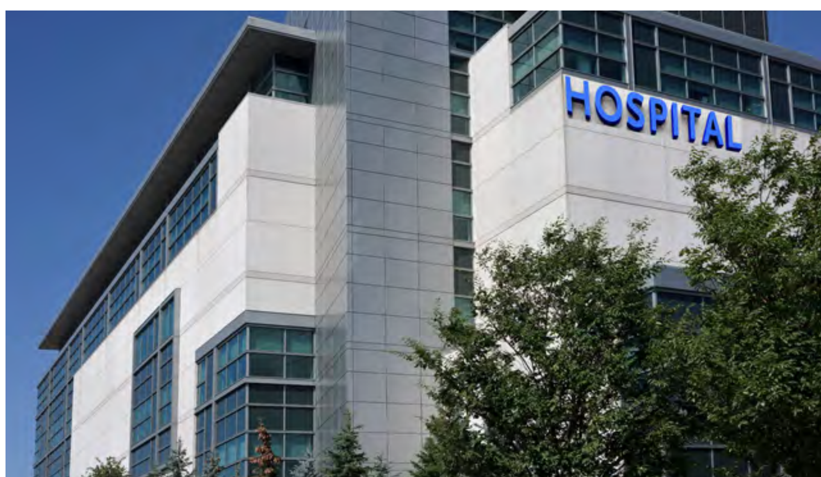
FHA

FEDERAL HOUSING ADMINISTRATION

ANNUAL MANAGEMENT REPORT

FISCAL YEAR 2023



FEDERAL HOUSING ADMINISTRATION

ANNUAL MANAGEMENT REPORT 2023

This Annual Management Report (AMR) for the fiscal year ending September 30, 2023, provides the Federal Housing Administration's (FHA) financial and summary performance information in accordance with OMB Circular A-136, Financial Reporting Requirements.

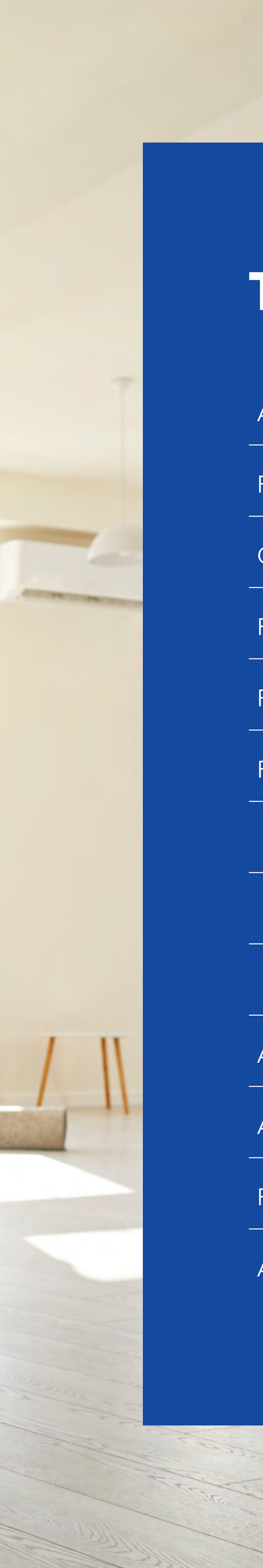
THIS REPORT IS DIVIDED INTO THREE SECTIONS:

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. This section also includes, a Message from the Assistant Secretary for Housing and Federal Housing Commissioner, highlights and achievements for the current fiscal year, and challenges and opportunities in the coming year.

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.

Auditors' Report on FHA's fiscal year 2023 financial statements, internal controls, and compliance with laws and regulations.

FHA's AMR is available on the following website:
https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2023ANNUALMGMNTRPT.PDF
FHA welcomes feedback on the form and content of this report.



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November 13, 2023

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

Julia R. Gordon

Assistant Secretary for Housing and Federal Housing Commissioner
Office of Housing and Federal Housing Administration

I am pleased to share the Federal Housing Administration's (FHA) Annual Management Report for Fiscal Year (FY) 2023. The report recounts the accomplishments and highlights of the Federal Housing Administration, which includes the Offices of Single Family Housing, Multifamily Housing Programs, and Healthcare Programs.

This past fiscal year, FHA continued to provide stability and liquidity to the housing market. Despite the challenges of the current market, FHA has continued to work to ensure access to affordable rental housing, homeownership, and healthcare facilities while also addressing systemic barriers that limit access to credit to underserved communities and households, especially in communities of color.

In FY 2023, FHA supported homeownership for 732,319 households. Notably, to enable more borrowers to afford and qualify for homeownership, the Office of Single Family Housing reduced the cost of the Annual Mortgage Insurance Premiums (annual MIP) for FHA mortgage insurance. This 30 basis point reduction is expected to save the average FHA borrower approximately $800 in the first year of their mortgage. FHA also made other changes to support access to credit, such as initiating the use of positive rental history to support qualification for mortgages.

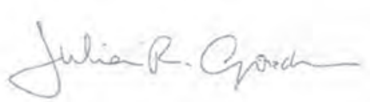
In addition, FHA sought to address the housing supply challenges facing the nation by helping to facilitate the construction of new affordable rental homes. The Office of Multifamily Housing Programs supported the financing of 10,571 affordable properties, including homes for low-income renters, seniors, and persons with disabilities. For the first time since 2014, FHA increased the Multifamily Large Loan limit threshold from $75 million to $120 million, which streamlines the process for lenders and borrowers engaged in rental home construction, rehabilitation, repair, refinancing, and purchase transactions for larger projects.

FHA also supported the Biden-Harris Administration's efforts to create more energy efficient and resilient communities. The Office of Healthcare Programs launched its Green Mortgage Insurance Premiums (MIP), which provides a reduced FHA mortgage insurance premium for owners of nursing homes, assisted living facilities, and board and care homes who make their properties more energy efficient and sustainable.

Finally, FHA helped individuals and families experiencing the lingering effects of COVID-19 pandemic and other financial hardships to remain in their homes. FHA updated its mortgage loss mitigation programs to give borrowers in delinquency status more relief options when facing default, and administered $170 million in Coronavirus Aid, Relief, and Economic Security Act funding to protect and respond to tenants' needs. Additionally, FHA worked closely with healthcare and residential care facilities to help them navigate decreased utilization, higher costs, and staffing shortages.

I am extremely proud of the important and extensive work FHA's talented and dedicated team accomplished this past fiscal year. It's an incredible honor to lead such impactful work for America's households and communities.

Sincerely,



Julia R. Gordon
Assistant Secretary for Housing
and Federal Housing Commissioner

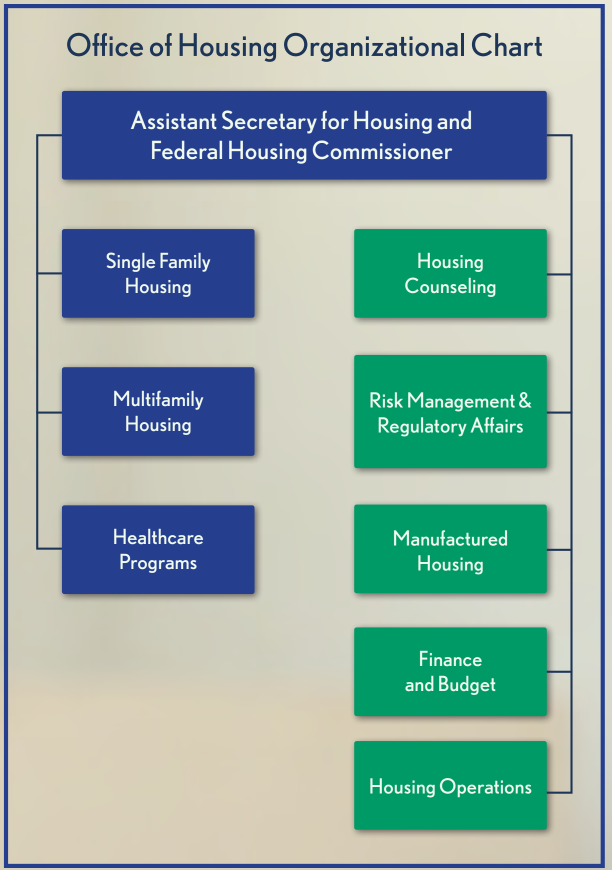
FEDERAL HOUSING ADMINISTRATION AT A GLANCE

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 U.S. 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 53.9 million Single Family and 72,239 Multifamily and Healthcare Facility mortgages.

FHA provides mortgage insurance for mortgages financed by its approved lenders throughout the United States and its territories. These mortgages are 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. FHA collects upfront mortgage insurance premiums at the time of loan origination as well as monthly insurance premiums during the life of the loan and uses these premiums to pay mortgage insurance claims when necessary. FHA maintains a strong and balanced financial management strategy to pursue its mission to serve homebuyers, renters, and communities while also considering risk to its insurance funds.

Over the course of its history, FHA has served a critical role in the U.S. housing market: serving millions of first-time, minority, and low-to-moderate income homebuyers; providing safe and affordable rental housing; supporting access to quality healthcare; and providing relief to individuals and families affected by disasters.



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 FHA, there are several core programs and support offices, depicted in the chart, that 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. Other offices within the Office of Housing support FHA's program 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 FHA's financial activities, which include financial management, budget formulation and execution activities, and the overall integrity of FHA's financial systems and accounting records. FAB also prepares consolidated annual financial statements and the Annual Management Report and oversees the competitive sale and disposition of mortgage notes.

The Office of Housing Counseling supports FHA in achieving its mission by sustaining a network of HUD-approved Housing Counseling Agencies. The Office of Manufactured Housing Programs establishes federal standards for the design and construction of manufactured homes, regulates installation standards, and administers a dispute resolution program established to protect the health and safety of manufactured homeowners and occupants. The Office of Housing Operations supports all office divisions with a variety of services, including contract procurement.

FHA'S INSURANCE FUNDS

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 (FY) 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, 2023 with the net present value of future cash flows from outstanding books of business.

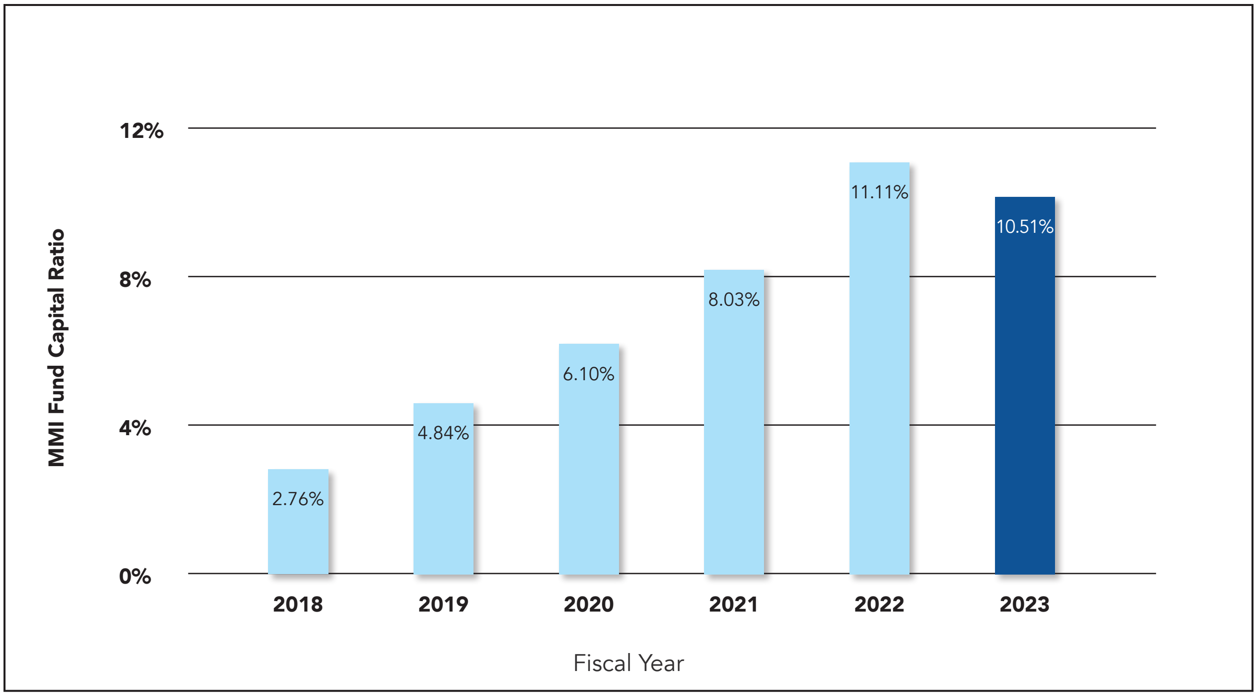
The capital resources of the MMIF are separated into two types of accounts: a financing account and a capital reserve account. Funds in the financing account cover expected losses over the life of each insurance cohort, while capital reserve balances are accumulated for unanticipated losses.

The MMI Capital increased from $141.70 billion in Fiscal Year (FY) 2022 to $145.29 billion in FY 2023. The capital ratio decreased from 11.11 percent to 10.51 percent between FY 2022 and FY 2023. The MMI Capital has increased by $110.43 billion since FY 2018. The MMIF's capital ratio similarly increased by 7.75 percentage points over that time, from 2.76 percent to 10.51 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 2023 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 FY 2023. 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 FY 2023, the Independent Actuary concluded that FHA's Cash Flow NPV is reasonable and within a reasonable range of Actuarial Estimates. The Independent Actuary's Cash Flow Net Present Value (Cash Flow NPV) estimates for the Forward mortgage and Home Equity Conversion Mortgage (HECM) portfolio combined total $35.96 billion, versus the $34.78 billion FHA baseline estimate. The difference between the two estimates of $1.18 billion is 0.09 percent of Insurance in Force.

[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 terminology is more consistent with industry standards, as the MMI Fund Capital Ratio is expressed as MMI Capital/IIF.

MMI FUND CAPITAL RATIO FY 2018 - FY 2023



SOURCE: U.S. Department of HUD/FHA, October 2023

As the country emerges from the COVID-19 pandemic, the Federal Housing Administration (FHA) remains an active, critical player in the American housing finance system, providing stability for homeowners in crisis, while ensuring continued access to credit to expand first-time homeownership opportunities. Through several policy actions, including forbearance extensions and streamlined loss mitigation options, FHA continues to provide meaningful relief to homeowners with FHA-insured mortgages who faced financial challenges.

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 2023 at: *https://www.hud.gov/fhammifrpt*

PERFORMANCE GOALS AND OBJECTIVES

HUD STRATEGIC PLAN

The FY 2022-2026 HUD Strategic Plan lays out the Administration's strategy to support people and their lived experiences, focusing on five strategic goals and corresponding objectives. Overarching priorities to increase equity and improve customer experience provide an overlay over each goal as core elements to which HUD has committed. In addition to the strategic plan, Government Performance Results Modernization Act (GPRAMA) requires agencies to complete annual performance plans, that detail how agencies will meet and measure their strategic goals. Below is an outline of HUD'S strategic goals and objectives.

STRATEGIC GOAL 1: SUPPORT UNDERSERVED COMMUNITIES

Fortify support for underserved communities and support equitable community development for all people.

- STRATEGIC OBJECTIVE 1A: ADVANCE HOUSING JUSTICE
  Fortify support for vulnerable populations, underserved communities, and Fair Housing Enforcement.

- STRATEGIC OBJECTIVE 1B: REDUCE HOMELESSNESS[2]
  Strengthen Federal, State, Tribal, and community implementation of the Housing First approach to reducing the prevalence of homelessness, with the ultimate goal of ending homelessness.

- STRATEGIC OBJECTIVE 1C: INVEST IN THE SUCCESS OF COMMUNITIES
  Promote equitable community development that generates wealth-building for underserved communities, particularly for communities of color.

STRATEGIC GOAL 2: ENSURE ACCESS TO AND INCREASE THE PRODUCTION OF AFFORDABLE HOUSING

Ensure housing demand is matched by adequate production of new homes and equitable access to housing opportunities for all people.

- STRATEGIC OBJECTIVE 2A: INCREASE THE SUPPLY OF HOUSING
  Enhance HUD's programs that increase the production and supply of housing across the country.

- STRATEGIC OBJECTIVE 2B: IMPROVE RENTAL ASSISTANCE[3]
  Improve rental assistance to address the need for affordable housing.

STRATEGIC GOAL 3: PROMOTE HOMEOWNERSHIP

Promote homeownership opportunities, equitable access to credit for purchase and improvements, and wealth-building in underserved communities.

- STRATEGIC OBJECTIVE 3A: ADVANCE SUSTAINABLE HOMEOWNERSHIP[4]
  Advance the deployment of tools and capital that put sustainable homeownership within reach.

  - MAJOR INITIATIVE: EXPAND HOMEOWNERSHIP OPPORTUNITIES
    Promote financing for innovative ownership models to increase the availability of affordable housing.

- STRATEGIC OBJECTIVE 3B: CREATE A MORE ACCESSIBLE AND INCLUSIVE HOUSING FINANCE SYSTEM
  Advance new policy, programs, and modernization initiatives that support a more equitable housing finance sys-

[2] *Indicates this objective has an Agency Priority Goal (APG) as follows: "By September 30, 2023, make homelessness rare, brief, and non¬recurring by reducing the number of people experiencing homelessness by 15% from 2020 levels."*

[3] *Indicates this objective has an APG as follows: "By September 30, 2023, maximize the reach of HUD's rental assistance programs by increasing the occupancy rates to 96% in the Public and Multifamily Housing programs and the budget utilization rate to 100% in the Housing Choice Voucher program."*

[4] *Indicates this objective has an APG as follows: "HUD will maximize homeownership for creditworthy first-time homebuyers and preserve homeownership for existing homeowners. By September 30, 2023, HUD will maintain a first-time homebuyer rate of at least 80% for newly endorsed FHA-insured purchase mortgages and a re-default rate for seriously delinquent homeowners who received a loss mitigation action that is below 30%."*

tem. Promote the preservation and creation of affordable housing stock.

STRATEGIC GOAL 4: ADVANCE SUSTAINABLE COMMUNITIES

Advance sustainable communities by strengthening climate resilience and energy efficiency, promoting environmental justice, and recognizing housing's role as essential to health.

- STRATEGIC OBJECTIVE 4A: GUIDE INVESTMENT IN CLIMATE RESILIENCE
  Invest in climate resilience, energy efficiency, and renewable energy across HUD programs.

- STRATEGIC OBJECTIVE 4B: STRENGTHEN ENVIRONMENTAL JUSTICE[5]
  Reduce exposure to health risks, environmental hazards, and substandard housing, especially for low-income households and communities of color.

- STRATEGIC OBJECTIVE 4C: INTEGRATE HEALTHCARE AND HOUSING
  Advance policies that recognize housing's role as essential to health.

STRATEGIC GOAL 5: STRENGTHEN HUD'S INTERNAL CAPACITY

Strengthen HUD's internal capacity and efficiency to ensure better delivery of HUD's mission.

- STRATEGIC OBJECTIVE 5A: ENABLE THE HUD WORKFORCE
  Enable the HUD workforce through hiring, training, opportunities for growth, and promoting a more engaged and inclusive work environment.

- STRATEGIC OBJECTIVE 5B: IMPROVE ACQUISITION MANAGEMENT
  Identify, procure, and execute acquisition management.

- STRATEGIC OBJECTIVE 5C: STRENGTHEN INFORMATION TECHNOLOGY
  Strengthen information technology, cybersecurity, and data management.

- STRATEGIC OBJECTIVE 5D: ENHANCE FINANCIAL AND GRANTS MANAGEMENT
  Provide sound financial and grants management.

- STRATEGIC OBJECTIVE 5E: IMPROVE EASE, EFFECTIVENESS, AND TRUST IN HUD SERVICES
  Institutionalize customer experience (CX) management and elevate the customer perspective across HUD.

[5] *Indicates this objective has an APG as follows: "By September 30, 2023, protect families from lead-based paint and other health hazards by making an additional 20,000 units of at-risk housing units healthy and lead-safe."*

PERFORMANCE REPORTING

Performance reporting of targets and achievements as of September 30, 2023, will be reported in HUD's FY 2025 Annual Performance Plan (APP) / FY 2023 Annual Performance Report (APR). The APP/APR is published annually with the HUD Budget, typically each February, and will be available on the following website: https://www.hud.gov/program_offices/spm/pmd

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 could affect its ability to influence key performance goals

OFFICE of SINGLE FAMILY PROGRAMS

Sarah J. Edelman
Deputy Assistant Secretary, Office of Single Family Housing

For almost 90 years, FHA has carried out its mission of providing homeownership opportunities for millions of low-to moderate-income and first-time individuals and families in all market environments. While fiscal year 2023 (FY 2023) was challenging for potential homebuyers and existing homeowners alike with higher interest rates, lower housing stock, and the ending of the COVID-19 National Emergency, FHA was there to help them. In doing so, we implemented important changes to our policies and programs, such as reducing the Mortgage Insurance Premium (MIP) by 30 basis points; evaluating ways of expanding our 203(k) rehabilitation and Title I programs to provide more affordable housing solutions; and modifying our loss mitigation programs giving borrowers in a delinquency status more relief options when facing default. Due to these and other actions, FHA made homeownership possible for 732,319 borrowers, and helped another 594,473 keep their homes in FY 2023.

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 mortgage insurance programs protect mortgage lenders against losses from default, encouraging lenders to provide mortgage financing to eligible homebuyers who might not otherwise qualify for credit. This includes first-time and low- to moderate-income individuals and families, including those in communities of color and other underserved communities. Historically, more than 80 percent of the purchase transaction mortgages FHA insures annually are for first-time homebuyers.

FHA's single family insurance endorsement program is managed through the Mutual Mortgage Insurance Fund (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 recurring monthly insurance premiums that lenders collect from borrowers and remit to FHA.

The National Housing Act (the Act) 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. In accordance with the Act, FHA's forward mortgage limits are set by Metropolitan Statistical Area and county. In calendar year 2023, the loan limit floor for a forward mortgage on an FHA-insured, one-unit, property in a low-cost area was $472,030, and the loan limit ceiling in a high-cost area was $1,089,300. There is a higher loan limit ceiling in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.

SINGLE FAMILY HOUSING DIVISION STRUCTURE

Headquartered in Washington, DC, the Office of Single Family Housing (SFH) includes the Office of the Deputy Assistant Secretary and three Program Offices:

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

- The Office of Single Family Asset Management is responsible for the development and implementation of policies for mortgage servicing, claims, and property disposition to help FHA assist homeowners avoid foreclosure, whenever possible, while mitigating losses to the MMIF. The Office is also responsible for oversight and servicing of the Single Family Secretary-held portfolio. The Office includes the FHA National Servicing Center with locations in Oklahoma City, and Tulsa, Oklahoma.

- The Office of Lender Activities and Program Compliance is responsible for administering various risk management activities. The Office evaluates and approves lenders to participate in FHA's Single Family, Multifamily, and Title I programs; assesses lenders' performance, internal controls, and compliance with underwriting and servicing requirements in SFH mortgage programs; and initiates enforcement actions when appropriate.

There are also four regional Homeownership Centers (HOCs) located in: Atlanta, GA; Denver, CO; Philadelphia, PA; and Santa Ana, CA. The HOCs are responsible for all Single Family mortgage insurance operations, disposition of HUD's Real Estate Owned inventory, oversight and compliance, and training and outreach in 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. Through the Title I mortgage insurance program, FHA insures loans for manufactured homes titled as personal property and for property improvement.

TITLE II FORWARD MORTGAGE PROGRAMS:

Single Family Title II forward mortgage insurance programs include:

- Section 203(b): Mortgage Insurance for One-to-Four-Unit Homes: This is FHA's core program, which insures mortgages made by lending institutions with loan terms up to 30 years for new or existing residences, including manufactured homes classified as real property and individual condominium units.
- Section 203(k) Rehabilitation Mortgage Insurance Program: Section 203(k) insurance enables homebuyers and homeowners to finance both the purchase or refinancing of an existing home and the cost of its rehabilitation through a single mortgage.

FHA offers additional Title II forward mortgage insurance programs as well. A complete list of programs can be found on the Single Family Housing pages on HUD.gov at: *https://www.hud.gov/program_offices/housing/sfh/ins/*

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 equity from their home without any corresponding periodic requirement to repay amounts borrowed, provided they meet various occupancy, 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 other assessments.

TITLE I PROGRAMS:

- Manufactured Home Loan Program: The Title I Manufactured Home Loan Program primarily provides insurance on loans 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 to finance alterations, repairs, and improvements to a home, including manufactured homes, or to finance a nonresidential structure located on the property.

FY 2023 PORTFOLIO AND PERFORMANCE ACCOMPLISHMENTS

In FY 2023, FHA insured 732,319 Single Family forward mortgages for a total mortgage amount of $208.73 billion. FHA insured 32,963 HECMs, with a Maximum Claim Amount of $16.16 billion. Table 1 below provides an overview of key components of FHA's Single Family insurance portfolio profile in FY 2021 through FY 2023.

Table 1 - FHA's Single Family Insurance Portfolio

Single Family FHA Portfolio	FY2021*	FY2022*	FY2023
Total Forward Endorsements (purchase and refinance)	**1,475,987**	**1,024,351**	**764,366**
Total 203(b)	**1,470,292**	**1,019,561**	**760,334**
Purchase	869,440	718,601	603,984
Refinance	600,852	300,960	156,350
Total 203(K)	**5,695**	**4,790**	**4,032**
Purchase	5,053	4,282	3,774
Refinance	642	508	258
Total Reverse Endorsements (HECM)	**49,195**	**64,457**	**32,963**
HECM Adjustable Rate	45,643	61,602	32,658
HECM Fixed Rate	3,552	2,855	305
Total Single Family Title II Endorsements for FY	**1,525,182**	**1,088,808**	**797,329**
Total Mortgages with Active Insurance as of September 30 for FY	**7,498,614**	**7,263,194**	**7,509,540**
Total Title I Loans	**1,237**	**963**	**792**
Manufactured Homes	5	0	0
Property Improvement	1,232	963	792

**Prior year's information is revised to reflect year-over-year performance data updates.*

Single Family mortgage insurance programs continue to be critically important sources of home financing for individuals and families that might not otherwise have access to mortgage credit. In FY 2023, 82.2 percent of home purchasers under the forward mortgage insurance programs were first-time homebuyers, and 30.6 percent of all purchase and refinance borrowers self-identified at origination as borrowers of color. Table 2 below provides additional detail on the mortgages insured and borrowers served through the Single Family mortgage insurance programs.

