# FHA

FEDERAL HOUSING ADMINISTRATION


# ANNUAL MANAGEMENT REPORT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FISCAL YEAR 2020

FHA

FHA

This Annual Management Report (AMR) for the fiscal year ending September 30, 2020 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/FHAFY2020ANNUALMGMNTRPT.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 2020 financial statements, internal controls, and compliance with laws and regulations.

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

November 16, 2020

The challenges associated with the COVID-19 pandemic during this past fiscal year took center stage for the nation, and certainly for the Federal Housing Administration (FHA). In tandem with the sweeping provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, FHA's unprecedented efforts to assist homeowners and renters financially impacted by the National Emergency was, and remains, our central focus. This report reflects the many policies that we have put in place to ensure that no one loses the place they call home unnecessarily because of the pandemic.

Aided by a resilient economy, FHA's pandemic response efforts supported a well-functioning housing market. Through a combination of temporary policy flexibilities, additional options for borrowers and renters, and our implementation of FHA Catalyst technology to address critical business needs, FHA-insured financing remained available to support safe, affordable housing and access to quality Healthcare services. In fiscal year 2020, more than 800,000 Single Family homebuyers, the majority being first-time homebuyers, purchased a home using an FHA-insured mortgage. In our Multifamily insurance program, we broke a new record for endorsements, insuring 977 loans for Multifamily properties this past fiscal year as the program once again stepped up to provide countercyclical support during a crisis. In our Healthcare portfolio, we focused on putting in place the additional flexibilities needed to assist lenders and owners with debt payments to keep facilities operational and protect patients and front-line workers, while providing FHA insurance commitments on 340 mortgages for hospitals and residential care facilities.

As detailed in this report, FHA's financial position remains strong. For the third consecutive year, the Mutual Mortgage Insurance Fund's overall capital ratio increased, to 6.10 percent as of September 30, 2020. Similarly, we returned $4.4 billion to the United States Treasury from the General Risk and Special Risk Insurance Funds. In addition, our financial statements achieved a clean audit without any material weaknesses, further illustrating the solid financial management and controls we have put in place over the last three years. We take pride in these results, but we must remain vigilant as the economic stresses imposed by COVID-19 continue to unfold.

Last, this report highlights the progress we have made in moving our technology modernization work from a vision to a reality. *FHA Catalyst* is up-and-running and has already delivered many process efficiencies, eliminating paper and manual processes, streamlining workflows, and providing a path for a fully integrated, end-to-end system.

Thanks to the careful stewardship of our programs, and with the support of this Administration, I'm proud to say that we ended fiscal year 2020 strong – and are in a great position to help FHA achieve its core mission now and in the future.

Sincerely,

Dana T. Wade
Assistant Secretary for Housing
and Federal Housing Commissioner

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# MANAGEMENT’S DISCUSSION & 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 50.8 million Single Family and 68,104 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.

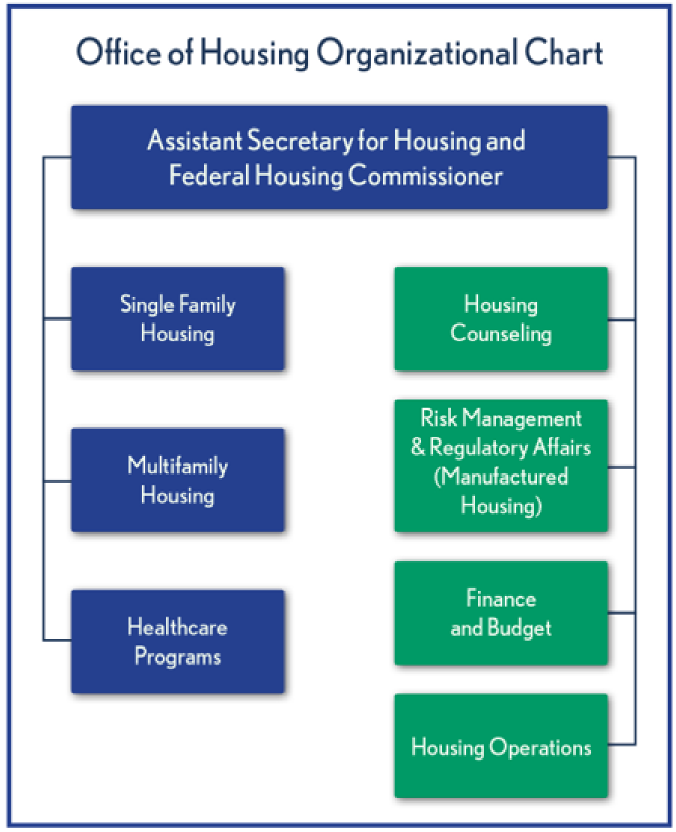
In fiscal year 2020, the COVID-19 pandemic created an unprecedented National Emergency for the United States and brought economic challenges to FHA homeowners, residents in FHA-insured Multifamily properties, and to the residential care and hospital facilities with FHA-insured mortgages. Since the beginning of the pandemic, FHA has focused first on putting tools, policies, and processes in place to ensure that no homeowner or renter loses the place they call home unnecessarily.

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 program and support 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 sustaining a network of HUD-approved Housing Counseling Agencies.

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 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 "MMI Capital"[1] of the MMIF to the dollar balance of active, insured loans, at a point in time. MMI Capital 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, 2020 with the net present value of future cash flows from outstanding books of business.

Capital resources of the MMIF are separated into 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.

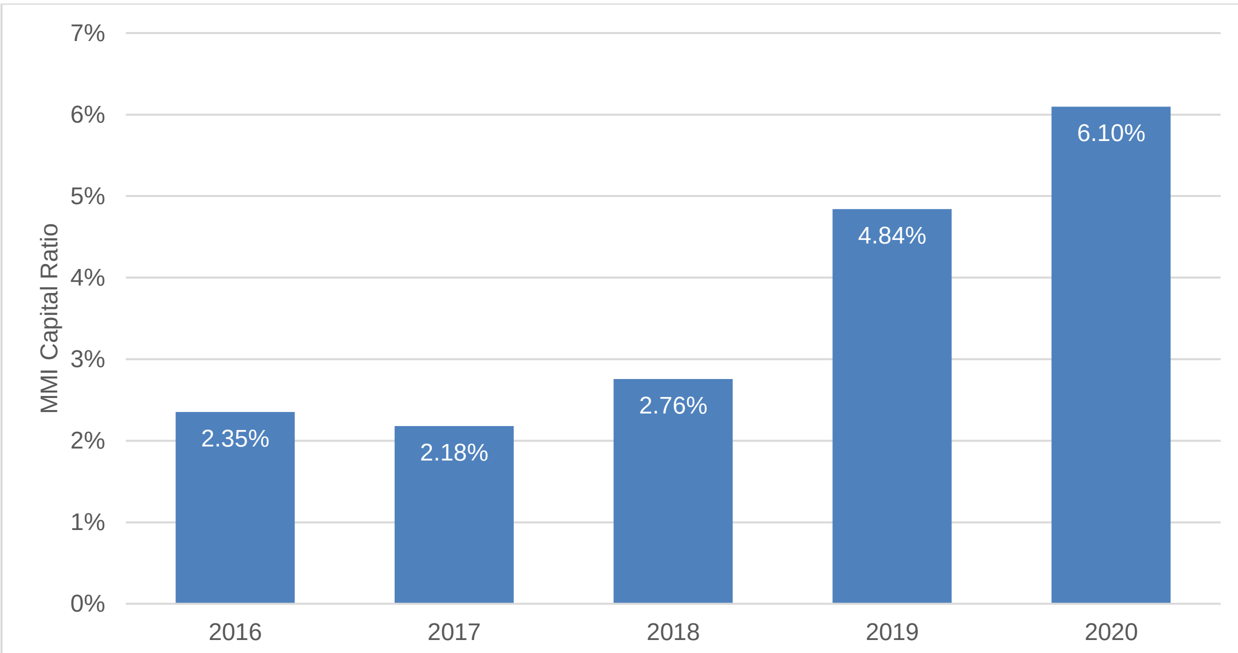
In fiscal year 2020, the MMIF's MMI Capital increased from $62.38 billion for fiscal year 2019 to $78.95 billion for fiscal year 2020. Similarly, the capital ratio increased from 4.84 percent to 6.10 percent between the end of fiscal year 2019 and the end of fiscal year 2020. The MMIF's MMI Capital has increased by $51.40 billion since fiscal year 2016. The MMIF's capital ratio similarly increased by 3.75 percent over that time, from 2.35 percent to 6.10 percent.

The portfolio valuation underlying the statutory capital ratio calculation is performed by independent consultants, using FHA data, and applying the economic assumptions from the FY 2019 President's Economic Assumptions. 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 2020. As required by law, FHA also engaged an independent actuarial firm to produce an independent estimate of the net present value (NPV) of the future cash flows from the MMIF's current book of business. For fiscal year 2020, the Independent Actuary concluded that FHA's Cash Flow NPV is

[1] *The term "MMI Capital" means Economic Net Worth of the Mutual Mortgage Insurance Fund, as determined by the Secretary under the annual audit required under section 1735f-16 of this title. The new terminology is more consistent with industry standards, as the MMI Fund Capital Ratio can now be expressed as MMI Capital/IIF.*

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 $23.07 billion, versus the $8.30 billion FHA baseline estimate. The difference between the two estimates of $14.77 billion is 1.14 percent of Insurance in Force.

## MMI Fund Capital Ratio FY 2016-2020




*SOURCE: U.S. Department HUD/FHA, October 2020*

The challenges faced by the nation because of the COVID-19 pandemic for the majority of FY 2020 included financial challenges for many homeowners with FHA-insured mortgages. FHA has assisted homeowners during these unprecedented times, offering forbearance and other support for those experiencing COVID-19-related financial hardships, while sustaining a capital cushion to protect the American taxpayer. FHA continues to identify and monitor risks in the Single Family forward mortgage program related to COVID-19. Additional concerns remain around 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 the HECM portfolio has improved during 2020 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 2020* 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, which helps foster local economic development, neighborhood economic improvement, and individual self-sufficiency; 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, 2020 will be reported in HUD's Annual Performance Report (APR) to be published in February 2021, and will be available on the following website: https://www.hud.gov/program_offices/cfo

## 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 SECTIONS

# OFFICE OF SINGLE FAMILY HOUSING

## OFFICE OF SINGLE FAMILY HOUSING PROGRAMS

Fiscal year 2020 presented unprecedented challenges for the housing finance industry. Following the declaration of the COVID-19 National Emergency on March 13, 2020, FHA and its Office of Single Family Housing acted swiftly to implement critical changes to policies and procedures to protect borrowers, assist lenders in continuing their FHA business, and provide new functionality on our *FHA Catalyst* platform. FHA continues to provide appropriate assistance to stakeholders affected by COVID-19 and to support the first-time and low-to-moderate income individuals and families who rely on our programs to become homeowners. In addition to this important work, FHA also continued to address other important priorities outlined in HUD's Housing Finance Reform Plan, including providing clarity in regulatory expectation through revised certifications and defect taxonomy, as well as revised polices to improve property disposition outcomes.

**Joseph M. Gormley,** 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. The 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 MMIF. The MMIF is funded through the collection of two types of mortgage insurance premiums: up-front mortgage insurance premiums 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 2020, the loan limit floor for a forward mortgage on an FHA-insured, one-unit, Single Family property in a low-cost area was $331,760, and the loan limit ceiling in a high-cost area was $765,600. There is a higher loan limit ceiling in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.

### FISCAL YEAR 2020 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

| | | |
|---|---|---|
| Insured 1,333,176 Single Family forward mortgages with a Mortgage Amount of $310.3 billion | Served 679,633 first-time Homebuyers representing over 83.1 percent of total forward purchase mortgage endorsements | Insured 41,819 Home Equity Conversion Mortgages (HECM) with a Maximum Claim amount totaling $16.3 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:

- **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.
- **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 MMIF and assist homeowners to avoid foreclosure whenever possible. The Office includes the FHA National Servicing Center locations in Oklahoma City and Tulsa, Oklahoma.
- **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 has four regional Homeownership Centers located in Atlanta, Denver, Philadelphia, and Santa Ana, which perform Single Family mortgage insurance operations for their 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 the Title I program, 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:** This is FHA's core program, which insures loans made by lending institutions for new or existing one-to-four unit Single Family residences, including manufactured homes classified as real property, and individual condominium units, with loan terms up to 30 years.
- **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 HUD's Single Family Housing 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 (or 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. HECM borrowers remain responsible for the payment of taxes, insurance, and property taxes and other assessment.

## 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 titled as personal property.

- **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 (FY) 2020 Portfolio and Performance Accomplishments

In FY 2020, FHA insured 1,333,176 Single Family forward mortgages for a total mortgage amount of $310.3 billion. FHA insured 41,819 HECM, with a Maximum Claim Amount of $16.3 billion. Table 1 below reflects FHA's Single Family insurance portfolio profile in FY 2018 through FY 2020.

Table 1 - FHA's Single Family Insurance Portfolio Profile

| Single Family FHA Portfolio | FY2018* | FY2019* | FY2020 |
|---|---|---|---|
| **Total Forward Endorsements** | **1,014,600** | **990,425** | **1,333,176** |
| Total 203(b) | 1,002,764 | 980,814 | 1,325,518 |
| Purchase | 765,331 | 734,396 | 810,917 |
| Refinance | 237,433 | 246,418 | 514,601 |
| **Total 203(k)** | **11,836** | **9,610** | **7,658** |
| **Purchase** | **10,944** | **8,883** | **6,930** |
| **Refinance** | **892** | **728** | **728** |
| **Total Reverse Endorsements (HECM)** | **48,329** | **31,272** | **41,819** |
| HECM Adjustable Rate | 43,428 | 29,381 | 41,019 |
| HECM Fixed Rate | 4,901 | 1,891 | 800 |
| **Total Single Family Title II Endorsements at Year-End** | **1,062,929** | **1,021,697** | **1,374,995** |
| **Total Active Loans at Year-End (Forward and Reverse)** | **8,048,639** | **8,107,806** | **7,988,354** |
| **Total Title I Loans** | **3,467** | **3,093** | **1,598** |
| Manufactured Homes | 554 | 214 | 33 |
| Property Improvement | 2,913 | 2,879 | 1,565 |

**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 FY 2020, 83.1 percent of home purchasers under the forward mortgage insurance program were first-time homebuyers, and 34.2 percent of all purchase and refinance borrowers were minority borrowers. Table 2 below provides additional detail on the demographics of borrowers served through the Single Family mortgage insurance programs.

Table 2 – FHA's Single Family Borrowers Demographic

| Borrowers Served - Single Family Mortgage Loans | FY2018* | FY2019* | FY2020 |
|---|---|---|---|
| **Forward Mortgage Insurance Endorsements** | | | |
| Average Loan Amount | $206,041 | $216,695 | $232,773 |
| Average Credit Score of Borrowers** | 670 | 666 | 672 |
| First-Time Homebuyers | 641,910 | 615,709 | 679,633 |
| Percent of SF FHA Forward Purchase Transaction Endorsements | 82.7% | 82.8% | 83.1% |
| Minority Borrowers | 326,396 | 313,551 | 347,577 |
| Percent of all SF FHA Forward Mortgage Borrowers** | 33.9% | 33.6% | 34.2% |
| Low and Moderate Income Borrowers | 475,769 | 464,044 | 513,215 |
| Percent of all Forward Mortgage Borrowers**/*** | 49.4% | 49.7% | 50.4% |
| **Reverse Mortgage Insurance Endorsements** | | | |
| Average Initial Principal Limit (amount available) | $ 185,105 | $ 180,579 | $ 224,132 |
| Average Maximum Claim Amount | $ 334,990 | $ 347,239 | $ 389,345 |
| Minority Borrowers | 6,373 | 4,144 | 5,823 |
| Percent of all SF FHA Reverse Mortgage Borrowers | 13.2% | 13.3% | 13.9% |
| Average Age of Borrowers | 73 | 73 | 73 |

**The prior years' data have been updated to reflect small changes.*
***The calculation excludes streamline refinances.*
****Low/Moderate Income percentage has changed (retroactively) substantially.*

## Technology Modernization

This past year, the FHA made significant progress against its technology modernization goals. FHA's new technology platform, FHA Catalyst, will allow FHA's program participants to conduct business electronically with FHA. This platform is part of FHA's multi-year information technology (IT) modernization initiative. FHA Catalyst represents a generational leap ahead of SFH's antiquated technology systems and will bring FHA up to date with industry best practices and standards. FHA Catalyst will provide reliable and accurate data for the full loan lifecycle and will allow FHA program participants to conduct business more seamlessly, ultimately supporting the homeowners and communities FHA serves.

Due to the impact of the COVID-19 National Emergency, FHA expedited the release of two modules within FHA Catalyst to address immediate business needs, ensure continuity, and serve the mortgage industry. In April 2020, the following modules were deployed:

- Case Binder Module: This module allows lenders to electronically deliver case binders, instead of mailing paper binders, for Single Family forward mortgages and Home Equity Conversion Mortgage insurance endorsements. Additional functionality and updated requirements for the electronic submission of case binders selected for post-endorsement reviews were implemented on August 29, 2020. As of September 30, 2020, there were 83,183 case binders delivered through the module.

- Claims Module: This module allows lenders to submit forward mortgage supplemental claims and certain loss mitigation claims electronically beginning June 15, 2020. On September 28, 2020, new functionality enabling the submission of reacquisition/reconveyance claims was introduced. More than 59,231 claims have been submitted electronically through the Claims Module as of September 30, 2020.

Although not related to the COVID-19 National Emergency, the Electronic Appraisal Delivery Module was released on the *FHA Catalyst* platform in August 2020. This module allows mortgagees to electronically submit appraisals for forward mortgage transactions beginning September 1, 2020. The module supports the existing appraisal reporting forms and appraisal protocols.

Additional modules, including Loan Applications Modules, are currently in progress to be brought online in early FY 2021. *FHA Catalyst* is a multi-year project that will continue to generate efficiencies for SFH and its program participants.

## Risk Management

### Regulatory Clarity and Marketplace Certainty

Over the last year, FHA made significant strides to improve the clarity of regulatory expectations within its programs. Most notably, HUD and the U.S. Department of Justice signed a landmark Memorandum of Understanding, which provides guidance on the appropriate use of the False Claims Act (FCA) for violations of FHA requirements by FHA-approved lenders.

To further provide certainty and clarity with respect to FHA program requirements, SFH introduced the following changes to the Defect Taxonomy, annual lender and loan-level certifications:

- **Defect Taxonomy**

  FHA implemented Version 2 of the Defect Taxonomy, a critical tool for assessing Single Family loan quality, ensuring compliance with FHA underwriting policy, and managing risk to the MMIF. The Defect Taxonomy was originally implemented through the Loan Review System in 2017. Version 2 was published in October 2019, and implemented on January 1, 2020, to address mortgage industry feedback and operational challenges that emerged during the first two years of use. Significant updates to severity tiers added clarity and consistency. Policy references now link the Defect Taxonomy to Single Family Housing Policy Handbook 4000.1 (SF Handbook) and applicable Mortgagee Letters. Most importantly, potential remedies are presented in each defect area for greater transparency.

  FHA subsequently published Mortgagee Letter (ML) 2020-31, *Federal Housing Administration (FHA) Defect Taxonomy Appendix to Handbook 4000.1* on September 22, 2020, which announced the incorporation of Appendix 7.0 — FHA Defect Taxonomy into the SF Handbook.

  The Defect Taxonomy is used by over 200 FHA reviewers and thousands of FHA lenders.

- **Annual Lender Certifications**
  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. Following the public comment period, FHA issued a final *Federal Register* Notice on October 25, 2019, implementing the new revised annual lender certification. The new annual lender certification became effective for the certification period ending December 31, 2019.

- **Loan-Level Certifications**
  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.

