recently announced the allocation of $5 billion for a second portion of the CDBG-DR funds, bringing the total to over $10.4B.

Already more than $2 billion in infrastructure funds are at work in dozens of projects across the region.

Hurricane Sandy in New Jersey, one year later.
Courtesy of FEMA.GOV

Hurricane Sandy in New York, one year later.
Courtesy of FEMA.GOV

Analysis of Financial Condition and Results

In order to help the reader to understand the Department's financial results, position, and condition, the following analysis addresses the relevance of particular balances and amounts as well as major changes in types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal financial statements have been prepared from the Department's accounting records in order to report the financial position and results of HUD's operations, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are provided in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

This part provides a summary of HUD's:

- Financial Data
- Analysis of Financial Position
- Analysis of Off-Balance Sheet Risk

Summarized Financial Data
(Dollars in Billions)

	2013	2012
Total Assets	$152.8	$127.7
Total Liabilities	$72.4	$70.1
Net Position	$80.5	$57.6
FHA Insurance-In-Force	$1,292.0	$1,264.0
Ginnie Mae Mortgage-Backed Securities Guarantees	$1,457.1	$1,341.4
Other HUD Program Commitments	$45.8	$50.1

HUD's FY 2013 Financial Statements reflect restatements of the Department's Fiscal Year 2012 Financial Statements in the following areas:

- Ginnie Mae's Financial Statement presentation in conformance with FASAB's SFFAS versus previous FASB presentation,
- Ginnie Mae's revised presentation of Other Assets to provide additional clarity on Non-credit Reform Loans Receivable,
- Ginnie Mae's revised presentation of unpaid undelivered orders on the Statement of Budgetary Resources,
- Elimination of probable unrealized claims from Ginnie Mae that are insured by FHA, and
- Recognition of Net Restricted Balances (NRA) as a result of funding provided by the Department under PIH's Section 8 Housing Choice Voucher Program.

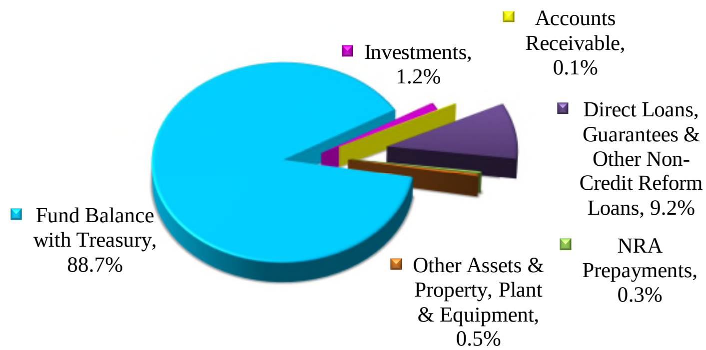
The Notes to the Financial Statements in Section II, Note 30, provides further details.

Analysis of Financial Position

Assets - Major Accounts

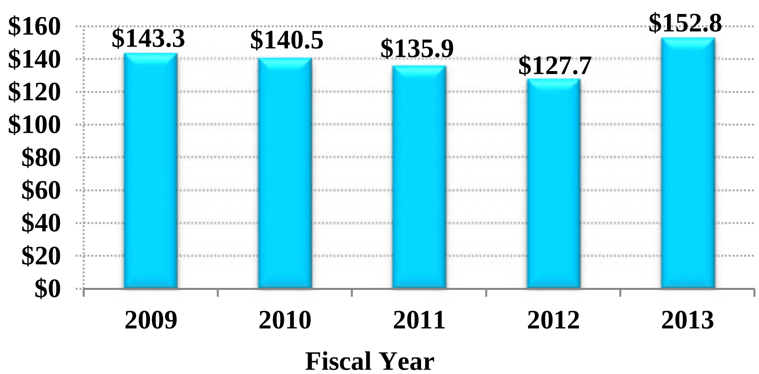
Total Assets for FY 2013, as reported in the Consolidated Balance Sheet, are displayed in the graph below. *Total Assets* of $152.8 billion are comprised of *Fund Balance with Treasury* of $135.6 billion (88.7 percent), *Accounts* Receivable of $0.2 billion, *Direct Loans & Loan Guarantees* of $10.0 billion, *Other Non-Credit Reform Loans* of $4.0 billion, *Investments* of $1.8 billion, *Net Restricted Asset Prepayments* of $0.5 billion, and *Other Assets and Property, Plant & Equipment* of $0.7 billion at September 30, 2013.