Table 2 - FHA's Single Family Borrowers Statistics

Single Family Mortgage and Borrower Statistics	FY2021*	FY2022*	FY2023
Forward Mortgage Insurance Endorsements			
Average Loan Amount	$ 239,257	$ 260,136	$ 285,024
Average Credit Score of Borrowers**	672	664	670
First-Time Homebuyers	716,024	578,660	478,234
Percent of SF FHA Forward Purchase Transaction Endorsements	84.6%	83.5%	82.2%
Minority Borrowers	339,407	255,902	223,882
Percent of all SF FHA Forward Mortgage Borrowers**	32.8%	28.5%	30.6%
Reverse Mortgage Insurance Endorsements			
Average Initial Principal Limit (amount available)	$ 254,385	$ 278,075	$ 230,297
Average Loan Amount	$ 433,991	$ 498,210	$ 490,396
Minority Borrowers	6,682	8,064	4,157
Percent of all SF FHA Reverse Mortgage Borrowers	13.6%	12.5%	12.6%
Average Age of Borrowers	74	74	75

**Prior years' information is revised to reflect year-over-year performance data updates.*
***The calculation excludes streamline refinances.*

OTHER POLICY AND PROCEDURAL UPDATES

MIP CUT MAKES HOMEOWNERSHIP MORE AFFORDABLE

On February 22, 2023, through Mortgagee Letter 2023- 05, FHA announced a 30-basis point reduction to the Annual Mortgage Insurance Premiums (annual MIP) it charges borrowers for FHA-insured Single Family Title II forward mortgages as well as amends the base loan amount threshold used to establish MIP rates to the national conforming loan limit. This MIP reduction supports the Biden-Harris Administration's goal of making homeownership more accessible and affordable for the nation's homebuyers who finance their home purchase with an FHA-insured mortgage. In addition to making homeownership more affordable, FHA's MIP cut is expected to allow more prospective homebuyers — including those in communities of color and other underserved communities — to qualify for mortgage loan financing. It is anticipated that the MIP cut will benefit an estimated 850,000 borrowers over the coming year, saving these individuals and families approximately $678 million in aggregate in the first year of the FHA-insured mortgage.

LANGUAGE ACCESS RESOURCES

Considering the nation's growing diverse population and how language access may be a barrier to homeownership for those who have limited English proficiency, FHA announced the availability of multilingual educational materials on its new *Language Access Resources* web page on June 13, 2023. On this page, borrowers for whom English may not be their primary language, can find more than 40 single family homeownership documents and other educational resources which are now available in Chinese, Korean, Spanish, Tagalog, and Vietnamese. The newly translated materials are designed to help facilitate lenders, servicers, housing counselors, and other FHA program participants working with those with limited English proficiency in explaining FHA single family mortgage programs, before prospective borrow-ers and existing homeowners execute legal mortgage documents in English, as required by law.

FHA also published *Mortgagee Letter (ML) 2023-13*, Supplemental Consumer Information Form (SCIF) on June 27, 2023. The SCIF contains information about the borrower's language preference, if indicated, and any homeownership education and housing counseling the borrower may have received. This ML requires mortgagees to provide prospec-tive forward mortgage borrowers with the SCIF at the time of application, and to submit this information to FHA as part of the lender's required loan application data submissions.

FEEDBACK SOUGHT ON ACCESSORY DWELLING UNIT (ADU) RENTAL INCOME POLICY GUIDANCE

On April 13, 2023, FHA posted a draft Mortgagee Letter (ML), Consideration of Accessory Dwelling Unit Rental Income, on its *Single Family Housing Drafting Table* proposing updates to its appraisal protocols, underwriting requirements, and the Home Equity Conversion Mortgages' (HECM) financial assessment to permit the inclusion of income from an Accessory Dwelling Unit (ADU) in the assessment of a borrower's qualifying income for purposes of obtaining FHA-in-sured mortgage financing. It also proposes policy that adds ADUs to the types of improvements eligible for the FHA Standard 203(k) Rehabilitation Mortgage Insurance Program and for including ADU rental income when performing HECM financial assessments.

ADJUSTABLE RATE MORTGAGES: TRANSITIONING FROM LIBOR TO ALTERNATIVE INDICES FINAL RULE

On March 1, 2023, FHA published the Adjustable Rate Mortgages: Transitioning from LIBOR to Alternate Indices final rule *Docket No. FR-6151-F-03* in the Federal Register. In the final rule, FHA establishes the spread-adjusted Secured Overnight Financing Rate (SOFR) as a Secretary-approved index for the transition of existing FHA-insured adjustable rate mortgages (ARMs) from the London Interbank Offered Rate (LIBOR) index after the one-year and one-month LIBOR indices cease to be published after June 20, 2023.

On May 2, 2023, FHA published *Mortgagee Letter 2023-09*, Adjustable-Rate Mortgages (ARM): New Secretary-Approved Interest Rate Indices and Requirements for Transitioning from the London Interbank Offered Rate (LIBOR) Index, which implemented the provisions outlined in the final rule.

203(K) REHABILITATION MORTGAGES REQUEST FOR INFORMATION (RFI)

On February 14, 2023, FHA published in the Federal Register a Request for Information (RFI) Regarding Rehabilitation Mortgages *(Docket No. FR-6366-N-01)* to solicit stakeholder input regarding the perceived or actual impediments that limit the origination of FHA-insured mortgages under the 203(k) Rehabilitation Mortgage Insurance Program and lender participation in the Program. FHA is seeking to better understand these impediments and identify pathways to improve the Program to provide greater support for affordable homeownership opportunities, particularly for first-time homebuyers and underserved borrowers. The RFI also seeks input on how 203(k) mortgages can support HUD's goal to help consumers make energy-saving improvements and to protect their homes from natural disasters.

ACCEPTANCE OF PRIVATE FLOOD INSURANCE FOR FHA-INSURED MORTGAGES FINAL RULE

On November 21, 2022, FHA published the Acceptance of Private Flood Insurance for FHA-Insured Mortgages final rule *Docket No. FR-6084-F-02* in the Federal Register. This final rule announced that FHA now accepts private flood insurance policies where the borrower chooses to obtain a private policy instead of flood insurance available through the National Flood Insurance Program (NFIP). This change applies to all FHA-insured Single Family Title II mortgages, including Home Equity Conversion Mortgages (HECM), and loans insured under FHA's Title I programs. Specifically, the final rule updates FHA regulations to allow borrowers the option to purchase a comparable private insurance policy that meets FHA requirements in lieu of a NFIP policy for FHA-insured mortgages secured by properties located in Fed-eral Emergency Management Agency (FEMA)-designated Special Flood Hazard Areas (SFHAs).

In conjunction with the flood insurance final rule, FHA also published on November 21, 2022, *Mortgagee Letter 2022-19*, Acceptance of Private Flood Insurance for FHA-Insured Mortgages, which updated FHA's mandatory flood insur-ance purchase requirements to allow for the acceptance of private flood insurance policies in lieu of a NFIP. This ML has since been superseded in part by the incorporation of this policy into the Single Family Housing Policy Handbook 4000.1.

INDEXING METHODOLOGY FOR TITLE I MANUFACTURED HOME LOAN LIMITS PROPOSED RULE

On October 18, 2022, FHA published a proposed rule Indexing Methodology for Title I Manufactured Home Loan Lim-its *(Docket No. FR-6207-P-01)* in the Federal Register, which proposes to establish indexing methodologies to annually calculate the loan limits for Manufactured Home Loans, Manufactured Home Lot Loans, and Manufactured Home and Lot Combination Loans insured under the Title I Manufactured Home Loan Program. The indexing methodology would be based on property data collected by the U.S. Census Bureau and establish loan limits based on the number of sec-tions that make up a manufactured home. Instituting this indexing methodology will expand opportunities for borrow-ers to use affordable FHA-insured financing for manufactured homes titled as personal property, manufactured home lots, or both the manufactured home and the lot. FHA anticipates publishing a final rule in the first quarter of FY 2024.

CLARIFICATION OF CONFLICT OF INTEREST AND DUAL EMPLOYMENT POLICY FOR MOST TITLE II SIN-GLE FAMILY FHA-INSURED TRANSACTIONS

On December 15, 2022, FHA issued *Mortgagee Letter (ML) 2022-22*, Clarification of Conflict of Interest and Dual Employment Policy for Most Title II Single Family FHA-Insured Transactions. This ML clarifies when individuals may perform multiple roles in a single FHA-insured transaction and better aligns FHA with mortgage industry standards that generally allow individuals to have multiple roles in a single mortgage transaction, providing a better customer experience for many borrowers with minimal additional risk to FHA. Additionally, the ML explicitly prohibits individuals that have a direct impact on the loan approval decision from having multiple roles or sources of compensation from a single FHA transaction; permits all other individuals to have multiple compensated roles for services actually per-formed, provided that the transaction complies with all applicable laws; and reinforces the mortgagee's responsibility to ensure compliance with updated conflict of interest guidelines and existing policy regarding prohibited payments, and consolidates general conflict of interest and dual employment policy in the Single Family Housing Policy Hand-book 4000.1.

SINGLE FAMILY HOUSING POLICY HANDBOOK 4000.1 UPDATES

FHA maintained and enhanced its Single Family Housing Policy Handbook 4000.1 *Handbook 4000.1* with regularly scheduled updates.

FHA will continue to make regularly scheduled updates to ensure it remains the comprehensive source of policy guidance for single family mortgage originators, servicers, and other stakeholders. The ongoing updates make it easier for stakeholders to conduct business with FHA by compiling in one location the updates made through Mortgagee Letters, Federal Register Notices, Housing Notices, policy waivers, and other sources of Single Family housing policy.

LOSS MITIGATION AND COVID-19 RECOVERY EFFORTS

On May 11, 2023, the federal government ended the declaration of the COVID-19 Public Health Emergency. Although officially over, the impacts of the National Emergency persist for thousands of homeowners with FHA-insured mortgages. As of the end of FY 2023, almost 840,000 homeowners were delinquent on their mortgage loans out of which just under 275,000 were seriously delinquent (more than 90 days) and at risk of imminent foreclosure. To help as many homeowners as possible who may have been negatively impacted financially by the COVID-19 pandemic retain their homes, FHA made several updates to its loss mitigation options during FY 2023.

EXPANSION OF THE COVID-19 RECOVERY LOAN MITIGATION OPTIONS

On February 13, 2023, FHA published *Mortgagee Letter 2023-03*, Corrected and Republished: Expansion of the COVID-19 Recovery Loss Mitigation Options. Due to the success of the COVID-19 Recovery Loss Mitigation Options, this Mortgagee Letter extended those tools through October 2024, and expanded the availability of these options to additional borrowers. Specifically, the ML extended the COVID-19 Recovery Loss Mitigation Options to all borrowers in default or imminent default on their mortgage payments, regardless of the reason for their hardship, including non-occupant borrowers. It also updated the FHA COVID-19 Recovery Standalone Partial Claim and the COVID-19 Recovery Modification to raise the maximum partial claim amount permitted from 25 percent to the 30 percent allowed by statute and provided incentive payments to servicers for the successful completion of COVID-19 Recovery Options.

INCREASED 40-YEAR TERM FOR LOAN MODIFICATIONS FINAL RULE AND ESTABLISHMENT OF THE 40-YEAR LOAN MODIFICATION LOSS MITIGATION OPTIONS

On March 8, 2023, FHA published a final rule, Increased Forty-Year Term for Loan Modifications *(Docket No. FR-6263-F-03)*, and implemented *Mortgagee Letter 2023-06*, Establishment of the 40-Year Loan Modifications Loss Mitigation Option. The final rule expanded the permissible term of a loan modification from 360 to 480 months for FHA-insured mortgages. The ML established the standalone 40-year loan modification as part of the COVID-19 Recovery Loss Mitigation Options.

The 40-year loan modification assists borrowers in avoiding foreclosure by spreading the outstanding mortgage balance over a longer period, thereby making their monthly payments more affordable.

COVID-19 FORBEARANCE AND COVID-19 HECM EXTENSION POLICIES ANNOUNCED

On April 7, 2023, FHA published *Mortgagee Letter 2023-08*, Extensions for COVID-19 Forbearances and COVID-19 Home Equity Conversion Mortgages (HECM) Extension Through May 21, 2023, which established May 31, 2023, as the final date for borrowers requesting a COVID-19 forbearance or a COVID-19 HECM extension. FHA chose to extend its COVID-19-related forbearance and HECM extension policies beyond the end of the COVID-19 National Emergency, which ended sooner than anticipated. This extension gave borrowers with FHA-insured mortgages who needed assis-tance additional time to request forbearance or a HECM extension. It also gave mortgagees additional time to offer and process these requests.

FY 2023 LOAN SALES

HOME EQUITY CONVERSION MORTGAGE (HECM) SALES

In FY 2023, FHA held one note sale of Secretary-held, due and payable HECM loans on vacant properties. The notes were sold through a competitive auction to qualified bidders. HUD awarded a total of 1,150 notes with an updated loan balance of $302 million and a Broker Price Opinion (BPO) value of $251 million. The updated loan balance represents unpaid principal balance plus accrued interest, mortgage insurance premium and servicer advances. The average Bid to BPO was 70.8 percent. In this sale, 477 of the notes, or 41 percent, were awarded to 10 unique Priority bidders. Priority bidders are non-profits that certified they have a purpose directly related to HUD's mission to create strong, sustainable, inclusive communities and quality affordable homes for all. The bids received in the FY 2023 sale reflect strong demand for HECM notes from both qualified and priority bidders and resulted in improved returns to FHA.

RISK MANAGEMENT

FHA's new COVID-19 waterfall and other loss prevention solutions were able to help 594,473 borrowers avoid foreclosure actions in fiscal year 2023. By offering a variety of loss mitigation options that appealed to a wide number of borrowers who were at risk for potential, or imminent, default, FHA was able to prevent a potential loss of up to $109.6 billion to its Mutual Mortgage Insurance Fund.

TECHNOLOGY MODERNIZATION

FHA continued to enhance its technology platforms to increase customer service efficiency and productivity and to ensure continuity of operations for loan endorsements. In FY 2023, FHA launched or enhanced the following:

FHA WAIVES REQUIREMENT TO REPORT REJECTED MORTGAGES IN FHA CONNECTION

On September 7, 2023, FHA issued a *waiver* to the requirement that FHA-approved mortgagees must report rejected loans to FHA via the Mortgage Credit Reject (MCR) screen in *FHA Connection (FHAC)*. As of September 11, 2023, the MCR screen was removed from FHAC. By taking this action, FHA has now streamlined the FHA loan process and removed an unnecessary barrier for borrowers who wish to benefit from FHA financing. When this waiver becomes permanent policy, it will be incorporated into the *Single Family Housing Policy Handbook 4000.1*.

FHA ENABLES MORTGAGEES TO PROCESS CASE CANCELLATIONS AND REINSTATEMENTS THROUGH FHA CONNECTION (FHAC)

On August 10, 2023, FHA announced new functionality to *FHA Connection (FHAC)* that enables lenders to process their case cancellations and reinstatements through the *Case Cancel/Reinstate Screen*. This new functionality eliminates the requirement to submit most requests to the FHA Resource Center for processing and, in large part, eliminates an unnecessary manual request submission process by providing lenders with increased flexibility and efficiency to manage their case processing needs in FHAC without FHA assistance. To put this workload in perspective, the 12 months leading up to the implementation, more than 48,000 Case Cancellation and Reinstatement requests were routed through the *FHA Resource Center* and manually processed by the Homeownership Centers. Since the implementation of this new functionality, customer service inquiries received by the *FHA Resource Center* by lenders related to the case processing functions decreased by 43 percent and is expected to decrease further when mandatory functionality begins November 7, 2023.

FHA CATALYST: CLAIMS MODULE

On July 14, 2023, HUD updated the *FHA Catalyst: Claims Module* to foster better alignment with FHA's claim certification requirements published in *Single Family Housing Policy Handbook 4000.1*, IV.A.1., Claim Submission Process. This included enhanced module functionality and internal controls requiring mortgagee employees to certify claim submissions. On September 18, further enhancements to the *FHA Catalyst Claims Module* have enabled lenders to submit bulk submissions for supplemental claims.

ELECTRONIC FILING OF ALL INSURANCE CLAIMS ON FHA TITLE II SINGLE FAMILY MORTGAGES

On February 16, 2023, FHA published *Mortgagee Letter 2023-04*, Electronic Filing of all Insurance Claims on FHA Title II Single Family Mortgages, which announced the elimination of paper-based claims filings and informs mort-gagees that as of March 1, 2023, all insurance claims must be filed electronically through the *FHA Catalyst: Claims Module, FHA Connection (FHAC)*, or the *Electronic Data Interchange (EDI)*. Through the electronic submission options, mortgagees and FHA can increase operational efficiency and reduce costs by processing and storing claim information and documentation in a shared, transparent digital platform. This effort supports FHA's ongoing technology enhancements and aligns with industry standards.

FHA CATALYST: ELECTRONIC APPRAISAL DELIVERY (EAD) MODULE

In accordance with Mortgagee Letter 2022-19 published on November 22, 2022, FHA implemented updates to the FHA Catalyst: EAD Module, retaining FHA's external *EAD portal* for the delivery of Single Family appraisals. As part of the transition, efforts are underway to integrate the external EAD portal with the *FHA Catalyst: EAD Module*, which is being upgraded with modern technology for data storage, dissemination, analysis, and improved oversight of *FHA Roster Appraisers*. The first release, anticipated in late 2023, will leverage enhanced analytical tools and allow for the decommissioning of the Loan Application Management System (LAMS), a legacy system that has caused various operational challenges this year.

OFFICE of MULTIFAMILY PROGRAMS

Ethan Handelman
Deputy Assistant Secretary, Office of Multifamily Housing

The mission of the Office of Multifamily Housing Programs is to create strong, sustainable, inclusive communities, and quality affordable homes for all. In service of that mission, we processed substantial production volume to increase and preserve existing rental homes. Our rental assistance and preservation programs continue to provide stability, climate resilience, energy efficiency, affordability, and increased access to safe and affordable housing for the nation's workforce and low-income families, seniors, and persons with disabilities. Through our newly launched Green and Resilient Retrofit Program, we are providing funding to support energy efficiency and climate resilience in our assisted housing properties. Our FY 2023 results demonstrate that FHA's Multifamily insurance programs and its assisted housing programs are essential to vibrant neighborhoods and communities and to advancing environmental justice efforts.

OVERVIEW

The Office of Multifamily Housing (MFH) Programs provides mortgage insurance on mortgages originated by FHA-approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily rental housing properties. As of September 30, 2023, MFH has active mortgage insurance for 10,751 properties comprised of 1,367,930 million homes in its portfolio. FHA's Multifamily mortgage insurance endorsement program is an obligation of FHA's General Risk/Special Risk Insurance (GI/SRI funds). Multifamily insurance programs are funded through mortgage insurance premiums (MIP) paid by borrowers at the time of endorsement and periodic payments thereafter. Through its broad set of programs, the work of MFH additionally provides rental assistance to over 1,494,552 million rental homes and thousands of private-sector jobs in the construction, supportive service professions, property management, administrative fields, and financial services.

MULTIFAMILY HOUSING PROGRAM OFFICES

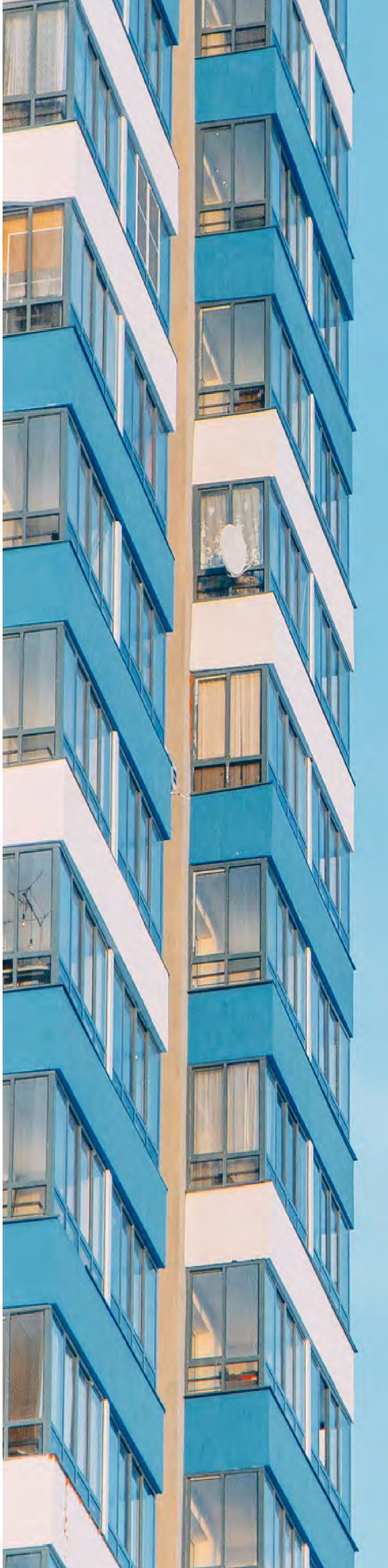
Headquartered in Washington, D.C., MFH is led by the Deputy Assistant Secretary for MFH Programs, and includes the following program offices:

- The Office of Production provides direction, technical assistance and oversight for Multifamily property mortgages originated for an FHA-insurance endorsement.
- The 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. This office also administers the Rental Assistance Demonstration (RAD) and the Green and Resilient Retrofit Program (GRRP), among other preservation programs.
- The Office of Asset Management and Portfolio Oversight monitors the fiscal and physical soundness of the portfolio of Multifamily assets after the development phase by supporting preservation and contract renewal transactions, managing new and ongoing grant programs to expand availability of affordable rental homes and connect residents to housing opportunities, and providing program guidance and oversight for the insured and assisted portfolio.
- The Office of Program Systems Management handles the information technology services that empower the strategic vision of MFH programs. This office provides IT investment management, customer outreach, information management and cybersecurity assurance support for MFH.
- The Office of Field Support and 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, including the following:

- Sections 213, 220, 221(d)(4), 231 and 241(a) provide mortgage insurance on loans financing market-rate and below-market-rate projects to facilitate new construction or substantial rehabilitation of Multifamily rental properties, housing for low-income elderly persons, cooperative housing, and Single Room Occupancy (SRO) projects; and insurance on loans to finance repairs, additions, and improvements on properties 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-insured 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 and local Housing Finance Agencies (HFA), or Qualified Participating Entities (QPE). FHA assumes an agreed upon loss percentage on these loans and pays the entities when they dispose of defaulted loans.



The mortgage insurance breakdown by Section of the Act is provided in the table below:

Table 3 - FHA's MFH Insurance Portfolio in FY 2023

MFH Endorsements by Program			
Programs	**FY2021**	**FY2022**	**FY2023**
New Construction and Substantial Rehabilitation Programs (Sections 213, 220, 221(d)(4), 231) and Section 241(a) Volume (In Millions)	**$ 5,312**	**$ 5,656**	**$ 2,617**
*Percentage	18.01%	26.79%	27.42%
Number of Homes	36,381	35,383	18,495
Number of Mortgages	223	201	116
Refinancing of Existing MFH Projects (Sections 223(f), 223(a)(7)) Volume (In Millions)	**$ 23,048**	**$ 14,343**	**$ 5,846**
*Percentage	78.16%	67.92%	61.27%
Number of Homes	205,059	115,555	45,698
Number of Mortgages	1,271	801	329
Section 542(b) and 542(c): Risk-Sharing with QPEs & HFAs Volume (In Millions)	**$ 1,128**	**$ 1,116**	**$ 1,079**
*Percentage	3.83%	5.29%	11.31%
Number of Homes	10,203	9,364	7,832
Number of Mortgages	86	77	70
Total	**$ 29,488**	**$ 21,115**	**$ 9,542**

**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.*

FY 2023 PORTFOLIO AND PERFORMANCE ACCOMPLISHMENTS

The below represents some noteworthy accomplishments of the Office of Multifamily Housing Programs.

- Insured 155 loans under the Green MIP program representing 26,602 homes and $4.38 billion in Unpaid Principal Balance Properties with Green MIP loans receive a premium pricing adjustment if they adhere to industry-accepted building standards that make properties healthier, safer, and more energy efficient. These loans are now acknowledged in Ginnie Mae securities disclosures.
- Continued the Federal Financing Bank (FFB) Risk-Sharing Initiative, which increases access to and reduces the cost of funding for multifamily mortgages insured by FHA through its Section 542(c) Risk-Sharing program with Housing Finance Agencies (HFAs) by making low-cost capital available through the Treasury Department's Federal Financing Bank.