Mortgagee Review Board: Administrative Actions Published in Federal Register: FHA published a Federal Register Notice (Docket No. FR-6163-N-02) with details of all completed administrative actions taken by HUD's Mortgagee Review Board during FY 2019. The Notice provided a description of, and the cause for, the Mortgagee Review Board's administrative actions against HUD-approved mortgagees in 47 fact-based cases and 59 annual recertification violations.

## COVID-19 National Emergency Response

On March 13, 2020, the President declared the COVID-19 National Emergency. On that same date, FHA issued its first temporary regulatory and SF Handbook waivers of its servicing policies, suspending the requirement for in-person early default intervention. Other major COVID-19 response actions are described below.

On March 18, 2020, SFH published ML 2020-04, "*Foreclosure and Eviction Moratorium in Connection with the Presidentially-Declared COVID-19 National Emergency*," which announced a 60-day foreclosure and eviction moratorium for all FHA-insured Single Family mortgages. This moratorium was subsequently extended three times and is now in effect through December 31, 2020.

On March 27, 2020, FHA announced underwriting flexibilities through ML 2020-05 to address the need for social distancing during the COVID-19 National Emergency. FHA provided alternatives for mortgagees to re-verify a borrower's employment prior to settlement and permitted FHA roster appraisers to use exterior-only or desktop-only appraisal inspections as a substitute for interior home inspections. These flexibilities were extended through October 31, 2020.

On June 4, 2020, FHA published ML 2020-16 to allow the endorsement of mortgages placed in forbearance due to the COVID-19 National Emergency, subject to indemnification of FHA against the loss of up to 20 percent of the original mortgage amount for a maximum of two years. This policy change assured the residential real estate market that FHA insurance would be available for these mortgages, while effectively managing risks to FHA's Mutual Mortgage Insurance Fund and reducing the economic impact of the COVID-19 National Emergency.

On July 8, 2020, FHA published ML 2020-22 which streamlined loss mitigation options for borrowers who utilize the Coronavirus Aid Relief Economic Security (CARES) Act forbearance but do not qualify for the COVID-19 Standalone Partial Claim to resolve the outstanding missed payments.

On July 28, 2020, FHA published ML 2020-23, which announced temporary guidance for verification of self-employment, establishment of rental income and administration of repair escrow accounts. The effective period of this guidance was extended to November 30, 2020 in ML 2020-24.

On September 10, 2020, FHA published ML 2020-30, which announced underwriting guidelines for borrowers with previous forbearance. This policy established requirements for analysis of borrower's mortgage payment history while in forbearance as well as requirements for post forbearance housing payment histories. This policy was implemented in response to the large number of forbearances in response to the COVID-19 National Emergency but was made permanent to address future impacts leading to forbearance.

Federal Housing Administration
Office of Single Family Housing

**Success Story – New CARES Act Loss Mitigation Options Saves Borrower from Foreclosure**

A 78-year old borrower contacted FHA's National Servicing Center (NSC) about facing foreclosure. Her daughter, who is also the co-borrower, works for a restaurant that was temporarily closed due to the COVID-19 National Emergency, and was also out of work. They contacted their servicer about payment relief and were unsuccessful until an NSC representative intervened. The NSC representative contacted the lender and explained FHA's COVID-19 loss mitigation policies and those specifically under the CARES Act. The NSC representative advised the servicer that based on FHA's servicing policies, the borrower was indeed eligible for assistance. Following this, the servicer agreed she and her daughter qualified, and they received FHA's COVID-19 forbearance, which allowed for a period of reduced or suspended payments with specific repayment terms.

## Other Policy and Procedural Updates

**203(k) Rehabilitation Mortgage Loan Limits increased in Opportunity Zones**

On November 22, 2019, FHA issued ML 2019-18, *Maximum Rehabilitation Costs in Qualified Opportunity Zones (QOZs) for Limited 203(k) Mortgages,* which announced an increased cap for Limited 203(k) mortgages from $35,000 to $50,000 in QOZs only. This policy change seeks to increase investment in home purchase and/or rehabilitation in QOZs by enhancing borrower financial options. This guidance is currently effective for case numbers assigned from December 16, 2019, through December 31, 2028.

**Claims Without Conveyance of Title Procedures**

In July 2020, FHA published ML 2020-21, *Enhancements to FHA's Claims Without Conveyance of Title (CWCOT) Procedures,* which communicated changes to FHA's CWCOT procedures, including refinement of FHA's pricing model for CWCOT properties, and improved guidance for CWCOT expenses. The ML introduced new guidance for additional appraisal requirements for CWCOT, more refined discounts to appraised values, and tiered reserve pricing to determine the Commissioner's Adjusted Fair Market Value (CAFMV).

### SF Handbook 4000.1 Update

FHA continued its practice of making updates to its SF Handbook 4000.1 in FY 2020. 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 previously made through Mortgagee Letters, *Federal Register* Notices, Housing Notices, policy waivers, and other sources of SFH policy issued since the last update in October 2019. Having a consolidated source for Single Family Housing policy makes it easier for lenders and other stakeholders to do business with FHA.

Also in FY 2020, FHA posted the revised *Servicing and Loss Mitigation* section (Section III) of the SF Handbook on the Single Family Housing Drafting Table (Drafting Table) for public feedback. The feedback period concluded on September 12, 2020.

### Condominium Data Collection Forms

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 rule also included provisions for condominium loan-level and single-unit approvals. To operationalize the requirements, FHA developed data collection forms, which are necessary to determine eligibility status for single-unit or condominium project approvals.

To further enhance the operation of the Rule, FHA on July 31, 2020, published Federal Register (FR) Notice, Project Approval for Single Family Condominiums (Docket No. FR-7024-N-30). This notice provided another opportunity for interested stakeholders to provide public comment on the renewal and revision of data collection forms HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval Questionnaire,* and HUD-9992, FHA Condominium Project Approval Questionnaire, before the forms are approved for use.

# OFFICE OF MULTIFAMILY HOUSING

## 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 57,000 Multifamily project mortgages and currently has over 11,000 insured properties in its portfolio. During the increased challenges from the COVID-19 National Emergency, our insurance programs, along with additional CARES Act relief, have provided stability and affordability to the Multifamily housing market and increased 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 FHA-approved lenders in order to facilitate the construction, rehabilitation, repair, refinancing, and purchase of Multifamily rental housing properties. FHA's Multifamily mortgage insurance endorsement program is part of FHA's 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 2020 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

| | | | |
|---|---|---|---|
| Endorsed 977 new Multifamily loans Totaling $18.6 billion | Managed insured portfolio of 11,427 Multifamily loans with an unpaid principal balance $113 billion | Oversaw portfolio of 29,200 properties with 487,000 assisted and insured units, 935,000 assisted only units, and 914,000 insured only units | Maintained low default rate of 0.71 percent |

## FISCAL YEAR 2020 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

- Implemented several measures to reduce the negative impacts of COVID-19 and protect the safety of our residents and other stakeholders through the CARES Act forbearance and eviction moratorium, extension of an eviction moratorium for all HUD-insured or HUD-held mortgages under forbearance, temporary suspension of Real Estate Assessment Center (REAC) inspections, and electronic submission of closing documents.
- Launched demonstration of the National Standard for Physical Inspection of Real Estate (NSPIRE) protocols to test new approaches for making certain thousands of Public Housing Authorities and private owners provide housing that is safe and livable.
- Revised Section 223(f) policy to allow newly constructed or substantially rehabilitated projects to refinance without a three-year waiting period, providing property owners with more access to capital for renovations and create more affordable and market-rate rental housing.
- Received 76 applications in Qualified Opportunity Zones under Section 221(d)(4) and Section 223(f) totaling 12,160 units and loan mortgage amounts of $1.8 billion supporting public and private investments in market rate and affordable housing in urban and economically distressed areas.
- Converted 20,504 public housing units to the Section 8 platform bringing the total to nearly 140,000 units preserved through the Rental Assistance Demonstration, which allows the properties to be stabilized and rehabilitated.
- Provided disaster support by conducting preliminary assessments on 1,334 properties and onsite final assessments on 95 properties.

## 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 Program Systems Management** is responsible for providing information technology services that empower the strategic vision of MFH Programs.
- **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.

## FISCAL YEAR 2020 PORTFOLIO AND PERFORMANCE ACCOMPLISHMENTS

Table 3 – FHA's MFH insurance portfolio in Fiscal Year 2020

| MFH Endorsements by Program | | | |
|---|---|---|---|
| | Endorsements for Fiscal Year | | |
| Section of the Act | 2018 | 2019 | 2020 |
| **Section 221(d)(4): New Construction and Substantial Rehabilitation Program Volume (In Millions)** | **$5,929** | **$4,906** | **$5,146** |
| Percentage | 39.9% | 43.0% | 27.6% |
| Number of Units | 46,267 | 37,843 | 35,928 |
| Number of Mortgages | 251 | 224 | 199 |
| **Sections 223(f), 223(a)(7), and 241(a): Purchase/Refinancing Program of Existing MFH Projects Volume (In Millions)** | **$8,129** | **$5,648** | **$12,532** |
| Percentage | 54.7% | 49.5% | 67.3% |
| Number of Units | 92,249 | 55,682 | 112,477 |
| Number of Mortgages | 577 | 385 | 704 |
| **Section 542(b) and 542(c): Risk-Sharing with QPEs & HFAs Volume (In Millions)** | **$809** | **$859** | **$942** |
| Percentage | 5.4% | 7.5% | 5.1% |
| Number of Units | 8,623 | 9,179 | 8,906 |
| Number of Mortgages | 72 | 82 | 74 |
| **Total** | **$14,818** | **$11,347** | **$18,566** |

**Percentages based on total mortgages endorsed. MFH endorsements shown in Table 3 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 20,504 units in fiscal year 2020, from Public Housing to the Section 8 platform under RAD for a total of nearly 140,000 units since the inception of the program.
- Completed $2.2 billion in construction investment for closed RAD transactions to recapitalize public housing stock in fiscal year 2020, surpassing $10 billion since the inception of the program.

### McGuire Gardens, Camden, New Jersey

McGuire Gardens, a townhome style family community in Camden, New Jersey, is providing 252 units of affordable housing to low-income, and very low-income residents. Using Low-Income Housing Tax Credits, an FHA-insured HUD 221(d)(4) loan, and public housing redevelopment flexibilities provided through the Rental Assistance Demonstration program, this 1953 property is undergoing its second major renovation.

The Housing Authority of the City of Camden partnered with Berkadia, Michaels Development Corporation, and Watson Street Management & Development Corporation to begin renovations on the townhomes in 2020. McGuire Gardens utilizes income averaging and leases to tenants who earn 50-80% below Camden County's AMI. McGuire Gardens is located just a few blocks from the Cooper River, city parks, a major highway, and public transportation.

## 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 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 2020.

- In fiscal year 2020, the Office processed four M2M transactions for a total of 226 units, of which one was a full debt restructure with 54 units; one transaction with 50 units completed as a rent restructuring, and the remaining two transactions with 122 units completed as actions other than closing with potential to re-enter the program for full debt restructuring.
- The Office processed 36 post M2M transactions with 3,425 units, and with privately funded rehabilitation costs that averaged $23,313 per unit. Further, Post M2M collected $6.95 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 disposition of defaulted notes.

MFH's attentiveness to the portfolio has helped maintain a low default rate of 0.71 percent for MFH properties in fiscal year 2020.

- FHA achieved a 56 percent rate of return from the sale of FHA mortgage notes, based upon unpaid principal balance and sale price.
- FHA collected $9.6 million on seven 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 nine properties; and relocated 321 families from seven properties due to subsidy contract terminations.

## COVID-19 National Emergency and Other Disaster Relief and Recovery Efforts

In response to the COVID-19 National Emergency, MFH provided support to Multifamily property owners/managers and residents through a series of publications and ongoing outreach. With social distancing measures in place and staff working remotely, quick decisions were made to ensure continuity of business and ensure safety of residents, including the suspension of REAC inspections and allowing for electronic submission of resident forms, closing documents, and reports. To keep our stakeholders informed, MFH drafted extensive Q&As in response to questions received from the public, published Housing Notices for detailed guidance, and sent explanatory memos to stakeholders. After publishing Mortgagee Letter 2020-09 about the CARES Act forbearance for borrowers, lenders received a sample template to request forbearance to simplify and accelerate the process, and staff attended a training on outlining how to evaluate requests for forbearance.

MFH provided support for owners and managers who had properties affected within Presidentially Declared Major Disaster Areas (PDMDAs). For 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 2020, the Office of MFH collaborated with the Office of Risk Management and Regulatory Affairs (ORMRA) to better identify and manage risk within its programs, including the examination of Multifamily vacancy rates throughout the country. With the emergence of the COVID-19 National Emergency and the implementation of the CARES Act in April, MFH developed forbearance and other mechanisms to assist impacted borrowers and collaborated with ORM to manage the increased risk. Both offices continue to measure and monitor current and emerging trends in the Multifamily portfolio, for the protection of the GI/SRI Fund and the American Taxpayer. The default rate on the FHA-insured MFH portfolio increased slightly to 0.71 percent; however, there have been no insurance claims since the beginning of the COVID-19 National Emergency.



# OFFICE OF HEALTHCARE PROGRAMS

## OFFICE OF HEALTHCARE PROGRAMS

FHA's Office of Healthcare Programs, the nation's largest and most successful Healthcare mortgage insurance program, has continued to serve Healthcare facilities during these unprecedented times where frontline Healthcare providers in hospitals, skilled nursing facilities and other residential care facilities valiantly serve our vulnerable population every day. FHA leadership and staff are proud to work with stakeholders serving millions of patients and residents in all fifty states and the American territories.

**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 2020 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

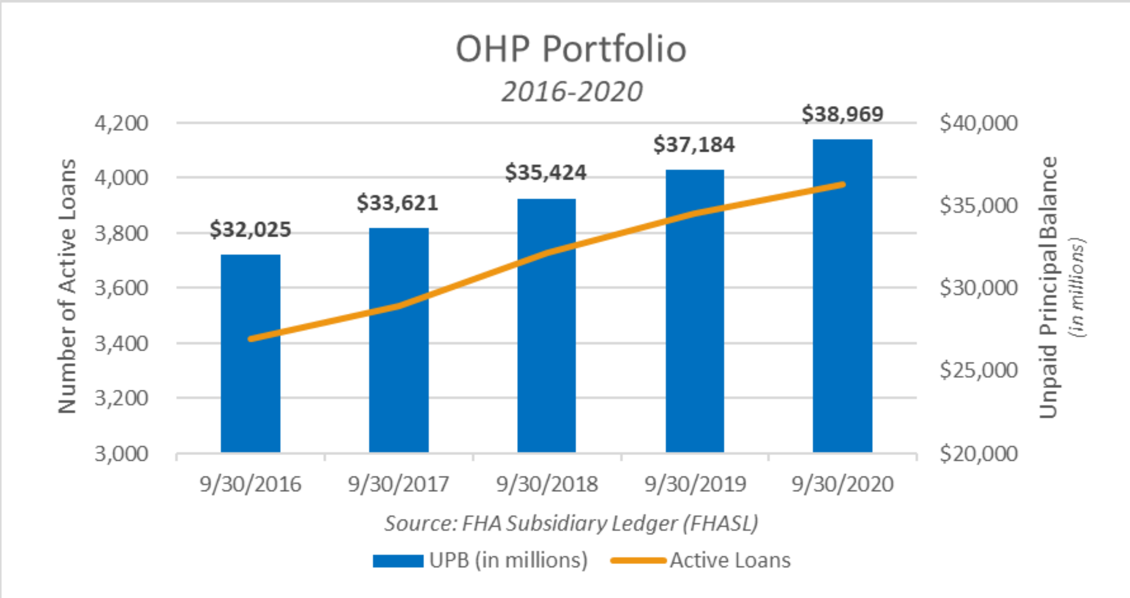
Section 232 Residential Care Facilities

- Issued 334 commitments totaling $4.1 billion
- Managed insured portfolio of 3,889 residential care facility loans with an unpaid principal balance of $33.1 billion
- Maintained a low annual claim rate of 0.12 percent net of recoveries

Section 242 Mortgage Insurance for Hospitals

- Issued six insurance commitments and four loan interest rate modifications for $968.3 million
- Managed insured portfolio of 90 hospital facility loans with an unpaid principal balance of $5.9 billion
- Maintained a low cumulative claim rate of 1.28 percent net of recoveries

As of September 30, 2020, the total FHA-insured Healthcare insurance portfolio consisted of 3,979 loans with an unpaid principal balance of $39.0 billion. The programs maintain low claim rates and contribute credit subsidy receipts to the 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 Section 232 and 242 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, 2020, Section 232 consists of the following:

- **Production Volume:** A total of 429 applications were received and ORCF issued 334 commitments totaling $4.1 billion.
- **Asset Management Volume:** The Section 232 portfolio totaled 3,889 loans with an unpaid principal balance of $33.1 billion.

**Transitional Care of Lisle**

Transitional Care of Lisle, Illinois is a new 60-unit Skilled Nursing Facility with 68 beds. The FHA insurance on this $14,400,000 mortgage, pursuant to Section 232, assisted the borrower in obtaining a low interest rate. After initial endorsement, construction began on November 20, 2018. Construction was completed on April 29, 2020. This facility provides short-term transitional care for a mix of elderly and disabled residents. Transitional Care of Lisle has 52 private units with single beds as well as eight semi-private units with double beds. In response to the COVID-19 National Emergency, ORCF staff worked closely with the Borrower, General Contractor, Lender, and the State of Illinois to quickly open the facility and support elderly and disabled residents in need of transitional care.

## 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. As of September 30, 2020, Section 242 consists of:

- **Production Volume:** OHF issued six insurance commitments and four loan interest rate modifications totaling $968.3 million.
- **Asset Management Volume:** The Section 242 portfolio consisted of 90 active hospital loans with a total unpaid principal balance of $5.9 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.

## Community Hospital

Community Hospital in Grand Junction, Colorado, is a full-service, acute care hospital licensed for 60 beds. Located in a qualified Opportunity Zone in Mesa County, CO, the Hospital is part of the Colorado West Healthcare System, and is a Level III Trauma Center that offers full outpatient diagnostic services and inpatient care for the Western Slope region of Colorado and eastern Utah. The Hospital provides a full range of medical services, including inpatient and outpatient surgery, and emergency care.

With proceeds from the Section 223(f)/242 mortgage loan, the hospital will refinance debt, implement a new electronic medical records system, upgrade its operating rooms, modify its exterior, and purchase equipment.

## Fiscal Year 2020 Accomplishments

In FY 2020, the Office of Healthcare Programs (OHC) continued to refine its operational processes and provided lender and staff training.

- **Risk Transformation Initiative:** ORCF implemented a new approach to the way it monitors, categorizes, and responds to risk factors in the Section 232 portfolio. Developed in conjunction with lender stakeholders, the result is a more efficient and consistent method for Asset Management across ORCF. This approach proves a standardized monthly report identifying assets most at risk and requires structured dialogue with lenders to validate risks and ensure action plans are in place to address validated risks.
- **Training:** OHP routinely provides training opportunities to continuously improve lender relations and enhance the capabilities of its staff members. In September 2020, OHF conducted virtual training sessions for the Lender community. Topics included training for new lenders, a review of lender/servicer responsibilities, and a review of the Construction and Project Closeout processes.

## COVID-19 National Emergency Efforts and Highlights

The COVID-19 National Emergency significantly impacted the operations and finances of the residential care and hospital facilities in the Office of Healthcare Programs portfolio. In FY 2020, the Office of Healthcare Programs staff, in conjunction with program stakeholders, utilized maximum flexibilities for the purpose of ensuring facilities remained open to provide care for the millions of Americans affected by COVID-19 in FHA-insured Healthcare facilities.

