An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

Note 5: Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during FY 2013 ranged from 1.88 percent to 2.00 percent. During FY 2012, interest rates ranged from 0.44 percent to 2.00 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2013 and 2012 were as follows (dollars in millions):

	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
FY 2013	$ 1,815	$ (1)	$ 10	$ 1,824	$ 1,868
FY 2012	$ 4,892	$ (3)	$ 10	$ 4,899	$ 4,960

Investments in Private-Sector Entities

These investments in private-sector entities are the result of FHA's participation in the Accelerated Claims Disposition Demonstration program and Risk Sharing Debentures as discussed in Note 2G. The following table presents financial data on FHA's investments in Section 601 and Risk Sharing Debentures as of September 30, 2013 and 2012 (dollars in millions):

	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2013						
601 Program	$ -	$ -	$ -	$ -	$ -	$ -
Risk Sharing Debentures	57	1	-	-	(2)	56
Total	**$ 57**	**$ 1**	**$ -**	**$ -**	**$ (2)**	**$ 56**
2012						
601 Program	$ 6	$ 21	$ 7	$ (31)	$ -	$ 3
Risk Sharing Debentures	57	-	-	-	-	57
Total	**$ 63**	**$ 21**	**$ 7**	**$ (31)**	**$ -**	**$ 60**

Note 6: Accounts Receivable (Net)

The Department's accounts receivable represents Section 8 year-end settlements, claims to cash from the public, state and local authorities for bond refunding, Section 236 excess rental income, sustained audit findings, refunds of overpayment, FHA insurance premiums, and foreclosed property proceeds.

A 100 percent allowance for loss is established for all delinquent accounts 90 days and over for bond refunding. The allowance for loss methodology is the total delinquencies greater than 90 days plus/or minus economic stress factors. The economic stress factors include payoff, foreclosure, bankruptcy and hardship of the project. Adjustments to the bond refunding allowance for loss account are done every quarter to ensure they are deemed to be necessary.

For Section 236 excess rental income, the allowance for loss consists of 10 percent of the receivables with a repayment plan plus 95 percent of the receivables without a repayment plan. Adjustments to the excess rental income allowance for loss account are done biannually to ensure they are deemed necessary.

Section 8 Settlements

Prior to January 1, 2005, the Housing Choice Voucher (HCV) Program's Section 8 subsidies were disbursed based on estimated amounts due under the contracts. At the end of each year, the actual amount due under the contracts was determined. The excess of subsidies paid to PHAs during the year over the actual amount due was reflected as an accounts receivable in the balance sheet. These receivable amounts were "collected" by offsetting such amounts with subsidies due to the PHAs in subsequent periods. On January 1, 2005, Congress changed the basis of the program funding from a "unit-based" process with program variables that affected the total annual Federal funding need, to a "budget-based" process that limits the Federal funding to PHAs to a fixed amount. Under this "budget-based" process, a year-end settlement process to determine actual amounts due is no longer applicable. Effective January 1, 2012, PIH reinstated the year-end settlement process for the HCV Program in accordance with its cash management policies. However, as reported by the OIG's Internal Control Report, the results of PIH's cash reconciliation reviews are not reflected in the Department's financial statements. The PIH reviews have not been completed on a timely basis and the required standard general ledger transactions have not been recorded in the Department's accounting systems.

Bond Refunding

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHAs sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining one-half is returned to HUD. As of September 30, 2013 and 2012, HUD was due $17 million and $16 million, respectively.

Section 236 Excess Rental Income

The Excess Rental Income receivable account represents the difference between the amounts that projects reported to HUD's Lockbox as owing (in use prior to August 2008) and the actual amount collected. On a monthly basis, projects financed under Section 236 of the National Housing Act must report the amount of rent collected in excess of basic rents and remit those funds to the Department. Unless written authorization is given by the Department to retain the excess rental income, the difference must be remitted to HUD. Generally, the individual amounts owing under Excess Rental Income receivables represents monthly reports remitted without payment. After 2008, any remittances owed by individuals are collected through PAY.GOV as well as the required HUD documents.

Other Receivables

Sustained audit costs include sustained audit findings, refunds of overpayment, FHA insurance premiums and foreclosed property proceeds due from the public. The Department recognizes that the amount of sustained audit costs anticipated from OIG disallowed costs are not reflected in the Department's financial statements. HUD expects to report these balances in FY 2014 based on expected recovery rates from OIG's pool of questioned costs reported by the Department's program recipients. The Department's believes that the amount is within a range of $57 million to $151 million but further confirmation of the underlying data and finalization of HUD's methodology is required.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2013 and 2012 (dollars in millions):

	2013			2012		
Description	**Gross Accounts Receivable**	**Allowance for Loss**	**Total, Net**	**Gross Accounts Receivable**	**Allowance for Loss**	**Total, Net**
Public						
Section 8 Settlements	$ 10	$ -	$ 10	$ 8	$ -	$ 8
Bond Refundings	17	-	17	23	(7)	16
Section 236 Excess Rental Income	6	(2)	4	7	(3)	4
Other Receivables:						
FHA	109	(96)	13	103	(79)	24
Ginnie Mae	121	-	121	736	(581)	155
Other Receivables	17	(2)	15	15	(9)	6
Total Accounts Receivable	**$ 280**	**$ (100)**	**$ 180**	**$ 892**	**$ (679)**	**$ 213**

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

HUD reports direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectible loans or estimated losses.

The FHA insures Home Equity Conversion Mortgages (HECM), also known as reverse mortgages. These loans are used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the home is the borrower's principal residence.

The FHA also administers the HOPE for Homeowners (H4H) program. The program was established by Congress to help those at risk of default and foreclosure refinance into more affordable, sustainable loans.

The allowance for loan losses for the Flexible Subsidy Fund and the Housing for the Elderly and Disabled Program is determined as follows:

Flexible Subsidy Fund

There are four parts to the calculation of allowance for loss: (1) loss rate for loans written-off, (2) loss rate for restructured loans, (3) loss rate for loans paid-off, and (4) loss rate for loans delinquent or without repayment activity for 30 years. Loss rates for parts 1 and 3 are based on actual historical data derived from the previous three years. The loss rates for parts 2 and 4 are provided by or agreed to by the Housing Office of Evaluation.