- Disbursed additional Coronavirus Aid, Relief, and Economic Security (CARES) Act funds to assist owners in keeping properties and residents safe while renewing property inspections and other efforts to ensure housing quality and residents safety.
- Issued Advanced Notice of Proposed Rulemaking to develop a standard program regulation and contract; published for public comment proposed revisions to *Chapter 9 of the Section 8 Renewal Policy Guidebook* (final version published March 27, 2023), a draft bifurcation notice, and a draft HAP Assignment form; and joined the Office of Public and Indian Housing in publishing a final rule to implement sections 102 through 104 of the Housing Opportunity Through Modernization Act (HOTMA).
- Published *Mortgagee Letter 2023-14* to increase the large loan limits to address rising inflation and construction cost increases and eliminated the dollar cap on the Section 221(d)(4) Low-Income Housing Tax Credit (LIHTC) Pilot program to increase the supply of affordable housing.
- Maintained policy revisions and Multifamily Accelerated Processing (MAP) Guide updates. The MAP Guide will be republished periodically.
- Published the new *National Standards for Physical Inspection of Real Estate (NSPIRE)* standards, scoring, and administrative procedures notices to allow for the adoption of NSPIRE for Multifamily Housing to begin FY 2024. This is the first major update of Multifamily Housing's inspection protocol in over 20 years. HUD reviewed public comments received on the draft rule and considered these comments when developing NSPIRE policies that will ensure Multifamily property owners provide safe, decent, and sanitary housing across the nearly 30,000 properties in the Multifamily portfolio.
- Provided disaster support by conducting preliminary assessments on 2,581 properties and onsite final assessments on 235 properties.
- Ask a Question (AAQ) services continued as a feature of HUD Exchange website, to answer lender and stakeholder questions about the meaning, interpretation, or application of the MAP Guide.

MARK-TO-MARKET AND POST MARK-TO-MARKET (M2M)

This program preserves the 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 2023. During FY 2023, MFH:

- Completed a Mark-to-Market full debt restructuring with 96 units.
- Processed Post Mark-to-Market transactions with 1,681 homes, and with privately funded rehabilitation costs that averaged $18,732 per unit. Further, through the Post Mark-to-Market program, MFH collected $2.1 million in paydowns of the HUD-held Mark-to- Market 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 assets. As part of its asset management and disposition work, MFH:

- Collected over $841,000 on four properties in equity participation from a previous sale and returned it to the U.S. Treasury; and
- Administered approximately $21 million in active upfront grants for redevelopment or rehabilitation activities at formerly FHA-insured properties.
- HUD sold 13 Multifamily properties through foreclosure, none of them were FHA insured.

LOAN SALES

The mortgage note securing McKinley Towers, a 100-unit apartment project located in Anchorage, Alaska was sold in Multifamily Healthcare Loan Sale (MHLS) 2023-1 on November 16, 2022. HUD recovered 50.7 percent of the unpaid principal balance. This loan was insured under Section 221 (d) (4), an FHA insurance program for market rate apartments that did not include subsidies, tax credits or income restrictions.

The mortgage note securing Pine Oak Villas, a 44-unit apartment project located in Radcliff, Kentucky was sold in Multifamily Healthcare Loan Sale (MHLS) 2023-2 on August 30, 2023. HUD recovered 71.1 percent of the unpaid principal balance.

Architect's rendering of 43 Green – Phases I and II

43 GREEN – CHICAGO, ILLINOIS

43 Green Phases I & II represent the first two of four phases of a $100 million investment in the historic Bronzeville neighborhood of Chicago, located directly adjacent to the Chicago Transit Authority (CTA) Green Line. Bronzeville has been a hub for Chicago's African American Community for over 100 years. The financing for both phases is supported by Section 221(d)(4) FHA-insured first mortgages (totaling approximately $16 million), funding from the City of Chicago, Low-Income Housing Tax Credits (LIHTC), HOME funds, Tax Increment Financing, and State Donation Tax Credits. Development of these communities is led by The Habitat Company.

43 Green is located directly adjacent to the 43rd Street CTA Green Line Station adjacent to households that commute downtown and other locations around the region using public transportation. Phase I of the transit-oriented development contains a total of 99 rental units (51 units restricted to tenants at or below 50 percent and 60 percent of Area Median Income (AMI), and 48 market-rate units) and three ground floor retail spaces. Phase II will contain a total of 80 rental units (44 units restricted to tenants at or below 50 percent and 60 percent of AMI, and 36 market-rate units) and two ground floor retail spaces. Both phases will have a mix of studio, one-bedroom, and two-bedroom units. The developments include sustainable features, a high-performance glazing and building envelope, on-site stormwater management, and an extensive green roof system. The properties also utilize efficient LED interior lighting and dark, sky-friendly exterior lighting. In addition to being conveniently located next to a train station, the developments benefit from generous bicycle parking and storage, as well as dedicated parking spaces. Phase 1 of the new community has been completed and leasing is underway. Phase II is under construction and expected to be completed in 2024.

CARVER PARK, CLEVELAND OHIO

Carver Park rendering at completion

On December 14, 2022, the Office of Recapitalization closed a Rental Assistance Demonstration (RAD) transaction with the Cuyahoga Metropolitan Housing Authority (CMHA). CMHA embarked on a five-phase development plan for the renovation of the Carver Park site that was built on 30.6 acres in the 1940s. The conversion of 747-units began with the closing of the first phase in 2016. This closing marks the completion of the final phase, consisting of 143-units, spanning 6-years of development.

Designed and constructed to Green Communities standards, the unit interiors of Carver Park were demolished and rebuilt with new windows, kitchen and bathroom appliances, HVAC systems, and many other updated systems. Residents experienced minimal disruptions as updates were made while they remained on-site during the construction period. Through RAD, the project is now on project-based rental assistance contracts and the buildings are set-up for both financial and physical stability over the long-term.

The final phase of the RAD transaction included a $66.8 million construction budget financed through a first mortgage from an FHA 221(d)(4) loan product of $14.7 million, and four percent in Low-Income Housing Tax Credits and Grants.

COVID-19 RECOVERY AND DISASTER RESPONSE EFFORTS

In response to the COVID-19 national emergency, MFH provided support to Multifamily property owners/managers and residents through a series of publications, such as Mortgagee Letters and Housing Notices and regularly updated Q&As. Some of MFH's measures to assist property owners, lenders, and residents remain in place to assist stakeholders in ensuring continuity of business and to ensure the safety of residents.

- In FY 2023, HUD managed $170 million in remaining CARES Act funding for prevention, preparation for, and response to COVID-19 in Multifamily properties. This included $30.7 million obligated for 3,148 owner requests under a fifth round of COVID-19 Supplemental Payments and approximately $137 million disbursed to maintain normal program operations, helping to offset costs of necessary increases to property contract rents and subsidies. Funding was available for owners of project-based Section 8 rental assistance, Section 202, and Section 811 properties. All unobligated CARES Act balances under these programs were rescinded in June 2023 by P.L 118-5.
- In recognition of the increased frequency and impact of natural disasters affecting Multifamily properties, MFH created a permanent Multifamily Disaster Response Team (MDRT) within Asset Management in FY 2023 to ensure that Multifamily owners and managers with properties affected within Presidentially Declared Major Disaster Areas (PDMDAs) receive the required support in their recovery efforts, including ongoing work related to events occurring in previous fiscal years. In FY 2023, there have been 69 PDMDAs, 21 of which included Individual Assistance (IA). For PDMDAs with IA, preliminary assessments were conducted on 2,581 of the 2,768 MFH properties in the PDMDA areas and the MDRT provided virtual and on-site technical assistance to owners and agents, which are the foundation for review and approval of a restoration plan.

RISK MANAGEMENT OVERVIEW

During FY 2023, 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. In particular, the extended challenges of staffing and supply chain issues are adversely impacting property rehabilitation and maintenance. Through the support authorized by Congress and the Administration, MFH continued to hold property owners accountable for maintaining HUD's decent, safe, and sanitary housing standards and collaborated with ORMRA to manage increased financial and operational risk. Both offices continued to measure and monitor current and emerging trends in the Multifamily portfolio for the protection of the GI/SRI Fund. In FY 2023, there were no FHA insured Multifamily mortgages sold in foreclosure. Further, the default rate for FHA-insured loans has declined to historic lows of 0.13 percent.

- MFH has not only implemented a robust oversight structure for financial risk but has also collaborated with the Real Estate Assessment Center (REAC) to ensure that risk related to the physical condition of the Multifamily portfolio and tenant health and safety is monitored and mitigated. MFH and REAC have completed 31,386 inspections since resuming physical inspections for Multifamily properties on June 1, 2021, after a pause due to the COVID-19 national emergency. This constitutes at least one inspection for nearly the entire MFH portfolio, which has allowed us to create a baseline of inspection scores as we transition to NSPIRE. The efforts surrounding this work resulted in improved quality of life for tenants and ensured that the Multifamily properties and owners continue to be held to a high standard in providing quality housing to residents.

- MFH has also coordinated with REAC to implement the new NSPIRE inspection protocol, which will replace the 25-year-old Uniform Physical Conditions Standards (UPCS) inspection protocol and will emphasize physical condition within units, which have the greatest impact on resident quality of life and safety. HUD has published extensive guidance based on stakeholder engagement and research including the NSPIRE standards, scoring and administrative notices. MFH will transition to the NSPIRE protocol for all its properties on October 1, 2023.

TECHNOLOGY MODERNIZATION

MFH completed several system enhancement initiatives — implementing upgrades or changes or adding new features designed to improve the systems' productivity — to benefit MFH's low-income families.

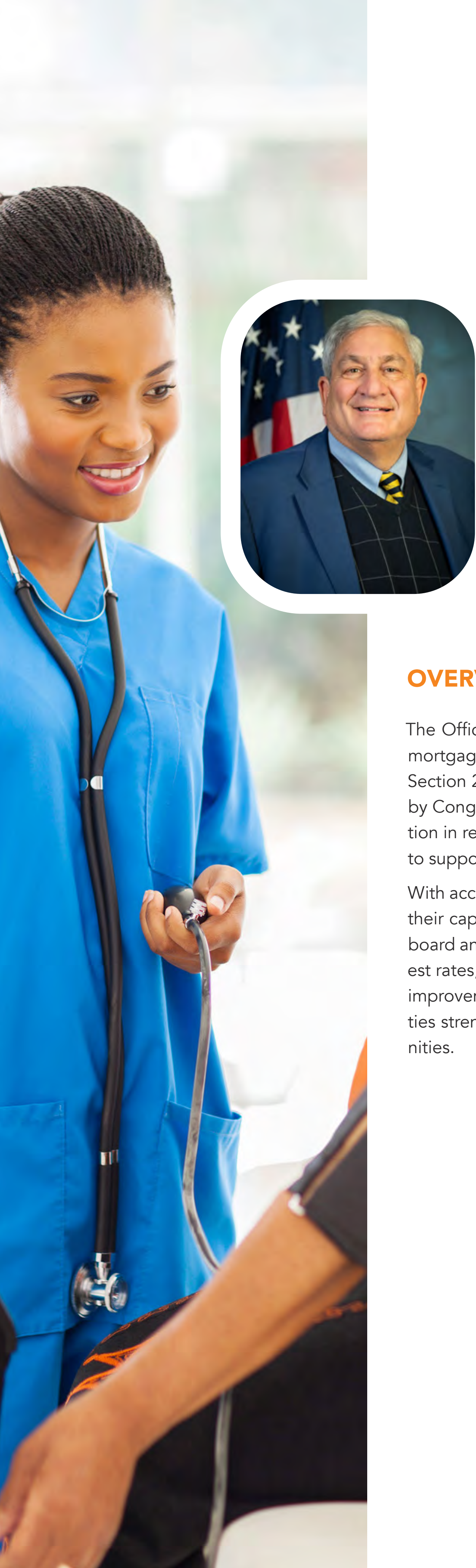
- Tenant Rental Assistance Certification System (TRACS) Application Programming Interface (API) between the *Federal Communications Commission's (FCC) $14 billion Affordable Connectivity Program (ACP)* providing broadband grants for low-income families. A total of 1,494,552 low-income households in TRACS will be determined eligible for ACP broadband grants because of this new tenant data match between TRACS and the FCC.

- Integrated Real Estate Management System (iREMS), a new system interface with the National Standards for the Physical Inspections of Real Estate (NSPIRE). NSPIRE ensures that MFH's 29,925 property portfolio meets the physical condition standards for HUD housing: decent, safe, sanitary, and in good repair (DSS/GR) for MFH's 1,494,552 assisted low-income households.

- Greenlight, a new system that is being created for the *Green and Resilient Retrofit Program (GRRP)*. GRRP implemented Section 30002 of the Inflation Reduction Act of 2022 (Public Law 117-169) (the IRA), titled "Improving Energy Efficiency or Water Efficiency or Climate Resilience of Affordable Housing," provided funds for HUD to implement a new program to improve the housing quality and resilience of HUD-assisted multifamily properties through loans, grants, and a variety of other actions to facilitate utility-saving and climate hazard-mitigating investments. IRA has three goals to (1) reduce energy and water use in HUD-assisted multifamily properties; (2) make HUD-assisted multifamily properties more resilient to extreme weather events and natural disasters; and (3) reduce greenhouse gas emissions from HUD-assisted multifamily properties, both directly and by using materials with less embodied Carbon. The GRRP Underwriting and Case Management System, or Green Light, will provide underwriting and document retention capabilities for new grant and loan transactions that are awarded under the GRRP for MFH's portfolio of properties.

- Capital Needs Assessment (CNA) completed the migration of the Capital Needs Assessment e-Tool from the legacy Oracle/on-premises stack to the HUD's cloud-based solution, Azure. This enabled the successful move of legacy reports and flag validation to the new Azure solution. The CNA e-Tool approved 486 capital needs assessments during FY 2023.

OFFICE of HEALTHCARE PROGRAMS



Roger Lukoff
Deputy Assistant Secretary, Office of Healthcare Programs

FHA's Office of Healthcare Programs, the nation's largest Healthcare mortgage insurance program, continues to serve our nation's Healthcare providers in hospitals, skilled nursing facilities and other residential care facilities with FHA-insured mortgages. Managing current assets of approximately $38.6 billion, the program serves a plethora of dedicated stakeholders delivering care and services during our current period of unprecedented need for quality programs to vulnerable populations throughout the nation. FHA leadership and staff are proud to work with healthcare leaders serving millions of patients and residents in all fifty states, the District of Columbia and Puerto Rico.

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.

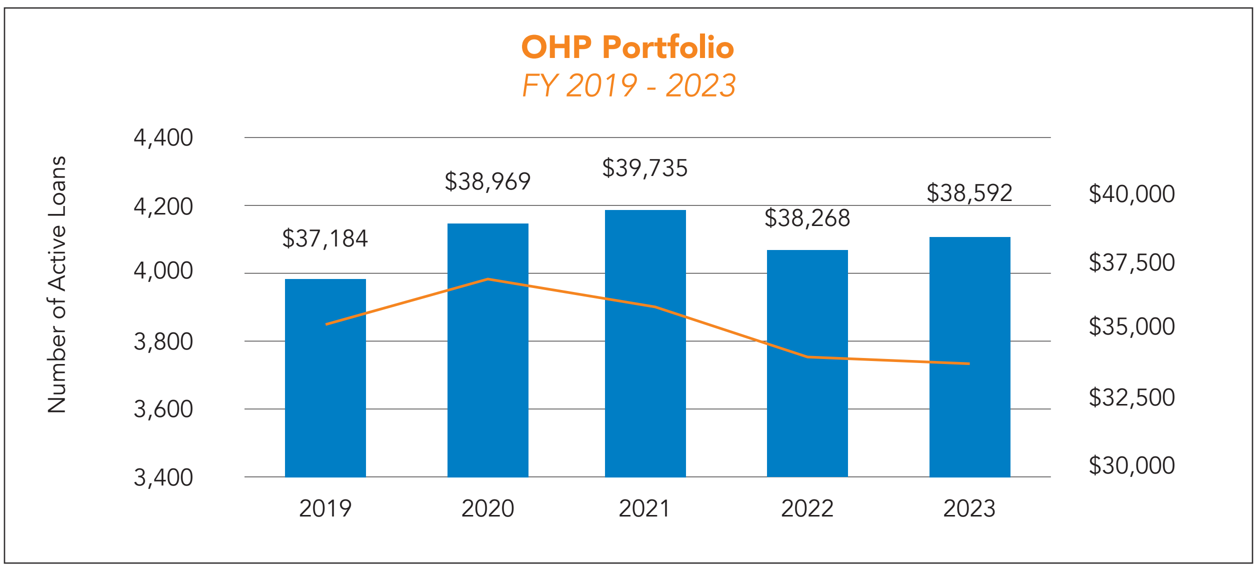
HEALTHCARE PROGRAMS DIVISION STRUCTURE

OHP includes the Office of the Deputy Assistant Secretary for Healthcare Programs and the following program and support offices:

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

INSURANCE PROGRAMS

As of September 30, 2023, the total FHA-insured Healthcare insurance portfolio consisted of 3,733 loans with an unpaid principal balance of $38.6 billion. The programs maintain low claim rates and contribute credit subsidy receipts to the General Insurance and Special Risk Insurance (GI/SRI) Fund. In FY 2023, the programs returned $69.0 million to the GI/SRI. The annual claim rate for the Section 232 program, net of recoveries in FY 2023 is 0.52 percent (compared to 0.27 percent in FY 2022). The annual claim rate for the Section 242 program, net of recoveries, is 1.62 percent (the same as in FY 2022).



(Source: FHA Subsidiary Ledger (FHASL) as of September 30

UPB (in millions) *Active Loans*

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, 2023, FHA achieved the following through the Section 232 Program:

- Production Volume: received a total of 208 applications and issued 185 firm commitments totaling $2.9 billion.
- Asset Management Volume: managed a portfolio of 3,649 loans with an unpaid principal balance of $32.6 billion.

FHA construction and rehabilitation projects have a significant economic impact on local communities, including a substantial impact on employment. In FY 2023, Section 232 program insured projects created more than 96 full-time equivalent construction jobs with a total construction economic impact of $54.2 million. Once the projects are fully constructed, the residential healthcare facilities will create more than 60 full-time equivalent jobs and provide a total annual economic impact of $22.3 million to the local communities.

BOONE RIDGE SENIOR LIVING

On April 20, 2023, ORCF issued its first Firm Commitment under the Green Mortgage Insurance Premium (MIP) program for Section 232. Boone Ridge Senior Living, is a 90-unit assisted living and a 32-unit memory care facility, built in 2018, in Salem, Oregon. The proposed energy conservation retrofits include installation of solar panels, as well as upgrades to lighting, kitchen, and bathroom fixtures to reduce energy and water consumption.

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 seeking to refinance existing capital debt, with or without a construction or rehabilitation project. As of September 30, 2023, through the Section 242 program FHA achieved the following:

- Production Volume: issued one firm insurance commitment and one loan interest rate modification totaling $224.3 million.
- Asset Management Volume: managed a portfolio which consisted of 84 active hospital loans with a total unpaid principal balance of $6.0 billion.

UNIVERSITY OF NEW MEXICO HOSPITAL (UNMH)

UNMH is a state-owned 537 bed acute care hospital located in Albuquerque, New Mexico and provides essential healthcare services for a vast geographic area which includes underserved populations. UNMH is the only academic medical center in the state, the only Level I Trauma center, and dedicated children's hospital in New Mexico. In 2004, UNMH joined the 242 Program with a $183 million loan to finance the cost of a seven-story addition to the Hospital, adding additional licensed beds. UNMH was approved for a $320 million FHA-insured mortgage in 2021 to finance an expansion project that consists of an eight-floor addition adding 180 additional beds. This project is currently under construction with an expected completion date of October 2024. The new hospital tower is critical to the community as it serves nearly half of the entire population of New Mexico, routinely operates at full capacity, and requires overflow trauma patients to be transported to other states for treatment.

FY 2023 PORTFOLIO AND PERFORMANCE ACCOMPLISHMENTS

In FY 2023, the Office of Healthcare Programs (OHP) continued to refine its operational processes. In particular, OHP executed the following:

- Published the Section 232 Healthcare Facility documents (OMB 2502-0605 -Comprehensive Listing of Transactional Documents for Mortgagors, Mortgagees and Contractors). The collection contains documents necessary for applications and the ongoing asset management of healthcare facilities. All 207 documents have been renewed until 2026 and are currently in use for program implementation.

- Included in OMB 2502-0605 are 15 documents used for the Green Mortgage Insurance Premiums (MIP) program. The program allows significant reductions in the upfront and annual MIP FHA charges for most mortgage insurance categories under the Section 232 mortgage insurance program for residential care facilities where the facilities meet industry-recognized green building certifications and achieve meaningful, measurable energy and water efficiency improvements.

- Office of Hospital Facilities renewed its transactional documents (OMB 2502-0602 -Comprehensive Transactional Forms Supporting FHA's Section 242 Mortgage Insurance Program for Hospitals). All applications and loan closings for FHA mortgage insurance under the Section 242 Hospital Mortgage Insurance Program; ongoing asset management transactions related to those FHA-insured facilities; and other information related to those facilities for loan modifications, construction projects, and physical and environmental reviews must use the new documents.

- National Newer Underwriter Training in Fort Worth, TX: In March 2023, newer Section 232 underwriters met in Fort Worth, TX for a two-day underwriter training. This training allowed newer underwriters, their mentors, workload managers and directors the opportunity to collaborate in person. Sessions included risk analysis, appraisal training, eligible debt, quality of care, creditworthiness and character of the participants, best practices, standard work, and the president of the Healthcare Mortgagee Advisory Council (HMAC) led a session on the Lender's Perspective.

MANAGEMENT INITIATIVES AND PROGRAM IMPROVEMENTS

In FY 2023, OHP focused on enhancing underwriting and asset management capabilities. Enhancements designed to improve workflow and mitigate risk included the following:

- Published Mortgagee Letter 2023-12 regarding OHF's "Capital Debt" requirements. The Mortgagee Letter clarifies what outstanding borrower debt is eligible to be refinanced with proceeds from a Section 242, 223(f), or 241 mortgage. The Mortgagee Letter will enable lenders to evaluate debt eligibility when preparing pre-applications or applications for mortgage insurance under the Section 242 program.

- ORCF cross-collaborated with Multifamily and senior staff in HUD's Office of Housing to develop an Application Programming Interface (API) that integrates the Environmental Protection Agency (EPA) Portfolio Manager's website with HUD's database, specifically the interface autofills benchmarking data in HUD's Integrated Real Estate Management System (iREMS). The information in iREMS will track energy, water usage, and other valuable information to ensure ongoing performance with the Green MIP requirements.

- The Office of Hospital Facilities uses independent hospital assessment service contracts to review portfolio hospitals that display unfavorable financial performance. The independent assessments have been timely given the widespread financial challenges facing some hospital facilities post pandemic. Using these independent assessments in conjunction with work performed by OHF staff, the Section 242 Program received in-depth financial and management information to assess mitigation opportunities.

- OHF implemented CreditLens to expand its capacity to perform proactive risk management and monitoring. CreditLens is a risk analysis and asset management platform developed by Moody's Analytics. The product is a powerful credit analytics and financial analysis tool which allows users to perform in-depth financial analysis of hospitals, create summary reports, credit memorandums, scorecards, and benchmarking to industry medians. It also permits the creation of workflows and offers an opportunity to create an end-to-end platform from initial prospect analysis through underwriting, final approval, closing, and asset management.

- OHF has continued to build out its Portfolio Management Dashboard, a proprietary tool that utilizes both Federal Housing Administration Subsidiary Ledger (FHASL) and CreditLens high-frequency data to provide real time risk analytics and early warning alerts. New features added this year included covenant compliance tools, improved quality control checks, and real time information sharing with the Office of Risk Management.
- ORCF continues to improve its Asset Management Lender Performance Tracking Tool to assist in our mission and enhance ORCF relationships with our loan servicing partners. This tool provides feedback from Account Executives on the quality of lender's requests for complex asset management transactions such as change ownership for borrowers, operators, changes to master leases and other similar transactions.

LOAN SALES

During FY 2023, the Office of Healthcare Programs had two Loan Sales:

- November 16, 2022, MHLS 2023-1: In this sale, the portfolio of loans sold consisted of 15 mortgage loans with an aggregate unpaid principal balance ("UPB") of $94 million, secured by 14 healthcare facilities.
- August 30, 2023, MHLS 2023-2: In this sale, the portfolio of loans sold consisted of seven loans with an aggregate UPB of $51 million, secured by seven healthcare facilities.

COVID-19 RECOVERY EFFORTS

The lingering effects of the COVID-19 National Emergency continue to impact the operations and finances of the residential care and hospital facilities in the Office of Healthcare Programs portfolio. In FY 2023, the Office of Healthcare Programs staff, in conjunction with program stakeholders, continue to stay engaged with the healthcare facilities as they navigate their decreased utilization, higher costs, and staffing shortages.

RISK MANAGEMENT OVERVIEW

With an outstanding portfolio balance of over $38.6 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. OHP's risk management includes a robust set of actions to avoid default and foreclosure and 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 2023, 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.

