of the Bureau's supervisory and enforcement discretion, is intended to facilitate housing counseling agencies entering into such agreements with lenders and will enhance the ability of housing counseling agencies to leverage Federal funding with private investment.

- **Streamlining Housing Counseling NOFA Application**
  OHC streamlined the FY 2019 Notice of Funding Availability (NOFA) application, making the application process smoother for applicants and increasing application data integrity. OHC comprehensively analyzed previous years' NOFA applications and scored items to determine if overlapping or redundant questions could be consolidated. Increasing reliance on internal, pre-existing data sources was also prioritized, doubling the amount of verifiable data in each application. This led to a clearer, more concise NOFA application for both applicants and reviewers.

- **Housing Counseling Federal Advisory Committee**
  In fiscal year 2019, the Secretary appointed seven new members to the Housing Counseling Federal Advisory Committee who met to review the state of HUD's housing counseling program and expressed interest in a number of areas such as: increasing the awareness of housing counseling services among consumers; clarifying the fee-for-service option to ensure compliance with federal regulations; and exploring ways to provide continuing education to loan officers and real estate agents.

Engaging Stakeholders to Support the Housing Counseling Program and Increase Impact

- **Expanding Public Awareness of the Benefits of Housing Counseling to New Populations.** In fiscal year 2019, OHC continued to expand its housing counseling outreach efforts by increasing the availability of its materials in languages other than English and Spanish. Housing Counseling brochures and flyers are now available in Arabic, Creole, French, Korean, Laotian, Mandarin, Portuguese, Tagalog, and Vietnamese, with more added regularly.

- **External Training to Increase Capacity of Housing Counseling Agencies.** The Office of Housing Counseling provides external training for its stakeholders to increase agency capacity, explain programmatic compliance and offer technical assistance. The overarching goal of the training is to improve the quality of counseling offered by HUD participating agencies. The Training Digest alerts stakeholders to upcoming trainings from OHC, OHC-funded partners, and other OHC training partners on a variety of topics including funding, opportunities, program requirements, financial management and disaster preparedness and recovery. Stakeholders can also take self-paced online training and view archived webinars. In addition to training, OHC offers a variety of housing counseling toolkits that provide resources, best practices and sample documents to participating agencies.

- **National Homeownership Month.** HUD hosted a conference, Building Tomorrow Together, in Washington, DC, on June 26, 2019 to celebrate National Homeownership Month and to mark the 50th anniversary year of the HUD Housing Counseling Program. Remarks were given by the Secretary of HUD, the Acting Deputy Secretary, and the Deputy Assistant Secretary of OHC, along with nationally prominent thought leaders in the field from Harvard University, major lending and real estate professional organizations, and think tanks. Panels for the event focused on the following topics: maximizing the value of housing counseling, the changing face of consumers, and what is on the horizon for the housing counseling field.

Success Story

When Kathy moved back to her hometown of New Orleans to work as a speech writer and executive assistant at a university, she was shocked by the high cost of rent, and knew buying a home would be a better investment in her future. She worked with a housing counselor at the Neighborhood Development Foundation, who provided her with education and connected her to resources to assist with homeownership. The classes armed Kathy with the knowledge and confidence to navigate the complicated process, and she recently closed on an idyllic cottage with a picket fence. She now looks forward to spending time on her front porch and helping her granddaughters plant flowers in her garden.

Disaster Relief and Recovery Efforts and Highlight

In fiscal year 2019, the Office of Housing Counseling continued its training efforts to inform Housing Counseling Agencies about FHA policies and procedures available to impacted homeowners in Presidentially Declared Major Disaster Areas (PDMDA). Throughout the year, the OHC Disaster Assistance Recovery Team (DART) worked with numerous housing counseling agencies who were the recipients of supplemental grant funds designated for training on disaster counseling and expanding capacity of agencies to respond to the needs of disaster victims.

To respond to Hurricane Maria's catastrophic island-wide damage in 2017, the Secretary of Housing for Puerto Rico awarded nearly $4.5 million in Community Development Block Grant – Disaster Recovery funds to six HUD-approved housing counseling agencies on the island in August 2019. The housing counseling agencies are charged with the goals to provide guidance, advice, disaster case management, and other technical assistance to hurricane-impacted individuals.

Risk Management

OHC is strengthening its procedural and regulatory framework and is currently working to update a series of standard operating procedures. Risk Management has always been integrated into all aspects of the OHC programs and processes. OHC conducts Performance Reviews of HUD-approved housing counseling agencies, which are designed to assess housing counseling agency compliance with federal rules and regulations and ensure that services benefit the client without steering or conflicts of interest. OHC also carefully monitors the use of grant monies.


IDENTIFY
ANALYZE
RISK
MANAGEMENT
CONTROL
ACTION
MONITOR

Office of Risk Management and Regulatory Affairs

Established by Congress in 2013, the Office of Risk Management and Regulatory Affairs (ORMRA) continues to refine and strengthen its risk management framework to ensure the safety and soundness of FHA's insured portfolios for the protection of the American taxpayer.

Keith Becker, Deputy Assistant Secretary and Chief Risk Officer,
Office of Risk Management and Regulatory Affairs

Overview

The Office of Risk Management and Regulatory Affairs monitors FHA and the Office of Housing's risk-taking activities and provides oversight of manufactured housing construction and safety standards through its Office of Manufactured Housing.

ORMRA functions within a three-part organizational structure, serving as the risk mitigator across the Office of Housing's Program Offices, measuring, monitoring and managing credit, model, operational and counterparty risks of each Program Office.

Through prudent risk management standards, ORMRA strives to accurately mitigate risk to the FHA insured portfolios. ORMRA examines current and emerging risks facing the Office of Housing and articulates effective strategies and procedures to each Program Office in accordance with best risk management practices and governance policies. In pursuit of its statutorily directed mission, ORMRA promotes a risk-conscious climate in alignment with the mission of the Office of Housing.

Fiscal Year 2019 Portfolio and Performance Highlights

- Refined the Risk Management Framework to strengthen risk management practices and policies.
- Played a vital role in the changes made to the TOTAL Scorecard and adjusting policy surrounding cash-out refinance mortgages in order to reduce risk to the MMIF.
- Continued implementing portfolio-wide commercial mortgage performance risk metrics and to measure and monitor the risk in the commercial portfolio.
- Developed and implemented the automated Operational Risk register.
- Continued to play an important role in the analysis of impacts to the MMI/GI/SRI funds from various natural disasters.

ORMRA interfaces with the Offices of Single Family, Multifamily, Healthcare, Housing Counseling and Finance and Budget, to define the overall risk tolerance and establish metrics and limits for the Office of Housing. Additionally, ORMRA assesses and monitors Credit, Operational and Counterparty Risks within each Office.

Through its Risk Management (RM) and Office of Evaluation (OE) teams, ORMRA ensures underwriting standards and credit policies to support FHA's countercyclical role in the housing mortgage market, reviews FHA portfolio performance, and performs financial valuations of the FHA insured portfolios, which are economically modeled to provide quantitative solutions to ensure the MMI and the GI/SRI funds are sound.

In accordance with industry best practices, ORMRA conducts analyses and makes recommendations based on independent research in collaboration with the program areas. ORMRA partners with the Housing program offices to support enhanced risk management elements of each programs' policies and procedures. Through regularly held, formal credit and model risk governance committees, ORMRA presents its assessments and recommendations to the program offices and Office of Housing Senior Leadership, providing effective challenge to each office and escalation of concerns where appropriate. The goal is to ensure transparency in the reporting and discussion of key risk issues at the leadership levels.