- **Published COVID-19 Q&As.** OHP developed Frequently Asked Questions for stakeholders with information on health and safety best practices and updated protocols.
- **Expedited and processed requests.** OHP received an unprecedented number of requests related to mortgage reserve funds, debt service reserves, reserve for replacement funds, and other financing mechanisms to support working capital needs. Additional requests related to the Small Business Administration Payroll Protection Program (PPP) under the CARES Act were also received. As hospitals and residential care facilities worked quickly to identify additional physical space to increase capacity for the care and treatment of COVID-19 patients and residents, OHP Account Executives, Workload Managers, and Directors worked with stakeholders to navigate programmatic requirements.
- **Developed a COVID-19 Tracker tool**. This tool provides data on the cumulative impacts of the virus on the Section 232 portfolio. The tool combines data from Centers for Medicare and Medicaid Services and other external sources, internet-based information, and records reports from ORCF staff as they conduct risk assessment conferences with lenders.
- **Provided flexibility for in-person inspections.** OHP issued temporary policy that set forth alternative means of inspections on Healthcare facilities, given the Centers for Medicare and Medicaid Services restrictions placed on visitors and non-essential Healthcare personnel.
- **Developed a financial stress test for ORCF facilities.** The stress test uses project financials, census, and stimulus dollars received to evaluate a project's ability to cover its expenses and debt service going forward.
- **Incorporated COVID-19 specific questions into the ORCF underwriting process.** A list of standard questions related to COVID-19 and its impact on the facility are now part of the Lender Narrative Appendix and Borrower Certification that are part of the underwriting process for new mortgages.

## Management Initiatives and Program Improvements

In fiscal year 2020, OHP focused on enhancing underwriting and asset management capabilities. Enhancements were designed to improve workflow and mitigate risk, which included the following:

- **Collaboration with U.S. Department of Agriculture (USDA) Rural Development Program.** In the spring of FY 2020, OHF led a series of meetings with the USDA's Community Facilities Program to discuss the financial impact COVID-19 could have on hospitals in both programs and to explore development of joint legislative efforts to assist these facilities and reduce the risk of mortgage defaults.

- **ORCF conducted a portfolio-wide data driven risk review.** A new standardized matrix was utilized to categorize projects as Troubled (High Risk), Potentially Troubled (Watch), and Not Troubled, removing subjectivity from these evaluations.

## Risk Management

With an outstanding portfolio balance of over $39.0 billion, managing risk is an important focus of the OHP programs. OHP mitigates risk upfront during the underwriting process and, 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.
- **Proactive asset management** also plays an important role in risk management and loss prevention. In FY 2020, 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 GI/SRI Funds.

# HOUSING-FHA OTHER CONTRIBUTING OFFICES

# OFFICE OF HOUSING COUNSELING

## OFFICE OF HOUSING COUNSELING

The Office of Housing Counseling provides support and oversight to HUD Approved Housing Counseling Agencies nationwide. Since 2017, the Housing Counseling Program has assisted 3,925,878 families in overcoming housing barriers and achieving their housing goals.

**Danberry Carmon,** Associate Deputy Assistant Secretary
Office of Housing Counseling

### Overview

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). 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 and educational resources to consumers, prospective FHA and other borrowers, renters, and disaster victims so that they can make responsible choices to address their housing needs.

The network consists of approximately 1,700 HUD-approved housing counseling agencies who counsel consumers on basic housing principles and financial literacy to help them make informed housing decisions. While the Housing Counseling program is funded through an annual appropriation outside of FHA, its activities contribute to FHA's mission by educating borrowers on the rights and responsibilities of homeownership, rental and disaster assistance counseling. Housing counselors show consumers how to increase residual income and savings, improve housing conditions, understand mortgage credit, and improve housing stability. Counselors also serve as a gateway to other community services and housing assistance programs.

### FISCAL YEAR 2020 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

Nearly $40 million in Grant Awards to 204 HUD-approved Housing Counseling Agencies

Supported HUD-approved Housing Counseling agencies in counseling over 700,000 households (through Quarter 3)

Supported 3,028 housing counselors to become HUD certified

## Housing Counseling Office Structure

The Office of the Deputy Assistant Secretary for Housing Counseling oversees program performance for the following offices.

- Office of Outreach and Capacity Building (OCB) leads efforts to expand housing counseling capacity, provides training to agencies and housing partners, and promotes awareness of housing counseling.
- Office of Policy and Grant Administration (OPGA) is responsible for research, program policies, and grant administration.
- Office of Oversight and Accountability (OOA) monitors compliance and mitigates risk associated with the Housing Counseling Program.

## Housing Counseling Program

As of June 30, 2020, 733,000 households received housing counseling services from HUD-Approved Housing Counseling Agencies:

- 272,000 households received group education with 117,000 completing financial literacy, and 123,000 participating in homebuyer education.
- 381,000 households received one-on-one counseling for homeless assistance, rental housing, pre-purchase, non-delinquent post purchase, and reverse mortgage with 80,000 receiving mortgage delinquency or default counseling.
- 320,000 households achieved financial stability developing a sustainable household budget, and 111,000 reported improving their financial capacity.
- 239,000 households received information on fair housing, fair lending, and accessibility rights.
- 110,000 households gained access to resources to improve their housing situation, while 57,000 gained access to non-housing resources.

### Support Agency Transition to Virtual Counseling

The Housing Partnership Network (HPN), a HUD approved National Intermediary, held a special virtual meeting in March for their housing counseling agencies (HCA). This meeting discussed the challenges agencies were facing during the COVID-19 National Emergency and potential solutions. HPN realized HCAs must do two things at the same time: (1) get their staff comfortable with new communications methods; (2) counsel and support clients, who are also adjusting to new ways of communicating.

The pathway to successful virtual counseling involved ensuring HPN's agencies had adequate technology to transition to virtual sessions using apps, electronic signatures, and share screen options. Counselors learned to make clients comfortable by explaining virtual counseling, offering telephone counseling for those without computer access, and establishing regular lines of communication with clients. HPN proactively helped their counselors understand how to communicate essential information, such as the CARES Act and provided verified websites for evolving COVID-19 information.

HPN received $501,132 in FY2020 Comprehensive Housing Counseling Grant funds.

## FISCAL YEAR 2020 PERFORMANCE HIGHLIGHTS

In FY 2020, the Office of Housing Counseling continued efforts to maximize the effectiveness of its services and engage stakeholders to support and improve the program.

- **FY 2020 Grants:** OHC awarded housing counseling agencies $40 million in the first round of the Supplemental Housing Counseling Notice of Funding Availability (NOFA), prior to the statutory deadline, providing over one million families access to HUD-approved counseling services. Approximately $3 million of this total was awarded to five HUD-Approved National Intermediaries under the Housing Counseling Training NOFA. These organizations provide training on core topics such as mortgage default, budgeting, and disaster preparation and recovery.

- **Building Partnerships:** OHC partnered with the Financial Literacy and Education Commission, which plays a central role in the federal government's efforts to enhance financial literacy, financial capability, and individual economic well-being. OHC cross collaborated with other HUD programs on counselor certification requirements.

- **Counselor Certification:** Under HUD's Final Rule for Housing Counselor Certification, OHC increased the number of certified counselors. Currently, 67 percent of HUD-approved agencies have one certified counselor.

- **Expanding Resources:** OHC launched Housing Counseling Standards for Program Content, Service Delivery, and Recordkeeping and Agency Work Plan online training as well as Client Disclosure and Agency Work Plan toolkits designed to improve housing counseling agency program compliance.

## COVID-19 National Emergency Response

In response to the challenges counseling agencies are facing as a result of the COVID-19 National Emergency, OHC implemented an automatic extension of the performance period for all FY2019 Comprehensive Housing Counseling grants to March 31, 2021.

HUD published an Interim Final Rule on the Federal Register to amend the deadline for housing counselor certification. The new final compliance date is August 1, 2021. The amendment is meant to ensure vital housing counseling services remain available to the nation's homebuyers and renters, particularly those who need housing and mortgage assistance to recover financially from the effects of the COVID-19 National Emergency.

Housing Counseling Agencies are required to provide in-person counseling to clients who prefer it that way. A partial waiver to temporarily remove the requirement for in-person housing counseling was granted for one year. This will allow HUD-Approved Housing Counseling Agencies to provide counseling using alternative ways including, phone, video, Skype, or other online resources conducive to social distancing.

OHC is working with agencies to ensure reapprovals are processed timely and assist agencies with continued operations.

OHC's disaster Assistance Recovery Team (DART) developed COVID-19 National Emergency information for Housing Counselors to provide housing counselors with additional resources in response to the COVID-19 National Emergency.

## Initiatives and Program Improvements

In FY 2020 OHC implemented several program improvements:

- Launched dynamic, interactive housing counseling program impact data displays utilizing data from the HUD-9902 Housing Counseling Activity Report. These displays share information about HUD's Housing Counseling Program impacts and services with housing counseling agencies and interested stakeholders.
- Improved processing and scoring of grant applications. The FY 2020 Supplemental Comprehensive Housing Counseling NOFA provided increased reliance on HUD's records for scoring, promoting accountability. Application processing is streamlined, and award packages are distributed electronically, further reducing administrative burdens.

OHC continues to develop tools, training, web content, and resources to assist agencies in improving program compliance.

## Risk Management

OHC is updating and revising its policies and procedures to ensure consistency and adequacy of the agency approval process, re-approval, performance review, and voucher approval process as well as the termination procedure. Specifically, the revisions include updates to the Housing Counseling Program Handbook as well as revising and updating Standard Operating Procedures. Furthermore, HUD is finalizing its new Housing Counseling Agency Management System (HCAMS). This system will interface with the current system, which will allow staff to utilize its information more efficiently when analyzing data and to track important milestones. HCAMS will help OHC to mitigate risk while implementing system controls that will provide the ability to increase our monitoring and oversight of the HUD Housing Counseling Program.


# OFFICE OF RISK MANAGEMENT

## OFFICE OF RISK MANAGEMENT AND REGULATORY AFFAIRS

The COVID-19 National Emergency in the United States has brought economic challenges to FHA homeowners, which are mostly first-time, low-to-moderate income borrowers. The Office of Risk Management and Regulatory Affairs (ORMRA) continues to support FHA's mission during this crisis by measuring, monitoring and managing the risk to the approximately $1.4 trillion insured portfolios and to both establish and ensure compliance with federal construction, installation, and safety standards in the manufactured housing industry.

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

### Overview

ORMRA monitors FHA and the Office of Housing's risk related 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 within the Housing Office of FHA.

Through prudent risk and capital 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 observed industry best practice risk management strategies 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 2020 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

- Continued to strengthen outreach and collaboration with internal and external stakeholders to understand issues facing all business lines to identify best practices and ensure they are being utilized.
- In rapid response to the COVID-19 National Emergency, the Single Family and Commercial risk teams conducted a series of stress tests on the respective portfolios to monitor and measure the potential impacts to the MMI and GI/SRI insurance funds during this critical time.
- As volumes increased in both the Single Family and Commercial insured portfolios, the teams measured potential impacts to the funds and informed Leadership of the range of outcomes.
- Working with each Program Office, the Operational Risk team analyzed impacts on daily operations, including internal reporting, surveillance, and operational readiness to monitor the potential risks.
- The Office of Manufactured Housing rapidly prioritized support for the manufactured housing industry impacted by the COVID-19 National Emergency by prioritizing and expediting manufacturing flexibilities to keep factories producing without unnecessary delays.

ORMRA collaborates with Housing's Program Offices to define the overall risk tolerance and establish metrics and limits. Additionally, ORMRA assesses and monitors Credit, Operational and Counterparty Risks within each office.

ORMRA quantifies and monitors the risk of underwriting standards and credit policies to support FHA's critical role as a countercyclical force to help stabilize the mortgage market, particularly during times of market disruption such as the impact of the COVID-19 National Emergency. ORMRA accomplishes this via review and analysis of FHA portfolio performance, and performs financial valuations of the FHA insured portfolios, which are economically modelled to provide quantitative solutions to ensure the MMI and the GI/SRI funds are sound. 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 committees, ORMRA presents its assessments and recommendations to the program offices and Office of Housing Senior Leadership.

With that in mind, prudent capital management is the most effective tool at hand to balance FHA's responsibility to borrowers and taxpayers in this time of crisis.

To better manage programmatic and financial risk in FY 2020, ORMRA executed the following key actions:

**Single Family Portfolio**

- As volumes in the portfolio increased, monitored, and informed senior Leadership of potential risks to the MMI Fund via modelled projections and scenario forecasting.
- Assisted with the creation of multiple risk mitigation policies to better manage lender, servicer and borrower performance during COVID-19 National Emergency.
- Continued to provide data and insights in policy development, including, underwriting policies for cash-out refinance mortgages and performance of mortgages with down payment assistance.
- Enhanced the risk reporting framework to examine risks in the HECM program with greater precision.
- Developed and refined a capital management strategy designed to ensure the MMIF could withstand various stress scenarios.

**Commercial (Multifamily and Healthcare) Portfolio**

- In response to the COVID-19 National Emergency, the commercial portfolio was stress tested using various COVID-19 scenarios, from a national level to a global level. Enhanced monitoring of the commercial portfolio was conducted in areas with high concentrations of COVID-19 breakouts.
- Conducted an assessment of each insured Multifamily loan's Reserve for Replacement escrow account balance to estimate the extent of each property's capital cushion.
- Developed Multifamily and Healthcare Watch Lists for defaulted loans.

- Improved documentation of all loan performance models used to monitor the commercial portfolio.
- Worked with Policy Development and Research to examine Multifamily vacancy rates throughout the country.
- Streamlined the Model Risk Governance process for the Loan Performance and Cash Flow models used to monitor and assess the health of the insured portfolio.
- Developed analytical tools and streamlined review processes to assess risk levels for large Multifamily loans over $75 million and residential care loans over $25 million seeking mortgage insurance and for borrowers with significant delinquencies.
- Participated in various internal and external (industry) meetings to determine how the Office of Risk Management-Commercial can better serve the needs of its stakeholders.

These and similar actions taken by ORMRA in Fiscal Year 2020, ensure that the risk to FHA's insured portfolios are quantified and 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 organizational structure consists of:

- **Office of Risk Management** is responsible for systematically defining and articulating risk management strategies and procedures across the Offices of Single Family Housing Programs, 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 and Healthcare mortgages.
- **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 2020 PORTFOLIO AND PERFORMANCE HIGHLIGHTS

**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 develop and improve existing policies to manage risk to the MMI Fund with more precision. As mortgage, borrower and market characteristics changed and evolved, ORMRA continued to inform Single Family Business and Housing Leadership and offer guidance to effectively manage potential risks. ORMRA continually analyzed, monitored, and reported on data and performance of mortgages to determine the impact to the MMI Fund. During FY 2020, ORMRA made underwriting criteria changes that produced positive trends in the credit characteristics of FHA endorsements. In addition, during the COVID-19 National Emergency, ORMRA assisted in the update of new underwriting requirements, provided data and analyses to the

Single Family Business and Housing Leadership for assisting mortgage lenders, mortgage servicers and borrowers to fully implement the CARES Act.

**Commercial Risk Management:** ORMRA's Commercial Risk Management team refined 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 results to the Multifamily and Healthcare Program offices, together with senior housing leadership, insights, and potential impacts to the GI/SRI fund. In response to the COVID-19 National Emergency, the commercial portfolio was stress tested using various COVID-19 scenarios, from a national level to a global level. Enhanced monitoring of the commercial portfolio was conducted in areas with high concentrations of COVID-19 breakouts. The team continues to monitor current and emerging trends and provide data and analysis to the Multifamily and Healthcare businesses and Housing leadership to fully implement the CARES Act.

**Operational Risk Management:** ORMRA's Operational Risk Management team provides expert advice to support the Office of Housing's risk management framework, in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Throughout fiscal year 2020, the team conducted risk assessments with Program Offices to identify new and emerging operational risks arising from people, processes, information technology, and external events. Team members elevated important risk information to senior leadership, which allowed management to make risk-informed decisions and allocate resources effectively. The team recently completed the Office of Housing's 2020 Risk Profile, elevating operational risks to senior leadership in Housing. The team is also benchmarking Housing's risk management framework with other HUD offices, as well as external agencies, to identify best practices and opportunities for collaboration.

**Manufactured Housing Programs**: In FY2020, the Office of Manufactured Housing Programs (OMHP) issued a Final 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 also took the following actions:

- Issued a Proposed Rule to amend the Federal Manufactured Home Construction and Safety Standards by adopting the third group of recommendations made to HUD by the Manufactured Housing Consensus Committee (MHCC). OMHP continued collaboration with the manufactured housing industry by holding a multi-day, in-person meeting in October 2019 and four MHCC subcommittee meetings.
- To quickly address supply-chain issues arising from the COVID-19 National Emergency, OMHP issued the federal government's first-ever industry-wide Alternative Construction letter for manufactured housing windows in April 2020.

- Extended the renewal period for expiring manufactured housing installer licenses through December 31, 2020, to support installation activity in states and address limitations imposed by travel and group gathering restrictions.

OMHP continues to provide prioritized support for the manufactured housing industry by implementing expedited processing for letters addressing COVID-19 National Emergency issues, developing innovative procedures to enable contractors to conduct remote audits in manufacturing plants, and fully utilizing electronic processes for seamless continuation of all program operations.

## OFFICE OF ASSET SALES

The Office of Asset Sales (ASO) within the Office of Finance and Budget manages FHA's loan sales under which FHA sells defaulted Single Family, Multifamily and Healthcare mortgage notes. Loan sales seek to maximize returns to the FHA insurance fund by auctioning defaulted mortgage notes.

### Fiscal Year 2020 Loan Sales

In FY 2020, FHA conducted a SF HECM loan sale of Secretary-held, due and payable vacant loans. The notes were sold through a competitive auction to qualified bidders. HUD awarded 652 notes with an updated loan balance of $150 million and a Broker Price Opinion (BPO) value of $104 million. The updated loan balance represents unpaid principal balance plus accrued interest, mortgage insurance premium and servicer advances. The notes were sold in ten pools to five bidders, including three non-profit bidders who purchased 26 percent of the notes sold, the highest percentage in any one sale to date. The average Bid to BPO was 62.6 percent, a marginal improvement to the FY 2019 sale of 62.2 percent.

In addition, FHA conducted one commercial loan sale in FY 2020. One Multifamily note and seven Healthcare first lien mortgage notes were awarded with a combined unpaid principal balance of $58.1 million.


Business Analysis


Financial Report


Business Analysis

## ANALYSIS OF FINANCIAL STATEMENTS

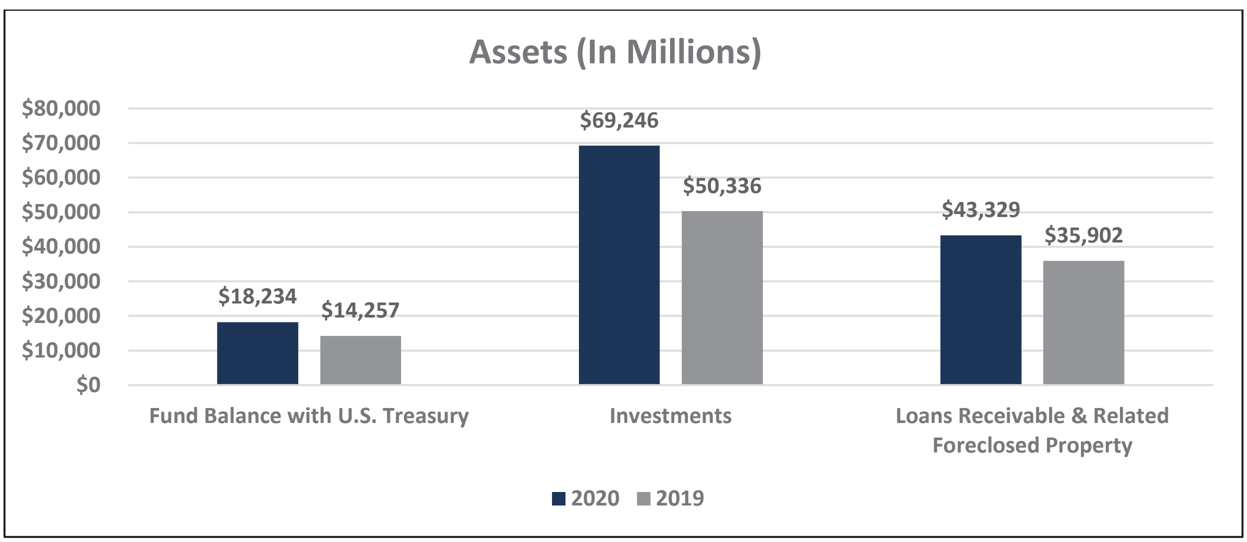
This section presents a summary of FHA's financial statements. These financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities, Federal Accounting and Standards Advisory Board (FASAB) standards and concepts statements as applicable to programs 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.