Composition of HUD Assets - FY13



Total Assets increased $25.1 billion (19.7 percent) from $127.7 billion at September 30, 2012. The net increase was due primarily to an increase of $27.4 billion (25.3 percent) in *Fund Balance with Treasury*, an increase of $1.5 billion (17.0 percent) in *Direct Loans & Loan Guarantees*, and an increase of $0.3 billion (71.1 percent) in *Other Assets and Property, Plant & Equipment*, being offset by a decrease of $3.1 billion (62.8 percent) in *Intragovernmental Investments*, a decrease of $0.4 billion (8.2 percent) in *Other Non-Credit Reform Loans*, and a decrease of $0.5 billion (54.2 percent) in *Net Restricted Asset* Prepayments. The table below shows *Total Assets* for FY 2013 and the four preceding years. The changes and trends affecting *Total Assets* are discussed below.

Total Assets Trend
(*Dollars in Billions*)



Fund Balance with Treasury of $135.6 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. *Fund Balance with Treasury* increased $27.4 billion due primarily to increases of $15.8 billion for FHA, $2.5 billion for Ginnie Mae and $12.5 billion for CDBG, offset by a decrease of $1.1 billion for Section 8, $0.5 for HOME, $0.5 for PIH, and $1.4 for All Others.

The FHA increase is primarily attributed to the maturity of investments not reinvested but transferred to the MMI financing account for the FY 2012 upward re-estimates, borrowings from the Treasury and an increase in upfront and periodic premium cash collections offset by an increase in single-family claims. Also funding for the Community Development Block Grant (CDBG) program was increased by $12.5 billion due primarily to a $15.2 billion supplemental appropriation for the Hurricane Sandy disaster.

Investments of $1.8 billion consist primarily of investments by FHA's MMI and Cooperative Management Housing Insurance Fund (CMHI) and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA's investments decreased by $2.8 billion (97.9 percent). The decrease was due to liquidating investments to fund FHA's upward re-estimate.

Accounts Receivable of $0.2 billion primarily consists of claims to cash from the public, state and local authorities for bond refunding, Ginnie Mae premiums, FHA insurance premiums, and Section 8 year-end settlements. A 100 percent allowance for loss is established for all delinquent debt 90 days and over.

Direct Loan and Loan Guarantees of $10.0 billion are generated by FHA credit program receivables and by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 programs. The increase was attributed to an increase of FHA HECM and single-family notes receivable and associated accrued interest charges.

Other Non-Credit Reform Loans of $4.0 billion consists of Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Mortgage Loans Held for Investment, Short Sale Claims Receivable, and Foreclosed Property.

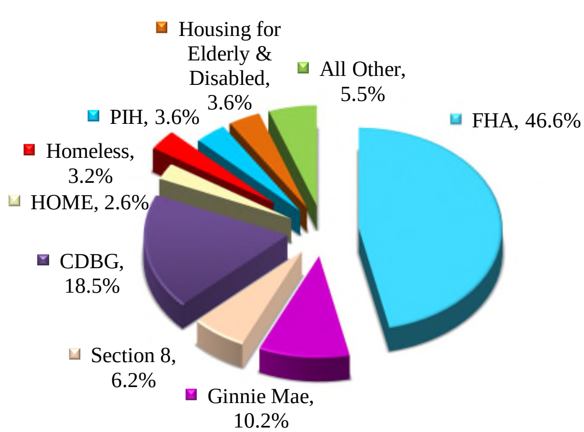
Net Restricted Asset Prepayments of $0.5 billion are the Department's estimates of Net Restricted Assets (NRA) balances maintained by Public Housing Authorities under the Housing Choice Vouchers Program. NRA balances represent cash reserves used by PHAs to cover program expenses reported by these entities as a result of recent funding shortfalls faced by the Department. The NRA balances are expected to be transitioned to HUD's project reserves in calendar year 2014 under PIH's cash management policies. PIH has estimated NRA balances of $452 million and $986 million for Fiscal Year 2013 and Fiscal Year 2012 respectively.