To better manage programmatic and financial risk in fiscal year 2019, ORMRA executed the following key actions:

<u>Single Family Portfolio</u>

- Monitored and informed the Office of Housing leadership team of potential risks to the MMI Fund.
- Provided data and insights into policy development, including underwriting policies for cash out refinance mortgages and performance of higher risk mortgages with down payment assistance.
- Developed a framework to examine the inherent risks in the HECM program with greater precision.

<u>Commercial (Multifamily and Healthcare) Portfolio</u>

- Refined sensitivity tools by risk category and cohort to give a greater line of sight into the performance and economic budget estimate/re-estimate impact to the credit subsidy rate of the GI/SRI fund.
- Provided market analyses and discussion with Offices of Multifamily and Healthcare and Office of Housing Senior Leadership informing them of trends and Key Performance Indicators.
- Developed Key Risk Indicators and a risk profile for each Housing program office.

These and similar actions taken by ORMRA in Fiscal Year 2019, ensure that FHA's insured portfolios are comprehensively monitored. By benchmarking results against other financial institutions, ORMRA provides lessons learned and best practices.

Risk Management and Regulatory Affairs Structure

The Office of Risk Management and Regulatory Affairs includes the following:

- **Office of Risk Management** is responsible for systematically defining and articulating risk management strategies and procedures across the Offices of Single Family Housing, Multifamily Housing Programs, and the Office of Healthcare Programs.
- **Office of Evaluation (OE)** provides financial valuations of the various FHA insurance portfolios, including single family forward and reverse mortgages, multifamily properties, and healthcare facilities.
- **The Office of Manufactured Housing Programs (OMHP)** implements the National Manufactured Housing Construction and Safety Standards Act of 1974 (the Act). The Act authorizes HUD to establish federal standards for the design and construction of manufactured homes to assure quality, durability, safety, and affordability to protect the health and safety of the owners of manufactured homes.

Fiscal Year 2019 Portfolio and Performance Accomplishments

Single-Family Risk Management: ORMRA's Single Family Risk Management team provided in-depth policy analyses to Single-family business and Housing Senior Leadership, which allowed FHA to improve current policy positions to manage risk to the MMI Fund with more precision. ORMRA led the implementation of enhanced risk management underwriting requirements for forward mortgage endorsements. With changing loan and borrower characteristics, and potential increased risk to the MMIF, the team kept Single Family and Housing Leadership informed and offered guidance to mitigate emerging risks. Data and insights into performance of higher risk mortgages and the impact to the MMIF were analyzed, constantly monitored, and reported. Additional guidance and assistance were provided to Single Family and Housing Leadership in the development of underwriting guidance for cash out refinance mortgages. ORMRA assisted in making selective changes to the TOTAL Mortgage Scorecard, which assists lenders in determining credit worthiness of FHA borrowers. Positive trends in the credit criteria of FHA endorsements have been seen since these changes were made. In addition, ORMRA played a vital role in adjusting policy surrounding cash out refinance mortgages in order to reduce risk to the MMIF and align FHA requirements with those of the Government Sponsored Enterprises.

Commercial Risk Management: ORMRA's Commercial Risk Management team implemented a multi-year project refining sensitivity tools by risk category and cohort to give a greater line of sight into the performance and economic budget estimate and re-estimate impact to the credit subsidy rate of the GI/SRI fund. The team performed in-depth risk analyses of multiple policy proposals and provided Multifamily and Healthcare Program offices, together with Senior Housing Leadership, insights and potential impacts to the GI/SRI fund. The team continues to monitor current and emerging trends which include larger mortgage endorsements, shifts from single-entity owners to portfolios, and concentrated risk among borrowers, lenders, and geography. The team is preparing for implementation of a modernization of the mortgage performance data modeling and reporting for commercial mortgages, and developing a transparent reporting interface to enable front line staff to see project and program status dynamically.

Operational Risk Management: ORMRA's Operational Risk Management team continues to mature the Office of Housing's Enterprise Risk Management (ERM) framework, in compliance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. The team is developing a Risk Appetite Statement to ensure risk tolerance thresholds and measures align with the Office of Housing's agency-priority goals and strategic objectives. The team systematically conducted risk assessments across Program Offices to identify emerging risks and provided strategies to mitigate the impact of these risks to operations. An operational incident reporting framework is in development which will further advance data collection tools and the ability to provide decision makers with accurate and meaningful analyses. The team is participating in a multi-agency task force assisting in the development of a Business Impact Analysis to safeguard the Agency's assets and operational strength. ORMRA conducted a Concentration Ratio Analysis to develop the Office of Housing's 2019 Risk Profile, which identified operational risks that were provided to Senior Housing Leadership.

Manufactured Housing Programs: The Office of Manufactured Housing Programs (OMHP) issued a Proposed Rule on reducing Formaldehyde emissions which aligned HUD's standards with those of the Environmental Protection Agency (EPA), and eliminated the requirement for manufacturers to affix a health notice about Formaldehyde in new manufactured homes. OMHP performed the deregulatory action of rescinding its 2017 Carport Letters. OMHP continued collaboration with the manufactured housing industry by holding multi-day, in-person meetings of the Manufactured Housing Consensus Committee (MHCC) in April and October 2019; along with four MHCC subcommittee meetings.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ANALYSIS OF FINANCIAL STATEMENTS

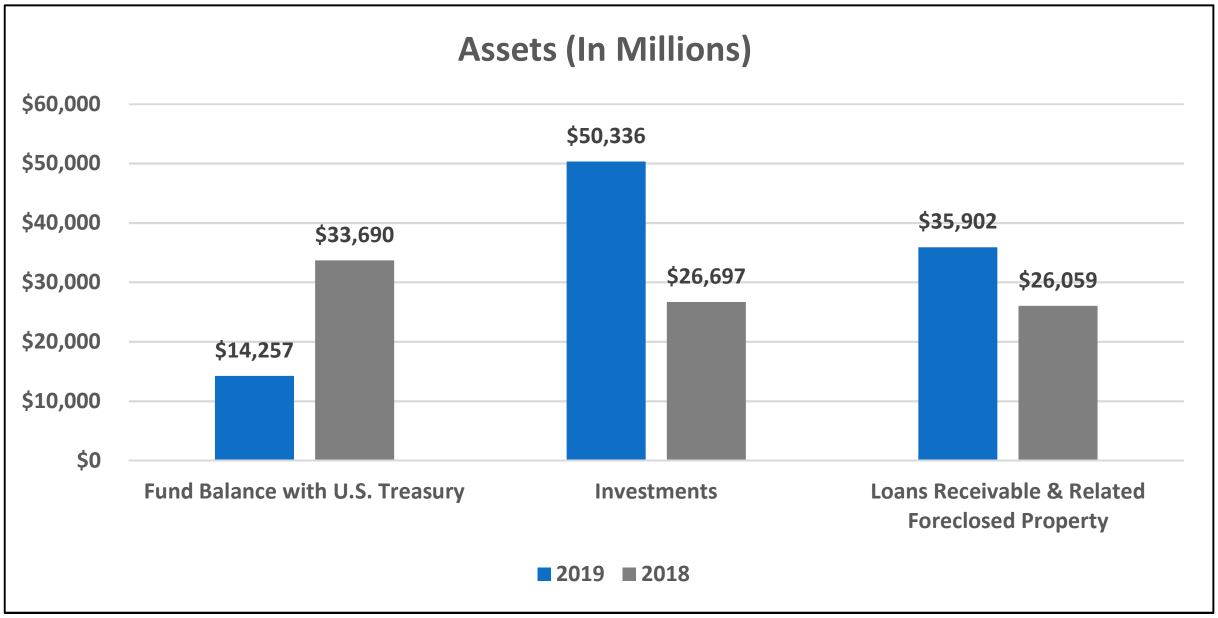
This section presents a summary of FHA's financial statements. These financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities, Federal Accounting and Standards Advisory Board (FASAB) standards and concepts statements as applicable to programs operating under Federal Credit Reform Act (FCRA) of 1990, as amended, and in accordance with the requirements specified in the Office of Management and Budget's Circular A-136, *Financial Reporting Requirements (Revised)*. FHA's management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

