

HUD FY 2013 Agency Financial Report

Section 2

from an insuring agency or underlying collateral upon foreclosure. Mortgage loans HFI, net as of September 30, 2013 and 2012 was \$3 and \$3 billion, respectively.

Foreclosed Property

Ginnie Mae records foreclosed property when a MSS receives marketable title to a property which has completed the foreclosure process in the respective state. The asset is measured as the principal and interest of a loan which is in the process of being conveyed to an insuring agency, net of an allowance. These assets are conveyed to the appropriate insuring agency within six months. Foreclosed property has previously been placed on nonaccrual status after the loan was repurchased from a pool. These properties differ from properties held for sale because they will be conveyed to an insuring agency, and not sold by the MSS.

The allowance for foreclosed property is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the foreclosed property and the allowance for foreclosed property is the amount that Ginnie Mae determines to be collectible. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency. Foreclosed Property, net as of September 30, 2013 was \$481 million.

Short Sale Claims Receivable

As an alternative to foreclosure, a property may be sold for its appraised value even if the sale results in a short sale where the proceeds are not sufficient to pay off the mortgage. Ginnie Mae's MSSs analyze mortgage loans HFI for factors such as delinquency, appraised value of the loan, and market in locale of the loan to identify loans that may be short sale eligible. These transactions are analyzed and approved by Ginnie Mae's MBS program office.

For FHA insured loans, for which the underlying property was sold in a short sale, the FHA typically pays Ginnie Mae the difference between the proceeds received from the sale and the total contractual amount of the mortgage loan and interest at the debenture rate. Hence, Ginnie Mae does not incur any losses as a result of the short sale of an FHA insured loan. Ginnie Mae records a short sale claims receivable while it awaits repayment of this amount from the insurer. For short sales claims receivable for which Ginnie Mae believes that collection is not probable, Ginnie Mae records an allowance for short sales claims receivable. The allowance for short sales claims receivable is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the short sales receivable and the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of claims in full satisfaction of a loan from an insuring agency. Short Sale Claims Receivable, net as of September 30, 2013 and 2012 was \$62 and \$21 million, respectively.

Note 9: General Property, Plant, and Equipment (Net)

General property, plant, and equipment consists of furniture, fixtures, equipment and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of \$100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, the Department's

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assets are depreciated over a four-year period, unless it can be demonstrated that the estimated useful life is significantly greater than four years.

The following shows general property, plant, and equipment as of September 30, 2013 and September 30, 2012 (dollars in millions):

<u>Description</u>	<u>2013</u>			<u>2012</u>		
	<u>Cost</u>	<u>Accumulated</u>	<u>Book</u>	<u>Cost</u>	<u>Accumulated</u>	<u>Book</u>
		<u>Depreciation and</u>			<u>Depreciation and</u>	
Equipment	\$ 3	\$ (1)	\$ 2	\$ 3	\$ (1)	\$ 2
Leasehold Improvements	-	-	-	-	-	-
Internal Use Software	186	(158)	28	175	(143)	32
Internal Use Software in Development	321	-	321	333	-	333
Total	\$ 510	\$ (159)	\$ 351	\$ 511	\$ (144)	\$ 367

Note 10: PIH Prepayments

HUD's assets include the Department's estimates for net restricted assets (NRA) balances maintained by Public Housing Authorities under the Housing Choice Voucher Program. As further discussed in Note 30, 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 FY 2013 and FY 2012 respectively. Under the PIH cash management program, the NRA balances estimated by the Department are expected to be transitioned to HUD's project reserve accounts in FY 2014. Prior to the restatement of the Department's financial statements for FY 2012, the asset and the associated expenses were not reported by HUD. The amount of the prepayments are reflected as non-federal assets and reported under the Section 8 Rental Assistance program segment of HUD's consolidating balance sheet.

Note 11: Other Assets

The following shows HUD's Other Assets as of September 30, 2013 and September 30, 2012 (dollars in millions):

<u>Description</u>	<u>FHA</u>	<u>Ginnie Mae</u>	<u>Section 8</u>	<u>All Other</u>	<u>Total</u>
Intragovernmental Assets:					
Other Assets	\$ 1	\$ -	\$ -	\$ 14	\$ 15
Total Intragovernmental Assets	1	-	-	14	15
Mortgagor Reserves for Replacement - Cash	\$ 47	\$ -	\$ -	\$ -	\$ 47
Other Assets	331	-	-	-	331
Total	\$ 379	\$ -	\$ -	\$ 14	\$ 393

<u>Description</u>	<u>2012</u>				
	<u>FHA</u>	<u>Ginnie Mae</u>	<u>Section 8</u>	<u>All Other</u>	<u>Total</u>
Intragovernmental Assets:					
Other Assets	\$ 3	\$ -	\$ -	\$ 24	\$ 27
Total Intragovernmental Assets	3	-	-	24	27
Mortgagor Reserves for Replacement - Cash	\$ 55	\$ -	\$ -	\$ -	\$ 55
Other Assets	5	-	-	(1)	4
Total	\$ 63	\$ -	\$ -	\$ 23	\$ 86