Other Assets and Property, Plant & Equipment of $0.7 billion comprises fixed assets and other assets.

Assets - Major Programs

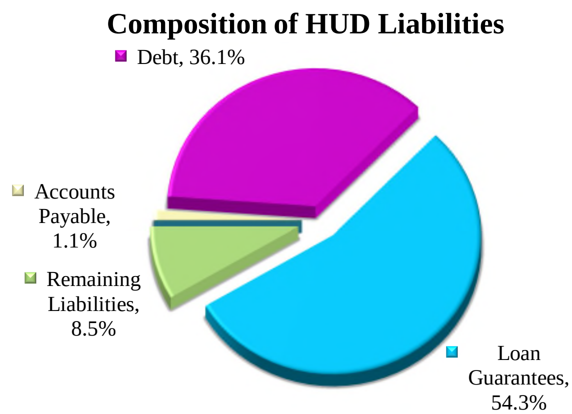
The chart below presents *Total Assets* for FY 2013 by major responsibility segment or program.

Assets by Responsibility Segment



Liabilities – Major Accounts

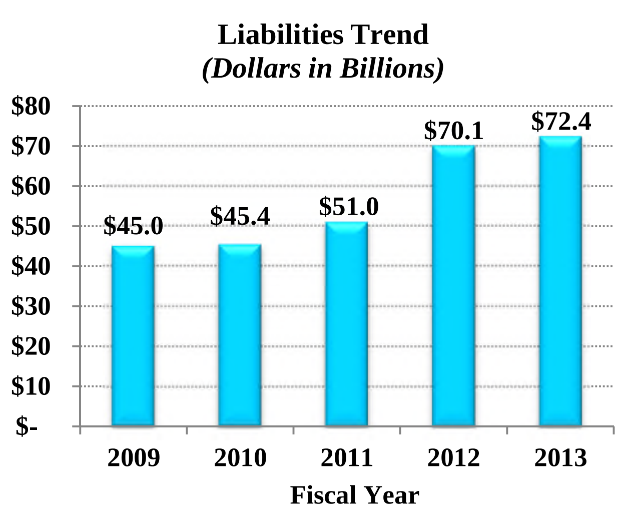
Total Liabilities for FY 2013, as reported in the Consolidated Balance Sheets, are displayed in the chart below.



Total Liabilities of $72.4 billion consist primarily of *Loan Guarantees* of $39.3 billion (54.3 percent), *Debt* in the amount of $26.1 billion (36.1 percent), *Accounts Payable* of $0.8 billion (1.1 percent), and *Remaining Liabilities* amounting to $6.2 billion (8.5 percent) at September 30, 2013.

Total Liabilities increased by $2.3 billion, due primarily to an increase of $14.5 billion of *Intragovernmental Debt* and in increase of $0.9 billion in *Remaining Liabilities,* offset by a decrease of $12.6 billion of *Loan Guarantees*. This increase in *Total Liabilities* is a result of an increase in the principal debt with the Treasury. It is due primarily to an increase of FHA's borrowings in MMI Cohort of negative subsidy transferred to the capital reserve fund to offset premium collections and. Also, Ginnie Mae's loss reserves increased in pooled and non-pooled loss liability due to conventional loans and longer payment timetables.

The chart below presents *Total Liabilities* for FY 2013 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.



Loan Guarantees consist of the *Liability for Loan Guarantees (LLG)* related to Credit Reform loans made after October 1, 1991 and the *Loan Loss Reserve* related to guaranteed loans made before October 1, 1991. The liability for *Loan Guarantees* and the *Loan Loss Reserve* are both comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes. The $12.6 billion (24.2 percent) decrease in *Loan Guaranty Liability* is caused primarily by a decrease of FHA's Single Family LLG attributed to greater projected cash inflows based on a change in FHA's mortgage insurance premium (MIP) schedule. In addition, there was an elimination of the automatic cancellation of annual MIPs when loan balances reached 78 percent of the original property value. Also, there was a decrease in HECM/LLG attributed to discounting rates published by OMB that are indicative of the historically low interest rates. The HECM/LLG decrease was due to housing price forecasts that showed a stronger near term recovery in 2013 than was predicted last year. In addition, a decrease in Multifamily LLG is attributed to lower claims expectations, diminished insurance-in-force, and higher premium revenue.