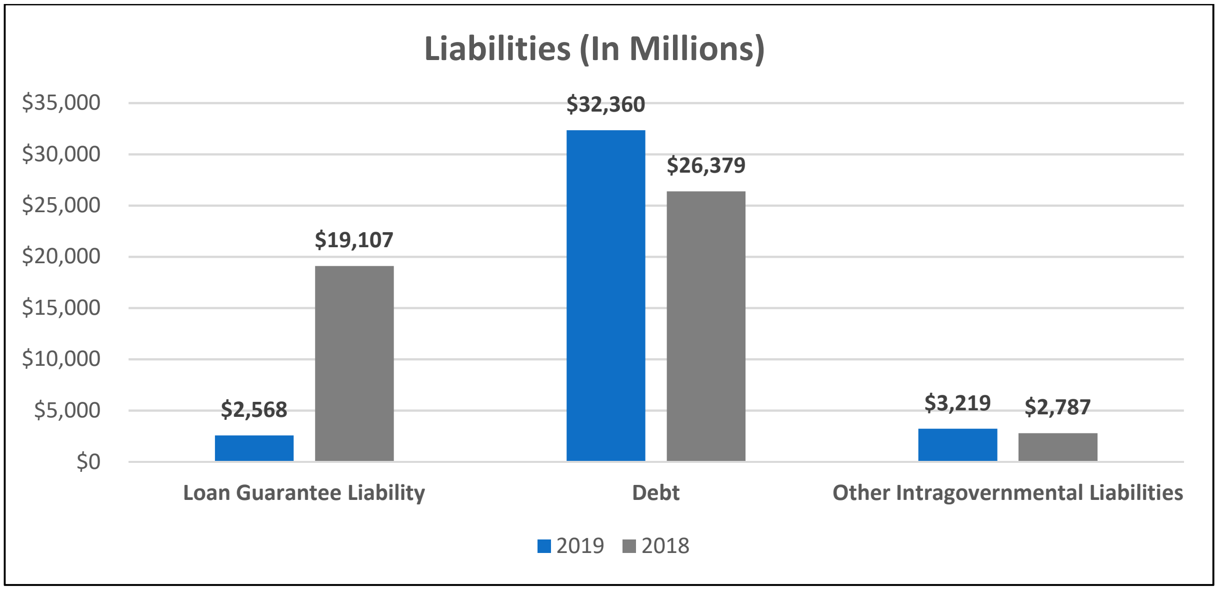
Overview of Financial Position

A summary of FHA's change in financial position from fiscal year 2018 to fiscal year 2019 is presented in the following sections on Assets and Liabilities, Net Cost, and Budgetary Resources.

Asset and Liabilities

FHA's balance sheet assets primarily consist of fund balances with the U.S. Treasury, investments, loan receivables and related foreclosed property; while the liabilities consist of debt to the U.S. Treasury and liabilities for loan guarantees related to FHA's insured portfolio. The nature of FHA's business requires it to carry or acquire through borrowing the funds needed to make claims payments on defaulted guaranteed loans. Additionally, FHA must transfer subsidy expense and credit subsidy re-estimates under the requirements of FCRA. These subsidy transfers to the capital reserve fund are invested in U.S. Treasury Securities. The subsidy expense and re-estimate calculations are based on assumptions regarding future premium collections, prepayments, claims, and recoveries on credit program assets. On that basis, FHA's fund balances with the U.S. Treasury, investments, and debt can fluctuate significantly depending largely on economic and market conditions and customer demand.





Total assets increased by $14,100 million during fiscal year 2019. This increase was primarily due to a $23,639 million increase in investments and a $9,843 million increase in loans receivable and related foreclosed property, offset by a $19,433 million decrease in fund balance with U.S. Treasury. The $19,433 million decrease in fund balance with U.S. Treasury was primarily due to transfers of $16,198 million for a net downward LLG re-estimate and $6,887 million negative subsidy to the capital reserve fund. In addition, there was an increase in net debt which increased fund balance. The $23,639 million increase in investments resulted from the transfers of fund balance to the capital reserve fund which were subsequently invested. The $9,843 million increase in loans receivable and foreclosed property are mostly attributable to an increase in HECM loans receivable. Increases in Single Family Forward loans receivable and related foreclosed property and Federal Financing Bank direct loans receivable also contributed to the overall increase. Total liabilities decreased by $10,052 million, primarily due to a decrease in the liability for loan guarantees offset by an increase in debt. Debt increased by $5,981 million to make cash available to cover the variance resulting from the transfer of the current year's net downward re-estimate.

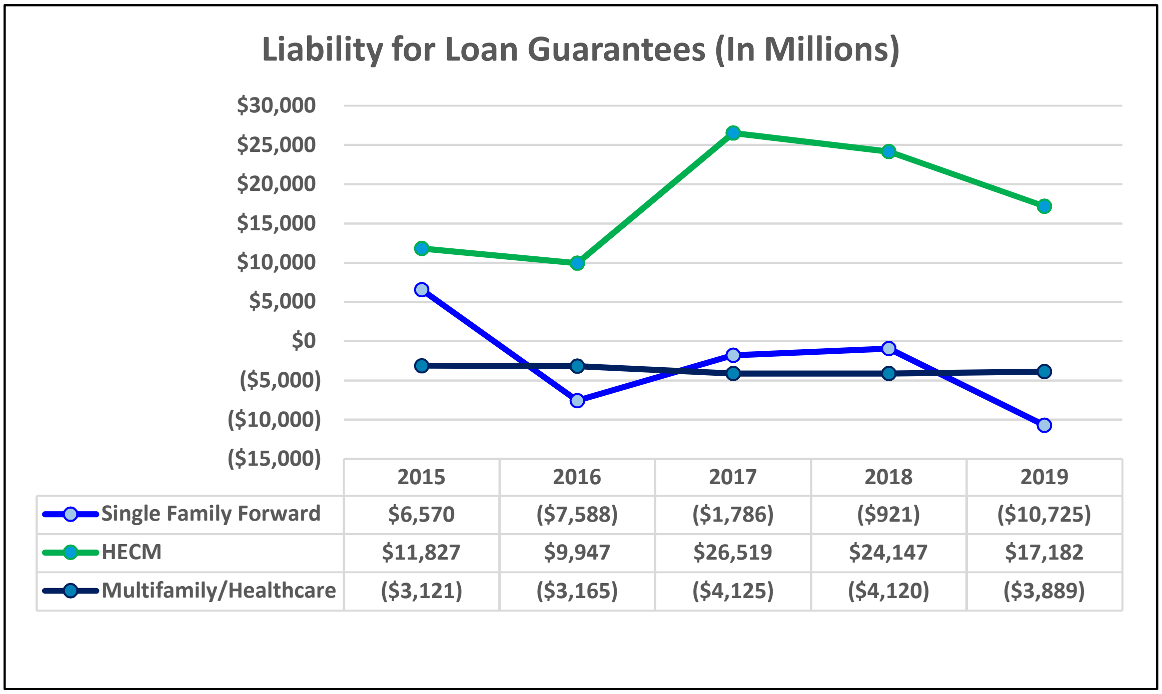
Loan Guarantee Liability

The loan guarantee liability (LGL) is comprised of two components, the liability for loan guarantee (LLG) for post-1991 loan guarantees and the loan loss reserves (LLR) for pre-1992 loan guarantees. FHA's portfolio of pre-1992 loan guarantees has significantly decreased, and the LLR portion of the LGL is insignificant. The LLG related to post-1991 loan guarantees represents the present value of anticipated cash outflows, such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties; less the present value of anticipated cash inflows, such as premium receipts, proceeds from property and note sales, and principal and interest on Secretary-held notes.