ANALYSIS of FINANCIAL STATEMENTS

OVERVIEW

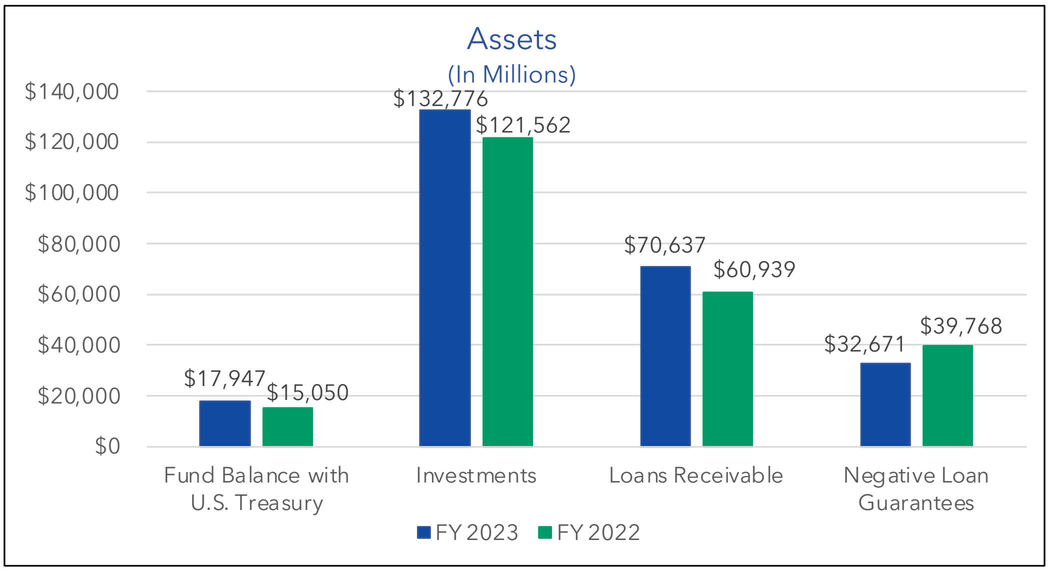
This section presents a summary of FHA's financial statements. These financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities, Federal Accounting Standards Advisory Board (FASAB) standards and concepts statements as applicable to programs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

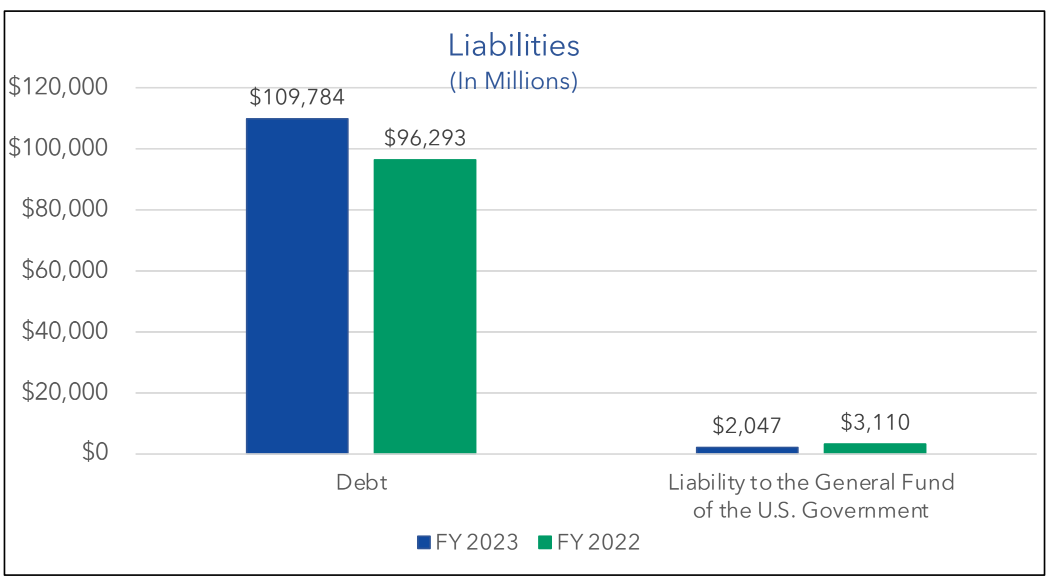
OVERVIEW OF FINANCIAL POSITION

A summary of FHA's change in financial position from fiscal year 2022 to fiscal year 2023 is presented in the following sections on Assets and Liabilities, Net Cost, and Budgetary Resources.

ASSETS AND LIABILITIES

FHA's assets on its balance sheet primarily consist of Fund Balance with the U.S. Treasury, investments, loan receivables, and negative loan guarantees[1],while the liabilities consist mostly of debt to the U.S. Treasury and liabilities to the General Fund of the U.S. Government. 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 negative subsidy expense and credit subsidy downward reestimates from its loan guarantee financing accounts under the requirements of FCRA, which also may increase FHA's borrowing. Transfers of negative subsidy expense and downward reestimates from the MMI loan guarantee financing account to the MMI capital reserve fund are invested in U.S. Treasury Securities, which increases investments. Subsidy expense and reestimates are influenced by estimates of future premium collections, prepayments, claims, and recoveries on credit program assets. On that basis, FHA's fund balance with the U.S. Treasury, investments, and debt can fluctuate significantly, depending largely on economic and market conditions and customer demand.





[1] *On FHA's Balance Sheet, the negative loan guarantees are reported as part of Loans Receivable, net.*

Total assets increased by $16,632 million during fiscal year 2023. This increase was primarily due to a $11,214 million increase in investments, a $9,698 million increase in loans receivable, and a $2,897 million increase in Fund Balance with U.S. Treasury. A decrease in Negative Loan Guarantees, discussed in greater detail on the next page, of $7,097 million offset the increase in total assets. The $11,214 million increase in investments resulted from transfers in fiscal year 2023 of fund balance from a net downward LLG reestimate and negative subsidy to the MMI capital reserve fund. These transferred funds were subsequently invested. The $9,698 million increase in loans receivable is mostly attributable to increases in the value of HECM and Single Family Forward loans receivable. Total liabilities increased by $12,496 million, primarily due to an increase of $13,491 million in debt. Debt increased in fiscal year 2023 to make cash available to cover transfers of the previous year's net downward reestimate and negative subsidy, as well as make claim payments. The increase in debt was partially offset by a decrease in liabilities to the General Fund of the U.S. Government of $1,063 million.

NEGATIVE LOAN GUARANTEES

FHA reported net negative loan guarantee liability in fiscal years 2023 and 2022. Negative loan guarantees occur when the liability for loan guarantees reflects a positive net present value (projected cash inflows are greater than cash outflows). A negative loan guarantee is presented as an asset on the financial statements. As such, FHA's liability for loan guarantees or net negative loan guarantees were reported as an asset on the Balance Sheet under Loans Receivable, net. The net negative loan guarantee liability is an indication that FHA's mortgage insurance programs are generally profitable for the U.S. Government.

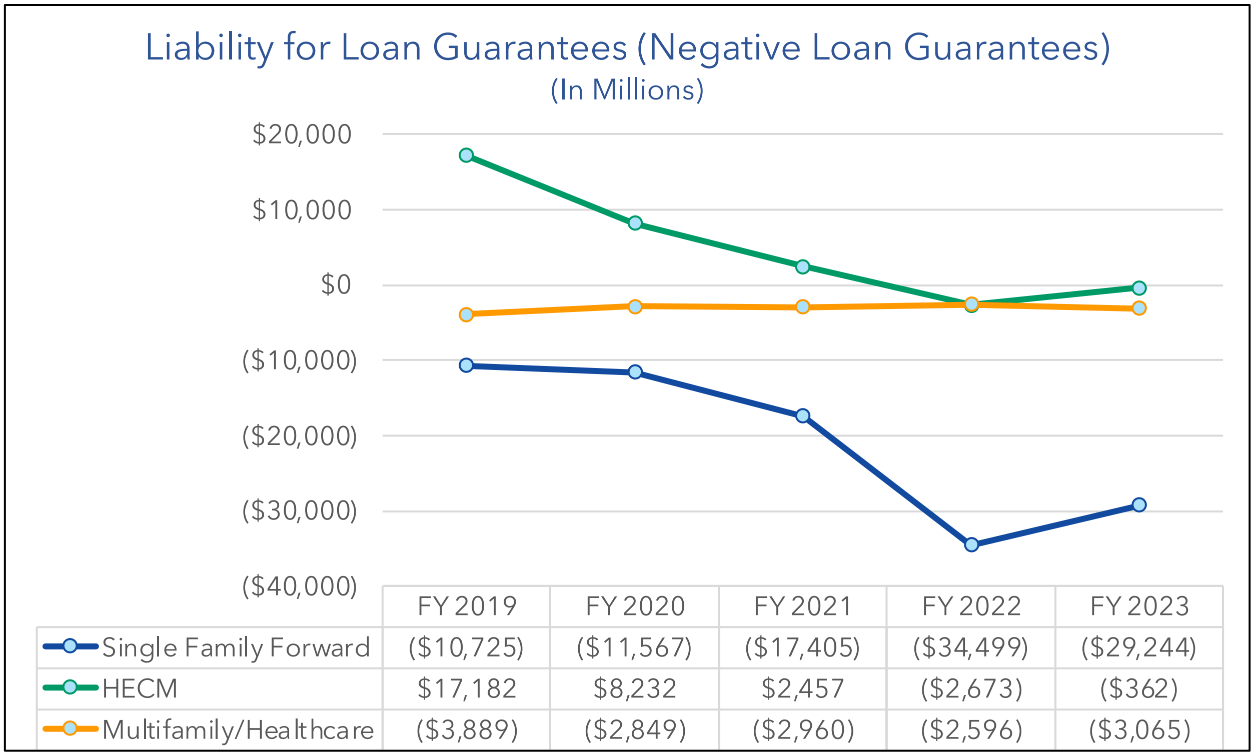
FHA's liability for loan guarantees or net negative loan guarantees represents the present value of anticipated cash outflows, such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties; less the present value of anticipated cash inflows, such as premium receipts, proceeds from property and note sales, and principal and interest on Secretary-held notes.

Table 4 - Schedule of Liability for Loan Guarantees

Schedule of Liability for Loan Guarantees (Negative Loan Guarantees) | (Dollars in Millions)						
		FY2023		FY2022		Difference	% Change
Single Family Forward	$	(29,244)	$	(34,499)	$	5,255	(15%)
HECM		(362)		(2,673)		2,311	(86%)
Multifamily/Healthcare		(3,065)		(2,596)		(469)	18%
Total	**$**	**(32,671)**	**$**	**(39,768)**	**$**	**7,097**	**(18%)**

The $5,255 million Single Family Forward LLG increase and the $2,311 million HECM LLG increase were mostly due to changes in the actuarial model methodology, changes in economic forecasts, and changes in actual loan performance in the MMI fund.

For Multifamily/Healthcare, the $469 million decrease in the LLG occurred mostly in the GI/SRI funds. The LLG estimates for the Section 232 Healthcare Purchasing or Refinancing program, the Section 221(d)(4) program, and the Section 223(f) program decreased by $261.4 million, $158.6 million, and $5.5 million, respectively, due to lower claim projections. Under the Section 223(a)(7) and Section 242 programs, the LLG estimates decreased by $34.7 million and $7.4 million, respectively, due to lower claim and prepayment expectations. There was also an increase in the LLG estimate for the Section 232 Healthcare New Construction program of $31.6 million due to higher claim projections and lower insurance-in-force.



NET COST/(SURPLUS)

In fiscal year 2023, FHA reported a net surplus of $3,593 million. The most significant contributor to FHA's net surplus was gross costs with the public, which consists primarily of subsidy expense and reestimate 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 reestimated at the end of the fiscal year. The decrease in FHA's net surplus from fiscal year 2022 to 2023 was mainly due to increases in reestimate expense, subsidy expense, and interest expense on borrowings in fiscal year 2023.

Table 5 - Schedule of Net Cost/(Surplus)

Schedule of Net Cost/(Surplus) | (Dollars in Millions)				
	FY2023	FY2022	Difference	% Change
Program Costs	$ (251)	$ (36,114)	$ 35,863	(99%)
Less: Program Revenues	3,342	1,605	1,737	108%
Net Cost (Surplus)	**$ (3,593)**	**$ (37,719)**	**$ 34,126**	**(90%)**

BUDGETARY RESOURCES

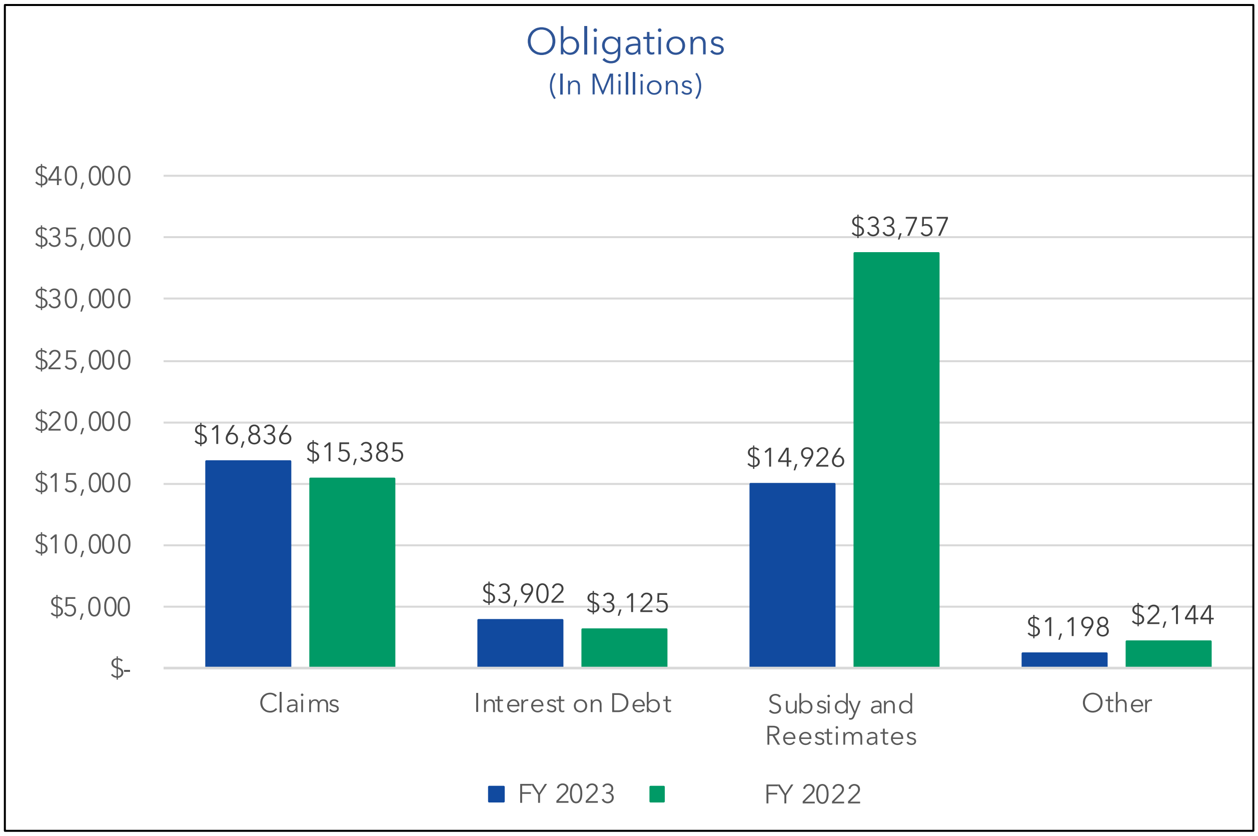
FHA finances its operations through a combination of appropriated funds, debt to the U.S. Treasury, spending authority from offsetting collections, and unexpired prior-year unobligated balances brought forward. Spending authority from offsetting collections includes collections of premiums and fees,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

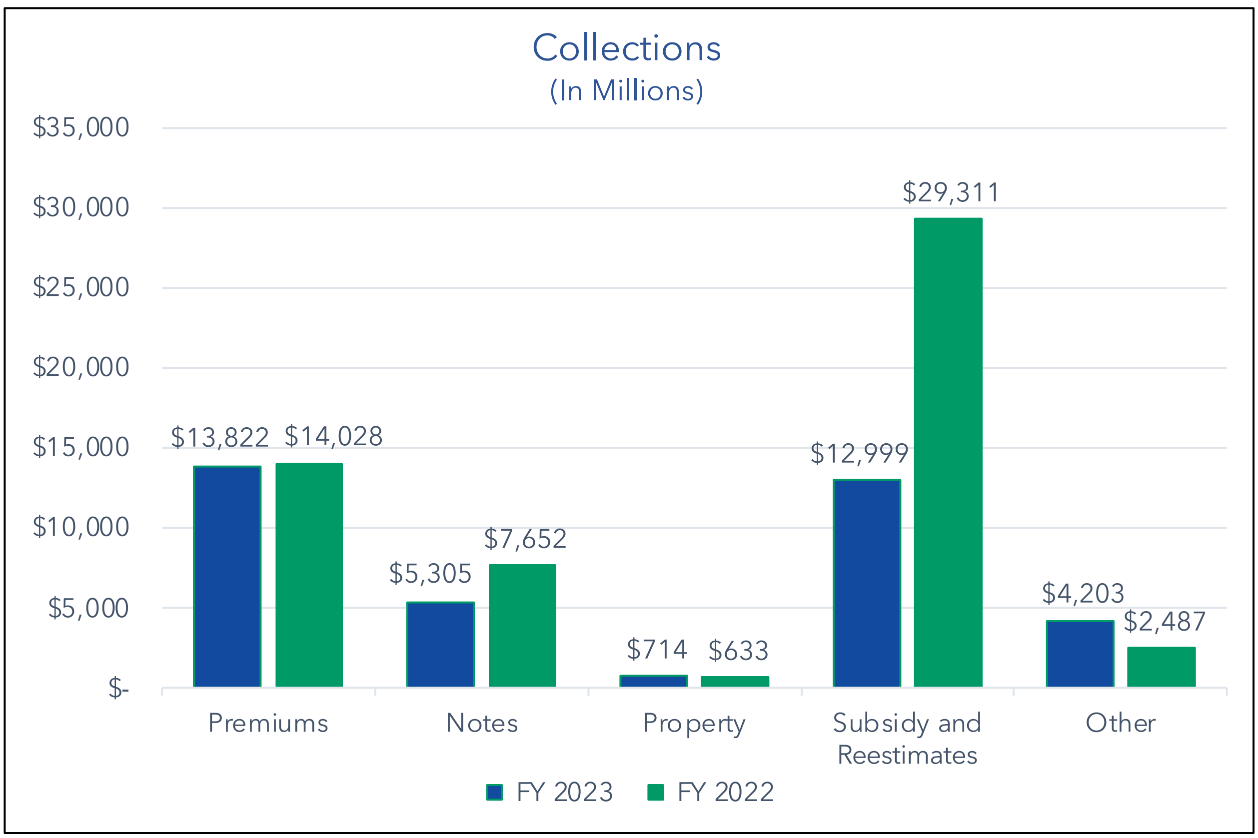
FHA's budgetary resources are increased by Appropriations, Borrowing authority, and Spending authority from offsetting collections. Borrowing authority decreased by $14,093 million in fiscal year 2023 because a smaller amount of borrowing authority was required to maintain liquidity in FHA's financing funds. For Spending authority from offsetting collections, there was a large decrease from fiscal year 2022 to fiscal year 2023 of $18,160 million primarily due to a decrease in collections.

Table 6 - Budgetary Resources

Budgetary Resources | (Dollars in Millions)				
	FY2023	FY2022	Difference	% Change
Unobligated Balance from prior year budget authority, net	$ 133,233	$ 103,384	$ 29,849	29%
Appropriations (discretionary and mandatory)	869	814	55	7%
Borrowing authority (discretionary and mandatory)	22,625	36,718	(14,093)	(38%)
Spending authority from offsetting collections (discretionary and mandatory)	28,278	46,438	(18,160)	(39%)
Budgetary Resources	**$ 185,005**	**$ 187,354**	**$ (2,349)**	**(1%)**

These resources were used to cover the fiscal year 2023 obligations totaling $36,862 million. FHA's obligations included subsidy/reestimate costs, claim payments on defaulted guaranteed loans, interest on borrowings, and other obligations. New obligations and upward adjustments decreased in fiscal year 2023 due to decreases in reestimates, negative subsidy, and FFB direct loans. These obligations were offset by FHA collections received in fiscal year 2023 totaling $37,043 million, which included premiums, notes, property, subsidy/reestimate, and interest earned from U.S. Treasury and other collections. Collections decreased in fiscal year 2023 primarily due to decreases in reestimates and negative subsidy, as noted below.


Obligations
(In Millions)
$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$-
$16,836
$15,385
$3,902
$3,125
$14,926
$33,757
$1,198
$2,144
Claims
Interest on Debt
Subsidy and Reestimates
Other
FY 2023
FY 2022


Collections
(In Millions)
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$-
$13,822
$14,028
$5,305
$7,652
$714
$633
$12,999
$29,311
$4,203
$2,487
Premiums
Notes
Property
Subsidy and Reestimates
Other
FY 2023
FY 2022

ANALYSIS of 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 auditors' reviews.

FHA COMPLIANCE WITH OMB CIRCULAR A-123, MANAGEMENT'S RESPONSIBILITY FOR ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL

Management is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA. Housing/FHA conducted its assessment of risk and internal control in accordance with OMB Circular No. 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/FHA prepares an Internal Control Assurance Statement. This statement attests to whether 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.

Based on the results of the assessment, FHA can provide reasonable assurance that its internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2023.

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 can provide reasonable assurance, that its internal control over financial reporting as of September 30, 2023, was operating effectively.

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. Included in the Annual Performance Plan is the priority to strengthen HUD's internal institutional capacity to deliver on its mission. This priority focuses on financial transformation and modernizing information technology. FHA will continue investment initiatives to modernize our outdated IT systems by focusing on the implementation of an enterprise-wide solution. The goal is to improve the quality and efficiency of FHA's data. The move to an enterprise-wide solution will allow program offices to better collaborate across silos, make better housing decisions, and use accurate data.

To track the progress towards this objective, one of the performance indicators that FHA will use is the number of enterprise-wide IT solutions that are implemented to streamline manual or cumbersome processes.

FHA management recognizes that its systems must continue to meet advancing standards and new expectations for efficiency and flexibility of operations. In the FY 2023 budget, FHA received an additional $3.3 million in appropriations from Congress for IT modernization, in addition to the $72.3 million in appropriations from FY 2019 through FY 2022. With this funding, FHA has made significant progress in its multi-year effort to modernize its technology systems, starting with the technology used for its Single Family insurance programs. During FY 2023, FHA implemented upgrades to the FHA Catalyst Claims Module and Mortgagee Administrator Functionality while initiating a major effort to refresh the IT modernization roadmap, which will be published during FY 2024.

FY 2023 FINANCIAL STATEMENTS AUDIT FINDINGS

The Office of Inspector General identified no material weaknesses in the Internal Control Report for FHA's FY 2023 financial statement audit. One significant deficiency was identified in internal controls over financial reporting. The OIG made recommendations surrounding FHA's loans receivable balance specifically relating to due and payable single-family partial claims and monitoring and servicing of the HECM loan portfolio.

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

STATUS OF FY 2022 FINANCIAL STATEMENT AUDIT FINDINGS

The status of the material weakness identified in the FY 2022 financial statement audit is below:

During FY 2022, the Office of the Inspector General identified one material weakness related to FHA's financial accounting and reporting controls over borrowing authority and loans receivable. The OIG noted in its finding that FHA did not sufficiently analyze and respond to significant changes in regulatory guidance impacting accounting and reporting of its borrowing authority from the Federal Financing Bank, borrowed in excess of its apportioned borrowing authority, recorded less than required in interest expense in its financial statements as of June 30th, and erroneously recorded borrowing authority from an OMB apportionment.

To resolve this weakness, FHA completed several steps:

- Established a policy that requires a written assessment of the impact of any regulatory changes, such as Fiscal Services updates to the USSGL.
- Provided procedures to address legislative changes in FHA's borrowing authority.
- Updated the borrowing process to include a check for borrowing authority on the SF-132 prior to executing borrowing requests.
- Updated Standard Operating Procedures for the journal entries to record budget authority.
- Updated Standard Operating Procedures for the SF-132/SF-133 reconciliation to include follow-up procedures when there is a reconciling difference.

The OIG also noted FHA did not have effective detective and monitoring controls over Single Family partial claims and HECM loans receivable. To address this weakness, FHA

- Updated SOPs to require accountants to monitor the trend of the Account Receivable prior to reclassifying the Loan Receivable balance.
- A new contractor is reviewing the HECM assigned portfolio to identify potential default events which occurred to date and initiate collection proceedings.
- A new HECM servicing contractor has engaged a tax vendor to perform a review of the HECM Assigned portfolio to identify potential lapses in property taxes. The contractor has implemented continued tax monitoring of each loan in the portfolio and reports the findings monthly.
- Missing document letters which are issued to all servicers identified to have outstanding and past due documents resumed and are on track to be issued monthly.

As a result of the above, FHA closed ten of thirteen recommendations from FY 2022 and resolved this material weakness.

PAYMENT INTEGRITY INFORMATION ACT OF 2019 (PIIA)

In accordance with the Payment Integrity Information Act of 2019 (PIIA)) and the OMB Memorandum M-21-19 dated March 5, 2021, HUD OCFO and FHA performed risk assessments in fiscal year 2023 for FHA programs in scope based upon the PIIA three-year risk assessment rotation cycle and payment thresholds. Based upon these criteria, the following FHA disbursements programs were reviewed:

- Single Family Asset Management System (SAMS)
- Title I Notes
- Other Disbursements

The risk assessment process includes risk factors identified by PIIA and M-21-19. The results of the risk assessments conducted on the above programs determined that these programs were either medium or 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.

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 payment recapture processes for its claim disbursement systems and an extensive debt collection program to recover overpayments.

FY 2023 ANNUAL ASSURANCE STATEMENT

The Federal Housing Administration's (FHA) management is responsible for managing risks 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 these assessments, FHA provides reasonable assurance that its internal controls over financial reporting were operating effectively as of September 30, 2023.

Julia R. Gordon
Assistant Secretary for Housing and Federal Housing Commissioner

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 on PRINCIPAL FINANCIAL STATEMENTS

I am pleased to present the Federal Housing Administration's (FHA) Principal Financial Statements for the fiscal year ending September 30, 2023. During the fiscal year, we focused our efforts on strengthening financial management and controls over financial reporting, resolving open audit recommendations, enhancing our leadership team and staff of credit reform experts, and implementing enhanced quality control processes and technology to reduce errors in transaction processing.

In the financial statement audit of FHA, the auditors reported that the financial statements as of and for fiscal year ended September 30, 2023 and 2022, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. There were no material weaknesses for fiscal year 2023 related to FHA controls over financial reporting. In addition, no reportable noncompliance issues were found. The audit reported one significant deficiency for fiscal year 2023 in internal control over financial reporting related to loans receivable. The audit report also acknowledges the resolution of the prior year material weakness surrounding borrowing authority as work continues to fully resolve the finding around loans receivable.