Debt includes primarily *Intragovernmental Debt* of $26.1 billion. The *Intragovernmental Debt* is a result of an increase in the principal debt with the Treasury. The largest borrowing was in MMI Cohort negative subsidy transferred to the capital reserve fund to offset premium collections.

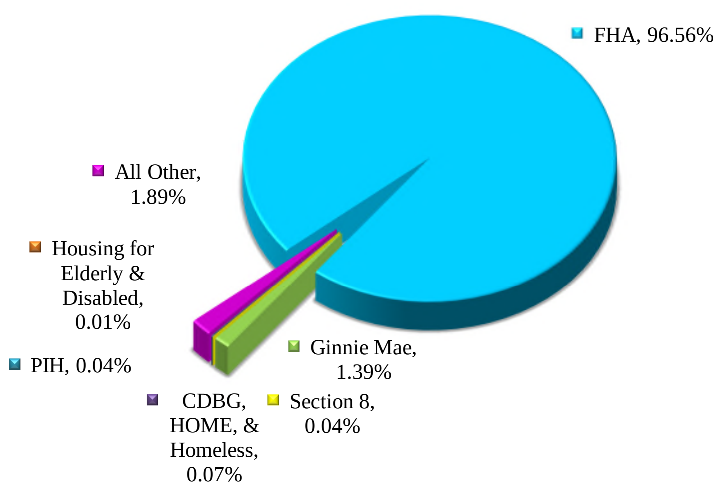
Accounts Payable consist primarily of pending grants payments.

Remaining Liabilities of $6.2 billion consist of *Intragovernmental Liabilities, Federal Employee and Veteran Benefits, Loan Reserves* and *Other Liabilities*. The FHA increase of $0.5 billion is primarily due to an increase of GI negative subsidy.

Liabilities – Major Programs

The chart below presents *Total Liabilities* for FY 2013 by responsibility segment.

Liabilities by Responsibility Segment



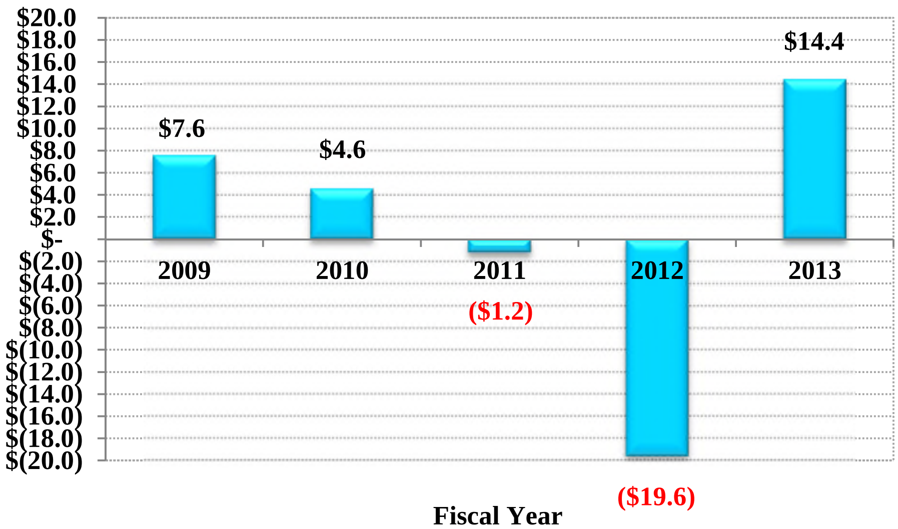
Changes in Net Position

Changes in *Unexpended Appropriations*, *Net Cost of Operations*, and *Financing Sources* combine to determine the *Net Position* at the end of the year. The elements are further discussed below. *Net Position* as reported in the *Statements of Changes in Net Position* reflects an increase of $22.9 billion or (39.7 percent) from the prior fiscal year. The net increase in *Net Position* is primarily attributable to an $8.4 billion increase in *Unexpended Appropriations* and a $14.4 billion increase in *Cumulative Results of Operations*.