Schedule of Liability for Loan Guarantees (Dollars in Millions)							
		FY2019		FY2018		Difference	% Change
Single Family Forward	$	(10,725)	$	(921)	$	(9,804)	1064%
HECM		17,182		24,147		(6,965)	-29%
Multifamily/Healthcare		(3,889)		(4,120)		231	-6%
Total	**$**	**2,568**	**$**	**19,106**	**$**	**(16,538)**	**-87%**

The $9,804 million Single Family Forward LLG decrease and the $6,965 million HECM LLG decrease were mostly due to strong house price appreciation and more favorable economic forecasts in the MMI fund. There were also decreases in the LLG estimates in the GI/SRI funds for Single Family Forward and HECM that contributed to the overall decrease in those program areas.

For Multifamily/Healthcare, the $231 million increase in the LLG occurred mostly in the GI/SRI funds. The LLG estimates for the Section 223(f), Section 223(a)(7), and Section 242 programs increased by $23 million, $112 million, and $424 million, respectively, due to higher claim expectations. These increases were offset by decreases in the LLG estimates for the Section 221(d)(4) and Section 232 Healthcare New Construction programs of $107 million and $27 million, respectively, due to lower claim projections. The LLG estimate for the Section 232 Healthcare Purchasing or Refinancing program increased by $268 million due to an increase in prepayment projections.



Net Cost/(Surplus)

In fiscal year 2019, FHA reported a net surplus of $24,836 million. The most significant contributor to FHA's net surplus was gross costs with the public, which consists primarily of subsidy expense and re-estimate expense associated with the LLG. Pursuant to the accounting principles established based on the FCRA, FHA records subsidy expense when a loan is guaranteed and when the LLG is re-estimated at the end of the fiscal year. The increase in FHA's net surplus from 2018 to 2019 was mainly due to a larger downward re-estimate in fiscal year 2019 which resulted in more negative program costs.

Schedule of Net Cost/(Surplus)
(Dollars in Millions)

	FY2019	FY2018	Difference	%Change
Program Cost	$ (23,200)	$ (6,707)	$ (16,493)	246%
Less: Program Revenues	1,636	2,080	(444)	-21%
Net Cost/(Surplus)	**$ (24,836)**	**$ (8,787)**	**$ (16,049)**	**183%**

Budgetary Resources

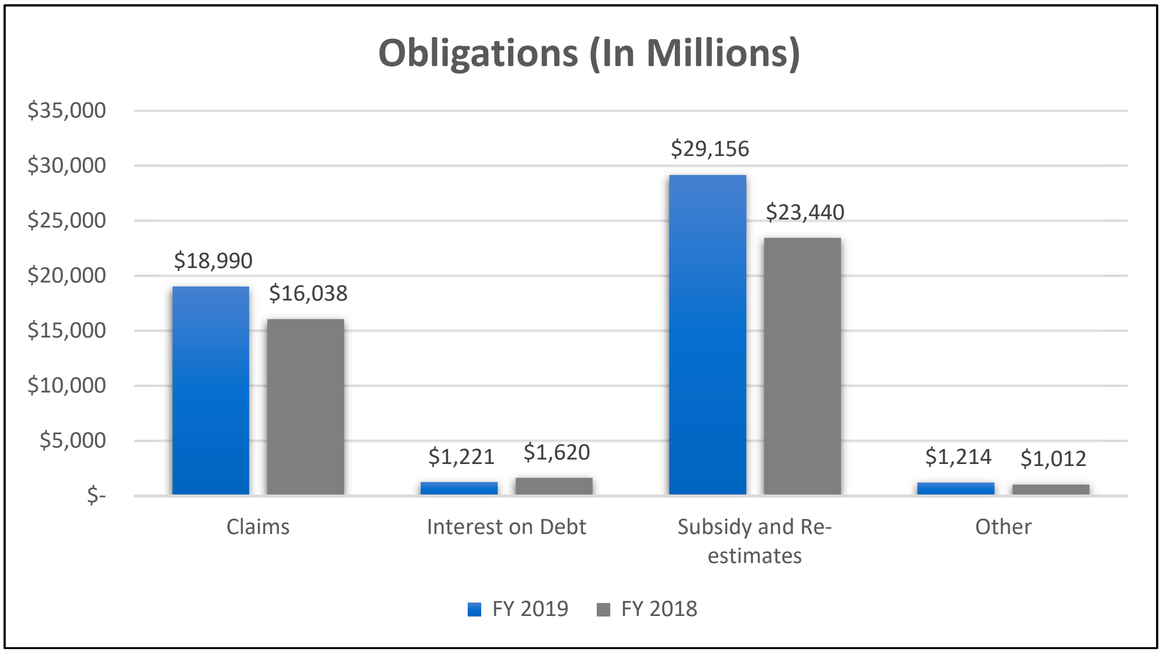
FHA finances its operations through a combination of appropriated funds, debt to the U.S. Treasury, spending authority from offsetting collections, and un-expired prior-year unobligated balances brought forward. Spending authority from offsetting collections includes collections of premiums and fees, sales proceeds from credit program assets, and credit subsidy transferred between different FHA accounts.

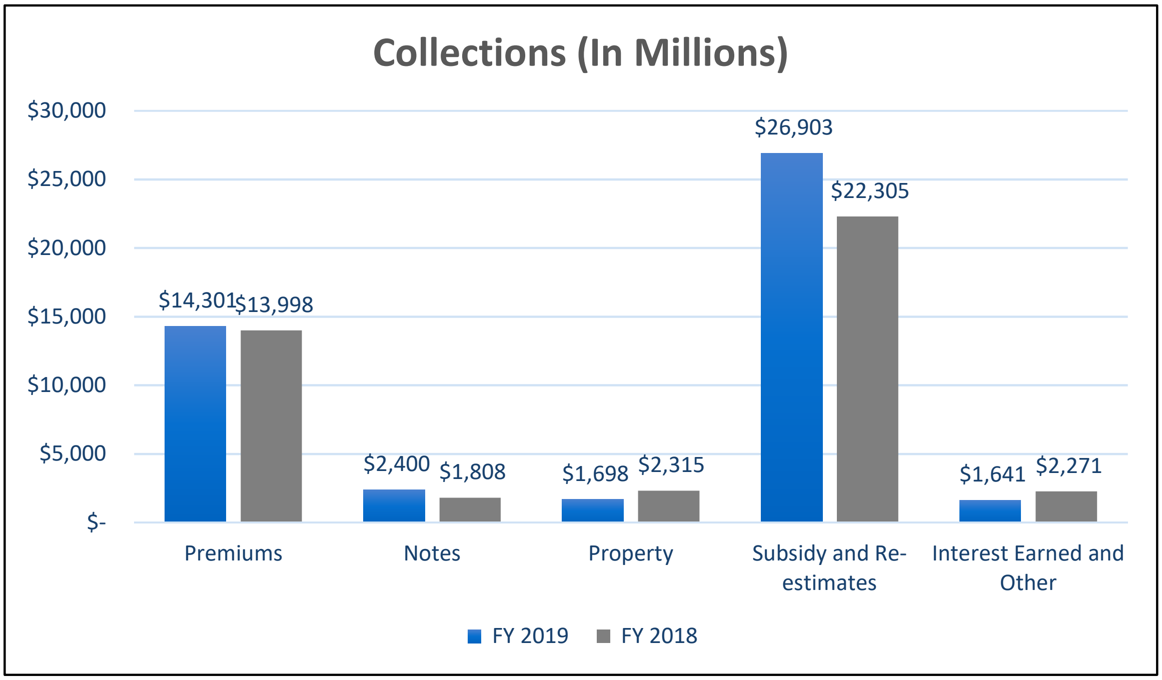
FHA's budgetary resources are increased by Appropriations, Borrowing authority, and Spending authority from offsetting collections. The $639 million decrease in appropriations in fiscal year 2019 was primarily due to the GI/SRI re-estimate that projected less cash would need to be appropriated to cover future claim payments. Borrowing authority increased by $3,275 million in fiscal year 2019 because additional borrowing was required to maintain liquidity in FHA's financing funds. For Spending authority from offsetting collections, the increase of $9,899 million in fiscal year 2019 resulted primarily from an increase in the downward re-estimate disbursed from the MMI financing fund to the capital reserve fund, which was offset by a decrease in other spending authority.