The collective efforts of our staff and support of our partners have resulted in FHA attaining an unmodified (clean) audit opinion for fiscal year 2023. I am proud of the dedication, collaboration and innovation exhibited by the team and look forward to continued success in the next year.

Susan A. Betts

Susan A Betts

Deputy Assistant Secretary
Office of Finance and Budget

Federal Housing Administration
(An Agency of the Department of Housing and Urban Development)
Consolidated Balance Sheets
As of September 30, 2023 and 2022
(Dollars in Millions)

	FY 2023	FY 2022
ASSETS:		
Intragovernmental Assets:		
Fund Balance with U.S. Treasury (Note 3)	$ 17,947	$ 15,050
Investments, net (Note 5)		
Federal Investments	132,112	121,051
Interest Receivable - Investments	664	511
Total Investments	132,776	121,562
Total Intragovernmental Assets	**150,723**	**136,612**
Other than Intragovernmental Assets:		
Cash and Other Monetary Assets (Note 4)	109	50
Accounts Receivable, net (Note 6)	1,021	1,160
Loans Receivable, net (Note 7)		
Loans Receivable, net	70,637	60,939
Negative Loan Guarantees	32,671	39,768
Total Other than Intragovernmental Assets	**104,438**	**101,917**
TOTAL ASSETS	**$ 255,161**	**$ 238,529**
LIABILITIES:		
Intragovernmental Liabilities:		
Accounts Payable (Note 8)	$ 5	$ 2
Debt (Note 9)		
Loans Payable - Borrowings	109,777	96,286
Interest Payable - Borrowings	7	7
Total Debt	109,784	96,293
Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets (Note 10)	2,047	3,110
Total Intragovernmental Liabilities	**111,836**	**99,405**
Other than Intragovernmental Liabilities:		
Accounts Payable (Note 8)	$ 574	$ 559
Advances from Others and Deferred Revenue	223	208
Other Liabilities (Note 10)	268	236
Contingent Liabilities (Note 10)	3	-
Total Other than Intragovernmental Liabilities	**1,068**	**1,003**
TOTAL LIABILITIES	**$ 112,904**	**$ 100,408**
Commitments and Contingencies (Note 12)		
NET POSITION:		
Unexpended Appropriations	$ 542	$ 541
Cumulative Results of Operations	141,715	137,580
TOTAL NET POSITION	**$ 142,257**	**$ 138,121**
TOTAL LIABILITIES AND NET POSITION	**$ 255,161**	**$ 238,529**

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 (Surplus)
For the Period Ended September 30, 2023 and 2022
(Dollars in Millions)

		FY 2023		FY 2022
Single Family Forward:				
Intragovernmental Gross Costs	$	1,262	$	1,355
Less: Intragovernmental Earned Revenue		2,550		1,092
Intragovernmental Net Costs (Surplus)		(1,288)		263
Other than Intragovernmental Gross Costs (Surplus)		(5,951)		(28,376)
Less: Other than Intragovernmental Earned Revenues		1		7
Other than Intragovernmental Net Costs (Surplus)		(5,952)		(28,383)
Single Family Forward Net Cost (Surplus)	**$**	**(7,240)**	**$**	**(28,120)**
HECM:				
Intragovernmental Gross Costs	$	2,428	$	1,567
Less: Intragovernmental Earned Revenue		557		210
Intragovernmental Net Costs		1,871		1,357
Other than Intragovernmental Net Costs (Surplus)		1,907		(11,434)
HECM Net Cost (Surplus)	**$**	**3,778**	**$**	**(10,077)**
Multifamily:				
Intragovernmental Gross Costs	$	177	$	187
Less: Intragovernmental Earned Revenue		65		79
Intragovernmental Net Costs		112		108
Other than Intragovernmental Gross Costs (Surplus)		(732)		(280)
Less: Other than Intragovernmental Earned Revenues		127		189
Other than Intragovernmental Net Costs (Surplus)		(859)		(469)
Multifamily Net Cost (Surplus)	**$**	**(747)**	**$**	**(361)**
Healthcare:				
Intragovernmental Gross Costs	$	52	$	33
Less: Intragovernmental Earned Revenue		42		28
Intragovernmental Net Costs		10		5
Other than Intragovernmental Net Costs (Surplus)		(339)		(23)
Healthcare Net Cost (Surplus)	**$**	**(329)**	**$**	**(18)**
Administrative and Contract Costs:				
Intragovernmental Net Costs	$	265	$	253
Other than Intragovernmental Net Costs		680		604
Administrative and Contract Net Cost	**$**	**945**	**$**	**857**
Net Cost (Surplus) of Operations	**$**	**(3,593)**	**$**	**(37,719)**

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 Period Ended September 30, 2023 and 2022
(Dollars in Millions)

		FY 2023		FY 2022
Unexpended Appropriations (Note 16):				
Beginning Balance	$	541	$	535
Appropriations Received		869		814
Other Adjustments		(34)		(29)
Appropriations Used		(834)		(779)
Net Change in Unexpended Appropriations		**1**		**6**
Total Unexpended Appropriations	**$**	**542**	**$**	**541**
Cumulative Results of Operations:				
Beginning Balance	$	137,580	$	102,309
Appropriations Used		834		779
Transfers In/Out Without Reimbursement		777		701
Imputed Financing		24		17
Other		(1,093)		(3,944)
Net Cost of Operations		3,593		37,719
Net Change in Cumulative Results of Operations		**4,135**		**35,271**
Total Cumulative Results of Operations	**$**	**141,715**	**$**	**137,580**
Net Position	**$**	**142,257**	**$**	**138,121**

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, 2023
(Dollars in Millions)

	FY 2023		
	Budgetary	**Non-Budgetary Credit Reform Financing Account**	**Total**
Budgetary Resources:			
Unobligated Balance from Prior Year Budget Authority, net (Discretionary and Mandatory)	$ 120,465	$ 12,768	$ 133,233
Appropriations (Discretionary and Mandatory)	869	-	869
Borrowing Authority (Discretionary and Mandatory)	-	22,625	22,625
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	13,765	14,513	28,278
Total Budgetary Resources	**$ 135,099**	**$ 49,906**	**$ 185,005**
Status of Budgetary Resources:			
New Obligations and Upward Adjustments (Total)	$ 2,693	$ 34,168	$ 36,861
Unobligated Balance, End of Year			
Apportioned, Unexpired Accounts	20	6,033	6,053
Unapportioned, Unexpired Accounts	132,351	9,705	142,056
Unexpired Unobligated Balance, End of Year	132,371	15,738	148,109
Expired Unobligated Balance, End of Year	35	-	35
Total Unobligated Balance, End of Year	132,406	15,738	148,144
Total Budgetary Resources	**$ 135,099**	**$ 49,906**	**$ 185,005**
Outlays, Net, and Disbursements, Net:			
Outlays, net (Total) (Discretionary and Mandatory)	(10,942)	-	(10,942)
Distributed Offsetting Receipts	(1,933)	-	(1,933)
Agency Outlays, net (Discretionary and Mandatory)	**$ (12,875)**	**$ -**	**$ (12,875)**
Disbursements, Net (Total) (Mandatory)	**$ -**	**$ 10,149**	**$ 10,149**

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, 2022
(Dollars in Millions)

	FY 2022		
	Budgetary	**Non-Budgetary Credit Reform Financing Account**	**Total**
Budgetary Resources:			
Unobligated Balance from Prior Year Budget Authority, net (Discretionary and Mandatory)	$ 92,440	$ 10,944	$ 103,384
Appropriations (Discretionary and Mandatory)	814	-	814
Borrowing Authority (Discretionary and Mandatory)	-	36,718	36,718
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	29,386	17,052	46,438
Total Budgetary Resources	**$ 122,640**	**$ 64,714**	**$ 187,354**
Status of Budgetary Resources:			
New Obligations and Upward Adjustments (Total)	$ 1,944	$ 52,467	$ 54,411
Unobligated Balance, End of Year			
Apportioned, Unexpired Accounts	43	9,937	9,980
Unapportioned, Unexpired Accounts	120,594	2,310	122,904
Unexpired Unobligated Balance, End of Year	120,637	12,247	132,884
Expired Unobligated Balance, End of Year	58	-	58
Total Unobligated Balance, End of Year	120,696	12,247	132,943
Total Budgetary Resources	**$ 122,640**	**$ 64,714**	**$ 187,354**
Outlays, Net, and Disbursements, Net:			
Outlays, net (Total) (Discretionary and Mandatory)	(27,450)	-	(27,450)
Distributed Offsetting Receipts	(4,293)	-	(4,293)
Agency Outlays, net (Discretionary and Mandatory)	**$ (31,743)**	**$ -**	**$ (31,743)**
Disbursements, Net (Total) (Mandatory)	**$ -**	**$ 26,140**	**$ 26,140**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

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. 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 first-time, low-income, and disadvantaged borrowers. FHA insures private lenders against loss on mortgages that 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/CMHI	203(b)	203(b), 234(c), HECM

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*. In addition, the accompanying principal financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of FHA in accordance with OMB Circular A-136, *Financial Reporting Requirements*, as revised.

Basis Of Consolidation

The accompanying principal financial statements include all Treasury Account Fund Symbols (TAFSs) designated to FHA, which consist of revolving funds, general funds, receipt account funds, and a deposit fund. All inter-fund accounts receivable, accounts payable, transfers in and transfers out within these TAFSs have been eliminated to prepare the consolidated balance sheets, statements of net cost, and statements of changes in net position. The Statements of Budgetary Resources (SBR) are prepared on a combined basis as required by OMB Circular A-136, *Financial Reporting Requirements*, as revised. These financial statements should be read with the realization that they are for a component of the U.S. Government.

Fund Balance With U.S. Treasury

Fund balance with U.S. Treasury consists of amounts collected from premiums, interest earned from U.S. Treasury, recoveries, and appropriations. Recoveries include fees and penalties, settlement agreements with mortgagees, collections of loan and interest receivable, and collection of debts, in addition to amounts received from property or note sales. The balance is available to fund payments for claims, property and operating expenses and includes 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 legal authority codified in *12 U.S.C. § 1712*, 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 Statements 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 Guaran*tees, 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. The fund balances in the receipt accounts are swept to U.S. Treasury's General Fund at the end of each fiscal year.

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/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.

Accounts Receivable And Accounts Payable

FHA records accruals related to FCRA direct loans and loan guarantees under accounts receivable and accounts payable. FHA's accounts receivable includes receivables related to Credit Program assets, premium receivables, partial claims receivables, generic debt receivables, criminal restitution receivables, settlement receivables, and other miscellaneous receivables. Only partial claims receivables that are unsupported by promissory notes are included as part of FHA's accounts receivable. These partial claims are reclassified from loans receivable to accounts receivable. They would otherwise be reported as part of Single Family Forward Defaulted Guaranteed Loans from Post-1991 Guarantees. FHA reports an allowance for loss on partial claims receivable, generic debt receivable, and criminal restitution receivable. Under accounts payable, FHA reports claims payable, premium refunds payable, payables associated with Single Family property disposition, and other miscellaneous payables. More details about FHA's accounts receivable and accounts payable may be found under Note 6. Accounts Receivable and Note 8. Accounts Payable, respectively.

Loans Receivable, 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).

Negative Loan Guarantees

The net potential future losses or gains related to FHA's central business of providing mortgage insurance are reflected in the Loan Guarantee Liability or Negative Loan Guarantees, respectively, in the consolidated balance sheets. A Loan Guarantee Liability would indicate that FHA expects net potential future losses. For fiscal year 2023, FHA is reporting Negative Loan Guarantees. As required by SFFAS No. 2, the Negative Loan Guarantees include the Credit Reform-related Liability 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 pre-Credit Reform 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 pre-Credit Reform 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 U.S. 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 U.S. Treasury discount rates for the fiscal year had been used to calculate the original subsidy estimate.

OMB Circular A-136 requires a Loan Guarantee Liability to be reported as an asset when the net Loan Guarantee Liability for all credit programs of a reporting entity is negative. Because FHA reported a net Negative Loan Guarantee Liability in fiscal years 2022 and 2023, FHA is reporting its negative loan guarantees as an asset on the Balance Sheets. Based on guidance from U.S. Treasury, FHA is reporting Negative Loan Guarantees for fiscal years 2022 and 2023 as part of Loans Receivable, net, on the Balance Sheet.

Debt

Pursuant to the FCRA, FHA has authority to borrow funds when necessary to support transfers of negative subsidy or downward re-estimates from its financing accounts to its general fund receipt accounts and the MMI/CMHI capital reserve account and to pay claims on defaulted loan guarantees. FHA's debt is mostly with the U.S. Treasury. When sufficient funds are available in the financing accounts, FHA repays its debt obligations. For additional information refer to Note 9.

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 Negative Loan Guarantees 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 and does not directly own any property, plant, or equipment. 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, actual salaries and administrative costs are recorded based on amounts computed by HUD, and the transfer in from HUD is reflected in the Statement of Changes in Net Position. Additionally, FHA receives appropriations for GI/SRI positive subsidy, upward reestimates, and permanent indefinite appropriation 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 $24 million for fiscal year 2023 and $17 million for fiscal year 2022, 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. If 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. FHA has no liabilities not covered by budgetary resources.

Liabilities Not Requiring Budgetary Resources

Liabilities not requiring budgetary resources are liabilities that have not previously, nor will in the future, require the use of budgetary resources. As defined by OMB Circular A-136, this includes liabilities for clearing accounts, non-fiduciary deposit funds, custodial collections, and unearned revenue. FHA's liabilities not requiring budgetary resources include amounts in non-fiduciary deposit funds and general fund receipt accounts.

Deferred Revenue

Deferred revenue are amounts received for goods or services to be delivered or performed in the future and reflect amounts that have yet to be earned. The deferred revenue reported on FHA's Balance Sheet consists mostly of premiums collected on loans that have not been endorsed for FHA mortgage insurance. These premiums are excluded from FHA's LLG because they have not yet been earned. Per OMB Circular A-136, FHA is reporting deferred revenue of $223 million and $208 million for fiscal years 2023 and 2022, respectively, separately from Other Liabilities.

Cumulative Results of operations

Cumulative Results of Operations reflect the net results of FHA's operations since inception. The beginning balance of FHA's cumulative results of operations for the current fiscal year is the same as the ending balance of FHA's cumulative results of operations for the previous fiscal year. FHA's cumulative results of operations for fiscal year 2023 were impacted by net cost of operations of $3,593 million, appropriations used of $834 million, transfers in and out without reimbursement of $777 million, imputed financing of $24 million, and offsets to FHA's liability to the General Fund of the U.S. Government of ($1,093) million. Offsets to FHA's liability to the General Fund of the U.S. Government decreased in fiscal year 2023 due to a decrease in downward reestimates and negative subsidy collections in the GI/SRI loan guarantee financing account in fiscal year 2023, partially offset by an increase in transfers from the GI/SRI liquidating account to the General Fund of the U.S. Government.

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 loan guarantee 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 existing 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. Any remaining resources from appropriations, except no-year budget authority, are returned to U.S. Treasury upon cancellation.

Outlays are a measure of Government spending. An outlay is a payment to liquidate an obligation. FHA reports Outlays, net, for its Budgetary Accounts and Disbursements, net, for its Non-Budgetary Credit Reform Financing Accounts. Outlays, net, and Disbursements, net, both consist of gross outlays reduced by offsetting collections.

Offsetting collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure accounts, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. The authority to spend offsetting collections is a form of budget authority.

Outlays, net, are reduced by Distributed Offsetting Receipts. Distributed offsetting receipts are collections credited to General Fund, special fund, or trust fund receipt accounts that offset gross outlays of an agency. FHA's distributed offsetting receipts consist of negative subsidy and downward reestimates in the GI/SRI and H4H programs that are transferred to General Fund receipt accounts during the fiscal year and amounts related to pre-1992 loan guarantees that will be returned to the U.S. Treasury.

No Subsequent Event(s)

FHA determined that there were no significant events or transactions occurring after the date of the Balance Sheet but before issuance of the audited financial statements that had a material effect on the financial statements and, therefore, required adjustments to or disclosure in FHA's financial statements or notes.

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, 2023 and 2022, are as follows:

Non-Entity Assets
(Dollars in Millions)

	FY 2023	FY 2022
Intragovernmental:		
Fund Balance with U.S. Treasury (Note 3)	$ 51	$ 42
Total Intragovernmental	51	42
Cash and Other Monetary Assets	17	20
Total Non-Entity Assets	$ 68	$ 62
Total Entity Assets	$ 255,093	$ 238,467
Total Assets	**$ 255,161**	**$ 238,529**

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

NOTE 3. FUND BALANCE WITH U.S. TREASURY

FHA's fund balance with U.S. Treasury was comprised of the following as of September 30, 2023 and 2022:

Fund Balance with U.S. Treasury
(Dollars in Millions)

	FY 2023	FY 2022
Status of Fund Balance with U.S. Treasury:		
Unobligated Balance -		
Available	$ 4,084	$ 8,165
Unavailable	10,181	3,202
Obligated Balance Not Yet Disbursed	3,682	3,683
Total	**$ 17,947**	**$ 15,050**

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.

SIGNIFICANT VARIANCES

Fund Balance with U.S. Treasury increased by $2,897 million in fiscal year 2023 due to net cash inflows in both the GI/SRI loan guarantee and direct loan financing accounts. The net cash inflows were offset by net cash outflows in both the MMI loan guarantee financing account and the MMI capital reserve account, as well as net cash outflows in the GI/SRI liquidating account and FHA's administrative program funds.

NOTE 4. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets
(Dollars in Millions)

	FY 2023	FY 2022
Other Monetary Assets:		
Escrow Monies Deposited at Minority-Owned Banks	$ 17	$ 20
Deposits in Transit	92	30
Total Cash and Other Monetary Assets	**$ 109**	**$ 50**

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 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 U.S. Treasury securities are in non-marketable market-based 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 30, 2023.

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

The increase in FHA's investments is primarily due to the transfer and subsequent investment of MMI downward reestimates and negative subsidy from FHA's financing account to the capital reserve account, which exceeded investment redemptions and transfer out of upward re-estimates during fiscal year 2023.

FHA redeemed investments on September 30, 2023, that did not settle until October 2, 2023. FHA included the investments, which were worth $919 million, and interest receivable of $87 million in Investments, net, as of September 30, 2023.

The cost, net amortized premium/discount, interest receivable, net investment, and unrealized gain/loss and market values of FHA's investments in U.S. Treasury securities as of September 30, 2023 and 2022, are as follows:

Investments - Intragovernmental
(Dollars in Millions)

FY 2023	Cost	Amortization Method	Amortized (Premium) /Discount, Net	Interest Receivable	Investments, Net	Unrealized Gain/(Loss)	Market Value
Intragovernmental Investments:							
Treasury Bills	$ 2,842	Straight-Line	$ 82	$ -	$ 2,924	$ 1	$ 2,925
Treasury Notes	131,732	Effective Interest	(2,554)	664	129,842	(3,100)	126,742
Overnight Securities	10	No Amortization	-	-	10	-	10
Total Intragovernmental Investments	**$134,584**		**$ (2,472)**	**$ 664**	**$ 132,776**	**$ (3,099)**	**$129,677**

FY 2022	Cost	Amortization Method	Amortized (Premium) /Discount, Net	Interest Receivable	Investments, Net	Unrealized Gain/(Loss)	Market Value
Intragovernmental Investments:							
Treasury Bills	$ 23,444	Straight-Line	$ 105	$ -	$ 23,549	$ (117)	$ 23,433
Treasury Notes	99.200	Effective Interest	(1,708)	511	98,803	(4,995)	93,008
Overnight Securities	10	No Amortization	-	-	10	-	10
Total Intragovernmental Investments	**$122,654**		**$ (1,603)**	**$ 511**	**$ 121,562**	**$ (5,112)**	**$116,451**

Investments In Private-Sector Entities

FHA's investments in private-sector entities included Risk-sharing Debentures. Multifamily Risk Sharing Debentures [Section 542I] 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. FHA had no investments in private-sector entities in fiscal years 2023 and 2022.

Note 6. Accounts Receivable, Net

Accounts receivable, net, as of September 30, 2023 and 2022, are as follows:

Accounts Receivable
(Dollars in Millions)

	Gross		Allowance		Net	
	FY 2023	**FY 2022**	**FY 2023**	**FY 2022**	**FY 2023**	**FY 2022**
Other than Intragovernmental:						
Receivables Related to Credit Program Assets	$ 15	$ 8	$ -	$ -	$ 15	$ 8
Premiums Receivables	638	599	-	-	638	599
Partial Claims Receivables	182	644	(44)	(176)	138	468
Generic Debt Receivables	258	38	(86)	(22)	172	16
Criminal Restitution Receivables	6	64	(5)	(54)	1	10
Settlements Receivables	28	28	-	-	28	28
Miscellaneous Receivables	29	31	-	-	29	31
Total	**$ 1,156**	**$ 1,412**	**$ (135)**	**$ (252)**	**$ 1,021**	**$ 1,160**

Receivables Related To Credit Program Assets

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

Premiums 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 Claims Receivables

Partial Claims 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.

Settlements Receivables

Settlements 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. Based on updated historical information on collections, FHA reported an allowance for loss on generic debt receivable of approximately 33% and on criminal restitution receivables of approximately 83% in fiscal year 2023. FHA's allowance for loss on partial claims receivables reported under Note 6 is equivalent to the allowance for subsidy associated with the unsupported partial claims. No allowance for loss is reported for premiums receivables because premiums receivables accrued at the end of the reporting period are generally collected during the following reporting period. Furthermore, amounts required to be paid in signed consent judgments approved by the courts may not be contested, so no allowance is required for those receivables.

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES (NEGATIVE LOAN GUARANTEES)

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 negative loan guarantees as of September 30, 2023, and 2022, 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 an intragovernmental 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 was discontinued in fiscal years 2020 and 2021 but was restarted for new loan obligations in fiscal year 2022.

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 September of the current fiscal year and projections are used to estimate the direct loan cash flows for the fourth 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, 2023	**GI/SRI - Multifamily**	**Total**
Loan Receivables	$ 7	$ 7
Interest Receivables	15	15
Allowance for Loan Losses	(9)	(9)
Direct Loans, Net	**$ 13**	**$ 13**
September 30, 2022	**GI/SRI - Multifamily**	**Total**
Loan Receivables	$ 7	$ 7
Interest Receivables	14	14
Allowance for Loan Losses	(9)	(9)
Direct Loans, Net	**$ 12**	**$ 12**

Direct Loans Obligated (Post-1991):

(Dollars in Millions)

September 30, 2023	**GI/SRI - Multifamily**	**Total**
Loan Receivables	$ 2,800	$ 2,800
Interest Receivables	7	7
Allowance for Subsidy	443	443
Direct Loans, Net	**$ 3,250**	**$ 3,250**
September 30, 2022	**GI/SRI - Multifamily**	**Total**
Loan Receivables	$ 2,716	$ 2,716
Interest Receivables	6	6
Allowance for Subsidy	348	348
Direct Loans, Net	**$ 3,070**	**$ 3,070**

Total Amount of Direct Loans Disbursed Post-1991:

(Dollars in Millions)

Direct Loan Programs	FY 2023	FY 2022
GI/SRI:		
Multifamily/Healthcare	$ 120	$ 119
GI/SRI Subtotal	**$ 120**	**$ 119**

Subsidy Expense for Direct Loans Programs by Component

(Dollars in Millions)

September 30, 2023	GI/SRI	Total
Multifamily/Healthcare		
FFB		
Financing	$ (14)	$ (14)
Fees and Other Collections	(2)	(2)
Other	2	2
Subtotal	**$ (14)**	**$ (14)**

September 30, 2022	GI/SRI	Total
Multifamily/Healthcare		
FFB		
Financing	$ (11)	$ (11)
Fees and Other Collections	(2)	(2)
Other	4	4
Subtotal	**$ (9)**	**$ (9)**

Subsidy Expense for Modifications and Reestimates:

(Dollars in Millions)

FY 2023	Interest Rate Reestimate	Technical Reestimate	Total Reestimate
GI/SRI	$ 524	$ (611)	$ (87)
Total	**$ 524**	**$ (611)**	**$ (87)**

FY 2022		Technical Reestimate	Total Reestimate
GI/SRI	$ -	$ (50)	$ (50)
Total	**$ -**	**$ (50)**	**$ (50)**

No interest rate reestimate was recorded for the FFB Direct Loan program in fiscal year 2022 because no new loans were disbursed in fiscal year 2020 or fiscal year 2021. Interest rate reestimates are recorded only when a cohort is 90 percent disbursed and if there is a change in the U.S. Treasury discount rate applicable to the cohort.

Total Direct Loan Subsidy Expense:

(Dollars in Millions)

	FY 2023	FY 2022
Direct Loan Programs:		
GI/SRI	$ (100)	$ (59)
Total	**$ (100)**	**$ (59)**

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 reestimates.