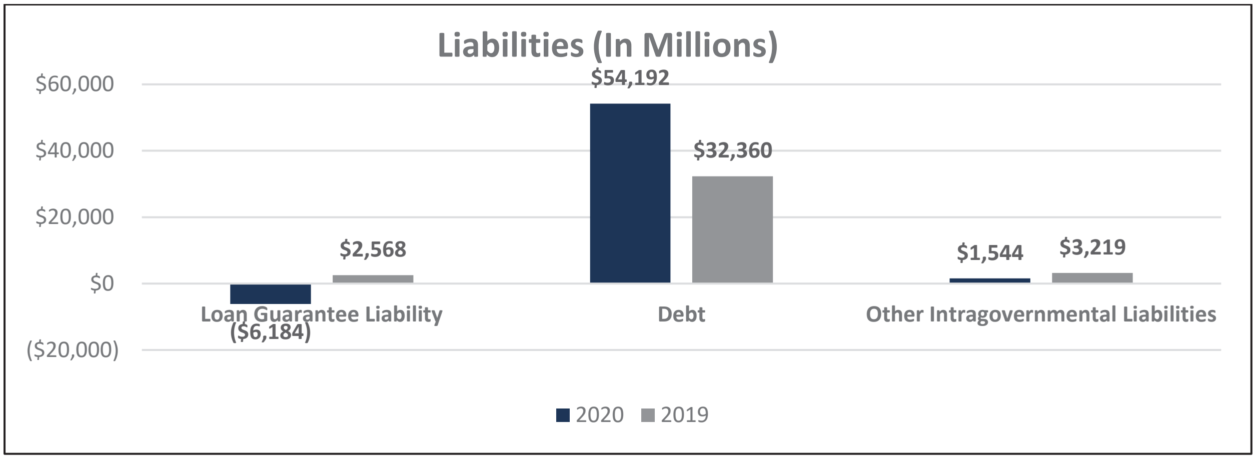
### Overview of Financial Position

A summary of FHA's change in financial position from fiscal year 2019 to fiscal year 2020 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 claim 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 $31,007 million during fiscal year 2020. This increase was primarily due to a $18,910 million increase in investments, a $7,427 million increase in loans receivable and related foreclosed property, and a $3,977 million increase in fund balance with U.S. Treasury. The $3,977 million increase in fund balance with U.S. Treasury was primarily due to an increase in debt (borrowings) and net collections. The $18,910 million increase in investments resulted from transfers of fund balance due to a net downward LLG re-estimate in fiscal year 2019 and negative subsidy to the capital reserve fund, which were subsequently invested. The $7,427 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 increased by $11,438 million, primarily due to an increase in debt, offset by a decrease in the liability for loan guarantees and a decrease in the GI/SRI receipt account liability under other intragovernmental liabilities. Debt increased by $21,832 million to make cash available to cover the variance resulting from the transfer of the previous year's net downward re-estimate and negative subsidy.

## Loan Guarantee Liability

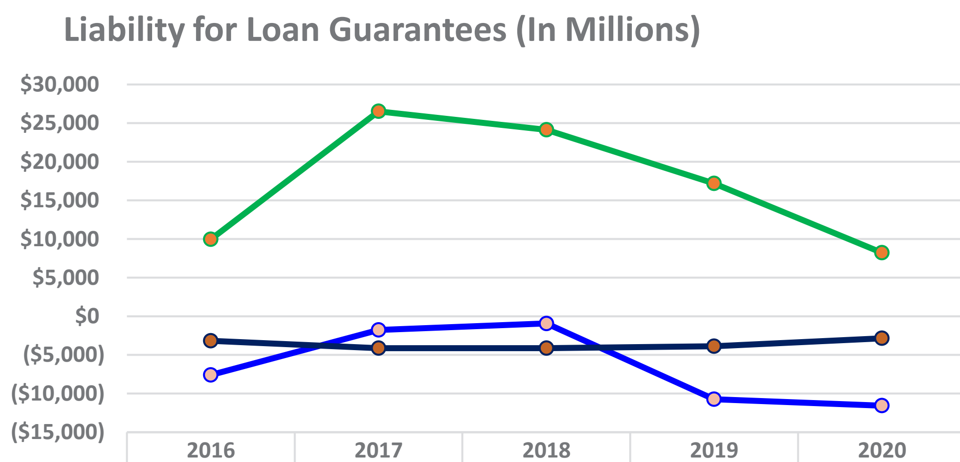
The loan guarantee liability (LGL) is comprised of two components: the liability for loan guarantee (LLG) for post-1991 loan guarantees and the loan loss reserves (LLR) for pre-1992 loan guarantees. FHA's portfolio of pre-1992 loan guarantees has significantly decreased, and the LLR portion of the LGL 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)**

| | FY2020 | FY2019 | Difference | % Change |
|---|---|---|---|---|
| Single Family Forward | (11,567) | (10,725) | (842) | 8% |
| HECM | 8,232 | 17,182 | (8,950) | -52% |
| Multifamily/Healthcare | (2,849) | (3,889) | 1,040 | -27% |
| **Total** | **(6,184)** | **2,568** | **(8,752)** | **-341%** |

The $842 million Single Family Forward LLG decrease and the $8,950 million HECM LLG decrease were mostly due to changes in the actuarial methodology, more favorable economic forecasts, and changes in actual loan performance 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 $1,040 million increase in the LLG occurred mostly in the GI/SRI funds. The LLG estimates for the Section 223(f), Section 221(d)(4), Section 223(a)(7), and Section 242 programs increased by $413 million, $218 million, $98 million, and $8 million, respectively, due to higher claim and prepayment expectations. There were also increases in the LLG estimates for the Section 232 Healthcare Purchasing or Refinancing program of $121 million due to an increase in prepayment projections and the Section 232 Healthcare New Construction program of $19 million due to higher claim projections.




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Single Family Forward | ($7,588) | ($1,786) | ($921) | ($10,725) | ($11,567) |
| HECM | $9,947 | $26,519 | $24,147 | $17,182 | $8,232 |
| Multifamily/Healthcare | ($3,165) | ($4,125) | ($4,120) | ($3,889) | ($2,849) |

## Net Cost/(Surplus)

In fiscal year 2020, FHA reported a net surplus of $20,435 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 decrease in FHA's net surplus from 2019 to 2020 was mainly due to a smaller downward re-estimate in fiscal year 2020, which resulted in lower negative program costs.

| Schedule of Net Cost/(Surplus)<br>(Dollars in Millions) | | | | |
|---|---|---|---|---|
| | **FY2020** | **FY2019** | **Difference** | **% Change** |
| Program Cost | (18,329) | (23,200) | 4,871 | -21% |
| Less: Program Revenues | 2,106 | 1,636 | 470 | 29% |
| Net Cost/(Surplus) | (20,435) | (24,836) | 4,401 | -18% |

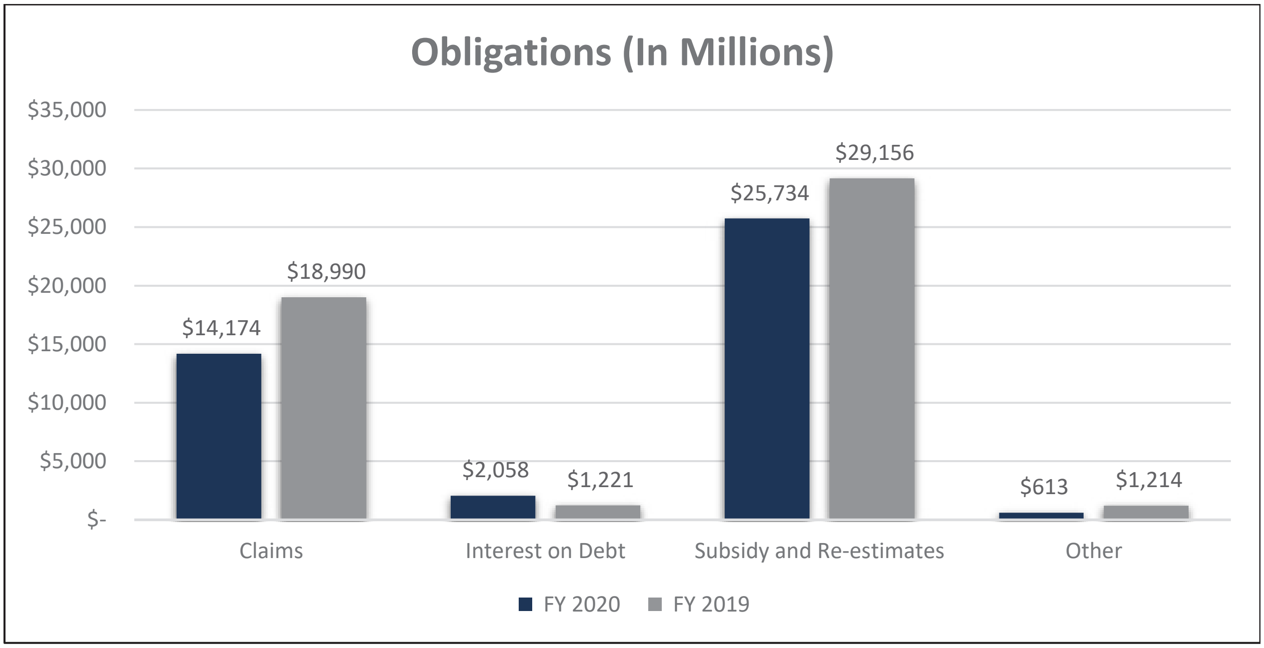
## Budgetary Resources

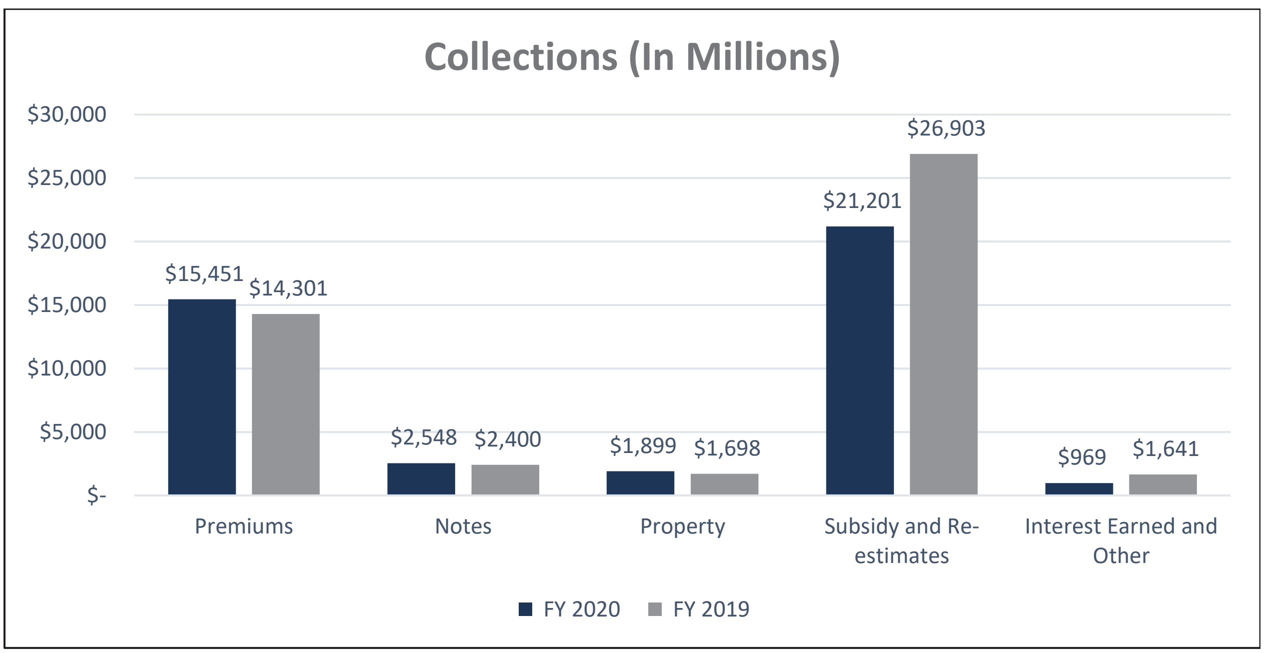
FHA finances its operations through a combination of appropriated funds, debt to the U.S. Treasury, spending authority from offsetting collections, and unexpired prior-year unobligated balances brought forward. Spending authority from offsetting collections includes collections of premiums and fees, 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 $492 million decrease in appropriations in fiscal year 2020 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 $11,957 million in fiscal year 2020 because additional borrowing was required to maintain liquidity in FHA's financing funds. For Spending authority from offsetting collections, the decrease of $1,493 million in fiscal year 2020 resulted primarily from a decrease in the downward re-estimate disbursed from the MMI financing fund to the capital reserve fund.

| Budgetary Resources<br>(Dollars in Millions) | | | | |
|---|---|---|---|---|
| | **FY2020** | **FY2019** | **Difference** | **% Change** |
| Unobligated Balance from prior year budget authority, net | 61,799 | 57,226 | 4,573 | 8% |
| Appropriations (discretionary and mandatory) | 947 | 1,439 | (492) | -34% |
| Borrowing authority (discretionary and mandatory) | 23,436 | 11,479 | 11,957 | 104% |
| Spending authority from offsetting collections (discretionary and mandatory) | 40,240 | 41,733 | (1,493) | -4% |
| **Total** | **126,422** | **111,877** | **14,545** | **13%** |

These resources were used to cover the fiscal year 2020 obligations totaling $42,579 million. Obligations included subsidy/re-estimate costs, claim payments on defaulted guaranteed loans, interest on borrowings, and other obligations. These obligations were offset by FHA collections received in fiscal year 2020 totaling $42,068 million, which included premiums, notes, property, subsidy/re-estimate, and interest earned and other collections.



## 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, 2020.

Fiscal Year 2020

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, 2020.

*Dana T. Wade*

Dana T. Wade
Assistant Secretary for Housing –
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 2020 budget, FHA received a $20 million appropriation from Congress for IT modernization, in addition to the $20 million appropriation in fiscal year 2019. With this funding, FHA has made significant progress in its multi-year development effort to modernize its technology systems, starting with the technology used for its Single Family insurance programs. Called FHA Catalyst, the initiative is progressing toward the goal of a secure, single cloud-based portal accessible by participants in the FHA program. When complete, FHA Catalyst will allow FHA program participants 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 continued its work towards:

- The development of Mortgage Industry Standard Maintenance Organization (MISMO)-compliant data submission capabilities that are part of the mortgage origination process;
- Fully electronic Single Family appraisal delivery functionality that provides validation checks on the completeness of appraisal reports before lenders can submit the reports;
- Electronic FHA Case Binder submission capabilities, which significantly reduces the number of hardcopy binders mailed to FHA for both endorsement and post-endorsement reviews; 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 significantly eliminated a large, paper-based manual process.

## Fiscal Year 2020 Financial Statements Audit Findings

The Office of the Inspector General (OIG) has identified no material weaknesses or significant deficiencies in the Internal Control Report for FHA's FY 2020 financial statement audit. The OIG has identified some areas for improvement over internal controls and will make some recommendations to management in the annual Management Letter.

## 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 20, 2018, FHA performed its improper payments estimation and risk assessment for fiscal year 2020. Based on a three-year cycle, the following FHA disbursements programs were reviewed for fiscal year 2020.

- Federal Financing Bank (FFB) Direct Loans
- Single Family Asset Management System (SAMS)
- Title I Claims
- Title I Notes
- Contracts & Grants
- Other Disbursements

During fiscal year 2020, limited risk assessments were conducted on the above programs and determined that these programs were low risk. Additionally, the review of these programs showed no significant changes to processes by which the disbursements were processed, leading to the conclusion that these disbursement programs are not susceptible to improper payments. FHA also performed analysis of Do Not Pay initiatives and found no significant incidence of erroneous payments. In fiscal year 2020, FHA requested, and OMB approved, reporting relief relating to Single Family Insurance Claims (SFIC). FHA was able to request relief after reporting two consecutive years of improper payments that were below the statutory thresholds required.

FHA's recovery auditing program is part of its overall program of effective internal control over disbursements. Internal control policies and procedures establish a system to monitor improper payments and their causes and include controls for preventing, detecting, and recovering improper payments. In addition, FHA has 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 processes for its claim disbursement systems and an extensive debt collection program to recover overpayments.

## Limitations of Financial Statements

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor, and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

# PRINCIPAL FINANCIAL STATEMENTS

## MESSAGE FROM THE DEPUTY ASSISTANT SECRETARY FOR FINANCE AND BUDGET

**November 12, 2020**

The Office of Finance and Budget has had another successful year. In FY 2020 we continued to maintain strong financial management and controls in support of the Federal Housing Administration's (FHA) mission and fiscal responsibilities. I am pleased to present the FHA Principal Financial Statements for the fiscal year (FY) ending September 30, 2020. FHA received an unmodified (clean) audit opinion with no material weaknesses or significant deficiencies identified. This was the result of our focused efforts to strengthen our internal controls through process improvements and innovative technology solutions, and a dedicated effort to provide enhanced and transparent financial information.

In FY 2020, the Office of Finance and Budget, in partnership with HUD's Offices of the Chief Financial Officer and Chief Information Officer, completed a financial transformation journey to drive long-term sustainable changes in the way we do business. I am appreciative of the successes we achieved together in FY 2020 and confident that we are delivering quality financial reporting and world class financial services based on the latest technology, to lenders and servicers participating in the FHA program. The financial results of our operations in FY 2020, showcase the results of this transformation.

Highlights of transformation work completed in FY 2020:

- Supported the development and implementation of the successful launch of the FHA Catalyst: Claims Module in December 2019 for supplemental claims, and its ongoing evolution throughout FY 2020. FHA Catalyst is a web-based portal that provides a digital means for lenders to prepare and submit Single Family forward mortgage claim packages electronically. The FHA Catalyst technology was expanded so that it can now accept claim submissions for Single Family loss mitigation, home retention, and reacquisition claims, as well as endorsement case binders and electronic delivery of home appraisals.
- Prioritized the reduction of audit findings through the resolution of FHA's one remaining significant deficiency in internal control over financial reporting, and other remaining audit findings. In FY 2020, FHA reduced its open audit recommendations relating to the financial statements by 65 percent, closing 11 of 17 prior period audit recommendations.
- Improved systems security and financial controls to protect data integrity.

- Improved the average processing time for Mortgage Insurance Premium refunds on terminated loans from 21 to 14 days, a reduction of 33 percent.
- Implemented revised U.S. Department of the Treasury guidance to reflect new requirements for financial reporting within the financial statements.

FY 2020 FHA Financial Highlights in Brief:

- Endorsed more than $310 billion of Single family forward mortgages in FY 2020, an increase from $215 billion in FY 2019. This increase in volume resulted in $13.5 billion of mortgage insurance premiums collected, $900 million more than in FY 2019.
- Endorsed over $18.6 billion in Multifamily loans, a 63 percent increase over FY 2019.
- Committed approximately $4.6 billion in Hospital and Residential Care Facility loans, slightly more than the commitment volume of FY 2019.
- Exceeded the two percent Mutual Mortgage Insurance Fund capital ratio requirement mandated by Congress.
- Conducted one competitive Single Family Home Equity Conversion Mortgage sale of 652 Secretary-held vacant loans with an Unpaid Principal Balance (UPB) of $150 million. The winning bidders included three non-profits who purchased 26 percent of the notes sold.
- Executed a commercial loan sale of one Multifamily note and seven Healthcare notes with a total UPB of $58.1 million.