Budgetary Resources
(Dollars in Millions)

	FY2019	FY2018	Difference	%Change
Unobligated balance from prior year budget authority, net	$ 57,226	$ 57,005	$ 221	0%
Appropriations (discretionary and mandatory)	1,439	2,078	(639)	-31%
Borrowing authority (discretionary and mandatory)	11,479	8,204	3,275	40%
Spending authority from offsetting collections (discretionary and mandatory)	41,733	31,834	9,899	31%
Total budgetary resources	**$ 111,877**	**$ 99,121**	**$ 12,756**	**13%**

These resources were used to cover the fiscal year 2019 obligations totaling $50,581 million. Obligations included subsidy/re-estimate costs, claim payments on defaulted guaranteed loans, interest on borrowings, and other. These obligations were offset by FHA collections received in fiscal year 2019 totaling $46,943 million that included premiums, notes, property, interest earned, subsidy/re-estimate, and other.





SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

FHA continues to maintain and improve its overall financial management and system control environment by addressing areas identified through regular self-assessments, management reviews and independent auditor's reviews.

FHA Compliance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

To comply with the requirements in OMB Circular A-123, an internal control certification statement is provided to the Chief Financial Officer by the Department's Assistant Secretaries to support the overall statement from the Secretary. Annually, Housing prepares an Internal Control Assurance Statement. This statement attests that Housing:

- Is in compliance with Sections 2 and 4 of the Federal Manager's Financial Integrity Act
- Systems generally comply with the requirements of the Federal Information Security Management Act (FISMA) requirements, Appendix III of OMB's Circular A-130, "Management of Federal Information Resources", and FFMIA Appendix D of OMB Circular A-123.

In addition, FHA conducted its assessment of the effectiveness of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, FHA provides reasonable assurance that its internal controls over financial reporting were operating effectively as of September 30, 2019.

Fiscal Year 2019

Annual Assurance Statement on Internal Control over Financial Reporting

The Federal Housing Administration's (FHA) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). FHA conducted its assessments of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control.*

Based on the results of this evaluation, FHA provides reasonable assurance that its internal controls over financial reporting were operating effectively as of September 30, 2019.

Brian D. Montgomery

Brian D. Montgomery
Assistant Secretary for Housing and Federal Housing Commissioner

FHA Compliance with OMB Circular A-123, Financial Management Systems

FHA's management has reviewed FHA's core financial system and sixteen financial and mixed financial systems for compliance with the OMB Circular A-123 "Management's Responsibility for Enterprise Risk Management and Internal Control," and the Federal Financial Management Improvement Act (FFMIA) Compliance Determination Framework. Management has concluded that FHA's core financial system complies with the Federal Financial Management system requirements and applicable accounting standards and maintenance of the U.S. Standard General Ledger at the transaction level. FHA's sixteen financial and mixed financial and program systems are integrated with the core financial system through extensive electronic interfaces. Operating interdependently, these financial systems taken together are substantially in compliance with FFMIA and OMB Circular A-123 requirements.

The Office of the Housing FHA Comptroller continuously monitors all FHA accounting and financial operations through weekly management meetings and through exception reporting for operational problems identified by managers and staff. FHA has sustained program operations with its current systems through significant changes in its mortgage insurance operations to implement the goals of FHA's multi-year strategic plan which includes sustainable growth, stabilizing housing markets and increasing availability of funding. Included in the strategic plan is improvement in the utilization of data by streamlining HUD's data collection processes, creating common data definitions, and ensuring only necessary data are collected and reported. The strategic plan also includes promotion of innovative IT service delivery, including modernizing IT infrastructure to enable on the ground staff to enhance program execution. To track the progress towards this objective, one of the performance indicators that HUD will use is the number of HUD mainframe systems decommissioned, after necessary data are transferred and standardized into HUD's new cloud-based Enterprise Data Warehouse.

FHA management also recognizes that its systems must continue to meet advancing standards and new expectations for efficiency and flexibility of operations. In the fiscal year 2019 budget, FHA received a $20 million appropriation from Congress for IT modernization. With this funding, FHA has begun a multi-year development effort to modernize its technology systems, starting with the technology used for its Single Family insurance programs. The goal is a secure, single cloud-based portal accessible by participants in the FHA program to conduct a full suite of transactions, from loan application to claims, including premium collections. To achieve this future state, this past fiscal year FHA initiated the first two projects:

- The development of Mortgage Industry Standard Maintenance Organization (MISMO)-compliant data submission capabilities that are part of the mortgage origination process; and
- A single portal and process for the submission of insurance claim data, reducing from five points of entry for lenders submitting claim information to one point of entry, which will eliminate a large, paper-based manual process.

Fiscal Year 2019 Financial Statements Audit Findings

The Office of the Inspector General (OIG) has identified no material weaknesses in the Internal Control Report for FHA's FY 2019 financial statement audit. One significant deficiency was identified in internal controls over financial reporting. The OIG made recommendations in the areas of HECM loans assignment data, recording of interest rate reestimates, improper recording of overpayment refunds, and overstatement of prior year HECM insurance in force.

Management has already taken steps to resolve this finding and will continue working to address the remaining auditor recommendations in the coming fiscal year.

Status of Fiscal Year 2018 Financial Statement Audit Findings

During fiscal year 2019, FHA was successful in its effort to resolve the material weakness identified as part of the fiscal year 2018 financial statement audit. In the fiscal year 2018 financial statement audit, the OIG identified a material weakness related to FHA Cash Flow Modeling Processes. FHA implemented significant process improvements and enhancements to the Single Family Forward and Home Equity Conversion Mortgage cash flow models and supporting documentation such that the previously identified material weakness was resolved.

Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)

In accordance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) and the OMB Memorandum M-18-20 dated June 26, 2018, FHA assessed its disbursement programs for their risk of improper payments. Pursuant to the Act, FHA has analyzed the dollar volumes of each disbursement program for fiscal year 2019. This year, fiscal year 2018 disbursement data and all other IPERIA related control documents were used. Based on a three-year cycle, FHA has reviewed the following disbursements programs for fiscal year 2019.

- Single Family Insurance Claims System (SFIC)
- Home Equity Conversion Mortgage (HECM) Claims
- Home Equity Conversion Mortgage (HECM) Notes
- Distributive Shares and Refund System (DSRS)

During fiscal year 2019, FHA conducted limited risk assessments on HECM Claims, HECM Notes and DSRS and determined that these programs were low risk. Additionally, review of these programs showed no significant changes to processes by which the disbursements were processed, leading to the conclusion that system processes are not susceptible to significant improper payments. FHA also performed the analysis of Do Not Pay initiatives and found no significant incidence of erroneous payments.