Budget Subsidy Rates for Direct Loans for the Current Year's Cohorts

September 30, 2023	**Finance**	**Default**	**Fees and Other Collections**	**Other**	**Total**
GI/SRI					
Multifamily					
FFB	-8.2%	0.1%	-1.4%	1.4%	-8.1%
September 30, 2022	**Finance**	**Default**	**Fees and Other Collections**	**Other**	**Total**
GI/SRI					
Multifamily					
FFB	-9.2%	0.0%	-1.7%	1.7%	-9.2%

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)
(Dollars in Millions)

	FY 2023	**FY 2022**
Beginning Balance, Changes, and Ending Balance		
Beginning balance of the subsidy cost allowance	$ (347)	$ (283)
Add: subsidy expense for direct loans disbursed during the reporting years	(14)	(9)
Adjustments:		
- Subsidy allowance amortization	3	(2)
- Other	1	(3)
Ending balance of the subsidy cost allowance before reestimates	**$ (356)**	**$ (297)**
Add or subtract subsidy reestimates by component:		
Total Subsidy Reestimates	**$ (87)**	**$ (50)**
Ending balance of the subsidy cost allowance	**$ (443)**	**$ (347)**

Loan Guarantee Programs

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

FY 2023

	MMI/CMHI	GI/SRI	Total
Single Family Forward:			
Loan Receivables	$ 16	$ 1	$ 17
Foreclosed Property	1	9	10
Allowance for Loan Losses	(1)	(4)	(5)
Subtotal	**$ 16**	**$ 6**	**$ 22**
Multifamily/Healthcare:			
Loan Receivables	$ -	$ 1,017	$ 1,017
Interest Receivables	-	237	237
Foreclosed Property	-	(4)	(4)
Allowance for Loan Losses	-	(513)	(513)
Subtotal	**$ -**	**$ 737**	**$ 737**
HECM*:			
Loan Receivables	$ -	$ 2	$ 2
Interest Receivables	-	1	1
Foreclosed Property	-	(2)	(2)
Allowance for Loan Losses	-	(1)	(1)
Subtotal	**$ -**	**$ -**	**$ -**
Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	**$ 16**	**$ 743**	**$ 759**

FY 2022

	MMI/CMHI	GI/SRI	Total
Single Family Forward:			
Loan Receivables	$ 17	$ 1	$ 18
Foreclosed Property	2	9	11
Allowance for Loan Losses	(2)	(5)	(7)
Subtotal	**$ 17**	**$ 5**	**$ 22**
Multifamily/Healthcare:			
Loan Receivables	$ -	$ 1,082	$ 1,082
Interest Receivables	-	237	237
Foreclosed Property	-	(4)	(4)
Allowance for Loan Losses	-	(545)	(545)
Subtotal	**$ -**	**$ 770**	**$ 770**
HECM*:			
Loan Receivables	$ -	$ 3	$ 3
Interest Receivables	-	1	1
Foreclosed Property	-	(2)	(2)
Allowance for Loan Losses	-	(3)	(3)
Subtotal	**$ -**	**$ (1)**	**$ (1)**
Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	**$ 17**	**$ 774**	**$ 791**

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

Defaulted Guaranteed Loans from Post-1991 Guarantees:

(Dollars in Millions)

FY 2023

	MMI/CMHI	GI/SRI	H4H	Total
Single Family Forward:				
Loan Receivables	$ 29,500	$ 392	$ 6	$ 29,898
Interest Receivables	-	(1)	-	(1)
Foreclosed Property	408	15	-	423
Allowance for Subsidy	(6,844)	(94)	(3)	(6,941)
Subtotal	**$ 23,064**	**$ 312**	**$ 3**	**$ 23,379**
Multifamily/Healthcare:				
Loan Receivables	$ 9	$ 634	$ -	$ 643
Interest Receivables	-	72	-	72
Foreclosed Property	-	19	-	19
Allowance for Subsidy	(4)	(357)	-	(361)
Subtotal	**$ 5**	**$ 368**	**$ -**	**$ 373**
HECM*:				
Loan Receivables	$ 19,741	$ 7,621	$ -	$ 27,362
Interest Receivables	19,800	5,693	-	25,493
Foreclosed Property	122	139	-	261
Allowance for Subsidy	(7,193)	(3,059)	-	(10,252)
Subtotal	**$ 32,470**	**$ 10,394**	**$ -**	**$ 42,864**
Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	**$ 55,539**	**$ 11,074**	**$ 3**	**$ 66,616**

FY 2022

	MMI/CMHI	GI/SRI	H4H	Total
Single Family Forward:				
Loan Receivables	$ 25,542	$ 395	$ 6	$ 25,943
Foreclosed Property	243	10	-	253
Allowance for Subsidy	(6,310)	(101)	(3)	(6,414)
Subtotal	**$ 19,475**	**$ 304**	**$ 3**	**$ 19,782**
Multifamily/Healthcare:				
Loan Receivables	$ -	$ 613	$ -	$ 613
Interest Receivables	-	57	-	57
Foreclosed Property	-	19	-	19
Allowance for Subsidy	-	(332)	-	(332)
Subtotal	**$ -**	**$ 357**	**$ -**	**$ 357**
HECM*:				
Loan Receivables	$ 17,566	$ 5,900	$ -	$ 23,466
Interest Receivables	16,565	4,008	-	20,573
Foreclosed Property	137	124	-	261
Allowance for Subsidy	(5,532)	(1,841)	-	(7,373)
Subtotal	**$ 28,736**	**$ 8,191**	**$ -**	**$ 36,927**
Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	**$ 48,211**	**$ 8,852**	**$ 3**	**$ 57,066**

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

Loans Receivable, net, increased in fiscal year 2023 primarily due to an increase in the value of HECM defaulted guaranteed loans from post-1991 guarantees of $5,937 million and an increase in the value of Single Family Forward defaulted guaranteed loans from post-1991 guarantees of $3,597 million. The increase in the value of HECM defaulted guaranteed loans resulted from an increase of $3,895 million in loans receivable and an increase in interest receivable of $4,920 million, partially offset by an increase in the HECM allowance for subsidy of $2,878 million. Most of the increase in the value of Single Family Forward defaulted guaranteed loans came from an increase in loans receivable of $3,955 million, offset by an increase in the Single Family Forward allowance for subsidy of $527 million. In fiscal year 2023, FHA acquired new partial claims of $5,952 million, which were offset by $1,685 million from collections, $258 million from foreclosures, and $55 million from write-offs.

Guaranteed Loans Outstanding:
(Dollars in Millions)

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value		Amount of Outstanding Principal Guaranteed	
FY 2023				
MMI/CMHI:				
Single Family Forward	$	1,486,174	$	1,316,881
Multifamily/Healthcare		1,037		970
MMI/CMHI Subtotal	**$**	**1,487,211**	**$**	**1,317,851**
GI/SRI:				
Single Family Forward	$	3,691	$	1,830
Multifamily/Healthcare		178,150		161,600
GI/SRI Subtotal	**$**	**181,841**	**$**	**163,430**
H4H:				
Single Family - 257	$	45	$	35
H4H Subtotal	**$**	**45**	**$**	**35**
Total	**$**	**1,669,097**	**$**	**1,481,316**
FY 2022				
MMI/CMHI:				
Single Family Forward	$	1,358,095	$	1,208,886
Multifamily/Healthcare		1,013		959
MMI/CMHI Subtotal	**$**	**1,359,108**	**$**	**1,209,845**
GI/SRI:				
Single Family Forward	$	4,078	$	2,140
Multifamily/Healthcare		170,500		155,984
GI/SRI Subtotal	**$**	**174,578**	**$**	**158,124**
H4H:				
Single Family - 257	$	50	$	40
H4H Subtotal	**$**	**50**	**$**	**40**
Total	**$**	**1,533,736**	**$**	**1,368,009**

New Guaranteed Loans Disbursed:
(Dollars in Millions)

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FY 2023		
MMI/CMHI:		
Single Family Forward	$ 208,644	$ 207,366
Multifamily/Healthcare	36	36
MMI/CMHI Subtotal	**$ 208,680**	**$ 207,402**
GI/SRI:		
Single Family Forward	$ 16	$ 15
Multifamily/Healthcare	11,947	11,898
GI/SRI Subtotal	**$ 11,963**	**$ 11,913**
Total	**$ 220,643**	**$ 219,315**
FY 2022		
MMI/CMHI:		
Single Family Forward	$ 255,481	$ 252,739
Multifamily/Healthcare	180	180
MMI/CMHI Subtotal	**$ 255,661**	**$ 252,919**
GI/SRI:		
Single Family Forward	$ 19	$ 18
Multifamily/Healthcare	23,071	22,933
GI/SRI Subtotal	**$ 23,090**	**$ 22,951**
Total	**$ 278,751**	**$ 275,870**

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 1,320,380 HECM loans with a maximum claim amount of $365 billion. Of these 1,320,380 HECM loans insured by FHA, 346,738 loans with a maximum claim amount of $124 billion are still insured. As of September 30, 2023, the insurance-in-force (the outstanding balance of active loans that have not been assigned to FHA) was $75 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)

		Cumulative	
Loan Guarantee Programs	Current Year Endorsements	Current Outstanding Balance	Maximum Potential Liability
FY 2023			
MMI/CMHI	$ 16,165	$ 65,936	$ 115,091
GI/SRI	-	8,870	8,933
Total	**$ 16,165**	**$ 74,806**	**$ 124,024**
FY 2022			
MMI/CMHI	$ 32,104	$ 66,326	$ 113,768
GI/SRI	-	14,153	14,982
Total	**$ 32,104**	**$ 80,479**	**$ 128,750**

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

Negative Loan Guarantees, Net
(Dollars in Millions)

FY 2023	**MMI/CMHI**	**GI/SRI**	**Total**
LLG:			
Single Family Forward	$ (29,262)	$ 18	$ (29,244)
Multifamily/Healthcare	(32)	(3,033)	(3,065)
HECM	(1,614)	1,252	(362)
Subtotal	**$ (30,908)**	**$ (1,763)**	**$ (32,671)**
Negative Loan Guarantee Liability Total	**$ (30,908)**	**$ (1,763)**	**$ (32,671)**

FY 2022	**MMI/CMHI**	**GI/SRI**	**Total**
LLG:			
Single Family Forward	$ (34,531)	$ 32	$ (34,499)
Multifamily/Healthcare	(38)	(2,558)	(2,596)
HECM	(4,294)	1,621	(2,673)
Subtotal	**$ (38,863)**	**$ (905)**	**$ (39,768)**
Negative Loan Guarantee Liability Total	**$ (38,863)**	**$ (905)**	**$ (39,768)**

Subsidy Expense for Loan Guarantees by Program and Component
(Dollars in Millions)

FY 2023	MMI/CMHI	GI/SRI	Total
Single Family Forward:			
Defaults	$ 6,835	$ 1	$ 6,836
Fees and Other Collections	(12,334)	(1)	(12,335)
Other	1,515	-	1,515
Subtotal	**$ (3,984)**	**$ -**	**$ (3,984)**
Multifamily/Healthcare:			
Defaults	$ 1	$ 163	$ 164
Fees and Other Collections	(2)	(443)	(445)
Subtotal	**$ (1)**	**$ (280)**	**$ (281)**
HECM:			
Defaults	$ (31)	$ -	$ (31)
Fees and Other Collections	(647)	-	(647)
Subtotal	**$ (678)**	**$ -**	**$ (678)**
Total	**$ (4,663)**	**$ (280)**	**$ (4,943)**

FY 2022	MMI/CMHI	GI/SRI	Total
Single Family Forward:			
Defaults	$ 9,889	$ 1	$ 9,890
Fees and Other Collections	(18,371)	(1)	(18,372)
Other	1,654	-	1,654
Subtotal	**$ (6,828)**	**$ -**	**$ (6,828)**
Multifamily/Healthcare:			
Defaults	$ 7	$ 223	$ 230
Fees and Other Collections	(14)	(829)	(843)
Other	1	-	1
Subtotal	**$ (6)**	**$ (606)**	**$ (612)**
HECM:			
Defaults	$ 774	$ -	$ 774
Fees and Other Collections	(1,590)	-	(1,590)
Subtotal	**$ (816)**	**$ -**	**$ (816)**
Total	**$ (7,650)**	**$ (606)**	**$ (8,256)**

Subsidy Expense for Reestimates
(Dollars in Millions)

FY 2023	Interest Rate Reestimate	Technical Reestimate	Total Reestimate
MMI/CMHI	$ 516	$ 2,159	$ 2,674
GI/SRI	(164)	282	118
H4H	-	-	-
Total	**$ 352**	**$ 2,441**	**$ 2,792**

FY 2022	Interest Rate Reestimate	Technical Reestimate	Total Reestimate
MMI/CMHI	$ (437)	$ (26,647)	$ (27,084)
GI/SRI	-	(2,439)	(2,439)
H4H	-	(2)	(2)
Total	**$ (437)**	**$ (29,088)**	**$ (29,525)**

Total Loan Guarantee Subsidy Expense:
(Dollars in Millions)

	FY 2023	FY 2022
MMI/CMHI	$ (1,987)	$ (34,734)
GI/SRI	(163)	(3,045)
H4H		(2)
Total	**$ (2,150)**	**$ (37,781)**

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 reestimates.

Subsidy Rates for Loan Guarantee Endorsements by Program and Component:

(Percentage)

Budget Subsidy Rates for FY 2023 Loans Guarantees:	Defaults	Fees and Other Collections	Total
MMI/CMHI			
Single Family			
SF - Forward 10/01/2022 – 03/19/2023	3.19	(6.24)	(3.05)
SF - Forward 03/20/2023 – 09/30/2023	3.34	(4.49)	(1.15)
SF – HECM	(0.19)	(4.00)	(4.19)
Multifamily			
MF - Default CMHI- (Cooperatives) 10/01/2022 – 03/19/2023	3.19	(6.24)	(3.05)
MF - Default CMHI- (Cooperatives) 03/20/2023 – 09/30/2023	3.34	(4.49)	(1.15)
GI/SRI			
Single Family			
Title I - Manufactured Housing	4.67	(10.82)	(6.15)
Title I - Property Improvements	4.67	(6.26)	(1.59)
Multifamily			
Apartments – New/Substantial Construction	1.63	(2.53)	(0.90)
Tax Credit Projects	0.64	(2.80)	(2.16)
Apartments- Refinance	0.31	(2.56)	(2.25)
HFA Risk Share	0.06	(1.62)	(1.56)
Healthcare			
FHA Full Insurance - Health Care	0.76	(6.56)	(5.80)
MF - Health Care Refinance	3.72	(5.99)	(2.27)
MF - Hospitals (includes refi., and Suppl. Loan)	0.46	(6.18)	(5.72)
Other Rentals	1.37	(4.01)	(2.64)

Budget Subsidy Rates for FY 2022 Loans Guarantees:	Defaults	Fees and Other Collections	Total
MMI/CMHI			
Single Family			
SF - Forward	3.87	(6.56)	(2.69)
SF – HECM	2.41	(4.95)	(2.54)
Multifamily			
MF - Default CMHI- (Cooperatives)	3.87	(6.56)	(2.69)
GI/SRI			
Single Family			
Title I - Manufactured Housing	4.99	(11.20)	(6.21)
Title I - Property Improvements	4.93	(6.62)	(1.69)
Multifamily			
Apartments – New/Substantial Construction	1.47	(2.79)	(1.32)
Tax Credit Projects	0.78	(3.30)	(2.52)
Apartments- Refinance	0.26	(3.14)	(2.88)
HFA Risk Share	0.01	(2.28)	(2.27)
Other Rentals	2.01	(5.35)	(3.34)
Healthcare			
FHA Full Insurance - Health Care	0.93	(7.44)	(6.51)
MF - Health Care Refinance	3.94	(7.44)	(3.50)
MF - Hospitals (includes refi., and Suppl. Loan)	1.26	(6.63)	(5.37)

In accordance with the requirements in OMB Circular A-11 Section 185, FHA's Budget Subsidy Rates for fiscal year 2023 and fiscal year 2022 were calculated using OMB's Credit Subsidy Calculator (CSC). The CSC is a discounting tool issued by OMB for agencies to calculate credit subsidy costs and financing account interest for post-1991 direct loans and loan guarantees. All agencies must use the CSC and associated discount rates to discount agency-generated estimates of cash flows to and from the Government for each risk category.

The Budget Subsidy Rates are calculated approximately eighteen months before the fiscal year starts and are based on projections of cash inflows and cash outflows for FHA's direct loan and loan guarantee programs available at the time FHA's budget submission is prepared. These cash flows are discounted to the point of loan disbursement using the CSC. The difference between the present value of the Government cash outflows and inflows is the total subsidy. Calculated automatically by the CSC, the subsidy rate is determined by dividing the subsidy cost by the direct loan obligations or loan guarantee commitments projected to be made in that year.

The Budget Subsidy Rates are submitted to OMB for inclusion in the President's Budget. FHA's Budget Subsidy Rates for fiscal year 2023 and fiscal year 2022 were included in the President's Budget for fiscal year 2023 and fiscal year 2022, respectively. For budget formulation and execution, subsidy estimates must be based on the economic and technical assumptions underlying the President's Budget that is submitted for the fiscal year in which the funds will be obligated. The CSC computes the subsidy rate using the economic assumptions for the President's Budget.

Because of the time lag between when the Budget Subsidy Rates are calculated and the relevant fiscal year, the Budget Subsidy Rates do not consider recent changes in economic conditions, legislation, credit policies, and subsidy estimation methodologies and assumptions.

Schedule for Reconciling Negative Loan Guarantees

(Dollars in Millions)

		FY 2023		FY 2022
Beginning balance of the Negative Loan Guarantees	**$**	**(39,768)**	**$**	**(17,908)**
Less claim payments to lenders		(22,282)		(24,745)
Add fees received		13,949		14,102
Add foreclosed property and loans acquired		20,508		28,804
Less interest revenue on uninvested funds		956		685
Add interest expense on entity borrowings		(3,834)		(3,044)
Less negative subsidy payments		(4,943)		(8,254)
Add upward reestimates		5,921		(205)
Less downward reestimates		(3,128)		(29,320)
Other		(50)		117
Ending Balance of the Negative Loan Guarantees	**$**	**(32,671)**	**$**	**(39,768)**

Administrative Expense:

(Dollars in Millions)

		FY 2023		FY 2022
MMI/CMHI	$	945	$	857
Total	**$**	**945**	**$**	**857**

Schedule for Reconciling Loans Receivable, Net

(Dollars in Millions)

FY 2023	**Direct Loans**	**Defaulted Guaranteed Loans (Post-1991)**	**Defaulted Guaranteed Loans (Pre-1992)**	**Total**
Beginning Balance of Loans Receivable, Net	**$ 3,070**	**$ 57,066**	**$ 803**	**$ 60,939**
Add loan disbursement	200	10,459	35	10,694
Less principal and interest payment received	(119)	(4,451)	(68)	(4,638)
Less fees received	-	(298)	-	(298)
Add foreclosed property acquired	-	1,142	-	1,142
Less sale of foreclosed property	-	(763)	-	(763)
Less loans written off	-	(141)	-	(141)
Less interest revenue on uninvested fund	(91)	-	-	(91)
Add interest expense on entity borrowings	90	-	-	90
Add negative subsidy payments	13	-	-	13
Less upward reestimates	(256)	(58)	-	(314)
Add downward reestimates	342	3,790	-	(4,132)
Other increase/(decrease) to the subsidy allowance	-	(128)	-	(128)
Ending Balance of Loans Receivable, Net	**$ 3,249**	**$ 66,618**	**$ 770**	**$ 70,637**

FY 2022	**Direct Loans**	**Defaulted Guaranteed Loans (Post-1991) As Restated**	**Defaulted Guaranteed Loans (Pre-1992)**	**Total As Restated**
Beginning Balance of Loans Receivable, Net	**$ 2,920**	**$ 45,252**	**$ 900**	**$ 49,072**
Add loan disbursement	194	7,468	100	7,762
Less principal and interest payment received	(112)	(6,494)	(197)	(6,803)
Less fees received	-	(373)	1	(372)
Add foreclosed property acquired	-	828	1	829
Less sale of foreclosed property	-	(677)	-	(677)
Less loans written off	-	(23)	-	(23)
Less interest revenue on uninvested funds	(79)	-	-	(79)
Add interest expense on entity borrowings	86	-	-	86
Add negative subsidy payments	10	-	-	10
Less upward reestimates	(89)	(39)	-	(128)
Add downward reestimates	139	11,262	-	11,401
Other increase/(decrease) to the subsidy allowance	-	(139)	-	(139)
Ending Balance of Loans Receivable, Net	**$ 3,069**	**$ 57,065**	**$ 805**	**$ 60,939**

In its fiscal year 2022 Annual Management Report, FHA reported $16,780 million on the line item “Add loan disbursements” and $1,950 million on the line item “Less downward reestimates” under Defaulted Guaranteed Loans (Post-1991). The amount reported on the line item “Add loan disbursements” for fiscal year 2022 should have been $7,468 million, and the amount reported as downward reestimates for fiscal year 2022 should have been $11,262 million. These amounts were corrected in the presentation of the fiscal year 2022 Schedule P in the fiscal year 2023 Annual Management Report.

Additionally, OMB updated some of the line item titles for Schedule P in fiscal year 2023. “Less negative subsidy payments” changed to “Add negative subsidy payments”; “Add upward reestimate” changed to “Less upward reestimates”; and “Less downward reestimates” changed to “Add downward reestimates.” FHA updated the line item titles in Schedule P from fiscal year 2022 to conform with the new presentation in fiscal year 2023.

Other Information On Foreclosed Property:

Additional information on FHA foreclosed property as of September 30, 2023 and 2022, is as follows:

Other Information On Foreclosed Property

	FY 2023	FY 2022
Average number of days in inventory for Sold Cases	176	204
End of period active inventory	2,548	2,105

This chart reports the average holding period for FHA foreclosed property and the total number of foreclosed properties on-hand as of September 30, 2023. The amounts reported above for foreclosed properties 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, 2023, is comprised of only Single-Family properties.

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 and HECM properties may be sold to eligible entities (24 CFR 291.303) through public asset sales. The 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:

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

ADDITIONAL INFORMATION ABOUT LOAN PERFORMANCE ASSUMPTIONS IS PROVIDED BELOW:

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

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

Reliance on historical performance: FHA relies on the historical performance of its insured portfolio to generate behavioral response functions that are applied to economic forecasts to generate future performance patterns for the outstanding portfolio. Changes in legislation, program requirements, tax treatment, and economic factors all influence loan performance.

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 2023. Overall, FHA's liability increased from the fiscal year 2022 estimates.

Mutual Mortgage Insurance (MMI) – On net, the MMI Fund LLG increased from ($38,831) million to ($30,876) million at the end of fiscal year 2023. The increase in liability can be attributed to model methodology changes, changes in economic forecasts and actual loan performance.

MMI Single Family Forward (SFF) - The 2023 SFF LLG forecast calculation is like the methodology used in 2022. 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 2022 LLG, the 2023 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 2023, 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 2022 LLG, the 2023 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 $1,252 million at the end of 2023, 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 $52.7 billion. The Section 223(f) liability is negative, meaning that the present value of expected future premium revenues is greater than the present value of expected future (net) claim expenses. The 223(f) liability decreased this year by $5.5 million, from ($1,070) million to ($1,075) million, due to lower claim expectations.

GI/SRI Section 223(a)(7) - Section 223(a)(7) gives FHA authority to refinance FHA-insured loans. Under this program, the refinanced principal amount of the mortgage may be the lesser of the original amount of the existing mortgage or the remaining unpaid principal balance of the loan. Loans insured under any sections of the National Housing Act may be refinanced under 223(a)(7), including those already under 223(a)(7). The Section 223(a)(7) program has an insurance-in-force of $17.4 billion. The Section 223(a)(7) liability is negative, meaning that the present value of expected future premium revenues is greater than the present value of expected future (net) claim expenses. The 223(a)(7) liability decreased this year by $34.7 million, from ($348) million to ($383) million due to lower claim and prepayment expectations.

GI/SRI Section 221(d)(4) - Section 221(d)(4) of the National Housing Act authorizes FHA mortgage insurance for the construction or substantial rehabilitation of Multifamily rental properties with five or more units. Under this program, FHA may insure up to 90 percent of the total project cost. This is second largest Multifamily program in the GI/SRI fund with an insurance-in-force of $23.6 billion. The Section 221(d)(4) liability decreased by $158.6 million this year, from ($23.9) million to ($182) million, due to lower claim projections.

GI/SRI Section 232 Healthcare New Construction (NC) - The Section 232 NC program provides mortgage insurance for construction or substantial rehabilitation of nursing homes and assisted-living facilities. FHA insures a maximum of 90 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 NC program has an insurance-in-force of $2.0 billion. The Section 232 NC liability increased by $31.6 million this year, from ($71.5) million to ($39.9) million, due to higher claim projections and lower insurance-in-force.

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 nonprofit associations. For existing projects, FHA insures a maximum of 85 percent of the estimated value of the physical improvements and major movable equipment. The Section 232 Refinance program has an insurance-in-force of $30.7 billion. The Section 232 Refinance liability decreased by $261.7 million this year, from ($441) million to ($703) million, due to lower claim 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 $6.0 billion. The Section 242 liability decreased by $7.4 million this year from ($218) million to ($225) million due to lower 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 result 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 the Healthcare program's 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 2023 is zero.

GI/SRI Multifamily & Healthcare LLR - For the Multifamily and Healthcare portfolio, the remaining insurance-in-force for pre-credit reform loans is $84.7 million. The aggregate liability for the remaining pre-credit reform loans in fiscal year 2023 is ($299) thousand, which is a $82 thousand decrease from the ($217) thousand estimate in fiscal year 2022. The year-over-year decrease in aggregate liability is due to lower claim and prepayment expectations in the liquidating fund.

NOTE 8. ACCOUNTS PAYABLE

Accounts Payable as of September 30, 2023 and 2022, are as follows:

Accounts Payable (Dollars in Millions)	FY 2023	FY 2022
Intragovernmental:		
Miscellaneous Payables to Other Federal Agencies	$ 5	$ 2
Total	**$ 5**	**$ 2**
Other than Intragovernmental:		
Claims Payable	$ 87	$ 64
Premium Refunds Payable	390	393
Single Family Property Disposition Payable	29	24
Miscellaneous Payables	68	78
Total	**$ 574**	**$ 559**

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 is returned to PIH.