The Office of Finance and Budget would not be able to meet its mission and achieve such successful results without the collaboration, hard work and dedication of the FHA staff who seamlessly adapted to the challenges of the COVID-19 global pandemic while still maintaining, and continually building on, our high standards. I am proud of the commitment and effort exhibited by the team toward advancing FHA's excellence in financial management and looking forward to continuing this success in the coming year.

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, 2020, and 2019**
**(Dollars in Millions)**

| | FY 2020 | FY 2019 |
|---|---|---|
| ***ASSETS*** | | |
| Intragovernmental | | |
| Fund Balance with U.S. Treasury (Note 3) | $ 18,234 | $ 14,257 |
| Investments (Note 5) | 69,246 | 50,336 |
| Total Intragovernmental | $ 87,480 | $ 64,593 |
| Cash and Other Monetary Assets (Note 4) | $ 32 | $ 87 |
| Investments (Note 5) | - | 6 |
| Accounts Receivable, Net (Note 6) | 891 | 137 |
| Loans Receivable and Related Foreclosed Property, Net (Note 7) | 43,329 | 35,902 |
| **TOTAL ASSETS** | **$ 131,732** | **$ 100,725** |
| ***LIABILITIES*** | | |
| Intragovernmental | | |
| Accounts Payable (Note 8) | $ 2 | $ 1 |
| Debt (Note 9) | 54,192 | 32,360 |
| Other Liabilities (Note 10) | 1,544 | 3,219 |
| Total Intragovernmental | $ 55,738 | $ 35,580 |
| Accounts Payable (Note 8) | $ 779 | $ 446 |
| Loan Guarantee Liability (Note 7) | (6,184) | 2,568 |
| Other Liabilities (Note 10) | 465 | 766 |
| **TOTAL LIABILITIES** | **$ 50,798** | **$ 39,360** |
| ***NET POSITION*** | | |
| Unexpended Appropriations (Note 16) | $ 524 | $ 499 |
| Cumulative Results of Operations | 80,410 | 60,866 |
| **TOTAL NET POSITION** | **$ 80,934** | **$ 61,365** |
| **TOTAL LIABILITIES AND NET POSITION** | **$ 131,732** | **$ 100,725** |

**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, 2020, and 2019
## (Dollars in Millions)

| | FY 2020 | FY 2019 |
|---|---|---|
| **Single Family Forward** | | |
| Intragovernmental Gross Costs | $ 668 | $ 549 |
| Less: Intragovernmental Earned Revenue | 919 | 990 |
| Intragovernmental Net Costs | $ (251) | $ (441) |
| Gross Costs With the Public | $ (11,987) | $ (19,702) |
| Less: Earned Revenues | 4 | 4 |
| Net Costs With the Public | $ (11,991) | $ (19,706) |
| **Single Family Forward Net Cost (Surplus)** | $ (12,242) | $ (20,147) |
| **HECM** | | |
| Intragovernmental Gross Costs | $ 1,128 | $ 461 |
| Less: Intragovernmental Earned Revenue | 680 | 486 |
| Intragovernmental Net Costs | $ 448 | $ (25) |
| Gross Costs With the Public | $ (9,685) | $ (5,025) |
| Less: Earned Revenues | - | 1 |
| Net Costs With the Public | $ (9,685) | $ (5,026) |
| **HECM Net Cost (Surplus)** | $ (9,237) | $ (5,051) |
| **Multifamily** | | |
| Intragovernmental Gross Costs | $ 216 | $ 165 |
| Less: Intragovernmental Earned Revenue | 60 | 26 |
| Intragovernmental Net Costs | $ 156 | $ 139 |
| Gross Costs With the Public | $ 477 | $ (591) |
| Less: Earned Revenues | 407 | 113 |
| Net Costs With the Public | $ 70 | $ (704) |
| **Multifamily Net Cost (Surplus)** | $ 226 | $ (565) |
| **Healthcare** | | |
| Intragovernmental Gross Costs | $ 45 | $ 45 |
| Less: Intragovernmental Earned Revenue | 33 | 16 |
| Intragovernmental Net Costs | $ 12 | $ 29 |
| Gross Costs With the Public | $ (31) | $ 130 |
| Less: Earned Revenues | $ 4 | - |
| Net Costs With the Public | $ (35) | $ 130 |
| **Healthcare Net Cost (Surplus)** | $ (23) | $ 159 |
| **Salaries and Administrative Expenses** | | |
| Intragovernmental Gross Costs | $ 232 | $ 190 |
| Intragovernmental Net Costs | $ 232 | $ 190 |
| Gross Costs With the Public | $ 609 | $ 578 |
| Net Costs With the Public | $ 609 | $ 578 |
| **Adminstrative and Contracts Net Cost (Surplus)** | $ 841 | $ 768 |
| **Net Cost of Operations** | **$ (20,435)** | **$ (24,836)** |

**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 CHANGES IN NET POSITION**
**For the Periods Ended September 30, 2020, and 2019**
**(Dollars in Millions)**

| | 2020 | 2019 |
|---|---|---|
| **Unexpended Appropriations** | | |
| Beginning Balance | 499 | 463 |
| **Budgetary Financing Sources:** | | |
| Appropriations Received | 947 | 1,439 |
| Other Adjustments (Recissions, etc) | (17) | (13) |
| Appropriations Used | (905) | (1,390) |
| Total Budgetary Financing Sources | 25 | 36 |
| **Total Unexpended Appropriations** | 524 | 499 |
| **Cumulative Results of Operations** | | |
| Beginning Balance | **$ 60,866** | **$ 36,750** |
| **Adjustments** | | |
| Changes in Accounting Principles | 320 | - |
| Beginning Balance, As Adjusted | **$ 61,186** | **$ 36,750** |
| **Budgetary Financing Sources:** | | |
| Appropriations Used | 905 | 1,390 |
| NonExchange Revenue | - | 2 |
| **Other Financing Sources (Nonexchange):** | | |
| Transfers In/Out Without Reimbursement | 714 | 643 |
| Imputed Financing From Costs | 14 | 19 |
| Other | (2,844) | (2,773) |
| **Total Financing Sources** | (1,211) | (719) |
| **Net Cost of Operations** | 20,435 | 24,836 |
| **Net Change** | 19,224 | 24,116 |
| **Cumulative Results of Operation** | 80,410 | 60,866 |
| **Net Position** | **$ 80,934** | **$ 61,365** |

**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, 2020**
**(Dollars in Millions)**

| | FY 2020 Budgetary | FY 2020 Non-Budgetary Credit Reform Financing Account | FY 2020 Total |
|---|---|---|---|
| **Budgetary Resources:** | | | |
| Unobligated balance from prior year budget authority, net (discretionary and mandatory) | 50,965 | 10,834 | 61,799 |
| Appropriations (discretionary and mandatory) | 947 | - | 947 |
| Borrowing authority (discretionary and mandatory) | - | 23,436 | 23,436 |
| Spending authority from offsetting collections (discretionary and mandatory) | 19,439 | 20,801 | 40,240 |
| **Total budgetary resources** | **$ 71,351** | **$ 55,071** | **$ 126,422** |
| | | | |
| **Status of Budgetary Resources:** | | | |
| New Obligations and upward adjustment (total) | 2,169 | 40,410 | $ 42,579 |
| Unobligated balance, end of year | | | |
| Apportioned, unexpired accounts | 96 | 2,575 | 2,671 |
| Unapportioned, unexpired accounts | 69,021 | 12,085 | 81,106 |
| Unexpired unobligated balance, end of year | 69,117 | 14,661 | 83,778 |
| Expired unobligated balance, end of year | 65 | - | 65 |
| Total unobligated balance, end of year | 69,182 | 14,661 | 83,843 |
| **Total budgetary resources** | **$ 71,351** | **$ 55,071** | **$ 126,422** |
| | | | |
| **Outlays, Net:** | | | |
| Outlays, net (discretionary and mandatory) | (17,040) | - | (17,040) |
| Less Distributed offsetting receipts (-) | (4,416) | - | (4,416) |
| **Agency outlays, net (discretionary and mandatory)** | **$ (21,456)** | **$ -** | **$ (21,456)** |
| **Disbursements, Net (Total) (mandatory)** | **$ -** | **$ 17,763** | **$ 17,763** |

**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 Credit Reform Financing Account | FY 2019 Total |
|---|---|---|---|
| **Budgetary Resources:** | | | |
| Unobligated balance from prior year budget authority, net (discretionary and mandatory) | 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 adjustment (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 |
| Total unobligated balance, end of year | 51,076 | 10,220 | 61,296 |
| **Total budgetary resources** | **$ 53,774** | **$ 58,103** | **$ 111,877** |
| | | | |
| **Outlays, Net:** | | | |
| Outlays, net (discretionary and mandatory) | (22,464) | - | (22,464) |
| Less Distributed offsetting receipts (-) | (2,180) | - | (2,180) |
| **Agency outlays, net (discretionary and mandatory)** | **$ (24,644)** | **$ -** | **$ (24,644)** |
| **Disbursements, Net (Total) (mandatory)** | **$ -** | **$ 25,610** | **$ 25,610** |

**The accompanying notes are an integral part of these statements.**

# NOTES TO THE FINANCIAL STATEMENTS
## September 30, 2020

## 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 fiscal year 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. SFFAS No. 2 also requires the subsidy cost of direct loans and the liability for loan guarantees to be reestimated and updated.

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 reported interest rate reestimates for Loans Receivable and the LLG in addition to technical/default reestimates. Interest rate reestimates 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, current and forecasted programs, and economic forecasts. 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.

**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 $14 million for fiscal year 2020 and $19 million for fiscal year 2019, 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**

FHA’s 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 may result in immediate or future outlays of federal funds. FHA's budgetary resources include current budgetary authority (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 adjustments to obligations, but not 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.

The OMB Circular A-136 changed the presentation of the Statement of Budgetary Resources in fiscal year 2020 to add a new line item: Disbursements, net. The Disbursements, net, line item allows agencies to report the net outlays for non-budgetary credit reform financing accounts on a separate line from budgetary net outlays. For fiscal year 2020, FHA changed its presentation of the Statement of Budgetary Resources to conform with the new requirement.

**Change in Accounting Principle for Accounts Receivable and Accounts Payable**

In fiscal year 2020, Treasury introduced guidance in the United States Standard General Ledger for reporting account receivables and account payables related to direct loans and loan guarantees subject to the FCRA. Prior to fiscal year 2020, FHA offset account receivables and account payables with contra-asset and contra-liability accounts, respectively, so that its net assets would not be overstated. The new transactions from Treasury for account receivables and account payables related to direct loans and loan guarantees enabled FHA to discontinue the use of the contra-asset and contra-liability accounts. Under the new accounting guidance, FHA may record accounts receivable as an increase, and accounts payable as a decrease, directly to the LLG. As a consequence of this change in accounting guidance from Treasury, FHA's accounts receivable and accounts payable balances increased significantly in fiscal year 2020 because they were no longer offset with contra-asset and contra-liability accounts. In addition to FHA's fiscal year 2020 Balance Sheet, this change in accounting principle directly impacted the fiscal year 2020 Statement of Changes in Net Position, and the following fiscal year 2020 notes: Note 2. Non-Entity Assets; Note 6. Accounts Receivable, Net; Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers; Note 8. Accounts Payable; and Note 11. Liabilities Not Covered by Budgetary Resources. Other fiscal year 2020 notes indirectly affected by the change in accounting principle include Note 10. Other Liabilities and Note. 13 Gross Costs.

SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, states that changes in accounting principles include those occasioned by the adoption of new federal financial accounting standards. Under SFFAS No. 21, if a change in accounting principle would have resulted in a change to prior period financial statements, the cumulative effect of the change on prior periods should be reported as a change in accounting principle and the adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made. Additionally, SFFAS No. 21 states that the nature of the changes in accounting principle and its effect on relevant balances should be disclosed in the current period.

**Correction in Accounting and Reporting for Multifamily Notes Interest Revenue**

During fiscal year 2020, an error was identified in the reporting of interest revenue for some pre-1992 Multifamily notes. These Multifamily notes contain provisions that allow a borrower to defer a portion of the interest payment on the notes if the borrower has no surplus cash available. Due to these provisions, FHA recorded the interest revenue on these notes as deferred revenue rather than earned revenue. In fiscal year 2020, FHA reviewed its accounting for the Multifamily notes in this portfolio and determined that it should be recording the full interest due as earned revenue rather than deferred revenue. According to *SFFAS 7, Accounting for Revenue and Other Financing Sources*, when services are rendered continuously over time, or the right to use an asset extends continuously over time, such as the use of borrowed money, revenue should be recognized. Thus, FHA should have recognized the interest accrued on the Multifamily notes in this portfolio as earned revenue rather than deferred revenue. FHA changed its accounting in fiscal year 2020 to record the interest revenue as earned revenue and to increase its allowance for loss on the interest receivable associated with the Multifamily notes in this portfolio.

To correct this error, FHA reclassified the deferred revenue accrued in fiscal year 2020, and prior fiscal years, to earned revenue in the current fiscal year. Because the amount of Multifamily notes deferred revenue was relatively immaterial, FHA will not restate its prior-year financial statements. Pursuant to SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, prior period financial statements should only be restated for corrections of errors that would have caused any statements presented to be materially misstated. In previous fiscal years, FHA reported the deferred interest revenue as part of Other Liabilities With the Public. The changes in FHA's accounting for the interest revenue resulted in a decrease in other liabilities with the public and an increase in Multifamily earned revenue with the public. Loans receivable and related foreclosed property decreased, and bad debt expense increased due to an increase in the allowance for loss on interest receivable for the Multifamily notes in this portfolio. In summary, the following FHA fiscal year 2020 statements and notes were impacted: Balance Sheet; Statement of Net Cost; Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers; Note 10. Other Liabilities; Note 11. Liabilities Not Covered by Budgetary Resources; Note. 13 Gross Costs; and Note 14. Earned Revenue.

## 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, 2020, and 2019, are as follows:

(Dollars in millions)

| | FY 2020 | FY 2019 |
|---|---|---|
| Intragovernmental: | | |
| Fund Balance with Treasury | $ 16 | $ 19 |
| Total Intragovernmental | 16 | 19 |
| | | |
| Cash and Other Monetary Assets | 21 | 22 |
| Total Non-Entity Assets | 37 | 41 |
| Total Entity Assets | 131,695 | 100,684 |
| **Total Assets** | **$ 131,732** | **$ 100,725** |

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.

Due to a change in accounting principle implemented by FHA in fiscal year 2020 based on updated Treasury guidance, as discussed in Note 1, total assets increased. The increase was a result of the reclassification of the contra-asset account balances offsetting account receivables and loans receivable and related foreclosed property to the loan guarantee liability account. If the change in accounting principle had been implemented in fiscal year 2019, total assets would have increased by $800 million as of September 30, 2019.

## 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, 2020, and 2019:

| (Dollars in millions) | FY 2020 | FY 2019 |
|---|---|---|
| Fund Balances: | | |
| Revolving Funds | $ 17,328 | $ 13,253 |
| Appropriated Funds | 256 | 255 |
| Other Funds | 650 | 749 |
| **Total** | **$ 18,234** | **$ 14,257** |
| | | |
| Status of Fund Balance with U.S. Treasury: | | |
| Unobligated Balance -- | | |
| Available | $ 2,102 | $ 8,118 |
| Unavailable | 12,921 | 2,123 |
| Obligated Balance Not Yet Disbursed | 3,211 | 4,016 |
| Non-Budgetary FBWT | - | - |
| **Total** | **$ 18,234** | **$ 14,257** |

**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 2020 | FY 2019 |
|---|---|---|
| **With the Public:** | | |
| Escrow Monies Deposited at Minority-Owned Banks | $ 21 | $ 22 |
| Deposits in Transit | 11 | 65 |
| **Total** | **$ 32** | **$ 87** |

**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. Escrow monies are non-entity cash and are thus restricted.

**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, 2020, were as follows:

(Dollars in millions)

| FY 2020 | Cost | Amortized (Premium) / Discount, Net | Investments, Net | Market Value |
|---|---|---|---|---|
| MMI/CMHI Investments | $ 69,314 | $ (391) | $ 68,923 | $ 69,123 |
| MMI/CMHI Accrued Interest | | | 323 | |
| **Total** | **$ 69,314** | **$ (391)** | **$ 69,246** | **$ 69,123** |

The cost, net amortized premium/discount, net investment, and market values as of September 30, 2019, were as follows:

| 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** |

**Investments in Private-Sector Entities**

FHA's investments in private-sector entities include only Risk-sharing Debentures as of September 30, 2020. 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, 2020, and 2019, were as follows:

| (Dollars in millions) | Beginning Balance | Redeemed | Ending Balance |
|---|---|---|---|
| **FY 2020** | | | |
| Risk Sharing Debentures | 6 | (6) | $ - |
| **Total** | **$ 6** | **$ (6)** | **$ -** |
| **FY 2019** | | | |
| Risk Sharing Debentures | 8 | (2) | 6 |
| **Total** | **$ 8** | $ (2) | **$ 6** |

## Note 6. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2020, and 2019, are as follows:

| | Gross | | Allowance | Net | |
|---|---|---|---|---|---|
| (Dollars in millions) | FY 2020 | FY 2019 | FY 2019 | FY 2020 | FY 2019 |
| **With the Public:** | | | | | |
| Receivables Related to Credit Program Assets | $ 10 | $ 49 | $ - | $ 10 | $ 49 |
| Premiums Receivables | 647 | - | - | 647 | - |
| Partial Claims Receivables | 77 | 12 | (4) | 77 | 8 |
| Generic Debt Receivables | 68 | 73 | (37) | 68 | 36 |
| Criminal Restitution Receivables | 13 | 15 | (8) | 13 | 7 |
| Settlements Receivables | 48 | 21 | - | 48 | 21 |
| Miscellaneous Receivables | 28 | 16 | - | 28 | 16 |
| **Total** | $ 891 | $ 186 | $ (49) | $ 891 | $ 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

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 on these receivables is calculated based on FHA's historical loss experience and management's judgment concerning current economic factors.  FHA reported no allowance for loss on accounts receivable in fiscal year 2020 because the allowances did not exceed $1 million.

Due to a change in accounting principle implemented by FHA in fiscal year 2020 based on updated Treasury guidance, as discussed in Note 1, gross accounts receivable with the public increased.  The increase was a result of the reclassification of the contra-asset account balances offsetting these receivables to the loan guarantee liability account.  If the change in accounting principle had been implemented in fiscal year 2019, accounts receivable with the public would have increased by $758 million as of September 30, 2019.  Premium receivables would have increased by $750 million, generic debt receivables would have increased by $3 million, and miscellaneous receivables would have increased by $7 million, offset by a decrease of about $2 million in receivables related to credit program assets.

## 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, 2020, and 2019, are described below.

**Direct Loan Programs:**

Starting in fiscal year 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. This program ended in fiscal year 2019 for new loan obligations.