In fiscal year 2019, FHA estimated the improper payments rate and projected the amount of total improper payments for SFIC. The amount of improper payments was found to be below the statutory threshold for a program susceptible to significant improper payments by OMB. Since FHA has documented two consecutive years of improper payments, FY 2018 and FY 2019, FHA will be requesting relief from the annual reporting requirements for this program in accordance with OMB Circular A-123, Appendix C.

FHA's recovery auditing program is part of its overall program of effective internal control over disbursements. Internal control policies and procedures establishes a system to monitor improper payments and their causes and include controls for preventing, detecting, and recovering improper payments. In addition to implementing the controls established by the FHA, programs have taken specific actions to develop and regularly generate a report that identifies potential duplicate disbursements, researching questionable disbursements and initiating recovery actions for payments deemed to be improper.

FHA has established a payment recapture process for its claim disbursement systems and has an extensive debt collection program to recover overpayments.

Limitations of Financial Statements

The principal financial statements are prepared to report the financial position and results of operations of the FHA, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of FHA in accordance with Federal GAAP and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

PRINCIPAL FINANCIAL STATEMENTS

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MESSAGE FROM THE DEPUTY ASSISTANT SECRETARY FOR FINANCE AND BUDGET

November 15, 2019

The Office of the Deputy Assistant Secretary for Finance and Budget (FAB) is pleased to present the Federal Housing Administration's (FHA) Principal Financial Statements for the fiscal year (FY) ending September 30, 2019. As we reflect on FY 2019, we acknowledge that it was a year that presented both opportunities for improvement and, as a result, significant accomplishments. In the end, our collective efforts across FHA program areas, have once again earned FHA an unmodified audit opinion on its FY 2019 Financial Statements with only one significant deficiency identified.

We are proud of our accomplishments toward ensuring the integrity of FHA's financial transactions that support its $1.4 trillion insured portfolio. For the fifth consecutive year, FHA exceeded the two percent Mutual Mortgage Insurance (MMI) Fund Capital Ratio requirement mandated by Congress.

During FY 2019, we continued to strengthen financial management and transparency, focused on technology and innovation, and implemented best practices. This year's audit report reflects the results of these efforts. FHA resolved one material weakness and two significant deficiencies identified in the FY 2018 audit report. In addition to receiving an unmodified audit opinion in FY 2019, FHA's audit report reflects just one significant deficiency in internal controls over financial reporting. We have already taken steps to resolve this finding and will continue working to address the remaining recommendations in the coming year.

Resolving open audit recommendations was a focus during FY 2019. Through significant efforts and collaboration between FHA's program offices and the Office of the Inspector General (OIG), FHA reduced its total open audit recommendations by 23 percent. Additional focus was placed on closing recommendations relating to the financial statement audits, consistent with our focus on financial management and internal controls. FHA closed 76 percent of the open recommendations relating to the FHA financial statement audit.

FHA continued its compliance with, and improvement of, DATA Act reporting in FY 2019. As part of this improvement, FHA enhanced internal controls, established procedures, and improved data quality and error resolution related to DATA Act reporting. In a separate report, the OIG recently recognized that HUD generally complied with the DATA Act.

FHA saw improvements in both its financial statement audit outcome and operations in FY 2019, which will only inspire the Office of Finance and Budget to continue to innovate, automate, and further strengthen public and fiscal accountability. FHA's Information Technology (IT) modernization will also strengthen our controls in both the near term and in the future.

Looking to FY 2020 and beyond, FAB's goal is to continue to drive improvements in financial management and reporting. The focus will stay on addressing remaining recommendations and resolving all audit findings identified, as well as preventing future findings. We will remain committed to working collaboratively with OIG in the coming year to achieve these goals.

Finally, I would like to thank the Office of Finance and Budget staff for their efforts and commitment to FHA's mission. The accomplishments and improvements reflected in this audit are the result of their efforts. I am proud of the work ethic and dedication exhibited by them towards advancing FHA's excellence in financial management.

Susan A Betts

Susan A. Betts

Deputy Assistant Secretary for Finance and Budget

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements

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

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

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2019

Note 1. Significant Accounting Policies

Entity and Mission

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

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

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

FHA supports its insurance operations through five funds. The Mutual Mortgage Insurance fund (MMI), FHA's largest fund, provides basic Single Family mortgage insurance and is a mutual insurance fund, whereby mortgagors, upon non-claim termination of their mortgages, share surplus premiums paid into the MMI fund that are not required for operating expenses and losses or to build equity. The Cooperative Management Housing Insurance fund (CMHI), another mutual fund, provides mortgage insurance for management-type cooperatives. The General Insurance fund (GI), provides a large number of specialized mortgage insurance activities, including insurance of loans for property improvements, cooperatives, condominiums, housing for the elderly, land development, group practice medical facilities, nonprofit hospitals, and reverse mortgages. The Special Risk Insurance fund (SRI) provides mortgage insurance on behalf of mortgagors eligible for interest reduction payments who otherwise would not be eligible for mortgage insurance. To comply with the FHA Modernization Act of 2008, activities related to most Single

Family programs, including HECM, endorsed in Fiscal Year 2009 and going forward, are in the MMI fund. The Single Family activities in the GI fund from Fiscal Year 2008 and prior remain in the GI fund. The Hope for Homeowners (H4H) program began on October 1, 2008 for Fiscal Year 2009 as a result of *The Housing and Economic Recovery Act of 2008*. This legislation required FHA to modify existing programs and initiated the H4H program and fund, which guaranteed loans for three years. No new H4H loans have been guaranteed since FY 2011.

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

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

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

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

Basis of Accounting

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

Basis of Consolidation

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

Fund Balance with U.S. Treasury

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

Investments

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

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

Credit Reform Accounting

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

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

FHA has four general fund receipt accounts: the GI/SRI Negative Subsidy, the GI/SRI Downward Reestimate, the Homeownership Preservation Entity Fund Downward Reestimate, and the Capital Transfer Receipt Accounts. Negative subsidy is disbursed from the GI/SRI financing accounts to the

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

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

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

Loans Receivable and Related Foreclosed Property, Net

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

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

Loan Guarantee Liability

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

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

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

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

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

Use of Estimates

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

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

FHA bases its estimates of the Allowance for Subsidy associated with loan receivables and related foreclosed property and the Liability for Loan Guarantees (LLG) on cash flow models. As described in Note

7, FHA uses cash flow model assumptions associated with loan guarantee cases subject to the FCRA to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, FHA develops assumptions based on historical data and current and forecasted program and economic assumptions. More details are provided in Note 7.

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

General Property, Plant and Equipment

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

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

Appropriations

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

Full Cost Reporting

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

Distributive Shares

Excess revenues in the MMI/CMHI Fund may be distributed to mortgagors at the discretion of the

Secretary of HUD. Such distributions are determined based on the funds' financial positions and their projected revenues and costs. No distributive share distributions have been declared from the MMI fund since the enactment of the National Affordable Housing Act (NAHA) in 1990.