CLAIMS PAYABLE

Claims payable represent the number 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 PAYABLE

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 PAYABLE

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

MISCELLANEOUS PAYABLES

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

NOTE 9. DEBT

The following tables describe the composition of Debt held by FHA as of September 30, 2022 and 2023:

Debt
(Dollars in Millions)

	FY 2022			FY 2023		
	Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
Intragovernmental Debt:						
Debt to the U.S. Treasury	$ 66,277	$ 27,294	$ 93,571	$ 93,571	$ 13,407	$ 106,978
Debt to the FFB	2,636	86	2,722	2,722	84	2,806
Total	**$ 68,913**	**$ 27,380**	**$ 96,293**	**$ 96,293**	**$ 13,491**	**$ 109,784**

DEBT TO THE U.S. TREASURY

FHA borrows from the Bureau of the Fiscal Service's (BFS) Federal Investments and Borrowings Branch, which facilitates loans to federal agencies on behalf of the U.S. Department of the Treasury. The FCRA permits agencies to borrow from U.S. Treasury to support credit programs. Collections and disbursements with the public are transacted in FHA's financing accounts and are considered a means-of-financing (non-budgetary). When cash balances are insufficient to support its operations, FHA borrows from U.S. Treasury. When there is sufficient cash in the financing accounts, FHA can opt to repay principal. Repayments of principal can be made throughout the fiscal year. 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. Interest paid on borrowings by FHA as of September 30, 2023 and 2022, was $3,834 million and $3,044 million, respectively.

Both interest revenue and expense are accrued at FHA's Single Effective Rate (SER). During fiscal year 2023, FHA's U.S. Treasury debt carried interest rates ranging from 0.68 percent to 7.59 percent, and the maturity dates for these debts range from September 2023 to September 2046. Loans may be repaid in whole or in part without penalty at any time prior to maturity. Interest revenue is based on the cash balances in the financing accounts, whereas interest expense is based on the principal balances for the entire fiscal year (effective date of October 1st of the current fiscal year), regardless of the actual transaction date.

FHA's available borrowing authority as of September 30, 2023 and 2022, was $8,875 million and $7,785 million, respectively, from the U.S. Treasury.

DEBT TO THE FEDERAL FINANCING BANK

The FFB Risk Share Program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. During fiscal year 2023, FHA's FFB debt carried interest rates ranging from 1.57 percent to 3.40 percent, and the maturity dates for the FFB debt ranged from May 2038 to May 2063. FHA's available borrowing authority from the FFB as of September 30, 2023 and 2022, was $188 million and $1,382 million, respectively. Interest paid on borrowings from the FFB as of September 30, 2023 and 2022, was $82 million and $81 million, respectively.

Significant Variances

Debt increased in fiscal year 2023 in all of FHA's financing accounts. Cash inflows from FHA's normal business activities were insufficient for FHA to pay claims and make the necessary transfers of negative subsidy and downward reestimates from FHA's loan guarantee financing accounts. FHA increased its borrowing in both the GI/SRI and MMI loan guarantee financing accounts due to disbursements of HECM, Single Family, and Multi-family claims, negative subsidy, and downward reestimates on loan guarantees. In addition, the GI/SRI Direct Loan financing account borrowing increased to allow FHA to disburse and endorse additional loans under the FFB direct loan program.

NOTE 10. OTHER LIABILITIES

The following table describes the composition of Other Liabilities as of September 30, 2023 and 2022:

Other Liabilities
(Dollars in Millions)

FY 2023		Current
Intragovernmental:		
Receipt Account Liability	$	2,047
Total Intragovernmental	**$**	**2,047**
Other than Intragovernmental:		
Trust and Deposit Liabilities	$	69
Miscellaneous Liabilities		202
Total Other than Intragovernmental	**$**	**271**
Total Other Liabilities	**$**	**2,318**

FY 2022		Current
Intragovernmental:		
Receipt Account Liability	$	3,110
Total Intragovernmental	**$**	**3,110**
Other than Intragovernmental:		
Trust and Deposit Liabilities	$	62
Miscellaneous Liabilities		174
Total Other than Intragovernmental	**$**	**236**
Total Other Liabilities	**$**	**3,346**

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 receipt account liability decreased by $1,063 million in fiscal year 2023, due primarily to a decrease in downward reestimates and negative subsidy transferred from the GI/SRI loan guarantee financing account during fiscal year 2023. GI/SRI downward reestimates and negative subsidy are transferred to general fund receipt accounts and are not available to be used for FHA's business operations.

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.

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. The $202 million balance contains a $3 million contingent liability that FHA has classified as a non-current liability.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Total Liabilities Not Requiring Budgetary Resources
(Dollars in Millions)

		FY 2023		FY 2022
Total Liabilities Not Covered by Budgetary Resources	$	3	$	-
Total Liabilities Covered by Budgetary Resources		110,837		97,278
Total Liabilities Not Requiring Budgetary Resources		2,064		3,130
Total Liabilities	**$**	**112,904**	**$**	**100,408**

Total Liabilities Not Covered by Budgetary Resources – FHA has a $3.2 million contingent liability not covered by budgetary resources in fiscal year 2023.

Total Liabilities Covered by Budgetary Resources include 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 required in the past and will not require in the future the use of budgetary resources. FHA's liabilities in its general fund receipt accounts, including immaterial liabilities in non-fiduciary deposit funds, are reported as liabilities not requiring budgetary resources for fiscal years 2023 and 2022. Liabilities in FHA's general fund receipt accounts are liquidated in the following fiscal year through transfers from the financing funds.

NOTE 12. COMMITMENTS AND CONTINGENCIES

LITIGATION

FHA is party to 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 a material effect on FHA's consolidated financial statements as of September 30, 2023. There was one case in which the likelihood of an unfavorable outcome is "probable". The case is $3 million and was booked as a contingent liability in fiscal year 2023. In addition, there are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $23 million or more.

ACTIVITY WITH GINNIE MAE

As of September 30, 2023, and 2022, the Government National Mortgage Association ("Ginnie Mae") held FHA-insured mortgage loans acquired from defaulted mortgage-backed securities issuers with the following balances:

Activity With Ginnie Mae
(Dollars in Millions)

	FY 2023	FY 2022
Reverse Mortgage Loans, at Fair Value	$ 19,866	$ -
Forward Mortgage Loans, at Fair Value & Foreclosed Property	1,659	1,550
Short Sale Claims Receivable	2	-
Total	**$ 21,527**	**$ 1,550**

"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 for forward loans and upon assignment at 98% of the maximum claim amount for HECM loans. Claims may also be submitted for any deficiency in amounts collected from the disposition (short sale, etc.) of the asset. 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.

In December 2022, a Ginnie Mae HECM mortgage-backed security (HMBS) issuer defaulted, and Ginnie Mae assumed the servicing rights and obligations of the defaulted issuer. The default and subsequent assumption of servicing resulted in a significant increase in FHA's activity with Ginnie Mae in fiscal year 2023 for Reverse Mortgage Loans.

NOTE 13. GROSS COSTS

Gross costs incurred by FHA for the period ended September 30, 2023 and 2022, are as follows:

Gross Costs Incurred by FHA
(Dollars in Millions)

FY 2023	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Expense	$ 1,259	$ 2,428	$ 177	$ 52	$ -	$ 3,916
Imputed Cost					24	24
Other Expenses	3	-	-	-	241	244
Total	**$ 1,262**	**$ 2,428**	**$ 177**	**$ 52**	**$ 265**	**$ 4,184**
Other than Intragovernmental:						
Salary and Administrative Expense	$ -	$ -	$ -	$ -	$ 677	$ 677
Subsidy Expense	(3,984)	(678)	(221)	(74)	-	(4,957)
Reestimate Expense	(1,056)	4,506	(490)	(255)	-	2,705
Interest Accumulation Expense	(913)	(1,921)	(33)	(10)	-	(2,877)
Bad Debt Expense	1	-	3	-	-	4
Other Expenses	1	-	9	-	3	13
Total	**$ (5,951)**	**$ 1,907**	**$ (732)**	**$ (339)**	**$ 680**	**$ (4,435)**
Total Gross Costs	**$ (4,689)**	**$ 4,335**	**$ (555)**	**$ (287)**	**$ 945**	**$ (251)**

FY 2022	Single Family Forward	HECM	Multifamily	Healthcare	Administrative Expenses	Total
Intragovernmental:						
Interest Expense	$ 1,338	$ 1,567	$ 187	$ 33	$ -	$ 3,125
Imputed Cost					17	17
Other Expenses	17	-	-	-	236	253
Total	**$ 1,355**	**$ 1,567**	**$ 187**	**$ 33**	**$ 253**	**$ 3,395**
Other than Intragovernmental:						
Salary and Administrative Expense	$ -	$ -	$ -	$ -	$ 604	$ 604
Subsidy Expense	(6,828)	(816)	(511)	(110)	-	(8,265)
Reestimate Expense	(20,617)	(9,239)	189	92	-	(29,575)
Interest Accumulation Expense	(934)	(1,378)	(41)	(5)	-	(2,358)
Bad Debt Expense	1	-	76	-	-	77
Other Expenses	2	(1)	8	-	-	9
Total	**$(28,376)**	**$(11,434)**	**$ (280)**	**$ (23)**	**$ 604**	**$(39,508)**
Total Gross Costs	**$ (27,021)**	**$ (9,867)**	**$ (93)**	**$ 10**	**$ 857**	**$(36,113)**

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.

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 or gain 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. A negative amount reported for subsidy expense indicates negative subsidy, and a positive amount reported for subsidy expense indicates positive subsidy.

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.

Other Expenses

Other expenses that are other than intragovernmental 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 expenses also include the loan loss reserve expense recorded to account for the change in the balance of the loan loss reserve liabilities associated with FHA's pre-1992 loan guarantees. Other intragovernmental expenses include expenses from intra-agency agreements.

SIGNIFICANT VARIANCES

Significant variances in FHA's Statement of Net Cost were noted for Single Family Forward Other than Intragovernmental Gross Costs, HECM Intragovernmental Gross Costs, and HECM Other than Intragovernmental Gross Costs. Single Family Forward Other than Intragovernmental Gross Costs increased by $22,425 million in fiscal year 2023, primarily due to an increase in reestimate expense, a decrease in negative subsidy expense, and an increase in interest accumulation expense. HECM Intragovernmental Gross Costs increased by $861 million in fiscal year 2023, primarily due to an increase in interest expense on borrowings. HECM Other than Intragovernmental Gross Costs increased by $13,341 million in fiscal year 2023, primarily due to an increase in reestimate expense and a decrease in negative subsidy expense. These amounts were offset by a decrease in interest accumulation expense.

NOTE 14. EARNED REVENUE

Earned revenues generated by FHA for the period ended September 30, 2023 and 2022, are as follows:

Earned Revenue
(Dollars in Millions)

FY 2023	Single Family Forward	HECM	Multifamily	Healthcare	Total
Intragovernmental:					
Interest Revenue from Deposits at U.S. Treasury	$ 346	$ 507	$ 65	$ 42	$ 960
Interest Revenue from MMI/CMHI Investments	2,204	50	-	-	2,254
Total Intragovernmental	**$ 2,550**	**$ 557**	**$ 65**	**$ 42**	**$ 3,214**
Other than Intragovernmental:					
Income from Notes and Properties	1	-	47	-	48
Other Revenue	-	-	80	-	80
Total Other than Intragovernmental	**$ 1**	**$ -**	**$ 127**	**$ -**	**$ 128**
Total Earned Revenue	**$ 2,551**	**$ 557**	**$ 192**	**$ 42**	**$ 3,342**

FY 2022	Single Family Forward	HECM	Multifamily	Healthcare	Total
Intragovernmental:					
Interest Revenue from Deposits at U.S. Treasury	$ 404	$ 189	$ 63	$ 28	$ 684
Interest Revenue from MMI/CMHI Investments	688	21	16	-	725
Total Intragovernmental	**$ 1,092**	**$ 210**	**$ 79**	**$ 28**	**$ 1,409**
Other than Intragovernmental:					
Income from Notes and Properties	$ 1	$ -	$ 105	$ -	$ 106
Other Revenue	6	-	84	-	90
Total Other than Intragovernmental	**$ 7**	**$ -**	**$ 189**	**$ -**	**$ 196**
Total Earned Revenue	**$ 1,099**	**$ 210**	**$ 268**	**$ 28**	**$ 1,605**

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. Single Family Forward Intragovernmental Earned Revenue increased by $1,458 million in fiscal year 2023, primarily due to an increase in Interest Revenue from MMI/CMHI Investments, offset by a decrease in Interest Revenue from Deposits at U.S. Treasury.

Insurance Premium Revenue

Under FCRA accounting, FHA's premium revenue should include only premiums associated with the pre-1992 loan guarantee business. However, these are immaterial and are not presented as a separate line item in the chart above. 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 2023 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 of the full mortgage amount. The FHA up-front premium rates for loans committed in fiscal year 2023 were:

Upfront Premium Rates	
10/01/2022 - 9/30/2023	
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 Single Family annual periodic rates were updated as of March 20, 2023, per HUD's Mortgagee Letter (ML) 2023-05. The FHA annual periodic premium rates for loans committed in fiscal year 2023 were:

Annual Periodic Premium Rates	
10/1/2022 - 3/19/2023	
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%
3/20/2023 - 9/30/2023	
Single Family - Term > 15 years	0.50%, 0.55%, 0.70% or 0.75%
Single Family - Term ≤ 15 years	0.15%, 0.40% or 0.65%
Multifamily	0.45%, 0.57%, 0.65% or 0.70%
HECM	0.50%

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

Income From Notes And Property

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

Other Revenue

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, 2023 and 2022, are as follows:

Unexpended Appropriations
(Dollars in Millions)

FY 2023	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Ending Balance
Positive Subsidy	$ 2	$ -	$ -	$ -	$ 2
Authority for Contract Expenses	211	150	(34)	(140)	187
Reestimates	-	694	-	(694)	-
GI/SRI Liquidating	328	25	-	-	353
Total	**$ 541**	**$ 869**	**$ (34)**	**$ (834)**	**$ 542**

FY 2022	Beginning Balance	Appropriations Received	Other Adjustments	Appropriations Used	Ending Balance
Positive Subsidy	$ 2	$ -	$ -	$ -	$ 2
Authority for Contract Expenses	230	150	(29)	(140)	211
Reestimates	-	639	-	(639)	-
GI/SRI Liquidating	303	25	-	-	328
Total	**$ 535**	**$ 814**	**$ (29)**	**$ (779)**	**$ 541**

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. UNDELIVERED ORDERS AND COMMITMENTS AT THE END OF THE PERIOD

Undelivered Orders – Unpaid represent the amount of goods and services ordered by FHA that have not been actually or constructively received and for which amounts have not been prepaid or advanced. This includes amounts specified in contracts or agreements. Undelivered Orders by fund as of September 30, 2023 and 2022, are as follows:

Undelivered Orders - Unpaid
(Dollars in Millions)

FY 2023	Federal	Non-Federal	Total
MMI/CMHI	$ 8	$ 783	$ 791
GI/SRI	-	2,293	2,293
H4H	-	2	2
Undelivered Orders Total	**$ 8**	**$ 3,078**	**$ 3,086**

FY 2022	Federal	Non-Federal	Total
MMI/CMHI	$ 16	$ 899	$ 916
GI/SRI	-	2,177	2,177
H4H	-	3	3
Undelivered Orders Total	**$ 16**	**$ 3,079**	**$ 3,096**

NOTE 18. BUDGETARY RESOURCES - COLLECTIONS

FHA's collections represent actual offsetting collections received by FHA during the fiscal year from Federal and Non-Federal sources. These collections offset FHA's gross outlays. The following table presents FHA's collections for the period ended September 30, 2023 and 2022:

Budgetary Resources-Collections
(Dollars in Millions)

FY 2023	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 13,089	$ 733	$ -	$ 13,822
Notes	3,953	1,351	1	5,305
Property	616	98	-	714
Interest Earned from U.S. Treasury	3,636	360	-	3,996
Subsidy	4,660	-	-	4,660
Reestimates	7,645	694	-	8,339
Other	89	118	-	207
Total	**$ 33,688**	**$ 3,354**	**$ 1**	**$ 37,043**

FY 2022	MMI/CMHI	GI/SRI	H4H	Total
Collections:				
Premiums	$ 13,244	$ 784	$ -	$ 14,028
Notes	6,004	1,647	1	7,652
Property	510	123	-	633
Interest Earned from U.S. Treasury	2,130	169	-	2,299
Subsidy	7,695	-	-	7,695
Reestimates	20,977	639	-	21,616
Collections from settlements	5	-	-	5
Other	69	114	-	183
Total	**$ 50,634**	**$ 3,476**	**$ 1**	**$ 54,111**

Note 19. Budgetary Resources – Obligations Incurred

Obligations Incurred are reported on the Statement of Budgetary Resources as New obligations and upward adjustments. Obligations incurred represent new paid or unpaid obligations incurred by FHA during the fiscal year, as well as upward adjustments to prior-year outstanding obligations. The following table presents FHA's obligations incurred for the period ended September 30, 2023 and 2022:

Budgetary Resources - Obligations Incurred
(Dollars in Millions)

September 30, 2023	MMI/CMHI	GI/SRI	H4H	Total
Obligations:				
Claims	$ 12,425	$ 4,410	$ 1	$ 16,836
Property Expenses	273	60	-	333
Interest on Borrowings – BFS	3,003	830	-	3,833
Interest on Borrowings – FFB	-	69	-	69
Subsidy	4,663	300	-	4,963
Downward Reestimates	5,830	1,621	3	7,454
Upward Reestimates	1,815	694	-	2,509
Administrative Contracts	166	-	-	166
FFB Direct Loans	-	355	-	355
Other	208	136	-	344
Total	**$ 28,383**	**$ 8,475**	**$ 4**	**$ 36,862**

September 30, 2022	MMI/CMHI	GI/SRI	H4H	Total
Obligations:				
Claims	$ 14,115	$ 1,269	$ 1	$ 15,385
Property Expenses	141	47	2	190
Interest on Borrowings – BFS	2,599	445	-	3,044
Interest on Borrowings – FFB	-	81	-	81
Subsidy	7,647	836	-	8,483
Downward Reestimates	19,846	3,658	1	23,505
Upward Reestimates	1,130	639	-	1,769
Admin, Contract and Working Capital	151	-	-	151
FFB Direct Loans	-	1,585	-	1,585
Other	126	93	(1)	218
Total	**$ 45,755**	**$ 8,653**	**$ 3**	**$ 54,411**

The decrease in Obligations Incurred in fiscal year 2023 of $17,550 million was primarily due to decreases in new obligations and upward adjustments for downward reestimates, for negative subsidy, and for FFB direct loans. These decreases were partially offset by increases in new obligations and upward adjustments for claims, for interest on borrowings with U.S. Treasury, for upward reestimates, for property expenses, and for other obligations.

NOTE 20. NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

During the years ended September 30, 2023 and 2022, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2022 and 2021. 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.

Net Adjustments to Unobligated Balance, Brought Forward October 1
(Dollars in Millions)

		FY 2023		FY 2022
Net Adjustments to Unobligated Balance, Brought Forward October 1				
Prior Year Ending Unobligated Balance	$	132,942	$	103,319
Adjustments to Budgetary Resources Made During Current Year:				
Adjustments Reported on Line 1020 of the SF-133	$	(70)	$	(172)
Downward Adjustments of Prior Year Undelivered Orders		612		385
Downward Adjustments of Prior Year Delivered Orders		7		52
Other Adjustments		(258)		(200)
Net Adjustments to Unobligated Balance Brought Forward, October 1	**$**	**291**	**$**	**65**
Unobligated Balance from Prior Year (Discretionary and Mandatory)	**$**	**133,233**	**$**	**103,384**

NOTE 21. RECONCILIATION OF NET COST TO NET OUTLAYS

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.

Reconciliation Of Net Cost To Net Outlays

For the Period Ending September 30, 2023

(Dollars in Millions)

	Intragovernmental	Other than Intragovernmental	Total
Net Cost	**$ (1,987)**	**$ (1,605)**	**$ (3,593)**
Components of Net Cost That Are Not Part of the Budgetary Outlays:			
Year-end credit reform subsidy accrual reestimates	$ 10,159	$ -	$ 10,159
Negative Subsidy	4,956	-	4,956
Adjustments to prior year credit reform reestimates accrual	(12,864)	-	(12,864)
Increase/(Decrease) in Assets:			
Accounts receivable, net	$ (3,996)	$ -	$ (3,996)
Loans Receivable, net (Non-FCRA)	-	(33)	(33)
Securities and investments	(784)	-	(784)
Increase/(Decrease) in Liabilities:			
Accounts Payable	(3,757)	11	(3,746
Other Liabilities	-	(7)	(7)
Financing Sources:			
Imputed Cost	(24)	-	(24)
Total Components Of Net Operating Cost Not Part Of Budgetary Outlays	**$ (6,311)**	**$ (29)**	**$ (6,341)**
Financing Sources:			
Transfers out/(in) without reimbursements	$ (3,634)	$ -	$ (3,634)
Effect of prior year credit subsidy reestimates	694	-	694
Total Components Of The Budget Outlays That Are Not Part Of Net Operating Costs	**$ (2,941)**	**$ -**	**$ (2,941)**
Misc. Items:			
Distributed offsetting receipts (SBR 4200)	$ (1,933)	$ -	$ 1,933)
Custodial/Non-exchange Revenue	-	(1)	(1)
Non-Entity Activity	2,156	-	2,156
Liability for Liquidating Fund Transfers	(223)	-	(223)
Total Other Reconciling Items	**$ -**	**$ (1)**	**$ (1)**
Total Net Outlays (Calculated Total)	**$ (11,239)**	**$ (1,635)**	**$ (12,874)**
Budgetary Agency Outlays, net (SBR 4210)			**$ (12,874)**

Reconciliation Of Net Cost To Net Outlays

For the Period Ending September 30, 2022

(Dollars in Millions)

	Intragovernmental	Other than Intragovernmental	Total
Net Cost	**$ (456)**	**$ (37,263)**	**$ (37,719)**
Components of Net Cost That Are Not Part of the Budgetary Outlays:			
Year-end credit reform subsidy accrual reestimates	$ 17,809	$ -	$ 17,809
Negative Subsidy	8,264	-	8,264
Adjustments to prior year credit reform reestimates accrual	11,766	-	11,766
Increase/(Decrease) in Assets:			
Accounts receivable, net	$ 5,890	$ 4	$ 5,894
Loans Receivable, net (Non-FCRA)	-	(97)	(97)
Securities and investments	(908)	-	(908)
Increase/(Decrease) in Liabilities:			
Accounts payable	1,912	(2)	1,910
Other Liabilities	-	(77)	(77)
Financing Sources:			
Imputed Cost	(17)	-	(17)
Total Components Of Net Operating Cost Not Part Of Budgetary Outlays	**$ 44,718**	**$ (173)**	**$ 4,545**
Financing Sources:			
Transfers out/(in) without reimbursements	$ (39,207)	$ -	$ (39,207)
Effect of prior year credit reform subsidy reestimates	639	-	639
Total Components Of The Budget Outlays That Are Not Part Of Net Operating Costs	**$ (38,569)**	**$ -**	**$ (38,569)**
Misc. Items:			
Distributed offsetting receipts (SBR 4200)	$ (4,293)	$ -	$ (4,293)
Non-Entity Activity	4,463	-	4,463
Liability for Liquidating Fund Transfers	(170)	-	(170)
Total Other Reconciling Items	**$ -**	**$ -**	**$ -**
Total Net Outlays (Calculated Total)	**$ 5,693**	**$ (37,436)**	**$ (31,743)**
Budgetary Agency Outlays, net (SBR 4210)			**$ (31,743)**

FHA follows the Treasury crosswalk for most of the line items in the Reconciliation of Net Cost to Net Outlays, with the exception of "Accounts Payable." Subsidy payable to the financing account is included as part of accounts payable on the Treasury crosswalk for the reconciliation. However, FHA uses this account to help calculate the Year-end credit reform subsidy accrual reestimates and the Adjustments to prior year credit reform reestimates accrual. Therefore, subsidy payable to the financing account is not reported as part of Accounts Payable in FHA's reconciliation. Treasury did not provide a crosswalk for the Year-end credit reform subsidy accrual reestimates, Adjustments to prior year credit reform reestimates accrual, and Effect of prior year credit reform subsidy reestimates line items. Thus, FHA developed its own crosswalks for these line items. FHA reports the budgetary outlays required to liquidate the prior year's crosswalks for these line items. FHA reports the budgetary outlays required to liquidate the prior year's reestimate on the Effect of prior year agencies credit reform subsidy re-estimates line item. Budgetary outlays are only required to liquidate upward reestimates in FHA's GI/SRI and H4H funds. Additionally, based on guidance from Treasury, FHA is reporting two additional line items not included in the Treasury crosswalk: "Negative Subsidy" and "Liability for Liquidating Fund Transfers."

FHA's intragovernmental net cost and other than intragovernmental net cost reported on its Statement of Net Cost include expenses and revenue from both financing and non-financing accounts. The intragovernmental net cost and other than intragovernmental net cost in the reconciliation do not agree with the total intragovernmental net cost and total other than intragovernmental net cost 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. For the 4th quarter of fiscal year 2023, intragovernmental net cost on the reconciliation was $2,957 million more than the total intragovernmental net cost reported on FHA's Statement of Net Cost, and other than intragovernmental net cost on the reconciliation was $2,957 million less than the total other than intragovernmental net cost reported on FHA's Statement of Net Cost. For the 4th quarter of fiscal year 2022, intragovernmental net cost on the reconciliation was $2,442 million more than the total intragovernmental net cost reported on FHA's Statement of Net Cost, and other than intragovernmental net cost on the reconciliation was $2,442 million less than the total other than intragovernmental net cost reported on FHA's Statement of Net Cost.