The combined effect of HUD's *Net Cost of Operations* and *Financing Sources* resulted in an increase in *Net Change in Cumulative Results of Operations* of $34.0 billion during FY 2013. The large increase in FY 2013 is due primarily to an increase in Fund Balance of $27.4 billion and an increase in Borrowing of $14.5 billion, offset by a decrease of LLG of $12.6 billion.

This chart presents HUD's *Net Change in Cumulative Results of Operations* for FY 2013 and the four preceding years.

Net Change in Cumulative Results of Operations for FY 2009 - 2013
(*Dollars in Billions*)

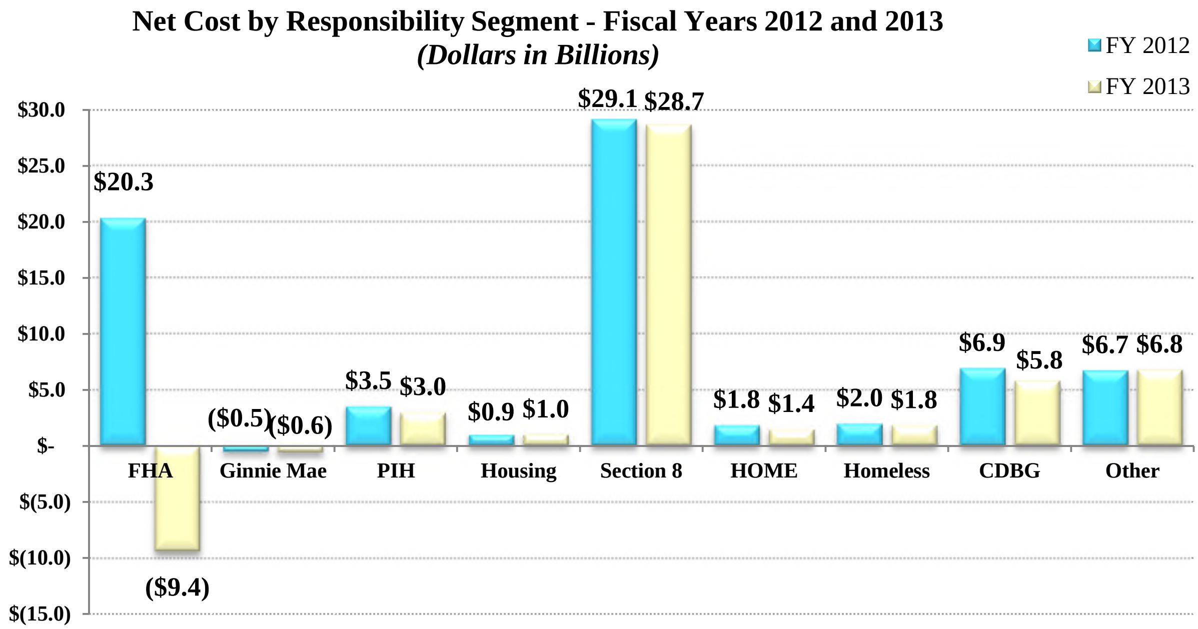


Unexpended Appropriations: The increase by (15.8 percent) from $53.5 billion in FY 2012 to $61.9 billion of $8.4 billion in FY 2013 is due primarily to additional funding of $12.5 billion for CDBG, and an offset by expenditures of $1.7 in Section 8, $0.6 billion in PIH, $0.6 billion for Housing for the Elderly and Disabled, and $1.0 billion for All Other programs. The $12.5 billion increased funding for the Community Development Block Grant (CDBG) program was primarily due to a $15.2 billion supplemental appropriation for the Hurricane Sandy disaster.

Financing Sources: As shown in HUD's *Statement of Changes in Net Position*, HUD's financing sources for FY 2013 totaled $52.8 billion. This amount is comprised primarily of $56.7 billion in *Appropriations Used*, offset by approximately $3.9 billion in other financing sources.