Liabilities Covered by Budgetary Resources

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

Liabilities Not Requiring Budgetary Resources

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

Statement of Budgetary Resources

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

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

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

Public-Private Partnerships

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

Note 2. Non-Entity Assets

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

(Dollars in millions)

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

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

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

Note 3. Fund Balance with U.S. Treasury

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

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

Revolving Funds

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

Appropriated Funds

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

Other Funds

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

Status of Fund Balance with U.S. Treasury

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

Note 4. Cash and Other Monetary Assets

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

Escrow Monies Deposited at Minority-Owned Banks

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

Deposits in Transit

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

Note 5. Investments

Investment in U.S. Treasury Securities

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

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

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

(Dollars in millions)

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

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

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

Investments in Private-Sector Entities

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

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

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

Note 6. Accounts Receivable, Net

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

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

Receivables Related to Credit Program Assets

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

Premium Receivables

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

Partial Claim Receivables

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

Generic Debt Receivables

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

Criminal Restitution Receivables

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

Settlement Receivables

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

Miscellaneous Receivables

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

Allowance for Loss

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

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

Direct Loan and Loan Guarantee Programs Administered by FHA include:
Single Family Forward Mortgages
Multifamily Mortgages
Healthcare Mortgages
Home Equity Conversion Mortgages (HECM)

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

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

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

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

Direct Loan Programs:

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

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

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

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

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

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

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

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

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

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

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

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

Subsidy Expense for Direct Loans:

September 30, 2019

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

September 30, 2018

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

Subsidy Expense for Reestimates:

(Dollars in millions)

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

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

Total Direct Loan Subsidy Expense:

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

Subsidy Rates for Direct Loans by Program and Component

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

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

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

Schedule for Reconciling Subsidy Cost Allowance Balances:

(Dollars in Millions)

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

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

(Dollars in Millions)

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

(Dollars in Millions)

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

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

Defaulted Guaranteed Loans from Post-1991 Guarantees:

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

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

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

Guaranteed Loans Outstanding:

(Dollars in Millions)

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

New Guaranteed Loans Disbursed (FY 2019):

(Dollars in Millions)

	Principal of Guaranteed Loans, Face Value	Amount of Principal Guaranteed
MMI/CMHI		
Single Family Forward	$ 214,570	$ 212,917
Multifamily/Healthcare	65	65
MMI/CMHI Subtotal	**$ 214,635**	**$ 212,982**
GI/SRI		
Single Family Forward	$ 61	$ 60
Multifamily/Healthcare	15,159	15,106
GI/SRI Subtotal	**$ 15,220**	**$ 15,166**
Total	**$ 229,855**	**$ 228,148**
New Guaranteed Loans Disbursed (FY 2018):		
MMI/CMHI		
Single Family Forward	$ 208,985	$ 207,044
Multifamily/Healthcare	133	133
MMI/CMHI Subtotal	**$ 209,118**	**$ 207,177**
GI/SRI		
Single Family Forward	$ 80	$ 79
Multifamily/Healthcare	18,344	18,270
GI/SRI Subtotal	**$ 18,424**	**$ 18,349**
Total	**$ 227,542**	**$ 225,526**

Home Equity Conversion Mortgage (HECM):

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

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

(Dollars in Millions)

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

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

Loan Guarantee Liability, Net:

(Dollars in Millions)

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

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

Subsidy Expense for Loan Guarantees by Program and Component:

(Dollars in millions)

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

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

Subsidy Expense for Modification and Reestimates:

(Dollars in millions)

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

Total Loan Guarantee Subsidy Expense:

(Dollars in millions)

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

Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

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

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

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

Schedule for Reconciling Loan Guarantee Liability Balances:

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

Administrative Expense:

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

Other Information on Foreclosed Property:

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

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

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

Restrictions on the use/disposal of foreclosed property:

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

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

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

Credit Reform Valuation Methodology

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

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

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

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

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

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

Additional information about loan performance assumptions is provided below:

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

<u>Economic assumptions:</u> Independent forecasts of economic conditions are used in conjunction with loan-level data to generate Single Family, Multifamily, and Healthcare claim and prepayment rates. OMB

provides the central economic assumptions used, such as interest rates, house price appreciation and the discount rates used against the cash flows. Other sources are used to distribute the central assumptions geographically.

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

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

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

Analysis of Change in the Liability for Loan Guarantees

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

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

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

MMI Single Family Forward: The model methodology used for the fiscal year 2019 SF Forward LLG is similar to the 2018 methodology. The models use historical data to generate claim and prepayment probabilities based on various borrower and loan-specific factors. These projections feed a Cash Flow

Model (CFM). The CFM discounts all cohort years using the latest Single Effective Rate (SER) specific to each cohort; in accordance with Federal Credit Reform Modeling guidelines. As with the 2018 LLG, the 2019 LLG estimate uses a single path (President's Economic Assumption released in June 2019) to compute the expected net present value of the future cash flows.

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

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

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

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

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

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

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

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

Risks to LLG Calculations

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

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

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

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

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

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

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

Pre-Credit Reform Valuation Methodology

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

Note 8. Accounts Payable

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

(Dollars in millions)

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

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

Claims Payable to Ginnie Mae

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

Miscellaneous Payables to Other Federal Agencies

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

Claims Payables

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

Premium Refunds Payables

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

Single Family Property Disposition Payables

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

Miscellaneous Payables

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

Note 9. Debt

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

(Dollars in millions)

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

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

Debt to the Treasury

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

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

Debt to the Federal Financing Bank

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

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

Note 10. Other Liabilities

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

(Dollars in millions)

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

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

Receipt Account Payable Liability

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

Trust and Deposit Liabilities

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

Multifamily Notes Unearned Revenue

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

Premiums Collected on Unendorsed Cases

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

Miscellaneous Liabilities

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

Note 11. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

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

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

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

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

Note 12. Commitments and Contingencies

Litigation

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

Activity with Ginnie Mae

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

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

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

Note 13. Gross Costs

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

(Dollars in millions)

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

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

Interest Expense

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

Imputed Costs/Imputed Financing

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

Salary and Administrative Expenses

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

Subsidy Expense

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

Reestimate Expense

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

Interest Accumulation Expense

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

Bad Debt Expense

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

Loan Loss Reserve Expense

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

Other Expenses

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

Note 14. Earned Revenue

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

(Dollars in millions)

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

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

Interest Revenue

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

Insurance Premium Revenue

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

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

Up-front Premiums

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

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

Annual Periodic Premiums

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

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

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

Income from Notes and Property

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

Other Revenue

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

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

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

Note 16. Transfers In and Other Financing Sources

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

(Dollars in millions)

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

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

Transfers In from HUD

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

Nonexchange Revenue

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

Other Financing Sources

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

Note 17. Unexpended Appropriations

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

(Dollars in millions)

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

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

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

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

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

Note 18. Budgetary Resources

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

Unpaid Obligations

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

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

Note 19. Budgetary Resources - Collections

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

(Dollars in Millions)

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

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

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

Note 20. Budgetary Resources – Obligations

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

(Dollars in Millions)

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

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

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

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

Note 21. Budget and Accrual Reconciliation (BAR)

(Dollars in Millions)

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

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

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

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

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

Note 22 Public–Private Partnerships

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Required Supplementary Information

Schedule A: Intragovernmental Assets

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

(Dollars in Millions)

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

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

Schedule B: Intragovernmental Liabilities

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

(Dollars in Millions)

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

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

Required Supplementary Information

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

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

Required Supplementary Information

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

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

Required Supplementary Information

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

(Dollars in Millions)

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

Required Supplementary Information

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

(Dollars in Millions)

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

Other Accompanying Information

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

Table 1
Summary of Financial Statement Audit

Audit Opinion	Unmodified
Restatement	No

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

Table 2
Summary of Management Assurances

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

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

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AUDITOR'S REPORT

This report was issued separately on November 14, 2019 by the HUD Office of Inspector General entitled, "Federal Housing Administration, Washington, DC, Fiscal Years 2019 and 2018 Financial Statements Audit" (2020-FO-0001). The report is available at HUD, OIG's internet site at: http://www.hudoig.gov

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

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

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

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

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

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

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

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

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

Highlights

What We Audited and Why

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

What We Found

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

What We Recommend

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

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

Independent Auditor's Report

Assistant Secretary for Housing – Federal Housing Commissioner
Federal Housing Administration

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

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

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

Report on the Financial Statements

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

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

Management's Responsibility

FHA's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. We also conducted our audits in accordance with Office of Management and Budget (OMB) Bulletin 19-03, Audit Requirements for Federal Financial Statements. We are further responsible for applying certain limited procedures to the RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to FHA's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing other procedures we considered necessary in the circumstances.