NOTE 22. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

OMB Circular A-136 requires agencies to explain material differences that exist between the Statement of Budgetary Resources and the Budget of the U.S. government. These include differences between the budgetary resources, new obligations, upward adjustments, and net outlay amounts from the prior year (fiscal year 2022) and the actual amounts from the "Detailed Budget Estimates by Agency" found in the *Appendix* of the Budget (i.e., the fiscal year 2022 amounts in the fiscal year 2023 Budget). Additionally, material differences between the distributed offsetting receipts amount from the prior year's (fiscal year 2022) Statement of Budgetary Resources and the actual amount from the "Federal Budget by Agency and Account" in the Analytical Perspectives of the Budget (i.e., the fiscal year 2022 amounts in the fiscal year 2023 Budget). The Budget with the actual amounts for the current year (fiscal year 2023) will be available at a later date at https://www.whitehouse.gov/omb/budget/.

FHA's Explanation of Differences between the SBR and the Budget of the US Government
Fiscal Year 2022
(Dollars in Millions)

	Budgetary Resources	Obligation Incurred	Obligations	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	**$ 187,353**	**$ 54,410**	**$ 1**	**$ (4,293)**	**$ (1,310)**
Difference #1: Resources Related to Expired Accounts	(59)	-	-	-	-
Difference #2: Rounding	-	-	-	-	1
U.S. Budget	**$ 187,294**	**$ 54,410**	**$ 1**	**$ (4,293)**	**$ (1,311)**

REQUIRED SUPPLEMENTARY INFORMATION

Schedule A: Intragovernmental Assets

FHA's Intra-governmental assets, by Federal entity, are as follows on September 30, 2023 and 2022:

Intragovernmental Assets
(Dollars in Millions)

FY 2023

	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Total
U.S. Treasury	$ 17,947	$ 132,776	$ 150,723
Total	**$ 17,947**	**$ 132,776**	**$ 150,723**

FY 2022

	Fund Balance with U.S. Treasury	Investments in U.S. Treasury Securities	Total
U.S. Treasury	$ 15,050	$ 121,562	$ 136,612
Total	**$ 15,050**	**$ 121,562**	**$ 136,612**

Schedule B: Intragovernmental Liabilities

FHA's Intra-governmental liabilities, by Federal entity, are as follows on September 30, 2023 and 2022:

Intragovernmental Liabilities
(Dollars in Millions)

FY 2023

	Accounts Payable	Borrowings	Other Liabilities	Total
Federal Financing Bank	$ -	$ 2,806	$ -	$ 2,806
U.S. Treasury	-	106,978	2,047	109,025
HUD	5	-	-	5
Total	**$ 5**	**$ 109,784**	**$ 2,047**	**$ 111,836**

FY 2022

	Accounts Payable	Borrowings	Other Liabilities	Total
Federal Financing Bank	$ -	$ 2,722	$ -	$ 2,722
U.S. Treasury	-	93,571	3,110	96,681
HUD	2	-	-	2
Total	**$ 2**	**$ 96,293**	**$ 3,110**	**$ 99,405**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE C: COMPARATIVE COMBINING STATEMENT OF BUDGETARY RESOURCES BY FHA PROGRAM FOR BUDGETARY SEPTEMBER 30, 2023:

(Dollars in Millions)	MMI/CMHI		GI/SRI		
	Capital Reserve	Program	Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance from prior year budget authority, net	$ 118,554	$ 1,877	$ 2	$ 32	$ 120,465
Appropriations (discretionary and mandatory)	-	150	694	25	869
Spending authority from offsetting collections (discretionary & mandatory)	13,679	-	-	86	13,765
Total budgetary resources	**$ 132,233**	**$ 2,027**	**$ 696**	**$ 143**	**$ 135,099**
Status of Budgetary Resources:					
Obligations incurred	$ -	$ 1,981	$ 694	$ 18	$ 2,693
Unobligated balance, end of year:	-	-	-	-	-
Apportioned	-	11	2	7	20
Unapportioned	132,233	-	-	118	132,351
Unexpired unobligated balance, end of year	132,233	11	2	125	132,371
Expired unobligated balance, end of year	-	35	-	-	35
Total unobligated balance, end of year	132,233	46	2	125	132,406
Total budgetary resources	**$ 132,233**	**$ 2,027**	**$ 696**	**$ 143**	**$ 135,099**
Outlays, Net:					
Outlays, net (discretionary and mandatory)	$ (13,526)	$ 1,963	$ 694	$ (73)	$ (10,942)
Distributed offsetting receipts (-)	-	-	-	(1,933)	(1,933)
Agency outlays, net (discretionary and mandatory)	**$(13,526)**	**$ 1,963**	**$ 694**	**$ (2,006)**	**$ (12,875)**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE C: COMPARATIVE COMBINING STATEMENT OF BUDGETARY RESOURCES BY FHA PROGRAM FOR BUDGETARY SEPTEMBER 30, 2022:

(Dollars in Millions)	MMI/CMHI		GI/SRI		
	Capital Reserve	Program	Program	Other	Budgetary Total
Budgetary Resources:					
Unobligated balance from prior year budget authority, net	$ 91,201	$ 1,209	$ 2	$ 28	$ 92,440
Appropriations (discretionary and mandatory)	-	150	639	25	814
Spending authority from offsetting collections (discretionary & mandatory)	29,168	-	-	218	29,386
Total budgetary resources	**$ 120,369**	**$ 1,359**	**$ 640**	**$ 272**	**$ 122,640**
Status of Budgetary Resources:					
Obligations incurred	$ -	$ 1,281	$ 639	$ 24	$ 1,944
Unobligated balance, end of year:					
Apportioned	-	20	2	21	43
Unapportioned	120,369	-	-	225	120,594
Unexpired unobligated balance, end of year	120,369	20	2	246	120,637
Expired unobligated balance, end of year	-	58	-	-	58
Total unobligated balance, end of year	120,369	78	2	247	120,696
Total budgetary resources	**$ 120,369**	**$ 1,359**	**$ 640**	**$ 272**	**$ 122,640**
Outlays, Net:					
Outlays, net (discretionary and mandatory)	$ (29,157)	$ 1,267	$ 639	$ (199)	$ (27,450)
Distributed offsetting receipts (-)	-	-	-	(4,293)	(4,293)
Agency outlays, net (discretionary and mandatory)	**$(29,157)**	**$ 1,267**	**$ 639**	**$(4,492)**	**$ (31,743)**

REQUIRED SUPPLEMENTARY INFORMATION

Schedule D: Comparative Combining Budgetary Resources By FHA Program For Non-Budgetary September 30, 2023

(Dollars in Millions)				
FY 2023	**MMI/CMHI Financing**	**GI/SRI Financing**	**Other**	**Non-Budgetary Total**
Budgetary Resources:				
Unobligated balance from prior year budget authority, net	$ 9,344	$ 3,420	$ 3	$ 12,767
Borrowing authority (discretionary and mandatory)	13,426	9,196	3	22,625
Spending authority from offsetting collections (discretionary and mandatory)	11,788	2,724	2	14,514
Total budgetary resources	**$ 34,558**	**$ 15,340**	**$ 8**	**$ 49,906**
Status of Budgetary Resources:				
Obligations incurred	$ 26,399	$ 7,764	$ 5	$ 34,168
Unobligated balance, end of year:				
Apportioned	5,251	782	-	6,033
Unapportioned	2,908	6,794	3	9,705
Unexpired unobligated balance, end of year	8,159	7,576	3	15,738
Total unobligated balance, end of year	8,159	7,576	3	15,738
Total budgetary resources	**$ 34,558**	**$ 15,340**	**$ 8**	**$ 49,906**
Disbursements, Net (Total)(mandatory)	**$ 5,952**	**$ 4,194**	**$ 3**	**$ 10,149**

REQUIRED SUPPLEMENTARY INFORMATION

Schedule D: Comparative Combining Budgetary Resources by FHA Program for Non-Budgetary September 30, 2022:

(Dollars in Millions)				
FY 2022	MMI/CMHI Financing	GI/SRI Financing	Other	Non-Budgetary Total
Budgetary Resources:				
Unobligated balance from prior year budget authority, net	$ 6,708	$ 4,233	$ 3	$ 10,944
Borrowing authority (discretionary and mandatory)	32,188	4,529	1	36,718
Spending authority from offsetting collections (discretionary and mandatory)	14,505	2,545	2	17,052
Total budgetary resources	**$ 53,401**	**$ 11,307**	**$ 6**	**$ 64,714**
Status of Budgetary Resources:				
Obligations incurred	$ 44,469	$ 7,995	$ 3	$ 52,467
Unobligated balance, end of year:				
Apportioned	8,932	1,004	1	9,937
Unapportioned	-	2,309	1	2,310
Unexpired unobligated balance, end of year	8,932	3,313	2	12,247
Total unobligated balance, end of year	8,932	3,313	2	12,247
Total budgetary resources	**$ 53,401**	**$ 11,307**	**$ 6**	**$ 64,714**
Disbursements, Net (Total)(mandatory)	**$ 23,064**	**$ 3,075**	**$ 1**	**$ 26,140**

OTHER ACCOMPANYING INFORMATION

For fiscal year 2023, no material weaknesses were identified by the Office of Inspector General in its audit of FHA's Principal Financial Statements and accompanying Notes. Table 1 provides a summary of financial audit findings with regard to the audit opinion. Table 2 is a summary of FHA's Federal Manager's Financial Integrity Act management assurances.

Table 1

Summary of Financial Statement Audit

Audit Opinion	Unmodified
Restatement	No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Weaknesses in Internal Control Over Financial Reporting	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

Table 2

Summary of Management Assurances

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

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Weaknesses in Internal Control Over Financial Reporting	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

AUDITORS' REPORT

This report was issued separately on November 13, 2023 by the HUD Office of Inspector General entitled, "Federal Housing Administration, Washington, DC, Fiscal Years 2023 and 2022 Financial Statements Audit" (2024-FO-0002). The report is available at HUD, OIG's internet site at: *https://www.hudoig.gov*

OFFICE of INSPECTOR GENERAL

UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Audit of Federal Housing Administration's Fiscal Years 2023 and 2022 Financial Statements

Audit Report Number: 2024-FO-0002

November 13, 2023

Date: November 13, 2023

To: Julia R. Gordon
Assistant Secretary for Housing and the Federal Housing Commissioner, H

//signed//

From: Kilah S. White
Assistant Inspector General for Audit, GA

Subject: Transmittal of Independent Public Accountant's Audit Report on the Federal Housing Administration's Fiscal Years 2023 and 2022 Financial Statements

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of the audit of the Federal Housing Administration's (FHA) fiscal years 2023 and 2022 financial statements and reports on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements and other matters.

We contracted with the independent public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the financial statements of FHA as of and for the fiscal years ended September 30, 2023 and 2022, and to provide reports on FHA's (1) internal control over financial reporting and (2) compliance with laws, regulations, contracts, and grant agreements and other matters. Our contract with CLA required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit requirements, and the Financial Audit Manual of the U.S. Government Accountability Office and the Council of the Inspectors General on Integrity and Efficiency.

In its audit of FHA, CLA reported

- That FHA's financial statements as of and for the fiscal year ended September 30, 2023 and 2022, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- No material weaknesses[1] for fiscal year 2023 in internal control over financial reporting, based on limited procedures performed.
- One significant deficiency[2] for fiscal year 2023 in internal control over financial reporting, based on the limited procedures performed. The significant deficiency was related to weaknesses in internal controls over loans receivable.

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1 A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, 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.

2 A significant deficiency is a deficiency or a combination of deficiencies in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

- No reportable noncompliance issues for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements or other matters.

In connection with the contract, we reviewed CLA's reports and related documentation and questioned its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express and we do not express opinions on FHA's financial statements or conclusions about (1) the effectiveness of FHA's internal control over financial reporting and (2) FHA's compliance with laws, regulations, contracts, and grant agreements or other matters. CLA is responsible for the attached Independent Auditors' Report, dated November 13, 2023, and the conclusions expressed therein. Our review disclosed no instances in which CLA did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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

The Inspector General Act, as amended, 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 call Brittany Wing, Audit Director, at (202) 320-7296.

Independent Auditors' Report

Inspector General
U.S. Department of Housing and Urban Development

Assistant Secretary for Housing – Federal Housing Commissioner
Federal Housing Administration

In our audits of the fiscal years 2023 and 2022 financial statements of Federal Housing Administration (FHA), we found:

- FHA's financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- no material weaknesses and one significant deficiency for fiscal year (FY) 2023 in internal control over financial reporting based on the limited procedures we performed; and
- no reportable noncompliance for FY 2023 with provisions of applicable laws, regulations, contracts, and grant agreements we tested and no other matters.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)[1] and other information[2] included in the Annual Management Report; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (4) FHA's response to our findings and recommendations.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of FHA, which comprise the balance sheets as of September 30, 2023, and 2022; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

In our opinion, FHA's financial statements referred to above present fairly, in all material respects, FHA's financial position as of September 30, 2023, and 2022, and its net cost, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

[1] The RSI consists of Management's Discussion and Analysis which are included with the financial statements.
[2] Other information consists of information included with the financial statements, other than the RSI and the auditors' report.

INDEPENDENT AUDITORS' REPORT (Continued)

Basis for Opinion

We conducted our audits in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards)*; and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 24-01) guidance. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of FHA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for (1) the preparation and fair presentation of the 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 the Annual Management Report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with *Government Auditing Standards* will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FHA's internal control over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the financial statement audit.

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. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with *Government Auditing Standards*. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audits of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit, and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information
FHA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in the Annual Management Report. The other information does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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 auditors' responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial
Our consideration of internal control was for the limited purpose described below 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our FY 2023 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency, described below and in Exhibit A.

Weaknesses in Internal Controls over Loans Receivable

Several control weaknesses surrounding FHA's loans receivable balance existed specifically relating to (1) due and payable single-family partial claims not referred for collection, and (2) monitoring and servicing of the Home Equity Conversion Mortgage (HECM) loan portfolio. Collectively, these deficiencies present risks regarding several financial statement assertions including existence, accuracy, completeness, rights, obligations, and presentation and disclosure. Further, misstatements caused by these weaknesses were not detected and prevented by FHA's existing internal controls.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our 2023 audit, we also identified other deficiencies in FHA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FHA management's attention. We have communicated these matters to FHA management, and where appropriate, will report on them separately.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to FHA's internal control over financial reporting in accordance with *Government Auditing Standards* and OMB audit guidance.

Responsibilities of Management for Internal Control over Financial Reporting

FHA management is responsible for (1) designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (2) evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. § 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)); and (3) providing an assurance statement on the overall effectiveness of internal control over financial reporting included in management's discussion and analysis (MD&A).

Auditors' Responsibilities for the Consideration of Internal Control over Financial Reporting

In planning and performing our audit of FHA's financial statements as of and for the fiscal year ended September 30, 2023, in accordance with *Government Auditing Standards*, we considered FHA's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FHA's internal control over financial reporting or on management's assurance statement on the overall effectiveness on internal control over financial reporting. Accordingly, we do not express an opinion on FHA's internal control over financial reporting or on management's assurance statement on the overall effectiveness of internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

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

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

<u>Purpose of Report on Internal Control over Financial Reporting</u>
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 *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, Contracts, and Grant Agreements and Other Matters

In connection with our audits of FHA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibilities discussed below.

<u>Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters</u>
Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters for FY 2023 that would be reportable under *Government Auditing Standards*. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FHA. Accordingly, we do not express such an opinion.

<u>Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters</u>
We performed our tests of compliance in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITORS' REPORT (Continued)

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

FHA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to FHA, including ensuring FHA's financial management systems are in substantial compliance with FFMIA requirements.

Auditors' Responsibilities for Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements and other matters is not suitable for any other purpose.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of FHA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 16, 2022. The status of prior year findings is presented in Exhibit B.

FHA's Response to Audit Findings and Recommendations

Government Auditing Standards requires the auditor to perform limited procedures on FHA's response to the findings and recommendation identified in our report. FHA's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on the response. In commenting on a draft of this report, FHA agreed with our findings and recommendations. The complete text of FHA's response is reprinted in Exhibit C.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, MD
November 13, 2023

EXHIBIT A
Significant Deficiency

Weaknesses in Internal Controls over Loans Receivable

1. Due and Payable Single-Family Partial Claims not Referred for Collection

Condition:
FHA's National Servicing Center (NSC) did not timely refer all identified due and payable partial claims for servicing and collection to the Albany Financial Operations Center (FOC). Additionally, all eligible debts were not timely transferred to the U.S. Department of Treasury Bureau of Fiscal Service (BFS) for administrative offset and cross-servicing.

Criteria:
GAO-14-704G, *Standards for Internal Control in the Federal Government:*
Principle 16 – Perform Monitoring Controls
16.04 Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity's operations, performed continually, and responsive to change. Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring.

31 USC §3711. Collection and compromise.
(g)(1) If a nontax debt or claim owed to the United States has been delinquent for a period of 180 days—
(A) the head of the executive, judicial, or legislative agency that administers the program that gave rise to the debt or claim shall transfer the debt or claim to the Secretary of the Treasury; and
(B) upon such transfer the Secretary of the Treasury shall take appropriate action to collect or terminate collection actions on the debt or claim.

31 USC §3716. Administrative offset.
(c)(6)(A) Any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 120 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, shall notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset under this subsection. (B) The Secretary of the Treasury shall notify Congress of any instance in which an agency fails to notify the Secretary as required under subparagraph (A).

Cause:
FHA had a surge in the volume of partial claims during the COVID-19 pandemic. Prior to the pandemic, FHA reported to us that it was averaging just over 435,000 partial claims in its servicing inventory and by the end of September 2023, this inventory had increased to approximately 1,150,000 partial claims. Additionally, favorable market conditions prior to 2023, such as low interest rates, high property values, and increased credit scores, encouraged property sales and refinances, which resulted in larger numbers of partial claims that were not properly paid off at settlement. FHA was unable to manage the additional workload, which caused an overall servicing backlog and prevented FHA from transferring all eligible due and payable partial claims to BFS for administrative offset and cross-servicing.

Additionally, FHA did not have adequate monitoring controls to ensure all due and payable partial claims were transferred to FOC. FHA's monitoring controls did not include documenting and testing the processes to transfer debts to FOC. Further, there were no controls to determine the financial statement impact of not referring due and payable partial claims to FOC and make any adjustments as necessary.

Effect:
Accounts Receivable was understated, and Loans Receivable was overstated by at least approximately $183 million as of September 30, 2023. Additionally, FHA's ability to timely collect on its due and partial claims was reduced.

Recommendation:
We recommend the NSC and FOC collaborate to:

1A. Develop a plan and a timeline that ensures all due and payable partial claims are transferred to the FOC, and subsequently processed by the FOC.

We recommend that the Deputy Assistant Secretary for Finance and Budget:

1B. Develop and implement procedures to i) monitor the transfer of due and payable partial claims from NSC to the FOC for collection, ii) determine the financial statement impact of not referring due and payable partial claims to the FOC, and iii) decide when FHA will record a reclassification entry to accounts receivable for those due and payable partial claims that are not transferred to the FOC timely.

2. Weaknesses in Internal Control over Monitoring and Servicing of the HECM Portfolio

Condition:
<u>HECM Loans Require Servicing</u>
Approximately 30,000 HECM loans, or 17% of the portfolio with a due and payable status, require manual case by case servicing to either call the loan (by demanding the borrower to repay the loan), foreclose on the property, or reinstate the loan as current. Further, FHA identified that its security interest was lost for several HECM loans. Our testing of a statistical sample of 64 HECM loans noted the following: (1) six examples of expired hazard insurance, with expirations as far back as 2017 and (2) one case where delinquent taxes were paid by an outside party via tax certificate sale. Further, FHA did not distinguish $11 million in delinquent property tax payments from other payments made by FHA during FY2023.

<u>Duplicate HECM Advance Transactions</u>
Duplicate advance transactions were related to 2,777 loans and were recorded when these loans were assigned to FHA during FY 2022 and FY 2023.

Criteria:
GAO-14-704G, *Standards for Internal Control in the Federal Government:*
Principle 10 – Design Control Activities
10.01 Management should design control activities to achieve objectives and respond to risks.

Design of Appropriate Types of Control Activities
10.03 Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

Accurate and timely recording of transactions
Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a

transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Principle 17—Evaluate Issues and Remediate Deficiencies
17.01 Management should remediate identified internal control deficiencies on a timely basis.

Attributes
The following attributes contribute to the design, implementation, and operating effectiveness of this principle:
• Reporting of Issues
• Evaluation of Issues
• Corrective Actions

Cause:
The large amount of HECM loans currently requiring servicing is mostly due to a lack of key loan functions that were not performed in prior years that created a backlog. FHA is still processing the backlog, in addition to the daily servicing needs of the portfolio. Additionally, there was insufficient training in how to distinguish delinquent tax payments from other payments when system processing.

Due to a system error, duplicate advance transactions were recorded when loans were assigned to FHA for servicing.

Effect:
Ineffective servicing actions increases the risk for inaccurate existence, accuracy, rights, and valuation assertions of the HECM loans receivable balance.

The gross HECM loans receivable balance is overstated by approximately $20 million because FHA lost its security interest in HECM loans due to property tax sales. Further, FHA may have lost its security interest in additional HECM loans, however, the amount is not expected to significantly exceed the $20 million already determined.

The duplicate transactions overstated the gross HECM loans receivable balance by approximately $44 million as of September 30, 2023.

Recommendation:
We recommend that the Deputy Assistant Secretary for Finance and Budget:

1C. Consider accounting implications to the gross HECM loans receivable balance for the $20 million lost in security interests.

1D. Record an adjusting entry to remove the duplicate $44 million from the gross HECM loans receivable balance as of September 30, 2023.

We recommend that the Director of the Office of Systems and Technology, Office of Finance and Budget:
1E. Identify and remove all duplicate transactions from the accounting module and prevent future occurrences.

EXHIBIT A
Significant Deficiency

We recommend the Deputy Director of the Office of Single-Family Asset Management:

1F. Develop and enhance training for servicing the HECM portfolio.

1G. Develop corrective procedures to bring the HECM portfolio servicing current, initiate collection proceedings for due and payable loans, redeem the tax certificates for properties for which FHA lost its security interest, and implement a solution to monitor tax payments to prevent tax delinquencies and avoid FHA's risk of loss in loan security interest.

EXHIBIT B
Status of Prior Year Findings

Our assessment of the current status of the findings related to the prior year audit is presented below:

FY 2022 Findings	*Type*	*FY 2023 Status*
Weakness in Internal Control over Financial Accounting and Reporting A. Weaknesses in Internal Controls over FHA's Borrowing Authority B. Weaknesses in Internal Controls over FHA's Receivables	Material Weakness	A. Closed B. Modified Repeat – See Exhibit A

EXHIBIT C
FHA's Response to Audit Findings and Recommendations

OFFICE OF HOUSING

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

November 6, 2023

MEMORANDUM FOR: CliftonLarsonAllen, LLP

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

SUSAN BETTS Digitally signed by SUSAN BETTS Date: 2023.11.06 16:39:36 -05'00'

SUBJECT: Response to Draft Audit Report on FHA's Fiscal Years 2023 and 2022 Financial Statements

On behalf of the Federal Housing Administration (FHA), thank you for the opportunity to respond to FHA's Independent Auditors' Report. We are pleased to have obtained an unmodified opinion on our financial statements and appreciate the efforts of the independent auditors in conjunction with the Office of the Inspector General (OIG) to provide us with actionable recommendations. FHA is committed to making the changes necessary to strengthen controls over financial reporting relating to loans receivable. As you are aware, we have already begun addressing the recommendations. Working collaboratively, we will continue to identify improvements and implement changes needed to address the FY 2023 financial statement findings, as well as to strengthen our overarching system of internal control.

Report on Internal Control – Significant Deficiency

Weaknesses in Internal Controls over Loans Receivable

1: Due and Payable Single Family Claims Not Referred for Collection

FHA agrees with this finding and recommendations. Management has already begun implementing several of the recommendations identified in the finding and will continue to implement the changes necessary to address the remaining recommendations in FY 2024. To address control weaknesses surrounding partial claim referrals, FAB's management will:

- Improve communication and coordination between FHA's Finance and Budget Office and Office of Single Family Housing regarding partial claim referrals for debt collection.
- Develop a plan and timeline that ensures all due and payable partial claims are transferred to the Albany Financial Operations Center (FOC) for debt collection processing.
- Develop and implement procedures to monitor the transfer of due payable partial claims from the National Servicing Center to the FOC for collection and record a reclassification

entry to Accounts Receivable for due and payable partial claims that are not transferred to the FOC timely.

2: Weaknesses in Internal Control Over Monitoring and Servicing of the HECM Portfolio

FHA agrees with the findings and associated recommendations. To address control weaknesses surrounding loans receivable and oversight of the single-family loan service provider, FHA's management will:

- Evaluate the need for accounting adjustments to the gross HECM loans receivable balance.
- Work with the HERMIT system contractor to correct duplicate activities in the accounting module.
- Develop and enhance training and procedures for servicing the HECM portfolio, including improving controls to monitor HECM tax payments to prevent delinquencies and avoid FHA's risk of loss in loan security interests.

FHA

ORGANIZATIONAL CHART

Assistant Secretary for Housing and Federal Housing Commissioner

- **Finance & Budget**
  - Office of the Housing - FHA Comptroller
  - Office of Asset Sales
  - Office of Budget & Field Resources
- **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
- **Housing Counseling**
  - Office of Policy & Grant Administration
  - Office of Outreach & Capacity Building
  - Office of Oversight & Accountability
- **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
- **Healthcare Programs**
  - Office of Hospital Facilities
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  - Office of Architecture & Engineering
- **Risk Management & Regulatory Affairs**
  - Office of Risk Management
  - Office of Evaluation
- **Operations**
  - Office of FHA Transformation
  - Office of Management
  - Office of Business Development
- **Manufactured Housing Programs**


DEPARTMENT
OF
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ANNUAL MANAGEMENT REPORT
FISCAL YEAR 2023

U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

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WASHINGTON, DC 20410