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

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

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

| September 30, 2020 | GI/SRI - Multifamily | Total |
|---|---|---|
| Loan Receivables | $ 8 | $ 8 |
| Interest Receivables | 13 | 13 |
| Allowance | (8) | (8) |
| **Total Value of Assets** | $ 13 | $ 13 |

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

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

| September 30, 2020 | GI/SRI - Multifamily | Total |
|---|---|---|
| Loan Receivables | $ 2,364 | $ 2,364 |
| Interest Receivables | 6 | 6 |
| Allowance | 317 | 317 |
| **Total Value of Assets** | $ 2,687 | $ 2,687 |

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

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

| Direct Loan Programs | FY 2020 | FY 2019 |
|---|---|---|
| GI/SRI | | |
| Multifamily/Healthcare | 421 | 324 |
| **GI/SRI Subtotal** | $ 421 | $ 324 |

**Subsidy Expense for Direct Loans:**

**September 30, 2020**

| | GI/SRI | Total |
|---|---|---|
| **Multifamily/Healthcare** | | |
| **FFB** | | |
| Financing | $ (54) | $ (54) |
| Defaults | 1 | 1 |
| Fees and Other Collections | (1) | (1) |
| Other | 15 | 15 |
| **Subtotal** | $ (39) | $ (39) |

**September 30, 2019**

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

**Subsidy Expense for Reestimates:**

(Dollars in millions)

| FY 2020 | Interest Rate Reestimate | Technical Reestimate | Total Reestimate |
|---|---|---|---|
| GI/SRI | $ (42) | $ 77 | $ 35 |
| **Total** | $ (42) | $ 77 | $ 35 |
| **FY 2019** | | | |
| GI/SRI | $ - | $ (48) | $ (48) |
| **Total** | $ - | $ (48) | $ (48) |

**Total Direct Loan Subsidy Expense:**

| Direct Loan Programs | FY 2020 | FY 2019 |
|---|---|---|
| GI/SRI | (3) | (98) |
| **Total** | $ (3) | $ (98) |

### 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.

There are no fiscal year 2020 current year rates because fiscal year 2019 was the last year in which new FFB loans were issued. There will be no new FFB loans issued in fiscal year 2020 and going forward unless the program receives new authorization.

**September 30, 2020**

| | Finance | Default | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|
| GI/SRI | | | | | |
| Multifamily | | | | | |
| FFB | N/A | N/A | N/A | N/A | N/A |

**September 30, 2019**

| | Finance | Default | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|
| GI/SRI | | | | | |
| Multifamily | | | | | |
| FFB | -17% | 0% | -2% | 5% | -14% |

**Schedule for Reconciling Subsidy Cost Allowance Balances:**

(Dollars in Millions)

| Beginning Balance, Changes, and Ending Balance | FY 2020 | FY 2019 |
|---|---|---|
| Beginning balance of the subsidy cost allowance | $ (306) | $ (203) |
| **Add:** subsidy expense for direct loans disbursed during the reporting years by component | | |
| -Financing | (54) | (66) |
| - Default costs (net recoveries) | 1 | - |
| - Fees and other collections | (1) | (1) |
| - Other subsidy costs | 16 | 18 |
| Total of the above subsidy expense components | $ (38) | $ (49) |
| **Adjustments:** | | |
| - Fees received | 1 | 1 |
| - Subsidy allowance amortization | (1) | (3) |
| - Other | (8) | (3) |
| **Ending balance of the subsidy cost allowance before reestimates** | $ (353) | $ (258) |
| Add or subtract subsidy reestimates by component: | | |
| Technical/Default Reestimate | (232) | (193) |
| Interest Rate Reestimate | (42) | - |
| Adjustment of prior years' credit subsidy reestimates | 308 | 145 |
| **Total Technical/Default Reestimate** | $ 34 | $ (48) |
| **Ending balance of the subsidy cost allowance** | **$ (319)** | **$ (306)** |

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

(Dollars in Millions)

| FY 2020 | MMI/CMHI | GI/SRI | Total |
|---|---|---|---|
| **Guaranteed Loans** | | | |
| **Single Family Forward** | | | |
| Loan Receivables | $ 15 | 1 | $ 16 |
| Foreclosed Property | 3 | 9 | 12 |
| Allowance for Loan Losses | (3) | (4) | (7) |
| **Subtotal** | **$ 15** | **$ 6** | **$ 21** |
| **Multifamily/Healthcare** | | | |
| Loan Receivables | $ - | $ 1,359 | $ 1,359 |
| Interest Receivables | - | 250 | 250 |
| Foreclosed Property | - | (5) | (5) |
| Allowance for Loan Losses | - | (673) | (673) |
| **Subtotal** | **$ -** | **$ 931** | **$ 931** |
| **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** | **$ 15** | **$ 938** | **$ 953** |

(Dollars in Millions)

| FY 2019 | MMI/CMHI | GI/SRI | Total |
|---|---|---|---|
| **Guaranteed Loans** | | | |
| **Single Family Forward** | | | |
| Loan Receivables | $ 17 | $ 1 | $ 18 |
| Interest Receivables | - | - | - |
| 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** |

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

As discussed in Note 1, pre-1992 Multifamily/Healthcare GI/SRI allowance for loan losses increased in fiscal year 2020 due to the correction of an error in FHA’s reporting of interest revenue on some

Multifamily notes. FHA reclassified interest revenue previously recorded as deferred revenue to earned revenue and reviewed its allowance for loss on the interest receivable associated with the Multifamily notes. Based on its review, FHA determined that the allowance for loss on the interest receivable accumulated prior to fiscal year 2020 should increase by $92 million. That increase was recognized in the current year.

**Defaulted Guaranteed Loans from Post-1991 Guarantees:**

(Dollars in Millions)

| FY 2020 | MMI/CMHI | GI/SRI | H4H | Total |
|---|---|---|---|---|
| **Guaranteed Loans** | | | | |
| **Single Family Forward** | | | | |
| Loan Receivables | $ 13,780 | $ 394 | $ 6 | $ 14,180 |
| Interest Receivables | - | 1 | - | 1 |
| Foreclosed Property | 589 | 11 | - | 600 |
| Allowance | (4,562) | (133) | (3) | (4,698) |
| **Subtotal** | **$ 9,807** | **$ 273** | **$ 3** | **$ 10,083** |
| **Multifamily/Healthcare** | | | | |
| Loan Receivables | $ - | $ 476 | $ - | $ 476 |
| Interest Receivables | - | 49 | - | 49 |
| Foreclosed Property | - | 19 | - | 19 |
| Allowance | - | (226) | - | (226) |
| **Subtotal** | **$ -** | **$ 318** | **$ -** | **$ 318** |
| **HECM** | | | | |
| Loan Receivables | $ 17,828 | $ 5,620 | $ - | $ 23,448 |
| Interest Receivables | 13,943 | 3,514 | - | 17,457 |
| Foreclosed Property | 107 | 88 | - | 195 |
| Allowance | (8,533) | (3,292) | - | (11,825) |
| **Subtotal** | **$ 23,345** | **$ 5,930** | **$ -** | **$ 29,275** |
| **Total Guaranteed Loans** | **$ 33,152** | **$ 6,521** | **$ 3** | **$ 39,676** |

### 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** |

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

Due to a change in accounting principle implemented by FHA in fiscal year 2020 based on updated Treasury guidance, as discussed in Note 1, interest receivable and the allowance for subsidy increased on GI/SRI defaulted guaranteed loans from post-1991 guarantees. Multifamily notes were most impacted by the change. The increase was a result of the reclassification of the contra-asset account balances offsetting the interest receivable to the loan guarantee liability account. The change in the interest receivable balance caused the allowance for subsidy to also increase. If the change in accounting principle had been implemented in fiscal year 2019, GI/SRI Multifamily/Healthcare interest receivable would have increased by $84 million, partially offset by an increase in the allowance for subsidy of $42 million, as of September 30, 2019.

**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 2020):** | | |
| MMI/CMHI | | |
| Single Family Forward | $ 1,380,282 | $ 1,232,093 |
| Multifamily/Healthcare | 853 | 792 |
| **MMI/CMHI Subtotal** | **$ 1,381,135** | **$ 1,232,885** |
| GI/SRI | | |
| Single Family Forward | $ 5,395 | $ 3,229 |
| Multifamily/Healthcare | 157,849 | 143,501 |
| **GI/SRI Subtotal** | **$ 163,244** | **$ 146,730** |
| H4H | | |
| Single Family - 257 | $ 63 | $ 54 |
| **H4H Subtotal** | **$ 63** | **$ 54** |
| **Total** | **$ 1,544,442** | **$ 1,379,669** |
| **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** |

**New Guaranteed Loans Disbursed (FY 2020):**

(Dollars in Millions)

| | Outstanding Principal of Guaranteed | Amount of Outstanding Principal |
|---|---|---|
| MMI/CMHI | | |
| Single Family Forward | $ 310,244 | $ 307,147 |
| Multifamily/Healthcare | 65 | 65 |
| **MMI/CMHI Subtotal** | **$ 310,309** | **$ 307,212** |
| GI/SRI | | |
| Single Family Forward | $ 32 | $ 31 |
| Multifamily/Healthcare | 21,079 | 20,982 |
| **GI/SRI Subtotal** | **$ 21,111** | **$ 21,013** |
| **Total** | **$ 331,420** | **$ 328,225** |
| **New Guaranteed Loans Disbursed (FY 2019):** | | |
| 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** |

**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 1,173,750 HECM loans with a maximum claim amount of $296 billion. Of these 1,173,750 HECM loans insured by FHA, 434,912 loans with a maximum claim amount of $123 billion are still insured. As of September 30, 2020, the insurance-in-force (the outstanding balance of active loans that have not been assigned) was $83 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 2020** | MMI/CMHI | | $ 16,282 | $ 62,638 | $ 101,118 |
| | GI/SRI | | - | 20,049 | 22,259 |
| | | **Total** | **$ 16,282** | **$ 82,687** | **$ 123,377** |
| **FY 2019** | MMI/CMHI | | $ 10,856 | $ 64,211 | $ 101,691 |
| | GI/SRI | | - | 23,697 | 26,892 |
| | | **Total** | **$ 10,856** | **$ 87,908** | **$ 128,583** |

The support for the HECM insurance-in-force amounts are derived from FHA's Home Equity Reverse Mortgage Information Technology (HERMIT) system.

**Loan Guarantee Liability, Net:**

(Dollars in Millions)

| FY 2020 | | MMI/CMHI | | GI/SRI | | H4H | | Total |
|---|---|---|---|---|---|---|---|---|
| **LLG** | | | | | | | | |
| Single Family Forward | $ | (11,680) | $ | 111 | $ | 2 | $ | (11,567) |
| Multifamily/Healthcare | | (35) | | (2,814) | | - | | (2,849) |
| HECM | | 2,236 | | 5,996 | | - | | 8,232 |
| **Subtotal** | **$** | **(9,479)** | **$** | **3,293** | **$** | **2** | **$** | **(6,184)** |
| | | | | | | | | |
| **Loan Guarantee Liability Total** | **$** | **(9,479)** | **$** | **3,293** | **$** | **2** | **$** | **(6,184)** |

| 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** |

**Subsidy Expense for Loan Guarantees by Program and Component:**

(Dollars in millions)

| FY 2020 | | MMI/CMHI | | GI/SRI | | Total |
|---|---|---|---|---|---|---|
| **Single Family Forward** | | | | | | |
| Defaults | $ | 10,550 | $ | 2 | $ | 10,552 |
| Fees and Other Collections | | (19,984) | | (2) | | (19,986) |
| Other | | 2,391 | | - | | 2,391 |
| **Subtotal** | **$** | **(7,043)** | **$** | **-** | **$** | **(7,043)** |
| **Multifamily/Healthcare** | | | | | | |
| Defaults | $ | 2 | $ | 152 | $ | 154 |
| Fees and Other Collections | | 4 | | (852) | | (856) |
| **Subtotal** | **$** | **(2)** | **$** | **(700)** | **$** | **(702)** |
| **HECM** | | | | | | |
| Defaults | $ | 639 | $ | - | $ | 639 |
| Fees and Other Collections | | (652) | | - | | (652) |
| **Subtotal** | **$** | **(13)** | **$** | **-** | **$** | **(13)** |
| **Total** | **$** | **(7,058)** | **$** | **(700)** | **$** | **(7,758)** |

| 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)** |

**Subsidy Expense for Modification and Reestimates:**

(Dollars in millions)

| FY 2020 | Interest Rate Reestimate | Technical Reestimate | Total Reestimate |
|---|---|---|---|
| MMI/CMHI | $ (79) | $ (11,767) | $ (11,846) |
| GI/SRI | (3) | (951) | (954) |
| H4H | - | (1) | (1) |
| **Total** | $ (82) | $ (12,719) | $ (12,801) |
| **FY 2019** | | | |
| MMI/CMHI | $ (129) | $ (17,051) | $ (17,180) |
| GI/SRI | (34) | (108) | (142) |
| H4H | - | (19) | (19) |
| **Total** | $ (163) | $ (17,178) | $ (17,341) |

Due to a change in accounting principle based on updated Treasury guidance, as discussed in Note 1, FHA's technical reestimate in fiscal year 2020 was affected. The change in accounting principle to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable, discussed in Note 1, impacted FHA's calculation of the technical reestimate in fiscal year 2020 because it increased FHA's net assets at the cohort level. If FHA had implemented this change in accounting principle in fiscal year 2019, the total fiscal year 2019 technical reestimate would have decreased by ($343) million overall. Single Family Forward reestimate expense would have decreased by approximately ($326) million, HECM reestimate expense would have decreased by approximately ($56) million, Multifamily reestimate expense would have increased by $81 million, and the Healthcare reestimate expense would have decreased by ($43) million in fiscal year 2019.

**Total Loan Guarantee Subsidy Expense:**

(Dollars in millions)

| | FY 2020 | FY 2019 |
|---|---|---|
| MMI/CMHI | $ (18,903) | $ (24,067) |
| GI/SRI | (1,654) | (589) |
| H4H | (1) | (19) |
| **Total** | $ (20,558) | $ (24,675) |

### 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 2020 Loans Guarantees:** | | | |
| **MMI/CMHI** | | | |
| **Single Family** | | | |
| SF - Forward | 3.40 | (5.67) | (2.27) |
| SF - HECM | 3.89 | (3.97) | (0.08) |
| **Multifamily** | | | |
| MF - Default CMHI- (Cooperatives) | 3.40 | (5.67) | (2.27) |
| **GI/SRI** | | | |
| **Single Family** | | | |
| Title I - Manufactured Housing | 4.81 | (9.60) | (4.79) |
| Title I - Property Improvements | 4.00 | (5.41) | (1.41) |
| **Multifamily** | | | |
| Apartments - NC/SC | 1.90 | (3.22) | (1.32) |
| Tax Credit Projects | 0.64 | (2.98) | (2.34) |
| Apartments- Refinance 10/01/19-03/01/2020 | 0.22 | (3.50) | (3.28) |
| Apartments- Refinance Current | 0.25 | (3.49) | (3.24) |
| HFA Risk Share | 0.91 | (2.74) | (1.83) |
| Other Rental | 1.19 | (2.99) | (1.80) |
| **Healthcare** | | | |
| MF - FHA Full Insurance - Health Care | 1.54 | (6.84) | (5.30) |
| MF - Health Care Refinance | 0.91 | (5.86) | (4.95) |
| MF - Hospitals (includes refi., and Suppl. Loan) | 1.11 | (6.76) | (5.65) |

| (Percentage) | Defaults | Fees and Other Collections | Total |
|---|---|---|---|
| **Budget Subsidy Rates for Loans Guarantees for 2019 Cohort:** | | | |
| **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) |

**Schedule for Reconciling Loan Guarantee Liability Balances:**

| | FY 2020 | FY 2019 | |
|---|---|---|---|
| (Dollars in Millions) | LLG | LLR | LLG |
| **Beginning Balance of the Loan Guarantee Liability** | $ 2,568 | $ 1 | $ 19,106 |
| Add: Subsidy Expense for guaranteed loans disbursed during the reporting fiscal years by component: | | | |
| Default Costs (Net of Recoveries) | 11,345 | - | 5,811 |
| Fees and Other Collections | (21,494) | - | (15,162) |
| Other Subsidy Costs | 2,391 | - | 2,017 |
| **Total of the above subsidy expense components** | **(7,758)** | **-** | **(7,334)** |
| Adjustments: | | | |
| Fees Received | $ 15,471 | $ - | $ 14,146 |
| Foreclosed Property and Loans Acquired | 13,950 | - | 15,951 |
| Claim Payments to Lenders | (16,891) | - | (21,618) |
| Interest Accumulation on the Liability Balance | (1,143) | - | (434) |
| Other | 419 | (1) | 91 |
| **Ending Balance before Reestimates** | **$ 6,616** | **$ (0)** | **$ 19,908** |
| Add or Subtract Subsidy Reestimates by Component: | | | |
| Technical/Default Reestimate | $ (10,340) | $ - | $ (11,775) |
| Interest Rate Reestimate | (82) | - | (162) |
| Adjustment of prior years' credit subsidy reestimates | (2,378) | - | (5,403) |
| **Total Technical/Default Reestimate** | (12,800) | - | (17,340) |
| **Ending Balance of the Loan Guarantee Liability** | **$ (6,184)** | **$ (0)** | **$ 2,568** |

Due to a change in accounting principle based on updated Treasury guidance, as discussed in Note 1, FHA's loan guarantee liability in fiscal year 2020 was affected. The change in accounting principle to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable, discussed in Note 1, impacted FHA's LLG balance in fiscal year 2020 by increasing foreclosed property and loans acquired and other adjustments to the LLG. Foreclosed property and loans acquired increased due to the reclass of the contra-asset accounts offsetting loans receivable and related foreclosed property to the LGL. Other adjustments increased due to the reclass of the contra-asset and contra-liability accounts offsetting accounts receivable and accounts payable to the LGL. If FHA had implemented this change in accounting principle in fiscal year 2019, the fiscal year 2019 foreclosed property and loans acquired would have increased by $42 million. As a result, the GI/SRI Multifamily/Healthcare interest receivable would have increased by $84 million, partially offset by an increase in the allowance for subsidy of $42 million, as of September 30, 2019. Similarly, if the change in accounting principle had been implemented in fiscal year 2019, Other adjustments would have increased by $302 million. As a result of the reclassification of the contra-asset account balances offsetting these receivables to the loan guarantee liability , accounts receivable with the public would have increased by $758 million offset by the reclassification of the contra-liability account balances offsetting these payables to the loan guarantee liability account, which increased accounts payable with the public by $456 million, as of September 30, 2019. If FHA had implemented the change in accounting principle to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable to the loan guarantee liability account in fiscal year 2019, the Technical/Default Reestimate would have decreased by ($343) million.

FHA is not reporting any LLR for fiscal year 2020 because the LLR balance dropped below $1 million.

**Administrative Expense:**

| (Dollars in Millions) | FY 2020 | FY 2019 |
|---|---|---|
| MMI/CMHI | $ 826 | $ 748 |
| **Total** | $ 826 | $ 748 |

**Other Information on Foreclosed Property:**

Additional information on FHA foreclosed property as of September 30, 2020, and 2019, is as follows:

| | FY 2020 | FY 2019 |
|---|---|---|
| Average number of days in inventory for Sold Cases | 145 | 138 |
| End of Fiscal Year active inventory | 4,359 | 7,606 |

This chart reports the average holding period for FHA foreclosed property and the total number of foreclosed properties on-hand as of September 30, 2020. 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, 2020, 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.

**Risk Categories** – To apply the present value computations, FHA divides loans into cohorts and "risk" categories. Multifamily and Health care cohorts are defined based on the fiscal 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 funds. 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. The MMI Fund has one risk category for activity related to fiscal years 1992-2008. For activity related to fiscal years 2009 and onward, the MMI Fund has two risk categories. That second category is for HECM loans, which joined the MMI Fund group of programs in 2009. The Single Family GI/SRI loans are grouped into four risk categories. There are nine different Multifamily risk categories and three Healthcare categories in the GI/SRI fund.

The significant assumptions detailed below determine 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.

**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> OMB provides other economic assumptions used, such as interest rates and the discount rates used against the cash flows.

<u>Reliance on historical performance:</u> 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.

Current legislation and regulatory structure: FHA considered its future plans as allowed under current legislative authority in the formulation of 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 calculations.

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 five 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.

The majority of FHA's loan guarantee business comprises the programs described below. These descriptions highlight the factors that contributed to changing LLG estimates for fiscal year 2020. Overall, FHA's liability decreased from the fiscal year 2020 estimates.

*Mutual Mortgage Insurance (MMI)* – On net, the MMI Fund LLG decreased from ($2,339) million to ($9,479) million at the end of fiscal year 2020. The decrease in liability can be attributed to model methodology changes, changes in economic forecasts and actual loan performance.