Opinion on Financial Statements

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

We applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information
FHA's other information contains a wide range of information other than the RSI and the auditor's report, some of which is not directly related to the financial statements and consists of information included with the financial statements. This information, including the message from the FHA Commissioner, is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on FHA's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control Over Financial Reporting

In connection with our audits of FHA's financial statements, we considered FHA's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to FHA's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

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

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

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

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

Results of Our Consideration of Internal Control Over Financial Reporting

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of FHA's internal control over financial reporting. Therefore, other deficiencies in internal control that might be material weaknesses or significant deficiencies may exist but were not identified.

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

FHA's Controls Over Financial Reporting Had Weaknesses

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

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

Intended Purpose of Report on Internal Control Over Financial Reporting

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

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

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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

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

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

Agency Comments and Our Evaluation

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

Kimberly R. Randall

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

November 14, 2019

Significant Deficiencies

Finding: FHA's Controls Over Financial Reporting Had Weaknesses

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

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

Exclusion of Valid Assignments Biased the HECM Model

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

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

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

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

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

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

Refunds Were Not Properly Recorded

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

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

Errors Were Identified in the Financial Statement Note Disclosures

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

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

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

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

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

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

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

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

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

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

Current-Year Status of Prior-Year Audit Matters

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

Status of deobligating invalid obligations (in millions)

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

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

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

Conclusion

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

Recommendations

We recommend that the Director of the Office of Evaluation

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

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

We recommend that the Deputy Assistant Secretary for Finance and Budget

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

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

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

Scope and Methodology

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

To fulfill these responsibilities, we

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

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

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

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

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

Followup on Prior Audits

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

Federal Housing Administration Fiscal Years 2018 and 2017 Financial Statements Audit, 2019-FO-0003

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

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

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

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

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

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

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

[6] Office of the Chief Financial Officer

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

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

OFFICE OF HOUSING

November 12, 2019

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

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

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

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

Report on Internal Control

Finding: FHA's Controls Over Financial Reporting Had Weaknesses

Comment 1

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

Exclusion of Valid Assignments Biased the HECM Model

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

Refunds Were Not Properly Recorded

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

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Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

payments made in prior years will be reclassified as collections and to the correct budgetary accounts to properly record the downward adjustment of prior year undelivered orders.

HECM Insurance in Force Balances Were Not Accurately Reported

FHA concurs with this finding and has already taken steps to implement the OIG recommendation. A Hermit system release was implemented in 4^{th} quarter to correct the programming of the Cohort Summary Report to accurately report the HECM loan balances for the current outstanding balance and the maximum potential liability as of September 30, 2019.

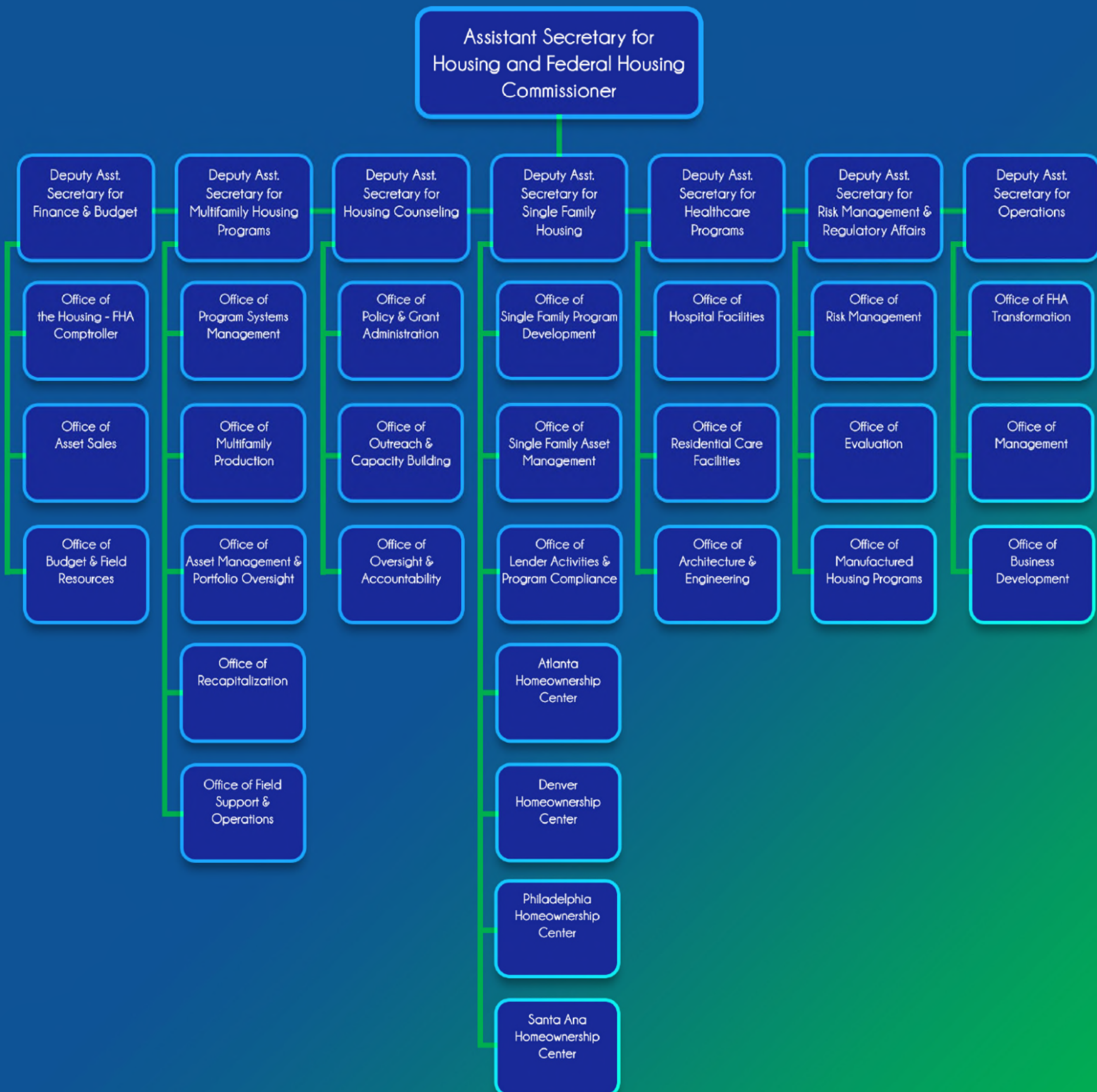
Interest Rate and Technical Reestimates Were Not Reported Separately

FHA concurs and has already taken steps to address this recommendation. During FY 2019, FHA reviewed OMB A-136 guidance for recording the Interest Rate Reestimates. Based on the result of the analysis, steps were taken to record the financial statement reestimate and segregate the balance of the technical reestimate from that of the interest rate reestimate. This presentation was reflected in the financial statements as of September 30, 2019.

OIG Evaluation of Auditee Comments

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

FHA
ORGANIZATIONAL CHART



https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2019ANNUALMGMNTRPT.PDF

ANNUAL MANAGEMENT REPORT

Your Door to FHA HOMEOWNERSHIP

Fiscal Year 2019