Net Cost of Operations: As reported in the *Consolidated Statement of Net Cost, Net Cost of Operations* amounts to $38.4 billion for FY 2013, a decrease of $32.3 billion (45.7 percent) from the prior fiscal year. *Net Cost of Operations* consists of total costs, including direct program and administrative costs, offset by program exchange revenues.

The chart below presents HUD's *Total Net Cost* for FY 2013 by responsibility segment.



As shown in the chart, *Cost of Operations* was primarily a result of spending of $28.7 billion, (74.6 percent) of *Net Cost*, in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs). The current fiscal year change in *Net Cost* for the Section 8 programs was $0.5 billion (1.6 percent) less than the prior fiscal year. FHA *Net Cost* decreased by $29.7 billion, due primarily to a decrease in gross costs and a decrease in HECM LLG liability for all programs.

Analysis of Off-Balance-Sheet Risk

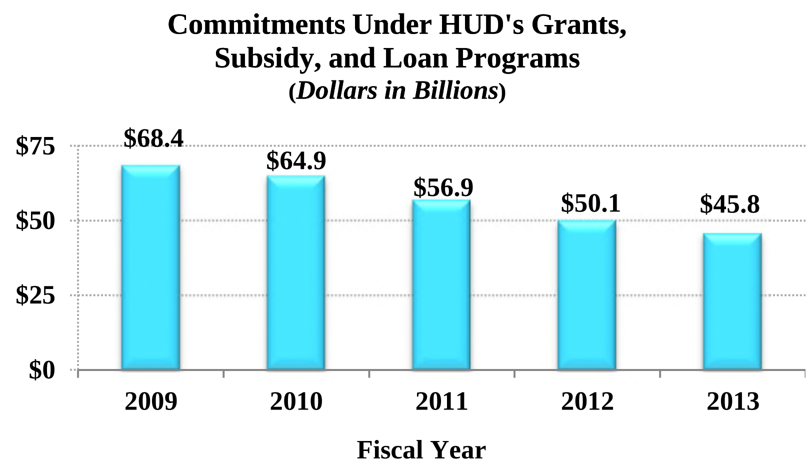
The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and Ginnie Mae's guarantees of MBS. Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred.

Contractual and Administrative Commitments

HUD's *Contractual Commitments* of $45.8 billion in FY 2013 represent HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. *Administrative*

Commitments (reservations) of $5.0 billion relate to specific projects, for which funds will be provided upon execution of the related contract.

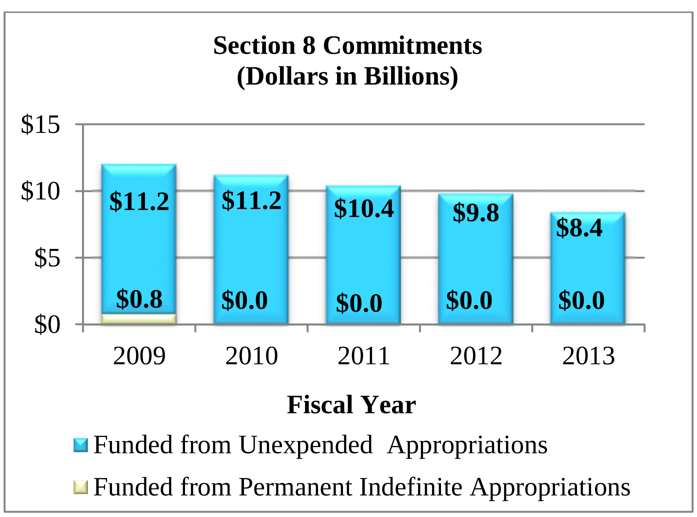
The chart on the next page presents HUD's *Contractual Commitments* for FY 2013 and the four preceding years.



These commitments are funded primarily by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to FY 1988. Since FY 1988, HUD has been appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

Total Commitments (contractual and administrative) decreased by $0.7 billion (1.4 percent) during FY 2013. The change is primarily attributable to a decrease of $1.3 billion in Section 8 commitments, offset by an increase of $3.1 billion in CDBG program commitments. *All Other Commitments* reflect a decrease of $2.5 billion.