*MMI Single Family Forward (SF)* - The 2020 SFF LLG forecast calculation is like the methodology used in 2019. 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 2019 LLG, the 2020 LLG estimate uses a single path (President's Economic Assumption) to compute the expected net present value of the future cash flows.

*MMI Home Equity Conversion Mortgage (HECM)* - Like the SF Forward program, in 2020, 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 2019 LLG, the 2020 LLG estimate uses a single path (President's Economic Assumption) 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 $5,997 million at the end of 2020, reflecting the wind-down of the pre-2009 HECM cohorts. This liability is greatly influenced by long term house price appreciation forecasts. Most of the remaining GI/SRI HECM loans have adjustable interest rates which impacts the LLG through their influence on unpaid balances, claim 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 $44.8 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 increased this year by $415 million, from ($1,538) million to ($1,123) million, due to higher claim and prepayment 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 $19.2 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 $100 million, from ($466) million to ($366) million due to higher claim and prepayment expectations. The GI/SRI liability amount of ($476) million reported in FY 2019 for Section 223 (a)(7), inadvertently included ($10) million in liability associated with the Multifamily loans in the CMHI Fund that are reported in the MMI Fund. The FY 2019 amount has been updated to ($466) million to correctly represent only the GI/SRI fund liability.

*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 second largest Multifamily program in the GI/SRI fund with an insurance-in-force of $24.8 billion. The Section 221(d)(4) liability increased by $218 million this year, from ($310) million to ($92) million, due to higher claim and prepayment projections and an improved methodology for estimating premiums.

*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 $3.0 billion. The Section 232 NC liability increased by $19 million this year, from ($124) million to ($105) million, due to higher 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 $32 billion. The Section 232 Refinance liability increased by $121 million this year, from ($665) million to ($544) 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 $6.5 billion. The Section 242 liability increased by $8 million this year from ($194) million to ($186) million due to slightly higher claim and prepayment 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 of these scenarios, each independent of the others, one creates a universe of potential outcomes that define the possible set of LLG values in an uncertain world. Using the mean value across all forecast scenarios is valuable for providing some consideration of “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 that 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 arises from the possibility that the computer code used to create the forecasts has errors or omissions which compromise the integrity and reliability of projections.

Each year, HUD works with its contractors to evaluate on several dimensions the forecasting models for reasonable assurance that the primary contractor's performance results are within tolerable range. 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 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 based on the quality of business management at each facility, 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.

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 the demand-to-supply ratio and the share of homes in foreclosure status. FHA recoveries are also dependent on the type of claim disposition. Disposition types such as pre-foreclosure sale, claim without conveyance of title, and note sales typically recover more funds for FHA than foreclosed properties. Premiums are driven by FHA policy, industry demand for FHA products, and interest rate outlook. The interest rate outlook, in particular, determines the incentive to refinance. Generally, risk comes from portfolio characteristics, the 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, the market, and prevailing economic conditions.

**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.

*MMI Single Family LLR* - For the Single Family portfolio, the aggregate liability for the remaining pre-credit reform loans in fiscal year 2020 is $45 thousand.

*GI/SRI Multifamily & Healthcare LLR* - For the Multifamily and Healthcare portfolio, the remaining insurance-in-force for pre-credit reform loans is $106.3 million. The aggregate liability for the remaining pre-credit reform loans in fiscal year 2020 is ($257) thousand, which is a $275 thousand increase from the ($532) thousand estimate in fiscal year 2019. The year-over-year increase in aggregate liability is due to a $19 million decline in insurance-in-force as both measures move closer to zero.

## Note 8. Accounts Payable

Accounts Payable as of September 30, 2020, and 2019, are as follows:

| | FY 2020 | FY 2019 |
|---|---|---|
| **Intragovernmental:** | | |
| Claims Payable to Ginnie Mae | $ 1 | $ - |
| Miscellaneous Payables to Other Federal Agencies | 1 | 1 |
| **Total** | **$ 2** | **$ 1** |

| | FY 2020 | FY 2019 |
|---|---|---|
| **With the Public:** | | |
| Claims Payable | $ 246 | $ 192 |
| Premium Refunds Payable | 435 | 141 |
| Single Family Property Disposition Payable | 22 | 33 |
| Miscellaneous Payables | 76 | 80 |
| **Total** | **$ 779** | **$ 446** |

**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 amounts 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.

Due to a change in accounting principle implemented by FHA in fiscal year 2020, based on updated Treasury guidance, as discussed in Note 1, accounts payable with the public increased. The increase was a result of the reclassification of the contra-liability account balances offsetting these payables to the loan guarantee liability account. If the change in accounting principle had been implemented in fiscal year 2019, accounts payable with the public would have increased by $456 million as of September 30, 2019. Claims payable would have increased by $156 million, and premium refunds payable would have increased by about $300 million.

## Note 9. Debt

The following tables describe the composition of Debt held by FHA as of September 30, 2019, and 2020:

(Dollars in millions)

| | 2019 Beginning Balance | 2019 Net Borrowings | 2019 Ending Balance | 2020 Beginning Balance | 2020 Net Borrowings | 2020 Ending Balance |
|---|---|---|---|---|---|---|
| **Other Debt:** | | | | | | |
| Debt to the FFB | 1,671 | 304 | 1,974 | 1,974 | 395 | 2,370 |
| Debt to the U.S. Treasury | 24,708 | 5,677 | 30,386 | 30,386 | 21,436 | 51,822 |
| **Total** | **$ 26,379** | **$ 5,981** | **$ 32,360** | **$ 32,360** | **$ 21,831** | **$ 54,192** |

| | FY 2019 | FY 2020 |
|---|---|---|
| **Classification of Debt:** | | |
| Intragovernmental Debt | $ 32,360 | $ 54,192 |
| **Total** | **$ 32,360** | **$ 54,192** |

### 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 2020, 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 2022 to September 2041. 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 fiscal year 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 borrowed from the FFB to disburse direct loans.

During fiscal year 2020, FHA's FFB debt carried interest rates ranging from 2.60 percent to 3.40 percent, and the maturity dates for the FFB debt range from April 2043 to October 2060.

## Note 10. Other Liabilities

The following table describes the composition of Other Liabilities as of September 30, 2020, and 2019:

(Dollars in millions)

| FY 2020 | | Current |
|---|---|---|
| **Intragovernmental:** | | |
| Receipt Account Liability | $ | 1,544 |
| **Total** | **$** | **1,544** |
| | | |
| **With the Public:** | | |
| Trust and Deposit Liabilities | $ | 36 |
| Premiums collected on unendorsed cases | | 312 |
| Miscellaneous Liabilities | | 117 |
| **Total** | **$** | **465** |

| 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** |

### Receipt Account Liability

The receipt account liability is created from downward credit subsidy reestimates and negative subsidy accrued at the end of the fiscal year in the GI/SRI receipt account. The change in accounting principle to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable, discussed in Note 1, impacted FHA's calculation of the GI/SRI downward credit subsidy reestimate in fiscal year 2020 because it increased FHA's net assets at the cohort level. If FHA had implemented this change in accounting principle in fiscal year 2019, the receipt account liability would have increased by $23 million due to the change in the GI/SRI downward credit subsidy reestimate as of September 30, 2019. The $23 million adjustment was made in fiscal year 2020. However, the receipt account liability as of September 30, 2020, does not include the $23 million additional liability because the liability was discharged before the end of the fiscal year.

### 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. As discussed in Note 1, FHA discontinued its reporting of Multifamily Notes unearned revenue in fiscal year 2020 to correct an accounting error. During fiscal year 2020, FHA determined that it should be recording and reporting the Multifamily notes unearned revenue as earned revenue. FHA corrected its accounting in fiscal year 2020 so that it is no longer reporting Multifamily notes unearned revenue. If this error had been corrected in fiscal year 2019, other liabilities with the public would have decreased by $262 million as of September 30, 2019.

**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 | 2020 | 2019 |
|---|---|---|
| **Total Liabilities Covered by Budgetary Resources** | $ 49,234 | $ 36,119 |
| **Total Liabilities Not Requiring Budgetary Resources** | 1,565 | 3,241 |
| **Total Liabilities** | **$ 50,799** | **$ 39,360** |

**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, which are immaterial, and general fund receipt accounts, which are material, for fiscal year 2020 are reported as liabilities not requiring budgetary resources. Liabilities in FHA's general fund receipt accounts are liquidated in the following fiscal year through transfers from the financing funds.

As discussed in Note 1, FHA made a change in accounting principle and corrected an immaterial error in its accounting in fiscal year 2020 that affected liabilities. If FHA had implemented the change in accounting principle to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable to the loan guarantee liability account in fiscal year 2019, total liabilities covered by budgetary resources would have increased by $456 million, and total liabilities not requiring budgetary resources would have increased by $23 million as of September 30, 2019. In addition, if FHA had corrected the error in its accounting and reporting of Multifamily notes interest revenue in fiscal year 2019, total liabilities covered by budgetary resources would have decreased by $262 million as of September 30, 2019.

## 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, 2020. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $21.1 million or more.

### Activity with Ginnie Mae

As of September 30, 2020, 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 2020 (in Millions) | FY 2019 (in Millions) |
|---|---|---|
| Mortgages Held for Investment &Foreclosed Property (Pre-claim) | 2,082 | 2,366 |
| Short Sale Claims Receivable | 1 | 2 |

"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, 2020, and 2019, are as follows:

(Dollars in millions)

| FY 2020 | Single Family Forward | HECM | Multifamily | Healthcare | Administrative Expenses | Total |
|---|---|---|---|---|---|---|
| **Intragovernmental:** | | | | | | |
| Interest Expense | $ 668 | $ 1,128 | $ 216 | $ 45 | $ - | $ 2,058 |
| Imputed Cost | - | - | - | - | 14 | 14 |
| Other Expenses | - | - | - | - | 218 | 218 |
| **Total** | **$ 668** | **$ 1,128** | **$ 216** | **$ 45** | **$ 232** | **$ 2,290** |
| **With the Public:** | | | | | | |
| Salary and Administrative Expense | $ - | $ - | $ - | $ - | $ 609 | $ 609 |
| Subsidy Expense | (7,043) | (13) | (507) | (233) | - | (7,796) |
| Re-estimate Expense | (4,450) | (9,124) | 938 | 213 | - | (12,423) |
| Interest Accumulation Expense | (502) | (548) | (81) | (12) | - | (1,143) |
| Bad Debt Expense | 1 | - | 100 | 1 | - | 102 |
| Other Expenses | 7 | - | 27 | - | - | 34 |
| **Total** | **$ (11,987)** | **$ (9,685)** | **$ 477** | **$ (31)** | **$ 609** | **$ (20,617)** |
| **Total Gross Costs** | **$ (11,319)** | **$ (8,557)** | **$ 693** | **$ 14** | **$ 841** | **$ (18,327)** |

| 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)** |

### 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. Due to a change in accounting principle based on updated Treasury guidance, as discussed in Note 1, FHA's reestimate expense in fiscal year 2020 was affected because of the increase in the LLG. If FHA had implemented the change in accounting principle, discussed in Note 1, to reclassify the contra-asset and contra-liability accounts offsetting accounts receivable, loans receivable and related foreclosed property, and accounts payable to the loan guarantee liability account in fiscal year 2019, reestimate expense would have decreased by ($343) million overall. Single Family Forward reestimate expense would have decreased by about ($326) million, HECM reestimate expense would have decreased by about ($56) million, Multifamily reestimate expense would have increased by $81 million, and Healthcare reestimate expense would have decreased by ($43) million. The effect on the fiscal year 2019 reestimate expense was reported by FHA as an adjustment to the fiscal year 2020 beginning balance of Cumulative Results of Operations.

**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. As discussed in Note 1, due to the correction of an error in FHA's accounting for some pre-1992 Multifamily notes, FHA's Multifamily bad debt expense on interest receivable accrued in previous fiscal years increased by $92 million in fiscal year 2020.

**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, 2020, and 2019, are as follows:

(Dollars in millions)

| FY 2020 | Single Family Forward | HECM | Multifamily | Healthcare | Total |
|---|---|---|---|---|---|
| **Intragovernmental:** | | | | | |
| Interest Revenue from Deposits at U.S. Treasury | $ 166 | $ 580 | $ 60 | $ 33 | $ 839 |
| Interest Revenue from MMI/CMHI Investments | 753 | 99 | - | - | 852 |
| **Total Intragovernmental** | **$ 919** | **$ 679** | **$ 60** | **$ 33** | **$ 1,691** |
| **With the Public:** | | | | | |
| Insurance Premium Revenue | $ - | $ - | $ 1 | $ - | $ 1 |
| Income from Notes and Properties | 3 | - | 331 | 4 | 338 |
| Other Revenue | 1 | - | 75 | - | 76 |
| **Total With the Public** | **$ 4** | **$ -** | **$ 407** | **$ 4** | **$ 415** |
| **Total Earned Revenue** | **$ 923** | **$ 679** | **$ 467** | **$ 37** | **$ 2,106** |

| 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** |

**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 2020 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 Note 18. Budgetary Resources – Collections.

**Up-front Premiums**

The up-front premium rates vary according to the mortgage type and the year of origination. Based on the Housing and Economic Recovery Act of 2008, Single Family up-front premium rates may be no more than 3 percent. The FHA up-front premium rates for loans committed in fiscal year 2020 were:

| Upfront Premium Rates | |
|---|---|
| 10/01/2019 - 9/30/2020 | |
| 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 2020 were:

| Annual Periodic Premium Rates | |
|---|---|
| 10/01/2019 - 9/30/2020 | |
| 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. As discussed in Note 1, in fiscal year 2020, FHA corrected an error in its accounting for interest revenue on some pre-1992 Multifamily notes that resulted in an increase in Multifamily income from notes and property. The interest revenue had previously been reported as deferred revenue, but during fiscal year 2020 FHA reclassified $262 million in deferred revenue accrued from previous fiscal years to earned revenue.

**Other Revenue**

FHA's other revenue includes late charges, penalty revenue, and fee income associated with pre-1992 loan guarantees; 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. Unexpended Appropriations

Unexpended appropriation balances as of September 30, 2020, and 2019, are as follows:

(Dollars in millions)

| FY 2020 | Beginning Balance | Appropriations Received | Other Adjustments | Appropriations Used | Ending Balance |
|---|---|---|---|---|---|
| Positive Subsidy | $ 2 | $ - | $ - | $ - | $ 2 |
| Authority for Contract Expenses | 244 | 130 | (17) | (113) | 244 |
| Reestimates | - | 792 | - | (792) | - |
| GI/SRI Liquidating | 253 | 25 | - | - | 278 |
| **Total** | **$ 499** | **$ 947** | **$ (17)** | **$ (905)** | **$ 524** |

| 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** |

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 17. Budgetary Resources

Undelivered Orders by fund as of September 30, 2020, and 2019, are as follows:

### A. Undelivered Orders - Unpaid

| (Dollars in Millions) | | | FY 2020 |
|---|---|---|---|
| | Federal | Non-Federal | Total |
| MMI/CMHI | $ 12 | $ 1,417 | $ 1,429 |
| GI/SRI | - | 929 | 929 |
| H4H | - | 2 | 2 |
| **Undelivered Orders Subtotal** | **$ 12** | **$ 2,348** | **$ 2,360** |

| (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** |

## Note 18. Budgetary Resources - Collections

The following table presents FHA's collections for the period ended September 30, 2020, and 2019:

(Dollars in Millions)

| FY 2020 | MMI/CMHI | GI/SRI | H4H | Total |
|---|---|---|---|---|
| **Collections:** | | | | |
| Premiums | $ 14,571 | $ 880 | $ - | $ 15,451 |
| Notes | 1,790 | 757 | 1 | 2,548 |
| Property | 1,696 | 203 | - | 1,899 |
| Interest Earned from U.S. Treasury | 380 | 337 | - | 717 |
| Subsidy | 7,059 | - | - | 7,059 |
| Reestimates | 13,350 | 792 | - | 14,142 |
| Collections from settlements | 5 | - | - | 5 |
| Other | 149 | 98 | - | 247 |
| **Total** | **$ 39,000** | **$ 3,067** | **$ 1** | **$ 42,068** |

| 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** |

## Note 19. Budgetary Resources – Obligations

The following table presents FHA's obligations incurred for the period ended September 30, 2020, and 2019:

(Dollars in Millions)

| September 30, 2020 | MMI/CMHI | GI/SRI | H4H | Total |
|---|---|---|---|---|
| **Obligations** | | | | |
| Claims | $ 11,550 | $ 2,623 | $ 1 | $ 14,174 |
| Property Expenses | 252 | 39 | - | 291 |
| Interest on Borrowings - BFS | 1,607 | 376 | - | 1,983 |
| Interest on Borrowings - FFB | - | 75 | - | 75 |
| Subsidy | 7,060 | 794 | - | 7,854 |
| Downward Reestimates | 12,131 | 3,719 | 19 | 15,869 |
| Upward Reestimates | 1,219 | 792 | - | 2,011 |
| Administrative Contracts | 131 | - | - | 131 |
| Other | 92 | 99 | - | 191 |
| **Total** | **$ 34,042** | **$ 8,517** | **$ 20** | **$ 42,579** |

| September 30, 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 - BFS | 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 |
| Admin, Contract and Working Capital | 114 | - | - | 114 |
| FFB Direct Loans | - | 623 | - | 623 |
| Other | 78 | 119 | - | 197 |
| **Total** | **$ 43,166** | **$ 7,413** | **$ 2** | **$ 50,581** |

## Note 20. Net Adjustments to Unobligated Balance, Brought Forward, October 1

During the years ended September 30, 2020 and 2019, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2019 and 2018. FHA's net adjustments to the unobligated balance, brought forward, on the Statement of Budgetary Resources consisted mostly of downward adjustments to prior-year paid and unpaid obligations. Other adjustments included borrowing authority withdrawn, capital transfers to the General Fund of the U.S. Government of prior-year balances, and canceled authority.

**September 30, 2020**

| | 2020 | 2019 |
|---|---|---|
| **Net Adjustments to Unobligated Balance, Brought Forward October 1** | | |
| Prior Year Ending Unobligated Balance | $61,295 | $57,049 |
| Adjustments to Budgetary Resources Made During Current Year | | |
| Downward Adjustments of Prior year Undelivered Orders | 592 | 308 |
| Downward Adjustments of Prior Year Delivered Orders | 56 | 82 |
| Other Adjustments | (144) | (213) |
| Net Adjustments to Unobligated Balance Brought Forward, October 1 | 504 | 177 |
| **Unobligated Balance from Prior Year (Discretionary and Mandatory)** | **$61,799** | **$57,226** |

## Note 21. Reconciliation of Net Cost to Net Outlays (formerly known as "Budget and Accrual Reconciliation or "BAR")

The Reconciliation of Net Cost to Net Outlays reconciles an agency's financial net cost to its budgetary net outlays, by adjusting for accruals and transfers in and out. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as for reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays presented on a budgetary basis, and the net cost presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

**Federal Housing Administration**

| **For the Period Ended September 30, 2020**<br>(Dollars in Millions) | **Intragovernmental** | **With the Public** | **Total** |
|---|---|---|---|
| ***NET COST*** | $ (620) | $ (19,814) | $ (20,434) |
| **Components of Net Cost That Are Not Part of Net Outlays:** | | | |
| Year-end credit reform subsidy re-estimates | $ 10,696 | - | $ 10,696 |
| **Increase/(decrease) in assets:** | | | |
| Accounts receivable | $ 893 | $ 1 | $ 894 |
| Loans receivable | - | (148) | (148) |
| Investments | 974 | - | 974 |
| Other assets | - | (2) | (2) |
| **(Increase)/decrease in liabilities:** | | | |
| Accounts payable | $ (1,925) | $ 1 | $ (1,924) |
| Other liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA) | 1,674 | 258 | 1,932 |
| **Other financing sources:** | | | |
| Federal employee retirement benefit costs paid by OPM and imputed ot the agency | $ (14) | - | $ (14) |
| Transfers out (in) without reimbursement | (14,383) | - | (14,383) |
| **Total Components of Net Cost That Are Not Part of Net Outlays** | $ (2,085) | $ 110 | $ (1,975) |
| | | | |
| **Components of Net Outlays That Are Not Part of Net Cost:** | | | |
| Effect of prior year agencies credit reform subsidy re-estimates | $ 2,069 | - | $ 2,069 |
| Other | 2,844 | - | 2,844 |
| **Total Components of Net Outlays That Are Not Part of Net Cost** | $ 4,914 | $ - | $ 4,914 |
| **Other Temporary Timing Differences** | (4,542) | 584 | (3,958) |
| ***NET OUTLAYS*** | $ (2,334) | $ (19,121) | $ (21,455) |
| **Related Amounts on the Statement of Budgetary Resources** | | | |
| Outlays, net (total) (discretionary and mandatory) 4190 | | | $ (17,040) |
| Distributed offsetting receipts (-) 4200 | | | $ (4,416) |
| **Net Outlays from SBR** | | | $ (21,455) |

| Federal Housing Administration<br>For the Period Ended September 30, 2019 | Intragovernmental | With the Public | Total |
|---|---|---|---|
| *NET COST* | $ (604) | $ (24,233) | $ (24,837) |
| **Components of Net Cost That Are Not Part of Net Outlays:** | | | |
| Year-end credit reform subsidy re-estimates | $ 12,131 | $ - | 12,131 |
| **Increase/(decrease) in assets:** | | | - |
| Accounts receivable | $ 1,538 | $ - | $ 1,538 |
| Loans receivable | - | (43) | (43) |
| Investments | 107 | - | 107 |
| **(Increase)/decrease in liabilities:** | | | |
| Accounts payable | $ (746) | $ 8 | $ (738) |
| Insurance and guarantee program liabilities | - | 1 | 1 |
| Other liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA) | (432) | (9) | (441) |
| **Other financing sources:** | | | |
| Federal employee retirement benefit costs paid by OPM and imputed ot the agency | $ (19) | $ - | $ (19) |
| Transfers out (in) without reimbursement | (18,032) | - | (18,032) |
| **Total Components of Net Cost That Are Not Part of Net Outlays** | $ (5,452) | $ (43) | $ (5,495) |
| **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 | 2,774 | (2) | 2,772 |
| **Total Components of Net Outlays That Are Not Part of Net Cost** | $ 8,031 | $ (2) | $ 8,029 |
| **Other Temporary Timing Differences** | (2,341) | - | (2,341) |
| ***NET OUTLAYS*** | $ (366) | $ (24,278) | $ (24,644) |
| **Related Amounts on the Statement of Budgetary Resources** | | | |
| Distributed offsetting receipts (-) 4200 | | | $ (2,180) |
| **Net Outlays from SBR** | | | $ (24,644) |

FHA follows the Treasury crosswalk for most of the line items in the Reconciliation of Net Cost to Net Outlays, 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: Loans Receivable, Investments, and Other Liabilities. FHA reports interest receivable for investments as part of the "Investments" line item rather than "Accounts Receivable." This is consistent with how FHA presents investments in the accompanying Balance Sheet and in Note 5. FHA also reports the subsidy payable to the financing account as part of "Accounts Payable" rather than as part of "Other Liabilities." This is consistent with how FHA presents accounts payable in the accompanying Balance Sheet and in Note 8. Under "Other Liabilities," FHA includes its liability for advances and prepayments to be consistent with how FHA presents other liabilities in the accompanying Balance Sheet and in Note 10. Since Treasury did not provide a crosswalk for Effect of prior year agencies credit reform subsidy reestimates, FHA developed its own crosswalk for that line item. The Other line item in FHA's reconciliation offsets the portion of activity under Other Liabilities that does not have an impact on budgetary resources. Other Temporary Timing Differences captures the amounts in FHA's general fund receipt accounts that are transferred to Treasury at fiscal year-end. In fiscal year 2020, Other Temporary Timing Differences also includes the prior-year adjustment to cumulative results of operations due to FHA's change in accounting principle.

New requirements in the OMB Circular A-136 changed the presentation and contents of the reconciliation for fiscal year 2020. In accordance with the new requirements, FHA excluded financing account activity from all line items in the reconciliation, except for Net Cost. Under its current accounting policy, FHA records the expense associated with downward reestimates and negative subsidy in its financing accounts rather than its program accounts. These expenses should be recorded in FHA's program accounts, based on the latest accounting guidance, and this discrepancy will be corrected in fiscal year 2021. In the current fiscal year, FHA is including these expenses in the financing accounts in this reconciliation. The downward reestimates and negative subsidy, whether in financing or program funds, flow to the same line on this reconciliation. Therefore, FHA's current accounting policy for recording downward reestimates and negative subsidy does not have any impact on the accuracy of this reconciliation. Additionally, the intragovernmental net cost and net cost with the public in the reconciliation would not have changed if FHA had recorded the expense associated with downward reestimates and negative subsidy in its program accounts. The downward reestimate expense and negative subsidy expense are properly classified as with the public in the financing accounts and that classification would not have changed if the expenses had been recorded in the program accounts.

FHA's intragovernmental net cost and net cost with the public reported on its Statement of Net Cost include expenses and revenue from both financing and non-financing accounts. The intragovernmental net cost and net cost with the public in the reconciliation do not agree with the total intragovernmental net cost and total net cost with the public on FHA's Statement of Net Cost because interest revenue on uninvested funds, interest revenue for subsidy amortization, interest expense on borrowings, and interest expense accrued on the liability for loan guarantees, which are properly recorded in the financing accounts, are not included in the reconciliation. Intragovernmental net cost on the reconciliation is $1,218 million less than the total intragovernmental net cost reported on FHA's Statement of Net Cost, and net cost with the public on the reconciliation is $1,218 million more than the total net cost with the public reported on FHA's Statement of Net Cost.

FHA previously based its Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates on activity in the financing accounts. Due to the change in OMB Circular A-136 that requires financing account activity to be excluded, FHA used activity in transfers out (in) without reimbursement related to the reestimates to populate the Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates line items. For that reason, FHA is classifying the Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates as intragovernmental rather than with the public. FHA's transfers out (in) without reimbursement are all intragovernmental in nature.

Because of the change in presentation effective for fiscal year 2020, most of the reconciling items reported in FHA's fiscal year 2019 reconciliation will not agree with the amounts reported in FHA's fiscal year 2019 Annual Management Report.

## Required Supplementary Information (Unaudited)

### Schedule A: Intragovernmental Assets

FHA's Intra-governmental assets, by Federal entity, are as follows on September 30, 2020, and 2019:

(Dollars in Millions)

| FY 2020 | Fund Balance with U.S. Treasury | Investments in U.S. Treasury Securities | Total |
|---|---|---|---|
| U.S. Treasury | $ 18,234 | $ 69,246 | $ 87,480 |
| | $ 18,234 | $ 69,246 | $ 87,480 |

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

### Schedule B: Intragovernmental Liabilities

FHA's Intra-governmental liabilities, by Federal entity, are as follows on September 30, 2020, and 2019:

(Dollars in Millions)

| FY 2020 | Accounts Payable | Borrowings | Other Liabilities | Total |
|---|---|---|---|---|
| Federal Financing Bank | $ - | $ 2,370 | $ - | $ 2,370 |
| U.S. Treasury | - | 51,822 | 1,544 | 53,366 |
| HUD | 2 | - | - | 2 |
| **Total** | **$ 2** | **$ 54,192** | **$ 1,544** | **$ 55,738** |

| 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** |

## Required Supplementary Information (Unaudited)

### Schedule C: Comparative Combining Statement of Budgetary Resources by FHA Program for Budgetary September 30, 2020:

| 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 | 49,583 | 1,335 | 2 | 45 | 50,965 |
| Appropriations (discretionary and mandatory) | - | 130 | 792 | 25 | 947 |
| Spending authority from offsetting collections (discretionary & mandatory) | 19,320 | - | - | 119 | 19,439 |
| **Total budgetary resources** | **$ 68,903** | **$ 1,465** | **$ 794** | **$ 189** | **$ 71,351** |
| **Status of Budgetary Resources:** | | | | | |
| Obligations incurred | - | 1,350 | 792 | 27 | 2,169 |
| Unobligated balance, end of year: | | | | | |
| Apportioned | - | 49 | 2 | 45 | 96 |
| Unapportioned | 68,903 | 2 | - | 116 | 69,021 |
| Unexpired unobligated balance, end of year | 68,903 | 50 | 2 | 162 | 69,117 |
| Expired unobligated balance, end of year | - | 65 | - | - | 65 |
| Total unobligated balance, end of year | 68,903 | 115 | 2 | 162 | 69,182 |
| **Total budgetary resources** | **$ 68,903** | **$ 1,465** | **$ 794** | **$ 189** | **$ 71,351** |
| **Outlays, Net:** | | | | | |
| Outlays, net (discretionary and mandatory) | (19,068) | 1,331 | 792 | (95) | (17,040) |
| Distributed offsetting receipts (-) | - | - | - | (4,416) | (4,416) |
| **Agency outlays, net (discretionary and mandatory)** | **$ (19,068)** | **$ 1,331** | **$ 792** | **$ (4,511)** | **$ (21,456)** |

## Required Supplementary Information (Unaudited)

### 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 |
| Unobligated balance, end of year: | | | | | |
| 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 | - | (0) | 66 |
| Total unobligated balance, end of year | 50,814 | 119 | 2 | 141 | 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)** |

In the fiscal year 2019 AMR, the Total unobligated balance, end of year, was incorrectly presented for MMI/CHMI Program and Other. The MMI/CHMI Program total was understated by $66 million and Other was overstated by the same amount. There was no impact to the Total Budgetary Resources. For fiscal year 2020 comparative reporting, these totals have been updated to correct the fiscal year 2019 presentation.

## Required Supplementary Information (Unaudited)

### Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2020:

(Dollars in Millions)

| | MMI/CMHI Financing | GI/SRI Financing | Other | Non Budgetary Total |
|---|---|---|---|---|
| **Budgetary Resources:** | | | | |
| Unobligated balance from prior year budget authority, net | 2,654 | 8,163 | 17 | 10,834 |
| Borrowing authority (discretionary and mandatory) | 19,826 | 3,605 | 5 | 23,436 |
| Spending authority from offsetting collections (discretionary and mandatory) | 18,743 | 2,057 | 1 | 20,801 |
| **Total budgetary resources** | **$ 41,223** | **$ 13,825** | **$ 23** | **$ 55,071** |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred | 32,685 | 7,705 | 20 | 40,410 |
| Unobligated balance, end of year: | | | | |
| Apportioned | 2,270 | 304 | 1 | 2,575 |
| Exempt from apportionment | | | | |
| Unapportioned | 6,268 | 5,816 | 1 | 12,085 |
| Unexpired unobligated balance, end of year | 8,537 | 6,121 | 3 | 14,661 |
| Total unobligated balance, end of year | 8,537 | 6,121 | 3 | 14,661 |
| **Total budgetary resources** | **$ 41,223** | **$ 13,825** | **$ 23** | **$ 55,071** |
| **Outlays, Net:** | | | | |
| **Agency outlays, net (discretionary and mandatory)** | $ - | $ - | $ - | $ - |
| **Disbursements, net (Total) (mandatory)** | **$ 12,703** | **$ 5,042** | **$ 18** | **$ 17,763** |

In fiscal year 2020, OMB Circular A-136 requires agencies to include Disbursements, net (total) (mandatory), in the presentation of the Statement of Budgetary Resources (SBR). The line captures net outlays for non-budgetary credit financing accounts only.

## Required Supplementary Information (Unaudited)

### 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:** | | | | |
| **Agency outlays, net (discretionary and mandatory)** | **$ -** | **$ -** | **$ -** | **$ -** |
| **Disbursements, net (Total) (mandatory)** | **$ 23,333** | **$ 2,277** | **$ -** | **$ 25,610** |

For comparative purposes, FHA updated the presentation of the fiscal year 2019 RSI Schedule D note to reflect the Disbursements, net (total) (mandatory) change, per the fiscal year 2020 OMB Circular A-136 requirement.

# AUDITOR'S REPORT

This report was issued separately on November 12, 2020 by the HUD Office of Inspector General entitled, "Federal Housing Administration, Washington, DC, Fiscal Years 2020 and 2019 Financial Statements Audit" (2021-FO-0001). The report is available at HUD, OIG's internet site at: http://www.hudoig.gov

**To:** Dana Wade, Assistant Secretary for Housing – Federal Housing Commissioner, H

**//signed//**

**From:** Sarah D. Sequeira, Director, In-House Financial Audits, Financial Audits Division, GAF

**Subject:** Audit of Federal Housing Administration's Financial Statements for Fiscal Years 2020 and 2019

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 2020 and 2019 financial statements.

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 202-255-7430.

**Audit Report Number: 2021-FO-0001**
**Date: November 12, 2020**

**Audit of the Federal Housing Administration's Fiscal Years 2020 and 2019 Financial Statements**

# 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 FHA financial statements and notes as of and for the fiscal years ending September 30, 2020 and 2019, which are comprised of the balance sheets, related statements of net cost, changes in net position, and combined statements of budgetary resources for the fiscal 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 2020 and 2019 financial statements were presented fairly, in all material respects, in accordance with the U.S. generally accepted accounting principles for the Federal Government. FHA reports our opinion in its Fiscal Year 2020 Annual Management Report. The results of our audit of FHA's principal financial statements and notes for the fiscal years ending September 30, 2020 and 2019, including our report on FHA's internal control and test of compliance with selected provisions of laws, regulations, and contracts applicable to FHA, are presented in this report. Our audit did not disclose any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies and no instances of noncompliance with applicable laws, regulations, and contracts.

## What We Recommend

We have no new recommendations in this report; however, the Followup on Prior Audits section contains recommendations from prior-year audits that are still outstanding. While these recommendations relate to prior-year material weaknesses or significant deficiencies that have now been substantially resolved, FHA should continue to track and resolve these recommendations in accordance with departmental procedures.

# Independent Auditor's Report

Assistant Secretary for Housing – Federal Housing Commissioner
Federal Housing Administration

In our audits of the fiscal years 2020 and 2019 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, 2020 and 2019, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- No material weaknesses or significant deficiencies in internal control over financial reporting based on the limited procedures performed.
- No reportable noncompliance with provisions of applicable laws, regulations, and contracts tested for fiscal year 2020.

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, and contracts; (4) followup on prior audits; and (5) agency comments and Office of Inspector General (OIG) evaluation.

## Report on the Financial Statements

In accordance with the Chief Financial Officers Act of 1990, we audited FHA's financial statements. FHA's financial statements comprise the balance sheets as of September 30, 2020 and 2019, the related statements of net cost, changes in net position, and 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 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 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 audit 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, 2020 and 2019, 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 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, 2020, 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 we consider to be material weaknesses or significant deficiencies. 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, and contracts, 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 or significant deficiencies or to express an opinion on the effectiveness of FHA's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

During our 2020 audit, we identified deficiencies in FHA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. However, these deficiencies warrant FHA management's attention. We have communicated these matters to FHA management and, as appropriate, will report on them separately in a management letter.

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.

## Report on Compliance With Laws, Regulations, and Contracts

In connection with our audits of FHA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, and contracts 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, and contracts applicable to FHA.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, and contracts 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, and contracts applicable to FHA.

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

Our tests for compliance with selected provisions of applicable laws, regulations, and contracts did not disclose any instances of noncompliance for fiscal year 2020 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, and contracts applicable to FHA. Accordingly, we do not express such an opinion.

During our 2020 audit, we identified instances of noncompliance and issues with FHA's operations that warrant FHA management's attention. We have communicated these matters to FHA management and, as appropriate, will report on them separately in a management letter.

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

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, and contracts 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, and contracts is not suitable for any other purpose.

## Agency Comments and Our Evaluation

In commenting on a draft of this report, FHA concurred with the audit results presented in our draft report. FHA also asserted its commitment to sustain its efforts to strengthen controls over financial reporting and to continue to prioritize resolution of recommendations from prior years. The complete text of FHA's response is presented in appendix A.

Kimberly Randall
Deputy Assistant Inspector General for Audit
Washington, DC

November 12, 2020

# 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 three unimplemented recommendations from prior-year reports. We originally made these recommendations to management to correct material weaknesses or significant deficiencies included in the Report on Internal Control Over Financial Reporting; however, the deficiencies in internal control no longer meet the definition of a material weakness or significant deficiency individually or in combination. Regardless, FHA should continue to track and resolve 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-0002

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 Secretary for Finance and Budget

1.a. 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[2] as 2019-FO-0002-002-I.)

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

1.b. 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 was December 31, 2019; reported in ARCATS as 2019-FO-0002-002-M.)

[2] Audit Resolution and Corrective Action Tracking System

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

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 Secretary for Finance and Budget

2.a. 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.)

## Appendix A

**Ref to OIG Evaluation**

### Auditee Comments and OIG's Evaluation

OFFICE OF HOUSING

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

November 6, 2020

MEMORANDUM FOR: Sarah D. Sequeira, Director of In-House Financial Audits, Financial Audits Division, GAF

Susan Betts

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

SUBJECT: Response to Fiscal Years 2020 and 2019 Financial Statements Audit Report

**Comment 1**

Thank you for the opportunity to respond to FHA's FY 2020 Independent Auditor's Report. The Federal Housing Administration (FHA) is pleased to receive an unmodified "clean" audit opinion on its financial statements, with no material weaknesses or significant deficiencies in internal control over financial reporting.

We believe our commitment to sound financial management is reflected in the overall results of this year's audit. Equally, we appreciate the Office of Inspector General's (OIG) recognition of the hard work of our staff in resolving prior year findings, to include the one remaining significant deficiency, as well as the work done to address current year auditor concerns.

As always, we thank you for and appreciate the collaborative efforts of the OIG staff. FHA's management and staff are committed to sustained efforts to strengthen controls around financial reporting and will continue to prioritize the resolution of prior year unresolved audit recommendations.

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## OIG Evaluation of Auditee Comments

**Comment 1** OIG appreciates FHA’s cooperation and collaboration with our office as we conducted the audit. FHA’s continued efforts in strengthening its internal controls over financial reporting will improve and maintain the reliability of the financial statements. We look forward to working with FHA to close out the recommendations from prior years.

# FHA

## ORGANIZATIONAL CHART

**Assistant Secretary for Housing and Federal Housing Commissioner**

- **Deputy Asst. Secretary for Finance & Budget**
  - Office of the Housing - FHA Comptroller
  - Office of Asset Sales
  - Office of Budget & Field Resources
- **Deputy Asst. Secretary for Multifamily Housing Programs**
  - Office of Program Systems Management
  - Office of Multifamily Production
  - Office of Asset Management & Portfolio Oversight
  - Office of Recapitalization
  - Office of Field Support & Operations
- **Deputy Asst. Secretary for Housing Counseling**
  - Office of Policy & Grant Administration
  - Office of Outreach & Capacity Building
  - Office of Oversight & Accountability
- **Deputy Asst. Secretary for Single Family Housing**
  - Office of Single Family Program Development
  - Office of Single Family Asset Management
  - Office of Lender Activities & Program Compliance
  - Atlanta Homeownership Center
  - Denver Homeownership Center
  - Philadelphia Homeownership Center
  - Santa Ana Homeownership Center
- **Deputy Asst. Secretary for Healthcare Programs**
  - Office of Hospital Facilities
  - Office of Residential Care Facilities
  - Office of Architecture & Engineering
- **Deputy Asst. Secretary for Risk Management & Regulatory Affairs**
  - Office of Risk Management
  - Office of Evaluation
  - Office of Manufactured Housing Programs
- **Deputy Asst. Secretary for Operations**
  - Office of FHA Transformation
  - Office of Management
  - Office of Business Development

https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2020ANNUALMGMNTRPT.pdf