The chart below presents HUD's Section 8 *Contractual Commitments* for FY 2013 and the four preceding years.

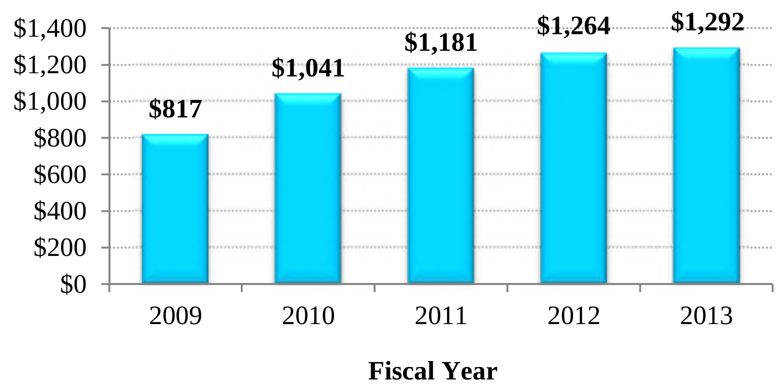


To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to one-year terms during FY 1996. By changing to one-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the same number of contracts outstanding.

FHA Insurance-In-Force

Multifamily Housing Programs 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. The chart below presents FHA's Insurance-In-Force (including the Outstanding Balance of HECM loans) of $1,292 billion for FY 2013 and the four preceding years. This is an increase of $28 billion (2.2 percent) from the FY 2012 FHA Insurance-In-Force of $1,264 billion. FHA's volume has grown significantly during the mortgage crisis, as a result of constrained activity by private mortgage insurers and private lenders.

FHA Insurance In Force - As of September 30
(Dollars in Billions)



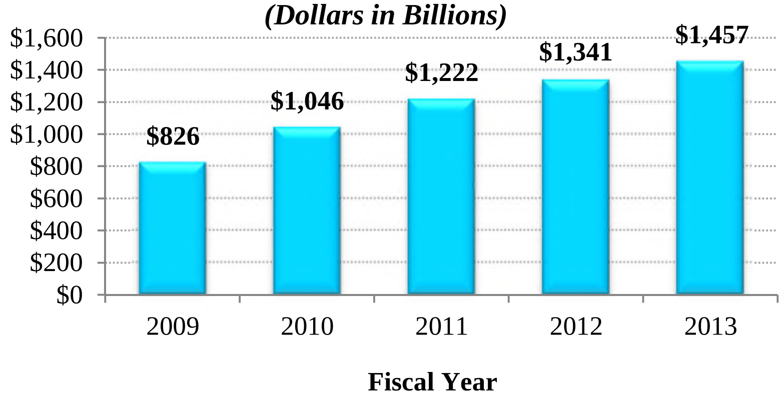
Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of MBS and commitments to guarantee. The securities are backed by pools of FHA and PIH insured, Rural Housing Service-insured, and Veterans Affairs-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2013 and 2012, were approximately $1,457.1 billion and $1,341.4 billion, respectively. In the event of default, the underlying mortgages serve as primary collateral, and FHA, USDA, VA and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2013 and 2012 were $118.1 billion and $115.7 billion, respectively.

The chart below presents Ginnie Mae MBS for FY 2013 and the four preceding years.

Ginnie Mae Mortgage-Backed Securities Outstanding at FY End
(Dollars in Billions)



Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers. In FY 2013 and 2012, Ginnie Mae issued a total of $99.0 billion and $107.0 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2013 and 2012 were $468.0 billion and $522.5 billion, respectively. These securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Multi-class securities include:

- REMICs – Real Estate Mortgage Investment Conduits are a type of multiclass mortgage-related security in which interest and principal payments from mortgages are structured into separately traded securities.
- Stripped MBS – Stripped MBS are securities created by "stripping" or separating the principal and interest payments from the underlying pool of mortgages into two classes of securities, with each receiving a different proportion of the principal and interest payments.
- Platinums – A Ginnie Mae Platinum security is formed by combining Ginnie Mae MBS pools that have uniform coupons and original terms to maturity into a single certificate.